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The governance partnership mandate

A New Era in Internal Audit

Wee Hock Kee
President of IIAM

Ringgit Peg: An Analysis

Management Accounting for Corporate Excellence

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Malaysian Institute of Accountants
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Perak is a state blessed with many natural resources … it is also here that many of the traditional Malay handicraft is still practiced, a human resource the value of which cannot be estimated in terms of dollars and cents.

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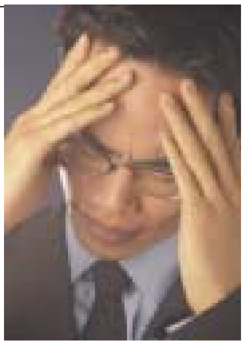
Partnerships can leverage your resources and tap new opportunities. Corporate partnering is nothing new. However, technology has elevated it to a new level.

Better Life

In an organisational setting, each employee is expected to behave and conform to a specific "role". Roles are specific forms or standardised patterns of behaviour required of all persons. Personal wishes and interpersonal obligations are irrelevant.



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MIA committed to promote accountancy

"Why don't you take up accounting?" I asked my niece the other day while we were discussing possible career options. She shrugged and answered that "It's boring."

This is not the first time that we have heard such a response from students. We mulled over this quite a bit and finally arrived at a conclusion. The profession is misunderstood because of the lack of dissemination of information to the right parties — for instance, career guidance counsellors and schoolteachers. And how can we expect students to see the merits of the profession if there is hardly any information available to them?

Today's youngsters will make up tomorrow's workforce. Some of them will go on to become accountants. It is with this in mind, that the Institute together with other professional accounting bodies in Malaysia conceived the 'Forum' for school career guidance counsellors, an event that is expected to reach out to these individuals and provide them with an avenue to gain more insight into the accounting profession.

We hope to hold these forums at each state in the country and so far, we have organised forums in Selangor, Melaka and Negeri Sembilan with the cooperation of the respective State Education Departments. Feedback received from participants show that this is indeed a welcome move as it bridges an information gap that was previously felt. Through these series of nationwide forums, we aspire to attract more students to choose accounting as their preferred career.

Moving on from there, allow me to dwell for a moment on this month's cover story *"The Governance Partnership Mandate: A New Era in Internal Audit."* Due to increasing regulation and emphasis on practicing good governance to achieve the fine balance of business and corporate responsibility, the board and senior management are increasingly looking at internal auditors to provide them with the assurance that they need in ensuring good governance.

"Due to increasing regulation and emphasis on practicing good governance to achieve the fine balance of business and corporate responsibility, the board and senior management are increasingly looking at internal auditors to provide them with the assurance that they need in ensuring good governance."

Thus, the role of the internal auditor has expanded to include that of governance partner within an organisation. So what exactly is the role of the internal auditor in this new capacity. *Accountants Today* spoke to Wee Hock Kee, president of the Institute of Internal Auditors Malaysia (IIAM) to gain an understanding into this shift in function. We hope you'll enjoy the article.

Apart from that, as usual, we have lined up a series of articles which we hope will make for interesting reading. We hope that you enjoy what we have put together in this month's issue of *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.

DEFLATING THE Foreign Exchange Reserve BUBBLE

by Saravanan Ramasamy


"He's promising a trillion-dollar tax cut and trip to Mars. And he has a half-trillion-dollar deficit. Where do these Washington people think this money comes from?"

Howard Dean
US presidential candidate on the White House's US$2.4 trillion Budget plan

There was a shopkeeper who was lending ever-larger amounts of money to an important customer who happened to be a profligate spender, so that the said customer could maintain consumption. Of late, the customer had been signing ever-increasing amounts of IOUs and the shopkeeper had decreasing faith in these. However, the shopkeeper could not sell them so long as he retained his dependence on keeping the customer happy. In today's global economy, the Asian economies play the role of the shopkeeper and the Americans are indeed the profligate spender. The IOUs come in the form of US treasuries and bonds, which are indeed the main element of the foreign exchange reserves. This is a delicate and dangerous balancing act of a structure of mutual dependence between Asia and the US and one might wonder why should anyone risk upsetting it. The export dependent Asian economies are continuously bolstering their foreign exchange reserves and almost all of it is in US dollars — a currency that is swiftly losing its value. Having said this, one might wonder what are the alternatives that the Asian countries can pursue to deflate the "dollar denominated foreign exchange reserve bubble".

The vulnerability of the US dollar has made some Asian countries review the future composition of their foreign exchange reserves. Asian central banks (notably the People's Bank of China and the Bank of Japan) have expressed strong interest in gold. On the onset, this may seem to be a good alternative since the countries can remove the link between the foreign exchange reserves and the US dollar. Indeed the move to hold the foreign exchange reserves in gold is not something new. Countries used gold as a medium to determine their exchange rates for several decades prior to the First World War. In the gold standard model, a country's money base is determined by the respective prices of gold in terms of home and foreign currencies, by physical amount of monetary gold held by each banking system and by the gold-reserve ratio, which is the ratio of monetary gold to money base. However, many economists back then were of the opinion that the gold standard imposed too harsh a financial discipline on the domestic economies that output and employment were sacrificed for the maintenance of external equilibrium of the exchange rate. The question now is, will the move by countries to convert their foreign exchange reserves into gold bring us back to the gloomy days when the international gold standard collapsed? Well, it may be the case if the conversion is sudden and not well managed. A rise in a country's gold stock due to a balance of payment surplus increases the money base and is inflationary in nature. The rising prices will eventually wipe out the surplus. Therein lies the question of whether the massive flood of the US dollar in the form of foreign exchange reserves (estimated at more than US$2 trillion held by Asian central banks) could be exchanged for gold overnight? Will this cause the gold price to skyrocket and the US dollar to take a nosedive? If these happen, there could be a series of crises that have the potential to wreck the exchange rate mechanism.

"The countries of East Asia now hold an estimated 70 per cent of the world's total official foreign exchange reserves, compared with only 30 per cent in 1990 and 21 per cent during the early 1970s."

As such, there are calls for countries to diversify their foreign exchange reserves into other currencies and in this vein, the Euro has been touted to be the best replacement for the US dollar. The countries of East Asia now hold an estimated 70 per cent of the world's total official foreign exchange reserves, compared with only 30 per cent in 1990 and 21 per cent during the early 1970s. IMF annual estimates on the composition of global reserves point to a decline in the share of dollar holdings, reflecting a shift to Euros and sterling. Recent forex volatility has not put off Asian central banks from buying euro-denominated bonds. In this regard, Ren Karsenti, the chief finance officer of the European Investment Bank (EIB), claims that Asian investors are seeking euro-denominated debt "continuously and increasingly". Well, the shift from US dollar to Euros may look good on the onset. However, one has to bear in mind that this can only serve as a short-term measure. A shift to Euros on a grand scale may cause the Asian central banks to face the same sort of problem that they are facing now. Instead of a declining dollar, Asian central banks may face the dilemma of a declining Euro given the large fiscal deficits and slow growth amongst the European Union (EU) countries. If this trend continues for the next few years, foreign exchange markets might be convinced that there is little future in the Euro, fuelling a wave of selling.

So what can the Asian countries do? If they stick to status quo by stacking up their reserves in US dollars, their losses will only continue. Alternatively, if they are to diversify their holdings into other foreign currencies, they are also likely to encounter the same sort of problem. In the first place, why should Asian countries hold such a huge amount of foreign exchange reserves? According to Harold James, a professor at Princeton University, reserve holdings represent an outdated concept. He further claims that reserves are only clearly important for countries that produce only few goods, especially commodities such as cocoa, crude palm oil and coffee. In this case, reserves are extremely important to cushion the unpredictable swings in the world market prices. In addition, foreign exchange reserves are important for countries that operate in a fixed exchange rate regime. These countries will need to leverage on their reserve holdings to defend their fixed exchange rates.

Having said this, it's prime time for Asian countries to stop accumulating huge foreign exchange reserves. The foreign exchange reserve bubble needs to be deflated and this needs to be done soon. Asian countries that are adopting the fixed exchange rate policy need to abandon this so that they need not depend heavily on their foreign exchange reserves. Alternatives need to be identified as to how their reserve holdings can be utilised. At this juncture, India sets a good example whereby the dollar reserve is used to finance infrastructure modernisation. Will this be similarly tempting for other Asian countries facing the same problem? AT

Ringgit Peg

AN ANALYSIS

by Hafiz Faruqi

On March 18, Second Finance Minister Tan Sri Nor Mohamed Yakcop firmly dismissed the latest round of speculation that Malaysia would alter the Ringgit peg this year.

Coming not long after the IMF and Lehman Brothers Holdings Inc. were quoted to have suggested that Malaysia was either going towards a more flexible arrangement or abandoning her currency peg in the second half, he reportedly said in an interview, "Certainly we have not made a decision to repeg." He added that nothing has changed in the past few months to prompt a change in the peg.

With Nor Mohamed as its architect, Malaysia introduced capital controls and fixed the Ringgit at 3.8 per US Dollar in 1998 to curb currency speculation during the Asian financial crisis. While it curbed speculation aimed at driving the currency lower and helped Malaysia weather the crisis, the peg means the Ringgit has tracked the US Dollar's decline against the Yen, Euro and other major currencies in the past year.

Nor Mohamed's rationale: While the Ringgit is about 5-7 per cent "undervalued" according to most estimates, "it is not significant enough to see the benefit" of any change in the fixed currency rate. Agrees an economist at a local stockbroking firm: "The Ringgit is not significantly under-valued. Our exports enjoyed only 11 per cent growth in January, very much in line with the region. If the Ringgit is significantly under-valued, our exports would have shot up like mad."

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Pro-peg analysts say that the Ringgit peg is not a disservice or a disincentive to the economy. Instead they argue that it gives stability and predictability. Says one, "Long-term foreign investors still go to China in spite of the Yuan peg. What they are looking for is value for money and the returns to their investments." In Malaysia's case, despite intense international competition, the country still managed to rake in RM31.1 billion in FDI, especially in manufacturing, information and communication technology services in 2004. The analyst says that hot money can be counter-productive to the stock market and make it more difficult for local fund managers to do their jobs. He adds that it is dangerous to change the Ringgit peg when there is still a lot of hot money in the economy.

Foreign investors bought US$2.9 billion of Ringgit-denominated assets in the last three months of 2004, the most in three-quarters, amid speculation their value will gain once the currency is allowed to appreciate. The then perceived "high likelihood" of the unwinding of the fixed peg and appreciation of the currency has been cited as one of the reasons Malaysia has witnessed a significant rise in short-term capital inflows during the past year or so.

For the country, it is important however to attract the right kind of capital

P. Gunasegaram wrote in the 21 March edition of *The Edge*: "The lessons may not be as old as the hills but the effects of the Asian Financial Crisis should have taught us that it is a folly to attract short-term capital into the markets as a means to boost them for the long term. It is a kind of mismatch of funds." He argued that the country should assess whether we want the capital and whether we want to put conditions on such inflows to prevent instability following strong inflows and outflows of capital. After all, according to Joseph Stiglitz, former World Bank chief economist and Nobel laureate, uncontrolled capital flows is one of the major dangers to developing countries, Gunasegaram

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P. Gunasegaram, 21 March, *The Edge*

added.

Economists who support the Ringgit peg reckon the best thing is for the government to be firm. They say that such a stance will ward off speculators, adding that genuine long-term investors will not be affected. Says one, "The less it is said, the better it is and the line should be one that stresses that the Ringgit is pegged until there is a change in the international financial structure." He adds that discussing the parameters openly will only invite speculation.

Apparently analysts reckon even the slightest remark, for example that Malaysia may just be tinkering with the level of the peg (as opposed to abandoning it altogether) can put a lot of pressure on the peg. Explains an economist, "It is not a good idea to even say that Malaysia is thinking of changing the level because if we do that, it will be read as we are telling the forex market that the Ringgit peg is not firm. In other words since we may as a result change the level at any time, we will invite more capital to flow in. This *one way bet* can put a lot of pressure on the peg."

How about the country's wider interests?

A local fund manager says virtually everyone — including the government itself, businessmen and ordinary folk — is comfortable with the present arrangement.

Among the latest to speculate on the Malaysian currency peg was Lehman Brothers Holdings Inc. Going against the current prevailing expectation in Malaysia, it said in March that Malaysia would abandon her currency peg in the second half of this year. Lehman expects Malaysian officials to let the Ringgit trade against a basket of currencies of its trading partners. In its weekly note to clients, Robert Subbaraman, an economist with Lehman in Tokyo, reportedly wrote: "Under a more flexible exchange rate, we forecast the Ringgit to appreciate to 3.4 per dollar by year-end."

Even so the fixed peg has its supporters

Says an analyst, "The number one consideration for the government is the benefits enjoyed by the entire population as a result of the Ringgit peg. They must come first and not the interests of another country, president or state." Adds another analyst, "Foreign analysts or institutions can say what they want. As far as we are concerned the peg is working very well for us and our economy. What is there to complain?"

> "Foreign analysts or institutions can say what they want. As far as we are concerned the peg is working very well for us and our economy. What is there to complain?"

These analysts believe there will be a lot of problems if the Ringgit is de-pegged. Among them, how to manage interest and currency rates, which are interlinked, when the country does not want to see the interest rates rising so much and hurt the economy. Likewise, there is also the issue of how to manage the inflation rate. Simply put, if it is de-pegged, things will be back to square one and the government will have to address all those things prior to 1998 all over again. They argue that a ringgit de-peg will cause a lot more inconvenience and will entail a lot of changes, especially in the way Malaysians do business overseas. As a result, analysts say Malaysia will take a longer time to study its options.

Indeed recent developments cast doubts on a near term change in the Ringgit peg

Firstly, analysts say the revaluation of the Ringgit at this point could impact the external sector. Despite the weakening of the US Dollar, Malaysia's exports and industrial production fell more steeply than expected. Any Ringgit revaluation at this point could further impact the external sector.

Secondly, the obstinacy of Chinese authorities to submit to market pressure on the Yuan revaluation and the stream of speculation on revaluation prospects, both in China and Malaysia, may preclude the authorities from doing so in the immediate term. Says an analyst, "Surely both countries do not want to be seen that they have succumbed to external pressure."

Anyway, the lead from China is seen to be very influential in any decision on the Ringgit peg.

Says a local fund manager, " The lead will come from China. If China breaks its peg, Malaysia may follow. But so far there is no big incentive for them to break." Adds another, "If China does not re-peg, Malaysia will lose its competitiveness if it goes ahead." Although they are under pressure from the US, China's foreign reserves are very strong." He adds that last year China's foreign reserves, the world's highest after Japan, stood at US$610 billion.

An analyst notes that on the back of often conflicting statements coming from the Chinese authorities, versus fairly consistent statements from Malaysia, for all intents and purposes, the much-awaited trigger point from China — for her to adopt a more flexible regime — is not on the horizon yet. Says an economist, "In the first place, many do not believe China will move so soon. The prospect of change is now pushed further into time from our earlier expectation of second half 2005."

Indeed since China is so busy laying down from scratch, the infrastructure for the Beijing Olympics in 2008 to the tune of billions of dollars, some analysts reckon that China may only seriously re-consider its peg after 2008.

> " The lead will come from China. If China breaks its peg, Malaysia may follow. But so far there is no big incentive for them to break."
>
> **Local Fund Manager**

For Malaysia though, there are also analysts who wonder whether things that have worked well for us in the past, such as the Ringgit peg, will continue to work as well in the future?

Says one, "How to better manage the currency risk is more likely to be dictated at the political level after taking into account economic considerations." AT

Government AND CSR

by Tay Kay Luan

The debate on the government's role towards corporate social responsibility (CSR) focuses on the question of whether there is a need to legislate CSR. The views among many experts is that CSR should be voluntary and should be part of sustainability efforts to drive the business.

CSR practices are not acts of charity or philanthropy. Promotion of CSR is driven by the need to re-establish social partnership between corporations, government and the civil society. The loss of public trust as a result of corporate failures has hastened the need to make companies more accountable. In Malaysia, issues on environmental destruction, bribery and corruption and social problems continue to keep regulators awake. This has increased calls for greater accountability, stricter guidelines and enforcement of rules. Greater dialogue with wider stakeholders is necessary to keep a check and control, hence, the license to operate.

In recent speeches, government leaders have been supporting these views, and regard CSR as an important element towards realising the aspirations and goals of national development. Indeed, the Government's goal for CSR is that all organisations in the country should take account of the economic, social and environmental impact of their activities, and should be encouraged to act and address the key challenges which arise from these impacts based on their core competencies — locally, regionally, nationally and internationally.

The government cannot and will not be divorced from this process. Regulatory compliance is the first step towards embracing the concept of CSR. The government has taken the stand that the existing legal framework and regulations are sufficient to improve corporate behaviour. The government's role is to provide the policy framework to facilitate such a process. Indeed government policies and regulations do play a part by laying down minimum standards on hiring, skill development and protection of employees' welfare and safety. There are also adequate regulations on other CSR related matters such as corruption and bribery, child labour, environmental and biodiversity protection.

The launch of the National Integrity Plan and the Malaysian Integrity Institute demonstrates the commitment of the government to achieve the economic developments with strong moral and ethics.

Internationally, the UK is the only country which has a Ministry of CSR. The British government's view is that CSR must continue to be voluntary and business led. It also prides itself as the international leader in CSR. To support this claim, just recently, the UK Corporate Social Responsibility Minister announced the publication of a framework setting out the Government's approach to CSR at the global level.

The framework defines the government's key objectives and priorities, among which are to spread best practice, encourage innovation and bring together the relevant international and government institutions to address the challenges of sustainable development. Among the initiatives is the setting up of a CSR Academy to build CSR skills, encourage companies to participate in sustainability awards, best practices, and stakeholder engagement and to support international initiatives on environmental and social policies and programmes.

Beyond this, the UK government also introduced mandatory reporting in the form of the Operating and Financial Review (OFR), which is not your standard financial annual report. Starting in April 2005, Britain's 1,300 PLCs will have to produce the OFR, which will review the company's performance in terms of its social, environmental and ethical impact both internally and externally and also explain what future challenges and risks the firm faces.

Linking back to the framework, the new regulations are part of the UK Government's drive to increase the scope and influence of CSR. There will also be direct benefits for the trillion-dollar ethical investment community since the OFR will allow for greater comparability by investors who seek to invest in firms that share their ethical, environmental and societal goals. Equally important is the belief among the government leaders that doing good business will bring about global stability, reputation and brand and to help promote business sustainability that include resources and environment.

> "In Malaysia, issues on environmental destruction, bribery and corruption and social problems continue to keep regulators awake. This has increased calls for greater accountability, stricter guidelines and enforcement of rules."

Although not all governments may want to take the UK route in driving CSR, they may have to respect and accede to international agreements. For a start there is the Kyoto Protocol agreement that compel signatory countries, which include Malaysia to legislate and reduce emission of greenhouse gases. There are also other international directives and initiatives, each with a different purpose targeting different levels of audience.

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The UN Commission on Human Rights (UNCHR) for example, has proposed to make multinational firms legally liable for human rights abuses by their suppliers and customers, and allowing for large fines if standards are not upheld.

The UN Global Compact and the nine principles initiated by Kofi Annan in 1999 is a call to business of all sizes in the planet to help build the social and environmental framework that will support open and free markets, while ensuring people the opportunity and access to enjoy the benefits. These principles are to encourage the

UN Global Impact

Human Rights

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights within their sphere of influence; and

Principle 2: make sure that they are not complicit in human rights abuses.

Labour Standards

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4: the elimination of all forms of forced and compulsory labour;

Principle 5: the effective abolition of child labour; and

Principle 6: eliminate discrimination in respect of employment and occupation.

Environment

Principle 7: Businesses should support a precautionary approach to environmental challenges;

Principle 8: undertake initiatives to promote greater environmental responsibility; and

Principle 9: encourage the development and diffusion of environmentally friendly technologies.

In June 2004, the UN Global Compact offically adopted **Principle 10 on anti-corruption;** Businesses should work against corruption of all forms, including extortion and bribery.

alignment of corporate policies to the universal core values irrespective of race, religion and beliefs. To date 2,000 companies have participated and committed in 40+ networks set up around the world to address issues pertaining to human rights, labour, environment and corruption.

There are ample codes of ethics to support the development of CSR initiatives. But most non-governmental organisations favour legislation. The Amnesty UK Business Group believes that sustainable development is unachievable unless the current regulatory environment and enforcement is strengthened. For most businesses, CSR is only worth the effort when their interests and those of society converge. In other words, there must be a business case, such as for the oil-and-gas sector, which adopted a voluntary code of practice in 2001 to protect their concessions in developing nations and to stave off international criticism on issues like labour and human rights, workplace safety and environmental pollution.

Understandably, business communities are wary of more rules, which will force them into roles that conflict with their business objectives. Critics will argue that by forcing businesses to take on additional functions, they will run the risk of carrying out responsibilities, which should belong to the elected government.

Conventional thinking, will tell you that it is essential that governments provide the public services and appropriate legal framework in which societal rights, including human and civil rights, environmental legal protections, and the infrastructure to sustain and protect those rights, can flourish.

Legislating CSR could also mean legislating CSR disclosure, and laying out rules and standards that companies must comply with in CSR reporting. There are pros and cons. There is a parallel in corporate governance, where legislating and mandating governance have created awareness, and also brought about a situation where many companies just tick the right boxes, but don't initiate ethical behaviour or integrate good values and culture. In general, many businesses oppose any type of mandatory CSR programmes or standardised reporting, since such one-size-fits-all approaches are likely to undermine the very ethical values that CSR policies are designed to advance.

Furthermore, making CSR reporting mandatory or standardised and implementing legislation like social labelling of products (as in the UK) could backfire by burdening smaller businesses, especially SMIs. Large companies and MNCs can easily bring ample resources to bear in a CSR campaign, but overworked owner-managers and multitasking staff of SMIs can hardly do the same. Also large companies with a CSR agenda might pressure smaller businesses into toeing the line, which could impact the latter. For instance, such large companies could insist that their small business suppliers with constrained resources also produce CSR statements, which would enable the big boys to report that they trade only with ethical businesses. This is not far-fetched, and has happened in countries like Japan, where strict pollution laws have created strong green mindsets, and trends like engineering green supply chains and green reporting.

"Although CSR by its very nature needs to be holistic and all embracing, the diversity of the business community must be recognised … there is a danger that producing an over-prescriptive model for CSR could stifle the SMI sector — a key engine of developing economies — and burden it with extra costs."

Although CSR by its very nature needs to be holistic and all embracing, the diversity of the business community must be recognised. If the perspective and needs of small businesses are ignored, there is a

"There are enough business cases and evidence that companies that practise CSR are better perceived and that's good for their reputation and branding. CSR after all, is about winning trust and managing reputation risk."

danger that producing an over-prescriptive model for CSR could stifle the SMI sector — a key engine of developing economies — and burden it with extra costs.

Such strong views from the business sector have carried weight in regions and countries — like the EU and Malaysia also — which favour voluntary initiatives. The good citizenship model has found favour with policy-makers in Malaysia, such as the Ministry of Science, Technology and Environment, which has collaborated with ACCA to provide a set of environmental guidelines. Businesses also prefer a voluntary model, since compliance with stringent legislation can be costly and strain resources especially for small business and SMIs.

Instead of putting a generic and costly CSR template in place, it might be better to use best practices and case studies to persuade small businesses to identify and adopt socially and environmentally friendly practices. For instance, the Federation of Small Businesses and other UK business organisations have joined forces in the Small Business Consortium to promote CSR. It aims to create a database of best practice and use this to develop alternative schemes to engage small businesses.

It is also necessary to recognise that small businesses might already be practising CSR. After all, CSR means being solicitous of the social, economic and environmental needs of the community a company operates in. Since small firms are embedded in and serve their local community, they often provide employment for local folk and generate local economic activity through buying and selling within their communities. Small businesses that operate in underprivileged or rural areas are already stimulating community regeneration, and might even be involved in activities — such as training and philanthropy — that fall under the CSR umbrella without having a formal CSR policy.

In the final analysis, the debate should not be about whether CSR should be made legal. Rather it is about managing stakeholders and finding the right balance. The inclusion of multi-stakeholders is where CSR can really work. The government's role is to provide and enforce policies, regulations and standards across environment and social parameters. They can promote and facilitate the right corporate behaviour and values. Many leading companies are already "doing good for society" and they see CSR as a strategic differentiator for their company and a means to achieving greater business value. There are enough business cases and evidence that companies that practise CSR are better perceived and that's good for their reputation and branding. CSR after all, is about winning trust and managing reputation risk. That's sustainability. 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*

AN OVERVIEW OF

Real Estate Investment Trusts

With the ability to hedge against inflation and the potential for huge capital appreciation, real estate represents a real alternative to investment in shares and bonds. The older generation in particular can attest to the virtues of long-term investing in real estate as a means to ensure wealth creation over decades. In fact, a frequently cited estimate of real estate returns is the "double-your-value-every-eight-years" measure. Using the Rule of 72 suggests an impressive geometric return of about nine per cent per annum.

However, investing in real estate is no longer limited to buying and holding landed properties. Innovations in the capital markets have led to the creation of Property Trust Funds (PTFs) and Real Estate Investment Trusts (REITs) that replicate (to some extent) the returns of investing in real estate. This article gives an overview of investing in real estate and real estate derivatives (PTFs/REITs), and briefly examines the history and development of real estate derivatives in Malaysia.

Features of real estate

Real estate has several unique features that distinguish them from other investments:

Illiquidity — Real estate is highly illiquid. Investors who cannot withstand a long holding period or who need liquidity should avoid real estate. However, assets which are illiquid should generate higher returns than assets that are liquid because of the liquidity premium component in their returns. Therefore, investors who do not require liquidity can earn the liquidity premium by investing in real estate.

Expensive — Real estate is costly and requires large amounts of capital. Since purchasing many properties is prohibitively expensive for most investors, capital-budgeting forces them to make risky bets on one property over another, and worse, miss out on the potential returns offered on alternative real estate. The resulting concentration risk means that even one "mistake" can have a significant and adverse impact on the wealth and returns to the investor.

Inefficient — The real estate industry is relatively inefficient (from an information point of view). Appraisals and judgement frequently creep into valuations. Knowledge-barriers create abnormal opportunities (as well as abnormal losses). Personal and local factors can greatly influence the desirability of each property.

Risks of real estate

In analysing real estate, standard financial theory reveals three major sources of risk:

1. **Business Risk** — this relates to the characteristics of the specific property (e.g. changes to the desirability of its geographical location, outdated or unsafe design, potential shortening of the lease structure etc).
2. **Default Risk** — this is the risk that the property will not produce sufficient rental/cash flow for debt financing (only exists for property financed by borrowings).
3. **Liquidity Risk** — this is the risk of not being able to sell the property quickly when required.

In order to mitigate such risks and to address some of the negative features of real estate, REITs and PTFs were created.

A Real Estate Investment Trust or Property Trust Fund is defined as: *"an investment vehicle that invests or proposes to invest at least 50 per cent of its total assets in real estate. An investment in real estate may be by way of direct ownership or a shareholding in a single-purpose company whose principal assets comprise real estate".*

REITs and PTFs

REITs and PTFs are investment vehicles which invest mainly in real estate. The investors — the unit holders — pool their money into a common fund. The money is used by the trustee, who acts on the advice of the manager, to acquire real estate.

Unit holders benefit when the real estate portfolio earns rental income and when the value of the real estate in the portfolio appreciates (through revaluation or through disposal). Income earned is usually distributed to unit holders on a regular basis.

REITs — which represent a rebranding of PTFs as they were formerly known in Malaysia — are based on the US model which enjoys universal appeal at present. With the recent release of new guidelines on REITs in Malaysia, PTFs and REITs now share the same definition.

A Real Estate Investment Trust or Property Trust Fund is defined as: *"an investment vehicle that invests or proposes to invest at least 50 per cent of its total assets in real estate. An investment in real estate may be by way of direct ownership or a shareholding in a single-purpose company whose principal assets comprise real estate".*

For listed REITs, at least 75 per cent of the listed fund's total assets shall be invested in real estate, single-purpose companies, real estate-related assets or liquid assets and the remaining 25 per cent may be invested in other assets (i.e. real estate-related assets, non-real estate-related assets or asset-backed securities).

For unlisted REITs, at least 70 per cent of the unlisted fund's total assets shall be invested in real estate, single-purpose companies or real estate-related assets; at least 20 per cent must be invested in liquid assets at all times; and the remaining 10 per cent may be invested in other assets (i.e. real estate-related assets, non-real estate-related assets or asset-backed securities).

Advantages of REITs

PTFs and REITs are similar to equity unit trusts. Therefore, they also share similar advantages :

Affordability — REITs are unitised into affordable lots and they have a low minimum investment. This overcomes the prohibitive capital requirements of investing in real estate, as smaller investors can gain access to investments in quality properties.

Diversification — REITs may invest in a diverse spread of properties, thus minimising risks specific to any one property. Diversification is enhanced by investing in different geographical locations, and by investing in different property types (e.g. apartments, office buildings, shopping centres, warehouses etc.).

Professional Management — Professional managers are engaged to run the day-to-day operations and to manage tenants, rental collection, repairs etc. This frees the investor from such hassle.

Trustee Protection — Trustees act on behalf of the unit holders to ensure the managers only invest in real estate prescribed in the Trust Deed. The trustees are also the custodians of the certificate of titles as an added protection for unit holders.

Liquidity — Listed REITs allow their unit holders to buy or sell units on the share market and receive the proceeds within a few days. Investors can realise their investment fully or partially at any time.

REITs — role in portfolio management

While REITs present an alternative to direct investing in real estate, their contribution to investment potential exceeds the advantages listed above. The returns of real estate and REITs are not perfectly correlated with the returns of other investments such as shares and bonds and this low correlation does its magic in enhancing the risk-return characteristics of any share/bond portfolio. Introducing real estate or REITs into a portfolio shifts the efficient frontier — the line yielding the best returns per unit of risk — in a favourable manner thanks to diversification.

Budget incentives for real estate and REITs

Real estate and its derivatives have enjoyed the limelight in recent years, having been the beneficiary of several major government incentives, most notably the Real Property Gains Tax (RPGT) exemption for a one-year period ending 31 May 2005 as announced in the Economic Stimulus Package 2003; RPGT exemption for gains on real estate transferred to PTFs/REITs as announced in Budget 2004; tax exemption enjoyed by REITs on income earned and distributed in the same year as announced in Budget 2005.

"There is less risk investing in a property trust, but the gains are for the long term, not the short term, and the average Malaysian investor has not been known to stay for the long term."

Datuk Eddy Chen, former president of REHDA

Budget 2005 proposal

The Budget 2004 and 2005 incentives not only created public awareness of PTFs/REITs, but also emphasised the importance that the government attaches to these instruments in the capital market development.

Specifically, Budget 2005 provides that REITs are to enjoy tax exemption for all income earned and distributed to unit holders in the same year. Undistributed income will be taxed at 28 per cent and should the income be distributed in a future year, the tax credit can be passed on to unit holders. The creation of a new Section 61A of the Income Tax Act 1967 will undoubtedly enhance the returns and yields of REITs as tax is no longer factored into distributions of current income.

However, *unit holders* who receive such income distributions *do not enjoy tax exemption*, but are taxed at their respective tax rates (amendment to Section 61 ITA). REIT income "flows through" from the REIT directly to the unit holder without any taxation at the REIT level. This enhances the amount of income/cash flow received by the unit holder but shifts the burden of paying taxes to the unit holder (instead of being deducted at source by the REIT).

Malaysian PTFs

The Malaysian experience with PTFs and REITs is still in its infancy. Historically, only four PTFs have been set up with three remaining — AmFirst Property Trust (listed in 1989), Amanah Harta Tanah PNB (listed 1990), and Amanah Harta Tanah PNB II (listed in 1997). The fourth trust — First Malaysia Property Trust Bhd — which is being wound up, gives a hint of the underlying difficulties faced by PTFs.

In US, REITs have been around for over 40 years, and have flourished in the last decade. However, no such fortune was experienced in Malaysia as PTFs here were blighted by a chronic lack of interest from investors. Among all the reasons for this, two explanations were predominant.

Firstly, regulatory restrictions led to situations that were not conducive for PTFs to flourish. Regulation at the time only allowed PTFs to borrow up to 10 per cent of the property cost, and PTFs had to source the remaining 90 per cent from elsewhere. As PTFs already distribute most of their income as dividends, very little retained profits remained for acquisitions. This hampered the growth of PTFs in Malaysia.

Secondly, the average Malaysian investor is always obsessed with short-term market gains. PTF prices have languished in the past 15 years. In the words of Datuk Eddy Chen, a former president of the Real Estate and Housing Developers Association (REHDA): "There is less risk investing in a property trust, but the gains are for the long term, not the short term, and the average Malaysian investor has not been known to stay for the long term."

New guidelines for REITs

However, all this could change. On 3 January 2005, the Securities Commission issued "Guidelines on Real Estate Investment Trusts" which superseded those on Property Trust Funds issued in 2002. Some features of the guidelines are presented below.

A REIT can now borrow up to 35 per cent of its total asset value at the time the borrowings are incurred (up from 30 per cent previously). Where a leasehold property is acquired, the consent of the relevant authority to transfer the lease must first be obtained, and the lease must be a registered lease; (the previous prohibition on acquiring leases less than 60 years remaining has been removed). Real estate shall be free from all encumbrances at the time of acquisition, except for charges entered by financial institutions, trustees and management companies in relation to the loan facilities extended (the exception was previously absent).

The initial minimum size of a REIT shall be RM100 million. For subsequent funds launched and managed, the minimum size of the fund shall be RM25 million. The value of the fund's holding of securities of any single issuer or group of companies must not exceed 5 and 10 per cent of the fund's total assets respectively. The fund's holding of any class of security of any single issuer must not exceed 10 per cent of the security issued.

Real estate acquired are required to be insured for their full replacement value, including loss of rental, where appropriate, with insurance companies approved by the trustee.

A listed real estate investment trust may enter into an arrangement at any stage in the development of a real estate, to purchase the real estate upon its completion, subject to certain conditions (e.g. there will be no substantial dilution to the fund's EPS during construction period and the fund shall be able to withdraw from an acquisition agreement if the construction of the building cannot be completed etc.).

> "Many of the restrictions on establishing property trusts have been relaxed and made more practical and market driven. Now that the legal framework and environment are in place, REITs are ready to take off as a new investment vehicle."
>
> **Datuk Jeffrey Ng, president of REHDA**

A listed fund may acquire real estate located outside Malaysia where the real estate is viewed as a viable investment, subject to specific approval of the Securities Commission and other relevant authorities.

Future of REITs

The new guidelines are expected to widen the role played by REITs in unlocking liquidity of the real-estate market, and in reviving the prevailing property overhang situation. Current REHDA president, Datuk Jeffrey Ng had this to say: "Many of the restrictions on establishing property trusts have been relaxed and made more practical and market driven. Now that the legal framework and environment are in place, REITs are ready to take off as a new investment vehicle."

With such special emphasis given to PTFs/REITs in recent Budgets and the Securities Commission's efforts in developing the PTF/REIT market, 2005 and beyond should finally see PTFs ditch their underachiever tag and find renewed interest among investors as PTFs/REITs enter a new phase of their existence.

As shown by a November 2004 announcement made by CIMB Bhd and Mapletree Capital Management Pte Ltd to jointly establish and manage Malaysia's first private institutional real estate fund, interest in the real estate derivative market continues to grow.

In all likelihood, REITs will play a greater role in developing the real estate industry in Malaysia and in contributing to capital market development and macroeconomic objectives.

Conclusion

On paper, the benefits of REITs as a viable form of alternative investment is unquestioned. However, the future success of REITs in the Malaysian capital markets is by no means assured.

Nonetheless, regardless of whether the investing public is wholly convinced of the benefits of PTFs/REITs, it looks like they are here to stay. AT

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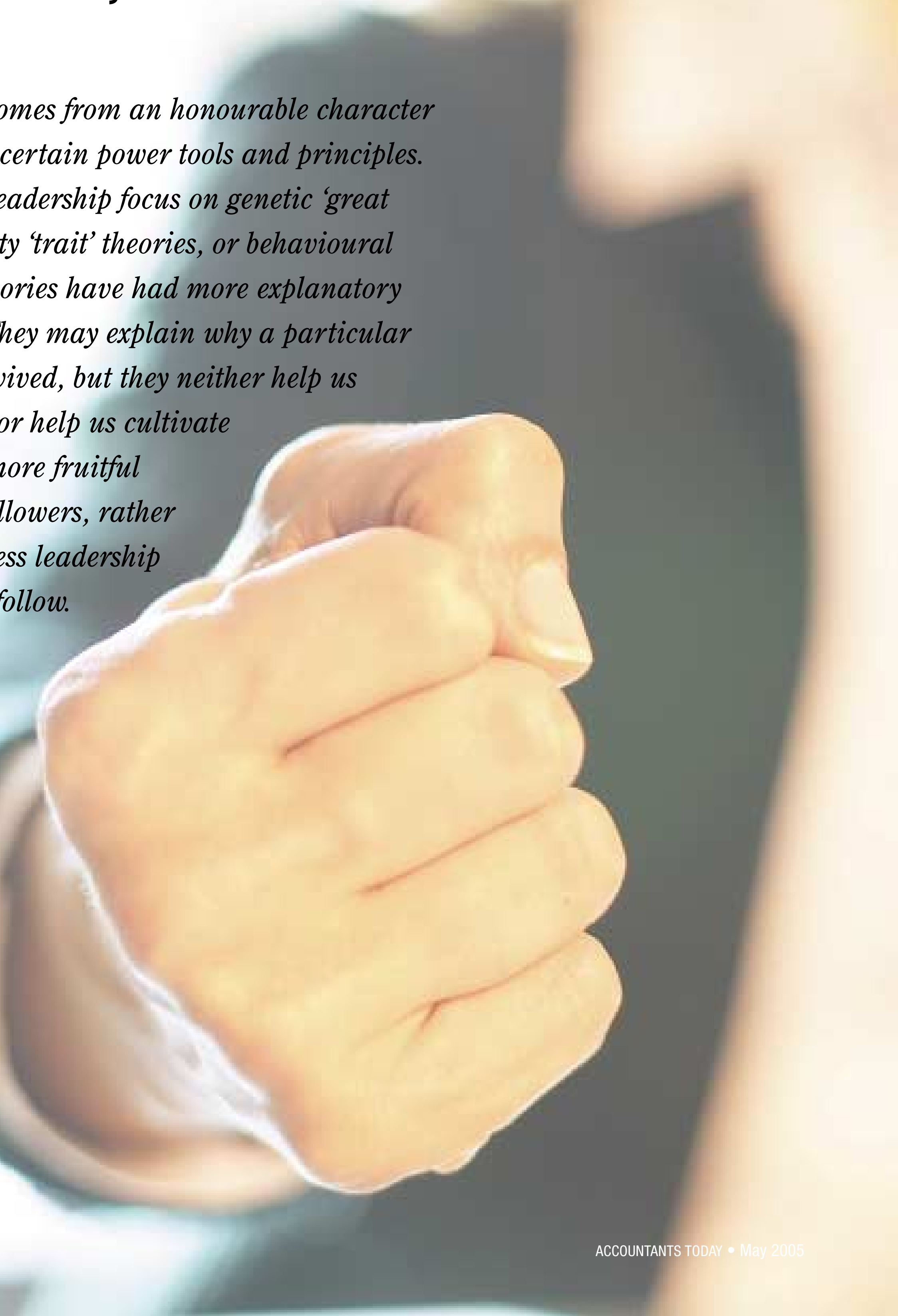
Principle-Centred Power

by Dr. Blaine N. Lee

Real leadership power comes from an honourable character and from the exercise of certain power tools and principles. Yet most discussions of leadership focus on genetic 'great man' theories, personality 'trait' theories, or behavioural 'style' theories. These theories have had more explanatory than predictive value. They may explain why a particular leader emerged and survived, but they neither help us predict future leaders nor help us cultivate the capacity to lead. A more fruitful approach is to look at followers, rather than leaders, and to assess leadership by asking why followers follow.



THREE TYPES OF POWER

The reasons followers follow are varied and complex, but they can be examined from three different perspectives, each of which has different motivational and psychological roots.

Coercive Power

At one level, followers follow out of fear — they are afraid of what might happen to them if they don't do what they are asked to do. This may be called coercive power. The leader in this case has created a fear in the follower that either something bad is going to happen to them or something good will be taken away from them if they do not comply.

So out of fear of potentially adverse consequences, they acquiesce and "get along by going along" or by giving "lip service" loyalty, at least initially. But their commitment is superficial and their energies can quickly turn to sabotage and destruction when "no one is looking" or when the threat is no longer present. A well-publicised example involves the disgruntled airline clerk who, feeling he had been unjustly manipulated, deftly wiped out the flight schedules stored in computer memories the night he quit. "What is the cost of forced compliance?" Well over a million dollars and thousands of work hours lost, with enormous negative backlash from unhappy passengers.

Utility Power

A second level of responding suggests that followers follow because of the benefits that come to them if they do. This may be called utility power because the power in the relationship is based on the useful exchange of goods and services. The followers have something the leader wants (time, money, energy, personal resources, interest, talent, support, and so on), and the leader has something they want (information, money, promotions, inclusion, camaraderie, security, opportunity, and the like).

These followers operate with the belief that the leader can and will do something for them if they maintain their part of the bargain by doing something for the leader. Much of what happens in the normal operation of organisations, from billion-dollar corporations to daily family living, is fuelled by utility power.

Principle-Centred Power

A third level of responding is different in kind and degree from the other two. It is based on the power some people have with others because others tend to believe in them and in what they are trying to accomplish. They are trusted. They are respected. They are honoured. And they are followed because others want to follow them, want to believe in them and their cause, and want to do what the leader wants. This is not blind faith, mindless obedience, or robotic servitude; this is knowledgeable, wholehearted, uninhibited commitment. This is principle-centred power.

Nearly everyone has experienced this type of power at some time in their lives; as a follower, in their relationship with a teacher, employer, family member, or a friend who has profoundly and significantly affected their life. It may have been someone who gave them an opportunity to succeed or excel, or encouraged them when things looked bleak, or just was available when needed. Whatever they did, they did it because they believed in us, and we reciprocated with respect, loyalty, commitment, and a willingness to follow, almost without condition or restriction. Each of these types of power has a different foundation, and each leads to different results.

THE IMPACT OF POWER

Coercive power is based on fear in both the leader and the follower. Leaders tend to lean on coercive power when they are afraid they won't get compliance. It is the "big stick" approach. It is an approach that few publicly support but may use, either because it seems justified in the face of other, bigger threats hovering over the leader or it is the expedient thing to do and seems to work at the time.

But its effectiveness is an illusion. The leader who controls others through fear will find that the control is reactive and temporary. It is gone when the leader or the leader's representative or controlling system is gone. It often mobilises the creative energies of followers to unite and resist in new, as yet uncontrolled ways.

Coercive power imposes a psychological and emotional burden on both leaders and followers. It encourages suspicion, deceit, dishonesty, and, in the long run, dissolution. As Aleksandr Solzhenitsyn, the Russian poet and philosopher, observed, "You only have power over people as long as you don't take everything away from them. But when you've robbed a man of everything, he's no longer in your power — he's free again."

> "You only have power over people as long as you don't take everything away from them. But when you've robbed a man of everything, he's no longer in your power — he's free again."
>
> **Aleksandr Solzhenitsyn, Russian poet and philosopher**

Most organisations are held together by utility power. Utility power is based on a sense of equity and fairness. As long as followers feel they are receiving fairly for what they are giving, the relationship will be sustained. The compliance that is based on utility power tends to look more like influence than control.

The agency of the followers is respected and regarded, but from the perspective of "caveat emptor." Leaders are followed because it is functional for the followers. It gives them access to what the leader controls, through position or expertness or charisma. The nature of "follower-ship" when based on utility power is still reactive, but the reaction tends to be positive rather than negative.

It is increasingly acknowledged that relationships based on utility power often lead to individualism rather than teamwork and group effectiveness, as each individual is reinforced for paying attention to his own perspective and desires. Individual players may change as wants and needs fluctuate. Shifting demographics of the work force indicate that long-term loyalty, by leaders or followers, is the exception. Individuals come and go, from CEOs (as in the case of

Apple Computer's shift from Jobs to Sculley) to clerks (notice the rotating carousel of faces at the local convenience store), with little repercussion in the marketplace. In a real sense we are all customers who go where we can get what we want, the way we want. Sources as divergent as Frank Sinatra and Burger King proclaim we can have it "our way."

In addition, a form of situational ethics is fostered, in which individuals are continually deciding, in the absence of shared organisational values, what is best and right and fair. At its worst utility power mirrors the elements of justice prominent in a litigious society, with courts of law forcing fairness in takeovers, divorces, and bankruptcies. At its best utility power reflects a willingness to stay in a relationship, whether business or personal, as long as it has a payoff for both parties.

Principle-centred power is rare. It is the mark of quality, distinction, and excellence in all relationships. It is based on honour, with the leader honouring the follower and the follower choosing to contribute because the leader is also honoured. The hallmark of principle-centred power is sustained, proactive influence. Power is sustained because it is not dependent on whether or not something desirable or undesirable happens to the follower. To be proactive is to continually make choices on deeply held values. And principle-centred power is created when the values of the followers and the values of the leader overlap.

"Leaders are leaders only as long as they have the respect and loyalty of their followers."

Hans Selye, author of *Stress without Distress*

Principle-centred power is not forced; it is invited, as the personal agendas of both leader and follower are encompassed by a larger purpose. Principle-centred power occurs when the cause or purpose or goal is believed in as deeply by the followers as by the leaders. Hans Selye, the author of "Stress without Distress", commented, "Leaders are leaders only as long as they have the respect and loyalty of their followers."

Control is apparent with principle-centred power, but the control is not external; it is self-control. Power is created when individuals perceive that their leaders are honourable, so they trust them, are inspired by them, believe deeply in the goals communicated by them, and desire to be led. Because of their sense of purpose and vision, their character, their essential nature, and what they represent, leaders can build principle-centred power in their relationships with their followers.

With principle-centred power, ethical behaviour is encouraged because loyalty is based on principles as they are manifested in persons. Ethics is ultimately grounded in a commitment to doing right things, and principle-centred power elicits a willingness to risk doing right things, because they are valued, they are modelled by the leader, and they are sanctioned by the vision clarified by the leader. AT

Dr. Blaine Lee will be speaking at a CPE programme entitled *Principle-Centred Leadership*, which will be held from 16-18 May 2005 at the Sheraton Imperial, Kuala Lumpur. For more information please contact Ms. Yoga at 03-2279 9200 (MIA).

MANAGEMENT ACCOUNTING FOR Corporate Excellence

The use of management accounting in fine-tuning the management and operational aspects of an organisation has presently become a widely accepted global business practice. As it gains popularity worldwide, Malaysian organisations too are encouraged to adopt and practice these concepts in their quest towards attaining world-class status.

In a joint effort to promote the use of management accounting in Malaysian organisations, the Malaysian Institute of Accountants together with the Chartered Institute of Management Accountants (CIMA), Malaysia Division mooted the National Award for Management Accounting Best Practice (NafMA). The inaugural NAfMA competition was held on 8 December 2004.

Local bank, Malayan Banking Bhd (Maybank) won the overall excellence award for management accounting. Here, the bank's Deputy President, YBhg Dato' Mohammed Hussein shares with *Accountants Today* (via e-mail) the importance and benefits of utilising management accounting in steering the organisation towards greater success.

YBhg Dato' Mohammed Hussein, Deputy President, Malayan Banking Bhd

AT: How do you feel about winning the award?

Dato' Mohammed Hussein: The NAfMA award is the most prestigious and the highest management accounting award to be conferred to any Malaysian organisation in the country. I feel really honoured to receive this prestigious award on behalf of our staff who, through hard work and determination have improved our processes and capabilities to ensure superior total customer experiences with Maybank. Given the quality of the companies shortlisted for the award, which include many reputable multinational corporations, the award is also a positive affirmation that we are on the correct track in respect of meeting and exceeding world class accounting standards and practices in our organisation. The award also puts us under public scrutiny as an organisation that advocates high standards, and it pushes us to even higher levels of performance excellence. This is our promise.

AT: What is the formula for your success?

Dato' Mohammed Hussein: We recognise that our aspirations to be a regional player start with making informed decisions. Through strategic use of management accounting practices and best in class tools and capabilities, we have built our competitiveness and differentiated ourselves from others in Malaysia to enable us to compete at the regional level. Over the long term we have historically delivered excellent shareholder value. With the help of our strong and committed management team and support from a resourceful and committed workforce, that places quality management at the centre of everything we do, we believe that we will continuously enhance the value creation.

AT: In your opinion why is it important for an organisation to adopt management accounting?

Dato' Mohammed Hussein: A strong and effective management accounting framework is vital to help us to focus on pursuing strategies that enhance value creation for our stakeholders. The tools and the best practices guide us in making informed decisions. In the past, management accounting practices were very much different and the environment we operated in was less complex. In today's rapidly changing and complex environment, management accounting has evolved to be more sophisticated and has become an integral part of the management process and strategy formulation.

As competition continues to intensify, Malaysian organisations need to find ways to improve their financial performance. The application of strategic management accounting principles will assist organisations to identify areas for improvement in supporting business decisions and in achieving breakthroughs in their processes and cost management strategies. As the business landscape continues to liberalise, Malaysian organisations must prepare themselves to adapt to the future scenarios and apply best in class management accounting techniques and tools to ensure their continued dominance domestically and regionally. We believe that when management accounting is woven with management decision making processes, it serves as a powerful tool to continuously rethink and dramatically improve the delivery of products and services, processes and market strategies, which in turn will lead to wealth and value creation.

By putting emphasis on management accounting based targets, we have achieved the following:

- Significant improvements in cross product ratio for our upper segment and middle market segment
- Increase in employee productivity measured by asset per employee and operating profit per employee
- High Price to Book Ratio among all listed banking institutions, which is nearly 56 per cent higher than the average of the other nine listed anchor banks.
- Strong growth in fee income
- Improved services such as average waiting time of two minutes and loan turnaround time of 24 hours.

"A strong and effective management accounting framework is vital to help us to focus on pursuing strategies that enhance value creation for our stakeholders."

AT: What does this award mean to you and how does it benefit your organisation?

Dato' Mohammed Hussein: Winning the Excellence Award is an acknowledgement of what the practitioners of management accounting feel about our practices and capabilities. It also endorses that we are adhering to world class best practices. This means that we have made an impact on value creation for our key stakeholder groups. We know that they have the trust and foresight to understand why we have invested in capabilities or technologies that enhance value creation.

Participation in the NAfMA Best Practice 2004 allows Maybank Group to perform a self-assessment as part of an internal improvement initiative against the eight criteria defined by the NAfMA organising committee. This assessment allows us to identify our strengths and to define opportunities for improving our processes and tools used to support the decision-making processes in our organisation. Furthermore, the criteria outlined by NAfMA also allows us to respond to the challenges posed in the areas of management accounting: the need to continuously create value, openness and transparency and the challenges of innovation. In addition, winning the NAfMA is a testimony of our best practices in the areas of management accounting as it is a prestigious award and represents organisational excellence.

We also see NAfMA as a platform to facilitate communication and share best practices with all Malaysian organisations in various industries. Through this process, we can benchmark our practices against other Malaysian organisations, including the multinational companies. This in turn will help us identify standards of excellence in performance and areas for improvement. By identifying, understanding, comparing and adapting our practices with outstanding practices of others, we can continue our leadership in the financial services domestically and to build our regional strength.

Our journey was not alone. We benefited from the experience and knowledge of many who willingly shared their experiences with us. We thank the examiners who assessed us, the representatives from the Malaysian Institute of Accountants (MIA) and the Chartered Institute of Management Accountants (CIMA) who encouraged us to participate in this prestigious award.

AT: Do you see yourself participating in the NAfMA 2005?

Dato' Mohammed Hussein: Yes. Given the rapid velocity of change in our operating environment, it is imperative that we continuously strive to reinvent ourselves in all facets of our operations. As a leading bank in Malaysia, Maybank should strive to set high industry standards as a norm rather than an exception.

AT: What is your opinion of the NAfMA awards? How do you see it contributing towards the betterment of corporate Malaysia?

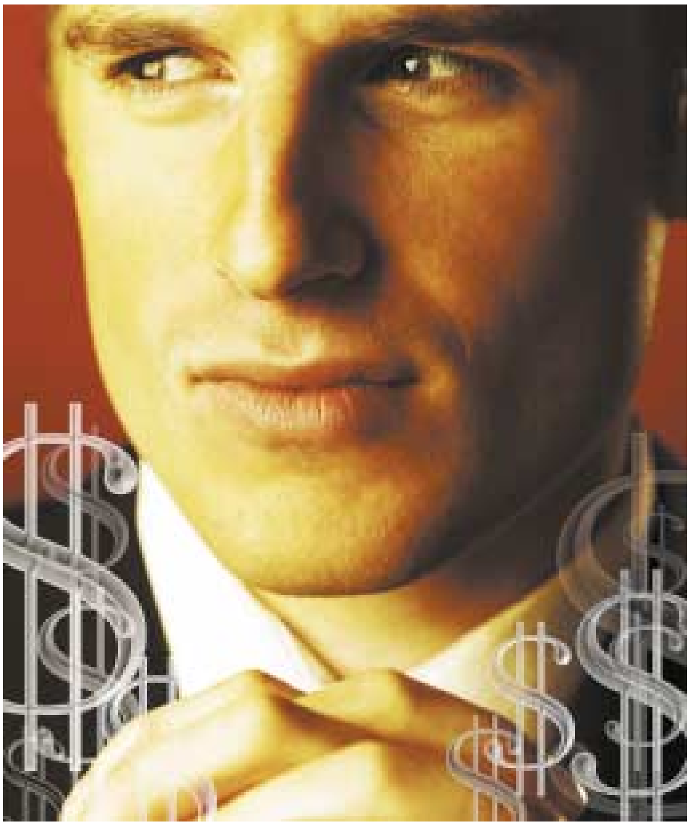
Dato' Mohammed Hussein: The award is a yearly award and as I've mentioned, the winner is put under public scrutiny of the high standards the organisation practices. A responsible organisation will continue to ensure that it will upgrade and improve itself so that the formula that won it the award this year is enhanced continuously. As the award recognises excellence in financial accounting, which has significant bearing on issues such as trust, accountability, governance, credibility and integrity, which in turn contribute to the profitability and success of an organisation, the awards programme is a boon for corporate Malaysia. The NAfMA awards are decided by independent judges and this impartiality is important in according it with prestige and distinction. These awards are also an additional yardstick that enhances customer's loyalty and brand recognition. They propel us to achieve a higher level of excellence and this is good for all stakeholders of the organisation, customers, staff, shareholders and it is also a positive reflection of quality in corporate Malaysia. AT

NAfMA 2005 is now open to public-listed and non-listed companies, including small and medium enterprises (SMEs). The closing date for submission is 25 August 2005. For more information please contact Marini Abu Bakar at 03-2279 9200 (MIA) or Ms. Ross Kamaruddin at 03-7803 5531.

King OF THE Return

by Steve Marchant

Finance directors may be instrumental in determining corporate strategy and exercising cost control, but it is well worth focusing more closely on the revenue side of the profit equation.



Many sectors, including transport, travel and telecoms, are concerned mainly with the sale of perishable goods and services. Firms in these industries can increase their profits significantly by applying the principles of revenue management. This is the term that is used to describe the process of achieving the maximum return. It requires information systems and pricing strategies to allocate the right type of capacity to the right customers at the right place at the right time. It also calls for a combination of market segmentation, inventory control, forecasting and pricing (Figure 1).

Revenue management started in the airline industry during the late 1970s after its deregulation in the US, when the established carriers were forced to protect their high-yield business from aggressive new competitors. It has been practised widely by airlines for 30 years, but it has been slow to spread to other sectors, despite the financial benefits it offers. It has now been adopted widely by hotel, cargo and car-hire businesses and, more recently, by tour operators.

Most industries are facing increasing price and margin pressure. Traditional solutions such as cost-cutting will always play a role, but on their own they are unlikely to create a lasting competitive advantage because companies will be following similar strategies and may take turns to be market leader, often with lower prices and profits. Revenue management can lead to a sustainable advantage — and this advantage is generally enhanced if your competitors choose the same route. It usually works best when a company's capacity is fixed or semi-variable and the revenue-earning potential of each unit of capacity is perishable.

Revenue management is a way of controlling price and capacity, which are generally (if not absolutely) known, and demand, which is far less well known. Accurate forecasting techniques are therefore required to predict future demand based on historical data and current sales trends. Advanced methods can be used to strip out the effects of price changes and capacity constraints.

The revenue improvement that is attainable increases with the precision of your forecasts, so it is important to use the most appropriate technique of the many that are available and to feed this with the most up-to-date and accurate information. Choosing a forecasting system is not straightforward and the one you choose depends on a range of factors, the key ones of which are:

- The buying behaviour of your customers;
- The historic sales and price data that is available to you;
- The data processing "window"; and
- The competitiveness of your market.

A forecasting system can generate a significant return on investment and is the logical first step for an organisation moving into revenue management, but this will not be fully effective unless it is harmonised with a profit optimisation system. The term "revenue management system" is generally used to cover this combination.

In essence, optimisation is the process of balancing supply and demand — profitably. A company can use a number of optimisation approaches, the best-established being the "yield class" method. Yield classes sometimes exist in a business, even if they are not understood or referred to as such. Here, firms need to segment their inventory using criteria other than price - for example, by setting out differential terms, conditions and "extras", and then allocating their inventory to pre-determined yield-class "buckets" in the volumes determined by the forecast system for each bucket.

The age-old business problem is that of selling the right product to the right person at the right time for the right price. Anything else is either a lost customer or cannibalisation, both of which equate to a missed revenue opportunity. How many of us know how many of our customers would have paid more, or how many prospective customers went to a competitor after contacting us? How much revenue should we estimate has been missed? It is sure to be significant.

The introduction of a structured approach to revenue management gives firms the chance to minimise these missed opportunities and increase their returns. In essence, it involves two steps — optimising the pricing structure and optimising price levels. Optimising the pricing structure will differentiate your products or services to match the differing needs of your customers. This builds effective barriers between your offerings to prevent cannibalisation and enable "upselling". Unsurprisingly, this ties in nicely with yield-class optimisation.

Optimising price levels is the process of determining the prices for each one of your products and services to maximise the revenue from your optimised pricing structure. An economist may tell you that this can be calculated from the price elasticity of demand. This is true — up to a point: different customers have different price elasticity, which can change over time and depend on their reasons for buying. To complicate matters further, many, if not all, customers will compare prices with those of your competitors.

The answer lies within your revenue management system. Here you have stacks of segmented data on how demand changes with price. Link this with your competitors' prices and you have the minimum amount of data needed to create and maintain an effective segmented price elasticity model. This model will enable you to:

- Optimise price levels;
- Evaluate new price decisions before implementing them; and
- Assess the impact of your competitors' price changes and determine the best response.

These secondary benefits of revenue management systems are rarely exploited fully, yet they can deliver dramatic increases in profit through faster decision-making, more effective marketing, improved operational efficiency and increased productivity.

To ensure that you continue to get the best from your revenue management investment, you also need to establish correct performance monitoring supported by periodic audits. These audits should address the system inputs, outputs and processes and also review how the valuable data and knowledge is used at different levels throughout an organisation.

Modern revenue management systems are now far more user-friendly, and Figure 2 shows the architecture of a typical system. Analysts and managers can be far more effective when they have a reliable reference tool that helps them to understand the relationship between historical and future sales volumes. A good system will produce structured exception reports on-line, allowing analysts to solve inventory problems and manage prices instead of wasting their time collating data. AT

Steve Marchant FCMA is Managing Director of Consultecom, a specialist revenue management solution provider in the UK. This article is contributed by CIMA Malaysia and it first appeared in *Financial Management*, CIMA's monthly magazine for accountants in business.

Figure 1 The Elements of Revenue Management

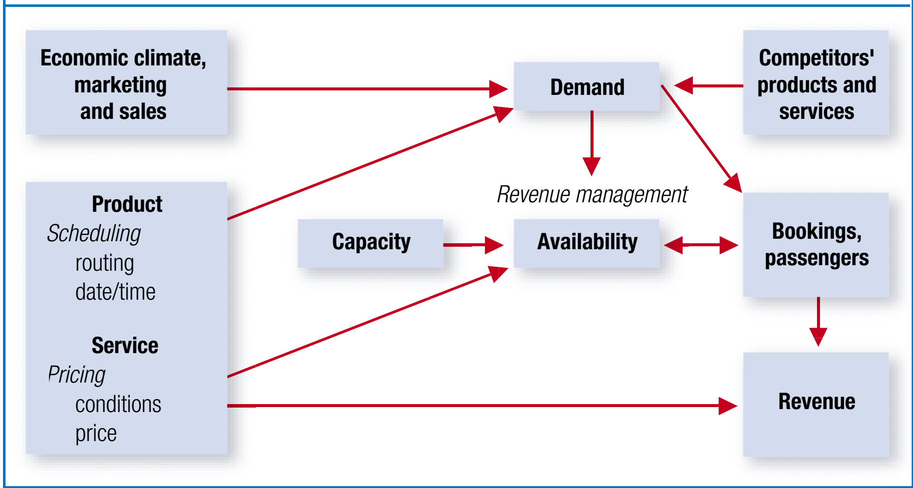
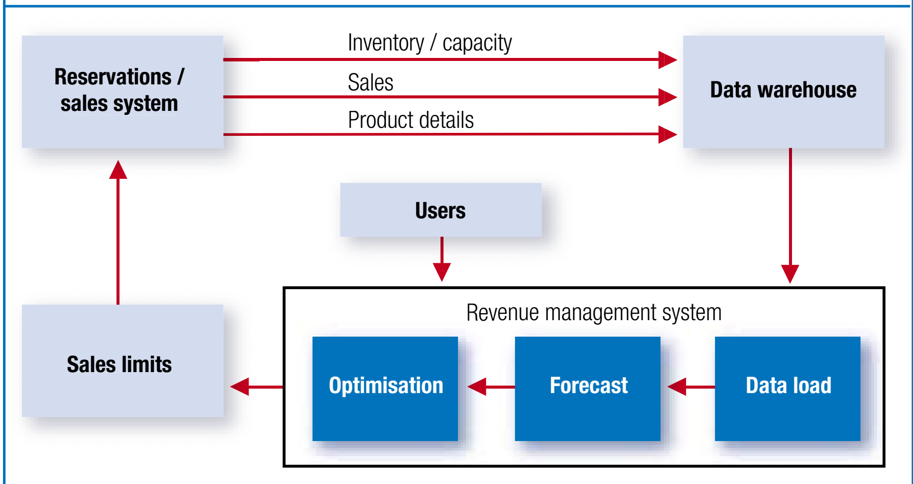


Figure 2 Typical Revenue Management System Architecture



WHAT IS Viral Marketing

The "viral marketing" name is hitting us from all directions. Hardly a business plan comes through Draper Fisher Jurvetson's door without some mention of a viral marketing strategy. From March to June last year in San Francisco alone there were three conferences titled "Viral Marketing," not to mention a few books written on the topic. In some cases, the term is used quite loosely to refer to simple word-of-mouth or pyramid marketing. It has also been applied to a diverse set of entities — from the Blair Witch to Mahir.

by Chad Fenwick

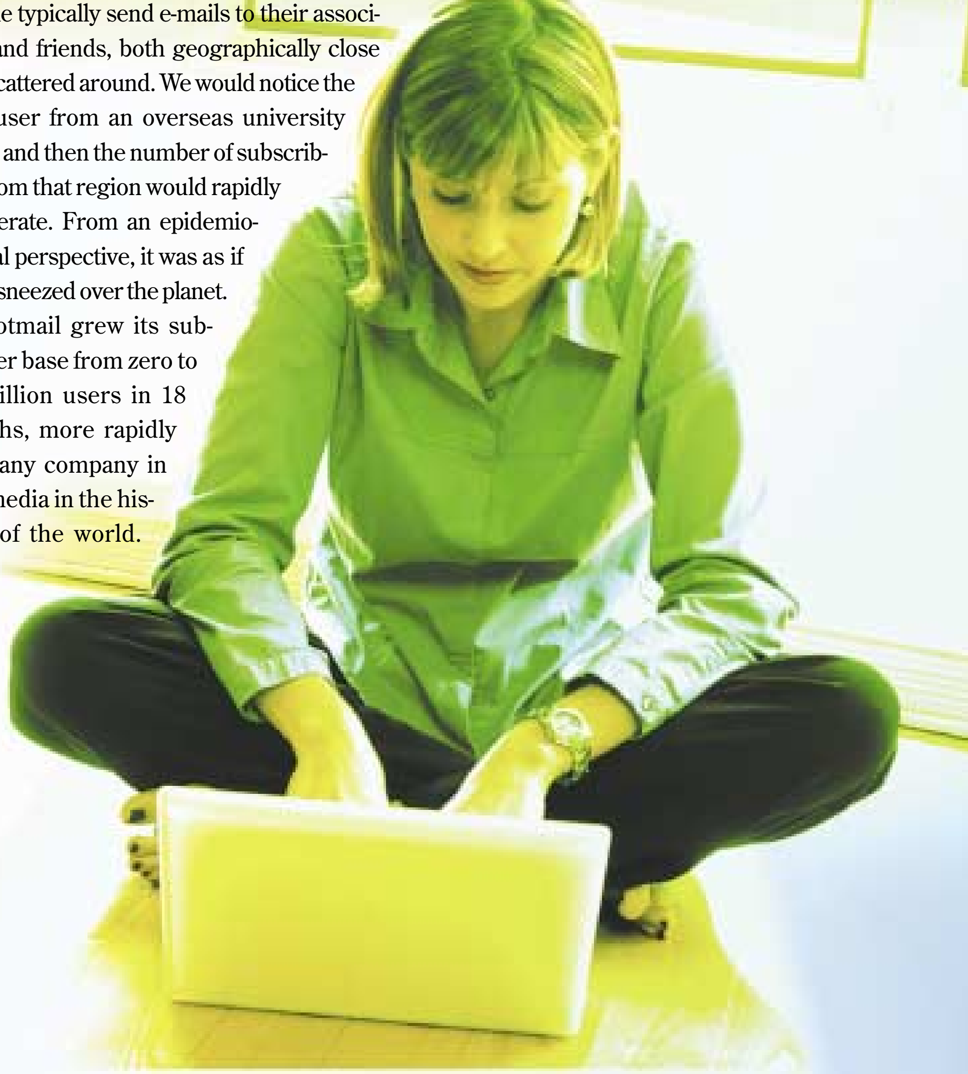
So what is viral marketing? In 1997, when DFJ first coined the term in Netscape newsletter (*www.dfj.com/viralmarketing*), we used several examples to illustrate the phenomenon, without defining it more precisely than "network-enhanced word of mouth." Its original inspiration came from the pattern of adoption of Hotmail beginning with its launch in 1996. Tim Draper persuaded the company to include a promotional pitch for its Web-based e-mail with a *clickable* URL in every outbound message sent by a Hotmail user. Therein lay one of the critical elements of viral marketing:

Every customer becomes an involuntary salesperson simply by using the product. The product is fundamentally a communications product, and the marketing piggybacks on the message.

Viral marketing is more powerful than third-party advertising because it conveys an implied endorsement from a friend. Although clearly delineated as an advertisement, the spillover marketing benefits are powerful — much like the efficacy of radio commercials read by your favorite DJ. The recipients of a Hotmail message learn that the product works and that their friend is a user. A key element of consumer branding is usage affiliation: do I want to be a member of the group — in this case, my friends — that use the product?

We were amazed at how quickly Hotmail spread over the global network. The rapid adoption pattern was that of a network virus. People typically send e-mails to their associates and friends, both geographically close and scattered around. We would notice the first user from an overseas university town, and then the number of subscribers from that region would rapidly proliferate. From an epidemiological perspective, it was as if Zeus sneezed over the planet.

Hotmail grew its subscriber base from zero to 12 million users in 18 months, more rapidly than any company in any media in the history of the world.



Fair enough, this is the Internet after all. But it did so with an advertising budget of $50,000 … enough for some college newspaper ads and a billboard. Non-viral competitors like Juno spent US$20 million on traditional marketing in the same time period with less effect. What's more, Hotmail became the largest e-mail provider in several countries, like Sweden and India, where it had done no marketing whatsoever.

Hotmail is not an isolated incident. Hotmail and the instant messenger service ICQ had close to the same number of subscribers at their 6, 9, 12, and 18-month stages. What do they have in common? Hotmail was typically used as a secondary or personal account for communication to a close coterie of friends — much like ICQ's buddy lists. There appeared to be a mathematical elegance to their smooth exponential growth curves.

A first-order model for viral spread is this:

cumulative users = (1+fanout) ^ cycles

In this model, the exponent cycles are the number of times the product is used in the time period since launch (or frequency x time). In the early days, Hotmail and ICQ fanned out to about two new users every month, and they each told two friends, and so on, and so on. By the simple model, one seed user grew to three users at the end of the first cycle, nine by the second, 27 by the third, and so on. Companies with much larger fan-outs, such as the free e-mail list managers, have grown more quickly than Hotmail. Those that have provided an economic incentive to spam large groups, like all Advantage, has grown faster still, going from zero to 750,000 users in two weeks. The same formula would apply to traditional word-of-mouth marketing (like MCI Friends & Family discount plans and Tupperware parties), but lacking the involuntary coupling to patterns of communication, the average fan-out and frequency are much lower.

For a bit more accuracy, we can factor in the variables that describe the success of the recruiting message and the retention rate as percentages:

*Cumulative users = [(1+fanout * conversion rate) * retention rate] ^ frequency * time*

Working through the variables, the ideal viral product will be used to communicate with many people, will convert a high percentage of them to new users, and will retain a high percentage of them. It will also be used quite frequently.

A more accurate, second-order model would include decay functions on each of

the variables, reflecting novelty and saturation effects. For example, Hotmail's variables are tapering as it reaches population saturation. Hotmail now has more than 60 million active users, which is one out of every four people on the Web worldwide.

Given our excitement about the power of viral marketing, we have funded several companies that are pushing viral marketing in new directions, and we have suggested the addition of a viral element to an otherwise non-communicative product. For example, Net Zero's e-mail vector of spread is very similar to Hotmail's, but it has higher retention and conversion rates. Totally free Internet access is a more compelling proposition than free e-mail, and so Net Zero has grown faster than Hotmail in the US. It has also grown ten times faster than America Online, becoming the second largest Internet service provider in America. In-group event RSVP management, SeeUthere.com has a much higher fan out, reaching many invitees but with a lower frequency — the rate at which events and parties are held.

Companies as diverse as Info rocket (a marketplace for questions and answers), Third Voice (a pan-Web community and information service) and Homestead (personal Web pages) have found ways to amplify their growth through viral spread. Info rocket encourages users to forward a question to a friend who is likely to know the answer, and in return, the forwarder gets a cut of the lifetime economics of the new recruit. Third Voice encourages users to share their commentary with friends and colleagues via email, thereby upgrading each recipient's browser with Third Voice. Homestead facilitates the recruitment of co-authors to a family or group website, eventually ringing the community of users to Homestead.

In the e-commerce world, online retailers have gained some viral effects through gift packaging and "refer a friend" programmes. Mimeo.com has taken it a step further by applying viral marketing to every package it delivers. Mimeo offers Web-initiated printing, copying, binding and delivery — a substitute for waiting in line at Kinko's. Each sender is a Mimeo user, but the multiple recipients are not. So the FedEx-like package is covered with Mimeo evangelism. Tumbleweed Software uses a similar strategy for online document delivery to great effect.

Meanwhile, Vivaldi offers viral marketing programmes to brick-and-mortar retailers through a computerised feedback loop between cash registers and the Web. By knowing what and when customers are buying, Vivaldi lets retailers offer powerful promotions like frequent-shopper discounts, refer-a-friend bonuses, and new-product notifications. For the first time, offline retailers can offer loyalty and recruitment programmes that are common on the Web but difficult to implement manually at a traditional store.

And this is just the beginning. NetMind offers a free website update notification service as a pre-sales pilot for enterprise server sales. The free voicemail, fax, and telephony companies use aural marketing to recruit new users. Even Palm users are beaming viral applications over their infrared ports.

From a memetic engineering perspective, the idea of viral marketing spreads like an adaptive virus. The idea itself evolves as it is retold in society. AT

SPECIAL NOTICE

2005 Asia Pacific Balanced Scorecard & Hall of Fame: Roadmap To Better Performance, Growth and Sustainability

In a rapidly changing business environment where businesses are faced with an increasingly multitude of concerns, how do businesses strive to stay competitive, reduce their operational costs and capture new markets?

The time trusted technique of planning — having a strategy and carrying it through to implementation has always been the answer. But how do you keep a plan on track and ensure that it reaches fruition?

The balanced scorecard approach conceived by Dr. Robert Kaplan and Dr. David Norton in 1992 applied years of research to the links between costs and performance measurement. More precisely, it sought to look outside traditional financial measures in evaluating performance and effectiveness of corporate strategy.

It is by no means a new method; however this approach makes strategy a continuous process owned not just by top management but by everyone. Unlike traditional approaches that looked primarily at tangible assets and were managed essentially by the budget, the underlying notion of the balanced scorecard is that companies should measure not only physical assets but intangible assets such as staff and strategy.

The system starts with a balanced scorecard strategy map that gives businesses the ability to look at their operations from four perspectives: financial, customer, internal business processes and growth. Each is linked to activities and a measurement of success. What the balanced scorecard provides is the idea that you need measurements not just for improving existing operations but to reflect the company's overall strategy.

The 2005 Asia Pacific Balanced Scorecard & Hall of Fame Summit will be Dr. Robert Kaplan and Dr. David Norton's first ever event together on one platform in Asia.

Over a period of three days the creators of Balanced Scorecard (BSC) together with leading practitioners in the region will share their insights and experiences on how BSC has a role in helping improve performance and strategy in organisations. Further, it explores how BSC can be used to manage Key Performance Indicators (KPIs) which, in the long term will drive better performance, growth and sustainability in organisations.

The summit will feature case studies from organisations with diverse backgrounds in the region on how they overcame the challenges to getting to their end results and or achieved world-class status. These include **KT (Korea Telecom)** who used BSC to transform itself from an organisation on the verge of bankruptcy to a technology powerhouse setting the global benchmark for broadband penetration with over five million customers by October 2003. Other case studies include **EPF Malaysia's** journey of moving from an operational focus towards a more strategic focused culture and **BMW Financial Services'** story on how an already successful organisation decided to travel the road of BSC and by doing so achieved considerable performance gains at many levels.

In addition to all of the above the Summit will host the 2005 Hall of Fame Awards. This is an international award that publicly recognises organisations around the world that use the BSC in an exemplary manner to achieve breakthrough performance results.

The Summit and Hall of Fame Awards will be held at the Hotel Nikko from the 13-15 June 2005. For more information, please call 03-78806839 or visit *www.urban-forum.com.* AT

Invitation to participate in the Best Internal Audit Practice Award 2005

Nominations for the Best Internal Audit Practice Award (BIAPA) are now open to all companies with an internal audit department.

BIAPA is Malaysia's most prestigious award in recognition of outstanding internal audit practice. BIAPA is jointly organised by the Malaysian Institute of Accountants (MIA) and the Institute of Internal Auditors Malaysia (IIA Malaysia) with the aim to recognise and award companies with the most outstanding internal audit practices demonstrated through 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.

BIAPA was introduced in 2004 and has received encouraging response from companies and the profession. The winners for 2004 were Sime Darby Berhad and Petroliam Nasional Berhad for the listed and non-listed categories respectively.

For its second year, the BIAPA 2005 Task Force, co-chaired by Raymond Liew (MIA) and Wee Hock Kee (IIA Malaysia), decided to review the categories and also the evaluation criteria for selecting winners.

Two categories up for grabs in 2005 are differentiated by the shareholders' funds of the participating companies. Category 1 is for companies with shareholders' funds exceeding RM200 million whereas Category 2 is for companies with shareholders' funds of less than RM200 million. With the new award categories, the Task Force hopes to see companies competing with companies of the same strength.

2004 winner in the non-listed category ... Petroliam Nasional Berhad

Sime Darby Bhd won the BIAPA 2004 Award for the public-listed category

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

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

As in 2004, 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 will be required to submit a list of documents in support of their responses 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. The winners of BIAPA will be decided by an independent Adjudication Committee.

The official launching of BIAPA 2005 will be held in the middle of May 2005. Nomination forms are now available from the BIAPA 2005 Secretariat. Interested companies may contact Noor Azlina Abu Bakar or Maizatul Azura Alias at 2279 9200. All nomination forms are to be submitted before 15 July 2005. AT

Invitation to comment on Audit Risk Exposure Drafts

The Institute is pleased to inform members that the Council has approved the release of the following exposure drafts for circulation to members, member firms, regulators, professional accountancy bodies and interested parties for comments.

Exposure Draft	Deadline for comment
ED 315/2005: *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement.*	31 May 2005
ED 330/2005: *The Auditor's Procedures in Response to Assessed Risks.*	31 May 2005
ED 500(R)/2005: *Audit Evidence.*	31 May 2005

These exposure drafts are drawn primarily from the International Standards on Auditing (ISA) issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC).

Comments may refer to any specific principles, paragraphs or group of paragraphs and suggestions for alternative solutions or wording with supporting reasons. These comments will be collated and, where appropriate, incorporated into the proposed standards before being issued in the form of Approved Standards on Auditing.

Comments should be submitted in writing and are to be received by the respective deadlines. Members can download the said exposure drafts from our website at *www.mia.org.my.*

The accompanying explanatory memorandum provides some background to and explanation of the proposed Malaysian Approved Standards on Auditing (MASA).

Explanatory memorandum to exposure drafts

This memorandum has been drawn primarily from the Audit Risk — explanatory memorandum to exposure drafts issued by the IAASB and has been modified as appropriate.

The exposure drafts issued by the IAASB in respect of the Audit Risk project comprised the then *Proposed amendment to ISA 200, ISA 315, ISA 330 and ISA 500*. The Institute has, prior to this, issued ED ISA 200 for comment in September 2004 and is now issuing the remaining ED ISA 315, ED ISA 330 and ED ISA 500 of the Audit Risk project for comment. This explanatory memorandum accordingly reflects the context described above.

Introduction

The Institute, like the IAASB, believes the ED ISAs will increase audit quality as a result of better risk assessments and improved design and performance of audit procedures to respond to the audit risks. The improved linkage of audit procedures and assessed risks is expected to result in a greater concentration of effort on areas where there is greater risk of misstatement. In some cases, this may result in a change to the audit approach, including the audit procedures performed. In many cases, implementation of the ED ISAs will result in an overall increased work effort by the audit team, particularly for new engagements or when first implemented on continuing engagements. It is also likely that implementation of the new requirements will require new skills and competencies, and may increase the need for specialist assistance on audits. The Institute will consider the training needs that will

ED ISA	Existing ISA to be replaced
ED ISA 315, "Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement"	**ISA 310**, "Knowledge of the Business" **ISA 400**, "Risk Assessments and Internal Control" **ISA 401**, "Auditing in a Computer Information Systems Environment"
ED ISA 330, "The Auditor's Procedures in Response to Assessed Risks"	**ISA 400**, "Risk Assessments and Internal Control" **ISA 401**, "Auditing in a Computer Information Systems Environment"
ED ISA 500, "Audit Evidence"	**ISA 500**, "Audit Evidence"

result from the new requirements, and Auditors will need to also consider such needs. The ED ISAs and the ISAs to be replaced are shown in the table.

Changes to existing requirements

The ED ISAs deal with the core of the audit — the auditor's assessment of the risk that the financial statements could be misstated, and the way in which the auditor designs the rest of the audit to provide an effective audit response to the identified risks. The approach to the audit required by the ED ISAs is summarised by the diagram in the Appendix. Underlying this approach is the "audit risk model", which is the fundamental statement of the theoretical basis of today's audit. The essentials of the audit risk model remain the same; however, new requirements and expanded guidance are proposed to enhance the auditors' implementation of the audit risk model. The proposed changes are significant, as described below, and are intended to improve auditor performance.

The ED ISAs deal with their subject matter in different combinations than did the previous ISAs. There is no separate ISA on understanding the business, since the IAASB considered, as does the Institute, that to combine this with the material on making risk assessments put the purpose of understanding the business into its proper context: it is a central part of the audit, whose importance in the risk assessment process needs to be understood. Previously, *ISA 400, Risk Assessments and Internal Control*, dealt with understanding internal control and with testing controls and substantive testing. The IAASB emphasised the fundamental importance of designing and performing audit procedures to respond to the auditor's risk assessments, and considered that an appropriate way of recognising this was to make this the subject of a separate ISA; the Institute supports this position. Finally, in responding to the fact that computer systems are generally now the rule rather than the exception, their use has been assumed in the ED ISAs so that a separate ISA such as the current ISA 401, "Auditing in a Computer Information Systems Environment," was unnecessary.

Significant changes and effect on the auditor's work

Significant changes in the ED ISAs and the way they are expected to affect the auditor's work are discussed below. In overview, they relate to the following:

- **The auditor is required to obtain an enhanced understanding of the entity's business.** The auditor is required to perform audit procedures to obtain a broader and deeper understanding of specified aspects of the entity and its environment, including its internal control.
- **The auditor is required to make risk assessments in all cases.** The required understanding of the entity provides a better basis for identifying risks of material misstatement at the financial statement level and in classes of transactions, account balances and disclosures. The auditor is required to perform a more rigorous assessment in relating the identified risks to what can go wrong at the assertion level. By requiring the auditor to make risk assessments in all audits, the auditor can no longer default to a high-risk assessment.
- **The auditor is required to link the identified risks to audit procedures.** In designing and performing further audit procedures, the nature, timing and extent of the procedures are linked to the assessed risks.
- **The auditor is required to document specific matters**. The proposed documentation requirements are more specific, in recognition of the importance of documentation in driving better performance of the audit.

The details of the more significant changes are outlined below. The explanation of significant changes is a summary of the main effects of the proposed Standards. It is essential to read the ED ISAs (including ED ISA 200) in their entirety for a full appreciation of their effect on the auditor's work.

Expanded understanding of the entity. ED ISA 315, "Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement," specifies and expands upon what the auditor must understand about the entity whose financial statements are being audited. In particular, the auditor is required to obtain an understanding of business risks to the extent that they are relevant to the financial statements.

Sources of understanding and procedures for obtaining it. The ED ISAs include requirements and guidance on where and how the auditor should obtain the required understanding. These new requirements are intended to provide rigor and substance to the auditor's procedures and to improve the auditor's knowledge by requiring the auditor to look beyond those involved in financial reporting and management to those with operational roles within the entity. In addition, the proposals emphasise that the information obtained during this phase of the auditor's work may constitute valid audit evidence which contributes to the auditor's opinion but is not sufficient, in and of itself, to support the auditor's opinion. The audit procedures undertaken to obtain the necessary understanding are referred to as "risk assessment procedures."

Discussion among audit team. The members of the audit team are required to discuss the susceptibility of the entity's financial statements to fraud. This reinforces the requirement for the audit team to discuss fraud risk, introduced in ISA 240 (Revised), "The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements". The purpose of this requirement is to encourage the team to share information and ideas so that the collective wisdom of the team can be brought to bear on the risk identification process.

Internal control — increased requirements and guidance. The requirements and guidance related to internal control have been substantially increased including specification of the components that comprise internal control, the extent of the required understanding of each of the components of internal control, and the auditor's procedures to obtain an understanding of internal control.

- Internal control components of which an understanding is required now include the entity's risk assessment process and its monitoring of controls. This change, along with increased guidance on the entity's control environment, is intended to assist the auditor in better understanding the role that management and those charged with governance have in the entity's overall internal control and how such controls may affect the auditor's procedures.

- In understanding the entity's internal control, the auditor is required to evaluate the design of controls and determine whether they have been implemented. This level of understanding is greater than that previously required. In particular, evaluation of the design and determination of the implementation of controls that address significant risks and controls that relate to assertions for which substantive procedures alone are not sufficient, is required. In obtaining this level of understanding of internal control, the auditor is more likely to identify controls that are of relevance to the audit and is consequently encouraged to plan reliance on such controls.

Assessing the risks of material misstatement. In obtaining a broader understanding of the entity and its environment, including its internal control, the auditor has a better basis for identifying risks of material misstatement. The auditor's assessment is supported by the audit evidence obtained from the risk assessment procedures. In performing the risk assessment, the auditor is required to assess the risks of material misstatement at the assertion level, identify risks that are significant in the auditor's judgement, and identify assertions where substantive procedures alone will not be sufficient. The ED ISAs describe risk assessment as a combined assessment of inherent and control risk. The auditor may perform combined or separate assessments.

Responding to risks of material misstatement. The auditor's procedures should be responsive to the assessed risks and reduce audit risk to an appropriately low level. The auditor responds to risks at the financial statement level and the assertion level. Because of the nature of risks at the financial statement level, the auditor is required to determine overall responses, such as assigning audit staff with special skills or incorporating additional elements of unpredictability in the selection of audit procedures to address such risks. In responding to the risks of material misstatement at the assertion level, the nature, timing and extent of the auditor's procedures need to be clearly linked to the assessed risks. ED ISA 330, "The Auditor's Procedures in Response to Assessed Risks," emphasises the nature of the procedures in determining the response to the assessed risks.

Testing the operating effectiveness of controls. In evaluating the entity's internal control, the auditor may identify controls and plan to rely on the effectiveness of such controls. For such controls, consistent with current ISAs, the auditor tests that the controls are operating effectively at relevant times during the audit. ED ISA 330, "The Auditor's Procedures in Response to Assessed Risks," contains new guidance concerning the use of audit evidence of the effectiveness of controls obtained in previous audits, including:

- If the auditor intends to rely on controls that have not changed (based on the auditor's evaluation of design and whether in operation in the current period) since they were last tested, the auditor tests the operating effectiveness of such controls at least once in every third audit. The longer the time elapsed since a control is tested, the less audit evidence the control may provide about its effectiveness in the current year.
- For a significant risk, where the auditor plans to rely on the operating effectiveness of controls intended to mitigate the risk, the auditor obtains audit evidence about the operating effectiveness of relevant controls in the current period.

Substantive procedures. A new requirement is that for significant risks the auditor must perform substantive procedures that are specifically responsive to the risks. Although there is no change to the current requirement to perform substantive procedures for material classes of transactions and account balances, the requirement has been extended to disclosures given their

Appendix: Overview of the ED ISAs

Perform risk assessment procedures Perform audit procedures to understand the entity and its environment: ■ Industry, regulatory, and other external factors including applicable financial reporting framework ■ Nature of the entity ■ Objectives and strategies and related business risks ■ Measurement and review of the entity's financial performance ■ Internal control	*See paragraphs 6 to 99 of ED ISA 315, "Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement"*
Assess the risks of material misstatement Assess the risks of material misstatement at the financial statement level and the assertion level by: ■ Identifying risks through considering • the entity and its environment, including its internal control • classes of transactions, account balances and disclosures ■ Relating the identified risks to what can go wrong at the assertion level ■ Considering the significance and likelihood of the risks	*See paragraphs 100 to 118 of ED ISA 315, "Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement"*
Respond to assessed risks Respond to the risks at the financial statement level and assertion level by: ■ Developing overall responses to the assessed risks at the financial statement level; and ■ Determining the nature, timing and extent of further audit procedures at the assertion level	*See paragraphs 4 to 21 of ED ISA 330, "The Auditor's Procedures in Response to Assessed Risks"*
Perform further audit procedures Perform further audit procedures that are clearly linked to risks at the assertion level by: ■ Performing tests of the operating effectiveness of controls ■ Performing substantive procedures	*See paragraphs 22 to 65 of ED ISA 330, "The Auditor's Procedures in Response to Assessed Risks"*
Evaluate audit evidence obtained Evaluate whether sufficient and appropriate audit evidence has been obtained.	*See paragraphs 66 to 72 of ED ISA 330, "The Auditor's Procedures in Response to Assessed Risks"*

increased significance under financial reporting frameworks.

Evaluating the sufficiency and appropriateness of audit evidence. The sufficiency and appropriateness of audit evidence obtained is a matter of professional judgement. ED ISA 330, "The Auditor's Procedures in Response to Assessed Risks," provides additional guidance in performing this evaluation. If the auditor is unable to obtain sufficient and appropriate audit evidence, the auditor expresses a qualified opinion or a disclaimer of opinion.

Documentation requirements. Both ED ISA 315, "Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement," and ED ISA 330, "The Auditor's Procedures in Response to Assessed Risks," expand the documentation requirements. Some of the additional documentation requirements include:

- Details of each aspect of the understanding of the entity and its environment obtained (including internal control);
- The procedures performed to obtain the understanding including the sources of information;
- The results of the risk assessments both at the financial statement and assertion levels;
- The nature, timing and extent of the auditor's procedures; and
- The linkage with the assessed risks and the results of the audit procedures.

Conforming changes

The ED ISAs will have the most effect on the auditor's risk assessment process and in performing further audit procedures based on the risk assessment. However, the proposals will also affect other aspects of the audit. The IAASB has since approved ISA 300 (Revised) "Planning an Audit of Financial Statements", and it is expected that the following ISAs will require significant conforming changes:

- ISA 520, "Analytical Procedures;"
- ISA 530, "Audit Sampling and Other Selective Testing Procedures;" and
- ISA 540, "Audit of Accounting Estimates." AT

Criteria for Appointment of Auditors Under Section 74 of the Insurance Act 1996

Bank Negara Malaysia has revised the criteria for appointment of auditors by licence holders under Section 74 of the Insurance Act 1996. The following criteria supersede the criteria issued in our circular MF 9/98.

	For Insurers	For Brokers and Adjusters
(i)	Complies with Section 75(1) (a)-(g) of the Insurance Act 1996.	Complies with Section 75(1) (a)-(g) of the Insurance Act 1996.
(ii)	No significant adverse comments from Bank Negara Malaysia examiners against the auditor*	No significant adverse comments from Bank Negara Malaysia examiners against the auditor*
(iii)	No significant adverse comments known to Bank Negara Malaysia or the insurer against the auditor, from other regulatory bodies such as Securities Commission and Suruhanjaya Syarikat Malaysia, or accounting bodies*.	No significant adverse comments known to Bank Negara Malaysia or the insurer against the auditor, from other regulatory bodies such as Securities Commission and Suruhanjaya Syarikat Malaysia, or accounting bodies*.
(iv)	There must be an engagement partner and a concurring partner in charge of each insurance audit.	Partner/sole proprietor must oversee insurance audit. All brokers and adjusters must be audited by audit firms with at least two partners.
(v)	Audit team must comprise a manager with at least *two* years of insurance audit experience and four audit staff, including an EDP auditor.	Audit team must comprise at least three staff, one of whom must have at least two years of audit experience.
(vi)	There must be a manual for insurance audit.	Manual for insurance audit must be in place.
(vii)	There must be an audit programme which covers critical areas of insurance operations stipulated in the insurance audit checklist issued by Bank Negara Malaysia.	Audit programme must be in place.
(viii)	Audit firm must have a structured continuous training programme for its audit staff.	Audit firm will be encouraged to send staff for training especially courses in insurance audit, but structured training programme is not mandatory.
(ix)	Engagement partner for an audit must be changed after a continuous period of maximum five years. The engagement partner may resume his role as audit engagement partner only after a lapse of five years from his last audit assignment.	Engagement partner for an audit needs to be changed after a maximum continuous period of five years.
(x)	Auditors found to have conducted unsatisfactory audits, including delays in submission of accounts, will not be approved.	Auditors found to have conducted unsatisfactory audits, including delays in submission of accounts, will not be approved.
(xi)	The engagement partner should sign the auditor's certificate.	
(xii)	Problem insurers, even if small, must be audited by audit firms that have the appropriate resources. AT	

** To the best of the insurer's knowledge.*

Kampung Sayong

A VILLAGE WHERE TRADITIONAL MALAY HANDICRAFTS REIGN SUPREME

Perak is a state blessed with many natural resources. This is where the first rubber trees in the country were planted and where many fortunes were made overnight in the mining of the rich tin deposits in the famous Kinta Valley. Aside from natural resources it is also here that many of the traditional Malay handicraft is still practiced, a human resource the value of which cannot be estimated in terms of dollars and cents.

The water container is most sought after

Decorative pottery is now much sought after and moulds are used to speed up the production process

The Drum Maker

One such place to visit is Kampung Sayong, a village just about 4-5 kilometres outside of Kuala Kangsar. Here you can visit the workshop of Pak Chik Haji Zainuddin Andika, a widower who came to Malaysia as a child with his parents from Pulau Rawa, West Sumatra. Initially, the family resided in Pahang but they eventually came to this village in Perak. Not long after arriving here his father passed away and Haji Zainuddin had to fend for his mother and family. He toiled at odd jobs, went fishing and gathering food from the surrounding jungles. It so happened that he also befriended a wood-carver who took the pains to teach him the rudimentary skills of carving and from thereon it was his own enthusiasm and love for the art that enabled him to develop his skills to cover a wide range of wood-crafts that he now produces from his humble workshop in Kampung Sayong.

Amongst a host of handicraft that he produces, he is perhaps most noted for his *kompangs, rebana ubi* and *gendang silat* — all different types of drums used in ceremonial functions like weddings, funerals etc. These beautifully crafted drums require the use not only of many types of wood but also the skin of goats and cows, which he purchases from faraway Kulim and Sabak Bernam. The wood he uses are *nangka* (jackfruit tree), *halban*, *meranti*, *cengal mas* and rattan all of which can be gathered from nearby forests.

He also makes tops of different sizes, the largest weighing two kilos. Haji Zainuddin's workshop was started in 1977 and today he still takes the leading role in his workshop, although one son and grandson are there learning the trade by his side. His daughter also helps out by managing the purchases and sales of his products. They work from morning right up till about eleven at night because he claims that the detail work can best be accomplished in the quiet of the night. The family live in a humble abode and work hard to earn a modest living of two to three thousand ringgit a month. Many visitors and even tourists come to visit and purchase his products but more often they like to watch this jovial old man at work.

The Potters

Kampung Sayong is most famous for its pottery or *labu* as it is locally called. This craft has existed for well over 50 years in this area and only because the special mix of clay required can be found near here at Kampung Kepala Bendang. Originally the clay used to be taken out from the river but now because of depleting resources the villagers are using the earth gathered from the river sides.

Saliza Abdul Ghafoor and her husband Razali Mohammad run one of the many family operated businesses in their own workshop at Kampung Sayong. They employ 3-4 villagers to help them meet the large demand for their products. Initially, about five years ago, they started on a part-time basis but when they saw the potential and demand rising they decided to put in all their effort and go full time. With a small capital of about RM3,000 they were able to get the business off the ground. Now three years later their business is thriving and they have many orders to fill from wholesalers and direct buyers.

Monthly sales exceed RM5,000, 30 per cent of which is used to pay their workers and the rest is for purchase of raw materials and their own income.

Haji Zainuddin, the master drum maker, in his workshop displaying his products

Close up of drums and tops made here

Saliza Abdul Ghafoor manages one of the many pottery workshops at Kampung Sayong

Demand for Saliza's decorative pottery is so good that she now has taken to using moulds to speed up the process. But she still produces the hand made *labu*, especially for the water containers which are much sought after by the Malay community.

There are about 50 potters operating in Kampung Sayong and business is good as their products are sold all across the country. Many tourists even come here to watch their operations and to take home some souvenirs. Such is the state of the art at Kampung Sayong and the future looks good as many more families are getting involved in one way or other. Not far away you'll see the Ubudiah Mosque. AT

LEARN HOW YOU TICK INSIDE – Then Take 7 Steps to Prosper

by Rajen Devadason

Two pieces of ancient wisdom that you are probably already familiar with are:

1. Know thyself; and
2. To thine own self be true!

I'd like you to mull over both excellent pieces of advice as I familiarise you with an exciting branch of modern economics known as behavioural finance.

This new discipline involves studying, analysing, explaining and sometimes compensating for irrational investor behaviour. According to a recent article entitled *Incorporating Behavioural Finance into Your Practice* by investment professionals Michael M. Pompian and John M. Longo, which was published in the March 2005 issue of the *Journal of Financial Planning*, there are two main types of behavioural biases: cognitive and emotional.

Cognitive biases are caused by problems in perception. To borrow the terminology of Stephen Covey, the lens through which an investor suffering from a cognitive bias looks at the world is discoloured by 'ailments' such as selective memory, arrogance and overconfidence.

Emotional biases on the other hand can be caused by a whole slew of personal reasons ranging from disappointment to fear of loss and from fixated rear-view mirror vision to psychological denial of reality.

When you think about the way you have invested over the last few years or even decades, it should be easy to identify times when because of either a deep-seated cognitive or emotional bias you made stupendously stupid investment decisions!

If you have trouble remembering such

episodes, ask yourself these questions:

1. What mistakes have I made because I 'saw' market opportunities incorrectly?
2. What mistakes have I made because I wrongly allowed emotions I 'felt' to guide me down the wrong financial path?

For as long as we remain fallible, emotional human beings — which is as long as we continue to breathe — we'll never stop making both cognitive and emotional mistakes. But thankfully it is possible to put in place written programmes that help reduce our tendency to second guess ourselves and thus increase our likelihood of maintaining a steady course during a long-term investment plan. (For two examples of such viable long-term plans, you are welcome to download and study my article *Deciphering the DCA-VCA Code*, which is available in the FREE ARTICLES section of *www.RajenDevadason.com*)

The official term for a well-structured written programme that governs a person's long-term investment plan is an Investment Policy Statement or IPS. The purpose of an IPS is simple: To provide the blueprint to chart an investment course and identify financial goals.

I recently came across this great line in Norman M. Boone and Linda S. Lubitz's book *Creating an Investment Policy Statement— Guidelines & Templates*:

"A client said, 'Once the trustees adopted the Investment Policy Statement, we found that we were making our decisions in a deliberate fashion, rather than in the 'heat of battle'. Since we'd already thought about how things would get done under a variety of circumstances, we no longer found ourselves getting emotional. Planning ahead makes it easier for all of us when the investment markets get turbulent."

As Malaysians, if there is one thing we have grown accustomed to it is our volatile, turbulent investment arena! Therefore, if you feel you need help overcoming your personal behavioural tendencies — be they cognitive or emotional — but you don't want to spend money working with a financial planner to help design your personal IPS, then here are seven pointers to help you do a decent D-I-Y job.

They are the 'seven cures' George S. Clason, author of the wonderful book *The Richest Man In Babylon* had his main character Arkad teach 100 other men, at the behest of King Sargon:

Cure 1: Start thy purse to fattening;
Cure 2: Control thy expenditures;
Cure 3: Make thy gold multiply;
Cure 4: Guard thy treasures from loss;
Cure 5: Make of thy dwelling a profitable investment;
Cure 6: Insure a future income; and
Cure 7: Increase thy ability to earn.

(Clason's classic is number two in my list of 26 books that I believe have the potential to take any literate person from financial novice to financial whiz in just five short years. If you want that list, I'm happy to give it to you. Just download a free copy of my e-book *26 Books to take YOU All the Way to the Top!* Visit *www.RajenDevadason.com* and click on the appropriate e-book icon.)

If you are serious about building a substantial financial fortress for your family and for yourself, I urge you to follow all seven of Arkad's cures. Here's how you should begin: Either in a brand new notebook or on your computer write down the seven cures mentioned.

Then spend half an hour everyday thinking about how you want to establish guidelines to incorporate each cure into your life. At the end of a fortnight, you should have sufficient pointers in place to draft out your personal IPS, which will allow you to overcome the pitfalls behavioural finance factors will undoubtedly place before you. To help you get started, here are some brief guidelines:

Cure 1: Start thy purse to fattening

Get out of the habit of spending every sen you make. Pay yourself first by setting aside at least 10 per cent of every ringgit that comes your way (or less if you can't manage 10 per cent). What's important is progress; I believe you should ratchet up that initial fraction by one percentage point every few months. Do this for as many years as it takes for you to get to the magical 40 to 50 per cent level.

Cure 2: Control thy expenditures

Take the time to work out your current cashflow statement. Based on the information you get, establish a realistic budget that allows you to set money aside for savings

"Once the trustees adopted the Investment Policy Statement, we found that we were making our decisions in a deliberate fashion, rather than in the 'heat of battle'. Since we'd already thought about how things would get done under a variety of circumstances, we no longer found ourselves getting emotional. Planning ahead makes it easier for all of us when the investment markets get turbulent."

Norman M. Boone and Linda S. Lubitz
Creating an Investment Policy Statement— Guidelines & Templates

and investments, to give money to God and charity, and to take care of all regular living expenses and those luxuries you deserve.

Track your income and expenses each month to see if you stay on track with your budget. If you don't, either adjust your budget or your appetites or both!

Cure 3: Make thy gold multiply

Gain an understanding of the risk-reward relationship, which boils down to nothing more complex than this: The more investment risk you are willing to put up with, up to a point, the greater the long-term returns you should be able to get.

Using your resolve to implement **Cure 1** and your discipline to carry out **Cure 2**, channel the cashflow surplus you generate into savings and investments that make sense to you.

Cure 4: Guard thy treasures from loss

Make sure that as you set money aside, the establishment of your emergency buffer or cash reserve account remains a major priority. If you are employed, then a three to six-month buffer is sufficient. If you are self-employed, then a six to twelve-month buffer is what you need.

Also, don't get lured into get-rich-quick schemes or let yourself be swayed by promises of ridiculously rich returns.

Cure 5: Make of thy dwelling a profitable investment

Chances are high you already either completely own your own home or you currently share ownership with your favourite high street bank! If not, make it a priority to own the roof over your own head.

Owning your home is a tremendous source of peace and, ironically, self-worth! You should also work hard to pay off your home mortgage as fast as possible so that if we ever slide into another major recession like the 1997-98 Asian Meltdown you will have dramatically raised the likelihood of retaining your own home!

The wonderful facility that EPF permits us to use the money in Account 2 every three years to pay down our mortgages should be used, if appropriate.

Cure 6: Insure a future income

Malaysia has more than 100,000 life insurance agents. Find and use a great one — meaning someone who is more concerned about selling you the best policy for your needs than about lining his or her pocket with commissions.

Cure 7: Increase thy ability to earn

The future belongs to the learners. In the knowledge economy we all inhabit today, the only way to meet 'your yearnings to grow your earnings' is to keep on learning!

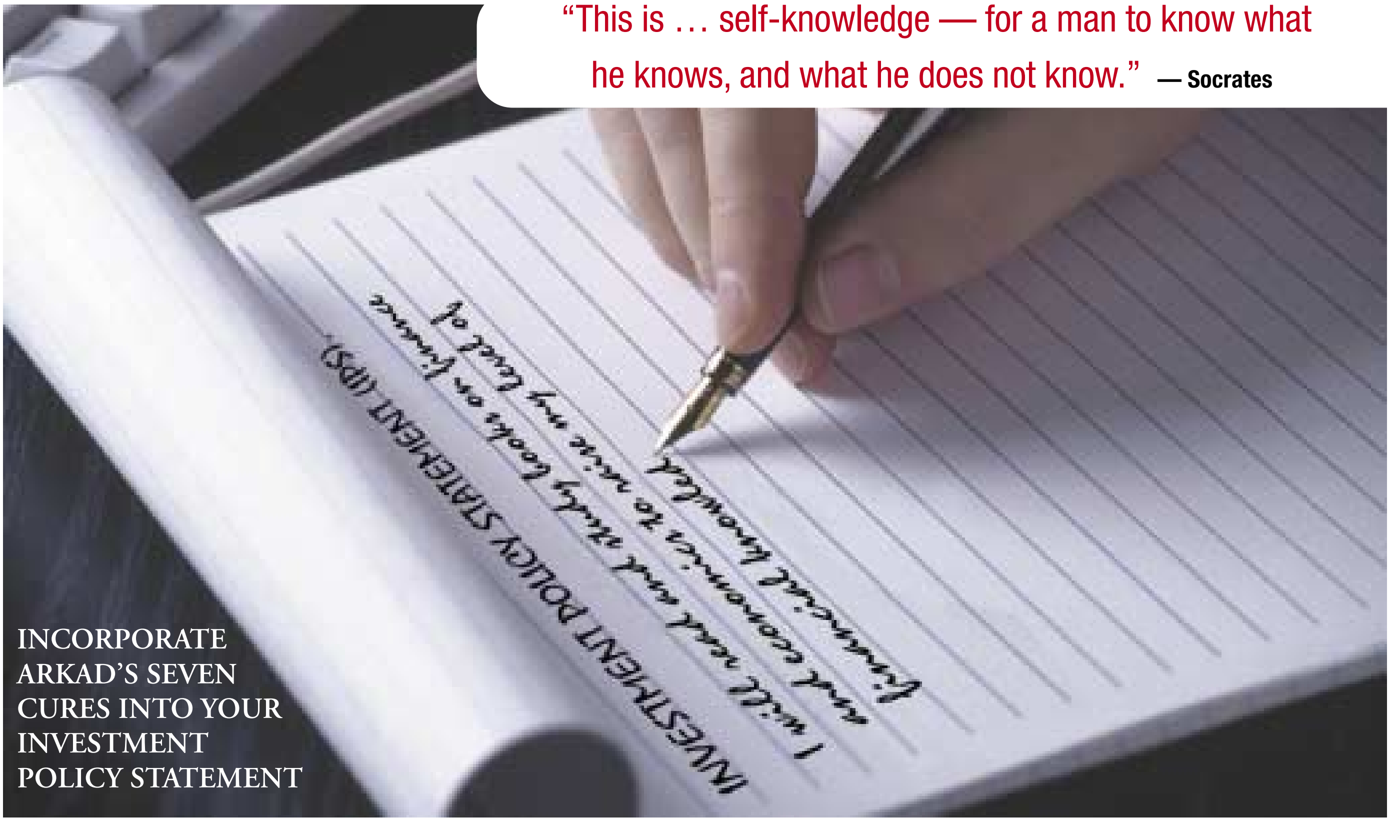
Each of these seven guidelines has been kept brief because the best way for you to internalise the tremendous wisdom contained in Clason's classic is to take the principles and personally develop additional strategies that apply to your circumstances. Those will allow you to circumvent the obstacles your personal behavioural finance-related biases may lay before you in the years ahead.

In that regard advice given 2,400 years ago by Socrates still holds true: "This is … self-knowledge — for a man to know what he knows, and what he does not know."

I urge you to work on both categories.

So, continue learning and thinking, and writing and redrafting your thoughts on where you want to get to financially and how you can best get there. AT

"This is … self-knowledge — for a man to know what he knows, and what he does not know." — Socrates



INCORPORATE ARKAD'S SEVEN CURES INTO YOUR INVESTMENT POLICY STATEMENT

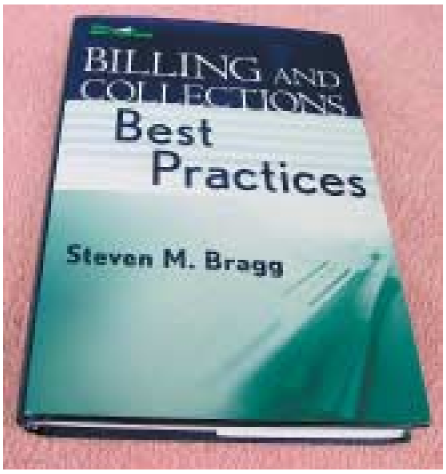
Rajen Devadason, a certified financial planner, is a speaker, author and independent consultant. He is CEO of a corporate mentoring consultancy, RD WealthCreation Sdn Bhd. Rajen welcomes feedback at rajen@RajenDevadason.com.

Billing and Collections Best Practices

Author: Steven M. Bragg

Publisher: John Wiley & Sons

Pages: 243



The health of a business is as good as its collection. Allow receivables to pile up and you are inviting trouble. Failure to institute an appropriate billing strategy sounds more like a business planning to fail.

Today, you can pick up various off-the-shelf solutions to billings and collections. These solutions are as good as the people running the show.

Injecting fresh and innovative ideas can enhance the solution at hand. By implementing a plethora of best practices, a company can greatly improve the efficiency of its information reporting.

Billing And Collections Best Practices shows controllers, accounts receivable managers, accounts payable managers and CFOs how to implement more than 200 best practices related to every phase of a company's billing and collection activities. These include creating credit systems, granting credit, creating and delivering invoices, applying cash receipts, managing the collections department, outsourcing collections work, and using a variety of collection techniques.

One of the first books of its kind to lay out a step-by-step plan on how to implement best practices, the book itemises the exact work plans needed to implement each best practice, as well as the common pitfalls that may be encountered along the way.

Four-time CFO and best-selling author Steven M. Bragg also includes a comprehensive list of billing and collections measurements that allow readers to calculate their company's progress along the way.

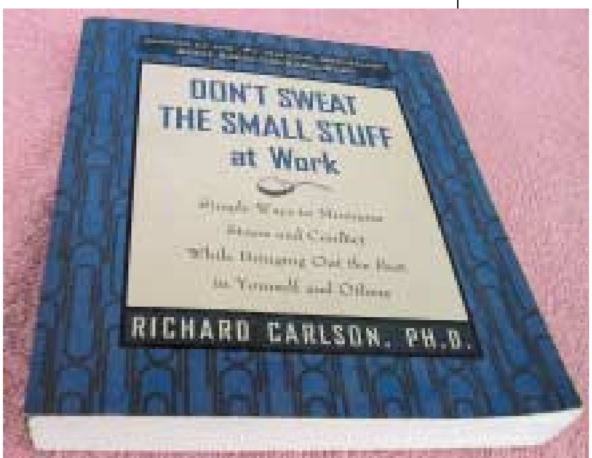
To be sure, the book is intended to be a buffet table of ideas from which one can sample. There is no clear set of billing and collections best practices recommended for all companies, all the time. Instead, given the wide array of industry-specific problems, one should skim through the book and select only those best practices resulting in the most obvious improvements. AT

Don't Sweat the Small Stuff at Work

Author: Richard Carlson

Publisher: Hyperion

Pages: 284



Problem at work? Tell us something new. With the amount of time we spend working, we are bound to face problems. They come in all shapes and sizes!

How you deal with them is important. Here's an interesting book that suggests to you 'simple ways to minimise stress and conflict while bringing out the best in yourself and others'.

That's how the author describes *Don't Sweat The Small Stuff At Work*. 'I hope it makes your life at work a little easier and less stressful!' writes author Richard Carlson when dedicating the book to readers.

To begin with, the book containing 100 short articles on various topics does not pretend to be a breakthrough in understanding problems at work place. Far from it. All it does is provide small doses of ideas to overcome those anxieties and restlessness that crop up while at work.

Somewhere in the beginning, he discusses about becoming less of a control freak at work and eliminating the rat race mentality. No, the book is not suggesting that you drop out altogether from the corporate or business world that you are engaged in. The author is just suggesting to you ways to work your way up without getting trapped in it.

Further down, you have short takes on how not to dramatise deadlines, making the best of boring meetings, remembering to acknowledge and brightening up your working environment.

The book is a handy companion to work one's way through the constant ordeal at the work place. Give it a try. AT

Prosper Through Partners

by Chad Fenwick

Partnerships can leverage your resources and tap new opportunities. Corporate partnering is nothing new. However, technology has elevated it to a new level.

Today there are so many technologies being introduced, it's simply not possible for one firm to understand them all. We need to focus on where we can be strong and differentiate ourselves," says Dave Steeves, founder of Steeves and Associates in Burnaby, British Columbia.

Launched in 1992, the IT-consulting company now has 60 employees and more than US$18 million in revenues, and partnerships have been instrumental to its success. "Partnering helps us offer more complete solutions to our clients and find new ways of adding value," says Steeves.

Partnerships can also help a company:

1. Gain credibility in a new field.
2. Expand market presence.
3. Gain access to technology.
4. Diversify offerings.
5. Share best practices.

Partnerships leverage resources. You're trying to join forces with someone who does something better or cheaper than you or offers something for which you don't have time or capital. Because partnerships can save money, they become an alternative to traditional financing.

Alliances can be with smaller or larger companies, customers, distributors, suppliers and competitors. However, many people use the term too loosely, calling everyone a "partner." Just because you're doing business with someone doesn't automatically

> **"Partnering helps us offer more complete solutions to our clients and find new ways of adding value."**
>
> **Dave Steeves, founder, Steeves and Associates, Burnaby, British Columbia**

mean you've established an alliance. A partnership is a relationship where each party takes certain risks and each stands to benefit from the union. It doesn't have to be the same goal, just a compatible one.

Strategic partnerships allow one or both parties to reach a new level. Case in point: Four years ago, Steeves established a strategic alliance with two Canadian companies, one in Montreal and one in Ontario. "Each of us were highly respected in our regions, but our alliance helps us compete better at the national level," says Steeves. "It allows us to serve clients with an expanded geographic footprint that otherwise we couldn't reach as easily."

Formulating a game plan

Whether you seek a strategic partnership or a more general alliance, four ground rules apply to both:

1. **Think strategically.** Don't approach partnerships in an ad-hoc manner. Determine what you want to do before you look for a partner to help you do it.
2. **Determine the value you bring to the table.** How you position your company's value will change depending on each partner you're trying to attract. Remember: Your value isn't necessarily your product; it may be the market you command or your technical expertise.
3. **Be specific.** When pitching to a prospective partner, give detailed goals: We want to increase market share by 25 per cent in the next year. Remember to pinpoint your partner's objectives; the relationship only works if both companies win.
4. **Know your boundaries.** Otherwise, in the heat of negotiating, you may agree to something that later ends up being a big mistake, such as giving away exclusive distribution rights or something that may be important to the company's future success.

Assessing prospective partners

It's also important to conduct due diligence on prospective partners. Do they have the financial wherewithal or technical expertise that you require? What about distribution channels and rights to intellectual property?

Consider how long it takes to reach an agreement. Is the prospective partner returning your calls promptly? A slow response may be reason to reflect. Perhaps that's just how the company operates. But it's probably not going to get any better after you sign an agreement. Don't partner with someone you don't like or trust. Because a partnership isn't operating exclusively under your roof, you don't have the same management controls. If members from the other team slip up on a deadline, you can't discipline them.

"It can be tempting to run off with anyone who presents an opportunity. However, you've got to be careful when other people want to work with you," points out Dan Gould, CEO of Synergy, a Framingham, Massachusetts-based consulting firm for energy and lighting retrofitting. Gould launched Synergy in 1994 and has grown the company to more than 25 employees and $12 million in revenues.

"Once we hit US$8 million in revenues, we came onto a lot of people's radar screens. But you have to watch where you invest time and energy with partners," says Gould. Gould values partners who are savvy at qualifying. "Before we get involved in a presentation, I want to know if the true decision-maker has been identified and what the buying criteria is," he explains. "You could be dealing one level down and not know it. Until you get buy-in from the right people, the project never moves forward."

The relationship

A partnership runs smoother when you work out details in advance. Try to nail down deadlines, marketing plans, when and where meetings will be held, the cast of characters — and what to do if something goes wrong. Because it's difficult to forecast problems, agree to a system for resolving disputes. Put it on paper. Partnerships are open-ended relationships, so it can be tough to craft a formal agreement. But it's still important to document the scope of the partnership and specific responsibilities.

"If you're partnering with a larger company, they may already have a boiler plate contract. Don't let that intimidate you. Just because a prospective partner hands you a contract, that's not the one you have to sign," says Jeff Stevenson, founder of SmallBizManager, a Chicago-based B2B Web-portal company.

"I'm not a lawyer, and I hate contracts, but I spend a lot of time going over them," says Stevenson, who has piloted more than 150 partnerships. "I don't think I've ever had one presented to me that I didn't raise at least some questions on and many that I've sent back with changes. And doing so never squelched a deal."

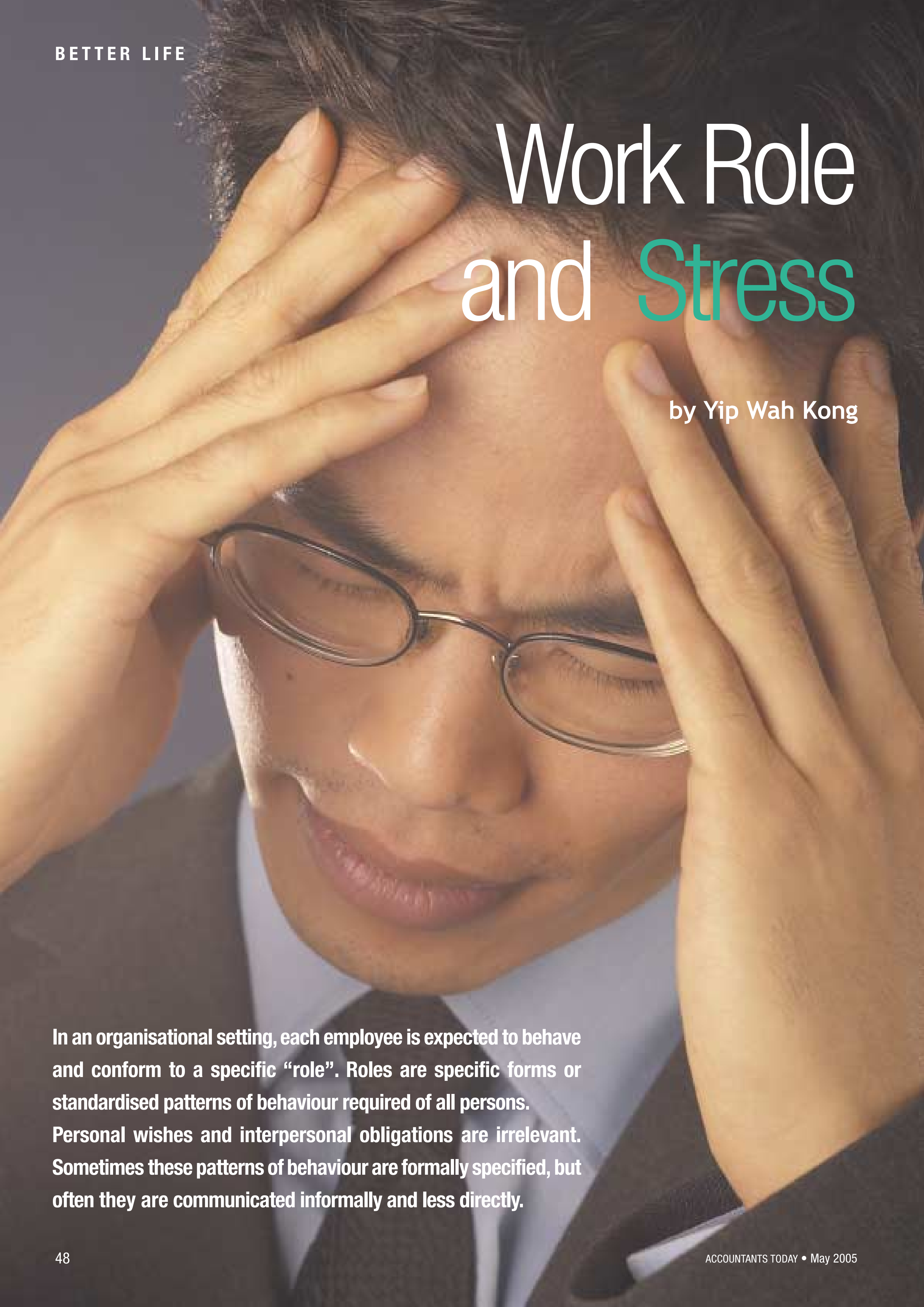
> "If you're partnering with a larger company, they may already have a boiler plate contract. Don't let that intimidate you. Just because a prospective partner hands you a contract, that's not the one you have to sign,"
>
> **Jeff Stevenson, founder, SmallBizManager, a Chicago-based B2B Web-portal company**

As you progress in a partnership, things may come up that need to be changed. "Make sure you document it," advises Stevenson. "I usually send an e-mail that sums up what we discussed. Granted, it's tedious, but if you don't document, it's too easy for something to slip through the cracks."

Communicate regularly. It's key to stay in touch with partners on a regular basis. "If you take them for granted, they can start interpreting events on their own," says Steeves.

A couple of his strategies:

- A weekly electronic newsletter brings partners up to date on what's happening at the company, including new projects, awards and new employees.
- Bimonthly social gatherings help nurture the relationship. "It's good to see people as people," says Steeves. Go above and beyond. "There are a lot of other things that can be done to enhance a partnership that aren't necessarily outlined in the contract," adds Stevenson. "You could include your partner in press releases that you send out about your company, giving them visibility without the work. It could be referrals. It could be participating in some promotion that they put out." AT



Work Role and Stress

by Yip Wah Kong

In an organisational setting, each employee is expected to behave and conform to a specific "role". Roles are specific forms or standardised patterns of behaviour required of all persons. Personal wishes and interpersonal obligations are irrelevant. Sometimes these patterns of behaviour are formally specified, but often they are communicated informally and less directly.

Employees have to cope with role expectations that are conflicting, incompatible and not clearly defined; or they may have too many roles to perform or the role may not be challenging enough. Role playing has a direct impact on the employee and stress in most cases is the end result. But, what exactly is "stress"? It is difficult to define what work stress is. Perhaps it is apt to describe the situation as "stressful" in terms of its symptoms. Basically, there are three categories of symptoms; psychological, physical and behavioural. Psychological symptoms refer to emotional feelings like the dislike of coming to work, depression, anxiety, frustration and resentment. Physical symptoms include headaches and cardio-vascular disease. Avoidance of work, over-reaction, under-reaction and aggression are considered as behavioural symptoms. If any or all of the symptoms are present, it implies the presence of stress.

We will now discuss how various role-playing causes stress in the hope that a better understanding can lead us to solutions or proper counter measures.

Role conflict

An employee may be required to perform one or more roles that are in conflict with each other. In other words, the compliance of one set of expectations and demands of one role will make compliance of expectations and demands of the other roles more difficult. The expectations and demands may be quite clear and compatible for each role but when these roles are performed together they conflict with each other. The employee will be in a "dilemma". Often, this dilemma works on the employee slowly and the usual signs of stress manifest itself.

Role incompatibility

The expectations of individual superiors may be well known but are incompatible as features of the same role. The employee may be receiving contradictory or incompatible demands from one or more superiors. Other people's expectations of the role may be against that of the employee's own. The balancing of the various opposing expectations can be particularly stressful.

Role ambiguity

Lack of clarity, or predictability about the expectation associated with a given role occurs when the employee is uncertain of the behaviour with regard to duties, responsibilities or authority appropriate in performing the role successfully. The employee often experiences stress if he or she recognises that something is to be done and is uncertain of what that something is. The stress will be greater if the person knows that important things are attached to the successful completion of these expectations and demands.

Role overload/underload

Some employees perform a collection of roles that do not fit precisely. The number of roles become too many to handle or too much to do. On the other hand, an employees skill may be under-utilised and the employee feels that he or she has the capability to handle a bigger role. The overload can obviously be reduced by decreasing the number of roles the individual has to perform. Alternatively, the role importance can be downgraded and thus lower performance is demanded in those areas.

In order to alleviate the problem caused, management must make sure that the employee can handle the expectations of the role(s) allocated to him or her. Management must also create a work environment that is conducive to identify and resolve any role problems.

The problems associated with role-playing can be minimised or eliminated if management pays particular attention to the matching of abilities, motivations and personalities to the demands of a particular role. Attention should also be given to induction, training, staff development and career progression planning. For example, the dilemma of *role conflict* can be eliminated by allocating and restructuring work tasks and responsibilities with the creation of new roles and assimilation of existing ones.

To remove *role ambiguity*, management should communicate to the employee the core requirements of the job and foster a clear understanding of the job responsibilities and duties. Management must convey specifications and be clear of the prescribed role expectations. The employee should discuss with his or her superior with the aim to increase understanding of the perception held by them. Discrepancies in expectation can be discussed before problems arise. As to *role overload*, management must strive to create an environment that allows workers to say no to "excessive" demands and to collaboratively develop solutions. AT

The writer is a member of the Institute and is currently employed as Human Resource Manager with a Malaysian-Japanese joint venture company in Perak. He can be contacted at *yipwahkong@po.jaring.my*

MIA organises series of forums on the accountancy profession

Creating awareness … YB Tuan Haji Abdul Haziz Abdul Gani, Timbalan Pengerusi Jawatankuasa Negeri Pelajaran dan Pengajian Tinggi launching the forum in Melaka as Abdul Rahim (on his right), Halim Husin (on his left) and Dr. Salleh Hassan look on

The panellists … (L-R) Assoc. Prof. Faridah Ahmad, Rathimalar Gnanasundram, Halim Husin, Azmi Ahmad, Benny Chia Kok Hoong and Zaini Ishak

Some of the participants at the forum

The Malaysian Institute of Accountants (MIA) organised a series of *Forums on the Accountancy Profession with School Counsellors for the Year 2005* as part of its concerted effort to promote accountancy as a profession of choice to secondary school students.

The main objective of these forums is to disseminate career guidance information on the accountancy profession to school counsellors in a bid to ensure that students will have access to accurate and relevant information on the career options available, should they choose accountancy as their preferred career.

Supported by the Ministry of Education, this ongoing effort is particularly useful and provides the right exposure about the alternatives and the best available routes to becoming a chartered accountant in Malaysia.

The Institute which prompted the organising of these forums, believes that proper collaboration with other professional accounting bodies such as The Association of Chartered Certified Accountants (ACCA), The Chartered Institute of Management Accountants (CIMA), CPA Australia and The Malaysian Institute of Certified Public Accountants (MICPA) creates a dynamic environment that enables sharing of best information about the profession.

"The forum was beneficial and would be very useful for counselling."

Fazilatulliza Abu Bakar, SMKA Sharifah Rodziah, Melaka

The first forum was held on 26 March 2005 at the Auditorium Seri Negeri, Ayer Keroh, Melaka where more than 200 school career counsellors, accounting lecturers and teachers from various secondary schools, colleges and institutions turned up. The forum was officiated by Yang Berhormat Tuan Haji Abdul Haziz Abdul Gani, *Timbalan Pengerusi Jawatankuasa Negeri Pelajaran dan Pengajian Tinggi,* who represented the Chief Minister, Datuk Seri Wira Hj. Mohd Ali Mohd Rustam.

"The forum was well organised. I was able to obtain relevant information to disseminate to students."

Chitra Sinniah, SMK St. Francis, Melaka

MIA's Vice-President, Abdul Rahim Abdul Hamid during his keynote address in Melaka said that the idea to organise such an event was conceived because the Institute had received feedback that many students lacked information on the route towards becoming an accountant or where to look for the correct information. "Many students were also unclear as to what being an accountant really entails," he said.

"The forum provided good exposure on accountancy. Previously we had very limited knowledge on accountancy."
Maizatul Akman Yahya, SMK Sri Pengkalan, Alor Gajah, Melaka

"The forum was impressive. We found out that accountancy is more than just bookkeeping. By doing accountancy, one can rise to be the head of a company."
Benny Tay, Stamford Melaka, Melaka

Datuk Dr. Abdul Samad presenting a memento to Puan Hajah Siti Zaleha

"Through their school counsellors, aspiring students can now get useful tips and important information about accountancy," he added. Rahim said that the right guidance and clear information about the profession will certainly prepare the students to better equip themselves and this will result in a positive effect for the accounting profession.

The second forum on 9 April 2005 had over 250 school counsellors and was held at the *Institut Latihan Perindustrian Pedas* in Negeri Sembilan. The Deputy Director, Negeri Sembilan State Education Department, Puan Hajah Siti Zaleha Mahadi, graced the forum.

MIA's President, Datuk Dr. Abdul Samad during his speech in Negeri Sembilan shared his vast knowledge and experience in the field. "An aspiring accountant must have integrity, quality, be trustworthy and have objectivity, and without these qualities, the profession will be badly affected.

Our goal is to help students recognise that accountancy is a very interesting career to consider as it offers a lot of career opportunities. Students can venture into setting-up their own business/practice, join the corporate world, be in the academia or even become politicians. Some of the key decision makers, movers and shakers in the corporate world and GLCs are accountants.

In the knowledge economy, accountancy touches on all aspects of an organisation — it is woven through the organisational fabric," he said.

A more in-depth session was held after the launching. The invited panellists spoke on routes to take to qualify as an accountant and shared their invaluable experience, tips and provided advice to the participants. Both forums were well received by the audience judging by the number of questions that were raised during the Q&A session.

Four other forums will be held at the following major cities in Malaysia: Johor Bahru (17 May), Penang (25 June), Kota Kinabalu (9 July) and Kuching (23 July).

Ultimately, these forums will help address all the information needs of educators in order to further assist the career counselling process so they can enlighten students in their schools on matters concerning the profession. AT

Thenmalar (right) from the Membership Department in discussion with the counsellors

"The content of the accountancy kit provided at the forum was very comprehensive. This type of forum should be held once a year."
Zainal Abidin Mohd Darus, SMK Juasseh, Negeri Sembilan

"The forum was well organised. I have learnt much more about accountancy and am now more equipped to provide counselling to my students."
Ali Sharif, SMK Lukut, Negeri Sembilan

CPA Visit to MIA

MIA Council Members with John Mann and delegates representing CPA Australia

"… for smaller firms to survive — post reform, the way forward is to merge or go for foreign affiliations."

Raymond Liew

"… all major changes affecting the profession can only be dealt with through the mindset change of our members in public practice."

Dr. Veerinderjeet Singh

The Institute had the honour of receiving two representatives from the National Office of CPA Australia who were in Malaysia recently. Denis Pratt, CPA Australia's Director of Public Practice and Canberra based John Mann, Chairman of the Board of Public Practice Committee (BPPC) were accompanied by CPA Australia's Asia Pacific representative in the BPPC Nik Mohd Hasyudeen Yusoff and Nirmala Ramoo, Communication Manager for CPA Australia Malaysia Branch.

The delegates were met by Abdul Rahim Hamid, the Institute's Vice-President together with representatives from the Institute's PPC, namely, Raymond Liew and Dr. Veerinderjeet Singh. Also present was the Chairman of the Accounting & Auditing Committee, Dato' Nordin Baharuddin.

There was a lively exchange of ideas between the PPC members and John over some of the more recent issues both in Malaysia and Australia. Raymond raised the issue of possible audit exemption in Malaysia following the setting-up of a Corporate Law Reform Committee in September last year. He said that for smaller firms to survive — post reform, the way forward is to merge or go for foreign affiliations. Incidentally, Denis also mentioned that in Australia, there were now less and less people who were willing to offer auditing services due to the high risk involved in this area of professional practice. Nik highlighted the need for firms in Malaysia to consider branding as the way forward although more conservative firms might find this option a little difficult to fathom. He said one of the bigger selling points of smaller firms was their ability to maintain close rapport with their clients, a feat that bigger firms were unable to fulfil most of the time. This however could be seen as a double-edged sword as such practices also took up a lot of the practitioners' time and of course, there was the question of independence. Dr. Verinderjeet rightly pointed out that all major changes affecting the profession can only be dealt with through the mindset change of our members in public practice.

In discussing developments in the financial planning sector, both John and Raymond respectively shared recent developments in Australia and Malaysia. In Australia, according to John, the demand for financial planning services was on the increase due to the ageing populations' need to protect their wealth and income. One suspects the situation in Malaysia will eventually be the same.

In the area of professional development, both parties shared common views on the need to help smaller practices adapt to changes in legislation, respond to market demands and enhance the ability of public practices to keep on attracting quality new entrants, the latter being a serious problem in more developed economies.

MIA also requested the good offices of CPA Australia to look into the possibility of assisting Malaysia to come up with a local version of Australia's quality manuals to comply with ISQC by 2006.

In better preparing accountants as they ventured into public practice, CPA Australia runs a three-day residential course for beginners to network and at the same time, to pick up essential skills to survive in a public practice environment. Since Malaysia is also looking into something similar for its members, MIA has requested for a copy of CPA Australia's programme for its library as well as for reference to draw up a curriculum for a compulsory public practice programme in the near future.

The two-hour meeting was very insightful and MIA certainly look forward to receiving more delegates from CPA Australia as a forum to exchange ideas. AT

Thien presenting a token of appreciation to Tuan Haji Samsuri

SABAH BRANCH Courtesy Visit to IRB

On 2 March 2005, Sabah Branch Chairman, Alexandra Thien together with the committee members paid a courtesy call on Tuan Haji Samsuri Jelani, the Director of IRB Sabah.

The visit was very fruitful as various issues were discussed at length. Among issues discussed was the Self Assessment System for individuals.

Alexandra Thien sought clarification on the special conditional license issued by IRB under Section 153 to tax agents handling personal tax. Tuan Haji Samsuri confirmed that IRB Sabah has not issued the said license. AT

PENANG BRANCH

Promoting the Institute and the Profession

As part of ongoing efforts to enhance the image of the Institute and the accountancy profession, the Penang Branch committee led by its Chairman Fan Kah Seong made courtesy visits to the State Education Department and the Star Northern Hub on 4 and 8 March 2005 respectively.

At the State Education Department, its Academic Head, Dr. KK Goh, Unit Head, Mohd Nasir Othman and Administrator, SM Tung met the committee. Fan briefed them on the MIA's functions and its initiative to bring the forum on accountancy profession for school counsellors and accounting teachers to the state of Penang following the successful launching in Wilayah Persekutuan and Selangor last year. He added, the purpose was to equip the school counsellors and teachers with a better understanding of the accountancy profession and the various routes to the profession. Hon. Treasurer, Dr. Hasnah Haron and Hon. Secretary, Heah Theng Chye elaborated on the diversity and versatility of accountancy as a career. Dr. Goh agreed to support this event, commenting that it would be beneficial for teachers to widen their horizons and scheduled it for Saturday 25 June 2005.

Meanwhile, at the Star Northern Hub, the committee was received by its Regional Director, Datuk Seri Kamal M. Hashim and Acting Regional Associate Editor, KY Pung. Fan briefed them about the ongoing activities of MIA. Vice-Chairperson, Adelena Chong elaborated on the changing profile of the Institute and accountants and the direction towards contributing back to the society. In the pipeline are the above forum and a charity dinner of which media support or sponsorship would be much appreciated. Datuk Seri Kamal replied that the Star would be pleased to provide media support for the event. Both Datuk Seri Kamal and K Y Pung were candid in sharing their views and perceptions of accountants. AT

At the State Education Department, from left: SM Tung, Dr. Hasnah Haron, CH Loh, Dr. KK Goh, Mohd. Nasir Othman, Fan Kah Seong and Heah Theng Chye

At the Star Northern Hub, from left: Heah Theng Chye, Dato Seri Kamal Hashim, Ooi Phaik Swee, KY Pung, Fan Kah Seong and Adelena Chong

The Malaysian Accountancy Research and Education Foundation

On-Going Research

The MAREF Research Board and our Board of Trustees have approved a research on *Factors Influencing Ethical Judgement of Accountants*. The research team is headed by Assoc. Prof. Hasnah Haji Haron of Universiti Sains Malaysia.

This research will examine the ethical judgements of Malaysia's accountants and will study how firm size, gender and position levels affect their moral development. It will also examine how an understanding of the code of ethics and the ethics culture of a firm help to moderate the relationship between moral reasoning and ethical judgements. MAREF will share the outcome of this research with *Accountants Today* readers.

Research Database

We at MAREF are continually looking out to fund refreshing and cutting-edge research that will help in the advancement of the accounting profession. Research proposals can be submitted to us at anytime in the year. MAREF also accepts proposals for commissioned research from accounting firms or bodies.

We thereby invite academicians from Universities and Institutions of Higher Learning throughout Malaysia to register with us. Please email your academic credentials and curriculum vitae so that we can include you in our research database.

The purpose of the research database is to help pool together the best minds in accounting research. We can help by facilitating networking among researchers, sourcing for research personnel needs and we can also invite suitable individuals for commissioned research.

Special Announcement

MAREF would like to congratulate our Research Board member, Dr. Mohamad Adam Bakar on his promotion as Deputy Rector of Legenda College.

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WORLD news

Japanese Bargain for Private Equities

Japan is getting tough with some accounting practices. For years, companies have avoided booking soured investments. Now, they may be forced to come clean under an accounting rule that also poses opportunities for private equity firms.

According to media reports, the move will affect many corporations, including the maker of Hello Kitty, Japan's icon of cuteness. Many Japanese companies that acquired land, equipment and other non-core assets during the go-go 1980s discovered those holdings had evaporated or dropped significantly in value after the bubble burst. But their books never reflected the losses, because they were allowed to value the holdings at their acquisition cost, reports Reuters.

The online report adds that new accounting standards now require companies to register the losses — known as 'asset impairment' — if their current value falls 50 per cent below book value or if they are likely to generate negative cashflow for three consecutive years. Naturally, as the report predicts, private equity firms smell opportunity. As the impaired companies scramble to raise cash to fill holes in their accounting books, investors such as Newbridge Capital and The Carlyle Group are offering themselves as willing buyers of cast-off business units or assets — at a fraction of their original price. The private equity firms hope to fix up the assets and resell them later for a profit.

"It has created interest in the private equity market for sure," the online report quotes Brian Heywood, managing partner and CEO of Taiyo Pacific Partners, which runs the US$450 million (HK$3.51 billion) Taiyo Fund jointly with buyout firm WL Ross. *"The obvious candidates are going to be the [companies] with huge assets."*

Sanrio, the maker of Hello Kitty, is one company that faces such losses, mainly from its theme parks, according to the report which was available on *The Standard*. It plans to book a one-off loss of 21.9 billion yen (HK$1.58 billion) this year. Others announcing losses include electronics group Hitachi, supermarket operator Aeon, shipping company Nippon Yusen KK and telecoms group KDDI Corp, as well as real estate and construction companies.

The report adds that few industries are immune. As much as 54 per cent of tangible fixed assets have already been subject to impairment accounting by big firms in sectors such as energy and transport that are keen to reassess the value of their holdings early in the game. The accounting change, according to the report, has already spurred some deals with foreign firms, including Morgan Stanley's purchase of real estate from Kinki Nippon Tourist Co.

Mergers and acquisitions in Japan announced in the first three months of the year reached a six-year high of US$80.5 billion on a record 644 transactions, said data firm Thomson Financial. AT

New accounting rules raise price of audits

Three years after the US Congress moved to prevent another Enron-like corporate blowup, the laws it passed appear to be having unintended consequences, reports *USA Today*.

The last phase of the Sarbanes-Oxley rules, passed in 2002 and intended to thwart corporate chicanery, kicks in this year, requiring companies to ensure their accounting controls are rock solid and to tell shareholders about any weaknesses that they discover.

However, the newspaper reports that companies claim the move has made the audit much more costly than ever before — just as they are struggling to deal with the higher costs of energy, health insurance and materials.

On the other hand, the report suggests that economists are of the opinion that the regulations could be having a broader impact on growth by diverting money that would normally go for capital investment and hiring, and sapping productivity as firms spend thousands of hours to comply with the regulations.

Hence, the law is becoming "an increasing weight" on the economy, the newspaper quotes Mark Zandi, chief economist at *Economy.com*. "The most economically difficult period is now."

While the exact effect on the economy might be hard to quantify, the impact of Sarbanes-Oxley on companies seems clear. A *USA Today* analysis of data from AuditAnalytics.com shows audit and related fees have jumped 40 per cent this year to $3.5 billion among Standard & Poor's 500 companies that have filed their fiscal 2004 proxies. That comes on top of a 17 per cent increase in fees they had to absorb in 2003. AT

Accounting gets sexy

The day of the accountant has arrived! After years of working in small offices under the shadow of the glamour jobs in the investment and banking industries, accounting has become hot, reports *AccountingWeb.com*.

Despite popular perception, it didn't happen overnight.

The report says high-profile fraud cases from Enron to WorldCom to AIG, at first appeared to be giving the accounting industry a black eye. Instead, as the amount of regulation on companies, both public and private, increases, so has demand for accounting and auditing services.

Today, the report went on to suggest, it is not the lawyers or investment bankers that are grabbing the spotlight, it's the accountants and auditors. As the accounting industry settles in to its new starring role, fees and salaries have started to rise.

So has demand. Companies seeking to bring in more accountants to help meet the tougher accounting and reporting requirements of the Sarbanes-Oxley Act of 2002, are discovering that accounting professionals, from bookkeepers to certified public accountants seem to be in short supply, says the online industry portal.

This labour shortage is being

felt across the nation in large and small firms. Larger firms are adapting by raising fees and focusing on Fortune 500 clients. This new focus has helped open up opportunities for smaller firms. In fact, some national firms are referring clients whose needs they can no longer meet, to regional and local firms.

According to *Accounting Web.com,* the imbalance between client needs and staffing levels will not last. Rising salaries and an improved image are attracting more students to accounting programs than at any time during the previous decade.

Some may have difficulty seeing accounting as a glamorous career choice. Others will find that the spotlight's shine simply allows more people to share their passion and enthusiasm for the accounting field. Either way, accounting and accountants can be counted on to make the most of their days in the sun. AT

NZ companies face a challenge

All New Zealand firms have to adopt the International Financial Reporting Standards by 2007 but KPMG says in a 40-page report that many lack an adequate understanding of the IT issues involved, says an online report.

Businesses' existing IT systems often don't capture the information they will require on hedging, impairment testing, employee leave provisions and tax, says Wellington-based head of information risk management Graeme Sinclair in a report on *Stuff.co.nz*.

"The complexity of the IT changes will depend on the accounting issues affecting the company."

He says businesses will have to keep two sets of financial data for one year, whenever they make the transition to the new accounting standards. "This will be a significant one-off challenge for the IT and accounting teams in many organisations," he says.

According to the report, KPMG suggests many large, overseas-owned businesses have already adopted IFRS or are implementing it now, in order to meet the requirements of their parents in Europe and the US.

But many have opted for a quick fix. "Many early-adopters are putting in place short-term work-arounds and off-line calculations to deal with some areas. This might be a pragmatic solution, but it's not sustainable in the medium term for large organisations to run their core financial systems in this way."

KPMG says one of the main challenges for businesses is adapting their IT systems to support International Accounting Standard 39. It sets out stringent rules governing the way in which financial instruments such as derivatives and hedging accounts should be treated.

The report quotes the chief information officer of one unnamed multinational bank as saying IAS 39 is its greatest concern and it doesn't believe it will have the resources to adapt its systems in-house. AT

The implications of fair value reporting

All's fair in love, war and financial accounting, right?

Not quite. With today's unpredictable market conditions, investors need to know what an asset is currently worth, rather than what it was worth when it was acquired, says a report published recently in the *RetailIndustry.com*.

As a result, the Financial Accounting Standards Board (FASB) increasingly requires U.S. corporations to mark more balance sheet items to their "fair value." But what exactly does fair value mean and what are its implications?

Under GAAP, the report says, the fair value of an asset is the amount at which that asset could be bought or sold in a current transaction between willing parties, other than in a liquidation. On the other side of the balance sheet, the fair value of a liability is the amount at which that liability could be incurred or settled in a current transaction between willing parties, other than in a liquidation.

Quoted market price in an active market is the best evidence of fair value and is used as the basis for measurement. Many times quoted market prices for an asset are often unavailable, so an estimate of fair value can be used. As a result, difficulties can occur when making estimates of fair value, the report says.

But things have changed, suggests the report which appeared in mid-April. "But unlike the more static economic environment of the 1970s when the FASB first developed many of the principles guiding current financial reporting, today's rapid price changes and shorter technology cycles can more dramatically shock the economic system.

"Does this changed environment require fair value-based reporting across the board? Although fair value can provide more transparency than historical cost based measurements, many claim that fair value reporting may make financial statements more subjective, too volatile and increasingly difficult for comparing companies for investment," the report says. AT

Kenyan tops ACCA examination

A 25-year old Kenyan emerged tops in last year's Association of Chartered Certified Accountants (ACCA) examination when she scored the highest marks worldwide (99 per cent) in Paper 2.2 (Corporate and Business Law).

Nothing about the 25-year-old slim, dark and bespectacled woman with braided hair gives the impression she is an extraordinary person, reports *Eastandard.com*. But the unassuming five-foot five-inch Angela Akoth Oketch is a world beater. In recognition of her outstanding performance, the UK-based association will formally award Akoth a certificate of merit and a cash token next month in London.

What is more gratifying about Akoth's achievement is that she did not attend class. She studied on her own, mostly after work and not even on a daily basis.

"The pass mark is 50 (per cent) and I was hoping I would get that; that is how hard it was," she tells the newspaper.

She learnt about her achievement in February through an e-mail notification. "I opened my mail hoping I had passed the papers I had sat and the marks were there, written quite simply and that is how I got to know I had 99 per cent."

Akoth, who had been exempted from Paper 2.1 (information systems) because of her IT background, ended up passing the tax paper with a 64 per cent mark. In June last year, she passed papers 1.1 (preparing financial statements), 1.2 (financial information for management) and 1.3 (managing people).

Akoth works in a busy office (PricewaterhouseCoopers) and often misses classes, the newspaper reports.

"I study on my own, but towards the end there is a revision course for about a month during which time the company will give you some study leave to prepare for the examination," says the young woman who sat for her first ACCA exam in June 2004. "I do not study everyday and not because I return home at ungodly hours; it's just not possible. And poring over my books after I get home is not for me either." AT

Univeral accounting rules fail developing countries'

New global accounting rules are becoming too complicated to be of practical use in most of the world, according to the leader of the British accountancy profession. He blames American influence and US corporate governance laws for undermining the aims of international accounting standards, reports UK's *TimesOnline*.

Paul Druckman, president of the Institute of Chartered Accountants in England and Wales, warned that the ideal of workable universal accounting rules will fail and developing countries will be excluded unless high-cost regulation and needless detail are dropped from the new global rules.

In an attempt to head off a division in accounting, Druckman says that regulators from wealthy economies and developing countries should meet to thrash out a basic set of underlying principles. These principles could be applied universally by smaller businesses and in developing countries, he says.

The International Accounting Standards Board has set out to devise universal rules based on basic principles. But critics say that the board has been diverted from improving the rules by its greatest success — the adoption of International Financial Reporting Standards across the European Union and Australia — and by a compromise deal to harmonise its standards with America's more detailed and prescriptive regime.

The report quotes Druckman will issue the warning at an institute conference in Brussels. He says: "Financial regulation designed for listed companies operating in advanced economies is unsuitable for the vast majority of other businesses. Standards of thousands of pages impose costs that inhibit growth. International standards cannot be the preserve of an exclusive club." AT

Attack on Whitehall accounting methods

Many government departments are wasting resources because they do not properly understand or use commercial accounting and budgeting techniques, reports UK's *Financial Times*.

Only 40 per cent of departments' finance directors were qualified accountants just more than a year ago, according to the public accounts committee of UK's Commons. This compared with more than 80 per cent of FTSE100 finance chiefs.

According to the newspaper, the report on managing resources is critical of the way departments are handling new financial freedoms granted by the Treasury to improve the quality of front-line services.

Edward Leigh, the committee's Conservative chairman, said: "Departments now have highly developed mechanisms to help them use their resources more productively. But many are not yet using them properly." AT

IFAC

IFAC Board Strengthens Standard-Setting and Support for Developing Nations

During its two-day meeting in South Africa recently, the Board of the International Federation of Accountants (IFAC) agreed to launch new initiatives to meet the needs of developing nations, took actions to strengthen its international standard-setting processes, and reconfirmed its focus on supporting professional accountants in carrying out their corporate governance responsibilities. These actions are all central to IFAC's objectives of building an investment climate of trust and promoting economic growth and stability worldwide.

The Board meeting considered the conclusions of an IFAC consultative conference held in Prague, on 10-11 March, at which more than 125 representatives of IFAC member bodies, other professional and accounting associations and development and funding agencies focused on establishing an international response to meeting the needs of developing nations and small and medium accounting practices (SMPs) and enterprises (SMEs). The Board agreed to augment activities in these areas and supported the recommendations that emerged from the conference, including the following:

- Developing a country-specific approach to supporting developing nations, helping both those countries where there is no established profession and those that have only begun to build the professional, financial and regulatory architecture necessary to support economic growth.
- Continuing to reinforce the need for International Financial Reporting Standards that can be effectively implemented for developing nations, particularly by SMEs.
- Establishing a process whereby accountancy institutes in more developed countries can serve as "mentors" to those in less developed countries.
- Creating a blueprint that clearly delineates the steps involved in establishing a viable and high quality accountancy profession.

IFAC President Graham Ward emphasises: "IFAC's goal is to have a trusted investment climate in every country. This can only be accomplished by making a long-term commitment to developing nations and creating a strong accountancy profession in them, by working in partnership with our member institutes and other relevant organisations, such as international development and funding agencies. We are committed to strengthening these relationships and through them, taking the necessary actions."

As evidence of this commitment, South African Finance Minister Trevor Manuel and NEPAD (the New Partnership for Africa's Development) Chairman Reuel Khoza participated in the IFAC Board meeting to discuss how IFAC can best contribute to the economic development of African countries and of developing nations in general. Mr. Manuel called on IFAC's Developing Nations Permanent Task Force to build accountancy capacity in African countries and to assist individuals in these countries in developing the skills necessary to provide high quality accountancy services, which he views as vital to economic growth. He also called on IFAC to encourage diversity in the profession by actively supporting SMEs and SMPs.

Mr. Khoza emphasised the importance of sound corporate governance policies, good accounting and auditing, and the need for professional accountants in business to be the conscience of businesses worldwide. In order to eliminate corruption and eradicate poverty, he urged IFAC to do more in these areas and also to continue to promote the use of strong international standards.

The IFAC Board approved actions to address these issues. In particular, the Board agreed to support professional accountants in business in meeting corporate governance responsibilities through the development of implementation guidance.

To continue to build investor confidence in its standards, the Board approved a comprehensive and transparent due process that will apply to IFAC standard-setting activities. This will be submitted for approval to the new Public Interest Oversight Board.

"These activities are all vital to creating an investment climate of trust, to building confidence in the financial reporting process and to creating market stability," states Mr. Ward. AT

IFAC Seeks Public Members for the International Public Sector Accounting Standards Board

The International Federation of Accountants (IFAC), the global organisation for the accountancy profession representing 163 accountancy organisations in 119 countries, is seeking public members for the International Public Sector Accounting Standards Board (IPSASB). Member bodies, other organizations and the general public may submit nominations for public member positions by 31 May 2005.

Public members are expected to act in the public interest and must be seen to be independent of any special interests and seen to be acting to represent society as a whole.

The IPSASB is an independent standard-setting body. Its goal is to serve the public interest by developing high quality international accounting standards for use by public sector entities around the world in the preparation of general purpose financial statements, thereby enhancing the quality and transparency of public sector financial reporting and strengthening public confidence in public sector financial management. The IPSASB follows a rigorous due process, including public interest input, to ensure that the views of those affected by its standards and guidance are thoroughly considered.

The IPSASB will have five vacancies at the end of 2005. Up to two of these vacancies are for public member seats to be filled from nominations by IFAC member bodies, by other organisations and by the general public. The remaining vacancies will be filled by nominations from IFAC member bodies. For more information, see the Call for Nominations for Public Members to the International Public Sector Accounting Standards Board and the Candidate Information Sheet.

The search for public members to the IPSASB is part of a broad-based and transparent IFAC nominations process designed to identify the most qualified candidates possible for its boards, committees and task forces. All members of these groups are required to sign a declaration committing to act with integrity and in the public interest in fulfilling their roles within IFAC. AT

IAASB Issues Proposed Standards to Enhance the Quality of Group Audits, Communications and Auditor Reporting

At its meeting in Peru earlier this month, the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) approved exposure drafts (EDs) of four standards for public comment. The EDs propose new guidance designed to enhance the quality of group financial statement audits, independent auditors' reports, and communications between auditors and those charged with governance. Titles of the documents, which may be downloaded from IFAC's website (*www.ifac.org*), are:

- Proposed International Standard on Auditing (ISA) 600 (Revised), *The Audit of Group Financial Statements*;
- Proposed ISA 260 (Revised), *The Auditor's Communication with Those Charged with Governance*; and
- Proposed ISA 705, *Modifications to the Opinion in the Independent Auditor's Report*, and proposed ISA 706, *Emphasis of Matter Paragraphs and Other Matters Paragraphs in the Independent Auditor's Report* (derived from ISA 701, *Modifications to the Independent Auditor's Report*).

John Kellas, Chairman of the IAASB, explains: "These exposure drafts respond to public expectations for auditing standards to be strengthened and reflect the IAASB's willingness to develop tough standards and guidance for major audit areas. The proposed standards will enhance current practice and promote consistency worldwide."

In developing the new guidance, the IAASB considered regulatory and standard-setting developments around the world, the interests of small entities and the expectations of various stakeholders. Summaries of the proposed new standards and their effect on the auditor's role are provided below.

Group Audits

The proposed ISA 600 (Revised), *The Audit of Group Financial Statements*, contains standards and guidance on the audit of group financial statements. Following comments received on an earlier exposure draft, and in the interest of uniform, high quality standards, the IAASB has modified the original proposals that were previously exposed. The new standard does not distinguish between sole or divided responsibility for the auditor's opinion but requires the group auditor to perform the same work under either circumstance. To accept or continue an engagement to audit group financial statements, the group auditor should be in a position to be sufficiently involved in the audit of components of the group. In particular, the auditor is required to perform the work, or to be involved in the work performed by other auditors, on all significant components. The group auditor is also required to perform procedures in relation to any other auditor's work and to consider its adequacy for purposes of the group audit.

"Group auditors will find this a tough standard," says Mr. Kellas. "But it is essential that, where other auditors play a part in the audit of a group, the auditor who signs the group audit report should have had sufficient involvement in their work."

Communications

The proposed ISA 260 (Revised), *The Auditor's Communication with Those Charged with Governance*, includes new guidance dealing with the communication process in recognition of its importance in audit effectiveness and sets out a framework for communication with those charged with governance. The proposed revised ISA is more specific than the existing standard about what the auditor should communicate and why. This includes any matters beyond the financial reporting and disclosure process which the auditor becomes aware of and which the auditor considers to be so serious as to require communication. For listed entities, it also requires certain categorised disclosures about fees charged for audit and non-audit services provided by the audit firm in the previous 12 months.

"The importance of sound corporate governance has received much attention recently. The proper relationship between the auditor and those charged with governance is a crucial element in this. The revised ISA is designed to improve the quality and relevance of the discussions between those charged with governance and the auditor. The IAASB was pleased to work with the Australian Auditing and Assurance Standards Board on this project," states Mr. Kellas.

Reporting

The proposed ISA 705, *Modifications to the Opinion in the Independent Auditor's Report*, establishes standards and provides guidance, including illustrative examples, on circumstances that may result in a modification to the auditor's opinion on the financial statements. It is aimed at clarifying the circumstances when the opinion should be modified and enhancing the consistency of reporting between jurisdictions.

As part of the revisions, the IAASB has proposed to separate the standards on modifications to the opinion from those on "emphasis of matter" paragraphs. The IAASB is therefore also exposing a new standard, the proposed ISA 706, *Emphasis of Matter Paragraphs and Other Matters Paragraphs in the Independent Auditor's Report*, which contains standards and guidance on circumstances when the auditor includes an "emphasis of matter paragraph" or considers whether to include an "other matters paragraph" in the auditor's report, and on the form and placement of such a paragraph. It clarifies how certain matters should be brought to the attention of the users of the auditor's report, thereby promoting consistency in reporting. AT

Comments on the exposure drafts are requested by 31 July 2005. The exposure drafts may be viewed by going to *www.ifac.org/EDs*. Comments may be submitted to *EDComments@ifac.org*. They can also be faxed to the attention of the IAASB Technical Director at +1-212-286-9570 or mailed to IAASB Technical Director at 545 Fifth Avenue, 14th Floor, New York, NY 10017, USA. All comments will be considered a matter of public record and will ultimately be posted on IFAC's website.

Association of Chartered Certified Accountants ▼

ACCA CPD Plus for Employers

Above … (L-R) Stella Ho, Managing Director, PricewaterhouseCoopers; Koh Poy Yong, Senior Vice President (Finance), Resorts World Berhad; Mohd Haniff Abd Hamid, General Manager, Telekom Malaysia Berhad; Teo Ee Sing, Member, ACCA Malaysia Advisory Committee; Tay Kay Luan, Head of ACCA Malaysia; David Siew, Managing Partner, BDO Binder; Ahmad Najid Tajudin, Group Head, Learning & Development / TQM, Sime Darby and Loke Shu Kew, Manager (Audit), DeloitteKassimChan

> The primary objective of these CPDs is to constantly keep members updated with the latest developments in the world of finance in general and of accounting in particular.

The Association of Chartered Certified Accountants (ACCA) is dedicated to ensuring that people of ability and application constantly have high quality and relevant professional opportunities throughout their careers. Henceforth, one of the many approaches taken by ACCA to provide such opportunity is via the continuous professional development (CPD) programme.

The primary objective of these CPDs is to constantly keep members updated with the latest developments in the world of finance in general and of accounting in particular. This is consistent with the general trend in the accountancy profession, whereby accountants are knowledgeable and up-to-date, therefore confirming that they are truly working in the public interest. Through the CPD, ACCA provides thorough training in a wide range of both technical and non-technical subjects. ACCA has urged that all members undertake CPD in their life-long learning and beginning this year, CPD has become a mandatory requirement for all ACCA members.

ACCA officially launched its new CPD scheme on 1 January 2005 called ACCA Realise. Prior to the launch, several workshops were conducted worldwide in order to create awareness and educate both ACCA staff and members about this new scheme.

To date, there have been six such workshops organised by ACCA Malaysia — two in Kuala Lumpur, one each in Penang, Kota Kinabalu, Kuching and Ipoh. Presenters from ACCA UK such as Steve Heathcote, Director, Training and Development and Heather Morris, Training and Development Manager, as well as ACCA Malaysia staff, Elaine Cheh, Executive, Education, Training and Services and Alvin Chen, Executive from the Kuching branch office, contributed in disseminating information on ACCA Realise.

The CPD consultation conducted in 2003 proved that employers played a significant role in supporting ACCA members' development needs. Hence, ACCA Realise has been specially designed to meet members' needs whereby personal and professional development should be reflected from the diversity of their roles at work. In addition to this, ACCA Realise aims to reduce duplication of development in cases where members are already attending development courses provided by companies in which they are employed. As such, members can opt for one of the routes proposed in the ACCA Realise scheme — the Approved Employer Route.

The Approved Employer Route — otherwise known as ACCA Plus — recognises members' on-the-job learning and development. For instance, companies that currently have employee development programmes can apply to be an ACCA Plus approved CPD Employer. The ACCA Plus status can be attained at different levels — department, office, national or global. It is highly dependent upon the consistency of the training and development policies across the company.

The ACCA Plus status will be conferred upon the companies' compliance with four core principles. Owning an ACCA Plus status is beneficial not only to employers but also to ACCA members as well. Members who attend development programmes by an ACCA Plus employer will automatically meet ACCA CPD requirements.

ACCA Malaysia has recently recognised six employers as ACCA Plus Approved Employers. On 12 April 2005 at the Ritz Carlton Kuala Lumpur, Tay Kay Luan, Head of ACCA Malaysia, officially presented the certificates to representatives of BDO Binder, DeloitteKassimChan, PricewaterhouseCoopers, Resorts World Berhad, Sime Darby and Telekom Malaysia Berhad.

ACCA offers heartiest congratulations to the above companies for their successful qualification as ACCA Plus employers. AT

Chartered Institute of Management Accountants ▼

CIMA 1st — Gearing towards management accountancy

The CIMA Malaysia Division recently launched a new scheme called *CIMA 1st*, geared towards creating a pool of students contemplating a career as a Chartered Management Accountant. Students pursuing degrees in any discipline in the colleges and universities that are participating in CIMA 1st are eligible to join.

CIMA 1st was launched in Kuala Lumpur by CIMA's Director of Education, Robert Jelly. Speaking on the objectives of CIMA 1st, he said that this scheme is an initial pathway for students of local universities and colleges leading towards eventual membership in CIMA. He also said that through CIMA 1st, undergraduates will be exposed to management accountancy as a profession. They will also be able to hone their soft skills by taking part in various activities organised by CIMA Malaysia. This will make them more marketable to employers after they graduate.

In her welcome speech at the launch, Sopiah Suid, Divisional Director of CIMA Malaysia, stressed on the importance of the versatility of students in meeting the needs of future employers. She said, "Unemployment is such a big issue these days mainly because undergraduates lack skills, especially in communication. To communicate well, they need to widen their knowledge scope and enhance their speaking and presentation skills. CIMA 1st is the first step that students can take towards expanding their knowledge on business and financial management. At the same time, they can improve their communication skills by joining the CIMA Malaysia Toastmasters Club. Membership to the Club is just one of the many benefits that students get when they join CIMA 1st."

Nine universities and colleges have confirmed participation as collaborating bodies in CIMA 1st. They are Universiti Tunku Abdul Rahman (UTAR), Institut Latihan FTMS – ICL, HELP University College, Institut Perkim-Goon, the Systematic Group of Colleges, INTI College Subang, Universiti Teknologi MARA, Universiti Teknologi Malaysia and TAR College.

Students who join CIMA 1st stand to gain a number of benefits such as free access to learning resources at the CIMA Malaysia office, bi-monthly newsletters containing useful articles and employment opportunities, preferential rates at training courses and membership to the CIMA Malaysia Toastmasters Club. Students will also have the opportunity to build their interpersonal skills through leadership camps, industrial visits, sports activities and social gatherings. In addition, they will enjoy a waiver of subscription fee if they wish to pursue the CIMA qualification upon graduation. AT

Launch of CIMA 1st on 8 April 2005. The heads of participating universities and colleges with their CIMA 1st badges which they received earlier from Robert Jelly (centre), CIMA's Director of Education

Na*f*MA going global

The National Award for Management Accounting (NA*f*MA) was selected as the gold medal award recipient at the recent *Invention, Innovation and Design Exhibition (IID 2004)* organised by Universiti Teknologi MARA (UiTM) in Shah Alam, Selangor. NA*f*MA is organised and awarded by the Malaysian Institute of Accountants and CIMA Malaysia Division, with working partners CIMA-UiTM Asian Management Accounting Research Centre (AMARC) and the National Productivity Corporation.

AMARC will bring NA*f*MA to greater heights in 2005. AMARC will showcase NA*f*MA and compete at the international *Invention and Product Exposition* (INPEX 2005), which will be held in Pittsburgh, USA, on 8-11 June 2005. Professor Dr. Normah Omar and Associate Professor Dr. Suzana Sulaiman, both of AMARC, will be presenting NA*f*MA at the exposition.

IID is an annual event where researchers at UiTM showcase their new products and inventions. The exhibition is divided into three categories namely new invention, innovation and new product design. Each category is further classified into staff and students' initiatives. Recipients of gold, silver and bronze awards for each classification stand a chance to compete at national and international expositions. International competition is a common yardstick used by universities to promote their inventions. The university usually appoints experts from both the university and the industry as judges for the event.

IID 2004 saw an entry of 101 research products. Traditionally, products and designs from the science and technology groups have always dominated IID. For the first time in many years, NA*f*MA broke the tradition and was named as the gold award winner for IID 2004 under the innovative product category. The key strengths of NA*f*MA were the smart collaboration between university and the industry as well as the international acceptance of NA*f*MA as a management accounting tool to measure system effectiveness for value creation of organisations. AT

AMARC will be bringing NA*f*MA to greater heights in 2005. AMARC will showcase NA*f*MA and compete at the international *Invention and Product Exposition* (INPEX 2005).

CPA Australia ▼

Favouring a Sustainable Economy through GST

(From left)Drum with Kang Beng Hoe, Convenor of the Taxation Committee, MICCI and Koh Soo How during the Question & Answer session of the forum organised by MICCI and IFA.

The Goods and Service Tax (GST) is a future tax model which is set to sustain the economy and the revenue of the government as the ageing population exits from the employment sector. "GST is linked to consumption. When the population ages, you have less people taking part in the workforce and the government's revenue from income taxes will shrink. However, people will still consume and so continue to contribute to the country's revenue," said Paul Drum, CPA Australia's Senior Tax Counsel for Policy and Research at a press interview held here recently.

The GST is set to be introduced in Malaysia in year 2007. Drum's visit to Malaysia was mainly to share the Australian experience when it implemented the GST on 1 July 2000. According to Drum, the GST is not a new phenomenon and it has been successfully applied in more than 120 countries including New Zealand, Canada, Singapore, Japan and South Korea. He said that currently the Malaysian government is examining the models of several countries to gain a better insight on the matter. "The government is in a period of design. They have been looking at several models such as the relatively simple New Zealand model and have also met up with Singapore's revenue agency. We, on our part, welcome the opportunity to participate in this process," said Drum.

In comparing the GST with the world's biggest economy, the US, Drum said that while the US does not implement the GST, they impose sales tax on all goods and services. "In US, sales taxes are imposed in all states. It is similar to the GST but just not on a national scale," said Drum.

Asked on whether the introduction of the GST will result in the increase of prices for goods and services, Drum said that it would depend on the package offered. "The successful implementation of GST depends on the package offered. Malaysia currently imposes a five per cent service tax and this might be one tax that could be earmarked for evolution," said Drum adding that in the past five years, a total of six taxes have already been abolished in Australia.

However, he cautioned that a marginal fall in the economy is to be expected with the implementation of the GST but that it only lasts for a brief period of time. "Based on research done in several countries, we noticed it experienced slower economic growth. However, it bounced back very fast," said Drum adding that the momentary relapse could be attributed to consumer sentiments.

He noted that the drop in retail sales and spikes in inflation in Australia were to be considered a "minor bleep in the radar." He cautioned that the impact of the GST should be observed from a larger perspective. "You need to look at other things as well. It is dangerous to look at GST and its impact on the Gross Domestic Product (GDP) in isolation," said Drum.

Speaking from the Australian perspective, Drum said that the initial response from the public would be of uncertainty and that education plays a vital role in the successful implementation of GST. "In Australia, a number of agencies were involved in the education process. We printed booklets on GST and brochures to show price change. It is a costly exercise, especially if you do it correctly," said Drum. He added that a softer approach should be adopted by the local revenue agency to educate the public.

According to Drum, the Australian Tax Office (ATO) had also been continuously conducting industry forums for all sectors, ranging from the manufacturing sector to charities and educational institutions. He said that the ATO is currently in the midst of winding up most of the forums after leading successful educational stints with the members of most industries. Asked to comment on whether the three-year window was sufficient time for the implementation of the GST in Malaysia, Drum said that a shorter period of transition will result in a longer period of adjustment after implementation.

Drum was invited to talk on the same topic at a forum jointly organised by the Malaysian International Chamber of Commerce and Industry (MICCI) and the International Fiscal Association, Malaysia Branch (IFA) on 30 March 2005. He was joined by another speaker, Koh Soo How, a partner with PricewaterhouseCoopers, Singapore, who presented the Singapore GST experience.

He also participated in a joint talk with Dr. Veerinderjeet Singh, Tax Advisor/Consultant to Ernst & Young Tax Consultants Sdn Bhd, organised by the Malaysian Australian Business Council (MABC) on 31 March 2005. While Drum focused on the impact the GST had on the business community when it was implemented in Australia, Dr. Veerinderjeet concentrated on the issues Malaysia should consider prior to the introduction of the GST in three years time.

Similar talks were also organised by CPA Australia for the benefit of members in Johor Bahru (1 April), Kuching (4 April) and Kota Kinabalu (5 April). While in Kuala Lumpur, Drum also spoke to a group of 80 University Technology Sydney students at the Taylor's Business School. AT

"GST is linked to consumption. When the population ages, you have less people taking part in the workforce and the government's revenue from income taxes will shrink. However, people will still consume and so continue to contribute to the country's revenue."

Paul Drum, CPA Australia's Senior Tax Counsel for Policy and Research

Institute of Chartered Accountants in England and Wales ▼

"Regulatory Overkill" threatens global standards warns ICAEW President

The complex, high-cost regulatory regimes of mature economies threaten to undermine the adoption of globally accepted accounting and auditing standards by developing nations. Regulatory overkill also has the potential to quash any hopes for a common international approach to the regulation of accounting and auditing. Ultimately this would limit investment and the creation of jobs and wealth. This warning was sounded by Paul Druckman, President of the Institute of Chartered Accountants in England & Wales (ICAEW), at the ICAEW's international conference on global capital markets in Brussels.

Paul Druckman said in his opening address: "Financial regulation designed for listed companies operating in advanced economies is unsuitable for the vast majority of other businesses. Standards of thousands of pages impose costs that inhibit growth. The problem is particularly acute for developing nations that want to join in the global economy. International standards cannot be the preserve of an exclusive club."

"Even businesses in advanced economies are questioning whether the benefits of Sarbanes-Oxley outweigh the compliance costs. And the emphasis on converging US GAAP with International Financial Reporting Standards (IFRS) is resulting in more detailed rules-based standards. The upshot of all this may be that the potential economic powerhouses of the future are simply unable to adopt global standards."

To avoid this scenario, the Institute's President proposed that regulators from developed and developing countries start talking to agree to a set of principles for universal application that could underpin the regulation of accounting and auditing.

He also recommended that standard setters extract the underlying principles from existing international accounting and auditing standards so that they can be internationally applied by smaller businesses and those in developing nations. Additional guidance should be developed as required by national or international regulators to cover specific industry and regulated sectors, including listed companies.

Paul Druckman argued that this approach "has the potential to produce genuinely global standards that are simple, clear and relevant, paying off in improved investor confidence and capital flows."

The ICAEW's two-day conference on the challenges facing business, governments and the professions in the development of global capital markets was the first in a series of international events to mark the ICAEW's 125th anniversary. It featured high-profile speakers from across the world, including the US, China, Japan and the EU.

At the invitation of the President, this conference was also attended by Dato' N K Jasani, Chairman of ICAEW Malaysia. Dato' Jasani mentioned that this conference was very informative and thought provoking. It reflected the different approaches between the USA and EU and emphasised the need for convergence and finally adoption of the IFRS worldwide.

For the first time in Brussels, the world's three major financial regulators shared a conference platform. John Tiner, Chief Executive of the UK Financial Services Authority, Toru Shikibu, Deputy-Commissioner of the Japanese Financial Services Agency and Elizabeth Jacobs, Deputy-Director of the Office of International Affairs, US Securities and Exchange Commission, discussed the need for cooperation in the regulation of the capital markets, under the chairmanship of Graham Ward, former President of the ICAEW and now President of the International Federation of Accountants. AT

"Financial regulation designed for listed companies operating in advanced economies is unsuitable for the vast majority of other businesses … The problem is particularly acute for developing nations that want to join in the global economy. International standards cannot be the preserve of an exclusive club."

Paul Druckman
President, ICAEW

Universiti Teknologi MARA ▼

Walking Down Memory Lane: Celebrating our Glory

After years of 'nomadic' life, we have finally settled down at our own nostalgic 'Multi Storey' or Menara. Does this bring a thousand memories to you…?

The Faculty of Accountancy, Universiti Teknologi MARA is now in the midst of updating our Alumni data. If you are an Alumnus (Diploma in Accountancy, Advanced Diploma in Accountancy, Bachelor of Accountancy, Master of Accountancy, ACCA, CIMA, MICPA) dating way back to Dewan Latihan RIDA, Maktab MARA, Institut Teknologi MARA, drop us a line and tell us about your whereabouts so that we can keep you informed on our upcoming events. For further information please contact:

1. Assoc Prof. Noorbijan Abu Bakar, Tel: 03-5544 4923, *noorbi374@yahoo.com*
2. Assoc Prof. Che Hamidah Che Puteh, Tel: 03-5544 4977, *chehamidah@yahoo.com*
3. Assoc Prof. Dr Nafsiah Mohamed, Tel: 03-5544 4979, *drkancil@yahoo.com* AT

Malaysian Association of Accounting Administrators ▼

MAAA active in HRD

Standing (2nd from left): Izhar, Allan and Aric serve on the Skill Advisory Committee

At a session of the Working Committee for NOSS Development

Incorporation and Aim

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

Main Objectives

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

Council Members (2003/2004)

Elected Members

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

MIA Nominated Members

Manjeet Singh s/o Santokh Singh; Mohd Sarif bin Ibrahim; Assoc. Prof. Dr. Nafsiah bt. Mohamed

Secretariat Office

Malaysian Association of Accounting Administrators, Dewan Akauntan, 2 Jalan Tun Sambanthan 3, Brickfields, 50470 Kuala Lumpur. Tel : 03-2279 9200 Fax : 03-2274 1783 e-mail : maaa@mia.org.my

"A skilled and productive workforce is a pre-requisite to maintaining a favourable investment climate and the competitive edge of Malaysian products in the world market."

That is the key human resource policy thrust of the government's Third Outline Perspective Plan (OPP3) for the 10-year period from 2001 to 2010. Indeed, MAAA is proud to be playing its part in meeting the development of the human resource development (HRD) needs in the country.

Primarily, MAAA is closely associated with the mission of the National Vocational Training Council (MLVK) to develop the country's human resources by providing opportunity for skill upgrading and career development — ultimately creating a workforce that is Competent, Competitive and Contributing (3Cs) to nation building.

Three MAAA Council Members, Izhar Abd Kahar (President), Allan Koo Yew Fook (Vice-President) and Aric Low Han Men (a senior member of the Council), are currently actively involved in the development of the National Occupational Skill Standard (NOSS) on Accounting for the National Vocational Training Council under the Ministry of Human Resources Malaysia. They serve as MAAA representatives on the *Skill Advisory Committee* (SAC), with Izhar as SAC Chairman, and on the *Working Committee for the Development of the NOSS* on Accounting.

Besides its contribution in relation to the development of NOSS, MAAA is actively pursuing the development of its own qualification programme whereby students fresh from the SPM/STPM examinations, can choose to take up a course that prepares them as para-professionals in the accounting field. This qualification programme, known as the Diploma in Accounting (DIA) examination, is in the final stage of being approved by the National Accreditation Board (LAN).

MAAA is hopeful that once the DIA is approved by LAN and endorsed by the Examination Board of the Ministry of Education Malaysia, support and recognition by the various institutions of higher learning, professional bodies and the private and public sectors will be forthcoming. In fact, there is interest shown in the possibility of exporting MAAA's DIA examination to Indonesia and Cambodia. AT

Visit by AAT, UK

(L-R) Lina Loo of MAAA Secretariat, Jane Scott Paul, Jess Bond, President of AAT UK, Allan Koo Yew Fook and Izhar Abd Kahar

MAAA welcomed President Jess Bond and Jane Scott Paul, the Chief Executive of the AAT, UK who both paid a courtesy visit to our office on 17 March 2005. Izhar Abd Kahar and Allan Koo Yew Fook were present to welcome the two ladies who were here in Malaysia for a business cum pleasure trip. Norzainah and Lina were in attendance at the said meeting.

This meeting provided an opportunity to renew old ties with the AAT, UK and views were exchanged on matters of common interests in the accounting profession and environment.

The subject of a possible collaboration between the MAAA and the AAT, UK in offering the AAT, UK examination in Malaysia was also discussed. The meeting ended with President, Izhar Abd Kahar presenting souvenirs to the guests. It was agreed to hold further discussions on the joint examinations in the UK. AT

Non-Audit Firms

FROM 1-31 MARCH 2005

New Registration

NON-AUDIT FIRM	NF NO

JOHOR DARUL TAKZIM

C.H. Pee Tax Services **0634**
61A, Jalan Kuning
Taman Murni
83000 Batu Pahat
Tel: 07-432 8004 Fax: 07-432 8020

H.W. Tan & Co. **0636**
121-1, Jalan Ros Merah 2/16
Taman Johor Jaya
81100 Johor Bahru
Tel: 07-331 8882 Fax: 07-333 7609
e-mail: thwui@catcha.com

KELANTAN DARUL NAIM

Noor & Co **0635**
3512-H, Tingkat 1
Jalan Sultanah Zainab
15050 Kota Bharu
Tel: 09-747 3003 Fax: 09-747 3003

MELAKA

Yeo Jee Tin & Co. **0642**
64, Jalan TKL 6
Taman Kota Laksamana
Seksyen 1
75200 Melaka
Tel: 06-2827599 Fax: 06-2847599

NEGERI SEMBILAN DARUL KHUSUS

Quek & Associates **0645**
335, Lorong 17
Taman ACBE
72100 Bahau
Tel: 06-454 4219 Fax: 06-454 8871

PERAK DARUL RIDZUAN

C.W.Ng & Co **0639**
46-C/1, Summit Complex
Jalan Dato Tahwil Azar
30300 Ipoh
Tel: 05-242 4418 Fax: 05-254 3525

SABAH

Assaffal & Co. **0637**
P.O. Box 60460
91114 Lahad Datu
Tel: 019-804 1878

SARAWAK

LK Tan & Co. **0640**
1st Floor
No. 37, Tabuan Height Commercial Centre
Jalan Song
93350 Kuching
Tel: 019-876 6170 Fax: 082-361 798
e-mail: tlk3@streamyx.com

SELANGOR DARUL EHSAN

HM Kwong & Associates **0644**
Unit 913, Block A4
Leisure Commerce Square
9 Jalan PJS 8/9
46150 Bandar Sunway, Petaling Jaya
Tel: 03-7877 7440 Fax: 03-7877 4430
e-mail: hmkwong@hotmail.com

Kenny Tay & Associates **0643**
48, Jalan 6
Taman Sri Ukay
68000 Ampang
Tel: 03-4260 4199 Fax: 03-4260 4199
e-mail: finet55@hotmail.com

WILAYAH PERSEKUTUAN

AP & Associates **0638**
15-1-7, 1st Floor, Menara Putra
Lrg Tiong Nam 5
Off Jalan Raja Laut
50350 Kuala Lumpur
Tel: 03-4045 1425 Fax: 03-4045 1425

Vasanthi & Associates **0641**
P.O. Box 11363
50742 Kuala Lumpur
Tel: 019-365 3096
e-mail: vasanthi99@hotmail.com

Operation Ceased

NON-AUDIT FIRM	NF NO

WILAYAH PERSEKUTUAN

Nasser Ali & Associates **0397**
10 Ground Floor, Block 1
Jalan AU 3/1
Hulu Kelang
54200 Kuala Lumpur
Tel: 03-4108 0060

Audit Firms

FROM 1-31 MARCH 2005

New Registration

AUDIT FIRM	AF NO

PAHANG DARUL MAKMUR

Tan Tiong Hwee & Co **1585**
No. 29, Tingkat 1, Jalan Pine 1
Taman Pine
27000 Jerantut
Tel: 09-266 3616 Fax: 09-266 1636

PERAK DARUL RIDZUAN

C. Y. Ng & Co. **1582**
77A, Jalan Leong Sin Nam
30300 Ipoh
Tel: 05-254 4008 Fax: 05-254 4003
e-mail: cyngco@tm.net.my

SELANGOR DARUL EHSAN

H.H. Chong & Associates **1579**
No. 2, Jalan SS22A/5
Damansara Jaya
47400 Petaling Jaya
Tel: 03-7727 9675

WILAYAH PERSEKUTUAN

Chew Hoy Ping & Co **1583**
9th Floor, Wisma Sime Darby
Jalan Raja Laut
50350 Kuala Lumpur
Tel: 03-2693 1077 Fax: 03-2693 0997

Christopher Robin **1581**
568-8-13, Kompleks Mutiara
Level 8, 3 1/2 Mile
Jalan Ipoh
51200 Kuala Lumpur
Tel: 03-6257 1130 Fax: 03-6257 0500
e-mail: christopher@christopherheng.com
website: www.christopherheng.com

Loh & Mea **1575**
Suite 19.03 (B), 19th Floor
Wisma MCA
163 Jalan Ampang
50450 Kuala Lumpur
Tel: 03-2164 4992 Fax: 03-2164 4998
e-mail: lohmea@yahoo.com

Operation Ceased

AUDIT FIRM	AF NO

JOHOR DARUL TAKZIM

Hung & Rakan Rakan **0557**
Suite 1407, 14th Floor
Merlin Tower
Jalan Meldrum
80000 Johor Bahru
Tel: 07-276 7733 Fax: 07-276 7732

PERAK DARUL RIDZUAN

C H Lee & Co **0436**
13B Persiaran Greentown 5
Pusat Perdagangan Greentown
30450 Ipoh
Tel: 05-253 7400 Fax: 05-241 1648

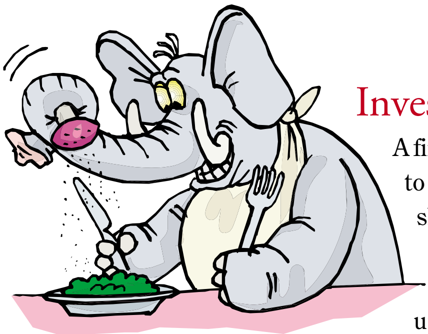
SELANGOR DARUL EHSAN

Phuah & Ng **0695**
2-C, RM 2,
Lintang Gelugor
Persiaran Sultan Ibrahim
41100 Klang

WILAYAH PERSEKUTUAN

Menon & Associates **0136**
Level 11-1 Faber Imperial Court
Jalan Sultan Ismail
50250 Kuala Lumpur
Tel: 03-2692 4022 Fax: 03-2691 5229
e-mail: jasani@gt.com.my

… Counting on Humour



Top-10 reasons to stay at work all night

1. Act out your version of a company takeover.
2. Find a way to change everyone's password to 'chrysanthemum'.
3. Around 3:20am, play connect-the-dots with lights still on in other office buildings. Keep going until you see a small woodland creature.
4. Sneaking in the boss's desk could land you an unexpected promotion.
5. Draw stick people in all the landscape pictures on the walls, and in the morning, be the first to point out "what a terrible thing that someone did this to such beautiful works of art".
6. Go into the other gender's bathroom without fear of being caught.
7. Run up and down the hallways screaming, hoping security will come so you can have someone to talk to.
8. Leave prank messages on the CEO's voice mail.
9. Finally, a chance to live out a dream and pretend to be your boss.
10. Elevator surfing!

Investment Advice

A financial planner suggested to a wealthy client that he should invest in a circus.

The client expressed great surprise at such an unusual recommendation: *"A circus? Why on earth should I buy into a circus?"*

The financial planner replied: *"Because of the elephants."*

The client, puzzled even more, then asked: *"The elephants? What is the connection between circus elephants and investments?"*

The financial planner asked: *"Well, do you know how much it costs to feed an elephant?"*

The client, slightly annoyed, responded: *"No, of course I do not know how much it costs to feed an elephant."*

The financial planner explained: *"Well, neither does the Taxation Commissioner."*

The New Client

A new client had just come in to see a famous accountant. *"Can you tell me how much you charge?"*, said the client. *"Of course"*, the accountant replied, *"I charge $200 to answer three questions!" "Well that's a bit steep, isn't it?" "Yes it is"*, said the accountant, *"And what's your third question?"*

Tax Seminar

An accountant was attending a tax seminar in Las Vegas. The lawyer sitting next to him was obviously bored with the presenter, and suggested the two of them slip out to the lobby for a cigar. The accountant replied, *"well, thank you for the invite, but I tried smoking cigars once, and I didn't like them … I'll have to pass".*

A few minutes passed, and the lawyer asked, *"this is a very tiresome presentation … how about we slip down to the bar and have a cocktail?"* to which the accountant replied, *"Oh, I tried drinking once, but I didn't like it very much."*

Finally, after about a half hour, the lawyer says, *"listen, tonight after the seminar a couple of us are heading to the tables to do some gambling. Would you care to join us?"* The accountant replied, *"you know, I tried gambling once, but it just didn't appeal to me … but I'll tell you what. My son is flying in tonight, and he might want to tag along with you."* To which the lawyer said, *"your son? let me guess … an only child?"*

Finance Job

Jones applied to a finance agency for a job, but he had no experience. He was so intense that the manager gave him a tough account with the promise that if he collected it, he'd get the job.

Two hours later, Jones came back with the entire amount. *"Amazing!"* the manager said. *"How did you do it?"*

"Easy," Jones replied. *"I told him if he didn't pay up, I'd tell all his other creditors he paid us."*

Scientists tell us …

The average person spends:

- 9.5 years sleeping
- 4.2 years eating
- 3.8 years on the toilet
- 2.8 years travelling

and …

- 1.9 years waiting for Excel to recalculate! AT