

ACCOUNTANTS

Professionalism at the Forefront

JANUARY 2006

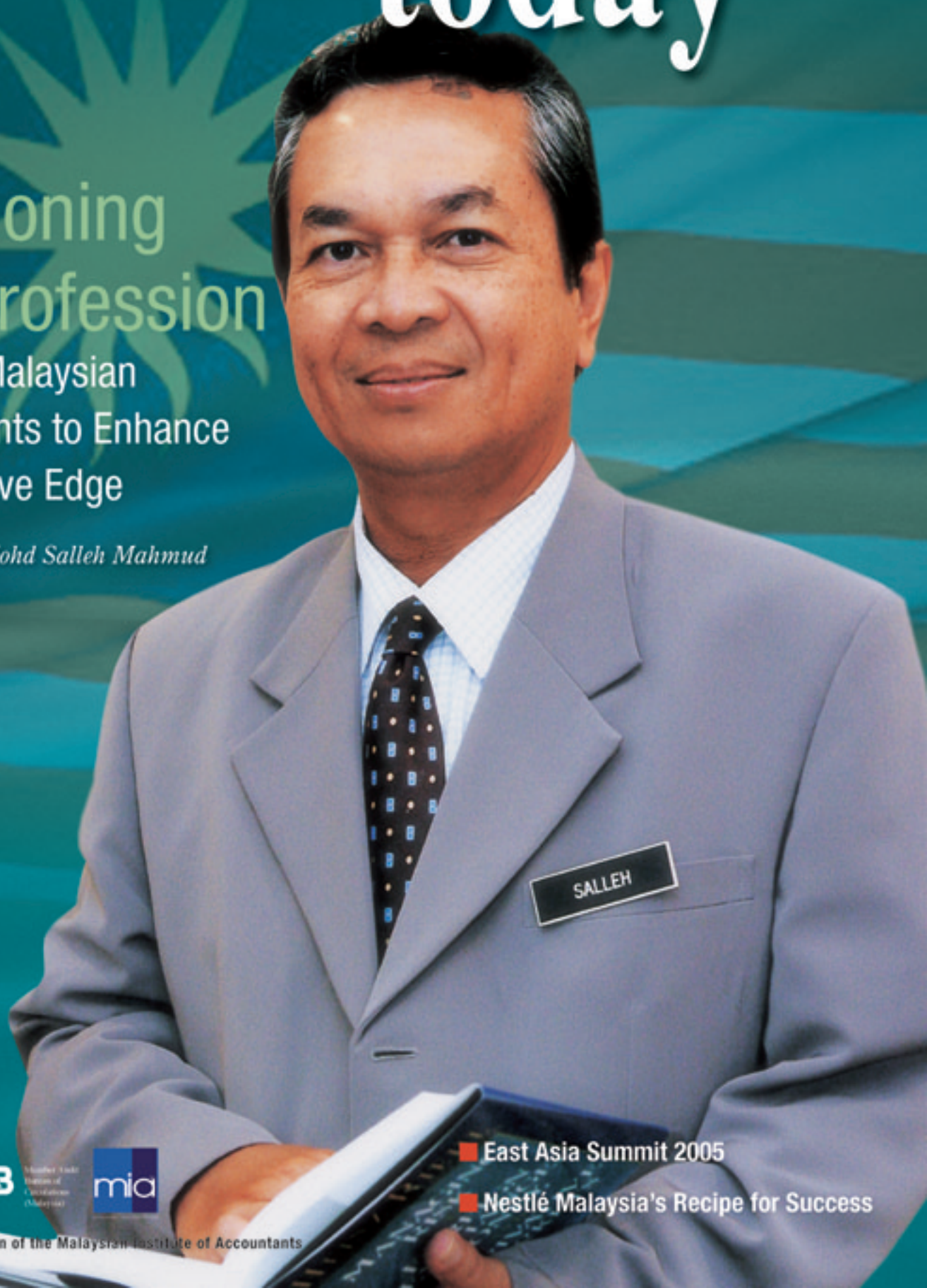
Vol. 19 No. 1

today

Positioning the Profession

AG tells Malaysian
Accountants to Enhance
Competitive Edge

YBhg. Dato' Mohd Salleh Mahmud



Member Under
Supervision of
CA(Malaysia)



- East Asia Summit 2005
- Nestlé Malaysia's Recipe for Success

Bracing for 2006

Happy New Year readers! The month of January is often preceded by a certain feeling of *joie de vivre* for most people. Perhaps it is because it signifies a brand new start in some ways, a fresh new slate for us to scribble upon. And this is perhaps the perfect time to gear ourselves to go raring into the year!

What does 2006 hold for corporate Malaysia?

The various business articles and reports churned out by the media in the last few weeks seem to point to the fact that Malaysia will be able to sustain its economic growth for the 2006-2007 period. The fact that our nation has a highly diversified economy enables it to remain strong and resilient.

One point worth noting is what human resource consulting company, Mercer Human Resource Consulting has to say. "The sustained growth for the Malaysian economy will fuel private sector activities, which will lead to increased consumer consumption which will in turn heat up the job market in 2006".

While the demand for skilled, competent staff continues to increase in Malaysia, the worrying thing is that the demand for such human resources will also grow in regional countries such as China and India, and this puts us at risk of losing good people.

The 'brain-drain' issue has been seriously highlighted on numerous occasions. But more than ever before we need to retain our skilled people in an increasingly liberalised and globalised market, so as to sustain Malaysia's competitive advantage over other countries in the region.

The accounting profession will also inevitably be affected by this development, so it is important that the fraternity collectively examine ways in which this problem can be addressed.

Moving on, this month's cover issue features the Accountant-General of Malaysia, YBhg. Dato' Mohd Salleh Mahmud. He shares with *Accountants Today* the various challenges that he has to deal with in ensuring the well-being of the accounting profession.

There is also an interesting article on Nestlé (M) Bhd's winning the National Award for Management Accounting (NAfMA) Best Practice Overall Excellence Award. In the article, *Accountants Today* speaks to its Executive Director of Finance and Control, Stephane Alby to learn the company's recipe for success.

Another must read this month is Dato' Raymond Liew's "A Wake-Up Call" in the Better Life section, a true-life account of what he had to go through when he suspected that he was having a heart attack.

As always, we strive to keep our readers happy. If you're happy, we are too and we hope that this month's issue makes a really good read. Happy reading!

And *Gong Xi Fa Cai* to all our readers. **AT**

"The various business articles and reports churned out by the media in the last few weeks seem to point to the fact that Malaysia will be able to sustain its economic growth for the 2006-2007 period. The fact that our nation has a highly diversified economy enables it to remain strong and resilient."

Editor
Accountants Today

Errata

In the article titled "All Aboard the FRS Boat" on page 20 in the December 2005 issue of *Accountants Today*, Datuk Abdul Samad Haji Alias's designation is Non-Executive Chairman, Ernst & Young Malaysia and not as printed. The error is regretted.

letters to the editor

A key element in the world of publishing is what readers have to say. We want to hear from you on just about anything that appears in each issue of *Accountants Today*. Why not drop us a line now?

contribution of articles

Accountants Today welcomes original and previously unpublished contributions which are of interest to accountants, business leaders, 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 and range from 1,000 to 2,000 words. They can be submitted in hardcopy or softcopy. Manuscripts are subject to a review procedure without prejudice and the Editor reserves the right to make amendments which may be deemed appropriate prior to publication.

WORLD news

Indian Accounting Opens up to Foreign Firms

Foreign accounting professionals and company secretaries can look forward to doing business in India through partnerships with local professionals and firms, reports *The Economic Times*.

The three bills to regulate cost accountants, chartered accountants and company secretaries, which the Rajya Sabha passed in December 2005, allow foreign professionals to form partnerships with local partners only if the self-regulators of the profession in both the countries ink a mutual recognition agreement.

The New Delhi-based report said the move would also allow domestic professionals to partner with foreign firms overseas.

Quoting unnamed sources, the report said the mutual recognition agreements would largely depend on the negotiations and agreements between the respective governments. The Institute of Chartered Accountants of India (ICAI) is vigorously pursuing such an agreement with Singapore, which recently inked a comprehensive economic agreement with India.

This provision is limited to only forming partnerships and does not extend to practising independently, which is a subject of trade talks under the World Trade Organisation.

What's in store? The newspaper report said the development could pave the way for foreign professionals and firms entering India in a big way through the joint venture route.

However, the report added, it remains to be seen how many mutual recognition agreements are signed between Indian self-regulating bodies and their overseas counterparts. The ICAI is the self-regu-

lator for chartered accountants (CAs) and the Institute of Company Secretaries of India (ICSI) is the self-regulator for company secretaries.

At present, the ICAI has a limited mutual recognition agreement with its counterpart in England and Wales. It has given a limited recognition of CAs from India but India is yet to reciprocate.

"We are talking to the profession's regulator in the US and Australia too for a reciprocal deal. There would be enough safeguards such as tests on the fiscal and corporate laws of the host country", the report quoted ICAI president, Kamlesh Vikamsey.

The bills also allow accounting professionals, company secretaries and lawyers to form multi-disciplinary partnerships, which could offer a lot of services to corporates under the same roof. Accountants and company secretaries would also be allowed to advertise about their services in a limited way.

The bills also propose a new disciplinary mechanism for the professionals. There would be two different bodies to deal with minor and major professional misconduct. There would also be an appellate authority. The proposed system is expected to address concerns about bias in self-discipline as well as judicial delays.

The bills also propose temporary removal of a guilty professional from the Institute's registry for three months and a fine of up to Rs one lakh in the case of minor offences and permanent removal of name from the registry and fine of up to Rs five lakh in case of major offences. **AT**

economictimes.indiatimes.com

Canada's investigative and forensic accounting

The Canadian Institute of Chartered Accountants' Alliance for Excellence in Investigative and Forensic Accounting (IFA Alliance) in mid-December 2005 released for public comment draft Standards for Investigative and Forensic Accounting Engagements which set out the minimum standards that should be met by all CAs conducting IFA engagements, reports *CNW*.

"IFA standards will help protect the public interest by ensuring a consistent standard of practice is met for all IFA engagements," said IFA Alliance Chair, Gary Moulton, CA-IFA, "These standards will provide CA-IFAs (CA-designated specialists in investigative and forensic accounting) with a framework for the application of professional judgment in IFA engagements."

In developing standards for this emerging area of practice, the report said the Standards Committee of the IFA Alliance has issued a number of previous documents for comment to the IFA profession and held numerous discussions with IFA members.

The result is a comprehensive framework for conducting IFA assignments intended to assist in the application of professional judgment, rather than a rule-based system. The proposed standards are clearly written and are presented in the order followed in a typical IFA engagement: Introduction, Engagement Acceptance Standards, Planning & Scope of Work Standards, Information Collection & Analysis Standards, File Documentation

Standards, Reporting Standards, and, Expert Testimony Standards.

"These standards will also be of particular relevance to litigation lawyers as they are a primary user of IFA services," said IFA Standards Committee Chair, Ivor Gottschalk, CA-IFA, "The standards are intended to enhance the usefulness of expert evidence given by CA-IFAs and could well become a basis for evaluating expert testimony in this area."

The report said that comments on the exposure draft by CICA's membership, including CA-IFAs, members of the legal profession and other interested parties are an important part of the standard-setting process.

The exposure draft Standards for Investigating and Forensic Accounting Engagements is available at www.cica.ca/ifa. **AT**

CNW

New EU legislation aims to tackle 'creative' accounting

The European Parliament has responded with a set of new regulations to address concerns of 'creative' accounting, partly spurred by the major corporate scandals in the US.

In mid-December 2005, the European Parliament passed a new legislation that will require listed companies in the European Union to disclose off-balance-sheet arrangements and increase information about their corporate governance regime.

Obviously, the new laws came about partly in response to the Enron and Parmalat scandals, which shook the corporate world and the general investing public as well.

The new rules were pro-

posed by the European Commission in October 2004, in part to address concerns arising from the 'creative' accounting at Parmalat and Enron, reports the *Financial Times*. Both companies were found to have made generous use of opaque off-balance-sheet vehicles in order to hide their rapidly deteriorating financial positions.

Under the new regime adopted on 15 December 2005, the report said, listed companies in the EU will now have to disclose all off-balance-sheet arrangements, including their financial impact, in notes to the annual and consolidated accounts. They will also have to publish an annual corporate governance statement, and will have to provide more information on "unusual transactions" such as deals with the spouse of a board member.

The new law will also confirm that company boards are collectively responsible for information in annual accounts and annual reports.

According to the report, the parliament broadly followed the original Commission proposal, but secured amendments to make the law less burdensome for small enterprises. **AT**

www.ft.com

SEC on Simplifying Accounting Standards

The Securities and Exchange Commission (SEC), in its recent study on Off-Balance Sheet Accounting, discussed the critical need to make accounting standards less complex. The Financial Accounting Standards Board (FASB) has stated that it is striving for sim-

licity.

The online *Sarbanes-Oxley Compliance Journal* reported that many of the material weaknesses noted in the first Sarbanes-Oxley Section 404 reports relate to misapplication of complex accounting standards.

"That's not all. The American Institute of Certified Public Accountants' (AICPA) recent task force found that current GAAP is too complex and not necessarily useful to the users of private company financial statements.

FEI's Committee on Corporate Reporting (CCR) has frequently noted that the complexity of accounting standards is simply outpacing our ability to keep up. In fact, both the SEC and FASB have indicated that simplification of accounting standards is a priority, and I commend both for recognising that. So, if we all agree the standards are too complex, the solution should be easy, right? Just simplify them! Unfortunately, it isn't that easy. First, we need to make sure that 'complexity' means the same thing to all," the report said.

In the December 2005 report, the online journal quoted a recent speech by Don Nicolaisen, then SEC's Chief Accountant, stating: "Much of what I describe as complexity is the direct result of:

- 1 a desire to reduce volatility in the income statement,
- 2 the development of numerous exceptions to basic principles or
- 3 the application of detailed rules."

The report goes on to say that investors read the financial statements, not the accounting standards. If the implementation of the accounting standard,

even with a 'simple' principle, is difficult to follow, we are not appropriately serving the investor. The most important function of financial statements is communication with investors.

"Improving financial reporting requires the commitment and support of preparers, auditors and investors, as well as standard-setters. Preparers and auditors must be prepared to exercise professional judgment. Investors need to clearly articulate what is useful to them for decision-making. We can't continue down the path of providing everything to everybody.

FASB may need to 'just say no' to constituents' demands for bright lines. The PCAOB and SEC need to enable the use of judgment in their review processes. Second-guessing a judgment made in good faith will certainly kill any simplification effort.

Finally, as FASB moves towards less complex accounting standards, it needs to consider that complexity does not just relate to the accounting standard itself, but to the implementation and the ultimate understandability of financial statements as well," the writer concluded. **AT**

www.s-ox.com

Accounting Education: UT Retains Top Ranking

In its annual ranking of accounting programmes, the *Public Accounting Report* has given No. 1 status to The University of Texas at Austin's McCombs School of Business.

It's the university's 11th No. 1 ranking by *Public Accounting Report*, according to a survey

of accounting professors and college department heads, reports *AccountingWeb.com*.

"It's all about the faculty," said Ross Jennings, who leads the winning 'accounting team' at the University of Texas. "We are currently trying to steal top talent from Duke University and the University of Arizona, but I can't tell you who," he told the Austin American-Statesman.

Quoting a news report, the online accounting site said Young University's undergraduate and graduate programmes are ranked second in the nation. Nos. 3, 4 and 5 are University of Notre Dame, University of Southern California and University of Illinois, respectively.

The top master's level programmes are University of Texas, Brigham Young University, University of Illinois, University of Notre Dame and University of Southern California.

In other education news, Wisconsin business leaders are hoping to prepare tomorrow's accounting professionals by starting in high school. They are pushing for more stringent math and science requirements for high school students to get them ready for the technical jobs of the future, the *Wisconsin State Journal* reported.

Also, students looking for educational options outside the traditional classroom environment are finding more options than ever.

For example, starting in January 2006, Capella University will offer accounting specialisations in its MBA online degree programme, which can be completed in two years, and undergraduate business programme.

"We offer those interested or already involved in the accounting profession practical skills

that are immediately applicable to the workplace, as well as in-depth analysis of the principles of accounting," said Paul Schroeder, Senior Vice-President at Capella.

Capella cites Department of Labour's Bureau of Labour Statistics figures that say employment opportunities for accountants and auditors will grow by 19.5 per cent by 2012. **AT**

www.accountingweb.com, AP

Fastest-Growing Offshore Function

Finance and accounting (F&A) are poised to become the most offshore functions by 2008, according to a study of more than 100 of the nation's largest companies.

Three quarters of financial institutions are projected to offshore F&A in the next 18 to 36 months, according to the report, conducted by Duke University's Fuqua School of Business and Stamford, Connecticut-based consultancy Archstone Consulting. **AT**

www.banknet360.com

ASEAN Unified Accounting and Auditing

The 14th congress of the ASEAN Federation of Accountants (AFA 14) concluded with several agreed solutions on accounting and auditing services in economic development of ASEAN countries and integration into the world's, reports Vietnam-based *Vneconomy.com*.

The congress, carrying the theme *Establishing a unified market for accounting and auditing services in ASEAN*, was held in Hanoi, Vietnam.

AFA Chairman, Dang Van Thanh said the goal for

liberalisation of accounting and auditing service should be elimination of restrictions and barriers against operation of foreign individuals and organisations and offer of national treatment (NT).

The report quoted Ian Lydall, General Director of PWC, as saying that international standards were tending to facilitate shareholders and other subjects to take part in the world capital market. Therefore, more complicated standards such as International Financial Reporting Standards (IFRS) were being constructed.

Many FDI businesses applied Vietnam Accounting Standards (VAS) in financial reporting in compliance with the law and IFRS in financial reporting to its headquarters. Meanwhile, almost every locally invested enterprise applied VAS and some of them followed IFRS. The Vietnam economy was becoming more and more open and the country was going to join the World Trade Organisation so Vietnamese businesses would have to apply IFRS.

As VAS is approaching IFRS, what Vietnam should do first is to prepare competent accounting and financial staff. This is not an easy task for IFRS and is considered complicated even in developed economies. The second task is to build a competent data system. However, to gain success in a competitive market, Vietnamese businesses have no other choices but to apply IFRS due to increasing supervision of the public and management bodies.

Deputy Director, Bui Van Mai, of the Ministry of Finance's Accounting and Auditing Regime Department told the newspaper that first of all, renewal of the system of legal

documents in this field should be carried out.

According to the Accounting and Auditing Regime Department, last year, Vietnam had 780 accountants and only 106 of them held international certificates. To strengthen this force, training operations should be expanded, noted Bui Van Mai. Moreover, Vietnam needed to co-operate with foreign training organisations in this field.

Representative from Ernst & Young Vietnam at the workshop proposed a number of solutions to limit differences and accelerate recognition of certified auditor regulations *vis-à-vis* ASEAN countries by establishing a joint committee for harmonisation of certified auditor regulations. This would help further integration in ASEAN in the context of globalisation but required co-operation among all the members of the association. **AT**

www.vneconomy.com.vn

Major accounting firm clears UN intellectual property body of corruption allegations

A major accounting firm auditing the United Nations World Intellectual Property Organisation (WIPO) in the wake of media allegations of corruption has stated that it "cannot conclude that certain employees of WIPO and third parties concerned might have committed any fraud or dishonest acts," the agency said today.

In September 2005, a report posted on the *www.un.org* reported WIPO Director-General, Kamil Idris asked Ernst &

Young, the international audit and consultancy firm, to conduct an independent external review, under the supervision of WIPO's External Auditor, the Swiss Federal Audit Office, into the allegations.

In its report, Ernst & Young makes a number of recommendations to the Organisation, but does not support any of the allegations made in the news media, WIPO said.

In April 2005, the then UN spokesman in New York, Fred Eckhard, was asked about a WIPO probe into corruption there involving a name which had come up repeatedly during the Oil-for-Food investigation. Eckhard said then that the UN would await the results of the probe.

WIPO said today that the Ernst & Young report "brings to an end the recent allegations and unfounded attacks on the Organisation that have appeared in a few news media." ^{AT}

www.un.org

Accounting fraud cases up: Experts

The number of accounting fraud cases are increasing globally because corporates lack the awareness in forensic accounting and good internal control systems, forensic financial investigators said.

Malaysian-based *Business Times* reported that in a survey done by KPMG in 2004, about 70 per cent of the companies were victims of fraud while about 80 per cent of the cases were committed by management within the company, founder of Canada-based St-Laurent Faucher, Pierre St-Laurent said.

Financial fraud can comprise falsifying expenses, forging receipts and tampering with fi-

ancial statements and taxes.

As the world is now seemingly smaller and widely reachable, the number of cases may seem small in certain countries but the influence of the fraud can spread to other countries almost instantly, he said.

"As such, awareness in forensic accounting (detecting frauds in accounts) is essential, for large, medium and small firms. They also need good internal control management to minimise the risk of frauds," he told journalists in Kuala Lumpur in December 2005.

A company with good internal control, the report quoted St-Laurent, needs to divide cash flow-related tasks to different individuals so as to prevent the employees from taking advantage of their job roles.

"And of course, if the employees are being paid and treated fairly, they will probably not do it," he added. ^{AT}

Business Times, Malaysia

Global programme for accountants in Islamic banking

Bahrain-Based Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) will soon roll out a global certification programme for accountants involved in the Islamic banking and financial services industry, reports *The Star*.

AAOIFI senior financial analyst, Syed Alwi Mohamed Sultan said for a start, the programme known as the Certified Islamic Professional Accountant (CIPA) would be introduced in Malaysia and Bahrain before going global.

"It will be open for registration next month. This programme was developed as

"The programme is structured to provide practitioners, mainly practising accountants, with a good grounding in areas such as Islamic economics and financial systems, financial reporting for Islamic transactions, Islamic accounting and auditing standards, Islamic commercial law and syariah standards."

Syed Alwi Mohamed Sultan, Senior Financial Analyst, AAOIFI

part of AAOIFI's contribution towards resolving the issue of lack of skilled expertise and human resources in the industry.

The programme is structured to provide practitioners, mainly practising accountants, with a good grounding in areas such as Islamic economics and financial systems, financial reporting for Islamic transactions, Islamic accounting and auditing standards, Islamic commercial law and syariah standards," Syed Alwi told the Malaysian newspaper in an interview.

Alwi added that as the programme targeted working practitioners, it was designed to minimise work interruptions and allowed participants to conduct self-study, online learning and only by option, attend face-to-face classes. The face-to-face classes would be held in March 2006 in Malaysia and Bahrain, and the course would be offered in Arabic and English.

The first examination would be conducted in May 2006 and participants who had completed CIPA would become fellow members of AAOIFI, he noted.

AAOIFI is an autonomous non-profit making body that prepares accounting, auditing, governance, ethics and syariah standards for Islamic financial institutions. The organisation was established in 1990 and has since developed more than 60

standards for the market players. There are more than 120 members affiliated to AAOIFI.

Alwi said there are plans to offer a similar certification programme for syariah advisers worldwide. The Certified Syariah Advisor (CeSA) programme will most likely be rolled out in the third quarter of next year.

On syariah compliance, he said Islamic financial institutions worldwide had made many syariah violations in their operations.

"These errors or violations occur as a result of blind spots among the practitioners, especially the auditors, when conducting their internal reviews of Islamic financial institutions.

"Syariah non-compliance is an operational risk issue and when it happens, the losses will not only be financial losses, but more importantly, loss of reputation, image and credibility of the Islamic finance industry as a whole. Hence, the need to ensure syariah compliance is pertinent for Islamic financial institutions," he said.

He said AAOIFI and local Malaysian training providers would jointly develop the CIPA and CeSA programmes.

This is a clear indication of the leadership role that Malaysia holds for the Islamic nations generally, and specifically for the global Islamic finance industry," he added. ^{AT}

The Star, Malaysia

East Asia Summit 2005

by V. K. Sham

After more than two decades of deliberation and debate, the Malaysian-inspired East Asia Summit (EAS) finally took place in Kuala Lumpur on 14 December 2005.

The meeting, gathering some of the most powerful nations in Asia, saw the laying of the foundation stone of what could eventually transform into a powerful grouping. To begin with, for the first time in many years, Asia saw a regional gathering of Asian leaders without the presence of the US.

Of course, the first EAS was not purely an Asian affair. True, it was led by the 10-member nation grouping of Association of

Southeast Asian Nations (ASEAN). Playing an active role were the three East Asia nations — Japan, South Korea and China — that have forged an active partnership under the ASEAN + 3.

But also present was India, geographically not an East Asia nation, and non-Asians, Australia and New Zealand.

So, it did not really match the initial idea mooted by then Malaysian Prime Minister, Tun Dr. Mahathir Mohamad way back in 1991. Then, the former premier was looking at getting regional Asian leaders at the table to discuss issues of importance.

But the US was adamant that there was no need for the East Asia Economic Caucus, as Dr. Mahathir's idea was initially

called, as the nations were already meeting under the Asia Pacific Economic Cooperation (APEC).

"We are not going to have an East Asian summit. We are going to have an East Asia-Australasia summit," Dr. Mahathir shared his views less than a week before the EAS nation leaders took their place at the table. Why? The former prime minister felt that "Australia is basically European and it has made clear to the rest of the world it is the deputy sheriff to America and therefore, Australia's view would represent not the East but the views reflecting the stand of America." In other words, Asian nations will not be able to discuss pressing issues without the US lurking in the background.



Leaders in a group photo at the inaugural East Asia Summit (EAS) of the 11th ASEAN Summit at Kuala Lumpur Convention Centre on 14 December 2005. From left: Japan's Prime Minister, Junichiro Koizumi, China's Premier, Wen Jiabao, Malaysian Prime Minister, Datuk Seri Abdullah Ahmad Badawi, Australian Prime Minister, John Howard, India's Prime Minister, Dr. Manmohan Singh, New Zealand's Prime Minister, Helen Clark and Philippine's Gloria Macapagal Arroyo

When it finally came to fruition, the idea came in the form of the EAS. The gathering of the 16 nations agreed to work on the grand idea of harnessing their collective power. The summit made pointed remarks that “the East Asian community is a long term goal that would contribute to the maintenance of peace, security, prosperity and progress in the region and beyond.”

Historic Event

“Indeed, the positive experience we gained in closely collaborating with the North-east Asian countries have been an impetus for using the ASEAN+3 process as the vehicle for realising the East Asian community,” declared Prime Minister, Datuk Seri Abdullah Ahmad Badawi.

In his statement on the 11th ASEAN Summit, held just before the EAS, Prime Minister Abdullah noted that the EAS was a historic event.

“Both the ASEAN+3 process and the EAS are part and parcel of the regional architecture. They both can play complementary roles in community-building. However, for ASEAN to maintain its centrality, it is important for us to take a clear position on the role of the EAS, its modality, participation and follow-up,” says Abdullah.

In agreeing to convene the EAS, says Abdullah, ASEAN had shown that it is able to eschew dogmatism and orthodoxy. In that sense, while critics are quick to belittle the gathering, EAS is a success of ASEAN, of sorts. The idea has been the firming of the ASEAN+3 process.

Critics

However, critics may be right when they point out that nothing much happened at the summit. To start with, the summit proper was short on substance, but long on formalism. There were plenty of photo opportunities and hand-shaking.

There is also the continuous war of words between China and Japan, two of the most powerful nations taking their place at the summit.

“Unlike France and Germany at the heart of the European Union, China and



“Both the ASEAN+3 process and the EAS are part and parcel of the regional architecture. They both can play complementary roles in community-building. However, for ASEAN to maintain its centrality, it is important for us to take a clear position on the role of the EAS, its modality, participation and follow-up.”

Datuk Seri Abdullah Ahmad Badawi, Malaysian Prime Minister

Japan have not managed to put the Second World War behind them to create a community where political collaboration can reflect their economic interdependence,” noted an editorial in the UK-based *Financial Times* following the EAS summit. It went on to pontificate: “Until they do, the US will have little to fear from Mahathir’s dream of Asian unity. Nor will Asians have anything resem-

bling a community of which they can be proud of.”

Well, things change. So can the relationship between the two fierce neighbouring rivals. Just like how ASEAN was seen as nothing more than a talk-shop two decades ago, EAS too may evolve. If it does happen, people will look back to the historic Kuala Lumpur gathering. **AT**

A HEART FOR EXCELLENCE : Nestlé Malaysia's

RECIPE FOR SUCCESS

by Anuja Ravendran

Reknowned fast-moving consumer goods manufacturer, Nestlé (M) Bhd bagged the Overall Excellence Award at the National Awards for Management Accounting (NAfMA) Best Practice award presentation dinner on 8 December 2005. Accountants Today spoke to its Executive Director of Finance and Control, Stephane Alby to gain more insights into the company's winning ways.

The NAfMA is the highest recognition for value creation and dynamic business practices and we are very honoured to have won this award, Alby offers. "However, we believe that there is still a lot of room for us to improve upon where our accounting practices are concerned. Our goal is to ensure that our business functions become faster and simpler."

"Winning this award also means that management accounting, which is used as a tool to enable Nestlé Malaysia's dynamic planning business function, has really been able to simplify the way business is done. It has helped to speed up the decision-making process."

In winning this award, he adds, Nestlé Malaysia, which is a multinational belonging to Nestlé S.A. based in Switzerland, has witnessed a 'reverberation' effect throughout the various Nestlé organisations in the world, as the other Nestlé markets are asking for the Malaysian outfit's best practices.

Bagging the NAfMA award, notes Alby,

attests to the fact that Nestlé Malaysia is one of the more advanced markets in implementing business functions such as dynamic planning, dynamic forecasting, and GAP analysis for which management accounting is used as a tool to enhance these functions.

He explains that these functions have recently been deployed across Nestlé markets, with the Malaysian outfit having implemented it since late last year, and the award points to the fact that Nestlé Malaysia has been able to make it work.

Elaborating on Nestlé Malaysia's planning strategy, he explains that the company kicked off the dynamic forecasting implementation in mid 2004. This business process involves looking at the company's performance 18 months (6 quarters) ahead on a permanent basis. "We always look beyond the calendar year to ensure that there is ongoing dynamic innovation, renovation and distribution drives. We plan how we want the products to be visible and this is based on our planning capacity and consumer communica-

tion among others."

Alby believes that dynamic forecasting is the way to go because business planning for the calendar year provides a shrinking vision. The dynamic forecasting method, provides increased visibility for better planning, execution and reactivity to what is going on in an organisation.

This process he adds is not only fed by Nestlé's strategic executions but also the external forces of the market, including changes that may occur during the time frame of the forecast.

On the use of management accounting in Nestlé Malaysia's overall business strategy, Alby further elucidates its merits. It is an enabler of a quick, responsive and agile business, he opines. "Nestlé Malaysia has 12 business units that are run as stand alone companies and shared services entities." Management accounting is also important. And operating in a highly dynamic business environment requires businesses to be quick enough to keep up with the demands of the market and the use of management accounting allows this to happen

in a quicker and effective manner, he points out.

Management accounting is also an enabler for increased transparency. Citing an example, he says, "Using management accounting, we could get full transparency on a new product launch by doing costing the right way so that we have all the information we need. We would look at every aspect of the product before the launch including the raw and packaging materials; costs incurred in the factory; the cost of distribution and on top of that how to add value to the product to ensure profitability." In this respect, he says that the use of management accounting allows for full transparency and therefore enhanced corporate governance across the board to facilitate in decision-making for the new product launch.

Apart from all of the above, the key ingredients used by Nestlé Malaysia in creating a winning formula, Alby offers, lies in the organisation's staff. Highly driven by its motto 'A Heart for Excellence', the team is made up of very dedicated, very skilled people who have very strong values and are always looking for opportunities to further fine-tune the business functions of the organisation in our quest for improvement.

This drive is primarily driven by the four core values advocated by Nestlé, which are Trust, Respect, Innovation and Pride.

This people-driven approach is practised across-the-board throughout the entire value chain, which include its employees, suppliers, partners and all long-term partners.

"Apart from that, we have established a strong link with our customers, where we have been able to develop a high level of trust in our brands through our conscientious efforts and commitment in ensuring that our products are of the highest quality."

Having said that, Alby stresses that the finance team at Nestlé Malaysia will not rest on its laurels with this win. "We are working at getting better and there is still a long way to go for that. We want to simplify our processes and ensure that they are business-oriented yet consumer driven, he explains. To achieve this, there will undoubtedly be a need for a change in



Alby receiving the award from Minister in the Prime Minister's Department, Dato' Mustapa Mohamed while Mr YC Lee (centre) CIMA Malaysia President looks on.

"It's about doing the right costing to have all the information — full transparency on a new product launch. We would look at every aspect of the product before the launch including the raw and packaging materials; costs incurred in the factory; the cost of distribution and on top of that how to add value to the product to ensure profitability."



Alby ... Management accounting helps to simplify business

mindsets which invariably is a huge challenge." But he is confident that the company will eventually go down that road. "We know where we want to go, and that is the most important aspect of any business plan."

"The aim is to build a strong brand with a team of highly committed people. The key enabler for this is trust — we want to win trust in our brands and products by offering quality and nutritional value. There is a need for us to further under-

stand the consumer to always offer new products and constantly innovate."

At Nestlé, finance is the department that enables the business to handle all of the above. Towards this end, finance should act as a partner in not only coming up with elaborate strategies for the business, but also ensure that these are executed properly, he states.

The NAMMA, in Alby's opinion, is a highly encouraging initiative that has been spurred by the Malaysian Institute of Accountants and the Chartered Institute of Management Accountants, Malaysia Division. "It helps reinforce the importance of corporate governance in Malaysia's corporate sector. It encourages transparency which leads to better financial reporting structures. It also facilitates in the area of strategy formation and improvement, apart from being a key motivator in getting corporate Malaysia to adopt business processes that are more reactive to external pressure. This will ensure that Malaysia stays ahead and remains competitive in this era of globalisation and liberalisation." **AT**

ARE WE READY FOR Tax Consolidation?

by Tan Hooi Beng

In Malaysia, the income tax regime does not recognise the concept of “group taxation” save for the group tax relief, which is limited to the approved food production business. Whilst some proposals have been made to extend the group relief to companies undertaking forest plantations, biotechnology, nanotechnology, optics and photonics, nothing is concrete as to-date.



In certain advanced jurisdictions like the UK and Australia, the group tax relief has been long time recognised and practised. Furthermore, the US and Australia have also introduced the tax consolidation regime with a view to simplifying and enhancing the efficiency of the tax system and administration. Against this background, this article seeks to provide an overview of the tax consolidation concept, its practical implications and challenges and more importantly, how it fits into the Malaysian tax perspective. Of note, the concept discussed is chiefly based on the Australian regime.

What is tax consolidation?

In the simplest form, a tax consolidation regime can be viewed as a tax administration, which recognises the wholly-owned subsidiaries (directly or indirectly) and their parent company as a single tax entity. This being the case, the main features of the said regime are summarised below:

- A single tax return submission to the tax authorities where the parent company acts as the head;
- Payment of taxes on group basis;
- All wholly-owned subsidiaries are regarded as divisions to the parent company, and not separate tax entities;
- Sales, purchases and other transactions between companies within the consolidated group are regarded as internal transactions and do not give rise to any income tax, stamp duty or real property gains tax (RPGT) implications; and
- A consolidation of most tax attributes of the subsidiaries, e.g. all Section 108 dividend-franking credit accounts are pooled together into a single account. Other attributes to be consolidated are exempt income account, tax losses and capital allowances.

The diagrams briefly illustrate the existing and proposed consolidated regimes.

The Implications

Generally, a tax consolidation regime is aimed at reducing the compliance cost for business, to alleviate impediments to the most efficient business structures as well as to improve the integrity of the tax system. On a closer analysis, some of the practical implications that may arise from the

“... a tax consolidation regime can be viewed as a tax administration, which recognises the wholly-owned subsidiaries (directly or indirectly) and their parent company as a single tax entity.”

regime are briefly discussed below:

Intra-group transactions are ignored for income tax purpose

In this instance, sales or purchases between a subsidiary to another subsidiary or parent company are regarded as inter-division sales or purchases. Hence, for income tax purposes, the sales will not be taxed as gross income and on the other hand, the purchases will not be allowed a tax deduction. Similarly, any management service fees charged by a parent company to its wholly-owned subsidiaries are not taxable in the hand of the former. Likewise, the service recipients are not entitled for any tax

deduction. The rationale for this treatment is that a single entity under the consolidation regime cannot transact with itself.

Removing tax-related impediments in group restructuring

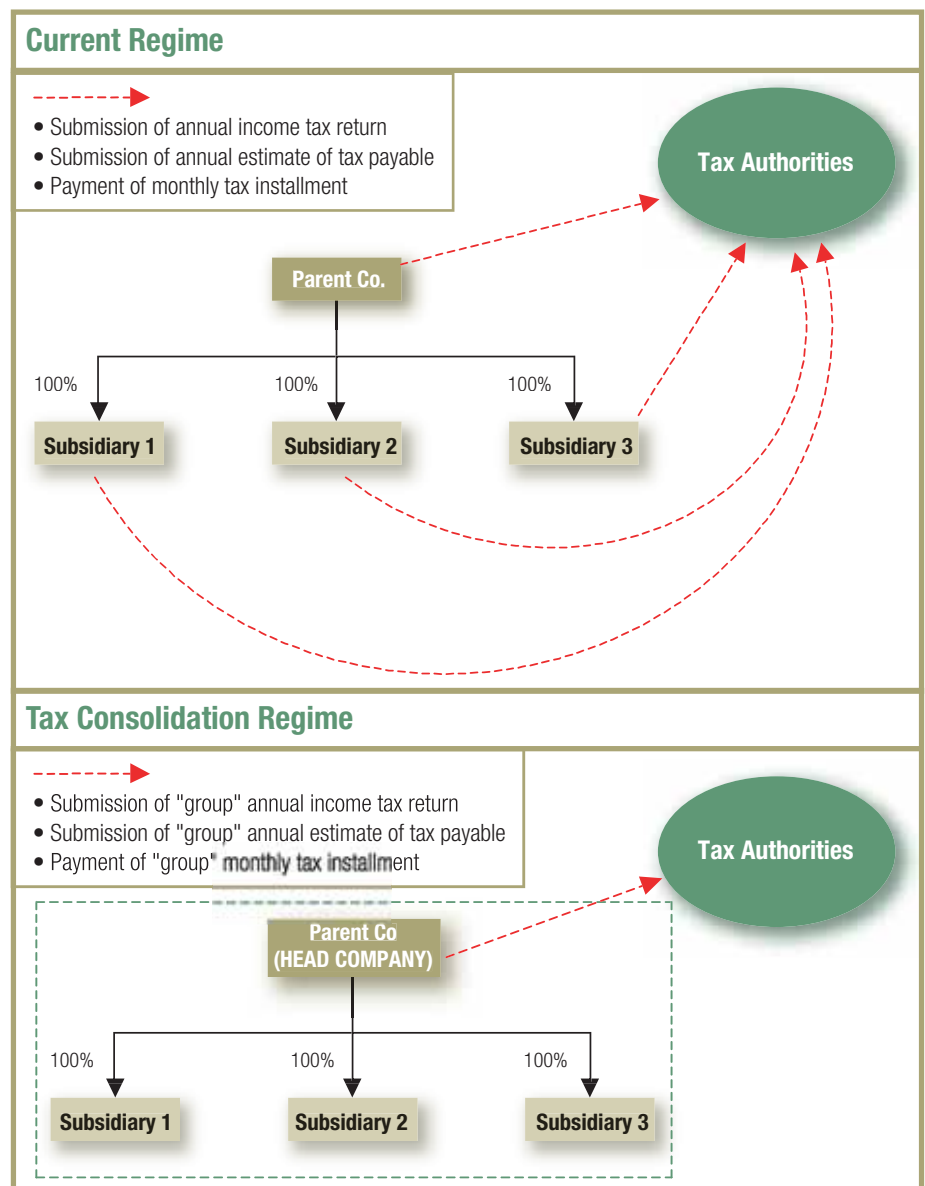
In any restructuring, the following transactions are common:

- Transfer of fixed asset
- Transfer of stocks and debtors
- Transfer of real property

The above reorganisations give rise to various tax impacts.

Real Property Gains Tax (RPGT)

For example, a transfer of real property or



Are We Ready For Tax Consolidation?

shares in a real property company (RPC) may give rise to a RPGT exposure. Of note, the transferor or disposer will bear the RPGT. The chargeable gain from the transfer is subject to RPGT at the following rates (for companies) depending on the length of ownership of the real property or RPC shares:

Category of disposal	Rate (%)
Disposal within 2 years	30
Disposal in the 3rd year	20
Disposal in the 4th year	15
Disposal in the 5th and subsequent years	5

Nevertheless, under the present RPGT legislation, there are certain exemptions available, e.g. the exemption under Paragraph 17(1), Schedule 2 of the RPGT Act, 1976 (RPGTA).

Transferor that meets the following conditions may apply for the said exemption:

- The transfer of the asset is between companies in the same group. In the present case, this condition is fulfilled;
- The transfer of the asset must bring about greater efficiency in operation. It is necessary to demonstrate that the transfer will bring about greater efficiency in operation (usually in the areas of management, administrative and operations) to satisfy the tax authorities that greater efficiency will be achieved; and
- The consideration must consist of shares in the proposed transferee company or substantially of shares (at least 75 per cent) in the transferee company and the balance of a money payment.

It is noteworthy that prior approval of the tax authorities must be obtained. Simply put, approval for exemption must be obtained before the finalisation of any Sale and Purchase agreement.

The application for exemption under the above may be withdrawn within three years after giving it if:

- It appears to the tax authorities that the transfer was made wholly or partly for some other purpose aside from achieving greater efficiency;
- The transferee companies cease to be in the same group of companies as the transferor companies; or
- The transferee companies cease to be resident in Malaysia.



Against the above, one would appreciate that, in practice, it is not an easy task to obtain the said exemption. As such, once the tax consolidation regime takes place, the difficulties in seeking the RPGT exemption can be alleviated since the transfer of asset between a parent company to its wholly-owned subsidiary (or vice versa) is deemed to be transfer from a division to its headquarters (or vice versa). Thus, there is no disposal or transfer *per se* to trigger any RPGT under the tax consolidation regime.

Stamp duty (SD)

Other additional tax cost that would arise in a restructuring scheme is the stamp duty, which is to be borne by the acquirer or transferee. The transfer of the business operations would generally attract stamp duty because this would involve instruments used for the transfer of properties such as land and building, accounts receivables etc. Of note, stamp duty is not applicable on the transfer of fixed assets and stocks.

The rate of stamp duty payable on the transfer of shares and property is shown in Table 1.

Table 1

On sale of any stock, shares or marketable securities	30 sen on every RM1,000 or fractional part of RM1,000 of the value of the consideration
On sale of any property (except stock, shares, marketable securities and accounts receivable or book debts to financial institutions pursuant to a factoring agreement)	i. 1% on first RM100,000 ii. 2% on next RM400,000 iii. 3% of the transfer consideration or market value in excess of RM500,000

Likewise, certain stamp duty relief is available under the present legislation. It is indicated below:

- **Section 15 relief** — It provides for relief from stamp duty in the case of a reconstruction or amalgamation of companies.
- **Section 15A relief** — It provides for relief from stamp duty in respect of transfer of property or shares between two associated companies. This means that one company is the beneficial owner of not less than 90 per cent of the issued share capital of the other or a third company is the beneficial owner of at least 90 per cent of the issued share capital of both the transferor and transferee companies.
- **Section 80 ministerial exemption** — It is only given in exceptional cases.

In practice, whilst Section 15A relief is relatively easy to be obtained, Section 15 relief and Section 80 exemption are rarely given. It has never been easy in demonstrating to the stamp duty office that a transaction falls within the meaning of reconstruction or amalgamation of companies.

As such, a tax consolidation regime will surely assist in reducing the stamp duty costs

given the “one tax entity” concept. In other words, the transfer of property from a wholly-owned subsidiary to the parent company or fellow subsidiary (or vice versa) is deemed to be an “internal” transfer. The flexibility under the consolidated regime will also reduce the cost of doing business, as the taxpayer no longer needs to engage professional services in seeking prior approval. Ideally,

“... whilst Section 15A relief is relatively easy to be obtained, Section 15 relief and Section 80 exemption are rarely given. It has never been easy in demonstrating to the stamp duty office that a transaction falls within the meaning of reconstruction or amalgamation of companies.”

once a group of companies, which is eligible for consolidation, decides to consolidate, properties should be freely transferable without any stamp duty or RPGT exposures.

Utilisation of losses and capital allowance

As mentioned above, save for the approved food production project, there is no group tax relief in Malaysia presently. In other words, each subsidiary company within a group is a separate distinct entity for tax purposes. Simply put, the tax attributes such as tax losses, unabsorbed tax depreciation and dividend franking credit will always remain in a particular company.

All these will be gone with the wind once the company is liquidated. Let us analyse this example. ABC Sdn Bhd makes huge profits and pays enormous income tax, while XYZ Sdn Bhd continues incurring losses and has substantial unabsorbed tax losses. Given this trend, XYZ Sdn Bhd is unlikely to be able to utilise the losses in the near future. Both companies are in the same group. Hence, from a macro perspective, it does not make sense when taxes continue to be paid whereas tax losses are mounting each year. Should a group relief be introduced, the tax losses of XYZ Sdn Bhd will then be used to set off against ABC Sdn Bhd's profit. Therefore, the end result is that the group will pay lesser tax or none at all, depending on the quantum of the losses.

Under the tax consolidation regime, the above problems will be solved as all losses and capital allowance will be pooled for use by the single-consolidated entity headed by

the parent company.

Ability to distribute dividend

Presently, a company that intends to distribute dividends to its shareholders must have sufficient retained earnings as well as Section 108 credits. Insufficient Section 108 credit will give rise to additional tax costs. Under the new regime, all Section

108 credits are to be pooled together for dividend distribution purposes.

Reducing ongoing compliance costs

Under a single tax reporting entity, a specialised group in the parent company will undertake the internal tax administration. Hence, tax compliance costs should be reduced. Also, the tax affairs for the entire group can be managed and better co-ordinated.

The Issues and Challenges

On the flipside of the card, there are several potential issues and challenges that need to be considered before implementing a tax consolidation regime. Some of them are indicated below:

Initial costs

As detailed above, for tax purposes, there will be only a single reporting entity, i.e. a consolidated entity headed by the parent company. All assets owned by wholly-owned subsidiaries will be deemed to be the assets of the parent company. Likewise, other transactions like sales and purchases made by the subsidiaries are also regarded as being transacted by the single tax consolidated tax entity. Given this, the accounting and bookkeeping systems need to be upgraded to cater for these rising needs. This will surely involve additional costs. Moreover, some valuation may be required to determine the value of the assets and liabilities of all eligible subsidiaries for consolidation purposes.

Accounting rules versus tax rules

Although the tax rules under the consolidation regime treat the inter-company transactions as internal deals and hence do

not give rise to any tax implications, the existing accounting rules will continue to apply. For example, sales by a subsidiary to the parent company will still be recorded as normal sales, whereas tax rule will disregard the same. Hence, come the right time, perhaps the accounting rules may need to be modified with a view to facilitating the smooth implementation of the proposed tax regime.

Sharing of tax liabilities

It is vital to determine who is to bear the tax liabilities under the consolidated regime. Amongst the questions are:

- Who will bear the pre-consolidation tax liabilities of a subsidiary?
- Who will bear the additional liabilities arising in respect of the years of assessment prior to consolidation where the notices of additional assessment are raised after the consolidation?
- Who will bear the tax liabilities of a subsidiary, which is leaving the consolidated group?

All these need to be properly addressed so as to avoid any protracted disagreement in the future. From the practical point of view, perhaps a tax-sharing arrangement which spells out clearly the responsibility of each of the group members should be put in place.

Integration of relevant revenue laws

For the consolidation regime to work, revenue legislations pertaining to stamp duty, RPGT, service tax, sales tax etc may need to be integrated with the income tax law. A fully integrated revenue system will ensure that all taxpayers concerned benefit the most from the new consolidation regime.

The Way Forward

A tax consolidated regime may initially be viewed as a difficult and challenging tax reform. Whilst many challenges will arise to implement this regime, on closer analysis, one would appreciate that over the long run, the potential benefits are likely to outweigh the initial challenges arising from the consolidated regime. AT

Tan Hooi Beng was a Tax Manager at one of the Big 4 accounting firms in Kuala Lumpur. The above views are his own.

Value Management

by Aliza Ramli and Dr. Suzana Sulaiman

There are various definitions of Value Management (VM). When VM is applied at the corporate level, the basis is on the organisation's value culture that focuses on both stakeholders and customers (British Standard, 2003). However, at the operational level or project-oriented activities, the focus is the application of appropriate VM methods and tools. Value culture in this context refers to the attitude, awareness and sufficient knowledge of the organisation's as well as its shareholder's and customer's value concept. Furthermore, for VM to be successful, it is vital to have sufficient knowledge of the available methods and tools, awareness of VM benefits and the environmental conditions.



Similar themes that focus upon meeting customers' needs in VM definition are also found in Cheah and Ting (2005), Mazlan (2002) and Fong (1999). On the contrary, Male and Kelly (1990, p.74) relates VM with identifying and eliminating unnecessary cost so that minimum cost can be achieved and accordingly, VM is defined as:

"A philosophy or organised approach to identifying and eliminating unnecessary cost, to provide the necessary function at the least cost."

Likewise, Fong (1998b) applied a similar theme in VM definition. This view is in agreement with McDowell (1996), an organisation needs to reduce unnecessary cost by identifying and eliminating waste at the earliest opportunity. However, Fong (1999) described VM as a creative group problem-solving technique. VM becomes a useful tool in resolving issues in an organisation and this can be achieved by identifying the main functions of design, product, project or service and subsequently eliminating unnecessary cost. As a result, existing design or decisions can be improved.

History of Value Management (VM)

The origin of VM can be traced back to the days of World War II. The event that triggered VM development was the "Asbestos Affair". This took place in 1947 at the General Electric Company in the US. When World War II ended, asbestos, a common flooring material for warehouses became a short supply item. General Electric Company through some specialist suppliers found out that a substitute material was available at a lower price. Then again, Fire Control Regulations required the use of asbestos in the flooring of warehouses, and did not allow the use of substitute material. This is the incident that prompted the study of functions of various products.

An electrical engineer by the name of Lawrence Delos Miles was then assigned to the cost reduction work unit in the central purchasing department of the General

Electric Company. The group headed by Miles were saddled with the task to find the best method to improve the product value. They were given five years and a budget of US\$3,000,000. The group studied the products, costs and functional basis. They observed that when a substitute was used, most of the time cost is reduced, product is improved or there is a combination of both. Miles and his team managed to associate costs with functions and as a result of this, the formal functional approach of value analysis methodology was developed.

In general, Miles is credited with the

construction-oriented value engineers found in India, South Africa, England, France, Sweden and Germany (Dell'Isola, 1982). In later years, a number of authors and practitioners termed the VE technique as VM. Since then, its usage spread to Australia, New Zealand and the UK. However, in North America, Japan, and many European countries, the term VE is still being used (Mazlan, 2002). According to Tek and Yeomans (2002), VM evolution is very much seen as a continuum (Figure 1). In other words, there has been a shift in application from VA to VE and then to VM.

VM has evolved into a technique that focuses on maximising the value of products, processes or services from a total system. The increased value is approached from a customer or consumer viewpoint and the required function is provided at the least cost without affecting the quality and reliability of product, process and services. Despite numerous definitions provided by researches on VA, VE and VM, the terms are sometimes used interchangeably.

Figure 1 Evolution of VM

VA → VE → VM

Source: Tek and Yeomans, 2002

"VM has evolved into a technique that focuses on maximising the value of products, processes or services from a total system. The increased value is approached from a customer or consumer viewpoint and the required function is provided at the least cost without affecting the quality and reliability of the product, process and services."

development of the technique then known as 'Value Analysis' (VA). He developed this technique into an organised approach that identified the cost associated with the required function, and attached those costs in a systematic way without affecting quality or performance requirements. Even though Miles' focus was not on reducing cost but rather on finding alternatives to achieve the same functions without affecting quality, this came as a by-product. VA was designed to improve value without sacrificing the functions of the product; nevertheless, the basic idea still underlies the current concepts of VA, VE and VM (Cheah & Ting, 2005).

Evolution of Value Management

In 1970, VE practices and applications were introduced in other parts of the world namely Japan, Italy, Australia and Canada (Cheah & Ting, 2005). There were also

VM reflecting similar themes and concepts. The key words that have appeared in the definitions are value, function and costs. The goal of VM is to improve value (Sperling, 2001). Therefore, it is imperative to understand the relationship between these terms. The terms value, function and cost are explained in the following paragraphs.

Value

According to Dawson and Yeomans (2002), there are many definitions for value. The definitions for value may relate to moral, social, aesthetic, religious, political, judicial values and economy. In VM, value is examined in relation to economic value (Fong, 1999). The economic value is divided into use, cost, exchange and esteemed values. Use value relates to the measurement of the component, product or service in performing the intended process. For cost value, it represents the over-

all cost of the component parts. The component parts are needed to manufacture a product or service. The exchange value describes the product or service's ability to be exchanged for another product or service. The final type of the economic value is esteemed value. The esteemed value reflects the customer's willingness to pay for product desirability.

Davis (2004) highlighted that value is created when organisations perform a formal VM study. For example, owners could reduce the project budget as a result of a VM exercise. The technique provides a cost effective exercise or value conscious alternative rather than a simple cost exercise.

Function

Function reflects the natural or characteristic action that the product or process performs (Dawson & Yeomans, 2002 and Zimmerman & Hart, 1982). They highlight that product characteristic is what makes the product work or sell. In a similar vein, func-

tion according to Sperling (2001) can be divided into basic and secondary. Basic function refers to the fundamental need of the project, product and process. Basic functions described the product's output in relation to customer or user need (Fong, 1999). Basic functions are supported by the secondary functions. However the secondary function is not vital to the project, product and process as compared to the basic function.

tion according to Sperling (2001) can be divided into basic and secondary. Basic function refers to the fundamental need of the project, product and process. Basic functions described the product's output in relation to customer or user need (Fong, 1999). Basic functions are supported by the secondary functions. However the secondary function is not vital to the project, product and process as compared to the basic function.

According to Miles (1963), the customer or user will purchase the product based on its basic rather than secondary functions. Secondary functions involve large amounts of costs and these costs become the target of VE work. This is due to the VE technique which focuses on how to make beneficial changes by intent instead of by necessity (Davis, 2004). This is achieved by carefully analysing the basic function of a material,

component or process in relation to development of the finished product. This is a logical and successful way to identify the lowest cost for the specific function of product or services. Furthermore, the analysis of function is regarded as the most important component of VM (Fong, 1999 and Male & Kelly, 1990). Without it, VM is just a cost-reduction exercise.

Cost

Besides identifying the functions, it is also essential to analyse the costs incurred in the projects, products and services life cycle (Mansour, 1991). Furthermore, VE objective is only achieved when the total cost is at its minimum at each of the projects, products and services life cycle. The term 'total cost' usually refers to either the total life cycle or direct production costs. Life cycle cost includes the initial costs, recurring and one-time costs over the entire life of the item (Sperling, 2001). Life cycle cost or lifetime cost may also include only the invested capi-

“The VM technique is applicable to all types of sectors. Initially, the VM technique was introduced in manufacturing industries. This technique was then expanded to all types of business or economic sectors, which included construction, services, government, agriculture, education and healthcare.”

McDowell, 1996

tal cost or both capital and operating cost (Jergeas *et. al.*, 1999). Different people may have different meanings for lifetime of projects, products and services. Both invested capital and operating cost may be included in the lifetime cost if an owner wishes to keep the completed item for a prolonged period. However, if the owners' involvement end soon after completion, they may only opt for the inclusion of invested capital cost in the lifetime cost of the projects, products and services. In the context of VA, VE or VM, cost relates to total cost or life cycle cost.

Value is the relationship between function and cost (Sperling, 2001). In the value relationship, improvement in value can be achieved through reduced cost, increased function, or reduced cost and increased function concurrently.

Applications of VM

The VM technique is applicable to all types of sectors. Initially, the VM technique was introduced in manufacturing industries. This technique was then expanded to all types of business or economic sectors, which included construction, services, government, agriculture, education and healthcare (McDowell, 1996). The construction industries did not adopt VM until 1963 (Fong, 1999). The VM technique in construction industries is widely applied in the US because of the mandatory requirement. This application is geared toward larger federal projects under the Federal Procurement Law and Environmental Protection Agency (EPA) projects (Cheah and Ting, 2005). Likewise, VM is also strongly established in other countries such as Japan, Canada, Australia and the UK.

Formal approaches to Value Management

Various approaches to VM are practised by organisations. Examples of the formal approaches are 40-hour Workshop, Charette, Contractor's Value Management Change Proposal (VMCP) and Job Plan. The most commonly-adopted approach to VM is the 40-Hour Workshop (Male and Kelly, 1990). However, this type of workshop is rare outside the US and Japan (Dawson and Yeomans, 2002). The 40-Hour Workshop is basically conducted over a period of five days. It involves the review of the sketch design and documentation by a second design team. The workshop normally takes place at the 35 per cent of a product design stage. This approach is regarded as quick and effective.

According to Male and Kelly (1990), the Charette approach is undertaken after the project brief has been conducted and the design team appointed. At this stage, the actual design has not yet commenced. This approach comprises the customer's representative and the design team. The aim of this session is to generate ideas, which meets customer's expectation. The VMCP emphasises changes made on the approved project by the contractor. In the US, normally the contractor is encouraged to volunteer to conduct the VMCP. This is applied to government projects exceeding

US\$100,000. If the design team approves the VMCP, any cost savings will be shared between both parties. According to Male and Kelly (1990), the contractor would get 55 per cent of the cost savings for a fixed priced contract. For a cost reimbursable contract, the saving rate for the contractor is 25 per cent.

The basic method or framework in conducting a VM study is the Job Plan (Fong, 1999; Davis, 2004; Omigbodun, 2001 and Sperling, 2001). The Job Plan is a systematised plan of action for conducting a Value Study and it also encompasses implementation of the recommended changes (Witschey and Wulff, 1999). The Job Plan lays out the steps or phases to follow from inception to conclusion in a systematic manner. In the Job Plan, VM activities are separated into different phases whereby all these phases are geared towards achieving value outcomes for the organisation, stakeholders and customers (VM: British Standard, 2003). Through the Job Plan, the product or service is effectively analysed in developing the highest number of alternatives to achieve the product or service's function.

Since VM has been developed from VA, the Job Plan process has also improved and evolved into a systematic and thoroughly tested Job Plan (Davis, 2004). Thus, by adopting the Job Plan strictly, maximum benefits are achieved that include more flexible thinking and specific applications (SAVE International, 1998). The Job Plan identifies the process to analyse a product or service and maximum alternatives available to achieve the product or service's required function.

VM benefits and success

Benefits of VM include increased innovation opportunities, improved cost effectiveness and promotion of partnering among the owner, engineers and builders (Davies, 2004). Cost effectiveness is achieved when the functions are operating at the lowest cost without affecting the

quality, safety, environmental compliance or other functional requirements. Alternatively, VM provides the most convenient means towards a satisfactory balance between all the competing demands and constraints on a project (Rwelamila and Saville, 1994).

There are tangible and non-tangible results from applying VM (Davies, 2004). Value cost reduction is an example of non-



“VM has also provided substantial returns and benefits to users. Its benefits include increased innovation opportunities; improved cost effectiveness and creative problem-solving.”

etary or tangible results. Examples of intangible results are improved design, efficient bidding processes (Davies, 2004) and customer satisfaction (Fong, 1998b). Similarly, conducting VM on projects results in significant cost savings (Mansour, 1991). Witschey and Wulff (1999) stated that these costs can be reduced when VM is implemented at the earliest stage of the planning process. Conversely, Pylkas's (2002) study on a service sector found that VM has also led to an efficient and modern facility, which does not affect the operations.

In addition, creative problem-solving is another benefit of VM (Fong, 1999). The multi-disciplinary group is commonly practised by VM, which through its knowl-

edge sharing will aid in developing problem-solving skills and understanding the problems. Solutions are achieved through best judgement on the options and cost effective design among the multi-disciplinary group.

Conclusion

There has been a shift in the application from VA to VE and then to VM. As such, the evolution of VM is seen as a continuum. The goal of VM is to improve value through reduced cost; increased function or a combination of both concurrently. Therefore, it is pertinent to examine the relationships between function and cost. Even though VM origins began in the manufacturing sector, this technique has been applied to various disciplines. There are various approaches to VM, but the basic method applied is the Job Plan. VM has also provided substantial returns and benefits to users. Its benefits include increased innovation opportunities; improved cost effectiveness and creative problem-solving. Developing and establishing a VM programme requires strong support and commitment from the top management. The dedication and laborious efforts from the designated VM manager is also needed for its

success (Mansour, 1991). **AT**

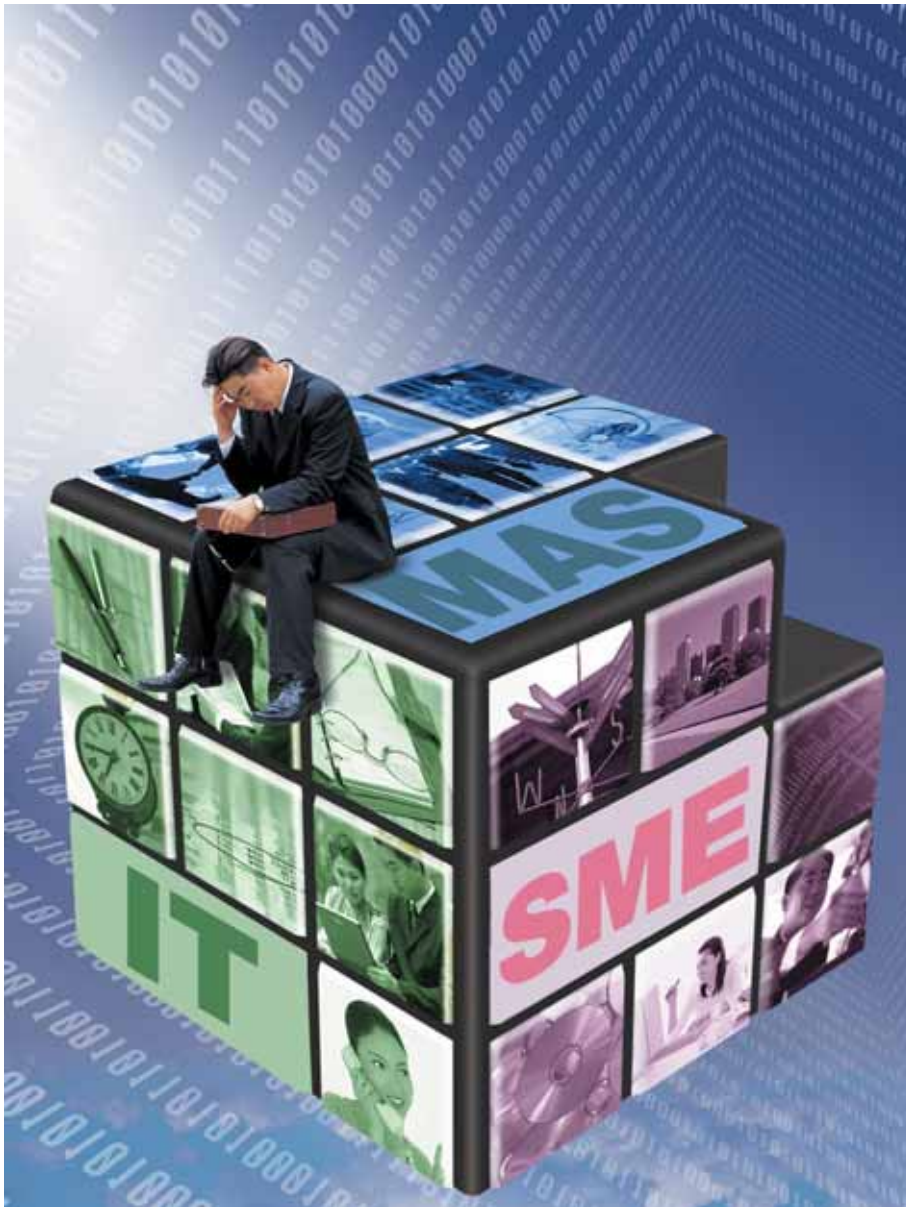
References

- British Standard: Value Management. (2003). *BS EN 12973:2000*, Vol. ICS 03.100.40, pp. 1-61, British Standards Institution.
- Cheah, C. Y. J., & Ting, S. K. (2005), Appraisal of value engineering in construction in South-east Asia, *International Journal of Project Management*, 23, pp. 151-158.
- Davies, K. E. L. (2004), Finding value in value engineering, *Cost Engineering*, 46(12), pp. 24-27.

Aliza Ramli is a Lecturer from the Faculty of Accountancy, Universiti Teknologi MARA (UiTM), Shah Alam. Dr. Suzana Sulaiman is a Postgraduate Coordinator from the Faculty of Accountancy, Universiti Teknologi MARA (UiTM), Shah Alam. For further information and references, please contact the authors at s-suzana@lycos.com

THE ALIGNMENT OF Management Accounting Systems AND ITS IMPACT ON Performance

by Noor Azizi Ismail and Malcolm King



This paper explores the fit or alignment between management accounting information requirements and information systems processing capacity, and examines its link to performance. The importance of the concept of fit was advocated by Galbraith (1973). Galbraith's information processing theory postulates that the organisation's information systems processing capacity must match its information requirements to have a significant impact on performance. However, instead of exploring information in a broad sense, this study takes a more restricted view by choosing management accounting information, in which management accounting systems (MAS) is an important component of a modern information system in Small and Medium-Sized Enterprises (SMEs) (Mitchell *et al.*, 2000). Developments in the areas of accounting, IT and information systems over the last two decades have broadened the scope of MAS to include non-financial, external, and future-oriented data, and with added emphasis on the economies of business operations and strategic management. For the purpose of this study, SME is defined as any unit with between 20 and 250 employees. The SMEs setting will provide a relatively focused insight into the management needs for accounting information and IT as an information processing mechanism.

Accounting, information systems and SMEs

The extant literature provides little evidence of MAS development within SMEs. Indeed, financial accounting has remained the principle source of information for its management. Previous studies often suggest that SMEs have little management information and poor control. Financial awareness among the managers of SMEs also varies considerably and the use of computers for the preparation of management accounting information is not at its full potential. The information systems literature was also reviewed to understand how IT is used to support information requirements. Although results from past studies indicate that IT adoption has grown tremendously within SMEs, there is considerable evidence to suggest that very few of the resulting systems have had significant impact on the way management makes decisions. The most prevalent applications in SMEs are transactional in nature.

Several studies have also examined the linkage between management accounting practices and information systems processing capacity to perform but they were unable to fully demonstrate their direct impact on performance. It is believed that the impact of IT on performance is dependent on the fit between IT and other contextual factors such as business strategy. These factors are often translated in terms of information requirements of the organisations. Alas, business people and IT professionals were too concerned with getting systems designed and implemented. They often failed to see that the aspect they should have been concentrating on was the information itself. In other words, sophisticated IT alone does not guarantee success if it is unable to provide the information required. This situation is even more crucial when there is a lack of accounting and information systems support in SMEs.

Based on the previous discussions, it has become clear that despite conceptual and empirical research efforts addressed on SMEs, very little is known about the fit or alignment between management accounting information requirements and information systems processing capacity in SMEs, including its link to performance.

Development of hypothesis

MAS design is conceptualised in terms of four information characteristics¹: scope, aggregation, integration, and timeliness. Scope refers to the focus, quantification, and time

horizon of information. Aggregation refers to the various forms of aggregation involving the use of analytical or decision models and a combination of data over periods of time or functional areas. Integration refers to the coordination of the various segments within the organisation to reflect the impact of the interacting effects of the various functions in the firm and the formulation of targets. Timeliness refers to the provision of information on request and the frequency of reporting systematically collected information. This study adopted the view that both management accounting information requirements (hereafter referred to as MAS requirement) and information systems processing capacity (hereafter referred to as MAS capacity) may be conceptualised in terms of a continuum from traditional type information to sophisticated information. Further discussion on the measures is taken up later.

Information processing theory assumes that an organisation is a complex system whose primary problem of relating to its environment is the acquisition and utilisation of information. The greater the uncertainty, the greater the amount of information that needs to be processed to achieve a given level of performance. Organisations would respond to the increasing information demand by increasing their information processing capabilities. In this case, providing managers with less information than required would affect the quality of the decisions made, which could eventually impede performance. On the other hand, investing in sophisticated IT may turn out to be an inefficient and costly information processing mechanism for firms that are faced with lower levels of information requirements. Furthermore, providing managers with unnecessary information would only cause information overload which could eventually hamper the performance. Thus, a high performing firm is one in which the MAS requirement is matched with MAS capacity and firms which experience a mismatch suffer in terms of lost performance.

Method

A mail questionnaire survey was used to gather data as the main aim of the study was to compare MAS alignment across a range of SMEs. Letters, together with a questionnaire and a self-addressed envelope were sent out to the Managing Directors of 1,230 SMEs in Malaysia. The names and addresses of the firms were selected

from the Directory of the Federation of Malaysian Manufacturers (FMM) 2002. Three hundred and ten usable questionnaires were eventually returned representing a 25 per cent response rate.

Measurement of variables

MAS requirement and MAS capacity were measured using a 19-item scale. First, respondents were requested to state their perception of the importance of each of the characteristics of information to their business on a 5-point scale from 1 (not important information) to 5 (very important information). Respondents were then requested to state the extent to which their computer-based information systems provide each of the characteristics of information on a 5-point scale from 1 (information not available) to 5 (information extensively available).

The fit or alignment between MAS requirement and MAS capacity (hereafter referred to as MAS alignment) will be explored as a derived construct. This study adopts the matching approach to measure the fit between MAS requirement and MAS capacity². Fit as matching is based on the level of similarity between each of the MAS requirement items and related MAS capacity items. For each of the 19 items, the absolute difference between the MAS requirement score and the corresponding MAS capacity score was formed, and represented the alignment of the SME on that particular characteristic of information. This provided 19 alignment scores for each SME, which could potentially contribute to an overall MAS alignment rating for each SME.

Performance was measured in terms of a 4-item self-rating scale which required participants to evaluate their firm's performance relative to its competitors on a 5-point scale from 1 (very weak performance) to 5 (very strong performance) for long-term profitability, availability of financial resources, sales growth, and image and client loyalty. A self-rating measure was used since it is very difficult to obtain objective data such as profits from SMEs managers.

Results

The descriptive statistics for the 19 items used to measure MAS requirement are reported in column 2 and 3 in Table 1. Responses for each item took the full range of values from 1 to 5. The highest rated items

1 See Chenhall and Morris (1986) for further discussion of these characteristics.

2 See Venkatraman (1989) for further discussion of fit perspectives.

were future events, speed of reporting, sectional reports, frequency of reporting, summary reports-sections, and summary reports-organisation. External information, sub-unit interaction, effects of events on functions, what-if analysis, and non-economic information were ranked lowest.

The 19 MAS capacity items and their mean values are shown in column 4 and 5

in Table 1. Responses for each item took the full range of values from 1 to 5. The most available items were frequency of reporting, temporal reports, summary reports-organisation, speed of reporting, sectional reports, and summary reports-sections. Sub-unit interaction, what-if analysis, non-economic information, and external information were the least available items.

Identifying MAS alignment

MAS alignment using the matching approach was measured based on deviation scores. The deviation scores for specific information were computed as the absolute difference between the rating for that MAS requirement and the rating for the related MAS capacity. A low value for the difference indicates that the alignment between the two variables is high, whilst a high value for the difference implies that there is a high degree of misalignment. For each company and each information characteristic, the absolute difference between the ratings of MAS requirement and MAS capacity items was calculated. The mean difference for each information characteristic was calculated by summing up the absolute difference for all companies, divided by the number of companies. The analytical scores ranged from 0 to 4. The results for all 19 information characteristics are shown in Table 2.

Since a low mean indicates high alignment, frequency of reporting, summary reports-organisation, temporal reports, summary reports-sections, sectional reports, and automatic receipt are the most aligned information, whereas the greatest mismatch scores were observed for external, future events, non-financial marketing, and non-economic information.

Test of hypothesis

One-way ANOVA was used to test the relationship between MAS alignment and firm performance. For this analysis, the sample of 288 firms with complete data was split into three groups of firms based on the results of cluster analysis. For ease of reference, these three groups of firms were referred to as 'high', 'moderate' and 'low' alignment. Having clearly identified three groups of firms with different levels of MAS alignment, it was now possible to test the relationship between MAS alignment and firm performance. The one-way ANOVA compared the mean performance scores for the three groups. The mean and F values are reported in Table 3.

The F values reported in Table 3 were significant at the 99% level for three of four performance measures. This indicates that the three alignment groups were significantly different in terms of long-term profitability, sales growth and availability of financial resources. Performance was consistently highest in the highly aligned group of firms. This data provides support for the hypothesis that firms that well aligned their MAS requirement and MAS capacity perform better than firms that less well aligned

Table 1 Mean Rating for 19 MAS Requirement and 19 MAS capacity Items

Variables	MAS Requirement		MAS Capacity	
	Mean	S.D.	Mean	S.D.
Future events	4.21	0.85	2.95	1.08
Speed of reporting	4.10	0.90	3.28	1.00
Sectional reports	4.09	0.83	3.25	1.03
Frequency of reporting	4.09	0.77	3.47	0.98
Summary reports-sections	4.07	0.88	3.25	1.05
Summary reports-organisation	4.07	0.90	3.29	1.06
Temporal reports	4.01	0.78	3.29	1.01
Non-financial (production)	3.94	0.89	2.95	1.11
Immediate reporting	3.85	0.95	2.95	1.02
Decisional models	3.82	0.87	2.86	1.06
Non-financial (marketing)	3.81	0.97	2.56	1.08
Precise targets	3.78	0.95	2.73	1.08
Organisational effect	3.78	0.97	2.75	1.08
Automatic receipt	3.77	0.97	2.94	1.13
Non-economic information	3.69	0.98	2.29	1.03
What-if analysis	3.56	0.92	2.41	1.04
Effects of events on functions	3.53	0.86	2.57	1.06
Sub-unit interaction	3.52	0.92	2.48	1.01
External information	3.45	0.98	2.29	1.09

Table 2 MAS Alignment

Variables	Mean	S.D.
Frequency of reporting	0.78	0.87
Summary reports — organisation	0.83	0.90
Temporal reports	0.83	0.88
Summary reports — sections	0.88	0.92
Sectional reports	0.90	0.96
Automatic receipt	0.91	1.04
Speed of reporting	0.93	0.99
Immediate reporting	0.99	0.99
Decisional models	1.00	1.05
Effects of events on functions	1.00	1.05
Organisational effects	1.05	1.04
Non-financial information (production)	1.06	1.10
Sub-unit interaction	1.06	1.11
Precise targets	1.09	1.13
What-if analysis	1.16	1.14
External information	1.25	1.10
Future events	1.30	1.08
Non-financial information (marketing)	1.34	1.19
Non-economic information	1.42	1.16

S.D. — Standard Deviation

their MAS requirement and MAS capacity.

However, it should be emphasised that under the matching approach, the groups of high-high combination, moderate-moderate combination, and low-low combination for the MAS requirement and MAS capacity ratings, are not distinguished and considered as one under the aligned group. This is because of the high degree of coherence between the two variables. All other combinations are considered as moderate or non-aligned. Therefore, it is necessary to explore whether the three combinations of aligned group differ significantly on the level of performance. The mean values of the performance measures for each combination are presented in Table 4.

The results show that the three groups only differ significantly at the 95% level in terms of image and client loyalty. This suggests that the existence of the high-high, moderate-moderate, and low-low combination in the aligned group do not contribute towards the diffused effect on performance. However, it is interesting to note that although the three combinations are not well separated in terms of performance, the high-high combination group has higher mean values on all performance measures compared to the moderate-moderate combination and the low-low combination. This suggests that the performance of the aligned group with a high-high combination is better, though not significant, than the aligned group with a moderate-moderate combination and a low-low combination.

Discussion

In this paper, we have explored the fit between MAS requirement and MAS capacity and examined its link to performance. The results of this study suggest that most of the SME’s managers in the sample acknowledge the importance of management accounting information to their businesses. All characteristics of information were ranked high in terms of their importance to the business, ranging from important to very important. MAS capacity was then explored to understand the capabilities of the firms’ information systems processing mechanisms to generate the information. The results suggest that in many cases the firms’ information systems processing capacities were insufficient to match their MAS requirement, which implies that the managers of SMEs were not being as effective as they could be in utilising IT.

Having identified MAS requirement and MAS capacity, the fit between MAS requirement and MAS was explored at the level of each of the 19 information characteristics.

The results of the matching perspective of measuring fit indicate varying degrees of alignment of the 19 information characteristics. While there is a high degree of alignment for some information, the mismatch is more apparent for other information. This implies that Malaysian firms are putting different IT strategies on different information. Future studies could focus on specific accounting information to understand how each is supported by IT. Maybe some information is easier to support with IT or firms may be targeting IT at specific information.

Using cluster analysis, three significantly different MAS alignment groups were later identified which could be clearly labelled as ‘aligned’, ‘moderate’, and ‘non-aligned’. The results of this study suggest that some Malaysian SME manufacturers had achieved a high degree of alignment between MAS re-

needs, or that MAS alignment influences firms performance. The latter possibility, that is, MAS alignment influences performance, suggests that SMEs can benefit from MAS alignment. Therefore, SMEs need to spend more time on analysing and scrutinising environmental changes to identify their MAS requirement, and then give high priority to IT projects that could support their information needs. For example, growing firms operating in a dynamic and competitive environment would require more broad scope and integrated accounting information, and therefore more sophisticated IT to generate the information. On the other hand, mature firms operating in a stable environment would require less sophisticated IT as they need less information. Misalignment between information needs and information processing capacity would only hamper performance.

Table 3 ANOVA between MAS alignment groups and performance

Performance	N/Aligned (46)	Moderate (135)	Aligned (107)	F Ratio	F Prob.	Sig.
Long-term profitability	3.02	3.36	3.51	6.221	.002	Yes
Sales growth	3.22	3.39	3.64	5.493	.005	Yes
Financial resources	3.02	3.41	3.58	7.526	.001	Yes
Image/client loyalty	3.57	3.67	3.79	2.022	.134	No

Table 4 ANOVA between different combinations of aligned groups & performance

Performance	Low-Low (9)	Moderate-Moderate (59)	High-High (39)	F Ratio	F Prob.	Sig.
Long-term profitability	3.22	3.47	3.64	1.305	.275	No
Sales growth	3.44	3.56	3.79	1.620	.202	No
Financial resources	3.56	3.47	3.74	1.693	.189	No
Image/client loyalty	3.33	3.73	4.00	4.544	.013	Yes

quirement and MAS capacity for some characteristics of information.

Finally, the three MAS alignment groups were tested against performance. The results of one-way ANOVA show a positive association between MAS alignment and firm performance, and thus support the proposition that Malaysian SMEs with high MAS alignment are more likely to perform better than those with low MAS alignment. While causal links cannot be deduced from this research, the results indicate that MAS alignment has a positive relationship with firm performance.

Implications for practice

This study demonstrates that the fit between MAS requirement and MAS capacity is clearly linked to performance. The finding implies that either high performing firms are good at aligning IT with their information

References

Chenhall, R.H. and Morris, D. (1986), “The impact of structure, environment, and interdependence on the perceived usefulness of management accounting systems”, *The Accounting Review*, LXI(1), pp. 16-35.
 Galbraith, J.R. (1973), *Designing Complex Organisation*, Addison-Wesley, Reading, Mass.
 Mitchell, F., Reid, G. and Smith, J. (2000), *Information system development in the small firm: the use of management accounting*, CIMA Publishing.
 Venkatraman, N. (1989), “The concept of fit in strategy research: toward verbal and statistical correspondence”, *Academy of Management Review*, 14(3), pp 423-444. **AT**

Noor Azizi Ismail is an Associate Professor at the Faculty of Accountancy, University Utara Malaysia and can be contacted at azizi833@uum.edu.my
 Malcolm King is a Professor at the Business School, Loughborough University, UK and can be contacted at M.King@lboro.ac.uk

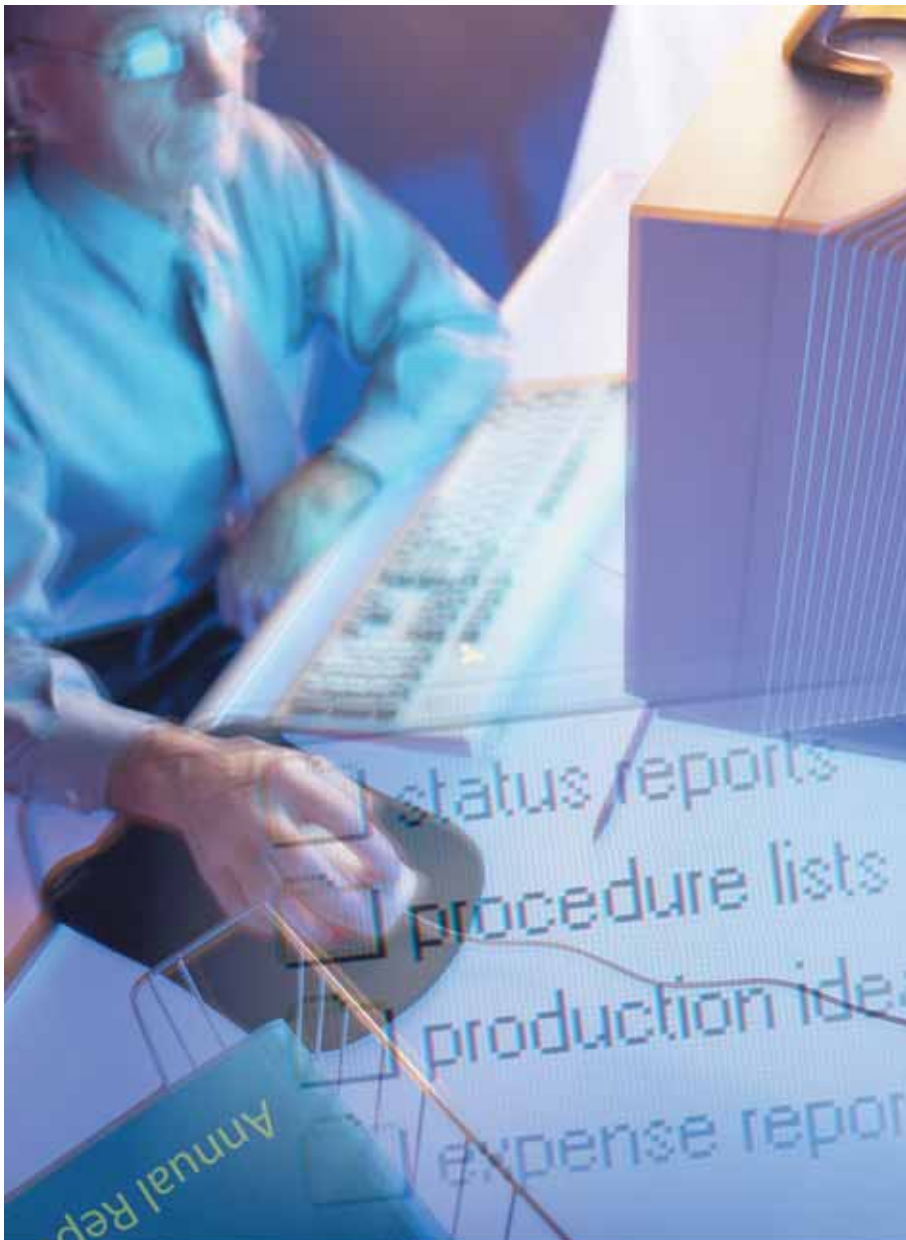
Confidence in Numbers

HOW TO GET A GRIP ON ENTERPRISE DATA

by Ken Gorf

Now that most companies rely on enterprise systems to provide the data for annual reports, CEOs need to be ever more IT-savvy to be sure of the information produced.

But how many know what to look for?



Finance Directors and Managing Directors are legally required to put their signatures to statements concerning corporate governance and compliance in annual reports — the penalties for getting this wrong include imprisonment. The annual reports are produced using data from enterprise systems (for example, SAP, Oracle and PeopleSoft), so it is crucial that the IT function delivers accurate numbers from reliable systems. But how many Finance Directors and Managing Directors even know the right questions to ask the IT people to feel confident in the data?

Practical support for CEOs and Chief Financial Officers (CFOs) in IT governance is inadequate. Governance in enterprise systems is a business issue, not an IT issue and it is an ongoing process, not a one-off project. The Department of Trade and Industry (DTI) in the UK reports that 94 per cent of UK businesses had a security incident in 2003 (up from 74 per cent in 2002), and 42 per cent of large businesses had a systems failure or data corruption incident last year — nearly 80 per cent of which were serious.

Enterprise systems are fundamental to most businesses, providing operational support, financial information and processes no longer executed by other means. However, the DTI statistics illustrate the scale of management exposure to the dangers of flawed IT systems, and there is much other worrying evidence available. Checklists from consultants are no pana-

cea and not a substitute for diagnostic solutions based on real-time information.

Key questions

It is a concern that accountability for enterprise systems often lies with the Chief Information Officer or IT specialists, while corporate accountability legally rests with the CEO and CFO. The challenge is to explore and understand the effectiveness and efficiency of enterprise systems, while reviewing the situation in business terms.

For example, does the CFO know what percentage of the system’s software is standard licensed vendor code and how much has been written internally or by consultants as non-standard? Does the CFO know how much is being paid for standard and non-standard software that is not actually used? Does the CFO know how well the interfaces between the standard and non-standard code are optimised?

Enterprise systems are renowned for their internal checks and balances: have these been compromised by poor interfaces with non-standard code? What is the management process for choosing to write non-standard code? How can the CEO measure the return on investment on code that is not even being used? How is business process integrity guaranteed when new releases of software are implemented?

Do the CEO and CFO even know what questions to ask to measure and monitor the enterprise system risks? And does this affect their confidence in putting their signatures to the corporate governance statement in the annual report?

Non-standard software

Because every business is different, non-standard code will be written to cater for some specific local operational transactions. These can be classed as essential but the objective is to keep them to a minimum. In most businesses, however, the non-standard code tends to grow to meet other expediencies, execute short cuts and produce

ad hoc reports. But this code carries costs — maintenance, upgrades, testing, and so on. Careful analysis frequently shows that much of this code is seldom used, and transactions could have been performed by standard code.

We should also be concerned about the interfaces between standard vendor code and that written internally or by consultants.

As mentioned earlier, internal controls can break down at these interface points, or be lost completely. For example, the interfaces between the purchasing, logistics and financial modules are key to the approval of suppliers’ invoices for payment. Any

weakness in these areas opens the possibility for wrong payments, late payments and fraud. Similarly, poor interfaces between customer relationship management systems, logistics, sales and financial modules can adversely affect credit checking, shipping and deliveries, billing and receivables.

Non-standard code also frequently has an impact on system quality and costs. Documentation, testing and user training for standard code are provided by the vendor, but the customer is responsible for updating these items for every change that includes non-standard code. Documentation is a notorious area of weakness in locally developed code due to personnel changes and individual interpretation. Upgrading and testing in this environment can be expensive, time-consuming and result in quality issues such as loss of process integrity.

Standard software

Many organisations invest in enterprise systems and then only use a small proportion of the licensed standard code. Typically, less than 50 per cent of the system

vendor’s code is in use, whereas the objective must be to grow this to 80 per cent and more. Clearly payments to the system vendor are for 100 per cent of the code and associated maintenance.

Apart from this financial penalty, there are other benefits of the enterprise system that are not being realised if standard code is not fully used:

- improved business processes;
- increased productivity;
- improved system quality;
- rapid development of new business opportunities;
- faster systems deployment; and
- fully exploited system checks for internal control.

For example, in the purchasing module, is it known how many times each purchase order is amended before being sent to the supplier? Frequent changes point to poor purchasing processes, or even worse, opportunities for fraudulent changes to price or quantity.

Similarly, how many and how often are changes made to customers’ orders after receipt? Multiple changes may point to inefficiencies in sales administration, or protracted negotiations with customers.

These illustrations are the small tip of a large iceberg. The ability to extract current

“The ability to extract current objective usage data from the enterprise system easily will enable a proper assessment of the risks faced, and the opportunities for business improvement.”

objective usage data from the enterprise system easily will enable a proper assessment of the risks faced, and the opportunities for business improvement. New tools and services have recently become available that

provide practical and invaluable information in business terms, and will also answer key compliance questions for CEOs and CFOs without the technical jargon. **AT**

Ken Gorf (FCMA) is a consultant focused on business development, performance and governance for technology companies. This article is contributed by CIMA (The Chartered Institute of Management Accountants) and it first appeared in *Insight*, CIMA’s on-line newsletter for accountants in business. *Insight* is accessible at www.cimaglobal.com/insight

THE Future OF Finance

by Stathis Gould and Martin Fahy

Stathis Gould and Martin Fahy propose a business-partnering model that, they believe, will allow the function to deliver high-quality decision-support services.

In almost every piece of research — and rhetoric — on the future of finance “effective business partnering” is rated as the function’s most important aspiration. Despite that, only a few high-performing firms are successfully redefining finance’s role to meet the decision-support needs of senior executives. Many CFOs are struggling to achieve this while reducing the total cost of the function (without exposing their organisations to compliance risk) at the same time.

The first finance transformations in many firms were intended to deliver efficiency through a combination of new structures such as shared-services centres, technologies such as Enterprise Resource Planning (ERP), and re-engineering and standardisation. If finance is to advance, it must go beyond systems and processes and focus on the customers — executives, managers, front-line staff and external stakeholders — who expect meaningful information for decision-making. By understanding its customers’ needs the function can further deliver decision support. Figure 1 shows a customer-driven service delivery framework for finance. It demonstrates how finance must consider all its markets, from providers of capital, banks and suppliers, to internal functions such as marketing, operations and Human Resources (HR), to the board and management.

Finance’s performance should be measured by the value it delivers to its customers. Their needs will define not only what finance offers but also how it delivers — for example, through shared-services centres or outsourced providers for processing transactions; finance professionals in business units, or external consultants for strategic decision support; or specialist

decision requirements?

- What are their decision-support/transaction processing/control and assurance requirements?
- What services do they need from us?
- What delivery channels should we use?
- What infrastructure is needed in terms of processes, systems and people?



- What is our finance operating strategy and how do we price/prioritise the services we offer?
- What risks are associated with different delivery models?

Meeting customers’ needs is a two-stage process. Stage one is deploying the financial systems, structures and processes that provide the platform for stage two, which is a business partnering model for delivering high-quality decision-support. We call this commercial

finance. teams in corporate centres for treasury and tax management. Web-enabled self-service is increasingly popular since it enables customers to complete transactions and, after training, use analytical applications.

The last element in the framework is infrastructure in terms of systems (e.g. ERP), processes (e.g. global purchase to pay) and structures (e.g. regional). The key questions finance should consider are:

- Who are our customers?
- Do we need to help clarify their key de-

finance.

Discussions and benchmarking at the CIMA Strategic Enterprise Management (SEM) network forum, which involves major organisations in different sectors, have shown that cutting finance’s operating costs requires discipline and a focus on decluttering the function’s agenda. Key trends include:

- Shared-services centres are an established part of the finance architecture and companies are increasing their

scope and flexibility.

- Firms are focusing on improving productivity and cutting costs via consolidation in pan-regional centres.
- Single-instance ERP remains elusive, or uneconomic in some cases, but operating units across borders requires common processes and systems to ensure standardisation and simplicity.
- Workflow and e-enabled processes are emerging as standard, but “lights-out” processing is some way off.
- Global strategies for shared services have led to cost savings of up to 50 per cent, but these have typically taken over five years to materialise.

Previous debates on the future of the function didn’t define a service delivery model for commercial finance. Neither did they help organisations to answer the key question of what high-quality business partnering actually looks like.

Few firms have clarified their vision of finance for the future and sold it to the board and the organisation. One that has done is a leading pharmaceutical firm, which has produced the following vision for improving the way its finance function supports decisions and participates in man-

“To create competitive advantage by supplying management with forward-looking, timely, high-quality and value-adding financial and controlling support, we will strive and prove to be an invaluable partner in shaping the strategy and persistently challenging operational excellence.”

Vision of a leading pharmaceutical firm

agement: “To create competitive advantage by supplying management with forward-looking, timely, high-quality and value-adding financial and controlling support, we will strive and prove to be an invaluable partner in shaping the strategy and persistently challenging operational excellence.”

This kind of vision can be supported by a commercial finance business-partnering model (Fig. 2) that maps out finance’s key customers. Many of these are internal such as HR, R&D and marketing. Others are external where finance services need to extend all along the value chain. For public-listed companies, customers also include capital markets.

controls right, finance should help to develop strategies for managing for value and growth, and to move other functions towards these goals. Strategic involvement includes developing a robust strategic process, advising on major investments, product development, acquisitions and divestments. The financial implications of corporate portfolio strategy and planning require finance to answer questions such as:

- In view of our current and expected business mix and capital structure, how much capital will be available for use in the future?
- What sort of risk/return profiles does our existing portfolio of businesses present to potential investors?

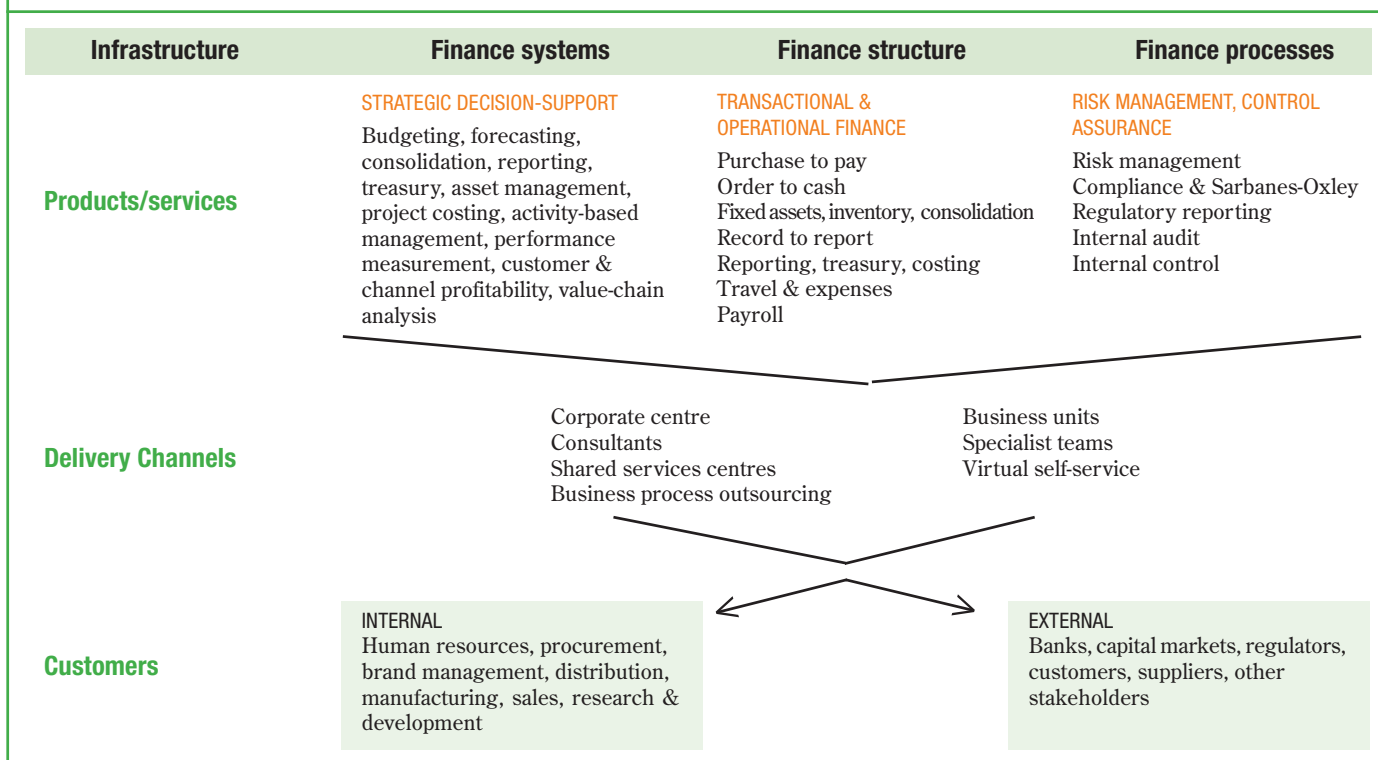
Strategic management and corporate strategy

As well as getting the numbers and con-

R&D and product development

Finance can use advanced investment ap-

Figure 1 A Customer-Driven Framework for Service Delivery



praisal techniques such as option pricing and active portfolio management to improve decision framing in uncertain environments. It can also help to assess the potential of new products and can use simulations to integrate design, production and marketing.

Brand and marketing effectiveness

Brand investment is often one of the main drivers of performance and value, but only a few firms are disciplined in their approach to marketing expenditure. The companies leading the way in making brand investment more effective take different approaches. Some treat finance as a business partner in using tools such as portfolio management and econometric modelling to improve their brands' performance. Others have transferred skills to specialised analyst teams or the marketing function itself.

HR measurement and reporting

In some firms, finance's interface with the HR function has developed into a partnership in connecting investments in people to the performance of the business. This involves recommending HR policies, providing analysis to aid decision-making, designing targets, measuring performance and reporting on HR's performance.

Operations and supply chain

Using quality initiatives such as continuous improvement and Six Sigma is only part of the potential input from finance here. By integrating customer requirements, production, materials management and distribution, and with effective working capital investment, the function can help to refine the main operational management levers.

When it comes to delivering commercial finance skills, the extent of finance's functional decentralisation is a key factor. Decision support is more likely to be effective when it is provided centrally or by a dedicated finance team where the following conditions exist:

- A dynamic and changing business model and competitive environment.
- Variable data integrity.
- Multiple data sources.
- Limited management accounting skills in other parts of the business.

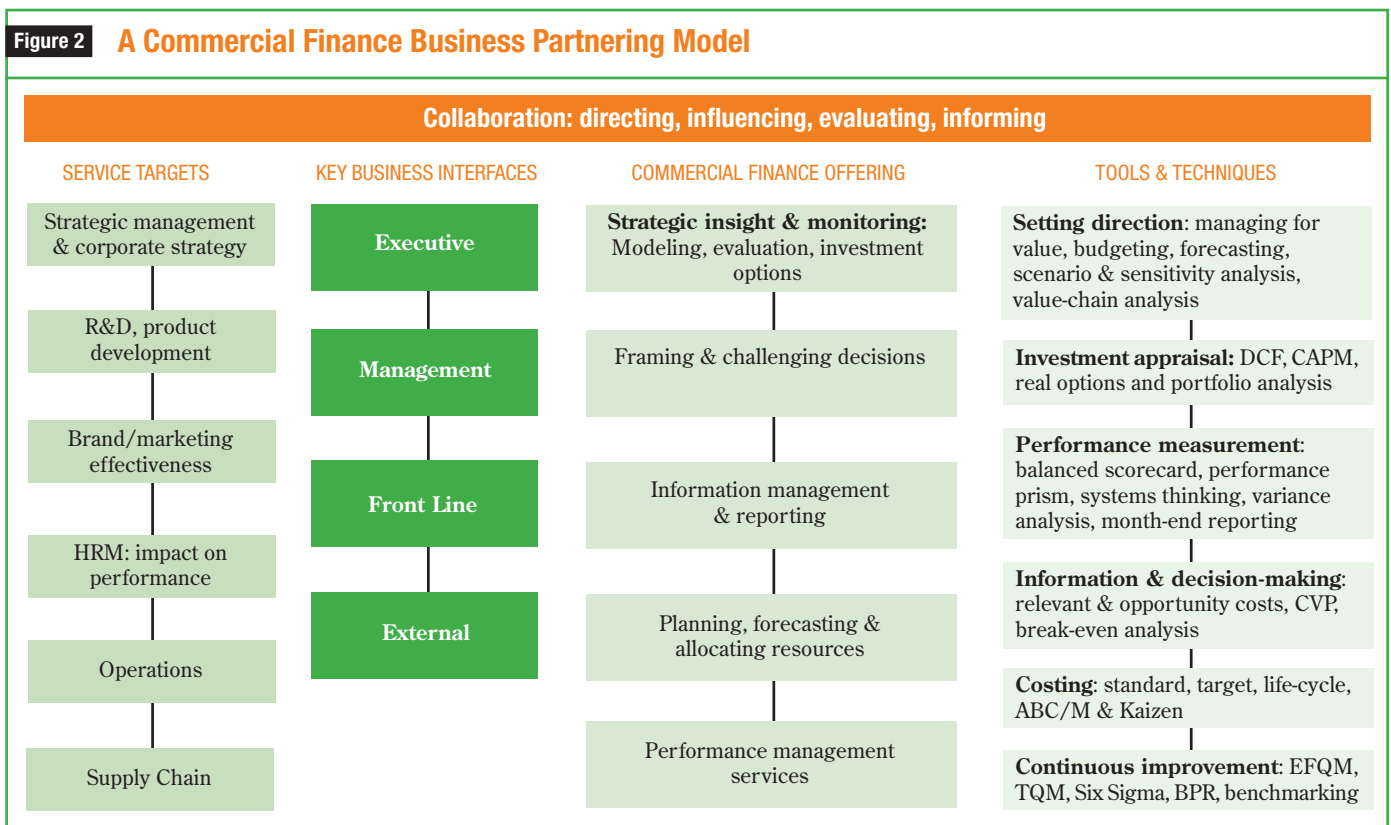
Alternatively, the integration of commercial finance as a part of the business — so that accountants are working in business units and reporting to line managers — is easier when the following conditions exist:

- A relatively stable business model.
- Reliable data.
- Well-established processes.
- Competence in using key financial tools such as investment appraisal and managing for value.
- A decentralised organisation with a culture of employee empowerment.

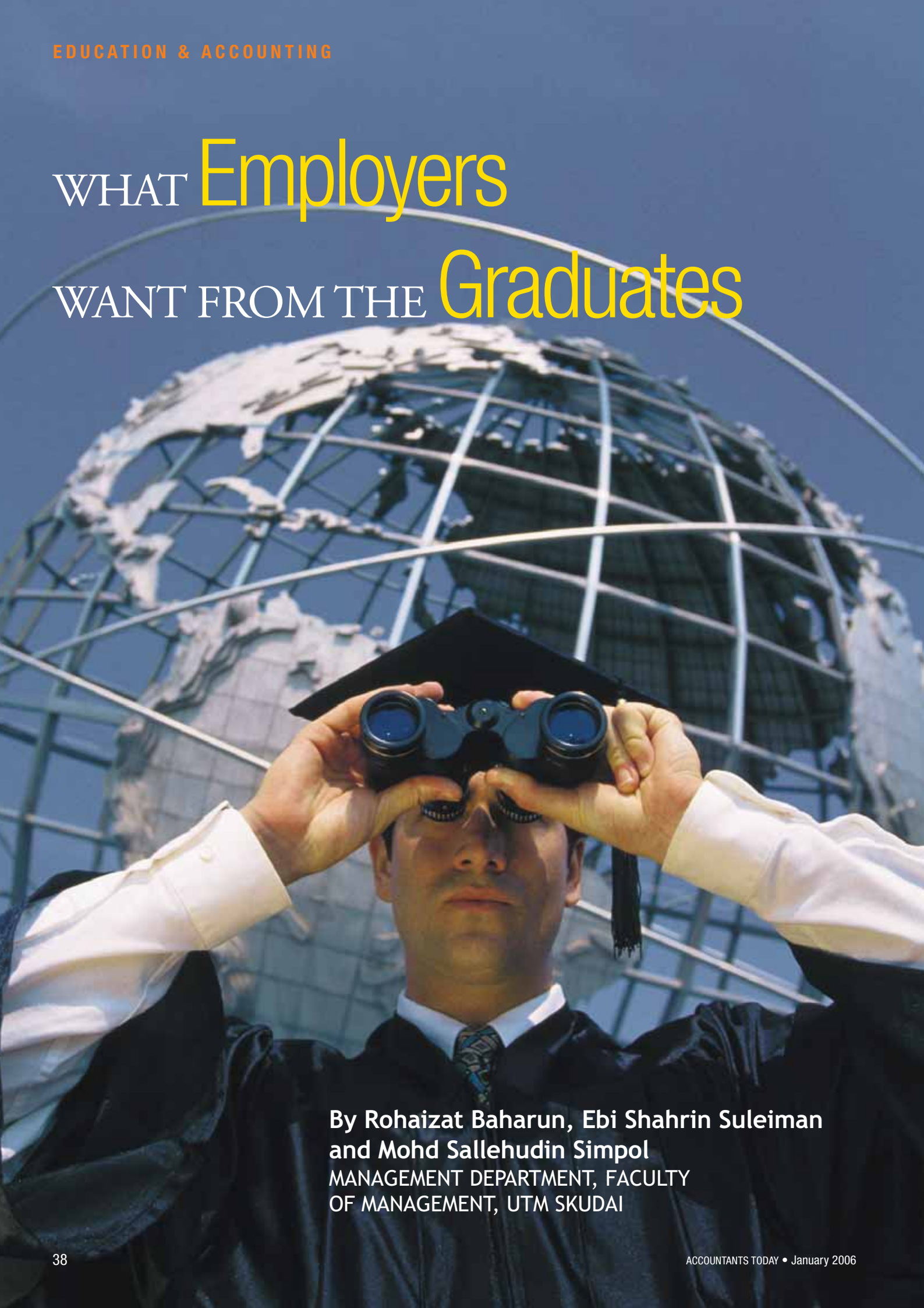
Delivering the commercial finance business-partnering model requires a clear understanding of customers, and it needs the right people to identify and use the appropriate techniques. To some extent, this model points the way to establishing the vision of a service delivery model for finance. Obviously, organisations must be clear about their vision, strategy and people development requirements. Some firms will benefit from rigorous finance training programmes to give business partners the exposure and skills they will need in a commercial finance role. Others will need to consider how they can gain and deploy what are scarce capabilities. **AT**

Stathis Gould is a technical expert at CIMA and Martin Fahy is a senior lecturer in information systems at the National University of Ireland. This article is contributed by CIMA and it first appeared in *Financial Management*, CIMA's monthly magazine for its members.

Figure 2 A Commercial Finance Business Partnering Model



WHAT Employers WANT FROM THE Graduates



**By Rohaizat Baharun, Ebi Shahrin Suleiman
and Mohd Sallehudin Simpol**
MANAGEMENT DEPARTMENT, FACULTY
OF MANAGEMENT, UTM SKUDAI

In today's world, industries are experiencing changes more rapidly. Various factors are propelling these changes such as globalisation, internationalization, rapid changes in technologies and intense competition. These changes have profound impact on the higher education institutions, as education is the foundation on which a competitive workforce is built.

Despite some impressive improvements in performance in the higher education institutions, many students still emerge from the education system ill-equipped to meet the challenges of life and employment. In the era of a new revolution in which knowledge and applied intelligence is rapidly becoming the key to national survival and success, 'knowledge' workers are needed to help their organisations gain competitive advantage through the application of skills in technology, innovation, production and service (Gregory, 1996).

Industries are in constant need for a consistent and reliable supply of educated and skilled business graduates. On the other hand, universities have the responsibility to produce graduates that will meet the requirements of the industries. However, universities are lagging behind in meeting the needs of the industries (Hernaut, 2002). In addition to that, there is a gap between the knowledge, skills and qualities possessed by the universities' graduates and the knowledge, skills and qualities required by the graduates' prospective employers. The gap between the perceptions of industry leaders and academicians is clearly mentioned in the study conducted by Nicholson and Cushman (2000). The study found a distinct gap in the perceptions of industry respondents versus the academicians included in the study. While industry believes that strong effective skills such as 'leadership' and 'decision-making' were the most desirable characteristics for future executives, the academic favours more interpersonal effective competencies and overall ranked the cognitive skills higher than the other group. Further, the study found academicians believed that their opinions would mirror those of the industry. However, this was clearly not supported.

Demand does not match supply in the

graduate marketplace as companies continue to restructure and downsize in the 1990s and economic performance inhibits the expansion of employment. The resulting increased levels of competition between graduates for available jobs and the changing nature of skills needed for today's competitive marketplace means that qualitative considerations play an increasing role in the selection of graduates.

Higher Education Institutions' role in graduate career development

A range of previous life experiences, for example, the society in which the individual lives, educational experiences and parental influences, will have influenced an individual's career development. These life experiences will have already influenced the individual's self and opportunity awareness. This awareness will have been exercised, to some extent, for the individual to have made a career choice and continue their formal education by entering higher education institutions (HEIs).

Therefore, HEIs have a role to play in the

continued development of self and opportunity awareness in relation to the notion of transferable skills and qualities and in alerting students to the relevant labour market trends. In this respect, Nabi and Bagley (1998) argue that "the development of career plans in the early stages of an undergraduate's course is likely to help the student clarify what skills he/she lacks and to devise ways to develop these skills and competencies over the course of their undergraduate programme". They also refer to Lancaster Business School's Career Development Unit supporting an academic input relating to such areas as the graduate labour market and theories of occupational choice.

The Association of Graduate Recruiters (AGR) report (1995) highlights graduate criticisms of academics, which considered "most educators were in a time capsule, five or ten years out-of-date". The reasons for students choosing to continue their formal education are no doubt wide and varied, but common to all must be the expectation that their degree and development during their courses will enhance employability in the future. The authors argue, therefore, that students have a vested interest in gaining an insight into the reality of the graduate labour market and understanding that their degree is not the sole means of securing employment. This is reinforced by the secondary and empirical research findings that many employers, both large and small, are seeking a "well-rounded graduate" who has achieved a reasonable degree and is

Table 1 A three-way classification of skills

Skills Heading	Definition
Key (or Core) Skills	Very general skills needed in almost any job. They include basic literacy and numeracy, and a range of personal transferable skills such as the ability to work well with others, communication skills, self-motivation, ability to organise one's work, and often, a basic capability to use information technology.
Vocational Skills	Needed in particular occupations or groups of occupations, but are less useful outside of these areas. While they are less general than key skills, they are nonetheless highly transferable between jobs in a given field. A simple example may be the ability to use a common computer package.
Job-specific Skills	Usefulness of these is limited to a much narrower field of employment. They are forms of knowledge rather than skills as traditionally defined and could be specific to individual firms.

Source: UKdFEE, *Labour Market Skills & Trends*, 1997/98, pp. 34-35

equipped with, and aware of, the range of skills and qualities that can be transferred to the workplace. It is argued, therefore, that curriculum development which addresses the importance of both self and opportunity awareness not only assists students to face the realities of the world of work but also similarly requires academics to do the same.

From the review of a wide range of secondary reported data, it is clear that different labels are used to describe the term skills and qualities. The Association of Graduate Recruiters refer to transferable skills and qualities (AGR, 1995, p.4) and the Dearing Report (1997) emphasises the importance of key skills, which AGR now recognise as replacing the previously used term of core skills, whereas Harvey *et al.* (1997) refer to a “profile of attributes”. The use of different labels can be confusing. Thus, it is imperative to give definitions of what is meant by the term transferable skills and qualities in the context of this research. The British Department for Education & Employment (DfEE) (1997) provides a framework to assist in this process, which they refer to as a three-way classification of skills: key (or core) skills, vocational skills and job-specific skills. Table 1 illustrates what is meant by each of these skills.

Nabi and Bagley (1998) similarly provide a useful framework for classifying transferable skills. Their research classified three groups, namely, personal, communication and problem-solving attributes. Applying their framework, the skills and qualities identified by CAES can be sub-grouped as follows:

- *Personal attributes* — motivation, organisational ability, teamwork, interpersonal/social skills, leadership.
- *Communication* — written, verbal and non-verbal skills.
- *Problem-solving* — initiative, creativity and decision-making.

According to Stewart and Knowles (1999), employers expect students to demonstrate these skills and qualities. This statement

implies that these skills and qualities are valued or deemed as important by the industries. Various studies have produced useful indicators of the kind of skills and abilities that graduates need in addition to knowledge and subscribe to a set of transferable skills such as communication, team working, problem-solving, leadership, numeric, self-confidence, willingness to learn, flexibility, ability to learn, intelligence, ideas and imagination (Harvey and Green 1994, Flanders 1995, Dee 1996, Harvey *et al.* 1997, Williams and Owens 1997). However the employers alone do not only value these skills and qualities. Other stakeholders such as higher education insti-

tutions, government as well as the students themselves regard these skills and qualities as important in order for the graduates to be more marketable.

with sufficient reference to probable context where they could be utilised. Dench (1997) conducted a study to find out the changing skills required by the industries. Major findings were employers are becoming more demanding in the skills they require of their employees. It is recognised that the content of jobs is changing and that different combinations of skills and abilities are required. The evidence suggests that up-skilling and reskilling is more widespread than any reduction in the level of skill required.

Table 2 Summary of key skills required by ranking (n=63)

Variables	mean	STD	ranking
Verbal communication	2.29	1.57	1
Written communication	2.71	1.49	2
Team work	3.49	1.84	3
Leadership	3.76	2.05	4
Information technology	3.90	1.68	5
Reading skills	4.49	1.84	6
Numeracy	5.48	2.05	7

Table 3 Academic and/or intellectual skills (n=63)

Variables	mean	STD	ranking
Independence	3.25	2.41	1
Business problem solving	3.29	2.04	2
Autonomous learning	3.38	1.93	3
Critical analysis	3.92	2.12	4
Application	4.29	2.11	5
Research for decision making	4.59	2.27	6
Research methods	5.24	2.33	7
Reflection	5.30	2.30	8

Few studies attempted to identify the need of industries in terms of the skills possessed by the graduates. Laughton and Montanheiro (1996) conducted a study of the core skills required in higher education from the perspective of the students in the UK. Major findings were the complexity of common skills strategy, difficulties in the area of assessment, the different value placed by the students and the fact that the development of skills was not undertaken

with sufficient reference to probable context where they could be utilised. Dench (1997) conducted a study to find out the changing skills required by the industries. Major findings were employers are becoming more demanding in the skills they require of their employees. It is recognised that the content of jobs is changing and that different combinations of skills and abilities are required. The evidence suggests that up-skilling and reskilling is more widespread than any reduction in the level of skill required.

Methodology

The method chosen to address this study area was a questionnaire. Using a database which had been compiled for the purpose of previous research undertaken by one of the authors, the population was defined as “employed our students as their employees and focusing the Klang Valley and Johor Bahru region.” The questionnaire was designed using a combination of quantitative and qualitative questions and comprised three distinct sections. After an initial period the questionnaire will be distributed again to employers who had not responded. Personal interview was suggested as a good method to bring immediate and more reliable data to the survey. In total, questionnaires were sent to 200 employers and 83 completed the questionnaires.

Findings

An analysis was carried out by performing the analysis of ranking all the factors in the data results collected from the questionnaires. As a result, the readers can clearly learn the different importance of all the factors in terms of the aforementioned three areas, “key graduate skills required for the job market”, “academic and/or intellectual skills”, and “personal skills”.

As shown in Table 2, of the key skills that graduates must possess, the top three required skills in ascending ranked order are “verbal communication”, “written communication” and “team work”. These findings

supported by the findings of Yen, Lee and Koh (2001), also found “interpersonal communication skills” as being more important skills for the graduates.

By further examining the ranking for academic and intellectual skills presented in Table 3, the top three possessed academic and intellectual skills listed in sequence include the following, “independence”, “business problem-solving”, and “autonomous learning”. This finding not only reinforces the findings presented in Table 2, but also provides additional information, which deserves more attention. This finding does not show that technical skills or academic skills are unimportant. However, it was finding people with the combination between personal and educational background, which was often the problem.

Furthermore, any categorisation of skill needs especially in Table 3 will include elements of overlap. For example, the highest skill is independence, with needed both personal and technical skills. In retailing, employees need to understand the requirements from customers and at the same time provide the service supported by the use of computer for inventory and sale.

Finally, the researchers asked respondents’ experiences working with the local university graduates who presently worked with them or in their organisation, especially graduates from the local universities.

Table 4 summarised the findings for the analysis. By further examining the agreement of the respondents for the skills possessed by the graduates that are working with their companies, the top four listed in sequence include the following, “able to carry out responsibilities assigned”, “always on time and keeps appointments as required by clients and higher management”, “has the inclination to improve knowledge” and “able to communicate and write in English and able to upgrade work achievement after receiving in service training”.

The results showed a very interesting feature: what could be described as “managing and developing self” and knowledge of general operating business and management are still receiving sufficient attention in the field, compared with other functional disciplines such as computer related fields. As mentioned by Laughton and Montanheiro (1996), the crucial issue provided from this finding

is the “soft skills” such as management and business should be thought separately or integrated in curriculum design or/and across programmes and the extent to which all the “soft skills” should be developed across all years of a programme.

Conclusion

In terms of key skills in management and business programmes, verbal and written communication skills were ranked higher but lower on numeracy skill. This finding also supported findings in the programme structure, where the communication subject must be given a high priority in design-

graduates. However, this research draws attention to the fact that the issues involved are more complicated than simply relying on the market for a solution. While recognising the importance of market orientation in designing the university’s programme, the researchers argue that the market cannot be the sole arbiter in this matter for two reasons. Firstly, the market is not perfect and can also be bias toward their own opinion or type of industry. Secondly, some terms or methodologies used by researchers may have different meanings to the industry such as knowledge management and life long learning. **AT**

Table 4 Summary of skills possessed by graduates

Variables	mean	STD	ranking
Able to carry out responsibilities assigned	3.98	0.79	1
Always on time/keeps appointments	3.79	0.99	2
Inclination to improve knowledge	3.75	0.88	3
Able to write in English	3.71	1.08	=4
Upgrade work achievement after receiving training	3.71	1.01	=4
Able to communicate in English	3.71	1.01	=4
Able to fit into new work environment	3.67	1.00	5
Carry out duties commensurate with position held	3.66	0.94	6
Depth of knowledge in IT	3.63	0.92	7
Abides to the rule of time in carrying out tasks	3.61	0.88	8
Supervise subordinates	3.60	0.96	9
Adapt changing work	3.56	0.93	10
Possess mental strength	3.54	0.88	11
Bring something new	3.40	0.89	12

Note: 1 = Strongly Disagree, 5 = strongly agree.

ing the management and business syllabus. In terms of academic and intellectual skills, independence and ability to solve business problems were the most important skills sought by the employers. In line with that result, employers also hope that the graduates are able to carry out responsibilities assigned and are always on time or can keep appointments. From these finding, HEIs must increasingly learn how to manage and develop intellectual skills and prepare students with a good attitude for employment.

The findings from this study indicate that the communication skills are vital in the working environment among the industries and employers in Malaysia. For intelligent and academic skills, attributes such as independence, decision-making and self-learning are more important aspects for

References

Association of Graduate Recruiters (1995), *Skills for Graduates in the 21st Century*, AGR, Cambridge.

Dench, Sally (1997), “Changing skill needs: what makes people employable?” *Industrial and Commercial Training*, Vol. 29 No. 6.

Department for Education & Employment (DfEE), (1997), *Labour Market Skills and Trends 1997/98*, DfEE, London.

Gregory, Michael (1996) “Developing effective college leadership for the management of educational change”, *Leadership and Organisational Development Journal*, Vol. 17 No. 4.

Nabi, G.R., Bagley, D (1998), “Graduate’s perceptions of transferable personal skills and future career preparation in the UK”, *Career Development International*, Vol. 3 No. 1, pp. 31-39.

Nicholson, Amanda; Cushman, Linda (2000), “Developing successful employees: perceptions of industry leaders and academicians”, *Education and Training*, Vol. 42 No. 6.

MASB 3

INCOME SMOOTHING AND MARKET PERCEPTION OF ACCOUNTING NUMBERS

By Wan Adibah Wan Ismail, Khairul Anuar Kamarudin and Mhd Kamil Ibrahim (UiTM-ACCA Financial Reporting Research Centre*)

This research examines one component in financial statements that is very commonly subjected to creative accounting that is the extraordinary items.

The International Accounting Standard (IAS) 8 issued by the International Accounting Standard Committee (IASC) in 1978 has broadly defined extraordinary items as: "... gains or losses that derive from events or transactions that are distinct from the ordinary activities of the enterprise and therefore not expected to recur frequently or regularly" (Para. 3).

This standard was adopted in Malaysia as Standard International 8 (SI 8). It is argued that as a result of this broad definition of extraordinary items, companies have considerable discretion in classifying items as 'extraordinary' or part of ordinary operations. A company may use the category of extraordinary items to report costs to be excluded from the company's pre-tax income, and more importantly, from its earnings per share record.

To overcome the problem of creative accounting, particularly the abuse of extraordinary items in financial statements, accounting standard-setting bodies have taken steps to revise the accounting standards on the reporting of extraordinary items by re-defining what constitutes extraordinary items. Most standard-setting bodies provide a narrow definition of the items.

In 1992, the IASC amended the International Accounting Standard (IAS) 8 and issued a revised accounting standard on extraordinary items IAS 8 (Revised), *Net Profit or Loss for the Period, Fundamental Error and Changes in Accounting Policies*, which covered the reporting of extraordinary items, among other things. Under the revised standard, extraor-

dinary items were defined as "... income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and therefore not expected to recur frequently or regularly".

The word 'clearly' was added to reduce the degree of generality in the original definition of extraordinary items. In a step further, the term "ordinary activities" was defined as "... activities which are undertaken by an enterprise as part of its business and such related activities in which the enterprise engages in furtherance of, incidental to, or arising from clearly those activities."

In addition to this, Paragraph 12 of IAS 8 (Revised) states, "only on rare occasions does an event or transaction give rise to an extraordinary item." In Paragraph 14, the IAS 8 (Revised) effectively reduces the possibilities to two situations, which are expropriation of assets and natural disasters. Other events such as litigation settlements and disposals of plant, property and equipment, which used to be classified as extraordinary items, are now re-classified as abnormal or exceptional items, which form part of the operating profit figure. The restricted definition of extraordinary items in IAS 8 (Revised) has effectively abolished extraordinary items from the income statement.

In Malaysia, the IASC's revised standard on extraordinary items, IAS 8 (Revised) was adopted in 1997 as SI 8 (Revised) to replace the existing standard on the treatment of extraordinary items in financial statements, the SI 8. Subsequently, in 1999 the SI 8 (Re-

vised) was adopted by the Malaysian Accounting Standards Board (MASB) and known as MASB 3. Both the SI 8 (Revised) and MASB 3 were made effective for financial statements commencing on or after 1 January 1997 and 1 July 1999 respectively. Basically, there is no significant difference between the SI 8 (Revised) and MASB 3 since most of the content in MASB 3 is merely an adoption of IAS 8 (Revised).

MASB 3 states, "extraordinary items arise from an event that possesses a high degree of abnormality that is clearly distinct from the ordinary activities of the enterprise and not expected to recur in the foreseeable future". For example, losses sustained as a result of a typhoon would normally qualify as an extraordinary item unless it is of a scale that could be considered a natural disaster. In addition, the standard also specifies certain items that are normally accounted for as extraordinary items under IAS 8, such as a litigation settlement and the disposal of land to be accounted for as 'exceptional' items and included in the determination of net income (Para 16 and 18).

Research Questions

Based on this background, the first issue in this study is to empirically examine whether the introduction and the adoption of the newly revised standards on extraordi-

* The main function of this centre is to carry out research and supervise students in the area of financial accounting, specifically on corporate financial reporting in Malaysia. The full paper of this research (including references) can be obtained from mkamil@salam.uitm.edu.my

nary items in Malaysia really has significantly changed the way of reporting these items in the financial statements. In other words, are there any changes or reduction in the number of incidence of the reported extraordinary items before and after the adoption of the new standard, SI 8 (revised)? In addition to the above issue, this research also focuses on determining whether extraordinary items are being used as a tool in income smoothing. Apart from that, this study extends further to answer the question of whether the issue surrounding extraordinary items is really important for the investors. One of the possibilities is to examine whether the market perceives extraordinary items as an important variable in the determination of a company's value. In other words, this study investigates whether the extraordinary items reported in income statements have been taken into consideration by investors when valuing the share price of the firms.

Research Method

Generally, this study was conducted on companies listed in the main board of the Kuala Lumpur Stock Exchange. The population comprised of all companies listed on the main board existing in 1999. To examine the impact of the adoption of the new standards on extraordinary items, manipulation of extraordinary items to smooth income, and investors' perception towards extraordinary items when making valuation, financial statements for six accounting periods were used. Since the new standard was made effective on 1 January 1997, this study examined the reporting of extraordinary items in the financial statements during the period of three years before and three years after the date. Specifically, the period under study was from the year 1994 to 1999.

As mentioned earlier, the first issue focuses on the descriptive part of the reported extraordinary items included in the financial statements of Malaysian listed companies. For this purpose, the data has been divided into two periods as follows: (a) from the year 1994 to 1996, namely, the period 'before the adoption';

and (b) from the year 1997 to 1999, namely, the period 'after the adoption'. This hypothesis tried to detect any changes in the number of incidence of extraordinary items as well as the amount, volume or size of the reported extraordinary items during the two periods.

The second issue is associated with income smoothing. To see whether management has used extraordinary items disclosure as an instrument to smooth income, two

ings for a given mean dollar amount of earnings. If CV of earnings after extraordinary adjustments is significantly lower than CV of earnings before extraordinary items, it implies that extraordinary items are used to facilitate income smoothing. The one-tail test on different coefficient of variation (CV) for earnings before and after extraordinary items was also conducted. The third issue is concerned with the question of whether the

market or investors have taken into account the reported extraordinary items when valuing a firm. For this issue, a univariate linear regression was conducted using the modified income statement model of market value predictions.

Research Findings

The purpose of this research was to increase the general understanding on the issues regarding the reporting of extraordinary items. Specifically, the goal of this study was to determine whether the adoption of new standards on extraordinary items had effects on the incidence of extraordinary items reported in the financial statements of Malaysian listed companies, to examine whether extraordinary items was being used as a tool in income smoothing and to identify whether investors took into consideration the reported extraordinary items when valuing firms.

The findings reveal that there is an obvious decrease in the number of incidence of extraordinary items after the adoption of the new standards. The nar-

rowed definition of extraordinary items has limited the use of these items as well as reduced the opportunity of using extraordinary items classificatory choices to smooth income. The evidence shows that extraordinary items are being used as an instrument to smooth income during the period before the adoption of the new standards. All tests reveal that the items are not being used in income smoothing during the succeeding period. The next finding also shows that the reported extraordinary item is value relevance for investors in valuing a firm's equity. [AT](#)

Reported extraordinary items by industries (1994-1999)

INDUSTRY	Direction		Total
	Loss	Gain	
Building Material	27	27	54
Construction	22	25	47
Consumer Product	17	29	46
Food, Beverages & Tobacco	9	13	22
Gaming	6	9	15
Hotels	3	3	6
Industrial Products	32	34	66
Investment Holding	9	25	34
Mining	3	16	19
Plantation	14	59	73
Property	47	64	111
Publishing & Media	5	4	9
Retail	2	1	3
Securities & Investment	6	6	12
Trading & Services	21	32	53
Transportation	3	7	10
Total	226	354	580

Number of reported extraordinary items

Year	Direction		
	Total	Loss	Gain
1994	79	119	198
1995	74	127	201
1996	55	83	138
1997	15	23	38
1998	3	2	5
1999	0	0	0
Total	226	354	580

types of statistical tests were performed. Firstly, a two-tailed paired t-test was conducted on the difference between profit before and after extraordinary items to see whether there was a statistically significant difference between profit before and after extraordinary items. Secondly, the coefficient of variation (CV) for earnings before and after extraordinary items was compared across six years of available earnings data for the sample companies. This measure, which is the ratio of standard deviation of earnings to mean earnings, captures the volatility of earn-

SPECIAL NOTICE

**Accountants...
Make Your Life
In Australia!**

Helping You Get Permanent Residency In Australia...
FREE PR Assessment - www.PRforAustralia.com

GlobalMigrationSolutions Sdn Bhd
Level 20, Menara Standard Chartered
30 Jalan Sultan Ismail
50250 Kuala Lumpur MALAYSIA
Tel: (03) 2117-5199 Email: Enquiry@PRforAustralia.com
Migration Agents Registration Number 0428740

Parker Randall (AF:1565)
Chartered Accountants

Practice
Buy or merge

Recruitment
All positions

Affiliation
Like-minded firms sought

Managers
All areas of expertise

Details
e-mail or call number below

Reaching out to MIA members ...

parkerrandall@raymond-liew.com www.raymond-liew.com
603-7665 1738 603-7665 1739

SHELF-COMPANIES

150++ new and ready-to-operate shelf-companies for sale
Completed with :-

- All necessary stationeries
- Free delivery charges
- Reseller profit and purchase rebate for practising professionals

FORECORP VENTURE SDN. BHD. (371406-X)
A-2-2, TAMAN PANGSAPURI MALIM, JALAN MALIM, 75250 MELAKA
Tel: 06-337 5315, 06-337 5343 Fax: 06-336 7440

Interested : Please contact Ms Izan or Mr Alex Tan (CA7067) 013-703 1893
For updates on any promotional events, please e-mail your particulars to :
fv2co@yahoo.com

CHRISTOPHER HENG & CO (AF 0854)
Chartered Accountants

A member firm of IAPA International is inviting suitable candidates to fill the following vacancies:

- 1 APPROVED COMPANY SECRETARY
- 2 SECRETARIAL ASSISTANTS
- 3 AUDIT SUPERVISORS
- 4 AUDIT SENIORS / SEMI-SENIORS
- 5 AUDIT AND TAX ASSISTANTS

Interested, kindly call **Ms. Koh** at **03-6258 2022** or **016-3638 333** or fax to **03-6257 0500** or e-mail to enquiry@christopherheng.com.

www.christopherheng.com

CPE Audit for the Period 2003-2005 (Batch 1)

The Membership Registration and Supervision Department of MIA would like to inform members that the 2003-2005 (Batch 1) Continuing Professional Education (CPE) Audit will begin in January 2006. Members will be informed via registered mail if their names are randomly selected for the CPE Audit. The official letter and report form will reach members by the 3rd week of January 2006. Please be reminded to compile your documentation for the period of 2003-2005.

In order for the Institute to determine your CPE compliance on an ongoing process, you are requested to key-in the CPE credit hours online in the Institute's website by using the password and username provided previously by the Institute. The Institute's website address is www.mia.org.my. Go to the link (member-

ship/members/Continuing Professional Education). All documentary evidence can be forwarded by e-mail/ordinary mail or sent as a scanned attachment online. If you have not yet registered on the Institute's website, please do so as soon as possible. If you have misplaced your username and password, kindly e-mail to it@mia.org.my.

For further information or clarification, please contact the Membership Registration and Supervision Department at 03-2279 9200. **AT**

2006 Budget Commentary and Tax Information is Available on MIA's Website

Please be informed that the contents of the 2006 Budget Commentary and Tax (In-

formation are now available on the Institute's website at www.mia.org.my (go to The Institute/Resources/Budget Booklet/2006(link) . **AT**

Convention on the Expanding Role of Auditors

Since Independence, Malaysia's public sector has developed tremendously. Having undergone successive internal reforms and external pressures, the manner in which Ministries, Departments and Agencies operate have transformed. There is an increased focus on results, performance-based management and the emergence of alternative delivery approaches for government services. In addition, the increasing involvement of the private sector entities in the public domain has also spurred several developments which reinforce the need for enhanced accountability and improved corporate governance.

In this dynamic era, stakeholder expectations of the auditor has also increased as they feel that auditor's should do more than just carrying out their traditional roles. The stakeholders expect auditors to reengineer themselves to be relevant to users' expectations and positively contribute towards organisational development.

Towards this end, auditors must re-examine their roles, capabilities and chart their direction to ensure smooth transition into the new era of auditing.

In line with these developments, the Auditor-General's Department is organising the **National Audit Convention 2006 on 14 February 2005**. The one-day seminar which is themed *Accountability and Good Governance: Auditors — Where Are You* will be held at the Putrajaya International Convention Centre (PICC) in Putrajaya from 8am to 4.30pm.

The convention aims to give auditor's management practitioners and the public, the opportunity to discuss and gain further insight into issues such as the relationship between good governance and accountability in the public sector; and the issues, challenges and the way forward in meeting stakeholder expectations. It will also showcase the experiences of other countries in tackling similar challenges.

The convention will be officiated by Speaker of Parliament, YB Tan Sri Ramli Ngah Talib and will feature speakers such as the Parliament of Malaysia's Chairman of the Public Accounts Committee, Dato' Shahrir Abdul Samad, Republic of Indonesia's Chairman of the Supreme Audit Board, Prof Dr. Anwar Nasution, Australia's Ex-Auditor-General, Patrick Joseph Barrett, and the Auditor-General of South Africa, Shauket A. Fakie among others.

The registration fee for the convention is as follows:

- RM150 for the public sector
- RM200 for the private sector
- RM75 for students

For more information on the National Audit Convention 2006, please contact Nor Asma/Hairul Nizam/Rasdi of the Audit Convention Secretariat at 603-88899505/9510/9511 or e-mail them at jbaudit@audit.gov.my **AT**

New Form CP204 for Year of Assessment (YA) 2007

Please be informed that a new form, Form CP204 Pin.1/2005 has been issued to take into account the provision under the proposed amendment of Section 107C(3) of the Income Tax Act, 1967. The said new Form should be used for the submission of tax estimates from YA 2007 onwards.

The said Form will be sent to taxpayers quarterly based on the financial year-end of the taxpayers as practised currently. It can also be downloaded from the website of the Inland Revenue Board (IRB) at www.hasilnet.org.my (go to the Forms/Other Forms/Form CP204 (Pin.1/2005) link). **AT**

Expansion of the Coverage of the PSMB Act 2001 to Accounting and Auditing Services

The Institute has received a letter dated 22 November 2005 from the Pembangunan Sumber Manusia Berhad (PSMB) informing the Institute on the deletion of accounting and auditing services from the earlier list of prescribed industries under the First Schedule of the PSMB Act 2001.

The Order is deemed to have come into operation on 1 January 2005.

Please contact the PSMB directly at 603-2098 4800 for further information on the refund of contributions, where applicable. **AT**

Amendment of the Securities Commission Regulations on Fees and Charges

The Securities Commission has informed the MIA on amendments to the Securities Commission (Fees & Charges) (Amendments) Regulations 2005, which was gazetted on 17 October 2005 and has taken effect on **18 October 2005**.

Please visit the Institute's website at www.mia.org.my for the complete schedule of fees and charges.

Please be guided accordingly. **AT**

Public Ruling (PR) No. 6/2005: Trade Association

Please be informed that the PR No. 6/2005: Trade Association was issued on 8 December 2005 by the Inland Revenue Board (IRB). The said public ruling can be downloaded from the IRB's website at www.hasilnet.org.my under the heading of 'Law & Regulations-Rulings'. **AT**

Amendments to the Listing Requirements for the Main Board and Second Board (LR) in Relation to Related Party Transactions and Other Requirements

Members are hereby informed that pursuant to Section 9 of the Securities Industry Act 1983, amendments have been made to the LR in relation to related party transactions (hereinafter referred to as "RPT Requirements") and other requirements.

The Amendments have been made as part of Bursa Securities' continuous efforts to enhance the LR. The current framework of RPT Requirements was introduced in 1998 with a view to enhancing market regulation and investor protection given the recent events at the time. As seven years have lapsed since the introduction of the current framework and given subsequent market developments, it is timely to introduce changes to the current framework. In this respect, we have been mindful that related party transactions are of significant interest to investors and shareholders given the potential for conflict of interest and abuse. Hence, the approach adopted is to strike a balance between market regulation and the promotion of business efficacy.

Key changes

The key Amendments to the LR are as follows:

- 1 Amendments in relation to paragraph 6.11 of the LR which deals with issu-

ance of securities to related parties

Gist of the Amendments

Where a subsidiary of a listed issuer ("PLC") issues securities to its director or major shareholder or a director or major shareholder of its holding company (other than the PLC or the PLC's holding company) or a person connected with such director or shareholder, shareholders' approval which is currently required for the issuance of securities to such related parties, will be dispensed with. Instead, an obligation is placed on the board of directors of the PLC to approve the specific allotment/ issuance to the related party and ensure that it is fair and reasonable to the PLC, and in the best interests of the PLC. The PLC will be required to make an announcement pursuant to paragraph 6.11(4) and paragraph 10.08(1) of the LR. Hence, shareholders' approval will only be required for issuance of securities by the PLC or its subsidiary to directors or major shareholders of the PLC or the PLC's holding company or persons connected with such directors or shareholders. Further, it is clarified that paragraph 6.11 extends to issuance of securities to a chief executive officer who is not a director.

- 2 Clarification/ revision of the scope or ambit of the definition of "director" and "major shareholder" for the purposes of Chapter 10 of the LR

Gist of the Amendments

The ambit of "director" and "major shareholder" for the purposes of related party transactions will now exclude directors and major shareholders of a sister company of the PLC (i.e. a subsidiary of the PLC's holding company). Hence, the ambit of "director" and "major shareholder" will be limited to directors and major shareholders of the PLC, its subsidiary or the PLC's holding company.

However, the scope of "related party" has been expanded to include a chief executive officer who is not a director.

- 3 Substitution of "net tangible assets" which is one of the denominators used to compute the applicable percentage ratios with "net assets" except in relation to paragraph 8.23(2)(c) of the LR.

- 4 Expansion of the role of the independent adviser to include advising minority shareholders in relation to voting on the related party transaction in question.

- 5 Amendments in relation to related party transactions where the related party is only at subsidiary level

Gist of the Amendments

If the related party is only at subsidiary level i.e. a director or major shareholder of the PLC's subsidiary or a person connected with such director or shareholder, a transaction involving the interests of such related parties will be exempted in certain prescribed circumstances where the related party is not in a position to influence the PLC or, if applicable, the subsidiary entering into the transaction.

However, where a subsidiary of a PLC is entering into a transaction which involves the interest of a related party who is a director or major shareholder of the transacting subsidiary or its holding company (other than the PLC or the PLC's holding company) or a person connected with such director or shareholder, shareholders' approval which is currently required will be dispensed with. Instead, an obligation is placed on the board of directors of the PLC to approve the transaction and ensure that it is fair and reasonable to the PLC, and in the best interests of the PLC. The PLC will however, still be required to make an announcement of the transaction pursuant to paragraph 10.08(1) of the LR.

- 6 Incorporation of all instances of transactions which will not normally be considered as related party transactions in paragraph 10.08(9) of the LR ("exemptions"). Currently, some exemptions are set out in Practice Note No. 14/2002.

- 7 Clarification that only issuance of securities by a PLC for cash falls within the exemption set out in paragraph 10.08(9)(a) of the LR. Hence, if, for example, a subsidiary of the PLC issues securities to a director of the PLC or the PLC's holding company for cash, the PLC must comply with paragraph 6.11 as well as the related party provisions in Chapter 10 of the LR.

sions in Chapter 10 of the LR.

- 8 Introduction of a threshold for the requirement to disclose in the annual report, the aggregate value of recurrent transactions made during the financial year for which a mandate has been obtained. The threshold for disclosure is where:

- the consideration, value of the assets, capital outlay or costs of the aggregated transactions is equal to or exceeds RM1 million; or
- any one of the percentage ratios of such aggregated transactions is equal to or exceeds one per cent, whichever is the lower.

- 9 Clarification of Bursa Securities' current practice in relation to aggregation of transactions for the purpose of determining relevant obligations under Chapter 10 of the LR.

- 10 Prescribing a timeframe for the issuance of a circular which does not require Bursa Securities' clearance (i.e. Exempt Circulars) and clarification of the timeframe for the issuance of a circular (which must be cleared by Bursa Securities) upon receipt of Bursa Securities' clearance.

Implementation

Kindly take note that the above Amendments has taken effect on 21 November 2005.

Additional Information

Please take note that the said Amendments and a set of Questions and Answers are available for reference on the website of Bursa Malaysia at www.bursamalaysia.com.

For further information or enquiries on the above, kindly contact:

Legal Advisory &
Corporate Legal Affairs
9th Floor, Bursa Malaysia Berhad
Exchange Square, Bukit Kewangan
50200 Kuala Lumpur
Tel: 03-2034 7000 Fax: 03-2732 0065

Contact Persons:

Ms. Yew Yee Tee (Ext: 7336)
Ms. Anisah Suyuti Low (Ext: 7295)
Ms. Lai Fui Sim (Ext: 7079)
Ms. Boo Huey Fang (Ext: 7019)

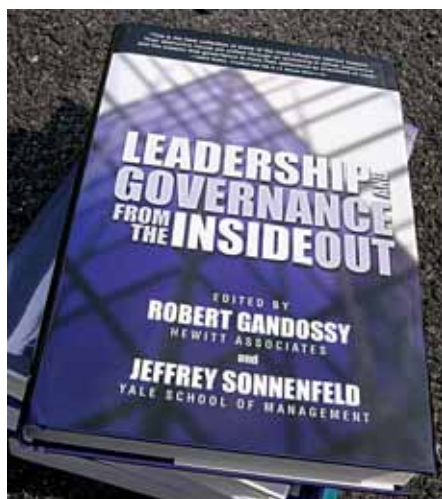
Please be guided accordingly. **AT**

Leadership and Governance from the Inside Out

Edited by: Robert Gandossy & Jeffrey Sonnenfeld

Publisher: Wiley

No. of Pages: 297



“Like many CEOs, Jobs had carefully hand-picked his own board. His directors are highly qualified, prominent members of corporate America. But it’s plain to me that Apple’s board is not designed to act independently of the CEO,” writes Arthur Levitt, the longest serving chairman of the United States Securities and Exchange Commission.

He was sharing his experience on how Apple’s maverick leader, Steve Jobs had invited him to join the company’s board, only to rescind the invite a few days later, after reading one of Levitt’s speeches on corporate governance.

In the article entitled *Corporate Governance and The Culture of Seduction*, Levitt went on: “Small, insular boards lack the outside perspective that is necessary in case a company finds itself in trouble. Especially when the CEO is as charismatic as Jobs, it’s crucial to have independent

thinkers who do not act as an extension of management.”

Levitt is one of the contributors to the galaxy of thinkers in *Leadership and Governance From the Inside Out*.

With corporate governance still a buzzword, this is a handy book to gather ideas and insights into various related issues. It gathers a good collection of portfolio of expertise across

“With corporate governance still a buzzword, this is a handy book to gather ideas and insights into various related issues. It gathers a good collection of portfolio of expertise across fields and ideologies.”

fields and ideologies.

Among the voices collected here are the candid insights of both successful and failed CEOs, the passion of pioneering shareholders and the tradeoffs of courageous whistleblowers.

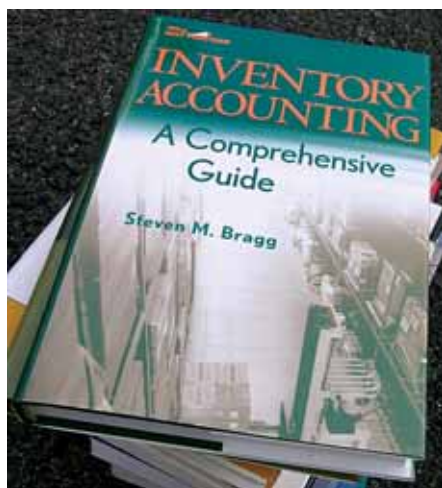
The editors also bring together the research inferences of renowned management scholars, the recommendations of insightful accountants, the wisdom of experienced attorneys and the dreams of trailblazing regulators. **AT**

Inventory Accounting A Comprehensive Guide

Authors: Steven M. Bragg

Publisher: Wiley

No. of Pages: 243



If you need to deal with inventory-related information, *Inventory Accounting* is a good source of ideas for stuff pertaining to proper accounting treatment of inventory.

The book is also a guide for those involved in organising a warehouse and conducting inventory counts.

Well, accurate inventory accounting is vital to every company that has a significant proportion of its assets in inventory. It can also be one of the most difficult tasks faced by the accounting department.

Accurate accounting valuation requires excellent inventory tracking systems, warehouse layouts, and cycle counting procedures, as well as detailed accumulation systems.

In addition, generally accepted accounting principles (GAAP) contain a number of requirements for the proper treatment

of inventory valuation.

In *Inventory Accounting*, the author culls his experience to assist CFOs, controllers and accounting managers in various tasks. These include to track cost, report and budget their inventory.

Inventory Accounting provides professionals with a wellspring of essential day-to-day information like how to use coding, wireless data transmission, radio frequency identification, document imaging and electronic data.

They have also brought up to speed how to flow inventory through basic manufacturing, manufacturing resources planning and just-in-time systems.

The book has chapters like inventory control systems, inventory fraud, budgeting for inventory, obsolete inventory, applying overhead to inventory and inventory best practices. **AT**

Count THE Cost BEFORE All IS Lost!

by Rajen Devadason

Virtually everyone who reads this is a Malaysian professional who feels s-t-r-e-t-c-h-e-d in way too many directions.

Frankly, how can it be any different? Numerous facets of our modern, urban lifestyle scream out for our attention. Everyday there are endless calls upon our most precious, non-renewable resource — time.

So, what are we expected to do about this stressful situation? That's a serious question. Do you have a serious reply?

Before you answer the question, think about what is required of us ... by our families, society and our personal ambitions. Most of us are deeply aware of the need to invest time, sweat, thought and effort on improving our physical fitness, spiritual vigour, capacity for career advancement and level of social recognition.

So, do we need to create yet another drain upon our temporal and cerebral resources by forcing ourselves to fine-tune and hone our personal finance skills? This is an especially important issue for the more mature ones among us who have, after years — perhaps even decades — of adroit juggling to try and get 'everything' done, become sensitised to the Law of the Excluded Alternative.

Now calm down; don't let that fancy sounding term freak you out!

The Law of the Excluded Alternative is just a succinct way of saying that if you expend time on A, you can't obviously spend that same capsule of time on B; or if you use money on C, you won't have it any more to buy D, instead.

This powerful principle applies to all areas of life.

If you were to spend two hours at your local multiplex watching a film that turns out to be the worst waste of celluloid since *The Blob That Ate New York*, you would have squandered those irreplaceable 120 minutes forever. But, if instead of indulging in that monumental waste of time, you used that same slice of life to study a chapter of Stephen Covey's recent masterpiece *The 8th Habit* and make thoughtful notes on applying those lessons to your life, how much better off would you be?

Or what about the RM500 you blow on a fancy dinner to impress some new acquaintances you barely know and may never see again? Of course, you could always look upon the outlay as an investment in your long-term viability as a social animal. But is it the best use of your money?

What if you woke up to the mathematical truth that your RM500 — if you invested it in a portfolio of savings and investment vehicles that yields an average of eight per cent a year — would balloon more than tenfold to a little over RM5,000 in 30 years!

The Law of the Excluded Alternative works in the same way when you decide whether or not improving your grasp of the elements of personal finance is worth the high cost in time and thought. This choice of learning about the subject and then sacrificing immediate gratification for long-term economic benefit is one each of us must make ... for ourselves. No one else can do it for us.

The bad news: Most Malaysians seem intent on doing the wrong thing.

The good news: No matter how you have behaved in the past, you can choose to alter your behaviour from this day forth!

Here are three indicators to help you detect whether you're going down the



wrong road:

1 If you're growing edgy and nervous about how you'll make ends meet in retirement, that's probably because a long series of poor financial choices made in your past have snowballed over the months and years to bring you to this point of gnawing anxiety. Unless you do something to improve your situation, you face the stark prospect of an old age marked by fewer choices and escalating fear.

2 If you treat your credit and ATM cards as though they were magical conduits to a bottomless pit of money, you are setting yourself up for a major fall. Your goal is to expand your net worth (which is the current value of your assets minus the present size of your debts), not shrink it through unwise expenditure.

3 If you are prone to entertain indulgent wishful thinking that revolves around assuming 'everything will

“For Age and Want, save while you may; No Morning Sun lasts a whole Day.”

Benjamin Franklin

some how work out', you run the risk of being wrong and waking up one day a broken, desperate geriatric with little money but much regret. Such sad situations are experienced everyday, everywhere. And they aren't new. Benjamin Franklin wrote in 1757: "For Age and Want, save while you may; No Morning Sun lasts a whole Day."

But, no matter how bad your situation may be or even how good it is, there is always room to improve. Where there's life, there's hope.

If you are still working, and have at least five years left before retirement, then significant improvement can be made in the period leading up to your final cessation of paid work. The more time you have and the more committed you are to learning and applying core personal finance skills to your economic life, the better off you will become.

Your goal should be to ensure your golden years shine by making the effort today to metaphorically apply spit and polish to the construction of your personal

portfolio of savings and investments.

Here are six steps to help you do that:

1 Evaluate your reference group

Most of us were never taught how to handle money correctly. Instead, we sucked up attitudes about money through a form of social osmosis by observing our parents and our friends.

Decide if your current reference group needs to be overhauled.

2 Be brave

When finances are tight, we often retreat into our personal shell. This helps no one! So, choose to be courageous and open those bills. Then stack them in order of priority and begin dealing with each one.

Establish a single centralised place in your home or office to collect all your financial documents. Invest the time to pull

together the records needed to construct a clear picture of where you are. The best way to do that is to construct your personal net worth

statement and cashflow statement.

As mentioned, the first deals with assets minus liabilities; the second, with cash inflow (from all sources, active and passive) and cash outflow. When you begin scrutinising your payments and your behaviour, strange realisations will surface. For example, assuming you aren't a hardcore technophobe, you may wake up to the wisdom of not wasting money and time each month burning up pricey petrol in bumper-to-bumper traffic and finding a parking bay in town to pay your utility bills. Online payment portals like Maybank2u.com are helping to transform such terrible dissipations of time and money into relics of yesteryear.

3 List your wants and needs

A wonderful tool to help nurture a commitment to delayed gratification is to constantly write down what you truly crave. If, in the course of a month, you see a gorgeous Ferrari, Porsche and Mercedes sports car roar past you on the highway, and you feel a stirring of desire inside,

write down the model names. The cathartic nature of writing will help assuage the reflex of wanting to go into debt immediately to satisfy such desires.

As you build your list, invest time once a month to prioritise and rewrite it. Doing so is a wonderful way to clarify what you want in the future and to motivate and focus yourself on the hard work ahead required to generate the kind of money needed to realise the most important of those material goals.

4 Spend less than you earn

There is no other predictable path to financial prosperity, so take Nike's advice — just do it!

5 Build your emergency buffer

Then, channel the bulk of your initial savings to your reserve account to build up a stash to cover between three and twelve months' expenses. Keep that money for major contingencies in bank accounts and perhaps money market funds.

6 Create your own passive income stream

After that, continue to save and begin to invest carefully ... and intelligently. (Guidelines on how to do so are found in the Free Articles section of www.RajenDevadason.com)

You can only succeed in putting this 6-step plan in place if you are willing to stand apart from the crowd. And you begin to do that the moment you make a spoken and written commitment to yourself and perhaps to your family to cease competing with the Joneses (or Joharis). As the author of the excellent book *Degunking Your Personal Finances*, Shannon Plate, writes:

“Tell the Joneses they win ...”

Interestingly, that's likely to be a short-term situation if the Joneses in question exhibit those three gloomy indicators I wrote about earlier, while, you instead, take the six steps to financial health! **AT**

Rajen Devadason, a certified financial planner, is a speaker, author and independent consultant. He is the CEO of a corporate mentoring consultancy, RD WealthCreation Sdn Bhd. Rajen welcomes feed-back at raj@RajenDevadason.com

Get out of your Office

if you want to be Creative

by Dr. Yew Kam Keong

A new research undertaken by mobile phone company Sony Ericsson on creativity conducted on people working predominantly in “progressive” areas such as IT and biotechnology came out with some surprising findings. It found that 81 per cent of people have their best ideas outside of the office, specifically while sleeping!

Socialising topped the list. Fully 25 per cent of the respondents said their last good, implemented business idea occurred while they were socialising. Sleeping came in next with 18 per cent. An interesting discovery was that some six per cent of respondents had all their best ideas while in the lavatory! Drinking at the pub logged in at four per cent.

The research also showed that 80 per cent of respondents thought meetings helped creativity — and even more thought brainstorming is a good vehicle for creative thinking, while 65 per cent of respondents felt creative at their desks. Off-site meetings were seen to be more creative by a majority, although fewer saw the need for outside influences or triggers for more creative ideas.

Lateral thinking guru, Dr. Edward de

Bono suggests practical steps towards cultivating creativity. These include allocating creative thinking time, designating one person at work as a “new ideas champion” and introducing formal creative training.

Source: The Guardian, 27 January 2005

Investment in learning produces more innovative products and increased profits

According to research presented at a recent occupational psychology conference organised by the British Psychological Society (BPS), companies that invest in learning produce more innovative products and services, and they report better financial performance.

Kamal Birdi and colleagues at the Centre for Organisation and Innovation, Institute of Work Psychology, University of Sheffield, based this finding on a study of





335 UK businesses from a range of sectors, including manufacturing, financial services, transport and communication, and health and social work. They found that those enterprises investing in organisational learning — the way a company generates, shares and stores knowledge about itself — created more innovative products or services, and more innovative ways of working which also reflected on their financial results.

Source: British Psychological Society

Take an e-mail break

Researchers from the University of Surrey's Department of Psychology (UK), concluded that e-mail can be good for workers' mental well-being and overall effectiveness. This contradicts views that it disrupts work and hinders productivity. Taking a short break from stressful or boring tasks to read an e-mail helps to reduce stress or boredom, and employees can resume their task with increased energy and vigilance, the researchers say, after carrying out one-to-one interviews with employees at a range of UK organisations.

'Robbing a bank' may be a good idea

When generating ideas, make a note of all of your ideas, regardless of whether they fall in the 'good ideas' realm or the 'limitations (impractical or illegal)' realm. Consider a hypothetical group of talented programmers who have recently lost their jobs and are looking for ideas to earn an income. One of them says, "we could rob a bank". Instead of rejecting the idea, they try and find ways to bring the idea up from the limitations realm into the good ideas realm. They play with the idea and come up with some practical alternatives. "We could make a computer game about robbing banks", says one programmer. "Or we could design security software to help banks prevent electronic theft", says another. "Or we could offer to analyse banks' computer systems to search for security holes that could lead to robberies", says another.

"Or we could provide banks with advice on how to deal with phishing", says another. Phishing is the term used for e-mails which claim to be from a bank and attempt to trick you into giving your bank account information.

Source: *Report103*, a weekly newsletter on creativity, ideas, innovation and invention in business, 12 January 2005

Cross-pollination Innovation

Innovation isn't always built from scratch. P&G is a master at transferring technologies from one brand to another. Tide StainBrush, a new electric brush for removing stains, uses the same basic mechanism as the Crest Spinbrush Pro toothbrush — also a P&G brand. Gillette too is adept at cross-pollination. Its latest winner is the battery-operated M3Power, the result of a collaboration between the company's razor, Duracell battery, and Braun small-appliance units. Despite a 50 per cent price premium over what Gillette charged for its previous top-of-the-line razor, the M3Power has captured a 35 per cent share of the US razor market in seven months. Can you transfer one area of your business innovation to another business? How about transferring an idea from another unrelated business to that of your own? **AT**

Source: *Branding: Five New Lessons*, by Nanette Byrnes in New York and Robert Berner in Chicago, with Wendy Zellner in Dallas & William C. Symonds in Boston.

To find out more about Dr.YKK's services on enhancing your people's capacity for creativity and innovation, please log on to www.mindbloom.net or e-mail him at drykk@mindbloom.net

A Wake Up Call

by Dato' Raymond Liew

Accountants work into the wee hours of each day, day after day, week after week, year in year out. In some cases, if it is required, accountants end up working 24 hours a day!

Are we really workaholics or are we merely fulfilling our professional work responsibilities?

Whatever it may be, it was a wake up call for me on Monday, 26 September 2005, at 12.15am. On that day, I was working late into the night when suddenly I began to feel heart palpitations at an alarming rate. Subsequently I began to experience breathing difficulties.

As a matter of fact, during the day, when I had felt slight palpitations, an uncomfortable throbbing in my neck, watery eyes, and a backache, I brushed them off lightly as symptoms of stress, as would many others in a similar situation. However, little do we realise that all these symptoms are signs of a possible heart attack! Yes, you hear me right. **A HEART ATTACK!**

In my case, I managed to rush myself to the emergency ward of a hospital in the city and within half an hour, I was put on rigorous tests by the in-house doctor, starting with an initial blood test followed by an electrocardiogram (ECG). Without taking any chances, I was put under observation among many other heart patients in the Intensive Care Unit (ICU) and believe me, that was the most frightening moment of my life. Other heart patients in the ICU were strapped to machines — the kind you see on television, with two pads placed on their chests to revive their heartbeats.

As the early morning delved painfully and slowly into dawn, I could hardly sleep despite the many pills I had been given. Sleep continued to evade me due to the immense anxiety and trepidation that I was feeling at the time. The fact that I could hear guttural painful cries around the ward did not help ease my fears and worst of all, each time a nurse walked in, it was because she had to attend to yet another heart patient who had to be

“However, little do we realise that all these symptoms are signs of a possible heart attack! Yes, you hear me right. A HEART ATTACK!”

wheeled away to the emergency ward for immediate attention.

In the wee hours of the morning and in view of my condition, the nurse moved me to a private section of the ward, away from some of the more acute heart patients which gave me a certain degree of comfort, but I was still somewhat sleepless. Mind you, I had weird dreams, believe it or not, one of the dreams was where a young lady kept pushing me off the bed and indicated that the bed was hers and I had no right to be sleeping on it! I woke up sweating all over and when I related this dream to my counterparts, they hinted that my time had not arrived yet — lucky me!

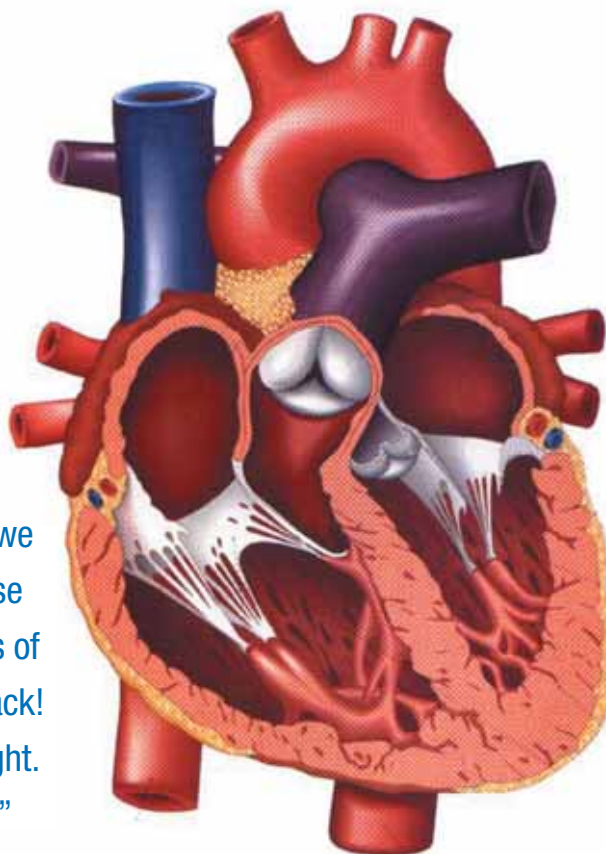
In the wee hours of the morning, the heart specialist, Dr. Tamil Selvan Muthusamy attended to me and all the necessary checks were again repeated

“Other heart patients in the ICU were strapped to machines — the kind you see on television, with two pads placed on their chests to revive their heartbeats.”

with the results meticulously explained to both my anxious wife and I. I was then made to take the stress test to evaluate my physical health, which thankfully, I passed with good marks. Following that, Dr. Selvan suggested that I should also under-

go the Oral Glucose Tolerance (OGT) test. This test identifies if you are normal in terms of blood sugar handling, whilst Impaired Glucose Tolerance (IGT) test ascertain whether such a condition could eventually develop into diabetes. Dr. Selvan explained that cells need glucose as fuel to survive and function. The intake of food is converted into glucose and this fuel is then transported in the blood to all parts of the human body. While this process is ongoing, the pancreas commences to produce more quantities of insulin, hormone that serves to stimulate cells to take up the glucose that is now made available.

As explained by Dr. Selvan, there is many



a time when as a result of genetic predisposition, poor lifestyle, unhealthy eating habits and obesity, cells can sometimes develop a condition known as insulin resistance, i.e. cells fail to respond to the action of the insulin and as a result, fail to utilise the glucose that is circulating in the blood around them. In a diabetic patient, cells are starved for glucose and at the same time, the glucose accumulates to very high levels in the blood stream. If this condition is left unattended, the highly concentrated glucose will cause damage to the inner surfaces of large (macrovascular) and small (microvascular) blood vessels, making them more susceptible to blockages and ruptures. Dr. Selvan cautioned that these blocked blood vessels, if left unattended, would lead to heart attack, stroke, blood clots in the legs, kidney and nerve damage, eye disease and slow healing of wounds. These are the common complications of a diabetic patient.

Why was Dr. Selvan primarily focusing on the diabetic condition? He explained that patients overlooked the importance of this condition, which often is the highest cause of heart attack! Diabetics as well IGT patients are at much higher risk of getting heart attacks compared to those with normal blood sugar. Women at the reproductive age group are protected from heart attacks by the hormones that they produce. This protection is lost if they are diabetic.

Other important risk factors for heart attacks include hypertension, smoking, high cholesterol levels, obesity, sedentary lifestyle (I guess, this is applicable to professionals especially most accountants!). A family history of heart disease also puts one at risk. Genetics play an important role in the initiation of heart disease. A stressful lifestyle is a well-recognised cause for heart attacks. You

will find that most of the risk factors are modifiable. As such, proper diet and exercise are simply the secret to cardiovascular health as affirmed by Dr. Selvan.

Healthy exercise regime

My first mission was to lose some weight, as this would improve my glucose uptake



Dr. Selvan ... Proper diet and exercise is necessary

“A stressful lifestyle is a well-recognised cause for heart attacks. You will find that most of the risk factors are modifiable. As such, proper diet and exercise are simply the secret to cardiovascular health as affirmed by Dr. Selvan.”

and this means, exercise for at least three to five times a week for about 45 minutes. I was also put on some medication to reduce my high cholesterol level.

Hard as it might be at first, in view of the hectic lifestyle of an accountant, and not an early riser myself, there are many occasions when I just had to crawl out of bed to perform my early morning ritual of a 45-

minute jog. Over the past two months, I have actively joined the Qigong group of early morning risers and believe it or not, I actually look forward to it now.

Diet control

Discovering the benefits of a healthy exercise regime is not sufficient, as I needed to reduce my calorie intake. With the moral support and encouragement of my wife, we started taking a closer look on the types of food we consume each day. Naturally, at the initial stage, we were startled if not astounded that we generally eat more than we really need. On top of it, much of the food we eat each day was not only spicy and oily but there was simply too much salt added into our food. Not forgetting that we also consume too much sugar in our drinks and desserts and on top of that caffeine. Most of us consume too much carbohydrates including alcohol, which is a major cause of obesity. Although caffeine does not necessarily increase the risk of heart attack, in my case, definitely caused me to suffer from insomnia!

Now, we are very particular as to the food we take and the drinks we consume. We decided to adopt a new approach by taking smaller meals and wherever possible, avoid spicy, fatty and oily food. In particular, we take more fruits, vegetables and fish. As a matter of fact, after the incident, we are now more accustomed to eating food with less oil, taking only lean meat, discarding chicken skin and most importantly avoiding deep fried foods.

Our new if not revised lifestyle has yielded positive results not only for me but also for my wife. She has not only slimmed to a very attractive figure, the envy of her friends and colleagues but she is so much healthier. As for me, following the latest tests, my cholesterol



level has gone down to a very acceptable level, my physical health is so much per- tinacious and most importantly, my IGT is absolutely under control. My blood glucose levels are now mostly within the normal range and guess what, my bulge is almost non-visible.

Psychological outlook

With this experience, I would greatly ad- vocate that diet and exercise are not only necessary for cardiovascular health, but also the psychological outlook is just as important. Mounting evidence suggests that chronic emotional states such as stress, anxiety, hostility and depression take a far greater toll than sudden shocks in the body's immune system. The risk from psychological and social factors is almost as high as that of obesity, smok- ing and hypertension, which are the tra- ditional markers for cardiovascular disor- der. Researchers have also found that stress can lead to a heart attack — one of that is longer working hours. Beware ac- countants!

A study in 2004 in "The Lancet", exam- ined more than 11,000 heart-attack suffer- ers from 52 countries, and found that in the year before their heart attacks, pa-

tients had been under significantly more stress from work, family, financial troubles, depression and other causes rather than merely health issues. Neg- ative emotions can and will have a direct effect by provoking the stress response of the classic "fight-or-flight" body mecha- nism. Current research shows that hos- tile and depressed people interpret most situations as stressful, provoking the re- lease of stress hormones in our body. The body immune system responds by ratcheting up inflammation, which helps to promote heart disease from plaque for- mation to heart attack as confirmed by Dr. Selvan.

Love conquers all

Looking further ahead, I too advocate that loneliness can equally foster cardiovascu- lar disease as much as smoking (hey, I am not against any smokers!). My late father once reminded all his siblings that quit smoking and your risk of a heart attack drops almost immediately. I guess he does have a point. However, to me, love is the real treatment. I have survived a possible heart attack and because of the love and care from my wife, I recovered very rap- idly which would not otherwise have been

possible. The loving and caring compan- ionship of my wife has brought about my otherwise depressed and despondent mood into a more spirited and vivacious disposition and this has enormously helped me to get on my feet. It is from this experience that I rediscovered the wisdom of love and compassion, which has enabled me to recover so speedily at a time when an increasingly dark cloud hanged over me.

Wake up call!

In relating this incident, I would urge all fellow accountants to take a step back and re-look at your lifestyle. Remember, HEALTH is wealth, without it, you may make all the \$\$ in the world, but for what? I am not asking anyone to change their personality to become a relaxed and a laid back person as this is an impossible mission to attain in this material modern age. However, one can reduce their cardiovascu- lar risk by leading a healthy lifestyle with a little help from their doc- tors. You must aim to be healthier to cope with stresses of daily accounting life. Can you enjoy your wealth without good health? Let my experience be a wake up call! **AT**

Proboscis AND Silvered Leaf Monkeys

by Janet Lo

Like the Orang Utan, the Proboscis and Silvered leaf monkeys (silver langur) are endangered and unique species of primates found exclusively in Borneo. The Proboscis monkeys can be located at Sukau, Labuk Bay Resort in the land below the wind-Sabah.

Their natural habitat is the mangrove forest. Owing to development, construction and agriculture, the mangrove swamps are fast depleting and it is estimated that there are about two thousand Proboscis monkeys left in Sabah.

The male Proboscis has a huge pendulous nose and distinctive pot-belly. The male generally has multiple mates and lives in groups of 30. At Labuk Bay Resort, tourists can have a close encounter with the Proboscis during feeding time at the observatory platform. The Sanctuary is situated 38km from Sandakan in 500 acres of mangrove forest. This is a wetland paradise for nature lovers. **AT**





Nestlé wins Excellence Award in Management Accounting

Nestlé (M) Berhad emerged as the Excellence Award winner of the National Award for Management Accounting (NAfMA) 2005, beating eight other finalists. YB Dato' Mustapa Mohamed, Minister in the Prime Minister's Department, presented the

SMEs should be encouraged to adopt best business practices in order to be more competitive in the current business environment."

The NAfMA awards recognise best practices in management accounting by companies in Malaysia

that lead to value creation and excellent business performance. The NAfMA awards also aim to promote the application of management accounting techniques and systems within organisations in Malaysia.

The NAfMA winners were assessed on eight criteria — leadership, management accounting information, resource management, customer/market focus, partnership management, value creation, business results and corporate social responsibility. These eight criteria are based on the management accounting concepts of the Interna-



The winners of the various NAfMA awards with the guest of honour, Dato' Mustapa (6th from left), the MIA President, Abdul Rahim Abdul Hamid (5th from left), President of CIMA Malaysia Division, Y C Lee (5th from right) and the Organising Committee Chairman, Yeo Tek Ling (4th from left) and Assessment Committee Chairman, Michael Eow (4th from right)

FULL LIST OF WINNERS National Award for Management Accounting (NAfMA) 2005

Excellence Award

Nestlé (M) Berhad

Best Practice Award

Public-listed companies

Shell Refining Company (Federation of Malaya) Berhad

Non-listed companies

CCM Fertilizers Sdn Bhd

Non-listed SMEs

Keu Control Engineering Sdn Bhd

Practice Solution Award

Public-listed companies

Resorts World Berhad

Non-listed companies

Ipoh Specialist Hospital

Non-listed SMEs

DPI Sdn Bhd

NAfMA awards at a grand dinner ceremony in Kuala Lumpur on 8 December 2005.

During the ceremony, six other companies also received two different types of awards — Best Practice Award and Practice Solution Award — in the three categories of public listed companies, non-listed companies and non-listed SMEs with an annual turnover of not more than RM25 million. Yeo Tek Ling, Chairman of the NAfMA Organising Committee, said, "The entry of SMEs into the award is a significant milestone for us as we believe that

national Federation of Accountants (IFAC).

Chairman of the NAfMA Assessment Committee, Michael Eow said, "The most points were awarded for Value Creation and Business Results. Value creation represents the value that is derived from implementing successful management accounting practices. We also emphasised on business results in the assessment, focusing on key performance indicators, how they are measured and how management accounting practices have contributed to the profitability of the company."

The awarding bodies for NAfMA are the Malaysian Institute of Accountants (MIA) and CIMA (The Chartered Institute of Management Accountants) Malaysia Division. The working partners are CIMA-UiTM Asian Management Accounting Research Centre (AMARC) and the National Productivity Corporation (NPC).

NAfMA is supported by the Accountant-General's Department of Malaysia, Bursa Malaysia, Federation of Malaysian Manufacturers, British Malaysian Chamber of Commerce, Malaysian International Chamber of Commerce and Industry, and the SMI Association of Malaysia. [AT](#)

The 14TH Asean Federation of Accountants (AFA) Conference

The 14th ASEAN Federation of Accountants (AFA) Conference was hosted by the Vietnam Accounting and Auditing Association (VAA) in Hanoi, Vietnam from 9-10 December 2005 with the theme *Establishing a Unified Market for Accounting and Auditing Services in ASEAN*.

Two plenary and two concurrent sessions were conducted at the conference with topics including the impact of accounting and auditing services on the economic development of ASEAN countries; addressing legal environment issues of accounting and auditing services; convergence and harmonisation of accounting and auditing standards; professional training and training co-operation in the region; and professional qualification requirements and mutual recognition opportunities among member bodies. MIA contributed two speakers for the conference, namely, Vice-President, Nik Mohd Hasyudeen Yusoff with his topic,

International Financial Reporting Standards Convergence — The Malaysian Experience and Dr. Prudence Goh with her topic *From Continuing Professional Development to Lifelong Learning for Professionals*.

The 85th AFA Council Meeting was held on 8 December 2005, back-to-back with the Conference. The meeting witnessed the admission of Thailand's Federation of Accounting Profession as a member of AFA.

The 14th AFA Conference also witnessed the handing over of the presidency from Dr. Dang Van Thanh of VAA to Ahmadi Hadibroto from the Indonesian Institute of Accountants. **AT**

The delegates at the AFA Conference in Hanoi



NEGERI SEMBILAN BRANCH

Educational visit for NS Branch Members

On 3 December 2005, the MIA Negeri Sembilan Branch organised a study tour to Guang Heng Plastic Industries Sdn Bhd, a plastic factory situated in Kulai.

About 25 participants including their family members visited the factory, which is well-known for its Toyogo household plastic products and vacuum foaming plastic containers produced for both the local and export markets.

In appreciation for hosting this study tour and the hospitality given by the hosts, the MIA Negeri Sembilan Branch members presented the company with an MIA plaque. **AT**



One for the album ... all those who visited the factory



Chartered Institute of Management Accountants ▼

CIMA Joins Forces with Leading American Institute

The Chartered Institute of Management Accountants (CIMA) and The American Institute of Certified Public Accountants (AICPA) have agreed to collaborate on developing high-quality products and services for their members. This will allow CIMA to offer the AICPA, the biggest professional accountancy body in the world, additional professional resources for its members working in business and industry, who comprise nearly 50 per cent of its membership.

John Morrow, AICPA Vice-President of New Finance, who oversees services for CPAs in business and industry, said: "This collaboration will help our members continue developing the skills to succeed as they assume different roles and levels in busi-

ness."

The resources developed through the CIMA-AICPA relationship will encompass three core areas: business management, management accounting and financial management. "Having employees with these skills will allow organisations to gain an advantage in a complex business environment," Morrow said. According to Morrow, the impetus for the agreement was the fact that CFOs are taking a more prominent role in steering the direction of their organisations' business practices.

Charles Tilley, CIMA Chief Executive said: "Both CIMA and the AICPA wish to develop their support to their members working in business. It clearly makes sense to share the effort of providing this support and also help CIMA build its brand in the US where we have an increasing number of members." **AT**

"This collaboration will help our members continue developing the skills to succeed as they assume different roles and levels in business."

John Morrow
Vice-President of New Finance, AICPA

CIMA Members Celebrate their Success



The CIMA Graduates

A total of 52 new Passed Finalists, Associates and Fellows of CIMA celebrated their achievement in a grand ceremony on 20 November 2005 at the Prince

Hotel and Residence, Kuala Lumpur. They received their scrolls from Y C Lee FCMA, President of CIMA Malaysia Division.

Passed Finalists are CIMA students who have successfully completed all the CIMA examination papers, in-

cluding the Test of Professional Competence in Management Accounting (TOPCIMA). Associates are those who have been admitted as members of CIMA after attaining three years' relevant practical experience. Fellows have a higher grade of membership, with an additional minimum of three years of experience at senior management level.

Lee urged CIMA members to improve their soft skills in facing the current global challenges for accountants. He said, "The global challenges facing accountants today are numerous and it is important to have the right attitude towards self-development and to be motivated enough to learn new things. Technical skills alone are insufficient; they must be supplemented with soft skills as they add up to the competency of oneself. Develop your soft skills such as communication, leadership, analytical and interpersonal skills. These are crucial in ensuring that you are effective in your jobs and that will lead to greater success in your careers."

Lee also reminded CIMA members to remember the sacrifices made by their families and loved ones in their pursuit for success. He said, "In your journey to success, there are many who have lent a hand along the way and we must not forget them. They are the ones who gave their support unselfishly; who lent you a shoulder to lean on when the going got tough; who encouraged you when you felt like giving up."

The CIMA Membership Graduation and Certificate Presentation Ceremony is an annual event held to celebrate the success of Passed Finalists, Associates and Fellows. **AT**

"The global challenges facing accountants today are numerous and it is important to have the right attitude towards self-development and to be motivated enough to learn new things. Technical skills alone are insufficient; they must be supplemented with soft skills as they add up to the competency of oneself."

Y C Lee, President, CIMA Malaysia Division

New IFAC Publication Highlights the Value of Professional Accountants in Business

CIMA welcomes the publication of a new paper which develops the understanding of the diverse roles, competencies and value of the professional accountant in business. The paper, published by IFAC's Professional Accountants in Business (PAIB) Committee is entitled *The Roles and Domain of the Professional Accountant in Business* and includes a definition of the professional accountant in business and highlights the many roles that professional accountants in business fulfil.

Clarifying the role of the accountant in business is particularly pertinent to IFAC members, since more than half of the 2.5 million professional accounts whose member bodies belong to IFAC are

employed in business.

Commenting on the report, Bill Connell, CIMA Council Member and Chair of PAIB, said: "As the only international accountancy body with a sole focus on business, CIMA very much welcomes the clarity that this paper brings. While there is certainly high awareness of the work of accountants in practice and audit, there is a less understood, but equally important role that professional accountants in business play in designing and maintaining mechanisms to assure effective, ethical and responsible corporate governance and control in their organisations."

Charles Tilley, CIMA Chief Executive, continues: "Professional accountants in business are instrumental in directing, influencing, evaluating and informing a business. We welcome IFAC's recognition of the role they play in meeting the principles of Enterprise Governance by balancing corporate governance and compliance on the one hand and business performance and value creation on the other." **AT**



"Professional accountants in business are instrumental in directing, influencing, evaluating and informing a business."

Charles Tilley,
Chief Executive,
CIMA

Malaysia Division Members and Staff Bring Cheer to the Less Fortunate

Being tied-up with work and personal commitments, we often fail to notice the needs and wants of the less fortunate. CPA Australia Malaysia Division decided it was time to give something back to the community by organising a Community Service Project Day to bring some cheer to the needy. "The com-

munity service project is a good way for members to get together and "give back something" to the community", said Malaysia Division Council Member, Christina Foo.

The project, which was under the purview of the Events Committee, was carried out simultaneously in Bintulu, Melaka, Kota Kinabalu, Kuching and Petaling Jaya. Some 100 CPA Australia members and staff visited orphanages, a paediatric ward and a home for the elderly. The children spent the day



In Melaka, members spent the day gardening with the children from The Salvation Army

doing fun-filled activities that included gardening, picnicking at the beach and games, while the senior citizens were engaged in a lively 60's themed karaoke session. "It is not only about building rapport and goodwill with the community but to remind us of the less fortunate while instilling strong moral values in our younger generation," said Christina who is also the Events Committee Chairman.

Lots of food, laughter and cheer were the order of the day. **AT**

"It is not only about building rapport and goodwill with the community but to remind us of the less fortunate while instilling strong moral values in our younger generation."

Christina Foo,
Council Member





CPA Australia ▼

CPA Australia's Voice in the Global Accounting Framework



Prof. Terry Heazlewood

"APFRAG's main goal is to enhance the influence of the Asia Pacific region at the highest levels of international standard setting. CPA Australia's aim is to provide a regional forum to debate international standards with the objective of informing or influencing the debate at international levels and other jurisdictions."

**Prof. Terry Heazlewood,
Chair of APFRAG**

Malaysia's CPA Australia qualified accountants will have a voice in the global reporting framework through the Australian accounting body's newly established Asia Pacific Financial Reporting Advisory Group (APFRAG). Malaysia is represented by CPA members Ranjit Singh, the Deputy President of CPA Australia Malaysia Division and Dr. Nordin Mohd Zain, the Executive Director of the Malaysian Accounting Standards Board (MASB).

The group, which was established in May 2005 in Melbourne held its second meeting in Kuala Lumpur recently.

"APFRAG's main goal is to enhance the influence of the Asia Pacific region at the highest levels of international standard-setting. CPA Australia's aim is to provide a regional forum to debate international standards with the objective of informing or influencing the debate at international levels and other jurisdictions", said Prof. Terry Heazlewood, Chair of APFRAG.

He said that, since APFRAG was formed, it has forwarded 15 submissions to international bodies on behalf of CPAs across the region.

"International financial reporting standards can only be international if a voice representing the region has equal recognition with other regional bodies like Europe."

He said a global financial reporting language had the potential to deliver significant economic opportunities for the region.

"This can only be realised if the standards are an appropriate fit for all potential users and not just those located in Europe or the US," said Prof. Heazlewood.

APFRAG's contribution is yielding results with an invitation to participate in the IASB Business Combinations Phase II round table in London earlier this month and acknowledgement by Australia's parliamentary secretary to the Treasurer, the Hon. Chris Pearce MP at the International Financial Reporting Standards Regional Policy Forum in October 2005.

"APFRAG is evolving into a valuable forum for members of CPA Australia to share their experiences and views. Governments and international standard-setters are also looking to APFRAG to provide informed comment," said Prof. Heazlewood.

He said APFRAG would leverage CPA Australia's existing international access and influence to represent the views of members to bodies including the International Accounting Standards Board, the International Auditor and Assurance Standards Board and the International Public Sector Accounting Standards Board.

Commenting in his capacity as Executive Director of the MASB, Dr. Nordin said that MASB welcomed the formation of APFRAG and his partici-

ation as a member enabled him to extend the views of MASB to the international standard-setters.

Elaborating on some of the issues that APFRAG has highlighted to-date, Dr. Nordin said, "They are not confined to technical issues but also included operational issues such as the need to extend the time period for comments on Exposure Drafts (EDs). This is in view of the fact that EDs are in English and may require translation to the local language".

Among the items discussed at the recent APFRAG meeting include consideration of the:

- International Organisation of Securities Commissions' initiative regarding members and information sharing.
- International Financial Reporting Standards regional policy forum held in Sydney, Australia on 24 October 2005.
- The outcomes of the National Standards Setters meeting held in September 2005.

The Asia-Pacific Region represents more than US\$9,000 billion in GDP and includes countries that are at varying stages of economic development. **AT**

"International financial reporting standards can only be international if a voice representing the region has equal recognition with other regional bodies like Europe."

Prof. Terry Heazlewood, Chair of APFRAG

Special dinner to Welcome National President

National President, Mark Coughlin was feted at a special dinner hosted by Malaysia Division President, Margaret Chin during his recent visit to Malaysia. The visit coincided with the formation of Malaysia Division. Also present at the dinner were Tan Sri Hadenan Abdul Jalil, Auditor General, Dato' Zainal A. Putih, Chairman of the Malaysian Accounting Standards Board (MASB), Andrew Ford, Political and Economic Counsellor, Australian High Commission, Nik Mohd Hasyudeen Yusoff, Vice-President, Malaysian Institute of Accountants, as well as senior representatives from professional and regulatory bodies, accounting firms and business agencies. **AT**



(from left) Margaret Chin, Mark Coughlin and Tan Sri Hadenan

CPA Australia appoints new Chief Executive

CPA Australia's Board of Directors is pleased to announce the appointment of Geoff Rankin as its new Chief Executive, with effect from 2 January 2006.

Rankin was formerly Managing Director and Chief Executive Officer of the Australian Leisure and Hospitality Group Ltd (ALH), part of the Foster's Group of companies.

CPA Australia President, Mark Coughlin said today that Mr Rankin's experience in the corporate sector, having been a senior executive of the Foster's Group for many years, would be an asset to the organisation.

"Rankin is a superb cultural fit with CPA Australia.

He has enormous enthusiasm, excellent management skills and there is strong alignment between him and the Board on what needs to be done strategically for CPA Australia in the current business environment," Coughlin said.

"He has strong experience as a CEO and is an accomplished leader. We are delighted to have him on board." Rankin, who holds a Bachelor of Business (Accountancy) from Queensland Institute of Technology, will be based in Melbourne. **AT**



Geoff Rankin

"He has strong experience as a CEO and is an accomplished leader. We are delighted to have him on board."

Mark Coughlin,
CPA Australia President

Institute of Chartered Accountants in England and Wales ▼

A New Year and new challenges ahead

Happy New Year to all MIA members!

A new position

As we start 2006, the Institute of Chartered Accountants in England & Wales (ICAEW) welcomes our new International Development Manager under our Learning and Professional Development Directorate, Elaine Hong.

Elaine, previously from Sunway University College, takes on the new role which was created to focus on promoting and building the profile of ICAEW and its business and finance qualifications and growing the number of students as well as play a key relationship manager role. She will be working closely with members, Sunway TES, the sole tuition provider in Malaysia and prospective students and building networks within government and industry.

Dr. Raymond Madden, the Executive Director of ICAEW's Learning and Professional Directorate commented "This is very exciting from the Institute's perspective as our Malaysian appointment is our first non-UK appointee". Dr Madden also revealed that the ICAEW is investing 2 million sterling pounds in the Learning and Professional Development Directorate,

and that Elaine is part of 20 new staff members that will be hired.

This investment augurs well with the Institute's aim to train more chartered accountants to meet increasing global demand for quality accountants who practise high standards of professionalism, technical expertise, ethics and integrity.

Based in the new ICAEW office at Wisma KPMG in Damansara Heights, Kuala Lumpur, Elaine will also be responsible for advising and assessing potential Authorised Training Organisations (ATOs) on the process of getting accredited.

Contact: elaine.hong@icaew.co.uk
Tel: 03-2094 6340 Fax: 03-2094 5675
Level 3, Wisma KPMG, Jalan Dungun,
Damansara Heights, 50490 Kuala Lumpur,
Malaysia **AT**



Elaine Hong, International Development Manager for Learning and Professional Development for Asia Pacific



"This is very exciting from the Institute's perspective as our Malaysian appointment is our first non-UK appointee."

Dr. Raymond Madden



New IFAC Publication Highlights the Value of Professional Accountants in Business

The International Federation of Accountants' (IFAC) Professional Accountants in Business (PAIB) Committee has released a new information paper to build understanding of the diverse roles, competencies and value of the professional accountant in business. The paper, entitled *The Roles and Domain of the Professional Accountant in Business*, includes a definition of the professional accountant in business and highlights the many roles that professional accountants in business fulfil, including implementing and maintaining operational and fiduciary controls, providing analytical support for strategic planning and decision-making, ensuring that effective risk management processes are in place, and assisting management in setting the tone for ethical practices.

"While there is certainly high awareness of the work of accountants in audit practice and tax preparation, there is a less understood, but equally important role that professional accountants in business play in designing and maintaining mechanisms to assure effective, ethical and responsible corporate governance and control in their organisations," states PAIB Committee Chair, Bill Connell. "This new paper demonstrates how the role of professional accountants in business is critical to the reputation and the credibility of businesses, their management and the accountancy profession as a whole.

"The paper also explains the qualifications of professional accountants in business and the general standards to which they must adhere. For example, under the IFAC *Code of Ethics for Professional Accountants*, all accountants, including PAIBs, must adhere to the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour.

"Adherence to these principles is what distinguishes PAIBs from other profession-

als," emphasises Mr. Connell. ^{AT}

The Roles and Domain of the Professional Accountant in Business can be downloaded from the IFAC online bookstore free-of-charge by going to www.ifac.org/Store. For more information on IFAC activities to support accountants in business, visit the PAIB Committee's home page at www.ifac.org/paib.

IFAC Releases Guidance to Help Strengthen Accountancy Bodies and Contribute to Economic Stability Worldwide

Recognising the international accountancy profession's role and responsibilities in fostering economic growth in developing nations, the International Federation of Accountants' (IFAC) Developing Nations Committee has released guidance entitled *Establishing and Developing a Professional Accountancy Body*. Available electronically through the IFAC website or on a CD-ROM, this new guidance will be a valuable resource to development partners, governments and others seeking to build accountancy capacity in various countries, as well as to many of IFAC's current and future member organisations.

"A properly functioning financial management infrastructure is critical to any economic development activity. Good standards of financial reporting founded on the contributions of auditors and accountants within business and government are key elements in establishing an attractive investment climate," emphasises Ndung'u Gathinji, Chair of the Developing Nations Committee. "The creation of sustainable professional accountancy bodies fosters the capacity of the profession to deliver services which are critical to development efforts".

The new guide addresses a variety of situations, including where a formal accountancy profession does not exist in a country, where the profession exists and there is a desire to establish a professional accountancy body, and where an existing

professional body requires further development and enhancement.

Recognising that developing and emerging economies face unique challenges and opportunities, the guide includes practical implementation guidance, case studies and examples developed with the input of those actively involved in the profession and who themselves have faced similar development challenges.

The guide addresses the following areas:

- Establishing a professional body;
- Roles and responsibilities of a professional accountancy body;
- Education and examinations; and
- Capacity development.

The Developing Nations Committee welcomes best practice examples and other input on the guide, which it anticipates updating at least annually. These may be emailed to developingnations@ifac.org.

"This new guidance is evidence of IFAC's increasing commitment to assisting developing nations. IFAC is working to ensure that all professional accountants throughout the world have access to high-quality standards, ethical guidance, education and training, and best practice information," states IFAC President, Graham Ward.

"There are, however, many countries, particularly developing nations, where there is no formal accountancy profession or the profession is in its infancy and is not linked with the international family. Because it is predicted that 95 per cent of the world's population growth will occur in developing nations, and because a high-quality accountancy profession is key to economic growth, we have made strengthening the profession in those nations a key objective. We believe that this guide will be a valuable resource to achieve this objective.

Establishing and Developing a Professional Accountancy Body is one part of a programme to help developing nations worldwide achieve economic growth and stability. The programme also includes enhancing the input of developing nations into international standard-setting and facilitating assistance from IFAC members and development partners to the profession in developing nations. ^{AT}

IAASB Proposes Enhanced Requirements for Auditors to Consider Related Parties

The involvement of related parties, such as directors, owners and management, in major corporate scandals encouraged the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) to review its current auditing standard on the subject. The IAASB has just issued an exposure draft (ED), proposed International Standard on Auditing (ISA) 550 (Revised), Related Parties, as a result of its review, and is inviting comments on proposed requirements for auditors regarding the audit of related party relationships and transactions.

The current standard requires the auditor to perform certain specified procedures. The proposed standard would extend current practice by requiring the auditor to obtain an understanding of the nature and business rationale of an entity's related party relationships and transactions sufficient to identify, assess and respond to the risks of material misstatement resulting from them. It also places greater emphasis on the difficult task for the auditor of attempting to identify related party relationships and transactions not identified or disclosed by management.

The proposed standard places new emphasis on evaluating the effects of related party relationships and transactions on the financial statements, even in circumstances where the financial reporting framework does not establish related party accounting or disclosure requirements.

John Kellas, Chairman of the IAASB, explains: "The proposed standard gives greater recognition to the particular risks associated with related parties and calls on the auditor to do more work to identify related parties and the rationale for the transactions between them and the audit client." **AT**

Non-Audit Firms

FROM 1-30 NOVEMBER 2005

New Registration

NON-AUDIT FIRM	NF NO.
PAHANG DARUL MAKMUR	

Meng & Co. 0721
75 Jalan Haji Abdul Aziz
25000 Kuantan
Tel: 09-513 9315 Fax: 09-514 9315
e-mail: wtngktn@tm.net.my

SABAH	
Lau & Co	0719

Lot 5, 1st Flr, Blk H
Bdr Ramai-Ramai
Jln Leila, Locked Bag 22
90009 Sandakan
Tel: 089-222 899 Fax: 089-222 848
e-mail: nhlau@tm.net.my

SELANGOR DARUL EHSAN	
KF & Associates	0717

No. 3B Jalan Kenari 5
Bandar Puchong Jaya
47100 Puchong
Tel: 03-8070 1263
e-mail: kf_associates@lycos.com

LKK Management & Consultancy	0718
---	------

94-1B, Jalan 1
Pusat Niaga Batu Caves
68100 Batu Caves
Tel: 03-6185 8198 Fax: 03-6185 9198
e-mail: lkkco@tm.net.my

PA Consultancy	0716
-----------------------	------

B1-3A, Astana Damansara Condominium
33, Jalan 17/1
46400 Petaling Jaya
Tel: 03-7957 9308 Fax: 03-7875 3758
e-mail: premala_ariaratnam@hotmail.com

WILAYAH PERSEKUTUAN	
Tay & Partners	0720

No. 9A, Jalan 4/21D
Medan Idaman Business Centre
53100 Kuala Lumpur
Tel: 03-4022 0598 Fax: 03-4022 0598
e-mail: cmewah@streamyx.com

Operation Ceased

NON-AUDIT FIRM	NF NO.
PULAU PINANG	

Keoh & Co. 0315
No. 60, 1st Floor, Suite A
Jalan Aziz Ibrahim
11900 Sungai Nibong
Tel: 04-643 3694 Fax: 04-643 3696
e-mail: edmondkeoh@yahoo.com

SELANGOR DARUL EHSAN

SS Chong & Co. 0467
70, Jalan BP 11/1
Bandar Bukit Puchong 2, 47100 Puchong
Tel: 03-7880 3428 Fax: 03-7880 3428
e-mail: sschong@time.net.my

WILAYAH PERSEKUTUAN

KF Lee Management Consulting 0429
40-2-1, Jln 2/101 C, Cheras Business Centre
5th Mile, Jalan Cheras, 56100 Kuala Lumpur
Tel: 012-664 9532 Fax: 03-9130 7034
e-mail: keingfoon@hotmail.com

L. H. Soo & Co. 0551
No. 53, Jalan Teratai 1/2J
Tmn Bukit Permai 2, Cheras
56100 Kuala Lumpur
Tel: 03-4280 9282 Fax: 03-4280:9280
e-mail: lhsoo@tm.net.my

Audit Firms

FROM 1-30 NOVEMBER 2005

Name Change

AUDIT FIRM	AF NO.
PULAU PINANG	

LG Associates 0735
(Formerly known as *Teh Lay Gnoh & Co.*)
213 Jalan Magazine, 10300 Penang
Tel: 04-263 9368 Fax: 04-262 9368
e-mail: lg432@streamyx.com

SELANGOR DARUL EHSAN	
MNA & Co	1445

(Formerly known as *Muzammil, Norazman & Co.*)
19B Jalan Permai 2/2
Taman Subang Permai, 47600 Subang Jaya
Tel: 03-5637 5150 Fax: 03-5635 8195
e-mail: ayatmz@yahoo.com

MIA Online

It's an information resource.

It's a business tool.

and a news service.

www.mia.org.my Accountants: Managers of Value

... Counting on Humour

How to make the right decisions

The other day I had the opportunity to drop by my department head's office. He's a friendly guy and on

the rare opportunities that I have to pay him a visit, we have had enjoyable conversations. While I was in his office yesterday I asked him "Sir, What is the secret of your success?" He said "two words"

"And, Sir, what are they?"

"Right decisions."

"But how do you make right decisions?"

"One word." he responded.

"And, sir, What is that?"

"Experience."

"And how do you get Experience?"

"Two words"

"And, Sir, what are they?"

"Wrong decisions"



Job interview question

"Now this is the verbal part of your employment test," said the interviewer. "Can you tell me what gross aggrandized annuity means?"

"Certainly," replied the applicant. "It means I don't get the job."



Dilbert Quotes

A magazine recently ran a "Dilbert quotes" contest. They were looking for people to submit quotes from their real life Dilbert-type managers. Here are some of the submissions:

■ As of tomorrow, employees will only be able to access the building using individual security cards. Pictures will be taken next Wednesday and employees will receive their cards in two weeks. *Microsoft Corp in Redmond, WA*

■ What I need is a list of specific unknown problems we will encounter. *Lykes Lines Shipping*

■ E-mail is not to be used to pass on information or data. It should be used only for company business. *Accounting manager, Electric Boat Company*

■ This project is so important, we can't let things that are more important interfere with it. *Advertising/Marketing manager, United Parcel Service*

■ Doing it right is no excuse for not meeting the schedule. No one will believe you solved this problem in one day! We've been working on it for months. Now, go act busy for a few weeks and I'll let you know when it's time to tell them. *R&D supervisor, Minnesota Mining and Manufacturing/3M Corp.*

■ Quote from the Boss: "Teamwork is a lot of people doing what I say." *Marketing executive, Citrix Corporation*

■ "We know that communication is a problem, but the company is not going to discuss it with the employees." *Switching supervisor, AT&T Long Lines Division*

■ We recently received a memo from senior management saying: "This is to inform you that a memo will be issued today regarding the subject mentioned above." *Microsoft, Legal Affairs Division AT*

Top 10 ways to know you've got the Consulting Bug

- 1 Can't stop using words that don't exist.
- 2 Worried that he who dies with the most frequent-flyer miles wins.
- 3 Use so much jargon in conversation, friends think you're speaking a foreign language.
- 4 Constant urge to give advice on subjects you know nothing about.
- 5 Always-hyphenating-words-that-don't-need-to-be-hyphenated.
- 6 Keep seeing bullet points everywhere.
- 7 Can fit the thematic undercurrents of "War and Peace" into a two-by-two matrix.
- 8 Tired of having a social life beyond work.
- 9 A two-page story in *Business Week* is all it takes to make you an expert.
- 10 Firmly believe that an objective viewpoint means more than any real work experience.

Stopping by the office one day

Resolving to surprise her husband, an executive's wife stopped by his office. She found him with his secretary sitting on his lap.

Without hesitating, he dictated, "... and in conclusion, gentlemen, shortage or no shortage, I cannot continue to operate this office with just one chair."

How to fire an employee tactfully

An office supervisor called a secretary in to give her the bad news that she was being fired. He started the conversation with: "Miss Symthe, I really don't know how we're going to get along without you, but starting Monday, we're going to try."