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The Accounting Mind of

Sun Tzu

■ **Malaysia : Promoting
Brand Names** page 8

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

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FROM THE EDITOR

How Resilience Works

*Confronted with life's hardships, some people snap,
and others snap back*

When faced with catastrophe — a collapse in profits, a sudden erosion of market share, a financial scandal — why do some companies fall apart while others bounce back stronger than ever? The answer, certainly, has a lot to do with business fundamentals. Some companies have more robust strategies than others. Some have deeper financial reserves. Some engender greater loyalty from employees and customers. But there's something else at work, too, something much more resistant to rational business analysis. That something is the amorphous yet powerful force of human resiliency.

In this issue, Dr. Foo Check Teck, of the Nanyang Technological University, Singapore, explores resilience through the perspective of Sun Tzu — the great military strategist. An expert in the Sun Tzu's *Art of War* study, Dr. Foo in his article : "The Accounting Mind of Sun Tzu" provides a richly nuanced description of the emotional building blocks of resilience for accountants.

Among the hidden messages in his article are : Resilient people never lie to themselves about how bad things are, or how bad they might get. The second is a far-sighted ability to make meaning of bad fortune while it is still happening — to conceptualise the way it might make you a better person in the future. And finally, resilient people have an uncanny ability to improvise their way through turmoil with few resources of either a physical or an emotional nature. Although we will never completely unlock all the mysteries of human resilience, Dr. Foo's article shines a strong and useful light in the subject.

Looking forward, in this issue we also feature articles on business management that focus on the strategic thinking in ways that bring immediate benefits to accountants as well as to companies.

We are also pleased to publish in this issue the winning articles of the essay writing competition organised by the Internal Audit Committee (IAC) of the Malaysian Institute of Accountants. The theme of the competition was "Internal Audit within the context of corporate governance".

Happy Reading! **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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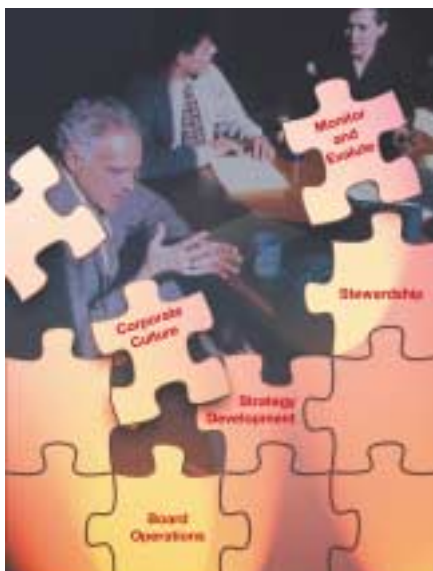
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Akauntan Nasional

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NOTICE TO MEMBERS

DIALOGUE WITH THE ROYAL CUSTOMS MALAYSIA

1 Minutes of the Dialogue with the Royal Customs Malaysia No. 2/2002

With regards to circular No. 5/2003, members are hereby informed that the minutes of the dialogue with the Royal Customs Malaysia (RCM) No. 2/2002 can be viewed at the Institute's website at www.mia.org.my under the Technical-Taxation-Circular link.

2 Filing Programme for year 2003

Members are hereby informed that the filing programme for year 2003 issued by the Inland Revenue Board can be viewed at the Institute's website at www.mia.org.my under the Technical-Taxation-Circular link. **AN**

SERVICE TAX

With regards to circular no. MF3/2003 dated 12 March 2003, members are reminded to apply for the Service Tax Licence with the Royal Customs Malaysia (RCM) if they fulfil the criteria, terms and conditions. Members can obtain the Service Tax Licence application form from the Royal Customs Malaysia. **AN**

POSTPONEMENT OF THE 16TH CAPA CONFERENCE

In the wake of a mystery illness that is spreading around the world, the organiser of the 16th Confederation of Asian and Pacific Accountants (CAPA) conference — the Chinese Institute of Certified Public Accountants (CICPA) — have decided to postpone the event, which was scheduled to be held from 15-17 October 2003, to a new date.

In their joint statement, the President of CICPA, Cui Jianmin together with CICPA Secretary General, Chen Yugui said that the postponement of the event is due to the Severe

Acute Respiratory Syndrome (SARS) which threatens the lives of millions.

According to them, "We decided to postpone this event to ensure the safety of our guests as well as to ensure the great success of the event. We will determine a new date according to the development of the situation" **AN**

COLLECTION OF MEMBERSHIP CERTIFICATE

Members who have yet to collect their membership certificate are reminded to do so as soon as possible.

■ Members residing in Kuala Lumpur and Selangor are requested to collect their certificates in person or by a representative (with an authorised letter from the member) at the MIA Office.

■ For members residing outside Kuala Lumpur and Selangor, but within Malaysia, who wish for the membership certificate to be mailed to them, they may make a request in writing stating clearly their address and contact number. *Please note that we are unable to send to P.O. Box addresses.* However, for members in Penang, Sabah and Sarawak where we have MIA branch offices, you may choose to have the certificate sent to the branch. Please make a request in writing stating which branch you wish your certificate to be sent to and your contact number.

■ For members currently residing outside Malaysia, please contact us for courier charges.

If you have been previously issued a certificate, we would be grateful if you could return the said certificate to the Institute when you collect or upon request, for your new certificate to be sent to you. Please also note that members admitted after 22 October 1999 will only be issued their certificates if they have attended the MIA Members Induction Course.

If you have any queries, please contact Miss Mary or Miss Amanda of the Membership Department at 03-22799200 or e-mail : membership@mia.org.my. **AN**

THE ACCOUNTING MIND *of* SUN TZU

By Dr. Foo Check Teck

FIGURE 1

Sun Tzu continues to be revered worldwide for his *Art of War*. If the 5,000 pictographs¹ carved onto bamboo had relevance only for wars his work would not be sought by the populace.

Why? For even the kind of material used to create his work, bamboo, had been so dramatically transformed to paper and increasingly electronic. So too is the context of wars. No longer do armies utilise fire-tipped² arrows. Instead as in the recent Iraq-US war, we witnessed the awesome power of precision and earth-penetrating missiles. The lines in the *Art of War* have been embedded to stay relevant.

When reading his *Attack by Fire* chapter, an ordinary person senses how his mind works when applied to attacking. People who had thought deeply about the masterpiece by Sun Tzu found his work to be broadly applicable, as evidenced in the many published works on *Art of War* applied not to war *per se* but other human endeavours (e.g. golf, investment). This requires that the *Art of War* be read metaphorically. Thus one reads the *winning* of a war as the harnessing of *profits* and the *losing* of one as *losses*.

Thinking metaphorically is the key to unlocking the deeper significances and wider relevance of the *Art of War*. But thinking in metaphors is an exercise in creativity. Many of my university students³ and participants⁴ have only just realised this. I continue to explore this metaphorically grounded research as may be seen in my most recently published article on photo-imagery for strategy⁵.

Imagery for Mind Deepening

I created the *Reminiscences of an Ancient Strategist: Mind of Sun Tzu* uniquely as a tool for immersing the reader's mind⁶. More than 80 over artwork⁷ were created for enabling ruminations on strategy. Many



of the visual imagery reflect aspects of strategy.

See and meditate on Figure 1 for ten minutes and then describe the theme — one that should be of interest to accountants. Meditating on the artwork is a tool for deepening the mind.

Try this before you continue reading. The answer is posted at the end of the next article. [AN](#)

¹ Chinese characters are essentially pictographic where the words are composite pictures.

² Sun Tzu titled Chapter 12 of the *Art of War* as “Attack by Fire”.

³ Nanyang Technological University, Singapore students who take the *Mind of Sun Tzu* module over a semester.

⁴ The *Complete Art of War Series* currently run at the Singapore Institute of Management.

⁵ See Foo Check Teck, Photo-imagery for Strategy, *PSS Journal*, Mar/Apr, pp. 14-15. Steven Yee had explored themes in *Art of War* thematically through photographs in his *Reflections in the Bamboo Groves*, Sandven Image House.

⁶ The book had been described in one review as “... the only truly practical book ...” (*Organizations Studies*; also *Asian Pacific Business Review*?)

⁷ Illustrated by Peggy Leong



The Accounting Mind *of Sun Tzu* **THE** **UNCONSCIOUS**

In this article we explore the hypothesis of whether there is a strong presence of an accounting unconscious within the mind of Sun Tzu. Why the unconscious? According to psychologists a substantial part of our mind remains buried in our other consciousness — the unconscious. To put it in the context of a research question : **Is Sun Tzu, accounting-minded?**

To answer this question we select words or phrases employed by Sun Tzu that are highly suggestive of such a mind. Remember the profession of accountants is a 19th Century creation — it would be impossible to translate *Art of War* into

English by utilising accounting terminology. At best we can try to think a little deeper about what Sun Tzu had written. Then we ask ourselves the hidden message in the mind of Sun Tzu.

We begin with bankruptcy, a term which accountants are familiar with. Indeed one major role of corporate accountants managing cash flows — or simply, making sure there is enough money. For if there is no cash, corporations may be subject to winding up proceedings. Like an accountant Sun Tzu prescribed to Kings on the dire necessity of avoiding bankruptcy : A protracted war *bankrupts* the Treasury.

Bankruptcy was also a concern for Sun Tzu. For him that was a major determining factor on how a war is waged. Similarly the accountant had to advise his CEO (King) on financial policies, payment terms so as to avoid being trapped in a desperate, out-of-cash bind.

This is not to deny the relevance of pro-

tracted strategy in waging wars. Indeed Mao Tse Tung overwhelmed the Imperial Japanese army fighting conventionally by consciously implementing a protracted strategy. Mao's *On Protracted War*⁸ formulated in May 1938 became the cornerstone of his works on military strategy.

For a military strategist living 2,500 or more years ago, Sun Tzu was thus highly prudent in his thinking. There is none of the gung-ho seen in fierce generals. Even

“Sun Tzu prescribed to
Kings on the dire necessity
of avoiding bankruptcy : A
protracted war *bankrupts*
the Treasury”

today, many top generals in modern armies do not regard the economics of wars as falling in their purview. Next we turn to discuss a series of selections that taken as a whole suggest that Sun Tzu

had a strong budgeting, cost-of-war consciousness.

To begin, the straight forward prescription : Kings (read CEOs) to consider costs *before* not after implementing wars.

This seems common sense enough yet it remains a critical instruction. Why? Wars are often resorted to, the outcome often leaves the Kings, generals and the populace feeling anguished, angry and frustrated. That must be why Sun Tzu wrote it down as a matter of fact. Imagine the scene — Sun Tzu calmly looking into the eyes of a King who is mad with anger and angry generals with fiery eyes and saying, “...but there is a cost to war!” In those moments, Sun Tzu was probably the most accounting minded in the conference among kings, generals and ministers.

Can you imagine the King coming back

⁸ See pp 187-266 in *The Selected Military Writings of Mao Tse Tung*, Foreign Language Press, Peking, 1963.

to his senses and asking Sun Tzu, "...how much will the war cost us?" These phrases taken from his *Art of War* may be part of his utterances : "... based on geographical distances, we budget for expenses ..."

Transportation of provisions may be over 1,000 li⁹ "...Each day...1,000 taels of silver may be spent..."

Labor, 100,000 men
"...Three months to build the siege ladders..."

From these phrases, we may argue that Sun Tzu's thinking is not unlike an accountant asked to render budgets using estimates of key items. This is very similar to the CEO asking the accountant during a meeting, "We want to fight our competitor with this new product launch ... at low prices, give me the budget ..."

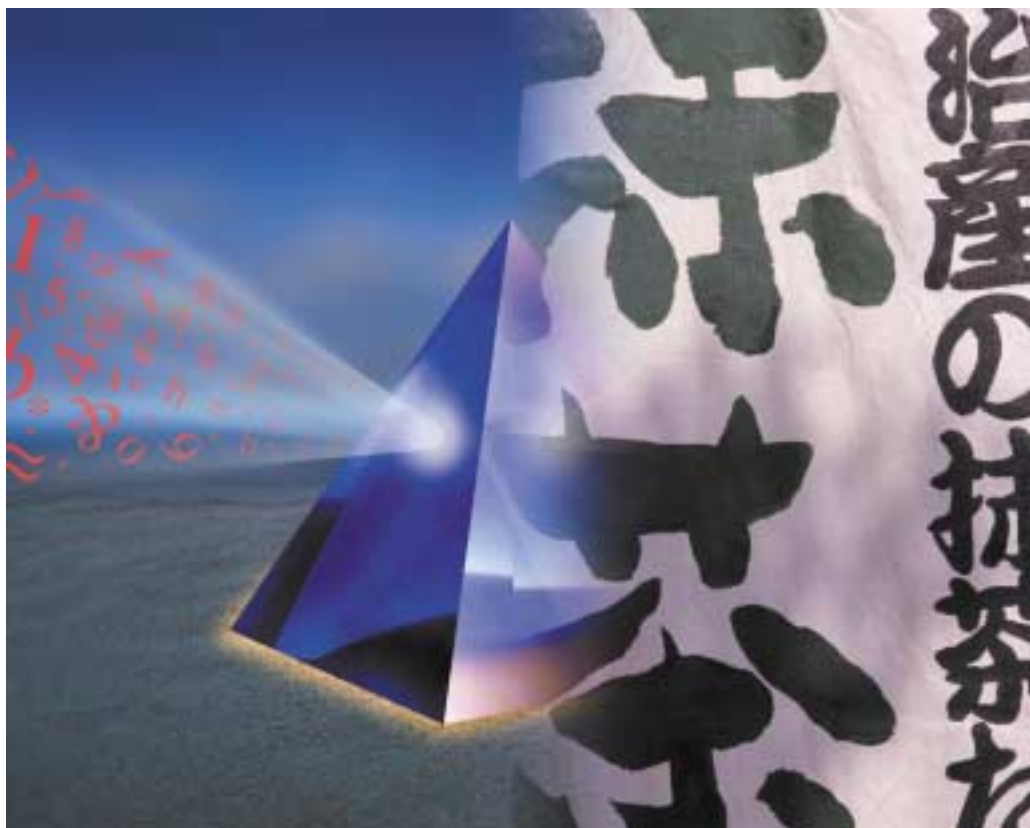
It may be too far stretched to even say that Sun Tzu was inclined to be thinking along the lines of standard, time-based costing. From the example "...each day...", he was already thinking about the *daily* cost of war.

Another cost of war item in the above selection suggests Sun Tzu to be thinking about *time-to-manufacture* : he recorded it down as "three months" for the construction of "siege ladders". Now we begin to see why *Art of War* is so useful.

Any angry CEO on the edge of waging a highly costly commercial war against his competitors will think again upon reading Sun Tzu. My next selection is to illustrate the humanitarian side of the *Art of War* thinking of Sun Tzu. In reckoning his cost of war, he even differentiated between the explicit, direct, out-of-treasury and the hidden, indirect social costs. For whilst expenditure for material items such as glue, paint, wages are direct, out-of-pocket, Sun Tzu hinted at the *hidden* costs of war : "...as many as 700,000 families jobless..."

Even more intriguing from a cost of war perspective is Sun Tzu's prescription for generals to be recycling enemy weaponry, equipment and other usable materials for own use. By doing so one could reduce the

"Any angry CEO on the edge of waging a highly costly commercial war against his competitors will think again upon reading Sun Tzu".



"Perhaps the most illuminating example of the mind of Sun Tzu as a person ever conscious of accounting is this prescription : ...The successful general is one who is able to utilise *all* available resources..."

overall effective cost of war. How more accounting-oriented a mind can you get than Sun Tzu? Some generals may out of pride or vengeance or in a celebrative mood throw into roaring flames things belonging to the defeated enemy. Being accounting, resource-conservation minded, Sun Tzu argued for recycling : "...after changing colours, the captured chariots should be put to use..."

Perhaps the most illuminating example of the mind of Sun Tzu as a person ever conscious of accounting is this prescription : "...The successful general is one who is able to utilise *all* available resources..."

Even with the latest technology and the power of computer software, some corporate accountants often experience dif-

ficulty in estimating, balancing or working through the budget. The scale of the budget that Sun Tzu had to juggle with on cost-of-war issues was by no means small. And all Sun Tzu had was largely his mind. This brings me to believe that he had then already mastered the way of thinking like that of an accountant. ^{AN}

Note : Dr Foo Check Teck PhD MBA (Finance) LLB FCMA CPA FCIM ACIS Barrister Advocate and Solicitor (mctfoo@ntu.edu.sg) is an award winning Associate Professor with the *Nanyang Technological University*, Singapore. He has twice won Awards for Excellence from the UK Literati Club for his research contributions. His latest research is *The Child of the Internet* forthcoming in the California-based journal *CyberPsychology and Behaviour*. Currently he is a *Visiting Professor* at the University of Malaya under the ASEAN University Network Distinguished Professors programme.

⁹ Chinese mile.

The answer : Costs — of war.

MALAYSIA : PROMOTING BRAND NAMES

By Dr. Jeyapalan Kasipillai & Selvan Perumal

Introduction

A brand is a trademark or name of a product or producer and includes a term, sign, design, symbol, slogan, logo or any combination of them used to identify the goods and services of a seller or group of sellers¹. In Malaysia, trademarks are protected by the Trade Mark Act 1976, and the Trade Marks Regulations 1997², whereby if a trade or service mark is duly registered, it would be unlawful for a person or enterprise other than its proprietor or authorised users to exploit such mark.

A brand is said to have positive (negative) customer-based equity if consumers react more (less) favourably to the product, price, promotion, or distribution of the brand than they do to the same marketing element when it is attributed to a fictitiously named or unnamed version of the product or service (Keller, 1993). Many firms develop brands as a strategy to attract and retain customers by promoting value image, prestige, emotional relations, personality or lifestyle. Therefore, branding enables a producer to obtain the benefits of offering products with unique or superior quality and provides an opportunity to transfer the relationship to other products or services. Brands provide the primary points of differentiation between competitive offerings. The goal of marketing in any company has always been to create successful and profitable brands. Many marketers believe that the only way to gain market dominance is through the continuous enhancement in brand management. However, the dilemma

for marketing in this Internet age is the loss of power to create dominant brands and brand variants and to control their destiny. Consequently, the 21st century challenge for Malaysia is to define a niche area in which a new competitive business paradigm can be established. The driving forces of change are the advancement in information and communication technology, as well as in establishing skills in computing and telecommunications. Trans-nationalisation of

keters tend to focus more on new popular brands. For instance, among the top 74 brands appearing in the top 100 rankings of the past two years, 41 declined in value between 2000 and 2001 (Carter, 2002). Organisations are now beginning to see the importance of their on-line brand, having realised that brand equity can either be gained or lost through this channel. Due to changing expectations of consumers, the value and importance of leading brands

“... the dilemma for marketing in this Internet age is the loss of power to create dominant brands and brand variants and to control their destiny ... the 21st century challenge for Malaysia is to define a niche area in which a new competitive business paradigm can be established”.

these technologies and increasingly democratised means of design, production and distribution add to the forces of change. Conversely, a simultaneous change in consumer behaviour is observed, shifting towards a new value-driven tier of consumers. The trend is towards the willingness of customers to pay more for the right fit and embedded customer information in products and services. Industries approach their market strategy from “make and sell” to “sense and respond” or simply, from mass production to mass customisation. At the business level, highly differentiated branded products and services are supplied.

Researchers too have found that brands mean very little to the consumers as mar-

continue to rise. Popular international brand names include Benson & Hedges, Coca-Cola, Kodak, McDonalds, Milo, Microsoft and Nestle. Brands that have passionate value lead to greater consumer loyalty which, in turn, ensures stable income to the operator of the branded product. Prosperous firms with a secure market provide wide employment opportunities across geographical boundaries and train workers to skilled labour in emerg-

¹ According to the American Marketing Association (1960), a brand is a name, term, sign, symbol, or design, or combination of them intended to identify the goods and services of one seller or group of sellers and to differentiate them from those of competitors.

² The period of protection is 10 years, which is renewable for a period of every 10 years thereafter.

ing economies. Consumers expect companies to have values that can be clearly demonstrated. Consumer expectations of businesses have changed over the years as they are aware of a variety of choices. Business rivals too offer alternative branded products and that too at competitive prices. Corporate governance too dictates that brand values meet consumer expectations. Higher consumer expectations or “corporate social responsibility” persuaded British Petroleum in early 2002 to re-position itself as standing not for “British” but “Beyond Petroleum”.

Brand Loyalty and Awareness

The initial step in identifying the role of brand equity is to understand what it is, then what it can really contribute to the components of brand equity. In this regard, loyalty and awareness of brand names are important dimensions of brand equity.

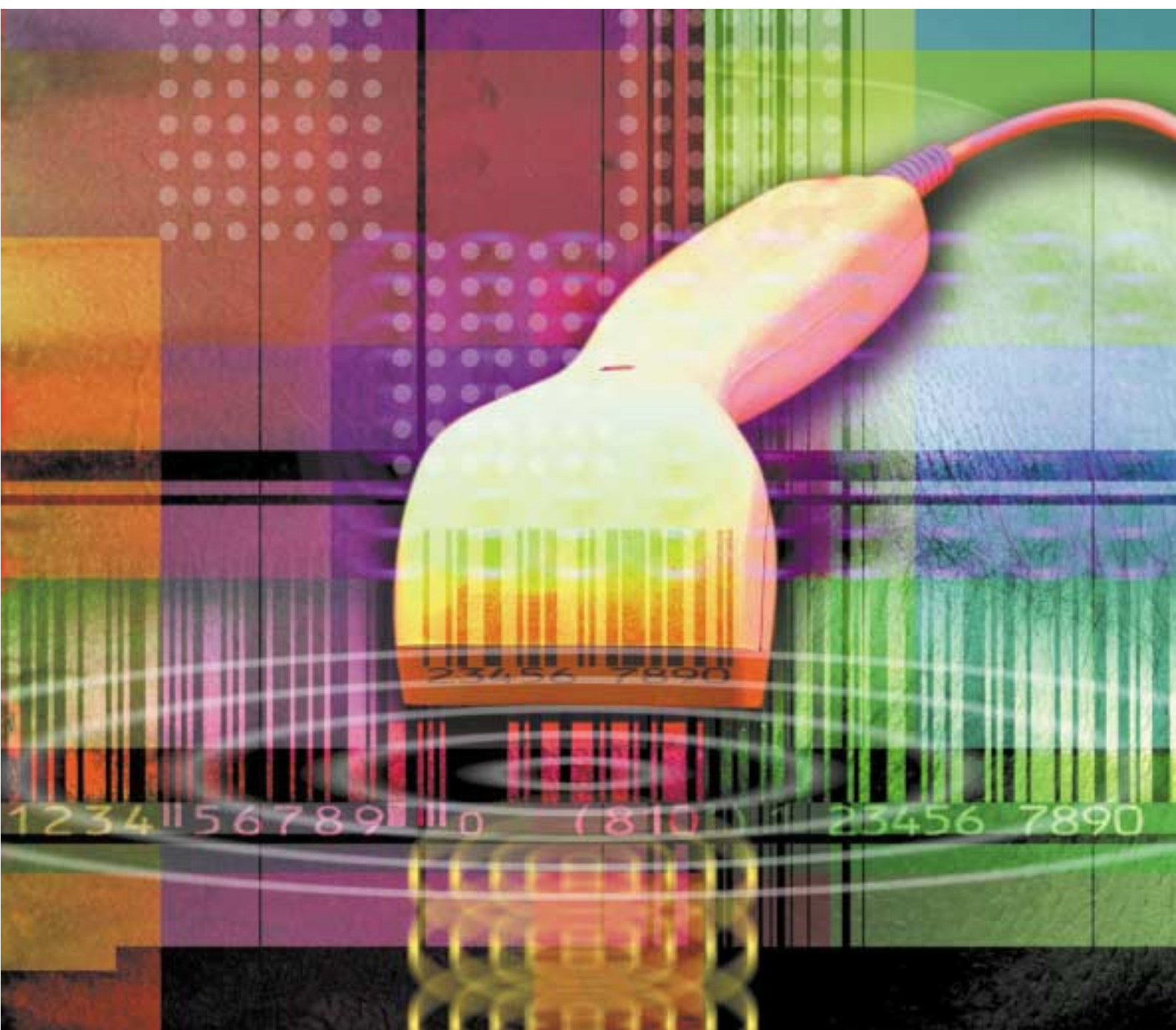
Brand loyalty

Brand loyalty is a commitment and satisfaction of a customer towards certain brands and is often measured in a behavioural sense through the number of repeat purchases. It is a deep commitment by a customer to re-buy or re-patronise a

preferred product or service consistently in the future. According to Aaker (1996), because of brand loyalty the customer continues to purchase the brand even in the face of competitors with superior features, price and convenience, and substantial values in the brand. Thus, brand loyalty could resist the brand switching by customers to other competitor brands. The more the customer's are loyal towards a brand, the brand equity will increase.

Brand awareness

Customers often buy familiar brands compared to unfamiliar brands because of



their ability to recognise or recall those brands. Aaker (1991) defined brand awareness as the ability of the potential buyer to recognise or recall that a brand is a member of a certain product category, and further explained that there are three levels of awareness as follows :

- ① *recognition* : refers to consumers ability to confirm prior exposure to the brand;
- ② *recall* : refers to consumer's ability to retrieve the brand name from memory; and
- ③ *top of the mind* : refers to the first brand in a recall task.

In essence, brand awareness involves recognition, recall and familiarity of a brand. It helps consumers to identify and feel comfortable with a brand. Furthermore, it establishes an incessant brand knowledge that leads to a surge in the brand equity of the brand.

Brand Equity

Brand equity has been defined as a set of associations and behaviour on the part of the brand's customers, channel members, and parent corporations that permit the brand to earn greater volume or greater margins than it could without the brand name and that gives the brand a strong, sustainable, and differential advantage over competitors (Chay, 1991).

Since a brand is a signal to the customer about the source of the products, it protects both the customer and the producer from competitors who would attempt to provide products that appear to be identical. Generally, the role of brand in commerce has given more focus towards brand equity and associations especially as a central dimension for competition³. In essence, brand equity becomes an important marketing tool for the consumer as well as industrial goods markets. Aaker (1991) defined brand associations as anything that is linked in memory to a brand. It includes elements such as feelings, product characteristics, symbols and objects. According to Keller (1998) brand equity needs to be reinforced over time and can be reinforced by marketing action that consistently conveys the superiority of the brand to consumers in terms of brand awareness and brand image⁴. The Malaysian Government too has used tax instruments to foster the growth of brand management.

Brand Hierarchy

Brand names can be grouped according to the extent of use and in relation to corporate or family names, and can be used singly or in combination with a description of the product. There are many different ways a brand can be displayed according to the potential levels of brand hierarchy. Keller (1998) categorised brands into four broad hierarchical groups, as follows :

Individual brand

This brand has been restricted to one product category, although there are multiple product types that differ in terms of package sizes or flavours in the same category. For example, Hwa Tai's products are more restricted to the biscuits category.

Line brand

Line brands can be defined as brands designated to a specific item, version, or

“ ... a brand is a signal to the customer about the source of the products, it protects both the customer and the producer from competitors who would attempt to provide products that appear to be identical”



Corporate or company brand

The top-level category technically involves a single brand. The corporate brand is always present on the product or package. For example, Nestle uses the name of its brand on almost all the products and packages. Corporate brands create corporate image, that is, the association that consumers perceive in their memory about the company producing the products or services.

Family brand

Family brands can be defined as brands that are used in more than one product category such as confectionery products, biscuits, ice cream and frozen food. For example, the Dutch Lady brand is used in many categories of products such as beverages, confectionery, biscuits and others.

model type of the product. For example, Volvo came out with a new version (Volvo S70) of the previous Volvo brand. Proton (a Malaysian car manufacturer) is a popular corporate brand name in Malaysia but its line brands include Proton Waja, Proton Wira, Proton Saga and Proton Satria.

The above hierarchy will help a company to choose the right combination of brand names and level of a brand to manage brand

³ According to Simon and Mary 1993, brand equity may be manifested in at least three forms: price premium, increased market share and lower cost of introducing new products.

⁴ If a customer does not have any detailed information about a brand, he or she will purchase the product based on perceived quality information. Zeithaml (1988) argues that perceived quality as a component of brand name would drive a consumer to choose that brand rather than other competing brands.

equity as well as to improve their branding strategies through brand extensions.

International Branding

Many strong brands have helped firms establish an identity in the marketplace and assisted in the development of a solid customer franchise (Aaker 1996; Kapferer 1997; Keller 1998). A number of well known global brands such as Coca Cola, Disney, IBM, Marlboro, Microsoft and Nestle have enhanced their sales and profits by expanding into international markets, and their successes have served to influence and encourage others. Other significant advantages of international branding are deliberated below.

Benefiting from economies of scale

Companies can reduce the costs from economies of scale, especially their marketing costs in advertising and promotion, public relations, packaging and other marketing activities. According to Temporal (2000), savings generated are likely to be substantial. International brands like Coca-Cola and Nestle have additional large savings to be made in production together with research and development.

Standardised marketing communications

Firms can promote their brand by having "one product and one message", and therefore use their brand effectively, like Microsoft positioning itself unaltered by marketing communications. Tragos (1998) explained that "one product, one message" could reduce the need for large ground-level operations in many different regions and reduce the need to reinvent in each market.

Effective pricing strategy

Pricing policy for many international brands has potentially enormous bottom-line profitability (Tragos, 1998). This is because firms benefit from cost-reduction out of marketing programmes, manufacturing, market operations and packaging, thus enabling firms to achieve lower cost of production, which would then help them to dominate the markets with lower pricing strategy compared to domestic products. By penetrating into global markets, companies would also be able to diversify risk.

Markets become more integrated as a result of the development of international retailing, and the movement of people, goods, and organisations across national borders

(Douglas, Craid and Nijssen 2001). Therefore, firms need to enhance their marketing strategy across markets. The search for new markets becomes a serious challenge to major branded goods everywhere. Thus, many firms started to turn to international business as a new strategic imperative. More significantly, the ASEAN Free Trade Area (AFTA) agreements promise the possibility of a pole-to-pole free trade zone, encouraging build-ups in Asian countries.

Malaysian Brands

In Malaysia, local brands are found in every sector of the economy. During the last decade or two, Malaysian branded goods and services have successfully penetrated global markets and boosted exports. The Government has provided various forms of tax incentives to promote Malaysian branded goods and services. The nature of these incentives is discussed below.

Tax Incentives

The cost of advertising is normally an allowable expense under the Malaysian Income Tax Act 1967 (ITA). Permanent billboard structures, however, are considered to be a capital item. Repairs and maintenance cost to these permanent billboards are allowable deductions. In the Australian case of *Sun Newspapers Ltd v. F.C. of T.*⁵, the High Court looked at the type of advertising expenses which would be treated as being of a revenue nature and therefore an allowable deduction. Dixon J. said :

"For example, a profitable enterprise such as the sale of a patent medicine may depend almost entirely on advertisement. In the beginning, the goodwill may have been established by a great initial outlay upon a widespread advertising campaign carried out upon a scale, which it was not intended to maintain or repeat. The outlay may properly be considered to be of a capital nature. On the other hand, the goodwill may have been gradually established by a continual advertisement over a period of years growing in extent as it proved successful. In that case the expenditure upon advertising might be regarded as an ordinary business outgoing on account of revenue".

Recently, the Malaysian Government has enacted new rules to provide double deductions for promoting expenditure on Malay-

sian brand name goods. These provisions are covered in the Income Tax (Deduction for Advertising Expenditure on Malaysian Brand Name Goods) Rules 2002. Under the new rules, a company shall be allowed as a deduction any "qualifying advertising expenditure" incurred by the company in respect of Malaysian brand name goods for the basis period for the relevant year of assessment if it satisfies the following conditions :

- the company must be incorporated in Malaysia and at least 70 per cent of the issued share capital of the company be owned by Malaysians;
- the company be the registered proprietor of the Malaysian brand name used in the advertisement;
- the Malaysian brand name goods must be of export quality;
- the expenditure incurred in advertising in Malaysian brand name goods must be incurred within Malaysia;
- the expenditure incurred on professional fees must be incurred within Malaysia; and
- the expenditure incurred in advertising the Malaysian brand name goods or on professional fees must be deductible under Section 33 of the Act.

The deduction shall be an addition to any deduction allowable under Section 33 ITA, which stipulates that expenses wholly and exclusively incurred in the production of income are allowable expenses.

"Qualifying advertising expenditure" means expenditure incurred in Malaysia in respect of the cost of advertising Malaysian brand name goods through advertisements :

- on the internet where the host website is located in Malaysia;
- in magazines and newspapers where the magazines and newspapers are printed in Malaysia;
- on locally licensed television stations;
- approved by the relevant local authority on billboards located in Malaysia;
- in trade publications where the trade publications are printed in Malaysia;
- in any form in the course of sponsoring an approved international sporting event held in Malaysia; and

⁵ (1938) 61 C.L.R. 337.

- in any form in the course of sponsoring an approved international trade conference or an approved international trade exhibition held in Malaysia; and
- professional fees paid to a company resident in Malaysia for advertising or promoting Malaysian brand name goods on behalf of the company, which is the registered proprietor of the Malaysian brand name.
- The expenditure on advertising Malaysian brand goods is deductible from year of assessment 1998 and subsequent years of assessment. However, deduction in relation to payment of professional fees made to a company resident in Malaysia is permitted as an allowable expense from year of assessment 2002.

Definitions and concept

For the purposes of the Income Tax (Brand Name Goods) Rules 2002, the following definitions are applied :

- *approved international sporting event* means an international sporting event approved by the Minister charged with the responsibility for sports;
- *export quality* in relation to exported Malaysian brand name goods, means at least 20 per cent of the total sales of the Malaysian brand name goods in the relevant year of assessment is exported;
- *approved international trade exhibition* means an international trade exhibition approved by the Malaysian External Trade Development Corporation (METDC);
- *approved international trade conference* means an international trade conference approved by METDC; and
- *Malaysian brand name* means a brand name that is registered as a trademark in Malaysia or in any country outside Malaysia under the law relating to trademark to a registered proprietor that is a company incorporated in Malaysia where at least 70 per cent of the issued share capital of the company is owned by Malaysians.

As for the *Malaysian brand name*, the proprietor of the trademark or service

mark has the right to deal or assign as well as to license the use of it. In accordance with the Trade Related Aspects of Intellectual Property Rights (TRIPS) requirements, provision for the prohibition of registration of well known trademarks by unauthorised persons and provision for the border measures to prohibit counterfeit trade marks from being imported into Malaysia are provided for to facilitate a conducive business environment in Malaysia. Foreign applicants would have to file applications only through the agents while local applicants can do so on their own.



Conclusion

Brand names are no longer simply about the qualities of the product or services they sell; they are promoted as a set of values, a philosophy or even an ideology. In recent years, the role of branding in establishing a firm's identity and building its position in the competitive marketplace has been increasing significantly. A key element of corporate success is the understanding and framing of a consistent brand equity dimension. The most important dimensions of brand equity consist of brand awareness, brand loyalty, perceived quality and brand image. The positive customer-based brand equity will result when each dimension holds strong, favourable, and unique brand associations. A number of benefits can result from a strong brand especially in terms of greater revenue, lower costs as well as increased market share. However, brand equity must be managed consistently and over time by reinforcing the brand dimensions.

As mentioned earlier, the basic functions of a brand are :

- it identifies the product or service and allows the customer to specify, reject or recommend it to others;
- it communicates messages to customers; and
- it is a piece of legal property in which the owner can invest in and through law is protected from competitor trespass.

The new tax incentives introduced by the Government will encourage firms to aggressively advertise their branded products in local as well as global markets.

Brand owners are expected to communicate more effectively with their potential clients and maintain their ranking order.

In essence, the Web, television, radio, direct mail and e-mail are channels in which customers can interact with a company and therefore receive its brand messages. Additional tax incentives should be introduced by the Government to encourage companies to build loyalty and trust with their consumers through Web branding. AN

ers through Web branding. AN

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OBSTACLES TO ISLAMIC BANKING IN THE UK

By Dr. Yusuf Karbhari, Dr. Kamal Naser & Zulkarnain Muhamad Sori

Introduction

In last month's issue we devoted our discussion to reporting the problems and challenges facing Islamic banking in the West. This article is a continuation of our previous discussion. We provide a discussion on the background of Islamic banking in an international context in general and the UK in particular. We further highlight five main obstacles that face Islamic banking. These are :

- ① accounting practices;
- ② liquidity and risk management;
- ③ staffing and training;
- ④ marketing Islamic banking products and services; and
- ⑤ competition from conventional banks.

Islamic banking has been built on the ba-

sis of *Mudaraba*-labour partnership and *Musharaka*-profit and loss sharing (PLS) partnership. However, over the years other methods of financial transactions that are in-line with the teachings of the Islamic faith such as *Murabaha*-Mark up and *Ijara*-Leasing have been established (Hamwi and Aylward, 1999). The Islamic banking system has been developed rapidly in search of new financial instruments as an alternative to the conventional banking instruments (Iqbal, 1999).

The development of the Islamic banking industry was further assisted by multinational corporations such as General Motors, IBM and Xerox, which consider it as a worthwhile alternative (Martin, 1997). These multinational corporations have acquired financing through the US-based Is-

lamic leasing fund set up by the United Bank of Kuwait. The initial attempts to establish Islamic banking occurred in Pakistan, Malaysia and Egypt during the late 1950s and early 1960s. The application of Islamic banking in Pakistan during the late 1950s failed due to a lack of funds following an endless number of borrowers as opposed to a small number of wealthy depositors.

In Malaysia, a Pilgrimage Fund (*Tabung Haji*) was established for assisting those who wanted to save money for pilgrimage to Makkah. This, according to Kahf (1999) later became a complete interest-free form of investment banking in 1962. Following in its footsteps Bank Islam Malaysia Berhad (BIMB) and Abrar group were incorporated in an effort to develop an Islamic financial system (Astbury, 1994).

In the case of Egypt, the formation of Mitghamr as an interest free institution in 1963 was able to attract large amounts of deposits from those people who held their money due to religious beliefs (Abdullah, 1984). In later years, the bank encountered difficulty following its policy to charge administrative costs to cover their expenses and did not share any profits made by borrowers. Consequently, the salary package in the bank remained unattractive and many of the staff left the bank for better offers. In 1971, the Nasser Social Bank was established and this bank now is fully owned by the government, which operates it as an interest-free institution (Saeed, 1996).

The success of the Nasser Social Bank attracted the attention of many entrepreneurs and essentially encouraged a new era for Islamic banking with global expansion. Besides Nasser Social Bank, the establishment of the Islamic Development Bank in 1974 (IDB) in Jeddah, Saudi Arabia boosted the idea of Islamic banking (Abdel-Magid, 1981). It is claimed that the bank was involved in over 375 projects worldwide in less than 10 years (Abdullah, 1984). Following the success of the above organisations, several Islamic banks such as Daar al Maal al Islami, Al-Baraka, Dubai Islamic Bank, Kuwait Finance House, Bahrain Islamic Bank, Jordan Islamic Bank, Al-Rajhi etc. were established from 1970s onwards.

Islamic Banking in the UK

Although Islamic financial institutions predominantly began in Muslim countries, some of the largest Islamic banks and institutions are strangely based in Europe such as the Geneva based Dar Maal al Islami (DMI). In 1983, authorities in Denmark, granted the first license to an Islamic bank in Europe (Trolle-Schultz, 1986). Consequently, Islamic banks are now operating in a number of non-Muslim countries. In the same spirit, a significant market for Islamic banking exists in the UK. After all, London is a major attraction for Islamic banking mainly because of the large number of Muslims that are resident in the UK with a Muslim population of approximately 1.5 million. In the UK, Islamic banking is not only offered through Islamic banks, but also actively through the Islamic banking departments of conventional banking organisations such as Citibank,

“... a significant market for Islamic banking exists in the UK ... Islamic banking is not only offered through Islamic banks, but also actively through the Islamic banking departments of conventional banking organisations”.

Kleinwort Benson and ANZ Grindlays Bank (Shepherd, 1996).

Many conventional banks in the UK have realised the potential of Islamic banking and this can be considered as an untapped market. Nevertheless, despite the growth and success experienced by Islamic banking in the UK, it has experienced a number of problems. In fact, the problem of Islamic banking in the UK can be gleaned from the fact that the only Islamic bank in the UK (i.e., Al-Baraka) was forced to surrender its banking license.

Accounting Practices

The accounting policies adopted by Islamic banks present another technical problem. Abdul Magid (1981) indicated that International Accounting Standards (IASs) were set to reflect national differences and therefore, inapplicable to a large number of countries. Islamic banks are based on a different set of objectives, beliefs and assumptions when compared to conventional institutions. These assumptions lead to different types of transactions such as *Zakat* funds, profit and loss (PLS) sharing accounts, etc. all of which must be accounted for in the books. In light of the empirical evidence provided by Abdul Magid (1981) and Naser and Pendlebury (1994) on Islamic banks' financial reporting practices, it is plausible that IASs are unable to sufficiently reflect all transactions of Islamic banking in an acceptable manner. Consequently, it is reasonable to suggest that Islamic banking must develop its own intricate and detailed set of accounting standards¹.

Liquidity and Risk Management

According to Mudawi (1986), there exists no money market for Islamic funds and there is no inter-bank where the Islamic bank can

place their funds overnight, or obtain loans for short-term liquidity needs. The lack of liquidity instruments is one of the primary difficulties that Islamic financial institutions face. Without access to liquidity instruments, Islamic banks and financial institutions will continue to have liquidity shortages. This problem is exacerbated by the lack of support from central banks as a lender of last resort. It is obvious that without the support of the respective central banks, further development will be extremely difficult. In this respect, Dudley (1997) showed that the lack of capital markets and marketable instruments moved a significant proportion of the Middle East wealth abroad or kept part of the wealth invested in the property sector. On the other hand, some attempts have been made by the Malaysian central bank to set up an Islamic inter-bank and capital market systems.

Risk management is one of the most important activities of any bank. Central banks, therefore, take measures to ensure that a bank's risk does not go beyond a certain level. Al-Omar and Abdel-Haq (1996) believe that both conventional and Islamic banks are subject to similar risks such as investment risk, currency risk etc. Islamic banks, however, are more vulnerable to investment risk, due to the longer-term nature of their transactions. Interest rate risk plays an important part in a conventional bank, but is non-existent for Islamic banks. It can be said that risk management is a very developed area in the conventional banking system. Unfortunately, the same level of development has yet to be achieved by the Islamic banking system. Although there has been a realisation of its importance and a move towards its enhancement in recent years, there is still much more to be achieved. Ainley (1997) stated that with the absence of interest and risk management tools, a risk manager in an Islamic institution has a much more challenging task.

Staffing and Training

Most professional and training courses in banking tend to be geared towards con-

¹ A committee was established in Bahrain in the early 1990s and given the responsibility of setting accounting standards for Islamic banks and financial institutions. The fact that the committee lacks the power to enforce the stated standards plays down the importance of the standards and questions the committee's existence.

ventional banking rather than Islamic banking. In reality, a limited number of institutions offer training for Islamic institutions. This is, however, not surprising since the conventional banking system is the more established of the two systems. Hence, the lack of professional courses and training tailored for Islamic banking has resulted in a lack in qualified staff. Al-Omar and Abdel Haq (1996) believe that the absence of the required trained staff has made Islamic banks resort to the next best alternative, that of recruiting staff from conventional banks. With the vastly different concepts of the two systems, it is not rare to see such staff having difficulty to adjust to the Islamic banking system. The lack of trained staff, in turn, brings about an array of problems that could be related to other problems discussed earlier. Iqbal (1997) indicated that the lack of trained staff partly contributed to the slow innovation of the Islamic banks' products and instruments. In addition, Kahf (1999) thinks that the lack of trained staff affected the relations with central banks due to the lack of ability to clarify and explain various issues to them.

Marketing Islamic Banking Products and Services

It would be plausible to suggest that, most of the potential customers of Islamic banks tend either to be oblivious to Islamic banking or to try to avoid it. This can be observed, not only in the non-Muslim markets, but also in the Muslim markets. The main reasons for such reactions or attitudes are two-fold. First, the idea of Islamic banking is relatively young and many are unaware of it. Second, most people (Muslims or non-Muslims) have been accustomed to the conventional banking system and are not prepared to take risks with their hard-earned income. Added to this, people in the industrialised world are accustomed to dealing with highly experienced conventional banks that offer a wide array of financial instruments. It is, therefore, unlikely to see them making a move to Islamic banking unless it offers them something extra. Furthermore, Islamic banks are perceived by customers as 'banks', and their expectations of Islamic banks are based on their experiences with conventional ones. Having mentioned that the Islamic banking system has a relatively short history and is a much

less developed field, it is unfair to classify Islamic banks with conventional banks and expect the same thoroughness or variety in their products and services. Customers, therefore, must be educated and made aware of the difference between the two systems. In this context, Ainley (1997) showed that different views and interpretations about Islamic banks tend to further complicate issues and confuse the public about the reality of the Islamic banking system in the first place.

With the existence of the above-mentioned problems in the market place, it is important for Islamic banks to educate people about what they offer. Islamic banks need to be heavily involved in marketing their products and services. Al-Omar and Abdel Haq (1996) proposed that Islamic banks can emphasise the need for a more ethical system or try to attract customers on the basis of cost effectiveness. Whatever the Islamic banks decide to compete on, the important issue is that they realise the importance of educating their customers.

Competition from Conventional Banks

Shepherd (1996) notes that as further developments and innovations occur in Islamic banking, large amounts will be moved from conventional banks to Islamic institutions. Hence, many of the key players in conventional banking markets, such as Citibank, ANZ and HSBC, have begun to move into the field, providing Islamic banking through Islamic windows (Cunningham, 1994). This means that many players have come into the market and the provision of Islamic banking is no longer restricted only to Islamic institutions. In this case, it can be argued that the competition in the Islamic-banking field has been greatly increased. In this respect, Nienhaus (1986) believes that it will be difficult for relatively new banking institutions to compete with the well-established conventional banks. As more players enter the field, the bigger challenge will be for the Islamic banks to survive. The counter argument, however, is that the conventional banks' movement into Islamic banking is advantageous since its wide scale practice will make customers more aware and diminish any apprehension towards it (Al Omar and Abdel Haq, 1996). Similarly, Kutty (1995) contended that the two systems have much

to gain by working together and cooperating with each other.

Conclusion

This paper discusses the major problems and challenges faced by Islamic banking in the UK, namely the mismatch of available accounting standard (IAS) with Islamic banking practices, lack of liquidity instruments and undeveloped risk management tools, lack of trained staff and appropriate training tailored to Islamic banking, difficulties to market Islamic banking products and services due to the low level of awareness among potential customers, and stiff competition from conventional banks where a number of key players in this industry have opened up Islamic banking departments.

Overall, there appears to be many problems and obstacles facing Islamic banking. However, this could be positively converted to opportunities. People will realise the existence of Islamic banking in the market as many financial institutions (i.e., Islamic and non-Islamic organisations) have started to offer Islamic banking services. Customers will then evaluate the rationale of this banking alternative. Essentially, the issues discussed in this current article will only be resolved through serious and arduous effort. Nevertheless, in the next issue we provide empirical evidence on the challenges that specifically face Islamic banking in the UK through a series of elite interviews that were undertaken with Chief Executives of Islamic financial institutions in the UK. **AN**

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HALF-TIME SCORES

By Paul Thompson

Introduction

A financial year for a company has much in common with a 90-minute match for a football team. Just as the final score is what matters to a football team, so it's the annual figures that really count as far as a company is concerned. While in football the final score determines either how many points the team bags or whether it collects some silverware, in business companies tend to get either lambasted or lauded depending on their full-year score line.

That said the half-time score is of interest to football pundits and supporters. It gives some indication as to what the final score may look like. And in the same way analysts and investors are keen to know a company's interim figures (quarterly or half yearly). Interim figures help them form an impression as to what the full-year picture will look like. Thanks to the introduction in 2000 of a set of more detailed rules governing the form and content of interim reports, Malaysia's investors and analysts have benefited from a much improved half-time match analysis. This article will stress the importance of interim reporting, outline the existing guidelines and finally look into the crystal ball so as to get an inkling of future developments in this area.

Importance of Interim Reporting

By any yardstick a financial year is a long time. No more so than in the increasingly real-time business world of today. Within a year stock markets, industrial sectors and companies can go from boom to bust. That makes a regular and timely flow of information all the more important. Investors and analysts do not want to spend 12 whole months guessing what the final score will look like. They want to be drip fed information throughout the year so they can anticipate what the full year will look like. That makes interim report-



ing — a progress report if you like, issued during the year — all the more crucial.

The collapse in the technology sector over the past two years and the precipitous dive in fortunes for the airline industry in the wake of September 11 amply demonstrate just how rapidly fortunes can flag and hence why interim reporting is so important. The reporting season that is presently in full swing — for companies releasing full year numbers to 31 December 2002 — is awash with reports of companies, most notably those in the tech sector, posting double-digit profit declines and worse.

IAS Guidelines for Interim Reporting

In recognition of the importance of interim reports — and given the conspicuous lack of global consistency in terms of their form and content — the International Accounting Standards Committee (IASC) — now re-organised and re-branded as the International Accounting Standards Board (IASB) — issued International Accounting Standard (IAS) 34 *Interim Financial Reporting* in February 1999.

IAS 34 provides guidance as to the presentation and minimum content of an interim financial report — a condensed profit and loss, balance sheet, statement of changes in equity and cash flow statement, supplemented by various explanatory notes — as well as how one measures key financial variables like revenue, profit and asset values. What it does not do is specify which entities must publish them, how frequently or how soon after the period ends. These matters are left to the regulators of the respective countries which adopt the IAS.

MASB SOP 2 *Interim Financial Reporting*

Interim reporting has been part of the financial reporting scene in Malaysia for some time. Indeed all companies on the Kuala Lumpur Stock Exchange (KLSE) have been required since the tail end of 1999 to release quarterly reports and have them put on the KLSE company announcement pages (see <http://announcements.klse.com.my/linkwebmainpage.nsf/lca.htm>) within two months of the quarter end. Unfortunately, in the past the practice of interim reporting has been a tale of “the good, the bad and the

ugly” with, according to some at least, a surfeit of the latter. The introduction of specific guidelines has changed all that.

A statement of principle (SOP) — closely aligned with the aforementioned IAS 34 — was issued in 2000 by the local standard setting body, the Malaysian Accounting Standards Board (MASB). Entitled MASB SOP 2 *Interim Financial Reporting* it promised to significantly improve the quality of interim financial reports put out by Malaysian companies. It seems to be doing the trick.

The vast majority of local listed companies have a calendar year end. These companies will shortly have to prepare an interim report covering the first quarter of 2003, that is 1 January 2003 to 31 March 2003. They will have two months from the end of the period in question within which to publish the report.

Prior to the release of SOP 2 local companies had little in the way of guidance as to the shape and form of this report. As a result all too many KLSE listed companies used to be in the habit of issuing ‘no frills’ half-yearly reports some three months after the half-year had ended. SOP 2 raised the bar somewhat.

SOP 2’s objective, like IAS 34, is “to provide guidance on the application of accounting principles and financial reporting practices to public listed enterprises in the preparation of interim financial statements”. Significantly, application of SOP 2 will facilitate compliance with the KLSE Listing Requirements on Quarterly Financial Statements.

SOP 2’s Recommendations

What then does SOP 2 recommend? For starters it recommends enterprises make their interim financial statements available within 60 days of the interim period end. That should ensure that the information is timely. As noted above companies can ricochet within months from rags to riches and back again making timeliness critical.

Second, it recommends that the financial statements comprise, on a consolidated basis where applicable, a balance sheet, income statement, statement of changes in equity, a cash flow statement and explanatory notes. These financial statements can either be a full set or else a condensed set. SOP 2 also recommends the inclusion of a narrative commentary on performance and

prospects. Increasingly such narratives are seen as a way of better communicating the significance of the reported financial data.

Third, it recommends that income and expenses be measured and recognised on a basis consistent with that used when preparing the annual financial statements (dubbed the ‘discrete method’). That’s to avoid companies ‘massaging’ the figures by allocating income and expense items to various quarters as they see fit. Finally, the accounting policies and presentation applied is consistent with those in the annual report. Consistency is, as all accounting practitioners know, key to making data comparable over time and across companies.

The Future for Interim Reporting

In the US interim reporting has matured like fine cheese. Its practice is well honed and sophisticated, not least because the Securities and Exchange Commission (SEC) mandated highly detailed quarterly reporting long ago. As the Americans would say the reports are quite simply ‘awesome’. In size at least! For a taster Amazon’s quarterly report for period ending 30 September 2002 can be viewed at http://media.corporate-ir.net/media_files/NSD/AMZN/reports/Q3_02_10Q.pdf. Many leading-edge US companies now go beyond even the demanding requirements prescribed by the SEC. They release a ‘mid-quarter business outlook’. This means they systematically report earnings related information eight times a year. That’s every six weeks. In fact this seems to be the future for interim reporting — more information, more often. **AN**

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PERFORMANCE *from* CONFORMANCE

The practical application of corporate governance and risk management

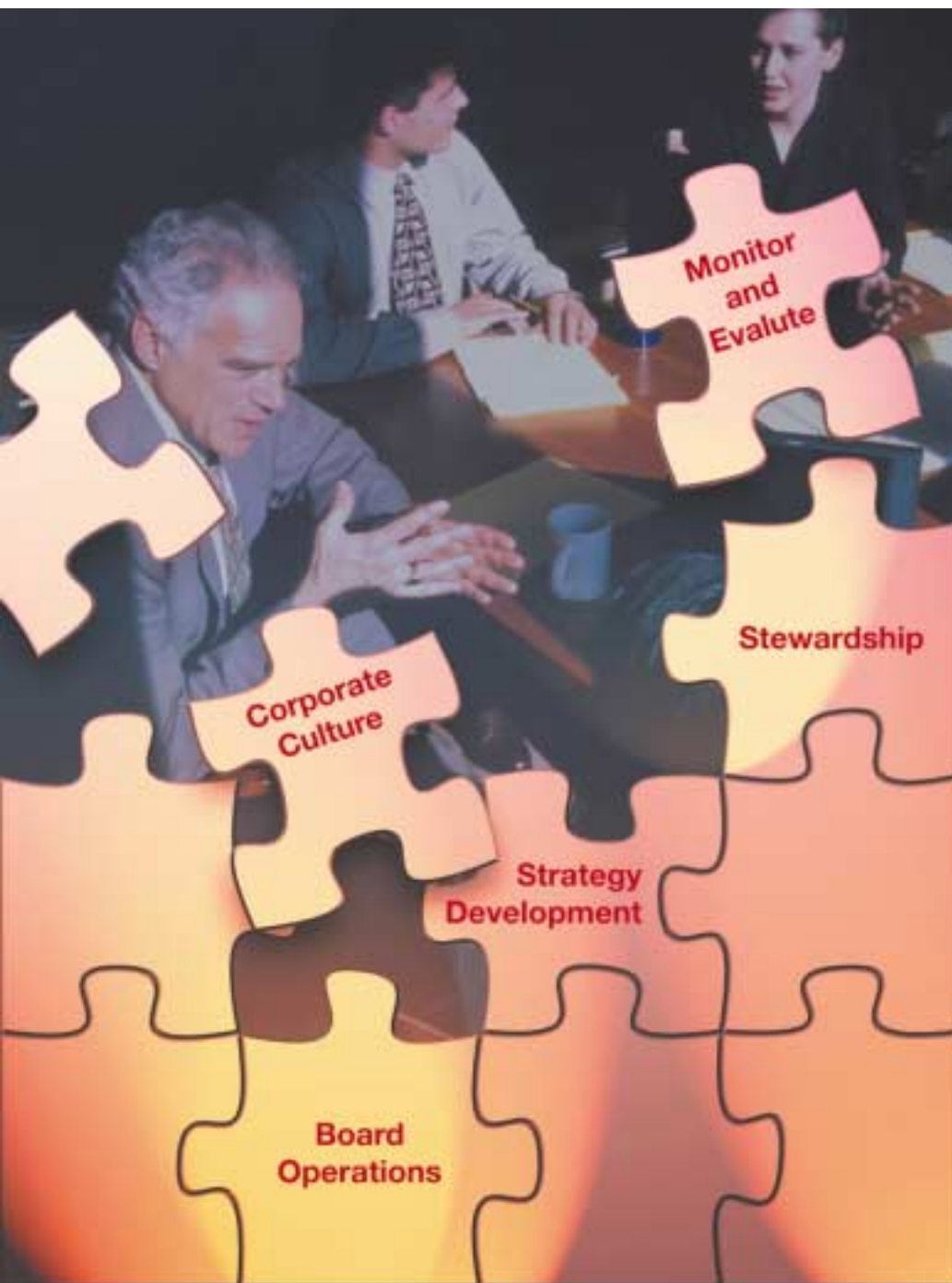
By Richard Sharman
& Timothy Copnell

Letter Rather than Spirit

From Cadbury to the Combined Code, from Viénot to the new German Code, the corporate governance reforms of the last decade have systematically formalised the manner in which companies are governed. Given the current spate of restated financial statements, missed earnings projections, and high profile corporate failures, the jury is still out as to how effective such reforms have been.

What can be said of the explosion of corporate governance-related guidance observed during the 1990s is that it prompted a commitment of increased time and investment in risk management but in the majority of cases organisations continued to treat risk management as a discrete exercise. Ultimately this failed to focus risk management activity on the strategic objectives that lead to improved organisational performance and, in turn, improved shareholder value. Observing the letter rather than the spirit of corporate governance guidance is something organisations should be wary of.

So what exactly is corporate governance and what is its relationship with risk management? Furthermore, how are organisations supposed to meet the expectations of their stakeholders in these areas and, the two not being mu-



tually exclusive, actually drive performance benefits while doing so?

So what is Corporate Governance?

Put simply, corporate governance is the system and processes by which entities are directed and controlled to enhance performance and sustainable shareholder value. It concerns the effectiveness of management structures (including the role of directors), the sufficiency and reliability of corporate reporting, and the effectiveness of risk management systems.

During the last few months, the issue of corporate governance has been dominated by reactions to three major events: the collapse of Enron and the rash of other high-profile financial restatements; new risk perceptions due to the tragic events of 11 September 2001; and the economic downturn and its impact on financial reporting.

Each of these events has resulted in significant shareholder interest in corporate governance and how it might be improved to minimise similar risks at their companies. Boards are under increasing pressure to become more accountable, transparent and responsive to stakeholders.

A Framework for Understanding Corporate Governance

What follows is a defined governance framework focused on value creation — a framework to ensure the spirit of corporate governance is followed to deliver both conformity and performance improvement. Once boards fully understand their stakeholders, they will be better able to ensure governance effectiveness and accountability and thus add value to the organisation overall.

We explain how this is practically achieved in greater detail below as we deal with the five pieces of the governance jigsaw individually:

1 Board operations

Effective board operations are critical to the development of a strong governance structure. The skills and experience of the board must remain relevant to the company's needs, whatever the standards, culture, and markets to which it is subject. Boards should take steps to ensure that

they continue to have the appropriate mix of skills and levels of experience as conditions change. Periodic self-evaluation, preferably facilitated by an independent third party, will help them meet this important goal.

Ultimately, the quality of the financial reporting, risk management and internal control structures that support the discharge of governance responsibilities will be rendered meaningless if the board operates ineffectively. Central to effective governance is the level at which risk and control issues are discussed and the frequency and standard of that discussion. In the current environment non-executive directors are being asked to question the level of challenge they currently provide to the executive. In response they are ask-

organisation is sufficiently agile to be able to respond to changing circumstances and take advantage of relevant market opportunities even as it continues to pursue its planned goals and objectives. Aligning board and management efforts is an important first step — one that will help enable both groups to work co-operatively to achieve strategic aims and ultimately add value for stakeholders.

Effective strategy development observes how key risks are managed and how risk influences business performance in the same way that the taking of opportunity can be seen to. Managing and reporting on risks outside the context of the organisation's business objectives is at best interesting, at worst a waste of time. As a result, many organisations are now look-

“... corporate governance is the system and processes by which entities are directed and controlled to enhance performance and sustainable shareholder value. It concerns the effectiveness of management structures ... the sufficiency and reliability of corporate reporting, and the effectiveness of risk management systems”.

ing for improved information on the risks the organisation faces, the controls in place to manage these risks and the process by which this information is arrived at and updated.

However, risk clearly does not stop once you get past the operational tiers of an organisation. Risks associated with succession planning and remuneration arrangements are repeatedly highlighted by the financial markets and yet are rarely identified or communicated effectively. The level of challenge at board and sub-committee level and an appetite to confront such issues are essential to effective board operations.

Questions on the level of challenge should not be reserved specifically for non-executives. An example is the way in which many organisations have sought to better discharge their governance responsibilities through establishing dedicated risk management committees.

2 Strategy development

The board should seek to ensure that the

ing to better align their corporate planning and risk management activities to promote the selection of targets that are both stretching and achievable and to assist in the subsequent dialogue at all levels on actual results.

3 Corporate culture

Efforts to ensure ethical behaviour and to protect an organisation's reputation are an important part of the governance framework. A culture that condones negligent or even mediocre behaviour puts the company's reputation at risk. Moreover, where appropriate standards of conduct promoting and maintaining integrity are not embedded within a company, there is a heightened risk that employees' behaviour and the information they produce become unreliable. The board must help ensure an appropriate tone at the top.

The importance of risk management has advanced over the last few years with many organisations understanding that they have to take more risk if they are to gener-

ate value, and that all employees have a part to play in achieving this. Just as directors need to provide challenge on risk issues, clear ownership and accountability for risk needs to exist at all organisational levels.

As organisations seek to support high performance and increased risk-taking, some are now including the evaluation of employee attitudes to risk in their performance appraisal process, firmly positioning risk management as a component of induction and ongoing management training.

4 Monitor and evaluate

No matter what their level of focus, boards should recognise that what gets measured is what gets attention. Therefore, they need to ensure they understand what management should be doing and assess whether those activities are being managed and measured. The reports the board receive should reflect this broad measurement perspective. How well management has met the organisation's financial goals should be just one aspect of the board's evaluation. The board should also ensure that the combined scope of internal and external audit is such that it is able to provide greater assurance that management has adequate governance systems and processes in place to protect shareholder value.

Inseparable from the development of organisational strategy is the monitoring and evaluation of subsequent performance. When reporting on risks to business objectives many organisations continue to confuse quantity of reporting with quality of reporting.

A growing number of organisations are appointing a chief risk officer to provide leadership, direction and co-ordination of organisational risk management activity. The chief risk officer does not directly 'own' responsibility for managing specific risks but operates in a consultative/colaborative role supporting the board, its sub-committees and key operating and functional management. The role seeks to improve consistency and accessibility of risk information at all levels of the organisation as well as improve the standard of discussion and challenge at board

and management levels.

As organisations better align their planning and risk management activities and the consistency of their risk reporting, they are also improving the means by which they measure performance to corporate objectives. For many, the next step is the integration of information on key risks with these methods for monitoring performance since both seek to measure the likelihood of achieving the same corporate goals.

5 Stewardship

Board members are accountable to shareholders. Accountability — including all the issues surrounding disclosure and transparency — is what provides the legitimacy to the classic model public company. Shareholders elect directors to run companies on their behalf — *ipso facto*, boards are accountable to shareholders for their actions. Boards should engage in a two-way dialogue with their key stakeholders and use their acquired knowledge as part of their strategic planning and risk management process. Decisions based on a better understanding of stakeholders' needs reduce the risks associated with the external environment and helps secure competitive advantage.

Elsewhere we have discussed the improved alignment of organisational performance and risk information to better measure performance against objectives. The development over recent years of environmental, sustainability and social responsibility reporting represents one way in which organisations are responding to stakeholder concerns on risk. In many cases the risks and how they are actively managed are acutely linked to organisational sustainability — an example being that of mineral reserves for energy organisations. The ways in which these organisations look to develop and report on alternative energy sources explains to stakeholders their own plans for longevity as well as that of the planet.

It is foreseeable that developing demands for disclosure and transparency and the desire to create competitive advantage will lead to increased reporting on other areas of risk and organisational efforts to manage them.

Time for companies to assess the true value of corporate governance towards performance

The true value of good corporate governance lies in its contribution to both business prosperity and to accountability. In the current environment it is all too easy to forget the former. Nevertheless, business leaders and shareholders alike must ensure that undue concentration on aspects of accountability does not destroy entrepreneurship and ultimately value.

Recent events have brought about heightened awareness of governance issues and efforts to improve and demonstrate high governance standards. Such efforts should extend throughout all five of the board's major focus areas — board operations, strategy, corporate culture, monitoring and evaluation, and stewardship. Correspondingly, and perhaps unsurprisingly, developed risk management activity clearly assists in meeting and exceeding stakeholder expectation in all of these five areas.

Ultimately, demonstrably strong corporate governance is essential to preserving reputation, investor confidence, access to capital, employee satisfaction, customer loyalty, and long-term sustainability. Poor or inadequate governance, by contrast, will not maximise shareholder value, but it will attract the attention of those who see reforming governance as a means of increasing value. ^{AN}

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Note : The above article is extracted from the book titled *Managing Risk to Enhance Stakeholder Value*. This book has been issued jointly by the International Federation of Accountants (IFAC) Financial and Management Accounting Committee and the Chartered Institute of Management Accountants (CIMA).

The book can be downloaded free from IFAC's online bookstore at www.ifac.org/store. Print copies can be ordered through the online bookstore or by calling IFAC at + 1-212-286-9344, ext. 103.

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E-COMMERCE

Scorecard

By Stathis Gould

E-commerce growth in SMEs is hindered by a lack of understanding. Stathis Gould looks at how the new e-commerce scorecard can help smaller firms improve their performance.

While e-business has helped many larger companies benefit from revised business models, added-value services and increased collaboration with suppliers, many small and medium-sized enterprises (SMEs) are missing out. Research by the

Cranfield School of Management (UK) shows that, of 700 SMEs surveyed, 30 per cent think they have not realised significant benefits from e-commerce.

Most companies adopt e-commerce in order to improve customer relationships, particularly by enhancing customer services and finding new customers. However,

only a small percentage of companies are currently taking orders on-line and very few allow customers to pay for goods and services on-line. The survey also found that small firms showed little interest in using e-commerce to improve the supply chain. So why are SMEs being left behind?

The research identified three main factors necessary for successful e-commerce:

- Senior management support;
- Staged implementation;



“E-business should not be seen as separate from traditional business. Senior managers must view it as a fundamental part of business strategy and the e-commerce scorecard will help them put the e-business strategy firmly on the agenda”.

- A clear understanding of the many ways in which e-commerce can benefit the business.

The last factor is a real problem for SMEs. This fundamental lack of awareness inevitably leads to a poor strategy for future business development. The problem goes beyond understanding the technology. A crucial aspect of developing a competitive business strategy is being able to consider all the improved and new business opportunities provided by e-commerce, particularly for preferred customers and suppliers and internal users in the business.

Enhancing or at least sustaining added value in the supply chain is crucial to the survival of SMEs. It appears that many SME managers and executives are unsure how best to proceed, or whether competitive advantage can be gained through e-commerce activities and IT investments.

Business-to-business (B2B) trade is by far the largest growth area in e-commerce. New intermediaries have emerged to exploit the technology and market opportunities. Business models, such as “vertical” and “horizontal” marketplaces are mushrooming, creating fresh opportunities for closer collaboration in terms of demand forecasting, product development and other value-added processes.

SMEs can also benefit from these changes but, without big budgets, their strategy must be collaborative and they should consider application service providers (ASPs) and other partnerships and alliances if they are to compete with larger organisations. The rise of B2B market exchanges enables SMEs to reduce their procurement and selling costs and to grow their business through new markets.

SMEs, which lack the awareness, and strategies they need to take advantage of these opportunities will lose out. Furthermore, if they do not benchmark themselves against global best practices in e-commerce, managers will find themselves working in isolation and will be unable to visualise the possibilities — they will be unable to answer questions about where to focus, what to take

where they are now and how they should develop e-business strategies for improving essential processes. This includes identifying and prioritising the actions that will give the greatest returns for the business (both short and long-term solutions).

Second, evaluating an organisation’s performance against market-driven performance standards and best practices can highlight significant improvement opportunities. The scorecard’s rapid-assessment process means that completed answers can be submitted for evaluation against an independent and confidential benchmarking database managed by Score Research.

During the scorecard’s development, firms said they needed a living reference for developing an e-commerce strategy encouraging continuous review, linked with overall business strategy. While many businesses have addressed some aspects of e-commerce, most have focused on implementing electronic data interchange (EDI) and websites. Too many new e-commerce applications come from fragmented initiatives and are aimed at urgent needs. They are sometimes linked with other companies, but rarely involve co-operation with other parts of the same business or integrated with core business processes.

This piece-meal approach is expensive because it leads to firms introducing incompatible systems and missing opportunities for benefits across the whole business. The scorecard’s whole

business approach facilitates a comprehensive, cohesive, broad-based strategy for e-commerce, both within the organisation and with its partners. E-business should not be seen as separate from traditional business. Senior managers must view it as a fundamental part of business strategy and the e-commerce scorecard will help them put the e-business strategy firmly on the agenda. **AN**

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This article was written by Stathis Gould, Head of Technical Issues, CIMA UK, and it first appeared in *Financial Management*, a monthly magazine published by CIMA. For details, visit www.e-commercecore.com.



advantage of and how much to spend.

A new tool called the e-commerce scorecard should help organisations of all sizes to overcome these problems and save significant amounts of time and money. It is a powerful yet simple diagnostic tool that enables managers to assess rapidly the opportunities for improving e-business awareness and effectiveness against a comprehensive framework of global best practices in e-commerce.

The scorecard uses respected balanced scorecard methodologies and diagnostic measures to help organisations assess

REPORT ON PROCEEDINGS OF DIALOGUE WITH THE TECHNICAL DIVISION OF THE INLAND REVENUE BOARD

30 September 2002

1 Proposed Amendment to Section 15 A of the Income Tax Act — Withholding Tax on Services

The 2003 Budget proposed that an amendment be made to Section 15A of the Income Tax Act, 1967 (ITA) so that payments made in consideration of services rendered under paragraph (a) [in connection with the use of property or rights or installation of plant and machinery] and paragraph (b) [in connection with technical management or administration] are deemed to be derived from Malaysia if the services are performed in Malaysia. The proposed amendment is effective from 21 September 2002.

The professional bodies would like to seek clarification on the following matters :

- i) Whether the effective date, 21 September 2002 refers to :
 - a. the date when the services are performed;
 - b. the date when the invoice for the services rendered is issued, or
 - c. the date of payment for the services rendered.

Comment

IRB confirmed that as Section 15A of the ITA is being amended (and not Section 109B), the effective date of 21 September 2002 refers to the date when the services are performed.

- ii) In respect of a contract for services where the services are partly performed in Malaysia and partly outside Malaysia, what would be the method acceptable to the IRB in determining the amount attributable to services performed in Malaysia?

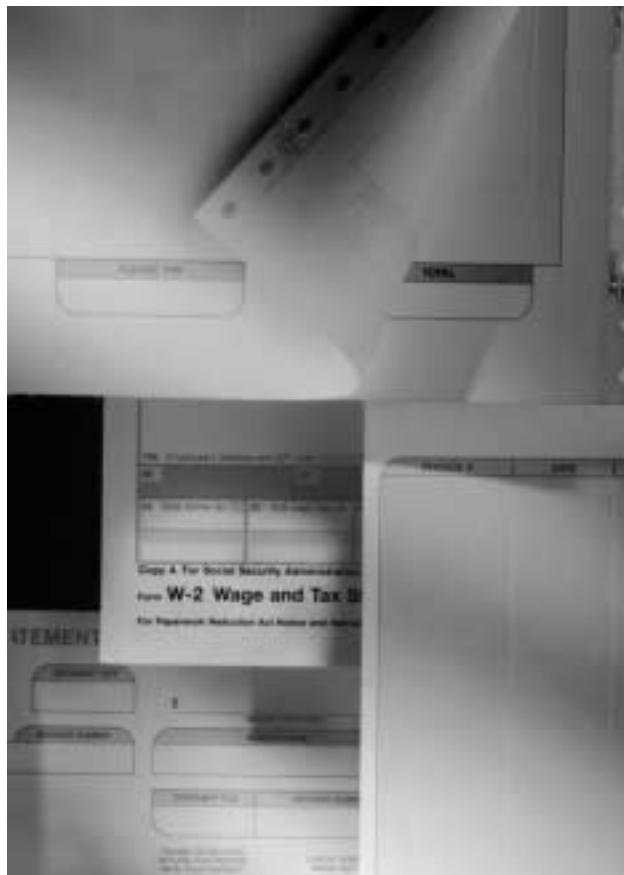
Comment

IRB informed that where part of the ser-

vices are performed in Malaysia and part of it outside Malaysia, the amount attributable to the services performed in Malaysia would be based on the value of services rendered as per the contract.

In this respect, taxpayers are advised to specifically indicate in the contract the :

- a. *value of services rendered in Malaysia; and*



- b. *value of services rendered outside Malaysia.*

IRB further indicated that if this is not possible, the apportionment of the value should be done on a fair and reasonable basis.

- iii) Pursuant to the amendment to Section 15A of the ITA, payments made to non-residents for the onshore portion of the services rendered under Section 4A(i) and (ii) of the ITA are deemed to be

derived in Malaysia and payments made to non-residents for the offshore portion of the services rendered will no longer be subject to withholding tax under Section 109B of the Income Tax Act. Consequently, where a non-resident is deemed to have a permanent establishment in Malaysia, payments made to the non-resident for the offshore portion of the services rendered shall not be deemed to be income derived from Malaysia. Accordingly, such payments shall not be subject to withholding tax under Section 109B of the Income Tax Act.

The professional bodies would like to seek the IRB's confirmation that this view is correct.

Comment

IRB clarified that the proposed amendment to Section 15A of the ITA shall not affect the determination of the profit attributable to a permanent establishment. The normal approach would apply i.e. all income attributable to a permanent establishment is taxable whether the services are rendered onshore or offshore. The proposed amendment to Section 15A only applies to income chargeable to tax under Section 4A of the Income Tax Act, 1967.

- iv) Since the proposed amendment to Section 15A has not yet been passed by Parliament, should the payer continue to deduct withholding tax until the legislation is gazetted?

The professional bodies suggest that the IRB exercise its administrative powers under the proviso to Section 109B(1) of the ITA to allow the payer to pay or credit the payments due to non-residents without deduction of tax. This is to avoid unnecessary paperwork on the part of the non-resi-

dents in submitting claims for refund of the withholding tax when the proposed amendment to Section 15A becomes law.

Comment

In view of the need to avoid the situation where withholding tax is deducted and then refunded, the IRB agreed that administratively,

- a. *no withholding tax needs to be deducted for payments to non-residents for services rendered abroad which would not be subject to withholding tax under the 2003 Budget Proposals.*
- b. *withholding tax for non-resident contractors shall be deducted based on the new rate as proposed in the 2003 Budget i.e. 10 per cent for the non-resident entity and three per cent for its non-resident employees with effect from 21 September 2002.*

2 Option for Pioneer Status Companies to Qualify for Reinvestment Allowance



The 2003 Budget proposed that a pioneer status company which intends to undertake reinvestment before the expiry of its pioneer status be eligible for reinvestment allowance, on condition that the pioneer status is surrendered for cancellation. The professional bodies would like to seek clarification on whether a company in the following situation is eligible to claim reinvestment allowance :

The company has claimed reinvestment allowance for five years and was granted pioneer status for a new product for year six to year 10. Would the company be eligible for reinvestment allowance for year 11 to year 15?

Comment

IRB informed that the reinvestment allowance would be available. However, a company cannot claim two different incentives in a particular year of assessment.

IRB further informed that in line with the 2003 Budget Proposals, the provisions in the Promotion of Investments Act (PIA) will be amended accordingly.

Further, the Malaysian Industrial Development Authority (MIDA) will also issue a guideline pertaining to this matter.

3 Incentive to Acquire a Foreign Company

The 2003 Budget proposed that a locally owned company that acquires a foreign owned company abroad be granted an annual allowance of 20 per cent of the acquisition cost for a period of five years for the following purposes :

- a. *to acquire high technology for production within the country; or*
- b. *to gain new export markets for local products.*

The Institute would like to seek clarification on the following matters :

- i) The term "high technology" is not defined. It is unclear what types of industries would qualify for the incentive. For example, would utility companies with plants for water treatment or power generation be considered as "high technology industries" since the level of technology employed by these industries can be very high.
- ii) The term "locally owned company" is not defined. It is unclear whether a prescribed quantum of equity interest held by the local shareholders is required.
- iii) What is the minimum quantum of equity interest in a foreign company that must be acquired in order to qualify for the incentive?
- iv) Is the annual allowance granted as a deduction in arriving at adjusted income or in the form of capital allowance?

Comment

IRB informed that MIDA will issue guidelines on this new incentive.

IRB indicated a "locally owned company" could be a company which is 60 per cent owned by locals. The minimum quantum of

equity to be acquired could be more than 50 per cent. (These will be covered in MIDA's guideline)

IRB further confirmed that the incentive will be granted as a deduction in arriving at adjusted income.

4 Incentive for Operational Headquarters Companies

The 2003 Budget proposed that an approved Operational Headquarters company (OHQ) be exempted from income tax for 10 years and that dividends paid from the exempt income be exempted from tax in the hands of shareholders. The proposal is effective for applications received by the Malaysian Industrial Development Authority (MIDA) from 21 September 2002.

The Institute would like to seek clarification on the following matters :

- i) The Finance (No.2) Bill 2002 proposed that Section 60E of the ITA be deleted. This means that when the Bill is enacted, there will no longer be any provisions in the ITA to deal with the tax treatment of OHQ companies.

The professional bodies would like to seek confirmation that pursuant to the proposed amendment to the ITA, the existing approved OHQ companies will migrate from the current concessionary tax rate of 10 per cent to full exemption when the Bill is enacted. If the above is affirmative, the professional bodies would also like to seek clarification on whether the existing approved OHQ companies would be granted full tax exemption for the remaining portion of the 10-year period from the date the OHQ status was approved or they would be entitled to full tax exemption for 10 years from YA 2003.

The professional bodies suggest that existing OHQ companies should be entitled to enjoy the full benefit of the new tax incentive, i.e. be granted full tax exemption for 10 years from YA 2003 so as to discourage them from withdrawing their operations from Malaysia.

Comment

IRB clarified that an exemption order under Section 127 of the ITA will be issued to stipulate the exemption and the conditions for an OHQ company.

IRB confirmed that full tax exemption is

extended to existing OHQ companies. However, the companies may be required to re-apply for the additional five years.

IRB informed that application for OHQ status can continue to be submitted to the MOF until MIDA takes over eventually.

- ii) The professional bodies would like to further confirm that the above incentive is applicable for both qualifying and non-qualifying services rendered by the OHQ.

Comment

IRB confirmed that the above incentive is applicable to qualifying services only.

- iii) The professional bodies also suggest that in respect of new OHQ companies, the proposed incentive should be available for applications for OHQ status which have been recently approved by MIDA, and not applications received by MIDA, from 21 September 2002.

Comment

IRB indicated that the above suggestion shall be referred to MIDA or MOF.

5 Incentives for Strategic Knowledge-Based Economy

The 2003 Budget proposed that the following tax incentives be given to companies which invest in knowledge intensive activities :

- a. Companies granted "Strategic Knowledge-based Status" be given the following tax incentives :
 - i) Pioneer status with tax exemption of 100 per cent of statutory income for a period of five years; or
 - ii) Investment tax allowance of 60 per cent on the qualifying capital expenditure incurred within five years with the allowance deducted for each year of assessment to be set-off against 100 per cent of statutory income.
- b. Expenditure incurred by a company for drafting the individual Corporate Knowledge-based Master Plan be allowed as a deduction in the computation of income tax. The deduction is to be claimed when the company begins to implement the Corporate Knowledge-based Master Plan.

The professional bodies suggest that :

- i) More detailed guidelines on the criteria

for qualifying as a "Strategic Knowledge-based Status Company (SKSC)" be provided.

Comment

IRB informed that MIDA will be issuing guidelines on the criteria.

IRB further indicated that the above incentive would most likely apply to IT based entities.

- ii) Pioneer status or investment tax allowance be given to a SKSC which is in the business of preparing Knowledge-based Master Plans for their customers and that tax deduction be given to the companies that implement the Knowledge-based Master Plan (i.e. the customers).

Comment

IRB responded that expenses incurred by a company such as engaging a consultant to develop the Knowledge-based Master Plan shall be allowed as a tax deduction. The deduction is to be claimed when the company begins to implement the Corporate Knowledge-based Master Plan.

Incentives such as Pioneer status or Investment Tax Allowance as proposed in the 2003 Budget shall be granted to a 'Strategic Knowledge-based Status Company' (SKSC), which is to be approved by MIDA.

6 Reduction in Income Tax Rate for Small and Medium Scale Companies

The 2003 Budget proposed that small and medium scale companies with paid-up capital of RM2.5 million and below be subject to corporate tax at the rate of 20 per cent on chargeable income up to RM100,000. The corporate tax rate on the remaining chargeable income is maintained at 28 per cent. Dividends distributed will be given a tax credit of 20 per cent in the hands of the shareholders.

- i) The proposed amendment to Schedule 1 to the ITA as set out in clause 23 of the Finance (No. 2) Bill 2002 provides that :

"2A. Subject to paragraph 3, income tax shall be charged for a year of assessment on the chargeable income of a company resident in Malaysia which has a paid-up capital in respect of ordinary shares of less than two million five hundred thousand

ringgit at the beginning of the basis period for a year of assessment ..."

According to Appendix I to the 2003 Budget Proposals, the qualifying threshold for the new incentive is a paid-up capital of RM2.5 million and below.

The professional bodies suggest that the proposed amendment to Schedule 1 be reworded as follows :

".....a paid-up capital in respect of ordinary shares of two million five hundred thousand ringgit and below..."

Comment

IRB confirmed that the 20 per cent tax rate applies to a company with paid-up capital of RM2.5 million and below. Schedule 1 of the ITA, 1967 will be amended to reflect this.

- ii) The professional bodies are of the view that whilst the above incentive is intended to promote investment by small and medium enterprises (SMEs), it would result in additional tax burden being imposed on shareholders of SMEs who are subject to tax at a rate exceeding 20 per cent. As dividends paid by SMEs are given a tax credit of 20 per cent, the holding company of an SME, which is itself not an SME, will have to bear the additional eight per cent tax on dividends received from its SME subsidiary. Similar tax burden will be imposed on other recipients, including individuals and businesses (which are not SMEs), if their income is subject to tax at a rate above 20 per cent.

The professional bodies would like to submit the following alternative proposals for the IRB's consideration as a measure to avoid the negative tax impact on certain groups :

- a. in the case of investor companies which are not SMEs, dividends received from an SME which are distributed from the first RM100,000 of the SME's income, should be treated as exempt income in the computation of the company's taxable income.

In the case of individuals and other investors (who are not SMEs), dividends received from an SME which are distributed from the first RM100,000 of the SME's income should be given a tax credit at 20 per cent and that such dividend income should

not be subject to any additional tax in cases where the recipients' tax bracket exceeds 20 per cent. This would encourage individuals and small businesses to invest in SMEs.

- b. SMEs be given the option to claim the concessionary tax rate of 20 per cent on the first RM100,000 of its income or be subject to the normal tax rate of 28 per cent on its entire income.
- c. The Finance (No. 2) Bill 2002 (clause 19) proposes that when SMEs declare a dividend, the tax deducted or deemed to be deducted under Section 108 of the ITA is at 20 per cent. This would result in a "dividend trap" as highlighted above.

The professional bodies suggests that to overcome the problem, SMEs be allowed to deduct tax or deemed to have deducted tax on dividends declared at 28 per cent.

- d. To allow two pools of dividend franking credits i.e. at 20 per cent and 28 per cent.

Comment

IRB responded that the above are policy matters. The concerns raised by the professional bodies are noted and recommendations proposed by the professional bodies shall be referred to the MOF.

- iii) The professional bodies would like to seek further clarification as to whether the 20 per cent tax rate would apply to the first RM100,000 of a SME company enjoying an existing tax incentive (e.g. Pioneer Status).

Comment

IRB confirmed that if a SME enjoys pioneer status on 70 per cent of its statutory income, it will be eligible for the 20 per cent tax rate on the first RM100,000 of the taxable chargeable income.

- iv. In the event where a company has a paid-up capital of RM2.5 million or less (i.e. SME) in year one but subsequently its paid-up capital increased to more than RM2.5 million (i.e. it ceases to be a SME) in year two, the professional bodies would like to seek confirmation as to whether the company's chargeable income shall be subject to tax at the corporate tax rate of 28 per cent from year two onwards.

Further, the professional bodies would like to seek clarification as to whether the company shall continue to frank dividends at 20 per cent from year two onwards.

Comment

IRB responded that the tax rates to be applied (i.e. whether at 20 per cent or 28 per cent) shall depend on whether the company is a SME in a particular year of assessment, as illustrated below :

	Tax Rate	Dividend
Year 1	20% on first RM100,000	20%
(SME company)	28% on remaining income	
Year 2 onwards	28%	28%
(Non-SME company)		

- v. The professional bodies would like to seek clarification as to whether a SME company shall continue to frank the Section 108 balance brought forward (which existed prior to the 2003 Budget Proposals) at 28 per cent.

Comment

IRB clarified that any dividend declared in the year of assessment out of the Section 108 Account (including the brought forward Section 108 credit from YA 2002 and earlier) when the SMI is subject to the 20 per cent tax rate, must be franked at 20 per cent.

- vi. When completing Form CP 204 for a year of assessment, pursuant to Section 107C(3) of the ITA, a company is required to furnish the estimated tax payable which must not be less than that of the previous year of assessment's revised estimate or if none is furnished, the previous year of assessment's estimate of tax payable.

The professional bodies would like to seek clarification that when completing Form CP 204 for year of assessment 2003 (and subsequent years), would a SME be allowed to furnish an estimated tax payable less than the previous year of assessment's revised estimate in view of the new tax rate as proposed in the 2003 Budget.

Comment

IRB informed that a SME can only lower its estimate (to reflect the lower tax liability at 20 per cent) when revising its estimated tax payable and not when submitting the

original estimate.

7 Special Incentives to Increase Exports



The 2003 Budget proposed that a locally owned manufacturing company be given additional tax incentives as follows :

- a. Tax exemption of statutory income equivalent to 30 per cent of increased export value provided the company achieves a significant increase in exports;
- b. Tax exemption of statutory income equivalent to 50 per cent of increased export value provided the company succeeds in penetrating new markets; and
- c. Full tax exemption on increased export value provided that the company achieves the highest increase in exports.

The professional bodies would like to seek clarification on the following :

- i) What is deemed as "significant increase" in exports?
- ii) What is the definition of new markets? Does it refer to new markets to the company or to the country?
- iii) How is the "highest increase in exports" determined?

At the time a company files its tax return, it may not be aware whether it qualifies as the "best national exporter" to be entitled to the full exemption of its statutory income. The professional bodies suggest that guidelines be issued to provide more specific criteria on entitlement to the incentives.

Comment

IRB indicated that MIDA will be discussing with MATRADE to issue guidelines on the definition of the various terms.

8 Export Incentives for Professional Services



The 2003 Budget proposed that double deduction on expenses incurred for the promotion of export be extended to professional services including legal, accounting, taxation, management consultancy, architectural, engineering, medical and dental services provided by entities/businesses registered with the Registrar of Businesses.

The professional bodies suggest that similar guidelines as that for promotion of export of services by companies be issued to avoid ambiguity.

Comment

IRB informed that the guideline to be issued will be similar to the exemption order issued earlier on the promotion of exports by companies.

9 Incentives for Modernising Chicken and Duck Rearing System



The 2003 Budget proposed that chicken and duck rearers who reinvest for the pur-

pose of shifting from open house system to closed house system be given reinvestment allowance (RA) for a period of 15 consecutive years commencing from the first year the reinvestment is made. RA is claimed as follows :

- a. For projects located in promoted areas, that is the Eastern Corridor of Peninsular Malaysia, Sabah and Sarawak, RA of 60 per cent on qualifying capital expenditure incurred with the allowance deducted against 100 per cent of statutory income of each year of assessment; and
- b. For projects located outside the promoted areas, RA of 60 per cent on qualifying capital expenditure incurred with the allowance deducted against 70 per cent of statutory income of each year of assessment.

This incentive is given to chicken and duck rearers who are approved by the Ministry of Agriculture and on condition that the minimum rearing capacity of the closed house system is as follows :

- i) 20,000 broiler chicken/broiler ducks per cycle; or
- ii) 50,000 layer chicken/layer ducks per cycle.

The professional bodies are of the view that the conditions imposed for entitlement to the proposed incentive appears rather restrictive. The professional bodies also hold the view that shifting from an open house to a closed house system of chicken and duck rearing falls within the meaning of modernisation in Schedule 7A to the ITA. Therefore, the provisions in Schedule 7A should be applicable to such capital expenditure.

Comment

IRB is of the opinion that the current provision in paragraph 9, Schedule 7A does not cover the activity of rearing chicken and ducks. Therefore the proposed amendment to Schedule 7A is made to cover this activity.

10 Proposed Section 75A : Director's Liability for Payment of Company's Tax

The Finance (No. 2) Bill 2002 (clause 15) introduces a new Section 75A to the ITA in order to make any director and any other person who is concerned in the management of the company's business and who,

either on his own or with one or more associates, is the owner of, or is able directly or indirectly to control more than 50 per cent of the ordinary share capital of the company, jointly and severally liable for the tax due and payable by the company.

The professional bodies are of the view that although the proposed Section 75A has limited the liability for payment of a company's tax to its directors, the provision may still have negative impact on the Government's efforts to promote investment.

The professional bodies feel that it is inequitable to make a director liable for the payment of the company's tax when the company genuinely has no financial resources to meet its tax liability. For example, the company made profit in year 1 and was therefore liable to income tax. However, in year two, one of its major debtors encountered severe financial problems and was unable to pay the debts owed to the company, which grossly affected the company's financial position. In such situations, it is unjustifiable to require the directors to bear the tax liability of the company.

The professional bodies trust that the IRB will apply the provisions of the proposed Section 75A with due consideration to the circumstances. The Institute would like to reiterate its view that the directors should be held personally liable for the company's tax only if they have knowingly and improperly appropriated the company's funds for their personal gain thereby resulting in the company's inability to meet its tax payments.

The professional bodies also suggest that the IRB issue guidelines on the application of the proposed Section 75A to alleviate any anxiety on the part of company directors.

Comment

IRB informed that directors would be liable only after all means of recovery from the taxpayer company have been exhausted.

11 Incentives to Consolidate the Management of Smallholdings and Idle Land

The 2003 Budget proposed the following incentives to promote the consolidation of management of small holdings and idle land :

- a. A company that invests in a wholly-

owned subsidiary company involved in the consolidation of management of smallholdings or idle land be allowed a deduction equivalent to the amount of investment; and

- b. A wholly-owned subsidiary company involved in the consolidation of management of small holdings or idle land be exempted from service tax.

The professional bodies suggest that guidelines be provided on the definition of "small holdings" and "idle land".

Comment

IRB informed that the Ministry of Primary Industries will be issuing guidelines which will elaborate on acreage, etc.

12 Incentives to Increase the Planting of Rubberwood Trees



The 2003 Budget proposed that a non-rubber plantation company that plants at least 10 per cent of its plantation with rubberwood trees be given accelerated agriculture allowance whereby the write-off period on capital expenditure incurred for land preparation, planting and maintenance of rubberwood cultivation be accelerated from two years to one year.

The incentive is effective for applications received by the Ministry of Primary Industries from 21 September 2003.

The professional bodies would like to seek confirmation that the effective date is from 21 September 2002 and not 21 September 2003.

Comment

IRB confirmed that the incentive is effective from 21 September 2002.

13 Review of Income Tax Exemption on Interest Earned from Private Debt Securities (PDS)

The professional bodies are of the opinion that some form of guidelines or public rulings should be drafted by the IRB on the following items :

- Tax treatment of financial instruments i.e. debentures, bonds, etc.
- Eligibility of the expenses incurred in relation to the issuance of Islamic PDS i.e. the type of expenses that are deductible.

Comment

IRB took note of the above.

14 Income Tax Treatment for Expatriates in OHQ's and Regional Offices

In order to attract regional offices to be located in Malaysia, the 2003 Budget proposed that expatriates working in an OHQ or a RO be taxed only on the portion of chargeable income attributable to the number of days they are in the country.

The professional bodies would like to seek further clarification as to the methodology to be used to compute the time frame or "days" an expatriate is located in the country as an employee of the OHQ or RO for the purposes of ascertaining the chargeable income of the expatriate.

The professional bodies would like to propose that the apportionment be based on "Gross Income" instead of "Chargeable Income".

Comment

IRB informed that the apportionment will be based on chargeable income from employment and the number of days in Malaysia. An expatriate is deemed to be in Malaysia for a day if he is in Malaysia for part or the whole of that day.

The rationale of adopting "Chargeable Income" instead of "Gross Income" is because the relief claimed by an expatriate is accounted for before the apportionment.

15 Review of Residence Requirements for Individual Income Tax

The 2003 Budget proposed that in order to relax the condition for resident status, it is proposed that the requirement for an

individual to be in Malaysia on 31 December of the current year and 1 January of the following or preceding year be removed. The absence is to be deemed as a temporary absence. The proposal is effective from year of assessment 2003.

The professional bodies would like to seek confirmation whether the amendment takes effect from the year of assessment 2002 or year of assessment 2003.

Comment

IRB confirmed that the Section 7(1) (b) amendment will be effective from year of assessment 2002.

16 Amendment of Section 108(16)

With reference to Clause 19 of the Finance Bill (No. 2), Section 108 of the principal Act is amended by inserting the following subsection :

(16) Notwithstanding the foregoing subsections, where

- the excess in increase by an amount under subsection (7) or (9); or
- the amount due is increased by an amount under subsection (10),

the Director-General may in his discretion, for any good cause shown, remit the whole or part of that amount and, where the amount remitted has been paid, the Director-General shall repay the same.

The professional bodies would like to seek confirmation as to whether the Director-General will exercise such power to waive only for any "good cause shown" and not in the event of a discovery during a field audit.

Comment

IRB informed that the proposed provision will apply to all cases so long as good cause is shown.

17 Retrenchment Benefit

The 2003 Budget proposed that the amount of compensation for loss of employment exempted from tax will be increased from RM4,000 to RM6,000 for each completed year of service.

The professional bodies would like to seek confirmation that STD is not applicable to the amount of RM6,000 so exempted.

Comment

IRB responded that the Operations Unit of the IRB will look into this matter. AM

A Matter of Vital Interest for Manufacturers

What's one thing that every company in the world has, whether they like it or not? A supply chain. For manufacturers in an increasingly competitive marketplace, the way you manage your supply chain can mean the difference between success and failure.

IF YOU'RE IN BUSINESS, you have customers. Your customers might be other manufacturers, distributors or consumers, but you still need to move something – raw materials, product components and information or finished goods – through the supply chain to your customers.

According to Nigel Montgomery, research director for European e-business strategies at AMR Research, conditions have changed in supply chains, and companies need to respond to these changes. Companies are feeling a new kind of pressure from their customers, partners and competitors. Customers want more customised products and better service. Partners want to work in new ways, and competitors are constantly raising the bar by cutting prices and increasing operational efficiency. The new competitive pressure is exacerbated by the fact that we're experiencing a down economy and a new global reality after the events of September 11, 2001.

Mid-Size Manufacturers Can Lead the Way

Although the market has its challenges, Montgomery believes that the situation should be seen as an opportunity — especially for mid-size manufacturers. Mid-size manufacturers tend to be better equipped for change by virtue of their size, organisational structure and product lines.

"The market pressure plays right into the hands of the midmarket," says Montgomery. "A lot of mid-size manufacturers sell products that aren't that expensive and aren't necessarily that complex. For example, if you're selling motorbikes, the market may not be right to sell something like a Harley Davidson, but it might be the perfect opportunity to sell a simpler, less expensive motorbike. And it's the same in every industry. It's a great opportunity for the mid-size guys if they look for more opportunities and play it smart."

In order to play it smart, companies need to gain control. They need greater visibility in order to find *waste* in their business processes. They need to be alert to customers' needs, be aware when materials aren't going to be available as originally planned and measure where they're making the greatest profit. In short, they need to manage their supply chain more efficiently.

Putting Your Cards on the Table

While the Internet has served as a technological foundation for gaining greater visibility, it's also one of the main catalysts for increased competitiveness in the market. The irony is that while e-business is making it easier to increase efficiency, at the same time, it's raising customer expectations and eroding traditional competitive advantages.

"You can't muddle through to solve customers' demands online because everyone can see inefficiencies," says Montgomery. "Before the Internet, if you wanted to buy a TV, it was difficult to compare prices against other suppliers. So the customer often ended up paying more. On the Web,



"The market is ripe with opportunity for companies that are capable of responding swiftly to changing market conditions."



it's easy to look elsewhere. So there's increased pressure from end customers. The Internet gives them greater choice and greater visibility."

In today's market, companies have to reduce costs and increase efficiencies in order to gain the edge over their competition. Customers want unique products and expect individual service. As a result, they are less willing to accept mass-marketing and one-size-fits-all products. This means that manufacturers must adopt the make-to-order mentality to supply customised products and services designed to match individual customer profiles. The customer puts pressure on their supplier, and they in turn put pressure on their vendors' suppliers. For example, many companies are saving enormous amounts of money by holding reverse auctions. This allows them to compare prices and take the best bid.

"Take Sainsbury's, Sears or any of the other big retail guys, they're all doing it. Mid-size manufacturers can do exactly the same," says Montgomery. He does, however, admit that keeping up with the demands of the market can pose special problems for mid-size companies. Dominant supply-chain partners put pressure on their mid-size suppliers to adopt certain collaborative systems. This can be a problem for small to midsize companies, which may have trouble keeping up with the necessary technological capabilities.

Moving Ahead Step by Step

Despite the increased market demands, companies can be reluctant to find new ways of dealing with the pressure. In part, this is due to a down economy made worse by the events of September 11, 2001. But Montgomery believes that the recovery will start in the second quarter of 2002. Nonetheless, he thinks that it will take a long time for people to feel comfortable about making new investments.

"One thing I definitely see today is that organisations are saying if I can't gain a relatively fast return on investment, I'm not going to do it. If it takes more than a quarter to develop it, I'm not going to do it. All over the manufacturing industry, that seems to be the rule of thumb. Too many people spent too much money buying IT that didn't add value," he says.

According to Montgomery, the way to compete is to think strategically and act tactically. You need to identify inefficiencies in your business processes and find ways to improve them one step at a time. Of course you have to be careful. Montgomery points out that the cost of integrating new technology with ERP business software can be four times the cost of the software itself. That's why he says it's important that you work with a software vendor that understands your business processes and that can increase visibility into your business. Montgomery believes that companies can use technology to become more competitive, but focusing on buying technology is a mistake. Instead, they should focus on what adds value to their business processes. "They should focus on buying extra efficiency," he says, and he offers some examples :

- Analytical tools can help find business processes that need improvement, pinpoint the most profitable products and identify new market opportunities. Yet the flashiest program won't necessarily do the job. Many ERP systems, on the other hand, have analytics built in to their transactional core. This can provide the critical ability to learn and change.

- Customer Relationship Management (CRM) solutions can help to gain better control over the customer base, but that doesn't mean that companies should rush out and buy a massive CRM product. First they need to find out what their customers want. Only then can they find the right solution. ERP solutions are rapidly gaining the ability to help companies manage their customer accounts efficiently and meet their customers' needs.

- Internet-related technology can help companies find new ways to work closer with partners, but companies shouldn't start by looking at new technology. They should start by looking at how they can make joint decisions with their partners that add value to the customer. It's true that some companies may be forced to collaborate because of pressure from dominant partners, but they'll get little return on investment if they don't focus on the value-adding potential of collaboration.

Many companies are reluctant to change their organisation, and to share information with customers and partners. They should, however, keep in mind that new technology gives the ability to filter and control the amount and type of information to share. What's more, sharing information is an essential part of getting products to market. Companies take design, production and delivery decisions together in order to increase efficiency throughout the supply chain.

Now is the Time

Today's marketplace is characterised by increased competitive pressure and rapid change. Montgomery believes that the situation should be seen as an opportunity — especially for mid-sized manufacturers.

"The market is ripe with opportunity for companies that are capable of responding swiftly to changing market conditions.

The competition is pulling back into its shell. The opportunities are greater because in a down economy, many competitors will be looking inwards rather than exploiting new markets."

Mid-size manufacturers have the size and structure necessary to deliver the products that customers want with minimum time-to-market, and have the potential to reorganise in order to seize new opportunities. It requires, however, that they are geared for change and that they have a business solution that supports maximum efficiency of business processes. While technology can help increase visibility and sharpen competitive edge, it is wise to focus first and foremost on business processes. Technology can then be applied gradually as a means of achieving more business value throughout the supply chain.

"Supply chain management is not just about moving product components," Montgomery says. "It's everything we do from the concept of products to their obsolescence. Everything we do that makes time-to-market or time-to-return on product as efficient as possible." It's always been healthy business to improve the processes that add value to your partners and customers. In today's rapid and competitive market, it's absolutely crucial to a manufacturer's success.

Microsoft Business Solutions

Microsoft Business Solutions, one of the seven core businesses of Microsoft, offers a wide range of integrated, end-to-end business applications and services designed to help small, midmarket and corporate businesses become more connected with customers, employees, partners and suppliers. Microsoft Business Solutions' applications optimise strategic business processes across financial management, analytics, human resources management, project management, customer relationship management, field service management, supply chain management, e-commerce, manufacturing and retail management. The applications are designed to provide insight to help customers achieve business success. For more information about Microsoft Business Solutions, please visit www.microsoft.com/BusinessSolutions, e-mail : mbsasia@microsoft.com or call Patrina Chew at +65 6433-5467, for further enquiries.

Do Not Let Your Career Be Sabotaged!

By Shiv Prasad

No two jobs, it is said, will offer the same challenges. Like wise it is to be expected that no two employers or bosses will mirror the same management styles.

In the world of career-minded employees, professionals and administrators, the ability to work well with your superiors and yet get along with your colleagues will pave the way for success in your job. It is critical that you know your job thoroughly, know what is expected of you, and in this respect your attitudes and behaviour should complement the job.

Over-achieving and over-enthusiasm can drive your superiors crazy just as much as under-performance and poor work-output do. What you see as "conscientious, creative, and caring" can be seen by your boss as "self-serving, disruptive, and a pain-in-the-neck"!

Much attention needs to be placed on attitudes and behaviour for they can be critical and even alienate employees from their bosses, especially if the latter are burdened with management issues relating to the running of their organisation and have other pressing matters to contend with.

It is essential that you understand your boss well and know how he or she operates. It may be necessary for you to determine if they are :

- 1 The "cool, no-nonsense type" who hates interruptions and expects his subordinate staff to work independently and consult when it is absolutely necessary; OR
- 2 The 'animated, jovial communicator' who likes to be constantly kept informed about everything his/her team

are working on, and hates listening to complaints or unsolicited advice and keeps tab of everything through frequent meetings and discussions.

Sadly many a career is wilfully self-destructed or sabotaged through stupidity and craziness!

No one spends sleepless nights plotting ways to infuriate supervisors or make a statement to say, "I think I'll commit professional suicide today."

"See yourself participating in any of these preceding, success-sabotage scenarios?" ... You have time still to salvage your career if you pay heed to these steps.

Adjust Your Attitude

Although you do not particularly like, to socialise, or blindly follow the person you work for, it is in your interest to have him or her on your side. To do so, you have to first identify and adapt to the management style of your boss.

There are two likely hurdles to overcome in order to do this.

- Firstly if the boss is truly unreasonable, abusive, and impossible to please and work with, or is one who asks you to participate in illegal or unethical activities. If this is the case you ought to start looking for a job elsewhere — within or outside your current company.
- Secondly, your next barrier, or obstacle, is your own *perception* that by adjusting yourself to your supervisor's expectations and preferences you are allowing yourself to be nose-rubbed and exploited.

Replace that negative notion, and be



more positive minded. For example, imagine yourself as a business tycoon and the person you work for as a customer, who has the choice to either use or cancel your service. Thus in order to keep the customer and get what business you need out of him to prosper, you may have to make certain concessions, perform certain things you do not really enjoy but for the guaranteed success of the business with that particular customer.

Over-achieving and over-enthusiasm can drive your superiors crazy just as much as under-performance and poor work-output do. What you see as “conscientious, creative, and caring” can be seen by your boss as “self-serving, disruptive, and a pain-in-the-neck”!

Seek & Listen to Feedback

Pay close attention to the way your boss has been relating to you. If he or she seems more distant, impatient, disinterested or sharp-tongued, or disapproving with you more than with other employees, it could be that your own behaviour may well have

how you have been coming across. Listen closely and pay attention to their feedback and set about improving yourself — repair your reputation.

Streamline Your Expectations

It's easy to wish for the ideal boss — one

— start by listening more and complaining less! Try to be pleasant and honest; demonstrate that you are reliable, flexible, and willing to be part of a team effort.

Do not hold back issues with your boss — let him or her know that you have been giving the matter much thought and would like to share some of your ideas about how and what you can do to make the working relationship better and more supportive and productive. Whilst going about it, do not forget to take his opinions on board. Also let him know that you appreciate his comments too!



contributed to it!

If you have been difficult to get along with yourself then the reaction to you from your boss would be running true! Do some real soul-searching and analyse what you might have done to give that impression to others, especially your boss.

If you do have trouble in being objective about your own habits, get input from colleagues who have been observing your behaviour for some time. They will *reveal*

who understands you and supports you to the hilt. Instead of pining for that warm, wonderful, endlessly supportive parent-image boss, think in terms of what you can do to make it easier for you to work effectively with your current boss! Once you have made that decision, find constructive ways to reach that goal or objective.

What Can You Do Differently?

The possibilities open to you are endless

Doing What's Necessary

The negative impact, created by one's attitudes and behaviours, does sabotage one's success. Admittedly it will be difficult to reverse, certainly not in the short term — but it is not impossible!

Your honest efforts to change *do* get noticed. Your willingness to try will be seen as a big plus!

Just buckle down and set about doing those things that will salvage your career! **AN**

Management is never passive : it is dynamic and evolving. It is about skills, tools and the ability to use them effectively to gain results; it's the art of leading and working collectively; and finally the ability to make things happen.

Can you recall the many errors you made as a manager, and also just as many made by your subordinates or even perhaps your bosses? Need you worry?

company's goals. Inertia has to be replaced with initiative; and fruitless activities damage a company's progress, and have to be reined in.

The successful manager is that special individual, who realises that profit is a universal standard understood by everyone; and sets out his/her goals and plan of action to achieve that objective. No journey is 'plain sailing' and obstacles have to be overcome, improvements have to be made, and initiatives taken.

distinguish a selected single goal or objective and then, using all other talents (including those of subordinates) at their disposal, focus all energy on it to achieve the objective.

2 PICKING OUT THE IMPORTANT AGENDA

One important aspect of the manager's ability is his/her capacity to select the right agenda — to pick out the most important thing for action! When swamped by a lot

Do You Seize Opportunities?

By Genevieve Wordsworth

There could have been an endless list of uncompleted projects, missed opportunities — due to not being at the right place at the right time!

The process, plus the initiative, to act and get things done quickly are universally understood as taking the initiative. Initiative studied closely is actually a combination of several skills and habits coming together! Some of these characteristics are in your genes — *viz* inborn — while others are acquired, learned, or transferred to others. In the face of today's rapid challenges, the manager needs all these skills in order to cope satisfactorily with his/her job.

Why is initiative so important and how does it help an organisation?

The primary objective of any company or organisation is to run an efficient operation that not only brings it profit, but also fulfils the needs of its human resources. Profit minded managers and profit-minded people ensure the delivery of the

Initiatives can be classified under five categories :

- The inner drive — a feature lacking in less effective managers.
- The ability to separate the vital from the trivial, and seek the correct agenda.
- The knowledgeable manager, who has to be resolute : tough-minded.
- The will to inspire others, especially subordinates, and to bring out their desire to excel as well.
- The product of intelligent action, not the result of random activities.

Developing the Initiative ...

1 INNER DRIVE

Do not mistake abundance of energy for inner drive. Inner drive is more the keen and vigorous habit to approach everything positively. Power of observation and a constant eye for improvement are essential. Managers, for example, are confronted with hundreds of goals : inner drive will enable them to

“The successful manager is that special individual, who realises that profit is a universal standard understood by everyone; and sets out his/her goals and plan of action to achieve that objective”.

of demands and items for action, the clever manager has to identify quickly and classify them according to company goals, importance and profitability. Pounce on the opportunity to take up those items that, when immediately acted upon, will derive profitability and progress to you and the organisation.

3 BEING RESOLUTE & TOUGH-MINDED

Project delays, committee *run-arounds*, and pending top-management clearances are all part and parcel of a manager's daily diet at work! On occasion, the manager is required to be patient and bide his/her time until more positive or direct action is possible. The manager has to often make tough decisions,

"Pounce on the opportunity to take up those items that, when immediately acted upon, will derive profitability and progress to you and the organisation".

out the better from the learning experience. The tough-minded manager has to be prepared for some sacrifices : long hours, hard work under pressure, frequent absence from home — travelling on business, etc.,

his/her own. By listening to them, cultivating and encouraging them, and facilitating positive action the manager leads and motivates the team to excel. The manager must single out those subordinates who excel in their jobs by rewarding them: promotions, salary hikes, bonuses, improved working environment, etc.,

5 INITIATING INTELLIGENT ACTION

The objective is to initiate intelligent action towards a realistic, attainable goal. The move must involve action that will



even to the extent of laying off old relationships, when getting the job done becomes a higher priority to safeguard the interest of the company.

At times the manager may be perceived to be inflexible or rigid when taking tough decisions. One has to be resolute to these pressures for change and be able to "weather the storm", as in the final analysis the price you pay for the ultimate success would have all been worth the effort! You or your staff could make some honest mistakes in the process, but you all turn

4 CULTIVATING A DESIRE TO EXCEL

All of us are born with one good quality of initiative, and the good manager will make it his/her duty to unravel this in the individuals who work closely with him/her. Remember the manager gets results, gains success through other people — the manager needs to tap their ideas besides

carry the entire management unit or department towards the larger plan to improve the performance of the company or organisation. Be cautious though, any plan that only promotes one unit exclusively at the expense of or the detriment of another unit isn't good initiative and will end up in unhealthy fall-out and eventual disaster. IAN

You Like Him More Than Me

By Genevieve Wordsworth

However fair you try to be, your children are bound to accuse you of favouritism at some time or another. Here's how you can try to minimise the upset ...

Whenever I give one of my two children medicine the other demands it too! I have to put a little bit on the spoon for each of them." I am grandma to Akhil four years and Adarsh two years ... two fine hyper-active boys and I was listening to their mother's frustration. I laughed knowingly and set about writing this article to give some home-brewed parental tips.

Many parents (and grandparents) go through great lengths to treat their children the same. It is only natural for you to feel that you should be meticulously fair in terms of attention, treats, food and clothes to ward off feelings of jealousy, which can be painful and disparaging. However, not only is it impossible in practice to treat and delight the children in the same manner, but trying to do so will often make the situation of jealousy worse.

The more fair-minded or neutral you are, the more likely your children are to look for differences. If you always buy them a present at the same time, they may start to argue that one is better or more expensive than the other. For example giving them equal portions of food may mean they start counting who has got more chips!

Learning For Life

"The family is your child's first training for handling life. Children need to learn how to deal with feelings of envy and mistrust, and by attempting to treat them all the same you are not preparing them adequately for life ahead."

It is a hard lesson to learn, but children have to realise life is not always fair. And

PARENT TIP :

EVERY CHILD IS UNIQUE...

SEX — Despite the best intentions boys & girls are treated differently. Dads are harder on boys but give them more time. Moms let sons off chores but turn to their daughters for chats.

BIRTH ORDER — The Eldest often remains extra special but will be expected to be more grown-up. Middle children benefit from relaxed parenting but often feel neglected. The Youngest is always the 'baby' who gets more indulged by his/her parents.

PERSONALITY — It differs in each child. Some are easy to get along with, others can be headstrong and therefore there will always be a constant battle.

parents there is a favourite child or perhaps the opposite, a "black sheep" in the family.

"It can be difficult in the hurly-burly of family life to be aware if one child is always right." — says Fiona Subotsky, celebrated Child Psychiatrist and author of *"Are You Expecting Too Much From Your Child?"*

Parents are often guilty of giving children labels such as 'the good one', the 'clever one', the 'naughty one,' or the 'pretty one'.

And this could be a self-fulfilling prophecy as the children try to act according to the labels or what is expected of them. Sometimes the 'good' child will form an unbalanced relationship with the parents, siding with them against the 'bad' child! Try sharing the 'badness' around among your children; it will come as a relief to both the children to be able to drop these roles, avoid peer pressure and act normally.

There are many reasons why a parent

"The family is your child's first training for handling life. Children need to learn how to deal with feelings of envy and mistrust, and by attempting to treat them all the same you are not preparing them adequately for life ahead."

they need to understand that though people are not treated equally this does not mean some are better than others.

As long as children feel that their parents will meet their needs, they will accept that sometimes they have to miss out if another child's needs are greater than their own. And being given the chance to be unselfish and considerate to others can strengthen their self-esteem.

Goodies & Baddies

However there is no doubt that for some

can have a negative feeling towards one child. A difficult birth can get things off to a bad start and if the child is hard to manage in the early years it can upset the bonding process. It is quite common for a mother who has been left or divorced by her partner to have negative feelings towards her son if he reminds her of the absent father.

Positive Parenting

If you feel that one of your children, say your son has qualities you do not like, it is

PARENT TIP :

LABELS DO STICK

As children grow there can be long-term problems associated with labels they are given as children.

- The favourite child may have an unrealistic view of herself. If she is over indulged as "Daddy's Little Princess" she may not be popular at school or in adult life believing she can do no wrong! She may become self-centred and arrogant as she grows up and life will fail to meet up to her expectations, when things do not always go her way!
- The 'black sheep' will always feel that nobody likes him and he is likely to be an easy target for teasing and bullying. In adult life he will continuously be looking for self-assurance that he is a success.
- The 'naughty one' of the family may grow up with low self-esteem. He will feel he is not worthy of praise and will seek everyone's attention by behaving badly.



important to focus on the good 'things' about him. Think positively. Praise the child for his strengths, e.g. pat your child on the back for his steel and determination instead of berating him or calling him stubborn.

There is no need to feel guilty about harbouring different feelings for each child. If one says, "It's not fair — you like him better than me", simply explain that you love them both the same but because they have different personalities sometimes you have to treat them in different ways.

Tell each of your children why you find them special, be specific. Rather than simply saying they are kind, tell them how much you like the way they always notice when someone is feeling sad.

Try to avoid, making comparisons between your children and encourage them in different activities so that they are not always competing with each other. If children feel they are special in themselves they are less likely to worry that they are losing out to a brother or sister.

In this respect when children argue the best thing you can do as a parent is not to take sides or try to be fair. Let them get on with the argument, but tell them you do not know who is right or wrong and they will have to sort it out for themselves. Then leave the room. Without an audience, you will be surprised how soon they will stop arguing — or even better, "surprise, surprise they will gang up on you the parent!"

Final words (& what I told my daughter-in-law)... "A younger child needs a lot of attention, but don't expect an older one to grow up too soon!" AN

PARENT TIP :

SETTLING AT SCHOOL

"Chris (4 yrs), my younger child, has had problems settling in at kindergarten and he has been very 'clingy' — wanting to be carried — at home. I have had to explain to Gerard, his elder by two years, that Chris really needs me at the moment, but things will improve, get better.

I do try to make sure Gerard and I have at least forty minutes together every evening before bed-time."

Kuching Orchid Garden

Nature's paradise in
the heart of the city

The Kuching Orchid Garden is strategically located in a park on a 6.8-acre site a stone's throw from the Astana, once the palace of the White Rajahs and now the official residence of the Head of State.

It is a major tourist attraction in the heart of Kuching offering both horticultural and botanical interests, and the garden offers the public a closer view of the varieties and colours of orchids on display in an environment closest to their natural habitat.

To reach the garden from the Kuching Waterfront, you need to take a trip in the 'tambang', the city's small riverine taxi to cross to the opposite bank of the Sarawak river.

The boat fare is 30 sen and it is advisable to have the exact change as getting back your change can be quite a bother with passengers disembarking and the lone boatman having to put one foot on the jetty to steady the boat. The Orchid Garden is only about 200 metres from the jetty. The Kuching Orchid Garden is divided into two major areas, the Nursery and the Garden which boasts an astounding collection of 79,000 mother plants comprising 112 species and hybrids of orchids.

The garden, completed on 31 October 2000 is a display area for a rich and exquisite variety of orchids consisting of epiphytic and terrestrial orchids, planted in an open, shaded and semi-shaded area.

Many of the orchids of Borneo are beautiful plants with attractive flowers and have great potential in horticulture. Among the famous Borneo orchids found in the garden are the Lady's Slipper (*Paphiopedilum Sanderianum*) *Coelogyne Bulbophyllum Beccarii*, a species which releases a rotten smell, *Vanda Dearei*, a fragrant flower and the *Phalaenopsis Violacea* or commonly known 'Orchid Normah' which was declared the State flower of Sarawak on 28 August 1983. It is an attractive flower, which lasts for a considerably long time and is slightly scented. The flower is light green in colour, flushed with bright purple towards the base and is commonly used to produce many colourful star-shaped, 'novelty' hybrids. **AN**



Opening Hours

Tuesday to Sunday
10:00 a.m. - 6:00 p.m. Closed on Monday but open on Public Holidays.

Admission Is Free

Refreshments are available at the food kiosk in Pengkalan Sapi and the Kuching Orchid Garden

To Get There

By Bus — Matang Transport No. 3 near the Saujana Multi-storey Car Park or by "Tambang" (River Taxi) at the Waterfront

For More Information, Contact ...

Planning Parks & Recreation Division,
Kuching North City Hall
Bukit Siol, Jalan Semariang
Petra Jaya, 93050 Kuching
Sarawak, Malaysia.
Tel : 60-82446688,
60-82446644 (hot line)
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THE INDIA CONNECTION

By Sergey Frank & Bill Keenan

The role of the consultant as a chartered accountant, or any other professional, is not identical all over the world. Despite this fact and despite all efforts to move closer to a single global set of accounting standards, the necessary communication with the international client is still and will always remain subject to a different set of rules.

India is simply unique. It has many nuances of social, cultural and religious life and the methods of doing business there can be rather different to those in many other parts of the world.

To begin with, what was originally the Indian subcontinent has, for several decades, been divided into India and Pakistan. This division took place soon after India became independent from British rule in 1947. And the door to India is largely open. The foreign investment climate there has stimulated business in recent years, especially when such ventures minimise foreign exchange resources, provide technical know-how and have a potential for continuous foreign exchange through exports. Many East Asian companies, especially from Japan and Korea, are investing considerable money and manpower into India. Many foreign based multinationals have been enjoying considerable profits out of their Indian operations, i.e. in the pharmaceuticals or fast moving consumer goods industry and recently in the software industry too. Now that India is a leading power in software development and in producing skilled labour, many multinationals and even smaller businesses consider India a valuable player in business expertise.

Communication

Communication seems to be easy and professional conventions are similar to

those found in Britain. The English-speaking chartered certified accountant working in India is not likely to face any language problems. As a former British colony, India has kept English as a business language with many accountants and civil servants obtaining their professional education in the UK and, to a lesser extent, the US. Important considerations in other countries such as where and how to get an interpreter may not be applicable here.

Terminology and Standard Practices

In addition, the legal profession as well as accountants are organised and trained under laws and regulations adopted generally from their British counterparts.

So, legal documents such as contracts are often drafted in a similar way to that of Great Britain. Moreover, accounting rules are broadly similar to the rules and regulations applicable in Great Britain. Companies are required to adopt the accruals method of accounting and to prepare accounts on a historical cost basis, although the revaluation of capital assets is allowed. The Companies Act prescribes the form and content of the balance sheet and the information to be given in the income statement. UK accountants will readily be able to work with these, although the disclosure requirements are less detailed than UK and US GAAP.

Business Climate and Personal Relationships

The climate and the personal relationship are important but not as essential as, for example, in countries like Japan. In India, good personal communication promotes trust and sympathy and helps to enhance business. It is not, however, an absolute pre-requisite to starting any kind of business. It may also appear that the people on the other side communicate slightly differently. The normal volume of the voice within the conversation may be higher. This is just the usual way to speak but does not imply any sign of anger or frustration.

Frequently one may find oneself negotiating not with employed representatives of huge enterprises but rather with success-

ful entrepreneurs running their own company or group of companies. Therefore, the words “person” and “company” are frequently used interchangeably.

You may find many cases where the owner and the management are identical. One should take this into account in negotiation and give the other side the dignity and authority it requires. Therefore, it may be advis-

Further tactful enquiry may therefore be needed to establish certain facts underlying particular items in the balance sheet or income statement.

Business Taxation

For tax purposes business profits are calculated on the basis of the statutory accounts with a number of adjustments relating, for example, to depreciation and interest paid. Again, UK accountants will

interpreted as worth disclosing by the negotiating partner. This is not for reasons of camouflage but rather because of the optimistic attitude that certain things will not happen or are unrealistic and therefore are not worth mentioning.

In addition, use cross checks looking at the whole issue from different perspectives in order to obtain absolute clarity. For example: there are negotiations with the Indian partner about the formation



able to send a team of senior people who can make decisions on the spot because flexibility and the ability to move quickly is most important.

Communication Approach

Many Indian consultants have their business interests not in a specific area, but in diverse fields and their approach towards the technical subject matter of the negotiation may be not too specific but rather generalist, taking a “birds eye view” on it. They may appear to be rather confident and optimistic in handling business areas even if they were previously not engaged in them.

Although the broad accounting rules are similar to those in the UK, statutory disclosure requirements are less detailed.

be familiar with the principle of these adjustments. There is a potentially high compliance cost for large companies, which are required to submit to a tax audit of certain items as well as a statutory audit of their financial statements.

Of interest to direct investors, there is provision for advance rulings on transactions involving non-residents and such rulings are binding on the tax authorities if the proper procedures are followed.

Exploration

During the exploration and information gathering phase, consider whether the other side has a different approach about what has to be disclosed during the negotiation. Some items which one deems to be necessary to be disclosed may not be in-

of a joint venture. Both parties intend to hold an equal participation in the venture. In this context one should not only discuss the ratio of equity participation between the parties but should consider this issue also in connection with the total amount of shares to be issued. It may well be that your local partner talks about an equal participation in relationship to his own shares but not in relation to the total amount of shares to be issued. Your partner may plan to place some shares in the joint venture as public traded shares. Your equal participation remains valid but only when compared with the other side and not the total. As the bottom line, you will receive only a minority. Such misunderstandings are very counterproductive.

In order to avoid other misunderstandings within a negotiation one should clearly point out which facts have been approved and which items are still subject to an ultimate check prior to any approval. Otherwise, especially in lengthy discussions, matters, which have not been clearly defined, may be deemed as approved by the other side.

Bargaining

Bargaining will be regarded as an essential part of the negotiation. Indians are good and flexible negotiators and they expect their counterparts to have equal skills. A firm often displayed attitude saying "This is our policy and there is no way out" contradicts sharply their way of doing business. It prevents you doing what is appropriate under local circumstances and, if repeated often enough, may cause the whole business to fail. In such a case, one should try not to regard the home policy as the ultimate truth, applicable always and everywhere.

The concession-making phase will take a considerable amount of time. Although it is advisable to be tough and defend one's own points one should not forget the importance of maintaining a positive climate, minimising any feeling of suspicion on the other side.

Be aware that at the end of the negotiations the local partner may try to get a last bargain in addition to the results already achieved. This may arise from the need to prove his skills as a negotiator in front of his superiors, his subordinates or the public. Therefore, one should not be surprised by such negotiating tactics but rather still have some options which can be easily traded.

Bureaucracy

Authorities in India may play a very important role. Explore with the local partner what kind of licences, concessions or tax exemptions may be necessary to realise the envisaged business in India. In particular, one should also calculate the approximate time it will take to obtain all such licences. All agreements should contain a clause of effectiveness stating that the respective agreement shall come into full force and effect only after its signature by

all parties' involved and after all necessary licences and permits from all relevant government authorities have been obtained. For major business transactions it may also be advisable to engage local management consultants to obtain all such permits. All major accountancy firms operating in these countries are familiar with such requirements.

Pace

Despite the length of time, which may be necessary to receive all pertinent licences and concessions from the local authorities, Indian negotiators tend to be swift in grasping ideas and notions as well as responding to them. They are flexible in arguments and negotiating techniques.

The Agreement

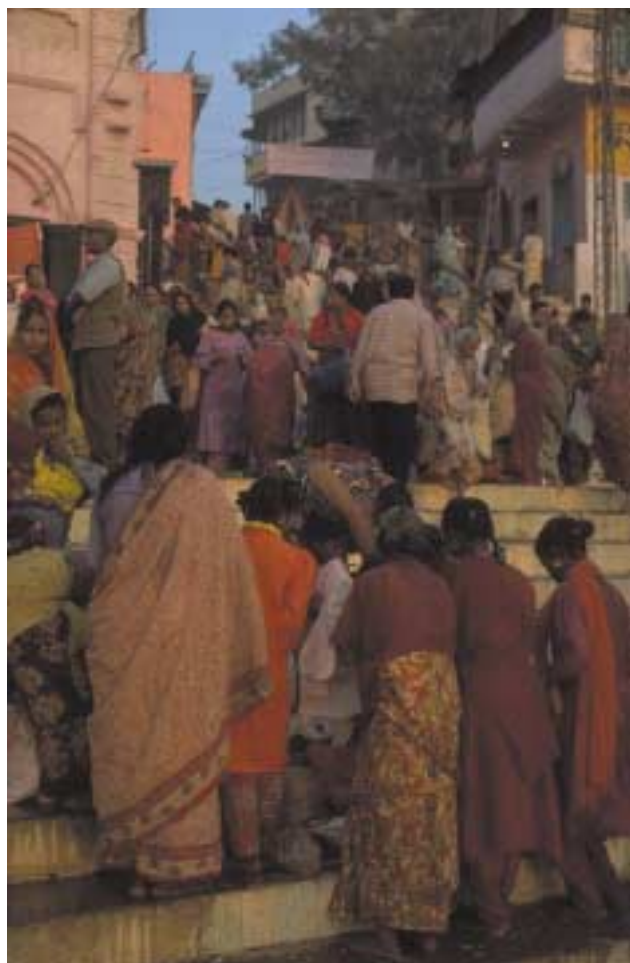
A well-conceived, well-negotiated contract is a good starting point, not a conclusion. It serves as a framework for continuing exchanges between the partners for as long as the relationship lasts. Always try to put contracts in writing. The process of reducing the key points to writing is an education in itself.

In drawing up the agreement one should have domestic legal help and not settle for a standard agreement, but be able to include domestic provisions special to the host country.

Because at least in the major urban areas, considerable resources are available to assist the business person participating in a business transaction in either of the countries, the mystique of foreign law and foreign business customs should not discourage the business person from implementing a transaction which involves the legal system of a foreign jurisdiction.

Women as Business People

India is liberal, as far as the integration of women in the daily life is concerned. In India, women doing business has become an integral part of various industries, particularly in service sectors such as recruitment and public relations. There is no particular dress code; Indian clothes are often the more welcome approach though wearing western style clothing is permitted in some professions and places, such as hotels. **AN**



Note : Sergey Frank is a partner of Kienbaum Executive Consultants and Managing Director of Kienbaum Ltd., the London office of the Kienbaum Group. He is a worldwide acknowledged author and speaker on international communication issues. www.kienbaum.co.uk

Note : The ideas put forward in this article apply for actual international consultation regardless of where it is taking place. The article aims to educate on different ways of doing business in different countries. This is important since it helps to understand international business. And this conclusion is vital because nowhere in business, especially in international consulting, can so much be gained and lost so quickly as in international transactions and projects. This article was first published in *Accounting & Business*, ACCA's monthly publication.

SPECIAL REPORT ON ESSAY WRITING COMPETITION

UiTM Lass Wins MIA Essay Competition

Noor Baizura Hermeyney of Universiti Teknologi MARA (UiTM) has emerged the top winner in the 2002 essay writing competition organised by the Internal Audit Com-

mittee (IAC) of the Malaysian Institute of Accountants (MIA). The theme of the competition was "Internal Audit within the Context of Corporate Governance". She received RM1,500 along with a one-year free subscription of *Akauntan Nasional* at a prize giving ceremony held at the MIA office in Kuala Lumpur recently. The competition was open to all students from Malaysian institutions of higher learning as well as student members of professional accountancy bodies.

The IAC, whose objectives are to promote and create awareness of Internal Auditing among members of the Institute, has taken a proactive effort to organise this competition as one of its main activities to promote internal auditing to the general public, especially students.

In terms of response to the competition, the judges, who comprised lecturers from institutions of higher learning, were pleased with the number of essays received from participating universities and colleges which showed an increase from the first competition held in 1999. The following criteria were taken into consideration by the judges, i.e., descriptive statements, critical analysis, presentation, referencing, grammar and language. This time, lecturers played a greater role in encouraging students to participate.

A total of three main and five consolation prizes were up for grabs with the top three being cash prizes of RM1,500, RM1,250 and RM1,000. Consolation winners received RM250 each. Sri Lankan M.F.M. Nawfal of the International Islamic University (IIUM) bagged the second prize while Ahmad Zamri Osman @ Hussin, also from IIUM got third placing. The consolation prize winners were Teh Hong Hong (Sunway College), Shahrul Haffizi Mohd Taharim (UPSI), Ifrah Abdul Halim (IIUM), Mahir Kovac (IIUM) and Yuvaraj Ganesan (USM). All winners will receive a one-year free subscription to *Akauntan Nasional*.

The Institute is considering holding the essay competition on a yearly basis to encourage more participants to take part in the competition. **AN**



First prize winner ... Noor Baizura Hermeyney of UiTM receives her prize money from MIA Vice-President, Albert Wong Mun Sum

Internal Audit Within the Context of Corporate Governance



by Noor Baizura Hermeyney,
Universiti Teknologi Mara

Corporate governance has been defined as a process and structure meant to direct and manage the business and affairs of a company in order to enhance its prosperity and corporate accountability. It also has the ultimate objective to realise long-term shareholders' value and simultaneously take into consideration the interest of other stakeholders. Corporate governance is needed mainly due to the increase in business failure and economic crisis.

The above definition, lends credibility to the significance of internal audit in order to ensure the objective of corporate governance is fully accomplished. As defined in Sawyer, internal auditing is an

independent appraisal function established within the organisation to examine and evaluate its activities as a service to the organisation. In addition to that, internal auditing also includes measuring and evaluating the adequacy of controls in a particular organisation.

A good example would be Enron's case, where it was said that the failure of a corporate governance movement in the company contributed significantly to its collapse. Though many parties blamed the external auditor, Arthur Andersen, for their failure to take appropriate action, it seems that the audit committee also failed to perform their duties effectively. It is known that audit committees are one of the

tools of corporate governance and in relation to that, a survey regarding audit committees was conducted in the US. Based on the results of the survey, it was reported that audit committees normally meet three times a year and that not all members of the committees bothered to review the companies' internal audits.

In reference to Enron's case, it was reported that in year 2000 the audit committee met five times and the proxy of the company was not even sure whether the audit committee even reviewed the internal audit. This proves that it is ultimately important to ensure that corporate governance be effectively and efficiently carried out especially in public-listed companies since it involves the public's interest. It also signifies that either the internal auditing function was not effectively functioning or the appropriate parties especially audit committee members did not carry out their duties as required. Either way it revealed how weak corporate governance can lead to disastrous and undesirable consequences. In relation to that, it also proves that internal audit performs a significant role in order to ensure the effectiveness of corporate governance in a particular organisation. This is because by reviewing the internal audit thoroughly and regularly, problems that exist within the organisation can be detected and identified in order to come up with possible solutions within specific periods.

As for current developments in Malaysia, Internal Auditing Guidelines were recently introduced, which is meant not only to ensure better implementation of corporate governance but to change the conventional perception of internal auditing as a backroom function. In conjunction with this, internal auditing will emerge as one of the key support measures in risk and conflict management. Also, internal audit encourages and establishes better co-operation between the internal audit department and the management in order to establish a sound risk management framework. The function of an external audit in any particular organisation is known to most people. However internal audit also helps to not only review the affairs of the business but it also helps to identify and manage risks which are associated with the

business. But, in order to ensure the effectiveness of internal audit it is essential to ensure that companies have strong and empowered top management. These characteristics should be highly supported with high values and integrity because it is in line with the objectives of corporate governance. In relation to that, internal auditors have to be independent and objective in order to enhance and accomplish the purpose of performing the internal audit function in a particular organisation. This is what corporate governance is all about, to ensure a highly reliable and transparent management in an organisation. All sorts of guidelines for best practices of internal audit can be implemented to enhance the internal audit function simultaneously giving rise to a better implementation of corporate governance. But these guidelines are neither useful nor effective if there is no effort made to adhere and comply with them. In fact, according to the Senior Vice-President of the Group Internal Audit Division of Bumiputra Commerce Berhad, since the failure of Worldcom and Enron, there is now a need to establish a stronger internal audit function and to ensure more stringent compliances and enforcement especially for public-listed companies. He also emphasised that only through this way would corporate governance shift to a higher and improved level.

In addition to having guidelines for best practices in internal audit, it is also equally significant to have strong people skills among the workforce in the internal audit department. Basically internal auditors must not only be qualified and intelligent but also possess other necessary skills especially communication skills. This is because internal auditors have to be the ones to spill the bad news to people in the organisation and they are also the ones responsible to tell the management what is wrong in any part of the organisation. Internal auditors must have these necessary skills to engage in honest and open communication with the people in the organisation.

To ensure that good corporate governance is practiced, organisations should establish and maintain a well functioning internal audit department that will basically

give appropriate assurances that the internal control systems are adequate, effective and well maintained. Besides that, they must also ensure that adequate policies and procedures are implemented to ensure organisational objectives are well accomplished. Internal auditors must consistently and effectively identify, appraise, manage and find suitable ways to mitigate, or if possible, eliminate those risks associated with the company. They must also carefully monitor the organisation's processes and whether there exists an effective control environment within the organisation. Not to mention, it is ultimately important for the internal auditors to maintain a regular reporting relationship especially with the audit committee in order to bring any material or significant matter or problem to the attention of the board.

Currently, internal auditing is deemed to be more diverse and broad-based. Internal auditors are ultimately relied upon by not only the audit committee and the board of directors, but they are also crucial in protecting shareholders' value as well as protecting the interests of other stakeholders. They face a multitude of commitments and responsibilities, and serve a proactive and value-added management function. This is done by providing reliable, objective and accurate information and services to the management, board of directors not forgetting the audit committee.

The internal audit function has been perceived by certain parties as merely monitoring and reviewing the financial position and performance of organisations. However, this does not exactly add value toward the organisation as internal auditors should undertake activities that further add value to the organisation. This will contribute more towards better establishment of corporate governance in companies. As mentioned previously, activities such as monitoring internal control systems and also assessing risks are few of the tasks that would lead to value added activities, which is beneficial for the organisation as a whole as well as giving better assurance to the shareholders of the company. In fact, this is also why the scope of the internal audit function should be broadened in order to achieve the above

mentioned objectives. Though some view internal audit as a non-core function however if a sound and effective internal audit department is formed it will either directly or indirectly lead to the sound practice of corporate governance.

With rapid developments in the business world and the rising issue of globalisation, internal audit is faced with increased responsibilities. Internal auditors are not only expected to perform their conventional duties, but it is also predicted that both audit committees and the directors will rely increasingly on the internal audit department as their ears and eyes across the organisation. This is why internal auditors are expected to be forward thinking, to keep abreast of any relevant changes or developments in government policies and regulations. Therefore, it will enable internal auditors to be the first to inform of any necessary changes to relevant parties within the organisation. The internal audit department must also keep abreast with any changes especially with regards to governance in other professional organisations, which is relevant to the organisation's business affairs or day to day operations. Recently, internal auditors in the US have been encouraged to participate in professional organisation discussions with regards to governance as well as being part of the decision-making panel. Through this, not only are internal auditors able to discuss current issues but also they are able to make appropriate suggestions based on their own experience dealing with their day to day responsibilities. In addition, it will also give more room for internal auditors to address problems and at the same time try to come up with possible and alternative solutions. This will give rise to quality and performance of the internal audit function, indirectly improving and contributing towards more sound corporate governance in organisations.

With recent developments in the corporate arena, internal auditors and audit committees must always work closely together in order to ensure that the responsibilities of both parties will be carried out more effectively. The internal audit function is viewed as the main resource in implementing sound corporate governance and should be positioned to assist audit com-

mittees on an ongoing basis in meeting these expanded responsibilities. To support this statement, the modern definition of the internal audit function is in line with expanding the audit committees responsibilities according to the latest developments in the US. Audit committees, which represent one of the ways towards sound corporate governance rely heavily on the internal auditing function to provide independent, objective assurance as well as consulting activities that are meant to improve an organisation's operations. Also, internal auditing will help organisations achieve their objectives by introducing or encouraging a more systematic, organised and disciplined method to assess the effectiveness of risk management, control environment and ultimately the governance processes.

Let us elaborate further on how the internal auditing function can assist audit committees to improve their effectiveness. Generally, internal auditors can help facilitate information flow to audit committees by providing timely, accurate and quality information. Alternatively, internal auditors build a reliable information system, which includes detailed analysis on risks, controls and a reliable financial reporting system. Internal auditors also help committees to perform specific tasks or investigation on their request especially with regard to emerging risks and reporting developments.

In addition, internal auditors also provide financial reporting assistance. Ultimately, they have to evaluate the internal and external reporting objectives. They also help the audit committee evaluate the quality of financial reporting, which includes determining whether or not the accounting principles used best fit the organisation. They also provide information and insight about the strengths and weaknesses of controls with regards to the quarterly reporting process as most fraud cases come from quarterly reporting problems. Internal auditing also assures that the audit committees receive reports with relevant and timely business performance measures.

As mentioned earlier, internal auditing also assists in the assessment of risks and controls, which includes whether or not

control objectives have been achieved, and providing information that will further strengthen the organisations control environment. They also express insights on ethical values, management philosophy, operating styles and other perspectives of the control environment. Finally, internal auditing assists the audit committee in monitoring key financial and business risks, which are faced by the organisation.

Nowadays, internal auditing does not primarily function within the scope of the financial reporting systems in organisations. With today's rapid development in the economy and technology, internal auditors are also expected to move and develop their roles parallel with these developments. The new redefined roles of internal auditors does not only reflect changes that have already taken place within the profession but it ensures that the internal auditors play a larger more influential role in the future, especially in the arena of corporate governance. In today's complex and rapidly changing business environment, the needs of shareholders as well as other stakeholders have changed. They expect more, and of course, better governance to secure and protect their interests especially in the long run. This is why, internal auditing is needed to help them to achieve these objectives. Obviously, we are not putting all the responsibility in the hands of the internal auditors, but it is expected that they realise that it is significant for them to carry out their duties effectively.

Internal auditors are now emerging towards becoming strategic advisers on management control and corporate governance. This is why, they are required to be commercially aware, professionally qualified and have strong communication skills in order to encourage open communication with all levels of staff and management. Internal auditors are also perceived as people who will ensure the operations of the company are well organised, systems used are effective and updated, and make sure that the resources of the company are well and properly utilised. There are two critical elements that must exist to ensure the effectiveness of the internal auditing function. First it must have the full support of the management, or to be more precise

the board of directors, and be seen in a positive way rather than perceived as a bloodhound or a watchdog. Secondly, at all times internal auditors must be independent. The question of their independence will always arise because they are employed by the company and though they normally report to the audit committee, who are empowered to remove and appoint them, their remuneration is still done by the management. With the presence of these two elements, a better and more effective internal auditing function can be implemented in any organisation.

Based on all the above-mentioned facts, it can be concluded that the internal auditing function is very important for better implementation of sound corporate governance. However, in order to ensure that good corporate governance is practiced, the most important thing to emphasise is that not only should the internal auditors possess the right qualifications but they must be of high integrity and possess high ethical values. This is not only a pre-requisite for internal auditors but also the members of the audit committee and the board of directors. There are many rules and regulations that can be introduced and implemented but it will not do any good if those who have been entrusted are still corrupt. As mentioned earlier, the two critical elements of sound internal auditing are strong support from the board and independence. If the board itself is not highly reliable and of high integrity, this will have an effect on the internal auditors and will compromise their independence. Therefore, their performance and results will be questioned, which will lead to a weak corporate governance system in the organisation. **AN**

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Good Practice of Corporate Governance : The Internal Audit Factor



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What is corporate governance?

Corporate Governance is the set of rules and procedures for the direction and control of companies. The importance of Corporate Governance has dramatically increased in these last years in connection with the evolution, all over the world, of stock exchanges, specially where more and more companies have been listed in order to finance their development. Companies are directed and controlled by corporate governance. Good governance has been and remains the responsibility of the whole board.

In big companies like those listed on stock exchanges, often of huge dimension, shareholdings are scattered among a large number of individuals and entities and managers usually are not shareholders themselves. Consequently the internal structure of said companies and their relationships with those who are directly and indirectly involved in their activities are organised according to rules enabling them to ensure the accountability of the company's managers and a fair balance between their powers and the interests of the stakeholders in general and of the shareholders in particular. It is therefore necessary to qualify the roles of direction and execution of the company's strategies, the related powers and responsibilities and specify the forms of control and information on the company's activity. *Internal control and internal auditing* are one of those mechanisms available in order to achieve this objective.

Need for Internal Controls and Internal Audit

Internal controls comprise methods and procedures adopted by management to contribute towards the achievement of the objectives of safeguarding assets, preventing and detecting errors and fraud, ensuring the

accuracy and completeness of accounting records and the reliability of the financial statements. The internal audit function performed by the companies' internal auditors supported by divisional auditors and the external auditors, assist management and the board by performing an independent evaluation of the adequacy and effectiveness of the group's internal controls and financial reporting systems. The internal audit department aims to respond to management's requirements while maintaining an appropriate degree of independence to render impartial and unbiased judgments in performing its service. The internal and external auditors have unrestricted access to the Chairman of the Audit Committee.

The Importance of Internal Audit

Competitive pressures demand that today's organisations squeeze the most they can from all their resources and the internal auditing process clearly is among the most critical. In addition to the responsibility of assessing and recommending internal controls, internal auditors' skills in risk management and their broad-based perspective of the organisation uniquely position them as a valuable resource for strong corporate governance. As a result, informed senior managers and boards are relying on internal auditors for advice and counsel for everything from analysis of operations and assessment of risk to recommendations for improved corporate governance. Moreover, internal auditing practitioners are increasingly being challenged to apply their expertise in much broader ways than ever before such as evaluating emerging technologies, detecting and deterring fraud, analysing the effectiveness of policies and procedures, and identifying opportunities to save the corporate world and its shareholders.

ers' money. When it comes to adding value across the board, there's no better source than internal auditing. Internal auditing is defined by a 'standard for the professional practice of internal auditing' released in May 1978, as "*an independent appraisal function established within an organisation to examine and evaluate its activities as a service to the organisation*"

The importance of internal auditing and its relationship with the audit committee have been increasing and some of them are outlined in the next paragraph :

Internal audit is the primary resource of the audit committee in carrying out its duties and responsibilities. With those responsibilities increasing and continued pressure arising from financial reporting integrity, a functioning partnership of the audit committee and internal audit are vital. Internal auditors should not have to report through layers upon layers of management as this could compromise or dilute recommendations and their effectiveness. Moreover audit services' relationship with the audit committee is critical and contributes to the success of a company. Internal audit's relationship with the audit committee is important to assure that there are no organisational levels below the board of directors that could prevent necessary actions or appropriate decisions from taking place or being made to enhance business opportunities and mitigate risks. An active and informed internal audit committee provides the ultimate independent and objective oversight of the corporate control environment, including focus on emerging trends and risks. Internal auditing is the primary agent of the audit committee within the company. The relationship affords internal auditing with some degree of independence from the organisation and management. In certain cases, it can be used to ensure management addresses key findings. It is the main vehicle to communicate important issues to the audit committee.

Emergence of Change and Amendments to the Current Internal Audit Function

The winds of change are pushing their way into every nook and cranny of business operations, creating new expectations

and opportunities. Every support area, including internal audit, is being challenged to deliver real value and contribute to overall corporate strategy. Today, a value-added approach is transforming internal audit by redefining both its mission and priorities. Boards of directors and other stakeholders are demanding a breadth of expertise far beyond traditional corporate compliance. Change doesn't come easily to any well-established business function and internal audit is no exception. Traditionally, its role has focused on well-defined issues revolving around control and compliance. As a result, many internal audit groups have only limited experience in managing risk or offering business consulting advice on improving processes or best practices. This once-narrow focus is now changing.

New technology, E-Business, and the relentless drive to do more with less have all converged to bring internal audit to the forefront of corporate risk management and process redesign. As a result, more and more companies are challenging their internal audit departments to move beyond compliance and control and embrace a broader, more consultative agenda. The top priorities on that new value-based agenda: improving business processes, managing risk, and unlocking new sources of profitability.

For many internal auditors, assuming the role of change agent is a huge and unsettling leap. The path to a successful transition can be summed up in one word: "*alignment*." To deliver value, internal audit resources and skills must be aligned with the expectations of major stakeholders and with business strategy.

Equally important, internal audit must be able to demonstrate results. Many companies are pouring millions of dollars into their audit departments but have no way to measure the payback. There is a widespread need for performance measurement systems tied to corporate objectives. Are companies making any progress on these fronts? Yes, but slowly. In this work, it has been found many untapped opportunities for exploiting the internal audit's value. All this change also opens up new avenues for internal auditors to enrich their skills, gain exposure, and enhance their marketability by delivering bottom-line

business improvements.

All too often, internal auditing isn't viewed as a fast-track function or a stepping-stone to a dynamic corporate career. Yet a skilled internal auditor is multi-faceted : part business advisor, part psychologist, part facilitator, and part technician he or she must draw on a range of talents to be successful. This varied role also offers many privileges. It gives auditors the freedom to operate anywhere inside a company. No other position offers this kind of access and visibility or such abundant opportunity to create value and synergy.

Innovative companies attach great importance to this broad knowledge. They use their internal audit departments, not just to improve business, but as a training ground for management talent. This approach is unusual, however. More often, we find a mismatch between the skills that internal audit teams offer and their companies' strategic goals and marketplace needs. What new methods or approaches do internal auditing departments need? And how do "world class" audit functions achieve outstanding results? We have found that strong audit programs share eight key attributes :

- 1 **Clearly Defined Expectations** : The expectations of key stakeholders, management, audit committees and boards of directors are well defined and prioritised.
- 2 **Strategic Alignment** : The internal audit department's resources, skills, and investments are fully aligned with the vision and goals of major stakeholders.
- 3 **Strong Communication** : Internal audit is adept at conveying the results of its findings, building support, and promoting cross-functional interchange.
- 4 **Risk Focus** : Resources are applied to areas that promise maximum return on investment.
- 5 **Effective Audit Technology** : Advanced systems and processes are deployed and continually upgraded.
- 6 **Knowledge Management** : There is a strong commitment to sharing best practices internally, across functional boundaries, and with external alliance partners.

- 7 **Skill Development** : Innovative departments consistently produce professionals who possess a broad range of skills and are well trained for advancement.
- 8 **Performance Measurement** : A clearly defined system exists for measuring goals achieved and value delivered.

Purring Change, Adding Value

How and where can a revitalised internal audit department add value? There are a host of opportunities for internal audit to make solid contributions. Outlined below are some high-impact areas where clients have to work, identify and mine :

Maximising Revenue

Historically, most internal audit departments haven't spent much time helping companies maximise their revenues, but the opportunities for improvement on this front are significant. Controlling and preventing revenue leakage whether from billing errors, fraud or poor technology is an area ripe for internal audit. Ensuring that technology and customer relationship management programs meet intended objectives are two other key areas.

Controlling Cost

While internal audit traditionally focuses on cost management, new opportunities for significant savings have emerged in areas such as telecommunications, E-Business processes, and supply chain management. Internal audit should be at the forefront in reviewing and assessing these areas.

Assessing Risk

Managing risk and evaluating investment options are currently high priorities for most corporations.

Technology and Related Business Process

Internal audit should have (or acquire) the skills to be at the forefront of technology planning. Any significant business process enabled by technology should be reviewed by internal audit to ensure that intended objectives are being met.

Safeguarding Information Assets

The integrity of corporate information, its quality and timeliness, and the controls

and security required to safeguard its usage all offer rich opportunities for internal auditing to add value.

Refocusing Corporate Resources

As we've seen, a proactive, dynamic internal audit function has a great deal to offer: increased revenues, improved business processes, greater cross-functional efficiency, and better risk management all of which can have real bottom-line impact. But reaping benefits like these requires a major cultural shift at every level, including top management and boards of directors. In many companies, internal audit is still seen as a necessary evil rather than a lever for competitive advantage. Positioning internal audit as a change agent can be a demanding process. When transforming corporate internal auditing resources, the right strategy is critical. Here's a quick look at a comprehensive approach that has been developed for the companies. It can make the transformation easier :

In the first phase, (strategy development) determine internal audit's core value to stakeholders. Highlight significant changes, issues, and concerns. Align internal audit's resources and mission with corporate goals. In the second phase, (Opportunity Assessment) evaluate current resources, capabilities, and practices in light of goals established in Phase 1. Identify gaps between current skills/capabilities and projected corporate needs. Create a detailed tactical plan to close gaps quickly and efficiently. And the last phase, (value realisation) focus on project management to ensure timely implementation. Develop an internal audit performance measurement system aligned to corporate value drivers. The companies should always bear in mind that the process is dynamic and must be continually fine-tuned. As with any change program, there are a number of obstacles to success. It has been found that many internal audit departments run into some of the common stumbling blocks during the transformation process.

First companies decide to tinker with existing resources instead of committing to a full-scale change program. Then they decide to proceed slowly hoping to avoid mistakes; instead, they lose focus and momentum. They let technology drive change in-

stead of enabling it. Also they tinker some more when results prove elusive or disappointing. Moreover, they assume they know what stakeholders want and fail to solicit their views or address their expectations. They also try to implement major changes while carrying on their regular activities. Another problem that they assume they have all the expertise and skills they need. Hence they implement best practices gleaned from other companies rather than developing them internally. And finally, they assume that their activities can't be measured.

Conclusion

As a conclusion, companies in the corporate world should continue to look for areas where they can tap greater value and internal audit will come under increased scrutiny. This situation will create significant upside opportunities for internal audit to expand its role and increase its impact. Leadership is also emerging as a key issue. Internal audit departments will need to attract people who are creative, understand risk, communicate well, and are motivated to assume a proactive, contributory role. Internal audit is an essential tool to facilitate management's performance of risk assessment and internal control evaluation. Employed in this manner, internal audit will be able to contribute to both prosperity and accountability. The aim should be to help corporate boards achieve business objectives efficiently and objectively by maintaining and improving internal controls commensurate with business risk. Hence good corporate governance should provide proper incentives for board and management to pursue and create a strong and competitive internal audit and objectives that are in the interests of the company and stakeholders and should facilitate effective monitoring through internal audit thereby encouraging firms to use resources more efficiently and effectively. AN

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MAREF Strategic Retreat 2003

On 14 April 2003, the MAREF Board of Trustees and Research Board members gathered at Hotel Equatorial Bangi to discuss the future plans of MAREF. The main aim of this Strategic Retreat was to enable both parties to come up with a clear VISION for MAREF and to outline the MISSION, OBJECTIVES and Strategic Implementation Plans for MAREF.

Assoc. Prof. Dr Normah Omar of Universiti Teknologi MARA facilitated the discussion.

The vision and mission of MAREF formulated at the Retreat are as set out below :



is "... to develop, support and monitor quality & expertise consistent with global best practice in the accounting profession for the interest of the stakeholders ..."

Research activities help the accounting profession to evolve with time. New knowledge, discoveries and other advances in technology often promoted by re-

searchers can be used and applied by the practitioners. Likewise, successful practices can be promoted to others through research activities. In short, research and practice are equally important and both can enrich the credibility of the accounting profession.

A cohesive collaboration between MAREF and practitioners is

Vision

To be the leading Research and Educational Foundation for the accounting profession in Malaysia in line with the objectives of MIA.

Mission

To promote, support and conduct research and educational programmes consistent with the objectives of MIA.

MAREF has a number of objectives but the Trustees and Research Board members agreed that the following objectives would be the main focus of MAREF :

- 1 To encourage and promote the advancement and development of the accounting profession in Malaysia;
- 2 To carry out research in and to promote the development of the accounting profession in general and in particular the advancement of accounting and auditing practices; and
- 3 To publish and disseminate literature in advancement of the accounting profession.

Specific strategic goals together with its key performance indicators were identified to achieve the above objectives at least within the short-term period of 2003 to 2005.

With the formulation of the above vision, mission and objectives, MAREF would be able to function proactively as it was originally intended, which is "... for the promotion, encouragement and advancement of accountancy research and education in Malaysia ...". This noble role is indeed strategic and in tandem with MIA's vision to be a globally recognised and respected business partner committed to nation building. MAREF's role is also in congruence with MIA's mission, which



Members of the MAREF Board of Trustees, MAREF Research Board and the Secretariat who attended the Strategic Retreat ... (Sitting from L-R) Assoc. Prof. Dr. Normah Omar, Prof. Dr. Mohammad Adam Bakar, Dr. Abdul Samad Alias, Dr. Noorhayati Mansor and Ho Foong Moi. (Standing from L-R) Zaaba Zainuddin, Nor Azimah A. Aziz, Surinder Kaur, Dr. Hasnah Haron, Ahmad Mazlan Ahmad Shamsuddin, Chow Kee Kan and Raymond Liew (not in picture) Y.M. Raja Dato' Seri Abdul Aziz Raja Salim, Damanhuri Mahmod, Assoc. Prof. Azmi Harun, Dr. Siti Normala Sheikh Obid and Jeow Foong Leng



The handing over of the strategic work plan for MAREF by the facilitator, Assoc. Prof. Dr. Normah Omar to MIA President, Dr. Abdul Samad Alias

necessary. In fulfilling its function for the promotion, encouragement and advancement of accountancy research and education in this country, MAREF will play a proactive role as a Centre of Excellence for MIA. AN

IFAC's International Auditing and Assurance Standards Board Releases New Practice Statement and Invites Comments on Exposure Drafts

At its most recent meeting in March, the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) approved for release an International Auditing Practice Statement (IAPS) providing guidance to auditors when reporting on compliance with International Financial Reporting Standards (IFRSs) and two exposure drafts regarding assurance engagements and audits of small business. Titles and descriptions of the new and proposed pronouncements, which may be downloaded free of charge from IFAC's website (www.ifac.org), are as follows :

■ *IAPS 1014, Reporting by Auditors on Compliance with International Financial Reporting Standards (IFRSs)* — Examples have arisen of entities stating that their financial statements have been prepared in accordance with IFRSs when, in fact, they have not complied with all the requirements that IFRSs impose. This practice statement pro-

vides guidance on the auditor's responsibilities when management comments on the extent to which financial statements comply with IFRSs, when there is not full compliance. It supplements guidance provided in International Standard on Auditing 700, The Auditor's Report on Financial Statements.

■ An Exposure Draft (ED) including a proposed *International Framework for Assurance Engagements and a proposed International Standard on Assurance Engagements (ISAE) 2000, Assurance Engagements on Subject Matters Other Than Historical Financial Information*, which will replace ISAE 100, Assurance Engagements, once finalised. The proposed Framework defines and describes the elements of an assurance engagement and identifies those engagements to which ISAs and ISAEs apply. The proposed ISAE provides guidance to practitioners for the performance of assurance engagements on subject matters other than historical financial information, which are covered by ISAs,

and where no specific ISAEs exist.

■ An ED entitled *The Special Considerations in the Audit of Small Entities, Proposed Amendment to International Auditing Practice Statement 1005*. Developed with the input of IFAC's Ethics Committee and Small and Medium Practices (SMP) Task Force, this ED presents guidance on how audits of the financial statements of small entities differ from audits of the financial statements of other entities. Specifically, it revises the current IAPS 1005 to take account of ISAs issued since March 1999 through March 2003. The IAASB agreed that new ISAs issued subsequent to March 2003 would, whenever necessary, address SMP considerations. AN

Comments on the EDs may be submitted to technical@mia.org.my or faxed to MIA's Technical Department at 03-22731016, or mailed to the Technical Department at Malaysian Institute of Accountants, Dewan Akauntan, No. 2, Jalan Tun Sambanthan 3, Brickfields, 50470 Kuala Lumpur. Comments should be submitted so as to be received by 30 June 2003. Comments submitted will be compiled and submitted by the Institute to IAASB.

Seminar on Group Financial Statements : MASB 11, 12, 16, 21

The two-day workshop on Group Financial Statements held in Kuala Lumpur, Melaka, Alor Setar and Penang achieved its aim at equipping participants with a sound foundation in the prepa-

ration of group financial statements and providing guidance on applying the principles of the Malaysian Accounting Standards Board (MASB) standards 11, 12, 16 and 21.

Speaker Danny Tan explained the prin-

ciples of consolidation by using practical illustrative examples. Participants were fortunate to gain hands-on experience in handling various aspects of consolidation techniques. AN



Danny Tan ... briefing participants on a sound foundation in the preparation of group financial statements



Participants were fortunate to gain hands-on experience in handling various aspects of consolidation techniques

Workshop on Deferred Taxation — A Definite Crowd Puller



Professional at work...speaker Danny Tan

The series of workshops on deferred tax organised by the Institute's Continuing Professional Education (CPE) Department, which began in March this year, is expected to continue drawing the crowd right through August judging from the participation in several West Malaysian states to date. Full attendance was recorded at the one-day workshops held in Penang, Ipoh Kuala Lumpur and Seremban with an upward of sixty participants each while Johor Bahru, Seremban and Melaka registered 49, 19 and 12 participants respectively.

Speaker Danny Tan's crisp and clear presentation drew the desired results as participants came away with a good understanding of accounting for taxation in accordance with the Malaysian Accounting Standards Board (MASB) 25. The key features of the workshop were the examination of practical issues and a look at the complexity of integrating the Malaysian tax system and accounting for deferred tax based on the balance sheet liability method.

In order to enhance participants understanding Danny started with a brief histori-

cal development of accounting for deferred tax and explained the various methods of providing for deferred tax. The workshop examined the difference between the deferral method and the liability method, and the difference between income statement liability method and balance sheet liability method. Other areas covered included the presentation and disclosure of income taxes in accordance with MASB 25.

The workshop is expected to conclude its West Malaysian run in Kuala Terengganu in June before kicking off the East Malaysian leg of the series of workshops in July right through August. **AN**

Be Tax Compliant or Face the Consequences

This year, the Royal Malaysian Customs Department will be enhancing tax compliance as spelt out in the 2003 budget. Tax audits will be increased and become more frequent as enforcement by the various divisions of the Customs Department is stepped up. As non-compliance can result in hefty penalties and compounds, it is imperative for small and medium industries (SMIs) and multinationals to be tax compliant.

This is the gist of the seminars on indirect tax compliance 2003 organised by the Continuing Professional Education (CPE) Department. Thus far, the seminars have been conducted in Kuala Lumpur, Petaling Jaya, Kuantan, Kota Kinabalu, Sandakan, Tawau, Sibul, Kuching and Miri.

Thomas Selva Doss was the speaker at these seminars and he is no stranger in the customs circle having served for many years as senior officer at the Royal Malaysian Customs Department. Currently Thomas is a customs consultant to several companies in Kuala Lumpur and has conducted numerous seminars and in-house trainings for corporate clients since 1993. In the month of May, Thomas will be conducting this seminar in Johor Bahru, Ipoh and Penang. **AN**



Full attendance

Sarawak State Government Stand Behind RAC 2003

The Sarawak Government, Ministry of Finance and Ministry of Tourism have officially declared their support for the coming Regional Accountants Conference (RAC) organised by the MIA Sarawak Branch in conjunction with Visit Sarawak Year 2003.

The committee recently paid courtesy calls on YB Dato' Sri Abang Haji Abdul Rahman Zohari bin Tun Datuk Abg. Haji Openg, Minister of Tourism and YB Tan Sri Datuk Amar Dr. George Chan Hong Nam, Deputy Chief Minister, Minister of Finance and Public Utili-

ties and Minister of Industrial Development. Themed *Transforming Sarawak's Economy—Challenges & Opportunities*, there will be an interesting balance of topics on the state economy, management and accounting issues. **AN**



RAC Committee Members in the office of the Sarawak Minister of Tourism, YB Dato' Sri Abang Haji Abdul Rahman Zohari bin Tun Datuk Abg. Haji Openg



YB Tan Sri Datuk Amar Dr. George Chan Hong Nam, Sarawak Deputy Chief Minister in the centre with the RAC Committee Members

Community Service by Sarawak Members

With the support of IRB Kuching and Persatuan Teochew Sesi Wanita of Sri Aman, the MIA Sarawak Branch organised a Tax Audit Seminar for Chinese speaking entrepreneurs in Sri Aman. The seminar was conducted by three IRB Officers in Mandarin and was aimed at educating the local business community on *Records Keeping For Business and Tax Audit for Non Company Cases*. The MIA co-ordinator for this seminar was Kueh Chen Chen and participants included kapitans, penghulus, grocers,

traders, coffee shop owners, sole proprietors, partners, directors, and shareholders, etc.



Blood donors at the Bintulu General Hospital ... Bintulu Chapter Committee Members together with the blood donors

Meanwhile, the Bintulu Chapter co-organised a blood donation event with the IRB recently. Organising Chairman, Abdul Rahman bin A. Kunchi Kammu who is a MIA Bintulu Chapter Committee Member and senior officer of IRB Bintulu managed to enlist 20 donors — MIA members, staff of member firms and staff of IRB, to contribute to the blood bank at Bintulu General Hospital. **AN**



Sarawak Committee Member, Simon Tan, representing MIA welcomes participants to the seminar at a local hotel in Sri Aman



Organisers and local representatives at the IRB seminar ... (seated from left) Lucy Read, Simon Tan and Kueh Chen Chen from MIA; Tan Eng Siang, Persatuan Teochew; Penghulu Low Gin Heng, Sim Chi Yie, Liew Tze Ming, and Sim Mai from IRB Kuching

Schools and Colleges — Here We Come

Working in teams of two, the Sabah Branch Committee called on local secondary schools, colleges and universities in Kota Kinabalu to introduce accountancy to its educators. The committee briefed school principals, accounting lecturers and departmental heads during the *Sabah Accountancy Week* to encourage them to send their students to the exhibition, which showcased institutions of higher learning, and various products and services related to the accounting profession.

The Sabah Branch planned the week long programme to include exhibition fairs, career talks, CPE seminars, member forums focussed in Kota Kinabalu with career talks, courtesy calls and a Branch Chairman's annual dialogue with members in the other three chapters. Students and parents attended the career talks that were presented by MIA and supported by professional bodies i.e. ACCA, MICPA, CPA Australia and CIMA. The talks were aimed at equipping students with information on the various routes available to obtain an accounting qualification.

Alexandra Thien, Branch Chairman and



Committee members, Viviana Lim (right) and Aileen Yeap (left) with Hilary Sibangun (left pix) of Stamford College Sabah and Wong Goh Khiang, Principle of INTI College (right pix)



Committee Members, Desmond Chu and Philip Yong with Tham Poh Chen (right, left pix) of Universiti Teknologi Mara and Rizal Othman (centre, right pix) of Universiti Malaysia Sabah to brief on the Sabah Accounting Week

her teams were well received by the principals of the various schools, colleges and universities, who became more aware of

the functions of the Institute and the importance of the supporting role played by the Branch locally. **AN**



MIA Sabah Branch Chairperson, Alexandra Thien (2nd from left) and Sabah Branch Committee member, Chang Yu Chuk, (3rd from left) together with representatives from Maktab Sabah Secondary School



Alexandra Thien and Chang receiving representatives from the Sabah State Library

Accountancy An Excellent Choice

“Accountancy An Excellent Choice” was the appropriate theme for the recent Sabah Accountancy Week held in Hyatt Kinabalu and at the chapters. The main activity was the education fair which was supported by the four scheduled professional bodies, IRB, LOFSA, British Council, institutions of higher learning, software houses and many others.

YB Datuk Hajiji Mohd Noor, Assistant Minister of Finance, Sabah, represented YAB Datuk Hj Musa bin Hj Aman, Chief Minister of Sabah, in officiating the opening ceremony of the Sabah Accountancy Week. Various activities were organised by the committee including career talks, armchair hunt and board games. Sabah Branch donated MASBs to the State Library and CIMA presented course materials to the branch library. **AN**



The Guest of Honour strikes the gong to officiate the opening of Sabah Accountancy Week



Invited guests and committee members at the opening ceremony



The Guest of Honour signing in at the Universiti Malaysia Sabah counter



(L-R) Lam Kee Soon (Council Member), Alexandra Thien (Branch Chairman), YB. Datuk Hajiji Mohd Noor (Guest of Honour) with MICPA representative, Kevin How



CIMA staff, Karen Yeap (3rd from right) and Linia Anirudhan (right) with guests at the education fair



Lilian Chan (right) introduces CPA Australia to the Guest of Honour in the presence of Desmond Chu (left), Organising Chairman



Guests (L-R) Datuk Ahmad Ali Lope Abd Aziz, Dewan Perniagaan Bumiputra Sabah; Datuk Wong Khen Thau, Federation Sabah Manufacturers and a guest



Branch Manager, Lucy Read, conducts her talk on MIA and the accounting profession in Malaysia



Radiant Khong of ACCA presenting career opportunities to students and parents during the career talk

ACCA CERTIFICATE PRESENTATION CEREMONY 2003

More than 100 people attended the ACCA Certificate Presentation Ceremony 2003 which was recently held at the Renaissance Hotel Kuala Lumpur. The event was organised by ACCA to honour and acknowledge both employers and tuition providers of ACCA.

"Tonight's event has been organised by ACCA to recognise Accredited Employers under the ACCA Employer Accreditation Scheme (EAS) and to acknowledge Accredited Tuition Providers under the University and College Registration Scheme." said Benedict Morais, ACCA's Special Adviser in his address.

"EAS is a scheme for ACCA which provides support and guidance to employers in order to help them achieve the best possible training environment for ACCA students working for employers. ACCA recently announced another record breaking year with more than 5,500 employers now accredited by ACCA worldwide, an increase of over 300 in 2001," said Morais in his speech.

Representatives from various organisations such as AMDB Berhad, Ernst & Young, NLG Consultancy Sdn Bhd, Resorts World Bhd, Shamsir Jasani Grant Thornton and BDO Binder attended the event.

The highlight of the night was the presentation of certificates to 17 ACCA Accredited Employers of 'Approved', 'Gold' and 'Platinum' status. AMDB Sdn Bhd became ACCA's first Accredited Employer to receive the Platinum status in Malaysia.

There was also a certificate presentation to 14 tuition providers of ACCA in Malaysia which were accredited with 'Registered' and 'Premier' status under the UCRS scheme. The UCRS scheme was introduced by ACCA to establish and maintain quality standards for all tuition providers and promote excellence on a global level.

At the same event, the new committee of ACCA Malaysia Employers' Network was introduced to the audience. Wee Hock Kee, FCCA Regional Director Asia Pacific for AstraZeneca in his first speech as the Chairman of AMEN said that the network was



Wee Hock Kee presenting the certificate to AMDB's representative, Ramesh Kumar Netesan. AMDB Bhd is ACCA's first Accredited Employer to receive the Platinum status in Malaysia



Wee Hock Kee, the new Chairman of ACCA Malaysia Employers' Network (AMEN)

"Be proud of recognition!" said Adam Primus Abdullah, representative of Ernst and Young when giving his speech on behalf of the 'Gold' status recipients



Guests at the ACCA Certificate Presentation Ceremony

established to focus on strategic issues.

“AMEN was also set up to develop mutually beneficial and long lasting relationships by consultations with employers in such matters as changes in the syllabus and in surveys on corporate governance,

for instance, conducted by ACCA. In addition to that, AMEN is to work with employers from various sectors of the economy in establishing training programmes at the technician, professional and post-graduate levels where appropriate,” said Wee in his

speech.

The event later proceeded with a presentation by Zaiti Ali, ACCA's Acting Manager of Member Services who gave the latest updates on the ACCA Malaysia Environmental Reporting Awards (ACCA MERA). **AN**

ACCA's ANNUAL SPORTS DAY

For two whole days, students of ACCA enjoyed themselves tremendously during the annual ACCA's Sports Day. About 180 ACCA students from various colleges in Klang Valley sportingly gave their best in each and every game.

The ACCA's Sports Day was held at Kompleks Sukan Delima, Universiti Teknologi MARA in Shah Alam. Among the games held were football, badminton, netball, basketball, ping pong, tug-of-war and of course a round of telematches.

“ACCA's Sports Day is an annual event

of ACCA's Student Ambassador. We hope to promote a healthy lifestyle among the students. It's not enough for the students to be too engrossed with studying without any balance in other activities in life. In fact sports helps students study better,” said Project Director, Ahmad Feroz Ahmad Rashidi.

“Sports is great! I mean, this is not only about winning but about enjoying yourself and being free from stress. No doubt studying ACCA is stressful but one has to have a balance to avoid the ‘Jack-the-dull-boy’ syndrome and sports

does help on that score” said V. Puvaneswaran who participated in badminton and football.

“Personally I think that the students enjoyed the telematches the most. Everyone participated, regardless of whether they had athletic skill. The games were fun and the laughter and team spirit was tremendous,” said Seri Idawaty Md Zin, ACCA's Senior Promotion Officer during the closing ceremony.

The sponsors for the event were Sunway College, TAR College, FTMS, UiTM, KLC and PAAC. **AN**



The winning team of the 'tug-of-war' competition



The football team of Sunway College doing a warm-up routine before the match



Pulling hard ... with all their might!



Enemies on the field but still friends at heart ...

LEADERSHIP CAMP FOR CIMA STUDENTS

When 43 CIMA students decided to join a two-day camp organised by the CIMA Students Club, little did they realise that they would have to undergo some 'rough and tough' activities that would help mould their team building and leadership skills. The camp was held at Sungai Pisang, Gombak, Selangor,

in February this year. With the help of training consultants, D'jungle People Sdn Bhd, the students were divided into groups and took part in various team activities such as High Ropes, Dracula and Captain Ball. These activities enabled the students to appreciate the importance of teamwork in overcoming challenges and obstacles faced. Besides a

workshop on "Effective Leaders", the activities also instilled in them the eight pillars of leadership – courage, caring, honesty, fairness, integrity, responsibility, humility and loyalty. Remarked one participant, "The camp provided me with many opportunities to *'think out of the box'*, and improve my interpersonal and decision-making skills." **AN**



Building trust ... Ng Wui Kiat being held aloft by his teammates



Felicia Yap trying her hand at the Flying Fox game

CIMA LAUNCHES IMPROVED TRAINING PROGRAMME TO SUPPORT EMPLOYEES

CIMA launched a new training programme to improve the support available from CIMA to employers wanting to develop their financial and business management people to Chartered Management Accountant level. *CIMA Training* provides official recognition for employers who meet CIMA's training standards, and offers employers and students significant benefits including guidance materials and technical support.

Charles Tilley, CIMA Chief Executive, said: "The recent accounting scandals in the US have demonstrated very clearly the need for business accountants that investors, analysts and the public can rely on. Leading employers recognise the competitive advantage to be gained by investing in the development of managers who not only

have financial and business management skills needed to deliver a competitive ad-

vantage, but also the ethical and professional underpinning gained through mem-



Charles Tilley (left), CIMA Chief Executive and Ray Perry, CIMA Director of Brand Management

bership of a professional body such as CIMA.” He added, “CIMA’s qualification is already the number one choice for accountants in business. Employers will now be able to benefit from being associated with the quality of the CIMA brand to deliver all their financial and business management training.”

Building on the strengths of CIMA’s Training Through Partnership (TTP) scheme and following extensive research into the training needs and requirements of existing TTP employers, CIMA Training requires specific benchmarked training standards to be met by employers. This will give students the confidence that the training of Chartered Management Accountants is delivered within all CIMA Training organisations to the same consistently high standards.

According to Ray Perry, CIMA Director of Brand Management, “This new win-win partnership for employers and students will attract the top students who see the benefits of high quality training support to get them to the top. It will also provide

employers with strongly motivated students who have the level of support necessary to achieve success in their CIMA exams and thereby gain professional membership in the shortest time possible.”

In addition to the advantage of having CIMA Training support programmes officially recognised and promoted, extra benefits of CIMA Training include the opportunity to run in-house computer based assessment for the Certificate in Business Accounting (Foundation level). This will provide employers with the ability to provide easy-to-use and flexible assessment and recognition of financial skills for all levels of staff including non-financial managers, as well as CIMA students who gain the Certificate as a springboard to the Intermediate level of the CIMA qualification. Employers and CIMA students will also receive the latest technical, corporate and product information from CIMA via a bi-monthly electronic newsletter as well as access to a password-protected area of the CIMA website containing guidance materials and leading edge presentations on key

topics that are easily downloaded.

The CIMA Training Scheme offers two levels of certification :

■ **CIMA Training — Partner.** This is a web-based entry level to CIMA Training and represents the minimum level of support that should be provided by employers of CIMA students.

■ **CIMA Training — Quality Partner.** This is the recommended level of support advocated by CIMA to enable students to successfully progress through the exams and achieve full professional membership.

CIMA Training is based on a new Training Standards Matrix that has five Training Standards that must be met to achieve certification, as opposed to TTP’s nine. In addition, the CIMA Training brochure for employers was revised to make it easier to read, follow and use, and is now available via the CIMA website at www.cimaglobal.com/cimatraining where companies can also apply to join the CIMA Training scheme online. **AN**

IFAC Invites Comments on Proposed Standard on Content of Professional Education Programmes

The Education Committee of the International Federation of Accountants (IFAC) has issued an exposure draft (ED) revising requirements in a proposed International Education Standard (IES) entitled *Content of Professional Education Programmes*.

An earlier ED on this topic, issued in June 2002, prescribed the primary content of professional education programmes for professional accountants in three major areas : organisational and business knowledge, information technology knowledge, and accounting, finance and related knowledge. It also suggested subject matters to be included in each of these areas. The revised exposure draft includes modifications to these subject matters and indicates that they are, in fact, mandatory.

“During the exposure period, the Education Committee received and considered a number of valuable comments, many of which focused on issues regarding the weightings and relative importance of the three key subject areas,” pointed out Warren Allen, Chairman of the Education Committee. “As a result, the Education Committee decided to revise the standard to more clearly express the subject areas and to make these mandatory for all institutions involved in the development of professional education programmes for accountants.”

“Ultimately, such a change can lead to greater convergence in the professional education programmes for accountants worldwide,” added Allen. “We do recognize, however, the depth of coverage in each subject area may vary depending on

the needs of IFAC member organisations and restrictions imposed by national regulatory authorities.”

Because this proposed revision represents a substantial change to the original ED released in 2002, the committee is seeking comments. Comments should be received by 31 July 2003 in order to be reviewed by the Education Committee in August. Comments sent by e-mail to EDComments@ifac.org are preferred, but they may also be submitted by computer disk or in hard copy to IFAC, 545 Fifth Ave, 14th Floor, NY, NY 10017 or faxed to +1 (212) 286-9570. The committee plans to issue the final standard in late 2003.

This new ED may be downloaded from the IFAC website by going to <http://www.ifac.org/EDs/>. **AN**

IFAC Releases New IT Guidance for SMPs and SMEs

The International Federation of Accountants (IFAC) have released two new guidance documents to assist small and medium accounting practices (SMPs) and enterprises (SMEs) in managing and operating their computer systems. They are entitled *Controlling Computers in Business : Backup, Archive and Restore* and *Controlling Computers in Business : Physical Security*.

This new series of information technology guidance was published under the direction of IFAC's Small and Medium Practices (SMP) Task Force. The task force selected these topics after receiving input from IFAC's member organisations that such guidance would be useful in the global marketplace.

"To benefit from their investments in computers and information systems, SMPs and SMEs need to devote time to systems management and control issues. This new guidance is designed to provide practical guidance that can help SMP and SME managers in identifying and resolving potential problems and risks associated with computers," states Angelo Casò, Chairman of the SMP Task Force.

Each of the booklets features a series of notes that provide information on specific computer control issues, including definition of key terms, costs and benefits, and risks and practicalities. A best practice checklist is also included with each note. The series was first produced by the Institute of Chartered Accountants of Scotland (ICAS). The majority of the research and drafting of these publications was undertaken by PricewaterhouseCoopers LLP. ^{AN}

Note : Both documents may be downloaded at no charge from the SMP section of IFAC's online bookstore (www.ifac.org/store). Print copies may be ordered through the online bookstore for US \$25 each plus shipping, with discounts applying to individuals from developing nations.

IFAC Releases New Handbook of International Public Sector Accounting Standards

The 2003 edition of the International Federation of Accountants' (IFAC's) Handbook of International Public Sector Accounting Standards is now available in print and electronic formats. The print version also includes a CD-Rom.

The new edition of the handbook features International Public Sector Accounting Standards (IPSASs) 1-20, along with a glossary of terms, summary of occasional papers and studies, and a selected bibliography. All guidance has been developed by IFAC's Public Sector Committee (PSC) with input from various stakeholders.

The 2003 edition, includes the following new IPSASs :

- IPSAS 13, *Leases*
- IPSAS 14, *Events after the Reporting Date*
- IPSAS 15, *Financial Instruments: Disclosure and Presentation*
- IPSAS 16, *Investment Property*
- IPSAS 17, *Property, Plant and Equipment*

- IPSAS 18, *Segment Reporting*
- IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*
- IPSAS 20, *Related Party Disclosures*

These IPSASs are to be applied when the accrual basis of accounting is adopted. In addition to the IPSASs included in the handbook, the PSC has also developed a cash basis IPSAS entitled *Financial Reporting under the Cash Basis of Accounting*.

All standards have been developed to improve the quality of financial reporting in the public sector around the world. An important goal is to achieve convergence of these standards where possible. ^{AN}

Note : Print copies may be ordered and electronic copies downloaded by going to www.ifac.org/store. There is no charge for the print and online versions. The IPSAS may be downloaded from the IFAC web site by going to the Public Sector section of the IFAC online bookstore or by visiting the PSC home page at www.ifac.org/PublicSector.

IFAC Expands Website to Include Information on Corporate Governance

The International Federation of Accountants (IFAC) has introduced a new Internet resource center for the public entitled *Viewpoints : Governance, Accountability and the Public Trust*.

The task force, chaired by John Crow, former Governor of the Bank of Canada, is charged with identifying and analysing the causes of the loss of credibility in financial reporting and considering alternative courses of action to restore credibility. The final report will include recommendations on principles of best practices in the areas of financial reporting, corporate governance, corporate disclosure, and auditor performance.

As part of its ongoing work, the task force has assembled numerous materials on various aspects of governance and financial reporting from around the world. This information is posted on the website as a service to IFAC member bodies and their members, those involved in governance processes, and investors and other stakeholders interested in obtaining additional information on this topic. The information, which can be downloaded free of charge, is posted in six categories :

- Global Perspectives;
- Public Policy and Regulation;
- The Governance Process: Roles and Responsibilities;
- Financial Reporting;
- Auditing Issues; and
- Ethics. ^{AN}

Note : Individuals may access it directly by going to <http://www.ifac.org/credibility/viewpoints.php>. This new section on the IFAC website has been developed to support IFAC's Task Force on *Rebuilding Credibility in Financial Reporting* (<http://www.ifac.org/credibility/>). Individuals may submit relevant documents for posting to this site by e-mailing them to ViewPoints@pop.ifac.org.

The task force will issue a report on its findings in mid-year. The report will also be posted to the IFAC website. Individuals may provide their e-mail addresses on the Viewpoints section of the site to receive an automatic notification of the report's posting.

REGISTRATION OF ACCOUNTANTS

The following persons are now entitled to use the word 'Accountant' upon their admission to the Malaysian Institute of Accountants, in accordance with Sections 22 & 23 of the Accountants Act 1967.

AS AT 28 MARCH 2003

CA — Chartered Accountant

JOHOR DARUL TAKZIM

Batu Pahat

Chua Tee Yong	21022/CA
Tan Khoon Eng	20974/CA

Johor Bahru

Abdul Hakim Bin Ibrahim	21114/CA
Kee Yee Peng	21013/CA
Lee Pei Fung	21088/CA
Ngo Seow Chin	21052/CA
Rohaime Bin Rospiluji	20988/CA
Shahab Bin Md Abdul Karim	21008/CA

Masai

Ng Wah Keong	21059/CA
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Pontian

Anis Khairi Binti M Taib	21058/CA
Tan Yew Shaw	21030/CA

Segamat

Ng Siaw Ching	21036/CA
Ruhaya Binti Atan	21049/CA

Skudai

Kee Ngut Key	21095/CA
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Tangkak

Choo Chin Yat	21056/CA
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Ulu Tiram

Loo Wee Ying	21034/CA
Tee Tong Siang	21031/CA

KEDAH DARUL AMAN

Alor Setar

Ahmad Nizzam Bin Salim	20983/CA
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Gurun

Masnurah Binti Zain	21028/CA
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Kulim

Mohamad Arif Bin Musa	20954/CA
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KELANTAN DARUL NAIM

Pasir Tumboh

Fadzryl Rahimy Bin Mohamad Fadzil	20957/CA
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MELAKA

Melaka

Fong Lai Kwin	21092/CA
Lai Tze Hua	21135/CA

Shahariah Binti Zainal	21108/CA
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Siti Noor Binti Yaakub	21086/CA
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NEGERI SEMBILAN DARUL KHUSUS

Port Dickson

Khong Heng Guan	21021/CA
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Seremban

Khairul Ridha Bin Selamat @ Keliwon	21004/CA
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Thilaghan A/L M Mohanadas	21123/CA
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PAHANG DARUL MAKMUR

Kuantan

Leong Soh Hing	21040/CA
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Rozlinda Binti Ya'acob	21014/CA
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Temerloh

Lee Yee Yoong	20986/CA
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PERAK DARUL RIDZUAN

Ipoh

Looi Sook Hui	21026/CA
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Tham Kar Hong	21121/CA
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Wong Keat Yan @ Angela Wong Keat Yan	21140/CA
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Parit Buntar

Badrul Hisam Bin Ismail	21062/CA
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PULAU PINANG

Bayan Baru

Pragalathen S/O Krishnan	21033/CA
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Bayan Lepas

Tan Mooi Cheng	21102/CA
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Butterworth

Lee Yong Yong	21043/CA
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Penang

Ang Si Eeng	21039/CA
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Khoo Lay Na	20993/CA
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Lee Choon Guan	20992/CA
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Loh Kwang Yean	20952/CA
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Mustainah Binti Alwi	20989/CA
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Ng Mee Lan	21084/CA
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Tan Wooi Keat	21129/CA
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Prai

Lim Chin How	21112/CA
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Sabarul Aswadi Bin Abdul Jalil	20967/CA
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Relau

Lim Guan Kok	21016/CA
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Sungai Nibong

Tan Lee Kheng	21079/CA
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SABAH

Kota Kinabalu

Anita Binti Misuari	20980/CA
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Gan Chee Sheng	21038/CA
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Jalalemping Bin Kihampau	21029/CA
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Sandakan

Nuraini Bt Abdullah @ Irene Julianus	21024/CA
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Wan Yeh Tzu	21096/CA
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SARAWAK

Bintulu

Wilter Emang @ Ajeng Emang	20978/CA
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Kuching

Chong Chun Shang	21003/CA
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Lee Hui Ping	21109/CA
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Maurice Braoh	21017/CA
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Olivia Ng Ing Boon	21074/CA
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Teh Sok Hong	21105/CA
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Ting Ching Zung	21106/CA
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SELANGOR DARUL EHSAN

Ampang

Chong Su Foh	20973/CA
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Hairul Anuar Bin Sarif	21126/CA
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Salwa Bt Yunus	21051/CA
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Zilia Aztar Binti Tajudin	21046/CA
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Zulkfli Amin Bin Othman	21065/CA
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Bandar Baru Bangi

Ahmad Bin Abas	20994/CA
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Batu Caves

Lee Wai Meng	20976/CA
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Mat Fauzee Bin Zainuddin	21015/CA
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Sofia Sabrina Binti Tengku Ab. Aziz	21037/CA
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Beranang

Roslina Binti Abd Wahid	21018/CA
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Hulu Langat

Ilyas Shukri Bin Khodori	21078/CA
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Kajang

Baharuddin Amin Bin Abu Bakar	20985/CA
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Koon Siow Wei	21117/CA
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Mohd Khairil Bin Abu Bakar	21067/CA
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Noor Azeanfitri Bt Aznan	21044/CA
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Ong Teng Cheng	21115/CA
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Zubaidah Binti Hasan	21085/CA
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RESIGNATION