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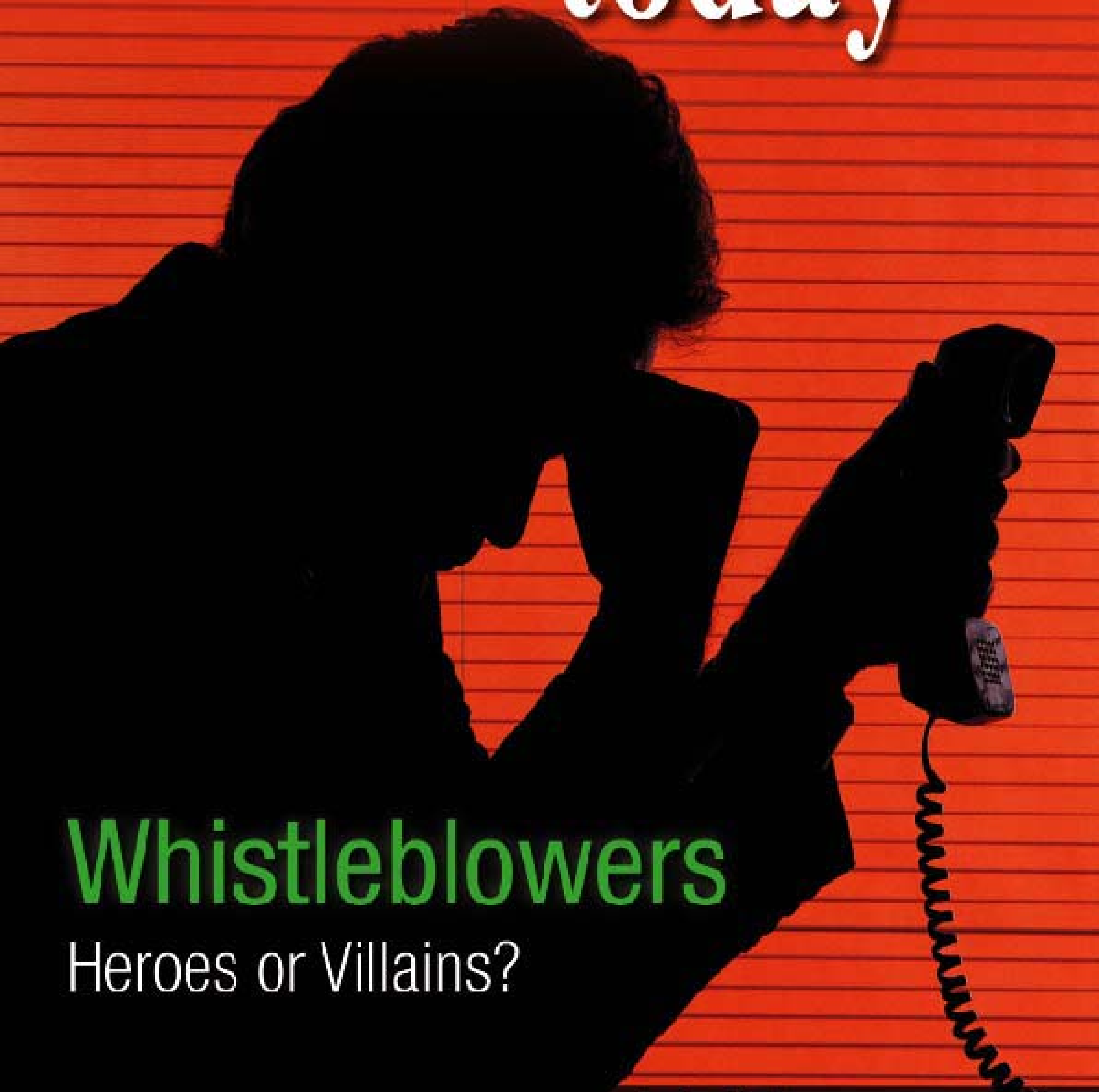

Whistleblowers

Heroes or Villains?

A Monthly Publication of the Malaysian Institute of Accountants

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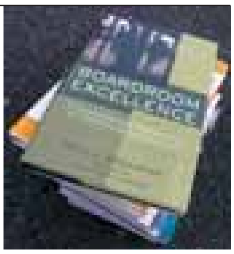
CONTENTS
August 2005

Accounting Standards

Notice to Members

Book Review



Better Life

Institute News

MAAA News

Columns

IFAC News

Members' Update

Accountants' Corner

Accountants need to contemplate on ethics.
To be or not to be ethical, that is the question

The last few years have seen many large corporations failing in a dramatic fashion. Corporations such as WorldCom, Enron and Parmalat are some of the big names which dominated the headlines. And when such news hit the headlines, critics were prompt to ask: "Where were the accountants?"

The implicit assumption is that 'accountants' might somehow have been able to prevent these collapses. Or, at least they should have alerted the outside world in advance about what was likely to happen. But is it fair to expect that, whenever a company fails and the shareholders lose their money? Should the accountant be held responsible for the entire loss?

Now the public knows. On the inside, corporate CEOs, CFOs and controllers were channelling corporate assets and manipulating accounting records in order to enrich themselves. From the outside, independent auditors were signing off on what has been euphemistically called accounting irregularities.

The question is no longer where were the accountants, but where were the whistleblowers.

In this month's cover story we feature an article, "Whistleblowers: Heroes or Villains?". It takes a look at the role of an accountant as a whistleblower. The article stresses that strong internal control systems safeguard assets and help ensure reliability of financial records. These controls cannot prevent all fraud, but coupled with independent internal auditors, they can help reduce material abuses of corporate behaviour.

> "The question is no longer where were the accountants, but where were the whistleblowers."

Principled accountants may be the best solution to preventing CEOs from treating companies like their personal property. Reporting irregularities to the board of directors and the auditors should be the rule rather than the exception.

Internal and external auditors must regain their independence, reporting to and interfacing with all members of the board of directors and the audit panel. They should view the board as the audit client, not corporate management.

The current tide of corporate fraud is not yet ebbing, but with the commitment of ethical accountants, the public may eventually regain their confidence, knowing that the bean counters are on the job. AT

Editor
Accountants Today

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letters to the editor

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contribution of articles

Accountants Today welcomes original and previously unpublished contributions which are of interest to accountants, business leaders, executives and scholars. Manuscripts should cover domestic or international accounting developments. Lifestyle articles of interest to accountants are also welcomed. Manuscripts should be submitted in English and range from 1,000 to 2,000 words. They can be submitted in hardcopy or softcopy. Manuscripts are subject to a review procedure without prejudice and the Editor reserves the right to make amendments which may be deemed appropriate prior to publication.

WORLD news

Survey of Top 50 UK Accountancy Firms

Following drops in fee income since the accounting abuses at Enron and WorldCom, this year's *Accountancy Age* Top 50 league table shows that turnover is rising at the UK's biggest firms.

From static revenues of £6.3bn in 2004, the combined income of the Top 50 firms in the UK this year jumped a little over six per cent to £6.7bn.

Accountancy Age's Top 50 is the most respected league table ranking the UK's top accountancy firms, compiled in June each year.

PricewaterhouseCoopers LLP leads the table with UK income fee of £1.57bn for the year ended 30 June 2004. With 757 partners in the UK, the firm posted a four per cent growth in income fees.

Next comes Deloitte with income fee of £1.35bn, an eight per cent growth from the year before. The firm is trailed by KPMG LLP (£1.07bn).

> "If people have multiple offers, then brand is king. A company that looks after its people, rewards staff well and has a good reputation, will succeed."
>
> **Albert Ellis, Chief Executive, Harvey Nash**

Growth among the UK's biggest accountancy firms is being inhibited by an inability to recruit the right staff, according to the *Accountancy Age* Top 50 league table.

The industry may have breathed a sigh of relief on the news that an increase in revenues has propelled the sector out of the doldrums. At £6.7bn, combined fee income is up more than six per cent on last year.

But as demand for qualified staff reaches an all-time high, an extremely tight recruitment market is leaving many firms struggling to fill vacancies, the report says.

Last year, 82 per cent of Top 50 firms said they intended to take on more staff and 70 per cent touted plans to increase partner numbers. In reality, 40 per cent of firms have reduced headcounts, and almost two thirds have either the same number of, or fewer, partners.

Average staff attrition rates currently 18 per cent across all staff and 26 per cent among newly qualifieds illustrate the extent to which firms are competing not only with each other, but increasingly with large businesses.

Kristin Watson of the education and training department of the ICAEW, said the tight recruitment market was driving demand among investment banks and other City institutions to train accountants themselves, rather than poach staff from practice.

Firms are also having to be increasingly creative in the way they appeal to potential new recruits. KPMG is investing in online selection tools from HR consultancy Cubiks to help reduce the recruitment headache.

Keith Dugdale, KPMG's director of national recruitment and resourcing, said online personality profiling had slashed recruitment times by around 40 per cent. "Previously, we lost out to other Big Four firms because our recruitment processes were too slow. In a growing market that is increasingly competitive, we've been able to recruit far more effectively and quickly."

Albert Ellis, chief executive of recruitment firm Harvey Nash, said full employment meant firms needed to develop their brands. "If people have multiple offers, then brand is king. A company that looks after its people, rewards staff well and has a good reputation, will succeed."

Meanwhile, the revelation that just four per cent of partners in the Top 50 come from ethnic minorities coincided with a call to action for senior executives to tackle the issue of racial diversity.

Chairman of Race for Opportunity, Allan Leighton said: "Developing business practice that addresses race is a no-brainer. The ethnic minority population in the UK has an annual disposable income spending power of £32bn. Cater effectively to this sector and you will see rewards." AT

AccountancyAge.com

Canada's KPMG Foundation establishes Faculty Fellowship in Accounting

The KPMG Foundation, Canada, announced the establishment of the KPMG Faculty Fellowship in Accounting at Queen's School of Business, with a pledge of $250,000 and an additional donation of $50,000.

"KPMG is proud to establish the first Fellowship in Accounting at Queen's," says William A. MacKinnon, CEO of KPMG Canada. "We have many exceptional employees who are graduates of the Queen's Commerce program, including more than a dozen partners, so it is very fitting that we support the School by ensuring that talented professors are there for future generations."

As part of the fellowship, the firm recognised the strong relationship between KPMG and Queen's including the leadership of KPMG Inc. Vice-Chairman, Doug McIntosh, who is also the Chairman of the Queen's School of Business Advisory Board and a Queen's Commerce alumnus, also supported the initiative with the donation of $50,000.

During Doug's five years as Chair, two new MBA programs were launched and the University completed a fundraising campaign that raised $262 million, including $20 million for a new building for Queen's School of Business.

Larry Murray, Chairperson of the KPMG Foundation, Canada, outlined the rationale for awarding this first Fellowship in Accounting to Queen's School of Business.

"The KPMG Fellowship will support accounting research of the highest calibre within the School," says Mr. Murray. "While Queen's Commerce students will benefit from this original research, so too will the business community as a whole. KPMG is committed to advancing accounting skills and practices throughout the industry and we are proud to have our name associated with Queen's School of Business and their outstanding accounting faculty."

The KPMG Faculty Fellowship in Accounting will continue in perpetuity, with the annual interest earned directed to providing research funding to a faculty member — the "Fellow" — who is appointed for three years with the opportunity to renew.

Queen's School of Business (*business.queensu.ca*) is one of the world's premier business schools. MBA programmes include: Queen's MBA for Science & Technology, ranked most recently by *BusinessWeek* magazine as the No. 1 MBA in the world outside the US. AT

CNW

Candle acquires Parker Bridge

White collar recruitment company Candle Australia will acquire Parker Bridge Australia and create a new recruitment division specialising in the accounting area.

The purchase price is expected to be around $4.3 million, with incentives for over achievement of agreed profit targets, reports AAP.

Established in 1998, Parker Bridge Australia has 42 staff recruiting for specialist fields across the greater Sydney region.

Candle Australia managing director, Robert Collins said the acquisition will allow Candle to offer senior accounting recruitment services for which Parker Bridge Australia is renowned, capitalising on a growth area with significant potential.

"The accounting market is as pervasive as the information, communications and technology (ICT) market; every company requires accountancy services of one form or another," said Collins, according to the report. "It's a natural progression for us to expand into this area as a significant new line of business."

The acquisition will be funded by a combination of cash and scrip, and will be earnings per share positive in the first year. As with previous acquisitions, Candle Australia will pay a deposit up front. However most of the consideration will be linked to profit performance over a two-year period.

In addition to its accountancy recruitment services in Sydney, Parker Bridge Australia has two other business lines — an office support team which will fold into Candle Australia's Alliance Recruitment brand adding extra capacity, and a senior ICT team which will enhance and grow Candle's existing ICT specialist business, Technology Cosourcing Solutions (TCS).

"Not only are we establishing a new profitable business line, we are acquiring new clients, new markets, and most importantly, some of the best recruitment talent in the business.

"With our strong cash flows and low debt levels, we are confident we can continue this success and expand into new lines of business and locations within the Australian and New Zealand markets," said Collins. AT

(AAP)

Government red tape tops British small business concerns

According to latest research by accounting software supplier, MYOB, Government red tape is the primary concern of small business entrepreneurs in the UK, reports small business portal *Bytestart.co.uk*.

In a survey of small businesses, 45 per cent of respondents cited this as their primary business concern with interest rates (25 per cent) and the state of the economy (25 per cent) also featuring strongly. The concern over red tape also increases as the business grows with 56 per cent of businesses with 11 to 20 employees citing it as their primary worry compared to 43 per cent of sole traders.

In investigating the business concerns and resources of British small businesses, the survey uncovered how entrepreneurs make their strategic business decisions and where they need most help.

According to the report, the survey clearly showed the important role accountants play in giving strategic business advice to small businesses. A good 48 per cent of respondents said they turned to their accountant for strategic business advice, although the survey also showed that women are more likely to turn to their friends and family for advice (63 per cent) than men (47 per cent).

However, sole traders valued their own opinion over others (58 per cent). When seeking external help, sales and marketing (45 per cent) and business strategy (25 per cent) topped the list of requirements.

The *Bytestart* report on the survey also says the results showed that less than half of small businesses feel completely in control of their business finances with the smallest companies having the loosest grip.

In fact three per cent admitted that their finances were completely out of control. Routine financial administration is also occupying a significant amount of entrepreneurs' time. 45 per cent of small businesses spend between one and three hours per week doing routine financial administration, 19 per cent spend between three to eight hours a week and five per cent lose an entire working day to the task.

Simon Smith, General Manager of MYOB UK, said, "These results show that the burden of red tape is a serious concern for small businesses.

Accountants have an increasingly important role to play in giving advice to small businesses. With so many small businesses struggling with financial management, accountants are well placed to be advising their clients on best practice for achieving financial control. This is crucially important as businesses that fail to achieve this are far more prone to failure." AT

Bytestart.co.uk

Accounting and Ethics — Poverty in Africa and Corporate Governance

As world leaders met in Gleneagles, Scotland, in July to discuss proposals to address poverty in Africa, questions were raised by many about accountability by African states and companies doing business in Africa.

John Snow, US Secretary of the Treasury, addressed the Council on Foreign Relations about proposals for debt relief and financial aid to Africa, reports *AccountingWeb.com*.

The online report says Snow said that he believed the long-term solution to poverty was sustained growth. But, he concluded, "you've got to be able to trust the books. If you can't trust the books, you don't get investors. If you don't have confidence in the people running the enterprise that they're looking out for your interests rather than their own interests, it makes you reluctant to want to invest, so getting corporate governance right will be important."

What are accountants doing to assist Africa and other areas to address the challenges implied in Snow's blunt remarks? Rob Outram, writing on the G8 for the Edinburgh Evening News, says" A combination of accountants from donor countries and a strengthened accounting profession in the developing nations can help to underpin the validity of the "audit trail" and ensure that it's clear that the money is going where it should."

According to the article, Outram reports "the Institute of Chartered Accountants of Scotland has been involved in helping to build and develop financial skills and institutions around the world for many years now. Many of these projects have taken place in former Soviet countries, such as Russia, Kazakhstan and Armenia, and also in Bangladesh, Tanzania and Uganda."

In June, KPMG's Global Sustainability Services group published its *International Survey of Corporate Responsibility Reporting — 2005*. The report included the following findings:

- A dramatic change has been in the type of Corporate Responsibility (CR) reporting which has changed from purely environmental reporting up until 1999 to sustainability (social, environmental and economic) reporting.
- Almost two-thirds of CR reports include a section on corporate governance, although most reports lack specifics on how CR is structured and information on how governance policies are implemented within the organisation.
- Social topics are discussed by almost two-thirds of the companies, generally, in one or most of four areas; core labour standards, working conditions, community involvement and philanthropy. While the majority of companies express their commitment to these issues, reporting performance remains sketchy, possibly due to the lack of clear social indicators." AT

AccountingWeb.com

A Simple Solution for Tax Filing Woes in India

After railway bookings, banking and stock trades, India's upcoming generation has deployed computerised systems even in managing serpentine temple entry queues.

Similar attempts to make income tax filing convenient for India's millions of citizens suffered until now due to the complexities of the task, according to an article found at *www.pressbox.co.uk*.

The article, carrying the Mumbai stamp, says the do-it-yourself guide is now made available for the first time to India's vast number of citizens spread over huge territories.

This development can ease the process of income tax return preparation, whether on a computer or on paper, giving one back the complete control on the activity that he or she would seek, affirms representatives of Celerity Consultants, Mumbai, the book's publishers.

J. Srinivas who lives in East Godavari district of Andhra Pradesh State agrees. With this self-help, he has unearthed a grave error he has been committing for the last four years in spite of a local consultant.

India's tax filing deadline is at end of July except for large businesses. Employers have by now handed over tax deduction certificates to a total of almost 40 million of its employee tax payers.

According to the article, citizens do not worry much for the salary income, although stories of gross employers' mistakes also abound.

Life becomes difficult when it comes to dealing with property income and transactions, investment trades and income for most. Citizens also need to be mindful of a plethora of available benefits having different names-exemptions, deductions, rebates and reliefs — each having distinct prescribed preconditions.

How to File Your Income Tax Return with Due Attention and Care? by Shiv N. Majumdar, a Chartered Accountant in Mumbai, offers an easy remedy for this situation.

The book is in the nature of a Personal Manual, and is targeted to people who are laymen but have decided to take control of their income tax management. The law has now become simple, but the process still requires some care. AT

The People's Bank of China issues its first anti-money laundering report

The People's Bank of China released the "2004 China Anti-money Laundering Report" in *Caijing Magazine* on 11 July. It is the first report of this kind promulgated by the People's Bank of China, reports *People's Daily Online*.

Compared with the anti-money laundering report released by the State Administration of Foreign Exchange in 2003, the individual large-denomination foreign exchange that have flowed into China's mainland are US$3,956 million, increasing by nearly one third over 2003.

Some insiders say within these foreign exchanges that have flowed into China, there is some arbitrage idle money speculating on the RMB revaluation they expect, as well as some illegal funds on money laundering transactions in China.

In the light of this, supervision has been tightened in the country, the report says. *2004 China Anti-money Laundering Report* is the first report of this kind issued by the People's Bank of China after it established China Anti-money Laundering Supervising & Analysing Centre.

The State Administration of Foreign Exchange used to be responsible for this mission. The joining of the central bank reflects the increasing importance that the Chinese government has attached to the efforts on anti-money laundering.

According to the report, last year the large-value foreign exchange that has been taken into China's mainland by individuals reached US$3.956 billion, and US$964 million has flowed out.

The net in-flow amount is US$2.992 billion. The in-flowing amount is over three times the out-flowing amount. The main sources and destinations of cross-border large-value foreign exchange transactions are the US, the Hong Kong Special Administrative Region (HKSAR), China's Taiwan, Japan and the Republic of Korea (ROK).

By the end of 2004, the People's Bank of China and the State Administration of Foreign Exchange cooperated with the public security department to break down 50 cases of money laundering, involving RMB 570 million and US$447 million. AT

People's Daily Online

Whistleblowers

HEROES OR VILLAINS?

All Cover Stories by Eddie Lee

To many people whistleblowing is a repulsive act. Is the whistleblower a hero or a villain? A hero to some and a villain to others. In fact, a whistleblower stands on two diametrical ends of the spectrum and more often than not walks the lonely path of a no man's land.

Until the Enron saga unfolded, whistleblowing always had an uncomplimentary slant. In today's post Enron and Sherron Watkins, whistleblowing is viewed more favourably. But whistleblowers still find themselves stigmatised as disloyal employees who create trouble for their employers. Only now are perceptions beginning to change, as whistleblowing is now viewed as an accountability and risk management tool that can be used to safeguard the interest of the company and the public.

Often ostracised, maligned and criticised, a whistleblower's act is seen like a betrayal of trust akin to biting the hand that feeds you. It is not surprising therefore that experience has shown that whistleblowers find themselves isolated from their colleagues and management, sacked, demoted, sued or otherwise victimised, usually for breach of confidence or for defamation.

But the wonderous and courageous acts of the whistleblower help to unearth Pandora's box, cobwebs hidden in the cupboards, expose corruption, lay open debauchery and other transgressions which otherwise would remain hidden from the public eye.

A whistleblower is defined as someone who discloses significant acts of corruption, waste, fraud, mismanagement or abuse of authority in contravention of the country's laws or regulations in either the public or private sector. Hence whistleblowing legislations are intended to address public disquiet, preserve market confidence and concerns. While it upholds moral, ethical practices and professionalism, it also seeks to perform well within a competitive environment.

To blow a whistle, undoubtedly, requires extraordinary courage. The whistleblower's dilemma is two-fold: he risks his job and career prospects through his actions, and he is engaging in what most people would deem slanderous and damaging activities. But besides these issues there is a personal uncertainty for the whistleblower, since he himself may question the purity of his motives.

He may want to be a hero (some whistleblowers have become public celebrities), or possibly he is failing in his own capacity and wants to divert attention from his own failings. How then can a person be assured that his actions stem from moral integrity? On the other hand, if he continues to play a function in his company he is aiding and condoning immoral behaviour by his silence.

In this age of transparency and accountability, you would not expect whistleblowing but unfortunately it still lurks. Bribery, the bending of safety rules and other unlawful acts are hard to detect without the help of whistleblowers, as they are, by nature, conducted surreptitiously.

"That is why it is necessary to protect those providing confidential information. Few will share such information when the risk of being exposed is high," says Heng Ji Keng, partner of Monteiro & Heng.

Whistleblowers are often maligned as the system is generally biased against those who simply want to do what's proper. A case in point is Irene Fernandez who exposed the shoddy treatment of detainees in detention camps. But for every celebrated whistleblower, there are hundreds who remain in the shadows. And for good Samaritans who get to spill the beans, the price they pay can be exorbitant.

Often the whistleblower is painted to be the bad guy. A good example is the fumbling of South Korea's Financial Supervisory Service (FSS), a regulatory body overseeing the country's financial stability in handling a whistleblower. A man providing the agency with secret information on a credit card company in September last year — disclosing that overdue payments were being converted into loans without cardholders' consent in order to under report its credit delinquency rate — lost his job because the agency disclosed his identity to his employer. It reflects blatant failure of rightful authority to protect informants on corporate and market misdeeds. Most authorities cannot rely on official data alone to rein in competitive market players and to discharge its duties, which is to ensure the prudence of financial institutions, protect their clients and maintain order in the market — faithfully.

Many employees who witness the wrongdoings of their colleagues or higher ups are loath to speak out, as the risk of recrimination is high. In the US, Congress quickly passed the Corporate and Criminal Fraud Accountability Act after the Enron debacle. It protects corporate whistleblowers against retaliation by their company.

Back home the authorities have come to terms with the reality of protecting whistleblowers. Two new laws are now in force to protect those who sound the whistle. Whistleblowing provisions are included in the amended Securities Industry Act, 1983 — making it mandatory for auditors and key officers to report corporate misdeeds to the authorities. The Witness Protection Bill accords legal protection to whistleblowers as prosecution witnesses, preventing them from being sacked or having to face punitive action by their employers.

These new laws will allow company officers, auditors and even employees to blow the whistle on corrupt, dishonest and fraudulent corporate activities without fear of reprisal. The new laws would establish whistleblowing as a "strategic tool" to prevent white collar crimes and improve the standards of corporate governance in Malaysia, the former Second Finance Minister, Datuk Dr. Jamaludin Jarjis said at the opening of the regional conference of the Malaysian Association of the Institute of Chartered Secretaries and Administrators (MAICSA) in Kuala Lumpur in September 2003.

The laws and a change of mindset are required to encourage whistleblowing but

"In this age of transparency and accountability, you would not expect whistleblowing but unfortunately it still lurks. Bribery, the bending of safety rules and other unlawful acts are hard to detect without the help of whistleblowers, as they are, by nature, conducted surreptitiously."

it is a difficult task. In Asian societies where 'loyalty' is a particularly strong trait, the whistleblower will naturally face a dilemma between acting in the public interest and a sense of loyalty to management and colleagues.

Speaking at the same function, Dato' Zarinah Anwar, the Deputy Chief Executive, Securities Commission said it was crucial that this sense of loyalty and respect for authority do not overshadow the more basic values of what is right and wrong. "We must work to reinforce acceptance that loyalty to employers stop when public harm becomes an issue. The employee has a higher responsibility, an ethical and moral duty to society to report an immoral act by an employer," she said.

"You may have all the best measures to prevent corruption and unethical practices, but the crucial question is: will the authorities act against a top-ranking Cabinet member, well-connected firm or prominent tycoon suspected of fraud or corruption," asks an accountant who prefers to remain anonymous.

Echoing the same sentiments, Chartered Accountant, Radha Vengadasalam says, "We have hundreds of legislation and these have not brought any better governance. In Malaysia, the whistleblower will be ostracised by the business community and will find it difficult to get a job. "Here in this country the syndrome, 'you scratch my back and I will scratch yours' prevails," he says succinctly.

To protect the whistleblower against any recrimination, he suggests that apart from shrouding it in secrecy, the whistleblower should be guaranteed 'salary' for say five years from the date he whistleblows to protect his living and source of income. "The government can pay this and recover the monies from the offending party," he says.

On ways to encourage people to blow the whistle, which is an effective method in the West to report on a company's misdeeds, he says only Enron has been a good example. There have been other cases where the whistleblower has been victimised. "A good way is to have examples of how the authorities can protect the whistleblowers," says Radha.

For example he noted that in Malaysia many professional firms over bill on fees by fiddling on time charges and out of pocket expenses. In the US, a firm has been investigated and fined. He questions why in Malaysia no such investigations take place. "Those who work in professional firms will tell you that this is common but no one has done anything about it," he asserts.

One of the avenues to restore confidence back to the market, is to blacklist the manipulators and make them relinquish control of the company they have manipulated.

Blacklisting aside, companies must take the cue to create a conducive environment for employees to snitch on misdeeds. "It is important that companies demonstrate their legitimatisation of whistleblowing in the workplace by establishing structures and systems that facilitate the reporting of wrongdoing," said Dato' Zarinah Anwar during a speech at the Regional Conference on *Agenda for the 21st Century — Revitalising the Corporation* two years ago.

Among such avenues include developing internal grievance

"These new laws will allow company officers, auditors and even employees to blow the whistle on corrupt, dishonest and fraudulent corporate activities without fear of reprisal. The new laws would establish whistleblowing as a "strategic tool" to prevent white collar crimes and improve the standards of corporate governance in Malaysia."

Datuk Dr. Jamaludin Jarjis, former Second Finance Minister

"We must work to reinforce acceptance that loyalty to employers stop when public harm becomes an issue. The employee has a higher responsibility, an ethical and moral duty to society to report an immoral act by an employer."

Dato' Zarinah Anwar, Deputy Chief Executive, Securities Commission

procedures, encouraging and rewarding use of these procedures, appointing senior executives to be responsible for investigating and reporting wrongdoing and imposing punitive sanctions for wrongdoing. Disciplinary procedures mandate that harassing or victimising a whistleblower is considered a serious misconduct that will subject the perpetrator to disciplinary proceedings.

"Very few employers are willing to do so, and this is not surprising, since whistleblowers rarely bear good tidings for a company's share price. Yet in the end, the whistleblowers save their companies far more than they cost," noted Dato' Zarinah Anwar.

In conclusion, whistleblowers are responsible people who have the courage to do as their conscience dictates. Despite facing huge risks of reprisal and sometimes endangering their lives and their families, they have the fortitude and strength to stand up against the transgressions and their perpetrators.

Securities laws have been amended allowing auditors and key officers dealing with the company's financial reports who snitch be afforded protection against any retaliation arising out of their action. But the challenge for the government is to create the conditions where all who wish to, can become actively involved, can understand and participate, can influence, persuade, campaign and whistleblow. AT

> "We have hundreds of legislation and these have not brought any better governance. In Malaysia, the whistleblower will be ostracised by the business community and will find it difficult to get a job. Here in this country the syndrome, 'you scratch my back and I will scratch yours' prevails."
>
> **Radha Vengadasalam, Chartered Accountant**

To Blow or Not to Blow…

In the 1944 film, *To Have and Have Not*, Lauren Bacall asked Humphrey Bogart, "You know how to whistle, don't you, Steve? You just put your lips together and blow." That's how she described whistling to Humphrey Bogart.

Whistling is easy but blowing the whistle in business is not that easy. It requires extraordinary courage and the recriminations that follow such selfless acts can sometimes bring down lesser mortals. Reprisals, ostracism, humiliation, demotion and even sacking stare in the face of those who dare to snitch.

Whistleblowers can play an important role in the monitoring of government agencies and companies. The presence of whistleblowers brings about a credible threat of discovery and prosecution to those who are guilty of crime, civil offences (including negligence, breach of contract, etc), miscarriage of justice, danger to health and safety or the environment and the cover up of any of these.

> "… blowing the whistle in business is not that easy. It requires extraordinary courage and the recriminations that follow such selfless acts can sometimes bring down lesser mortals. Reprisals, ostracism, humiliation, demotion and even sacking stare in the face of those who dare to snitch."

Take the case of Jeffrey Wigand for example. The former Vice-President for the Brown and Williamson Tobacco Company helped the Food & Drug Administration (FDA) get evidence that cigarettes were drug delivery devices. But he lost a US$300,000 a year job and the prospect of ever being hired again as a high-level researcher. His marriage ended, and he was reportedly dogged by tobacco industry detectives and sued by Brown and Williamson. He ended up teaching high school science for an annual US$30,000.

Japanese transport worker Hiroaki Kushioka was just 28 when he decided to blow the whistle on an industry price-fixing cartel. That decision, he says, ruined his chances of promotion and set the stage for decades of harassment by management.

Relatives of the US soldier who sounded the alarm about the abuse of Iraqi detainees at Abu Ghraib prison said the family was living in protective custody because of death threats against them. Reservist military police officer Staff Sgt. Joseph Darby alerted US Army investigators about the abuse by fellow soldiers of prisoners at Abu Ghraib prison near Baghdad, a move his wife says has angered people in their community in western Maryland.

Whistleblowers have also been instrumental in bringing to light cases where companies or government bodies have been complicit in endangering public health by compromising nuclear safety, health standards and environmental guidelines.

In short, a healthy culture of whistleblowing is an essential building block of civil society. But whistleblowers often face an uphill, seemingly insurmountable task, in bringing their concerns to public light.

What motivates a person to blow the whistle? Perhaps the carrot is money that some organisations and governments promise whistleblowers. It could be perhaps revenge, ethics, moral duty, and civic consciousness. Having made that momen-

> "… a healthy culture of whistleblowing is an essential building block of civil society. But whistleblowers often face an uphill, seemingly insurmountable task, in bringing their concerns to public light."

tous decision, the question is will you be comfortable with your decision in the future. Do you have evidence of clearly illegal or unethical acts? Or are you unethically just 'naming names' of those with whom you simply disagree?

The downside is that there are risks too — losing your job, unresponsive agencies who may not protect you, the emotional and mental cost to you and your family, friends may ostracise you, and of course, retaliation.

Whistleblowing carries serious repercussions and you must be mentally strong to withstand the onslaught of recrimination. And after weighing the pros and cons, if you still decide to blow the whistle, here are things to do:

Remain strong

If you are considering engaging in a form of whistleblowing, consider seeing a lawyer first to learn about what protections you might have against retaliation. Whistleblower protections are often far less extensive than you would think. It could be risky for you to assume that you will be protected against retaliation. If you are not sure, consider seeing a lawyer and learning what protections might apply in your specific situation. Unfortunately, for some types of whistleblowing there may not be any meaningful protection against retaliation.

Stay safe

By trusting selected others, you will avail yourself to people who will help you look out for yourself and your loved ones. Don't take unnecessary risks. Be careful who you trust, and keep the number small.

Get all the evidence you can. Keep a log in a bound book, ensuring no pages can be added or removed. Document everything applicable and regularly. Keep it in a safe place. Get copies of everything incriminating you can. The weight of evidence and totality of the record will matter a great deal.

Think ahead

Prepare an 'escape plan' should you need to get out of the situation quickly and safely. Remove all but essential material from your office, without it appearing obvious. Of what's left, decide what you must remove and what you can leave behind. Mentally practice 'escaping.'

Seize the initiative

Choose the time and place to announce your position. If resigning, include a brief letter generally describing your reasons. Deliver it in person, along with an unbiased witness.

Maintain the high ground

Don't depreciate your position and cause by acting immaturely. Avoid screaming and petty behaviour. Having consulted a lawyer and mental health professional, you'll be better able to do so. People who have the whistleblown on them are, in fact, 'con men' hoping to instil confidence in their marks. They want us to trust them. Whistleblowers expose con men, turning them into what they should be: convicts.

There are many great achievements in history that are almost always accomplished by the courageous. Whistleblowers are courageous people who act to protect others. Whistleblowing in essence, in the end, comes down to courage: to have or have not. AT

THE ART OF Economic Prediction

by Saravanan Ramasamy

Forecasting is the art of saying what will happen, and then explaining why it didn't. — Anonymous —

Mankind has always been preoccupied with the prediction of the future and this dates back to the dawn of civilisation. Indeed, history abounds with countless examples of how fortune-tellers and prophets of doom foretold the fate of great individuals and even the fall of mighty empires. In contrast, economic forecasting is much less ambitious and more restricted to conditional statements about the future based on specific assumptions. On a broader context, eco-

nomics in general is a social science that attempts to explain observed human behaviour. This makes the discipline vulnerable to measurement problems, not to mention harsh criticisms levelled against the field as a result of this phenomenon.

Economic prognosticators are often compared to weather forecasters — they both have to predict in a rapidly changing environment, and both invariably get their forecast wrong. But at least the weatherman knows that the day will be either sunny or rainy while economists sometimes do not even know how the economy will fare. This often leads to the question of why economists bother to forecast at all? Well, the eminent econometrician Clive Granger has attempted to provide an answer to the above question. He offered the following example to illustrate the point that cost of making a negative error is often very different from that of positive error. Consider the consequences of arriving at the airport 10 minutes late for a flight and those being 10 minutes early. Thus, economic forecast should be evaluated in terms of the quality of the decisions that result from them and not by measure of the average size of forecast errors. Though, fairly intuitive, this view has yet to be fully embraced by the business community at large.

Having said this, the following section attempts to highlight some of the statistical forecasting methods that are commonly used. Amongst the statistical forecasting methods, three main approaches stand out: time series models, leading indicators and econometrics models.

Time Series

A time series is a set of observations on the values that a variable takes at different times. Such data may be collected at regular time intervals, such as daily (e.g. stock prices), weekly (e.g. money supply figures), monthly (e.g. unemployment rate), quarterly (e.g. GDP) or annually (e.g. government budgets). Essentially, time series models predict the future observations of target variable from its recent past. Exponential smoothing methods, autoregressive integrated moving average (ARIMA) models and vector auto regression (VAR) models are examples of time series forecasting models. These models can produce reasonably accurate projections for economic time series in the near term although they are often not suited for forecasting for at the medium and long-term time horizons. Furthermore, time-series models do not generally make use of the rich body of the economic theory and thereby ignore the extraneous information that is usually available to the forecaster. Even so, time series models are popularly used for forecasting GDP, although they are often subjectively adjusted by 'qualitative methods'.

Leading indicators

Leading indicators are largely used to provide early warnings of recession and recovery. By design, the leading indicators are designed for the prediction of the timing of an event. Notwithstanding their ability to presage economic activity, leading indicators have been criticised as being 'atheoretical' because they are not derived from any economic theory. Forward-looking leading indicators are anticipation surveys that gather views from producers and consumers. On the local front, the Malaysian Institute of Economic Research (MIER) launched such a survey in the second quarter of 1987. Called the *Business Conditions Survey*, it is carried out every quarter covering a sample size of 750 firms across 11 manufacturing industries in Malaysia, with the primary objective of seeking information and views on trends of output activities, inventories and finished goods, selling and production price expectation, etc. From the results obtained from the survey, an index called the Business Conditions Index (BCI) is generated. The index has a demarcation level of 100 points, which indicates that a reading of 100 points and above denotes expansionary situation while anything less than 100 reflects contractionary tendencies. Together with the Consumer Sentiments Index (CSI), derived from another survey conducted by MIER on consumer attitudes and expectations, both indices are then incorporated into a short-term economic outlook, with BCI denoting the supply side and the CSI representing the demand side of the economy.

Econometrics models

Econometrics modelling is an amalgam of economic theory, mathematical economics and statistics, mainly interested in the empirical verification of an economic theory. In econometrics modelling, the modeller is often faced with observational as opposed to experimental data, which are generated as a result of controlled experiments. Thus, the econometrician, like the meteorologist, generally depends on data that cannot be controlled directly. Once the data has been collected, the econometrician is faced with a challenge of choosing a theory (model) that fits the data. For example, Milton Friedman has developed a model of consumption, called the *permanent income hypothesis*. Robert Hall has also developed a model of consumption called the *life-cycle permanent income hypothesis*. Could one or both of these models fit the data? How then does one choose among competing models or hypotheses? Here is the advice given by Clive Granger:

"I would like to suggest that in future, when you are presented with a new piece of theory of empirical model, you ask these questions:

1. What purpose does it have? What economic decision does it help with?
2. Is there any evidence being presented that allows me to evaluate its quality compared to alternative theories or models?

I think attention to such questions will strengthen economic research and discussion."

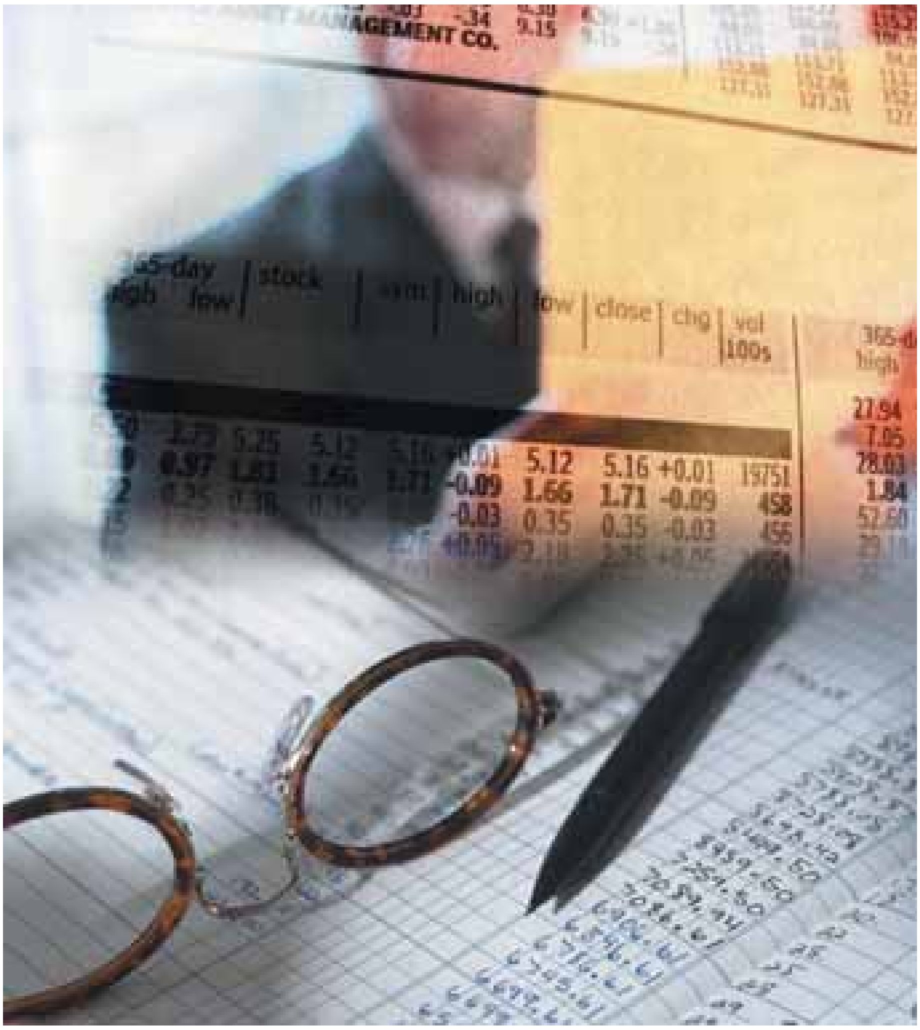
Econometric modelling seeks to mimic the workings of the economy in its full complexity. As such, their development requires considerable skill and time. For this and other reasons, large econometric models often fall out of favour amongst many businesses.

Economic forecasting is a challenging endeavour and is best viewed as conditional and subjective judgments formed with the aid of statistical modelling tools. In practice, most professional forecasts employ a combination of the above approaches. Like it or not, economic forecasting is not an exact science. Instead, one can aptly call it the art of economic prediction. AT

HOW RELEVANT ARE OUR Accounting Numbers?

by Muhd Kamil Ibrahim

Some quarters believe that historical cost financial statements have lost their value relevance over time. Numerous professional articles claim that the shift from an industrialised economy to a high-tech, service-oriented economy has rendered traditional financial statements less relevant for assessing shareholder value. Many accounting papers have investigated the empirical relationship between stock market values and particular accounting numbers over the last decade. However, most of the studies have focused on the Western and developed countries. This paper summarises the findings related to value relevance research in Malaysia.



The Balance Sheet Numbers

In a study conducted in 2003, we (Muhd Kamil *et al.*, 2003a) examined whether investors take into consideration the balance sheet numbers when determining the market value of companies. Specifically, we investigated the association between the book value of equity and the value placed on the firm by the stock market. An equity valuation model based on the balance sheet identity was used to permit assets and liabilities to have separate empirical coefficient values. Generally, this model controls the cross-sectional variations in accounting policies in accounting numbers and affects the company's market value by the book value of assets and liabilities. The scope of this study included the Malaysian Main Board companies from year 1990 to 1997. The findings were consistent with the notion that the market incorporates the information on accounting numbers in the balance sheet in the valuation of a firm, and contributes further evidence (in this case from Malaysia) to existing findings about the investor decision-usefulness of reported balance sheet numbers.

Accounting for Goodwill

The fair value accounting value relevance literature also addresses questions relating to non-financial intangible assets. One of the most popular researches is to test whether historical costs related to goodwill (purchased and non-purchased goodwill) developed intangible assets to reflect the intangible assets' values. The findings show that available estimates of intangible asset values reliably reflect the values of the assets as assessed by investors. Further, the estimates have a significantly positive relationship with share price.

Most of the prior studies were concerned with accounting for goodwill for the firms operating in the developed countries. In another study, we (Muhd Kamil *et al.*, 2003b) examined whether the situation was similar for firms operating in Malaysia. Specifically, the study sought to investigate empirically the association between goodwill accounting numbers and market values and to describe the relationship between purchased goodwill and other assets for the firms operating in developing countries. In essence, the modified balance sheet model was able to substantiate the concerns expressed over goodwill accounting during recent detailed discussions by providing evidence that purchased goodwill is an important determinant of market value. These results are consistent with the overall findings by McCarthy and Schneider (1995), Jennings *et al* (1996) and Muhd Kamil *et al.* (1999), which state that goodwill numbers are of value relevance to investors. Nevertheless, our analysis also confirms that goodwill is an asset of considerable magnitude and is valued at least equal to other assets. Also, our results indicate that investors do use information in the balance sheet.

Extraordinary Items and Income Smoothing

Through Wan Adibah *et al.* (2003) we incorporated two issues in our study related to value relevance of accounting numbers and the implementation of new accounting standards. We examined issues related to the reporting of extraordinary items in financial statements of Malaysian companies. The first issue concerned the change of accounting standards on extraordinary items, which has limited the scope of this item. It was found that there were significant changes on the incidence of reported extraordinary items during the period after the adoption of the new standard. The findings supported the arguments that the new standard on extraordinary items had consequently abolished the items from financial statements. This paper hypothesises that extraordinary items classification choice is a means used by companies to smooth income. Two types of statistical tests performed have confirmed the proposition that the disclosure of extraordinary items is subject to this type of manipulation during the period before the adoption of the new standard. Although it has been proven that the broad definition of extraordinary items allows companies to manipulate income, evidence gathered from univariate regressions demonstrate that extraordinary items are value-relevant for investors in valuing a firm's equity. Thus, investors took into account the extraordinary items even though it is disclosed 'below the line'.

We (Khairul Anuar *et al.*, 2003a) extended further Wan Adibah *et al.*'s (2003) study by looking at the market perception of income smoothing practices in Malaysia. Basically, this study examines the relationship between income smoothing practices and firms' value in Malaysia. This research also studied the effect of firms' size on the tendency to smooth income. The sample comprised 200 companies listed in the Kuala Lumpur Stock Exchange during the period 1993-1999. The results indicated that income smoothing was present although its percentage is low. The univariate test found that smaller firms have a greater tendency to smooth income rather than larger firms. Then, an Ordinary Least Square (OLS) regression was conducted on a modified income statement model. The consistent results obtained signify that the valuations of firms are more dependent on the magnitude of earnings rather than the earnings stream.

Predicting Financial Health

We (Khairul Anuar *et al.*, 2004) also examined the value relevance of accounting numbers in predicting the financial health of distressed firms in Malaysia. Thirty-six distressed firms and 72 healthy firms listed on the Kuala Lumpur Stock Exchange (KLSE) during the period 1998-2000 were used as a sample for this research. The primary finding shows that some of the accounting ratios have predictive ability in forecasting the financial health of Malaysian firms. This result also proves that the book value of assets is a value relevant item for both distressed and healthy firms. The earnings figure is value relevant only for healthy firms. The incremental explanatory power of book value of assets was found to be significant and greater compared to the incremental explanatory power of earnings for distressed firms, while the opposite is true for healthy firms. This study also found that the significant level of coefficient of earnings for both distressed and healthy firms remain consistent even after controlling the earnings sign. Further evidence gathered from univariate regressions demonstrate that the market is more sensitive to negative earnings in the case of distressed firms compared to healthy firms.

Conclusion

This article examined the association between the book value of equity and the value placed on the firm by the stock market in Malaysia based on the premise that a primary focus of financial statements is equity investment. The primary purpose for conducting tests of value relevance is to extend our knowledge regarding the relevance and reliability of accounting numbers as reflected in equity values. The value relevance research assesses how well accounting numbers reflect information used by equity investors. Further, given the regulatory changes now under way in Malaysia, the findings of these researches should be important for those involved in the setting and monitoring of standards, as relevance and reliability are the two primary criteria in accounting conceptual framework. AT

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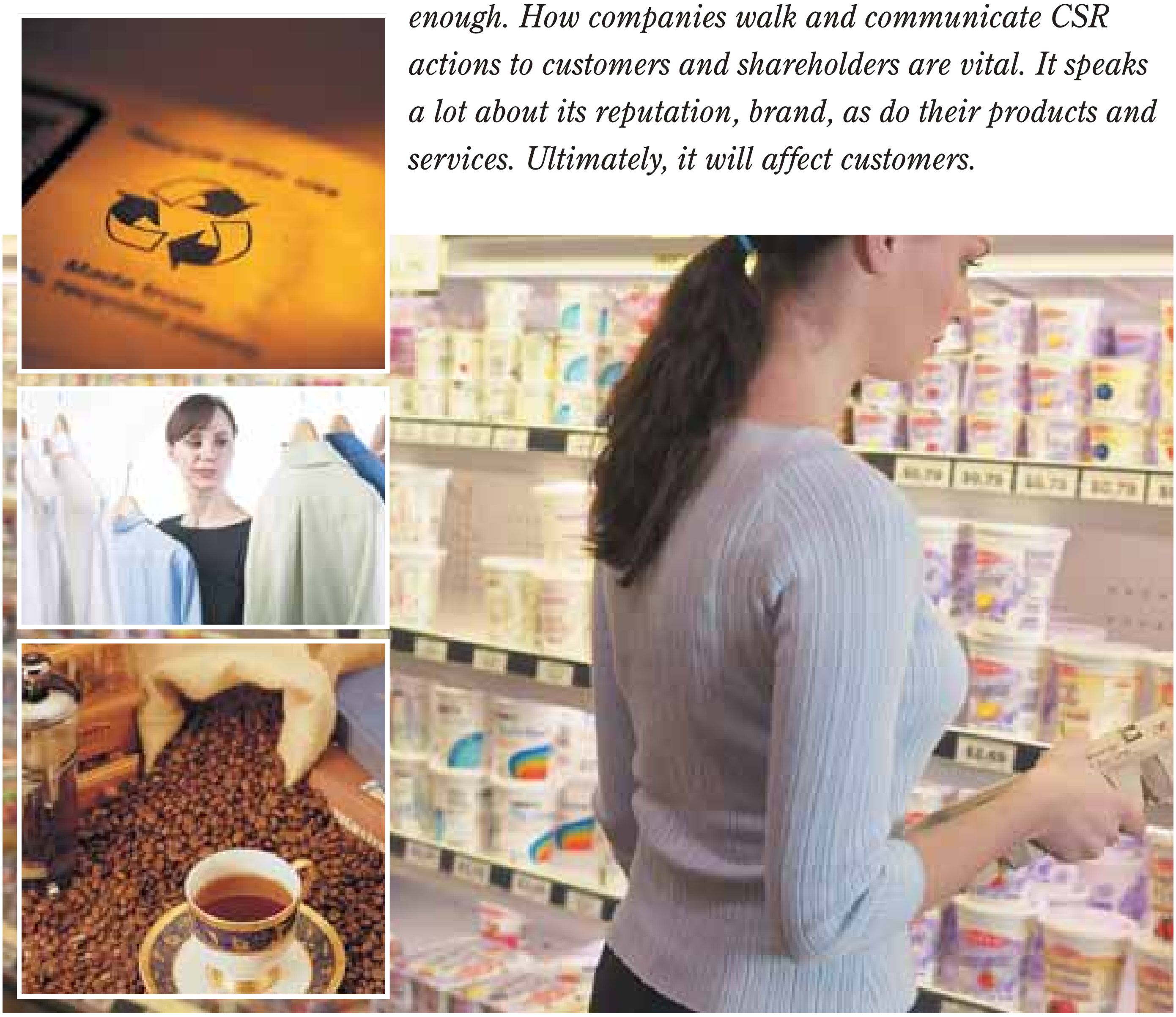
CSR AND Consumers

by Tay Kay Luan

Corporate Social Responsibility is about what businesses do and how their actions impact the environment and society at large. The intent of business therefore is not just about creating wealth alone but doing it responsibly. Public concern and consumer opinions can influence business performance and this can translate to the company's bottom line. Many companies acknowledge and recognise that CSR can be at the heart of the corporate governance agenda. Doing and reporting CSR performance are simply not enough. How companies walk and communicate CSR actions to customers and shareholders are vital. It speaks a lot about its reputation, brand, as do their products and services. Ultimately, it will affect customers.



Indeed, in a recent Edelman Asia Pacific survey, 82 per cent of senior executives look for five key characteristics in forming their opinions about corporations: management/leadership, brand or product quality, profitability, corporate image and active promotion/advertising. Although, consumers may treat corporate citizenship as the least cited driver, it is interesting to note that the two top factors for 'good, responsible' were 'provides top-quality products/services/brands' and 'management/leadership' to address issues related to those products or services or brands.

It is clear that for the majority of the customers, offering top quality products are important when deciding a socially responsible corporation. While this may slightly differ from the western experiences, where customers demand more responsible behaviour from companies, consumers in the Asian countries are nonetheless important stakeholders in the entire CSR value chain.

In a survey conducted in Canada, for example, five and a half million Canadians are actively involved in boycotting goods and services for reasons not related to price or quality; 57 per cent of Canadians say that companies should engage in corporate social responsibility even if it means higher prices; 72 per cent say they are more likely to buy goods and services from companies that commit to social and community concerns; and 52 per cent think that a key differentiating factor for a company is social responsibility. In the same survey, stakeholders are now expecting enhanced transparency, greater involvement in solving social issues, and improved ethical behaviour from companies, such as ethical conduct and environmental responsibility. Such behavioural trends are likely to be replicated here, as societal expectations become more sophisticated and demanding.

For companies, consumers are most definitely the ultimate buyer of goods and services, where their needs should be fulfilled. As societies become more affluent, and education levels continue to rise, consumers are becoming more aware of how companies behave and they have higher expectations of good corporate behaviour, and as such this may influence their purchasing decisions. While, consumers do not question the profit motive of corporations, they do believe in the tangible benefits of the goods and services they buy.

Driving and shaping consumer awareness is made possible through availability of cheap software that enable thousands of consumers to go online and to share experiences and knowledge of what's going on in the consumer world. Round-the-clock globe news communicated by the media and the Internet enable good as well as bad news to travel fast — and this information eventually moulds public opinion (and they are the ultimate consumers!). Through the media and the Internet, pressure groups can capture the public's attention in hours or days and force businesses, especially retailers, to effect change throughout their supply chains.

Consumers today are also demanding more than the tangible benefits, the new breed of consumers want to be empowered and given the choice of brands they wish to identify. These people are also hunting for products to reflect their personal lifestyles and environmentally friendly and ethical products are at the forefront of this trend. Issues such as global warming, poverty and corporate ethics are talking points.

Hence, the process for change in consumer patterns is rapid. The new consumers are getting smarter, vocal and individualistic. In response, many companies now adopt a more responsible and ethical approach to product design and services. CSR in other words, may be capturing the hearts and minds of this vocal and ethical consumers, who will make up greater numbers in future judging by current trends.

Ethical Consumers — A Growing Force?

Today, ethical consumers are growing in numbers around the world. Even in the UK, it is estimated that only two per cent of consumers make purchasing decisions based on whether the company is responsible and good. On the plus side, such a low base also means that there is plenty of room to grow, especially if factors like the media and stricter legislation drive CSR-based buying.

Typically, ethical consumers are more affluent and better informed. Organic food, environmentally friendly detergents, additive free products, products made from recycled products and not tested on animals etc. have reached the local supermarket shelves. Leading companies have also invested much of their resources in communicating and educating consumers on their supply chain practices. Starbucks, Nike and Coca Cola are among the global companies that have committed to reporting and communicating their social responsibilities and performance that include working with suppliers and providing customer friendly facilities.

Large hypermarkets operating in overseas markets are also not spared. Being sensitive to suppliers is one thing; these large retailers are aware of local procurement practices and their impact on local communities. Locally, supermarket giants such as Jusco and Tesco are committed to sound environment management and corporate responsibility practices. Indeed, the latter has in place five broad customer principles that include diversity of customers, disabled customers, healthy living, nutritional information and salt reduction.

Locally, supermarket giants such as Jusco and Tesco are committed to sound environment management and corporate responsibility practices. Indeed, the latter has in place five broad customer principles that include diversity of customers, disabled customers, healthy living, nutritional information and salt reduction.

Accusations of large retailers exploiting the farmers and producers are not uncommon, which is why addressing these concerns by working closely with the suppliers is important.

Marks & Spencer (M&S) for example, is committed to a set of sound CSR practices and principles, where they listen and respond to the needs of their stakeholders and for sustainable development. M & S also believe that building good relationships with employees, suppliers and the wider society is the best guarantee of long-term success. Managing CSR well will allow them to identify potential risks and performance management. Most important of all, it is a means to differentiate themselves from their competitors. M & S cannot afford to ignore customers' voices since nine million people in UK shop with them every week.

The UK is one of the world's leading markets for ethical and green consumption, and trends indicate rapid growth. In 2002, the Co-operative Bank's Ethical Purchasing Index valued the total UK ethical consumption market at 19.86 billion pounds. This total market value comprised three sectors: goods and services, financial services and 'ethical invisibles' — defined as purchasing decisions made in line with consumers' principles such as shopping locally or boycotting or avoiding particular brands. The Ethical Purchasing Index showed that sales of ethical goods and services alone grew by 43.75 per cent between 1999 and 2002, and the value attached to consumers switching brands for ethical reasons was estimated at 2.6 billion pounds in 2002.

The 2004 Cone Corporate Citizenship study in Boston indicated that companies that contribute actively to CSR can expect to be better perceived and enjoy better sales performance. Eighty-five per cent of all consumers will not hesitate to switch brand to express their disapproval. However, there are limitations to consumers' ability to influence corporate behaviour.

Consumers can however, put pressure on companies to change their processes. For instance, the billion-dollar garments industry is constantly under fire for its reliance on sweatshops. To change this status quo, the global Clean Clothes Campaign (CCC) (*www.cleanclothes.org*) harnesses consumer power in its fight to improve working conditions and to empower workers in the global garment industry, in order to end the oppression, exploitation and abuse of workers in this industry who are mostly women. Importantly, CCC puts pressure on companies to take responsibility to ensure that their garments are produced in decent working conditions.

The drive for 'clean clothes' has seen a number of initiatives that are calling themselves 'ethical', 'alternative' or 'fairly produced' springing up in the wake of the international anti-sweatshop movement. These ethical brands aim to meet the needs of a rising number of consumers, individual and institutional, who are now demanding 'clean clothes'.

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Empowering the Consumer

Consumer legislation on nutritional value and contents, environmental standards and fair trade rules are already in place to protect consumer interests. In complying with these standards and legislation, companies are already exhibiting good corporate behaviour. But future trends could see even more legislation being passed for consumer protection, and perceptive companies that go beyond minimum compliance will be ready, and won't face the risks and penalties for non-compliance with more stringent requirements.

The British government has recently strengthened the voice of the consumer in a landmark move by awarding enforcement powers to an independent rights campaigner, *Which?* the group that publishes the consumer magazine of the same name and includes the NGO formerly known as the Consumers' Association. *Which?* is now a 'designated enforcer' for Part 8 of the UK's 2002 Enterprise Act, which covers a host of consumer protection laws. More than 50 consumer-related acts and directives, including the Control of Misleading Advertisements Regulations 1988 and the Unfair Terms in Consumer Contracts Regulations 1999, fall under the regulatory powers of Part 8 enforcers.

As a designated enforcer, this consumer protection agency can demand companies change their practices if they fail to respect their legal obligations towards consumers.

If *Which?'s* demands fail, newly obtained legal powers can be invoked. According to its new enforcement role, *Which?* can appeal to the civil courts for "stop new orders" measures or to ask for businesses to be closed in case of wrongful trading. Ignoring the court order could be seen as contempt of court, which can attract fines or imprisonment. With the 'designated enforcer' title, *Which?* is on par with influential public agencies such as the Civil Aviation Authority and the Financial Services Authority.

Consumer interest and protection in Malaysia are regulated and enforceable. Despite that, there are a fair number of corporate scandals that have left many consumers financially broke. The number of consumer complaints have also been on the rise over the years. According to the National Consumer Complaint Centre, 300,000 complaints were received between the years 2003-2004. Major complaints are related to poor quality, direct selling, automobiles, housing, poor services by local government and insurance. The increase in the number of complaints also indicates rising consumer awareness, better access and support and willingness among consumers to seek justice and fairness. Indeed, companies cannot continue to ignore the impact of their actions or the lack of their social responsibilities.

Good CSR practice is also about building trust, and once broken can backfire in terms of future sales and negative branding. Most

CSR-conscious companies that operate globally like Marks and Spencer, Shell and Sony have indicated that they sell more to consumers if their customers trust them to operate responsibly across the full lifecycle of their products, services and operations.

Ethical Branding

Ethical branding and ethical labelling can benefit businesses. In a crowded marketplace, CSR offers brand differentiation. CSR characteristics of brands are extremely difficult for competitors to copy and these characteristics can usually be substantiated by fact rather than being just PR. For example, not every coffee chain can claim to source its coffee beans via fair trade from underprivileged markets, like Starbucks does, and not every cosmetics company supports disenfranchised societies and animal welfare like The Body Shop.

Fairtrade is perhaps one of the best-known ethical product labels for items like coffee, tea, bananas, honey, chocolate and cocoa. The rapid growth in sales of Fairtrade products, in locations like the UK, indicates the general consumer bias in favour of ethical purchasing. Consumers prefer Fairtrade coffee in particular because it guarantees growers in developing countries a set wage to cover living costs and adds a social premium for community investment. Fairtrade coffee actually took off when global commodity prices for coffee beans plunged, but the record low prices were not passed on to end-consumers, leading pressure groups to accuse major coffee brands of making large profits at the expense of growers and consumers. With Fairtrade, growers get about 60 per cent extra over the world market price for Arabica beans and about 200 per cent more for Robusta beans, which gives them a decent living.

In the case of Fairtrade, end-consumers pay basically the same price for a cup of ethical coffee and a cup of non-ethical coffee. But ethical branding can actually reduce costs, because to be an ethical brand requires ethical behaviour across the supply chain, which minimises risks of product recalls, labour scandals or animal welfare scares, which would require costly firefighting and management intervention.

In future, more and more customers will have more to do with companies that are seen to be either acting responsibly or doing good. More and more customers want to know where the products and services are from, and how they are produced so that they reflect their own values, and this will drive ethical or CSR labelling. To the consumers it's the very least they can do to help a cause. Importantly, companies must not forget that the consumer's definition of 'responsible' doesn't just refer to the ethical and social dimensions of business. Just as important is that companies should be transparent and honest in the sales, brand and product propositions they present to the customer. Clear and honest claims are an important part of behaving responsibly. Companies that understand the changing consumer mindset and react accordingly will be the successful ones. AT

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Accusations of large retailers exploiting the farmers and producers are not uncommon, which is why addressing these concerns by working closely with the suppliers is important.

Marks & Spencer (M&S) for example, is committed to a set of sound CSR practices and principles, where they listen and respond to the needs of their stakeholders and for sustainable development. M & S also believe that building good relationships with employees, suppliers and the wider society is the best guarantee of long-term success. Managing CSR well will allow them to identify potential risks and performance management. Most important of all, it is a means

Locally, supermarket giants such as Jusco and Tesco are committed to sound environment management and corporate responsibility practices. Indeed, the latter has in place five broad customer principles that include diversity of customers, disabled customers, healthy living, nutritional information and salt reduction.

to differentiate themselves from their competitors. M & S cannot afford to ignore customers' voices since nine million people in UK shop with them every week.

The UK is one of the world's leading markets for ethical and green consumption, and trends indicate rapid growth. In 2002, the Co-operative Bank's Ethical Purchasing Index valued the total UK ethical consumption market at 19.86 billion pounds. This total market value comprised three sectors: goods and services, financial services and 'ethical invisibles' — defined as purchasing decisions made in line with consumers' principles such as shopping locally or boycotting or avoiding particular brands. The Ethical Purchasing Index showed that sales of ethical goods and services alone grew by 43.75 per cent between 1999 and 2002, and the value attached to consumers switching brands for ethical reasons was estimated at 2.6 billion pounds in 2002.

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The 2004 Cone Corporate Citizenship study in Boston indicated that companies that contribute actively to CSR can expect to be better perceived and enjoy better sales performance. Eighty-five per cent of all consumers will not hesitate to switch brand to express their disapproval. However, there are limitations to consumers' ability to influence corporate behaviour.

Consumers can however, put pressure on companies to change their processes. For instance, the billion-dollar garments industry is constantly under fire for its reliance on sweatshops. To change this status quo, the global Clean Clothes Campaign (CCC) (*www.cleanclothes.org*) harnesses consumer power in its fight to improve working conditions and to empower workers in the global garment industry, in order to end the oppression, exploitation and abuse of workers in this industry who are mostly women. Importantly, CCC puts pressure on companies to take responsibility to ensure that their garments are produced in decent working conditions.

The drive for 'clean clothes' has seen a number of initiatives that are calling themselves 'ethical', 'alternative' or 'fairly produced' springing up in the wake of the international anti-sweatshop movement. These ethical brands aim to meet the needs of a rising number of consumers, individual and institutional, who are now demanding 'clean clothes'.

Empowering the Consumer

Consumer legislation on nutritional value and contents, environmental standards and fair trade rules are already in place to protect consumer interests. In complying with these standards and legislation, companies are already exhibiting good corporate behaviour. But future trends could see even more legislation being passed for consumer protection, and perceptive companies that go beyond minimum compliance will be ready, and won't face the risks and penalties for non-compliance with more stringent requirements.

The British government has recently strengthened the voice of the consumer in a landmark move by awarding enforcement powers to an independent rights campaigner, *Which?* the group that publishes the consumer magazine of the same name and includes the NGO formerly known as the Consumers' Association. *Which?* is now a 'designated enforcer' for Part 8 of the UK's 2002 Enterprise Act, which covers a host of consumer protection laws. More than 50 consumer-related acts and directives, including the Control of Misleading Advertisements Regulations 1988 and the Unfair Terms in Consumer Contracts Regulations 1999, fall under the regulatory powers of Part 8 enforcers.

As a designated enforcer, this consumer protection agency can demand companies change their practices if they fail to respect their legal obligations towards consumers.

If *Which?'s* demands fail, newly obtained legal powers can be invoked. According to its new enforcement role, *Which?* can appeal to the civil courts for "stop new orders" measures or to ask for businesses to be closed in case of wrongful trading. Ignoring the court order could be seen as contempt of court, which can attract fines or imprisonment. With the 'designated enforcer' title, *Which?* is on par with influential public agencies such as the Civil Aviation Authority and the Financial Services Authority.

Consumer interest and protection in Malaysia are regulated and enforceable. Despite that, there are a fair number of corporate scandals that have left many consumers financially broke. The number of consumer complaints have also been on the rise over the years. According to the National Consumer Complaint Centre, 300,000 complaints were received between the years 2003-2004. Major complaints are related to poor quality, direct selling, automobiles, housing, poor services by local government and insurance. The increase in the number of complaints also indicates rising consumer awareness, better access and support and willingness among consumers to seek justice and fairness. Indeed, companies cannot continue to ignore the impact of their actions or the lack of their social responsibilities.

Good CSR practice is also about building trust, and once broken can backfire in terms of future sales and negative branding. Most

CSR-conscious companies that operate globally like Marks and Spencer, Shell and Sony have indicated that they sell more to consumers if their customers trust them to operate responsibly across the full lifecycle of their products, services and operations.

Ethical Branding

Ethical branding and ethical labelling can benefit businesses. In a crowded marketplace, CSR offers brand differentiation. CSR characteristics of brands are extremely difficult for competitors to copy and these characteristics can usually be substantiated by fact rather than being just PR. For example, not every coffee chain can claim to source its coffee beans via fair trade from underprivileged markets, like Starbucks does, and not every cosmetics company supports disenfranchised societies and animal welfare like The Body Shop.

Fairtrade is perhaps one of the best-known ethical product labels for items like coffee, tea, bananas, honey, chocolate and cocoa. The rapid growth in sales of Fairtrade products, in locations like the UK, indicates the general consumer bias in favour of ethical purchasing. Consumers prefer Fairtrade coffee in particular because it guarantees growers in developing countries a set wage to cover living costs and adds a social premium for community investment. Fairtrade coffee actually took off when global commodity prices for coffee beans plunged, but the record low prices were not passed on to end-consumers, leading pressure groups to accuse major coffee brands of making large profits at the expense of growers and consumers. With Fairtrade, growers get about 60 per cent extra over the world market price for Arabica beans and about 200 per cent more for Robusta beans, which gives them a decent living.

In the case of Fairtrade, end-consumers pay basically the same price for a cup of ethical coffee and a cup of non-ethical coffee. But ethical branding can actually reduce costs, because to be an ethical brand requires ethical behaviour across the supply chain, which minimises risks of product recalls, labour scandals or animal welfare scares, which would require costly firefighting and management intervention.

In future, more and more customers will have more to do with companies that are seen to be either acting responsibly or doing good. More and more customers want to know where the products and services are from, and how they are produced so that they reflect their own values, and this will drive ethical or CSR labelling. To the consumers it's the very least they can do to help a cause. Importantly, companies must not forget that the consumer's definition of 'responsible' doesn't just refer to the ethical and social dimensions of business. Just as important is that companies should be transparent and honest in the sales, brand and product propositions they present to the customer. Clear and honest claims are an important part of behaving responsibly. Companies that understand the changing consumer mindset and react accordingly will be the successful ones. AT

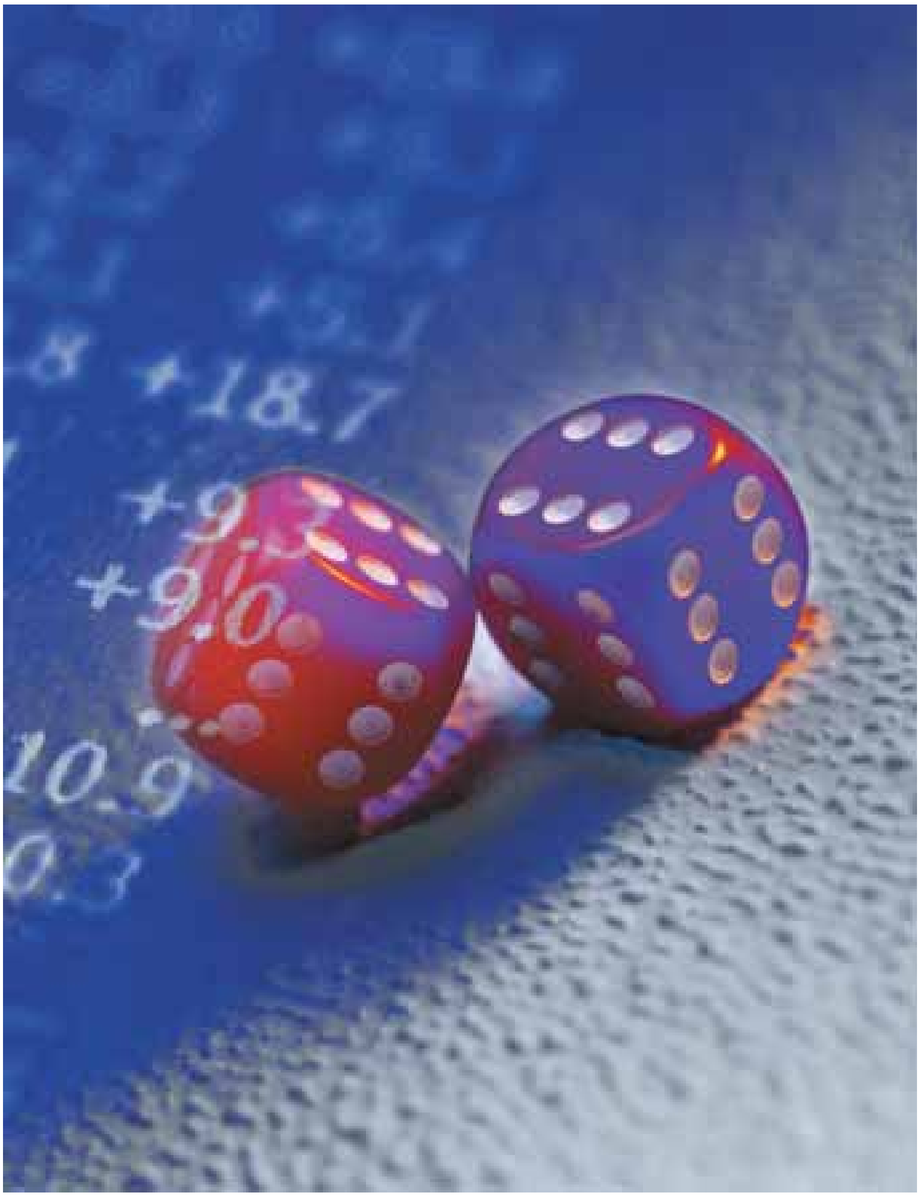
The writer is the Head of The Association of Chartered Certified Accountants (ACCA Malaysia). ACCA is the largest global professional accountancy body, with nearly 345,000 members and students in 160 countries. For more information on ACCA please visit *www.accaglobal.com*

Risk Management

AT THE CROSSROADS

by Richard Sharman

Risk management has become a vital ingredient of a successful business. This is partly due to the need for compliance with increasingly rigorous regulation and legislation; but it is also due to the knowledge that, if you get your risk reporting framework right, it can benefit the business as a whole.



Over recent years the remit for risk management has changed significantly. During the 1990s, corporate governance regulation sought to ensure that risk management was embraced as a means of improving the achievement of strategic objectives. In the UK, this changing landscape culminated in the *Combined Code* and associated *Tumbull Guidance on Internal Control*.

For many organisations the increased need for regulatory compliance has called for a greater investment in risk management activities, even if this investment is simply related to the amount of time that management and executives have to spend collating and reviewing risk information. At the time of writing we are witnessing the establishment of what may amount to be the most significant governance regulation yet, in the form of the US Sarbanes-Oxley Act.

While it is still too early to predict the impact of this Act, the general consensus is that, by requiring chief executive officers (CEOs) and chief financial officers (CFOs) to provide certification of the effectiveness of internal controls, the US authorities have 'raised the bar' for standards of corporate governance for all companies irrespective of whether they are subject to the new requirements.

It is therefore clearly an opportune time to review how organisations are seeking to improve their levels of internal assurance and the adequacy of their internal

control systems. Though driven by regulatory compliance, this 'raising of the bar' does not, and should not, overshadow the value that is now being realised through employing developed risk management activity. Whilst many organisations have increased their investment in risk management, and will undoubtedly have to invest further still, many do not realise the real benefits, instead viewing risk management as just another compliance exercise.

In practice, risk management is much more evolved than just providing assurance that an organisation has complied with corporate standards. Stakeholder expectation and the very real pressures of doing business have forced organisations to look beyond regulatory requirements and to seek real performance improvements from their risk management activities.

The benefits these organisations are now realising from developed risk management activity include:

- improved allocation of resources to the risks that really matter;
- improved decision making to support an organisation in knowingly taking risks;
- enhanced internal and external reporting of risk and control information:
- increase responsiveness to internal and external change; and
- improved communication and knowledge sharing

However, the development of risk management activity as an aid to performance can, in the main, only be achieved through getting the basics right. This has to start with the effective communication of risk information and related roles, responsibilities and accountabilities at all organisational levels.

Structure, roles, responsibilities and accountability

To establish the foundations for effective risk management and internal assurance, an appropriate organisational structure needs to be put in place, which escalates information on risks and their associated control mechanisms.

Central to corporate governance principles is the ability of the board to effectively monitor and evaluate organisational performance and its changing business environment, as well as to effect the development of strategy. These things are impossible without receipt of information on organisational risks and opportunities that is both timely and in keeping with the organisation's strategic objectives.

Historically the reporting of risk has been fragmented, with risks originating in different areas of the organisation being reported separately to the board. Understandably this left directors unable to adequately assess their organisation's risk environment in anything approaching an holistic way, an issue especially acute for non-executive directors who were disadvantaged in the level of challenge they could provide.

Additionally, with the business environment changing at an increasing pace it has become clear that an annual process of the assessment and review of risk by the board is not enough for the board to discharge its governance responsibilities. Although compliance might be treated as an annual activity, discrete of any other management review processes or reporting, the provision of meaningful risk and control information must be more frequent.

Without having an appropriate structure in place, new or changed risks can easily be missed and opportunities not exploited. Whilst compliance is important, it is increasingly viewed as an additional benefit to that of the improved decision-making and accountability for risk that results from a well-structured framework for risk and assurance.

Critical to such a framework are the roles and responsibilities that are assigned for risk management throughout an organisation. The transparent assignment of roles and responsibilities, and improved accountability and awareness of risk, is required for any risk or assurance related activity to be successful.

Generally the roles, responsibilities and accountabilities fall into three distinct areas within organisations:

- the board and its sub-committees;
- the organisation's corporate oversight functions (including risk management and internal audit functions): and
- the business operations themselves.

Through working with a diverse range of organisations, we have accumulated a number of key insights into how organisations are successfully structuring themselves for risk and assurance and establishing a cohesive framework for the dissemination of strategy and escalation of risk information.

Figure 1 shows an example structure for risk management reporting.

Figure 1 Summary information and risk report flow

The board and its sub-committees

The board is ultimately responsible for risk management and the effectiveness of the organisation's system of internal control. Generally, responsibility is discharged through the setting, and communication, of policy and direction prescribing an organisational approach to its risk and control environment.

Through this policy and its related reporting requirements, the board must satisfy itself that:

- significant risks faced by the organisations are being managed appropriately;
- any system of risk management and internal assurance within the organisation is robust enough to respond to changes in its business environment;
- the organisation and reporting structure will support the delivery of the policy on an ongoing basis; and
- the board receives the right information for it to adequately discuss and challenge on risk issues, their mitigation and the overall risk appetite of the organisation.

Many boards are finding that the level of oversight these requirements necessitate demands an executive forum for developing risk management in the organisation and for oversight and supervision of its implementation in compliance with the principles established.

Risk management committees are becoming increasingly important in the approach that organisations take to risk and assurance at a senior level. To operate effectively risk management committees need to be structured and tasked with the same level of care as audit and executive committees. A developed 'terms of reference' is a must, which, as a minimum, generally requires the committee to:

- develop risk strategy agreement by the board;
- interpret and summarise the outputs from the organisational risk identification and assessment activity;
- monitor emerging issues in the organisations risk and control environment; and
- act as a forum for sharing risk management knowledge, experience and best practice across the organisation.

A mistake that is often made in the composition of risk management committees is the limitation of membership to corporate functions, without any representation from the organisation's operational/executive management.

To drive accountability for the risks an organisation faces, the owners of those risks have to represent them at such a forum. In turn, corporate functions, in addition to their development of organisational policy and direction in their disciplines, are required to provide challenge on the adequacy of the assessments of risk provided by operational management.

Corporate oversight functions

When referring to the corporate functions tasked with the provision of direction and assurance on organisational risk and the control environment, focus naturally falls on corporate risk management and internal audit functions.

However, such a focus often fails to recognise the role that other functions play in these processes. All oversight functions are responsible for the development of policy, and the monitoring of its implementation, in their areas of responsibility.

For example, finance directors (FDs) design processes to meet the requirements of certain financial standards, champion their implementation and provide support to the business as this proceeds. Following this they will report to the board or its appropriate sub-committee that the processes are in place and operating effectively — internal assurance.

As this is replicated across all corporate oversight functions it is easy to understand why the right structure is needed to pull together the assurance that all this activity provides. Whilst we will proceed to detail how this activity is undertaken by the corporate risk management function, it is worth pausing to understand the responsibilities of all corporate functions in creating the right environment for risk management and the right procedures for providing assurance.

Enter the 'chief risk officer'

To date, risk management has, traditionally, been viewed as the responsibility of the FD, often due to the financial focus on risk prompted by risk financing strategies and insurance. Over recent years the focus of risk and assurance has shifted away from that of purely financial impact and has begun to better recognise the more intangible nature of risk.

The rising profile of risk management in recent years, compounded by the increasing burden placed on boards by stakeholders for effective, integrated risk management, and a recognition of the limitations of the fragmented approach detailed earlier, has led some organisations to refocus the risk management role away from the FD and sought to create a single senior corporate position for the enterprise-wide co-ordination of risk management and assurance orientated activity — that of the chief risk officer (CRO).

It is worth noting at this stage that, perhaps unsurprisingly, the term CRO was first coined in the US but it would be incorrect to view the position as lacking in translation. Many European organisations also have appointed an individual responsible for the integrated management of risk management and assurance activity. It is just that they are not called CROs — some are called 'director of risk and assurance' or 'corporate head of risk'. What links them all is their drawing together of previously fragmented approaches to risk and assurance and this principle is of far more importance than their titles.

With increased public reporting requirements emerging in the US it is vital that interest in the organisational positioning and promotion of risk management activity also increases. The CROs role provides a focal point for meeting this need and it is reasonable to expect that appointments of a corporate officer or director responsible for risk management and internal assurance at a senior organisational level will be-

"With increased public reporting requirements emerging in the US it is vital that interest in the organisational positioning and promotion of risk management activity also increases. The CROs role provides a focal point for meeting this need and it is reasonable to expect that appointments of a corporate officer or director responsible for risk management and internal assurance at a senior organisational level will become more widespread."

come more widespread.

So what exactly does the CROs role involve? Primarily he/she is responsible for developing and implementing an enterprise-wide strategy as agreed by the board, that encompasses all aspects of organisational risk. Generally they will work closely with the CEO, the board and its sub-committees (including the risk management committee where in place) to achieve an enterprise-wide perspective of risk and their associated controls, looking across all business units to anticipate all the risks that threaten the organisation.

Ultimately, the CROs role provides overall leadership, vision and direction for risk and assurance activity. The position can be seen to enable a truly enterprise-wide appreciation of risk across all operations and functions, key to this being liaison with other corporate functions as detailed above, and to facilitate an improvement in the quality of discussion on risk and assurance issues at the senior corporate level.

The role of the CRO is not necessarily that of technical specialist in the disciplines of risk management and assurance as, generally speaking, these technical specialisms would sit under the position in the form of heads of risk management, internal audit, insurance etc. What is important is that the person who is appointed to the CROs role is able to operate effectively at all levels of the business, is able to organise and motivate others and establish a continuous dialogue with senior executives, management and potentially external stakeholders.

Business operations

Lastly we turn our attention to the role of business operations in the effectiveness of organisational risk management and assurance structures. The business owns and manages risk on a day-to-day basis, is responsible for the implementation of corporate policy as developed by the participants already detailed and for the provision of assurance to the board, via the risk and assurance structure, that they have done so.

Ultimately all of the structure we have already detailed will be meaningless if the business's operations fail to be engaged in the risk and assurance process. It is here that risk management is reduced to its most basic and essential level — how employees regard and evaluate risk in their day-to-day activities. The management of business operations are themselves subject to legislation in such areas as health and safety but the focus and appreciation of risk should permeate the whole organisation and should ultimately form part of every employees role and responsibility.

Delivering performance

At this level, risk management is in essence a behaviour. Much has been written about the way we as individuals approach risks in our day-to-day lives and how, for nearly every decision we make, an assessment of the risks attached is undertaken often unconsciously. While it takes a different mode of thinking to undertake this process for the decisions we make on behalf of our employers, it is generally true that this also occurs.

However, the considerations which individuals give to the risks in their environment vary greatly — variations that may be unacceptable for organisations requiring a consistent and thorough approach at all levels. Naturally, there are exceptions to this observation as certain roles carry with them the need to take more or less risk to be successful in both an individual and organisational sense. For example, the role of a salesman compared to that of an employee responsible for maintaining a key item of production machinery. But generally successful interpretation and implementation of organisational risk management strategy relies on a common understanding of the level of risk acceptable to the organisation.

As a result some organisations are focusing on how they can influence their employees approach to the risks they encounter from a behavioural perspective. Elements of such an approach may include training programmes for new joiners and developing managers, and risk management as a defined organisational behaviour in management and executive appraisals.

Building accountability for risk needs to occur at all levels of an organisation to establish credibility. What is asked of employees at an operational level needs to be mirrored in the business-planning process undertaken at more senior management levels.

Rather than conduct the identification and assessment of risk as a discrete annual exercise, some organisations are now developing ways of better aligning their corporate risk assessment and business planning processes. Under this approach, risks are identified and assessed and used in the discussions to set targets that are both challenging and achievable.

Conclusion

It is understandable that some organisations may not be so focused on driving improved organisational performance through their risk management activities. However, for many, the current developments in corporate governance and related accountability may provide an incentive to review the effectiveness of the processes they have put in place to assess organisational risk.

Whilst compliance is clearly necessary, it increasingly makes sense to realise some greater return on your risk management investment for the benefit of the organisation and its stakeholders. Indeed as awareness of these concepts grows, so too does the level of stakeholder expectation. As organisations will no longer find it so easy to ignore these developments it may be worthwhile asking yourself the following questions about your own approach to risk and assurance:

- is the business clear on its risk management responsibilities? Where does accountability for risk and assurance currently lie?
- is our approach to risk management getting buy-in from across our organisation?
- how adequate is the quality of information (format, content, frequency) on risk and assurance received at board level?
- how well do we use risk management information as part of our decision making processes on a day-to-day decision making basis?
- how well integrated are our risk management and business strategies? and
- are we currently getting value for money (or any real value) from our risk management activity? AT

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COMPLIANCE EXPOSURES IN ERP Systems

by Ken Gorf

What's the Problem?

Major enterprises around the world rely on ERP systems for both operational purposes and financial reporting. In doing so, the ERP systems become an integral part of the corporate governance and legal compliance landscape.

Whilst most IT management attention seems to be on document retention, reporting quality, and security, there are much broader issues to be considered to ensure good governance and compliance with regulations. In particular, managements are required to demonstrate they have appropriate processes in place to support good value and risk management. In addition, auditors are now focused on verifying the processes that produce data in addition to the reported information itself.

Financial reporting across multinational enterprises must be consistent and comparable. In reality, this means that the ERP systems employed must be the same system, at the same release level, and be implemented in the same way.

ERP systems are significant investments with long-term impacts on major enterprises. Meta Group reckons that the cost of a 1,000 users system is £21.7 million each year based on a five-year average. For all these reasons the compliance of any ERP system must be a focus for the CEO and CFO, and not assigned to IT as a technology project.

A body of evidence is now available that points to serious issues with compliance in the way ERP systems are implemented by companies and their consultants. West Trax Applications, which provides analytical and diagnostic services for ERP system users, has undertaken some 300 benchmarks for over 60 enterprises across Europe in 2003-2005, and the results are disturbing.

- Not one organisation was using more than 50 per cent of the vendor software they were licensed and paying for. Software that is never used only adds to costs without contributing to ROI. Some transactions may not be needed by the specific enterprise or subsidiary, some may require modification while some may simply be overlooked. However, the sample shows that companies are paying a significant overhead for the software they are actually using. There is also the strong probability that they are missing valuable opportunities to optimise their systems and operations by not implementing available software that they are already paying for. Who is tasked within the enterprise to continuously review this untapped opportunity? IT? Finance?
- In most of the systems analysed, the proportion of ERP vendor transactions used was surprisingly low. More than half of the software actually used was custom code written by internal staff or external consultants. The ERP vendor software may be compliant, but not necessarily the total system. One of the key features of leading ERP systems is the integration between the various modules, enabling processes to easily span functions. This is both efficient and also provides a solid internal control structure — a key compliance requirement. Hence, compliance is weakened when software modules are not fully implemented and a process or transaction is interrupted or incomplete.
- Many of the custom programmes were seldom or never used. Unless deleted, these redundant programmes continue to incur support costs, over and above standard vendor maintenance charges.
- In the systems analysed, the annual costs associated with custom software ranged from circa £250,000 to over £2 million. In the enterprises benchmarked, ERP vendor maintenance costs (based on a fixed percentage of the licence fee) were more than twice the level justified simply because less than 50 per cent of the software was actually used.
- The interfaces between vendor code and custom code showed major internal control exposures. They may be poorly documented and lack audit approval. Cross-functional processes are rarely understood and monitored because IT organisations and skills are commonly focused on vertical applications e.g. manufacturing, finance, sales.
- The most revealing information from these benchmarks was that, in most cases, the CEO and CFO did not know they had a problem. The results came as a surprise, and the lack of previous visibility a serious concern, and a real compliance issue.

> "Most CFOs and CIOs think their organisations just have one version of the truth — held in ERP data files. Nothing could be further from the truth."
>
> **Martin Butler, Butler Group**

Whilst some ERP vendors are now offering software tools to tackle compliance issues, these can only apply to the vendor's own software. If the enterprise is not using 50 per cent of the vendor software, then these tools are a questionable investment. And, the custom built software is not included in the support, training and documentation provided by the ERP vendor, plus the original implementation team has moved on to other projects — another compliance exposure.

"What is possibly more surprising than this habit of customising more than half the application is the fact that in most instances the CFO knows nothing about it — revelling in the warm glow created by the certain knowledge that his or her organisation is using a standard set of processes and that this has done no harm at all to their CV. What is particularly worrying is that much of this custom code is undocumented and involves the use of private spreadsheets. Most CFOs and CIOs think their organisations just have one version of the truth — held in ERP data files. Nothing could be further from the truth.

All of this should be ringing alarm bells for those with any responsibility for compliance. Undocumented, multiple versions of the truth are exactly what the regulatory authorities are keen to unearth," says Martin Butler of the Butler Group.

There is an interesting aspect of compliance worthy of mention at this point, and this relates to companies that are involved in Mergers & Acquisitions (M&A) activity.

It is well known that different computer systems can impede or even prevent a successful M&A situation. But often companies proceed on the basis that they both "run the same ERP system". This may be so, and the systems may even be at the same vendor release level.

However, what if the two companies are running different transactions within the vendor system? What if they have written custom codes for completely different transactions? What if one has implemented a specific vendor module, but the other has chosen to use only a sub-set? Based on the West Trax data, this is the most likely situation. In which case, the two companies are running two completely incompatible ERP systems.

Do they know? Who can tell them?

Actions for Management Accountants

One of the most common reasons for these worrying results is the failure of organisations to conduct ongoing post-implementation reviews, to track realised benefits versus the original goals, and to do this throughout the life cycle of the ERP system. Evaluating the strategic benefits and legal compliance provided by ERP systems cannot be made on purely technical grounds. If the task of assessing attainment of these goals is delegated downwards within an organisation, the focus will be on tactical or technical measurements.

So, here are a few key questions for Management Accountants to ask their IT colleagues, with a request for objective answers based on real data, and in straightforward business language.

- What percentage of the ERP vendor software licensed is actually being used? What are the plans to optimise the current applications, or to conduct a cost/benefit analysis of lightly used modules?
- What percentage of the custom code is essential, what percentage can be replaced with vendor code, and what percentage is unused? What are the plans to delete the unused code before the next software release, or request for more server capacity?
- Which processes and transactions contain interfaces between vendor and custom code? Are they documented, and approved by Internal Audit?

The next step would be to use a combination of System Benchmarking and Activity Based Costing to express the problem in financial terms. First, all planned costs associated with the four system components (or "activities") would be established by using Zero Based Budgeting (ZBB) (Used Vendor Code, Unused Vendor Code, Used Custom Code, Unused Custom Code). The process would then be repeated to reveal and review the actual costs for appropriate time periods. A management analysis of activities not delivering targeted benefits would result in their elimination or revised targets and costs based on ZBB. This analysis process could also be employed when reviewing and approving new projects, software upgrades, server consolidations, and particularly outsourcing.

> "Compliance exposures in ERP systems are a reality today, and a key responsibility of CEOs and CFOs. Technology is now available to identify problem areas and corrective action, and this is also an opportunity for Management Accountants to take the lead in tackling the problem."

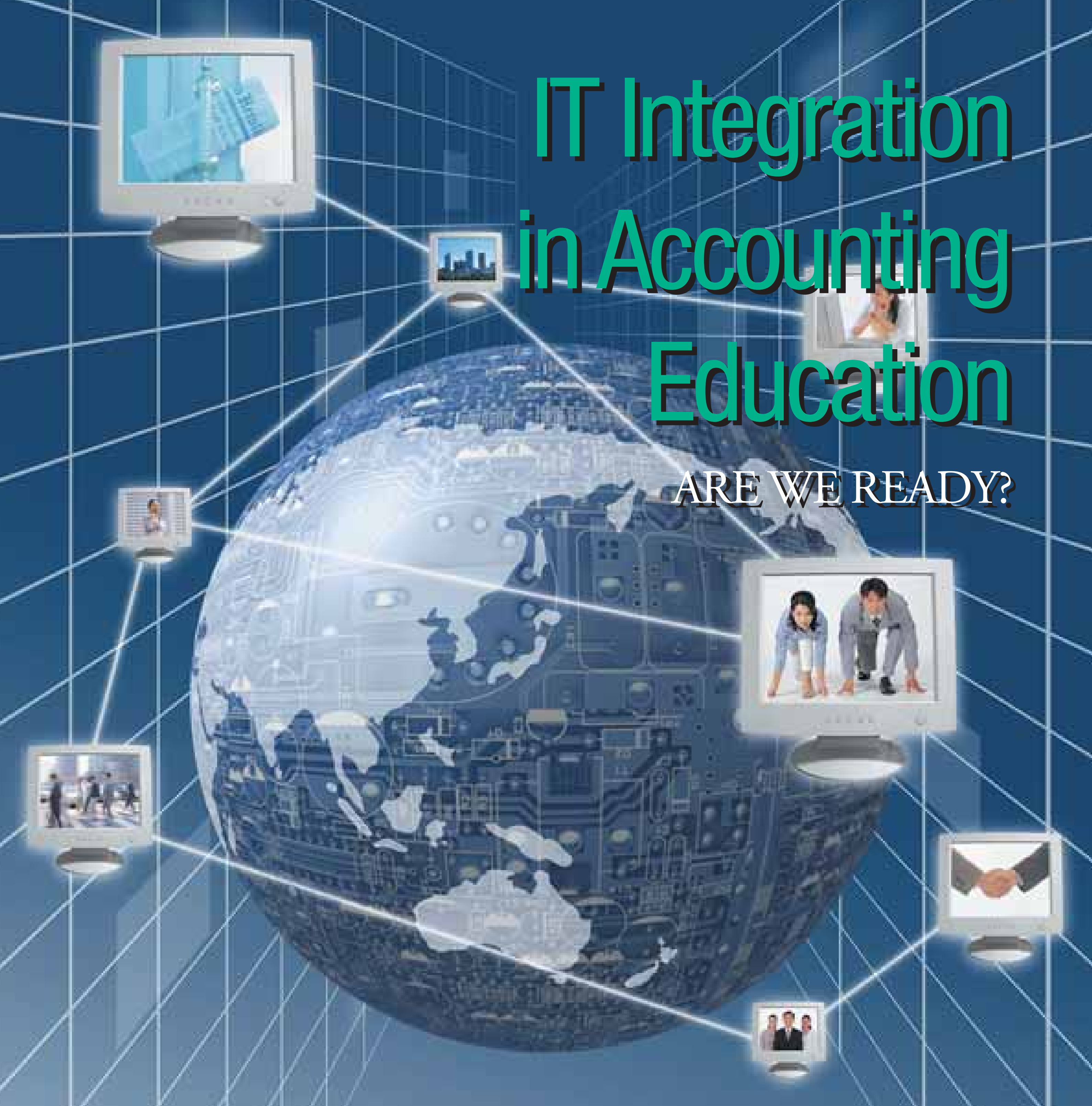
If the ERP system is outsourced, or outsourcing is being considered, these questions should be in the outsourcing contract as essential components of system monitoring and the contractor's continuous improvement programme. Outsourcing does not remove the responsibility for compliance — it just makes the job more complex. Following a decision to outsource, then ZBB is also an effective tool in the process of re-establishing the in-house IT organisation. One of the critical new roles for IT and Finance together is conducting ongoing post-implementation reviews — benchmarking at quarterly intervals would make this an objective exercise, based on real system data. These reviews can also be the forum for developing system efficiencies and, hence, driving down outsourcing contractor fees.

The final area for consideration in this article concerns the internal control exposures created by over-dependence on custom code — issues like documentation, training, and skill retention have a direct impact; but also the interfaces within and between custom applications and vendor software are fraught with dangers. To identify and tackle these exposures requires accurate benchmarking data throughout the various layers of the system, and across the vertical or functional applications.

Two actions are required — first, to scope and tackle the problems with existing systems which requires the co-operation of IT, Management Accounting and Internal Audit; second, to establish the management process for the review and approval of all future proposals to implement custom code rather than vendor code in new systems or modules.

Compliance exposures in ERP systems are a reality today, and a key responsibility of CEOs and CFOs. Technology is now available to identify problem areas and corrective action, and this is also an opportunity for Management Accountants to take the lead in tackling the problem. AT

Ken Gorf FCMA is Chief Financial Officer of West Trax Applications LLC, UK. This article is contributed by CIMA, The Chartered Institute of Management Accountants, Malaysia Division.



IT Integration in Accounting Education

ARE WE READY?

by Dr. Noor Azizi Ismail, Dr. Mahamad Tayib and Basariah Salim

In today's IT environment, the increasing number of nations that are moving to ICT gadgets has created an urgent need for the international accounting profession to enhance its IT knowledge and skills. Even though the IT know-how is already in the International Federation of Accountants' (IFAC) main agenda, the extent to which these agendas have been implemented and the response from the accounting professional providers remain an issue.

One of the main objectives of accounting education at the university level is to expose students for positions as professional accountants. In the past, accounting programmes were merely judged by students' technical abilities nurtured by the curriculum, namely by way of financial accounting recording processes, management accounting techniques, tax rules, and audit procedures (Boritz, 1999). The advancement of IT over the last two decades has created many new challenges and opportunities for the accounting profession, hence of accounting education (Elliot, 1992). IT is fast changing the way in which organisations operate, the nature and economies of accounting activities, and the competitive environment in which accountants participate (IFAC, 2003). Therefore, IT can no longer be considered a discipline peripheral to accounting. Rather, the accounting profession needs to merge and develop with IT to such an extent that one can hardly conceive of accounting independent from IT.

In recognition of the importance of IT in accounting education, IFAC issued the International Education Standards and Guidelines to ascertain essential elements (e.g., subject matter, methods and techniques) that education and development programmes are expected to contain and that have the potential for international recognition, acceptance and application. The issuance of the International Education Guidelines 11 (IEG11), for example, is to observe the type of IT knowledge to be integrated into the curriculum. This guideline has established a framework for organising IT-oriented education for professional accountants and the core areas of knowledge and skill to be covered.

Whilst many past studies focused on the type and extent of IT knowledge and skills to be integrated into the accounting curriculum, the introduction of the IFAC International Education Standards and Guidelines for Professional Accountants have shifted the research emphasis to the factors that contribute to the success of IT integration into the accounting curriculum. Several studies have suggested the lack of IT knowledge and skills being integrated into the accounting curriculum. Among the inhibiting factors are shortage of IT background instructors, computing facilities for students, financial resources required to keep those facilities up to date and insufficient technical support staff.

This paper investigates the perceptions of accounting academicians toward the issue of IT integration into the accounting curriculum in the specific context of Malaysian Institutions of Higher Learning. Findings from this study will provide some insights into the readiness of accounting programmes offered by Malaysian Institutions of Higher Learning facing the challenges of the information age. By understanding their perceptions toward the issue, it will help the policymakers and the administrators plan and co-ordinate the IT implementation and allocation of resources for them to move forward with technology-based approaches in terms of teaching and the learning environment.

Method

A mail questionnaire was used to gather data. Letters, together with the questionnaire and a self-addressed envelope were sent out to 220 accounting academicians of nine Public and Private Institutions of Higher Learning offering accounting degree programmes in Malaysia. Seventy-six usable questionnaires were eventually returned representing a 35 per cent response rate. The questionnaire was divided into two major sections. The first section of the questionnaire focused on the general background of the respondents: academic background; teaching and research specialisation; years of teaching experience; work experience in information systems; age; and gender. The second section of the questionnaire was designed to elicit respondents' perceptions toward: hardware and software adequacy; updated software and services satisfaction; training sufficiency and priority; appreciation and support from head of department, colleagues and students; staff commitment; IT integration; and difficulties in learning and teaching IT-related courses.

Results

Preliminary analysis of the sample showed that 83 per cent of the respondents were from Public Institutions of Higher Learning and 17 per cent were from Private Institutions of Higher Learning. In terms of academic rank, 15 per cent of the respondents were either professors or associate professors, and 85 per cent were either assistant professors or lecturers. Eighteen per cent of the respondents held a PhD, 75 per cent a Masters degree, and about seven per cent possessed professional qualifications. About 45 per cent of the respondents obtained their highest degree from overseas, whilst 54 per cent of the respondents reported that they received a formal accounting and information systems (AIS) education and training, 72 per cent of them did not have any AIS work-related experience. Almost 60 per cent of the respondents had teaching experience of more than five years.

Are We Ready?

Table 1 shows the results of the perceptions of accounting academicians toward the issue of IT integration into the accounting curriculum. These variables were measured using a five-point scale from 1 (strongly disagree) to 4 (strongly agree), and 0 (no opinion). To simplify the following description, the responses for point '1' and point '2' of the scale are treated as one category called 'agree'. Similarly, point '3' and point '4' are treated as one category called 'disagree'. The point '0' is labelled the 'no opinion' category.

Hardware and Software Adequacy

The majority (82 per cent) of the respondents agree that the number of personal computers for staff to acquire IT skills are adequate. However, the study received a mixed opinion on whether the number of personal computers for students to acquire IT skills are adequate. Fifty-five percent of the respondents agree while about 40 per cent disagree with the statement. Meanwhile, about half of the respondents agree that application software required to integrate IT in accounting are adequate, 40 per cent disagree, while nine per cent of the respondents have no opinion to the statement. Results indicate that hardware facilities for staff to acquire IT skills are adequate in most Malaysian Institutions of Higher Learning. Therefore, consideration should be given to the issue of hardware

facilities for students and adequacy of application software based on the mixed opinion of the respondents.

Software Update and Services Satisfaction

Nearly 50 per cent of the respondents agree that application software required to integrate IT in accounting are updated. Results also depict that 58 per cent of respondents agree that network services are satisfactory, whilst 38 per cent of the respondents show their dissatisfaction. About 52 per cent of respondents agree that the support for computing services from technical staff is satisfactory, 41 per cent of them disagree and 7 per cent do not have any opinion. These results indicate that only about half of the respondents agree with the application software updates, network services and support for computing services, and hence more efforts need to be done by Malaysian Institutions of Higher Learning to further upgrade their computing facilities.

Training Sufficiency and Priority

In terms of training sufficiency and priority, the results show that only 38 per cent of the respondents agree with the statement that training for staff to acquire knowledge and skills in IT are sufficient, whilst 61 per cent of the respondents disagree. Fifty-two per cent of the respondents also disagree with the statement that training in accounting and IT/IS is always given a higher priority than other areas of accounting. The results suggest that training for staff to acquire IT knowledge and skills is still insufficient in Malaysian Institutions of Higher Learning.

Appreciation and Support

The results show that a majority of the respondents agree that their efforts to integrate IT into the accounting curriculum were appreciated and supported by heads of department, colleagues and students.

Staff Commitment

In terms of staff commitment, the results show that 92 per cent of the respondents agree with the statement that accounting academicians know the importance of IT in accounting. Ninety-one percent of the respondents also agree that IT knowledge and skills is crucial for the enhancement of the accounting profession. However, 66 per cent of the respondents perceived that accounting academicians are a bit apprehensive about learning IT skills. This finding suggests that although a majority of respondents are aware of the importance of IT in accounting, some of them are still hesitant to learn and acquire IT knowledge and skills.

IT Integration

Nearly half of the respondents perceived that the extent of IT knowledge and skills currently integrated into the accounting curriculum are sufficient. When asked whether IT knowledge and skills should be integrated into all major areas of accounting, 87 per cent of the respondents agree with the statement. Only 13 per cent of the respondents felt that IT knowledge and skills should only be taught in AIS subjects. The result implies that the extent of IT knowledge and skills currently being

Table 1 Frequency Distribution (%)

	Agree	Disagree	No Opinion
Adequacy of Hardware and Software			
a. Hardware facilities, i.e. number of PCs for staff to acquire IT skills are adequate	82	17	1
b. Hardware facilities, i.e. number of PCs for students to acquire IT skills are adequate	41	55	4
c. Application software required to integrate IT in accounting are adequate	51	40	9
Software Updated and Services Satisfactory			
a. Application software required to integrate IT in accounting are updated	49	37	14
b. Network services are satisfactory	58	38	4
c. Support for computing services from technical staff is satisfactory	52	41	7
Sufficiency and Priority of Training			
a. Training for staff to acquire knowledge and skills in IT are sufficient	38	61	1
b. Training in accounting and IT/IS is always given a higher priority than other areas of accounting	39	52	9
Appreciation and Support			
a. Appreciated by head of department	88	8	4
b. Fully supported by head of department	87	9	4
c. Appreciated by colleagues	76	18	6
d. Fully supported by colleagues	71	21	8
e. Appreciated by students	74	10	16
f. Fully supported by students	69	17	14
Importance and Apprehensiveness to Learn IT			
a. Accounting academicians know the importance of IT in accounting	92	7	1
b. IT knowledge/skills is crucial for the enhancement of accounting profession	91	8	1
c. Accounting academicians are apprehensive to learn the IT skills	66	29	5
IT integration			
a. The extent of IT knowledge/skills currently integrated in accounting curriculum are sufficient	47	45	8
b. IT knowledge/skills should be integrated into all major areas of accounting	87	10	3
c. IT knowledge/skills should only be taught in Accounting and Information Systems subjects	13	84	3
Difficulties in Learning and Teaching IT			
a. IT knowledge/skills is very difficult to learn	9	90	1
b. IT knowledge/skills is very difficult to teach	18	75	7

integrated into the accounting curriculum is insufficient. Furthermore, IT knowledge and skills should be integrated into all major areas of accounting and not merely the AIS course.

Difficulties in Learning and Teaching IT

Finally, *Table 1* shows the respondents' perception regarding the difficulties in learning and teaching IT knowledge and skills. Ninety per cent of the respondents felt that IT knowledge and skills is not very difficult to learn, whilst 75 per cent of respondents felt that IT knowledge and skills are not very difficult to teach. The results suggest that accounting academicians perceived that IT knowledge and skills are more difficult to teach than to acquire them.

Discussion

In this paper, we explored the perceptions of accounting academicians in Malaysia toward the issue of IT integration into the accounting curriculum. Various issues, which are believed to have influenced IT integration, were sought from the respondents.

The results relating to the issue of hardware and software adequacy suggest that hardware facilities for academic staff to acquire IT skills are adequate. However, emphasis should be given to the hardware facilities for students and adequacy of application software, as respondents seem to have differing opinions on these two issues. Malaysian Institutions of Higher Learning need to ensure that their students get the full benefits of IT integration into the curriculum. The students need sufficient computing facilities in all aspects of their year of study which will provide them with opportunities to explore, learn and use IT throughout their learning process.

The results also indicate that only half of the respondents are satisfied with software updates, network, and technical support. Hence, Malaysian Institutions of Higher Learning should place greater emphasis in this area of computing. These services are vital in the computing environment particularly when the networking trend is taking over the mode of communication and accessibility of information. Besides that, technical support staff are also crucial in assisting academic staff and students to acquire IT knowledge and skills.

> "… whilst a majority of accounting academicians feel that IT should be integrated into all major areas of accounting, many of them feel that the extent of IT knowledge and skills being integrated into the accounting curriculum is insufficient."

In terms of IT-related training, the results suggest that nearly two-thirds of the academic staff are not satisfied with the amount of training allocated to them. They also expressed their dissatisfaction toward the priority given to IT-related training compared to other areas of accounting. Hence, Malaysian Institutions of Higher Learning should allocate more funds to train their accounting staff with IT knowledge and skills. This issue is very important, as lack of training is one of the crucial factors inhibiting IT integration into the accounting curriculum.

A majority of accounting academicians agree that IT knowledge and skills should be integrated into all major areas of accounting, not just focusing on the AIS course. Most of them know the importance of IT and agree that IT knowledge and skills are crucial for the enhancement of the accounting profession. However, the results suggest that the extent of IT knowledge and skills currently being integrated into the accounting curriculum are insufficient. Ideally, IT knowledge and skills development should be integrated into all major areas of accounting education, i.e. financial and management accounting, auditing and taxation. However, this would require concerted efforts from all individuals in all areas of accounting, not just on the shoulders of a small group of AIS academicians. About two-thirds of the accounting academicians perceived that their colleagues are anxious to learn IT skills. Furthermore, many of them felt that IT knowledge and skills are more difficult to teach than to learn. Lack of training as discussed in the preceding paragraph might contribute to this situation. Hence, Malaysian Institutions of Higher Learning should take every effort necessary to train all accounting academicians with sufficient IT knowledge and skills.

Results show that the accounting academicians felt that they received full support and appreciation toward their efforts to integrate IT into the accounting curriculum from their head of department and colleagues. This positive attitude toward integrating IT into accounting education should be shared by all parties, including the Malaysian Institute of Accountants (MIA) as a regulatory body, the Malaysian Institute of Certified Public Accountants (MICPA) as a professional body, and accounting professionals.

Summary

This study provided evidence of the readiness of accounting programmes offered by Malaysian Institutions of Higher Learning to face the challenges of the information age. The results showed that most accounting academicians in Malaysian are satisfied with the hardware facilities, support and appreciation received from their heads of department and colleagues. Many of them recognise the importance of IT knowledge and skills in enhancing the future of the accounting profession. However, they also showed their dissatisfaction on several technical aspects such as adequacy of application software, network services, technical support, and allocation of IT-related training. Furthermore, whilst a majority of accounting academicians feel that IT should be integrated into all major areas of accounting, many of them feel that the extent of IT knowledge and skills being integrated into the accounting curriculum is insufficient. The findings should stimulate a more rigorous study to examine the extent, mode and quality of IT integration into the accounting curriculum, and encourage researchers to examine the factors that could influence the integration process. AT

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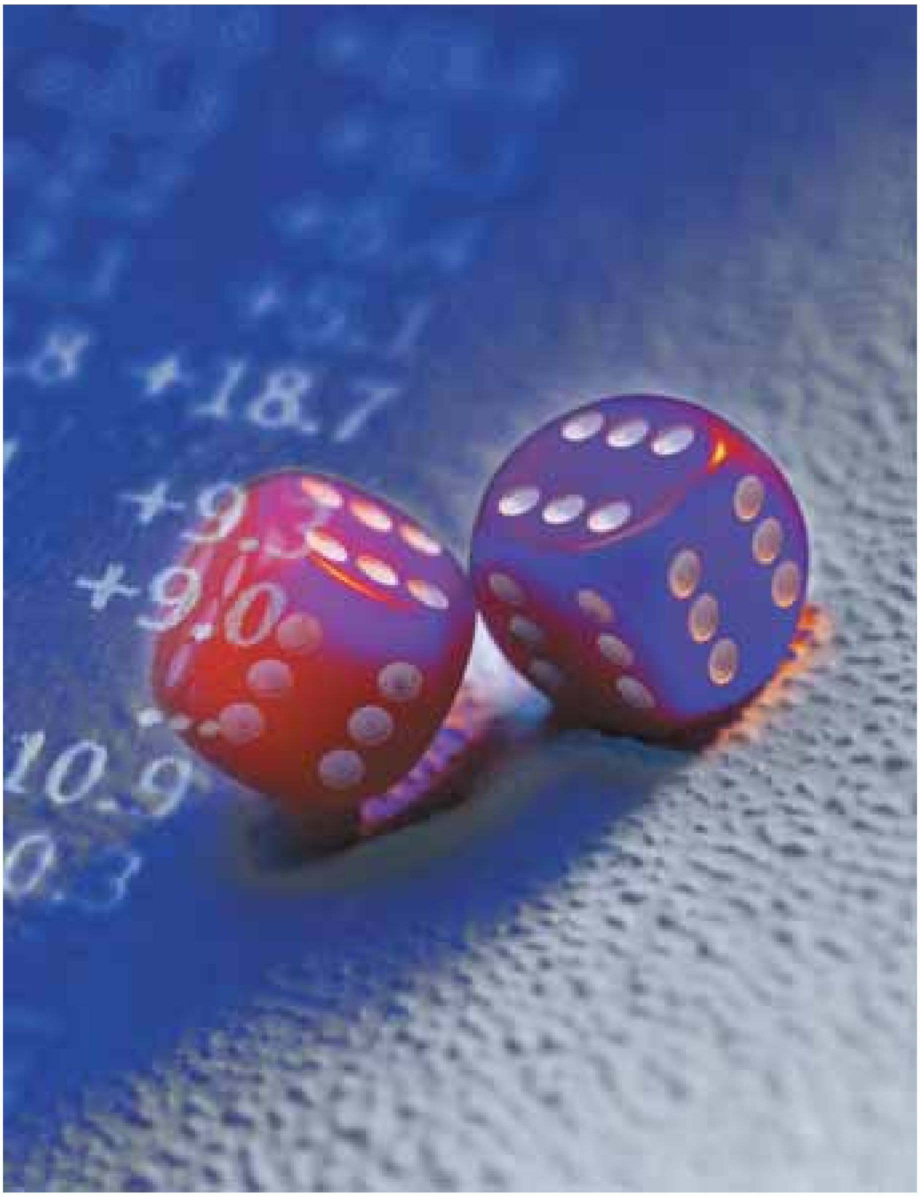
Risk Management

AT THE CROSSROADS

by Richard Sharman

Risk management has become a vital ingredient of a successful business. This is partly due to the need for compliance with increasingly rigorous regulation and legislation; but it is also due to the knowledge that, if you get your risk reporting framework right, it can benefit the business as a whole.



Over recent years the remit for risk management has changed significantly. During the 1990s, corporate governance regulation sought to ensure that risk management was embraced as a means of improving the achievement of strategic objectives. In the UK, this changing landscape culminated in the *Combined Code* and associated *Tumbull Guidance on Internal Control*.

For many organisations the increased need for regulatory compliance has called for a greater investment in risk management activities, even if this investment is simply related to the amount of time that management and executives have to spend collating and reviewing risk information. At the time of writing we are witnessing the establishment of what may amount to be the most significant governance regulation yet, in the form of the US Sarbanes-Oxley Act.

While it is still too early to predict the impact of this Act, the general consensus is that, by requiring chief executive officers (CEOs) and chief financial officers (CFOs) to provide certification of the effectiveness of internal controls, the US authorities have 'raised the bar' for standards of corporate governance for all companies irrespective of whether they are subject to the new requirements.

It is therefore clearly an opportune time to review how organisations are seeking to improve their levels of internal assurance and the adequacy of their internal

control systems. Though driven by regulatory compliance, this 'raising of the bar' does not, and should not, overshadow the value that is now being realised through employing developed risk management activity. Whilst many organisations have increased their investment in risk management, and will undoubtedly have to invest further still, many do not realise the real benefits, instead viewing risk management as just another compliance exercise.

In practice, risk management is much more evolved than just providing assurance that an organisation has complied with corporate standards. Stakeholder expectation and the very real pressures of doing business have forced organisations to look beyond regulatory requirements and to seek real performance improvements from their risk management activities.

The benefits these organisations are now realising from developed risk management activity include:

- improved allocation of resources to the risks that really matter;
- improved decision making to support an organisation in knowingly taking risks;
- enhanced internal and external reporting of risk and control information:
- increase responsiveness to internal and external change; and
- improved communication and knowledge sharing

However, the development of risk management activity as an aid to performance can, in the main, only be achieved through getting the basics right. This has to start with the effective communication of risk information and related roles, responsibilities and accountabilities at all organisational levels.

Structure, roles, responsibilities and accountability

To establish the foundations for effective risk management and internal assurance, an appropriate organisational structure needs to be put in place, which escalates information on risks and their associated control mechanisms.

Central to corporate governance principles is the ability of the board to effectively monitor and evaluate organisational performance and its changing business environment, as well as to effect the development of strategy. These things are impossible without receipt of information on organisational risks and opportunities that is both timely and in keeping with the organisation's strategic objectives.

Historically the reporting of risk has been fragmented, with risks originating in different areas of the organisation being reported separately to the board. Understandably this left directors unable to adequately assess their organisation's risk environment in anything approaching an holistic way, an issue especially acute for non-executive directors who were disadvantaged in the level of challenge they could provide.

Additionally, with the business environment changing at an increasing pace it has become clear that an annual process of the assessment and review of risk by the board is not enough for the board to discharge its governance responsibilities. Although compliance might be treated as an annual activity, discrete of any other management review processes or reporting, the provision of meaningful risk and control information must be more frequent.

Without having an appropriate structure in place, new or changed risks can easily be missed and opportunities not exploited. Whilst compliance is important, it is increasingly viewed as an additional benefit to that of the improved decision-making and accountability for risk that results from a well-structured framework for risk and assurance.

Critical to such a framework are the roles and responsibilities that are assigned for risk management throughout an organisation. The transparent assignment of roles and responsibilities, and improved accountability and awareness of risk, is required for any risk or assurance related activity to be successful.

Generally the roles, responsibilities and accountabilities fall into three distinct areas within organisations:

- the board and its sub-committees;
- the organisation's corporate oversight functions (including risk management and internal audit functions): and
- the business operations themselves.

Through working with a diverse range of organisations, we have accumulated a number of key insights into how organisations are successfully structuring themselves for risk and assurance and establishing a cohesive framework for the dissemination of strategy and escalation of risk information.

Figure 1 shows an example structure for risk management reporting.

Figure 1 Summary information and risk report flow

The board and its sub-committees

The board is ultimately responsible for risk management and the effectiveness of the organisation's system of internal control. Generally, responsibility is discharged through the setting, and communication, of policy and direction prescribing an organisational approach to its risk and control environment.

Through this policy and its related reporting requirements, the board must satisfy itself that:

- significant risks faced by the organisations are being managed appropriately;
- any system of risk management and internal assurance within the organisation is robust enough to respond to changes in its business environment;
- the organisation and reporting structure will support the delivery of the policy on an ongoing basis; and
- the board receives the right information for it to adequately discuss and challenge on risk issues, their mitigation and the overall risk appetite of the organisation.

Many boards are finding that the level of oversight these requirements necessitate demands an executive forum for developing risk management in the organisation and for oversight and supervision of its implementation in compliance with the principles established.

Risk management committees are becoming increasingly important in the approach that organisations take to risk and assurance at a senior level. To operate effectively risk management committees need to be structured and tasked with the same level of care as audit and executive committees. A developed 'terms of reference' is a must, which, as a minimum, generally requires the committee to:

- develop risk strategy agreement by the board;
- interpret and summarise the outputs from the organisational risk identification and assessment activity;
- monitor emerging issues in the organisations risk and control environment; and
- act as a forum for sharing risk management knowledge, experience and best practice across the organisation.

A mistake that is often made in the composition of risk management committees is the limitation of membership to corporate functions, without any representation from the organisation's operational/executive management.

To drive accountability for the risks an organisation faces, the owners of those risks have to represent them at such a forum. In turn, corporate functions, in addition to their development of organisational policy and direction in their disciplines, are required to provide challenge on the adequacy of the assessments of risk provided by operational management.

Corporate oversight functions

When referring to the corporate functions tasked with the provision of direction and assurance on organisational risk and the control environment, focus naturally falls on corporate risk management and internal audit functions.

However, such a focus often fails to recognise the role that other functions play in these processes. All oversight functions are responsible for the development of policy, and the monitoring of its implementation, in their areas of responsibility.

For example, finance directors (FDs) design processes to meet the requirements of certain financial standards, champion their implementation and provide support to the business as this proceeds. Following this they will report to the board or its appropriate sub-committee that the processes are in place and operating effectively — internal assurance.

As this is replicated across all corporate oversight functions it is easy to understand why the right structure is needed to pull together the assurance that all this activity provides. Whilst we will proceed to detail how this activity is undertaken by the corporate risk management function, it is worth pausing to understand the responsibilities of all corporate functions in creating the right environment for risk management and the right procedures for providing assurance.

Enter the 'chief risk officer'

To date, risk management has, traditionally, been viewed as the responsibility of the FD, often due to the financial focus on risk prompted by risk financing strategies and insurance. Over recent years the focus of risk and assurance has shifted away from that of purely financial impact and has begun to better recognise the more intangible nature of risk.

The rising profile of risk management in recent years, compounded by the increasing burden placed on boards by stakeholders for effective, integrated risk management, and a recognition of the limitations of the fragmented approach detailed earlier, has led some organisations to refocus the risk management role away from the FD and sought to create a single senior corporate position for the enterprise-wide co-ordination of risk management and assurance orientated activity — that of the chief risk officer (CRO).

It is worth noting at this stage that, perhaps unsurprisingly, the term CRO was first coined in the US but it would be incorrect to view the position as lacking in translation. Many European organisations also have appointed an individual responsible for the integrated management of risk management and assurance activity. It is just that they are not called CROs — some are called 'director of risk and assurance' or 'corporate head of risk'. What links them all is their drawing together of previously fragmented approaches to risk and assurance and this principle is of far more importance than their titles.

With increased public reporting requirements emerging in the US it is vital that interest in the organisational positioning and promotion of risk management activity also increases. The CROs role provides a focal point for meeting this need and it is reasonable to expect that appointments of a corporate officer or director responsible for risk management and internal assurance at a senior organisational level will be-

"With increased public reporting requirements emerging in the US it is vital that interest in the organisational positioning and promotion of risk management activity also increases. The CROs role provides a focal point for meeting this need and it is reasonable to expect that appointments of a corporate officer or director responsible for risk management and internal assurance at a senior organisational level will become more widespread."

come more widespread.

So what exactly does the CROs role involve? Primarily he/she is responsible for developing and implementing an enterprise-wide strategy as agreed by the board, that encompasses all aspects of organisational risk. Generally they will work closely with the CEO, the board and its sub-committees (including the risk management committee where in place) to achieve an enterprise-wide perspective of risk and their associated controls, looking across all business units to anticipate all the risks that threaten the organisation.

Ultimately, the CROs role provides overall leadership, vision and direction for risk and assurance activity. The position can be seen to enable a truly enterprise-wide appreciation of risk across all operations and functions, key to this being liaison with other corporate functions as detailed above, and to facilitate an improvement in the quality of discussion on risk and assurance issues at the senior corporate level.

The role of the CRO is not necessarily that of technical specialist in the disciplines of risk management and assurance as, generally speaking, these technical specialisms would sit under the position in the form of heads of risk management, internal audit, insurance etc. What is important is that the person who is appointed to the CROs role is able to operate effectively at all levels of the business, is able to organise and motivate others and establish a continuous dialogue with senior executives, management and potentially external stakeholders.

Business operations

Lastly we turn our attention to the role of business operations in the effectiveness of organisational risk management and assurance structures. The business owns and manages risk on a day-to-day basis, is responsible for the implementation of corporate policy as developed by the participants already detailed and for the provision of assurance to the board, via the risk and assurance structure, that they have done so.

Ultimately all of the structure we have already detailed will be meaningless if the business's operations fail to be engaged in the risk and assurance process. It is here that risk management is reduced to its most basic and essential level — how employees regard and evaluate risk in their day-to-day activities. The management of business operations are themselves subject to legislation in such areas as health and safety but the focus and appreciation of risk should permeate the whole organisation and should ultimately form part of every employees role and responsibility.

Delivering performance

At this level, risk management is in essence a behaviour. Much has been written about the way we as individuals approach risks in our day-to-day lives and how, for nearly every decision we make, an assessment of the risks attached is undertaken often unconsciously. While it takes a different mode of thinking to undertake this process for the decisions we make on behalf of our employers, it is generally true that this also occurs.

However, the considerations which individuals give to the risks in their environment vary greatly — variations that may be unacceptable for organisations requiring a consistent and thorough approach at all levels. Naturally, there are exceptions to this observation as certain roles carry with them the need to take more or less risk to be successful in both an individual and organisational sense. For example, the role of a salesman compared to that of an employee responsible for maintaining a key item of production machinery. But generally successful interpretation and implementation of organisational risk management strategy relies on a common understanding of the level of risk acceptable to the organisation.

As a result some organisations are focusing on how they can influence their employees approach to the risks they encounter from a behavioural perspective. Elements of such an approach may include training programmes for new joiners and developing managers, and risk management as a defined organisational behaviour in management and executive appraisals.

Building accountability for risk needs to occur at all levels of an organisation to establish credibility. What is asked of employees at an operational level needs to be mirrored in the business-planning process undertaken at more senior management levels.

Rather than conduct the identification and assessment of risk as a discrete annual exercise, some organisations are now developing ways of better aligning their corporate risk assessment and business planning processes. Under this approach, risks are identified and assessed and used in the discussions to set targets that are both challenging and achievable.

Conclusion

It is understandable that some organisations may not be so focused on driving improved organisational performance through their risk management activities. However, for many, the current developments in corporate governance and related accountability may provide an incentive to review the effectiveness of the processes they have put in place to assess organisational risk.

Whilst compliance is clearly necessary, it increasingly makes sense to realise some greater return on your risk management investment for the benefit of the organisation and its stakeholders. Indeed as awareness of these concepts grows, so too does the level of stakeholder expectation. As organisations will no longer find it so easy to ignore these developments it may be worthwhile asking yourself the following questions about your own approach to risk and assurance:

- is the business clear on its risk management responsibilities? Where does accountability for risk and assurance currently lie?
- is our approach to risk management getting buy-in from across our organisation?
- how adequate is the quality of information (format, content, frequency) on risk and assurance received at board level?
- how well do we use risk management information as part of our decision making processes on a day-to-day decision making basis?
- how well integrated are our risk management and business strategies? and
- are we currently getting value for money (or any real value) from our risk management activity? AT

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COMPLIANCE EXPOSURES IN ERP Systems

by Ken Gorf

What's the Problem?

Major enterprises around the world rely on ERP systems for both operational purposes and financial reporting. In doing so, the ERP systems become an integral part of the corporate governance and legal compliance landscape.

Whilst most IT management attention seems to be on document retention, reporting quality, and security, there are much broader issues to be considered to ensure good governance and compliance with regulations. In particular, managements are required to demonstrate they have appropriate processes in place to support good value and risk management. In addition, auditors are now focused on verifying the processes that produce data in addition to the reported information itself.

Financial reporting across multinational enterprises must be consistent and comparable. In reality, this means that the ERP systems employed must be the same system, at the same release level, and be implemented in the same way.

ERP systems are significant investments with long-term impacts on major enterprises. Meta Group reckons that the cost of a 1,000 users system is £21.7 million each year based on a five-year average. For all these reasons the compliance of any ERP system must be a focus for the CEO and CFO, and not assigned to IT as a technology project.

A body of evidence is now available that points to serious issues with compliance in the way ERP systems are implemented by companies and their consultants. West Trax Applications, which provides analytical and diagnostic services for ERP system users, has undertaken some 300 benchmarks for over 60 enterprises across Europe in 2003-2005, and the results are disturbing.

- Not one organisation was using more than 50 per cent of the vendor software they were licensed and paying for. Software that is never used only adds to costs without contributing to ROI. Some transactions may not be needed by the specific enterprise or subsidiary, some may require modification while some may simply be overlooked. However, the sample shows that companies are paying a significant overhead for the software they are actually using. There is also the strong probability that they are missing valuable opportunities to optimise their systems and operations by not implementing available software that they are already paying for. Who is tasked within the enterprise to continuously review this untapped opportunity? IT? Finance?
- In most of the systems analysed, the proportion of ERP vendor transactions used was surprisingly low. More than half of the software actually used was custom code written by internal staff or external consultants. The ERP vendor software may be compliant, but not necessarily the total system. One of the key features of leading ERP systems is the integration between the various modules, enabling processes to easily span functions. This is both efficient and also provides a solid internal control structure — a key compliance requirement. Hence, compliance is weakened when software modules are not fully implemented and a process or transaction is interrupted or incomplete.
- Many of the custom programmes were seldom or never used. Unless deleted, these redundant programmes continue to incur support costs, over and above standard vendor maintenance charges.
- In the systems analysed, the annual costs associated with custom software ranged from circa £250,000 to over £2 million. In the enterprises benchmarked, ERP vendor maintenance costs (based on a fixed percentage of the licence fee) were more than twice the level justified simply because less than 50 per cent of the software was actually used.
- The interfaces between vendor code and custom code showed major internal control exposures. They may be poorly documented and lack audit approval. Cross-functional processes are rarely understood and monitored because IT organisations and skills are commonly focused on vertical applications e.g. manufacturing, finance, sales.
- The most revealing information from these benchmarks was that, in most cases, the CEO and CFO did not know they had a problem. The results came as a surprise, and the lack of previous visibility a serious concern, and a real compliance issue.

> "Most CFOs and CIOs think their organisations just have one version of the truth — held in ERP data files. Nothing could be further from the truth."
>
> **Martin Butler, Butler Group**

Whilst some ERP vendors are now offering software tools to tackle compliance issues, these can only apply to the vendor's own software. If the enterprise is not using 50 per cent of the vendor software, then these tools are a questionable investment. And, the custom built software is not included in the support, training and documentation provided by the ERP vendor, plus the original implementation team has moved on to other projects — another compliance exposure.

"What is possibly more surprising than this habit of customising more than half the application is the fact that in most instances the CFO knows nothing about it — revelling in the warm glow created by the certain knowledge that his or her organisation is using a standard set of processes and that this has done no harm at all to their CV. What is particularly worrying is that much of this custom code is undocumented and involves the use of private spreadsheets. Most CFOs and CIOs think their organisations just have one version of the truth — held in ERP data files. Nothing could be further from the truth.

All of this should be ringing alarm bells for those with any responsibility for compliance. Undocumented, multiple versions of the truth are exactly what the regulatory authorities are keen to unearth," says Martin Butler of the Butler Group.

There is an interesting aspect of compliance worthy of mention at this point, and this relates to companies that are involved in Mergers & Acquisitions (M&A) activity.

It is well known that different computer systems can impede or even prevent a successful M&A situation. But often companies proceed on the basis that they both "run the same ERP system". This may be so, and the systems may even be at the same vendor release level.

However, what if the two companies are running different transactions within the vendor system? What if they have written custom codes for completely different transactions? What if one has implemented a specific vendor module, but the other has chosen to use only a sub-set? Based on the West Trax data, this is the most likely situation. In which case, the two companies are running two completely incompatible ERP systems.

Do they know? Who can tell them?

Actions for Management Accountants

One of the most common reasons for these worrying results is the failure of organisations to conduct ongoing post-implementation reviews, to track realised benefits versus the original goals, and to do this throughout the life cycle of the ERP system. Evaluating the strategic benefits and legal compliance provided by ERP systems cannot be made on purely technical grounds. If the task of assessing attainment of these goals is delegated downwards within an organisation, the focus will be on tactical or technical measurements.

So, here are a few key questions for Management Accountants to ask their IT colleagues, with a request for objective answers based on real data, and in straightforward business language.

- What percentage of the ERP vendor software licensed is actually being used? What are the plans to optimise the current applications, or to conduct a cost/benefit analysis of lightly used modules?
- What percentage of the custom code is essential, what percentage can be replaced with vendor code, and what percentage is unused? What are the plans to delete the unused code before the next software release, or request for more server capacity?
- Which processes and transactions contain interfaces between vendor and custom code? Are they documented, and approved by Internal Audit?

The next step would be to use a combination of System Benchmarking and Activity Based Costing to express the problem in financial terms. First, all planned costs associated with the four system components (or "activities") would be established by using Zero Based Budgeting (ZBB) (Used Vendor Code, Unused Vendor Code, Used Custom Code, Unused Custom Code). The process would then be repeated to reveal and review the actual costs for appropriate time periods. A management analysis of activities not delivering targeted benefits would result in their elimination or revised targets and costs based on ZBB. This analysis process could also be employed when reviewing and approving new projects, software upgrades, server consolidations, and particularly outsourcing.

"Compliance exposures in ERP systems are a reality today, and a key responsibility of CEOs and CFOs. Technology is now available to identify problem areas and corrective action, and this is also an opportunity for Management Accountants to take the lead in tackling the problem."

If the ERP system is outsourced, or outsourcing is being considered, these questions should be in the outsourcing contract as essential components of system monitoring and the contractor's continuous improvement programme. Outsourcing does not remove the responsibility for compliance — it just makes the job more complex. Following a decision to outsource, then ZBB is also an effective tool in the process of re-establishing the in-house IT organisation. One of the critical new roles for IT and Finance together is conducting ongoing post-implementation reviews — benchmarking at quarterly intervals would make this an objective exercise, based on real system data. These reviews can also be the forum for developing system efficiencies and, hence, driving down outsourcing contractor fees.

The final area for consideration in this article concerns the internal control exposures created by over-dependence on custom code — issues like documentation, training, and skill retention have a direct impact; but also the interfaces within and between custom applications and vendor software are fraught with dangers. To identify and tackle these exposures requires accurate benchmarking data throughout the various layers of the system, and across the vertical or functional applications.

Two actions are required — first, to scope and tackle the problems with existing systems which requires the co-operation of IT, Management Accounting and Internal Audit; second, to establish the management process for the review and approval of all future proposals to implement custom code rather than vendor code in new systems or modules.

Compliance exposures in ERP systems are a reality today, and a key responsibility of CEOs and CFOs. Technology is now available to identify problem areas and corrective action, and this is also an opportunity for Management Accountants to take the lead in tackling the problem. AT

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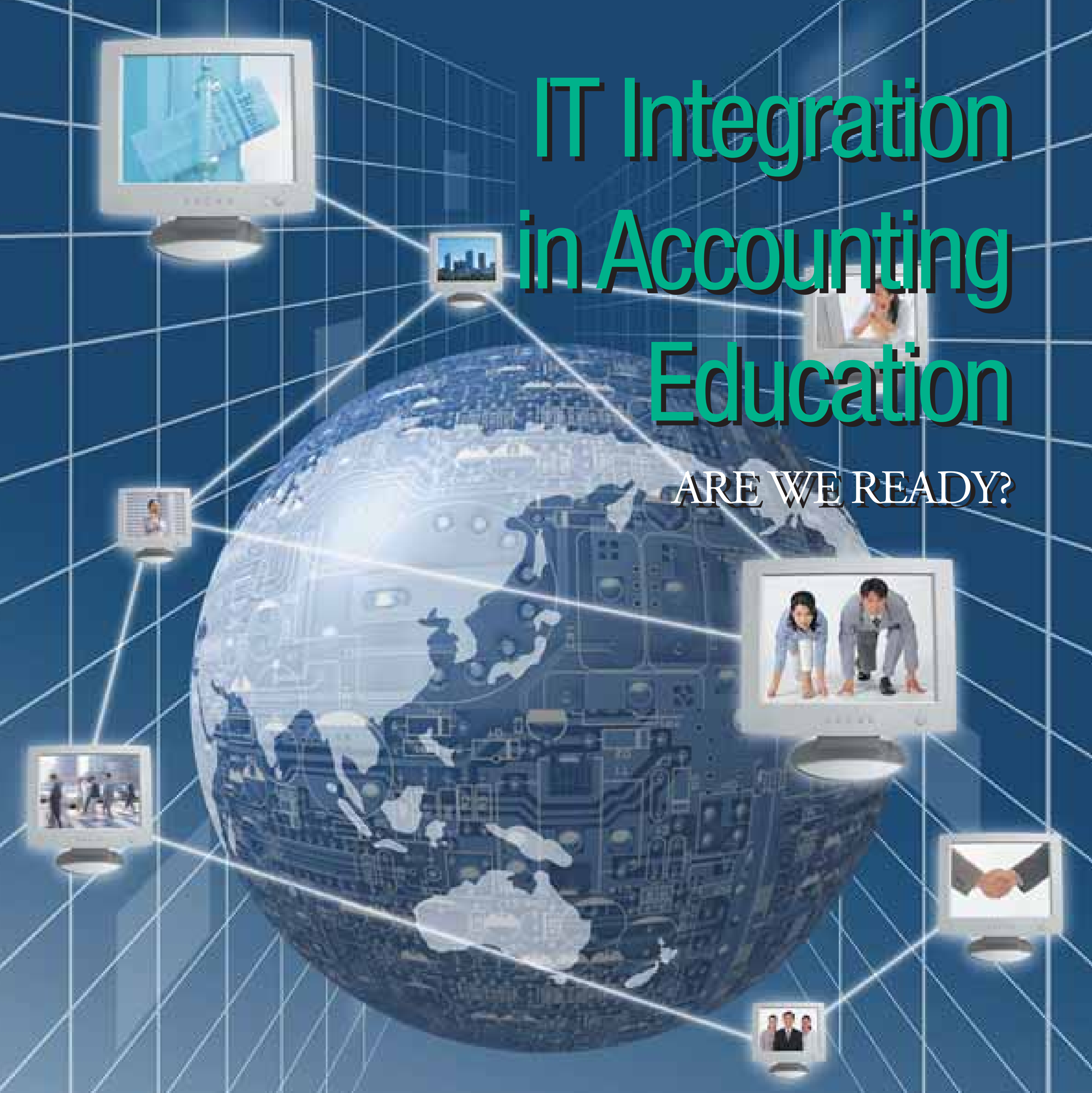

IT Integration in Accounting Education

ARE WE READY?

by Dr. Noor Azizi Ismail, Dr. Mahamad Tayib and Basariah Salim

In today's IT environment, the increasing number of nations that are moving to ICT gadgets has created an urgent need for the international accounting profession to enhance its IT knowledge and skills. Even though the IT know-how is already in the International Federation of Accountants' (IFAC) main agenda, the extent to which these agendas have been implemented and the response from the accounting professional providers remain an issue.

One of the main objectives of accounting education at the university level is to expose students for positions as professional accountants. In the past, accounting programmes were merely judged by students' technical abilities nurtured by the curriculum, namely by way of financial accounting recording processes, management accounting techniques, tax rules, and audit procedures (Boritz, 1999). The advancement of IT over the last two decades has created many new challenges and opportunities for the accounting profession, hence of accounting education (Elliot, 1992). IT is fast changing the way in which organisations operate, the nature and economies of accounting activities, and the competitive environment in which accountants participate (IFAC, 2003). Therefore, IT can no longer be considered a discipline peripheral to accounting. Rather, the accounting profession needs to merge and develop with IT to such an extent that one can hardly conceive of accounting independent from IT.

In recognition of the importance of IT in accounting education, IFAC issued the International Education Standards and Guidelines to ascertain essential elements (e.g., subject matter, methods and techniques) that education and development programmes are expected to contain and that have the potential for international recognition, acceptance and application. The issuance of the International Education Guidelines 11 (IEG11), for example, is to observe the type of IT knowledge to be integrated into the curriculum. This guideline has established a framework for organising IT-oriented education for professional accountants and the core areas of knowledge and skill to be covered.

Whilst many past studies focused on the type and extent of IT knowledge and skills to be integrated into the accounting curriculum, the introduction of the IFAC International Education Standards and Guidelines for Professional Accountants have shifted the research emphasis to the factors that contribute to the success of IT integration into the accounting curriculum. Several studies have suggested the lack of IT knowledge and skills being integrated into the accounting curriculum. Among the inhibiting factors are shortage of IT background instructors, computing facilities for students, financial resources required to keep those facilities up to date and insufficient technical support staff.

This paper investigates the perceptions of accounting academicians toward the issue of IT integration into the accounting curriculum in the specific context of Malaysian Institutions of Higher Learning. Findings from this study will provide some insights into the readiness of accounting programmes offered by Malaysian Institutions of Higher Learning facing the challenges of the information age. By understanding their perceptions toward the issue, it will help the policymakers and the administrators plan and co-ordinate the IT implementation and allocation of resources for them to move forward with technology-based approaches in terms of teaching and the learning environment.

Method

A mail questionnaire was used to gather data. Letters, together with the questionnaire and a self-addressed envelope were sent out to 220 accounting academicians of nine Public and Private Institutions of Higher Learning offering accounting degree programmes in Malaysia. Seventy-six usable questionnaires were eventually returned representing a 35 per cent response rate. The questionnaire was divided into two major sections. The first section of the questionnaire focused on the general background of the respondents: academic background; teaching and research specialisation; years of teaching experience; work experience in information systems; age; and gender. The second section of the questionnaire was designed to elicit respondents' perceptions toward: hardware and software adequacy; updated software and services satisfaction; training sufficiency and priority; appreciation and support from head of department, colleagues and students; staff commitment; IT integration; and difficulties in learning and teaching IT-related courses.

Results

Preliminary analysis of the sample showed that 83 per cent of the respondents were from Public Institutions of Higher Learning and 17 per cent were from Private Institutions of Higher Learning. In terms of academic rank, 15 per cent of the respondents were either professors or associate professors, and 85 per cent were either assistant professors or lecturers. Eighteen per cent of the respondents held a PhD, 75 per cent a Masters degree, and about seven per cent possessed professional qualifications. About 45 per cent of the respondents obtained their highest degree from overseas, whilst 54 per cent of the respondents reported that they received a formal accounting and information systems (AIS) education and training, 72 per cent of them did not have any AIS work-related experience. Almost 60 per cent of the respondents had teaching experience of more than five years.

Are We Ready?

Table 1 shows the results of the perceptions of accounting academicians toward the issue of IT integration into the accounting curriculum. These variables were measured using a five-point scale from 1 (strongly disagree) to 4 (strongly agree), and 0 (no opinion). To simplify the following description, the responses for point '1' and point '2' of the scale are treated as one category called 'agree'. Similarly, point '3' and point '4' are treated as one category called 'disagree'. The point '0' is labelled the 'no opinion' category.

Hardware and Software Adequacy

The majority (82 per cent) of the respondents agree that the number of personal computers for staff to acquire IT skills are adequate. However, the study received a mixed opinion on whether the number of personal computers for students to acquire IT skills are adequate. Fifty-five percent of the respondents agree while about 40 per cent disagree with the statement. Meanwhile, about half of the respondents agree that application software required to integrate IT in accounting are adequate, 40 per cent disagree, while nine per cent of the respondents have no opinion to the statement. Results indicate that hardware facilities for staff to acquire IT skills are adequate in most Malaysian Institutions of Higher Learning. Therefore, consideration should be given to the issue of hardware

facilities for students and adequacy of application software based on the mixed opinion of the respondents.

Software Update and Services Satisfaction

Nearly 50 per cent of the respondents agree that application software required to integrate IT in accounting are updated. Results also depict that 58 per cent of respondents agree that network services are satisfactory, whilst 38 per cent of the respondents show their dissatisfaction. About 52 per cent of respondents agree that the support for computing services from technical staff is satisfactory, 41 per cent of them disagree and 7 per cent do not have any opinion. These results indicate that only about half of the respondents agree with the application software updates, network services and support for computing services, and hence more efforts need to be done by Malaysian Institutions of Higher Learning to further upgrade their computing facilities.

Table 1 Frequency Distribution (%)

	Agree	Disagree	No Opinion
Adequacy of Hardware and Software			
a. Hardware facilities, i.e. number of PCs for staff to acquire IT skills are adequate	82	17	1
b. Hardware facilities, i.e. number of PCs for students to acquire IT skills are adequate	41	55	4
c. Application software required to integrate IT in accounting are adequate	51	40	9
Software Updated and Services Satisfactory			
a. Application software required to integrate IT in accounting are updated	49	37	14
b. Network services are satisfactory	58	38	4
c. Support for computing services from technical staff is satisfactory	52	41	7
Sufficiency and Priority of Training			
a. Training for staff to acquire knowledge and skills in IT are sufficient	38	61	1
b. Training in accounting and IT/IS is always given a higher priority than other areas of accounting	39	52	9
Appreciation and Support			
a. Appreciated by head of department	88	8	4
b. Fully supported by head of department	87	9	4
c. Appreciated by colleagues	76	18	6
d. Fully supported by colleagues	71	21	8
e. Appreciated by students	74	10	16
f. Fully supported by students	69	17	14
Importance and Apprehensiveness to Learn IT			
a. Accounting academicians know the importance of IT in accounting	92	7	1
b. IT knowledge/skills is crucial for the enhancement of accounting profession	91	8	1
c. Accounting academicians are apprehensive to learn the IT skills	66	29	5
IT integration			
a. The extent of IT knowledge/skills currently integrated in accounting curriculum are sufficient	47	45	8
b. IT knowledge/skills should be integrated into all major areas of accounting	87	10	3
c. IT knowledge/skills should only be taught in Accounting and Information Systems subjects	13	84	3
Difficulties in Learning and Teaching IT			
a. IT knowledge/skills is very difficult to learn	9	90	1
b. IT knowledge/skills is very difficult to teach	18	75	7

Training Sufficiency and Priority

In terms of training sufficiency and priority, the results show that only 38 per cent of the respondents agree with the statement that training for staff to acquire knowledge and skills in IT are sufficient, whilst 61 per cent of the respondents disagree. Fifty-two per cent of the respondents also disagree with the statement that training in accounting and IT/IS is always given a higher priority than other areas of accounting. The results suggest that training for staff to acquire IT knowledge and skills is still insufficient in Malaysian Institutions of Higher Learning.

Appreciation and Support

The results show that a majority of the respondents agree that their efforts to integrate IT into the accounting curriculum were appreciated and supported by heads of department, colleagues and students.

Staff Commitment

In terms of staff commitment, the results show that 92 per cent of the respondents agree with the statement that accounting academicians know the importance of IT in accounting. Ninety-one percent of the respondents also agree that IT knowledge and skills is crucial for the enhancement of the accounting profession. However, 66 per cent of the respondents perceived that accounting academicians are a bit apprehensive about learning IT skills. This finding suggests that although a majority of respondents are aware of the importance of IT in accounting, some of them are still hesitant to learn and acquire IT knowledge and skills.

IT Integration

Nearly half of the respondents perceived that the extent of IT knowledge and skills currently integrated into the accounting curriculum are sufficient. When asked whether IT knowledge and skills should be integrated into all major areas of accounting, 87 per cent of the respondents agree with the statement. Only 13 per cent of the respondents felt that IT knowledge and skills should only be taught in AIS subjects. The result implies that the extent of IT knowledge and skills currently being

integrated into the accounting curriculum is insufficient. Furthermore, IT knowledge and skills should be integrated into all major areas of accounting and not merely the AIS course.

Difficulties in Learning and Teaching IT

Finally, *Table 1* shows the respondents' perception regarding the difficulties in learning and teaching IT knowledge and skills. Ninety per cent of the respondents felt that IT knowledge and skills is not very difficult to learn, whilst 75 per cent of respondents felt that IT knowledge and skills are not very difficult to teach. The results suggest that accounting academicians perceived that IT knowledge and skills are more difficult to teach than to acquire them.

Discussion

In this paper, we explored the perceptions of accounting academicians in Malaysia toward the issue of IT integration into the accounting curriculum. Various issues, which are believed to have influenced IT integration, were sought from the respondents.

The results relating to the issue of hardware and software adequacy suggest that hardware facilities for academic staff to acquire IT skills are adequate. However, emphasis should be given to the hardware facilities for students and adequacy of application software, as respondents seem to have differing opinions on these two issues. Malaysian Institutions of Higher Learning need to ensure that their students get the full benefits of IT integration into the curriculum. The students need sufficient computing facilities in all aspects of their year of study which will provide them with opportunities to explore, learn and use IT throughout their learning process.

The results also indicate that only half of the respondents are satisfied with software updates, network, and technical support. Hence, Malaysian Institutions of Higher Learning should place greater emphasis in this area of computing. These services are vital in the computing environment particularly when the networking trend is taking over the mode of communication and accessibility of information. Besides that, technical support staff are also crucial in assisting academic staff and students to acquire IT knowledge and skills.

> "… whilst a majority of accounting academicians feel that IT should be integrated into all major areas of accounting, many of them feel that the extent of IT knowledge and skills being integrated into the accounting curriculum is insufficient."

In terms of IT-related training, the results suggest that nearly two-thirds of the academic staff are not satisfied with the amount of training allocated to them. They also expressed their dissatisfaction toward the priority given to IT-related training compared to other areas of accounting. Hence, Malaysian Institutions of Higher Learning should allocate more funds to train their accounting staff with IT knowledge and skills. This issue is very important, as lack of training is one of the crucial factors inhibiting IT integration into the accounting curriculum.

A majority of accounting academicians agree that IT knowledge and skills should be integrated into all major areas of accounting, not just focusing on the AIS course. Most of them know the importance of IT and agree that IT knowledge and skills are crucial for the enhancement of the accounting profession. However, the results suggest that the extent of IT knowledge and skills currently being integrated into the accounting curriculum are insufficient. Ideally, IT knowledge and skills development should be integrated into all major areas of accounting education, i.e. financial and management accounting, auditing and taxation. However, this would require concerted efforts from all individuals in all areas of accounting, not just on the shoulders of a small group of AIS academicians. About two-thirds of the accounting academicians perceived that their colleagues are anxious to learn IT skills. Furthermore, many of them felt that IT knowledge and skills are more difficult to teach than to learn. Lack of training as discussed in the preceding paragraph might contribute to this situation. Hence, Malaysian Institutions of Higher Learning should take every effort necessary to train all accounting academicians with sufficient IT knowledge and skills.

Results show that the accounting academicians felt that they received full support and appreciation toward their efforts to integrate IT into the accounting curriculum from their head of department and colleagues. This positive attitude toward integrating IT into accounting education should be shared by all parties, including the Malaysian Institute of Accountants (MIA) as a regulatory body, the Malaysian Institute of Certified Public Accountants (MICPA) as a professional body, and accounting professionals.

Summary

This study provided evidence of the readiness of accounting programmes offered by Malaysian Institutions of Higher Learning to face the challenges of the information age. The results showed that most accounting academicians in Malaysian are satisfied with the hardware facilities, support and appreciation received from their heads of department and colleagues. Many of them recognise the importance of IT knowledge and skills in enhancing the future of the accounting profession. However, they also showed their dissatisfaction on several technical aspects such as adequacy of application software, network services, technical support, and allocation of IT-related training. Furthermore, whilst a majority of accounting academicians feel that IT should be integrated into all major areas of accounting, many of them feel that the extent of IT knowledge and skills being integrated into the accounting curriculum is insufficient. The findings should stimulate a more rigorous study to examine the extent, mode and quality of IT integration into the accounting curriculum, and encourage researchers to examine the factors that could influence the integration process. AT

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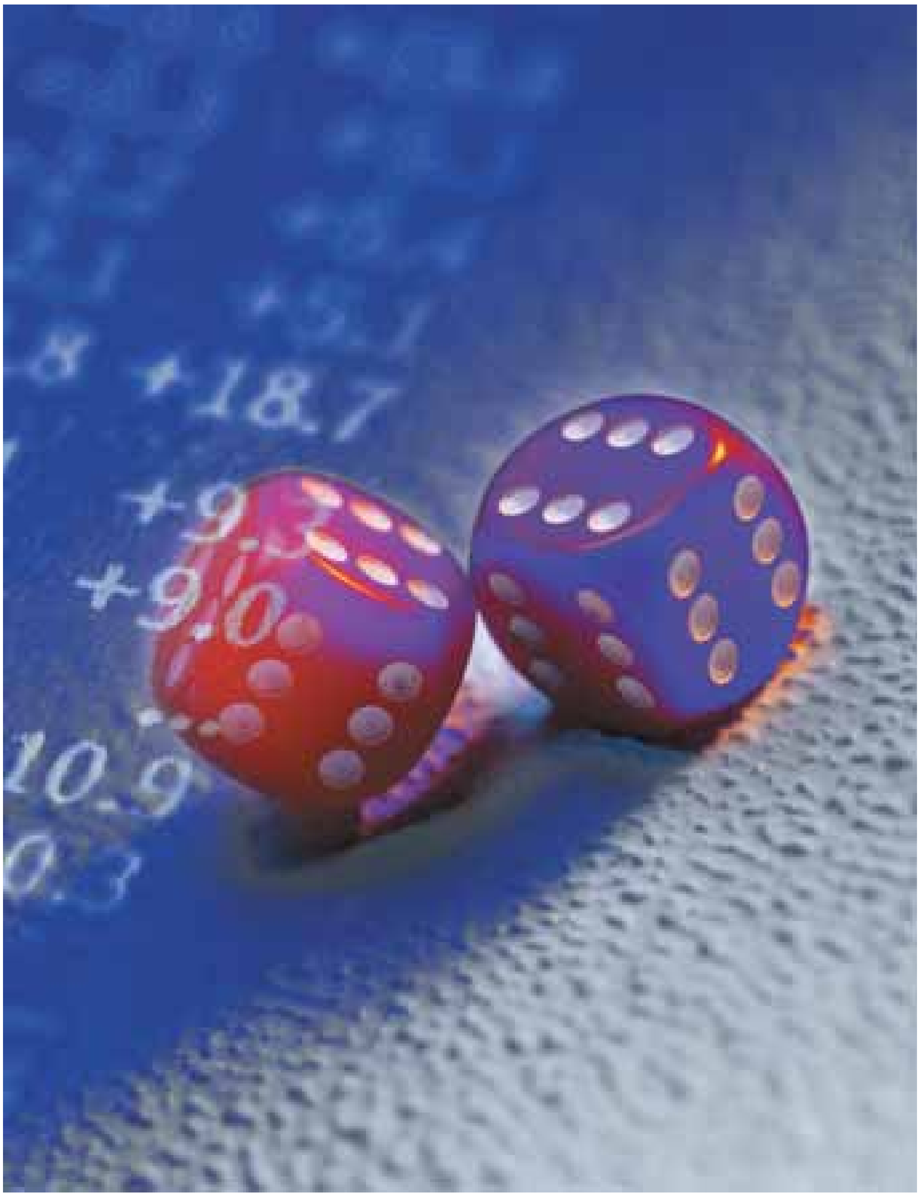
Risk Management

AT THE CROSSROADS

by Richard Sharman

Risk management has become a vital ingredient of a successful business. This is partly due to the need for compliance with increasingly rigorous regulation and legislation; but it is also due to the knowledge that, if you get your risk reporting framework right, it can benefit the business as a whole.



Over recent years the remit for risk management has changed significantly. During the 1990s, corporate governance regulation sought to ensure that risk management was embraced as a means of improving the achievement of strategic objectives. In the UK, this changing landscape culminated in the *Combined Code* and associated *Tumbull Guidance on Internal Control*.

For many organisations the increased need for regulatory compliance has called for a greater investment in risk management activities, even if this investment is simply related to the amount of time that management and executives have to spend collating and reviewing risk information. At the time of writing we are witnessing the establishment of what may amount to be the most significant governance regulation yet, in the form of the US Sarbanes-Oxley Act.

While it is still too early to predict the impact of this Act, the general consensus is that, by requiring chief executive officers (CEOs) and chief financial officers (CFOs) to provide certification of the effectiveness of internal controls, the US authorities have 'raised the bar' for standards of corporate governance for all companies irrespective of whether they are subject to the new requirements.

It is therefore clearly an opportune time to review how organisations are seeking to improve their levels of internal assurance and the adequacy of their internal

control systems. Though driven by regulatory compliance, this 'raising of the bar' does not, and should not, overshadow the value that is now being realised through employing developed risk management activity. Whilst many organisations have increased their investment in risk management, and will undoubtedly have to invest further still, many do not realise the real benefits, instead viewing risk management as just another compliance exercise.

In practice, risk management is much more evolved than just providing assurance that an organisation has complied with corporate standards. Stakeholder expectation and the very real pressures of doing business have forced organisations to look beyond regulatory requirements and to seek real performance improvements from their risk management activities.

The benefits these organisations are now realising from developed risk management activity include:

- improved allocation of resources to the risks that really matter;
- improved decision making to support an organisation in knowingly taking risks;
- enhanced internal and external reporting of risk and control information:
- increase responsiveness to internal and external change; and
- improved communication and knowledge sharing

However, the development of risk management activity as an aid to performance can, in the main, only be achieved through getting the basics right. This has to start with the effective communication of risk information and related roles, responsibilities and accountabilities at all organisational levels.

Structure, roles, responsibilities and accountability

To establish the foundations for effective risk management and internal assurance, an appropriate organisational structure needs to be put in place, which escalates information on risks and their associated control mechanisms.

Central to corporate governance principles is the ability of the board to effectively monitor and evaluate organisational performance and its changing business environment, as well as to effect the development of strategy. These things are impossible without receipt of information on organisational risks and opportunities that is both timely and in keeping with the organisation's strategic objectives.

Historically the reporting of risk has been fragmented, with risks originating in different areas of the organisation being reported separately to the board. Understandably this left directors unable to adequately assess their organisation's risk environment in anything approaching an holistic way, an issue especially acute for non-executive directors who were disadvantaged in the level of challenge they could provide.

Additionally, with the business environment changing at an increasing pace it has become clear that an annual process of the assessment and review of risk by the board is not enough for the board to discharge its governance responsibilities. Although compliance might be treated as an annual activity, discrete of any other management review processes or reporting, the provision of meaningful risk and control information must be more frequent.

Without having an appropriate structure in place, new or changed risks can easily be missed and opportunities not exploited. Whilst compliance is important, it is increasingly viewed as an additional benefit to that of the improved decision-making and accountability for risk that results from a well-structured framework for risk and assurance.

Critical to such a framework are the roles and responsibilities that are assigned for risk management throughout an organisation. The transparent assignment of roles and responsibilities, and improved accountability and awareness of risk, is required for any risk or assurance related activity to be successful.

Generally the roles, responsibilities and accountabilities fall into three distinct areas within organisations:

- the board and its sub-committees;
- the organisation's corporate oversight functions (including risk management and internal audit functions): and
- the business operations themselves.

Through working with a diverse range of organisations, we have accumulated a number of key insights into how organisations are successfully structuring themselves for risk and assurance and establishing a cohesive framework for the dissemination of strategy and escalation of risk information.

Figure 1 shows an example structure for risk management reporting.

Figure 1 Summary information and risk report flow

The board and its sub-committees

The board is ultimately responsible for risk management and the effectiveness of the organisation's system of internal control. Generally, responsibility is discharged through the setting, and communication, of policy and direction prescribing an organisational approach to its risk and control environment.

Through this policy and its related reporting requirements, the board must satisfy itself that:

- significant risks faced by the organisations are being managed appropriately;
- any system of risk management and internal assurance within the organisation is robust enough to respond to changes in its business environment;
- the organisation and reporting structure will support the delivery of the policy on an ongoing basis; and
- the board receives the right information for it to adequately discuss and challenge on risk issues, their mitigation and the overall risk appetite of the organisation.

Many boards are finding that the level of oversight these requirements necessitate demands an executive forum for developing risk management in the organisation and for oversight and supervision of its implementation in compliance with the principles established.

Risk management committees are becoming increasingly important in the approach that organisations take to risk and assurance at a senior level. To operate effectively risk management committees need to be structured and tasked with the same level of care as audit and executive committees. A developed 'terms of reference' is a must, which, as a minimum, generally requires the committee to:

- develop risk strategy agreement by the board;
- interpret and summarise the outputs from the organisational risk identification and assessment activity;
- monitor emerging issues in the organisations risk and control environment; and
- act as a forum for sharing risk management knowledge, experience and best practice across the organisation.

A mistake that is often made in the composition of risk management committees is the limitation of membership to corporate functions, without any representation from the organisation's operational/executive management.

To drive accountability for the risks an organisation faces, the owners of those risks have to represent them at such a forum. In turn, corporate functions, in addition to their development of organisational policy and direction in their disciplines, are required to provide challenge on the adequacy of the assessments of risk provided by operational management.

Corporate oversight functions

When referring to the corporate functions tasked with the provision of direction and assurance on organisational risk and the control environment, focus naturally falls on corporate risk management and internal audit functions.

However, such a focus often fails to recognise the role that other functions play in these processes. All oversight functions are responsible for the development of policy, and the monitoring of its implementation, in their areas of responsibility.

For example, finance directors (FDs) design processes to meet the requirements of certain financial standards, champion their implementation and provide support to the business as this proceeds. Following this they will report to the board or its appropriate sub-committee that the processes are in place and operating effectively — internal assurance.

As this is replicated across all corporate oversight functions it is easy to understand why the right structure is needed to pull together the assurance that all this activity provides. Whilst we will proceed to detail how this activity is undertaken by the corporate risk management function, it is worth pausing to understand the responsibilities of all corporate functions in creating the right environment for risk management and the right procedures for providing assurance.

Enter the 'chief risk officer'

To date, risk management has, traditionally, been viewed as the responsibility of the FD, often due to the financial focus on risk prompted by risk financing strategies and insurance. Over recent years the focus of risk and assurance has shifted away from that of purely financial impact and has begun to better recognise the more intangible nature of risk.

The rising profile of risk management in recent years, compounded by the increasing burden placed on boards by stakeholders for effective, integrated risk management, and a recognition of the limitations of the fragmented approach detailed earlier, has led some organisations to refocus the risk management role away from the FD and sought to create a single senior corporate position for the enterprise-wide co-ordination of risk management and assurance orientated activity — that of the chief risk officer (CRO).

It is worth noting at this stage that, perhaps unsurprisingly, the term CRO was first coined in the US but it would be incorrect to view the position as lacking in translation. Many European organisations also have appointed an individual responsible for the integrated management of risk management and assurance activity. It is just that they are not called CROs — some are called 'director of risk and assurance' or 'corporate head of risk'. What links them all is their drawing together of previously fragmented approaches to risk and assurance and this principle is of far more importance than their titles.

With increased public reporting requirements emerging in the US it is vital that interest in the organisational positioning and promotion of risk management activity also increases. The CROs role provides a focal point for meeting this need and it is reasonable to expect that appointments of a corporate officer or director responsible for risk management and internal assurance at a senior organisational level will be-

"With increased public reporting requirements emerging in the US it is vital that interest in the organisational positioning and promotion of risk management activity also increases. The CROs role provides a focal point for meeting this need and it is reasonable to expect that appointments of a corporate officer or director responsible for risk management and internal assurance at a senior organisational level will become more widespread."

come more widespread.

So what exactly does the CROs role involve? Primarily he/she is responsible for developing and implementing an enterprise-wide strategy as agreed by the board, that encompasses all aspects of organisational risk. Generally they will work closely with the CEO, the board and its sub-committees (including the risk management committee where in place) to achieve an enterprise-wide perspective of risk and their associated controls, looking across all business units to anticipate all the risks that threaten the organisation.

Ultimately, the CROs role provides overall leadership, vision and direction for risk and assurance activity. The position can be seen to enable a truly enterprise-wide appreciation of risk across all operations and functions, key to this being liaison with other corporate functions as detailed above, and to facilitate an improvement in the quality of discussion on risk and assurance issues at the senior corporate level.

The role of the CRO is not necessarily that of technical specialist in the disciplines of risk management and assurance as, generally speaking, these technical specialisms would sit under the position in the form of heads of risk management, internal audit, insurance etc. What is important is that the person who is appointed to the CROs role is able to operate effectively at all levels of the business, is able to organise and motivate others and establish a continuous dialogue with senior executives, management and potentially external stakeholders.

Business operations

Lastly we turn our attention to the role of business operations in the effectiveness of organisational risk management and assurance structures. The business owns and manages risk on a day-to-day basis, is responsible for the implementation of corporate policy as developed by the participants already detailed and for the provision of assurance to the board, via the risk and assurance structure, that they have done so.

Ultimately all of the structure we have already detailed will be meaningless if the business's operations fail to be engaged in the risk and assurance process. It is here that risk management is reduced to its most basic and essential level — how employees regard and evaluate risk in their day-to-day activities. The management of business operations are themselves subject to legislation in such areas as health and safety but the focus and appreciation of risk should permeate the whole organisation and should ultimately form part of every employees role and responsibility.

Delivering performance

At this level, risk management is in essence a behaviour. Much has been written about the way we as individuals approach risks in our day-to-day lives and how, for nearly every decision we make, an assessment of the risks attached is undertaken often unconsciously. While it takes a different mode of thinking to undertake this process for the decisions we make on behalf of our employers, it is generally true that this also occurs.

However, the considerations which individuals give to the risks in their environment vary greatly — variations that may be unacceptable for organisations requiring a consistent and thorough approach at all levels. Naturally, there are exceptions to this observation as certain roles carry with them the need to take more or less risk to be successful in both an individual and organisational sense. For example, the role of a salesman compared to that of an employee responsible for maintaining a key item of production machinery. But generally successful interpretation and implementation of organisational risk management strategy relies on a common understanding of the level of risk acceptable to the organisation.

As a result some organisations are focusing on how they can influence their employees approach to the risks they encounter from a behavioural perspective. Elements of such an approach may include training programmes for new joiners and developing managers, and risk management as a defined organisational behaviour in management and executive appraisals.

Building accountability for risk needs to occur at all levels of an organisation to establish credibility. What is asked of employees at an operational level needs to be mirrored in the business-planning process undertaken at more senior management levels.

Rather than conduct the identification and assessment of risk as a discrete annual exercise, some organisations are now developing ways of better aligning their corporate risk assessment and business planning processes. Under this approach, risks are identified and assessed and used in the discussions to set targets that are both challenging and achievable.

Conclusion

It is understandable that some organisations may not be so focused on driving improved organisational performance through their risk management activities. However, for many, the current developments in corporate governance and related accountability may provide an incentive to review the effectiveness of the processes they have put in place to assess organisational risk.

Whilst compliance is clearly necessary, it increasingly makes sense to realise some greater return on your risk management investment for the benefit of the organisation and its stakeholders. Indeed as awareness of these concepts grows, so too does the level of stakeholder expectation. As organisations will no longer find it so easy to ignore these developments it may be worthwhile asking yourself the following questions about your own approach to risk and assurance:

- is the business clear on its risk management responsibilities? Where does accountability for risk and assurance currently lie?
- is our approach to risk management getting buy-in from across our organisation?
- how adequate is the quality of information (format, content, frequency) on risk and assurance received at board level?
- how well do we use risk management information as part of our decision making processes on a day-to-day decision making basis?
- how well integrated are our risk management and business strategies? and
- are we currently getting value for money (or any real value) from our risk management activity? AT

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COMPLIANCE EXPOSURES IN ERP Systems

by Ken Gorf

What's the Problem?

Major enterprises around the world rely on ERP systems for both operational purposes and financial reporting. In doing so, the ERP systems become an integral part of the corporate governance and legal compliance landscape.

Whilst most IT management attention seems to be on document retention, reporting quality, and security, there are much broader issues to be considered to ensure good governance and compliance with regulations. In particular, managements are required to demonstrate they have appropriate processes in place to support good value and risk management. In addition, auditors are now focused on verifying the processes that produce data in addition to the reported information itself.

Financial reporting across multinational enterprises must be consistent and comparable. In reality, this means that the ERP systems employed must be the same system, at the same release level, and be implemented in the same way.

ERP systems are significant investments with long-term impacts on major enterprises. Meta Group reckons that the cost of a 1,000 users system is £21.7 million each year based on a five-year average. For all these reasons the compliance of any ERP system must be a focus for the CEO and CFO, and not assigned to IT as a technology project.

A body of evidence is now available that points to serious issues with compliance in the way ERP systems are implemented by companies and their consultants. West Trax Applications, which provides analytical and diagnostic services for ERP system users, has undertaken some 300 benchmarks for over 60 enterprises across Europe in 2003-2005, and the results are disturbing.

- Not one organisation was using more than 50 per cent of the vendor software they were licensed and paying for. Software that is never used only adds to costs without contributing to ROI. Some transactions may not be needed by the specific enterprise or subsidiary, some may require modification while some may simply be overlooked. However, the sample shows that companies are paying a significant overhead for the software they are actually using. There is also the strong probability that they are missing valuable opportunities to optimise their systems and operations by not implementing available software that they are already paying for. Who is tasked within the enterprise to continuously review this untapped opportunity? IT? Finance?
- In most of the systems analysed, the proportion of ERP vendor transactions used was surprisingly low. More than half of the software actually used was custom code written by internal staff or external consultants. The ERP vendor software may be compliant, but not necessarily the total system. One of the key features of leading ERP systems is the integration between the various modules, enabling processes to easily span functions. This is both efficient and also provides a solid internal control structure — a key compliance requirement. Hence, compliance is weakened when software modules are not fully implemented and a process or transaction is interrupted or incomplete.
- Many of the custom programmes were seldom or never used. Unless deleted, these redundant programmes continue to incur support costs, over and above standard vendor maintenance charges.
- In the systems analysed, the annual costs associated with custom software ranged from circa £250,000 to over £2 million. In the enterprises benchmarked, ERP vendor maintenance costs (based on a fixed percentage of the licence fee) were more than twice the level justified simply because less than 50 per cent of the software was actually used.
- The interfaces between vendor code and custom code showed major internal control exposures. They may be poorly documented and lack audit approval. Cross-functional processes are rarely understood and monitored because IT organisations and skills are commonly focused on vertical applications e.g. manufacturing, finance, sales.
- The most revealing information from these benchmarks was that, in most cases, the CEO and CFO did not know they had a problem. The results came as a surprise, and the lack of previous visibility a serious concern, and a real compliance issue.

> "Most CFOs and CIOs think their organisations just have one version of the truth — held in ERP data files. Nothing could be further from the truth."
>
> **Martin Butler, Butler Group**

Whilst some ERP vendors are now offering software tools to tackle compliance issues, these can only apply to the vendor's own software. If the enterprise is not using 50 per cent of the vendor software, then these tools are a questionable investment. And, the custom built software is not included in the support, training and documentation provided by the ERP vendor, plus the original implementation team has moved on to other projects — another compliance exposure.

"What is possibly more surprising than this habit of customising more than half the application is the fact that in most instances the CFO knows nothing about it — revelling in the warm glow created by the certain knowledge that his or her organisation is using a standard set of processes and that this has done no harm at all to their CV. What is particularly worrying is that much of this custom code is undocumented and involves the use of private spreadsheets. Most CFOs and CIOs think their organisations just have one version of the truth — held in ERP data files. Nothing could be further from the truth.

All of this should be ringing alarm bells for those with any responsibility for compliance. Undocumented, multiple versions of the truth are exactly what the regulatory authorities are keen to unearth," says Martin Butler of the Butler Group.

There is an interesting aspect of compliance worthy of mention at this point, and this relates to companies that are involved in Mergers & Acquisitions (M&A) activity.

It is well known that different computer systems can impede or even prevent a successful M&A situation. But often companies proceed on the basis that they both "run the same ERP system". This may be so, and the systems may even be at the same vendor release level.

However, what if the two companies are running different transactions within the vendor system? What if they have written custom codes for completely different transactions? What if one has implemented a specific vendor module, but the other has chosen to use only a sub-set? Based on the West Trax data, this is the most likely situation. In which case, the two companies are running two completely incompatible ERP systems.

Do they know? Who can tell them?

Actions for Management Accountants

One of the most common reasons for these worrying results is the failure of organisations to conduct ongoing post-implementation reviews, to track realised benefits versus the original goals, and to do this throughout the life cycle of the ERP system. Evaluating the strategic benefits and legal compliance provided by ERP systems cannot be made on purely technical grounds. If the task of assessing attainment of these goals is delegated downwards within an organisation, the focus will be on tactical or technical measurements.

So, here are a few key questions for Management Accountants to ask their IT colleagues, with a request for objective answers based on real data, and in straightforward business language.

- What percentage of the ERP vendor software licensed is actually being used? What are the plans to optimise the current applications, or to conduct a cost/benefit analysis of lightly used modules?
- What percentage of the custom code is essential, what percentage can be replaced with vendor code, and what percentage is unused? What are the plans to delete the unused code before the next software release, or request for more server capacity?
- Which processes and transactions contain interfaces between vendor and custom code? Are they documented, and approved by Internal Audit?

The next step would be to use a combination of System Benchmarking and Activity Based Costing to express the problem in financial terms. First, all planned costs associated with the four system components (or "activities") would be established by using Zero Based Budgeting (ZBB) (Used Vendor Code, Unused Vendor Code, Used Custom Code, Unused Custom Code). The process would then be repeated to reveal and review the actual costs for appropriate time periods. A management analysis of activities not delivering targeted benefits would result in their elimination or revised targets and costs based on ZBB. This analysis process could also be employed when reviewing and approving new projects, software upgrades, server consolidations, and particularly outsourcing.

"Compliance exposures in ERP systems are a reality today, and a key responsibility of CEOs and CFOs. Technology is now available to identify problem areas and corrective action, and this is also an opportunity for Management Accountants to take the lead in tackling the problem."

If the ERP system is outsourced, or outsourcing is being considered, these questions should be in the outsourcing contract as essential components of system monitoring and the contractor's continuous improvement programme. Outsourcing does not remove the responsibility for compliance — it just makes the job more complex. Following a decision to outsource, then ZBB is also an effective tool in the process of re-establishing the in-house IT organisation. One of the critical new roles for IT and Finance together is conducting ongoing post-implementation reviews — benchmarking at quarterly intervals would make this an objective exercise, based on real system data. These reviews can also be the forum for developing system efficiencies and, hence, driving down outsourcing contractor fees.

The final area for consideration in this article concerns the internal control exposures created by over-dependence on custom code — issues like documentation, training, and skill retention have a direct impact; but also the interfaces within and between custom applications and vendor software are fraught with dangers. To identify and tackle these exposures requires accurate benchmarking data throughout the various layers of the system, and across the vertical or functional applications.

Two actions are required — first, to scope and tackle the problems with existing systems which requires the co-operation of IT, Management Accounting and Internal Audit; second, to establish the management process for the review and approval of all future proposals to implement custom code rather than vendor code in new systems or modules.

Compliance exposures in ERP systems are a reality today, and a key responsibility of CEOs and CFOs. Technology is now available to identify problem areas and corrective action, and this is also an opportunity for Management Accountants to take the lead in tackling the problem. AT

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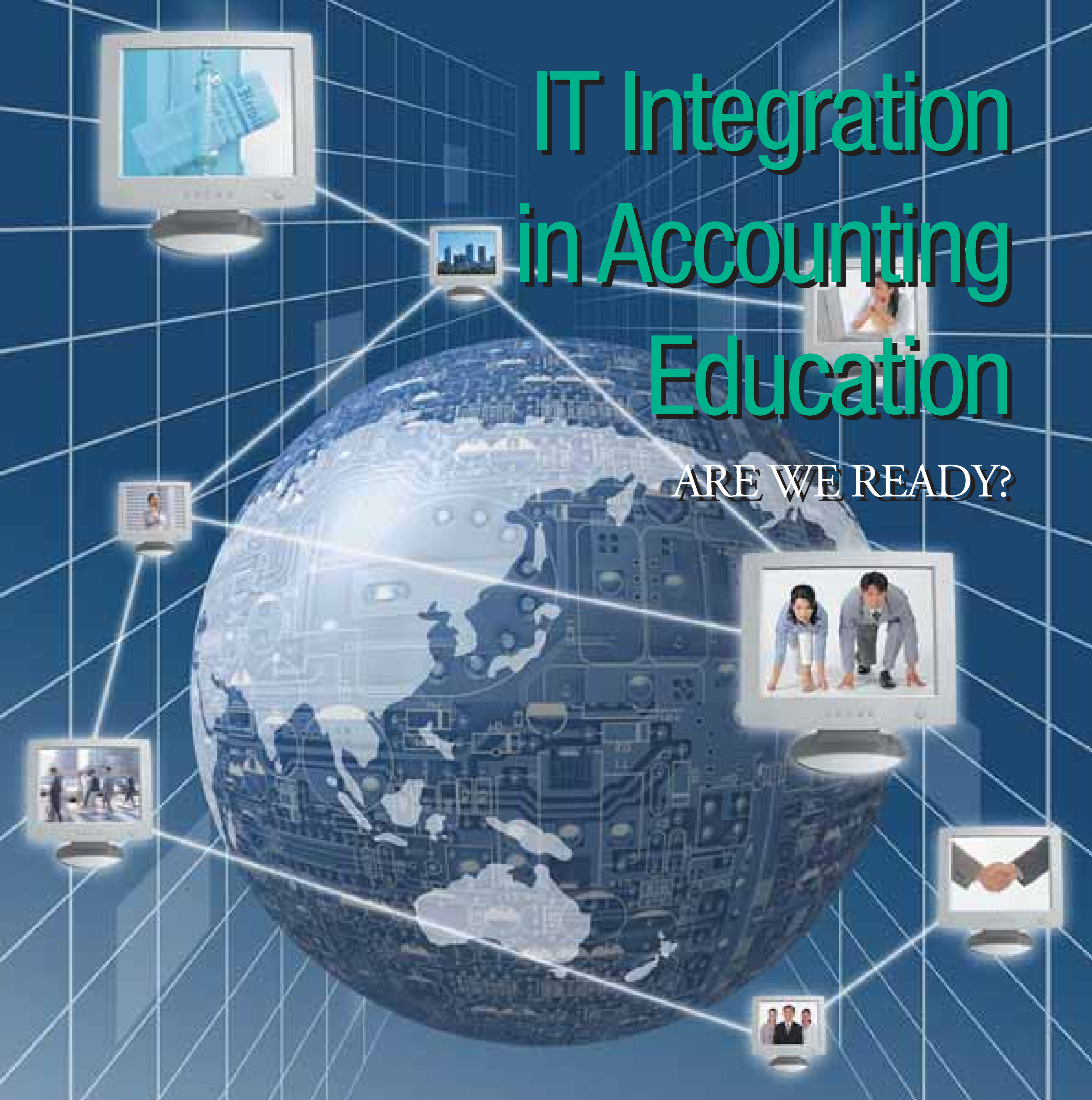

IT Integration in Accounting Education

ARE WE READY?

by Dr. Noor Azizi Ismail, Dr. Mahamad Tayib and Basariah Salim

In today's IT environment, the increasing number of nations that are moving to ICT gadgets has created an urgent need for the international accounting profession to enhance its IT knowledge and skills. Even though the IT know-how is already in the International Federation of Accountants' (IFAC) main agenda, the extent to which these agendas have been implemented and the response from the accounting professional providers remain an issue.

One of the main objectives of accounting education at the university level is to expose students for positions as professional accountants. In the past, accounting programmes were merely judged by students' technical abilities nurtured by the curriculum, namely by way of financial accounting recording processes, management accounting techniques, tax rules, and audit procedures (Boritz, 1999). The advancement of IT over the last two decades has created many new challenges and opportunities for the accounting profession, hence of accounting education (Elliot, 1992). IT is fast changing the way in which organisations operate, the nature and economies of accounting activities, and the competitive environment in which accountants participate (IFAC, 2003). Therefore, IT can no longer be considered a discipline peripheral to accounting. Rather, the accounting profession needs to merge and develop with IT to such an extent that one can hardly conceive of accounting independent from IT.

In recognition of the importance of IT in accounting education, IFAC issued the International Education Standards and Guidelines to ascertain essential elements (e.g., subject matter, methods and techniques) that education and development programmes are expected to contain and that have the potential for international recognition, acceptance and application. The issuance of the International Education Guidelines 11 (IEG11), for example, is to observe the type of IT knowledge to be integrated into the curriculum. This guideline has established a framework for organising IT-oriented education for professional accountants and the core areas of knowledge and skill to be covered.

Whilst many past studies focused on the type and extent of IT knowledge and skills to be integrated into the accounting curriculum, the introduction of the IFAC International Education Standards and Guidelines for Professional Accountants have shifted the research emphasis to the factors that contribute to the success of IT integration into the accounting curriculum. Several studies have suggested the lack of IT knowledge and skills being integrated into the accounting curriculum. Among the inhibiting factors are shortage of IT background instructors, computing facilities for students, financial resources required to keep those facilities up to date and insufficient technical support staff.

This paper investigates the perceptions of accounting academicians toward the issue of IT integration into the accounting curriculum in the specific context of Malaysian Institutions of Higher Learning. Findings from this study will provide some insights into the readiness of accounting programmes offered by Malaysian Institutions of Higher Learning facing the challenges of the information age. By understanding their perceptions toward the issue, it will help the policymakers and the administrators plan and co-ordinate the IT implementation and allocation of resources for them to move forward with technology-based approaches in terms of teaching and the learning environment.

Method

A mail questionnaire was used to gather data. Letters, together with the questionnaire and a self-addressed envelope were sent out to 220 accounting academicians of nine Public and Private Institutions of Higher Learning offering accounting degree programmes in Malaysia. Seventy-six usable questionnaires were eventually returned representing a 35 per cent response rate. The questionnaire was divided into two major sections. The first section of the questionnaire focused on the general background of the respondents: academic background; teaching and research specialisation; years of teaching experience; work experience in information systems; age; and gender. The second section of the questionnaire was designed to elicit respondents' perceptions toward: hardware and software adequacy; updated software and services satisfaction; training sufficiency and priority; appreciation and support from head of department, colleagues and students; staff commitment; IT integration; and difficulties in learning and teaching IT-related courses.

Results

Preliminary analysis of the sample showed that 83 per cent of the respondents were from Public Institutions of Higher Learning and 17 per cent were from Private Institutions of Higher Learning. In terms of academic rank, 15 per cent of the respondents were either professors or associate professors, and 85 per cent were either assistant professors or lecturers. Eighteen per cent of the respondents held a PhD, 75 per cent a Masters degree, and about seven per cent possessed professional qualifications. About 45 per cent of the respondents obtained their highest degree from overseas, whilst 54 per cent of the respondents reported that they received a formal accounting and information systems (AIS) education and training, 72 per cent of them did not have any AIS work-related experience. Almost 60 per cent of the respondents had teaching experience of more than five years.

Are We Ready?

Table 1 shows the results of the perceptions of accounting academicians toward the issue of IT integration into the accounting curriculum. These variables were measured using a five-point scale from 1 (strongly disagree) to 4 (strongly agree), and 0 (no opinion). To simplify the following description, the responses for point '1' and point '2' of the scale are treated as one category called 'agree'. Similarly, point '3' and point '4' are treated as one category called 'disagree'. The point '0' is labelled the 'no opinion' category.

Hardware and Software Adequacy

The majority (82 per cent) of the respondents agree that the number of personal computers for staff to acquire IT skills are adequate. However, the study received a mixed opinion on whether the number of personal computers for students to acquire IT skills are adequate. Fifty-five percent of the respondents agree while about 40 per cent disagree with the statement. Meanwhile, about half of the respondents agree that application software required to integrate IT in accounting are adequate, 40 per cent disagree, while nine per cent of the respondents have no opinion to the statement. Results indicate that hardware facilities for staff to acquire IT skills are adequate in most Malaysian Institutions of Higher Learning. Therefore, consideration should be given to the issue of hardware

facilities for students and adequacy of application software based on the mixed opinion of the respondents.

Software Update and Services Satisfaction

Nearly 50 per cent of the respondents agree that application software required to integrate IT in accounting are updated. Results also depict that 58 per cent of respondents agree that network services are satisfactory, whilst 38 per cent of the respondents show their dissatisfaction. About 52 per cent of respondents agree that the support for computing services from technical staff is satisfactory, 41 per cent of them disagree and 7 per cent do not have any opinion. These results indicate that only about half of the respondents agree with the application software updates, network services and support for computing services, and hence more efforts need to be done by Malaysian Institutions of Higher Learning to further upgrade their computing facilities.

Table 1 Frequency Distribution (%)

	Agree	Disagree	No Opinion
Adequacy of Hardware and Software			
a. Hardware facilities, i.e. number of PCs for staff to acquire IT skills are adequate	82	17	1
b. Hardware facilities, i.e. number of PCs for students to acquire IT skills are adequate	41	55	4
c. Application software required to integrate IT in accounting are adequate	51	40	9
Software Updated and Services Satisfactory			
a. Application software required to integrate IT in accounting are updated	49	37	14
b. Network services are satisfactory	58	38	4
c. Support for computing services from technical staff is satisfactory	52	41	7
Sufficiency and Priority of Training			
a. Training for staff to acquire knowledge and skills in IT are sufficient	38	61	1
b. Training in accounting and IT/IS is always given a higher priority than other areas of accounting	39	52	9
Appreciation and Support			
a. Appreciated by head of department	88	8	4
b. Fully supported by head of department	87	9	4
c. Appreciated by colleagues	76	18	6
d. Fully supported by colleagues	71	21	8
e. Appreciated by students	74	10	16
f. Fully supported by students	69	17	14
Importance and Apprehensiveness to Learn IT			
a. Accounting academicians know the importance of IT in accounting	92	7	1
b. IT knowledge/skills is crucial for the enhancement of accounting profession	91	8	1
c. Accounting academicians are apprehensive to learn the IT skills	66	29	5
IT integration			
a. The extent of IT knowledge/skills currently integrated in accounting curriculum are sufficient	47	45	8
b. IT knowledge/skills should be integrated into all major areas of accounting	87	10	3
c. IT knowledge/skills should only be taught in Accounting and Information Systems subjects	13	84	3
Difficulties in Learning and Teaching IT			
a. IT knowledge/skills is very difficult to learn	9	90	1
b. IT knowledge/skills is very difficult to teach	18	75	7

Training Sufficiency and Priority

In terms of training sufficiency and priority, the results show that only 38 per cent of the respondents agree with the statement that training for staff to acquire knowledge and skills in IT are sufficient, whilst 61 per cent of the respondents disagree. Fifty-two per cent of the respondents also disagree with the statement that training in accounting and IT/IS is always given a higher priority than other areas of accounting. The results suggest that training for staff to acquire IT knowledge and skills is still insufficient in Malaysian Institutions of Higher Learning.

Appreciation and Support

The results show that a majority of the respondents agree that their efforts to integrate IT into the accounting curriculum were appreciated and supported by heads of department, colleagues and students.

Staff Commitment

In terms of staff commitment, the results show that 92 per cent of the respondents agree with the statement that accounting academicians know the importance of IT in accounting. Ninety-one percent of the respondents also agree that IT knowledge and skills is crucial for the enhancement of the accounting profession. However, 66 per cent of the respondents perceived that accounting academicians are a bit apprehensive about learning IT skills. This finding suggests that although a majority of respondents are aware of the importance of IT in accounting, some of them are still hesitant to learn and acquire IT knowledge and skills.

IT Integration

Nearly half of the respondents perceived that the extent of IT knowledge and skills currently integrated into the accounting curriculum are sufficient. When asked whether IT knowledge and skills should be integrated into all major areas of accounting, 87 per cent of the respondents agree with the statement. Only 13 per cent of the respondents felt that IT knowledge and skills should only be taught in AIS subjects. The result implies that the extent of IT knowledge and skills currently being

integrated into the accounting curriculum is insufficient. Furthermore, IT knowledge and skills should be integrated into all major areas of accounting and not merely the AIS course.

Difficulties in Learning and Teaching IT

Finally, *Table 1* shows the respondents' perception regarding the difficulties in learning and teaching IT knowledge and skills. Ninety per cent of the respondents felt that IT knowledge and skills is not very difficult to learn, whilst 75 per cent of respondents felt that IT knowledge and skills are not very difficult to teach. The results suggest that accounting academicians perceived that IT knowledge and skills are more difficult to teach than to acquire them.

Discussion

In this paper, we explored the perceptions of accounting academicians in Malaysia toward the issue of IT integration into the accounting curriculum. Various issues, which are believed to have influenced IT integration, were sought from the respondents.

The results relating to the issue of hardware and software adequacy suggest that hardware facilities for academic staff to acquire IT skills are adequate. However, emphasis should be given to the hardware facilities for students and adequacy of application software, as respondents seem to have differing opinions on these two issues. Malaysian Institutions of Higher Learning need to ensure that their students get the full benefits of IT integration into the curriculum. The students need sufficient computing facilities in all aspects of their year of study which will provide them with opportunities to explore, learn and use IT throughout their learning process.

The results also indicate that only half of the respondents are satisfied with software updates, network, and technical support. Hence, Malaysian Institutions of Higher Learning should place greater emphasis in this area of computing. These services are vital in the computing environment particularly when the networking trend is taking over the mode of communication and accessibility of information. Besides that, technical support staff are also crucial in assisting academic staff and students to acquire IT knowledge and skills.

> "… whilst a majority of accounting academicians feel that IT should be integrated into all major areas of accounting, many of them feel that the extent of IT knowledge and skills being integrated into the accounting curriculum is insufficient."

In terms of IT-related training, the results suggest that nearly two-thirds of the academic staff are not satisfied with the amount of training allocated to them. They also expressed their dissatisfaction toward the priority given to IT-related training compared to other areas of accounting. Hence, Malaysian Institutions of Higher Learning should allocate more funds to train their accounting staff with IT knowledge and skills. This issue is very important, as lack of training is one of the crucial factors inhibiting IT integration into the accounting curriculum.

A majority of accounting academicians agree that IT knowledge and skills should be integrated into all major areas of accounting, not just focusing on the AIS course. Most of them know the importance of IT and agree that IT knowledge and skills are crucial for the enhancement of the accounting profession. However, the results suggest that the extent of IT knowledge and skills currently being integrated into the accounting curriculum are insufficient. Ideally, IT knowledge and skills development should be integrated into all major areas of accounting education, i.e. financial and management accounting, auditing and taxation. However, this would require concerted efforts from all individuals in all areas of accounting, not just on the shoulders of a small group of AIS academicians. About two-thirds of the accounting academicians perceived that their colleagues are anxious to learn IT skills. Furthermore, many of them felt that IT knowledge and skills are more difficult to teach than to learn. Lack of training as discussed in the preceding paragraph might contribute to this situation. Hence, Malaysian Institutions of Higher Learning should take every effort necessary to train all accounting academicians with sufficient IT knowledge and skills.

Results show that the accounting academicians felt that they received full support and appreciation toward their efforts to integrate IT into the accounting curriculum from their head of department and colleagues. This positive attitude toward integrating IT into accounting education should be shared by all parties, including the Malaysian Institute of Accountants (MIA) as a regulatory body, the Malaysian Institute of Certified Public Accountants (MICPA) as a professional body, and accounting professionals.

Summary

This study provided evidence of the readiness of accounting programmes offered by Malaysian Institutions of Higher Learning to face the challenges of the information age. The results showed that most accounting academicians in Malaysian are satisfied with the hardware facilities, support and appreciation received from their heads of department and colleagues. Many of them recognise the importance of IT knowledge and skills in enhancing the future of the accounting profession. However, they also showed their dissatisfaction on several technical aspects such as adequacy of application software, network services, technical support, and allocation of IT-related training. Furthermore, whilst a majority of accounting academicians feel that IT should be integrated into all major areas of accounting, many of them feel that the extent of IT knowledge and skills being integrated into the accounting curriculum is insufficient. The findings should stimulate a more rigorous study to examine the extent, mode and quality of IT integration into the accounting curriculum, and encourage researchers to examine the factors that could influence the integration process. AT

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INSPECTING THE Companies Act

By the CLRC Secretariat, Companies Commission of Malaysia

In its review of the Companies Act 1965, the Corporate Law Reform Committee has published the first set of recommendations for public feedback

The Companies Act 1965, affecting all registered companies, is undergoing some intense review. The Corporate Law Reform Committee (CLRC) has gone to some extent in examining the regulation. In the process, the committee has made some major recommendations.

In its first set of recommendations, it has proposed two major changes:

1. Abolishing the need to issue shares with par/nominal value and the need to register a company limited by shares with an authorised share capital clause; and
2. Simplifying and streamlining other provisions of general application that are applicable to shares.

The CLRC consultation paper, released recently for public scrutiny, provides reasons for the CLRC's recommendations and addresses some of the concerns that the public may have in respect to the CLRC's recommendations.

Established by the Companies Commission of Malaysia to review the Companies Act 1965, CLRC's consultation paper focuses on the first stage of the review work.

The companies play an instrumental role in the day-to-day world of commerce. "One key reason as to why a registered company (hereinafter referred to as company) is the preferred business vehicle is the ability of the registered company to raise capital for its operational needs," wrote Peter Lee in a recent article entitled *Reviewing the traditional concepts that underlie the workings of capital raising*.

On its part, the CLRC, headed by Datuk K. C. Vohrah, has been guided by two key principles in its current review. They are simplifying company operations with the objective of reducing compliance cost; and promoting corporate governance.

With this in mind, the CLRC has proposed to abandon two key concepts that currently mould the rules regulating capital raising by companies. The CLRC believes that its proposal to do away with par or nominal value of shares will, in addition to simplifying company operations, also promote corporate governance.

"This is because, accounting will be simplified as 'share premium accounts' and 'capital redemption reserves' will be irrelevant. Hence, company accounting will become more transparent and easier to understand," says the report of the Working Group B chaired by lawyer Peter Lee Siew Choong.

Other members of the Working Group B are Datuk Loh Siew Cheang (lawyer), Selvarany Rasiah and Yew Yee Tee (Bursa Malaysia), Eric Kang Shew Meng (company secretarial practitioner), investment bankers Puspha Rajadurai and Lim Tiang Siew, Geetha Sivapathasundram (legal advisor), Dr. Nik Ramlah Nik Mahmood and Shanti Geoffrey (Securities Commission) and Andy Tan Chee Kiong (chartered accountant).

The report, entitled *Capital Maintenance Rules and Share Capital: Simplifying and Streamlining Provisions Applicable to Shares*, has proposed the following:

1. a company limited by shares shall no longer be required to state its authorised share capital in its memorandum;
2. all shares of a company as from the date of Conversion be deemed to be shares with no par value ('NPV'); and
3. the Conversion from a par value environment to an NPV environment is made mandatory for all companies as at and from the date of Conversion referred to, above.

Rationale

Why the changes? In its report, the CLRC is of the view that abandoning the proposed changes will simplify the workings of our company law so that conduct of business in Malaysia remains competitive. It will also simplify company operations by reducing compliance cost.

As a result, the proposal that a company limited by shares shall no longer be required to state its authorised share capital in its memorandum will result in companies being able to raise their share capital without having to comply with time consuming and costly procedures.

The consequences of the abandoning of par/nominal value of shares is best articulated in the statement made by the *New Zealand Law Commission* as set out in its *Report No 9* titled 'Company Law Reform and Restatement': "*We have concluded that no useful function is served by the par value concept. Moreover, it is arbitrary and misleading. Its abolishment would mean that financial accounts can be greatly simplified (share premium accounts and 'reserves' are concepts that will no longer be required).*"

Further, the CLRC is also of the view that abandoning the above two concepts would not be against the interest of shareholders and creditors. In addition, the committee is of the view that it will promote corporate governance by enhancing transparency of the company's financial accounts.

Advantages and concerns

In justifying the recommendations, the CLRC highlighted some of the advantages of an NPV environment. For one, it simplifies the workings of company law so as to ensure that company law facilitates businesses to be competitive and suitable to the needs in the 21st century and beyond. This is due to the fact that the company's accounts can be greatly simplified (share premium accounts and 'reserves' are concepts that will no longer be required).

On top of that, the change will also clarify the misleading perception that because of the authorised share capital and par value, the company will have reserves and be able to pay its debts to creditors.

The NPV regime will also enable the company to undertake capital raising exercises with greater flexibility. For example, the company may easily issue new shares without contravening the prohibition on issuing shares at a discount or even capitalise profit without having to issue new shares, which cannot be done in a par value environment.

However, the committee has noted some concerns with the introduction of an NPV environment. These include the issue of shares having no par or nominal value causing investors to be misled as the investors may be of the view that NPV shares have no value.

There is also the costs of promulgating changes to the law, the Listing Requirements of Bursa Malaysia, the creation of new accounting standards, as well as social costs of familiarising investors, businesses and companies.

"The CLRC, however, is of the view that these concerns can be addressed and the benefits of converting from a par value environment to an NPV environment outweigh its disincentives," the report advanced.

Conversion

As with any change, there will probably be a period of uncertainty. That is only to be expected. In the case of the transformation to the NPV regime, the committee has seen the need to institute a transition period.

"To ensure that there is a smooth transition from a par value environment to an NPV environment, a Conversion date will be set by the Minister in consultation with the business and professional community.

"Further, after the Conversion date, there will be a transitional period to enable companies to take all necessary steps to comply with the new law. Once again, this transitional period, will be set by the Minister in consultation with the business and professional community," the report says. AT

Excerpts

The following are some excerpts from the report:

The Conversion from a par value environment to an NPV environment shall entail the following consequences:

1. that all new shares issued as at and from the Conversion date shall be issued for an issue price that is to be determined by the board of directors;
2. that in the case of shares issued prior to the Conversion date the amount paid on the shares is the sum of all amounts paid to the company at any time for the shares (but not including premium);
3. that immediately on or after the Conversion date, any amount standing to the credit of the company's share premium account and capital redemption reserve becomes part of the company's contributed capital;
4. that as from the Conversion date, any amount standing to the credit of the company's share premium account prior to the Conversion date, shall be permitted during the transitional period only to be utilised for:
   (a) providing premium payable on the redemption of redeemable preference shares (RPS) issued before that date;
   (b) writing off preliminary expenses of the company incurred before that date; and
   (c) writing off expenses incurred, or commissions or brokerages paid or discounts allowed, on or before that date, for any duty, fee or tax payable on or in connection with any issue of the company's shares; and
5. that after the Conversion date, companies continue to be permitted to issue RPS but without having to maintain a capital redemption reserve and if the redemption of RPS is made out of available profits, the company be required to transfer the amount redeemed to the company's 'contributed capital' account.

The CLRC also recommends that companies in an NPV environment should be permitted to:

1. capitalise its profit without having to increase the number of shares owned by a shareholder i.e. without any issue of new shares to shareholders;
2. capitalise its profits coupled with the issue of new shares to shareholders; and
3. consolidate and subdivide NPV shares.

The CLRC further recommends:

1. the removal of the existing Section 59 of the Companies Act 1965;
2. introducing provisions that are designed to ensure that the shareholder's liability for the unpaid portion of shares under the existing par value share environment does not cease to exist after the Conversion date; and
3. introducing provisions that are designed to preserve the effect of existing contracts and other instruments that have been executed before the Conversion date which refers to par/nominal value of shares.

Accounting for Assets

AN IMPROVED REGIME

Financial Reporting Standards (FRSs) have undergone significant improvements to reflect the changing business environment and to enhance comparability of financial statements across borders. As of 31 July 2005, the Malaysian Accounting Standards Board (MASB) has approved 12 FRSs as part of its plans to issue at least 21 standards by the end of 2005.

This is the third in a series of articles intended to give the public a general understanding of the FRSs which are being released in 2005. In the previous articles[1], we looked at the timeline and the changes to the broad principles underlying financial statements brought about by four Financial Reporting Standards — FRS 101 *Presentation of Financial Statements*, FRS 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, FRS 110 *Events after the Balance Sheet Date* and FRS 1 *First-time Adoption of Financial Reporting Standards*.

In this article, we focus on three recently approved standards relating to accounting for assets, highlighting those changes that are most likely to impact the financial statements. In particular, this article looks at the following:

- FRS 102 *Inventories*
- FRS 116 *Property, Plant and Equipment*
- FRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

The first two standards on inventories and property, plant and equipment are improvements to existing FRSs to reflect changes undertaken by the International Accounting Standards Board (IASB), while FRS 5 is a new standard that also replaces MASB 28 *Discontinuing Operations*.

1 The articles appeared in the June and July issues of *Accountants Today*.

FRS 102: *Inventories*

MASB 2 *Inventories* was issued in July 1999. In January 2005, the name of the Standard was changed to FRS 102_{2004} as part of MASB's nomenclature change. In May 2005, a revised edition was issued as FRS 102 *Inventories* to supersede FRS 102_{2004}. One of the significant revisions is the prohibition of the last-in-first-out (LIFO) method as a cost formula.

Prohibition of the LIFO cost formula

The previous version of FRS 102 prescribed three methods of assigning the cost of inventories — the first-in-first-out method (FIFO), the weighted average cost formula, and LIFO.

The new FRS 102 now prohibits LIFO as a cost formula for the following reasons: firstly, to limit the choice of accounting treatment. Secondly, it is believed that the LIFO method is not a faithful representation of actual inventory flows since it treats the newest items of inventory as being sold first, and the remaining inventories are recognised as if they were the oldest. *(Compare paragraphs 26-27 of the old FRS 102 and paragraphs BC9-BC21 of the new FRS 102)*

Financing costs excluded from the cost of inventories

The new FRS 102 adds paragraphs to

clarify that when inventories are purchased with deferred settlement terms, the difference between the purchase price for normal credit terms and the amount paid is recognised as interest expense over the period of financing.
(See paragraphs 17-18 of the new FRS 102)

New disclosure requirements for inventories

The new FRS 102 requires disclosure of the amount of any write-downs recognised as an expense. This was not required previously. It eliminates the requirement to disclose the carrying amount of those inventories carried at net realisable value.

For an entity that measures its inventories at fair value less cost to sell, the Standard requires it to disclose the carrying amount of inventories.
(Compare paragraph 37 of the old FRS 102 and paragraph 36 of the new FRS 102)

"The new FRS 116 applies to property that is being constructed or developed for future use as an investment property but does not yet satisfy the definition of investment property in FRS 140 *Investment Property*."

FRS 116: *Property, Plant and Equipment*

MASB 15 *Property, Plant and Equipment* was issued in July 2000 and was renumbered FRS 116_{2004} in January 2005. In May 2005, the Board approved revisions to the Standard as part of the Improvements Project. Significant changes to the recognition and measurement principles of FRS 116 were made.

Scope clarification

The new FRS 116 clarifies that the standard does not apply to property, plant and equipment (PPE) that are held for sale.

Similarly, it now applies to property that is being constructed or developed for future use as an investment property but does not yet satisfy the definition of investment property in FRS 140 *Investment Property*.
(Compare paragraph 3 of the old and the new FRS 116 and see paragraph 5 of the new FRS 116)

Single set of recognition criteria for both initial and subsequent costs

The previous version of FRS 116 had two separate sets of recognition criteria for initial and subsequent costs. Subsequent costs were recognised as an asset when it was probable that future economic benefits that were more than the originally assessed standard of performance would flow to the entity. The old FRS 116 then went on to describe instances of when future economic benefits would or would not increase.

In the new FRS 116, the dichotomous recognition criteria are eliminated. Regardless of whether the cost of an item of PPE is incurred at initial recognition or subsequently, it is recognised as an asset if it meets the asset recognition criteria of probable future economic benefits and reliable measure of cost.
(Compare paragraphs 11-17 and 27-32 of the old FRS 116 and paragraphs 7-14 of the new FRS 116)

Asset exchange transactions

In the previous version of FRS 116, a distinction was made between an item of PPE exchanged for a dissimilar item and an item exchanged for a similar item. The previous rule stated that if the item was acquired in exchange for a dissimilar item, it would be measured at the fair value of the asset received, which is equivalent to the fair value of the asset given up, adjusted by the amount of any cash or cash equivalents transferred. If an asset was acquired in exchange for a similar item, the cost of the new asset is the carrying amount of the asset given up. In an exchange of similar assets, no gain or loss would be recognised.

The new FRS 116 no longer distinguishes between an exchange for a dissimilar asset and an exchange for a similar asset. Under the *Framework*, recognition of income is not dependant upon the dissimilarity of the assets exchanged. Thus, in the new FRS 116, all items of property, plant and equipment acquired in exchange for non-monetary assets or a combination of monetary and non-monetary assets should be measured at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable.

The new FRS 116 goes on to provide guidance on how to determine the existence of commercial substance, and how to determine if the fair value of an asset is reliably determined.
(Compare paragraphs 25-26, 75 of the old FRS 116 with paragraphs 24-26 and BC17-BC24 of the new FRS 116)

Measurement after recognition

In both the old and new FRS 116, an entity could either recognise an item of PPE at cost, or carry the item at a revalued amount. The new FRS 116 provides further guidance that an entity needs to ensure that the fair value of an asset can be measured reliably if it chooses to measure such asset using the revaluation model. Under the old FRS 116, the use of revalued amount did not depend on whether fair values were reliably measurable.

(Compare paragraphs 33-34 of the old FRS 116 with paragraphs 29-31 of the new FRS 116)

Change in definition of residual value in determining depreciable amount

The old FRS 116 did not specifiy whether the residual value was to be the amount expected to be received currently at the financial reporting date. The new FRS 116 changes the definition to make it clear that residual value is the amount an entity could receive for the asset currently if the asset were already old and worn as it will be when the entity expects to dispose of it.

(Compare paragraphs 10, 53 of the old FRS 116 with paragraphs 6, 51-54, BC28-BC29 of the new FRS 116)

Commencement and cessation of depreciation

The old FRS 116 did not specify when depreciation of an item began. It did, however, indicate that depreciation should cease when an item of PPE is retired from active use and held for disposal.

The new FRS 116 stipulates that depreciation of an item of PPE begins when it is available for use. Instead of ceasing depreciation when an item of PPE is 'retired from use', the new FRS 116 specifies to continue depreciating until the asset is deemed 'held for sale' under FRS 5, or until the asset is derecognised.

(Compare paragraph 77 of the old FRS 116 with paragraphs 55, BC30-BC32 of the new FRS 116)

Derecognition principles

The old FRS 116 required an item of PPE to be derecognised on disposal or when no future economic benefits are expected from its disposal. It did not, however, state how to determine the date of disposal. The new FRS 116 specifies that the date of disposal is determined by applying the criteria in FRS 118 *Revenue*.

The new FRS 116 explicitly states that any gains arising from derecognition shall not be classified as revenue. The old FRS 116 did not have this prescription.

(Compare paragraphs 73-75 of the old FRS 116 with paragraphs 67-70 of the new FRS 116)

FRS 5: *Non-current Assets Held for Sale and Discontinued Operations*

FRS 5 is a product of IASB's project to reduce differences with the US based Financial Accounting Standards Board

(FASB). In May 2005, MASB approved the adoption of FRS 5. It replaces FRS 135_{2004} *Discontinuing Operations*.

FRS 135_{2004} was a disclosure and presentation standard and did not have recognition and measurement principles. It prescribed the application of the principles of other FRSs to discontinuing operations. The new Standard, FRS 5, sets out requirements for classification, measurement and presentation for both non-current assets held for sale, and for discontinued operations in one document.

FRS 5 introduces the 'held for sale' concept. When an entity wishes to sell a non-current asset or a group of assets (referred to as a 'disposal group'), that asset or disposal group will be classified as 'held for sale' upon meeting certain criteria.

Such assets are to be measured at the lower of carrying amount and fair value less costs to sell, and presented separately from other assets in the balance sheet. Depreciation will cease while it is classified as held for sale because the entity is expected to recover the carrying amount through a sale, rather than through use.

With regards to discontinued operations, this standard classifies an operation as such on the date the operation meets the criteria to be classified as held for sale or when the entity has disposed of the operation. This differs from the previous provisions of FRS 135_{2004}, which focused on 'discontinuing' rather than 'discontinued' operations. An operation was classified as discontinuing at the earlier of (a) the entity entering into a binding sale agreement; and (b) the board of directors approving and announcing a formal disposal plan.

Under FRS 5, an entity would present the results of discontinued operations separately on the face of the income statement. AT

For more information, please contact Dr. Nordin Mohd Zain, Executive Director or e-mail *nordin@masb.org.my*.

Disclaimer: The views expressed in this article represent the views of the staff of the Malaysian Accounting Standards Board. They do not, in any way, represent the official views of the Malaysian Accounting Standards Board.
This article is intended for general education purposes only. It is not an exhaustive discussion of changes to the standards. Readers are advised to refer to the standards to fully understand all the changes made.

SPECIAL NOTICE

This space could be yours for RM200.00*

MIA members and the Institute's member firms may use this column to place general notices such as:

■ Moving (Change of Address) ■ Change of Firm's Name or Logo ■ Recruitment ■ Seeking Strategic Alliance OR Seeking Assistance Among Member Firms ■ Transfer of Technology/ Expertise/Know-How ■ General Announcements ■ Locating MIA Member(s)/Member Firms.

To place your notice or advertisment, please contact Hani of the Development and Promotion Department at +603-2279 9200 (ext. 324 or 146) or Fax: +603-2274 1783

*** TERMS AND CONDITIONS APPLY**

* Terms and conditions.

- Whilst every endeavour is made to publish suitable member firms' or members' advertisement in this special notice column on the requested month, it cannot be guaranteed.
- This advertising space is reserved for MIA member firms and MIA members. To be eligible to advertise in this special section, member firms or members must indicate their firm's or membership number. If the advertisement submission is incomplete or does not meet the submission requirements, the advertisement will be deemed invalid and excluded from the special column.
- The special advertisement assessment task force reserves the right to review, to hold over, to reject or to edit any advertisement(s) without prior notice to the advertiser and to publish the said advertisement(s).
- The Institute and the magazine shall not be responsible or liable for any claims, loss or damage whatsoever, resulting from or in connection with this advertisement.
- With immediate effect, these new terms and conditions supersede the earlier advertisement notice.
- The deadline for submission of notices or advertisements are on the 15th of each month.

19th Annual General Meeting

The Institute's 19th Annual General Meeting will be held on **Saturday, 24 September 2005 at 2.00 p.m.** at Ballroom A & B, **Hilton Kuala Lumpur**, 3 Jalan Stesen Sentral, 50470 Kuala Lumpur. The Provisional Notice of the 19th AGM has been circulated to members. Members can also download the 19th AGM papers including the Council's Guidelines on proposed Motions and the minutes of the 18th AGM from the Institute's website at *www.mia.org.my*. The important dates pertaining to the 19th AGM are as follows:

1. Close of nominations of candidates for election to the Council pursuant to Section 8(1)(g) of the Accountants Act 1967 on or before **5.30 p.m** on **19 August 2005**
2. Close of Motions on or before **5.30 p.m.** on **9 September 2005**
3. Lodgement of Proxies on or before **2.00 p.m.** on **22 September 2005**
4. Lodgement of Ballot papers (delivery or post) on or before **2.00 p.m.** on **23 September 2005**
5. Lodgement of Ballot papers at the AGM (in person) on or before **2.00 p.m.** on **24 September 2005** AT

Guidelines on Real Estate Investment Trusts or Property Trust Funds (REIT/PTF)

Please be informed that the Guidelines on Real Estate Investment Trusts or Property Trust Funds (REIT/PTF) is now available at the Inland Revenue Board's website at *www.hasilnet.org.my* under the heading of "Law & Regulations-Technical Guidelines". AT

Corporate Denial:

Confronting the World's Most Damaging Business Taboo

Author: Will Murray

Publisher: Capstone Publishing

Pages: 180

What do you do when ordinary becomes OK? This is one question posed very early in Corporate Denial.

Far too many companies are in denial about the fact that they have become very ordinary places to be. As a result they are unchallenging, uninspiring, ineffective and generally listless.

Corporate Denial helps companies of all sizes communicate and get to grips with the etiquette of inaction. It challenges the very spirit of how we think about our jobs and the organisations in which we work.

Author Will Murray, organisational coach and business relationship trouble-shooter, confronts what he believes to be the most damaging business taboo: the lifeless places organisations have become.

According to Murray's research, three quarters of organisations lack focus and motivation, waste resources due to contrasting goals and spread themselves too thinly.

However, as he claims, the majority of these companies are in denial about the fact they harbour these qualities. Drawing parallels with human mental health, he diagnoses firms that fail employees.

He highlights behaviour that successful organisations exhibit in order to avoid the pitfalls of corporate denial, through encouraging a clear sense of purpose, an energising focus and the development of solid internal and external relationships. Most importantly, organisations need to recruit the right people and nurture them, focusing more on individual temperament and personality than skills, which can be developed later.

Beginning with the Seven Sins of Denial, the book goes on to tackle issues like corporate stress, desire to amaze, corporate evolution and truth and reconciliation in business.

In the final chapter, the author takes you through what he calls relationship mapping: how to build amazingly successful relationships. AT

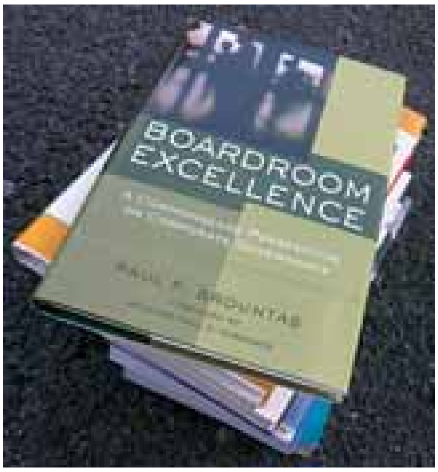
Boardroom Excellence

A Commonsense Perspective on Corporate Governance

Author: Paul P. Brountas

Publisher: Jossey-Bass

Pages: 160



Self-evaluation of the board of directors' performance is receiving increasingly wide acceptance. The notion is based on the belief that the directors themselves are in the best position to evaluate their performance.

Many corporate governance advisers recommend that the board conduct a self-evaluation of its performance every two years. The merits of this argument is one of the points discussed in recently published *Boardroom Excellence*.

Author Paul Brountas, a corporate attorney with more than 40 years experience, discusses the qualities and components of effective boards in today's post-Enron environment.

He begins by making an interesting note of how the widespread greed and dishonesty contaminating the corporate environment is a recent phenomenon. This has, naturally, led public cynicism replacing public trust and confidence in the current form of corporate governance.

Written in a concise format, the book is filled with informative practical advice for board members of private, public, and non-profit organisations.

Boardroom Excellence contains an informed discussion of fundamental corporate governance issues, including the duties and responsibilities of directors and the proper interaction of the board with the CEO and management.

Brountas reveals how board members can be most effective when they are independent, possess integrity, are well-informed and involved, and are proactive.

The book offers timely information about establishing the values and qualities that board members should possess and also developing an environment in the boardroom where scepticism and serious discussion are encouraged.

He also makes attempts to bring about the understanding of what the CEO expects of the board and what the board expects of the CEO. Then, there are also discussions about creating effective independent audit, compensation, nominating, and governance committees.

Another important aspect dealt in the book is formulating guidelines for periodic evaluation of the performance of the board and individual board members. AT

How to Balance Work Life and Home Life

by Arthur P. Grimshaw

Running your own home business is by no means easy. There are so many things around to distract you, and people who work outside of their homes don't have this same problem.

When you're first starting your business, it usually takes a pretty high priority in your life, and you may find yourself juggling your work life and your home life. Both can be managed successfully. It's all a matter of balance.

One of the most important parts of your home life is your child. Many people, especially moms, start a home business thinking they will be able to spend more time with their children, but this usually doesn't end up being the case. In a sense, working at home is the same as working outside of the home: its still work. You have a job to do; granted, you probably have more flexibility to do the work on your own time schedule. But you still have to get the work done. It's very important to dedicate special time to your kids. They may feel they are less important than this new business you are spending hours on, so remember to take some time off and spend quality time doing something that your kids want to do; go to the park or a museum. If you have to run business errands with your kids, try to limit the number of them and then go do something fun, such as get ice cream, as a reward for the kids for being good. You might want to consider paying your kids if they are old enough to do some simple jobs in your office, perhaps filing or keeping your pencils sharpened. Such situations will help make them feel more involved in your business and more important to you.

It's difficult trying to run a business when you are providing full-time care to a child of any age. Babies need constant supervision, diapers, food, snuggling, and playtime. Thankfully they also have naps, but a nap schedule can change at anytime so it isn't necessarily something you can always count on. Toddlers also need a great deal of supervision, and they need more entertainment than do babies. They also may not take naps, which may leave you with very few extended periods of time to work during the day. It's a little easier with school children if they are gone all day, but you still have volunteer work at their schools, car pools, and afternoon and evening activities. It's not that any of these are bad things, and in fact, running your home business is great because it allows you to be there for your children when they need these things. But work does have to be scheduled around these types of activities. Just remember that your kids are only young once; work will always be there but your children won't.

"… remember that your kids are only young once; work will always be there but your children won't."

At some point, you might want to consider your various child care options. Some people prefer a day care, where the child is out of the house and with other children, but this can get very costly. Others like to have someone come into the house for a few hours each day or week. This gives you a feeling of security in knowing your child is right there if he truly needs you, but it also gives you time and space to do your work. Another option is a babysitting co-op, where friends take turns babysitting for each other's children. This is nice because you will likely have a list of people to call for babysitting, but it also means you have to be available to babysit other children too at some point.

Your spouse is another person with whom you will have to find balance in your life. If your spouse is supportive and enthusiastic about your efforts, then that makes your life a little easier. However, if your spouse is resentful or uninterested, your job will likely be even harder. It's a good idea to sit down with your spouse before you start your business and discuss your plans. Let him know how much time you expect to have to spend at this venture and ask for his input on when he thinks is a good time for you to work. Perhaps you will agree to hire a sitter for a few hours a day, or perhaps you will watch the kids during the day and work after your husband comes home from his job.

Whatever the plan, it's important to respect your spouse by sticking with it. If you decide you will work from 9-5 and then you run to the office right after dinner to get back to work, don't wonder why your spouse gets annoyed. Sure, things come up that throw your plan off track, but it is very important to keep the lines of communication open at all times and keep your spouse informed of what you are doing. After all, that kind of respect is only fair and is probably how you would like to be treated.

Your friends may take a low priority when you start a new business, and they will probably have mixed feelings on that. Real friends will understand, but will also appreciate if you make the effort to keep in touch even when you are busy. After all, you wouldn't want to be dumped by your friends either. Take the time to send a quick note or e-mail, or call every so often to keep up with what's going on with your friends. They are part of your support system so treat them, as you would want to be treated.

It's all a matter of balance. Remember that even though you have started a new business and that part of your life is important, keep in mind that you do have a life outside of work. Remember the people in that life and be considerate and respectful of them. AT

Malaysian and Cambodian Accountants Sign Memorandum of Understanding (MoU)

Working together … MIA President, Datuk Dr. Abdul Samad Haji Alias (centre) with the MICPA President, Dato' Abdul Halim Mohyiddin (right) exchanging documents with the KICPAA President, Kak Key. Looking on are Malaysian Ambassador to Cambodia, H.E. Datin Paduka Dato' Melanie Leong Sook Lei (standing, 4th from right) and the Chairman of the Cambodian Accountancy Council, H.E. Ngi Tayi (standing, centre) with the rest of the officials from MIA, MICPA, KICPAA and the Cambodian Accountancy Council

The Malaysian Institute of Accountants (MIA), the Malaysian Institute of Certified Public Accountants (MICPA) and the Kampuchea Institute of Certified Public Accountants and Auditors (KICPAA) signed a Memorandum of Understanding (MoU) in Phnom Penh on 21 July 2005 which aims to enhance the mutual understanding of each other and promote the common development of the accountancy profession in their respective countries.

MIA President, Datuk Dr. Abdul Samad Haji Alias said during his speech that the MoU is a positive step forward for the accounting profession for both countries and another way to strengthen the relationship between the two nations.

Building rapport … Malaysian delegation with KICPAA President, Kak Key (2nd from right) and Vice-President, Rany Chung (3rd from right) and other officials from the Cambodian Accountancy Council

"As the region continues to vie and attract foreign direct investments particularly in the high technology and skills intensive areas, it is important for accountants to be equipped and made familiar with the rules and regulations on a global basis," said Datuk Dr. Abdul Samad.

He further added it is critical that the profession adopts a strategy towards learning and skills enhancement and the MoU should be viewed as a positive step in enhancing the socio-economic growth for both countries.

Meanwhile, the President of KICPAA, Kak Key, in his speech said that since the end of the Cambodian civil conflict, the rebuilding of its accountancy and auditing system has been an important step in developing its economy and attracting foreign direct investment to his country.

H.E. Ngi Tayi, the Chairman of the Cambodian Accountancy Council in his welcome address said that the MoU is the fruit of almost a year of amicable deliberations between the Malaysian and Cambodian accounting fraternity through the common desire of promoting bilateral cooperation for the benefit of common interest.

"I am confident that this cooperation will in the medium run help build-up the professional force in the accounting field and most importantly lay the foundation for the reliable financial information for all users and stakeholders when the Stock Exchange of Cambodia is slated to open in 2007."

The Malaysian Ambassador to Cambodia, H.E. Datin Paduka Dato' Melanie Leong Sook Lei, during her keynote address said that the signing of the MoU between MIA-MICPA and KICPAA is key in the overall strategy of increasing private sector presence in ASEAN's economic policy deliberations. She believes that the effort taken will provide stronger cooperation and networking between the Institutes.

Leong is confident that the MoU would help to substantially invigorate and strengthen the economies of ASEAN towards a single market of more than 500 million people via the ASEAN Economic Community (AEC). The AEC is a framework adopted by the Association of Southeast Asian Nations (ASEAN) leaders to liberalise and integrate the region's economies by 2020. Under this initiative, the ASEAN envisages a single market with a free flow of goods, capital, skilled labour and services. The framework is expected to boost trade, investment and tourism activities in the region.

The AEC is also well-received by the accounting fraternities in both countries as the move will enable accountants from Malaysia to freely work in Cambodia and vice versa. AT

Passing on the Torch

It has been four years since the Accountants Act 1967 (the Act) was amended in 2001 and since the first batch of appointed Council members took office. The term of office of nine members of the Council, first appointed on 16 July 2001 and renewed on 16 July 2003, came to an end on 15 July 2005.

The Council, Secretariat and members of the Institute would like to express our heartfelt appreciation and gratitude to the following outgoing Council Members for their invaluable contribution, dedication and commitment to the Institute and the accountancy profession in Malaysia:

1. Prof. Dr. Takiah Mohd Iskandar
2. Prof. Dr. Mohamad Ali Abdul Hamid
3. Prof. Madya Dr. Nafsiah Mohamed
4. Prof. Madya Dr. Noorhayati Mansor
5. Y. Bhg. Dato' Syed Amin Al-Jeffri
6. Mohd Nor Ahmad
7. Zahrah Abd. Wahab Fenner
8. Sudirman Masduki
9. Tuan Haji Muztaza Mohamad

The Institute is pleased to announce that the Minister of Finance II has, pursuant to section 8(2) of the Act, appointed prominent and suitably qualified members of the Institute to the Council with effect from 16 July 2005 under the following categories:

1 Section 8(1)(b) of the Act:

(a) Prof. Dato' Dr. Daing Mohd Nasir Daing Ibrahim
(b) Prof. Madya Dr. Shamsul Nahar Abdullah
(c) Prof. Madya Dr. Shahul Hameed Mohamed Ibrahim
(d) Prof. Dr. Ibrahim Kamal Abdul Rahman

2 Section 8(1)(f) of the Act:

(a) Tuan Haji Rosli Abdullah
(b) Tuan Haji Idris Yahaya
(c) Nik Mohd Hasyudeen Yusoff
(d) Alina Hashim
(e) Dzulkifli Ahmad

The Institute is also pleased to announce that the Minister of Finance II has renewed the appointments of Abdul Rahim Abdul Hamid and Y. Bhg. Datuk Khalid Ahmad for a further term of two years, with effect from 16 July 2005.

The Council, Secretariat and members welcome the incoming Council Members and look forward to a productive and fresh new phase for the Institute and the profession. We also hope that the outgoing Council Members will continue to contribute to the Institute and the profession in the years to come. AT

Roundtable Discussion on International Education Standards for Professional Accountants

The International Federation of Accountants' (IFAC) Education Committee has developed a set of International Education Standards for Professional Accountants i.e. IES 1-7 which takes effect from 1 January 2005. These standards prescribe the essential elements of education (including practical experience) to become a professional accountant, and the ongoing continuing education requirements once qualified as a professional accountant. The standards are designed to be of assistance primarily to IFAC member bodies, which are generally responsible for either establishing or implementing education standards and requirements at the national level.

With this new development, the Malaysian Institute of Accountants (MIA) organised a series of roundtable discussions on International Education Standards (IES) for Professional Accountants in a bid to provide a platform for exchange of views and ideas among interested stakeholders and policymakers in the context of aligning the Malaysian accountancy education system with globally accepted standards.

The first discussion was held on 10 June 2005 at the MIA Resource Centre, Kuala Lumpur. It consisted academicians from public institutions of higher learning. Datuk Dr. Abdul Samad Hj. Alias, MIA's President, Dato' Abdul Halim Mohyiddin, MICPA's President and members of the MIA Education Committee also participated in this half-day event.

In his welcoming speech, Datuk Dr. Abdul Samad said, "The standards provide an important framework for all those interested in ensuring the high quality performance of professional accountants, including statutory and regulatory authorities involved with accounting education."

The event continued with a presentation on *International Education Standards for Professional Accountants: the Role of the Public Institutions of Higher Learning*. The paper was jointly presented by Dr. S. Susela Devi, Associate Professor of Accounting at the Faculty of Business and Accountancy, University of Malaya and Dr. Takiah Mohd Iskandar, Professor of Accounting in the School of Accounting,

"The standards provide an important framework for all those interested in ensuring the high quality performance of professional accountants, including statutory and regulatory authorities involved with accounting education."
Datuk Dr. Abdul Samad
MIA President

"… local accounting graduates need to be aware of the challenges of globalisation and internationalisation initiatives in the accountancy sector."

Faculty of Economics and Business, Universiti Kebangsaan Malaysia.

In this presentation, they highlighted issues pertinent to the education system in Malaysia, which among others included the critical role played by the public universities in educating potential professional accountants. The presentation also identified gaps in the current accounting education process and issues faced by public universities as key accounting education providers. This was followed by a group discussion session, which addressed questions related to the issues presented earlier.

Based on the discussions held that day, it is believed that the Institute together with its stakeholders need to take proactive steps to ensure the curriculum at the universities remain relevant and meet the global standards for future accounting graduates. More importantly, local accounting graduates need to be aware of the challenges of globalisation and internationalisation initiatives in the accountancy sector.

Three other series of roundtable discussions were held for the following groups: members in Public Practice (23 June 2005), members in Commerce and Industry (14 July 2005) and members in Public Sector (15 August 2005). AT

MIA-MAREF Outstanding Research Paper Award (MORPA) 2005

"It is the first time that the two bodies are collaborating on a project of such nature in conjunction with the upcoming NAC 2005 on 22-23 November 2005 to give due recognition to accountancy research which is cutting-edge and relevant in improving accountancy practice."

In conjunction with the National Accountants Conference 2005 (NAC), the Malaysian Institute of Accountants (MIA) and the Malaysian Accountancy Research and Education Foundation (MAREF) will be presenting awards for outstanding research papers in the field of accountancy.

It is the first time that the two bodies are collaborating on a project of such nature in conjunction with the upcoming NAC 2005 on 22-23 November 2005 to give due recognition to accountancy research which is cutting-edge and relevant in improving accountancy practice.

Researchers are invited to submit their completed research papers to vie for the MIA-MAREF Outstanding Research Paper Award (MORPA) 2005 with cash prizes of RM3,000 for first place and RM2,000 and RM1,000 for second and third places respectively.

The first place winner will present his/her paper at the NAC on 23 November 2005. All winning papers will be published in *Accountants Today* and the *Malaysian Accounting Review* (accountancy research journal of University Teknologi MARA (UiTM)).

The competition is open to research done in Malaysia only and the research must be in the English language. Papers which have been previously published and presented at other conferences are acceptable.

The papers will be reviewed by a panel of judges made up of academicians and practitioners from the MAREF Research Board. The panel is chaired by Dr. Mohammad Adam Bakar, Deputy Rector of Legenda College.

The competition runs from 8 July 2005 until 12 August 2005. Application forms and guidelines for submissions can be downloaded from *www.maref.org.my/morpa.*

For further information, please contact the MORPA Secretariat at: 03-2274 9911 (Rahmawati), 03-2279 9264 (Chelsea), 03-2279 9338 (Tuttie) or email: *maref@ streamyx.com* AT

Qualifying Examination:

Improved Results

Except for one paper, candidates who sat for the MIA Qualifying Examination in March have shown improvement compared to the September 2004 sitting.

13 May 2005 was the much awaited date for candidates who sat for the MIA QE last March. For, that was when the results for all four papers — Business and Company Law, Taxation, Audit and Assurance Services, and, Advanced Financial Accounting and Reporting — were announced. Overall, there's a slight improvement compared to the September 2004 results but the examiners summed up the results in one sentence: "Very poor preparation for the examination."

This point is clearly demonstrated in the results for the Business and Company Law paper where out of the 120 candidates registered, only nine passed. The rest either failed (88) or were absent (23). In the Taxation paper three passed with distinction, 40 passed and 99 failed. Twenty were absent. The Audit and Assurance Services paper saw six candidates pass with distinction, 22 passed, 55 failed and 14 were absent. For the Advanced Financial Accounting and Reporting paper, only one candidate passed with distinction, 25 passed and 73 failed while 20 were absent.

The main reason cited for the candidates' dismal performance in the Business and Company Law paper was their lack of knowledge of the substantive law, rendering them unable to apply the law according to the context of the questions. The examiners also commented that the candidates made no reference at all to case laws or relevant sections of a particular statute.

The examiners also lamented the poor mastery of the English language among the candidates. This, they said, caused difficulty in understanding or grasping the complexity of the subject matter.

As for the Taxation paper, the examiners opined that performance of the candidates were better than in the previous examination but some failed to understand the subject matter, demonstrating their lack of knowledge and poor preparation for the examination.

Most candidates scored on question 2 that carried 30 marks in the Auditing and Assurance Services paper. However, answers for the other questions were disappointing and clearly reflected the lack of preparation and understanding of the subject matter among the candidates.

The last paper, Advanced Financial Accounting and Reporting, also showed the same trait among candidates, that is, lack of knowledge and poor preparation for the examination.

As the examination is an important tool for the candidates to gain recognition in Malaysia, it is therefore imperative for them to prepare themselves thoroughly and diligently. Also, there is a need for these future accountants to improve their mastery of the English language — not just to pass the QE but also to enhance their working skills. AT

Essay Competition on the theme: *The Role of Independent Directors in an Audit Committee within a Globalised Environment*

The Internal Audit Committee (IAC) of the Malaysian Institute of Accountants (MIA) will be holding an Essay Competition for the Year 2005.

Themed *The Role of Independent Directors in an Audit Committee within a Globalised Environment*, the competition is open to accounting students at bachelors, masters and professional levels of all Institutions of Higher Learning (IHLs), private colleges and student members of professional accountancy bodies.

The first prize winner will receive a cash prize of RM1,500, the second and third prize winners will receive RM1,250 and RM1,000 respectively. There will be five consolation cash prizes of RM250 each.

In addition, all winners will be given a one year free subscription of the Institute's magazine, *Accountants Today*. For essays of special merit, the author will be awarded a Certificate of Merit. The top 15 essays will also receive a copy of the *Malaysian Approved Standards on Auditing*.

Interested participants are requested to submit their essays in hardcopy and softcopy, using Microsoft Word 2000 format. The essays may be composed in either English or Bahasa Melayu. The deadline for submission is 30 September 2005. Participants are encouraged to submit as many entries as they wish.

Submission via e-mail is also acceptable. For further details, please visit the MIA website at *www.mia.org.my* or contact Maizatul Azura Alias/ Noor Azlina Abu Bakar at 03-2279 9200 or e-mail: *technical@mia.org.my*. AT

Member Donates 100 Books to MIA Library

Kong Voon Sin believes in sharing. That is the main reason why he donated 100 books to the Institute's library last month. "I sincerely hope that these books will benefit MIA members the same way that it benefited me," he said. "I have become a better person having read these books, and now I would like to pass it on to others so they can achieve the same as well."

With this gesture, he also hopes that others will come forward to do the same. The books, which are in excellent condition, were accumulated over the last six years while he was doing his doctoral studies, he told *Accountants Today*, after handing the books over to the Librarian, Kalsom Mat Akil. AT

Kong handing over the books to the Institute's Librarian, Kalsom Mat Akil

One for the album, committee members and media representatives

Lee Min On sharing his thoughts on corporate governance

Adelena Lestari Chong presenting a memento to Lee Min On

PENANG BRANCH

Fostering Closer Ties with the Media

The MIA Penang Branch led by Chairman, Fan Kah Seong and Vice-Chairperson, Adelena Lestari Chong hosted its maiden media luncheon for *The Star*, *Bernama* and Chinese dailies i.e. *Guang Ming, Kwong Wah* and *Nanyang* on 18 June 2005 at Shangri-La Hotel.

The event kicked off with a welcome address by Kah Seong. Besides elaborating on the role of MIA and the Forum on the Accountancy Profession with Penang as the next state to hold it, Kah Seong updated the media representatives on the MIA Penang Branch Committee's initiative to organise a charity dinner in November 2005. The charity dinner is to raise funds for the Handicapped Children's Centre to set up a speech therapy unit.

Besides fostering camaraderie, Lee Min On, Partner, KPMG provided food for thought in his presentation, *The Lighter Side of Corporate Governance*. He highlighted that among some misconceptions was the tendency for companies to believe that corporate governance with the application of some 33 best practices would guarantee profits. Min On emphasised that as far as profitability is concerned, the attribute of business acumen and the saying, *early bird catches the worms* hold true.

Among the media representatives present were Zuraida Abdul Rahman, Bureau Chief, *Bernama*; Nik Khusairi Nik Ibrahim, Journalist, *The Star*; Tan Eng Eam, President, Penang Press Club; Chan Yoke Yuan, Reporter, *Guang Ming*; Kh'ng Teng Hai, Columnist, *Kwong Wah*; and Lee Wai Tuck, Regional News Editor, *Nanyang*. Also playing hosts were MIA Honorary Secretary, Heah Theng Chye; Honorary Treasurer, Assoc. Prof. Hasnah Haji Haron; committee members, David Hor, Khor Boon Hong, Lee Theng Thoong, Ooi Kok Seng and Ooi Phaik Swee.

Speaker Dr. Chan Huan Chiang (3rd left) with Branch Chairman, Fan Kah Seong and participants

Evening Talk — *A Sharing of Experience and Views*

Dr. Chan Huan Chiang, Associate Professor at Universiti Sains Malaysia's Centre for Policy Research and economic consultant to the Socio-economic and Environmental Institute (SERI), presented a talk on the *Ringgit Peg* on 10 May 2005 at the MIA Penang Branch office. He shared and discussed his views on the various implications over the issue. The talk was attended by more than 40 participants.

The next evening talk has been scheduled for 5 September 2005. Mr Ken Lo with more than 10 years experience as financial adviser to clients from a wide spectrum of industries will share his expertise in his talk on *Business Succession Planning*. For details, please call Min Min at 04-229 4203.

SARAWAK BRANCH

Caring Miri

Miri Chapter committee members with teachers and pupils of SJK Chung Hua, Lutong at the handing over ceremony.

The Miri Chapter Committee and K2 Organising Chairman, Sim Yong Liang, raised RM7,500 under the *Accountants Care Too* annual project. The 10 donors were mainly from the chapter's committee with other generous Miri members. The contributed amount went to the purchase of school bags, books and stationaries as donations to 76 needy pupils of SJK Chung Hua, Lutong. This primary school was selected by the chapter because many of its pupils are from poor families.

SABAH BRANCH Sabah Branch attends open day of SOS

The MIA Sabah Branch committee members attended the Open Day of the Society for Sabah Heart Fund (SOS) on 13 June 2005 at the SOS Secretariat which was officiated by YB. Datuk Seri Panglima Hj. Yahya Hussein, Minister of Community Development & Consumer Affairs.

Several heart patients, especially children who had undergone surgery were introduced to all who participated in the Open Day ceremony. The President of SOS, Datuk Christine Tibok-Van Hounten said each patient would need about RM30,000 to undergo the surgeries at the National Heart Institute (IJN) and Gleneagles Medical Centre in Penang. Sabah Branch MIA has been generously supporting the SOS funds. AT

Branch Chairman, Alexandra Thien (4th from right) and the SOS President, Datuk Christine Tibok-Van Hounten (2nd from right) with heart patients at the Open Day Ceremony

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MAAA NEWS

Malaysian Association of Accounting Administrators ▼

MAAA holds its AGM

The President, Izhar Abd Kahar chairing the Adjourned 15th Annual General Meeting

On 25 July 2005, the Malaysian Association of Accounting Administrators held its Adjourned 15th Annual General Meeting at the Malaysian Institute of Accountants (MIA).

The President, Izhar Abd Kahar chaired the meeting. He updated the members present on the activities and progress of the Association during the past one year. In his speech, the President expressed the Council's optimism that the LAN Accreditation for its Diploma in Accounting (DIA) examination will be obtained within the year. The second urgent and important item concerning the resolution of the Amnesty Programme with MIA was also discussed at length. The on-going involvement of the Association in developing the National Occupational Skills Standard (NOSS) on Accounting for the National Vocational Training Council under the auspices of the Ministry of Human Resources Malaysia, will continue to be a top priority of the Association in this year's calendar. AT

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 (2005)

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

Lim Thiam Kee; Prof. Dr. Mohamad Ali bin Abdul Hamid; Mohd Sarif bin Ibrahim

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

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Secretariat Office

Malaysian Association of Accounting Administrators
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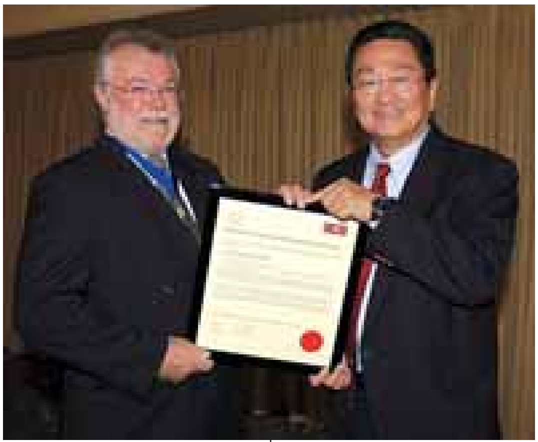
Brickfields, 50470 Kuala Lumpur
Tel : 03-2279 9200 Fax : 03-2274 1783
e-mail : maaa@mia.org.my

Chartered Institute of Management Accountants ▼

Institute Silver Medallist



Lim receiving the award from Professor Roland Kaye

In the history of CIMA Malaysia, with humble beginnings in the 1970s, the second person to be awarded an Institute medal is Mr. E. S. Lim, FCMA. The first was YM Raja Dato' Seri Abdul Aziz bin Abdul Salim, FCMA, the Founder President of the Division, who was awarded the Gold Medal in 1986.

Lim is a familiar face among the accounting fraternity in Malaysia. An award truly deserved, Lim received the Institute's Silver Medal on 11 June 2005 at the Institute's Annual General Meeting held at the Café Royal in London.

Lim paid tribute to several people on the recognition accorded to him. He said, "I must say that this award is the result of the cooperation, support and assistance given by the past and present Council Members and staff whom I had worked with in Malaysia, UK and internationally. And also to those including my family who believed, trusted and let me serve CIMA in the last 20 years. I will always be sentimental about CIMA and I promise to promote it in the journey of my life."

The Institute's Silver Medal is only awarded exceptionally to members who have given outstanding service to the Institute. It is recognition, beyond the holding of an office at Divisional, Area or Branch level, to those who have served the Institute with distinction in a number and range of capacities.

Lim's first involvement with CIMA was in 1984 and since then, he has served the Institute with passion and dedication until his retirement in June 2004. He is the driving force behind the many milestones in the development of the Malaysia Division. In 1990, he was the Honorary Secretary of CIMA Malaysia Division. In 1992, he became its Vice-President and was subsequently elected as the Division's second President in 1993. During his presidency up to 1996, the Division saw substantial growth in membership and student recruitment. The Divisional staff grew from a fledgling staff of two to a full team, taking on the responsibilities of marketing the CIMA qualification and giving support to members and students at a greater level. He played an active role in the Malaysian Institute of Accountants (MIA) and was instrumental for CIMA's greater representation in the regulatory body. He is currently serving in the MIA Public Practice Committee and the Accounting & Audit Committee, positions he has held since 2000.

On the international front, Lim was elected as the Institute's Council Member from Malaysia Division in 1996. In 1998 he was elected from Area 16 (South-East Asia), which includes the Malaysia Division, and he served until June 2004. During this time, he also served in various committees, including the International Committee and Student Development Committee.

He is currently practising under E S Lim & Co, Chartered Accountants, and is an independent non-executive director on the Board of two companies listed on Bursa Malaysia. AT

In memory

It was not until Monday, 25 July 2005, that the Institute learned about the sudden demise of Lim Eng Seng. His contributions in promoting and developing the accounting profession in the country will always be remembered by us. Our condolences and sympathy.

CIMA awarded Superbrand status

"A Business Superbrand has established the finest reputation in its field and offers customers emotional and/or tangible advantages over competitors, which customers want, recognise, and are confident about investing in."

The Superbrand organisation operates within 36 countries, promoting and paying tribute to exceptional brands that offer customers distinct advantages over their competitors' offerings. CIMA has been awarded special status as one of Britain's business-to-business brands. Out of a shortlist drawn from tens of thousands of brands by an independent authority, CIMA is the only professional accounting body to achieve this standing.

According to Angela Pumphrey, Managing Editor of *Business Superbrands*, the Business Superbrands Council, made up of eminent figures from the world of branding, used a shortlist of over 1,000 brands. They were tasked with identifying the strongest based on their personal perceptions of the brands strength and quality in the market. When scoring, they kept the following definition in mind: "A Business Superbrand has established the finest reputation in its field and offers customers emotional and/or tangible advantages over competitors, which (consciously or sub-consciously) customers want, recognise, and are confident about investing in. Business Superbrands are targeted at businesses and organisations (although not exclusively so)."

CIMA is mentioned in the publication, *Business Superbrands*, which gives an insight into over 80 of Britain's strongest business to business brands in 2005. The publication explores the history, development and achievements of these brands, providing a precious insight into their branding strategy and the resulting work. AT

Enron's Whistleblower speaks on *Integrity and its Value to Businesses*

Make a date with Lynn Brewer on 6 September 2005. Brewer is a dynamic speaker and has captivated audiences worldwide, including India, Venezuela, Canada and at the New York Stock Exchange. In 2003 she was nominated for the 'Women of Influence' award. In Malaysia, she will present a half-day morning programme on *The Value of Integrity: Understanding the Hidden Value of Business Intangibles*.

A former executive of Enron, Brewer is currently the President of the Integrity Institute Inc., US, which independently assesses and certifies corporate integrity at the request of organisations for the benefit of their stakeholders. She is the author of *Confessions of an Enron Executive: A Whistleblower's Story*. In her nearly three years at Enron, she was responsible for Risk Management in Energy Operations, the e-commerce initiatives for Enron's water subsidiary, and Competitive Intelligence for Enron Broadband Services.

In Brewer's programme in Malaysia, you can expect a dramatic and compelling look inside Enron, the company that has become the poster-child for corporate corruption. This includes bank fraud, espionage, power price manipulation and blatant overstatements to the media and financial world.

Special seminar rates apply for MIA members. Please contact CIMA Malaysia Division for more details. Tel: 03-7803 5242/5268 Fax: 03-7805 1594 e-mail: *kualalumpur@cimaglobal.com*. AT

Lynn Brewer

Condolences

The President, Council Members, Members and Secretariat Staff of the Malaysian Institute of Accountants share the sad loss of, and extend condolences to

Mrs Katherine Lim & family

Upon the passing away of

Lim Eng Seng

on Sunday, 24 July 2005

From

Malaysian Institute of Accountants

CPA Australia ▼

CPA Australia Launches e-CPD

CPA members try the e-CPD during the launch

A new study pathway featuring a comprehensive range of training courses ranging from Microsoft office to management and business development was recently launched.

The e-CPD, or Continuing Professional Development courses online, is sourced from leaders in the e-learning field and is delivered via one of the most advanced e-learning technologies available today. The e-CPD allows the flexibility of gaining training in a wide range of topics via the IBM Virtual Campus. As an added bonus, all e-CPD courses have been approved to attain between two to six CPD hours, allowing the applicant to comply with CPA Australia's CPD requirements.

Training on e-CPD is easy — all you need is internet access to stay ahead in your continuing development programme. Another attractive point is the special rates for CPA Australia members. The e-CPD is designed to be flexible, convenient, private and self-paced. It is not only a primary learning source but also a refresher or support tool.

For more information about e-CPD, please visit *http://virtualcampus.learningspace.com.au/ibmap/cpaap* AT

Celebrating 50 years membership with CPA Australia

Chiu Tze Ming (left) receiving his token of appreciation from Margaret Chin

CPA members Tan Kok Kee, Chiu Tze Ming and Khong Kit Thong share one common connection. They have been loyal members of CPA Australia for 50 years. In thanking them and celebrating their long-standing membership with CPA Australia, they were each presented a memento recently. At 78, Khong Kit Thong is one of the oldest CPA members in Malaysia. He joined CPA Australia as a member in 1955. Khong received his memento from fellow CPA member and the Sunway Group chairman, Tan Sri Dr. Jeffrey Cheah who was guest of honour at the recent Award and Certificate Presentation ceremony. Also receiving his memento that night was 76 year old Tan Kok Kee, a member since 1954. At a luncheon to celebrate senior members, Chiu Tze Ming was presented his 50 years membership memento by CPA Australia Malaysian Branch President, Margaret Chin. Chiu, 74, has been a member since 1955. AT

Khong Kit Thong (right) with Tan Sri Dr. Jeffrey Cheah

Tan Kok Kee (right) grins in appreciation as he receives his memento

Institute of Chartered Accountants in England and Wales ▼

Highlights of the ICAEW Annual Conference — *Available Online*

In recognition of this year's unique 125th anniversary programme to encourage debate in world markets, highlights from the ICAEW Annual Conference held recently in London are now available as an online webcast. You can watch and listen to the presentations delivered by a range of leading international speakers at your desktop, wherever you are in the world.

Featured speakers include Barry Gardiner MP, Minister for Competitiveness, UK Department of Trade and Industry, focusing on UK competitiveness in a global market and the key economic drivers. Wang Jun, Assistant Minister of Finance of China, provided an overview of China's accounting and auditing standards and the role of the accountancy profession in supporting economic development and international trade in China.

A Financial Directors' panel session was delivered by Neil Wood, FD of the London Olympic Bid Committee, Zoe Tyndall, FD of the restaurant chain Yo! Sushi and Ken Lever, FD of Tomkins plc.

The need for exacting standards of corporate governance and financial reporting was discussed by a panel comprising Christine Farnish, Chief Executive of the National Association of Pension Funds (NAPF), Sir Derek Higgs, Senior Advisor, at the Union Bank of Switzerland (UBS), and Stephen Hadrill, Chief Executive of the Association of British Insurers (ABI).

Graham Ward, President of the International Federation of Accountants (IFAC), focused on the future of the profession.

To see a selection of these speakers as well as others featured on the programme, go to *www.icaew.co.uk/125.* AT

The Malaysian Institute of Taxation ▼

"Repositioning MIT"

The newly appointed Council of the Malaysian Institute of Taxation successfully concluded a brainstorming session on 25 June 2005 at Saujana Resort, Subang with the guidance and assistance of facilitator, Mohd Azmi Abdullah.

This session was named as "Repositioning MIT" in line with the objective of the session which is to draft a strategic plan with a new mission statement. It was crucial for the Council to undergo such a session in view of the rapid changes in the tax environment in Malaysia. As a result of this session, the Institute identified new strategic objectives and priorities and formulated relevant action plans to weather the arising challenges and the changing environment.

At the end of the day, the Council developed the following as the new mission statement of the Institute:

MIT MISSION STATEMENT

To be the premier body providing effective institutional support to members and promoting convergence of interests with government, using taxation as a tool for the nation's economic advancement; and

To attain the highest standard of technical and professional competency in revenue law and practice supported by an effective secretariat.

Seated from left to right: Harpal Singh Dhillon, SM Thanneermalai, Tuan Haji Abdul Hamid bin Mohd Hassan, Lim Heng How, Mohd Azmi Abdullah (facilitator), Prof Dr. Jeyapalan Kasipillai. Standing from left to right: Dr. Ahmad Faisal bin Zakaria, Venkiteswaran Sankar, Khoo Chin Guan, Raymond Liew , Lim Kah Fan, Neoh Chin Wah, Aruljothi Kanagaretnam, Adrian Yeo Eng Hui

"As a result of this session, the Institute identified new strategic objectives and priorities and formulated relevant action plans to weather the arising challenges and the changing environment."

Several key objectives were also identified with the main focus of providing better support services to its key stakeholders. Armed with a new mission statement, the Institute is poised to be the leading tax body in the country and to effectively represent the voice of its members. AT

The Malaysian Institute of Certified Public Accountants ▼

47th Annual Dinner

The MICPA held its 47th Annual Dinner with the theme *Flower Power Nite* on 24 June 2005 at the Prince Hotel and Residence. The Dinner was graced by YB Tan Sri Nor Mohamed Yakcop, Minister of Finance II and was attended by over 450 members and invited guests. Among the distinguished guests were YBhg Tan Sri Datuk Dr. Hadenan Abdul Jalil, Auditor-General; Yusli Mohd Yusof, CEO of Bursa Malaysia; YBhg Dato' Zainal Abidin Putih, Chairman of the Malaysian Accounting Standards Board; YBhg Tan Sri Datuk Dr. Ng Lay Swee, President of Universiti Tunku Abdul Rahman; and YBhg Tan Sri Lim Kok Wing, President of the Malaysian Institute of Directors. Also present were Presidents of several professional bodies and Deans of Universities.

MICPA's President, Dato' Abdul Halim Mohyiddin delivering his speech

Anugerah Presiden 2005

The Annual Dinner was also the occasion for the presentation of *Anugerah Presiden 2005* to a member who has made exceptional contributions to the development of the Institute, the accountancy profession as well as the community.

YBhg Tan Sri Lim Leong Seng is the recipient of *Anugerah Presiden 2005*. He was admitted as a member of the then Malaysian Association of Certified Public Accountants (MACPA) in 1971. He was elected to the Council of MACPA in 1975 and served for 18 years until his retirement in 1993. Tan Sri Lim is one of our most senior members — he will turn 89 on his coming birthday.

The Institute benefited greatly from Tan Sri's wealth of experience, guidance and advice. He headed the Taxation Working Group and represented the Institute in dialogues and meetings with the Government on policies and legislation relating to taxation. Tan Sri Lim also served on the Institute's Disciplinary Committee and Examination Committee.

Tan Sri Lim has built an exemplary career in both the public and private sectors. He started his service with the Inland Revenue Department in 1949 and was appointed as Director-General of Inland Revenue in 1967, a position he held until 1971. He then assumed the post of tax adviser in the Ministry of Finance from 1971 to 1974. He retired from the civil service in 1979 and took up the position as Tax Consultant with Pricewaterhouse & Co until his retirement in 1992.

Tan Sri Lim has been actively involved in spiritual, educational and charitable organisations. In recognition of his devoted service, Tan Sri Lim was conferred Papal Awards including *Benermerenti* in 1970 and the *Knight of the Order of St Gregory the Great* in 2003.

Tan Sri Lim has also been conferred awards by the Government including PSM, JMN and KMN, which speak well of his outstanding meritorious service and contribution to the nation.

Tan Sri Lim receiving the award from YB Tan Sri Nor

47th Annual General Meeting

The MICPA held its 47th Annual General Meeting on 25 June 2005 at the Pan Pacific Hotel, Kuala Lumpur. At its Council meeting held following the AGM, YBhg Dato' Abdul Halim Mohyiddin was re-elected as President and YBhg Dato' Nordin Baharuddin as Vice-President for 2005/2006. Dato' Abdul Halim Mohyiddin was first elected to the MICPA Council in 1987. He is formerly a partner of KPMG Malaysia and now a director of several public-listed companies. Dato' Nordin Baharuddin was first elected to the MICPA Council in 2000. He is formerly Chairman of Ernst & Young Malaysia and now Chairman of Syarikat Prasarana Negara Berhad. AT

MICPA Business Forum 2005

The MICPA Business Forum 2005 is scheduled to be held on 5-6 September 2005, at the Kuala Lumpur Convention Centre. Featuring the theme *Broadening Business Horizons: Malaysia and Beyond*, the Forum will provide invaluable insights on strategies for driving business growth and provide an interactive platform for the exchange of ideas and experiences. Our panel comprising prominent corporate leaders, business professionals and capital market regulators will discuss innovative business models, share first hand experiences and ideas to help participants formulate effective strategies to broaden their business horizons and reinforce the position of their organisations in today's challenging business environment.

MICPA Business Forum

Keynote Address: YB Dato' Dr. Ng Yen Yen, Deputy Minister of Finance 1

Plenary Session:

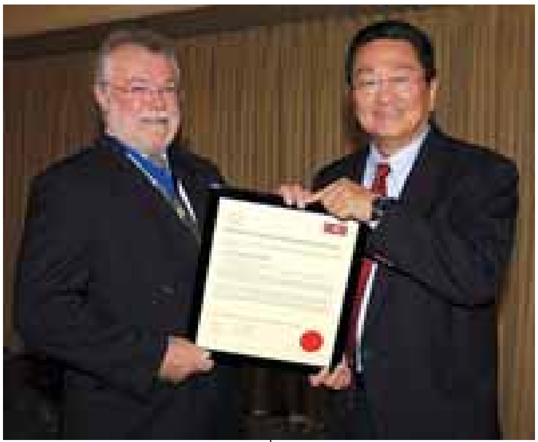
Session 1	Global Business Trends — Threats and Opportunities
Session 2	What it takes to be a Successful Global Player
Session 3	Tapping the Global Capital Markets
Session 4	Expanding Horizons — Strategising for Tax Efficiency
Session 5	Branding — A Winning Strategy for Business Growth
Session 6	Forum on Strategies for Global Business Success

The Business Forum is targeted at company directors, chief executive officers, chief finance officers, chief accountants, auditors, business advisors, fund managers, investment analysts, senior government officers and other business professionals who are interested to learn about key issues and strategies to broaden their business opportunities.

For further information on the *MICPA Business Forum 2005*, please contact Joseph Leong, Training Manager of MICPA at Tel: 03-2698 9622 Fax: 03-2698 9403 e-mail: *joseph.edu@micpa.com.my* or visit the MICPA website at *www.micpa.com.my* AT

Chartered Institute of Management Accountants ▼

Institute Silver Medallist



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Lim paid tribute to several people on the recognition accorded to him. He said, "I must say that this award is the result of the cooperation, support and assistance given by the past and present Council Members and staff whom I had worked with in Malaysia, UK and internationally. And also to those including my family who believed, trusted and let me serve CIMA in the last 20 years. I will always be sentimental about CIMA and I promise to promote it in the journey of my life."

The Institute's Silver Medal is only awarded exceptionally to members who have given outstanding service to the Institute. It is recognition, beyond the holding of an office at Divisional, Area or Branch level, to those who have served the Institute with distinction in a number and range of capacities.

Lim's first involvement with CIMA was in 1984 and since then, he has served the Institute with passion and dedication until his retirement in June 2004. He is the driving force behind the many milestones in the development of the Malaysia Division. In 1990, he was the Honorary Secretary of CIMA Malaysia Division. In 1992, he became its Vice-President and was subsequently elected as the Division's second President in 1993. During his presidency up to 1996, the Division saw substantial growth in membership and student recruitment. The Divisional staff grew from a fledgling staff of two to a full team, taking on the responsibilities of marketing the CIMA qualification and giving support to members and students at a greater level. He played an active role in the Malaysian Institute of Accountants (MIA) and was instrumental for CIMA's greater representation in the regulatory body. He is currently serving in the MIA Public Practice Committee and the Accounting & Audit Committee, positions he has held since 2000.

On the international front, Lim was elected as the Institute's Council Member from Malaysia Division in 1996. In 1998 he was elected from Area 16 (South-East Asia), which includes the Malaysia Division, and he served until June 2004. During this time, he also served in various committees, including the International Committee and Student Development Committee.

He is currently practising under E S Lim & Co, Chartered Accountants, and is an independent non-executive director on the Board of two companies listed on Bursa Malaysia. AT

In memory

It was not until Monday, 25 July 2005, that the Institute learned about the sudden demise of Lim Eng Seng. His contributions in promoting and developing the accounting profession in the country will always be remembered by us. Our condolences and sympathy.

CIMA awarded Superbrand status

The Superbrand organisation operates within 36 countries, promoting and paying tribute to exceptional brands that offer customers distinct advantages over their competitors' offerings. CIMA has been awarded special status as one of Britain's business-to-business brands. Out of a shortlist drawn from tens of thousands of brands by an independent authority, CIMA is the only professional accounting body to achieve this standing.

According to Angela Pumphrey, Managing Editor of *Business Superbrands*, the Business Superbrands Council, made up of eminent figures from the world of branding, used a shortlist of over 1,000 brands. They were tasked with identifying the strongest based on their personal perceptions of the brands strength and quality in the market. When scoring, they kept the following definition in mind: "A Business Superbrand has established the finest reputation in its field and offers customers emotional and/or tangible advantages over competitors, which (consciously or sub-consciously) customers want, recognise, and are confident about investing in. Business Superbrands are targeted at businesses and organisations (although not exclusively so)."

"A Business Superbrand has established the finest reputation in its field and offers customers emotional and/or tangible advantages over competitors, which customers want, recognise, and are confident about investing in."

CIMA is mentioned in the publication, *Business Superbrands*, which gives an insight into over 80 of Britain's strongest business to business brands in 2005. The publication explores the history, development and achievements of these brands, providing a precious insight into their branding strategy and the resulting work. AT

Enron's Whistleblower speaks on *Integrity and its Value to Businesses*

Make a date with Lynn Brewer on 6 September 2005. Brewer is a dynamic speaker and has captivated audiences worldwide, including India, Venezuela, Canada and at the New York Stock Exchange. In 2003 she was nominated for the 'Women of Influence' award. In Malaysia, she will present a half-day morning programme on *The Value of Integrity: Understanding the Hidden Value of Business Intangibles*.

A former executive of Enron, Brewer is currently the President of the Integrity Institute Inc., US, which independently assesses and certifies corporate integrity at the request of organisations for the benefit of their stakeholders. She is the author of *Confessions of an Enron Executive: A Whistleblower's Story*. In her nearly three years at Enron, she was responsible for Risk Management in Energy Operations, the e-commerce initiatives for Enron's water subsidiary, and Competitive Intelligence for Enron Broadband Services.

In Brewer's programme in Malaysia, you can expect a dramatic and compelling look inside Enron, the company that has become the poster-child for corporate corruption. This includes bank fraud, espionage, power price manipulation and blatant overstatements to the media and financial world.

Special seminar rates apply for MIA members. Please contact CIMA Malaysia Division for more details. Tel: 03-7803 5242/5268 Fax: 03-7805 1594 e-mail: *kualalumpur@cimaglobal.com*. AT

Lynn Brewer

Condolences

The President, Council Members, Members and Secretariat Staff of the Malaysian Institute of Accountants share the sad loss of, and extend condolences to

Mrs Katherine Lim & family

Upon the passing away of

Lim Eng Seng

on Sunday, 24 July 2005

From

Malaysian Institute of Accountants

CPA Australia ▼

CPA Australia Launches e-CPD

CPA members try the e-CPD during the launch

A new study pathway featuring a comprehensive range of training courses ranging from Microsoft office to management and business development was recently launched.

The e-CPD, or Continuing Professional Development courses online, is sourced from leaders in the e-learning field and is delivered via one of the most advanced e-learning technologies available today. The e-CPD allows the flexibility of gaining training in a wide range of topics via the IBM Virtual Campus. As an added bonus, all e-CPD courses have been approved to attain between two to six CPD hours, allowing the applicant to comply with CPA Australia's CPD requirements.

Training on e-CPD is easy — all you need is internet access to stay ahead in your continuing development programme. Another attractive point is the special rates for CPA Australia members. The e-CPD is designed to be flexible, convenient, private and self-paced. It is not only a primary learning source but also a refresher or support tool.

For more information about e-CPD, please visit *http://virtualcampus.learningspace.com.au/ibmap/cpaap* AT

Celebrating 50 years membership with CPA Australia

Chiu Tze Ming (left) receiving his token of appreciation from Margaret Chin

CPA members Tan Kok Kee, Chiu Tze Ming and Khong Kit Thong share one common connection. They have been loyal members of CPA Australia for 50 years. In thanking them and celebrating their long-standing membership with CPA Australia, they were each presented a memento recently. At 78, Khong Kit Thong is one of the oldest CPA members in Malaysia. He joined CPA Australia as a member in 1955. Khong received his memento from fellow CPA member and the Sunway Group chairman, Tan Sri Dr. Jeffrey Cheah who was guest of honour at the recent Award and Certificate Presentation ceremony. Also receiving his memento that night was 76 year old Tan Kok Kee, a member since 1954. At a luncheon to celebrate senior members, Chiu Tze Ming was presented his 50 years membership memento by CPA Australia Malaysian Branch President, Margaret Chin. Chiu, 74, has been a member since 1955. AT

Khong Kit Thong (right) with Tan Sri Dr. Jeffrey Cheah

Tan Kok Kee (right) grins in appreciation as he receives his memento

Institute of Chartered Accountants in England and Wales ▼

Highlights of the ICAEW Annual Conference — *Available Online*

In recognition of this year's unique 125th anniversary programme to encourage debate in world markets, highlights from the ICAEW Annual Conference held recently in London are now available as an online webcast. You can watch and listen to the presentations delivered by a range of leading international speakers at your desktop, wherever you are in the world.

Featured speakers include Barry Gardiner MP, Minister for Competitiveness, UK Department of Trade and Industry, focusing on UK competitiveness in a global market and the key economic drivers. Wang Jun, Assistant Minister of Finance of China, provided an overview of China's accounting and auditing standards and the role of the accountancy profession in supporting economic development and international trade in China.

A Financial Directors' panel session was delivered by Neil Wood, FD of the London Olympic Bid Committee, Zoe Tyndall, FD of the restaurant chain Yo! Sushi and Ken Lever, FD of Tomkins plc.

The need for exacting standards of corporate governance and financial reporting was discussed by a panel comprising Christine Farnish, Chief Executive of the National Association of Pension Funds (NAPF), Sir Derek Higgs, Senior Advisor, at the Union Bank of Switzerland (UBS), and Stephen Hadrill, Chief Executive of the Association of British Insurers (ABI).

Graham Ward, President of the International Federation of Accountants (IFAC), focused on the future of the profession.

To see a selection of these speakers as well as others featured on the programme, go to *www.icaew.co.uk/125.* AT

The Malaysian Institute of Taxation ▼

"Repositioning MIT"

The newly appointed Council of the Malaysian Institute of Taxation successfully concluded a brainstorming session on 25 June 2005 at Saujana Resort, Subang with the guidance and assistance of facilitator, Mohd Azmi Abdullah.

This session was named as "Repositioning MIT" in line with the objective of the session which is to draft a strategic plan with a new mission statement. It was crucial for the Council to undergo such a session in view of the rapid changes in the tax environment in Malaysia. As a result of this session, the Institute identified new strategic objectives and priorities and formulated relevant action plans to weather the arising challenges and the changing environment.

At the end of the day, the Council developed the following as the new mission statement of the Institute:

MIT MISSION STATEMENT

To be the premier body providing effective institutional support to members and promoting convergence of interests with government, using taxation as a tool for the nation's economic advancement; and

To attain the highest standard of technical and professional competency in revenue law and practice supported by an effective secretariat.

"As a result of this session, the Institute identified new strategic objectives and priorities and formulated relevant action plans to weather the arising challenges and the changing environment."

Seated from left to right: Harpal Singh Dhillon, SM Thanneermalai, Tuan Haji Abdul Hamid bin Mohd Hassan, Lim Heng How, Mohd Azmi Abdullah (facilitator), Prof Dr. Jeyapalan Kasipillai. Standing from left to right: Dr. Ahmad Faisal bin Zakaria, Venkiteswaran Sankar, Khoo Chin Guan, Raymond Liew , Lim Kah Fan, Neoh Chin Wah, Aruljothi Kanagaretnam, Adrian Yeo Eng Hui

Several key objectives were also identified with the main focus of providing better support services to its key stakeholders. Armed with a new mission statement, the Institute is poised to be the leading tax body in the country and to effectively represent the voice of its members. AT

MICPA

The Malaysian Institute of Certified Public Accountants ▼

47th Annual Dinner

The MICPA held its 47th Annual Dinner with the theme *Flower Power Nite* on 24 June 2005 at the Prince Hotel and Residence. The Dinner was graced by YB Tan Sri Nor Mohamed Yakcop, Minister of Finance II and was attended by over 450 members and invited guests. Among the distinguished guests were YBhg Tan Sri Datuk Dr. Hadenan Abdul Jalil, Auditor-General; Yusli Mohd Yusof, CEO of Bursa Malaysia; YBhg Dato' Zainal Abidin Putih, Chairman of the Malaysian Accounting Standards Board; YBhg Tan Sri Datuk Dr. Ng Lay Swee, President of Universiti Tunku Abdul Rahman; and YBhg Tan Sri Lim Kok Wing, President of the Malaysian Institute of Directors. Also present were Presidents of several professional bodies and Deans of Universities.

MICPA's President, Dato' Abdul Halim Mohyiddin delivering his speech

Anugerah Presiden 2005

The Annual Dinner was also the occasion for the presentation of *Anugerah Presiden 2005* to a member who has made exceptional contributions to the development of the Institute, the accountancy profession as well as the community.

YBhg Tan Sri Lim Leong Seng is the recipient of *Anugerah Presiden 2005*. He was admitted as a member of the then Malaysian Association of Certified Public Accountants (MACPA) in 1971. He was elected to the Council of MACPA in 1975 and served for 18 years until his retirement in 1993. Tan Sri Lim is one of our most senior members — he will turn 89 on his coming birthday.

The Institute benefited greatly from Tan Sri's wealth of experience, guidance and advice. He headed the Taxation Working Group and represented the Institute in dialogues and meetings with the Government on policies and legislation relating to taxation. Tan Sri Lim also served on the Institute's Disciplinary Committee and Examination Committee.

Tan Sri Lim has built an exemplary career in both the public and private sectors. He started his service with the Inland Revenue Department in 1949 and was appointed as Director-General of Inland Revenue in 1967, a position he held until 1971. He then assumed the post of tax adviser in the Ministry of Finance from 1971 to 1974. He retired from the civil service in 1979 and took up the position as Tax Consultant with Pricewaterhouse & Co until his retirement in 1992.

Tan Sri Lim has been actively involved in spiritual, educational and charitable organisations. In recognition of his devoted service, Tan Sri Lim was conferred Papal Awards including *Benermerenti* in 1970 and the *Knight of the Order of St Gregory the Great* in 2003.

Tan Sri Lim has also been conferred awards by the Government including PSM, JMN and KMN, which speak well of his outstanding meritorious service and contribution to the nation.

Tan Sri Lim receiving the award from YB Tan Sri Nor

47th Annual General Meeting

The MICPA held its 47th Annual General Meeting on 25 June 2005 at the Pan Pacific Hotel, Kuala Lumpur. At its Council meeting held following the AGM, YBhg Dato' Abdul Halim Mohyiddin was re-elected as President and YBhg Dato' Nordin Baharuddin as Vice-President for 2005/2006. Dato' Abdul Halim Mohyiddin was first elected to the MICPA Council in 1987. He is formerly a partner of KPMG Malaysia and now a director of several public-listed companies. Dato' Nordin Baharuddin was first elected to the MICPA Council in 2000. He is formerly Chairman of Ernst & Young Malaysia and now Chairman of Syarikat Prasarana Negara Berhad. AT

MICPA Business Forum 2005

The MICPA Business Forum 2005 is scheduled to be held on 5-6 September 2005, at the Kuala Lumpur Convention Centre. Featuring the theme *Broadening Business Horizons: Malaysia and Beyond*, the Forum will provide invaluable insights on strategies for driving business growth and provide an interactive platform for the exchange of ideas and experiences. Our panel comprising prominent corporate leaders, business professionals and capital market regulators will discuss innovative business models, share first hand experiences and ideas to help participants formulate effective strategies to broaden their business horizons and reinforce the position of their organisations in today's challenging business environment.

MICPA Business Forum

Keynote Address: YB Dato' Dr. Ng Yen Yen, Deputy Minister of Finance 1

Plenary Session:

Session 1	Global Business Trends — Threats and Opportunities
Session 2	What it takes to be a Successful Global Player
Session 3	Tapping the Global Capital Markets
Session 4	Expanding Horizons — Strategising for Tax Efficiency
Session 5	Branding — A Winning Strategy for Business Growth
Session 6	Forum on Strategies for Global Business Success

The Business Forum is targeted at company directors, chief executive officers, chief finance officers, chief accountants, auditors, business advisors, fund managers, investment analysts, senior government officers and other business professionals who are interested to learn about key issues and strategies to broaden their business opportunities.

For further information on the *MICPA Business Forum 2005*, please contact Joseph Leong, Training Manager of MICPA at Tel: 03-2698 9622 Fax: 03-2698 9403 e-mail: *joseph.edu@micpa.com.my* or visit the MICPA website at *www.micpa.com.my* AT

IFAC

IFAC Strengthens its Code of Ethics and Invites Comments on Revised Definition of Network Firm

Demonstrating professional integrity and independence in today's environment is one of the most significant challenges faced by professional accountants. A newly revised Code of Ethics for Professional Accountants, recently released by the Ethics Committee of the International Federation of Accountants (IFAC), provides updated guidance in this area.

The revised Code establishes a conceptual framework for all professional accountants to ensure compliance with the five fundamental principles of professional ethics. These principles are integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour. Under the framework, all professional accountants will be required to identify threats to these fundamental principles and, if there are threats, apply safeguards to ensure that the principles are not compromised. The framework applies to all professional accountants, those in public practice and those in business, industry and government.

"The revised Code protects the public interest by requiring all professional accountants to be alert to situations that could potentially compromise their compliance with the Code's fundamental principles and to take action to ensure that the principles are not compromised," explains Ethics Committee Chairman, Richard George.

The revised Code also conforms to the International Framework for Assurance Engagements, issued by the International Auditing and Assurance Standards Board, and definitions contained in the International Standard on Quality Control (ISQC) 1, Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance Related Services Engagements. To assist with the implementation of these conforming changes, the Ethics Committee has also issued an interpretation providing guidance on the application of the independence requirements to assurance engagements that are not financial statement audit engagements.

"The Ethics Committee is to be congratulated on issuing the revised Code," states IFAC President, Graham Ward. "The revised Code is further demonstration of the international profession's commitment to act in the best interest of the public."

The revised Code is effective 30 June 2006. Earlier adoption is encouraged. It can be viewed and downloaded by going to *www.ifac.org/Store/*.

"The revised Code protects the public interest by requiring all professional accountants to be alert to situations that could potentially compromise their compliance with the Code's fundamental principles and to take action to ensure that the principles are not compromised."

Richard George, Ethics Committee Chair

Definition of a Network Firm

The Ethics Committee has also issued an exposure draft (ED) that proposes revisions to the definition of a network firm. Network firms are required to be independent of an audit client of a firm within the network. The proposed changes would classify a firm as a network firm of another firm if the two share a common brand name or if they share significant professional resources or revenues, profits, costs or expenses.

"The revised definition focuses not only on how the firms operate, but also on how they present themselves," explains Ethics Committee Chairman, Richard George. "When firms present themselves as part of a large structure, as is the case with many of the global firms, the public expects the independence requirements to apply to the complete network." AT

The new ED, *Proposed Revised Section 290, Independence — Assurance Engagements*, may be downloaded from the IFAC website by going to *www.ifac.org/EDs*. Comments are requested by 30 September 2005. They may be submitted to *edcomments@ifac.org* or faxed (+1-212-286-9570) or mailed to the attention of Jan Munro at IFAC, 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.

IAASB Proposes Standards to Enhance the Quality of Auditor Reporting

The International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) is inviting comments on exposure drafts of proposed standards designed to further enhance the quality of auditor reporting. Titles of the proposed standards, which may be downloaded from IFAC's website (www.ifac.org), are:

- Proposed International Standard on Auditing (ISA) 701, The Independent Auditor's Report on Other Historical Financial Information; and
- Proposed ISA 800, The Independent Auditor's Report on Summary Audited Financial Statements.

In developing the new standards, the IAASB considered regulatory and standard-setting developments around the world, the interests of small entities, and the changes necessary as a result of the recently revised ISA 700, The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements.

The proposed ISA 701, The Independent Auditor's Report on Other Historical Financial Information, addresses auditors' reports for a wide variety of engagements, including reporting on a single financial statement, or a specific element of a financial statement. It also provides guidance on determining the acceptability of the financial reporting framework used in preparing and presenting the financial information, and matters the auditor considers in forming an opinion on the financial information, including considerations relevant to financial statements designed to give a true and fair view or fair presentation on the one hand, and to those prepared under a compliance framework on the other.

The proposed ISA 800, The Independent Auditor's Report on Summary Audited Financial Statements, recognises that criteria for preparing and presenting summary financial statements may not exist. It contains new standards and guidance on the criteria used and procedures performed in an engagement to

"The Board believes we have struck the right balance in trying to achieve consistency in practice, while acknowledging the fact that auditors may be subject to overriding legal or regulatory requirements."

John Kellas, Chairman, IAASB

report on summary financial statements.

John Kellas, Chairman of the IAASB, explains: "The two EDs respond to public expectations for worldwide consistency in auditor reporting and will enhance current practice. They have been difficult to draft, as they need to be used in a wide range of engagements and under differing regulatory frameworks. The Board believes we have struck the right balance in trying to achieve consistency in practice, while acknowledging the fact that auditors may be subject to overriding legal or regulatory requirements. The proposed standards will complete the current IAASB project to improve its standards and guidance on auditor reporting." AT

Comments on the exposure drafts are requested by October 31, 2005. The exposure drafts may be viewed by going to *www.ifac.org/EDs*. Comments may be submitted by e-mail 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, NY, NY 10017, USA. All comments will be considered a matter of public record and will ultimately be posted on IFAC's website.

List of New Books

Available in the MIA Resource Centre

ACCOUNTING

International Financial Reporting Standards (IFRSs): A Briefing for Chief Executives, Audit Committees and Boards of Directors, London: International Accounting Standards Committee Foundation, 2005.

Call No: 657.0218 INT

Consolidated Financial Statements, by Tan Liong Tong, Kuala Lumpur: PAAC, 2005.

Call No: 657.3 TAN

AUDITING

Auditing Practices Board: Standards and Guidance for Auditors 2005, London: Wolters Kluwer (UK) Limited, 2005.

Call No: 657.45 AUD

Internal Audit Practice in Malaysia: 2004 Survey, Kuala Lumpur: The Institute of Internal Auditors Malaysia; Ernst & Young, 2005.

Call No: 657.45 INT

TAXATION

Malaysian Master Tax Guide 2005, Singapore: CCH Asia Pte. Ltd., 2005.

Call No: 336.2409595 MAL

All Malaysia Tax Cases, edited by Choong Kwai Fatt, Kuala Lumpur: Sweet & Maxwell Asia, 2005.

Call No: 343.595052 ALL

Explanatory Guide: Self Assessment System (SAS), Kuala Lumpur: RTC Consulting Sdn Bhd., 2004.

Call No: 343.042 EXP

INSOLVENCY

INSOL International: Bank Insolvency, an International Guide for Deposit Insurers, London: INSOL International, 2005.

Call No: 346.078 INS

ECONOMY

Industry Performance Report 2004, Kuala Lumpur: Suruhanjaya Komunikasi dan Multimedia Malaysia, 2004.

Call No: 339.5 IND

LEADERSHIP

Strategy and Leadership: MIM Speaks, Kuala Lumpur: MIM, 2004.

Call No: 303.34 STR

Leadership, Innovation and Entrepreneurship: MIM Speaks, Kuala Lumpur: MIM, 2004.

Call No: 303.34 LEA

DISCIPLINARY

Disciplinary & Regulatory Proceedings, 3rd ed., by Brian Harris, Chichester, England: Barry Rose Law Publishers Ltd., 2002.

Call No: 346.42033 HAR

ETHICS

National Integrity Plan, Kuala Lumpur: Integrity Institute of Malaysia, 2004.

Call No: 174.4 MAL

Non-Audit Firms

FROM 1-30 JUNE 2005

New Registration

NON-AUDIT FIRM	NF NO
JOHOR DARUL TAKZIM	
Zamri & Co. No. 22A, Jalan Mawar 1 Taman Mawar 81700 Pasir Gudang Tel: 07-252 1446	**0658**
SABAH	
K I Yong & Co 2nd Floor, Lot 16, Block E Lintas Square, Jalan Lintas Luyang 88300 Kota Kinabalu Tel: 019-821 8890 Fax: 088-218 287 e-mail: yongki@tm.net.my	**0662**
SELANGOR DARUL EHSAN	
Azimy & Co. No. 19A, Jalan USJ 1/20 47600 Subang Jaya Tel: 012-628 5980 Fax: 03-5635 8195 e-mail: azimyd@gmail.com	**0659**
H. N. Siew & Co No. 22-1, 1st Floor, Jalan SL 1/2 Bandar Sg Long 43000 Kajang Tel: 012-299 2188 Fax: 03-9076 9178	**0661**
KB Taxation Services 15-A Jalan SS 15/4C 47500 Subang Jaya Tel: 03-5635 8316 Fax: 03-5635 8308	**0670**
Shukri Muzammil & Co No. 19B Jalan USJ 1/20 47600 Subang Jaya Tel: 03-5636 0963 Fax: 03-5635 8195	**0663**
Soong & Associates Room 1.01, 49 Mezzanine Floor Jalan Kapar 41400 Klang Tel: 03-3344 1395 Fax: 03-3341 2894 e-mail: soong1@streamyx.com	**0660**
SELANGOR DARUL EHSAN	
Wong Management Services B 10-03, PJS One Apartment No. 2, Jln PJS 1/35 Bt 7 Jln Klang Lama 46000 Petaling Jaya Tel: 012-286 3803 e-mail: jacelynwong@yahoo.com	**0664**
TERENGGANU DARUL IMAN	
Abdilah & Associates Lot 510, 5th Floor, Plaza Perdana Jalan Engku Pengiran Anom 1 20300 Kuala Terengganu Tel: 09-622 3427 Fax: 09-623 1533 e-mail: abdila@tm.net.my	**0665**
WILAYAH PERSEKUTUAN	
CW & Co 11 Jalan Kiara SD 11/3G Bandar Sri Damansara 52200 Kuala Lumpur Tel: 03-6272 6213 e-mail: tmnetraw@tm.net.my	**0669**
Hew & Partners 27-2, Jalan Angsana 1 Taman Bukit Angsana Cheras 56000 Kuala Lumpur Tel: 012-290 0266 Fax: 03-4295 1325	**0666**
Hon Mun Management Services 83, Jalan Camar Kepong Baru 52100 Kuala Lumpur Tel: 012-280 1163 Fax: 03-6273 6475 e-mail: jwhm@tm.net.my	**0668**
LC Wong & Associates 7-1 Jalan 10/125D Desa Petaling 57100 Kuala Lumpur Tel: 03-9058 9787 Fax: 03-9058 9786 e-mail: lcwong7@pd.jaring.my	**0667**

Operation Ceased

NON-AUDIT FIRM	NF NO
SELANGOR DARUL EHSAN	
LeongCH Management & Advisory Services L-5-3 Arcadia Jalan USJ 11/1 47620 Subang Jaya Tel: 03-5631 5067 Fax: 03-5631 5067 e-mail: ndleo@time.net.my	**0578**

Audit Firms

FROM 1-30 JUNE 2005

New Registration

AUDIT FIRM	AF NO
JOHOR DARUL TAKZIM	
Char,Cheng & Co No. 23-01, Jalan Molek 1/9 Taman Molek 81100 Johor Bahru Tel: 07-3550691 Fax: 07-3560691 e-mail: johorbahru@chengco.com.my	**1592**
TK Soon And Associates 82-01, Jalan Kemunting Off Jalan Kebun Teh 80250 Johor Bahru Tel: 07-3356611 Fax: 07-3351166	**1591**
PULAU PINANG	
CK & Associates 2-6-33, Harbour Trade Centre 2, Gat Lebuh Macallum 10300 Pulau Pinang Tel: 04-262 3609 Fax: 04-261 3609	**1598**
SARAWAK	
K E Loh 43, Jalan Ding Lik Kong P.O. Box 496 96007 Sibu Tel: 084-342 894 Fax: 084-343 894 e-mail: kungee21@yahoo.com	**1594**
SELANGOR DARUL EHSAN	
Chong Su Foh & Co No. 30/AF, Jalan Kosas 1/4 Taman Kosas 68000 Ampang Tel: 016-276 8745 Fax: 03-4297 3585 e-mail: sufoh@hotmail.com	**1595**
WILAYAH PERSEKUTUAN	
Liew,Cheng & Co. 18-2, Jalan 2/114 Kuchai Business Centre Off Jalan Klang Lama 58200 Kuala Lumpur Tel: 03-7984 8988 Fax: 03-7984 4402 e-mail: admin@chengco.com.my	**1597**

Operation Ceased

AUDIT FIRM	AF NO
PULAU PINANG	
C. L. Lok & Co. 41-G-1, Lorong Delima 20 11700 Gelugor Tel: 04-657 2793 Fax: 04-657 2793 e-mail: cllok@time.net.my	**1362**

IFAC

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The new ED, *Proposed Revised Section 290, Independence — Assurance Engagements*, may be downloaded from the IFAC website by going to *www.ifac.org/EDs*. Comments are requested by 30 September 2005. They may be submitted to *edcomments@ifac.org* or faxed (+1-212-286-9570) or mailed to the attention of Jan Munro at IFAC, 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.

IAASB Proposes Standards to Enhance the Quality of Auditor Reporting

The International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) is inviting comments on exposure drafts of proposed standards designed to further enhance the quality of auditor reporting. Titles of the proposed standards, which may be downloaded from IFAC's website (www.ifac.org), are:

- Proposed International Standard on Auditing (ISA) 701, The Independent Auditor's Report on Other Historical Financial Information; and
- Proposed ISA 800, The Independent Auditor's Report on Summary Audited Financial Statements.

In developing the new standards, the IAASB considered regulatory and standard-setting developments around the world, the interests of small entities, and the changes necessary as a result of the recently revised ISA 700, The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements.

The proposed ISA 701, The Independent Auditor's Report on Other Historical Financial Information, addresses auditors' reports for a wide variety of engagements, including reporting on a single financial statement, or a specific element of a financial statement. It also provides guidance on determining the acceptability of the financial reporting framework used in preparing and presenting the financial information, and matters the auditor considers in forming an opinion on the financial information, including considerations relevant to financial statements designed to give a true and fair view or fair presentation on the one hand, and to those prepared under a compliance framework on the other.

The proposed ISA 800, The Independent Auditor's Report on Summary Audited Financial Statements, recognises that criteria for preparing and presenting summary financial statements may not exist. It contains new standards and guidance on the criteria used and procedures performed in an engagement to

"The Board believes we have struck the right balance in trying to achieve consistency in practice, while acknowledging the fact that auditors may be subject to overriding legal or regulatory requirements."

John Kellas, Chairman, IAASB

report on summary financial statements.

John Kellas, Chairman of the IAASB, explains: "The two EDs respond to public expectations for worldwide consistency in auditor reporting and will enhance current practice. They have been difficult to draft, as they need to be used in a wide range of engagements and under differing regulatory frameworks. The Board believes we have struck the right balance in trying to achieve consistency in practice, while acknowledging the fact that auditors may be subject to overriding legal or regulatory requirements. The proposed standards will complete the current IAASB project to improve its standards and guidance on auditor reporting." AT

Comments on the exposure drafts are requested by October 31, 2005. The exposure drafts may be viewed by going to *www.ifac.org/EDs*. Comments may be submitted by e-mail 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, NY, NY 10017, USA. All comments will be considered a matter of public record and will ultimately be posted on IFAC's website.

List of New Books
Available in the MIA Resource Centre

ACCOUNTING

International Financial Reporting Standards (IFRSs): A Briefing for Chief Executives, Audit Committees and Boards of Directors, London: International Accounting Standards Committee Foundation, 2005.

Call No: 657.0218 INT

Consolidated Financial Statements, by Tan Liong Tong, Kuala Lumpur: PAAC, 2005.

Call No: 657.3 TAN

AUDITING

Auditing Practices Board: Standards and Guidance for Auditors 2005, London: Wolters Kluwer (UK) Limited, 2005.

Call No: 657.45 AUD

Internal Audit Practice in Malaysia: 2004 Survey, Kuala Lumpur: The Institute of Internal Auditors Malaysia; Ernst & Young, 2005.

Call No: 657.45 INT

TAXATION

Malaysian Master Tax Guide 2005, Singapore: CCH Asia Pte. Ltd., 2005.

Call No: 336.2409595 MAL

All Malaysia Tax Cases, edited by Choong Kwai Fatt, Kuala Lumpur: Sweet & Maxwell Asia, 2005.

Call No: 343.595052 ALL

Explanatory Guide: Self Assessment System (SAS), Kuala Lumpur: RTC Consulting Sdn Bhd., 2004.

Call No: 343.042 EXP

INSOLVENCY

INSOL International: Bank Insolvency, an International Guide for Deposit Insurers, London: INSOL International, 2005.

Call No: 346.078 INS

ECONOMY

Industry Performance Report 2004, Kuala Lumpur: Suruhanjaya Komunikasi dan Multimedia Malaysia, 2004.

Call No: 339.5 IND

LEADERSHIP

Strategy and Leadership: MIM Speaks, Kuala Lumpur: MIM, 2004.

Call No: 303.34 STR

Leadership, Innovation and Entrepreneurship: MIM Speaks, Kuala Lumpur: MIM, 2004.

Call No: 303.34 LEA

DISCIPLINARY

Disciplinary & Regulatory Proceedings, 3rd ed., by Brian Harris, Chichester, England: Barry Rose Law Publishers Ltd., 2002.

Call No: 346.42033 HAR

ETHICS

National Integrity Plan, Kuala Lumpur: Integrity Institute of Malaysia, 2004.

Call No: 174.4 MAL

Non-Audit Firms

FROM 1-30 JUNE 2005

New Registration

NON-AUDIT FIRM	NF NO
JOHOR DARUL TAKZIM	
Zamri & Co. No. 22A, Jalan Mawar 1 Taman Mawar 81700 Pasir Gudang Tel: 07-252 1446	0658
SABAH	
K I Yong & Co 2nd Floor, Lot 16, Block E Lintas Square, Jalan Lintas Luyang 88300 Kota Kinabalu Tel: 019-821 8890 Fax: 088-218 287 e-mail: yongki@tm.net.my	0662
SELANGOR DARUL EHSAN	
Azimy & Co. No. 19A, Jalan USJ 1/20 47600 Subang Jaya Tel: 012-628 5980 Fax: 03-5635 8195 e-mail: azimyd@gmail.com	0659
H. N. Siew & Co No. 22-1, 1st Floor, Jalan SL 1/2 Bandar Sg Long 43000 Kajang Tel: 012-299 2188 Fax: 03-9076 9178	0661
KB Taxation Services 15-A Jalan SS 15/4C 47500 Subang Jaya Tel: 03-5635 8316 Fax: 03-5635 8308	0670
Shukri Muzammil & Co No. 19B Jalan USJ 1/20 47600 Subang Jaya Tel: 03-5636 0963 Fax: 03-5635 8195	0663
Soong & Associates Room 1.01, 49 Mezzanine Floor Jalan Kapar 41400 Klang Tel: 03-3344 1395 Fax: 03-3341 2894 e-mail: soong1@streamyx.com	0660
SELANGOR DARUL EHSAN	
Wong Management Services B 10-03, PJS One Apartment No. 2, Jln PJS 1/35 Bt 7 Jln Klang Lama 46000 Petaling Jaya Tel: 012-286 3803 e-mail: jacelynwong@yahoo.com	0664
TERENGGANU DARUL IMAN	
Abdilah & Associates Lot 510, 5th Floor, Plaza Perdana Jalan Engku Pengiran Anom 1 20300 Kuala Terengganu Tel: 09-622 3427 Fax: 09-623 1533 e-mail: abdila@tm.net.my	0665
WILAYAH PERSEKUTUAN	
CW & Co 11 Jalan Kiara SD 11/3G Bandar Sri Damansara 52200 Kuala Lumpur Tel: 03-6272 6213 e-mail: tmnetraw@tm.net.my	0669
Hew & Partners 27-2, Jalan Angsana 1 Taman Bukit Angsana Cheras 56000 Kuala Lumpur Tel: 012-290 0266 Fax: 03-4295 1325	0666
Hon Mun Management Services 83, Jalan Camar Kepong Baru 52100 Kuala Lumpur Tel: 012-280 1163 Fax: 03-6273 6475 e-mail: jwhm@tm.net.my	0668
LC Wong & Associates 7-1 Jalan 10/125D Desa Petaling 57100 Kuala Lumpur Tel: 03-9058 9787 Fax: 03-9058 9786 e-mail: lcwong7@pd.jaring.my	0667

Operation Ceased

NON-AUDIT FIRM	NF NO
SELANGOR DARUL EHSAN	
LeongCH Management & Advisory Services L-5-3 Arcadia Jalan USJ 11/1 47620 Subang Jaya Tel: 03-5631 5067 Fax: 03-5631 5067 e-mail: ndleo@time.net.my	0578

Audit Firms

FROM 1-30 JUNE 2005

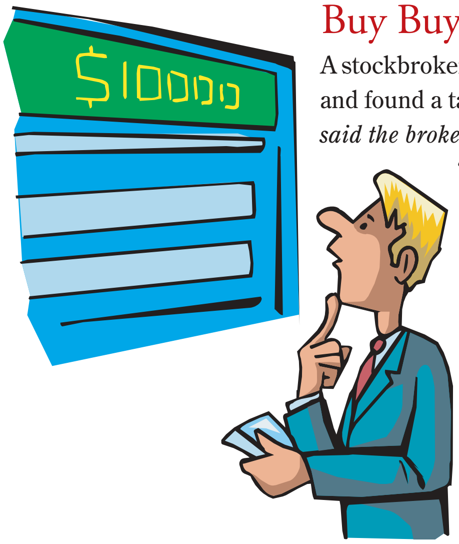
New Registration

AUDIT FIRM	AF NO
JOHOR DARUL TAKZIM	
Char,Cheng & Co No. 23-01, Jalan Molek 1/9 Taman Molek 81100 Johor Bahru Tel: 07-3550691 Fax: 07-3560691 e-mail: johorbahru@chengco.com.my	1592
TK Soon And Associates 82-01, Jalan Kemunting Off Jalan Kebun Teh 80250 Johor Bahru Tel: 07-3356611 Fax: 07-3351166	1591
PULAU PINANG	
CK & Associates 2-6-33, Harbour Trade Centre 2, Gat Lebuh Macallum 10300 Pulau Pinang Tel: 04-262 3609 Fax: 04-261 3609	1598
SARAWAK	
K E Loh 43, Jalan Ding Lik Kong P.O. Box 496 96007 Sibu Tel: 084-342 894 Fax: 084-343 894 e-mail: kungee21@yahoo.com	1594
SELANGOR DARUL EHSAN	
Chong Su Foh & Co No. 30/AF, Jalan Kosas 1/4 Taman Kosas 68000 Ampang Tel: 016-276 8745 Fax: 03-4297 3585 e-mail: sufoh@hotmail.com	1595
WILAYAH PERSEKUTUAN	
Liew,Cheng & Co. 18-2, Jalan 2/114 Kuchai Business Centre Off Jalan Klang Lama 58200 Kuala Lumpur Tel: 03-7984 8988 Fax: 03-7984 4402 e-mail: admin@chengco.com.my	1597

Operation Ceased

AUDIT FIRM	AF NO
PULAU PINANG	
C. L. Lok & Co. 41-G-1, Lorong Delima 20 11700 Gelugor Tel: 04-657 2793 Fax: 04-657 2793 e-mail: cllok@time.net.my	1362

… Counting on Humour



Buy Buy Buy!

A stockbroker was cold calling about a penny stock and found a taker. *"I think this one will really move said the broker, it's only $1 a share."*

"Buy me 1,000 shares." said the client.

The next day the stock was at $2. The client called the broker and said, *"You were right, give me 5,000 more shares."*

The next day the client looked in the paper and the stock was at $4.

The client ran to the phone and called the broker, *"Get me 10,000 more shares said the client."*

"Great!" said the broker.

The next day the client looked in the paper and the stock was at $9.

Seeing what a great profit he had in just a few days, the client ran to the phone and told the broker, *"Sell all my shares!"*

The broker said, *"To whom? You were the only one buying that stock."*

Mistakes on a Resume…

These are from actual resumes:

"Personal: I'm married with 9 children. I don't require prescription drugs."

"I am extremely loyal to my present firm, so please don't let them know of my immediate availability."

"Qualifications: I am a man filled with passion and integrity, and I can act on short notice. I'm a class act and do not come cheap."

"I intentionally omitted my salary history. I've made money and lost money. I've been rich and I've been poor. I prefer being rich."

"Note: Please don't misconstrue my 14 jobs as 'job-hopping'. I have never quit a job."

"Number of dependents: 40."

"Marital Status: Often. Children: Various."

Paying in Advance

A motorist, driving by a Texas ranch, hit and killed a calf that was crossing the road. The driver went to the owner of the calf and explained what had happened. He then asked what the animal was worth.

"Oh, about $200 today," said the rancher. *"But in six years it would have been worth $900. So $900 is what I'm out."*

The motorist sat down and wrote out a check and handed it to the farmer.

"Here," he said, *"is the check for $900. It's postdated six years from now."*

The Boss Sign

The boss was complaining in our staff meeting the other day that he wasn't getting any respect. Later that morning he went to a local sign shop and bought a small sign that read:

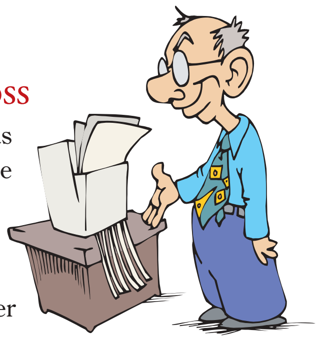
"I'm the Boss!"

He then taped it to his office door.

Later that day when he returned from lunch, he found that someone had taped a note to the sign that said:

"Your wife called, she wants her sign back!"

Eager to Impress the Boss



A young executive was leaving the office late one evening when he found the CEO standing in front of a shredder with a piece of paper in his hand.

"Listen," said the CEO, *"this is a very sensitive and important document here, and my secretary has gone for the night. Can you make this thing work?"*

"Certainly," said the young executive. He turned the machine on, inserted the paper, and pressed the start button.

"Excellent, excellent!" said the CEO as his paper disappeared inside the machine.

"I just need one copy."

Late for Work

Tom had this problem of getting up late in the morning and was always late for work. His boss was mad at him and threatened to fire him if he didn't do something about it. So Tom went to his doctor who gave him a pill and told him to take it before he went to bed. Tom slept well and in fact beat the alarm in the morning by almost two hours. He had a leisurely breakfast and drove cheerfully to work.

"Boss", he said, *"The pill actually worked!"*

"That's all fine" said the boss, *"But where were you yesterday?"*