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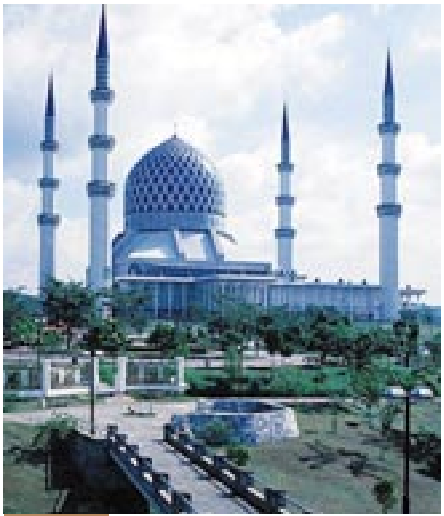

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Akauntan Nasional

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The **Malaysian Institute of Accountants (MIA)**, was established in 1967 under an Act of Parliament, namely, the Accountants Act, 1967.

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

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

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

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

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

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FROM THE EDITOR

Positive Predictions

Come 27 October, our Finance Minister, Tun Daim Zainuddin will be presenting the first budget of the 21st century at the Dewan Rakyat. The worst is over and the economic mood is upbeat.

All indications are that the government will remain supportive of growth in the 2001 budget.

A good sign indeed as this will most likely result in the Malaysian economy registering a strong growth of up to 7.5 per cent next year. It is a more moderate growth that will be more broadbased and therefore more sustainable. This compares with this year's growth figure estimated at over eight per cent, which will make Malaysia the fastest-growing economy in Asean for year 2000.

Most analysts believe it will go for a slightly smaller deficit budget with the net impact of stimulating the economy and encouraging gross domestic product growth for the year ahead.

Prime Minister Datuk Seri Dr Mahathir Mohamad has hinted that the Budget will be a good budget and that we hope to achieve a surplus!

This is welcomed but we hope there will be more policy changes in the Budget. This appears to be the message given by the Deputy Prime Minister Datuk Seri Abdullah Ahmad Badawi in his opening address at the recent Malaysian Business and Economic Summit. He outlined five Guiding Principles to chart the economy for the next decade — Competitiveness, Innovation, Transparency, Social Equity and National Unity. This new set of priorities is laudable but it begs the basic question as to what will actually be done to achieve these high aspirations. Will the 2001 Budget reflect these principles?

The 2001 Budget has to be different from the previous Budgets. It has to indicate that it is indeed a new, 21st Century Budget that takes fully into account globalisation and the much vaunted E-economy and K-economy. The 2001 Budget has to reflect the Deputy Prime Minister's five principles in a pragmatic manner that provides for the continuation of the New Economic Policy but with major improvements in its implementation. It must enhance domestic and international credibility and promote Malaysia to First World status by 2020.

One thing is sure; the key towards sustaining economic growth lies in the private sector and it must take the opportunity given or laid by the government by making investments that will strengthen its management shift from an economy based on production to one that is knowledge-based.

As the year draws to a close, let us put our actions this year in perspective and try to overcome our shortcomings, so that we are ready to take on the challenges of the millennium, a little wiser, a little bolder.

We wish all Hindus a Happy Deepavali.

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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Staying Ahead

The recent Annual Budget 2001's Dialogue Session with the theme, "Towards Accelerating Economic Growth, Enhancing Competitiveness and Improving the Quality of Life", provides the essential focus for a dynamic and balanced budget.

In our joint-memorandum to the Ministry of Finance, both the Malaysian Institute of Accountants (MIA) and Malaysian Institute of Taxation (MIT) stressed that the government would still need to play an active role, at least in year 2001, as the private sector is still quite fragile in certain areas. Examples : uncertainty in the capital market, weaknesses in the construction sector and long-term private capital formation. However, the public projects should be chosen for its maximum multiplier impact, without undue pressure on the import bill.

We feel that bringing the current corporate tax rate down to 26 per cent from 28 per cent will help boost the competitiveness of Malaysian industries in the global arena. It will enable the private sector to regain its strength to drive the economy. Empirical evidence shows that both the total federal government revenue received from corporations and the gross domestic product (GDP) growth increased, despite the four per cent corporate tax reduction from 1993 to 1995.

The government would also need to pay more attention to the macro indicators that ranked above 20, *viz* openness (23), technology (24), infrastructure (25), management (26) and institutions (30), based on the Global Competitiveness Report 1999. It should deal with the issues of inefficiencies, wastage and corrupt practices more decisively. The issue of investor confidence can be a delicate matter — years of hard work can evaporate if investors are given opportunities to spot grave lapses in credibility and integrity on the part of all parties concerned.

As Malaysia's microeconomic foundations are weaker than its macroeconomic fundamentals, Malaysian companies should regularly review their operations and strategies. Indeed the move towards a culture of excellence, quality and productivity will need to begin with the process of quality change, starting at the school level right up to the top management level.

Malaysian manufacturers should invest more on R&D and human resource development. Instead of competing largely on pricing or being too dependent on the weak Ringgit, they should realise that future competition will increasingly be based on non-price factors. As such, they would need to put in place a customer-focused performance improvement framework or quality management system incorporating among others, benchmarking, customer-driven measurements and process management.

Certainly more investment in the education sector and the promotion of "Information and Communications Technology (ICT) for All" in all educational establishments is desirable. As Malaysia needs more competent computer-trained teach-

> "As Malaysia's microeconomic foundations are weaker than its macroeconomic fundamentals, Malaysian companies should regularly review their operations and strategies."

ers, the penetration rate of computers in schools ought to be accelerated. Malaysians in general, and the business community in particular, need greater awareness on ICT developments.

Together with like-minded countries, the government could consider presenting a case for price-discrimination to the software giants. On account of developing countries' lower purchasing power and standard of living, the latter might be persuaded to lower the price of original software.

In the country's drive towards the knowledge (K)-economy, attractive fiscal incentives are needed to see the speedy return of talented Malaysians residing overseas. Example : lifting the two-month bonus restriction will improve efficiency, retain or attract qualified workers. Measures to safeguard the environment, promote fine arts, cultural pursuits and international sporting events can contribute towards improving the quality of life to induce 'brain gain'. At the same time, foreign expertise can be attracted by expediting or easing their entry/exit procedures. For those who are seeking permanent residence status in Malaysia, their applications should get due assistance, provided they fall under the category of experts Malaysia is looking for.

As the growth strategy shifts towards one that is knowledge-driven, MIA and MIT proposes a relief of RM2,000 per annum for a resident undertaking ANY course from a school or institution approved by the Ministry of Education.

In addition, more needs to be done, especially in terms of the regulatory framework, government incentives, consumer education and public awareness on e-commerce. In this respect, there is a need for more funding to promote awareness among lower income families, private sector leadership as well as a domestic and international framework. Likewise, much more is needed to strengthen the SMIs. Many of them have not embraced the new

> "In the country's drive towards the knowledge (K)-economy, attractive fiscal incentives are needed to see the speedy return of talented Malaysians residing overseas."

electronic medium to their advantage, thus affecting national competitiveness.

We also recommend that the 'service tax' levied on intra-group management services be abolished to improve the overall productivity of Malaysian corporations. Alternatively, the current threshold should be increased to RM500,000 to reflect the current social and economic fundamentals.

In addition, the Ministry should review its current policy on 'service tax' and 'bad debts'. The proposal is to allow a taxable person to claim bad debts in computing sales tax payable. Since the Service Tax Act, 1975, does not make any provision for 'bad debts', the taxable person is left to shoulder the burden of service tax if his customers fail to pay for the goods or services acquired. This has caused an undue burden to taxpayers — during a credit squeeze, payments are slow if not actually bad.

As a way to promote the Multimedia SuperCorridor (MSC), MIA and MIT proposes that the service tax levied on management services rendered between companies under the MSC be removed.

Both MIA and MIT recognise that Malaysian companies, particularly those with export potential, have to quickly develop their internet strategies to position themselves in the global markets in cyberspace. The government could offer attractive incentives to these companies through tax rebates as well as double tax deductions for the creation and maintenance of a website by businesses.

To promote the growth of Malaysia's manufacturing sector towards higher value-added activities, MIA and MIT propose a 'double deduction' be given on the acquisitions of patents, designs, models, plans, trademarks or brands and other similar rights by a Malaysian resident.

In order to make Malaysia more competitive in attracting human resource or retaining skilled workers, the existing tax brackets should be reviewed — either the maximum individual tax rate be reduced to 28 per cent, OR the individual tax brackets be amended to reflect current social and economic fundamentals.

NEW MIA COUNCIL LINE-UP

The Malaysian Institute of Accountants (MIA) is pleased to announce the election of five new members to its 15-member Council following the conclusion of the elections at the Institute's 14th Annual General Meeting (AGM). Abdul Samad bin Haji Alias (*please see sidebar*), Nik Mohd Hasyudeen Yusoff and Abdul Rahim bin Abdul Hamid won council seats in the Public Accountants category, while Assoc. Professor Dr. S. Susela Devi and Yeo Tek Ling were elected in the Registered Accountants category. Incumbent Yue Sau Him retained his council seat in the Registered Accountants category.

Immediately following the elections, the new Council held its inaugural meeting and Abdul Samad was appointed as President. Abdul Samad, who is also the President of the Malaysian Association of Certified Public Accountants (MACPA), succeeds Dato' Syed Amin Aljeffri who assumed the position of President in March this year following the resignation of Dato' Hanifah Noordin. Yue was appointed Vice-President, succeeding Soon Kwai Choy.

In his address, outgoing President Syed Amin called on the accounting fraternity to close ranks and remain united under the MIA flagship for the good of the accountancy profession. He said the proposed amendments to the Accountants Act, 1967, calling for all accountants to be collectively known as Chartered Accountants was a positive move towards creating a single identity for accountants in Malaysia. Further, this would augur well for local university graduates who are currently at a disadvantage over foreign university graduates and graduates of Professional Examinations.

Following the President's address, the minutes of the 13th AGM was accepted by the floor followed by the Council's annual report and statement of accounts of the Institute and the auditor's report for the year ended 30 June 2000.

Over 850 members of the accounting fraternity were present at the meeting which also saw a resolution passed on MIA's recognition of the final examination of the Universiti Sains Malaysia (USM) degree of Bachelor of Accounting (Honours) as equivalent to the examinations specified in Part 1 of the First Schedule to the Accountants Act, 1967. The MIA is to advise the Minister of Finance on the amendments to the Act.

At the meeting, a motion was passed calling for the authorities to recognise MIA rates in a similar manner as the Government recognises fee schedules for other professionals. At present, Audit Negara awards jobs to private auditors by tender or through outright awards where there is no room to negotiate fees. As such, despite the fact that the extent of duties and responsibilities including contingent liabilities arising from the duties may differ from case to case, this is not reflected in the monetary benefits for the auditors.

A second motion was passed calling for audit and secretarial bills to be ranked as statutory debt and therefore paid immediately after satisfying liquidation expenses. It is seen as grossly unfair to rank audit/secretarial bills as equal to any other unsecured debts, as the auditing and company secretarial services are statutory and liquidators rely on the auditors and company secretaries to discharge their duties.

The final motion passed called for the Council to consult the Government on the possibility of opening all Council meetings to MIA members who may wish to attend.

Abdul Samad Haji Alias

Abdul Samad Haji Alias is presently an advisor to Arthur Anderson and Co., Malaysia. He was the Deputy Country Managing Partner of the firm from 1991 to August 1999, when he retired as a partner.

Abdul Samad has been in public practice since 1976 and has been involved in the audit of companies in various industries, some of which are banking, insurance, advertising, oil and gas, manufacturing, marketing, construction and government agencies.

He has also been engaged in business advisory assignments like mergers and acquisitions, accounting systems consultation, internal control reviews, feasibility studies, listing on the Stock Exchange, and business consultation and planning. He has also had extensive experience in receivership, liquidation and corporate reorganisation.

Abdul Samad graduated from the University of Western Australia with a Bachelor of Commerce degree. He is a Fellow of the Institute of Chartered Accountants in Australia and an Associate member of the Chartered Institute of Bankers, UK.

Abdul Samad is presently President of the Malaysian Association of Certified Public Accountants (MACPA) and chairs its Executive Committee and Accounting & Auditing Technical Committee. He is also a member of the Malaysian Accounting Standards Board (MASB).

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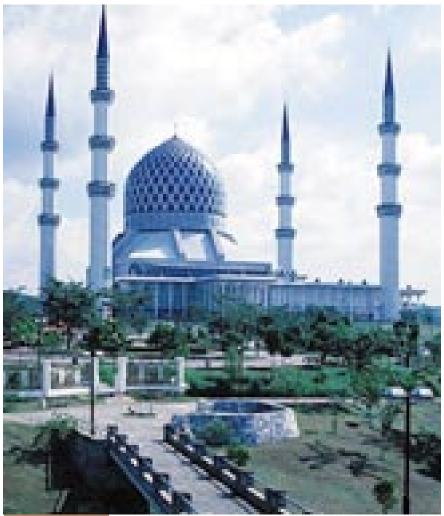

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COUNTING ON

What to expect in the coming Budget 2001

By Maznah Marjuni

It's that time of the year again. For the uninitiated, October is the month when the Malaysian Minister of Finance (MoF) will table the national budget in Parliament. Traditionally, the tabling is done on the last Friday of the month. Thus, we can safely assume that it will take place on 27 October.

What is in store for us this year?

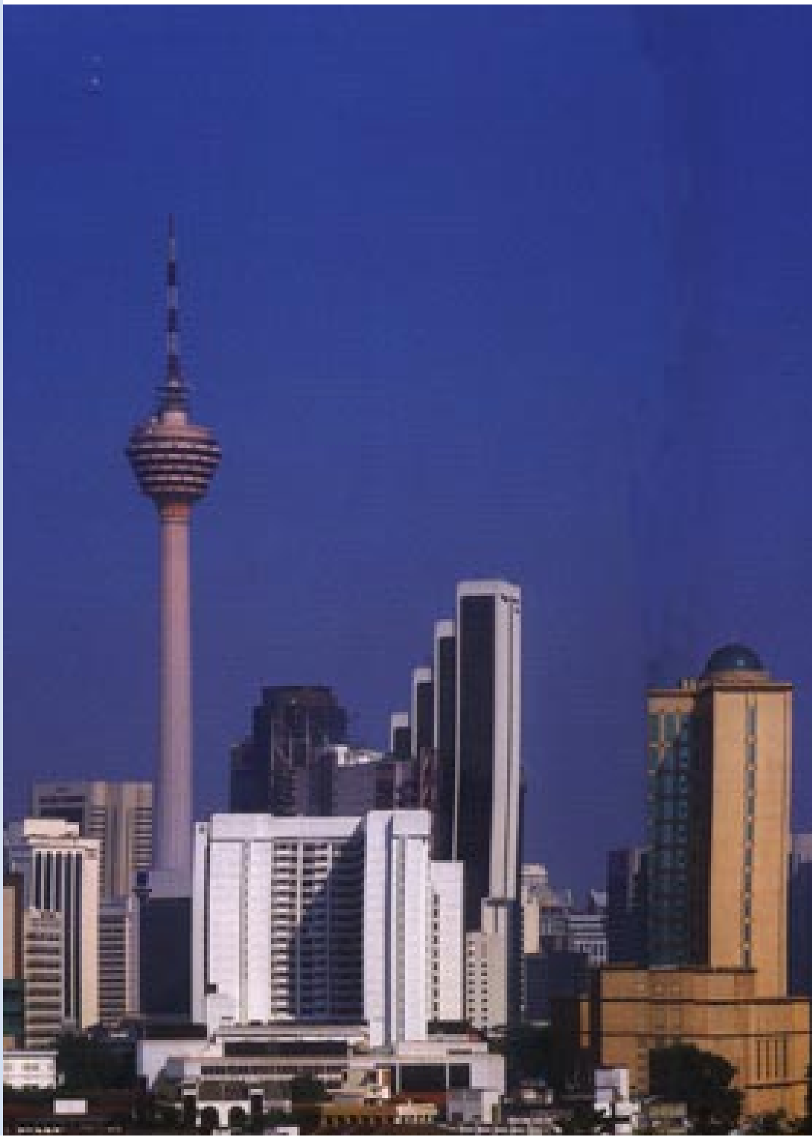
Will there be more 'goodies', as was the case with the current financial year's (FY) budget? Frankly, Budget 2000 that was tabled twice last year (due to the General Elections) was considered by many as an election budget. Some politicians even unashamedly used it as campaign material. Hence the 'goodies'.

But this year, with economic recovery coming slowly but surely, the focus would perhaps be different.

For the men on the street, the questions that play on their minds would be whether the tax regime will be more generous in the coming year, and what else will be declared duty free items. Will there be a

TABLE 1 Retained from 1999

- Personal income tax lowered by one per cent.
- Personal income tax relief increased from RM5,000 to RM8,000. This means that bachelors earning RM1,400 per month, or those married with two children and earning RM2,100 a month will not be taxed.
- Conditions for government servants to obtain housing loans relaxed.
- Housing allowances for lower rung government servants up 50 per cent.
- Government servants get 10 per cent pay rise from January 2000.
- Government employees to receive one month's bonus, less the RM600 announced earlier.
- Income tax rates for co-operatives reduced by one per cent.
- Stamp duty for housing transfer-costing RM75,000 and below will be exempted for years 2000 and 2001.
- Import duties on 43 categories of food products to be abolished, while those on 136 categories will be reduced.
- Tax relief on health and education premium increased from RM2,000 to RM3,000.
- Employees Provident Fund (EPF) to allow partial withdrawal for tertiary education.
- Savings bonds as an option for senior citizens and retirees to invest.
- Tax-free income from music composition raised to RM20,000 from RM10,000.
- Government sponsored unit trust funds will be given tax exemption for year of assessment 2000 and 2001.
- Income tax exemption for eligible tour companies extended to 2001.
- RM200 million venture capital fund set up to finance high-tech projects.
- Restrictions on dividends lifted immediately.



MORE GOODIES

credit squeeze or will the financial institutions be asked to be more lenient?

For workers in the public sector, will there be any more salary revision? What kind of reward can they expect this year?

And for the private sector, will the government be more generous in terms of tax exemption? Is there any chance that the corporate tax will be reduced?

At the moment, only Tun Daim Zainuddin and Datuk Seri Dr. Mahathir (and some high level key personnel, of course) know what is in store for all of us. The only indication of what is in store is the theme that has been chosen for the coming budget's dialogue sessions between the Ministry of Finance and the private sector.

The theme "Towards accelerating economic growth, enhancing competitiveness and improving the quality of life" is indeed reflective of the current economic situation of the country. We are well on the road to recovery and therefore should continue in our strive to become a developed country by the year 2020.

Let's refresh our minds on what the 'goodies' were in Budget 2000. There were two types of 'goodies'; one was what was retained from Budget 1999 (*table 1*) and the other was newly introduced in Budget 2000 (*table 2*).

"We are well on the road to recovery and therefore should continue in our strive to become a developed country by the year 2020."

TABLE 2 Newly Introduced in 2000

- The 25 per cent threshold exempted for listed companies to buy Malaysian-owned intellectual property and locally-owned companies registered overseas.
- Loans for students of local private tertiary institutions have been increased from RM12,000 to RM12,500 for arts stream, and from RM16,000 to RM16,500 for science stream. Students in public tertiary institutions receive an advance of between RM1,000 and RM1,500 for registration fees.
- Rural areas get RM129 million for water supply, RM154 million to build clinics and RM21 million for potable water and upgrading of health and treatment facilities.
- A RM318 million local loop system to be implemented by Telekom Malaysia Bhd, benefiting 120,000 subscribers in rural and interior areas.
- A RM201 million fund for smallholders to replant rubber involving 45,000 hectares this year, to be implemented by Risda (Rubber Industry Smallholders Development Authority).
- Pensioners and those receiving pensions to also benefit from the 10 per cent pay rise given to civil servants.
- Partial withdrawal by civil servants from the balance of their EPF contributions before reaching age 55 will be allowed, the government's contribution will be transferred to Pensions Trust Fund.
- Pocket allowances for the less fortunate under the Social Welfare Department will be increased, financial assistance for this group will also be raised.
- Scholarships and loans for Mara and Public Services Department-sponsored students in 15 countries have been raised between 10 per cent and 65 per cent.
- EPF contributors will be allowed to make withdrawals for the purchase of computers.

So, what else needs improvement for FY2001?

Assuming that the government is going to retain all the 'goodies', there are still many areas with potential improvements. For example, the tax regime, whether it concerns the corporate sector or the individuals. Let's look at the corporate tax. Currently, the corporate tax is at 28 per cent. So, what's wrong with 28 per cent?

There's nothing wrong with 28 per cent or how many per cent should the government impose upon the private sector. However, in comparison to other countries in the region, we are on the 'high' side, especially when compared to Taiwan (26 per cent) and Hong Kong (16 per cent).

> " ... a reduction in corporate tax would be one of the more comprehensive ways to ensure that the country remains competitive and attractive to new investments and re-investment."
>
> *Datuk Dr. Zainal Aznam Yusof*
> *Deputy Director General of the Institute of Strategic International Studies (Isis)*

What's wrong is that there are signs that Malaysia may be slipping in world competitiveness. According to the Global Competitiveness Report 1999, Malaysia is ranked 23rd in terms of openness, 24th in technology, 25th in infrastructure, 26th in management and 30th in institutions.

Thus, to boost the morale of the private sector (so that it will become more competitive), there is a need to give some sort of incentive so that it will be more competitive. What better way is there than to reduce corporate tax?

Datuk Dr. Zainal Aznam Yusof, Deputy Director General of the Institute of Strategic International Studies (Isis) has been reported as saying that a reduction in corporate tax would be one of the more comprehensive ways to ensure that the country remains competitive and attractive to new investments and re-investment.

Of the same opinion is Datuk Syed Amin Aljeffri, the past president of the Malaysian Institute of Accountants (MIA), who said that one of the avenues to ensure and maintain the competitive edge of Malaysian industries in the global arena is for the government to consider reviewing and reducing corporate tax.

Zainal Aznam mentioned a likely reduction of between one per cent and two per cent while Syed Amin said from 28 per cent to 26 per cent.

Of concern is whether the proposed reduction will result in lesser revenue for the government, thus increasing the possibility of higher external debt. But it has been proven in the past that reduced rates result in higher revenue and increased gross domestic product (GDP) growth. That was in the period of 1993 to 1995 when corporate tax was reduced by four per cent!

Another proposal to help improve the overall productivity of local corporations is to abolish the service tax levied upon intra-group management services. Or at least the turnover threshold for sales tax should be increased from the current limit of RM300,000 to RM500,000 to reflect current social and economic fundamentals. One other aspect of the tax regime that could be looked into is the individual tax bracket, which has not changed since 1995.

> " ... one of the avenues to ensure and maintain the competitive edge of Malaysian industries in the global arena is for the government to consider reviewing and reducing corporate tax."
>
> *Dato' Syed Amin Aljeffri*
> *Past President*
> *Malaysian Institute of Accountants*

At present, a Malaysian individual tax resident earning in excess of RM150,000 is subject to the maximum rate of 29 per cent, about 29 sen per Ringgit earned. Syed Amin recommends that either the individual tax be reduced to at least 26 per cent or the tax brackets be revised to reflect current social and economic fundamentals.

Again, although a change in individual tax bracket may appear to reduce the amount of revenue earned by the government, such a change is believed to directly improve overall competitiveness by inducing the right people with the right knowledge to join or remain within our workforce, thus improving domestic productivity. This incentive will ensure that there will be no lack of skilled labour force in the future that could be detrimental to our country's future growth. Indirectly, it will also help to ease excess supply of office space in the country!

In a nutshell, the lowering of tax rates and widening of tax brackets will not necessarily reduce the total revenue from direct taxation.

Such measures will only ensure a more stable workforce and provide incentives for people to produce more and work harder. Thus, a lowering of tax rates is a significant vehicle to accelerate economic growth of the country. Perhaps we'll have fewer cases of individuals or companies running away from their tax obligations!

And the last RM80 billion question is : Can our government afford to bestow more 'goodies'?

To give credit where it's due, our government has been working hard, with the cooperation of the private sector, in placing effective measures to safeguard the national interests as well as engineering a remarkable economic recovery. The first quarter of this year showed an economic growth of 11.7 per cent while macroeconomic fundamentals are improving. We are seeing strong international reserves, healthy current account surplus of the balance of payments, and a low and stable inflation rate. In short, our government has been able to turn obstacles into opportunities.

On the other hand, the private sector is still somewhat fragile in some areas. For example, there are still weaknesses in the construction industry while there are still uncertainties in the capital market.

Thus, the government's active role is still needed to steer the economy, at least for FY2001. We are not asking the government to sacrifice too much to the point of becoming a martyr but the affordability that we're talking about here is more of a moral obligation than a financial one. After all, we have been operating on deficit budgets for the past few years.

Rising to the Challe

Although most analysts have initially anticipated a small budget deficit, subsequently they suggest that Budget 2001 may not be one. Following Prime Minister Datuk Seri Dr. Mahathir's recent remarks that we can look forward to a better Budget, tax professionals and economists are now saying that if it is not a surplus Budget, it will at least be a balanced one.

By Tareq Ismaun

Malaysia is currently operating at a time when the global economic outlook has become less rosy, primarily due to the energy crisis. The elements of uncertainty have certainly multiplied. Whilst the slowdown impact is well-known to be lagged, the government must be prepared.

Thus one of the themes unveiled during the Budget dialogues, *viz* accelerating economic growth, is a major challenge to policymakers. As the volatile private demand is under pressure from the external side, there must be no let up in public spending. Says an economist, "You cannot roll back public sector demand abruptly. They should budget for spending, and not get caught otherwise, like what happened in 1997."

Says a head of research at a stockbroking firm, "It is a good time to launch some major infrastructure projects to counter slower growth in the external sector."

However analysts say there may be no new incentives for foreign investors in the coming Budget. Reason : Malaysia already has lots of good incentives. Moreover it is understood that a review is currently being undertaken at the Ministry of International Trade and Industry (MITI) to make the existing incentives more interesting.

Foreign Direct Investment (FDI), which was down eight per cent from January-August 2000 compared to the same period last year, is seen to be a non-issue. The whole region, including China, is affected.

But a good incentive in itself for the business community, including local and foreign investors, is the possible reduction in corporate tax from 28 per cent at present. The only question seems to be whether the rate should go down by one or two percentage point(s). Says a tax expert, "In comparison with neighbouring countries, it will be a good incentive in itself. With more investment, economic growth and profits, overall we could still collect more tax."

The present corporate tax rate has already been brought down from above 30 per cent at one time. As such, analysts say that there is only scope for a minor cut, which in turn will only have a small impact on the prevailing weak sentiment on the Kuala Lumpur Stock Exchange. Even so, it must be noted that the second Budget dialogue theme of enhancing competitiveness also has limited scope since the Ringgit, inflation and most major tariffs are already low. As such it will be interesting to see whether the corporate tax will actually be lowered and by how much.

There have also been suggestions that personal income tax be lowered to match corporate tax. Theoretically the top marginal tax rate for individuals should tie in with the corporate tax rate. But it is subject to the country's revenue needs. In the past, personal income tax always lagged behind corporate tax.

Says the tax expert, "To lower corporate and personal tax simultaneously can be a bit too much to give away. We can start with corporate tax this year followed by a realignment of the personal tax rate next year."

However the economist does not think that the government will realign the highest individual tax bracket with the corporate tax rate. He says, "It will make the rich richer. This will be another source of discontentment." Instead, he would like to see EPF contribution, which was raised in 1996, to be reduced by two-percentage points. "With the economy languishing, we need people to spend," he adds.

Analysts say the removal of the two months bonus restriction, which was reimposed in 1998, will also help in attracting and rewarding more qualified people as Malaysia moves towards the K-economy. Right now, if companies pay more than two months bonus, they do not get tax deduction for the extra payments.

Another area concerns the service tax for management services provided by centralised management service companies to companies within the same group. If the total amount is more than RM300,000, the management company must charge service tax on whatever they bill. The tax expert argues that it is not good for the private sector as it amounts to a tax on efficiency, which unnecessarily puts a burden on cash-flow.

The service sector accounts for a bigger pie than manufacturing in the GDP. Note Maersk's purchase of Port of Tanjung Pelepas, Hutchinson's purchase of Westport, Allianz in MBA and BT in Maxis. It has long been suggested that there should be an equivalent to MIDA for the service sector. Will there eventually be one so that promotion efforts and application processing can be given better coordination? In addition, FDI figures in services for instance can be collected, analysed and monitored more meaningfully.

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The tax expert also suggests that a group relief provision be progressively introduced either in the coming Budget or at a later date. Under the provision, a group of companies is seen as one entity for tax purposes. Companies under the group can use the loss incurred by other companies in the same group to get the immediate advantage of tax deduction for the loss. He says, "In general the tax effect for the group can tie in with the accounting effect (after consolidation)."

Admitting that there will be some revenue losses to the government, he adds that companies cannot lose all the time. However, he says there must be a mechanism to prevent possible abuse.

To encourage businesses going into electronic (E)-commerce, the tax expert says there could be some form of incentive. For instance, the development cost of setting up websites could be allowed to qualify for tax deduction. Now it is seen to be more of a capital cost. For the individuals, there may be some kind of tax relief for those who enrol in certain courses approved by the Ministry of Education.

Those who are bullish on the economy are encouraged by our GDP performance since last year. They point out that property developers have started to launch new projects and the total advertising expenditure is projected to reach a record RM3 billion for the full year. Even if the oil price goes up slightly, they argue that it will not move up the inflation rate that much.

Says the tax expert,"So long as the increase (in oil price) is not that substantial, we should be okay. We should try to keep inflation rate between three to four per cent and hope that there will be no spiralling effect." He adds that the Ministry of Domestic Trade and Consumer Affairs however must check vigorously on price hikes.

Analysts say the government will carry on with allocations for low-cost housing and rural infrastructure. From the K-economy perspective, the continuing focus on education is expected to be justified. In view of the recent security events which took place in Sauk and Sipadan, it is also likely that the defence sector will get a slight increase in allocation.

In terms of investor confidence, analysts say we have to keep on working to change the perception among certain foreign investors who incidentally also have other countries to invest in.

To ensure that people really understand what is actually happening, they say that backed by a concerted PR exercise, Malaysia needs to address several issues revolving around policy timing, implementation and transparency. The restructuring of the financial sector must also go on.

Says an analyst, "It is now moving along reasonably well. We must not lose track. Otherwise it will have a detrimental effect on investor perception."

Even so, sentiments and perceptions will not simply change over one budget.

Overall, with the exception of the uncertainty posed by the energy crisis, analysts expect Budget 2001 to be perhaps slightly low-key, focussing mainly on housekeeping aspects with the usual little bit of goodies here and there so that everybody is seen to be getting something.

In any event, to reconcile strong public spending with a possible budget surplus, the projected revenue must really be strong. The government is expected to get more revenue from higher oil prices and the withdrawal of the petrol subsidy. In addition, with the public sector spending somewhere between 30 and 40 per cent of GDP, the capacity to spend and borrow is still not exhausted.

K-economy : Taking t

What has the budget got to do with developing new areas of business?

From P-economy to K-economy

These terms are the latest in economists' lingo. From politicians to students, the terms are frequently used in speeches and oral presentations. But what are these terms?

Simply, P-economy means production-based economy while K-economy stands for knowledge-based economy. What the economists are saying is that to boost our prowess, our country should transform itself into a knowledge-driven economy in order to take advantage of the global developments created by the new information and communication technologies (ICT). Increasingly, they say, our country should take cognisance of the global change in which economic growth is linked to innovation and creativity.

Thus, to remain competitive, Malaysia needs to make a transition from a P-economy base to a K-economy base in order to take advantage of these new technologies.

This thinking has been aptly encapsulated in our Vision 2020 :

There was a time when land was the most fundamental basis of prosperity and wealth. Then came the second wave, the age of industrialisation. Smokestacks rose where fields were once cultivated. Now, increasingly — knowledge will not only be the basis of power but also future prosperity.

In business terms, with K-economy, there are new frontiers to conquer, new areas of business to explore.

In Malaysia, we are very fortunate to have a government that is business-friendly. Often at the forefront of business thinking, almost always it was the government that came up with new terms and directions for business. Like the K-economy for instance, instead of leaving it to the private sector to practise and reap the benefits, the government has turned it into a national project by providing the necessary infrastructure and funding.

Thus, it is only natural to expect the Budget 2001 to still be business-friendly, especially in new areas of business that harness the power of K-economy.

The first sector that the budget should take into consideration is electronic commerce (E-commerce). E-commerce is any form of transaction conducted over the internet or through internet access involv-

ing the buying and selling of goods and services, and the provision of information either between business to business (B2B) or business to customers (B2C). There is so much that needs to be done considering that E-commerce is still in its infancy stage in Malaysia.

Statistically, the numbers are not encouraging. Consider this survey undertaken by the Malaysian External Trade Development Corporation (Matrade) in April last year. The survey revealed that only 68.9 per cent of the companies registered with Matrade have electronic mail (e-mail) facilities while only 65.8 per cent have websites or homepage applications. Worse than that, only 24.3 per cent have online product catalogues and only 4.1 per cent indicated that they have strategies to participate in e-commerce.

On the global level, the World Trade Organisation (WTO) has estimated that 51 per cent of international trade was transacted via facsimile and telephone, 17 per cent through the internet and 32 per cent by other means of trade. However, trade via the internet is predicted to rise to 42 per cent and revenue derived from e-commerce is expected to total US$200 billion (US$1 = RM3.80) per year by the end of this year.

What we need is a domestic and international framework on E-commerce. Although it should be driven by the private sector, the government should encourage a self-regulated industry and leadership

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whenever possible. The private sector's role is to lead in a less regulated environment that should promote creativity, innovation, cost reduction and efficiency.

As an immediate measure, the government should consider a double deduction for corporations creating and maintaining a website.

Under current tax legislation, companies that incur expenditure for creating their own websites on the internet are eligible to claim accelerated capital allowance for software purchases and services. A double deduction on the total cost of creating and maintaining a website will definitely encourage more Malaysian companies to venture into E-commerce and increase the level of participation on the internet.

While looking after the interest of the corporate sector, the ordinary men on the street should not be forgotten in this quest for ICT knowledge. Somehow, public funding is still needed to provide lower income families with access to computers, the internet and the necessary training.

Two years ago, the government had allowed a single tax rebate of RM400 as a means to promote the acquisition of personal computers. That single rebate is actually insufficient to promote such a noble cause. This is mainly because computer software and hardware must be upgraded and maintained periodically — to ensure compatibility and performance. Imagine, in just two years, the processing speed of a computer chip has progressed from just 200 Megahertz in 1998 to one Gigahertz (1,000 Megahertz) earlier this year.

It is that rapid. Perhaps the coming budget should look into the possibility of allowing a RM4,000 deduction for individuals acquiring, upgrading or replacing either computer hardware or software for personal use. And considering the pace of technology, this deduction may only be claimed once in every two years.

This rapid development in ICT has also made it compulsory for certain industries to constantly upgrade their systems, lest they become less competitive. As a result, these companies are sometimes saddled with computers that have become redundant due to technological advances although they are still in operable condition and can be used in non-industrial applications such as education. Perhaps these machines can be donated to rural schools so that the children there won't be left too far behind in the technological race.

However, the current tax regime only allows deductions equal to any gift of money to an approved institute or organisation while non-monetary donations or contributions of 'equipment' are non-deductible.

Well, why not amend the necessary act so that the deduction should include gifts of computer equipment, software and computer peripherals to approved schools or education institutions. It would certainly be an inducement for companies to donate their redundant computers to schools and help increase the level of ICT exposure among lower income families.

In line with promoting K-economy, the coming budget should also take into consideration the need for training and re-training. Currently, under Section 46 of the Income Tax Act (ITA) 1967, an individual is allowed a tax deduction of RM2,000 on fees expended for any course of study for the purpose of acquiring technical, vocational or institutional skills. However, in recent years, the cost of education has gone up tremendously and thus it is necessary to review this incentive. As such, perhaps the relief should be a deduction of RM2,000 per year instead of RM2,000 from the total sum. It will help greatly in terms of costs.

On learning, it should not be limited to just the technical, vocational and institutional areas. The scope should be extended to all areas of learning as other sectors, especially the services sector, also play an integral role in our economic growth.

Whatever our expectations, it will all be answered when Tun Daim Zainuddin presents the Budget 2001 at the end of October. But as has been proven in the past, the Malaysian budget has always been business-friendly.

IMPLICATIONS OF TAX FOR THE TAX

EXTRACTED FROM A PAPER DELIVERED BY DAVID RUSSELL , QC

The shortcomings to the system of tax self-assessment in Australia should be used as a case study by other countries to avoid similar problems says David Russell, a prominent Queen's Council based in Australia. He said this when delivering an executive summary of a report entitled "Tax Services for the Public". Russell was a member of the Committee that prepared the Report which was the result of a collaboration by representatives of the Australian Taxation Office (ATO), the professional body representing Australian tax professionals and other stakeholders in the Australian tax system.

In Australia, unlike before when tax assessment was the responsibility of the ATO, laws have been enacted requiring taxpayers to make their own assessment. Unfortunately, says Russell, the implication of the adoption of a self-assessment system on tax professionals has not been analysed and no adjustment has been made on the rights and obligations that are consequential upon this system.

Part of the problem, says Russell, lies in the complexity of the Australian Tax laws that is evident from the lengthy 5,000 pages long Income Tax Assessment Act. As a result, taxpayers now rely heavily on professional advice. In 1980, only 20 per cent of individuals in Australia used the services of tax agents to prepare tax returns. In 1992 the figure had risen to 72 per cent and it has likely increased since. The question now is who bears the blame when something goes wrong. With 5,000 pages to review, understand and comprehend and even after taking into account the relevant authorities, rulings and explanatory memorandums, even the most senior professionals may be saddled with a quagmire as their interpretations may differ from the Court at the end of the day.

Although the Malaysian tax system is not

SELF-ASSESSMENT PROFESSIONAL

as complex as the Australian tax system, the difficulty associated with distinguishing capital and income in borderline cases is a common problem. In *Van Den Berghs, Limited v Clark* (1935 — A.C 431), Lord Macmillan observed that the distinction (between capital and income) is well recognised and easily applied, but from time to time, cases arise where the item lies on the borderline and the task of assigning it to income or to capital becomes one of much refinement, " .... The Income Tax Acts nowhere define 'income' any more than they define 'capital' .... Consequently, it is to the decided cases that one must go in terms of light .... each case is found to turn on its own facts .... no infallible criterion emerges ...." (p. 438).

Russell warns that likewise, Malaysian taxpayers too will always face this dilemma. Before the introduction of the self-assessment system in Australia, the onus to make the correct interpretation and its consequence lay squarely on the Commissioner of Taxation and all the taxpayer had to do was to make a full and true disclosure.

The conclusion reached and the subsequent recommendations are set out on page 18 of the Executive Summary Report. The recommendation calls for amendments to the law to remove from the taxpayer any liability for penalties in the event of a tax shortfall where they satisfy conditions which, taken together, constitute proof of reasonable care. In the event of a shortfall, then to be entitled to protection (or 'Safe Harbour'), a taxpayer needs to :

- Meet stipulated record keeping requirements;
- Provide accurate information in response to questions asked of them by his or her tax agent;
- To conform with the tax agent's advice; and
- (In the case of a taxpayer with business income) they should draw the tax agent to all information which he or she ought to expect would be relevant in compiling the returns.

In other words, all that needs to be done is truthfully inform the agents. However, there are several consequences to that.

In cases of wrongful advice by tax agents and the taxpayer is made to understand that he doesn't have to pay any tax, the Revenue would suffer unfairly. So, if there is to be a system in which disclosure to tax agents of all a taxpayer's circumstances effectively makes the taxpayer immune from penalty even in the event of error, then there has to be a regime which ensures :

- That only professionally qualified people can practice as tax agents; and
- In circumstances where they abuse what becomes a position of great trust within the system, they can be appropriately dealt with either by way of review of standards, counselling and an improvement of the standards or in extreme cases, the imposition of some form of penalty for improper behaviour.

The other issue that arises out of the notion that total disclosure to the tax agent provides a safe harbour is third party access to this information via the tax agent. This is so because if a taxpayer is to go to his agent and make a full disclosure of everything that has happened and perhaps even discuss frankly what the risks are and what are the possible attacks from the Revenue and arguments in his favour, all of this will be recorded in the tax agent's file. If the Revenue (in Australia the Revenue has full power of access) can gain access to this file and use the information, without further investigation, to make a biased assessment, the immediate consequence will be taxpayers will not fully and truthfully disclose their position to their tax agents.

So the second thing that flows from the concept of disclosure to one's tax agent providing a safe harbour is that it has to be done in circumstances of complete confidence, leaving aside circumstances of fraud where both parties collude (in this case, one should not have protection).

This is because if the commissioner is in the position to say that he doesn't like certain things in the tax return and can on that basis impose a penalty either on the tax payers or their agents, then the system of safe harbour simply cannot exist properly.

In order to establish oneself as an appropriate person to practice as a tax agent, the Report states that apart from having the necessary professional skill and having good character, there should be a mandatory minimum of 20 hours structured Continuing Professional Education (CPE) for tax agents (not compulsory in Australia at the moment) of which 15 hours must be tax specific. The Report also calls for a code of practice for tax agents, which sets out their responsibilities and their duties.

In Australia, there have been two views to designing the code of the professional responsibility of tax professionals. The traditional view of the legal profession which Russell echoes is that the sole responsibility of the agent is to act as an agent towards the client. Thus irrespective of other considerations, so long as what the client does is lawful and the agent accepts the engagement, it is part of the agent's function to advice the client about his or her tax options.

For example, if a wealthy client can put forth an argument that enables him to pay almost no tax, the agent's responsibility is to put forth that point of view, despite personal opinion that he should be paying more. There are some people who would argue that it is not the responsibility of members of the tax profession to bring about such results. However, Russell feels that such an agent should simply decline to act instead of accepting the retainer and not doing the job.

Although the ATO representatives on the Steering Committee agree with all this, there are suggestions to say that the ATO feels that its representatives on the working group were influenced by the representatives from the private sector and failed to reflect the ATO's stand. It is felt that the ATO has adopted a 'do as you are told stand'. To expect tax professionals to work with this point of view is quite unrealistic. It is, after all, the clients who are paying the tax agents and not the ATO and the clients are entitled to be advised on their best position.

The report, says Russell, also concludes that if a tax agent is required to exercise a skilled and professional judgment in an area which is out of his or her expertise, a safe harbour for the agent ought to be awarded provided the agent seeks advice from a recognised professional tax adviser. In such a case, the recommendation is that the tax agent should not be penalised if an error is made. So there is a series of safe harbours that reflect what was concluded as reasonable commercial practice in the circumstances.

The ATO however is of the opinion that if a mistake has been made, somebody has to pay the statutory penalty, whereas the Report concludes that if reasonable care and due consideration have been taken with no intention to act unprofessionally or illegally, there should be no penalties. However, if there is intent to act dishonestly, the errant doer should be subjected to a heavy penalty.

Moving on to the issue of a 'reasonably arguable position', it is felt that as far as the ATO is concerned, so long as the view is a reflection of its own stand, then it is reasonable and if it is contrary, it is not reasonable. There needs to be fair understanding on both sides that if this system is to work, as in many tax issues, there is more than one viewpoint and many of them really can be decided by the flip of a coin as much as court authority. In such circumstances, the mere fact that one's opinion differs from the ATO should not mean that one does not have a reasonably arguable position.

Does having a Queen's Council's opinion in your favour accord you reasonably arguable position? There are many QCs in Australia who know absolutely nothing about tax and there is no reason why their opinion should be accorded any particular status. The report says that although the advice of a recognised professional tax adviser should not have such legal status, it has to be judged on its own merit.

The other issue is the status of the Taxpayers' Charter of Rights. The view that the Taxation Institute has taken is simple, namely, you either have rights or you don't. If what you have are administrative concessions, then these can be taken away. The difficulty about rights in one sense is that society as a whole is protected because rights are extended to all, even to people whose activities are not desirable. Administrative concessions are frequently of a different character. They can be taken away at the whims of the person who grants them. In most circumstances, public opinion might well support the withdrawal of the concession.

The Report concludes that if rights are to be meaningful, they have to be enforceable and not simply be available when the ATO is feeling in a kind mood towards taxpayers. After all when the ATO invokes this concession, it works to support all the powers that the revenue exercises, be it power of access, power of investigation, power of audit or power of collection of tax. All these powers are written in the law and are available to the ATO as a matter of legal entitlement. As such it seems entirely inappropriate that what taxpayers might reasonably expect from the system is not available as a matter of legal entitlement.

Russell is of the opinion that self-assessment will have substantial implications on one's profession. He calls on countries seeking to implement or are in the process of implementing the self-assessment system to address the issue of whether there is to be a safe harbour based on taxpayers seeking reputable professional advice. If there is to be such a system, then the protection of the Revenue will plainly require that the safe harbour is available only if the person consulted forms part of the reputable profession and is not in the business of selling tax concessions in return for fees.

The issues of client confidentiality and the consequences of further referrals will also need to be looked into. He urges Governments to study the problems faced by the ATO and make appropriate considerations before implementing the self-assessment system.

CORPORATE REPORTI ISLAMIC PERSPECTIVE

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Accounting, as claimed by some writers, is a product of its environment. As such, a country's accounting system may be significantly influenced by a variety of environmental factors. These include the legal and political framework, the nature of ownership, size and complexity of businesses, the level of sophistication of business managers and the financial community, the degree of legislative interference in business, the presence of specific accounting legislation, the speed of business innovations, the level of economic development and growth pattern, the status of professional education and organisation, and the social climate. More recently, however, there has been increasing discussion on the influence of religion on accounting. Given that Islam is a significant force influencing the manner in which Muslims conduct their public and private lives, the influence of Islam on accounting may be significant. Accordingly this paper discusses the influence of Islam in the context of corporate reporting culminating in a proposed Islamic Corporate Reporting model.

Importance of Ethics in Developing Islamic Accounting

A religion-oriented accounting cannot dispense with its ethical dimensions. Accordingly, the basic premise on which Islamic accounting can be developed lies in the domain of ethics. In the West, incorporating ethics into accounting practice is perceived as becoming increasingly important at the present time. However, from a Western perspective, developing accounting theory using an ethical approach develops numerous problems because there is no common source from which ethical values may be derived. As a consequence, questions such as "fair to whom", "for what purpose" and "under what circumstances" are difficult to determine with any precision. By contrast, in Islam, fundamental business ethics flow automatically from the practice of religion, rather than the codes devised and imposed upon members by professional organisations. Accordingly, developing an Islamic accounting theory using an ethical approach is more natural.

The ethical approach to accounting theory development places emphasis on the concepts of justice, truth and fairness. Justice refers to the equitable treatment accorded to all parties involved in the financial statements covered by the accounts. Truth is concerned with providing information without any misrepresentation. Fairness refers to those rules and procedures that do not serve a particular interest group at the expense of others. Accordingly, a society dedicated to the improvement of the welfare of its members should have an information system that satisfies the needs of all interested parties such as employees, external consumer groups, government, the general public, as well as those capitalists. From Islam's perspective, the primary objective of accounting is to ensure that the system discharges the Islamic concept of accountability satisfactorily. Accountability in Islam is derived from the Shari'a (Islamic Law).

"The ethical approach to accounting theory development places emphasis on the concepts of justice, truth and fairness."

The Shari'a

To understand the Shari'a, one must first examine its sources. The Shari'a is drawn primarily from the Qur'an (the book of faith and moral conduct) and provides a comprehensive, divinely ordained, and eternally valid master plan to which the structure of the state and society must ideally conform. However, the Qur'an contains only the broad guidelines and general principles. Consequently, one has to examine the sunnah through the hadith to supplement the revelations in the Qur'an. The sunnah may be considered as the operationalisation of the principles in the Qur'an. It refers to Prophet Muhammad's customs, his words, deeds and habitual practices. Thus, the sunnah may be regarded as Islam in action. The sunnah is remembered and transmitted by a report known as the hadith. The hadith and the sunnah explain and amplify the principles embodied in the

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Qur'an and together constitute the two primary sources of the Law. Thus, the Shari'a provides the common source from which Islamic ethical values are derived and from which a model of Islamic corporate reporting could be developed.

Islamic Ethics

Islamic ethics rest largely on its conception of man in relation to self, God, universe, and society. Islam defines the norms of human conduct and ends of human desire in terms of values that focus on society. From an Islamic perspective, man's accountability to God also encompasses his accountability to his fellow men. The Quranic view of life divides man's functions into *haqooqullah*, his obligations to God and *haqooqulabad*, his obligations to society. The latter reflects a state of social balance, emphasising on the concept of brotherhood in Islam. Implicit in the concept of brotherhood is the need to achieve socio-economic justice. As such, the Islamic concept of accountability can be interpreted as one that promotes both social justice and social accountability.

In Islam, individual freedom is emphasised. Related to this concept of freedom of actions is the concept of private ownership. Private ownership in Islam is not absolute. A person holds property in trust for God and there should be no conflict between private and social interests. Thus, Islam, by subjecting every individual to a code of behaviour that emphasises discipline has, as its primary objective, the well being of all. More specifically, in a financial reporting context, such a concept suggests that the accountant's accountability focus be enhanced to include a wider audience, namely the public. This may be contrasted with capitalist-oriented societies where the primary focus is on investors. Thus, one would expect a firm operating in an Islamic environment to be particularly concerned of the consequences of its own actions on the community.

The Qur'an is so emphatic about the discharge of an individual's obligations that the question of positively articulating a Muslim's rights does not arise. Because man's obligations take precedence over his rights, self-interest is automatically constrained. Hence the rights of all will be safeguarded if everyone fulfils his or her duties. Although Islam places great emphasis on an individual's responsibility, it does not imply that an individual's freedom is of lesser significance. Rights and duties in the Qur'an are merged into the concept of justice. The individual acknowledges the rights of others because this is a duty imposed on the individual. Being an integral part of society, a person must not be passive to the consequences of the exercise of the individual's own rights. Mutual sacrifice and cooperation should be the process by which human life can be enriched. Viewed from this perspective, one would therefore expect a business firm to regard itself as a part of the community. Consequently, the firm's success should be measured by how well it has met the needs of the society in which the firm operates. In line with this, one can argue that Islamic accounting is a value-oriented activity, the development of which encompasses the moral, spiritual, material and social aspects. The emphasis on accountability is implicit. Given that accountability in Islam is all encompassing, the scope of Islamic corporate reporting is thus wider than that which is currently practised in the West. Although ultimate accountability is to God, an individual is also accountable to society.

Islamic Corporate Reporting : The Proposed Model

In line with what has been discussed above, Baydoun and Willett (2000) suggested that from the perspective of corporate reporting, two essential principles underlie the concept of accountability in Islam : the precept of full disclosure and the concept of social accountability. This is consistent with Hayashi's (1989) suggestion that Islamic accounting is 'society-oriented'. Hence, financial reports should enable Muslims to determine zakat liability and ultimately achieve socio-economic justice. Consequently, Baydoun and Willett (2000) suggested that the current value balance sheet (CVBS) be included as part of the reporting requirements of firms operating in an Islamic economy. In addition, they suggested that the profit and loss statement (PL), because of its corruptive influence, should be relegated to the Notes. In its place should be the value-added statement (VAS). However, Baydoun and Willett's suggestions may be regarded as providing a bare minimum towards satisfying Islam's social accountability obligations. Given Islam's emphasis on safeguarding the welfare of the community, a more complete Islamic Corporate Reporting model should have, as its major emphasis, the reporting of externalities. As a consequence, accounting must be adapted to provide measures of success in achieving more goals than just profitability. More importantly, in Islam, growth, change and material enhancement must lead to social justice and spiritual betterment of the community as well as the business. The emphasis on social accountability would mean that the Islamic corporate reporting model should focus more on socially related information. What constitute matters of social concern in Islam are specifically laid out in the Shari'a. For example, monopoly practices and unfair trading practices are emphasised (Al-Qaradawi, 1994). In contrast, these issues have not been the focus of social responsibility accounting in the West.

"In Islam, economic growth should lead to social justice and a more equitable distribution of power and wealth. The Islamic concepts of brotherhood, equity and justice imply the presence of a conscious policy of redistribution and resource transfers amongst various groups of society."

The Current Value Balance Sheet (CVBS)

There are three main theoretical arguments for the perceived usefulness of the CVBS to Islamic users. First, the use of current values relates to the 'justice and equity' aspects that Islam emphasises with regard to the payment of zakat. Zakat constitutes one aspect of social accountability in Islamic societies and the CVBS (to determine zakat), supports the Islamic principle of justice to a greater extent than the historical cost balance sheet (HCBS). Second, support for the use of current values follows from practices pursued during the Prophet's time. The 'value-in-exchange' may be derived from the implicit common monetary denominator used in the Prophet's time to establish the nisab (the minimum threshold of wealth above which zakat is payable) for various assets subject to zakat. Value-in-exchange is simultaneously the selling price (exit value) for the vendor and the entry price for the purchaser. Third, current value information allows the inclusion in financial statements of market values that are based on information obtained from outside the firm's database, thus extending the accountability of firms into the social domain. Historical cost information (based mainly on a firm's own transaction costs and little else) excludes the potential relationship which accounting may have with its wider social environment. Arguably, the extension of a firms' accountability to a wider social environment would also point to an emphasis on the reporting of externalities (i.e. social responsibility issues). For the reasons cited above, one would expect committed Muslims to perceive the CVBS to provide more desirable information than would non-Muslims. Accordingly, one would also expect Muslims to favour the use of a CVBS over an historical cost balance sheet (HCBS). This is in no way suggesting that we do away with the HCBS. The emphasis on full disclosure would in fact require firms to report both historical and current cost information.

The Value Added Statement (VAS)

In Islam, economic growth should lead to social justice and a more equitable distribution of power and wealth. The Islamic concepts of brotherhood, equity and justice imply the presence of a conscious policy of redistribution and resource transfers amongst various groups of society. A VAS showing how the benefits of the efforts of an enterprise are being shared amongst employees, shareholders, the government and the enterprise itself, might be especially useful to Muslims. The distribution of wealth between the different sectors of society is, by definition, a matter of social in-

terest and it is this characteristic of VAS that supports accountability in Islam. The notion of increment in total value-added appears to be secondary. What is emphasised is the "care and share" aspect of a business. Thus, the value added statement may be considered as being more in alignment with the concepts of justice and mutual cooperation that Islam propagates than is the profit and loss statement (PL). A device for a greater awareness of the social impact of an enterprise's activities in a Muslim community should favour a VAS over the conventional PL. Accordingly, one would expect Muslims to perceive the VAS as being more useful for evaluating an enterprise with a view to supporting it, than non-Muslims.

The disclosure of current value information in the balance sheet and the provision of the VAS may be considered as satisfying, in part, the concepts of full disclosure and social accountability in Islam. In addition to this, the argument that there is a need for greater awareness of the social impact of the firm's activities in Islamic societies would necessitate detailed descriptions of externalities and trading practices harmful to the public to be disclosed in the Notes to the accounts.

Emphasis on Social Responsibility Issues

As is generally understood, the purpose of social responsibility accounting is primarily to determine the effects corporate actions have on the quality of life of society and hence the emphasis on accountability. On the basis of this, a reasonable conclusion one may reach at this point is that social responsibility accounting, as envisioned in the West, forms part of Islamic accounting. The primary objective may be similar but social responsibility accounting in Islam encompasses a broader perspective. The stress on social justice does not only refer to disclosure issues such as reporting on the environment, minority interests, employees and the like. As stated elsewhere in the article, in Islam, financial statements should enable a Muslim shareholder to determine the liability for zakat, a tool for income redistribution. Further, while issues pertaining to interest and unfair trading practices are not being considered as social issues (in the context of corporate reporting) from a Western perspective, in Islam these matters are specifically addressed in the Shari'a because of their potential to affect the well-being of the community.

"… social responsibility accounting is primarily to determine the effects corporate actions have on the quality of life of society and hence the emphasis on accountability."

What are some of the Activities that can be Categorised as Having the Possibility of Impairing Social and Economic Justice?

Provisions in the Shari'a that safeguard the wider interests of society include those concerning hoarding, price manipulation, fraud, exploitation and monopoly practices. Of particular importance is the hadith on the concealment of defects in goods. It was reported that the Prophet specifically indicated that it is not permissible to sell an article without making everything (about it) clear, nor is it permissible for anyone who knows (about its defects) to refrain from mentioning them. In the context of corporate reporting, what this implies is a more transparent disclosure policy and doing away with creative accounting. One would thus expect a firm following strictly the tenets of Islam in its conduct would disclose activities that would contribute to the impairment of social and economic justice.

Evidently, the scope of social responsibility accounting in Islam is wider. It would seem inconceivable that companies would disclose information on monopoly practices and the giving of bribes, voluntarily. However, if there is proper legislation and that enforcement of such mandatory disclosure is possible, this would act as a deterrent for a company to partake in such activities. Full disclosure in such cases would, perhaps, include the steps that would have to be taken to ensure that such activities are not continued, how the income (if any) from such activities is to be dealt with and why the company has undertaken such activities.

CONCLUSION

The article briefly examines the implications of Islamic ethics on corporate reporting. Specifically, it has been suggested that the emphasis on full disclosure and social accountability renders the VAS and the CVBS to be more relevant to Muslim users than the PL and the HCBS. However, this, in no way, suggests that Islam is against businesses making profits. In fact, one can argue that profits are encouraged for the primary reason that without it a firm would not be in a position to fulfil its social obligations satisfactorily. What Islam emphasises is that the pursuit of profits should not be at the expense of the community. Consequently, one would therefore envisage profit not to be the primary objective of Islamic businesses although profit remains an important objective of any business. Thus, exclusive emphasis on the "bottom line" profit would not be appropriate in Islamic accounting. This is in contrast with the modern capitalist economy where success is primarily measured in terms of profits.

Gambling and Karim (1991) argued that there is no necessity for specific social reporting if man adheres strictly to the Shari'a, because the Shari'a specifies the rights and duties of merchant and customer, employer and employee, and landlord and tenant. Accordingly, the need for supervision, control and legislation would be considerably lessened if each individual understands his responsibilities and carries out his duties in accordance with what is laid down in the Shari'a.

The following verses in the Qur'an would ultimately guide the accountant in discharging his/her accountability.

> O ye that believe! Betray not the trust of God and the Messenger, nor misappropriate knowingly things entrusted to you (8:27).
>
> And know ye that your possessions and your progeny are but a trial; and that it is God with whom lies your highest reward (8:28).

Hence, one may conclude that the responsibility of the accountant in an Islamic society is not limited to what is being laid down by management and the profession, but that compliance with the precepts of the Shari'a is also required.

Most importantly, one must bear in mind that the key to sound corporate reporting does not primarily rest on the books of accounting or the principles of accounts but with the ethical values of the accountant. Significance is attached for this purpose to reforming the inner person through faith, prayers, education and moral training; changing the individual's preferences and ways of thinking and inculcating a strong moral sense that keeps the individual just. In the final analysis, the 'social good' guides the accountant in the decision to disclose or not to disclose, thus reducing the risk of actions which will harm others.

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BANKS' RESPONSES TO REGULATORY CAPITAL REQUIREMENTS

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In 1988, bank regulators of major industrial countries agreed to standardise the capital requirements on banks. Subsequently, in October 1989, Malaysia adopted the risk-based capital standards set by the Basle Committee of the Bank for International Settlements (BIS) in order to strengthen domestic prudential regulation. Analysis of how Malaysian banks have responded to the risk-based capital adequacy requirements during the past several years is very crucial to determining future bank supervision policies in Malaysia. The purpose of this paper is to review and examine Malaysian banks' responses to the risk-based capital adequacy requirement.

The adoption of risk-based capital standards led to several issues. First, some banks may maintain higher capital ratios than as required by regulators and/or an increase in ratios are achieved by increasing capital or reducing lending. Second, the fixed capital standards is successful in limiting risk-taking by the banks relative to capital as intended, or whether banks are able to take actions to reduce their responsiveness either by shifting to riskier assets within the same weighting range or through capital arbitrage.

The remainder of this paper is organised as follows. **First**, a brief review on how the new capital adequacy regulations have been applied in Malaysia. **Second**, to examine the Malaysian banks' responses to these requirements.

Risk-based Capital Standards for Banking Systems

In 1986, US federal banking agencies first proposed the adoption of a risk-based capital measure that would take explicit account of the differences in risks among a banking organisation's assets and off-balance sheet items. The second major aim was to foster coordination among supervisory authorities from major industrial countries, and in 1987 new risk-based capital rules were proposed based on a joint US/UK agreement. The scope of the international effort was expanded further when the Basle Committee on Banking Regulations and Supervisory Practices modified and extended the US/UK agreement to set internationally consistent capital standards for 12 industrial countries.

In 1989, the Central Bank of Malaysia adopted their final risk-based capital guidelines based on the Basle Accord. For the banking system, the fully phased in risk-based capital requirements were in effect in October 1989. There are two components to risk-based capital — the measurement of qualifying capital and the determination of risk-weighted assets.

The Components of Qualifying Regulatory Capital.

The risk-based capital rules assign regulatory capital items into two tiers and limit capital counted as tier two capital to be no more than tier one capital. The first tier, **core capital**, comprises common stock and retained earnings, non-cumulative perpetual preferred stock and related surplus, minority interests in the equity accounts of subsidiaries that are fully consolidated, and qualifying non-withdrawal accounts and pledged deposits. A fundamental characteristic of core capital is that it can ab-

sorb losses while the issuer operates as a going concern. Because these capital instruments offer the greatest protection against losses, they can count fully toward a bank's capital requirement.

The second tier, **supplementary capital**, includes qualifying subordinated debt, cumulative perpetual preferred stock, capital certificates, non-withdrawal accounts and pledged deposits not included in core capital, and loan loss reserves in an amount not to exceed 1.32 per cent of risk-weighted assets. Supplementary capital items are considered a less stable protection against losses and, in the case of subordinated debt, do not absorb losses while the bank operates as a going concern. Thus, the sum of these items can count toward a bank's capital requirement only to the extent that supplementary capital does not exceed core capital.

Some assets are required to be deducted from capital. These include goodwill, other intangible assets that do not meet a qualitative three part test, investments in subsidiaries that are not consolidated for accounting or supervisory purposes, and some reciprocal holdings of capital instruments of banks. Goodwill is deducted directly from core capital, while other deductions are from total capital — the sum of core and the allowable amount of supplementary capital.

Procedures for Computing Risk-weighted Asset Classifications.

The second component of risk-based capital is the measurement of asset risk, which is accomplished by assigning assets and off-balance sheet activities to categories based on perceived risk, weighting the categories and summing the weighted categories to create total risk-weighted assets (TRWA). The four weights are 0, 10, 20, 50 and 100 per cent. A list of the most important items in these categories, can be seen in the Bank Negara Malaysia, *annual report 1989*.

The 100 per cent risk-weight applies to all assets not specifically identified as having above or below standard credit risk. The below standard credit risk weights are reserved for cash and assets unconditionally backed by the full faith and credit of the government and OECD countries (0 per cent); bonds issued by government (10 per cent); liquid assets having low perceived credit risk, such as Cagamas bonds; and well-collateralized assets with low to moderate perceived credit risk, such as housing loans (50 per cent). The 20 per cent categories are claims on or guaranteed by licensed financial institutions and banks incorporated in the OECD.

The notional value of off-balance sheet items are first converted to on-balance sheet 'credit equivalent' amounts and are then assigned the risk weights that would be applicable to the counter-party or underlying collateral. That is, the value of the commitment is multiplied by a conversion factor before risk weighting. Conversion factors range from 0 per cent, for unused commitments having an original maturity of one year or less or that are unconditionally cancellable and require separate credit decisions before each draw, to 100 per cent, for commitments such as financial guarantee-type standby letter of credit and recourse arrangements.

The risk-based capital standards require that banks hold tier one capital at least equal to four per cent of total risk-weighted assets and tier one plus tier two capital at least equal to eight per cent of total risk-weighted assets.

The focus of this paper is an effort to produce an assessment of the impact of capital requirement. Therefore, the discussion of this paper will be concentrated on the effects of capital requirements on :

(a) banks' balance sheet; and

(b) lending.

The Effects of capital requirements on banks' balance sheets.

The fact that the introduction of the Basle capital adequacy requirements is followed by an increase in bank capital ratios is insufficient evidence to conclude that they are the cause of this increase. It is possible that banks may be subjected to market pressure to increase their capital ratios over this period. Therefore, the question that needs to be addressed is "Do Capital requirements lead banks to increase their capital ratios? And by increasing the capital ratio, will the banks be able to reduce the probability to fail?". To reduce the probability to fail, banks may respond by changing cosmetically and effectively their capital ratios. The task needs to be answered by using simple descriptive statistics.

The effects of capital requirements on the lending.

A concern raised from time to time is that fixed minimum capital requirements can affect the real economy through reductions in lending when banks are capital constrained. In the US, in some periods, banks may cut back lending to achieve higher capital requirements or maintain existing requirements. The periods when banks are likely to be most capital constrained are those times when they are making substantial write-offs or provisions. These are also the periods when the demand for loans may be weak and/or when credit supply is reduced because of banks' concern that overall credit quality has deteriorated. Disentangling these effects can be difficult.

Several variables will be used to analyse the above effects, i.e. the components of risk-based capital, risk-based capital ratio, risk-weighted assets, and assets in different risk categories for all banks. The analysis is also designed to examine the following impacts : *First*, the decline in stock prices from July 1997 to February 1998. *Second*, some banks issue more subordinated debts than others. *Third*, the changes in the amount of lending. This could be the effect of credit crunch. Some banks may sell part of their loans to Danaharta and then, buy bonds issued by Danaharta and Danamodal. *Fourth*, to compare overall capital measures derived from the regulatory risk-based requirements before and after the financial crisis.

> **"Since the introduction of the Basle Accord in 1989, the risk-based capital ratios in Malaysia have increased significantly."**

The accounting data are compiled from the personnel collection and also from the internet (www.bnm.my — Tables III.4 and III.22). The data covers the period of 1990 to 2000 (June).

The Effects of Capital Requirements on Banks' Balance Sheet

Since the introduction of the Basle Accord in 1989, the risk-based capital ratios in Malaysia have increased significantly. *Table 1* gives the figures of risk weighted capital ratios (RWCR) from 1990 to June, 2000. The figures show an increasing trend with the industry average capital ratio rising from 10.6 per cent in 1990 to 12.4 per cent in 1993 and then declining to 10.3 per cent in 1997 and rising again to 12.8 per cent in June, 2000.

Beyond establishing whether the regulatory requirements have induced the banks to increase the capital ratios, one may ask how the rise in ratios is achieved? Banks can increase capital ratios either by increasing the numerator (the level of capital base) or by decreasing the denominator (total risk-weighted assets, TRWA). Risk-weighted assets can be decreased through a reduction in assets or through a shift from higher to lower weighted assets and/or capital arbitrage practices such as securitisation.

TABLE 1

CAPITAL RATIOS AND GROWTH RATE OF LOANS, ASSETS AND OFF-BALANCE SHEET ITEMS

Year	RWCR capital ratio	Core assets (%)	Loans/ growth (%)	Assets growth (%)	Loans sheet growth (%)	Off-balance
1990	10.6	7.9	62.5	–	–	–
1991	10.5	8.7	64.0	17.5	20.4	–
1992	11.6	9.5	60.8	14.4	8.8	4.8
1993	12.4	9.2	52.8	27.9	10.9	– 1.2
1994	11.3	10.3	56.1	7.6	14.4	31.6
1995	11.1	10.0	59.9	22.1	30.5	9.5
1996	10.8	9.3	60.8	22.5	24.5	11.1
1997	10.3	9.0	57.4	34.4	26.8	32.3
1998	11.6	9.5	63.4	– 5.3	4.7	– 29.8
1999	12.5	10.4	59.6	4.2	– 2.0	– 18.0
2000	12.8	10.8	58.9	3.4	2.1	– 16.1
Average	11.4	9.5	59.6	13.5	12.8	2.4
Avg. 90-96	11.2	9.3	59.5	18.7	18.2	11.1
Avg. 98-00	12.3	10.2	60.6	0.8	1.6	– 21.3

Table 1 summarises how banks raised their capital ratios from 1990 to June 2000 and before and after the financial crisis. The fact that the introduction of the capital requirements was followed by an increase in bank capital ratios was normal. The risk-adjusted capital ratio of all commercial banks in the study period increased from 10.6 per cent at the end of 1990 to 12.8 per cent at the end of June 2000 (*Table 1*). This increase was due to the fact that capital increased by 18.4 per cent on a yearly average basis, while risk-weighted assets registered an increase of 17.1 per cent (*Table 2*). The commercial banks had some difficulties in raising tier one capital, which began to deteriorate in 1998 and

1999 *(Table 2)*. On the other hand, Malaysian banks' assets registered rapid growth in 1993, 1995, 1996 and 1997, because they did not strengthen their credit evaluation criteria, despite the adoption of risk-weighted capital adequacy requirements, and simply followed the traditional stance of supporting the growth of the real sector and capital market.

Cosmetic Responses to Capital Requirements.

Banks can make major cosmetic changes in their capital adequacy ratios that actually increase their risk exposure. In order to find out whether Malaysian banks made these kinds of change, we look at changes in the composition of risky assets.

Risky assets. Claims on discount houses and claims on or guaranteed by Cagamas Berhad are classified as components to which a 10 per cent risk-weight is applied. The ratio of risky assets with 20 per cent risk weights to total risky assets, as shown in *Table 4*, only increased from 1.1 per cent to 2.7 per cent during the same period. This fact implied that claims to these categories did not play an important role in risky asset portfolios.

From 1990 to June 2000, the ratio of risk-weighted assets increased by more than that of total assets *(column 7, Table 4)*. Risk-weighted assets increased by 18.4 per cent on a yearly basis, while total assets increased by 17.1 per cent during the same period. This suggests that Malaysian banks were unable to limit the increase in their risk-weighted assets below that of total assets *(Table 2)*.

The composition ratio of risk-weighted assets of all Malaysian banks changed little from the period of 1990 to 1999 *(Table 4, columns 2-6)*. The composition ratio of risky assets with 100 per cent risk weight to total risky assets was 53.8 per cent at the end of 1990 and 53.4 per cent at the end of June 2000. On the other hand, the composition ratio of less-risky assets increased slightly. The ratio of risky assets with 0 per cent and 50 per cent risk weight to total risky assets increased from 17.2 per cent to 18.6 per cent and 9.3 per cent to 10.9 per cent during the same period, respectively. This suggests that banks intentionally reduce their risky assets with 100 per cent risk weights in order to make cosmetic changes in their capital adequacy ratios.

TABLE 2

GROWTH RATE OF CAPITAL BASE, TOTAL RISK WEIGHTED ASSETS, COMPONENTS OF CAPITAL

Year	Capital base	Total risk weighted assets	Tier one	Tier two	Deduction
1990					
1991	24.4	60.6	–	–	–
1992	21.9	11.9	–	–	–
1993	24.3	21.1	–	–	–
1994	15.0	12.2	–	–	–
1995	29.7	19.3	26.5	33.2	12.4
1996	25.7	20.2	20.6	51.4	27.1
1997	31.4	34.0	28.3	40.2	25.2
1998	6.1	– 9.9	3.6	15.1	5.9
1999	2.5	1.0	1.7	5.9	4.8
2000	3.2	1.1	8.6	– 5.6	21.9
Average	18.4	17.1	14.9	23.4	16.2
avg. 1990-96	23.5	24.2	23.5	42.3	19.7
avg. 1998-00	3.9	– 2.6	4.6	5.1	10.9

Before and after crisis. However, changes in risky assets showed different patterns in the case of before the financial crisis, which are much larger than after the financial crisis. Before the crisis, risk-weighted assets increased by more than did total assets. While total assets increased by 18.7 per cent from 1990 to 1996 *(Table 1)*, risk-weighted assets registered 24.2 per cent increase on a yearly average basis for the same period (*Table 2*). On the other hand, after the crisis (1998-June, 2000), the rate of total assets surpassed that of risk-weighted assets during the same period. Risk-weighted assets declined by 2.6 per cent on a yearly average basis, while total assets increased by 0.8 per cent during the same period.

The composition ratio of risky assets exhibited the same pattern (*Table 4*). Before the crisis, the composition ratio of risky assets with 100 per cent risk weight was 54.0 per cent as of the end of 1996, little changed from the level of 53.8 per cent at the end of 1990. However, after the crisis, the composition ratio of risky asset with 100 per cent risk weight declined from 58.2 per cent in 1998 to 53.8 in 1999 and then declined further to 53.4 per cent in June 2000.

These facts also show that commercial banks in Malaysia increased their risk exposure somewhat from 1990 to 1996. However, it is not certain whether, after the crisis, banks tried to make cosmetic changes in their capital ratios by reducing risk exposure intentionally. Because the initial level of capital ratios was much higher than the minimum level of 8 per cent, banks might not have paid as much attention to their risk exposure as after the financial crisis.

It may be appropriate to supplement risk based capital requirements with leverage restrictions when equity is constrained. Off-balance-sheet items are relevant to the issue of how banks responded to higher capital levels, because risk-weighted capital standards incorporate off-balance-sheet items. A popular explanation for the remarkable growth in banks' off-balance-sheet activities is the avoidance of capital adequacy requirements. Stylised facts related to this issue are presented below.

In the case of Malaysian banks, on-balance sheet risk-weighted assets increased by 17.1 per cent from 1990 to June 2000 on a yearly average basis. On the other hand, off-balance-sheet risk-weighted assets recorded an increase of 2.4 per cent during the same period. The increase in the off-balance-sheet activities, especially before 1997, was partly due to the increasing rate of issuing letters of credit. These facts imply that Malaysian banks utilised off-balance-sheet activities intentionally in order to make cosmetic adjustment of capital ratios.

If banks refuse or delay recognising reductions in the value of assets, they can also make cosmetic adjustments in capital ratios. For example, if a bank intentionally delays writing off its bad loans or delays the recognition of securities revaluation losses, it can maintain its earnings and prevent its capital ratio from deteriorating.

In the case of Malaysian banks, the ratio of credits written off to total credits stood at 20.1 per cent in 1990, but declined to 3.6 per cent in 1996. This fact implies that Malaysian banks resorted to cosmetic adjustments of their capital ratios by delaying the writing off of bad loans. The level of provisions for loan losses can also affect the capital ratio of a bank. Periodic additions to loan loss reserves, by means of loan loss provisioning, are charged against current earnings. If a bank sets up loan loss provisions, its net income declines and, as a result, retained earnings also decrease.

The level of retained earnings affects the capital ratio of a bank directly. Under risk-based capital regulation, loan loss reserves are not counted as Tier 1 capital, but are counted only as Tier 2 capital up to 1.5 per cent of the bank's weighted risk assets. Hence, from the perspective of meeting regulatory capital requirements, it is much more effective to allocate income to retained earnings, which are counted as Tier 1 capital than to allocate it to loan loss reserves. If a bank fails to set up loan loss provisions sufficient to cover the expected decline in real economic value of credits, the result is equivalent to a cosmetic adjustment in its capital ratio.

Under regulations issued by the central bank of Malaysia, each bank must set up provisions for loan losses at the end of each fiscal year, consisting of 1.5 per cent of general provision, 50 per cent of doubtful loans, and 100 per cent of bad loans, in line with the four-fold classification of the status of loan. The average ratio of provisions for loan losses to total expected loan losses of Malaysian banks stood at 79.5 per cent for the period of 1990-1996.

" … if a bank intentionally delays writing off its bad loans or delays the recognition of securities revaluation losses, it can maintain its earnings and prevent its capital ratio from deteriorating."

Effective Increases in Capital

The most direct way for a bank to raise its capital adequacy ratio is to increase its capital. The total capital of Malaysian banks grew by 18.4 per cent on a yearly average basis from 1990 to June 2000. And, the increase in capital was more than that of risky assets, which exhibited an increase of 17.1 per cent during the same period (*Table 2*). Among total capital, core capital increased by 14.9 per cent on a yearly average basis, while supplementary capital rose by 23.4 per cent. The increase in both capitals was offset by an increase of 16.2 per cent of total deductions.

Due to the financial crisis since July 1997, Malaysian banks had difficulty in raising capital from the domestic market. Therefore, the Malaysian banks are expected to issue depository receipts in major international financial markets to increase core capital. However, due to the weak dollar against the Malaysian ringgit and the continued sluggish stock market in Malaysia, Malaysian banks encountered difficulty in issuing large amount of depository receipts. In terms of composition of capital, the average ratio of core capital to total capital was 92.04 per cent for the periods of 1994-1996, which was slightly above the 85.6 per cent for the periods of 1998-June, 2000 (*Table 3*).

The ratio of core capital to total capital in the case of Malaysian banks exceeds that of supplementary capital, which for the periods 1994-1996 was 92.0 per cent as compared to 20.2 per cent. Malaysian banks have no room to increase their supplementary capital by issuing more subordinated debts or allocating more provisions. Therefore, after the crisis, Malaysian banks were forced to reduce the supplementary capital from 26.6 per cent in 1998 to 25.1 per cent in June 2000.

Banks can also increase their capital ratios by reducing their volume of loans. For example, they can sell off loans or convert loans to securities, which have a lower risk-weight in calculating capital ratios. In the case of Malaysian banks, loans did not decline between 1990 and June 2000. To the contrary, total loans growth increased by 18.2 per cent on a yearly average basis for the periods 1990-1996 (*Table 1)* and then, declined to 1.6 per cent for the periods 1998-June, 2000. Assets with a 100 per cent risk-weight increased by 49.5 per cent.

TABLE 3

COMPOSITION OF EACH COMPONENT OF BANK CAPITAL

Year	Tier one (%)	Tier two (%)	Total capital (%)	Deduction (%)	Capital base (%)
1990	–	–	–	–	–
1991	–	–	–	–	–
1992	–	–	–	–	–
1993	–	–	–	–	–
1994	94.8	18.6	113.4	13.4	100.0
1995	92.5	19.1	111.6	11.6	100.0
1996	88.7	23.0	111.7	11.7	100.0
1997	86.6	24.5	111.2	11.2	100.0
1998	84.6	26.6	111.1	11.1	100.0
1999	83.9	27.5	111.4	11.4	100.0
2000	88.3	25.1	113.5	13.5	100.0
Average	88.5	23.5	112.0	12.0	100.0
Avg. 1994-96	92.0	20.2	112.2	12.2	100.0
Avg. 1998-00	85.6	26.4	112.0	12.0	100.0

Loans with a 50 per cent risk-weight also rose by only 8.4 per cent, and loans extended to other domestic financial institutions for which 20 per cent risk-weight is applied increased by 23.4 per cent during the same period. Total loans growth exceeded that of capital base, which rose at 49.5 per cent.

In Malaysia, it is not easy for banks to reduce their loan portfolio by selling off existing loans because the loan sale market is not well developed. Because market interest rates are usually higher than the lending rates of commercial banks, banks have considerable difficulty in finding buyers of loans. It is also difficult for Malaysian commercial banks to reduce their loan levels by curbing credit to corporations because commercial banks play an important role as financial intermediaries in the Malaysian financial market. This explains why Malaysian banks did not reduce extensively loan portfolios in order to increase capital ratios, except after the crisis, where commercial banks sold to Danaharta. Thus, the composition of 100 per cent category declined from 58.2 per cent in 1998 to 53.4 per cent in June 2000.

Banks can also effectively increase capital ratios by increasing securities investments, which have lower risk-weight. Investments in securities by Malaysian banks increased by only 2.3 per cent on a yearly basis from 1990 to June 2000. This per centage is considered low due to the undeveloped bond market. This indicates that the increase in securities investments did not improve capital ratios during the past eleven years.

TABLE 4

COMPOSITION OF RISK WEIGHTED ASSETS

Year	0%	10%	20%	50%	100%	TRWA/ Total assets
1990	17.2	1.1	18.6	9.3	53.8	97.7
1991	11.5	1.0	38.7	6.7	42.1	133.5
1992	15.0	1.3	35.2	7.3	41.2	130.7
1993	23.0	1.2	28.9	7.6	39.3	123.7
1994	17.8	2.0	28.0	7.7	44.4	129.0
1995	15.4	2.1	25.0	7.9	49.6	126.0
1996	13.3	3.3	21.9	7.6	54.0	123.5
1997	16.0	3.9	16.7	8.1	55.3	123.2
1998	13.5	3.6	15.4	9.3	58.2	117.2
1999	18.7	3.0	14.2	10.3	53.8	113.5
2000	18.6	2.7	14.4	10.9	53.4	111.0
Average	16.4	2.3	23.4	8.4	49.5	120.8
Avg. 90-96	16.2	1.7	28.0	7.7	46.3	123.4
Avg. 98-00	16.9	3.1	14.7	10.2	55.1	113.9

CONCLUSION

The timely implementation of prudential supervision is essential to maintain the financial health of the banking industry as well as the sound management of individual institutions. Among various prudential supervisory measures, the most important initiative to control credit risk has been the implementation of minimum capital adequacy standards. The direction, size, and composition of banks' portfolios or capital in response to binding capital requirements are crucial in formulating prudential supervision policies and promoting macroeconomic stability. In this paper, Malaysian banks' responses to the strengthening of capital adequacy requirements were analysed from the viewpoint of distinguishing between cosmetic and effective responses. The data suggests that Malaysian banks on the whole did not utilise cosmetic adjustments much to increase capital ratios during the 1990-June, 2000 period. They did not intentionally increase their risky assets with 100 per cent risk-weight, utilise off-balance-sheet activities, or resort much to capital gains from selling securities to increase their capital ratios. They also did not utilise much revaluation reserves to boost capital ratios, in part because a sluggish stock market limited their ability to manipulate securities revaluation gains. In addition, Malaysian banks also speeded up the writing-off of bad loans. The regulations on provisions of loan losses were strengthened during the period. It is also not evident that Malaysian banks made substantial cosmetic adjustments in their capital ratios by delaying the set-up of loan loss provisions or postponing the writing off of bad loans.

The results also identified that the banks' efforts to borrow subordinated debts to increase supplementary capital, which was considerably less than core capital. Although, in principle, banks can increase capital ratios by shrinking their loan portfolios, Malaysian banks were limited in their ability to do so because the domestic loan sale market was not well developed. Moreover, loan increases continued because banks did not strengthen their credit evaluation criteria and chose to follow the traditional stance of supporting the expansion of business corporations. If they could have reduced loans through tougher credit criteria, they might have effectively improved their capital ratios and maintained better international credit-worthiness.

In conclusion, Malaysian banks' response to the strengthened capital requirement generally involved efforts to increase effective capital, although some cosmetic adjustment might have been undertaken. The interpretation of these findings has some limitations because of the relatively short observation period and should be extended to include the individual institutions. Therefore, further empirical analysis using a longer observation period and a bigger sample are desirable. Although regulators cannot prevent all cosmetic changes to capital ratios, they should be able to adjust regulatory requirements to prevent banks from gaining material benefits through cosmetic changes. In the case of Malaysian banks, cosmetic changes to equity can be partially eliminated by requiring mark-to-market accounting for securities.

THE MECHANICS OF FRAUD IN FORENSIC ACCOUNTING

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For 13 years, Teo Cheng Kiat, a cabin-crew supervisor of Singapore Airlines, amassed S$35m (RM77.5m) into his bank account. His was consumed by bitterness when his employers did not promote him simply because he did not have a 'degree'. Despite serving the company loyally for several years, revenge got the better of him and he turned to greed. On 17 January 2000, he faced the gutters and was sent to jail for 24 years.

A little more on the homefront, credit card fraud has been one of our biggest fraud cases in Malaysia. Many of us have heard, or have become victims ourselves in having our credit card bill sent to us with debts we have no knowledge of? We also often read of plights of individuals supposedly owing thousands to finance companies for facilities never applied for.

All in all, fraud is not new in our society. In the past few years, the number of fraud cases in the Asia Pacific region has increased alarmingly. Ironically, the number of fraud cases brought to court is few. As quiet as a thief who lurks at night, fraud takes place just as silently until we ourselves take measures to check it.

In fact, most of us are guilty of fraud. Have we been guilty of 'accidentally' pinching office stationery? Not counting the number of pencils, erasers or paper clips we have snitched from our drawers?

In a recent seminar organised by MIA, we invited Ranjit Singh a Director in KPMA Peat Marwick, to present a one-day seminar on Forensic Accounting. He introduced us to various areas such as types of fraud, steps in detecting and gathering evidence, the presentation of evidence and giving evidence as an expert witness. One significant fact which he highlighted throughout the seminar is that Malaysians hesitate to report the existence of fraud in their workplace for various reasons. One reason is that, most employers do not want to spend large amounts of money on the cost involved. This includes legal fees, investigation and hiring an expert witness. Secondly, the image of the company may be jeopardised when the matter is made known in public. The impending thought of portraying a weak internal control in the company is hardly a form of proactive advertising. Thirdly, employees caught and found guilty are usually subjected to mere resignation and payment of the amount taken.

A report to the Nation On Occupational Fraud and Abuse by the *Association of Certified Fraud Examiners* showed that average costs of fraud to an employer amounted to US$9 (RM22.80) a day per employee. Of this, smaller organisations were likely to be the most vulnerable to occupational fraud and abuse. Perhaps this could be a warning to start thinking about our internal controls in the office.

Generally, fraud can be categorised into three types, asset misappropriation, fraudulent statements and bribery/corruption. On 17 August 2000, an article appeared in *The Times* (London) titled "The Audit of Audits". The Auditing Practices Board found that most frauds involved top management, mainly directors and senior managers often in collusion to avoid detection. One probable reason for this is top management's access to confidential files.

As responsible employers, there are many ways in which we can avoid fraud. Study the environment in your workplace. What avenues do your employees have to cart away your loot? Are there controls to monitor what they can or cannot do? Most importantly, is there only one person in your organisation who controls, has influence, and overrides the payment system? Some of the common types of fraud are false invoicing, false expense claims, financial statements manipulation and theft of fixed assets and stock.

In cases when the management suspects that a fraud exists, there are several options we can take. First, we can engage a forensic accountant to investigate the matter. In an investigation, one of the objectives is to strengthen the internal controls of the organisation. Systems where there are possibilities of fraud can be ironed out. Another objective may be to recover stolen property, as in the case of SIA where investigators are in the midst of recovering most of the assets purchased. In a large company, where controls are scarce, the discovery of fraud can be embarrassing. More often than not, when this occurs, the investigation can serve as a reminder or warning to employees that this behaviour is unacceptable.

After the evidence is gathered, the management now has the option to make a police report. As legal proceedings take place, matters are now in the hands of the authorities and sometimes, when it is brought to court, the forensic accountant will be called in as an expert witness to testify in areas relating to the case.

The intensity of such cases appearing in court and in the public eye affects many. The company, the management, the staff, the fraudster and families of these people. If organisations do not tighten their belts and strengthen their systems, who is to blame? Going back to the case of the S$35 million dollar man, apparently in the course of his work, he had pointed out the flaws in SIA's payment system to his superiors but his concerns were brushed aside. This said Ranjit Singh is a reflection of Asian society's lack of understanding or plain ignorance.

Although it may seem inconceivably petty, to those who have *fraudulently* helped themselves to large sums of money, learn from Teo. Do we really want to be highlighted in our daily newspapers with our faces plonked on the front page being accused of siphoning money out of your employer's bank account?

GLOBAL COMPETITIVENESS

BY MIA ECONOMIC RESEARCH TEAM

A column to provide accountants with a macro snapshot on the major economic and financial developments and to alert accountants on leading edge issues that are crucial to their operations.

Companies compete; so do nations. Put in another way, competition can be viewed at both the micro and macro levels.

But how do we measure their performances?

The World Economic Forum (WEF) provides a clue, and its findings on international competitiveness will provide useful and important insights for political and business decision-makers.

In this issue, our MIA Economic Research team reports highlights of some of WEF's results, based largely on *The Global Competitiveness Report 1999*.

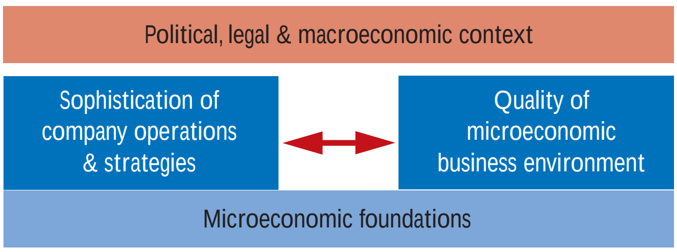
Table 1 shows the Growth Competitiveness Ranking as well as the Competitiveness Ranking, while Tables 2 and 3 look at the economic growth and market growth respectively based on the Competitiveness Index.

> **"Many of the world's most dynamic economies suffered a downturn in the past two years. But the Competitiveness Index once again underlines the importance of separating the long-term underpinnings of growth from short-term factors."**
>
> *GCR 1999*

As indicated in Figure 1, political and legal framework, and macroeconomic policies set the context in determining productivity and productivity growth. These, in turn, depend on ways and means to improve a nation's capabilities at the microeconomic level *viz*. sophistication of company strategies and operations, and the quality of

FIGURE 1

Determinants of Productivity and Productivity Growth



Note: All tables and figures in this write-up were obtained from *The Global Competitiveness Report 1999*, World Economic Forum, except for the Growth Competitiveness Ranking 2000 in Table 1 (see sidebar entitled *The Global Competitiveness Report 2000*).

TABLE 1 Growth Competitiveness Ranking and Competitiveness Ranking

	Growth Competitiveness Ranking	Competitiveness Ranking	
	2000	1999	1998
United States	1	2	3
Singapore	2	1	1
Luxembourg	3	7	10
Netherlands	4	9	7
Ireland	5	10	11
Finland	6	11	15
Canada	7	5	5
Hong Kong SAR	8	3	2
United Kingdom	9	8	4
Switzerland	10	6	8
Taiwan	11	4	6
Australia	12	12	14
Sweden	13	19	23
Denmark	14	17	16
Germany	15	25	24
Norway	16	15	9
Belgium	17	24	27
Austria	18	20	20
Israel	19	28	29
New Zealand	20	13	13
Japan	21	14	12
France	22	23	22
Portugal	23	27	26
Iceland	24	18	30
Malaysia	25	16	17
Hungary	26	38	43
Spain	27	26	25
Chile	28	21	18
Korea	29	22	19
Italy	30	35	41
Thailand	31	30	21
Czech Republic	32	39	35
South Africa	33	47	42
Greece	34	41	44
Poland	35	43	49
Mauritius	36	29	n.a.
Philippines	37	33	33
Costa Rica	38	34	n.a.
Slovak Republic	39	45	48
Turkey	40	44	40
China	41	32	28
Egypt	42	49	38
Mexico	43	31	32
Indonesia	44	37	31
Argentina	45	42	36
Brazil	46	51	46
Jordan	47	40	34
Peru	48	36	37
India	49	52	50
El Salvador	50	46	n.a.
Bolivia	51	55	n.a.
Colombia	52	54	47
Vietnam	53	48	39
Venezuela	54	50	45
Russia	55	59	52
Zimbabwe	56	57	51
Ukraine	57	58	53
Bulgaria	58	56	n.a.
Ecuador	59	53	n.a.

n.a. — not available.

TABLE 2

Growth Projections (2000-2008)

Rank		Annual GDP Growth per capita (%)
1	Singapore	5.02
2	Taiwan	4.29
3	Malaysia	4.19
4	Hong Kong SAR	4.13
5	United States	4.07
6	Canada	4.03
7	Ireland	3.91
8	United Kingdom	3.88
9	New Zealand	3.86
10	Finland	3.81
11	Indonesia	3.78
12	Switzerland	3.74
13	Netherlands	3.73
14	Philippines	3.65
15	Australia	3.64
16	Vietnam	3.62
17	China	3.59
18	Chile	3.54
19	Japan	3.50
20	Jordan	3.36
21	Korea	3.35
22	Peru	3.34
23	Thailand	3.33
24	El Salvador	3.31
25	Norway	3.31
26	Luxembourg	3.25
27	Denmark	3.25
28	Egypt	3.06
29	Sweden	3.04
30	India	2.96
31	Spain	2.91
32	Costa Rica	2.88
33	Austria	2.87
34	Mexico	2.84
35	Iceland	2.83
36	Mauritius	2.82
37	Portugal	2.75
38	Hungary	2.69
39	France	2.67
40	Germany	2.62
41	Belgium	2.57
42	Israel	2.49
43	Poland	2.36
44	Turkey	2.36
45	South Africa	2.26
46	Czech Republic	2.20
47	Bolivia	2.11
48	Slovakia	2.08
49	Zimbabwe	2.05
50	Argentina	1.92
51	Ecuador	1.76
52	Ukraine	1.75
53	Greece	1.69
54	Brazil	1.69
55	Bulgaria	1.68
56	Italy	1.57
57	Venezuela	1.47
58	Colombia	1.17
59	Russia	0.91

TABLE 3

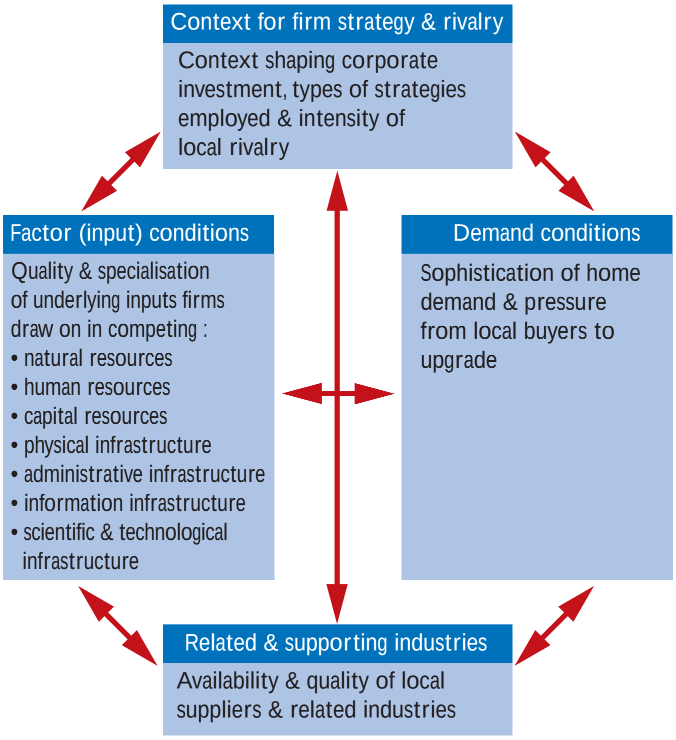
Market Growth Index (1999)

Rank		Growth (US$ billion)
1	United States	346.01
2	Japan	132.44
3	Germany	56.02
4	United Kingdom	53.78
5	France	38.26
6	China	34.54
7	Canada	24.11
8	Italy	18.28
9	Spain	16.11
10	Netherlands	14.06
11	Australia	13.24
12	India	12.37
13	Mexico	12.07
14	Taiwan	11.16
15	Korea	10.34
16	Switzerland	9.84
17	Brazil	9.45
18	Sweden	6.90
19	Hong Kong SAR	6.87
20	Argentina	6.52
21	Belgium	6.44
22	Austria	6.08
23	Denmark	5.66
24	Norway	4.82
25	Finland	4.77
26	Turkey	4.63
27	Singapore	4.24
28	Thailand	3.90
29	Poland	3.53
30	Indonesia	3.39
31	Ireland	3.05
32	Portugal	2.95
33	Malaysia	2.83
34	South Africa	2.63
35	Chile	2.63
36	Russia	2.57
37	Egypt	2.50
38	Israel	2.46
39	Philippines	2.36
40	Peru	2.14
41	Greece	2.04
42	New Zealand	2.03
43	Venezuela	1.39
44	Hungary	1.28
45	Czech Republic	1.23
46	Colombia	1.06
47	Vietnam	0.90
48	Ukraine	0.75
49	Luxembourg	0.54
50	Slovakia	0.42
51	El Salvador	0.40
52	Ecuador	0.34
53	Costa Rica	0.30
54	Jordan	0.25
55	Iceland	0.24
56	Bulgaria	0.21
57	Bolivia	0.18
58	Zimbabwe	0.13
59	Mauritius	0.11

the microeconomic business environment. Figure 2 depicts each of the four interrelated factors influencing the microeconomic business environment.

FIGURE 2

Microeconomic Business Environment



Overall, WEF's findings again provide firm support for the link between microeconomic conditions and economic performance. Although there may be some natural tendency for some microeconomic conditions to improve as Gross Domestic Product (GDP) per capita grows, such improvement appears to be far from automatic. "In all areas, the rate of microeconomic improvement can be affected markedly by purposeful action in both government and private sector," WEF noted.

Developed countries which experienced marked improvement in their overall MICI or micro rankings include Sweden, Switzerland, Austria, Japan and Belgium, while developing countries improving their micro rankings include Portugal, Mexico, Poland and Zimbabwe (Table 4).

WEF's research showed that while each of the improving countries is different, there are some striking similarities. In particular, financial markets are becoming more sophisticated, competition is rising, openness is growing, information is becoming more available, and technological infrastructure is improving. These countries' companies are becoming more regional and international, and senior management recruiting is increasingly targeting professionals instead of family members.

In contrast, countries experiencing an erosion of position are those where bureaucratic red tape is increasing, innovative and technological capability is losing ground, vitality of competition and antitrust effectiveness is weakening, communications costs are rising, stock market access is worsening, and breadth of international markets is diminishing.

TABLE 4

Microeconomic Competitiveness Index (MICI)

	Overall MICI Ranking		Company Ranking		Business Environment Ranking	
	1999	1998	1999	1998	1999	1998
United States	1	1	1	2	1	1
Finland	2	2	7	8	2	2
Netherlands	3	3	8	5	3	4
Sweden	4	7	3	4	7	9
Switzerland	5	9	2	3	9	10
Germany	6	4	5	1	5	8
Denmark	7	8	9	10	6	7
Canada	8	6	12	15	4	3
France	9	11	6	6	11	13
United Kingdom	10	5	13	9	8	5
Austria	11	16	10	11	13	17
Singapore	12	10	14	12	12	6
Australia	13	15	19	22	10	12
Japan	14	18	4	7	19	19
Belgium	15	19	11	13	15	18
New Zealand	16	17	16	19	14	16
Ireland	17	13	20	18	17	14
Norway	18	14	23	14	16	15
Taiwan	19	20	17	16	22	21
Israel	20	21	18	21	20	20
Hong Kong SAR	21	12	24	17	18	11
Iceland	22	24	21	28	21	23
Spain	23	22	22	23	23	22
Chile	24	23	26	25	24	24
Italy	25	26	15	20	27	27
South Africa	26	25	28	33	25	25
Malaysia	27	27	25	34	31	26
Korea	28	28	27	24	30	28
Portugal	29	33	37	48	26	30
Mauritius	30	–	29	–	29	–
Turkey	31	29	33	26	32	29
Jordan	32	32	44	42	28	32
Hungary	33	31	36	39	33	31
Mexico	34	39	30	29	35	41
Brazil	35	35	32	27	37	39
Greece	36	38	45	32	34	38
Poland	37	41	38	38	38	40
Costa Rica	38	–	35	–	41	–
Thailand	39	37	43	37	39	36
Argentina	40	34	39	30	40	34
Czech Republic	41	30	55	31	36	33
India	42	44	48	50	43	42
Egypt	43	40	49	47	42	35
Philippines	44	45	34	41	46	45
Zimbabwe	45	48	54	46	45	48
Peru	46	47	56	49	44	46
El Salvador	47	–	46	–	48	–
Slovakia	48	36	51	40	47	37
China	49	42	31	35	50	44
Vietnam	50	43	41	36	49	43
Venezuela	51	50	53	44	51	50
Colombia	52	49	40	43	53	49
Indonesia	53	51	47	52	52	51
Bulgaria	54	–	52	–	54	–
Russia	55	46	42	45	55	47
Ukraine	56	52	50	51	56	52
Ecuador	57	–	57	–	57	–
Bolivia	58	–	58	–	58	–

THE GLOBAL COMPETITIVENESS REPORT 2000

The Global Competitiveness Report 2000, is a further refinement of the WEF's comprehensive appraisal of economic performance in an increasingly complex global economy. The Growth Competitiveness Ranking 2000 (see Table 1) is largely comparable to its 1998-99 Competitiveness Ranking. The revised index aims at measuring the factors that contribute to the future growth of an economy, measured as the rate of change of GDP per person. These factors explain why some countries are improving their prosperity faster than others.

The Current Competitiveness Index Ranking aims at identifying the factors that underpin high current productivity, and hence current economic performance, measured by the level of GDP per person. These factors explain why some countries can sustain a higher level of prosperity than others. This index builds on the WEF's Microeconomic Competitiveness Index introduced in its 1998 and 1999 Reports.

The two dimensions of competitiveness are related because they focus on the conditions supporting productivity, albeit over different time horizons. In previous Reports, the emphasis was on Growth Competitiveness, with competitiveness being defined as "the set of institutions and economic policies supportive of high rates of economic growth in the medium-term." The Current Competitiveness Index provides an understanding of the determinants of prosperity at any point in time, which WEF regards as equally important as understanding the growth drivers. The two indices together provide a more revealing picture than either one alone.

Among other things, a new Economic Creativity Index was also introduced in the GCR 2000, which focuses on the technology aspect.

"Nations can link themselves to the global technology engine by being centres of innovation themselves, or by facilitating technology transfer and rapid diffusion of innovation. Both innovative countries and technology-transfer countries have been successful in the 1990s," WEF said. There is also evidence that a healthy environment for new enterprise growth, both in terms of venture capital availability in financial capitals and the lack of administrative barriers, facilitates innovation and the diffusion of innovations, it added.

Note : For further information on *The Global Competitiveness Report 2000*, contact Maude Lichtenstern, Co-ordinator, Public Affairs via e-mail : maude.lichtenstern@weforum.org or you may place your order through Koperasi Kedai Buku Universiti Malaya Bhd (tel : 03-7956 5000). The above extract, as well as the Growth Competitiveness Ranking 2000 in Table 1, were obtained from the following website : http://www.weforum.org

SNIPPETS AROUND THE GLOBE

On the Future of the Accounting Profession

US regulators and the auditing profession are engaged in a bitter battle over alleged conflicts of interest among the big accounting firms. In mid-September 2000, leading figures from the financial services world met in New York to judge which is the best of two possibilities for the future of the accounting profession.

One is the Securities and Exchange Commission's (SEC) austere preference for firms that offer their clients audits and little else. The second is the profession's desire to provide services ranging from information technology outsourcing to corporate finance.

The profession is concerned about the SEC's plan which could mean paring back some profitable and high growth areas, and outlawing the provision of corporate finance advice. Even tax advice, a traditional staple for the accounting industry, does not escape the regulator's scrutiny.

The profession is equally concerned about a plan for stricter rules governing the relationships firms are allowed to have with companies. Accountants argued that the new regulations would prohibit them from entering many strategic alliances or joint ventures.

The accounting firms are lobbying for the SEC to take a less prescriptive approach to regulation. The profession favours a model based on principles and full disclosure, in line with the European approach to auditor independence.

There is a potential for compromise. Lynn Turner, SEC's chief accountant, has said publicly that he is interested in the disclosure-based model used in Britain. Disclosure is one of many contentious issues that the SEC and the profession will fight over during the next few months. Both sides claim they enjoy the support of investors and companies.

Meanwhile, in a later development, PwC and Ernst & Young broke ranks with their rivals (KPMG, Deloitte Touche Tohmatsu and Arthur Andersen) over the issue of auditor independence, proposing a rule that would force accounting firms to sell their accounting businesses. The SEC has been pushing for a similar rule for months. The three firms have insisted that the consulting arms enable them to perform more accurate audits, since they can draw on the expertise of computer and systems consultants to better understand their clients' businesses. But Phil Laskawy Chairman of Ernst & Young said its accounting practice had not been hurt by hiving off the consulting business. "We have not discovered that we are now somehow enfeebled, unable to perform effective audits or to maintain a top-notch audit and tax practice," he said.

Excerpt from *Financial Times*, 13 & 21 September 2000

SNIPPETS AROUND THE GLOBE (cont'd**)**

On E-money

In January 2000, Harvard University's Benjamin Friedman argued that central banks can control short-term interest rates because they are monopoly suppliers of 'base money' (currency, plus deposits by banks at the central bank). If technology eliminates both kinds of base money, the central bank would no longer have the fulcrum it currently uses to change interest rates.

But several economists who examined Friedman's idea declared it wrong. Charles Goodheart of the London School of Economics provided the clearest arguments :

■ E-money is unlikely to retire ordinary currency in the foreseeable future. The great advantages of currency are simplicity and anonymity. Even if the first is eroded by technology, the second will remain. Anonymity in transactions is something that buyers and sellers often want. Forms of e-money might be technologically capable of providing anonymity, but they would still rely on trust between the parties. Cash leaves no tracks, and makes no demands on anybody else's integrity.

■ With regard to the demand for banks' deposits at the central bank, banks are no more likely to disappear than currency. Specialised financial intermediaries will always be needed to help people and firms choose their asset portfolios, and to distinguish between good and bad credit risks.

Goodheart argued that, even in a world without currency or banks, a central bank would still be able to set short-term interest rates. In the short-term, the central bank can raise the interest rate simply by offering to borrow e-money at more than the prevailing market rate; or it can lower it by offering to lend e-money for less than the prevailing market rate. Unlike other borrowers and lenders, its operations (and possible losses) are backed in the end by the government's power to raise taxes.

Excerpt from *The Economist*
22 January 2000 & 22 July 2000

On E-government

E-government is about using technology to improve the access to and delivery of public services to citizens, business partners and suppliers, and those working in the public sector.

But proponents of e-government must not focus simply on replicating business speeds and commercial best practices. Consumers in Asia and elsewhere are already expressing concern about the uses banks, credit card companies and others make of their personal data. Citizens can expect to be similarly concerned about who sees private information about, say, their tax returns or immigration status.

Excerpt from *Asian Wall Street Journal*
25 September 2000

On World Oil Prices

In recent weeks, oil prices have surged to a fresh 10-year high of about US$35 a barrel, as reports of continuing low inventories of crude oil and refined products in the US raised the spectre of winter supply shortages.

The Organisation of Petroleum Exporting Countries (OPEC) agreed in early September 2000 to increase output by 800,000 barrels a day, their third attempt this year to ease soaring prices. Meanwhile, OPEC oil ministers called on Western governments to cut taxes, saying OPEC could not end high oil prices by itself.

The most striking feature of the current oil price conundrum is the growing divide between what happens on derivative-based oil futures markets in London and New York, and the underlying reality of the physical oil world. The fact that oil refineries in the industrial world have been running flat out at utilisation rates of 96 per cent or so suggests that there is no physical shortage of crude oil, despite the unusually low stock levels in consuming countries. But the sentiment on futures markets has been distinctly different, with the underlying psychology of speculators steadily bullish.

The higher oil prices rise without obvious reference to real world events gives cause for concern about how fast and far they might fall if speculative sentiment should suddenly shift.

Excerpts from *Asian Wall Street Journal*,
11 September 2000
& *Financial Times*, 12 September 2000

On US Technology-driven Productivity

Technology-driven gains in productivity are continuing to accelerate, Alan Greenspan Chairman of the Federal Reserve said. He dismissed the notion that the improvements in productivity were largely cyclical, reflecting greater utilisation of resources by businesses in a period of rapid demand growth. Nevertheless, he cautioned that history dictated that the extraordinary period of acceleration in productivity increases, and of sustainable overall economic growth, would come to an end sooner or later, as the returns on new investments eventually diminished.

Excerpt from *Financial Times*
26-27 August 2000

On Japan's Debt Downgrading

Moody's, the US credit rating agency, downgraded Japan's domestic currency debt for the second time in two years. The downgrade leaves Japan's yen-denominated debt rated at *Aa2* by Moody's, two notches below the top-rated *Aaa* level.

Moody's hinted that it might cut this further. It announced that the outlook for the rating remained "negative" for the foreseeable future, reflecting concern that Japan's debt-to-GDP level is nearly 130 per cent. It feared that Japan's economic growth will be capped at two per cent in the near term, not enough to reduce the debt naturally.

However, Standard & Poor's left Japan's ratings unchanged at the top *AAA* level. It argued that the Japan's massive domestic savings can absorb all the extra bonds and protect the country from the dangers of large debts.

Excerpt from *Financial Times*
9-10 September 2000

Note : Compiled by the MIA Economic Research team.

Physicists love the word 'entropy'. It refers to the tendency every natural system has to move from a state of order to that of maximum chaos. Entropy explains why astronomers believe the universe appears to be heading toward a final 'heat death', countless billions of years from now. Entropy can also be used to rationalise why your clients' accounts sometimes refuse to balance; and why your teenager's bedroom might look like a concussion grenade just went off in it.

Not surprisingly, entropy also works in our financial lives.

This regular feature represents Akauntan Nasional's (AN) serious bid to educate all Malaysians of the need for wise adherence to sensible financial planning principles and strategies. Each accountant is a centre of influence — in your office, to your colleagues and clients; and in your home, to your family. Money Tree is thus designed to help you learn and then teach — in steps — all that is important in crafting a life of financial abundance, bounty and contentment.

Written Goals — Your Internal Guidance System

By Rajen Devadason

A long time ago, in a country far, far away, I shared a flat in a poor part of London with a group of Malaysians who were intensely focused on becoming accountants. They lived and breathed the ACCA course material and examinations.

Back in the mid-80s accountancy was their passion; eating tons of home cooked *Maggi Mee* was the price they were willing to pay to qualify.

To be frank, I never could figure out why they were so focused on that particular goal. Yet ironically, partly because of their inadvertent osmotic influence, and partly because I was at a loss at how else to stay on in the UK once I completed my degree, I began mulling over the possibility of joining their ranks.

The mild cogitation gave way to frenzied thinking, which translated into action. Thus, when I graduated with my BSc (Honours) in Physics and Computing in 1988, I drifted into a training contract with KPMG Peat Marwick. It was a chartered accountancy training programme with a 'Big 8' firm that my (by then) ex-flatmates would have bartered three, maybe four, pints of blood to get into. Yet my good fortune was pretty much wasted on me. You see, I had no passion for the profession.

Not surprisingly, I soon began to feel like a caged laboratory rat. As a mental defence mechanism, I began whiling away more and more of my spare moments dreaming of becoming a writer.

(It wasn't entirely a vaporous fantasy. In 1980, while in Form 4 in Malacca High School, I'd won first place in a national science essay contest with a piece on Galileo. Later, I secured a valuable scholarship offered by a British private college in 1982 to do my 'A' Levels, primarily on the strength of an essay.)

But writing as a student and writing professionally for a living are two different things. And I knew that. Still, the more depressed I got, the more I would dream. Eventually this lab rat broke free. After a year, I left my accountancy job in dreary, roundabout-dominated Basingstoke to work as a short-term technical writer for Wellcome Biotech in Kent. Then, two days before my work permit expired, I flew back to Malaysia.

For the last 10 years I've been writing for my supper; as well as for my breakfast, lunch and tea. After four published books and more than 1,000 published articles, columns, investment reports, stories and even jokes, I'm just beginning to learn my craft. I'm a mere journeyman, and it will take me the rest of my life to get to where I want to go. But at least now I'm passionately interested in what I'm doing.

Similarly, chances are high that since you're reading *Akauntan Nasional*, you're a full-fledged accountant who — unlike me — has paid his accountancy dues and who, hopefully, enjoys his work. Perhaps, like my friends in the London of yesteryear, you even care passionately about your profession.

That's wonderful, but do you know where to go from here? Perhaps not. I've learnt, the hard way, that determining goals which truly reflect who you are inside, what you want to do with your life, and the kind of legacy you hope to leave behind is hard. Like a diamond.

I'll give you a simple example. Do you wish you could lose weight or get fitter?

Great.

Do you have exercise goals? Yes, you say?

Well, are they written down? Be honest!

Have you taken the trouble to write down, with pen and paper or type onto your computer, tangible exercise-related goals like :

- I must lose 20 pounds; or
- I must start jogging again; or
- I must swim three times a week; or
- I will cut my smoking to one pack a week inside the next six months?

I didn't think so.

If you're just harbouring some amorphous thoughts in your head, hoping to eventually work up the enthusiasm to get started, you won't. You see, those unwritten health-related musings are nothing more than wishy-washy dreams. You need to morph them into hardcore goals.

For our purpose, the definition of a goal is simple : A written down dream with a deadline.

For your health, just as for your future professional and financial well being, you must have true goals.

Unless you write them down — in ink or electronically — with a target achievement date, they're nothing more than bits of mental fluff that will be blown away in the cyclone of circumstances you mistakenly call your life. I'm not bringing any kind of earth shattering revelation to you. Obviously you already know this, and exercise this truth in your day-to-day work.

There is no way you would be able to clear the mountain of paper that passes over your desk each week without jotting down notes to yourself to get something done by such-and-such a date.

Unfortunately, for most people, the awesome power of written goals is squandered on keeping them abreast of what is urgent, not necessarily what is important. Yet that's as dumb as a soldier reserving a high-powered bazooka to kill off roaches and rats in the mess hall, then throwing blunt pub darts at advancing enemy tanks on the battlefield.

In the long run focusing on what is important is more profitable than fire fighting a host of urgent time-sappers.

So what's a person to do?

Write down goals — with deadlines — for all areas of your life : physical, spiritual, relational and financial.

Let's consider the last area — financial success. I imagine that you — like most of us — dream of one day becoming financially free. That *dream* is a good place to start. Sadly, most Malaysians desert their ambitions of gaining financial freedom in a graveyard of forgotten daydreams.

And that's why most Malaysians will never gain financial freedom. But you're not like that.

As a successful, focused accountant you understand the power inherent in planning

THIS DOESN'T HAVE TO BE YOU.

your work and then working your plan. In the words of Leon Jaworski, special prosecutor during the Watergate crisis precipitated by Richard Nixon's paranoia and hubris, "Greatness (is) absolutely attainable, provided one work(s) slavishly and single-mindedly and is not deterred by long odds."

"Greatness (is) absolutely attainable, provided one work(s) slavishly and single-mindedly and is not deterred by long odds."

Laserlike focus and the diligence required to put one foot ahead of the other can work miracles. The same principle applies to building pyramids (one stone slab at a time); writing epic novels (one word at a time); getting in shape (one exercise session at a time); and building a prosperous life marked by financial freedom (reaching one financial goal at a time).

Unfortunately, most of us tend to drift, only responding to whatever shouts loudest for our attention, regardless of its true merit.

A prime example is our tendency to put off saving and investing for our future because everybody else — the credit card company, utility companies, bank, finance company, landlord, butcher, baker and tailor — is paid first, before we bother to set one sen aside to pay 'ourselves'.

The only way to overcome this all-too-human failing is to examine your life and determine the primary goals you deeply want to achieve. This process can't be rushed. It should take you a month or more, spending 10 minutes several days a week alone, to figure out what you care about most. (If you haven't already done so, I urge you to read *The Seven Habits of Highly Effective People — Powerful Lessons in Personal Change* by Stephen R. Covey (Fireside).)

Most people spend more time planning a one-week vacation than charting their financial future. Is it any wonder then that our financial dreams tend to dissipate like morning dew before a searing sun?

I urge you to take the trouble to get in touch with what is truly important to you — deep inside. To begin with, ask yourself this question :

If I had unlimited time and money, what would I do with my life?

Keep asking yourself this until your embattled brain begins spinning off ideas. At this stage be gentle with your subconscious and accept everything it hurls into orbit. Write each idea or dream or ambition down.

Over the next four weeks, try and come up with 10-20 accomplishments you think might be worth achieving. Then cull that list. Retain the items that are achievable within the timeframe of your remaining expected lifespan, which could range from 20 to 80 years.

Remember : You probably have more time at your disposal than you realise. To help you see this, try this exercise.

Imagine this line represents your entire mortal existence :

|—10—20—30—40—50—60—70—80—90—100— ...|
years

Mark, with an 'x', where you are today. So, if you're 38 years old, then this is what your line will look like :

|—10—20—30—x-40—50—60—70—80—90—100— ...|
years

Everything to the left of the 'x' is past. But everything to the right is still to come.

Expecting to live past the century mark may seem a trifle optimistic, but let's hope that you are fortunate enough to beat the lifespan averages. To know what that entails you might want to dig up last month's issue of *Akauntan Nasional* for a discussion on Malaysian average life expectancies and a listing of the official mortality table used by the Malaysian life insurance industry.

The bottom-line is that you probably have a whole lot of living ahead of you. To optimise the experience, seriously consider identifying a holistic suite of appropriate financial planning-related goals. These will encompass the areas of :

· saving;	· investing;	· earning;
· giving;	· insurance;	· probate;
· cashflow;	· health; and	· fitness.

To increase your odds of beating the averages, consider talking to your doctor, nutritionist or exercise consultant about your dietary and exercise needs.

Only God knows how long each of us will ultimately live. But good stewardship suggests it would be wise for you to also consult your :

- Lawyer or an independent will-writer about writing your own will;
- Insurance agent about adequate life and medical insurance; and
- Financial planner, stockbroker, unit trust agent or banker about proper investments and savings.

To help you focus on your most vital financial goals, try this simple exercise :

CHART 1

Key Long-term Financial Objectives

Rank from 1 to 5 the importance of having adequate funds in order to do the following:

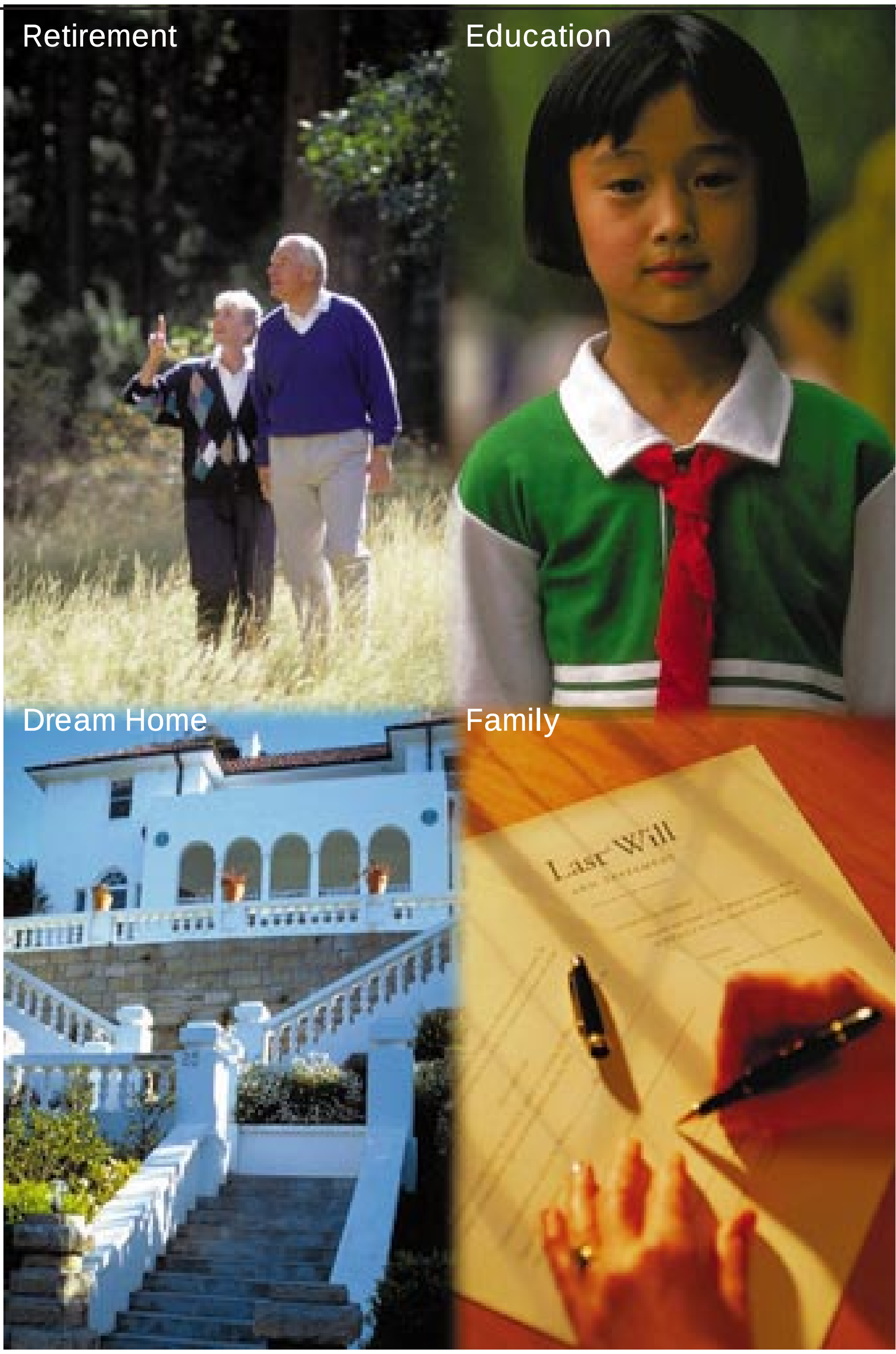
☐ Enjoy a comfortable retirement
☐ Provide tertiary education for my children
☐ Purchase my dream home
☐ Take care of my family in case of my death
☐ Other wealth accumulation objectives

Source : *Financial Freedom — Your Guide to Lifetime Financial Planning*, p. 294, Appendix A7, Edmond Cheah, Wong Boon Choy, Alex Sito and Rajen Devadason, KL MUTUAL, 1998.

Let's look at each of these five long-term financial objectives.

Enjoy a comfortable retirement

General retirement guidelines suggest that most people will need about 80 per cent of income just prior to retirement to maintain a similar lifestyle in retirement. However, with the expected ongoing ravages of inflation, it would be sensible for those who truly crave a comfortable retirement to ensure that



a large proportion of their retirement nest egg is in investments that outpace inflation. The best asset classes to achieve this are equities and property.

Provide tertiary education for my children

If you decide that your children will go to university here in Malaysia, then your financial needs will be far less than if you wanted your kids to go overseas. Those who dream of granting their kids a British, American or Australian tertiary education should be prepared to deal with future currency fluctuations and ever-escalating university fees, typically six per cent a year in the target currency.

Purchase my dream home

If that dream home is a wooden house in your *kampong*, the financial strain will not be great. But if you want to eventually buy a villa in an upmarket Kuala Lumpur residential area like Bangsar, Damansara or Sierramas, with a swimming pool and 24-hour security, then make your plans accordingly.

Take care of my family in case of my death

This entails ensuring clear instructions in your will, adequate insurance cover and a large enough capital sum for them to live comfortably off the interest and dividends; particularly if you wish for (part of) that capital sum to eventually be used to fund your kids' tertiary education.

Other wealth accumulation objectives

These can include becoming a millionaire, reaching true financial freedom (when your passive income from savings and investments exceeds normal expenses), travelling around the world, starting a post-retirement business, or even giving RM1 million to charity.

Most people will find — after doing this exercise and putting in tentative RM quantities for the achievement of their goals — that all this is prohibitively expensive.

That is why you have prioritised your list. Focus on your number one goal and spend at least six months putting in place the necessary savings and investment programme. Only after that is running smoothly, should you move on to goal number two. Take your time moving down that list.

For each goal you work on, try and do two things :

- Make an initial lump sum investment toward it; and also
- Make regular monthly additions.

If, like most people, you have never carried out such a comprehensive goal-identification-cum-achievement exercise, then go slow. What is important is to incorporate the changes necessary for the accomplishment of your goals into the very fabric of your existence, without 'burning out' from an overly enthusiastic start.

As long as there is breath, there is hope. My own false start of thinking that I wanted to become an accountant was a mistake I recovered from. If, up to now, you've been tossed to and fro by the winds of circumstance, it isn't too late for you to take charge of your life.

Deep inside you is an internal guidance system. It really is there, but it is likely to be somnolent and slumbering. No kidding! So what follows is the crucial alarm clock.

I hope you take the trouble — in the next month — to identify, write down and then fine-tune your most important goals. You have only one life to live on this mortal plane, you owe it to yourself to make it spectacular.

Note : The writer, a financial planning consultant and trainer, is co-author of the best seller *Financial Freedom — Your Guide to Lifetime Financial Planning* and its just released sequel *Financial Freedom 2 — Through Malaysian Equities and Unit Trusts*, (publisher : KL MUTUAL). He welcomes questions and comments on any aspect of personal finance in Malaysia. Feel free to 'snail mail' c/o *Akauntan Nasional* or e-mail rajendevadason@yahoo.co.uk.

Business as Usual

By Robert Thames

Popes. Presidents. Nobel Prize winners. Queens. King of cybercommerce? That's right. Time magazine named Jeff Bezos, the man who started Amazon.com, its Person of the Year in 1999. Thanks to Amazon.com and other savvy businesses, we're living in a dot.com world in which e-business has forever changed people's lives. There's no turning back to "business as usual".

People are now buying everything over the Web — not just books and CDs. Online consumers are forking over cash to buy food, zooming out to sites for cars, and seeking — and paying for — expert advice in areas from law to medicine to questions about their pet's ear infection. Those who say, "You can't sell that over the Web" time and again have been proven wrong. Let's face it : The Web is the portal to the present. So, even if you doubt you can peddle your product over the Web, think again. It's time to take a 'clicks-and-mortar' strategy versus a 'bricks-and-mortar' one. Instantly, you can build tremendous demand for your products and services if you catch the e-business wave. Here's why you should forge a presence on the Web now — and some steps to take to do it right.

Times Change

Prior to the mid-1970s, businesses relied on their own ingenuity to develop innovative products and services for the mass market. They set the price based on what they felt the market would bear, produced a product, and sold it. The resulting difference between revenue and cost was net profit. Easy enough.

Competition became tougher as more companies entered the market with unique products and services. As the marketplace accepted them, mass production techniques forced standardisation to lower manufacturing costs, resulting in these products and services becoming more like commodities. The calculator is a good example. From initial launch through obsolescence, product maturity cycles began to compress, resulting in succeeding 'waves' of products quickly becoming commodity-like, yet providing more features at the same (or less) cost … Just try to buy the same model of Sony Walkman that you bought six months ago! You'll likely find it has been replaced by a new model with more bells and whistles for the same price. Thus, in the 1980s, with several competing products and services possessing similar characteristics, competitive pressures — not the companies — began to set the price. Increased competition resulted in reduced profit margins.

That was then. This is now. Today, power has shifted to the individual — thanks to e-business. With a click of a mouse, customers can tailor the product or service precisely to their needs. Consider Dell Computers : Customers can build their own PCs at the company's website. Not only do online shoppers want to customise their purchases, they demand high quality, quick delivery, and will comparison shop on the Web, playing vendors against one another. The company can be across the street or around the globe : Time and geography are no longer a factor.

With shorter product and service life cycles, product development is now less strategic and more tactical.

Companies produce customised products or services within cost constraints formerly experienced with mass-market demand. The principles of mass customisation attempt to apply mass production techniques and leverage all economies of scale to produce customised products that consumers want at the highest quality and the lowest cost — that are delivered in days. So, the bottom-line : The customer, not the market, is driving the value proposition.

In order to prevent further margin erosion, companies will have to optimise costs across the value chain, not just within their own organisation. As this occurs, the fundamental selling model will change significantly as companies find more cost-effective ways to understand customer needs and communicate their value propositions to customers electronically. Online business models are already creating customer communities, delivering an individualised value experience, and creating sustainable brand loyalty. Amazon.com knows my book, DVD, and music preferences from the data structure they have built from my online purchases and suggests other purchases to me by relating my profile to others. Some online companies today are generating rich customer community datamarts by offering brand-name products at a loss to build customer loyalty and to expose those customers to advertising and associated partner links on their website. Priceline.com and buy.com are just two examples.

Survival of the Fittest

Many of you may be asking, "What does this mean to my company? Why should I even pay attention to this Internet hype?" It has everything to do with survival. That's right — survival. This is a fundamental change in global business, and there will be a point in the not-too-distant future where it will be impossible to catch up, or even stay in the game!

In the past, companies that achieved excellence also snatched up market share and competitive advantage. Companies who fell short of this standard received lower market share but could still survive. That was when the world of business was more forgiving.

Times have changed. On 15 October 1995, the 'Knowledge Age' arrived and ushered the Information Age out the door with the market capitalisation of Microsoft surpassing that of IBM. Today, leveraging knowledge, relationships, and information around a well-defined business model distinguishes great companies from average ones. The great ones take advantage of their core competencies and outsource noncore competencies in order to achieve an agile business model that can respond quickly to e-business opportunities.

Let's look at the four cornerstones in e-business that should be a part of your business model.

Controls through the ERP dashboard. An integrated technology architecture allows you to distribute real-time information instantly across the enterprise. This fundamental foundation, known as the Enterprise Resource Planning (ERP) system, must become the 'dashboard' that provides controls and status information to allow forward decision-making. For example, discovery of an inventory problem a month after it occurs may enable use of this information to correct a problem. But a month is a lot like dog years in e-business! You need information to act on when the problem occurs, and that's why an integrated technology architecture must be in place to succeed in cybercommerce. A word of caution here : It realistically takes years to achieve this integrated infrastructure. Waiting for the newest wave of hardware or software can be the kiss of death. Relying on old legacy financial systems is like driving down the highway by looking in the rear-view mirror *vs*. looking at the dashboard to understand performance NOW.

Get rid of waste. Once the fundamental infrastructure is in place, the concept of the 'extended enterprise' comes into play. It's not just about integrated 'lowest-cost' manufacturing and streamlined distribution processes, although both are key components. It involves taking waste out of the entire value chain through effectively implementing technology, along with building strong alliances and partnerships. Take General Electric, who has informed its suppliers that it will conduct its entire procurement process on the Internet via electronic procurement communities. So if a company wants to do business with GE, it needs to do it GE's way — online.

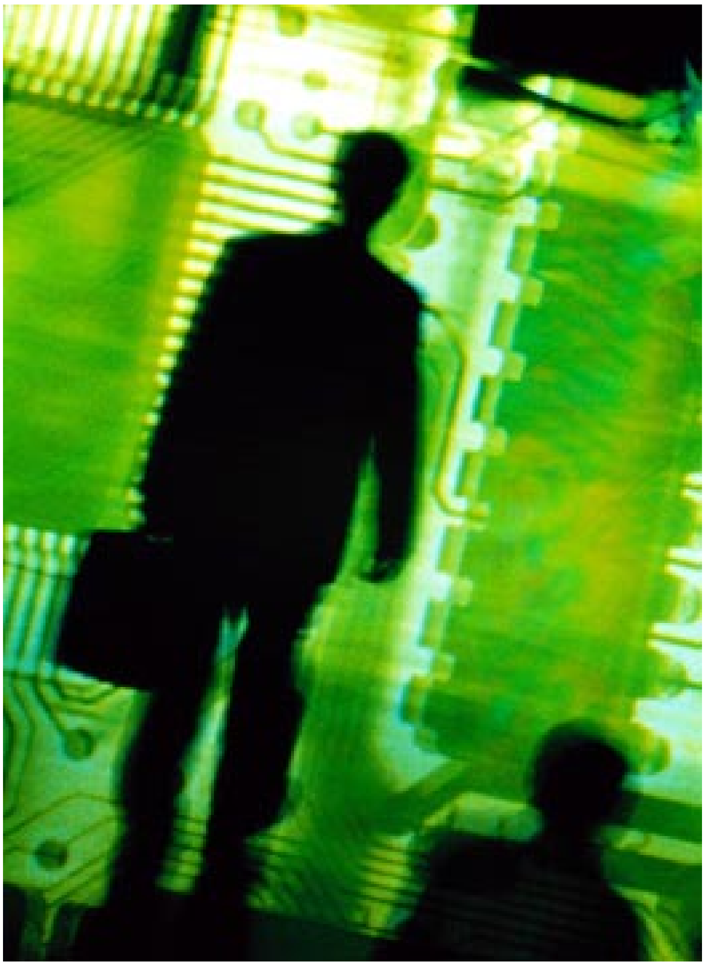
Know thy customers. Best-practice companies today have a deep understanding of their customer base and their levels of satisfaction with their products and services. E-business will have a dramatic impact on those companies who continue to market their products and services via the costly face-to-face direct selling model. Companies who foster online communities and communications with their customers will enjoy customer loyalty and market share at a fraction of the cost of yesteryear.

Information is power. Finally, none of the other three cornerstones is very meaningful without accurate profit information. Streamlining processes is impossible without clear and accurate information about the company's activities and costs. Knowing which customers to nurture and which ones require more effort — even a modification of product and service delivery models — is critical to understanding customer profitability. Making up profit deficiencies 'in volume' from one customer set subsidising another is an oxymoron in a world of custom products and services. In a world where each customer can specify exactly what he/she wants, volume production dissolves into lot sizes of one. If you think you have profit margin squeeze today, imagine how much tighter things can become when your customers can comparison shop online! Knowledge of true costs is imperative.

So now that we've diagnosed the problem, what should we do? Here are five steps — some might say quantum leaps — to take in order to forge a Web presence :

1 Do a reality-check to determine where you are on the path to success by using self-assessment diagnostic instruments that can point out areas for immediate impact. If you haven't visited your business processes to see what opportunities are awaiting you, that's a great place to start. We aren't talking about downsizing here! Your employees and their knowledge are the only 'appreciable' assets you have, so be sure to hold on to them! They are the subject matter experts on your core business processes and can help you achieve the operational excellence required to survive and flourish. Ensure that meaningful performance measures are in place to provide a baseline for future process improvements. If you haven't already, establish an enterprise website that tells how terrific your products and services are, then move quickly to enable customers to do business with you online.

2 Measure your existing business processes against best business practices, and try to quantify the benefits of aligning with them. Once you've eliminated redundant business processes, take an inventory of the software and hardware within your company. Then translate your future business processes into requirements for an integrated enterprise-wide information system, and implement it as quickly as possible. To do so, be sure to set concrete objectives and performance criteria and provide additional resources to avoid burning out your employees. And, by all means, don't cut training and outside resources! These are typically the first things optimistic executives are tempted to excise to save scarce capital resources. As good as your people are, they don't need to begin an arduous improvement initiative from a position of weakness with no training and no outside help just because you have overzealous faith in their capabilities.



3 Build your future strategy around serving customers and markets that track to the core competencies of your organisation. Measure customer satisfaction in order to understand customers' wants and needs as well as concerns. And invite your customers to help you define your website communities. To begin to segment markets based on customer profitability, you need to quantify the activities that go into providing the desired value experience to customers. Based on your improved cost management information, you can learn which products are winners and losers, then align product and service delivery systems accordingly.

4 Challenge your sales and marketing staff to contribute to an e-business strategy, and begin to move product and service offerings to your website. Publish catalogues online, and ensure the order management process is Web-enabled. If distributing products and services aren't a core competency, consider boosting service delivery and lowering cost by establishing electronic links with logistics services and outsource those processes if appropriate. Move purchases of goods and services to electronic procurement as quickly as feasible.

5 Continuously assess and improve business processes and the customer base on an ongoing basis.

Brace yourself : It's a massive undertaking, fraught with frustration and risk. But the rewards are worth it. You can achieve a flexible, nimble organisation that can increase and lock in market share from those who truly thought e-business was all hype and no substance.

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Techno-etiquette

By Lorraine Behnan
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It's not the e-mails and faxes that foul things up — the sender is usually the one at fault.

Consider the following scenarios and see if any of them strike a familiar note :

- You have waited for months and have paid $100 for a ticket to attend the season's hottest play. At an emotionally charged moment in the final act, the shrill ring of a cell phone shatters the silence. Not only does the audience member whose phone it is takes the call, but she nudges her husband and says in a mock whisper, "It's for you."

- The receptionist enters your office wearing a smug grin and boldly drops a fax onto your desk, addressed to you. You recoil in horror as you see this message scrawled across the cover sheet for all to read : "Was it as good for you as it was for me?"

- You scan an e-mail describing the moron who held up a recent staff meeting with idiotic questions. Suddenly, you are stricken with the realisation that the moron is you! Oops; someone forgot to double-check the address before hitting 'send'.

- You receive a voice-mail message that has broken all records for length. If only you had programmed a restricted time limit. Unfortunately, you have to listen to the entire thing because the crucial information — the caller's name and number - comes at the very end.

Chances are you have encountered situations similar to those above. In fact, you have likely committed the same faux pas yourself. In this so-called information age, we've come to rely heavily on technology to do most of our communicating; yet, we seldom make the time or effort to develop the appropriate applications for effective communication.

Would you ever consider sending a letter peppered with spelling mistakes? Would you clutter conversations and memos with rambling verbiage and tasteless jokes? Would you be quick to confront an individual with unabashed criticism or insensitivity? Probably not. Yet, when it comes to technological communication, many of us overlook habits that we otherwise deem unacceptable and unprofessional. The most common excuses for this relaxed attitude are either that we don't have the time, or that our clients and associates will forgive our foibles because they, too, are dealing with the same challenges. This is a dangerous assumption : professional presentation is still essential in the world of business.

How you communicate, no matter what the vehicle, reflects your professionalism. As with personal communication, ineffective skills with technological communication lead to misunderstandings, fractured relationships, frustration and lost time. All of these have the potential to affect revenue.

In conversations with clients, colleagues and friends, I hear recurring complaints about poor communication. Nonetheless, many confess that they commit the same mistakes themselves. Others admit they don't know how to communicate efficiently and effectively, or cannot recognise what's appropriate. To help fill this techno-etiquette gap, I have compiled a list of common irritants and the best ways to correct them.

E-mail

Problem #1 : Using e-mail as a barrier to personal interaction, particularly regarding sensitive or contentious issues.

The solution : You can't put facial expressions or voice tone in an electronic mail. Before you fire off a message to someone, make sure you're not purposely avoiding confrontation that would best be resolved in person.

Problem #2 : Lengthy attachments that take more than five minutes to download during peak office hours.

The solution : Not everyone has broadband technology. If you must send big graphics or attachments, send them after hours or compress them first. As an added courtesy, advise the recipient.

Problem #3 : Gridlock of jokes, anecdotes and chain letters.

The solution : Be selective, tasteful and discerning in forwarding jokes and anecdotes. Not only are most e-mail jokes too long to read, they aren't suitable for everyone on your list. The less often you send these items, the more likely your audience will read them — and the less likely you'll get on the lists for receiving them.

Problem #4 : Nothing written in the subject line.

The solution : Ever get back to your office after a day away and find an inbox clogged with e-mails? If you can quickly see, from the subject title, what they're about, you can prioritise them more efficiently. It also makes them easier to find for future referral. Always assign a subject to your e-mails.

Problem #5 : Also known as the great guessing game, this refers to signatures that do not include a postal address, and telephone and fax numbers.

The solution : Always include contact information at a minimum, that means your e-mail address, phone and fax numbers. That way, people don't have to search for your business card before they reply, and they can choose the medium they prefer.

Problem #6 : Spams (unsolicited e-mail).

The solution : Don't do it. All messages are not for all people. Not everyone needs to be copied on everything. Most of us are overwhelmed by e-mail messages, and extras are not welcome. Be considerate, and take time at your end to select the necessary recipients.

Voice-mail

Problem #1 : Purposely calling after hours to avoid personal contact.

The solution : Guilty as charged. We've all done it — call someone after office hours because we don't want a long conversation. When personal contact is best, however, make an effort to reach people when they're likely to be in. Avoid adding to another round of telephone tag.

Problem #2 : Long-winded, rambling messages rife with irrelevant information.

The solution : Take time to organise your thoughts. Keep your message brief and relevant, and leave your name and phone number at the start as well as at the end of the call, so the recipient doesn't have to replay the entire message in order to get back to you.

Problem #3 : Greeting messages that have funky background music or little ditties chirped by pet canaries.

The solution : A crisp, clean, uncluttered greeting message is not only easier to understand, it's also 'nonallergenic'. After all, not everyone likes pet canaries.

Problem #4 : Greetings that do not include the date or accessibility of the person.

The solution : A voice-mail greeting should be brief but informative. Give your name and identify your department or company. Include your availability (not your life story), so callers know when they're likely to hear from you.

Problem #5 : Unintelligible messages.

The solution : Say your name clearly and leave a quick explanation of why you are calling. If you have a unique name, then spell it. Always leave your number.

Fax

Problem #1 : Purposely sending faxes of a sensitive nature after office hours to avoid personal interaction.

The solution : The rules for e-mail and voice-mail apply to faxes, too. People will sense when you're avoiding a confrontation. Choose personal contact over machines to deal with conflict, or when you need an immediate response.

Problem #2 : Illegible and incomplete cover sheets and documents.

The solution : Write legible instructions or type them into a template on your computer. Include cover sheets with all the relevant information, including the subject and number of pages. If necessary, make a phone call to check whether the fax was received in good order.

Problem #3 : Personal faxes, sent without notice, revealing intimate details.

The solution : Don't do it. Remember, faxes are about as private as postcards. Don't include information you wouldn't want the whole office to read. If you're sending confidential information, notify the recipient first.

Problem #4 : Lengthy faxes sent during peak hours.

The solution : If you have pages and pages to fax, send them after hours. Again, notify the recipient.

Wireless equipment (cells, pilots, pagers)

Problem #1 : Whose phone is it, anyway? The inventors of wireless products thought they had resolved the problem of everyone reaching frantically for their cell phones and palm pilots by offering a roster of different rings — everything from a harpsichord concerto to sci-fi sounds.

The solution : Agreed, sometimes we forget to turn off our equipment and have to suffer through the embarrassment. But, then, there are those boors who are not even sensitive enough to understand the problem. Consider getting soundless equipment — you know, the fun ones that vibrate. Another option is earphones (although this is not a recommended alternative for meetings in progress).

Problem #2 : Answering a cell phone in meetings.

The solution : Turn off all wireless equipment before entering a meeting. If you must answer a call, leave the room.

Problem #3 : Loud conversations in public places.

The solution : Too much information! People don't really want to hear one-sided conversations in public places. Find a private space to carry on your conversation. Your audience will appreciate it too.

Lower your techno-stress. Just because technology allows us to communicate at lightning speed does not mean that the response has to be likewise. Unless you flag a call or message as 'urgent' (and make sure it is indeed urgent), allow at least 24 hours to receive a reply. (Once you complete your own replies, delete or transfer messages to a designated file.) And remember, if you require an immediate response, e-mail is not your best choice. Too many variables can hold up communication. Many people do not stay online all day to receive messages; others may be away from their offices and away from e-mail access; or the e-mail system itself may be experiencing 'technical difficulties'. In emergencies, the telephone is still a more reliable and speedy mode of communication.

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Techno-etiquette

*Add a personal **FACE** to your techno-communications.*

Friendly
Be courteous and personable. Imagine the person is in the room with you. Don't hide behind technology.

Appropriate
Remember, faxes and e-mails can be about as private as a postcard. If you send jokes, keep them tasteful and use them in moderation.

Considerate
Turn off all wireless equipment for meetings. Speak and write clearly, and always include contact information.

Efficient
Keep messages concise. Organise your thoughts before relaying them. If you have a lengthy fax, notify the recipient first.

XBRL : Communicating Easily, Quickly and

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FOUNDING MEMBER OF XBRL
AND FACILITATOR TO THAT GROUP ON BEHALF OF PRICEWATERHOUSECOOPERS LLP.

Successful businesses have learned how to leverage the power of financial information. They have set up intranets, extranets, and corporate websites in an effort to help employees, investors, and financial analysts tap securely into the company's knowledge-base of financial reporting. But until now an important ingredient was missing — the ability to describe financial information and data structures efficiently over a network. Once XBRL (eXtensible Business Reporting Language) is adopted, it will enable organisations to create comprehensive, meaningful, and highly customisable financial reports at significantly reduced costs in a format compatible with most accounting applications.

Right now, there's no common, generally accepted format for business reporting data. Data must be either re-entered into computer applications for interpretation or copied and pasted between applications. XBRL will solve this problem by allowing content to be created once and distributed over the Internet or between applications. XBRL is easy to use — anyone, from the CEO to the marketing analyst, will be able to use it to create and distribute his or her own reports. It will be a standard feature in financial software applications, and though it might not be transparent to the end user, it will be easy to access and use.

XBRL : Child to XML

XBRL is a subset or dialect of XML (eXtensible Markup Language). In order to understand it, you have to first understand XML. Think of XML as a formatting language that arranges information in containers of data (similar to rows and columns in a spreadsheet). In a spreadsheet, the data can be inserted into the rows and columns. Just as the headings for the rows and columns give meanings to the individual cells, XML provides meaning to the data within tags that bracket the data. For example, if the cell of a spreadsheet contained the number $45,000, the user of the spreadsheet might not know if the $45,000 was an asset, liability, net income, or the price of the owner's new car. But if the content of the cell was tagged (as in the XML language) with the description "net income for the first quarter," then the user (and the applications) will interpret the $45,000 to represent the net income for the first quarter. Therefore, XBRL provides both content and structure (context) to the financial data.

Tags for the opening of this article marked in XML would look like this :

```
<article>
<title>XBRL : Communicating  Financal Information Easily, Quickly  and Efficiently</title>
<author>By Liv A. Watson; Brian L. McGuire, CMA, CPA; and Eric E. Cohen, CPA</author>
<text>Successful businesses have learned. . . access and use</text>
<subhead>XBRL :  Child of XML</subhead>
```

XML is platform independent. It works on any operating system, any computer — even cell phones and other wireless, mobile devices. It is also application independent and can be integrated with almost any vendor's database system. Users of XML have found it lets them keep all of their legacy systems and hardware while integrating it with new systems — including their trading partners' systems and the Internet. XML is simple, but it has created a groundswell in the industry — to the point that all of the major software vendors have promised to rework their products to incorporate it. Microsoft has announced that XML and underlying Web technologies (the hypertext transport protocol) may soon completely revise our perception of computers and computer programs. There will be no obstacles between systems. (See Figure 1.)

XBRL inherits from XML the notion that data should belong to its creators and that content providers are best served by an open data format. An open data format won't

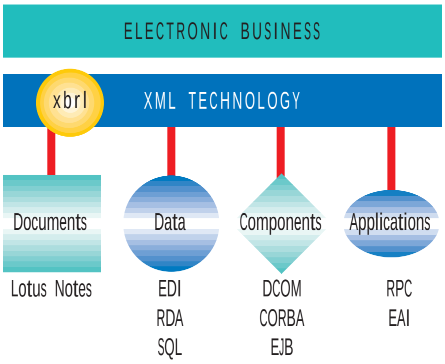
Financal Information Efficiently

bind anyone to particular script languages, authoring tools, and delivery engines. Instead it will provide a standardised, vendor-independent level playing field on which different systems may freely communicate.

With XBRL, if you wanted to send a financial report to your analyst or banker, you could send it electronically from your accounting software. The software automatically creates the file in a format that the analyst or banker can easily import into his or her software. Traditionally, you might have sent the information as an Adobe Acrobat document, a Microsoft Word file, or a plain text file. As convenient as these file formats are for human readers, they don't make it easy for a computer to extract information. Another option would be to work with the financial analyst's accounting department or banker to come up with a custom format (such as a comma-delimited file). Of course, if the financial analyst or banker decides later to change the file format to accommodate other clients, then you'd also have to make changes. These changes could be costly.

FIGURE 1

XML Takes the Pain out of Integration



XBRL solves this problem. Your accounting application could e-mail a copy of the financial report in XBRL to your financial analyst, and the report could then be read into his or her system. Because XBRL will be flexible, minor changes to the format won't affect the system's ability to exchange information. The XBRL language is designed to export information that's self-describing. You can look at a document and see that it's XBRL, and you can also tell what version is used.

Why Use XBRL?

Standardise on a common taxonomy (shared vocabulary) and you reap the benefits of interoperability and integration. In the long run, standardisation improves access and lowers distribution costs because fewer technologies are involved. By using XBRL, organisations will be able to leverage their IT investments over a variety of applications. In addition, because XBRL will be an open specification, users can be confident they won't be locked into comma-delimited files. XBRL's simplicity and flexibility will make it an ideal foundation on which to build XML-based Business Reporting Markup Language initiatives.

In this sense, XBRL solves two significant problems for anyone preparing financial reports. First, it provides reliable extraction of financial data across all technology formats. With XBRL, financial data have to be entered only one time, thereby reducing the risk of data entry error by eliminating the need to manually key information for various report formats. And XBRL facilitates comparison of financial reports in industry sectors by establishing compatibility in categories of financial data.

XBRL isn't a new accounting standard; it's a technology that uses current standards and that has the flexibility to adapt to changes to existing standards or new standards. Contrary to popular belief, XBRL doesn't require disclosure of any additional financial information beyond that currently required in a company's financial reports. Rather, it enhances the ability to exchange the information across different technology formats (including the Internet).

XBRL, like other emerging open-architecture technologies, increases the overall efficiency of information exchange while reducing the related cost. The beneficiaries of XBRL include all members of the financial statement information supply chain, from preparers and distributors to aggregators and, most important, the end users.

Users will find it similar to the simple 'save as HTML' functionality in Microsoft Word that's used to make Web pages. Microsoft, IBM, Oracle, and accounting software vendors are currently developing tools to make XBRL equally easy to use.

There are many other beneficial uses of XBRL. For example, credit analysis can be less costly and more timely when financial information for credit request purposes is provided using XBRL. Because XBRL financial information is created once but can be rendered in various formats, the costs associated with publishing, exchanging, and analysing financial reports and data can be reduced (see Figure 2). As a shareholder tool, XBRL provides a robust platform for significantly enhanced assessment, extraction, and query tools for shareholders and other users.

It's important to remember that XBRL isn't a detailed universal chart of accounts — it's a GAAP/industry-sector-oriented tagging scheme or language. It isn't a new accounting or auditing standard, nor is it designed specifically for US territory GAAP financial statements. It's for a range of global territories.

Who'll Use XBRL?

The demand for financial statement information in XBRL will come from the investor community because analysts will be able to extract, analyse, and process financial statement information more cheaply and on a more timely basis with software designed for this purpose. In addition, the information will come directly from the company, thereby increasing the speed at which it gets to the analysts' models, and it can be readily exchanged among wide varieties of software applications, which means it can be reused easily.

Early adopters are expected in the emerging companies where analyst coverage is minimal because they don't have the resources needed for this coverage. Analysts will be encouraged to look at these companies because their information will be provided in XBRL. This will place some pressure on late adopters because analysts' tools are developed to incorporate the XBRL information. As a result, in the next 18 to 24 months the market is expected to move toward general acceptance of XBRL-enabled financial statement information.

What about other financial professionals? There are three macro areas (or levels) where financial managers might find uses for XML :

1. At the transaction level;
2. At the intermediate summary (general ledger) level; and
3. At a summary reporting level.

There are more than 200 emerging XML specifications in deployment for industry supply chains at the transaction level, and, in most cases, the accounting industry representation on these consortiums is still small. As a result, it's difficult to predict the interoperability of the transaction-level specifications with the summary-level users. But we need to be involved if we want to survive in the emerging digitalisation of the business world. We need a clear, articulate view of the language of business, and, in most cases, that language will be structured data tagged in XML.

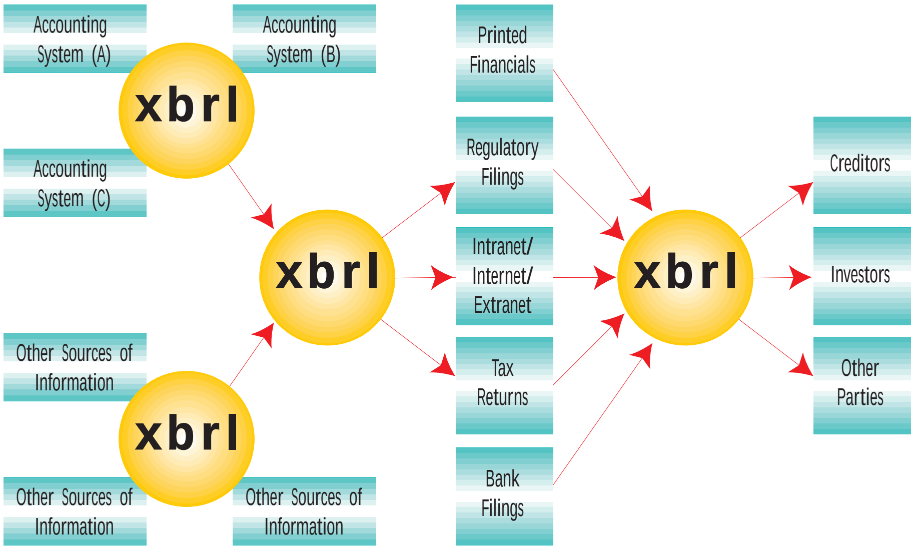
The development of general ledger data specifications is clearly our domain (financial management) and is considered by many to be a high-value area for development. Although it's part of the longer term XBRL and other industry-specific XML strategy effort, it hasn't matured because of the under-developed nature of the transaction-level specifications across all industry sectors and the focus of the limited XBRL resources on the financial reporting level. The XBRL Steering Committee has the general ledger level on its strategic agenda and expects to address it as data specifications on existing financial reporting are published and the implementation has begun. In addition, the interoperability of XBRL with other XML specifications is also part of the overall XBRL effort and is being addressed by the XBRL Specifications Working Group. To keep up with current developments, check www.xbrl.org for news. (See sidebar for other resources.)

Implications for CFOs and Controllers streamlining the financial information supply chain through XBRL gives companies a competitive edge and lets management accountants/financial managers cut reporting costs, positioning them as premier knowledge professionals.

Simplifying the exchange of financial statements through XBRL will improve their flexibility and will positively impact the broad range of attestation services from full-scale audits to smaller-scale reviews of selected information. Costs to incorporate XBRL will be minimal because it will be built into most accounting and financial software tools and operating procedures.

FIGURE 2

XBRL Functions : Interoperability and Multiple Outputs



Using XBRL doesn't mean that companies will be producing cookie-cutter financial statements. They can continue to use their regular statement formats because XBRL relies on existing accounting standards.

XBRL improves investor and analyst access to a company's financial information, thereby lowering their uncertainty over perceived risks of investing and providing them with credible, reliable information.

And XBRL lets whole groups of people and organisations reuse the same financial statements through the creation of a single-source document that can be the basis of required electronic filings (such as those for EDGAR), investor relations pages posted on the company's website, and statements required by credit reporting agencies (as well as lenders) to comply with loan covenants.

Investor reactions and buying decisions are often based on rumour, innuendo, and guesswork because official information comes out infrequently and after-the-fact. As management publishes more timely information, it can better control investor reaction.

Because of XBRL's simplicity and improved efficiency, it's no wonder that the accounting/finance industry is excited about this emerging business reporting language. Its growth will impact the way companies report their financial picture. Incredibly powerful and easy to use, XBRL will improve the standard for excellence in financial reporting. High-powered financial reporting will become a necessity.

XBRL Resources

The following websites will provide additional information regarding XBRL :

www.xbrl.org

www.xmlmag.com

www.computercpa.com/xml2.html

www.cfonet.com/html/Articles/CFO/2000/00FEhowt.html — *CFO Magazine* article, "How the Web Was Won" about online IR

www.sciam.com/1999/0599issue/0599bosak.html — *Scientific American* article, "XML and the Second-Generation Web"

www.rutgers.edu/Accounting/raw/fasb — FASB's Electronic Distribution of Business Reporting Information

www.iasc.org.uk/frame/cen3_26.htm — IASC's Business Reporting on the Internet

Note: This article has been reprinted with permission from the September 2000 issue of *Strategic Finance*, published by the Institute of Management Accountants.

Collaborative Commerce

By Bruno Lee
GENERAL MANAGER, SYSTEMS UNION IN THE ASEAN REGION

Spurred on by the growth of the Internet, organisations are facing enormous changes to the way they conduct business. The most obvious is the use of websites for trade. While much of the publicity is focused on this aspect, a revolution is taking place behind the scenes. GartnerGroup's latest survey, released in March 2000 showed that for Malaysia, the Business-to-Business (B2B) transaction value is expected to grow by a compound average growth rate of 200 per cent p.a. for the period 1999-2004. By 2004, the value of B2B is estimated to be a whopping US$27.8bn according to Lane Leskela, Research Director of GartnerGroup e-Business Intelligence Services in Asia Pacific.

Through the use of Internet technologies, business processes within organisations are being re-engineered and driven not only by business needs but also on capitalising of new opportunities offered by the Internet. The result is enabling organisations of all sizes to reduce the cost of products and services and improve quality and customer services. So from a traditional 'bricks and mortar' business, many are being transformed to 'clicks' and 'bricks and clicks' enterprises.

E-commerce not only reduces transaction costs through automation and integration but also increases sources of revenue through market innovation via the company working within a collaborative chain of customers and suppliers referred to as the business eco-system.

By empowering their employees, collaborating with suppliers and getting closer to their customers, organisations can achieve their main goals of reducing their costs and extending their market reach.

E-BIZ 'CATCHY' TERMS

- *Bricks and mortar*: refers to a traditional business that strives in maintaining a physical presence. These are your typical monoliths that invest in building and occupying high-rises i.e. the bigger and higher, the better.
- *Clicks*: these are Internet start-ups that gain revenue purely through the Net. Also known as pure plays. Indeterminate location, i.e. mum's kitchen.
- *Bricks and clicks*: an existing business having a presence on the Internet as a sale channel to gain a new niche market.

The Business Eco-system

Collaborating with Suppliers

The potential benefits of collaborating with suppliers in the business eco-system are immense. Automation of processes within and between organisations can lead to massive cost reductions in the handling of transactions. However, e-commerce goes well beyond simply automating order fulfilment. In Malaysia, product-based industries e.g. automotive, hypermarkets and the service industries such as private hospitals, airlines and hotels are examples of businesses that stand to gain the most from B2B commerce.

This can be done by having common communication standards, information regarding customer requirements and status, and these can easily be shared throughout the supply chain. This enables better planning, and creates an environment tuned to demand (a pull focus) rather than supply (a push focus). As stakeholders in the value chain, they become more informed and involved in making timely decisions. The end result : higher productivity than before, better decision-making and improved customer service.

Many technology companies are forcing their suppliers to interface with them via the Internet. Ford and General Motors are examples where all of their suppliers are on their e-commerce platform, which makes it easier for them to order from a purchasing community.

Getting Closer to Customers

The real business opportunity lies not in simply having a catchy dot com address but in exploiting what is known about customers in order to offer them a better service. Rather than having a website that serves merely as an online brochure, the e-commerce model enables it to provide support for products and services. This might involve automating business processes or finding new and better ways to deliver products or services. Both are designed to increase customer loyalty and thereby increase revenues.

In an e-commerce environment a customer can place sales orders through a web storefront or secure trading area. At the same time, they could gain information about their order history and the current status of their account. Orders placed in this way can then be automatically entered into the supply chain and notification sent to the relevant people in the supplier organisation.

These elements combine to create an environment in which customers can be more closely involved and informed. What results is better customer service and increased customer loyalty.

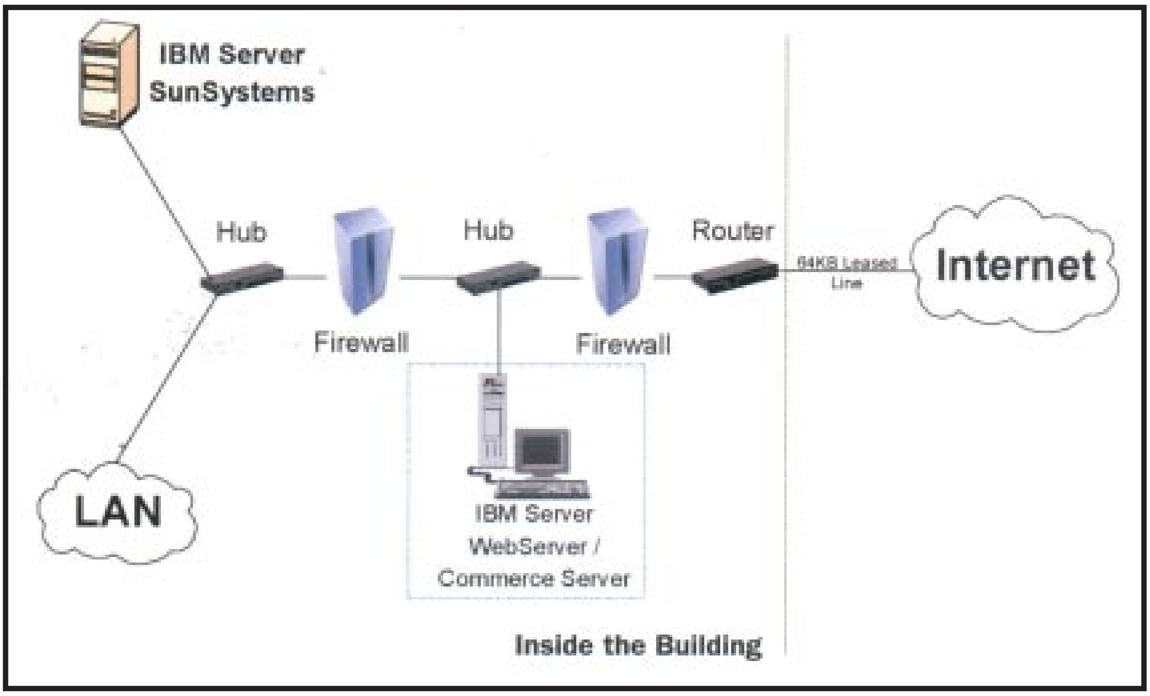
Empowering Employees

In order to reduce transaction costs, organisations need to enable employees to participate in the use of core applications. E-commerce can make it easier for employees to carry out their roles by giving them access to the information and processes that they need without requiring them to understand the underlying applications. Internal processes such as procurement, time sheet entry and expense claim forms can be delivered via self-service applications through a web browser. Hence, costs associated with expert users fall, and the need for re-keying information (by data entry personnel) is removed. It is no wonder why many consulting firms have adopted this scheme.

In today's fast moving and challenging business environment managing the outcome of multiple projects successfully, *on time and on budget*, is key. A software application enables a review of up-to-date, accurate time and expense information incurred on projects and comparisons with budget and project plans. This enhances prompt billing and accurate time records, thus reducing the potential for client queries and improving cash collection.

Employees can also be alerted to movements in critical success factors — debtor days, stock levels or sales productivity moving outside specified parameters — enabling them to react quickly to changing business circumstances.

A corporate intranet also enables information such as management reports and business documents to be delivered anywhere in the world via browsers in real-time. With fast and easy access to the information they need, wherever they are, employees can be redeployed for more value-added revenue generating work. Organisations integrating the Internet into their operations were 2½ times more likely to see productivity gains and greater market share growth than companies that have not hopped onto the Internet.



From Control to Innovation

A process of collaboration optimises all internal and external activities in order to deliver greater perceived value to the ultimate customer. The opportunity lies in changing the focus from control to innovation and from trading to collaboration.

The functionality and design of a good system enables organisations to derive this e-commerce advantage — whether it is within the business-to-business, business-to-customer or business-to-employee arena.

Note : Systems Union is a leading international solution company, offering powerful financial and business management software. Bruno Lee was among the pioneer team involved in building up the infrastructure of the regional office — sales and business partner recruitment, setting up the administration and operations, and developing training and marketing.

Creative Public Speaking

By Dr. Yew Kam Keong, Ph.D
PRESIDENT & CEO, MINDBLOOM SDN. BHD.

According to a survey conducted in the US, public speaking is the No.1 fear of the Americans, surpassing even death. However, as an accountant or a senior executive, there is no running away from public speaking. At the very minimum, you have to make presentations to your company. Whether you are speaking to one or a thousand, you require public speaking skills. With creativity you could make public speaking easy on yourself and an enjoyable learning experience for your audience.

Learn From Children's Books

If you were asked to present a technical talk to a non-technical audience, what would you do? I would suggest that you start by doing some research on children's books. Check out the children's encyclopaedia or go to the children's section of a bookstore or a library. The reason is simple. The writers of children's books have a special creative skill of translating complex technical subjects into an easy-to-understand format, that is both simple and interesting. There would be plenty of examples, stories and illustrations to be able to explain the concept clearly to children. By going through the articles for children, you should be able to get good ideas for your presentation. Speak to communicate and not to impress.

Creative Speech Openings

The first two minutes of your speech are the most critical as this is the time that your audience decides whether to switch on or switch off listening to you. How do you get your audience's attention during these two crucial minutes? You should not be creative for creativity's sake alone. Your opening must be relevant to the subject of your speech.

Let me share with you some of the techniques that I have used when presenting public talks. I usually try to get the audience's attention from my first sentence itself.

Challenge Assumptions

I used this technique for my talks during the Young Accountants Convention (YAC) in March this year and at the recently concluded National Accountants Conference (NAC 2000).

At the YAC, my opening words were : "Accountants are an endangered species". This got their attention, as it was something that affected them profoundly. I went on to explain why and introduced the topic of intellectual capital. Evidently, it was very well received as my books sold very well after my talk.

At the NAC where the theme was about the K-Economy, my opening sentence was : "The greatest obstacle to success in the K-economy is Knowledge!" It went against the grain of the theme of the conference. Even though there were three concurrent sessions at that time, there was standing room only at my talk. After my talk, there was a mad rush for my books and 150 copies were sold within 15 minutes!

Do Something Unexpected

I was invited to speak at a regional Toastmasters' Convention in Bangkok last year and the title of my talk was "Creative Speech Openings". There was no choice. I had to put my creativity to work. I instructed the M.C. to announce that I could not make it for the talk for various reasons and before the participants could recover from their disappointment, I made a grand entry to the accompaniment of stirring music! I demonstrated many creative speech openings during my one-hour talk. The organiser invited me back to give another talk at their Toastmasters' Convention earlier this year.

Use Props

I do use props occasionally to drive home the point I want to make. For instance, I have used a series of stringed cards to spell out certain words. I have also used a bandaged teddy bear with an eye-patch when I talked about taking care of young patients at the children's ward of a hospital. In my talk to parents and teachers on "Bringing Up Creative Children", I used a series of boxes of different sizes with the smaller ones inside the larger ones.

Get Audience Participation

This technique is particularly useful during what many speakers commonly term as the 'graveyard shift', that is right after lunch. In such instances, I would get the audience to stand up and do some exercises with me. They would stamp their feet,

punch their fists into the air and do a fair bit of shouting. Sometimes, I even get them to dance to some hot music! This really wakes them up and I really have no problems getting their ears glued to what I have to say for the rest of my talk.

Controversial Titles

I love to use controversial titles for my talks, as it will spark the participants' curiosity. For example, at the talk that I presented at the Professional Secretaries' Conference 2000 — with the theme : Success Through Empowerment In The 21st Century, I chose the following title for my talk : "Creativity At Work : Fun For The Secretary And Pleasure To The Boss". The organiser was a bit apprehensive at first but agreed to the title after my explanation. There were no protests or complaints even though the secretaries were all ladies (with the exception of one man). They found the PLEASURE formula that I created very useful.

Acronyms

For my one-hour talks, I usually do not use any audio-visual aids. I don't even refer to any notes, yet I manage to keep my audience enthralled. What is the secret? There is actually no secret. The most important thing is to speak from the heart. Believe in what you say. Secondly, I devise an acronym as a memory peg for what I have to say. Thirdly, I never give the same speech twice. I always inject some new elements even though the theme of my speech may be similar. In this way, people who had listened to my speeches before will always learn something new. If you want to do this, you have to do extensive reading like I do. There is no short-cut to this.

Over the years, I have invented many acronyms for my speeches and written articles. They enable me to remember the key points of my speech whilst at the same time make it easy for the audience to remember what I say. Let me share my PLEASURE formula for secretaries with you.

P : Please yourself first thing in the morning. Have a daily FUN affirmation in front of the mirror while brushing your teeth.

L : Learn something new about your boss every day

E : Encourage your colleagues to share their ideas with you.

A : Answer your telephone and carry out face-to-face communication sweetly and creatively.

S : Smile whenever someone comes to see you. Have a mirror handy.

U : Unzip your mind! Learn to be creative.

R : Reward yourself and your boss for small achievements every day.

E : Enthuse yourself. Read a joke everyday and share it with your colleagues.

Concluding Words

Knowledge is only useful if you use it or share it with others. Public speaking is an effective way to share your knowledge and ideas. Your speeches will be much more interesting if you could inject some creativity and humour into them. I have developed my own public speaking skills by being a member of the Toastmasters Club. Join a Toastmasters Club if you want to be a great speaker. In order to practice my skills, I usually volunteer to speak at any opportunity, for example at Rotary Club meetings since every club has to have a speaker every week.

Public speaking helps you to develop self-confidence and may speed up your career advancement. You could even turn professional. However, it is good to bear in mind the following words of the famous speaker and motivator, Zig Ziglar who says, "You have to give thousands of free speeches before you could earn thousands for your speeches".

• •

Note : The author Dr. Yew Kam Keong (YKK) is an international speaker, trainer and consultant on creativity. He conducts creativity workshops for local and multinational corporations in Malaysia and other countries. He is also the best-selling author of the book : You're Creative — Let Your Creativity Bloom. Website : www.mindbloom.com, e-mail : ykk@mindbloom.com

Think Positive — Always Look on the Bright Side of Life

By Joan Ashwood

Research shows that people who have a positive attitude to life are actually healthier. Experiments carried out by psychologists have found that depressed people have a weaker immune system, while maintaining an optimistic frame of mind can improve the efficiency of the immune system, affording greater protection against illness.

By making a conscious effort to use our imagination to create positive images and thoughts in our mind, we can increase vitality and tap into an endless source of energy.

One popular form of changing the way we think and behave is known as visualisation.

The brain is stimulated by words and images, but responds as if they were real, producing changes in heart rate, hormone levels and perspiration rate. Think how fast your heart beats when you watch a horror movie, even though you know it's not real.

Athletes use visualisation to improve their performance and doctors have begun to use the same method to treat diseases like cancer and AIDS.

One explanation for why visualisation can be so effective is that during the time the brain is producing images, neurotransmitters, which carry messages around the nervous system, travel from the brain to the lymphocyte cells in our immune system which help fight infection.

Researchers have found that there are more lymphocytes present in the blood after visualisation.

Try some of these ideas for making the most of life and notice how much better you feel for changing your outlook. Sometimes, if we can't change our circumstances, it's the only option we have.

- Before you go to sleep, rerun the day's events in your mind's eye. Write down all the things that made you feel pleased or happy, however small.

It could be anything from hearing the birds singing or seeing the first cherry-blossom of the year, to receiving a letter from an old friend or receiving a compliment on a new outfit.

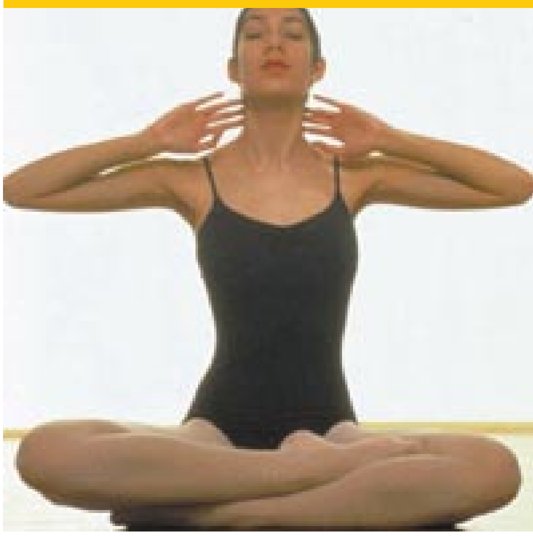
Do this for a week and pin your lists up where you will see them in the morning, perhaps above the bathroom mirror. Read them everyday to remind yourself of the simple pleasures in your life.

- Try smiling more often. The effect of such a simple action on the people you meet every day is amazing. Notice how much people smile at you.

- Laughter is one of the best pick-me-ups around. Hire your favourite comedy stars on video, stock up on healthy snacks and drinks and sink into your most comfortable armchair for an evening of fun.

- Set aside an hour for yourself one evening. Sit down with two sheets of paper and some felt-tipped pens. You are going to take stock of what you like and dislike about your present lifestyle.

On the first sheet, make a list of your complaints and moans. These should include all the things you don't like in your life, from having to queue for the bathroom in the morning to annoying neighbours or not enough help with the housework from your husband.

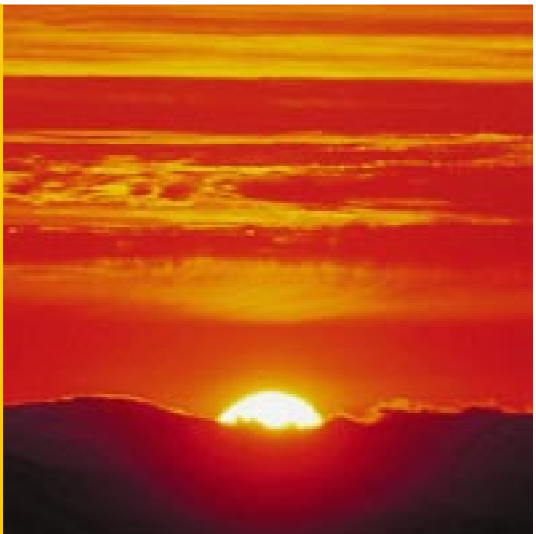


Don't stop until you've written everything down. This will clear your mind to concentrate on the next stage.

On the other sheet of paper, write down your ideal day — how it would start, what you'd do, who you'd be with, where you would go. This will help you to focus on what you want that you may be missing in your day-to-day life.

Write down anything you like, however fantastic. The point is to let your imagination run away with you for once. Then go through each part of your ideal day and make the list of the parts you could begin to work towards. But, remember, Rome wasn't built in a day!

For example, if you want to begin your ideal day with a soak in the bath followed by luxury breakfast in bed, maybe you could arrange one Sunday morning every few weeks when your time is your own for



the first hour of the day.

Or if ideally you would like to spend evenings out with a friend or going to the cinema, perhaps you could arrange for your husband to babysit while you catch up on the latest film on town.

You should finish up with a list of at least five ideas to put into action. Aim to do one a week.

This short visualisation or fantasy exercise is an extension to the daydreaming we all indulge in from time to time. It is based on a system of relaxation called autogenics, a self-generated guide to alleviating stress, which many doctors believe to be extremely effective.

It can have a powerfully revitalising effect, especially if you repeat the same exercise several times over a period of days or weeks.

Either ask someone to read the instructions out for you, or record them on a cassette, leaving pauses between each sentence.

Sit or lie in a comfortable position with your head and neck well supported. Close your eyes and take a few deep breaths. Let go any tension in your body each time you breathe out and feel yourself sinking into the chair or the floor beneath you.

Imagine yourself on a deserted beach. Feel the sun warming your skin and smell the sea breeze. Visualise yourself lying face down on the sand. Feel the caress of the hot sun playing on your back.

Now imagine getting up and walking along the water's edge. Feel the cool gentle waves lapping around your ankles while savouring the peace and solitude of your beach.

Now bring yourself back to the room you are in. Notice the sounds and smells. Stretch your arms and legs and slowly open your eyes. Notice how much more relaxed you feel.

The Nobel prize-winning American psychologist, Roger Sperry, was the first researcher to discover that the upper brain, which controls our thought processes, actually has two hemispheres.

The left side of the brain is responsible for logical, analytical thought using words and numbers, while the right side of the brain deals with imaginative ideas through colour, shapes, pictures and daydreaming.

Research has also shown that the great artists, musicians and scientists of our age used both sides of the brain in their work. Einstein, for example, made some of his most significant discoveries while daydreaming.

The logical way of thinking associated with the left side is given greater value in our education system and the way we live in general. Consequently, many of us reach adulthood believing that artistic and creative endeavour is best left to the few who are lucky to be blessed with special talents.

In fact, it is possible to develop the intuitive, right brain way of thinking by spending more time on activities that enable you to relax and let your mind wander; by taking up that hobby that you always wanted to do but never found time for, or going back to that artistic pastime or sport you were always good at, but were advised would never earn you a living.

The more you allow your creativity to develop, the more you will notice the benefits in all areas of your life. Your concentration and ability to solve problems will improve and you may find yourself having more frequent flashes of insight and inspiration when you least expect them. And by switching off the left side of your brain more often, you'll be giving those overworked grey cells a well-earned rest.

Try out some of these ideas for tapping into your hidden potential. If your immediate response is that you don't have the time, then you most definitely do need to find just one hour a week when you can spend time on something different.

Some people have been known to get up an hour earlier one day a week as a desperate measure, but this will only work if your are a morning person who is ready to go as soon as your feet touch the floor.

- Sewing, knitting, crochet and embroidery are all good ways to switch off for a while. Even if you are tired, you'll feel much more relaxed for doing half an hour's handicraft.

- Spring is a good time of the year to get out in the garden and take advantage of the longer hours of daylight. Some people have their best ideas while pottering among the geraniums.

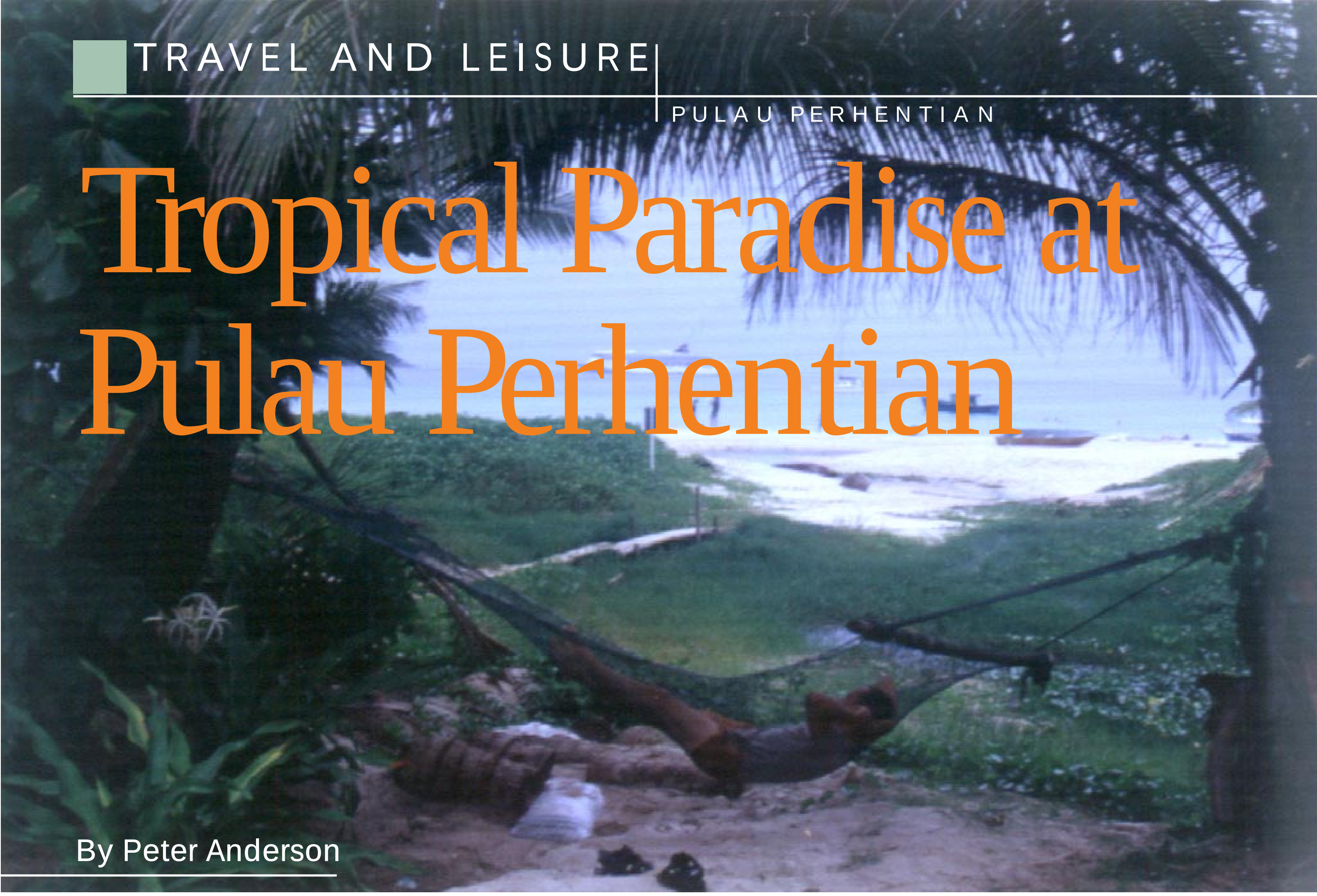
  Flat dwellers could grow plants in pots on a balcony or create an indoor jungle near a sunny window.

- Put your favourite music on and stretch out on some soft cushions while you drift away. Try your local library for a short-term loan of records and cassettes for variety.

- Start or finish the day by dancing. You will feel less self-conscious about this one if you make it a game and get the children to join in, too.

- Try out a more unusual handicraft like jewellery making, stained glass design or weaving.

Tropical Paradise at Pulau Perhentian



By Peter Anderson

If you are looking for a breakaway from the hustle and bustle of city life and prefer unspoiled natural surroundings distanced from 5-star monstrosities on a tropical island, then Pulau Perhentian in the Malaysian state of Terengganu is your destination. *Perhentian*, in the national language Bahasa Malaysia, means stopover and although tourists have been stopping over at this island paradise for only a few decades, the traders have been visiting for centuries.

Comprising of two of the most idyllic islands in Peninsular Malaysia, Pulau Perhentian is made up of Pulau Perhentian Besar and Pulau Perhentian Kecil, which literally means big island and small island. Surrounded by a variety of corals, brightly coloured fish, sharks, rays and turtles, these islands are a snorkeller's paradise. Fortunately, to date none of the large hotels have come to this haven, so the islands are unspoiled and the simple accommodation makes for a relaxing and inexpensive repose.

We left Subang Airport at 10.20am, flew to Kota Bahru, took a taxi to Kuala Besut, hopped on a speedboat and came ashore at Pulau Perhentian Kecil before 2pm that afternoon. We checked into Chempaka Chalets and then quickly ran down the beach into clear warm water. Pantai Pasir is an ideal beach for children as it gently slopes out to the sea.

Nasir, from Cempaka Chalets, has a converted fishing boat, which makes an ideal day boat. At RM30 per person (minimum eight), he will take you to four snorkelling spots as well as a stopover on the main island for lunch. We departed from Pantai Pasir at 10.30am the next day and headed north to the next bay where the number of fish was incredible. As one immersed oneself in the turquoise sea, the psychedelic colours were amazing; small fish in large schools, large colourful parrot fish nibbling at corals and, orange and white striped clown fish darting among the anemones. The riot of colours; yellow, red and blue in such clarity, were like dancers moving in unison with the corals as backdrop and the sea their stage.

From here, we headed south between the islands where the turtles are usually seen. The two commonest turtles here are the Green and Hawkbill. With the water being so clear, it was easy to spot the turtles coming up for air. From the boat, the turtles could be seen surfacing for air before diving down. The turtle first sticks its head just above the surface to check for any danger, and then it resurfaces for some air before going down just below the surface. It will come up for a second breath before diving towards the sea floor. We saw many turtles before moving to Shark Tooth Point where sharks can be seen. Then, it was time for a well-deserved lunch and we went ashore to Abdul's Chalets for a cold drink and *makan*.

After lunch, we headed back to our chalet with another snorkelling stop close to the rocky cliffs where the corals were quite stupendous. It was nearly 5pm when we arrived back for a quick shower and a Mars Bar milkshake.

We then took a short 20-minute walk through the forest from Pantai Pasir to Coral Bay on the other side (west) of the island. There are numerous tree frogs, squirrels, large monitor lizards, sea eagles as well as an interesting range of flora as you walk around the island. We understand that there are rare spider monkeys on Pulau Perhentian Besar. Here the marine reserve of Pulau Rawa can be seen, making it an ideal spot to watch turtles and

Fishing boats — Pantai Pasir

enjoy the sunset.

During our stay here, there were around 500 tourists along Pantai Pasir (95 per cent foreigners) and the nightlife went on into the wee hours of the morning. On our last night at the island, it was the birthday of one of the locals and nearly everyone turned up for a bonfire, barbecue and all night dancing.

The next day, we had to return to Kuala Lumpur and all of us were secretly hoping that the speedboat would not come to pick us up. To me, the biggest problem in going to Pulau Perhentian was leaving!

I implore all speedboat owners : Please do not enter the areas marked by buoys for snorkellers. Firstly, it is dangerous for the snorkellers and secondly you will ruin your livelihood : if the corals and fish disappear, so will the tourists. Another distressing feature is how close the Star Cruises vessels moor to the islands. Apparently, the vessels moor every Tuesday and I was told by diving instructors that one of their favourite diving spots could not be visited on these days. This is because the cruise ships leave their engines running all day, and the noise as well as the stirring up of sand makes diving impossible.

This is one of the few unspoiled tourist spots in Malaysia — let's keep it that way! Finally, a visit to Pulau Perhentian is not complete without having a Mars Bar milkshake — simply to die for if the 'Jen Syrup' is added. If you prefer a Snickers or M&M peanut milkshake, go ahead, forget about the calories and indulge yourself.

Accommodation

Pulau Perhentian Kecil : Cempaka Chalets start from as low as RM5 per person. Tents are available at RM10 per night for two people. The simple 'A' frame chalets (with communal toilets and showers) are RM20 per night for two people, while the chalets with toilets and showers are RM60 per night during peak season and RM45 during low season. Cempaka's restaurant offers excellent breakfast at reasonable prices throughout the day. Contact Baku or Musky at 010-985 7329.

Pulau Perhentian Besar : Abdul Chalets at RM50 per night is ideally located on the beach close to areas for snorkelling for sharks and turtles. Its seaside cafe has an extensive menu. Contact 010-983 7303 or 09-697 7058.

Snorkelling/Diving

Snorkelling trips to Pulau Redang (nine hours) at RM70 per person and Pulau Rawa Marine Park at RM40 per person. Production shoots can be arranged. For more info contact Cempaka.

Diving courses are conducted by the Sea Horse Dive Centre at RM750 for a four-day course including equipment, boats, books, etc. The Centre also conducts all courses up to Dive Master. Registered divers are charged RM70 per dive. Night dives are also available.

Towards Creating a 'Knowledged Economy'

NATIONAL ACCOUNTANTS CONFERENCE 2000, 5-6 SEPTEMBER

By Nirmala Ramoo

Knowledge is Power, and the will to acquire knowledge is precisely what drew 1,000 accountants to the recent National Accountants Conference (NAC). Billed as the Malaysian Institute of Accountants (MIA) event of the year, a distinguished line-up of speakers spent two days from 5-6 September to teach these individuals the art of 'Competing in the Knowledge Economy.'

From learning to project a professional image to knowing the national economic outlook for the coming year to optimising the advantages of e-commerce, everything was discussed, analysed and hopefully absorbed by the participants. Here too, old friendships were renewed and new ones established.

MIA's past President, Dato' Syed Amin Aljeffri in his opening address said that the role of accountants has been transformed from mere auditing to being business advisors. He called on accountants to equip themselves with knowledge in other fields and be able to interweave this knowledge into their functions as accountants.

He stressed on the need for accountants to help develop products which help clients safeguard their businesses from the hazards of a networked economy particularly in areas of regulatory framework and controlling risks arising from on-line trade.

After the formalities of the Opening Ceremony, the Conference began with a look at the concerns surrounding the national economic outlook. Excited murmurs reverberated around the hall when Dr. Nungsari Ahmad Radhi, the former Dean of the School of Economics, University Utara Malaysia announced the positive national economic outlook for Year 2000-2001.

With the apparent full recovery from the economic crisis of 1997/1998 as confirmed by Bank Negara Reports, Malaysia looks set to propel full speed ahead, but are we fully equipped to exploit this robust outlook in view of globalisation?

Dr. Nungsari said regionalisation is the trend globally in adapting to the negative effects of globalisation while enhancing the incorporation of its positive effects, especially in international trade. As such, it is imperative that Malaysia promotes the Asean Free Trade Area (AFTA) instead of creating fears about it or be seen as backtracking on its commitment to it. He said the belief that trade can be created bilaterally outside of a regional arrangement was incorrect as the success of bilateral arrangements will depend strongly on the level of global competitiveness.

When prominent economist Dr. V. Kanapathy took centre-stage during the second plenary session that afternoon, the participants were prepared for an interesting session. He dwelled on Malaysia's shortage of skilled workforce in the IT sector and the need to address this concern.

He said the importance and efforts placed on the establishment of the Multimedia Supercorridor, Cyberjaya and Putrajaya were not enough if the country lacked the manpower skills to exploit the potential from such enterprises. An equal, if not higher emphasis, needs to be placed on creating a critical mass of skills and institutions to produce world-class technologies and significant world-class companies. In view of this, Dr. Kanapathy stressed on the need to adapt new approaches to organisational and individual learning in order to increase the quality and quantity of a skilled workforce.

He pointed out that despite the commendable efforts taken by the Government to enhance Malaysia's international competitiveness and efficiency, more needs to be done in revamping the curriculum of schools and institutions of higher learning to stress on quality and creativity.

He called for the removal of barriers that inhibit entrepreneurship and further improve the environment for e-commerce, research and development. More importantly, Dr. Kanapathy stressed on the need to forge an open culture to help foster entrepreneurial thinking and an understanding of the benefits of the successes and failures.

The second day saw Professor Dr. Roland Kaye, from the Open University Business School in the UK, delve into the intricacies of how and where to begin embracing the 'Knowledge Economy.' His presentation covered both historical aspects of the realisation that knowledge fuels business success and the evolution of the management theories that helped to develop the skills to overcome modern day challenges.

Quoting Alfred Marshall who way back in 1890 said that "Knowledge is our most powerful engine of production" and that "Capital consists in great part of knowledge and organisation," Dr. Roland took the audience on a historical voyage from the communications revolution to the evolution of the management gurus and their theories, to the transition into the age of informa-

1,000 participants, the largest ever turnout at the National Accountants Conference 2000 tion and communications technology.

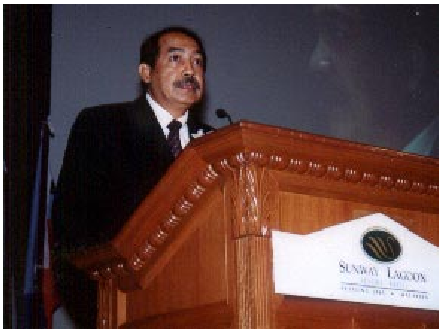
On a lighter note, the participants were taken on a journey of self-analysis when image consultant Dolly Kee outlined the finer points of professionalism to achieve success. She stressed on the importance of presenting an impeccably well-groomed image to get noticed and the need to have good communication skills to get people to listen to what we have to say.

Here, the usually 'stuffy' accountants were asked to analyse themselves to see whether their current images were a hindrance to greater success. From the way one smells to the way one intonates, every little bit counts in projecting a professional image that helps to close a deal. If appearing sloppy is your style, then a total makeover may be just the thing to help close that deal, said Dolly.

All in all, it was a good two days spent away from the humdrum of work for these 1,000 accountants who at the end of the Conference hopefully took back, in addition to a Certificate of Attendance, a wealth of useful information that will help them function as effective workers.

Trooping of colours, the respective MIA Branch representatives walking up to the stage to place their state flags

What They Said ...



Dato' Mohd Nor Mohd Yusof

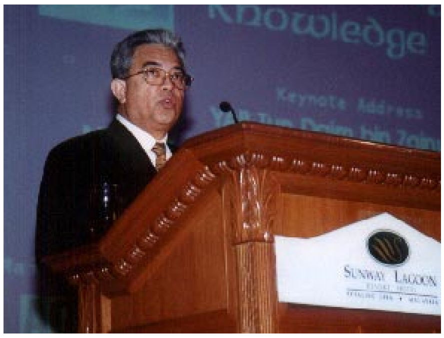
YBhg Dato' Mohd Nor Mohd Yusof, Advisor to the honourable Minister of Finance Tun Daim Zainuddin, when delivering the Minister's keynote address.

"The accounting profession competing in a charge-driven landscape would invariably show up at least three sets of players; the innovators, the adopters and the laggards. Clearly, the innovators will have the advantage of pace setting and probably market leadership, while the adopters will have to harness their ability to adapt and strategically position themselves in the competition. The laggards at the other end of the spectrum may eventually have to capitulate to whatever outcome that the race may bring."

Daniel Chian

Daniel Chian, Conference Organising Chairman during his welcome remarks.

"The ascendancy of knowledge as the basis of a nation or an organisation's power and prosperity has been made possible by the exponential growth of computing and communication power. Path-breaking invention and innovation in the realm of information and communication technologies are the drivers in the crowning of knowledge as the dominant factor."



Dato' Syed Amin Aljeffri

Dato' Syed Amin Aljeffri, Past President of the Malaysian Institute of Accountants during his welcome address.

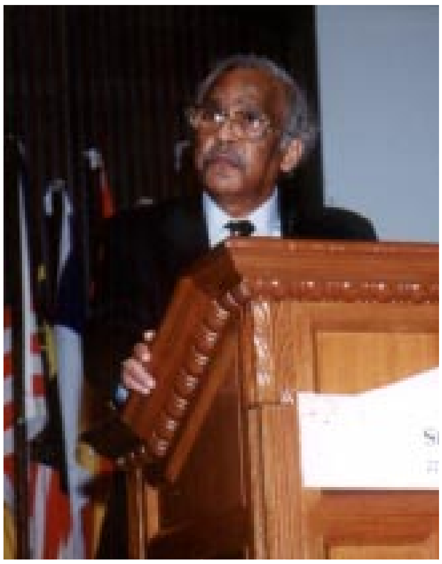
"As vanguards of financial truth, your role has been transformed from mere auditing to business advisor. To embrace this role effectively, you must first equip yourselves with knowledge in other fields and be able to interweave this knowledge into your function as accountants. Only by expanding the boundaries of your intellect can you do justice to your profession. You must be able to help develop products that help your clients safeguard their businesses from the hazards of the networked economy ...."

Tan Sri Datuk Seri Panglima Bernard Dompok

YB Tan Sri Datuk Seri Panglima Bernard Dompok, Minister in the Prime Minister's Department during his closing address.

"The perils of ignorance are frightening. If we choose to remain blind to the tumultuous changes in global economic trends, we will be left behind in the economic strata. With immediate access to information via the internet, we can no longer plead ignorance. Instead, we should consider ourselves privileged to have this opportunity and shift our efforts towards harnessing the digital technology."

Participants rapt in attention



Dr. V. Kanapathy presenting his views

Craig Downing of ACCPAC International, Inc. during his plenary session, "One World — One Market"

Clearing doubts ... Participants were given 15 minutes at the end of each session to ask questions

Dato' Mohd Nor (right) posing a question to an exhibitor. On his right is Dato' Syed Amin Aljeffri

The participants visit the exhibition fair outside the conference hall

ALL REPORTS ON TOPICS DELIVERED AT THE NAC 2000 WERE COMPILED BY JOYCE LIEW

Business Reporting on the Internet

Roger Debreceny PhD FCPA

One of Debreceny's honourable researches is in the area of internet reporting. His extensive research in business reporting on the internet has brought upon a new era for the accounting field.

He suggested that the divergences of businesses are increasingly leaping into new methods of reporting. For example, Coles Myer created a website for the purpose of providing information to students. Previously, full-time staff had to be hired to answer calls from students seeking information on Coles Myer's annual reports. To facilitate this, they decided to provide this service through the use of the website. On the same note, ANZ Bank, one of Australia's leading financial institutions had problems with their quarterly reports, which took two hours to fax. Instead, with the use of the internet, they were able to inform users that the reports would be available at the pre-set time at the pre-set website. Therefore, the use of the internet successfully achieved two goals, that is, in-

"... the use of internet reporting has increased the problem in legal jurisdiction. This occurs when companies announce half yearly or quarterly reports and sets a conference with analysts who follow the stocks of the company."

stantaneous feedback and a cheaper mode of disseminating information.

However, he was quick to point out that the use of internet reporting has increased the problem in legal jurisdiction. This occurs when companies announce half yearly or quarterly reports and sets a conference with analysts who follow the stocks of the company. What remains is the existence of shareholder democracy, that while providing information, you are excluding everyone else, therefore, allowing shareholders to sue for non-disclosure. To compensate for this, companies should bring the conference hall into the internet using Real Audio so that no one is disadvantaged.

Ironically, risk factors such as cheque rooms, stocks and hacking are often forgotten. Another area of concern is the existence of a website when one does not really exist, which can tarnish the name of the company. It is always important to note that we do not know who we are communicating to.

What is happening out there? How important or how intensive?

FASB studied companies in the US earlier this year, and its studies show that 99 per cent of Fortune companies have websites and 94 per cent made financial disclosures on the web. The influence of internet reporting is such that it is a standard component in large companies to provide information. In other areas, there is a widespread adoption in UK, Germany, France and Austria though limited in Spain and Italy.

There are three stages in web reporting:

Stage	Characteristic	Pros	Cons
I	Adobe Acrobat	• Familiar	• Needs plug-in • No hyperlinks • Cannot be indexed in search engines
II	HTML for text and data formatting	• Hyperlink • Index • Fast	• Poor printing support • Difficult to save • Lost in hypersave
III	Enhancements not possible in print — tailoring, interaction	• Alternative ways to present data • Additional information	• May require plug-ins • Information overload

The IASC research team conducted a detailed survey of the 30 largest companies in 22 countries in Asia Pacific, Europe, South America, North America and Africa.

Country	No site	Site-no accounts	Download	HTML	HTML/ Adobe	Full HTML	Full HTML Adobe
Malaysia	***57%***	***17%***	***7%***	***1-%***	***3%***	***7%***	***0%***
Canada	–	7%	10%	–	–	3%	79%
Denmark	15%	19%	19%	8%	19%	–	19%
Germany	–	24%	17%	–	–	21%	38%
NZ	10%	37%	13%	7%	7%	13%	13%
UK	10%	30%	–	–	13%	10%	37%
USA	–	7%	10%	7%	7%	33%	56%

Malaysia, as compared to the others shows little existence of web sites. As compared to other countries, 57 per cent of the 30 top largest companies in Malaysia did not have a website. Of those who did, 17 per cent had no accounts.

How do we overcome the change into Internet reporting?

The IASC report identified 12 technologies which can be used for performance reporting. One of them includes HTML. HTML is an open standard for information dissemination where it is capable of converting Word or Excel files into HTML type which can then be loaded onto the website. Some of the advantages include fast access and easy readability. However, minor setbacks include the difficulty to save, to print and incompatibilities in browsing.

What are the expectations?

Some of the considerations that should be taken into account include the type of investors we expect to communicate to. For example, the casual investor and the analyst. What technology do we assume that they have access to? Are they accessing from Singapore or New York? Other matters that should be included are Archives for previous statements and reports.

XBRL

XBRL was developed as the first formal accounting language for the web. The objective was to create data once and to render the same data into many different formats. The IASC will likely adopt the XBRL. IASC representatives already visited Malaysia last July. In general, XBRL is a format of an annual report in HTML. It is devised on XML.

There are currently three sets of parties who have joined the Committee.

1) Accounting organisations — CPA Australia, IASC, Accounting firms.
2) Consumers of information — Morgan Stanley, Dean Witter, Reuters.
3) Software companies — Oracle, Microsoft, IBM.

Membership has increased to more than 60 and is expected to increase to 100 by the end of this year.

In summary, the effect of XBRL on accountants are minute as auditors and accounting software companies will be placed on parties who would have to understand XBRL to produce annual reports for their clients. It is timely for Malaysia to step ahead and be part of this new XBRL era.

Strategies of the New Balanced Scorecard

A. N. Raman

Management focus is slowly becoming more strategic. Traditionally, it was just man and his resources. Unfortunately, how we need to reposition instead of resharpening our tools. This is how A. N. Raman interprets today's management focus.

In his presentation, he emphasised the changing focus of management, that management is intended to be operational, that is, managing operations and customers. Accountants support the management by questioning the performance against the operational costs, where the balance sheet and profit and loss is related.

But management is now becoming less operational focused, he said. They are slowly becoming strategic, that is, wanting to understand customers and how to create markets. This is where management tools become obsolete and accountants need to do away with traditional tools and use more advanced tools like the balance scorecard and activity-based costing.

One of the elements of organisational change is information-based management, the variety and many needs of customers. The ability to manage intangible assets, that is, our employees such as the salesman. Developing vision and strategy for the organisation where markets are becoming global. What we do today, will affect what is going to happen tomorrow. Integrating the business and financial planning, that is, to align the business strategy together with the organisational change. Feedback and learning, that is, to receive feedback on customers to improve on our performance.

"The balanced scorecard should contain the organisation's vision and strategy and should be used at strategic business unit levels. The information contained is different for each type of business."

The role of intangible assets is to develop customer relationships through serving them effectively and efficiently, that is, to serve higher quality and lower cost products. Introducing innovative products and services desired by targeted customer segments. For example, moving into the e-commerce era. Mobilising employee skills, which is a qualitative situation, and deploying information technology are also two roles used to maximise the use of intangible assets.

The role of intangible assets is important and therefore, there is a mismatch with the traditional model especially for those who are not strategically focused. The tool that is important here is the balance scorecard. The use of the balanced scorecard as a management tool is not a balance sheet tool but it retains traditional financial measure. It includes drivers of future performance. The balanced scorecard should contain the organisation's vision and strategy and should be used at strategic business unit levels. The information contained is different for each type of business.

In comparison to the balance sheet, the balanced scorecard has four perspectives. They are, the customer, financial, internal processes and learning. However, among the aspects that must be acknowledged are the barriers to implementing the Balanced Scorecard which are often hindered by non-actionable vision and strategy, the lack of linkage between departments, teams and individual goals, the lack of resource allocation and feedback which are neither tactical nor strategic.

Seeking Assurance … Is Risk Management the Answer?

Ranjit Singh

Ranjit Singh, with many years of international experience, interprets the current environment facing the Malaysian markets as extensively focused in risk management. In an ordinary scenario, the Board of Directors receive their level of assurance from the results of external audit, internal and operational audits, management information, representation by the management, the audit committee and the experiences of the industry. However, it is often mitigated that management information and representation only provide information which benefits them.

"The focus of risk management is critical and very clear due to several effects, such as, rapid acceleration of competition, continuous quantum leaps in technology and legislations."

The current environment talks about financial information which is appropriate for making decisions. Companies are more aware of the responsibilities and want to continue focusing on corporate governance to avoid going to jail. The management risk is basically getting the right information on risk, whether or not management has been informed. This is to avoid having them say that they are not aware of the risk involved.

The focus of risk management is critical and very clear due to several effects, such as, rapid acceleration of competition, continuous quantum leaps in technology and legislations. One of the symptoms is cutting costs. Areas of cutting costs may introduce high risks. Therefore, the recognition of risk is important and the knowledge of risk should come from all sources.

Why is there a need for risk management?

It has always been a business reality. Things are changing fast, organisations are growing bigger day by day. Management should understand the effects of global markets, commercial restructuring, government cutbacks, changing technology and diverse workforces.

Generally, business risk management is not just accounting controls, restricted to insurable risks and creating risk averse management. It goes beyond these risks like images.

There are various risk management styles.

Risk Nervous (The Bureaucrat) — the risk is low but the control is high — taking a very high level with lots of internal control. Why? Because you are nervous that something may go wrong and so add more control over another control.

Risk Averse (The Mouse) — The risk and control are low where companies lie low in this area.

Risk Ignorant (The Cowboy) — There is high risk and low internal controls; where similar to the 'cowboy' character, the method taken is to venture in high-risk areas without considering the surrounding environment. They are not concerned with controls and spend very little in this area.

Risk Aware (The Controlled Entrepreneur) — Most organisations take the high levels of control to mitigate the high risk that they are taking. They want to know what risk they are taking day to day and want a structured process to know where the risk areas are and what steps can be taken to control those risks.

Therefore, Best Practice Risk Management is favourable. We should first identify and evaluate the risk involved, then assess how to control the risk, report the risk to related parties, develop a risk management plan and continue with an ongoing risk management system.

Auditors to Augment Financial Governance

Navin Pasricha

Navin Pasricha is no stranger to corporate governance. Apart from his role as Governor of the Institute of Internal Auditors Malaysia, his area of expertise is also associated with the development and training of audit committees. In his presentation at the NAC, he stated that there is a tremendous change in what people think about corporate governance today. He emphasised that accountants and auditors should come to grips with the changes in which we have lived in the most critical area of corporate governance. The role still exists but tremendous changes have put pressure on the regulatory board, although there is the realisation that there are other areas which can perhaps move further than where they are now.

On this note, one of the international forces that has affected us is globalisation. The world is changing, and the result is a move toward privatisation. There is the effect of liberalisation, technology advances, emergence of the internet and e-commerce, and the increased speed of the life-cycle of businesses. Due to this, the impact on economical changes has been a move towards transparency, shareholder activism, independent directors and definitions of processes at Board level.

He pointed out that there are three vehicles for change in corporate governance in Malaysia. The Malaysian Code on Corporate Governance, which was issued on March 2000; the KLSE Listing Rules; and the KLSE Taskforce on internal controls originated as guidance to directors.

"The world is changing, and the result is a move toward privatisation. There is the effect of liberalisation, technology advances, emergence of the internet and e-commerce, and the increased speed of the life-cycle of businesses."

In the perspective of the Directors, their key principles are to have an effective Board to lead and control the company. This includes having a balance between executive and non-executive directors. There should also be timely and appropriate quality of information, and appointments to the Board should consist of some form of formality and transparency as well as re-election at least every three years for all.

He recommended that the best practices expected of directors would be to review and adopt strategic plans, to oversee the conduct of company businesses, to identify principal risks, to plan the succession for senior management, to form investor relations programmes or shareholders communications policies and to ensure the reliability of internal control systems, the MIS and compliance.

In addition, he highlighted the audit committee's responsibilities as pertinent in corporate governance to ensure a level of independence. The focuses that audit committees should consider are the appointment of auditors, the audit fee and the questions of resignation or dismissal. There should also be close discussions on the nature and the scope of the audit, reviewing management letters and response as well as a review of the quarterly and annual financial statements, and matters arising from interim and final audits.

He considers some level of training and education should be provided for the directors. Areas that may be of importance are formal director orientation programmes to understand the core business, the strategic plans and objectives, to meet executives and professional advisers. It is also important for the Audit committee to walk through the financial control system.

In summary, a national convention should be agreed upon as it is usually followed quite voluntarily although there is a level of mandatoriness in terms of KLSE control and listing requirements. However, there is support which is roughly related to corporate governance to ensure that the change is adopted well.

Dinner and Dance at 13th Anniversary Do

The Malaysian Institute of Accountants (MIA) Northern Branch's 13th anniversary was celebrated in grand style as 470 members and invited guests were treated to a sumptuous dinner and dance at the Equatorial Hotel, Penang. The guest of honour, Penang Chief Minister YAB Tan Sri Dr Koh Tsu Koon was represented by State Executive Councillor, YB Dato' Dr Toh Kin Woon. Also present at the dinner was MIA past President Dato' Syed Amin Aljeffri. The theme chosen for the night was 'MIA — Your Key To the Door of Opportunities' to symbolise MIA's role as the facilitator for members to understand and embrace the electronic era. Each guest was given a bookmark shaped like a key.

Dato' Syed Amin Aljeffri presenting a memento to YB Dato' Dr Toh Kin Woon. Looking on is Neoh Chin Wah

E-bags for members at the dinner

Neoh Chin Wah, the Northern Branch Chairman, in his welcoming address, called on members to prepare themselves to face inevitable competition with the impending passage into the era of the World Trade Organisation (WTO) and Asean Free Trade Area (AFTA) in Year 2003. "The changing landscape of professional practices will see the free flow of people especially an influx of foreign professionals that may change the way we practice today. If we do not start preparing for AFTA 2003, we may be out of business", he said.

Likening the urgency to prepare for AFTA to the worldwide preparation for the Y2K syndrome, he said that the key to the door of opportunities in the turbulent changes ahead was to be informative. "To be informative we have to continuously learn, unlearn and relearn", said Neoh. He urged members to use the MIA as the platform for information exchange and information update. "Transform and bring yourselves on to the e-platform by taking a hands-on approach to computers and be mobile and connected", he observed.

Neoh's concern for accountants to be e-savvy was evident from his message in the Souvenir Booklet for guests that night. He called for members to transform themselves to become e-accountants. In playing its role as the 'key to the door of opportunities', he said that the Branch needed to organise more meetings for members to share their views and help one another prepare themselves to meet the challenges ahead. He also pointed out that the Branch website was a good source of information and as such needed to be updated regularly.

Fun and laughter — guests participating in the table draw to determine which colour will adorn their tablecloth

Official Opening of Northern Branch New Secretariat

The day after their annual dinner, the Northern Branch achieved another milestone as the Malaysian Institute of Accountants (MIA) past President Dato' Syed Amin Aljeffri officially opened the new Branch office in a key handing over ceremony. Over 60 members were present to 'warm up' the new office which is located at Suite 1-2, Menara Penang Garden, 42A Jalan Sultan Ahmad Shah, 10050 Penang. The Branch was previously located at Acctax Corporate Centre.

After the opening ceremony, a dialogue was held. During the dialogue, Dato' Syed and the members discussed the future of the accountancy profession in light of the proposed amendments to the Accountants Act. The issues raised at the dialogue were obviously of great importance as it stretched for two hours from 11.30am until 2pm.

Members enjoying light refreshment after the opening ceremony

Branch Chairman Neoh Chin Wah receiving the symbolic key to the new office premises from Dato' Syed Amin

Members during the dialogue

Contest of Humour for Nine Accountants

The Malaysian Institute of Accountants (MIA) Northern Branch Toastmasters Club recently held an In-house Humorous Speech Contest. Nine members submitted their entries — Albert Yeoh, Chan Choung Yan, Chin Wai Khim, Chong Yeow Hoong, Lee Min On, Ng Swee Weng, Raymond Chong, Tan Pheik See and Woo Kok Lian. The contest was held at the MIA Northern Branch office and admission was free. Also present were Toastmasters Club members from Penang, Butterworth and Seberang Perai.

Toastmasters is a special and fun club. Members not only turn up for a presentation or speech but also share their life experiences with each other. The club is about self-enrichment.

Ng Swee Weng emerged as the winner with his speech titled, "Grey Hair — to dye or not to dye". The first runner-up was Albert Yeoh with, "Why You Must Marry An Accountant". The second runner-up for the contest was Lee Min On who presented a speech titled, "It's a Matter of Ego". Each winner won a trophy. All participants, the judges and time-keepers received tokens of appreciation.

Also present at the contest was former District 51 Governor, S. L. Liew.

Note : This article is a reprint of the article that appeared in the *New Straits Times* on 6 September 2000.

Roaring Success at the Negeri Sembilan and Melaka Branch Education Fair

By Nirmala Ramoo

Exhibitors run out of brochures!

Over 3,000 students and teachers from 34 schools thronged the education fair organised by the Malaysian Institute of Accountants (MIA) Negeri Sembilan and Melaka Branch at the Equatorial Hotel, Melaka recently. This is the first time that the MIA had organised an exhibition of this nature in Melaka. Last year the fair was held in Seremban, Negeri Sembilan.

Major colleges such as Nilai College, Sunway College, Ranger College, Kolej Damansara Utama, Sepang Institute of Technology and Information Technology Institute (ITI) put up impressive displays to attract students to their booths.

The fair was officiated by Tuan Haji Mazlan Abdullah from the Melaka Education Department. In his opening remarks, Mazlan who is the Head of Department of the Humanities Development Management Sector, said that the fair was a good way for teachers to gather vital information on higher education opportunities. "This information can be passed on to students to enable them to be more informed when choosing their courses and colleges", he said.

Students came in droves the moment the hall was opened to the public. The students, mostly fourth and fifth-formers, took the opportunity to collect stacks of brochures on academic opportunities, in particular courses relating to accountancy. The unexpectedly good response resulted in the colleges running out of brochures by noon. The excellent support from the Melaka Education Department and the publicity by MIA were the reasons for the good response from both teachers and students.

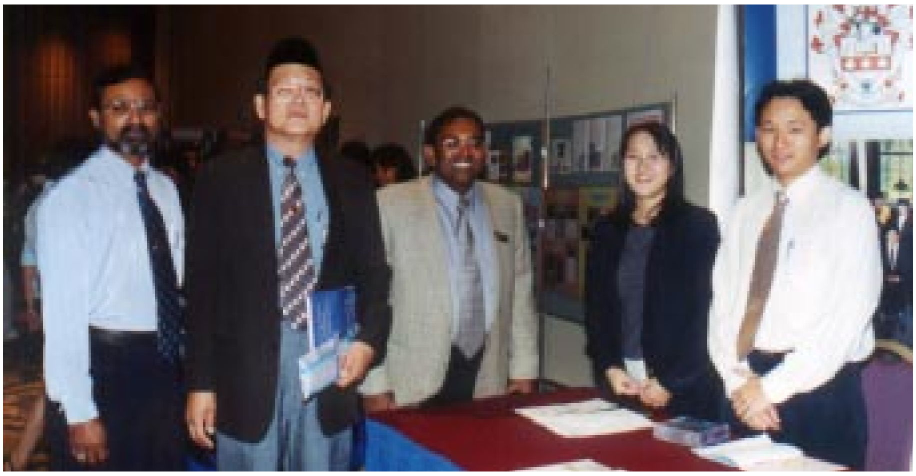

Excitement at the fair for 3,000 students


Nilai College Marketing Executive, Poh Joo Pei (left) busy attending to enquiries


Teachers at the special career talk

Over the course of the day, several career talks were arranged with the first talk specially scheduled for teachers. Sixty-three teachers, from 34 schools attended the talk that covered topics on accountancy, information technology and law. MIA staff Norzainah Mokhtar spoke on the functions of MIA and its role in developing the accountancy profession in the country while Krishnan Ponniah, a lecturer from ITI stressed on the importance of exposing students to information technology. Veronica Vaz from Ranger College spoke on the importance of acquiring recognised degrees from reputable colleges in order to practice as lawyers.

During a press conference, Mazlan said education fairs such as this enabled students to know more about accountancy and perhaps more students would be interested to take up courses relating to accountancy. Acting MIA Branch Representative for Negeri Sembilan and Melaka, A. Viknesvaran said accountancy graduates were very versatile as they could enter many different types of professions due to the intense training during their course of study.



Tuan Haji Mazlan (in black suit) visiting the exhibition booths. From right; Alan Loo and Poh Joo Pei of Nilai College, Viknesvaran and counselling teacher S. Vivekanandan of Sek. Men. Gajah Berang

Dialogue Session with Customs Department

Lydia Wong, Senior Assistant Director of the Customs, Service Tax Department, Royal Customs & Excise Department, HQ, Kuala Lumpur, during her recent trip to East Malaysia, together with senior officers from the Kuching Customs Department conducted a briefing and dialogue session with MIA members. More than 70 members participated in the dialogue and were updated on the relevant changes to the Service Tax Act which affects accountants and other professionals in service sectors.

Some of the members at the briefing and dialogue session

Lydia Wong receiving a memento from Wan Idris, Public Practice (PP) Committee Chairman. Looking on is Nancy Ngui, a PP Committee member

Courtesy Call on ROC

YB Peter Nansian (in suit), presenting a memento to YBhg Dato' Idris Harun.

Acting Sarawak Branch Chairman, YB Peter Nansian led the public practice committee to pay a courtesy call to the Registrar of Companies (ROC), YBhg Dato' Idris Harun during his last visit to the ROC Sarawak. During the visit, the ROC office staff demonstrated the search functions of 'Idaman', a software launched nationwide to aid accountants in reporting. It was agreed at the meeting that MIA Sarawak would conduct an annual dialogue with the ROC and arrange for members who are company secretaries to be given the opportunity to test the search machinery.

Note : All Institute News articles are compiled and written by Nirmala Ramoo.

Latest International Standards for Accountants Now Available

Accountants looking for guidance on how to effectively operate in the global marketplace will benefit from the International Federation of Accountants' (IFAC) publication of its annual standards and guidance. The full text of all IFAC pronouncements as of 1 July 2000 is available in a series of handbooks and for the first time, as part of an online subscription service.

Guidance includes the following :

- International Auditing Standards and Practice Statements
- International Management Accounting Practice Statements
- Code of Ethics
- International Education Guidelines
- International Information Technology Guidelines
- International Public Sector Accounting Standards

This year's handbook series and online subscription features the following new guidance :

- Four new international standards on auditing on assurance services, external confirmations, going concerns, and communications of audit matters with those charged with governance;
- Three new information technology guidelines on the acquisition of IT, implementation of IT solutions and IT service delivery and support;
- The first eight International Public Sector Accounting Standards, which are applicable to all levels of government; and
- A summary of a new guide entitled "Setting Strategic Directions in Small and Medium Enterprises : A Guide for Professional Accounting Advisors."

The fee for the full online subscription to IFAC standards and guidance is US$200 (US$1= RM3.80). (Discounts are available to students, educators and individuals from developing countries.) The subscription entitles individuals to access and download all pronouncements in the areas mentioned above for the period of one year, which begins on the date of purchase. Full online subscribers will also receive announcements on all new guidance issued during their subscription period. To subscribe online, visit the IFAC bookstore at www.ifac.org/store.

Individuals also have the option of obtaining a print subscription to all guidance in effect 1 July 2000 for a fee of US$150. (Discounts to students, educators and individuals from developing countries also apply.) Final guidance issued after 1 July 2000 may be purchased on an individual basis (generally $25 per standard). However, print copies of all exposure drafts will be sent free of charge to subscribers through 30 June 2001.

Individuals who choose not to purchase the full series of handbooks or online subscription, may purchase an individual technical section subscription for a reduced fee and receive only the pronouncements (including exposure drafts) available in the specific technical area requested. Public sector accounting standards are available free of charge. In most cases, both print and online technical section subscriptions are available.

STUDY 12

Cost Accounting for Governments Subject of New IFAC Study

The International Federation of Accountants (IFAC) has released a new study to assist government financial aid officers and other government accountants in its efforts to develop and implement cost accounting. Developed by IFAC's Public Sector Committee (PSC), the new guidance provides governmental perspectives of cost accounting not available elsewhere, although it is not an in-depth study of the subject of cost accounting.

Entitled "Perspectives on Cost Accounting for Governments", the study includes the following :

- Descriptions of the extent of governmental uses of cost accounting, recent growth, and prospects for future growth;
- Explanations of cost concepts that are relevant to various management objectives;
- Discussions of accounting standards issues where the resolution may affect the values used in the cost accounting exercise;
- Description of how specific concepts and processes might be applied in designing and implementing a cost accounting system; and
- Discussions of major issues of importance to senior management.

In discussing the need for this new study, PSC Chairman Ian Mackintosh points out : "Although great similarities exist between the public and private sectors, a number of governmental cost accounting issues have not yet been dealt with comprehensively in existing literature. The need to overcome this gap in the literature and provide a governmental perspective is accentuated by today's pressures on governments to deal with shrinking budgets and meet demands for improved services."

"The PSC's new study is designed to help fill the void by providing reference material for governments on this important topic. Other published sources, including various IFAC Financial and Management Accounting Committee publications, already provide useful guidance on cost accounting in connection with commercial activities," adds Mackintosh.

The new study may be obtained in print through the IFAC Secretariat or an online version may be downloaded from the IFAC bookstore (www.ifac.org). The fee for the print version is US$25 (US$1=RM3.80) or US$22 for the online version.

IFAC Invites Comments on Proposed Guidance on Auditing Derivatives

Recognising the increasing use of derivative financial instruments worldwide and the complexity of derivative activities, the International Federation of Accountants (IFAC) has released an exposure draft (ED) of an International Auditing Practice Statement on "Auditing Derivative Financial Instruments."

The ED, developed by IFAC's International Auditing Practices Committee (IAPC), provides guidance to the auditor in planning and performing auditing procedures for assertions about derivative financial instruments. The focus of the ED is on auditing derivatives held by end users, including banks and other financial sector entities when they are the users.

"Values of derivatives may be volatile. Furthermore, because of the complexity of derivative activities, management may not fully understand the risks of using derivative instruments. These characteristics of derivative activities and derivative financial instruments have resulted in increased business risks for many clients," states IAPC Chairman Dietz Mertin.

"These activities have also resulted in increased audit risks and present new challenges to the auditor. The ED we have issued and on which we are seeking comments, is designed to help auditors meet these challenges," adds Mertin.

In addition to addressing auditor responsibilities with respect to assertions about derivatives, the ED also addresses :

- Responsibility of management and those charged with governance;
- Key financial risks;
- Risk assessment and internal control, including the role of internal auditing; and
- Various types of substantive procedures and when they should be used.

"Auditing Derivative Financial Instruments" may be viewed on IFAC's website at www.ifac.org and downloaded free of charge.

Auditors, as well as those who use or rely on derivatives and other interested parties, are invited to submit comments. They may be sent via e-mail to EDComments@ifac.org or mailed to the Technical Director's attention at the Secretariat. Comments should be submitted in time to be received by 30 November 2000.

FINANCE AND MANAGEMENT ACCOUNTING COMMITTEE

FMAC News

The Finance and Management Accounting Committee (FMAC) intends to form Resource Panels. The Panels will be headed by a member of the FMAC. Members of the Panel however, will come from the membership at large. The planned Panels will cover the fields of banking and economy, public sector accounting, new technologies and education.

The purpose of the various Panels is to create a knowledge base and make this available to members. The Panels will also arrange for articles, activities and talks of discussion groups on the various subjects.

The FMAC invites members who are specialists or who have experience in these fields to volunteer themselves to be members of these Panels. Your contribution will be of great benefit to the FMAC and we look forward to your participation to help make these useful and functional Panels.

If you are interested, please contact Surinder Kaur at :

Dewan Akauntan
2 Jalan Tun Sambanthan 3
Brickfields, 50470 Kuala Lumpur
Tel : 03-2274 5055, Fax : 03-2273 1016
e-mail: surinder@mia.org.my

FMAC Articles of Merit

In a series of articles on Finance and Management Accounting, the Institute has been publishing articles from the Finance and Management Accounting Committee (FMAC) International Federation of Accountants (IFAC) Theme Booklet 1999. The Institute has also published the Distinguished Contribution to Management Accounting from the 1999 Articles of Merit competition.

The Institute selects articles on Finance and Management Accounting, which are published in the *Akauntan Nasional*, and submits them to the FMAC of IFAC. From among similar articles submitted by other member bodies, those of Merit are selected and published in an annual booklet. The Institute will continue to publish these in the *Akauntan Nasional* every month.

The Institute takes the opportunity to encourage members in various fields of the profession to submit articles on Finance and Management Accounting. The term on the FMAC has been renewed for another two years. The Institute is represented on the FMAC by Council member, Tay Beng Wah and Council member Yue Sau Him as Technical Advisor.

The 15th CAPA Conference, Awaits You

Go global! Globalisation! The catchword of the times, everyone and anyone is talking about going global. Has your business actually reached global levels? If you think yes, well, think again. Your business just isn't global if you lack a thorough understanding of the competencies and challenges that affect your business. To stay ahead, you need to refocus your work methodologies by equipping yourself with networks and systems that give you access to limitless opportunities that are just waiting to be tapped. Remember, nothing is constant and change is inevitable.

The 15th Confederation of Asian and Pacific Accountants (CAPA) Conference now gives you the opportunity of your lifetime to arm yourselves with invaluable knowledge about 21st Century challenges in the new economy. For the second time, Manila, Philippines has been chosen to host the Conference which will be held from 7-11 November 2000. It is also significant to note that Manila is the very place where the idea of having a CAPA Conference was conceived in 1957 during the First Far East Conference of Accountants.

With the theme, **accountancy@newEconomy.2000,** the Conference aims to enhance awareness of the complex demands and new competencies urgently required by a totally new business landscape where things are done differently at a great speed. The Conference, which coincides with the 54th Annual National Convention of the Philippine Institute of Certified Public Accountants (PICPA), is only held three times every ten years and will bring together a host of speakers from around the globe who will share their insights, views and expectations on the new economy.

Among the topics for discussion that will be of interest are :

1. A Glimpse of the Future World
2. Value Creation in the New Economy
3. Emerging Trends in Global Financial Management
4. The Accountants' and the Internal Auditors' Role in Corporate Governance
5. Competencies to Succeed in the New Economy
6. Ethics … a Competitive Edge or a Restrictive Twine? *and*
7. Cybertaxation

Apart from the technical programmes, there will be an IT World Exhibit that will provide short talks and hands-on business solutions. The technologies featured will include state-of-the-art computers and peripherals, softwares and groupwares, internet tools and services, internet applications, multimedia and visual communications and emerging technologies.

Delegates' attendance fees start at US$650. Please note that attractive early bird discounts are available for those who register before 15 September 2000. For detailed information on the Conference, kindly contact telephone : (00632) 723-3337, 723-0691 to 95, 726-9452/56, 723-6306 or e-mail : picpa@qinet.net

THE CONFERENCE AT A GLANCE

November 7 — Tuesday

6.30am	The CAPA Millennium Cup @ Sta. Elena Golf Course
8.00am	Registration of Delegates
10.00am	Opening of "The IT World Exhibit" @ PICC Delegate Lounge
10.00am	PICPA Accounting Educators Forum
7.00pm	"Mabuhay" Welcome Reception @ Manila

November 8 — Wednesday

8,00am	Registration of Delegates
8.00am	PICPA Accounting Educators Forum
8.00am	PICPA Chapter Presidents' Meeting
8.00am	55th CAPA Excom Meeting
4.00pm	"Miss Cantada" @ San Agustin Church Intramuros
6.00pm	"Fiestas" Grand Opening Rites @ Puerta Real

November 9 — Thursday

8.00am	Technical Sessions @ PICC Plenary Hall
12.00 noon	Lunch @ PICC Reception Hall
1.00 pm	Technical Sessions @ PICC Plenary Hall
5.00pm	Intramuros @ Par
6.00pm	Romancing the Tuna @ Baluarte de San Andres
6.00pm	"Manila … Manila!!!"

November 10 — Friday

8.00am	Technical Sessions @ PICC Plenary Hall
12.00noon	CAPA Assembly of Delegates with Lunch
12.00noon	Lunch @ PICC Reception Hall
1.00pm	Technical Sessions @ PICC Plenary Hall
4.00pm	56th CAPA Excom Meeting
4.00pm	PICPA Awarding Ceremony @ PICC Plenary Hall
7.00pm	Closing Rites & Handover Ceremony @ Intramuros
8.00pm	"Baile de Honor" @ Intramuros

November 11 — Saturday

9.00am	"The IT World Exhibit" Hands-on Workshops
12.00noon	Closing of "The IT World Exhibit"

Developers For Investment : Where Does Business Commence?

By Gurbachan Singh and Leon Kwong Wing

KHATTOR WONG & PARTNERS, SINGAPORE

Property developers as taxpayers are chargeable to tax in respect of the gains or profits of their business. The Singapore and Malaysian Income Tax Acts provide that, in ascertaining the taxable income of a taxpayer from a business, there shall be deducted the expenses incurred during the year in the production of income from the business.

In the case of developers constructing properties for sale, the Revenue accepts, broadly speaking, that all of the developer's revenue expenses incurred in developing the property must be allowed against the revenue receipts in order to arrive at the developer's chargeable income. However, in the case of developers for investment, the Revenue takes the position that the business had not commenced while the property is still under development and hence, regards substantial incidental revenue expenses which are being incurred not deductible.

The issue for taxpayers developing property for investment, therefore, is whether it ought, in fact and law, be regarded as carrying on business before its property is ready for occupation.

Our view is that the business clearly commences when the expenditure on development commences. This is so where the property is being developed for sale; it must be equally so where the property is to be let out.

"When a business commences is a question of whether or not the taxpayer is committed to the income producing activity." (*Goodman Fielder Wattie Ltd. v Federal Commissioner of Taxation*) In the distinction between preparing to carry on an income producing activity or business, and actually carrying it on, the former refers to activities in the nature of a feasibility study, exploration, research and development, and so on which are undertaken for the purpose of deciding whether or not to go into a particular area of business. (*Esso Australia Resources Ltd. v Federal Commissioner of Taxation*) By contrast, once matters have proceeded beyond the stage of investigation, a taxpayer is, in our view, to be regarded as having commenced business activity.

In *Federal Commissioner of Taxation v Brand*, the taxpayer, who intended to invest in prawn farming, paid the promoter of the venture RM15,000 for a license to use the prawn ponds and facilities, which at the time, were under construction and RM1,000 to stock the ponds. Unfortunately, before the ponds could be completed, the promoter company was placed in receivership and then ordered to be wound up. The taxpayer claimed a deduction of the RM16,000 expanded in the failed venture, which the Commissioner refused to allow.

The court, finding for the taxpayer, disagreed with the Commissioner's argument that the taxpayer' expenses had been incurred before the commencement of the business or income-producing activity.

In essence, the Revenue takes the much narrower view that 'business' consists in the activity directly referable to producing chargeable income. Where the income in question is to comprise of rents, then according to this logic, the business comes into existence only when the property is ready to be rented out.

In *Commissioner of Income Tax, Gujarat I v Saurashtra Cement and Chemical Industries Ltd.*, the taxpayer company manufactured and sold cement. Its activities spanned three stages : quarrying limestone, turning it into cement and selling the cement. The court held that the company's business commenced when it started to quarry the limestone and not at the later times when it commenced the manufacturing process or when it commenced sales. The basis of the court's decision was that quarrying limestone, which was the activity that came first at that point of time, was as much a part of the company's business as the manufacture and sale of cement.

Our view is that, as a matter of legal principle, if a company's objects are business objects and the company proceeds to carry out these objects, the company is to be treated as carrying on business. In *Vallambrosa Rubber Co., Ltd. v Farmer*, Lord Johnston said :

"I think it (i.e. whether a company is carrying on business) must be ascertained from the Memorandum of the Company, read in conjunction with the actual operation of the Company".

In order that the courts may draw the proper inferences from a company's objects, these, as a matter of good practice, ought not to be drafted so widely that it is impossible to discern the real object(s) for which the company is formed. For any taxpayer, some forethought in the form of proper documentation might go a long way in avoiding costly and intractable difficulties later.

INCOME TAX RULING NO. 7/2000

Providing Reasonable Facilities and Assistance

1.0 TAX LAW

This Ruling applies in respect of section 80 of the Income Tax Act, 1967.

2.0 THE APPLICATION OF THIS RULING

This Ruling considers :

2.1 What facilities and assistance a person should provide to the Director General or an authorised officer;

2.2 The consequences of failing to provide such facilities and assistance.

3.0 HOW THE TAX LAW APPLIES

3.1 A person should provide reasonable facilities and assistance to the Director General or an authorised officer when he exercises his powers of full and free access to lands, buildings and places and to all books and other documents, to search such lands, buildings and places or to copy or make extracts from any such books or documents without making any payment.

3.2 This Ruling gives general guidelines on the facilities and assistance that are to be provided to the Director General or an authorised officer.

3.3 Facilities and Assistance

3.3.1 Free and full access to lands, buildings and other places must be provided to the Director General or an authorised officer immediately upon such a request being made to the owner and/or the occupier. Any obstruction or hindrance to full and free access should be removed.

3.3.2 An explanation of the office system and the accounting system must be given if so required. The accounting manual, chart and code of accounts including computer and software manuals should be made available. Access should also be given to physical and/or electronic records, documents and books of accounts.

3.3.3 Information should be given as to where the records are kept and assistance should be given in identifying and locating the documents, records and books of accounts requested by the Director General or an authorised officer.

3.3.4 Use of facilities such as copier, telephone or other communication equipment, lighting and power, office workspace and furniture should be provided. Facilities should also be provided for copying of electronic records on to tapes, disks or diskettes.

3.4 *The Consequences if Reasonable Facilities or Assistance Are Not Provided.*

Failure to provide reasonable facilities or assistance or both to the Director General or an authorised officer, in the exercise of his powers, is an offence under the Act. On conviction, the offender may be liable to a fine of RM 1,000 up to RM 10,000 or to imprisonment for a term of up to one year, or both.

4.0 INTERPRETATION

For the purpose of this Ruling :

4.1 An 'authorised officer' is a public officer or an employee of the Inland Revenue Board, Malaysia who is authorised, in writing, to exercise any function of the Director General under the Act.

4.2 'Electronic records, documents and books of accounts' include records, documents and books of accounts kept in any electronic medium.

4.3 'Occupier' includes a tenant/ lessee or any person who has physical possession and/or control of the land, building or place, or part thereof, to which access is requested by the Director General or an authorised officer, at the time such a request is made.

4.4 'Owner' means the person who has possession or ownership, legal or beneficial, of the land, building, place, books, records or documents, or part thereof, to which access is requested by the Director General or an authorised officer.

4.5 'Person' includes a company, a co-operative, a partnership, a club, an association, a Hindu joint family, a trust, an estate under administration, an individual, and any representative, agent, family member, employee or servant of any of the foregoing.

Note : Date of Issue : 16 June 2000. Reprinted with permission, from *Tax Nasional*.

THE EFFECTS OF S.143(1) ON S.169(1) OF THE COMPANIES ACT, 1965

The Companies Act, 1965 is an Act related to companies and it attempts to cover all matters relating to the affairs of a company. However, it is not a comprehensive legislation as the legislators may not be able to anticipate every aspect of company practices and the law could only apply so long as there are prevailing provisions to cover the respective situation. In ascertaining the application of any one provision under the Act, it is submitted that such provision of the Act should be read in is entirety.

This brief article attempts to answer the issue that commonly arises in interpreting the provision of S.169(1) and the effects of S.143(1) upon it. Both provisions are in relation to general meetings and accounts, wherein, S.169(1) requires the directors to lay before the meeting a profit and loss account and balance sheet. It stipulates as follows :

"The directors of every company shall at some date, no later than 18 months after the incorporation of the company and subsequently at least once in every calendar year at intervals of not more than 15 months, lay before the company at its general meeting a profit and loss account for the period since the preceding account (or in the case of the first account, since the incorporation of the company) made up to a date not more than six months before the date of the meeting."

The Act allows the laying of the profit and loss account and balance sheet at intervals of not more than 15 months since the preceding account and that such accounts must be made up to a date not more than six months before the date of the meeting. Since the laying of the profit and loss account and balance sheet is made at the annual general meeting, some commentators have argued that it may be permitted to lay a profit and loss account and balance sheet up to six months after the interval of 15 months between any two sets of accounts. In which effect, it may mean that the annual general meeting may be held more than 15 months after the last preceding annual general meeting.

The above interpretation is however contrary to the provision under S.143 which expressly states that not more than 15 months shall elapse between annual general meetings. The said S.143(1) of the 1965 Act, inter-alia states that all companies shall hold an Annual General Meeting at least :

"…. once every calendar year and not more than 15 months after the last of preceding Annual General Meeting ..." (emphasis added).

The application of S.143(1) and S.169 may be illustrated with the following example :

For financial year ended 31 December 1998 the annual general meeting was held on 30 April 1999 and since S.169(1) allows laying of the profit and loss account up to 15 months intervals since the preceding account, that would mean that the account for financial year ended 31 December 1999 may be closed at 31 March 2000 and that a profit and loss account may be made up to six months before the date of the meeting which will be 30 September 2000.

It is submitted that, S.169(1) is not a stand-alone provision. It has to be read together with S.143(1) which expressly states that not more than 15 months shall elapse between annual general meetings. In applying S.143(1) to the above illustration, the annual general meeting shall be held not later than 31 July 2000.

Whilst it may be sufficient to have held the annual general meeting pursuant to S.143(1) it would not be in compliance with S.169(1) if the accounts received at the annual general meeting is made up to a date more than six months from the date of the meeting. Therefore if the accounts are made up to 31 December 1999 this would not be in compliance with S.169(1) if it was laid at the annual general meeting on 31 July 2000.

If it is conceived that more than 15 months will elapse between the annual general meeting, an application must be made pursuant to S.143(2) to the Registrar of Companies in the prescribed Form 51A to extend the time limit as stipulated under S.143(1) of the 1965 Act.

Similarly an application can be made to the Registrar of Companies in the prescribed Form 51A pursuant to S.169(2) to extend the time limit and the period of six months stipulated under S.169(1).

Form 51A should be filed one month before the expiry of the required time to hold the annual general meeting and the laying of the profit and loss account at the meeting.

Letter 1

I read your maiden offering of MONEY TREE in the August 2000 issue of *Akauntan Nasional*, and was again very impressed with your vast knowledge on this subject of Financial Planning. In fact I would say I am now a keen follower of your published works. It was written in such simple easy to grasp layman terms and that's the beauty of your works. It educates the masses. I felt it would be such a pity for the ignoramuses out there who will remain so simply because they don't subscribe to *AN* that I took the liberty to make photocopies of that article. I have distributed a few sets to my close colleagues at the office and will pass on some more to other close friends. I hope you don't mind my doing this.

Liana
Via e-mail

Thank you Liana for your kind efforts of sharing this information with some of your colleagues. Besides financial planning, we are committed to providing our readers with more educational articles that will benefit them.

Letter 2

I write to thank *Akauntan Nasional* for the interesting article on financial planning. With the launching of the Financial Planning Association of Malaysia, it would be wise for a layman like me to join this newly formed association to gain more knowledge in this area and hopefully implement the important aspects of financial planning. I should therefore be very pleased if you could provide me with more information on the Financial Planning Association of Malaysia.

Victor Fung
Kota Kinabalu

Thank you for the positive feedback. Here are the required details :

Ms Khaw Jo Lee, Principal Officer
Financial Planning Association of Malaysia (FPAM)
1 Lorong Setiabistari
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Letter 3

Your article "A comprehensive Treatment of Managing Valuation of Companies, Assets and Shares" in the August issue of *Akauntan Nasional* had no reference whatsoever to justify its credibility. Perhaps you could clarify on this and act accordingly.

MIA member and readers of MIA journal.
Klang Valley

Thank you for highlighting this matter. For your information, the article concerned is a comprehensive treatment of all available methods of valuation from various textbooks and articles. There is a comprehensive and exhaustive coverage of nearly 15 methods of valuation including international practices. The article has been written with good intention to make widely known to students and other accounting professionals about the available methods of valuation of business from the existing literatures. The authors acknowledge the following major sources for writing this article.

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All letters intended for publication must include the writer's name and address, even if a pseudonym is used. Please give a fax or telephone number if possible. Letters are edited based on clarity, space and accuracy of expression requirements — AN.