ACCOUNTANTS today

Professionalism at the Forefront

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The President speaks on the Challenges Ahead

Datuk Dr. Abdul Samad Haji Alias
President, Malaysian Institute of Accountants

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Accountants: Managers of Value

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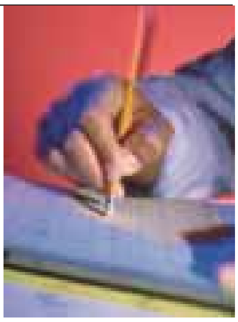

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Restructuring the Malaysian accountancy profession

MIA has certainly come a long way from its humble beginnings 38 years ago. Today, the Institute has a base of more than 21,000 members and has played a pivotal role in steering the profession in the right direction.

The Institute's President Datuk Dr. Abdul Samad Haji Alias feels that the time has come for the profession to undergo a restructuring exercise. Ultimately, the objective of this exercise is to ensure that the profession remains relevant in today's changing business landscape dictated by catalysts such as globalisation and liberalisation, information technology and even competition. In their quest to become world-class players, accountants cannot afford to be lulled into complacency.

In this regard, some of the key issues that need addressing include streamlining MIA's function so that it is solely concerned with the regulatory function, while the Malaysian Institute of Certified Public Accountants (MICPA) takes on the professional body function. Once this is completed, he says there is a need for Malaysian accountants to belong to a local professional body with hopes to develop the local accounting scene, and create a 'Malaysian Accountant' brand.

And as part of a homogenisation effort to ensure that all accountants in Malaysia stand at par with each other and can gain MICPA membership, Datuk Dr. Abdul Samad also elucidates the need for local accounting graduates to attain professional qualifications that are in line with international standards issued by the International Federation of Accountants (IFAC).

> … there is a need for Malaysian accountants to belong to a local professional body with hopes to develop the local accounting scene, and create a 'Malaysian Accountant' brand.

He shared all these thoughts and more with *Accountants Today* during an interview conducted by Editorial Board Chairman, Raymond Liew in Kuala Lumpur recently. To find out more about what he had to say during the interview, do read our cover story this month.

In the March and April 2005 issues of *Accountants Today*, we featured articles from Saravanan Ramasamy on the 'Theory of Games'. This time around, we feature another theory, an article titled "The Theory of Uncertainty" by Marizah Minhat. We hope you will find it interesting.

In the Better Life segment this month, 'Put Advise to the Test' tells the reader how to recognise wise counsel and reject everything else, while 'Executive Strategies: Time and Solutions' informs readers about the importance of time management.

Moving forward, the National Accountants' Conference 2005 is upon us again, and NAC 2005 promises to follow the success of last year's event with high profile speakers, interesting sessions, giveaways, entertainment and CPE Hours! The NAC 2005 carries the theme 'Accountants: Managers of Value'. A theme that reflects the profession in its truest form today.

As always we hope that you will enjoy reading this month's *Accountants Today*. Happy reading! AT

Editor
Accountants Today

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

Deloitte Predicts US$18 Billion Revenue

Professional services firm, Deloitte, announced estimated aggregate member firms revenues of US$18 billion during its 2005 Annual Meeting held in New York recently.

Deloitte Malaysia Managing Partner, Ahmad Mustapha Ghazali, was among 250 Deloitte member firm leaders from all over the world who helped to determine how best to meet the changing expectations of their various stakeholders and grow the businesses of the member firms of the global organisation.

Preliminary figures suggest FY05 aggregate member firm revenue growth of more than 10 per cent, consistent with an increase in demand for services. Audit and enterprise risk services showed the strongest growth at almost 15 per cent, followed by financial advisory services and consulting growing at nine per cent each, and an increasing market share in tax services, despite tough market conditions.

William G. Parrett, Global CEO, Deloitte, said, "The growth has been the direct result of the increased demand for services: Simply, it is a case of increased service hours across member firm markets.

"This is the organisation's 12th year of aggregate revenue growth. That is a proud achievement for all the leaders here in New York. This reflects the expertise and commitment of member firm people, not just to clients but also to Deloitte Malaysia. It is also the result of the key strategic decisions that have been made over the years — decisions to merge, not to merge, or to continue delivering consultative services."

It is no coincidence the 2005 Annual World Meeting is in New York, the location of the organisation's global headquarters. It is also the location where some of the most significant transactions in the organisation's history have been signed.

Mr. Parrett said, "The decisions made at the World Meeting in New York will determine DTT's success tomorrow. We want Deloitte Malaysia and other member firms to build on their strong reputation for delivering excellence and Mustapha and other Deloitte firm leaders are taking decisive steps now to do this."

Some of the strategic scenarios being considered by member firm leaders at the Annual Meeting include:

- Key competitor moves — acquisitions and divestures;
- Major legal developments impairing current business models and heightening risk;
- Further regulatory developments — including closer scrutiny and scope of service;
- Structural change.

Mustapha said, "The issues discussed will affect the way we deliver client service in Malaysia and how we meet our stakeholder expectations."

In less than a decade, the Deloitte Touche Tohmatsu organization has grown from being the smallest among the then Big 8 to one of the largest professional services organizations globally. The expected aggregate member firm revenue growth this year will be seen across the regions: the Americas and Europe/Middle East & Africa experiencing 10 per cent aggregate growth each and Asia Pacific/Japan, with expansive growth in China, experiencing 15 per cent aggregate growth.

The strategic decision for Deloitte member firms to keep their consulting capabilities is proving to be right, with nine per cent growth in aggregate firm consulting revenues in FY05.

Mr. Parrett said, "This is an indication that the consulting and advisory services are clearly part of the broader solution that businesses are looking for, and that this was the right strategic decision for Deloitte member firms.

"Deloitte's reputation for quality, particularly in audit, and excellence in service delivery in tax, consulting, and financial advisory is clearly differentiating our member firms."

Mustapha said, "Collectively Deloitte firms have been identified as a category of one. In Malaysia we want to build on this, be renowned for excellence and ensure long-term sustainability for Deloitte Malaysia and our profession. Providing a broad range of services is critical to this."

Mustapha and Mr. Parrett considers that in the future DTT leaders will view the meeting as one of the most defining moments in the organisation's history. A new DTT vision and strategy is being developed and will be announced in the coming months. AT

Survey Shows Management Accountants Earn Top Dollar

Public accountants are no longer at the top of the salary heap, according to a new survey by the Institute of Management Accountants (IMA), reports *AccountingWEB.com*.

The IMA, in its 16th annual salary survey, announced that management accountants and finance professionals are in first and second place, respectively, in average salary and total compensation in 2004. Public accountants, in the top spot in 2003, fell to sixth place last year.

"Management accountants build sustainable quality within businesses, providing strategic direction from a financial perspective and driving improved performance," said IMA President and Chief Executive Officer Paul Sharman, in a statement. He also attributed the changes in salary and overall compensation to increased demands of the Sarbanes-Oxley Act.

According to the report, top finance professionals earned an average of $124,288 in total compensation last year.

AccountingWEB.com noted that internal auditors, third on the earnings list, received average total compensation of $121,727. Average total compensation — which includes salary plus bonuses, profit sharing, stock options, car allowances and the like — increased almost 35 per cent in 2004 from the amounts reported in 2003, the IMA reported.

On the male-female front, the

survey showed that the salaries for women internal auditors were closer to their male counterparts than in past years. Women internal auditors at the senior management level who took part in the survey earned 93.3 per cent of men in the same jobs. The gap widened, however, when total compensation, rather than just salary, was considered.

"While the additional compensation of women still lags behind that of men, there are indications that this gap may be getting smaller," wrote survey authors David L. Schroeder and Karl E. Reichardt. "One of the brightest observations was that the women in the youngest age category (19-29) actually had a larger average salary and average total compensation than the men in the same category."

AccountingWEB.com, quoting the report, says more women are entering the field. According to the American Institute of Certified Public Accountants, 57 per cent of new accounting graduates are women.

Big Four accounting firm KPMG LLP aims to retain women by allowing flexibility. "The percentage of women partners at the firm is poised to increase dramatically," said Christine St.Clare, an audit partner with KPMG in Atlanta, according to the Atlanta Business Chronicle. She said that since KPMG launched programs to advance women, "turnover among women at the firm declined by 20 per cent between fiscal year 2002 to fiscal year 2004."

The IMA survey also shows that while the overall gains in salary and compensation were smaller than in previous years, they were ahead of last year's 3.4 per cent increase in consumer prices. Average public accountant salaries remained flat in 2004. AT

AccountingWEB.com

US Multinationals Urge Overhaul of Federal Tax Code

US multinational companies have endorsed a complete overhaul of the federal tax code, stressing that the possible recommendations being weighed by a blue-ribbon panel must aim to enhance the international competitiveness of US firms, according to a release by *PR Newswire*.

In comments to the President's Advisory Panel on Federal Tax Reform, the United States Council for International Business (USCIB), a pro-trade group that represents US companies with significant overseas operations, stated that the federal tax code "has become antiquated by reason of changing and evolving business models, meriting a thorough overhaul at the earliest possible time."

Last January, according to the report dated June 17, President George Bush established a bipartisan panel to propose ways to make the tax code simpler, fairer and more growth-oriented. The panel, chaired by former Senator Connie Mack III, is to recommend revenue-neutral policy options for reforming the Federal Internal Revenue Code no later than 31 July.

In its comments, USCIB contrasted the present, "classical," US approach, which taxes profits at both the corporate and shareholder levels, with the integrated systems used in many countries around the world. In an integrated system, tax at the corporate level is deemed to be, in essence, an advance payment of tax at the shareholder level. In general, companies operating in multiple jurisdictions regard the integrated system as a sounder approach.

The report went on to say that USCIB drew an additional distinction between the traditional US approach of taxing resident taxpayers on their worldwide income and the "territorial" approach, also popular overseas, which exempts residents' foreign business income and grants credit for foreign income taxes only on non-business (e.g., investment) income.

"USCIB feels strongly," the statement said," that the double taxation of corporate profits that results from the use of the classical system represents flawed tax policy, and the Panel should, if possible, make a serious effort to achieve a wholly integrated system, like that of many of our trading partners."

USCIB promotes an open system of global commerce. As American affiliate of the International Chamber of Commerce, the International Organisation of Employers, and the Business and Industry Advisory Committee to the OECD, USCIB provides business views to policy makers and regulatory authorities worldwide and works to facilitate international trade. AT

PR Newswire via NewsEdge Corporation

Three Singapore banks can set up arms

In a strategic move, the Indian Government has recently cleared the comprehensive economic cooperation agreement (CECA) with Singapore to tap large-scale global investments, especially the piles of post-9/11 Arab money, using the city state's financial hub as a gateway, reports India's *Times News Network.*

The financial integration with Singapore through CECA could result in trebling FDI inflows to US$2 billion and a jump in FII flows to over US$5 billion in the current fiscal itself, a top official estimated, according to the report.

The development includes three major Singapore banks being allowed to do business in India on the same terms as domestic banks and a link-up between stock exchanges.

The CECA with Singapore, India's first with any country, is also expected to bring India handsome gains in exports of services, especially through the liberal visa regime envisaged for Indian professionals.

New Delhi, the report further states, has agreed to open its door wide for Singaporean banks and financial services companies and also as part of CECA, the two countries have redone the bilateral double taxation avoidance agreement on the same line as India's tax treaty with Mauritius. The financial services and double tax avoidance agreements will make Singapore in the next one decade a much bigger conduit of investment flows into India than the Mauritius route has been in the last decade, the report quotes unnamed officials.

Singapore is a global financial centre with the presence of 7,000 MNCs and 600 financial institutions.

The India-Singapore CECA has four key components: a free trade agreement (FTA) in goods; an arrangement for boosting trade in services, including financial services; a package to promote investment flows and provide mutual investment protection; and a new agreement for avoiding double taxation.

India stands to gain mainly in the two areas of services and investments. Under the FTA, India has to lower duty barriers for goods of Singapore origin without actually gaining much by way of duty reduction for its exports to Singapore. In any case, Indian goods face much lower duties in Singapore than is the case vice-versa.

Both countries will provide "national treatment" to each other's banks on entry. Under this, three Singapore-owned banks — Development Bank of Singapore, Keppel Bank and Overseas Bank — will be allowed to open subsidiaries in India.

They can open branches in India and carry on operations as if they are "local" banks. Indian banks in Singapore will qualify for national treatment there, which means they will be allowed electronic fund transfer and clearance besides use of local ATMs. AT

Times News Network

Taxing issue

It has been nearly one year since China kicked off its value-added tax reform, on a trial basis, in the northeastern provinces of Heilongjiang, Jilin and Liaoning, reports the *ChinaDaily.com*.

But it remains unclear when the reform which allows companies to claim value-added tax rebates for purchases of fixed assets, such as equipment and machinery will spread across the country.

Researcher Ni Hongri, with the State Council's Development Research Centre, says the reform is still in the experimental stage. "Relevant government departments and experts are studying ways of improving the reform scheme," she says.

The central government wants to understand the results of the trial reform, and what problems, if any, exist.

"The government must be very careful, because the reform will affect not only fiscal revenues, but also the entire macro economy," she tells *ChinaDaily.com*.

With the aim of evaluating the results of the trial reform, a group of experts from the International Taxation Institute of China, some of whom are retired from leadership positions with the State Administration of Taxation, are planning a trip to Northeast China.

Insiders say they will summarise experiences gained from the trial reform, and begin preparing the scheme's expansion across China.

The reform, which benefits thousands of companies in Northeast China, was announced last October. It took effect on 1 July last year. Taxation authorities have yet to release the latest figures from the trial.

Earlier figures indicated, by the end of last October, show 40,508 companies in the three provinces had benefited from the reform. The companies had obtained a combined tax rebate of 284 million yuan (US$34.2 million).

Increased investment, resulting from the trial, which, in fact, reduces companies' financial burdens, will help firms in the three provinces as they reform, she adds.

Finance Minister Jin Renqing says the trial has achieved some results. He says he hopes the reform will spread across China as soon as possible.

China in 1994, according to the report, adopted a production-based, value-added-tax system. Under the system, fixed assets are classified as consumer goods, and are subject to the tax. Companies cannot claim a tax rebate for purchasing fixed assets such as equipment and machinery.

Jin says the design of the tax, in 1994, was in line with the real economic and fiscal situations at the time, when the country coped with inflation. The tax system helped curb investment, he says.

But in the face of deflation, the impacts of the tax have been negative. It will affect companies' enthusiasm about increasing investments and upgrading technology, which is not favourable to economic development, Jin says.

The tax system is also not in line with international trends, he says. Currently, only China and Indonesia have production-based value-added taxes. AT

ChinaDaily.com

How everyone pays for ethical lapses at KPMG. The bubble put paid to standards

The investigation by the US Department of Justice into the sale of aggressive tax shelters by KPMG is a reminder that the damage done by stock market bubbles is not confined to distorting the cost of capital and shrinking household savings, report the *Financial Times*.

Bubbles, the UK newspaper reported, are also an ethical test. For top executives in the late 1990s there was the temptation to make fast bucks at shareholders' expense by grabbing stock options and pretending that they were costless. For professional advisers the temptation was to abandon professional standards in pursuit of fee income.

Courtesy of the Senate Permanent Sub-committee on Investigations, the author writes that we have a clear picture of how KPMG mass marketed aggressive tax shelters at the turn of the millennium.

'In particular, its investigations turned up outrageously cynical e-mail discussions on whether to register potentially illegal tax shelters with the Internal Revenue Service.

"On the committee's website it recommends the investigation into sales of a shelter known as Opis, which involved artificial off-shore transactions sheltering profits on the sale of bubble-inflated shares, including option-related sales in Silicon Valley. The tax experts urged their fellow partners at KPMG to sanction the selling without registering the shelters," the report says.

The *Financial Times* went on to say: 'They did so without making any reference to ethics, professional standards or reputational risk. It was a purely financial calculus in which the penalties for failing to register were shown to be much less than the potential revenues to be earned.

'They argued that KPMG would probably get away with it and because the law was unclear there was a convenient excuse if KPMG were to find itself in the dock. Other firms were doing similar things (though not as aggressively as KPMG). As so often with ethically tricky decisions, the threat of loss of competitive advantage was invoked in support of the ethically dubious course.

"Ethical standards go up and down with stock markets. They go down even more in bubbles. Yet it still seems extraordinary that there could have been such a total collapse of standards at one of the world's most respected professional firms in relation to tax avoidance. It was suspected that this was a case of contagion. With so many clients making fast bucks, the ethos of professionals in accounting became infected. So, too, with the law, which has had less criticism than it probably deserves for questionable behaviour in the Enron era."

KPMG, the author noted, has since done its best to clean up its act, yet the cost of this ethical lapse is now becoming all too clear.

'While it seems unlikely that the Department of Justice would want KPMG to go the way of Andersen, that risk cannot be completely discounted. The reputational damage to the firm has been considerable.

"A costly regulatory response inevitably results. And if, heaven forbid, KPMG did disintegrate there would be a wider cost to society in the competition-reducing shrinkage of the Big Four to a Big Three. It confirms, once again, that bubbles are corrosive in more ways than one," the report notes. AT

Financial Times

Click and Pay a Little More: The Days of Tax-Free Online Shopping May Be Over

Those who believe that death and taxes are the only sure things in life have not spent much time with online retailers, who have largely avoided paying most sales taxes. But that situation appears to be near an end, reports the *New York Times*.

Late last month, the newspaper reported that a California state appeals court found the bookseller, Borders Group, Inc. liable for $167,000 in taxes from April 1998 to September 1999 because the company had commingled the operations of its online subsidiary and its stores in that state. The ruling, along with other efforts by state tax collectors aimed at Internet sales, could signal that the era of tax-free online shopping is drawing to a close.

A Supreme Court decision in 1992 said that mail-order merchants, and, by extension, online retailers, need not collect taxes on behalf of their customers' local jurisdictions unless those customers are in a state where the business operates, according to the report.

Traditional retailers, according to the *New York Times* report, have long complained that Amazon and others have largely avoided state tax collection and have bemoaned that such practices allow the online retailers and catalogue companies to sell goods at lower prices. At the same time, government officials in the 45 states that levy sales taxes have lamented the forgone revenues, particularly since 2000, when Internet sales spiked and many local economies slowed.

Quoting Scott Brandman, a lawyer with the firm of Baker & McKenzie, which is representing Borders in the California case, the appellate court's decision "could be used by states to reach out to new levels they haven't reached out to before."

Mr. Brandman said the California court failed to account for the fact that Borders.com and Borders Group were separate corporate entities. Therefore, he said, states could rely on this decision to say that when online companies use an unrelated offline business to promote themselves, the online company would then have to collect taxes in states where the offline business operates, the report said.

That could, in theory, include the country's largest online retailer, Amazon.com, which now operates Borders' online store. AT

Foreign firms listed on SGX operate in different risk environment

Following the China Aviation Oil trading scandal, there have been calls on the Singapore Exchange to tighten its listing rules, reports *Channel NewsAsia*.

But with a growing number of foreign companies listing in Singapore, what should local investors be looking out for when deciding where to park their money?

Not all the companies listed on the Singapore Exchange are incorporated locally, the report notes.

This means that the companies may be subject to different requirements and regulations. For one, there are provisions in the Companies Act which do not apply to foreign-incorporated firms.

The report quotes S Sivanesan, a partner at Rodyk & Davidson Advocates & Solicitors: "For example, the requirement to disclose substantial shareholders' dealings apply to Singapore incorporated companies, not to non-Singapore incorporated companies. So in that regard it may be less protection for the non-Singapore companies."

Channel NewsAsia goes on to say that it also means that the companies are subject to different accounting regimes.

In Singapore, all listed companies have to submit results every quarter and the full-year earnings have to be audited. But China-incorporated companies do not follow the same accounting rules as their Singapore counterparts.

Tham Sai Choy, a partner at KPMG, is quoted by the report as saying: "What you have on the SGX, you have foreign companies and local companies on the same board, traded side by side, but actually operating in different risk environments. That is because some countries do not have the same level of legal enforcement as say, Singapore."

Investors will have to recognise that the companies operate under a different risk environment altogether.

Mr Sivanesan further says: "Anything that happens outside Singapore is outside our law as such and it is difficult to enforce it."

KPMG's Tham says, "Singapore's standards of legal enforcement and corporate governance are very high and among the highest in the world. When we say foreign companies coming from Singapore, many of them are from less developed jurisdictions.

"So it is not realistic to expect that your typical foreign companies coming to Singapore will have the same level of investors' protection as your average Singapore companies."

That is of course not to say that Singapore-incorporated companies do not have their share of problems. Over the past year, there have been accounting scandals in several Singapore companies, the report notes.

For now, the SGX has proposed measures to tighten its listing rules and processes in order to raise corporate governance standards. AT

Channel NewsAsia

NATIONAL ACCOUNTANTS' CONFERENCE 2005

22-23 November 2005, Putra World Trade Centre, Kuala Lumpur

Accountants: Managers of Value

The impact of information technology (IT), the ever-changing face of the global economy, new sources of competition and demands for greater accountability — these are some of the factors that affect market dynamics and influence the manner in which businesses are conducted at present.

While achieving and maintaining profits is crucial to organisations in the new economy, achieving market share alone is no longer enough for organisations. Today, there is talk of winning mind share — winning over the confidence and perception in a bid to be seen as entities that offer value to their stakeholders.

How does the accountant fit into this picture?

Apart from serving the intrinsic finance function of an organisation, the role of today's accountant has expanded far beyond the traditional scope of 'counting beans'. Increasingly, accountants are assuming pivotal responsibilities in organisations — as governance partners and contributors to the crucial decision-making processes. In this respect, it is perhaps apt to claim that accountants today play an integral role in adding value to the organisations that they belong to.

In their new role, they will not only shoulder the responsibility of providing the organisation with meaningful, accurate and timely financial information, they will also be seen as part of the team that supports the management in making well-informed decisions as well as maintaining good governance.

As a result of these developments, accountants will no longer conform to a single mould of being just financial gatekeepers. They have evolved to become managers of value.

To discharge this role effectively, there is a need for additional skill-sets — not just possessing knowledge of finance and figures alone. Accountants today must have good professional judgment, project management and communication skills. They must also have leadership qualities which include strategic thinking, planning and broad cross-functional perspectives. And most importantly, they must possess the innate sense of integrity which is fundamental in instilling confidence and trust amongst the stakeholders.

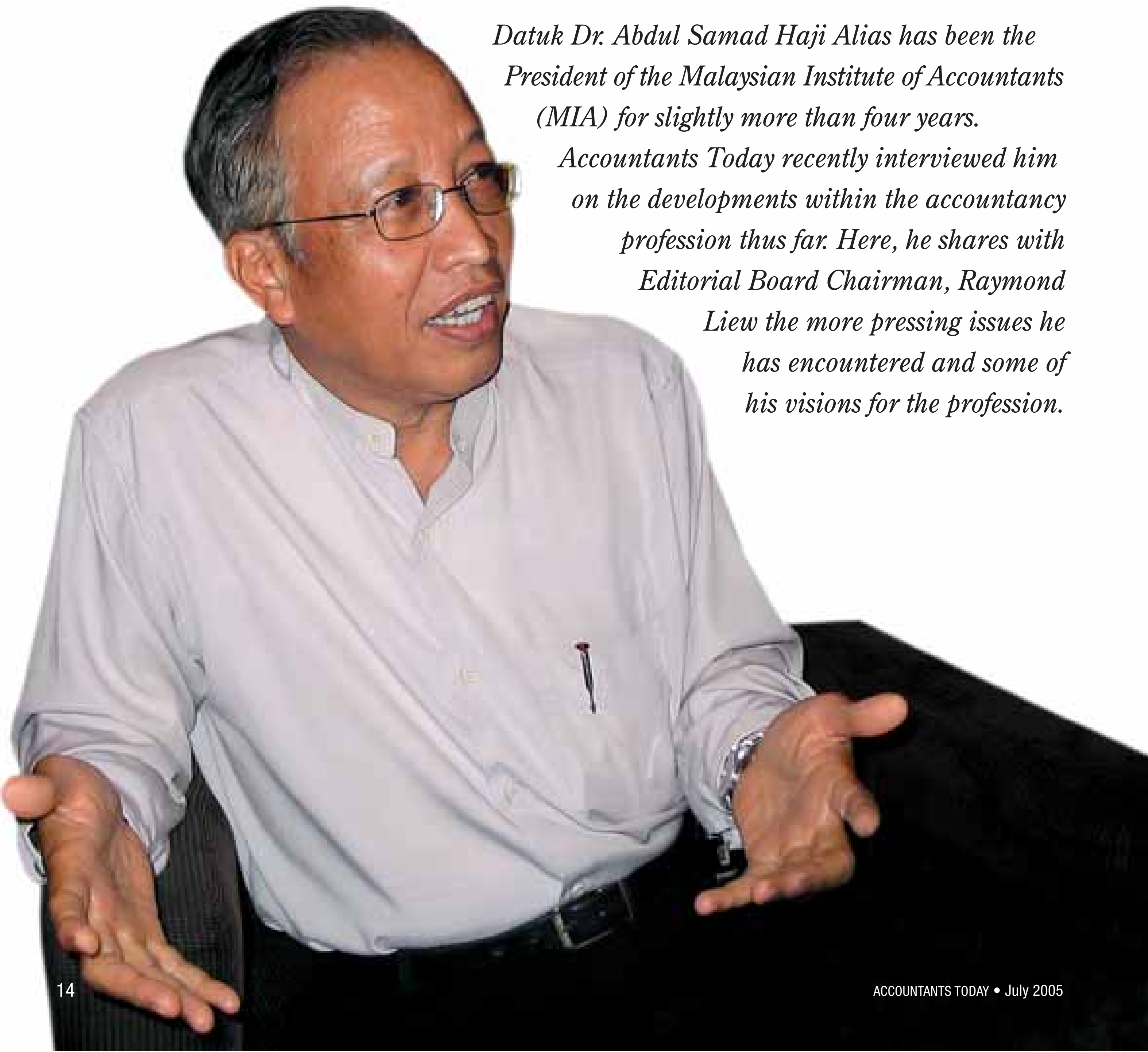
The theme: *Accountants: Managers of Value* is relevant and reflects the profession in its truest form today. The primary objective of the National Accountants' Conference 2005 (NAC 2005) focuses on the value partnership that accountants offer to organisations. In addition, the conference will also further serve as a platform to arm them with best practices and help them harness the knowledge and skills to become strategic business partners in a competitive market environment. AT

Path to Excellence

STEERING THE MALAYSIAN ACCOUNTANCY PROFESSION IN THE RIGHT DIRECTION

By Anuja Ravendran

Datuk Dr. Abdul Samad Haji Alias has been the President of the Malaysian Institute of Accountants (MIA) for slightly more than four years. Accountants Today recently interviewed him on the developments within the accountancy profession thus far. Here, he shares with Editorial Board Chairman, Raymond Liew the more pressing issues he has encountered and some of his visions for the profession.



Achieving Brand Malaysia

His first and foremost agenda has always been that of bringing unity to the profession. In stating this, he is making reference to the members of the accountancy profession belonging to the various professional accounting bodies in Malaysia.

"They should first think of themselves as Malaysian accountants before anything else. While it is up to them which professional body they wish to belong to, ideally they must pledge allegiance to the Malaysian professional body."

"We allow them to be members with foreign professional bodies because we respect their decisions but it would be preferable for them to be members of a Malaysian professional body if they want to be in the Malaysian profession."

"While I am proud that I have been trained by a foreign professional body, that is not the qualification that I go by in Malaysia. Here, I am proud to say that I am a member of the Malaysian Institute of Certified Public Accountants (MICPA) because to me that is the only way to develop the local accountancy profession. They study and become qualified accountants abroad but come back here to work in Malaysia where the laws implemented are based on Malaysian law." Datuk Dr. Abdul Samad is quick to point out that in so doing, one is also contributing to the nation-building agenda and enhancing the quality of the Malaysian accountancy profession.

"Irrespective of where you come from, you must be a member of a local professional accounting body, be governed by its rules, and earn CPE points of that body."

Restructuring of the Malaysian accountancy profession

It is heartening to note that there is more cohesion within the profession in the sense that the various professional bodies (foreign and local) are working together with MIA to project an increasingly unified image, he says.

However, more needs to be done. In order for this unity to be achieved, he feels that there is a need for a restructuring exercise within the profession.

At present, there exists an anomaly, he says. Recognition is given to those who possess qualifications from recognised foreign professional accounting bodies and one local accounting body (MICPA) under the First Schedule of the Accountants Act 1967. Under the same schedule, local graduates who do not belong to any other professional body apart from being members of MIA are also given recognition.

The restructuring, he quips, must result in MIA performing only the regulatory function while the MICPA takes on the professional body function. "Malaysia, is too small a country to have two professional accounting bodies with one of them acting as a regulator."

Although he is sure that the restructuring will take the next five to 10 years to achieve, he says that MIA is presently reviewing the Accountants Act 1967 to set the wheels rolling for this process to happen. "Although I do not see this being implemented during my time here, the incoming President will have to share this vision because I intend to receive the approval of the Government before embarking on any plans. To expedite things, the Government can impose these changes but I would rather see it happen through consultations and discussions. A country does not get built overnight. We must convince all the stakeholders to accept this proposal so that the restructuring can be implemented easily," he tells *Accountants Today.*

> "While I am proud that I have been trained by a foreign professional body, that is not the qualification that I go by in Malaysia. Here, I am proud to say that I am a member of the Malaysian Institute of Certified Public Accountants (MICPA) because to me that is the only way to develop the local accountancy profession."

Datuk Dr. Abdul Samad Haji Alias, MIA President

The accountancy profession in its new incarnation

Once the restructuring is complete, in Datuk Dr. Abdul Samad's vision MIA will act no differently from the Securities Commission. MIA will treat all the accounting firms, auditing firms and the management accounting firms as intermediaries in the accounting industry. MIA's role will hinge on making sure that these people have got a certain service level that reflect well on Malaysia as a world-class capital market.

In its reconfigured role, MIA's finances would come from a levy on members of professional accounting bodies and fees from intermediaries from conducting practice reviews, investigations and other regulatory functions.

Local accounting graduates must attain professional accounting qualifications

This concern is real, he stresses. There are some 8,000 MIA members who are local university accounting degree-holders with three years working experience, qualifying as members under Part I of the First Schedule of the Accountants Act, 1967.

Upon completion of the restructuring exercise, these members must qualify for admission into the local professional accounting body, MICPA. "As such, MIA cannot just wash its hands off these members. MIA has to determine how to upgrade the qualification and competency of these members so that they will not be left out or deemed unqualified after the restructuring.

Datuk Dr. Abdul Samad is passionate when he speaks on this issue. All accounting graduates need to meet the global benchmark as prescribed in the International Federation of Accountants' (IFAC's) International Education Standards (IES) 1-6 which prescribe the essential elements of education for becoming a professional accountant and the ongoing education requirements necessary to remain competent.

Employers too will benefit if their accounting employees hold a professional accounting qualification. As an employer one would certainly favour hiring an employee who belongs to a professional accounting body for the simple reason that if he breaches the professional code of conduct prescribed by that body, his professional qualification and membership of that body can be withdrawn. Members of MIA, who are local university accounting graduates, do not suffer this potential loss as their designation, 'Chartered Accountant', is a legal definition, granted under legal provisions and not pursuant to passing a professional accounting examination. MIA cannot take away their degrees as they are conferred by their universities.

Clearing the misconception surrounding the issue, Datuk Dr. Abdul Samad went on to explain that the need for professional qualification in addition to having a degree in no way undermines the degrees conferred by local universities.

"The role of a university is to produce undergraduates who have got a certain competency level when they graduate. I am quite convinced that the universities cannot immediately produce accountants who are at par with those who have obtained a professional qualification with three years working experience.

"Even the marketplace does not expect these universities to produce accounting graduates who are as competent as those who have been trained via the professional route (where they obtain three years experience under tutelage and pass the professional exam at the end of that training period).

"It is clearly a misconception! They are comparing two different sets of competency levels i.e. the undergraduate and the postgraduate level (for an individual who holds a professional accounting qualification). These two levels are poles apart from each other."

It all boils down to market dynamics, he offers. What was decided many years ago under certain circumstances cannot be held true in 2005 as the market dynamics have changed. In this regard, he feels that this group of people have no way of becoming world class players if they do not accept the need to upgrade themselves.

The importance of IFAC's International Education Standards (IES)

In November 2001, IFAC approved its Education Committee's recommendation to develop IESs for Professional Accountants with the aim of achieving quality and consistency in accounting education worldwide. The first six sets of the IES 1 to IES 6, were issued in October 2003. These standards prescribe the essential elements of education for becoming a professional accountant and the ongoing education requirements necessary to remain competent.

Subsequently, IES 7 — prescribing the importance of continuing professional education, was introduced. Only recently, the proposed IES 8 was made available to public for comment. This IES sets out the competency requirements to become an audit professional.

"If you want to become a global player you have to abide by world class standards and the IES is an appropriate benchmark for this. As far as I am concerned, IES 1-8 are important cornerstones in the future development of the accounting profession and all professional accountants must have these high standards irrespective of whether they come from commerce and industry, academia, the public sector or public practice," Datuk Dr. Abdul Samad opines.

"This development on IES hinges on the fact that the accountants are crucial to the capital market as they help to collate and interpret financial information, therefore making a value-added contribution. That being the premise, and in our quest to continue to remain relevant to the marketplace, there is no choice but for accountants to subscribe to the concept of continuous learning. Accountants cannot choose to just bury their heads in the sand!"

> "As an employer one would certainly favour hiring an employee who belongs to a professional accounting body for the simple reason that if he breaches the professional code of conduct prescribed by that body, his professional qualification and membership of that body can be withdrawn."

Increasing regulation and added costs of doing business

The increased regulation and extra scrutiny from the capital markets, the banking community, and investors as a whole — he believes are the results of lapses in the way some accountants have performed their functions.

And while accountants are not the only ones involved in formulating accounting information, the fact remains that whoever is involved in the process should exercise due care and diligence based on stringent standards imposed by the respective professions.

Selling value to clients

On whether the extra regulations would subsequently lead to additional responsibility and increased cost in a market where audit fees are declining , Datuk Dr. Abdul Samad's response is this, "Practitioners should stop selling their service as a commodity and start selling the value-add aspect of their service. Fees should be based on perceived value and value-add, not on costs.

The profession unfortunately has grown to rely on the fact that audit is mandated by law. This is the reason why local practitioners are so used to the subsidy mentality — the very mentality that leads them to venture into that particular service line with hopes of making money. But how can you make money when everyone else is doing it? "Sell your value-add," he urges.

He goes on to say that he feels that audit should never be mandated. "It should be based on the 'willing buyer and willing seller' concept. "For instance, if there is a need for my financials to be audited because I have a need for funding, let the bankers make that requirement so that at least I know the objective of that audit and it would also be a special purpose audit — not one that is addressed to the 'world'." And when this can be achieved, then one can start talking about limitation of liability, another issue which he deems urgently needs addressing.

Assigning Proportionate Liability

When audit is no longer mandated, if there is a case to sue the professional accountant then it has to be based on proportionate liability and not joint and several liability.

Proportionate liability is not a new concept — the insurance industry is using it, and he thinks in the interest of developing the profession in Malaysia, the accounting profession must be proactive, by initiating actions to change the legal framework from joint and several liability to proportionate liability by say taking the issue up with the Corporate Law Reform Committee established by the Companies Commission of Malaysia.

Unless we implement this, we will find that we do not attract and retain in the accountancy profession the best minds because if I were in their shoes, I don't want to lose everything over something that is not entirely my fault. Because of the lopsidedness in exposure to liabilities, the accountancy profession is suffering a crisis.

In any exposure, the management must first be responsible because the account belongs to them and if they choose to lie to you, the auditor, they have made a misrepresentation and as such, they must take the rap, and legal action should be taken against them. "But of course you as an auditor have to exercise a lot of due care and diligence to establish whether the income statement by the management is credible or not."

Malaysia's involvement in IFAC

Indeed, this is a very prestigious development for the Malaysian accountancy profession. "We have a few members sitting on the board and various committees of IFAC and we should take pride in it because the Malaysian accountancy profession is being more recognised."

Apart from contributing to the world accountancy scene, it increases the profile of the Malaysian accountancy fraternity.

Spearheading the Malaysian accountancy profession

Decidedly, there is a long way to go for the Malaysian accountancy profession in order for it to thrive.

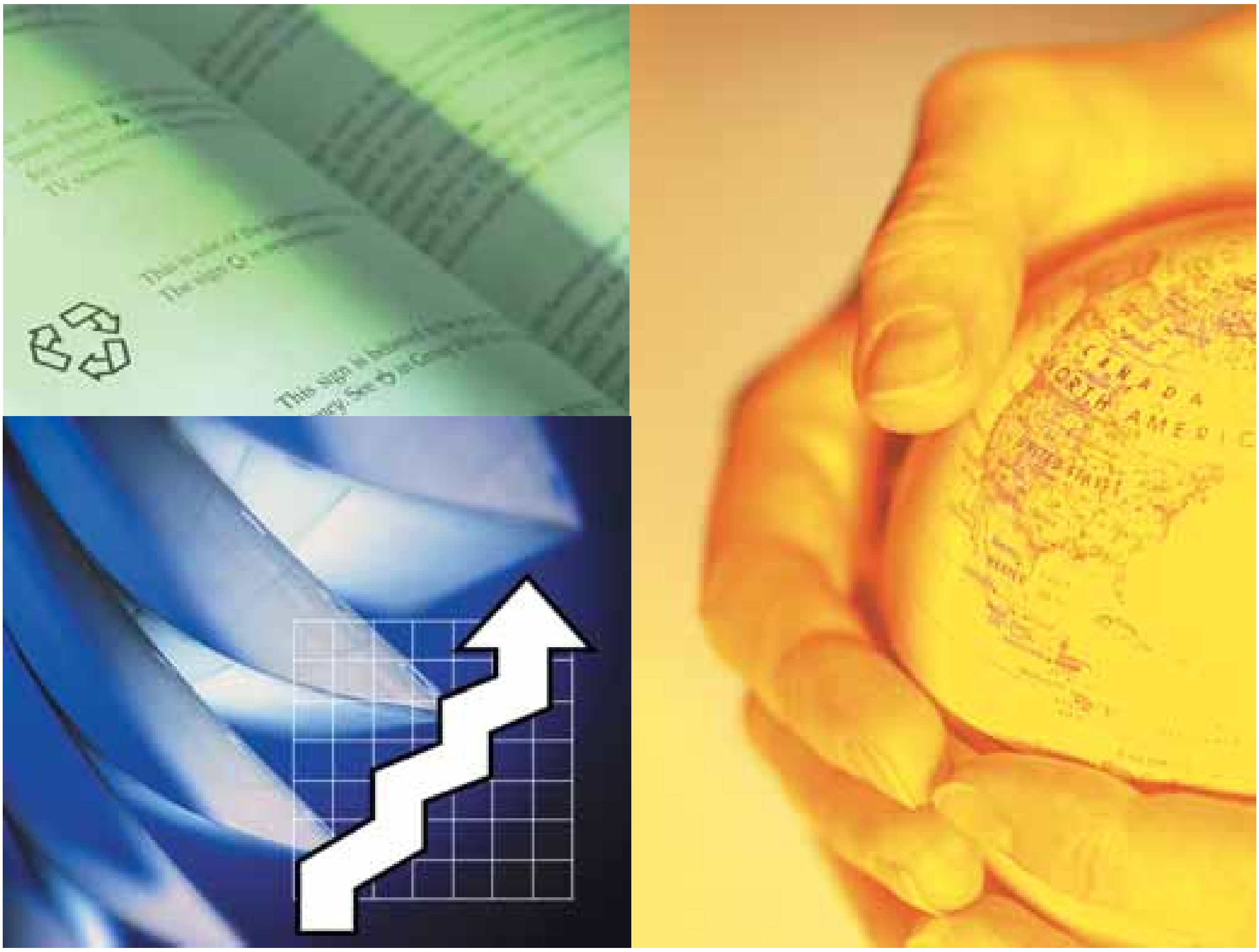
"The issue of bringing value, and improving the quality of work of accountants are ongoing but I would like to if I can, achieve this restructuring of the profession." He is realistic enough to see that it cannot be achieved overnight but is confident that his successor would certainly accept his vision.

And what is more important, he notes is that the wheels of change are in motion. The changes are in response to market dynamics and will make the profession a recognised partner in nation-building and one which contributes positively to its international standing. AT

MAKING A Business Case TO Drive CSR

by Tay Kay Luan

The awareness and acceptance of corporate social responsibility (CSR) has increased in the country judging by the extensive coverage of such activities in annual company reports, media commentaries and references in the speeches of government leaders.



CSR is about the way in which companies meet their obligations both to the stakeholders and to a wider community. At the strategic level, CSR is about the integration of social, environmental, and economic considerations into the business processes and operations and more importantly, influences the way business leadership shapes its decision-making structures and processes. In other words, CSR provides a broad strategic framework that drives everything the corporation does.

In reality, many business leaders see CSR as transactional activity, which is largely to do with fulfilling corporate obligations such as donations or corporate philanthropy. But increasingly, business leaders readily acknowledge that it makes good business sense to align CSR to its corporate objectives. Large multinationals lead the way by adopting a more strategic approach by choosing issues that support their corporate values, being more sensitive to the environment and the communities in which they operate. Such views were echoed by our Deputy Prime Minister, Dato' Sri Najib Tun Abdul Razak in a CSR conference held in June 2003, where he defined CSR as a concept whereby enterprises integrate social and environmental concerns in their business operations and their interactions with stakeholders on a voluntary basis.

Many however see CSR as a form of insurance and to avoid the downside risk associated with CSR issues. But the majority of business leaders will want to see some form of tangible benefits to 'doing good' and will want to see its business case.

CSR brings together issues and challenges on ecological sustainability, people development, community and corporate citizenship. It is about engaging and collaborating with stakeholders on a wide range of CSR issues and to manage effectively the potential risks and build credibility and trust in society. It is also about compliance and beyond with rules and governance but also taking into account society's needs and finding more effective ways to satisfy existing and anticipated demands in order to build more sustainable businesses. In the final analysis, it is about delivering corporate sustainability that will include ethical services to customers, building public trust in the society where the business operates and being transparent and accountable.

Research shows that companies that practice CSR have experienced a range of bottom-line benefits. Such circumstantial evidence is growing but in a recent ACCA research paper, *Corporate Social Responsibility: is there a business case?* the direct quantitative links between CSR actions and financial indicators have yet to be proven. At best, the results are qualitative which include risks and opportunities, reputation, impact on cost and access to capital. There are different ways to capture such benefits but generally, they include the following:

- Improved reputation management and branding;
- Improved operating costs;
- Better investor relations and access to capital;
- Increased employee morale and engagement; and
- Strengthened community relations.

Improved reputation management and branding

There is a strong case for linking a particular brand to a good cause. A potential benefit of CSR is that it can enhance a company's reputation and branding and this in turn improves the company's ability to reach out to its customers and stakeholders. CSR as a concept has the potential to position the company image and reputation in the marketplace as a company that is more responsible and more sustainable than its competitors.

An excellent example is The Body Shop's 'Against Animal Testing' initiative where it combines and communicates both its campaign against animal cruelty and marketing. Local examples are Maxis Communication's initiative on Bridging Communities and HSBC Bank's 'Community — Sharing Our Success in Malaysia'. Many others include Johnson & Johnson's research work on cancer, British American Tobacco's commitment towards social responsibility, Shell's involvement in community development and so on.

The reputation of the company can however, be destroyed overnight by irresponsible behavior or poor services. Retailers, oil & gas and telecommunications players are most vulnerable because their brand equity depends on the company's reputation that is built around intangibles such as trust, quality, consistency and credibility. Indeed, we have seen how Nike suffered in the 1990's when news of poor work conditions in its supply chain were exposed.

Improved operating costs

In his book *The Sustainability Advantage: Seven Business Case Benefits of a Triple Bottom Line*, leading expert Bob Willard presents the business value of corporate sustainability strategies. Willard shows that the financial and quantifiable benefits of responsible environmental and social strategies include a rise in his sample company's profits of 38 per cent. He further explains the seven benefits of sustainability which include reducing hiring and retention costs and improving productivity, decreasing manufacturing and operating expenses, increasing revenue, and reducing risk.

Eco-friendly measures have demonstrated the biggest CSR returns. Companies that have invested in rewiring their environmental impacts over the last decade have reaped significant benefits in four core areas: reductions and recycling of material inputs and hazardous waste; energy savings; lower compliance costs; and competitive advantage through eco-friendly products and services. Author David Edwards in his book *The Link between Company Environmental and Financial Performance* found that going green did not penalise companies. In fact, greening processes and operations could even be positive. Edwards found that:

- There was a positive link between the environmental and financial performance of companies in the sectors investigated, which included building materials and merchants, healthcare, engineering, electrical and electronic equipment, support services, food retailers, paper, packaging and printing.
- Over two-thirds of green companies performed better than their non-green counterparts when a 'green' company was compared with the average performance for matched 'non-green' companies. Over 70 per cent performed better in building materials and merchants, electrical and electronic equipment, support services, healthcare and engineering.

Better investor relations and access to capital

Access to capital is an important issue for several reasons. Leading financial institutions are aware of CSR risks especially in money laundering, dubious deals and socially harmful projects. More than 30 banks are signatories to the Equator Principles, which agreed to use clear, responsible and consistent rules for environmental and social risk management in project finance lending.

Indeed, promoting environmental responsibility as part of CSR has been a hot debate in advanced nations. HSBC Bank's stand on not dealing with environmentally harmful projects is commendable. Such principles will be difficult to apply on the local scene. The choice between making money and commitment towards environmental considerations will no doubt create a difficult choice for chief executives and it will be interesting to see whether Malaysian banks will move in this direction in the near future.

Socially responsible investment (SRI) is increasing rapidly. As of September 2004, leading Dow Jones Sustainability Indexes grew by nearly 30 per cent to three billion euros since the last annual review. Increasingly, investors are diversifying their pension funds into companies according to their environmental and social performance.

Interestingly, investors are attracted to corporate sustainability because the concept aims to increase long-term shareholder value. It is increasingly anticipated that sustainability leaders will deliver superior performance and favourable risk/return profiles. In addition, sustainability could be a fillip for innovative and disciplined management, and, thus, a crucial success factor in business.

Malaysia currently has two SRI funds and approximately thirty Islamic funds valued at more than US$756 million. The market for SRI funds and investment is expected to grow as more investors are aware of its potential.

Furthermore, the historical record of indices such as the Dow Jones Group Sustainability Index (DJGSI), the FTSE4 Goods indices, and the Jantzi Social Index demonstrate that companies that embrace CSR generally outperform their counterparts that do not use features of CSR. An increasing number of mutual funds like the Domini Social Equity Fund and EcoValue 21 are now integrating CSR criteria into their selection processes to locate CSR-compliant companies and to screen out businesses that do not meet certain environmental or social standards. Thus, a CSR approach by a company can improve the company's reputation in the eyes of the investment community, heighten its market valuation, and enhance its ability to access scarce capital.

"Socially responsible investment (SRI) is increasing rapidly. As of September 2004, leading Dow Jones Sustainability Indexes grew by nearly 30 per cent to three billion euros since the last annual review. Increasingly, investors are diversifying their pension funds into companies according to their environmental and social performance."

Increased employee morale and engagement

With changing demographics and a greying workforce in developed and developing nations, competition for scarce and quality human talent will intensify, making sustainability essential to attract a good workforce. Many business case studies have shown that people naturally desire to work for companies they believe are contributing positively to society.

Furthermore, companies that employ CSR-related perspectives and tools usually create an environment for increased loyalty and commitment from employees. By maximizing benefits, providing work incentives and equal-opportunity promotion opportunities, flexible conditions, training and career development, all of which are frequently addressed in CSR exercises, companies can recruit desirable employees, retain them, motivate them to develop skills, and encourage them to pursue learning to discover innovative ways to not only reduce costs but to also identify and take advantage of new opportunities that spell business potential and reduce risks.

Studies have also shown that companies that do not demonstrate such engagement will continuously be saddled with high staff turnover, recruitment costs and low productivity.

Strengthened community relations

A key characteristic of CSR involves the manner the company engages, involves, and collaborates with stakeholders within its entire supply chain. For example open dialogue with stakeholders provides effective partnership, demonstrates transparency and builds trust.

This is a potentially important benefit for companies because it increases their "license to operate", and results in better risk management. Companies can take a broader perspective on the range of risks they can encounter, and stakeholder engagement helps to prevent potential lawsuits and build better credibility with local communities.

As public expectations of companies continue to grow, impacts of their business on society will need to be managed more carefully given the diversity of interests and the complexity of the issues involved. Dissatisfaction over badly managed companies, corporate cheats and powerful individuals have also called for greater control, rules and reforms. High on the list is greater disclosure and transparency.

It is obvious that CSR can bring about qualitative improvements including reputation, branding, employee and community engagement. Empirical work on linking CSR to direct bottom-lines is inconclusive. What is conclusive is that the cost and risk of not doing it can be higher than putting in place the processes of identifying, developing, executing and measuring CSR drivers. Building a business case for CSR in the final analysis, has to take a long term view, with having a robust measurement system and treating sustainability issues as strategic advantages. AT

The writer is the Head of The Association of Chartered Certified Accountants (ACCA Malaysia). ACCA is the largest global professional accountancy body, with nearly 345,000 members and students in 160 countries. For more information on ACCA please visit *www.accaglobal.com*

THE THEORY OF Uncertainty

by Marizah Minhat

In the March and April 2005 issues of Accountants Today, Saravanan Ramasamy wrote on "The Theory of Games". It is interesting to reflect on the reality of the decision-making process, the business that everybody cannot escape from. In the business world, accountants are perceived as individuals with high levels of competency in decision-making involving economic criterion of costs versus benefits, measured in terms of monetary units. They are involved in the valuation of assets and liabilities which are tangible and intangible in nature.

The standard recognition criteria of an asset (liability), as set out in most accounting standards requires that:

1. it is probable that the item gives rise to future economic benefits (costs) which flow to (from) the entity; and
2. the cost of the item can be measured reliably.

It implies that accountants are essentially responsible to form reliable mathematical expectations concerning the future economic benefits and costs. However, in a practical sense, the future is uncertain at best.

The theory of uncertainty is the fundamental idea underlying the scholarships of

John Maynard Keynes, a prominent Cambridge philosopher-economist of the 20th Century. This theory first reached the attention of economists through his *Treatise on Probability* published in 1921. Keynes' practical theory about the future specifies that decisions concerning the future are not necessarily based on a flimsy foundation, of which mathematical calculations cannot be relied upon.

Many financial experts and economists do not differentiate 'uncertainty' and 'risk' but Keynes does. In the context of conventional finance theory, which is originated from the Capital Asset Pricing Model (CAPM) formula derived from the works of Sharpe (1963, 1964), Lintner (1965) and Mossin (1966), returns on a financial asset is priced (or valued) rationally according to its risk premium. Basically, the higher the risk (as represented by the asset's beta), the higher the expected return (expressed in percentage in excess of the risk-free rate). This relationship is formalised by the Security Market Line (SML)[1] and becomes a fundamental concept in finance discipline. This theory assumes 'risk' is quantifiable though the mention of it was kept in the background. 'Uncertainty', in Keynes' view, is not quantifiable but it plays a significant role in asset valuation.

The application of Keynes' theory of uncertainty is indeed not limited to the context of asset valuation, but also applicable to any other context. In his more popular book, *The General Theory of Employment, Interest and Money* (GT) published in 1936, Keynes suggests:

> *We are merely reminding ourselves that human decisions affecting the future, whether personal or political or economic, cannot depend on strict mathematical expectations, since the basis for making such calculations does not exist; and that it is our innate urge to activity which makes the wheels go round, our rational selves choosing between the alternatives as best we are able, calculating where we can, but often falling back for our motive on whim or sentiment or chance.*
>
> *[GT, p. 163]*

Accountants, Certified Financial Planners, investors (in stocks, properties, antiques etc), insurance policy holders, bankers, government and many others are generally involved in the accumulation of wealth. The objective of this activity is to produce results at a comparatively distant and sometimes at an indefinitely distant (future) date. The shortest-term investment could be cash in our pocket, which is earning nothing and the longer-term investment could be our life insurance policies, trusts or construction of power plants. However, whether we realise it or not, we are capable of simulating or modelling the desired expected returns for our investments, but there is no guarantee that the returns derived based on our mathematical calculations will be realised. Therefore, it poses a question as to the reliability of pseudo-mathematical approaches in decision-making of which financial experts and economists are normally trained to do. This refers to the calculus of probability that was assumed to be capable of reducing 'uncertainty' to the same calculable status to that of 'certainty' itself. In terms of morals, Keynes described such calculus that is based on over-valuation of the economic criterion as the 'worm' that destroys the ideal quality in human beings. Keynes opposed the practice of converting economic models into a quantitative formula because it would destroy its usefulness as an instrument of thought. Because goods or advantages are not numerically measurable, over-reliance on mathematical apparatus for decision-making is inappropriate. He describes that:

> *Businessmen play a mixed game of skill and chance, the average results of which to the players are not known by those who take a hand … there might not be much investment merely as a result of cold calculation. (GT, p. 150)*

The same case goes to the players in the financial asset markets such as stock and currency markets. Financial asset prices are necessarily determined by players' speculation about the psychology of the market players. Keynes refers to speculation as the activity of forecasting what average opinion expects average opinion to be. The decision to buy or sell an asset is certainly governed by habit, instinct, preference, desire and will, instead of cold mathematical expectation (or calculation) *per se*. These psychological elements cannot be successfully incorporated into our mathematical forecasting models.

Recent development within the asset-pricing research in finance witnessed the introduction of Psychology-Based Asset-Pricing Theory, which is very much a research agenda of behavioural finance. Researchers such as Shiller (1989) and Hirshleifer (2001) attempt to demonstrate that the ultimate causes of asset price volatility as psychological or sociological in origin. The terms such as 'bubbles, fads or fashions' comes into the picture. Lucey and Dowling (2005) integrate the asset-pricing research in finance to research in the fields of economic psychology and decision-making. They venture into the fields outside conventional finance in order to provide a theoretical basis for the emerging and increasing findings about the influence of investor feelings on asset pricing.

This development brings us back to the old fundamental idea of Keynes that highlight the significance of psychological elements in decision-making under the uncertainty that governs our lives. 'Uncertainty' thus poses a big challenge to the practicality of the pseudo-mathematical approach to decision-making that dominates the formal educational syllabus of future financial experts and economists. AT

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The content of this article is largely based on the author's MSc dissertation supervised by a Post-Keynesian economist, Professor S. C. Dow of the University of Stirling, UK. Comments and opinions from M. Nazam Dzolkarnaini, a finance doctoral student at Stirling, are appreciated. For more reference materials or to contact the author please e-mail: *marizahminhat@yahoo.com*

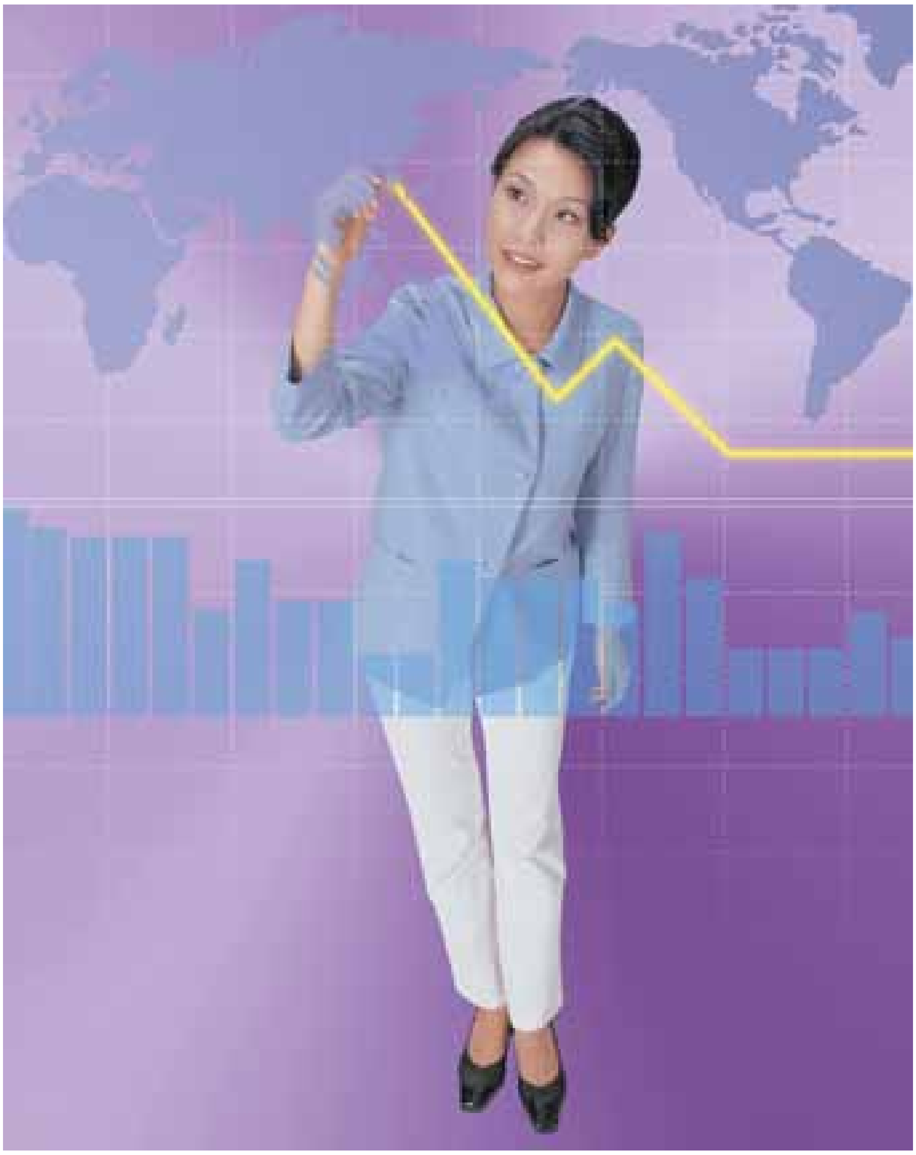
1 CAPM says that the risk premium for an asset is represented by:
$(r - r_F) = \beta(r_M - r_F)$ or $r = r_F + \beta(r_M - r_F)$

Business Modelling

AIMS TO HELP THE BALANCED SCORECARD WORK

by Liz Murby

The Business Modelling Approach (BMA) is the result of some of the very latest research into making the balanced scorecard work. The technique proposed recently by Peter Brewer, Associate Professor in accountancy at Miami University, Ohio, US, guides development and implementation of a fully integrated balanced scorecard.



The balanced scorecard was developed and introduced in the early 1990s by Robert Kaplan and David Norton and has been adopted as a performance measurement system by many organisations. It avoids damaging over-reliance on financial metrics as measures of organisational performance by adding three new perspectives — the customer, internal processes and learning and growth.

Since the scorecard's introduction, there has been much work on refining it, including the development of the so-called Value Dynamics Framework (VDF) by Brewer. The VDF focuses on embedding the contribution of intangible assets (for example, income generating potential, brand value, reputation for customer service, culture, supplier relationships, leadership etc.) in scorecard formulation. Since developing the VDF, Brewer has now refined his thinking further to produce the BMA. Proponents of BMA claim that the methodology of the approach adds further value because it captures the potential value of the scorecard.

It does this by:

- conceptualising and analysing the organisation as a process;
- mapping the "if-then" relationships between critical operations by formulating three distinct matrices; and

- using the matrices to identify key value drivers and the exact contribution of intangibles.

The BMA has 13 steps which are, in turn, part of three distinct phases. Proponents of the BMA welcome the step-by-step guidance it provides to implementing a balanced scorecard. Following the prescribed methodology ensures that each step is tackled in turn. The organisation crystallises its strategic vision into a process-oriented business model, and in so doing gains a rich understanding of that model before selecting any scorecard related performance measures.

To provide meaningful answers to the questions associated with phase one (steps one to six), and to formulate the if-then matrices in phase two, input is required from all members of the management team. Thus the BMA methodology claims to capture a true diversity of opinion that its advocates suggest and serves as a platform for a more inclusive group dialogue.

The BMA framework

Phase one — Characterising the organisation as a process

This is done by addressing six fundamental questions

1. What are the ultimate financial goals?

   These may be independently generated or pre-determined (by a parent company or by corporate headquarters). They generally relate to one or more of the following: revenue growth, cost reduction, asset use or cash-flow.

2. What is the customer value proposition behind achieving our financial goals?

   For example, the customer value proposition could be operational excellence, product leadership, or customer intimacy.

3. What are the key outputs — what does the organisation provide that enables delivery of this value proposition?
4. What processes need to function optimally so that this can be done?
5. What are the critical inputs that enable processes to function optimally?
6. Which suppliers provide these inputs?

Phase two — The critical strategy mapping process

This phase establishes three distinct cause and effect (or if-then) matrices. The first focuses on financial drivers and maps the specific customer value propositions and product/service outputs that drive attainment of each specified financial goal. The second focuses on customer value drivers. It maps the specific internal processes responsible for providing the products and services that drive the delivery of the customer value propositions into a matrix. Lastly, the process drivers matrix specifies which suppliers and inputs are responsible for driving optimal process performance.

Phase three — Using the matrices established in phase two to guide scorecard metrics selection

The financial drivers matrix maps the impact of customer value propositions on financial goals to guide selection of customer and financial drivers. The customer value drivers matrix maps the impact of core/support processes on customer value propositions to guide the selection of internal business process measures, and the process drivers matrix maps the impact of inputs/suppliers on core/support processes and is used to select learning and growth measures.

These three phases provide the high level framework of the BMA. Advocates of the BMA stress the importance of tackling each of its 13 steps in turn.

Step one: *Define financial goals*
This is the starting point in phase one.

Step two: *Define the customer*
The organisation should consider which customers are most profitable and why. They need to know why customers choose to do business with competitors.

Step three: *Define the outputs*
What are the organisation's core strategic products/services? Why do these succeed in the market place? What will the next generation of successful products/services look like? How many customer driven improvements are embedded in offerings?

Step four: *Define processes*
What core and support processes are critical to satisfying customers? What are the critical success factors for each of these (for example, quality, time, flexibility, cost)? What functional departments must collaborate to optimise core and support processes? What developing process technologies could threaten the competitive position?

Step five: *Define inputs*
Which of the assets identified in the value dynamics framework are critical to supporting key core and support processes? Which assets are not critical and could be divested or streamlined? Which assets need to be developed to sustain the next generation of products/services?

Step six: *Define suppliers*
Which suppliers are critical to the business? Which are viewed as strategic alliances, cooperative partners or arms length suppliers? Are suppliers' incentives aligned with organisational incentives? Is there over-reliance on one or more supplier? What competences do suppliers need to ensure success in the future?

Steps seven through to nine correspond to the second phase of the high level framework. Step seven involves preparation of the financial drivers matrix. Step eight concerns the customer value drivers matrix and Step nine concerns the process drivers matrix.

By formulating the if-then matrices, the organisation maps the hypotheses on which the business model is founded. Such matrices allow the organisation to drill down through the inter-relationships of the business model to identify the root causes of financial performance in terms of the respective contributions of suppliers and inputs.

Steps 10 to 13 involve the selection of the balanced scorecard metrics, by reference to the if-then matrices prepared in phase two. The financial metrics should mirror the financial goals set out in the financial drivers matrix. The customer measures should assess customer perception with respect to the most important customer value propositions and outputs identified in the financial drivers matrix.

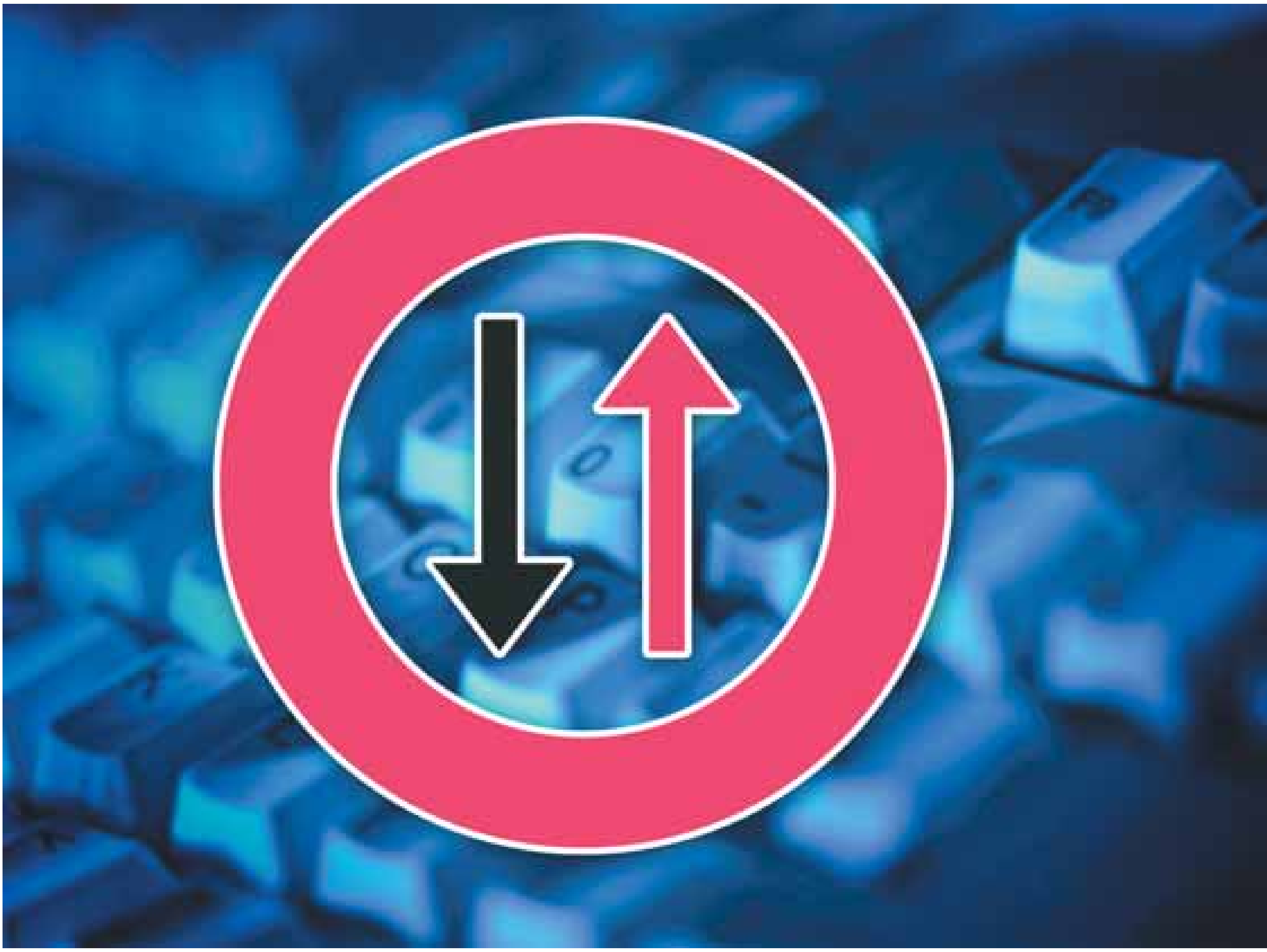
The learning and growth measures should motivate the organisation to cultivate the inputs and suppliers that enable process excellence, as identified in the process drivers matrix. The internal business process measures selected should assess the performance of the core and support processes identified in the customer value drivers matrix. AT

Liz Murby is Project Manager, Technical Services, CIMA, UK. This article is contributed by CIMA and it first appeared in *Insight*, CIMA's online newsletter for accountants in business. *Insight* is accessible at *www.cimaglobal.com/insight.*

GETTING THE Equation Right

by Marcus Boyle and Peter Moller

The finance function has been the subject of radical restructuring in recent years. However, following a number of high-profile corporate disasters, people are questioning whether the finance function has become an executive lapdog rather than a company watchdog. While the immediate pressure is to cut costs, the finance function also faces the wider task of proving it can add value without diluting its key functions. Marcus Boyle and Peter Moller review current trends and provide practical ideas for getting the value equation right.



The finance function has undergone dramatic change in recent years — with increased automation, fewer employees and added responsibilities. For the most part, finance directors (FDs) have been successful in reducing costs: the cost of the average finance function as a percentage of total company sales has halved to just over one per cent, according to Deloitte & Touche research (2002). Given the current economic climate, the pressure on costs looks likely to continue, and in the first half of this article we focus on trends in this area and ideas for implementation.

Alongside cost pressures, however, is a larger issue — the question of whether the shift towards 'business partnering' has negatively affected the independence and integrity of FDs. Restructuring the finance function has created a shift in the role of the chief finance officer (CFO) — from a process-driven role to more of a 'chief value officer' role, focusing on adding value, supporting changing business models and managing risks.

The question now on everyone's lips is how to add value to the business while fulfilling finance's essential role in governing what is 'true and fair'. Is it possible for the finance function to cut costs further, add value and maintain its position as company watchdog? We believe the answer is 'yes' — and we discuss how in the second half of this article.

Cost-cutting trends

Many organisations jump into cost-cutting transformation projects without doing the groundwork first. Too often, time and money is wasted on standardising or automating processes that would be best eliminated. Another pitfall is severely underestimating the 'people' element. When implementing major finance transformations, the most common difficulties are getting the business to buy-in to the need for change and underestimating how difficult employees will find the transition. These problems can be avoided through good planning and change management. In our experience there is a logical order to follow for transformation efforts to be effective, as shown in Figure 1.

Step by step, this process works as follows:

- **eliminate** — by documenting a process from end-to-end, you will quickly identify where duplication of processes exists and how it can be eliminated;
- **simplify** — a number of processes are likely to be over-engineered to meet all business requirements. Review the processes and remove any complexities that do not deliver requisite business benefits;
- **standardise** — where possible try to adopt a single process and a single technology;
- **automate** — having standardised your processes, key elements can be automated to further reduce the cost of transaction processing;
- **consolidate** — left to their own devices, individual business units will have tailored finance processes to meet their every need. Now is the time to rein them in and consolidate finance processing across business units into shared service centres;
- **outsource** — time to consider outsourcing transaction processing, as it is not a core competency. Those that have achieved shared services at an optimal cost base will have an excellent benchmark for price negotiations with outsourcers; and
- **continuous improvement** — the business will be constantly changing and it is essential for the finance function to remain responsive to the business' needs. A continuous improvement framework should be put in place that gives employees incentives to improve their working methods and performance.

Organisations who have followed these ground rules have been successful in reducing costs in the following areas:

- automation of end-to-end processes;
- introduction of self-service to employees;
- leveraging of supplier relationships; and
- implementation of shared services.

Automation of end-to-end processes

Automation offers opportunities to further reduce costs, but should only be performed after a process has been simplified and standardised. The cost of accounts payable, for example, can be reduced significantly by automating the matching of a purchase order to an invoice and goods received note, using what is called 'two-touch processing' (see Figure 2).

In Figure 2, the purchase order is automatically generated when an employee goes online to order from an electronic catalogue that lists approved goods from approved suppliers.

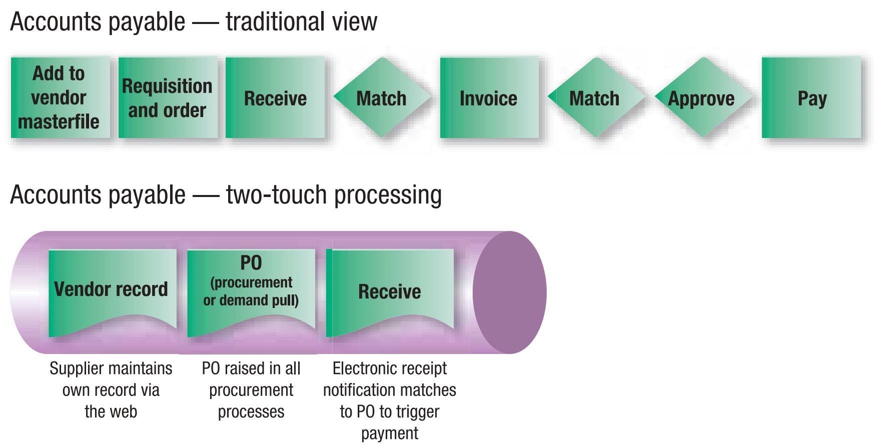
The system sends the purchase order to the supplier electronically. Upon receipt of the goods, the employee generates an electronic receipt that triggers the payment by BACS or other technology with no further intervention from accounts payable.

Introducing web-enabled 'self-service' to employees

Self-service enables employees to gen-

Figure 1 Seven steps to transform the finance function

Figure 2 Traditional vs. automated accounts payable process



erate information or requests online, thus reducing the need for further transaction processing to be performed by finance.

Recent trends have seen a sharp increase in self-service in:

- travel and expense claims;
- time recording;
- requisitioning; and
- HR related areas, e.g. flexible benefits options, skills maintenance, training assessments, development needs.

Self-service can result in significant savings. For example, a FD in the leisure industry reduced the number of full-time equivalents (FTEs) processing expense claims from 12 to one by adding the web-enabled expenses module to the applications suite he was purchasing. When developing a business case for shared services, he discovered that there were 12 people spread across different locations whose sole jobs were to process travel and expense claims.

By introducing self-service to all employees in the organisation, the finance function was able to move to a governance role rather than processing the transactions. Its only role was to match receipts; once this was done, electronic payment was automatically triggered (see Figure 3).

Leveraging supplier relationships

Web-enabled procurement systems go beyond automation to reduce costs through compliance and negotiation. These systems help businesses to control indirect spending and to leverage their supplier relationships by demanding better terms and/or prices. Depending on a company's expenditure, the savings can be sizeable.

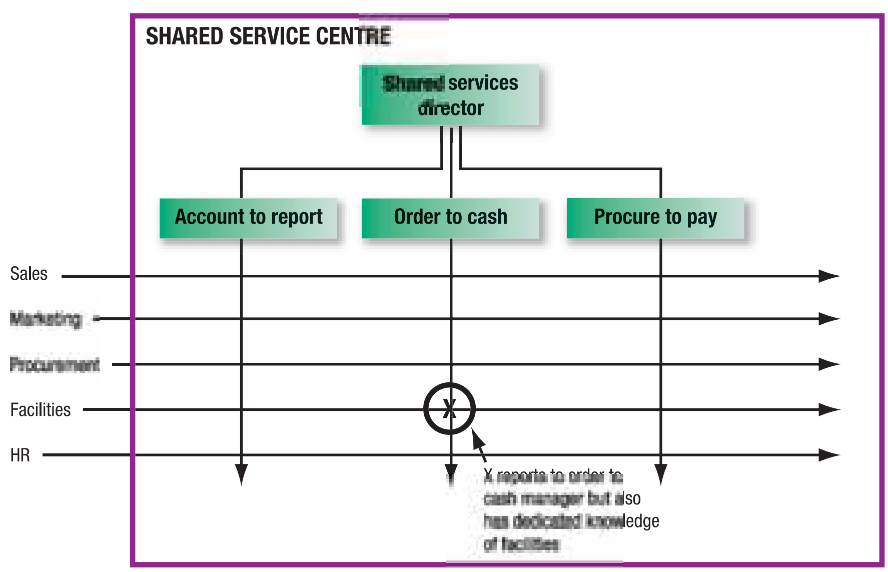
One company recently implemented an e-procurement system across its entire UK business, based on a business case that forecast procurement cost savings of £8 million or 8.3 per cent. These savings came from consolidating suppliers and increased compliance.

Other benefits of a web-enabled procurement system include:

- greater control — on-line approval hierarchies ensure that the purchases are approved by the correct people;
- better analysis of spending — all purchasing is properly coded based on the predefined mapping to the chart of accounts, thus reducing the level of human error; and
- reduced transaction-processing costs — invoices are not slowed down by coding and approval processes.

Figure 3 Simplified processes for web-enabled expenses

Figure 4 Matrix Model for finance function's structure



Consolidating processes via shared services

Today, the bulk of cost for the finance function remains in transaction processing. Shared service centres (SSCs) consolidate transaction-processing activities shared by multiple parts of a business. They typically reduce costs by 25 to 40 per cent while improving service levels through the use of standardised technology, processes and service level agreements.

Mid-sized companies may find the idea of establishing an SSC a bit daunting or assume it is only for multinationals. In fact, increasing the span of control and standardising is always a good idea as it will reduce costs. While companies generally need about 30 FTEs before an SSC will pass the cost/benefit test, this is by no means a hard and fast rule. Two key questions are:

- will the costs of the physical building for the SSC, any required redundancies and hiring and training new people outweigh the overall reduction in finance costs (bearing in mind that relocation can significantly reduce salary costs)? and
- can the company implement a common software and business process solution that enables them to realise the benefits of automation and standardisation?

Restructuring can be combined with a shared service approach to help free the finance function to provide more value to the rest of the business. With the introduction of shared services a new model for the finance function becomes possible (see Figure 4). This new structure is based on a matrix combining processes (account to report, order to cash, etc) and functions within the company (sales, marketing, etc). It is intended to be collaborative and participative. Using this structure, for example, marketing employees with questions about their cost centre report would liase directly with a member of the SSC dedicated to supporting marketing.

A new role for the finance function?

By delegating day-to-day transaction processing to an SSC, the remaining finance staff are freed to focus on offering services such as:

- analysis of revenue by business unit;
- project accounting;
- support in understanding costs allocated

to business units;

- external analysis;
- business cases for new initiatives;
- support to the business with performance measurement;
- activity based management — e.g. to better understand product and customer profitability; and
- a more collaborative approach to planning and budgeting.

Balanced scorecards for the finance function

Balanced scorecards are a popular and powerful management tool, based on the idea that an organisation should be evaluated not only by traditional financial measures, but also by other measures of interest to stakeholders, such as:

- value-driven financial measures;
- customer satisfaction;
- internal processes; and
- ability to learn and grow.

Balanced scorecards can be used to measure the finance function's success in fulfilling its new role: they can help demonstrate how the finance function adds to the value of a business and supports its strategic objectives. The following sections show some specific measures for doing this.

Value-driven financial measures

These measures serve as a focus for establishing and tracking the drivers of value for the finance function, such as the financial results and outcomes from profit improvement, cost reduction and risk management initiatives. Sample financial measures are shown in Figure 5.

Customer satisfaction measures

These focus on the level of service and support the function that finance provides to internal operations, suppliers and customers, including relationships forged through more value added services and SSCs.

Customer satisfaction measures will determine whether the finance function:

- is delivering the right mix, quality and levels of transaction processing, risk management and decision support;
- is viewed positively by business partners such as other internal operations, customers and suppliers; and
- has the appropriate partnering relationships and experience with other internal operations, suppliers and external customers.

Some sample customer satisfaction measures could include:

- percentage of finance analyst time spent partnering with operations management;
- percentage of finance analysts experienced in both finance and operations;
- percentage of finance employee time spent with suppliers to improve processes and information flow;
- percentage of finance employee time spent with external customers to make sales processes more efficient;
- percentage of transactions processed with errors — e.g. payroll, accounts payable, billing, accounts receivable, general ledger, etc;
- internal operations satisfaction (perception surveys);
- external customer satisfaction (perception surveys); and
- supplier satisfaction (perception surveys).

Internal process measures

These measures focus on the critical processes that the finance function must excel at in order to assess and report on value accurately. Internal process measures should demonstrate how any process changes affect the customer satisfaction and financial measures of the balanced scorecard.

Increasingly popular techniques used to evaluate finance processes include activity-based approaches (e.g. activity-based costing and activity-based management) and finance function benchmarking. These techniques are frequently used in measuring the effectiveness of finance services and support functions such as transaction processing and producing accounts, budgets and reports. Some sample internal process measures could include:

- cost of transaction processing as a percentage of revenue per transaction, e.g. accounts payable, accounts receivable, billing, payroll, etc;
- number of transactions processed by transaction-processing employees, e.g. invoices, remittances, expense reports, payroll cheques, etc;
- cost of finance as a percentage of revenue by cost component, e.g. labour, outsourcing, technology, others; and
- average days to close the books and report.

Learning and growth measures

These track an organisation's ability to adapt in the face of change, which is fundamental to achieving excellence in fi-

Figure 5 Financial measures for the balanced scorecard

Traditional measures	Value-driven measures
■ Total cost of finance as a % of revenue ■ Total finance headcount as a % of total organisation headcount ■ Total finance span of control (staff to management ratio) ■ % of transactions processed centrally ■ % of shared services versus corporate accounting for transaction processing ■ Cost of technology as a % of total finance cost ■ Cost of transaction processing as a % of revenue ■ Finance headcount as a % of total organisation headcount by main activity — finance function management, decision support, risk management, transaction processing ■ Cost of non-transaction processing as a % of revenue — e.g. finance function management, decision support, risk management	■ Level of integration of strategic, tactical and financial planning process — e.g. fully integrated, integrated at corporate level only, integrated through financial systems, not integrated ■ Frequency of rolling forecasts ■ % of finance analyst time spent on planning and analysis vs. getting data or doing historical reporting ■ Average cycle times for key business planning processes (in days) — strategic plan, annual plan, forecasting ■ % of manager's time allocated to decision support

nance, customer satisfaction and internal processes. They also stress the importance of taking a holistic view of the finance function's infrastructure, systems, capabilities and culture by emphasising the development of finance staff skills and competencies. The core measures should focus on employee retention, employee productivity and employee satisfaction.

Some sample learning and growth measures could include:

- finance staff turnover;
- finance staff absenteeism;
- revenue per finance employee;
- percentage of qualified finance employees;
- number of training hours per finance employee; and
- staff satisfaction (perception surveys).

Figure 6 provides an example of a finance balanced scorecard extract. It describes how the measures for each section of the scorecard should ultimately and rigorously tie in to the financial results and outcomes of the finance function.

The need for balance

Despite the attractions of offering all these extra services, this new vision of the finance function must be balanced with the need to continue acting as an independent arbitrator of 'true and fair' company reporting. Chief executive officers (CEOs) and the board must be able to rely on FDs to provide accurate information to support decision-making, and it is important that chief value officers who can extract and provide this data act as facilitators – not manipulators – of the facts. They should not seek to blindly support predetermined strategies; instead they should alert CEOs to the true state of the business, so informed decisions can be made.

These concerns are being addressed at the highest levels, not just in the UK but also in the US and worldwide. In the UK, a tough new package of boardroom measures will have a far-reaching impact, not least on the CFO. The Financial Reporting Council will be implementing recommendations from the Higgs report regarding the role and effectiveness of non-executive directors via changes to the Combined Code. It will also be implementing recommendations from the Smith report, which focuses on strengthening the role of the audit committee. It includes particular emphasis on:

- monitoring the integrity of the company's financial statements, including preliminary announcements, interim reports and other material in the annual report;
- reviewing the company's internal financial control system and risk management system;
- monitoring and reviewing the effectiveness of the internal audit function; and
- ongoing and timely training to members on principles of and developments in financial reporting and related company law.

In addition, the ICAEW has issued interim good practice guidance to help directors prepare the annual report's Operating & Financial Review (OFR). This establishes the following key principles:

- the OFR is the responsibility of the full board of directors;
- the OFR should be relevant to and meet the recommendations of existing pronouncements on content; and
- the OFR should be an integral part of the corporate reporting process.

These corporate governance measures, which are scheduled to come into effect for accounting periods beginning on or after 1 July 2003, place finance in the spotlight more than ever. Providing a fair financial reflection of the business has never been more important.

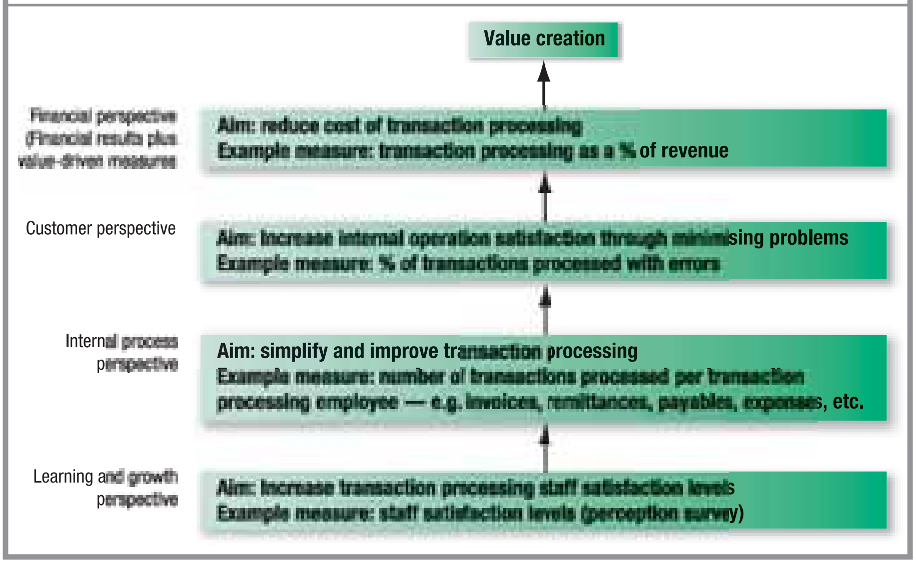
A health warning

Developments post-Enron have led many to question whether a 'business partnering' role for the finance function is a step in the right direction or a step too far. In our opinion, business partnering continues to be the right direction but care must continue to be exercised in its application. The key role of the finance function is to provide information – to extract and analyse financial data in a way that is fair and meaningful to management.

However, its emerging ability to measure and report on value (rather than traditional financial measures only) is a trend that should be encouraged — provided it doesn't get distorted into supporting the executive agenda of the moment.

CFOs face tough challenges in asserting their 'watchdog' role and in cutting costs in this tough economic climate. As shareholders and stakeholders will be watching anxiously for signs that the finance function is subject to excessive executive pressure, getting the balance right will be essential for the health of the company. AT

Figure 6 Extract of a sample balanced scorecard (finance function)



Marcus Boyle has authored a number of articles and thought pieces around the future of the finance function and consults with leading organisations across Europe. Peter Moller heads up the European Finance Transformation Team and has a particular focus on helping multi-nationals implement global shared services and offshoring solutions for their support service functions. Both Marcus and Peter are consultants for Deloitte & Touche. This article appeared in the Institute of Chartered Accountants in England and Wales and was published in the Journal *Management Quarterly* in May 2003. The International Federation of Accountants' (IFAC) Professional Accountants in Business (PAIB) Committee has recognised and selected this article to receive the Articles of Merit Award 2004.

REFORM TRENDS IN Directors' Duties

By the CLRC Secretariat, Companies Commission of Malaysia

A very important part of 'core company law' is the rights and duties of key corporate participants, i.e. those who manage or direct the affairs or business of the company on behalf of investors/shareholders and those directors who have the necessary skill and expertise to steer the company towards long-term sustainability. In Malaysia, as with other common law jurisdictions, the responsibility for managing the affairs of the company is placed with the company's board of directors, who have collective responsibility.

Notwithstanding the existence of market forces which operate to discipline directors, there is still a need for legal controls over directors' conduct. A study of various jurisdictions (Commonwealth as well non-Commonwealth countries) indicates that there are several approaches or strategies that can be adopted by the law to promote 'accountability' amongst those who manage the affairs of the company. These approaches, include having an effective disclosure regime, ensuring that shareholders can remove errant directors before the completion of their tenure in office, regulating transactions entered by the company with directors and persons related/connected to the directors, enhancing shareholder rights to remedy corporate abuse and of course clarifying and reformulating directors' duties. It is to be noted that these approaches do not apply in isolation and in most cases are complementary of each other.

One important legal mechanism for ensuring directors' accountability is the imposition of duties on directors. Reform exercises in comparable jurisdictions indicate that there is similarity of objectives in reforming directors' duties, and that of ensuring an appropriate balance between legal rules that ensure directors' accountability and legal rules that may stifle appropriate risk-taking by directors. The following are some of the important areas that should be considered in relation to reforming directors' duties:

Widening the scope of directors' duties

In its strategic framework paper, the CLRC stated that its review will consider the interests of shareholders and stakeholders. Shareholders' interests have always been the paramount consideration as far as directors' duties are concerned. However, there is an increasing call for reform in this area of the law, where reform exercise in other comparable jurisdictions have resulted in company law legislations that have incorporated provisions which expressly require directors to consider the interest of other stakeholders.

Incorporation of such provisions requires a change in mindset, for traditionally, company law has only been concerned with the interest of the company's shareholders and to a certain extent with the interest of the company's creditors.

Setting out the role and functions of directors

The current approach adopted by the Companies Act 1965 in respect of the role and functions of the board of a company is that of minimum intervention. The Companies Act 1965 does not contain any provision specifying the role and functions of the board. However, provisions specifying the board's powers and duties can be found in Table A of the Companies Act 1965. For instance, Article 73 of Table A states that the business of the company shall be managed by the directors.

The Malaysian High Level Finance Committee on Corporate Governance, in its recommendation, stated that there should be statutory clarification of the responsibility of the board to supervise management; and there should be statutory clarification of the minimum functions of the board of directors of public companies.

Reform exercises in comparable jurisdictions indicate that there are two approaches to specifying the board's role and functions.

One approach is to incorporate a provision to that effect in the company's legislation. Australia and New Zealand have adopted this approach. Their respective company legislations set out a general statement of the board's role and function and that statement provides that the role and function of the board is to manage or supervise the affairs of the company.

The alternative approach is to set out the role and functions of the board outside the company legislation, for example, by way of a provision in the Articles of Association or by way of the codes of best practises as is practised in the UK.

Clarification of directors' duties of care, skill and diligence and directors' fiduciary duties

Clarification of the law on directors' duties is much needed to enable the law to keep abreast of changes in the commercial and business environment. In many instances the duties imposed by the law on directors is influenced by standards-of-conduct that the public expects of directors. Publicity of recent corporate scandals such as Enron, Worldcom, HIH Insurance and Parmalat to name a few, have raised concerns that the legal rules may not be clear or strict enough to prevent or minimise potential breaches of duties imposed on directors. However, it must also be pointed out in the above-mentioned corporate scandals, glaring conflicts-of-interest situations and mismanagement did not go unpunished.

> "Reform exercises in comparable jurisdictions indicate that there is similarity of objectives in reforming directors' duties and that of ensuring an appropriate balance between legal rules that ensure directors' accountability and legal rules that may stifle appropriate risk-taking by directors."

The Companies Act 1965, amongst other things, incorporates provisions that supplement the common law duties of directors. Hence, statutory law as well as the common law regulates the conduct of directors by imposing on the director a standard of behaviour that the director must comply with.

Legal standards of behaviour must keep abreast with the public's expectation and specifically in respect to standards regulating corporate behaviour. Those standards must also conform to established business practises, otherwise the legal standards will not facilitate business.

It is not an easy task to conform the legal standards of behaviour with established business practises, as some of the business practises may not be so clear cut and can also at times, be in conflict with the legal standard of conduct imposed on directors. For example, it is common business practise to appoint nominee directors to represent specific interest on the company's

"... a director is to act honestly and use reasonable diligence when carrying out his stewardship function."

Section 132 (1) of the Companies Act 1965

"...an officer of the company shall not use information acquired by virtue of his office to benefit himself or another person."

Section 132(2) of the Companies Act 1965

board or for a person to be a director in several companies belonging to the same corporate group. However, strict duty requires for a director to act only in the interest of the company that he is a director of.

Of particular relevance to directors is the standard of behaviour imposed upon them by Sections 132 (1) and 132 (2) of the Companies Act 1965.

"Section 132 (1) of the Companies Act 1965 states that a director is to act honestly and use reasonable diligence when carrying out his stewardship function whilst Section 132(2) of the Companies Act 1965 provides that an officer of the company shall not use information acquired by virtue of his office to benefit himself or another person."

The question, however is, whether these sections as currently drafted, assist the company director in appreciating the full extent of the standard of behaviour that is expected of him.

Realising that the above sections may not necessarily do the above, the Malaysian High Level Finance Committee on Corporate Governance in its recommendations in respect to Section 132(1) proposed amongst other things that:

- Section 132 (1) of the Companies Act 1965 be clarified to incorporate the directors obligations of care and skill; as these duties are not even referred to in Section 132 (1);
- the duty to act honestly as imposed by Section 132 (1) should be rephrased so as to state expressly that directors have a duty to act *bona fide* in the best interest of the company and that directors are also subjected to the duty to exercise powers for a proper purpose.

The first proposal as set out above, is not novel as reform exercises in comparable jurisdictions indicate that this is the trend in other countries. The UK Companies Bill 2005 and Australia Corporations Law 2001 incorporate provisions requiring the directors to exercise care whilst carrying out their stewardship function. Further, both specifically provide for a standard-of-care expected of directors. In this respect, it should be pointed out that the trend is to impose a mandatory minimum standard-of-care to be exercised by a director with reference to an objective standard-of-care (care that would be exercised by a reasonable person in a given situation).

Again, the second proposal as mentioned above, is not novel as this is also the approach adopted by the UK Companies Bill 2005, the Australian Corporations Law 2001 and the New Zealand Companies Act 1993.

"Promoting accountability amongst those who manage the affairs of the company not only means that there must be an imposition of liabilities for breaches of duty but there must also be protection afforded to the honest director."

Delegation and supervision

It is a known fact that in larger companies, directors do not actually manage the company but in fact merely carry out a supervisory role. The actual management function is left to others (the managers of the company) and it is these persons who the directors are said to supervise.

Hence, delegating management function to others and relying on others has become a norm in the way directors manage the affairs of the company especially in respect of large companies.

The question, however is, whether the delegation of function to others and reliance on others by directors should provide directors with a shield from being made accountable for mismanagement or wrongs committed by the delegate or, in other words, should directors be allowed to pass the buck to the delegate.

Cross jurisdictional study on corporate law reform indicates that there is a trend in making sure that although directors may have the right to delegate and rely on others, directors ultimately should remain accountable for the actions of their delegates except where the director has exercised due diligence over the delegate.

Protection of honest directors

Promoting accountability amongst those who manage the affairs of the company not only means that there must be an imposition of liabilities for breaches of duty but there must also be protection afforded to the honest director.

Cross jurisdictional study on corporate law reform indicates that a common approach used to encourage proper persons to take up directorship, is to extend immunity to those directors who have acted honestly and exercised appropriate standards of due diligence whilst carrying out their stewardship function.

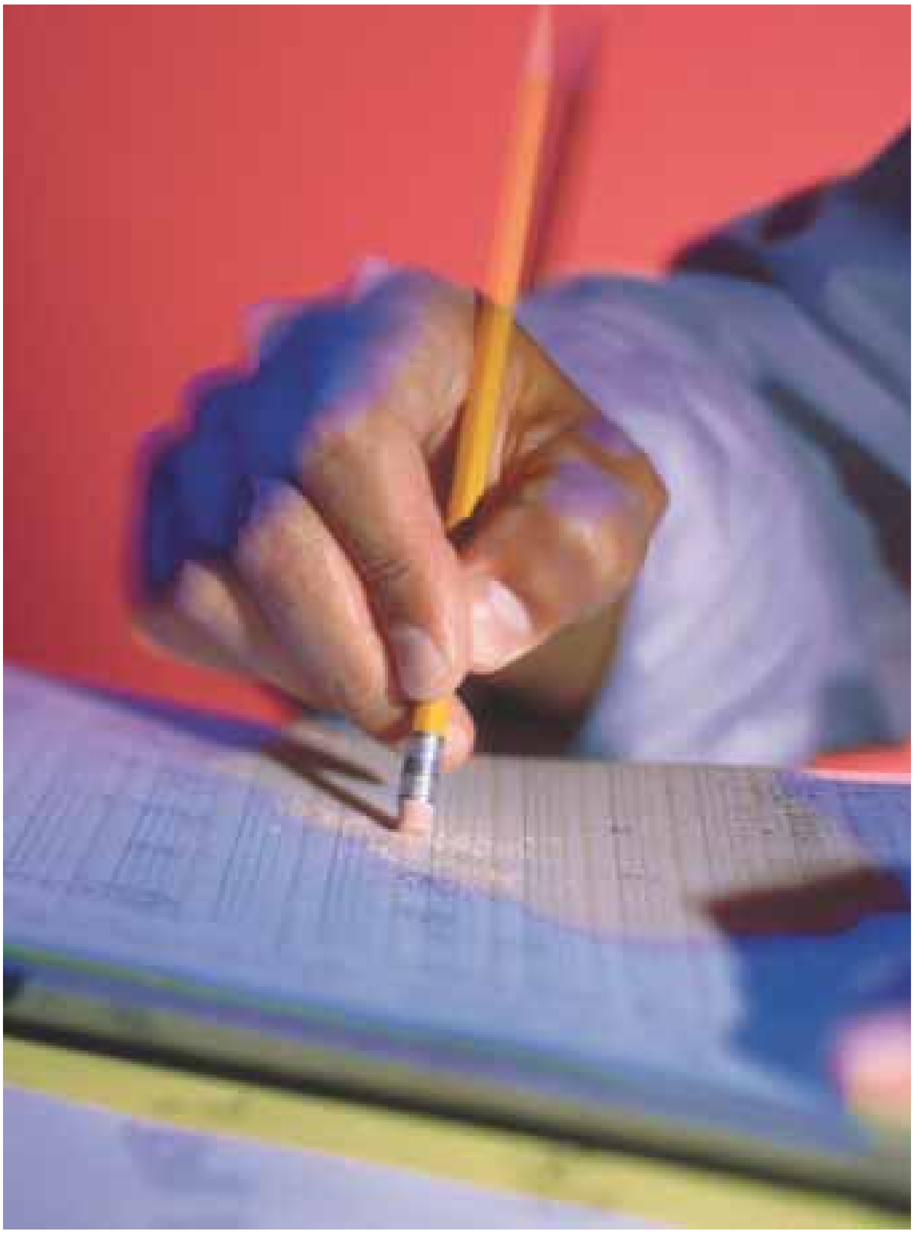
In some countries, this approach has resulted in the enactment of a business judgment rule which provides a safe harbour to such directors.

Conclusion

The above are some of the important issues that permeate the discussion on directors' duties. The task of clarifying and reformulating directors' duties so as to promote accountability is not an easy one but it has to be done so as to ensure that our corporate law framework remains effective and can facilitate businesses. AT

GENERAL CHANGES TO Financial Statements

The Malaysian Accounting Standards Board (MASB) will be approving 21 Financial Reporting Standards throughout 2005. The Standards will be issued in batches from May until November, and will be effective beginning 1 January 2006. The staff of MASB has prepared this article to help users and preparers of financial statements to understand important aspects of the Standards.



This article looks at changes to the broad principles underlying financial statements as brought on by the following new Standards:

- FRS 101: *Presentation of Financial Statements.*
- FRS 108: *Accounting Policies, Changes in Accounting Estimates, and Errors.*
- FRS 110: *Events after the Balance Sheet Date.*
- FRS 1: *First-time Adoption of Financial Reporting Standards.*

This article is not an exhaustive discussion of changes to the Standards. Readers are advised to read the Standards themselves to fully understand all the changes made.

FRS 101: *Presentation of Financial Statements*

The accounting standard *Presentation of Financial Statements* was first issued in July 1999 as MASB 1. In January 2005, Malaysian accounting standards became known as 'Financial Reporting Standards' or FRS. Thus, MASB 1 became FRS 101_{2004} (the old FRS 101). In May 2005, the revised edition was approved for issue as FRS 101 (the new FRS 101).

Both the name-and-number change and the revisions are part of MASB's policy of convergence with the International Accounting Standards Board (IASB).

The main changes to FRS 101 — in the opinion of MASB staff — most likely to have implications for financial statements are as follows:

1. Limit on selection between current/non-current presentation, and presentation in order of liquidity;
2. Additional situations in which a liability will be classified as current;
3. Minority interest deemed part of equity;
4. Prohibition of 'extraordinary items' in the income statement;
5. Disclosures on judgements made in applying accounting policies; and
6. Disclosures on key assumptions and sources of estimation uncertainty.

Limitation on Presentation in Order of Liquidity

Based on the nature of an entity's operation, the old FRS 101 allowed the entity to determine whether or not to present assets and liabilities as current and non-current. If it chooses not to, then it must present them in order of liquidity.

The new FRS 101 compels an entity to present assets and liabilities as current and non-current, unless presenting them in order of liquidity gives more relevant information. For example, financial institutions do not supply goods or services within a clearly identifiable operating cycle, so a current/non-current presentation is less relevant than a presentation in order of liquidity. *(Compare paragraph 53, of the old FRS 101 and paragraphs 51, 54-55, new FRS 101)*

Additional Situations for Classifying a Liability as Current

The old FRS 101 cited two situations where a liability would be classified as current — when it is expected to be settled either within the operating cycle, or within twelve months of the balance sheet date.

The new FRS 101 adds two more situations — when a liability is held primarily for the purpose of being traded, and when the entity does not have an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

An example of a liability that is held primarily for the purpose of being traded is a financial liability classified as held-for-trading in accordance with FRS139 *Financial Instruments: Recognition and Measurement*.

In the old FRS 101 a long term liability that is due to be settled within 12 months can continue to be classified as non-current, provided that there is an agreement to refinance it before the financial statements are authorised for issue.

The new FRS 101 classifies such a liability as current. This is because the agreement to refinance after the balance sheet date does not affect the entity's liquidity and solvency at the balance sheet date. Therefore, it is a non-adjusting event in accordance with FRS 110. It can only be non-current if the refinancing arrangement is at the discretion of the entity. *(Compare paragraphs 60, 63-65 of the old FRS 101 and paragraphs 60, 63-67. BC20-BC29 of the new FRS 101)*

Minority Interest as Part of Equity

In the IASB's *Proposed Framework*, an entity is financed by either equity or liability. Minority interest does not meet the definition of liability in the *Proposed Framework*. Thus in the new FRS 101 and the upcoming FRS 127, minority interest is now presented within equity in the balance sheet.

In the income statement, it is no longer an item of income or expense, but is now an allocation of profit and loss. *(See paragraphs 68(o), 82, 96(c) and paragraph BC19 of the new FRS 101)*

Prohibition of 'Extraordinary Items' as a line item in the Income Statement

The new FRS 101 prohibits income or expense to be presented as an 'extraordinary item' in the income statement.

The prohibition eliminates the need for arbitrary allocation of financial effects to a separate category of extraordinary item. After all, extraordinary items result from the normal business risks faced by an entity and such items are only a subset of items of income and expense.

Even though the concept of extraordinary item is prohibited, FRS 101 does require disclosure of material items of income and expense. *(See paragraph 85 and paragraphs BC14-BC18 of the new FRS 101)*

Disclosure of Management's Judgements in Applying Accounting Policies

The new FRS 101 requires disclosure of management's judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements. For example, how management determined that a financial asset is deemed held-to-maturity, or how it determined whether the special purpose entity is controlled by the entity.

Such disclosures are not new as some of the disclosures are already required by other FRSs. For example, FRS 127 requires an entity to disclose the reason why (if any) the entity's ownership interest does not constitute control even though it owns more than half of the voting power in the said investee company.

This enables users of financial statements to understand the basis on which management applies its accounting policies, and to make comparisons between the judgements of different entities.

Readers should note that disclosure of judgements in applying accounting policies is different from disclosure of assumptions and estimation uncertainty. *(See paragraphs 113-115, BC30-BC31 of the new FRS 101)*

Disclosure of Key Sources of Estimation Uncertainty

The new FRS 101 requires disclosure of key assumptions and sources of estimation uncertainty that could cause material adjustments to the carrying amounts of assets and liabilities within the next financial year.

The carrying amount of assets and liabilities sometimes takes into consideration some estimation of future events. Those estimates require management judgement that could lead to materially consequential adjustments. Disclosure of assumptions made, and sources of uncertainty in making estimates, help users of financial statements to understand management's judgements about future events.

For example, in determining the carrying amount of pension obligations, an entity may have made some assumptions about future salaries. The entity would then disclose what those assumptions are, and that the uncertainties related to those assumptions could cause material adjustment to the carrying amount.

Again, such disclosures are not new. For example FRS 137 requires disclosure of major assumptions concerning future events affecting classes of provisions. FRS 132 requires disclosure of assumptions in estimating the fair value of financial assets and financial liabilities. FRS 116 requires disclosure of assumptions of estimating the fair value of revalued property, plant and equipment. *(See paragraphs 116-124, BC32-BC37 of the new FRS 101)*

FRS 108: *Accounting Policies, Changes in Accounting Estimates, and Errors*

In July 1999, the MASB issued MASB 3, *Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Poli-*

cies. In January 2005, MASB 3 became FRS 108_{2004} (the old FRS 108), a mere numerical change. In May 2005, the title was changed to FRS 108, *Accounting Policies, Changes in Accounting Estimates, and Errors* (the new FRS 108) reflecting the new scope of the standard and its revised content.

Change in Scope

The standard is now focused on those items in its new title. Thus, the presentation requirements for profit or loss for the period in the old FRS 108 have been moved to FRS 101. Also, to reflect the title change, the standards on selection of accounting policies in the old FRS 101 have been moved to this new FRS 108. *(Compare paragraphs 1-24 of the old FRS 108 and paragraphs 1-6 of the new FRS 108)*

Focus on Selection and Application of Accounting Policies

The new FRS 108 states that an entity must apply the accounting policy in the relevant Standard or Interpretation on a particular matter. If no Standard or Interpretation deals with that matter, this FRS 108 provides the hierarchy of guidance for management to refer to when selecting an accounting policy. *(See paragraph 7 of the new FRS 108. Compare paragraphs 20, 22 of old FRS 101 and paragraphs 10-12 of the new FRS 108)*

Retrospective Application for Changes in Accounting Policies

In the old FRS 108, a new accounting policy would be applied retrospectively unless the adjustment to prior periods is not reasonably determined. When retrospective application is used, any adjustments could either be (1) adjusted to opening retained earnings, or (2) included in profit or loss for the year. If the amount to be included in profit or loss for the year cannot be determined, then the accounting policy would be applied prospectively.

The new FRS 108 eliminates these choices. A new accounting policy is to be applied retrospectively, going back to the earliest relevant period, as if that policy had always been applied – unless it is 'impracticable'. A definition of 'impracticable' is provided in the standard. When it is 'impracticable', the new accounting policy will begin from the earliest period practicable, and applied prospectively from thereon.

In addition, the new FRS 108 now requires, rather than encourages, disclosure of an impending change in accounting policy when an entity has yet to implement a new IFRS that has been issued but not yet come into effect. *(Compare paragraphs 51 and 56 of the old FRS 108, and paragraph 23 of the new FRS 108. See paragraphs 28-31 of the new FRS 108)*

Retrospective Restatement for Correction of Prior Period Errors

The new FRS108 eliminates the distinction between fundamental errors and other material errors. As a result, all material prior period errors are accounted for in the same way. The treatment prescribed in this FRS 108 is the same as a fundamental error was accounted for under the retrospective treatment in the old FRS 108. Therefore, an entity restates the amounts for the prior period(s) in which the error occurred, and restates the opening balances of assets, liabilities and equity for the earliest prior period presented. *(Compare paragraphs 36 and 40 of the old FRS 108 and paragraph 42 of the new FRS 108)*

FRS 110: *Events after the Balance Sheet Date*

In July 2001, the MASB issued MASB 19 *Events after the Balance Sheet Date*. In January 2005, the numbering was changed from MASB 19 to FRS 110_{2004}. In May 2005, limited changes were made to FRS 110.

Clarification on approval for issue to a supervisory board

The new FRS 110 clarifies that when the management of an entity issues its financial statements to a supervisory board for approval, the financial statements are deemed authorised for issue when the management authorises them for issue to the supervisory board. *(See paragraph 6 of the new FRS 110.)*

Clarification on why dividends declared after the balance sheet date will not be classified as a liability at the balance sheet date

The new FRS 110 explains that dividends declared after the balance sheet date are not recognised as a liability at the balance sheet date because they do not meet the criteria of a present obligation in FRS 137 *Provisions, Contingent Liabilities and Contingent Assets*. *(See paragraph 13 of the new FRS 110.)*

FRS 1: *First-time Adoption of Financial Reporting Standards*

FRS 1 is identical to IFRS 1 *First-time Adoption of International Financial Reporting Standards* which was issued by the IASB in June 2003.

FRS 1 ensures that all entities adopting FRSs for the first time present comparative information in their financial statements as close as possible to the information provided by existing users of FRSs, but with cost / benefit constraints. Therefore, FRS 1 permits exemptions from certain prescriptions of certain FRSs, and exceptions to retrospective application of some aspects of other FRSs.

FRS 1 is not applicable to entities that are already using MASB approved accounting standards. FRS 1 is applicable to companies applying FRSs in their financial statements for the first time — for example, a foreign company listed on Bursa Malaysia preparing its financial statements in accordance with FRSs for the first time and its previous financial statements had been prepared using other accounting standards. AT

ERRATA

In our article entitled, "21 New Financial Reporting Standards Planned for MASB", *Accountants Today*, June 2005, page 32 & 33, on items specified in Table 2, which refer to the Financial Reporting Standards (FRS) planned for issuance in 2005, the description for FRS 108 and FRS 127 were described wrongly.

The correct descriptions for the above mentioned FRS's are:

FRS 108: *Accounting Policies, Changes in Accounting Estimates, and Errors.*

FRS 127: *Consolidated Financial Statements.*

Also in the same article, the second last para of the article should read, *"The Public is forewarned that under FRS 101 Presentation of Financial Statements, an Interpretation has the enforceability of a Standard"* and not as what was written earlier.

We regret the error. AT

SPECIAL NOTICE

Malaysian Approved Standards on Auditing

The Institute will be issuing a print version of the *Malaysian Approved Standards on Auditing (MASA)*. The print version is expected to be available in August/September 2005 and will include all standards issued up to 31 July 2005. If you are interested to purchase a print copy of the said MASA, please contact Rekha at 03- 2279 9317 or 2279 9200. AT

Anti-Money Laundering

1. Survey on AMLA Compliance 2005

As part of the Institute's continuous efforts to assist members and member firms, the Institute would like feedback on the extension of the reporting obligations under the Anti-Money Laundering Act 2001 (the 'AMLA') to accountants or company secretaries who provide the relevant services as specified in the Invocation Order dated 30 September 2004 [P.U.(A) 340/2004]. Further obligations under Part IV of the AMLA will be extended to accountants or company secretaries who provide the relevant services, with effect from 30 September 2005.

As part of these efforts, the Institute has sent out a Survey on AMLA Compliance 2005 to member firms. Member firms are urged to submit their responses to this Survey, by **30 June 2005**. Your feedback will be used by the Institute to assist you to comply with the obligations under the AMLA. All feedback will be treated with the strictest confidence. A copy of the Survey can also be downloaded from the Institute's website at *www.mia.org.my.*

2. 2nd Edition of Anti-Money Laundering Guidance

The Council on 27 May 2005 approved the issuance of the 2nd

Edition of the Anti-Money Laundering Guidance with effect from **1 July 2005**. The 2nd Edition is an updated version of the Guidance on Anti-Money Laundering for accountants and company secretaries who are members of the Institute which had been issued by the Council on 1 July 2004. The updated Guidance has several minor amendments which now standardises its contents with the Invocation Order dated 30 September 2004 [P.U.(A) 340/2004] and which has taken into account some feedback from members. The updated Guidance is designed to assist affected members in understanding and complying with the new obligations under the AMLA which came into effect on 30 September 2004 and to prepare members for the additional obligations that will come into effect on 30 September 2005.

The 2nd Edition of the Anti-Money Laundering Guidance can be downloaded at the Institute's website at *www.mia.org.my* on or after **1 July 2005.** AT

E-Filling and e-Filing of Form B for Year of Assessment 2004

Please be informed that the applications for e-filling and e-filing of Form B for Year of Assessment 2004 is now available at the website of the Inland Revenue Board at *www.hasilnet.org.my* under the heading of 'e-Services'. AT

MIA e-News

The Institute is launching the MIA e-News in July 2005. The MIA e-News will bring to you **monthly** updates on the Institute's events, technical updates and development, membership news and CPE information, via **e-mail**. This is a further service brought to you by the Institute to keep you up-to-date, provide you with timely information and to serve you better. To benefit from this new service, please ensure that you have registered online at our website at *www.mia.org.my*. Your password has already been sent to you in September 2004 or when you were admitted as a member (new members). If you have yet to register online, please do so **as soon as possible**. AT

PUBLIC RULING (PR) NO. 2/2005:

Computation of Income Tax Payable by a Resident Individual

Please be informed that the PR No. 2/2005: *Computation of Income Tax Payable by a Resident Individual* was issued on 6 June 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

Rich Neighbour, Poor Neighbour

by Rajen Devadason

Have you ever wondered how your present choices about work, leisure, savings and investments may affect how your descendants, end up living 20 or 200 years from now? Perhaps not. Most of us tend to plan our lives based on a daily or weekly schedule without paying too much attention to what happens later. Considering how busy we get, it's understandable. But dangerous.

To thrive, we need to nurture our capacity to have grand visions that stretch deep into the future. In the world of investing, one man stands head and shoulders above everyone else, Warren E. Buffett. Us lesser mortals can learn much from the vision of the world's second richest man.

Recently, I came across a reference to an old 2003 article this super investor wrote for *Fortune* magazine. Being a huge fan, I tracked down that article and spent a mind-expanding hour reading and mulling over the points he made in his well-crafted piece entitled "America's Growing Trade Deficit is Selling the Nation Out From Under Us. Here's a Way to Fix the Problem — and we need to do it now".

In it, Buffett used a powerful metaphor of two fictitious neighbouring islands to illustrate the net effect of America's recent trade-related profligacy. What I found riveting is that the same points Buffett made about US trade flows — it imports far more than it exports — are true of the cashflow patterns of some Malaysians!

Join me in imagining a magical, scaled down version of 'Malaysia' populated by two families. Both clans are led by likeable patriarchs, Bharom Bigspender and Hang Hardworker. This fictional 'Malaysia' is small, covering two hectares. The division of land is equal: The Bigspender clan owns one half and the Hardworker clan the other.

The land is lush and fertile. Three generations of Bigspenders live and work on Bigspender Ranch, as do three generations of Hardworkers on Hardworker Farm.The relationship between the neighbours is excellent; although at the time our story begins the only things they trade are tales and jokes over the shared fence.

Over many years the Bigspenders and the Hardworkers had settled into a comfortable routine of toiling 40 hours a week to cultivate their land and grow sufficient vegetables, rice and fruits to meet their respective family's needs.

But one morning Hang Hardworker calls for a family meeting. He has something important to tell his clan: "Last night I had an inspiring dream. In it, I saw all of us working harder than we've ever worked before: 50, 60, 70, even 80 hours a week."

"Why, father? What's inspiring about that?" asked Hang's oldest son Harry.

"Good question, son," said the old man. "Right now, by working 40 hours a week, we are self-sufficient, but we don't have any surplus to save or invest for a better future. In my dream, we discovered together that if we proactively choose to work longer hours, we'll raise extra crops, which can be used to make our lives better in the future."

Harry looked around at his mother, his siblings and their children before speaking again, "But who would want our additional crops?"

"I'm not sure. We could ask our neighbours the Bigspenders. Otherwise, I suppose we could check out possible markets outside our 'country'. First, let me go and ask Uncle Bharom if he would be interested in buying our surplus."

And that's what he did… but not before spending another hour talking about the economics involved in moving beyond a pure barter system.

Later, when Bharom Bigspender heard what his old friend had in

mind, he was intrigued. This is what he said to his family: "Listen to what Uncle Hang suggested to me! He and his family are going to work harder on their land to raise more fruits and vegetables. They are willing to sell their surplus to us."

"Sounds good, but what do we pay them with?" asked Bharom's pretty daughter Baimelotsashuz. "Money hasn't been invented yet!"

"That's the interesting thing. We get to invent it! The Hardworkers are suggesting we create two things: Bigspenderbondz and Bigspenderringgit. We will print our own Bigspenderbondz, which are IOUs and denominate them in Bigspenderringgit. We will then exchange our Bigspenderbondz for the extra fruits and vegetables our wonderful neighbours are willing to work hard to grow for us!"

All the Bigspenders laughed. Led by Baimelotsashuz, they realised this plan allowed them to work shorter hours and to spend more time sleeping and playing games. The plan was set in motion.

After several months, Hang Hardworker noticed his family members were fitter and stronger than ever because of the extra time spent toiling in the fields. As for the paper-based fruits of their labour … a special room in their home was dedicated to housing the growing pile of Bigspenderbondz!

In discussions with Harry and his other children, Hang grew to realise the Bigspenderringgit-denominated Bigspenderbondz represented a growing right his family had on the future production of his friend Bharom's family. It was a great feeling.

But after several more months of piling up Bigspenderbondz, which now required a second room to act as a vault, Harry began to air some niggling concerns to his father: "What happens if the Bigspenders refuse to honour their future commitment to us based on all the Bigspenderbondz they've issued? I think we should change our strategy and try to buy their land."

It took Hang some time to wrap his mind around this strange idea. Eventually he realised it was a good suggestion. So he gave his blessing to Harry to make a trip over the fence and to see if some of the Bigspenders would be interested in buying back a portion of the Bigspenderbondz they had issued to the Hardworkers.

After Harry had a chat with the now obese Bharom, he learnt that some of the more thoughtful Bigspenders were indeed interested in buying their own debt paper back. So the Hardworkers sold 80 per cent of their vast supply of Bigspenderbondz and received a great deal of Bigspenderringgit in exchange.

Then, over the following weeks, the Hardworkers used their Bigspenderringgit to selectively buy slivers of Bigspender Ranch. At first the sales were slow, because it was a new concept for the Bigspenders. They only sold a few square meters at a time. But the frequency and the size of the deals grew because the Bigspenders had fallen in love with rest and recreation; most had little desire to work longer than their new 30-hour week that had replaced their traditional 40-hour week.

As you can guess, over time the Hardworkers bought all of Bigspender Ranch. The Bigspenders now had no choice but to reverse their shortening of the workweek. They began toiling longer and longer and longer hours to cover the rent of the land they once owned but now had to live on as tenants! They also had to pay the interest on the 20 per cent of Bigspenderbondz the Hardworkers retained ownership of.

In essence, the Bigspenders had gone into too much debt of the wrong sort to 'buy' themselves a short season of rest and recreation. That financial misstep resulted in long-term servitude.

Despite the simplifications in this story, it partially explains why 'the rich get richer and the poor get poorer'. Anytime we become so enamoured of rest and recreation that we're willing to sacrifice our future income (and that of our children) to pay for present day comforts, we run the risk of going into financial servitude to our creditors.

Remember, there are two types of debt: good debt and bad debt. Although in our story, the Hardworkers did not go into debt, they might have done so and still not have got into trouble.

Imagine if Hang had authorised his clan to issue their own short-term Hardworkerbondz to allow them to buy farm equipment from a neighbouring country that would have enhanced the crop yield of their farm. If they had done so, they might have grown richer faster.

In contrast, the people of Bigspender Ranch put themselves in the position of having too much bad debt. It was bad because it was not a productive use of debt. Instead, it was a consumptive use of debt.

Bharom's family used it to temporarily fund an unjustifiably enhanced lifestyle marked by shorter working hours and a growing tendency to indulge in immediate gratification.

As we saw, the people of Hardworker Farm chose to sacrifice short-term comfort to enlarge their territory, not by military might but by economic intelligence.

Once the key asset of land was bought, the Hardworkers could afford to ease back on their long work hours because the Bigspenders would have to work longer and longer workweeks to meet their obligations.

The moral of our lesson: To succeed economically, emulate the smart Hardworkers and shun the behaviour of the myopic Bigspenders. AT

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

Put Advice to the Test

Learn how to recognise wise counsel from your peers, mentors, partners and board — and reject everything else.

by Chris Read

As the owner of a fast-growing business, you probably get plenty of advice — whether you ask for it or not. Mentors and board members make suggestions. Your peers or partners may share their knowledge.

Then there's the steady stream of commentary from your employees and customers. Your challenge is deciding whether to accept or reject that advice. "The toughest part of getting advice is listening to others, as opposed to thinking you know," says Tom Caldwell, co-founder of TDI Products, an engineering and manufacturing firm in Jacksonville Beach, Florida. "If you're like most entrepreneurs — confident and aggressive — that can be a shortfall when it comes to weighing advice properly."

Read between the lines

Your preconceptions can influence how you digest advice. If you want others to second your decisions or urge you to do what you're already leaning toward, then you'll latch onto pleasing advice and disregard everything else. But if you're genuinely unsure what to do, you might follow an expert's counsel blindly — especially if you're paying top dollar for it.

Yet some of the best advice comes when you least expect it. A colleague may share a customer-service anecdote. An employee may complain about your company's benefits. A member of your advisory board may ask you a series of fact-finding questions. By listening, you may discover that the speaker is offering thinly disguised advice. Your colleague may want you to upgrade delivery. Your employee may be warning you to enhance your benefit package to keep your best people.

Once you realise that the best feedback doesn't necessarily occur when someone puts an arm around you and says, "Let me give you some advice," you can appreciate the subtle hints and indirect guidance that less-attentive business owners miss.

Above all, set up checkpoints to test the validity of advice before acting on it. Create tracking systems that help quantify your progress — or lack of it — and tweak your plan as necessary to improve your results.

Recognise wisdom…

Trust yourself always, trust others sometimes. That's a favourite expression of leaders who get lots of advice. They rely on their own common sense to separate wise counsel from misguided recommendations.

Plumb the motives of advice-givers. Determine if they share your goals and put your interests first. Question what they might gain or lose by your actions. Other tips:

Withhold judgement. Realise that you're not supposed to like the sound of advice from the get-go. It might even sound crazy or terrible at first. Mull it over for a day or two before you render a judgement.

Assess the bottom-line payoff. When you hear advice, evaluate the speed with which you can translate the feedback into improved cash flow. If you're told to implement tighter bookkeeping procedures, for instance, the bottom-line benefit should be straightforward and somewhat easy to measure. But if you're advised to "think about how communication works within the company," it's harder to know what to do to produce a payoff.

Separate the message from the messenger. Some of the best advice can come from surprising sources, such as vendors or part-time employees. Weigh all feedback fairly, whether it's from experts or rookies. Examine advice on its own terms.

Engage your gut. Whether you're inclined to accept or reject input, give your intuition a chance to chime in. Ask, "Does this sound right to me?" Beware of seemingly sensible advice that raises concerns you can't articulate. If your gut sounds an alert, forget about the advice for a few days. Then revisit the site and see if you still feel queasy about it.

> "The toughest part of getting advice is listening to others, as opposed to thinking you know … If you're like most entrepreneurs — confident and aggressive — that can be a shortfall when it comes to weighing advice properly."
>
> **Tom Caldwell, Co-founder, TDI Products, Florida**

CEOs Make it Happen

John Metzger, for example, gets some of his best business advice from the building owner who leases office space to Metzger Associates Inc., a public relations firm in Boulder, Colo. Metzger's landlord is an Iranian Jew with a penchant for using parables and riddles. Metzger, CEO and founder, recalls a discussion about how to weather an economic downturn. His landlord asked, *"What's the first thing you do when you find out your well is poisoned?"* Metzger's answer:

"You stop drinking the water." He nodded and said *"the first thing you do in a down economy is to stop spending money where you don't have to,"* Metzger says. *"If you have to make cuts, do it now. Don't wait. Don't try to analyse the poison. Don't start digging another well. Stop spending!"* Metzger has achieved sales growth of 677 per cent between 1996 and 2000.

Advice that's tough to swallow

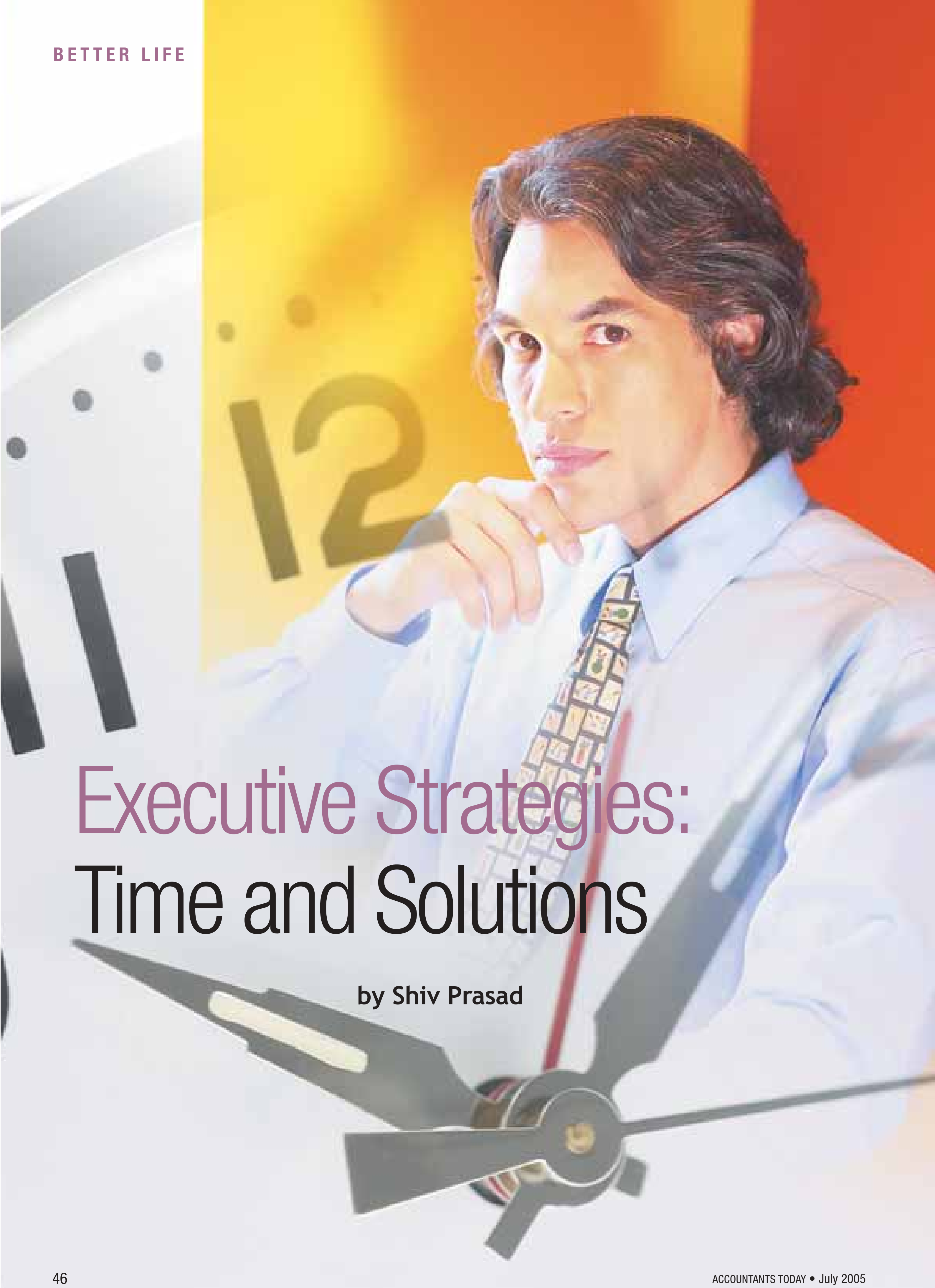
For Tom Caldwell, some of the best advice hurts the most. Caldwell co-founded TDI Products, engineering and manufacturing firm, in March 2000. The Jacksonville Beach, Florida-based Company has already hit $1 million in sales.

One of TDI's board members often advises Caldwell. But that doesn't mean Caldwell accepts what he hears with a smile. After Caldwell outsourced some stages of the manufacturing process, high payroll costs posed a problem. As Caldwell struggled with whether to cut staff, his board member said, *"If you can't keep every employee busy, you have to get rid of them. You're not there just to keep people employed. The business exists to make money." "I hated to think that way,"* Caldwell confesses. *"But the more I looked at the numbers, and the more I thought that here's a board member who's in business 40 years and knows what he's talking about, I came around."*

A question of leadership

Before Steven Lassig launched Technology Professionals Corp. (TPC) in 1996, he was project manager for a pharmaceutical firm. His boss once asked him, *"What do you think a leader should be?"* Before Lassig could answer, his manager added, *"Think about it first. Come back when you have it worked out."* Lassig realised he was creating a blueprint for the kind of executive he wanted to become. He concluded that a leader *"treats people the way you want to be treated."*

When Lassig founded TPC, a technology staffing and consulting firm in Grand Rapids, Michigan, he sought to build trust among his staff, challenge them and give them control of their destiny. That's all part of how he defined leadership — with his old boss's guidance. *"My manager let me figure things out for myself,"* Lassig says. *"You can tell people what to do, but if you find a way for them to figure it out for themselves, it becomes much more meaningful advice."* Lassig's leadership has propelled TPC's 2,000 per cent growth rate over five years. With 100 employees, TPC's turnover rate of six per cent stands out in an industry with average turnover of 30-50 per cent. AT



Executive Strategies: Time and Solutions

by Shiv Prasad

It is "bunkum" when one claims one has got good planning and organising skills, if one's management of time is poor and there are no strategies. It is clear too, that one would find it difficult to differentiate between efficiency and effectiveness.

Executive Time

Time management commences with self-management first. A time management person is dynamic, well organised and focussed. Notice, however, workaholics tend to live and work in a different time zone. Has work just been invented? Workaholics tend to have a different perception of productivity. Would you as an employer wish to have a tired employee on the payroll every day? A balanced life-style and work-style are of paramount importance in this respect. Whilst all managerial work has the ingredient of time, a sensible working arrangement is just as vital.

Once you discover how you lose, waste and save time, you then begin to fathom what managing things strategically means. Once you cultivate the habit of having a daily agenda and schedule for work, you become a methodical person. Whilst speed is the essence of time, accuracy is the hallmark of endeavour too. You will also find it necessary to practise speed reading, speed writing and speed thinking. You will realise you can manage your work well and still have a life! Remember the crunch is a "job-holder" tends to count the hours, but a professional in turn makes the hours count! It naturally means that if you are unable to manage a department, you are just not in the league to manage the entire organisation. But if others can, YOU might just be able as well.

Strategic Planning

Weighing the pros and cons — strategic thinking — is the essence of good decision-making. A decision is what ensues after careful reviewing of a situation. The only risk one ought to take is a calculated risk and it is important that one is a strategist in this respect. You should anticipate and avoid problems in advance or look at possible opportunities ahead of time.

It is essential to develop a sense of Vision i.e. the ability to have an overview of problems, prospects and possibilities. Sometimes our minds race away and we make wrong decisions. Any good executive understands that information is a strategic commodity but it needs a value-added

decision to give it substance, and lasting long-term benefits.

Knowledge in itself is meaningless without wisdom, and managerial wisdom needs managerial courage as well, to implement unpopular decisions. Timing is also a strategic factor in the planning and decision making process.

Strategising requires a broad focus. Strategic decisions call for a sense of balance and good judgement. In a nutshell, the decision making process requires that you first consider your options, and then reflect on your circumstances. You next weigh the consequences and formulate a strategy. You also have a contingency plan and maintain flexibility, as and when an occasion arises. Do not let the so-called split-second management gurus or spin-doctors confuse, coerce or confound you. You have to be objective and rely and use your own intuition. Decisions very often always appear to look good on paper, only.

Strategic Problem Solving

Problem solving begins long before the problem appears. Without exception, every great leader makes a mistake, but being a master of strategy and damage control is what separates the great from the mediocre. The anticipation factor in management is critical. Develop vision, managerial courage and strategic diplomacy!

The success to problem solving lies in the approach to the problem itself. The problem with solving problems is how to get rid-of old methods of detection as well. A problem is an essential incidental of life and one of the earliest signs of executive maturity is that special ability to manage disappointments and problem people. As you may know, corporate management fads cannot outclass powers of analysis and strategic common sense.

We find ourselves bound by the perimeters of corporate culture, policies and practices, unless we look beyond, and we think outside the box. The normal tendency amongst most is to trace the causes first and then work on the issues. If you can't often spot the problem coming your way, here are some tips:

- When an employee has made a worker error, focus on the error rather than on the person.
- When a conflict arises between two people, it's always good to focus on the reasons for the conflict rather than on the persons concerned.
- The golden rule is "not who is right" but "what is right". If you tend to focus on drama, you will have a series of unnecessary problems in this respect.
- Being objective rather than subjective pays dividends.

If you are able to manage the process well the results speak for themselves. Never leave a grievance unsettled. The solution to a problem should not be bigger than the problem itself! AT

Honouring the Outgoing and Incoming AGs

Thank you Dato' Othman … The Presidents of MIA and MICPA presenting a souvenir to the former Accountant-General

Welcoming our new Accountant-General … Mohd Salleh delivering his speech

Leading members of the accounting profession who attended the special dinner to thank the former Accountant-General and to welcome the new Accountant-General

On 10 June 2005, the Institute and the Malaysian Institute of Certified Public Accountants (MICPA) jointly organised a special dinner to thank the former Accountant-General (AG), Dato' Othman Abdullah and to welcome the new AG, Mohd Salleh Mahmud. Both MIA's and MICPA's Presidents, Datuk Dr. Abdul Samad Haji Alias and Dato' Abdul Halim Mohyiddin attended the dinner which was held at the Sheraton Imperial Hotel, Kuala Lumpur.

In his speech, Datuk Dr. Abdul Samad said that the Institute will continue to work closely with the AG's office. He also expressed his appreciation to Dato' Othman for his endless contribution towards the development of the profession. Dato' Halim expressed similar sentiments in his speech.

Dato' Othman, who had successfully steered the accounting profession through one and a half years of change and growth, said that, "I have enjoyed the challenge and excitement of leading the profession."

"I have enjoyed the challenge and excitement of leading the profession."

Dato' Othman Abdullah, Former Accountant-General

He said he was confident that the strong management team, recently enhanced by the appointment of Mohd Salleh to the helm, would be capable of leading the transition.

Meanwhile, Mohd Salleh said that Dato' Othman left the AG's office in good shape. "During his tenure, he ensured that the organisation acted in the public interest as well as that of the accounting fraternity," Salleh said. He also said that he felt very honoured for being given the opportunity to serve in the office and to continue the legacy which Dato' Othman left behind.

"During his tenure, he ensured that the organisation acted in the public interest as well as that of the accounting fraternity."

Mohd Salleh Mahmud, Accountant-General

Among the guests who attended the dinner were the Council Members from both Institutes as well as the presidents and representatives of other professional bodies in Malaysia. AT

13th Annual General Meeting of MIT

The 13th Annual General Meeting (AGM) of the Malaysian Institute of Taxation (MIT) was held on 14 May 2005 at the Sunway Lagoon Resort Hotel, Selangor. The meeting started off with the presidential address by Ahmad Mustapha Ghazali.

"The year 2004 could be described as another milestone as it was the year when the Self Assessment System was extended to individuals and partnerships. This major change in the administration of tax brings with it fresh challenges to MIT in its mission to assist both the tax authorities and the tax paying community to meet the objectives and aspirations of the national taxation philosophy," said Ahmad Mustapha.

In summing up his address, Mustapha stressed that MIT cannot rest on its laurels, it must preserve its mission to enhance the professional abilities of tax practitioners and to contribute to a more aware and responsible public. In the same way MIT must strive to be recognised as the sole or at least the premier authority on tax issues and be the effective voice of the profession as it continues to be supportive of the tax authorities and the tax paying community.

The Council's report for 2004, the audited financial statements together with the auditor's report for the financial year ended 31 December 2004 were received by the members present at the meeting.

The 13th AGM of MIT witnessed the retirement of two very senior Council Members, namely Quah Poh Keat and Lee Yat Kong. Quah joined the Institute in 1992 and Lee in 1994 and were among the pioneer Council Members who were the driving force behind the Institute's growth and success.

Four new members were elected to the Council namely, Khoo Chin Guan, Lim Kah Fan, Liew Lee Leong @ Raymond Liew and Adrian Yeo Eng Hui.

In concluding the meeting, the President encouraged individuals who are interested in the field of taxation to join the Institute in order to fulfill the Institute's fundamental vision of being recognised as the national taxation body that can effectively represent the taxation profession in Malaysia. AT

Meeting in progress … MIT Council Members during the AGM

The MIT Council for the term 2005/2006 is as follows:

President: Tuan Haji Abdul Hamid bin Mohd Hassan
Deputy President: SM Thanneermalai
Vice-Presidents: Lim Heng How, Nujumudin bin Mydin
Honorary Secretary: Harpal Singh Dhillon
Council Members:
Dr Ahmad Faisal bin Zakaria
Aruljothi Kanagaretnam
Prof Dr. Jeyapalan Kasipillai
Khoo Chin Guan
Andrew Kok Keng Siong
Liew Lee Leong @ Raymond Liew
Lim Kah Fan
Neoh Chin Wah
Dr. Veerinderjeet Singh
Venkiteswaran Sankar
Adrian Yeo Eng Hui

"The year 2004 could be described as another milestone as it was the year when the Self Assessment System was extended to individuals and partnerships."

Ahmad Mustapha Ghazali

A cross section of MIT members during the 13th AGM

THE BEST INTERNAL AUDIT PRACTICE AWARD 2005

Entries for BIAPA 2005 are now open!

> "As the role of internal audit continues to expand and evolve, both IIA Malaysia and MIA, felt the need to continuously give due recognition where deserved, especially to successful organisations that leverage on stringent and effective internal audit practices."
>
> **Raymond Liew co-chairman of BIAPA 2005 Task Force**

The Best Internal Audit Practice Award (BIAPA) 2005 was recently launched at the Prince Hotel in Kuala Lumpur. The event was graced by Deputy Minister of Finance, YB Dato' Dr. Ng Yen Yen.

Jointly organised by the Malaysian Institute of Accountants (MIA) and The Institute of Internal Auditors Malaysia (IIA Malaysia), BIAPA recognises outstanding internal audit practices' demonstrated through its continuous development and promotion of best practice, leadership and professionalism in internal audit, and enhancement of internal audit roles in corporate governance, risk management and internal control.

"As the role of internal audit continues to expand and evolve, both IIA Malaysia and MIA, felt the need to continuously give due recognition where deserved, especially to successful organisations that leverage on stringent and effective internal audit practices," said Raymond Liew, the co-chairman of the BIAPA 2005 Task Force.

From left to right … Raymond Liew, Fatimah Abu Bakar, Datuk Dr. Abdul Samad, Dato' Dr. Ng Yen Yen, Wee Hock Kee, Petrus Gimbad and Phillip Satish Rao

BIAPA was launched in conjunction with IIA Malaysia and Ernst & Young's official release of the results of the survey on Internal Audit Practice in Malaysia

BIAPA is open to companies with in-house internal audit departments. Unlike 2004, the Awards for 2005 will be given to two categories of companies:

1. Those with shareholders' equity exceeding RM200 million; and
2. Those with shareholders' equity less than RM200 million.

Regulatory bodies and organisations fall within the first category. In addition, a special Award known as 'The Most Promising Company Award' has been introduced this year. It is targeted at organisations that have adopted internal audit as a function within the company.

At the same event, Fatimah Abu Bakar, the head of the Selection Committee briefed the attendees on the changes that have been made to the evaluation criteria and process.

Winners for BIAPA 2005 will be evaluated on the following three criteria:

- Positioning and Audit Strategies (40%)
- Process/Enabler (30%)
- Audit Resource Capability (30%)

To participate in BIAPA 2005, companies are required to fill up nomination forms and respond to a questionnaire consisting of 40 questions. A new requirement for BIAPA 2005 is that companies also submit a list of supporting documents on their response to the questionnaire together with their nomination forms.

Short-listed companies will be interviewed in two stages by a Selection Committee formed by the Task Force. Winners will be decided by an independent Adjudication Committee.

Liew urged companies to participate as winning this prestigious Award will certainly boost the image of an organisation. He added that both the organisers hope that this Award will encourage local companies to strive towards a higher level of governance by adopting global best practices, thereby enhancing Malaysia's image in the international business community.

Nomination forms are now available from the BIAPA 2005 Secretariat. Interested companies may contact Puan Noor Azlina Abu Bakar or Puan Maizatul Azura Alias at 03-2279 9200. All nomination forms are to be submitted before 15 July 2005.

BIAPA 2005 is supported by the Malaysian Institute of Corporate Governance (MICG) and the Companies Commission of Malaysia (CCM). Rating Agency Malaysia Berhad (RAM) and ACCA Malaysia Sdn Bhd are the sponsors for this prestigious Award. AT

Great Leap Forward for NAfMA — Malaysian Accounting Fraternity receives Global Recognition at INPEX 2005

Efforts undertaken by Malaysia's accounting fraternity to proactively promote management accounting best practices through the National Award for Management Accounting (NAfMA) Best Practice, has received international recognition. It won the Xerox Innovation Award at the recent Invention, Innovation, New Product Exposition (INPEX 2005) on 11 June 2005 in Pittsburgh, America.

The winning duo … Prof. Dr. Normah Omar and Assoc. Prof. Dr. Suzana Sulaiman from UiTM

INPEX is America's largest invention trade show which host inventors from the US and numerous countries. More than 2000 innovative products are showcased every year. Entries are judged by an international jury, with winners determined on the basis of usefulness, creativity and overall appeal.

The Malaysian accounting delegation to the INPEX was represented by Prof. Dr. Normah Omar and Assoc Prof. Dr. Suzana Sulaiman, from University Teknologi Mara (UiTM) who are also NAfMA's organising committee members. The trip to participate in INPEX was sponsored by UiTM.

Dr. Normah and Dr. Suzana showcasing NAfMA's promotional material at the INPEX 2005

NAfMA is organised and awarded by the Malaysian Institute of Accountants and the Chartered Institute of Management Accountants (CIMA) Malaysia Division, with working partners in the CIMA-UiTM Asian Management Accounting Research Centre (AMARC) and the National Productivity Corporation.

According to Dr. Normah, NAfMA's initiatives have produced a practical and proven management accounting framework that can lead to superior value creation and business performance. Dr. Normah said that the NAfMA framework is very useful for all business entities. "It links strategic planning to the role of an accountant and how an accountant in business can enhance productivity and add value to their business. Because of its practicality and compatibility in today's business environment, NAfMA captured the attention of INPEX's juries," she added.

In encouraging organisations to adopt management accounting techniques, Dr. Normah said, "We knew all along that NAfMA could help organisations use management accounting as a strategic business tool. We must first promote NAfMA to organisations in Malaysia. Winning the award will be meaningless if our own people do not appreciate what we have achieved on the international scene with NAfMA."

NAfMA Organising Committee Chairman, Yeo Tek Ling, urged all companies in Malaysia to come forward and compete in NAfMA 2005 and be recognised for best practices in management accounting. Commenting on NAfMA clinching the Xerox Innovation Award, he said, "For an award which is hardly two years' old (NAfMA started in 2004), winning the prestigious international Xerox Innovation Award is certainly a great achievement for Malaysia and the accounting fraternity. The win provides international recognition for NAfMA as an innovative benchmarking toolkit for management accounting best practices to help companies improve overall performance."

This feat achieved by NAFMA will certainly elevate the accounting profession in Malaysia, strengthen transparency and accountability and ensure that sound financial structures are in place. It will also spur the profession to move towards adopting strong corporate governance so that management is able to embrace its public interest responsibilities effectively.

For more information on NAfMA, visit *www.mia.org.my* or *www.cimaglobal.com/malaysia.* AT

65th Executive Committee Meeting of the Confederation of Asia Pacific Accountants

Hangzhou, China, 17-20 May 2005

MIA Vice-President Abdul Rahim Abdul Hamid, Council Member Peter Lim Thiam Kee, and Legal Manager, Shobini Mahendra, were recently in Hangzhou, China in conjunction with an International Forum, the CAPA Executive Committee and Strategic Committee meetings and the CAPA SME Task Force meeting from 17-20 May 2005.

International Forum in Hangzhou, China 17 May 2005

An International CPA Forum was organised by the Chinese Institute of Certified Public Accountants in Hangzhou, China, on 17 May 2005. This Forum focused on the Internationalisation of the CPA Profession. A number of national and international speakers were invited to the Forum, which was attended by over 500 delegates and about 60 guests. *See full report on page 58.*

CAPA Strategic Committee Meeting, 18 May 2005

The Strategic Committee Meeting was held on 18 May 2005. Current members of the Strategic Committee are from Japan, China and Malaysia (positions held by India and Bangladesh have lapsed).

The Strategic Committee, chaired by the Deputy President of CAPA, has as its objective, the assessment and review of projects and efforts by CAPA and member bodies so as to ensure that these projects and efforts meet the mission/vision and objectives of CAPA. The Strategic Committee also reviews membership matters prior to making recommendations to the CAPA Executive Committee (CAPA Excom).

The various projects currently undertaken by CAPA member bodies and new potential projects were reviewed at the Strategic Committee meeting. One of the main issues for consideration was the work by the CAPA SME Task Force, which met on 18 May 2005 to discuss its project. Other issues discussed included collaborations with the Asian Development Bank and the World Bank, and possible joint efforts on 'Training the trainers' with the IASB and IFAC.

The Strategic Committee resolved to increase CAPA's participation in the various Committees of IFAC and the consultative advisory groups under the Committees of IFAC. Member bodies of CAPA who were represented on these Committees would also be requested to assist with information sharing by reporting to the CAPA Excom on initiatives and projects undertaken by these IFAC Committees. CAPA currently is represented on the Consultative Advisory Group of the International Public Sector Accounting Standards Board and the Consultative Advisory Group of the Education Committee.

"The Strategic Committee resolved to increase CAPA's participation in the various Committees of IFAC and the consultative advisory groups under the Committees of IFAC."

It was reiterated by the Strategic Committee that members of this Committee were appointed on an individual basis and had to be supported by their respective countries. The members of the Strategic Committee had to continue their respective terms of office, even if they no longer held council positions in their member bodies. As such, each member of the Strategic Committee had to commit at least for two years upon appointment, and their respective member bodies should support such appointment for this period.

It was proposed that Malaysia and China (retiring in May 2005) retain their positions on the Strategic Committee for one more year (until May 2006), and that two other countries be appointed by the CAPA Excom to the Strategic Committee.

One for the album … CAPA leaders during the 65th Executive Committee meeting in Hangzhou, China

CAPA SME Task Force Meeting, 18 May 2005

One of the critical issues faced by the accountancy profession at present is whether there is a need for differential reporting for small and medium-sized enterprises. This issue was the focus of the CAPA SME Task Force meeting in Hangzhou, China, on 18 May 2005. This meeting was chaired by Hong Kong and attended by representatives from Australia, Japan and Malaysia. CAPA Project Consultant, Assoc. Prof. Dr. Susela Devi Suppiah was also present.

The IASB has recently issued a Staff Questionnaire on Recognition and Measurement Principles for Small Entities. The deadline for submission is **30 June 2005**. This Questionnaire is a prelude to a Roundtable discussion that IASB plans to have in September 2005 with the preparers and users of financial statements of Non-Publicly Accountable Entities (i.e. enterprises with no public accountability). This new definition of NPAEs used by IASB revolves around public accountability, size, and owner/management relationship of entities that prepare general purpose financial statements. IASB is exploring the possibility of a differential framework for measurement, recognition and disclosure principles for these NPAEs.

The SME Task Force discussed various options for NPAEs including whether to retain the existing accounting/IFRS framework or whether to use a differential framework with different measurement and recognition principles based on historical cost convention for NPAEs. After much discussion, it was felt that if an entity clearly prepares general purpose financial statements, and falls within all three limbs of the definition for NPAEs, then there should be a separate set of accounting standards with reduced disclosure requirements and different measurement/recognition principles, for that entity. The historical cost convention was seen as an appropriate basis for this separate set of accounting standards.

The SME Task Force also agreed that there should be a CAPA response to the IASB Staff Questionnaire on Recognition and Measurement Principles for Small Entities. Assoc. Prof. Dr. Susela Devi Suppiah was requested to prepare a CAPA draft response for circulation to the members of the SME Task Force, and thereafter for CAPA to submit this response to the IASB. CAPA member bodies would be encouraged to submit their responses to the IASB as well.

CAPA Executive Committee Meeting, 19-20 May 2005

The CAPA Excom meeting was held over two days from 19-20 May 2005 and was hosted by the Chinese Institute of Certified Public Accountants (CICPA). The CAPA Excom had invited Graham Ward, President of the IFAC, Ian Ball, Chief Executive of IFAC, Bob Mednick, Chairman of the Compliance Advisory Panel of IFAC and Kathleen Moktan from the Asian Development Bank, who were present at the CAPA Excom as guests and speakers.

Each member body at the CAPA Excom provided a brief update on recent developments affecting the accountancy profession within their respective national jurisdictions. This proved to be an interesting exercise in view of the similarities of a number of issues and some obvious differences. These national updates were noted by the IFAC President and Chief Executive.

Some of the Representatives and Advisors at the CAPA 65th Excom meeting in Hangzhou

IFAC Initiatives

Graham Ward as President of IFAC, presented his views on how CAPA and IFAC can work together to strengthen the worldwide accountancy profession. He expressed his gratitude for the significant support provided by CAPA for the IFAC Member Body Compliance Programme, designed to support the development of high quality auditing, accounting, ethical, educational and related quality assurance and investigation and disciplinary standards. All 29 IFAC member bodies who are members of CAPA have completed the 1st phase of the programme.

Graham Ward stressed that fundamental to economic development and growth, is the ability of all members of the profession, whether professional accountants in business or practice, leaders of accountancy organisations, or regulators, to put the public interest first.

In his speech to the CAPA Excom, Graham Ward highlighted four critical areas, which needed to be addressed in order to meet public interest responsibilities and contribute towards economic growth and stability:

- Emphasising the importance of ethics in all areas that accountants are involved in;
- Developing high quality international standards and promoting convergence to these standards;
- Supporting and participating in regulatory structures that result in high quality performance of all those involved in financial reporting; and
- Forming strong alliances, so that resources can be maximised to enable the development of the profession, particularly in emerging economies.

"…fundamental to economic development and growth, is the ability of all members of the profession, whether professional accountants in business or practice, leaders of accountancy organisations, or regulators, to put the public interest first."

Graham Ward
President of IFAC

CAPA President, Robin Hamilton-Harding presenting a memento to the CICPA President, Liu Zhongli, for hosting the CAPA 65th Excom meeting in Hangzhou

"...the key role that can be played by CAPA is working together with IFAC in building the accountancy profession, in taking actions necessary to build investor confidence and thereby to contribute to capital market growth and economic development."

Graham Ward
President of IFAC

Graham Ward emphasised that the key role that can be played by CAPA is working together with IFAC in building the accountancy profession, in taking actions necessary to build investor confidence and thereby to contribute to capital market growth and economic development.

Role of Regional Accountancy Organisations

Ian Ball, the Chief Executive of IFAC presented his views on the role of regional accountancy organisations such as CAPA, in developing and promoting the global accountancy profession. There are four regional accountancy organisations affiliated with IFAC, namely CAPA, ECSAFA (Eastern, Central and Southern African Federation of Accountants), the Inter-American Association of Accountants (IAA) and FEE (Federation Internationale des Experts-Comptables).

Each of these regional organisations play a vital role in the following areas:

- Promote international standards;
- Support IFAC reforms;
- Support the IFAC Member Body Compliance Programme;
- Provide training, education and networking opportunities; and
- Assist in the development efforts of new or potential member bodies.

In order to achieve best results, regional accountancy organisations needed to be linked to the IFAC mission both in theory and practice and provide clarity to organising principles. Ian Ball suggested that CAPA could further strengthen its role through the establishment of rapid response task forces to comment on exposure drafts and consultation papers issued by the international organisations. CAPA was in a pivotal position to do so as it had a close relationship with its member bodies at the ground level and could therefore coordinate efforts amongst its member bodies.

IFAC Member Body Compliance Programme

As for the IFAC Member Body Compliance Programme, Bob Mednick, the Chairman of the Compliance Advisory Panel, provided an update on the project. The first stage of the Compliance Programme was the IFAC Assessment of the Regulatory and Standard-Setting Framework issued to member bodies in early 2004. IFAC informed CAPA that it received 100 per cent response from CAPA member bodies on this Assessment.

Based on the responses received on the 1st Assessment, a second Self-Assessment Questionnaire was being specifically developed for individual member bodies to cater to their specific context. This Self-Assessment Questionnaire would be accompanied with a software package that would analyse the responses keyed in by the member body and identify the shortcomings for compliance. This second stage of the Compliance Programme would require member bodies to assess their level of compliance and identify action plans to address their shortcomings.

It is expected that the Self-Assessment Questionnaire will be issued to IFAC member bodies in the second half of this year. The Self-Assessment Questionnaire however will not cover SMO 5 in respect of Public Sector Accounting Standards as this area was one over which most member bodies had limited or no control.

Multilateral Development Banks and the Accountancy Profession

Kathleen Moktan from the Asian Development Bank presented a brief overview of the roles and functions of Multilateral Development Banks (MDBs) and the potential areas of collaboration between the MDBs and the accountancy profession. She explained that MDBs are international financial intermediaries whose shareholders include both borrowing developing countries and donor developed countries. MDBs mobilise resources from private capital markets and from official sources to make loans to developing countries on better than market terms; provide technical assistance and advice for economic and social development and provide a range of complementary services to developing countries and to the international development community.

MDBs have development objectives, driven primarily by the contributors. For most MDBs, the primary objective is poverty reduction, but ADB's long term strategy also focuses on good governance, gender equality, environment protection, economic growth etc. For each country, the MDBs have a country assistance strategy which assesses the governments' development objectives, reviews what other donors are doing in the various sectors and identifies key priorities for support to the country.

The MDBs work together with various other agencies within the international development community and are guided by the Millennium Development Goals, which are commitments adopted by all 189 Member States of the United Nations pursuant to the UN Millennium Declaration in September 2000.

Kathleen Moktan explained that it would be difficult to achieve the Millennium Development Goals without an increase in the effective use of development resources coupled with a significant increase in the amount of aid. Public financial management is therefore critical to ensure that aid funds are reaching the intended targets with the desired results. The prevalence of public financial management and the role of accountants in this respect is gaining prominence throughout the development community. Public financial management, often seen as a subset of the governance agenda includes systems for:

- Revenue administration (including customs and excise tax administration)
- Public expenditure management (including budget formulation, budget approval, budget execution and procurement)
- Public sector accounting and internal control
- Public sector auditing
- Inter-governmental fiscal relations and
- Specific anti-corruption efforts

In most developing countries capacity in almost each of these areas is weak. But, without addressing these capacity issues, it will not be possible to rely on these systems or to significantly increase the amount of aid flow. Kathleen Moktan suggested that strengthening public financial management will require a number of activities, including the development of an appropriate set of accounting and auditing standards at the national level. Given the moves towards convergence and the need for all countries to compete for scarce resources in global financial markets, developing countries should establish strategies for convergence with international standards. Publicly owned businesses should move towards International Financial Reporting Standards (IFRS), government accounting systems towards International Public Sector Accounting Standards (IPSAS) and both public and private sector auditors should move towards International Standards on Auditing (ISA).

However, this convergence, in many lesser developed countries will require a significant increase in the number of qualified accountants. The ADB has identified a number of activities which could be undertaken to strengthen public financial management systems by improving the quality of public and private accounting and auditing at the regional and country level. This includes participating in, and to facilitate the participation of developing member countries, in the promulgation of accounting and auditing standards. The ADB could also be involved in the design and implementation of projects designed to strengthen the capacity of accounting and auditing at the country level. This could include support to country supreme audit offices, professional accountancy bodies, tertiary education institutions, stock exchanges and regulators or line agencies to strengthen financial management capacity.

SME issues

Paul Chan, Vice-President of the Hong Kong Institute of CPAs (HKICPA) made a brief presentation on various initiatives undertaken by the IASB Advisory Panel On Non-Publicly Accountable Entities. Subsequent to a Discussion Paper released by the IASB last year (2004), comments were received from 120 respondents on the issue of a need for a differential reporting framework for Non-Publicly Accountable Entities (NPAEs). Most respondents agreed that the IASB should issue a different set of accounting standards for NPAEs, instead of an IFRS-minus approach (that is, exemptions to the existing IFRS for NPAEs). Based on the feedback received, the IASB has formed several preliminary views on this issue and has issued its Staff Questionnaire on Recognition and Measurement Principles for Small Entities. The closing date for response to this Staff Questionnaire has been extended from 31 May 2005 to 30 June 2005. Once responses are received, a Roundtable Discussion will be held with users and preparers of financial statements for SMEs under the auspices of the IASB, in September 2005.

Following up on this issue, the CAPA SME Task Force reported its views to the CAPA Excom (see above). Having deliberated on the course of action to be pursued to ensure effective representation of the views of CAPA member bodies to the IASB Advisory Panel on Non-Publicly Accountable Entities, it was agreed that a CAPA position paper in response to the IASB Staff Questionnaire on Recognition and Measurement Principles for Small Entities, be prepared by the CAPA Project Consultant, Assoc. Prof. Dr. Susela Devi Suppiah and that this response be circulated among CAPA member bodies. Once finalised, this response will be submitted to the IASB as a CAPA response.

Education issues

Prof. Judy Tsui, the Dean of the Faculty of Business, of Hong Kong Polytechnic University, as CAPA's representative on the IFAC Education Committee Consultative Advisory Group (CAG), presented an update on the work of the Consultative Advisory Group which had recently been established to support the work of the IFAC Education Committee. The CAG provides a forum comprising accounting education experts, regulators, accounting examination and accreditation bodies, users and other international organisations, for the Education Committee to consult and seek advice on its projects, agenda and project timetable. As a newly established group, the CAG is in the process of determining its terms of reference and work schedule.

The Korean Institute of CPAs (KICPA) who will be hosting the next CAPA Excom meeting in November 2005, is organising an International Forum on Education, which will consider the International Education Standards issued by the IFAC and compliance issues arising from these standards. Invitations for this Forum will be extended to the IFAC Education Committee and the IFAC President.

Membership matters

The CAPA Excom approved the extension of China and Malaysia's tenure on the Strategic Committee for a further one year. India and South Korea were appointed as additional members of the Strategic Committee. Recommendations of the Strategic Committee on membership matters were accepted by the Excom.

> "… strengthening public financial management will require a number of activities, including the development of an appropriate set of accounting and auditing standards at the national level. Given the moves towards convergence and the need for all countries to compete for scarce resources in global financial markets, developing countries should establish strategies for convergence with international standards."
>
> **Kathleen Moktan**
> **Asian Development Bank**

Future meetings

The 66th CAPA Excom and Committee meetings are scheduled in South Korea from 7-11 November 2005. The CAPA AGM will also be held in South Korea on 10 November 2005.

Nepal and Pakistan expressed their interests in holding the 67th and 68th CAPA Excom meetings respectively. The 17th CAPA Conference will be held in Osaka, Japan in October 2007. AT

CICPA 2nd International Forum

The Internationalisation of the CPA Profession

On 17 May 2005, MIA Vice-President Abdul Rahim Abdul Hamid, Council Member Peter Lim Thiam Kee and Legal Manager Shobini Mahendra, attended the 2nd International Forum organised by the Chinese Institute of Certified Public Accountants (CICPA) in Hangzhou, China. The Forum, held in conjunction with the 65th CAPA Executive Committee meeting in Hangzhou, China, was attended by the members of the CAPA Executive Committee as well as over 500 delegates from various government ministries, institutions of higher learning, research academies, public practitioners and other CPAs of China.

Assistant Minister of Finance, the Honourable Wang Jun presenting his keynote address to delegates at the Forum

The Forum was officiated by the Honourable Wang Jun, the Assistant Minister of Finance of China who also gave the keynote address. Specially invited speakers at the Forum included Graham Ward, President of the International Federation of Accountants (IFAC), Robin Hamilton-Harding, President of CAPA, Kamlesh Vikamsey, President of the Institute of Chartered Accountants of India, John Hunnicutt, International Representative of AICPA as well as a number of key senior officials from China's Ministry of Finance, Ministry of Commerce and the China Securities Regulatory Commission.

From right — China's Assistant Minister of Finance, the Honourable Wang Jun, CICPA's President, Liu Zhongli and CICPA's Secretary General, Chen Yugui, at the Forum on 'The Internationalisation of the CPA Profession"

The key focus of the Forum was on the internationalisation of China's accountancy profession, seen from various perspectives, including that of the regulators, the national profession, and the global profession. A unique feature of the Forum was that it was efficiently organised with simultaneous translations of the presentations, some delivered in English and some in Mandarin, so that the Mandarin speaking delegates and the mainly English speaking guests were able to understand and follow these enlightening presentations in real time.

In his keynote address, the Assistant Minister of Finance of China conveyed the People's Republic of China (PRC) Government's renewed support for the accountancy profession which it viewed as playing a critical role to integrate China's national economy into the world economy. With a 9.5 per cent growth in GDP in 2004, China's socialist market economy has seen rapid development and inflows of foreign investment. In support of China's reforms of its economy and to meet the challenges of globalisation, China's accountancy profession needs to upgrade its ethical and quality standards, move towards convergence of international accounting and auditing standards and increase its level of participation in the global arena. China is committed both from the PRC Government's perspective and that of the profession, to the adoption of international standards.

With 67,000 practising accountants and 140,000 professional accountants in business, the CICPA President, Liu Zhongli explained that the growth and challenges faced by the CPA profession in China are closely related to China's economic reforms. The strengthening of the profession has seen a correlated improvement in China's securities market. However, in order to progress further, China's accountancy profession needs to work towards the standardised regulation of the profession based on international standards.

The IFAC President lauded China's market reforms and called on the CPA profession in China to take on the responsibility entrusted by China's former premier Zhu Ronghi who had urged corporations to 'make no false accounts'. As the seventh largest economy in the world, China stood at the forefront of tremendous growth potential. However, with this came the responsibility to ensure that high quality standards were applied so as to ensure reliable and credible financial information in the market place. As part of its mission to serve the public interest, IFAC has focused on the development of high quality standards, and is promoting the convergence of these standards within national jurisdictions.

The Forum provided the opportunity for a number of critical questions to be raised and responded to by the speakers. Most questions were put in writing and then answered by the speakers. A number of other issues were raised and discussed at the Forum by the speakers who spoke on challenges affecting the accountancy profession such as globalisation and the liberalisation of trade in services, increasing regulation/oversight and reduced self-regulation, competition and market positioning of small and medium-sized practices as well as involvement and participation in international standard setting.

What came clearly through at this Forum is that China is facing the same or similar issues that are faced by other developing countries in the Asia Pacific region. The pace of development and growth in such countries require a correlating growth in the abilities of professional accountants in these countries to meet the needs and demands of the market place — to compete globally, with high quality standards and enhanced competencies and skills.

One conclusion from the Forum was that the way forward for China and other developing countries is the convergence with international standards so as to enable these economies to compete and integrate into the global economy. How such convergence is to be achieved by the accountancy profession would be through the cultivation of world-class 'talents' or skills/competencies, good interpersonal and language skills and continuous training. The internationalisation of the accountancy profession is an inevitable result of integration of national economies into the global economy. AT

Liu Zhongli, President of CICPA, presenting his address at the Forum

Graham Ward, President of IFAC, addressing the attendees at the Forum

SABAH BRANCH **Courtesy Visit to DBKK**

On 28 April 2005, some members of the Sabah Branch of MIA paid a courtesy visit to the newly appointed Mayor of Dewan Bandaraya Kota Kinabalu (DBKK), Datuk Iliyas Ibrahim at his office.

Branch Chairman, Alexandra Thien who led the group was accompanied by the committee members. During the meeting, Thien briefed the Mayor about the Institute, its objectives and activities. She also took the opportunity to inform the new Mayor on the support by the Sabah Branch for the Green Office Campaign which was initiated by the branch in conjunction with the DBKK Recycle Campaign. With this visit Thien reassured him that the Sabah Branch endeavours to continue to give their full support to DBKK campaigns. AT

MIA Sabah Branch Chairman, Alexandra Thien (2nd from left) presenting a memento to Datuk Iliyas Ibrahim

SARAWAK BRANCH **Meeting the New Accountant-General of Sarawak**

David Tiang Kung Seng and Sarawak Branch committee members called on the new Accountant-General of Sarawak, Jumustapha Lamat, who was appointed to office in early 2005. The State AG was briefed by the Branch Chairman on the need for accountants in the state including those in the public sector to register as members of MIA .

Jumustapha agreed that one of the ways to profile MIA was to invite Branch representatives to present talks to government accountants and officers especially those who are eligible to apply to become members. He also suggested organising friendly games between members besides encouraging members in the public sector to participate in the Sarawak Inter Professional Games against other professionals like engineers, lawyers, surveyors, architects, doctors etc. AT

David Tiang Kung Seng presenting a plaque to Jumustapha Lamat in the presence of Branch Committee members (L-R behind) Hj Wan Idris Wan Ibrahim , Yeo Ah Tee, Teo Kin Mia and Thomas Law

Association of Chartered Certified Accountants ▼

Malaysian Companies need to adopt Sustainability Reporting as part of branding, says ACCA

Malaysian companies need to adopt sustainability reporting to go beyond compliance of corporate governance. Not only will they demonstrate transparency and accountability, communicating such sustainable efforts will bring about competitive advantages required for companies to compete in a changing global landscape, says Tay Kay Luan, Head of ACCA Malaysia.

As part of its efforts to promote CSR and sustainability reporting, ACCA has released the *Sustainability Reporting Guidelines for Malaysian Companies*, a comprehensive introduction on the subject sustainability reporting.

These guidelines, which target companies and organisations, contain the background, components and application to sustainability reporting. Some of the best practices of published sustainability reports across the world are also provided.

"By embarking on sustainability reporting, Malaysian companies will be demonstrating their willingness to take corporate governance one step further. Malaysian companies must understand the benefits of CSR (corporate social responsibility) in creating long-term sustainable business, which in turn will create a brand for Malaysia as a CSR-oriented business destination and ensure its economic prosperity and longevity.

Sustainability does not only concern environmentalists. Studies have shown, companies that practice sustainability reporting are well perceived and attract more quality investors. Sustainability reporting will help Malaysian companies to be globally benchmarked in their operations," says Tay further.

"In Malaysia, public-listed companies provided some form of health, safety and environmental disclosures*. However, as structured sustainability reporting among Malaysian companies is still at a nascent stage, ACCA hopes the Guidelines will educate Malaysian companies to start sustainable reporting and its best practices," Tay explained further.

"Some critics claim that reporting is purely a PR exercise, maybe part of *story-telling*. But being a responsible company, you have to communicate what you are doing. Without communication, your stakeholders will not be aware of your work and this will make it more difficult to gain trust or the 'licence to operate'. So companies need to demonstrate that their involvement is real and produce real results. Thus the need to report," stressed Tay further.

Sustainability Reporting Guidelines for Malaysian Companies is a sequel to the *Environmental Reporting Guidelines to Malaysian Companies* (2003), published by ACCA. The Guidelines are endorsed by the Securities Commission and the Department of Environment (DOE), Ministry of Natural Resources and the Environment.

As part of the effort to educate Malaysian companies on the need and benefits of sustainability reporting, ACCA and DOE are collaborating on a series of workshops nationwide next month. The details are as follows:

Date	Venue
4 July	Kota Kinabalu, Sabah
7 July	Kerteh, Terengganu
12 July	Shah Alam, Selangor
14 July	Ipoh, Perak

The Guidelines are available for all Malaysian companies upon request. Please e-mail *jennifer.lopez@my.accaglobal.com* for a copy of the Guidelines or to confirm seats at the workshop. AT

"Malaysian companies need to adopt sustainability reporting to go beyond compliance of corporate governance. Not only will they demonstrate transparency and accountability, communicating such sustainable efforts will bring about competitive advantages required for companies to compete in a changing global landscape."

Tay Kay Luan
Head of ACCA Malaysia.

Sustainability reporting refers to reports on the environmental, social and economic impact of corporate (business) activities.

The Guidelines contain the core indicators for sustainability reporting for all companies. They are designed to enable companies to prepare comparable reports across the 'triple bottom line" of economic, environmental and social performance.

The Guidelines are an integral part of the ACCA Malaysia Environmental and Social Reporting Awards (ACCA MESRA), which was launched in 2002, to encourage the uptake of environmental, social and sustainability reporting among companies in Malaysia. ACCA conducted similar awards worldwide in 20 countries to *promote and reward transparency* (through reporting).

For further details on ACCA and sustainability please visit *www.accaglobal.com/sustainability.*

For more information on the ACCA MESRA please visit *www.accaglobal.com/sustainability/awards/mera.*

* ACCA conducted a study on "The State of Environmental and Social Reporting among companies in Malaysia" in 2004. For more details please visit *www.accaglobal.com/sustainability/awards/mera.*

Chartered Institute of Management Accountants ▼

"The Value of Integrity"

By Lynn Brewer, one of the executives who blew the whistle on Enron.

Appearing for the first time in Malaysia on 6 September 2005

Come and join us on 6 September 2005 and listen to Lynn Brewer, one of the executives who decided to blow the whistle on Enron to the US Government. Brought to you by CIMA Malaysia Division, you can expect a dramatic and compelling look inside the company that has become the poster-child for corporate corruption. This includes bank fraud, espionage, power price manipulation and blatant overstatements to the media and financial world.

Lynn Brewer is a former Enron executive and author of *Confessions of an Enron Executive: A Whistleblower's Story*. In her nearly three years at Enron, she was responsible for Risk Management in Energy Operations, the e-commerce initiatives for Enron's water subsidiary, and Competitive Intelligence for Enron Broadband Services. Lynn is the Founder and President of the Integrity Institute Inc., which independently assesses and certifies corporate integrity at the request of organisations for the benefit of their stakeholders. She holds a Certification in Business Ethics from Colorado State University. Lynn currently serves on the Steering Committee for the Open Compliance and Ethics Group (OCEG).

Lynn has captivated audiences worldwide, including in India, Venezuela, Canada and at the New York Stock Exchange. In 2003 she was nominated for the 'Women of Influence' award. In Malaysia, Lynn will speak on "The Value of Integrity: Understanding the Hidden Value of Business Intangibles".

Review from Lynn's international presentations

"You were amazing — bless you for having the courage to speak out. You have truly given me insights into the Enron disaster that I could not have possibly had without hearing you speak. It was well worth staying to hear your story."

Dr. William Bennett, Former U.S. Education Secretary

"Lynn, you were outstanding! You brought so much added value to our event. Your professionalism, your command of the topic and your ability to convey genuine concern and caring were each profoundly felt by both the audience and the staff."

Executive Producer, Wyncome

"I really, really, really enjoyed your presentation. Yours is a message that needs to be heard by every CEO, FRO and employee."

World-renowned expert on Innovation

"Wow! Your talk was the most powerful presentation I have heard. Many of the evaluation forms indicated that your talk was worth the trip."

Programme Director, The Conference Board

"You could have heard a pin drop during your entire presentation. Your command of the audience was captivating."

Audience Member KPMG/Puget Sound Business Journal, Corporate Governance Conference

The seminar is now open for registration. Please contact CIMA Malaysia Division for more details. Tel: 03-7803 5242/5268 Fax: 03-7805 1594 e-mail: *kualalumpur@cimaglobal.com.* AT

Lynn Brewer

"… You have truly given me insights into the Enron disaster that I could not have possibly had without hearing you speak. It was well worth staying to hear your story."

Dr. William Bennett
Former US Education Secretary

CIMA's 28th AGM

The 28th Annual General Meeting of CIMA Malaysia Division saw the appointment of YBhg Datuk Siti Maslamah Osman FCMA, the former Accountant–General of Malaysia as the Vice-President. The Divisional Council also welcomes a new member, Wong Yeap Min, who is currently the Chief Financial Officer/Vice-President of Finance & Corporate Services at Mycron Steel Berhad. Yeo Tek Ling, whose term expired this year, was re-elected for another three-year term while Danny Tan, a co-opted Council Member, was also elected to serve a three-year term.

YBhg Datuk Siti took over the post of Vice-President from Tuan Hj Razali Mohd Amin FCMA. The other members of the Executive Committee remain as follows:

- President — Y C Lee, FCMA
- Deputy President — Michael Eow, FCMA
- Honorary Secretary — Chandra Mohan Balasubramaniam, FCMA
- Honorary Treasurer — Lim Kian Hui, FCMA
- Immediate Past President — YBhg Dato' O K Lee, FCMA
- Past President — Tuan Hj Muztaza bin Hj Mohamad, FCMA

At the meeting, the President thanked the out-going Divisional Council Members for their services to the Division. They are former Vice-President, Tuan Hj Razali Mohd Amin FCMA, Managing Director of Behn Meyer (M) Sdn Bhd, and Alex Koay FCMA, Group Financial Controller of Prestar Resources Berhad. AT

YBhg Datuk Siti Maslamah Osman

CPD Workshop to Develop Technical Expertise

Harvindar has vast experience in tax compliance and advisory work covering issues on inbound and outbound investments

Transfer Pricing

By Harvindar Singh, Senior Manager-Tax, Ernst & Young Tax Consultants

Statistics reveal that two thirds of the world trade takes place between related parties. As such, related party transaction/intercompany pricing strategies are reviewed by the Inland Revenue Board to ascertain the appropriateness and fairness. The one-day workshop covered an extensive range of areas including the realities of the "Arms length price" concept, related party transactions as well as pricing policies and cost determination. Harvindar, who has been involved in the field of tax for about 10 years, also provided pertinent case studies on the subject. The talk attracted much interest from members and was organised in numerous states — Kota Kinabalu (18 February), Kuala Lumpur (19 February), Johor Bahru (5 March), Ipoh (12 March) and Penang (19 March).

Harvindar also presented a few other talks focused on tax matters, namely, *Tax Incentives & Double Deductions*, *Withholding Tax & Double Tax Agreements* and *Tax Audit & Investigations*.

David helped participants develop a sound knowledge on how to identify and overcome common tricks used in "cosmetic accounting"

Financial Shenanigans

By David Meow, Associate Consultant and Trainer, Conwy Training & Consulting

In recent times, numerous cases have been reported of major companies whose accounting "shenanigans" brought in millions of investment dollars before they were exposed. The talk conducted at the CPA office in Kuala Lumpur, showed participants how to immediately spot such misleading accounting tricks such as recording revenue prematurely, recording bogus revenues and shifting current expenses to a later period. David also provided participants with reliable tools and analytical approaches which would enable them to overcome most cosmetic accounting practices. He also talked on relevant statutory and regulatory rules used in enforcement and prosecution. The 2-day workshop also covered specific case studies on the subject matter.

Money & You

By Terence Tan, Business Development Manager, Globe Success Learning Sdn Bhd

Whether you have been in business for years or are just starting out, it is very important to recognise the costly errors that might inadvertently be made. This talk focused on these somewhat deadly mistakes and also helped participants identify the errors that they might have made. Terence also elaborated on the lazy man's way to be rich and on how to make a fortune from doing something that you enjoy. The talk which was held on 22 February 2005 at the CPA office in Kuala Lumpur, was very well received by members. Terence has nine years of corporate experience and started a successful business in entrepreneurial education, three years ago. AT

Terence provided useful tips on how to avoid the many pitfalls in businesses

Institute of Chartered Accountants in England and Wales ▼

ICAEW Members to Vote on Consolidation with leading Public Sector Body CIPFA

In October 2005 ICAEW members will have the opportunity to vote to ratify proposals to consolidate with the Chartered Institute of Public Finance and Accountancy (CIPFA). Bringing together the leading UK accounting bodies in the public and private sectors, this combined Institute will span the full breadth of the modern accountancy profession creating a strong platform for commercial and intellectual leadership across the profession in the UK and internationally. Discussions have already commenced with HM Privy Council to secure approval for the combined Institute to be called the Institute of Chartered Accountants.

The new institute will have approximately 140,000 members and 16,000 students.

Background to consolidation

In 2004 the ICAEW undertook a major strategy review and identified a number of key objectives intended to reinforce its position as a world leading professional accounting body. These included:

- aligning with members' careers;
- embracing the full breadth of the modern profession;
- increasing international presence across key markets; and
- maintaining the highest standards of professional excellence and ethics.

Integrating with CIPFA will contribute towards these goals. Draft proposals were sent to all members of the ICAEW and CIPFA in April. The proposals are also available on the ICAEW and CIPFA websites. Final proposals, reflecting member feedback will be sent to members in September, along with voting papers.

Both bodies have their own highly respected qualifications. These will be maintained as a strength of the combined body. Existing members will keep their current designatory letters, denoting their route to qualification but will also be able to use a further set of distinctive letters to signify their equal membership of the new institute.

The ICAEW has already launched a new International Financial Reporting Standards award and a new Corporate Finance qualification. CIPFA has recently developed a new, fast-track route to qualification for senior civil servants to qualify as CPFAs and simultaneously secure a Warwick Business School Diploma in Public Management and Leadership. The integrated Institute will continue to develop new qualifications tailored to meet market needs and enhance career development opportunities for members.

The unique faculty model of the ICAEW, which recognises and supports the main specialisms of members, will be augmented by the establishment of a new Public Services Faculty. This will provide an authoritative voice in the field of research and thought leadership, and a strong focus on the development of services to members working in this sector.

About CIPFA

CIPFA (*www.cipfa.org.uk*) is the pre-eminent accountancy body for the public services worldwide. It is at the forefront of public sector standard setting in the UK and internationally. CIPFA represents 13,500 members working at the heart of an economic sector, which accounts for more than 40 per cent of the global economy. Commercial services provided to public sector organisations are a strong feature of CIPFA's business model. In the year to 31 December 2003 its non-membership revenues amounted to £33.4m.

Benefits of Integration

Paul Druckman, ICAEW President, believes: "CIPFA is a very strong organisation that will make a powerful contribution to a combined Institute. Integration will give increased strength to the profession and enhance our ability to influence and engage with government and other key opinion formers."

Integration will provide a range of benefits:

- A stronger voice with Governments and Standard Setters;
- Expertise across the business, practice and public sectors;
- Separate qualifications maintained as a strength of the combined Institute;
- Regional training capability providing flexible, cost effective ACA training;
- 10 per cent increase in members, 50 per cent increase in commercial income.

Webcast highlights benefits of combined Institutes

The Presidents and Chief Executives of both bodies have recorded webcasts outlining the objectives and benefits of the proposed consolidation. Both webcasts can be viewed at *www.icaew.co.uk/cipfavote.*

Speaking about the webcast Eric Anstee, ICAEW Chief Executive commented: "I am delighted to have this opportunity to talk directly to all our members on such a vital issue. It is critically important that we convey to members the practical gains in terms of improved services and greater influence against the long-term implications and limitations of a decision to favour the status quo. ICAEW and CIPFA have clear complementary strengths. The integrated Institute can be so much more than the sum of its parts." AT

"CIPFA is a very strong organisation that will make a powerful contribution to a combined Institute. Integration will give increased strength to the profession and enhance our ability to influence and engage with government and other key opinion formers."

Paul Druckman
ICAEW President

MASB Releases Exposure Draft for Mining, Oil & Gas Industries

The Malaysian Accounting Standards Board (MASB) has released an exposure draft or proposed standard for the extractive industries in line with global accounting standards for extractive activities.

The proposed standard on exploration for and evaluation of mineral resources, an important economic sector in the country, seeks to increase transparency by requiring improved disclosures for exploration and evaluation assets.

It is identical to the International Financial Reporting Standard on Exploration for and Evaluation of Mineral Resources issued by the International Accounting Standards Board in December 2004 that put in place for the first time guidance on accounting for exploration and evaluation expenditures.

And like the international standard, MASB's proposed financial reporting standard enables entities reporting exploration and evaluation assets to comply with international financial reporting standards while avoiding wholesale changes to their accounting policies.

MASB executive director Dr. Nordin Mohd Zain says that under the proposed standard, entities may continue to account for exploration and evaluation assets using the existing accounting policies.

However, if an entity wishes to change its accounting policy on exploration and evaluation assets, it should determine whether the change would result in the financial statements providing reliable and more relevant information.

In this regard, he notes, the proposed standard has made modest improvements to the recognition and measurement practices, in particular with regard to the recognition of impairment on exploration and evaluation assets.

In many economies, exploration and evaluation expenditures are significant to entities engaged in extractive activities.

Worldwide, an increasing number of entities incurring exploration and evaluation expenditures present their financial statements in accordance with international financial reporting standards, and many more are expected to do so from this year.

MASB's release of the proposed standard to professional accounting bodies, regulators, users and other interested parties for comments is part of its consultative process of seeking public views and convergence efforts to align its standards to international financial reporting standards.

Comment Period

Interested parties are welcome to give comments on the Exposure Draft to the MASB by 30 August 2005. Copies of the Exposure Draft are available free of charge at:

Malaysian Accounting Standards Board
Suites 5.01-5.03, 5th Floor
338, Jalan Tuanku Abdul Rahman
50100 Kuala Lumpur
Tel: 03-2715 9199 Fax: 03- 2715 9212
e-mail: *masb@masb.org.my*

Alternatively, the proposed Standard is also available on the MASB website at *www.masb.org.my*. The public may also provide their comments electronically through ED Online on our website.

Press enquiries

For enquiries, please contact: Dr. Nordin Mohd Zain, Executive Director, e-mail: *nordin@masb.org.my*. AT

MEMBERS' UPDATE

Non-Audit Firms

FROM 1-31 MAY 2005

New Registration

NON-AUDIT FIRM	NF NO
JOHOR DARUL TAKZIM	
Agilah & Co. 8659, Jalan Merak 4 Bandar Putra Kulai, 81000 Kulai Tel: 012-304 2740	**0656**
SELANGOR DARUL EHSAN	
C.K. Chung & Associates 3A02, Block G, Phileo Damansara 1 No. 9, Jalan 16/1, Off Jalan Damansara 46350 Petaling Jaya Tel: 013-388 4857 Fax: 03-6156 7892 e-mail: ckchungassociates@yahoo.com	**0657**
WILAYAH PERSEKUTUAN	
PM Wong & Co. 10-1A, 1st Floor, Jalan Khoo Teik Ee Off Jalan Imbi, 56000 Kuala Lumpur Tel: 012-371 2238 Fax: 03-2143 4919 e-mail: pwct@tm.net.my	**0654**
SP ER & Co 29-1F, Block B, Jalan Maju 3/1 Taman Lembah Maju, Cheras 56100 Kuala Lumpur Tel: 012-656 9183 e-mail: soonpoi@yahoo.com	**0655**

Operation Ceased

NON-AUDIT FIRM	NF NO
PULAU PINANG	
L.C. Chua & Associates 1-3-27, Level 3, Krystal Point Corporate Park No. 1, Jalan Tun Dr Awang, 11900 Bayan Lepas Tel: 04-644 8818 Fax: 04-644 7828 e-mail: greatleap_m@yahoo.com	**0362**

Audit Firms

FROM 1-31 MAY 2005

New Registration

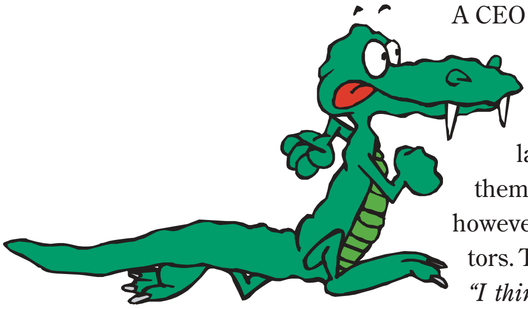
AUDIT FIRM	AF NO
KEDAH DARUL AMAN	
H.K.Lim & Associates No. 65, Lorong BLM 3/1 Bandar Laguna Merbok, 08000 Sungai Petani Tel: 04-390 0218 Fax: 04-390 0218	**1589**
SELANGOR DARUL EHSAN	
Robert Seenivasan & Co No. 47, Jalan Suadamai 2/2 Bdr Tun Hussein Onn, 43200 Batu 9 Cheras Tel: 013-770 7300 e-mail: robertseenivasan@hotmail.com	**1593**
Yong Kok Kuang & Co No. 49-1, The Highway Centre Jalan 51/205, 46050 Petaling Jaya Tel: 03-7782 7988 Fax: 03-7781 2823	**1588**

Operation Ceased

AUDIT FIRM	AF NO
WILAYAH PERSEKUTUAN	
Yeo & Hong Room 602, 6th Flr Bgn Toong Hsing Loong 26 Jalan Petaling, 50000 Kuala Lumpur Tel: 03-2078 7848 Fax: 03-2072 6923 e-mail: alanyeo@tm.net.my	**0966**

... Counting on Humour

Hungry Alligators



A CEO throwing a party takes his executives on a tour of his opulent mansion. At the back of the property, the CEO has the largest swimming pool any of them has ever seen. The huge pool, however, is filled with hungry alligators. The CEO says to his executives, *"I think an executive should be measured by courage. Courage is what made me CEO. So this is my challenge to each of you: if anyone has enough courage to dive into the pool, swim through those alligators, and make it to the other side, I will give that person anything they desire. My job, my money, my house, anything!"*

Everyone laughs at the outrageous offer and proceeds to follow the CEO on the tour of the estate. Suddenly, they hear a loud splash. Everyone turns around and sees the CFO (Chief Financial Officer) in the pool, swimming for his life. He dodges the alligators left and right and makes it to the edge of the pool with seconds to spare. He pulls himself out just as a huge alligator snaps at his shoes.

The flabbergasted CEO approaches the CFO and says, *"You are amazing. I've never seen anything like it in my life. You are brave beyond measure and anything I own is yours. Tell me what I can do for you."*

The CFO, panting for breath, looks up and says, *"You can tell me who the hell pushed me in the pool!!"*

Counting Sheep...

An accountant is having a hard time sleeping and goes to see his doctor.

"Doctor, I just can't get to sleep at night."

"Have you tried counting sheep?"

"That's the problem — I make a mistake and then spend three hours trying to find it."

Best Practices in Business

Two women were comparing notes on the difficulties of running a small business.

"I started a new practice last year," the first one said. *"I insist that each of my employees take at least a week off every three months."*

"Why in the world would you do that?" the other asked.

She responded, *"It's the best way I know of to learn which ones I can do without."*

$100 Bill

A little boy wanted $100 badly and prayed for two weeks but nothing happened. Then he decided to write a letter to the Lord requesting the $100.

When the postal authorities received the letter addressed to the Lord, USA, they decided to send it to President Clinton. The President was so impressed, touched, and amused that he instructed his secretary to send the little boy a $5.00 bill, as this would appear to be a lot of money to a little boy.

The little boy was delighted with the $5.00, and sat down to write a thank-you note to the Lord. It said:

Dear Lord,

Thank you very much for sending me the money. However, I noticed that for some reason you had to send it through Washington, DC and as usual, those jerks deducted $95.

The Lexus

A very successful accountant parked his brand-new Lexus in front of his office, ready to show it off to his colleagues. As he got out, a truck passed too close and completely tore off the door on the driver's side. The accountant immediately grabbed his cell phone, dialed 911, and within minutes a policeman pulled up.

Before the officer had a chance to ask any questions, the accountant started screaming hysterically. His Lexus, which he had just picked up the day before, was now completely ruined and would never be the same, no matter what the body shop did to it.

When the accountant finally wound down from his ranting and raving, the officer shook his head in disgust and disbelief. *"I can't believe how materialistic you accountants are,"* he said. *"You are so focused on your possessions that you don't notice anything else."*

"How can you say such a thing?" asked the accountant.

The cop replied, *"Don't you know that your left arm is missing from the elbow down? It must have been torn off when the truck hit you."*

"My God!" screamed the accountant. *"Where's my Rolex?"* AT