Akauntan Nasional

Volume 15 • Number 11 Journal of the Malaysian Institute of Accountants DECEMBER 2002

(Established under the Accountants Act, 1967)

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The Real Test

Audit firms in the country are to undergo a practice review from January 1 onwards. The move is aimed at ensuring that auditors maintain, apply and observe relevant professional standards.

ISSN 1394 - 1763

Member Audit Bureau of Circulations (Malaysia)

Homepage : http://www.mia.org.my

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FROM THE EDITOR

Accountants Speak Up

After decades of working quietly behind the sceneS, accountants who have been stereotyped as boring bean counters suddenly found themselves shot into the public spotlight this year. But it was publicity they neither desired nor sought. In the explosion of corporate scandals at giants like Enron and Worldcom, accountants were portrayed by the media as the villains of the corporate world and accused of cooking the books.

The repercussions of these developments have been felt worldwide, and the accounting profession in Malaysia has not been spared. Many questions have been raised about the ethical conduct of accountants in commerce and industry as well as the profession as a whole. Much of the criticism centred on the perceived failure of accountants and external auditors to discharge their fiduciary responsibilities competently and to demonstrate the highest ethical practices. The accounting profession suffered serious damage to its reputation

But what got lost in all the publicity is the fact that it is an honourable profession bound by ethics and morals. To be fair to accountants, the critics failed to focus on the internal factors as well as to understand how the process of financial disclosure is done. One of the primary misconceptions prevalent, including within the Malaysian corporate sector and the media, is that the company's external auditor is responsible for the financial statements of the company. If we go beyond the media frenzy, a different picture emerges; the collapse of some of America's corporate entities can be blamed on a cast of characters. It is a corporate drama that has more than one villain.

As part of the corporate financial reporting team, accountants must always remember that we are the guardians of truth, fairness and due-diligence standards. To look at due diligence merely as a compliance responsibility to fulfil legal obligations would be missing the point; due diligence practices should bring about higher professional standards, greater disclosure of information and more accurate representations, without which the integrity of our profession will be seriously undermined.

The core of a transparent and accountable corporate sector is the commitment to ethical behaviour by everyone involved in the financial reporting framework.

Future opportunities for the accounting profession depend very much on the maintenance of public confidence. The profession has reached a critical period, being under constant public scrutiny. This critical atmosphere should be understood by the accountants who must adjust their approach and attitude to it if their worthwhile contribution to society is to be maintained and strengthened.

The task of upholding the reputation and well-being of the profession should not be left only to the Malaysian Institute of Accountants (MIA) but shared by all members equally. Upgrading the code of ethics for accountants is but one way to attain this goal. More importantly, professional survival must also rest on continuous educational training programmes.

Under such circumstances, the Institute with its vision of becoming 'a globally recognised and respected business partner committed to nation building' has increased its efficiency and speed to respond with flexibility to changes in the industry. In particular, we have bolstered our operations, improved our services, enhanced our Information Technology capabilities, as well as strengthened our public relations activities. In short, we have strengthened our foundation for service with excellence, while demonstrating MIA's unique professionalism.

Over the next few years, it is expected that global competition will accelerate at an even greater pace, due to many changes in business conditions, especially in the wake of globalisation. With the mission 'to develop, support and monitor quality and expertise consistent with global best practice in the accountancy profession for the interest of stakeholders' our focus will be on taking the profession's global expansion to a new level, by capitalising on members' commitment, while achieving increased competitiveness in quality, cost and delivery.

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

Merry Christmas and A Happy New Year. AN

Editor

Letters to the Editor

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

CONTRIBUTION OF ARTICLES

The *Akauntan Nasional* welcomes original and previously unpublished contributions which are of interest to accountants, executives and scholars. Manuscripts should cover domestic or international accounting developments. Lifestyle articles of interest to accountants are also welcomed.

Manuscripts should be submitted in English or Bahasa Malaysia and range from 2,500 to 5,000 words (double-spaced, typed pages). They should be submitted in hardcopy and diskette (3.5 inch) form in Microsoft Word or Lotus Wordpro. Manuscripts are subject to a review procedure and the Editor reserves the right to make amendments which may be appropriate prior to publication.

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Akauntan Nasional

The *Akauntan Nasional* is the official publication of the Malaysian Institute of Accountants (MIA) and is distributed to all members of the Institute. The views expressed in this journal are not necessarily those of the MIA or its Council. Contributions including letters to the Editor and comments on articles appearing in the journal are welcomed and should be sent to the Editor as addressed below. All materials appearing in the *Akauntan Nasional* are copyright and cannot be reproduced in whole or in part without written permission from the Editor.

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Malaysian Institute of Accountants
(Established under the Accountants Act, 1967)

VISION AND MISSION

MIA's Vision

- To be a globally recognised and respected business partner committed to nation-building

MIA's Mission

- To develop, support and monitor quality and expertise consistent with global best practice in the accountancy profession for the interest of stakeholders

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NOTICE TO PRACTISING MEMBERS

CLARIFICATION ON SUBMISSION OF THE ACCOUNTANTS' REPORT FOR SOLICITOR'S CLIENTS ACCOUNTS

Further to our Notice in *Akauntan Nasional* on Solicitor's Clients Accounts, we wish to inform members of the following :

The Bar Council, in its letter to our Institute dated 27 October 2002 (Ref.: BC/S/30/2002) clarified that, so long as solicitors have branch offices of their practice/firm located in Peninsular Malaysia, they are required to submit the Accountants' Report for their clients' accounts irrespective of whether the clients' accounts are operated in East Malaysia only. AN

CALLING ALL PRACTITIONERS IN THE KLANG VALLEY

As per our earlier announcement, we are launching our first evening talk for 2003 in the Klang Valley on 10 January (Friday). The talk will be held at the Main Boardroom, Dewan Akauntan, 2 Jalan Tun Sambanthan 3, Brickfields, Kuala Lumpur. It is scheduled to start at 5.00 p.m. Members are required to register with Janet Leong at Ext. 250 or Sharon Koh at Ext. 125.

For the first in the series of evening talks, we are going to cover the following topics :

a Employee Retention Programme (ERP)

It is very common for small and medium-sized practices (SMPs) to suffer from high staff turnover. Apart from the fact that some staff may not see much potential in the SMPs due to the limited scope for possible expansion, the lack of a financial incentive scheme to attract the staff's loyalty could be another reason for such a vicious circle. For this purpose, fellow practitioners, especially from the SMPs sector should come forward and find out how an ERP programme can be implemented in the practice as a form of financial rewards for their loyal employees. We are fortunate to get an expert from BHLB Pacific Trust Management Bhd and its agent Hazel Ong to explain how unit trust can be used as a flexible instrument to retain employees of a SMP.

The good news about this ERP scheme is that it allows various SMPs to come together to offer a tailored scheme to the respective group of employees coming from different practices with minimum outlay but maximum potential.

Besides financial incentives, the scheme also offers a free RM25,000 accidental death insurance coverage to seven employees for every RM20,000 invested.

b Professional Indemnity Insurance (PII)

We have also invited a broker from State Insurance Broker Sdn Bhd to come and share with our practitioners on the various factors which should be considered when buying Professional Indemnity Insurance. Since 1998, our Institute has made it mandatory for all practitioners (both audit and non-audit) to have a minimum coverage of at least RM100,000 per partner per practice. AN

EVENING TALK — INNOVATION SHOWCASE

As part of the innovation within the local accountancy profession, member firms are invited to submit to the Practice Matters Department of the Institute, various innovative proposals and schemes for the benefit of other practitioners or MIA members in commerce and industry for our consideration. It can be in the form of new products or services that have already been commercialised or are in the process of commercialisation. Once your innovative proposal or scheme is accepted, it will be allowed to be demonstrated to fellow practitioners or other MIA members on a 'free of charge' basis at any one of our future evening talk programmes. Submission should be made to Johnny Yong (e-mail : johnny@mia.org.my) from the Practice Matters Department with as much details as possible to enable the Institute to make an informed decision. At minimum, the following information must be made available :

a) A synopsis of the proposal and/or scheme;
b) The possible benefits to the community and businesses;
c) Member's name and contact details;
d) Firm's name and contact details;
e) MIA membership number;
f) Ownership and claims of rights for the products or services must be disclosed up-front.

Through our involvement with the International Innovative Network (please see the article in January/February 2003 issue of *Akauntan Nasional*), members in public practice may eventually be able to market their products and services in overseas markets through the local accountancy organisation. AN

DEVELOPING CONFIDENCE THROUGH PUBLIC SPEAKING

Whether a practitioner is negotiating an increase in his chargeable fees with a difficult client or having to do a business presentation with the hope of securing an important consultancy engagement, the ability to speak with confidence is of paramount importance. On another level, an individual who is being interviewed for a new job also needs to outshine his potential rivals in the department of confidence, all things being equal. And one of the surest ways to develop your confidence in front of your clients and other VIPs is to master the skill of public speaking. It has been quoted that people would prefer death than to speak in public. However, public speaking like any other skill can be developed. For this reason, the Institute would like to gauge members, especially the practitioners' interest in this area. We will be organising a series of 'demo' meetings at the Institute's premise to determine if there is a need to cater for a special interest group in public speaking. Members in Klang Valley are invited to join our first few demo meetings as scheduled below :

a) 6 March 2003 (Thursday) ;

b) 20 March 2003 (Thursday) ; and

c) 3 April 2003 (Thursday).

All meetings will start at 6 p.m. and will end at about 8.30 p.m. Should there be enough members keen in this area, then the Institute will consider setting up this special group to promote the art of public speaking. Registration can be made through Sharon Koh at Ext. 125 (e-mail : sharon@mia.org.my)

Participation in the demo meeting is free of charge and all sessions will carry two CPE hours. AN

MIA PRACTICE REVIEW : SETTING HIGH PROFESSIONAL STANDARDS

Audit firms are to be subject to practice review from 1 January 2003. The move is aimed at maintaining, applying and observing standards of the local auditing profession.

Come 1 January 2003, the Malaysian Institute of Accountants (MIA) will implement the Practice Review Programme that will change the realm of public practice for all auditors in Malaysia. This initiative is not new, having been on the drawing board since 1998, but recent events both locally and internationally have fast tracked its implementation. The Institute believes that the launching of this important initiative to cover all audit firms registered with it is timely and relevant in light of developments in the international arena.

Since its activation in 1987, the Institute has exercised its regulatory role through the inculcation of the ethical and professional practice of accountancy by continuous and lifelong education programmes as well as through the initiation of disciplinary proceedings against unethical members pursuant to the powers conferred under the Accountants Act, 1967. The Institute has since expanded its regulatory role, initially through the establishment of financial statements reviews and now, through the Practice Review.

What is Practice Review? To understand the concept of Practice Review, we need to recognise the concept of auditing. In broad terms, auditing is a systematic process of objectively obtaining and evaluating evidence on assertions about an entity's economic actions and events. It ascertains the degree of correspondence between those assertions and establishes the criteria and communicates the results to interested users. Users of financial statements in most circumstances will not have access to first-hand knowledge about the entity and thus, depend on the opinions of independent auditors to give justified credibility to financial statements. As such, the quality of an audit is fundamental to ensure that accurate, complete and unbiased audited statements are used for decision making by the users. Just as auditing is carried out in companies to determine the state of their finances and operating procedures, Practice Review is a process in which the activities of a practising accountant are reviewed by another qualified member within the profession. Specifically, it is a process where the standards and procedures of a member's auditing practice are assessed by an independent member of the same profession.

Importantly, the objective of this Programme is 3-pronged :

(a) Firstly, to confirm members' obligation to follow the standards promulgated by the Institute;

(b) Secondly, to undertake the regulatory

role as provided under the Accountants Act, 1967 as well as to be aligned with some of the latest international developments; and

(c) Thirdly, to enhance the confidence of the business community in our members' standard of professional work.

Since August this year, various forums involving members from different states have been conducted to enable them to offer their views in respect of the Practice Review Programme. It is indeed encouraging to note that a significant number of members clearly see the value of implementing this quality assurance programme.

The Practice Review Programme is a proactive measure, which is intended to ensure all audit firms registered with MIA operate at least to the required minimum standards. It has to be pointed out that no new operational and/or auditing standards are being implemented following the introduction of Practice Review. Since the standards expected of our members have always been there, the process of Practice Review is more of a validation process undertaken by MIA. For firms which are found to be operating at a less than satisfactory level, the educational side of this programme will help these firms to improve their quality of work so as to raise standards to that of the Institute's minimum. This is an appropriate approach to general risk management within the auditing profession. The commitment of the Council of MIA to the educational facet of the Practice Review programme is thus understandable. In the various forums with members, the intention of the Institute to complete at least the initial cycle of reviewing all firms within the next five years with the emphasis on educating members in public practice, has been well received.

The Council of MIA foresees that through this programme, instances of MIA members collaborating with unqualified persons offering accounting and auditing services (a process that has led to significant fee depression) can be effectively addressed and rectified. By eliminating such illegal practices, the Institute believes that its bona-fide members in public practice who operate their practices in accordance with the required standards will eventually be able to generate reasonable returns in terms of fees in their auditing practices. In addition, on 15 November 2002, the Council approved the By-Law on Quality Assurance and Practice Review as well as the Statement on Practice Review, both of which have been disseminated to members. With a definitive framework in place, the Institute is ready to set up a Practice Review Department. Apart from engaging in-house reviewers, the Institute will appoint suitably qualified practitioners to a panel of reviewers who will act as the Institute's sub-contracted reviewers alongside those installed within the Practice Review Department. A charge-out rate will be imposed on the audit firms and based on earlier estimates, a charge-out rate of RM 200 per hour (still estimated only) is considered as reasonable bearing in mind that the cycle of review is once every five years.

A Practice Review Committee (PRC) comprising experienced practitioners has been established to oversee the implementation process of the Practice Review Programme. Apart from Council members Dato' Nordin Baharuddin and Lam Kee Soon, who is also chairman of the PRC, six non-Council members from large, medium and small firms have been appointed to the PRC, which would be expanded in the future.

For details of the By-Law on Quality Assurance and Practice Review as well as the Statement on Practice Review, members of the public can download this information from the Institute's website at *www.mia.org.my*. The PRC will be making the necessary disclosure on the detailed procedures and processes of the Practice Review Programme upon implementation thereof with effect from 1 January 2003. Further information will be released by the PRC from time to time. To date, the Institute has held several talks in Kuala Lumpur for members to explain the implementation process of Practice Review and to help clear their doubts. The Institute plans to hold a series of similar talks in other states in the near future. AN

BY-LAW B-11 : QUALITY ASSURANCE AND PRACTICE REVIEW

B-11.1

1. Every member in public practice shall ensure that his firm complies with all relevant professional standards for the purposes of assurance as to the quality of the public practice services provided by his firm whether through himself, his partner(s) and/or his employees.
2. In doing so, every member in public practice shall ensure that his firm adopts and applies policies and procedures designed to maintain adherence to professional standards.
3. For the purposes of this by-law, the professional standards required to be maintained, observed and applied by a member in public practice to the extent applicable to the type of public practice services provided by that member or his firm, include:

(a) all standards and statements of professional conduct and ethics in the form of the Institute's By-Laws (On Professional Conduct & Ethics) in issue from time to time;

(b) all approved standards whether issued by the Council or otherwise, and all guidelines, statements and/or circulars of best practices issued or prescribed by the Council and/or the Institute from time to time.

B-11.2

1. All members in public practice and/or member firms shall submit to the Institute's Practice Review programme as established by the Council pursuant to the Council's Statement on Practice Review issued on 15 November 2002 together with its supporting appendices.

Explanatory Note :

(i) The objectives of the Practice Review programme are :

(a) to ensure that all members in public practice maintain, observe and apply the relevant professional standards, so as to assure that those members in public practice, their firms and their employees are competent, ethical, and exercise due professional care in their professional work;

(b) to assist members in public practice to improve their professional standards where necessary; and

(c) to identify areas where members in public practice may require assistance in maintaining and observing professional standards.

(ii) The Practice Review programme does not set new professional standards. Rather, the professional standards that the members in public practice and/or their firms are expected to maintain are those already prescribed by the Institute and which are summarised for convenience in by-law B-11.1(3) above.

2. The Practice Review programme shall be conducted by the Institute through its Practice Review Committee in accordance with the Statement on Practice Review issued on 15 November 2002 with its supporting appendices, any other directions issued by the Council from time to time and in accordance with any other procedures and processes as may be determined by the Practice Review Committee.
3. Each member in public practice and/or his firm shall comply with the requirements contained in the Statement on Practice Review issued on 15 November 2002 with its supporting appendices, any other directions issued by Council from time to time and with any other procedures or requirements imposed by the Practice Review Committee for the purposes of carrying out the practice review pertaining to that member's firm.
4. The Practice Review programme shall initially be conducted over a cycle of not more than five years in respect of member firms which are selected at random from the Institute's records.
5. Each member in public practice and/or his firm shall settle in full, the fees if any, in respect of the practice review conducted pertaining to his firm including any interim fees, as may be charged and determined by the Practice Review Committee for his firm. Such fees shall be due and payable within 30 days of the date of the bill raised for this purpose.

Explanatory Note :

(i) The fees, if any, that are charged for the practice review shall be based on hourly rates as approved by the Council on the recommendation of the Practice Review Committee.

(ii) The fees, if any, that are charged for the practice review, shall be in respect of the time involved in the planning, execution and reporting of the practice review.

B-11.3

This by-law shall, unless otherwise determined by the Council, only operate in respect of members in public practice and/or member firms who provide among others, audit services.

Inserted : **15 November 2002;** *With effect from* : **1 January 2003**

STATEMENT ON PRACTICE REVIEW

Review Procedures and Conduct of Members

(Issued 15 November 2002)

Introduction

1 Paragraph (c) of Section 6 of the Accountants Act, 1967 (the "Act") provides for the Institute, as one of its objectives, to regulate the practice of the profession of accountancy in Malaysia. Paragraph (f) of Section 6 of the Act further states that the Institute shall be generally able to do such acts as it thinks fit for the purpose of achieving its objectives, including that of regulating the profession.

2 In pursuance of the above, the Council of the Institute hereby issues this Statement on Practice Review for the purposes of implementing a practice review programme applicable to all members in public practice as defined pursuant to the Rules and the By-Laws of the Institute.

3 The objective of the practice review programme is to ensure that all members in public practice maintain, observe and apply the relevant professional standards. Primarily, the practice review programme is intended to be educational and to help members in public practice improve their professional standards where necessary. Essentially through a review of current engagement files, the practice review programme will identify areas where a member in public practice may require assistance in maintaining professional standards.

4 The practice review programme does **not** set new standards. Rather, the standards that the member in public practice is expected to maintain are those already prescribed by the Institute pursuant to the Act, the Rules and the By-Laws of the Institute including all ethical standards in the form of the Institute's By-Laws (On Professional Conduct and Ethics), auditing standards in the form of the Malaysian Approved Standards on Auditing as well as the various guidelines issued by the Institute in the form of Recommended Practice Guides (RPG) and statements and circulars on best practices issued by the Institute from time to time.

5 This Statement and its supporting appendices set out the conduct and procedures of the practice review programme in general terms. This Statement also provides details of the requirements of the practice review programme, what is expected of a member during the conduct of a practice review, and a brief description of the practice review process.

6 This Statement comes into operation on 1 January 2003 and unless otherwise stated by the Council of the Institute, shall only operate in respect of members in public practice and/or member firms who provide, among others, audit services. Compliance with the requirements in this Statement is mandatory.

7 DEFINITION OF TERMS

Member in public practice – a chartered accountant who, as a sole proprietor or in a partnership, provides or is engaged in public practice services (as defined in the Malaysian Institute of Accountants (Membership & Council) Rules 2001) in return for a fee or reward for such services otherwise than as an employee, and holds a valid practising certificate. For the purpose of this Statement, this includes a member firm.

Practice review – in relation to a member firm, means an examination or review undertaken pursuant to this Statement and the supporting appendices to determine whether professional standards are being or have been observed, maintained and applied.

Practice Review Committee – a committee established by the Council of the Malaysian Institute of Accountants (the Institute) to conduct practice reviews to determine whether professional standards have been maintained, observed and applied.

Member firm – for the purpose of this Statement, a firm of chartered accountants where the sole-proprietor or all the partners are members of the Institute, which is registered with the Institute and which offers among others, audit services.

Professional standards – all those professional standards that are required to be maintained, observed and applied by members in public practice from time to time, and which are for the purposes of this Statement, set out in paragraph 11 below.

Reviewer –

a. A member of the Institute who is appointed or engaged as an employee by the Institute for the purpose of carrying out practice reviews;
b. A member of the Institute having a valid audit licence and practising certificate who is appointed to the Panel of Reviewers by the Registrar for the purposes of carrying out practice reviews; and
c. Any other expert as the Practice Review Committee deems fit and who is appointed on an ad hoc basis to carry out the assignment of practice reviews or any part thereof.

Practising certificate –the practising certificate issued pursuant to Rule 9 of the Malaysian Institute of Accountants (Membership & Council) Rules 2001.

Panel of Reviewers – any member of the Institute having a valid audit licence and practising certificate, who is not an employee of the Institute and who has since been appointed by the Registrar to such a panel for the purposes of carrying out practice reviews on behalf of the Institute.

Scope

Members subject to review

8 All members in public practice offering audit services are required to adhere to the standards prescribed by the Institute. All members in public practice and/or member firms so engaged, must thus submit to practice review, subject to paragraph 9 below.

Exemption

9 Where a member in public practice holding a practising certificate completes a declaration in prescribed form certifying that he/she is not engaged in public practice services in so far as it pertains to audit engagements during the preceding 12 months and does not intend to so practise for the foreseeable future, or that he/she will be discontinuing public practice in so far as it pertains to audit engagements in the immediate future (a maximum of three months from the random selection date), he/she may be exempted from practice review at the discretion of the Practice Review Committee.

Establishment and appointment of Practice Review Committee

10 The Council of the Institute has mandated the establishment and composition of the Practice Review Committee to oversee the conduct of practice review as follows :

a. The Practice Review Committee shall consist of such number of members, being not less than 8, as the Council shall determine and of whom, not more than 2 shall also be members of the Council.

b. All the members of the Practice Review Committee shall be members of the Institute and a majority of them must hold a valid practising certificate and an audit licence currently in force.

c. A person shall not be a member of the Practice Review Committee and the Investigation and Disciplinary Committees as well as the Disciplinary Appeal Board at the same time.

d. The quorum for any meeting of the Practice Review Committee shall not be less than half of the total number of members of the Practice Review Committee for the time being.

e. The Practice Review Committee may appoint sub-committees of its members and may delegate to any such sub-committee, with or without restrictions, any of its functions or powers except the power to make a complaint against a member in public practice or a member firm to the Investigation Committee.

f. Members of the Practice Review Committee are not eligible to be appointed to the Panel of Reviewers and vice-versa.

g. The Chairman of the Practice Review Committee shall be a Council Member of the Institute with a valid practising certificate and audit licence.

h. Subject to the provisions, if any, under the Accountants Act, 1967 and any directions issued by the Council from time to time including those contained in this Statement and supporting appendices, the Practice Review Committee or any sub-committee thereof may regulate its own procedures and processes as it thinks fit.

Directions of Council

Professional standards

11 The Council has from time to time, issued or specified the professional standards which are to be maintained, observed and applied by members in public practice who offer, among others, audit services. These professional standards form the subject matter of the Institute's practice review programme as herein contained. Practice review however, does not seek to redefine the scope and authority of these professional standards but rather seeks to enforce them within the parameters so specified. For the time being and for the purposes of this Statement, the professional standards which will be examined under practice review are as follows :

a. all standards and statements of professional conduct and ethics in the form of the Institute's By-Laws (On Professional Conduct & Ethics) in issue from time to time, in so much as these ethical standards and statements relate to the conduct of audit engagements and/or that of the member firm;

b. all standards and statements of accounting in the form of the approved standards and pronouncements issued by the Malaysian Accounting Standards Board (MASB) from time to time in so far as significant departures therefrom may affect the requirement for financial statements to give a true and fair view; and

c. all approved auditing standards, and guidelines and statements of best practices in issue from time to time. This will also include recommended practice guides (RPG), statements and circulars issued in relation to audit engagements and the practices of a member firm.

Scope

12 The Council has directed the Practice Review Committee to conduct practice reviews pursuant to this Statement and its supporting appendices, in order to determine that the professional standards specified in paragraph 11 above are observed, maintained and applied by all member firms, subject to paragraph 9 above.

Extent of powers

13 Practice reviews will be performed by reviewers employed by the Institute and/or those who have been appointed to the Panel of Reviewers by the Registrar. In order to ensure proper administration of the practice review process, the Practice Review Committee is allowed to exercise its full powers as provided in this Statement and pursuant to any other directives issued by the Council without restriction.

Panel of Reviewers

14 A Panel of Reviewers will be established by the Institute to undertake the function of practice review in addition to the reviewers so employed by the Institute to conduct practice reviews. A person who is a member of the Institute and who holds a valid audit licence and practising certificate shall be eligible to be appointed to the Panel of Reviewers subject to the following provisions :

a. The person must have successfully passed an interview process conducted by the Practice Review Committee and subsequently been recommended to the Registrar by the Practice Review Committee to be appointed to the Panel of Reviewers.

b. A person shall not be a member of the Panel of Reviewers and the Investigation and Disciplinary Committees as well as the Disciplinary Appeal Board at the same time.

c. The tenure of the panel member shall not be for a continuous period of more than three years from the date of his or her first appointment to the panel. Subsequent appointments cannot exceed a continuous period of more than three years from the date of his or her subsequent appointment.

d. A person currently under investigation by the Institute's Investigation Committee is not eligible to be appointed to be a member of the said Panel of Reviewers. An existing panel member who has received a notice of complaint in respect of such an investigation must resign from the Panel of Reviewers as soon as practicable but in any event, within one month from the date the notice of complaint is served on him/her at his/her last known registered address with the Institute.

e. Each member of the Panel of Reviewers must undergo the process of practice review within a year of his or her first appointment to the panel. Although member firms are selected on a random basis, the person who sits on the Panel of Reviewers shall volunteer his or her firm for the practice review within 6 months after the expiry of the first year of his or her appointment to the Panel of Reviewers should his or her firm fail to be selected under the normal random selection process.

f. The appointment to the Panel of Reviewers must be validated by a letter of appointment signed by the Registrar.

g. All appointments to the Panel of Reviewers shall automatically lapse on 31 December of each calendar year unless a letter of re-appointment issued under the hand of the Registrar is sent to the panel member's last known registered address with the Institute one month or earlier before the expiry date of 31 December of that calendar year.

h. As stated in paragraph 10 of this Statement, a person cannot be a member of the Practice Review Committee and the Panel of Reviewers at the same time and vice -versa.

i. Subject to sub-paragraph d. above, an advance notice of one month should be given to the Registrar prior to any resignation from the Panel of Reviewers. Any notice period of less than one month shall be accepted at the Registrar's own discretion.

Conduct of Practice Reviews

Objective

15 Essentially, a practice review entails, among other things, a review of current audit engagement files and related financial statements to ascertain that the member firm is adhering to professional standards. Where a member firm is not following professional standards in certain situations, suggestions and recommendations for improvement may be made, and possibly followed by a further review, in keeping with the educational thrust of practice review. The number of current audit engagement files to be reviewed depends on:

a. The degree of reliance, if any, to be placed on internal quality controls of the member firm; and

b. The size of the member firm being selected for review.

A summary of the practice review procedures designed to meet the above objective is contained in Appendix A herein.

Selection of member firms for review

16 The Registrar will randomly select member firms for review and will determine the order of review. A member firm will not be selected until at least **18 months have elapsed since the commencement of the member firm** based on the Institute's records.

17 Upon the selection of the member firm to undergo the practice review process, the member firm will be duly notified within a week in writing via registered post by the Institute. The member firms will be given an option to decide whether they would prefer to be reviewed by a reviewer employed by the Institute or by a member of the Panel of Reviewers.

18 The member firm thus selected will have to respond to the Registrar in writing within two weeks from the date of notification of selection as to which of the options the firm intends to exercise. Once this option is exercised, it cannot be reversed unless otherwise allowed by the Registrar on the recommendation of the Practice Review Committee.

19 In cases where a response to the Institute's notification of selection is not received within the stipulated time frame, the Registrar can proceed to assign such reviewer at his discretion to the member firm that has been selected for the practice review process.

20 The identity of the member firm shall be kept confidential from all parties including the Practice Review Committee and those staff of the Institute not directly involved in practice review, save for those relevant reviewers or members of the Panel of Reviewers (as the case may be) who are directly involved in the review of that member firm.

21 Where the member firm selected has branch offices or associated practices under more than one name, in so far as possible, the practice review will be conducted to cover all these branches or associated practices at the same time. Members in public practice should ensure that the Institute is aware of all modes of practice conducted by them in order that this can be facilitated.

Notifications

22 Member firms will be notified by letter as to whether their selected option has been accepted. The option for review whether by a reviewer employed by the Institute or by a member of the Panel of Reviewers will be clearly stated in the no-

tification letter. In the latter case, the name of the member of the Panel of Reviewers who has been appointed to do the review as well as the firm which he/she is currently practicing under will be mentioned in the notification letter. Enclosed with the notification letter will be a Practice Review Questionnaire (the Questionnaire). The member firm should complete the Questionnaire and return the same through the member firm's designated practitioner (the sole practitioner, the senior partner or other partner designated as responsible for practice review), along with all information requested, to the Institute within the required period as may be stipulated in the notification letter.

23 The reviewer assigned to the member firm will be responsible for arranging the on-site practice review visit, which will normally be scheduled within six weeks of such notification. The member firm shall notify the Institute immediately if they consider the timing of the visit to be inconvenient and shall specify the reasons thereto. Another date will be arranged by mutual consent such that the review will be held within four months of such notification. Any further extension is at the reviewer's sole discretion and shall only be granted for valid reasons.

24 The member firm shall be given reasonable notice of the selection of client files for inspection. The selection of client files is made by the reviewer from the most current client listing as provided by the member firm. Such listing must be certified as complete by the member firm prior to the selection of sample files. As a rule of thumb, the member firm should always ensure that all current audit engagements which are representative of the operations of the firm should be readily retrievable during the on-site practice review. For the purposes of the practice review, such current audit engagement files refers to engagements which have been signed off in the past 18 months up to the date of the on-site practice review or any other dates that can be reasonably accepted by the reviewer as a practical alternative.

Arrangements for review

25 On-site practice review visits will be conducted at the member firm's registered office or other registered place of business. The member firm should ensure that the reviewer is given access to all offices if there are more than one and is given all reasonable assistance for the proper conduct of the practice review. It is expected that the reviewer will be provided with adequate office facilities for him/her to perform his/her work effectively and efficiently.

Access to documents

26 (1) The following provisions shall apply as regards to any practice review :

a) Any person, to whom this paragraph applies, and who is reasonably believed by a reviewer to have in his/her possession or under his/her control any record or other document which contains or is likely to contain information relevant to the practice review shall :

(i) produce to the reviewer or afford him/her access to, any record or document specified by the reviewer or any record or other document which is of a class or description so specified and which is in his/her possession or under his/her control being in either case a record or other document which the reviewer reasonably believes is or may be relevant to the practice review, within such time and at such place as the reviewer may reasonably require;

(ii) if so required by the reviewer, give to him/her such explanation or further particulars in respect of anything produced in compliance with a requirement under sub-paragraph (i) as the reviewer shall specify;

(iii) give to the reviewer all assistance in connection with the practice review, which he/she is reasonably able to give.

b) Where any information or matter relevant to a practice review is recorded otherwise than in a legible form, any power to require the production of any record or other document conferred under paragraph (a), shall include the power to require the production of a reproduction of any such information or matter or of the relevant part of it in a legible form.

c) A reviewer may inspect, examine or make copies of or take any abstract of or extract from a record or document which may be required to be produced under paragraph (a) or (b). However, the making of copies should not be extended to cover those of the member firm's current or previous clients' listings.

d) A reviewer exercising power under this paragraph shall, if so requested by a person affected by such exercise, produce for inspection by such person a copy of the appointment furnished to him/her prior to the commencement of the review.

2) Subsection (1) (a) applies to any member of the Institute employed or involved in the member firm to which the particular practice review relates or to any person employed by or whose services are engaged by such firm.

27 Normally the reviewer will require a copy of the financial statements relating to the client file reviewed. The financial statements will be used as a reference for the Practice Review Committee to assess the adequacy of auditing procedures in relation to the materiality of the items concerned. Before the copy of the financial statements is submitted to the Practice Review Committee for consideration, all references to the client's name or names and references within the financial statements which could reveal the client's or the member firm's identity will be concealed by the reviewer.

28 Where it is considered necessary for the proper completion of the review, a reviewer may request copies of other documentation. In such circumstances, the identity of the client or references which would reveal the identity of the member firm will be concealed by the reviewer prior to the submission of these copies to the Practice Review Committee for consideration.

Reporting

29 At the conclusion of the practice review, a reviewer is required to make a report to the Practice Review Committee. In doing so, the reviewer shall not name any individual in the report except in a suitably codified manner.

30 A reviewer shall, before making the report required herein, send a dated draft of the reviewer's report to the member firm concerned, and to each individual (if any) who is named in the report by registered post or recorded delivery addressed to the registered office or registered address of the member firm or the individual, as the case may be.

31 The member firm, following the receipt of the draft report has 21 days beginning the day after the day the dated draft is sent to make any submissions or representations, in writing to the reviewer, concerning the dated draft of the reviewer's report.

32 The reviewer is required to attach any written submission or representation made, to the reviewer's report in its final form before submitting it to the Practice Review Committee. The reviewer will delete any reference to the member firm's identity in these written submissions or representations to preserve anonymity.

33 The reviewer will subsequently send to the member firm a copy of the final report as submitted to the Practice Review Committee, by registered post or recorded delivery.

Powers and Procedures of the Practice Review Committee

General

34 The Practice Review Committee shall :

a. determine the practice and procedures to be observed in relation to practice reviews to the extent not set out in this Statement and supporting appendices;

b. issue instructions to any reviewer on any matter relating to practice reviews or a particular practice review;

c. do or perform any other thing or act as may be incidental to or which it considers necessary or expedient for the performance of its functions or exercise of its powers under this Statement.

Review and Report

35 After completing the draft report process, the reviewer will forward a copy of the reviewer's report, any submissions or representations from the member firm (suitably summarised and codified) to the Practice Review Committee for its review.

Follow-up action

36 On receiving the report from a reviewer, the Committee, having regard to the report and any submissions or representations attached to it, may:

a. make recommendations to the member firm concerned regarding its application or observance of (or lack thereof) professional standards;

b. i. issue an instruction to a reviewer to carry out, within such period as may be specified in the instruction (which period shall not commence earlier than six months after the date on which the instruction is issued), a further practice review as regards the member firm to which the report relates; and

ii. specify in the instruction, the matters as regards which the review is to be carried out;

c. if it is of the opinion that any one or more or all of the partners in the member firm subject to practice review may have failed to observe, maintain or apply, as the case may be, professional standards, then subject to paragraph 37 below, the Practice Review Committee may make a complaint regarding such partner concerned or, in case there is more than one such person concerned, a separate complaint in respect of each of them, to the Investigation Committee of the Institute.

37 Where :

a. there exists a potential complaint; and

b. immediately prior to the commencement of the relevant practice review

i. the proprietor or partner to whom the complaint relates had not previously been a partner in any firm at any time when a practice review was carried out as regards that firm; and

ii. a practice review had not previously been carried out as regards his practising on his own account, the Practice Review Committee shall NOT refer the complaint to the Investigation Committee UNLESS it is decided by a majority of three quarters of its members for the time being that, had the grounds of complaint or any such ground or any matter or matters complained of been established, the relevant act or omission by such proprietor or partner would have amounted to unprofessional conduct within the meaning prescribed pursuant to Rule 2 of the Malaysian Institute of Accountants (Disciplinary) (No. 2) Rules 2002.

38 The Practice Review Committee shall make recommendations to the member firm where :

a. it considers that the member firm has satisfied all key control objectives which the Practice Review Committee determines are required to maintain professional standards but where further improvements could be made to internal quality control systems; and

b. it considers that the member firm has satisfied the major key control objectives but some weaknesses exist in others. The member firm is then expected to consider the recommendations for rectifying the weaknesses in controls and take all necessary action to ensure that all key control objectives are achieved. A follow up meeting will be conducted after 12 months or if possible, even earlier to enquire about the progress of the implementation of the recommendations.

39 A follow up review will be required where the member firm has not satisfied the Practice Review Committee that all the key control objectives have been maintained and where the deficiencies are likely to materially affect the overall quality of an audit engagement. In such cases the Practice Review Committee will also make recommendations, which it expects the member firm to implement in order to ensure the maintenance of professional standards.

The implementation of these recommendations will be examined during the follow up review.

40 It is clear that where a potential complaint relates to the first ever review of the individual concerned, whether in the member firm which is the subject of the report, or in any other member firm previously reviewed, no complaint can be lodged with the Investigation Committee unless the conditions set out in paragraph 41 below are fulfilled. This provision is in line with the educational thrust of practice review and the Council's commitment to work with members to improve professional standards.

41 The Practice Review Committee will, even on a first review, make a complaint against a member where the weaknesses in the performance of audit engagements, or the disregard of professional standards amounts to, in its opinion, unprofessional conduct within the meaning prescribed pursuant to Rule 2 of the Malaysian Institute of Accountants (Disciplinary) (No. 2) Rules 2002. In subsequent reviews, the Practice Review Committee can make a complaint where it is of the opinion that the member has failed (or has shown no credible intention) to maintain, observe or apply the professional standards as expected of him or her.

42 Where the Practice Review Committee refers a complaint to the Investigation Committee, the reviewer shall disclose the identity of the member(s) in public practice or the member firm as the case may be, as well as submit all reports and files including working papers and correspondence pertaining to the review, to the Investigation Committee for its investigation.

Referral of disputes

43 Where a dispute arises over the powers of reviewers as regards to the access to the documents etc. of the member firm, the reviewer or member firm or both may refer the dispute to the Practice Review Committee. A member firm should refer a dispute to the Practice Review Committee in writing via the Registrar.

44 Normally, the Practice Review Committee will delegate the determination of such a dispute to a sub-committee chaired by the Chairman of the Practice Review Committee. As far as possible the anonymity of the member firm will be maintained. The Registrar will delete any references to the member firm's identity from written communications before passing these on to the Practice Review Committee.

45 Where a dispute is referred, after considering any submissions or representations (which shall be in writing) made by the relevant member firm and/ or the relevant reviewer, the Practice Review Committee :

a. shall determine the dispute and communicate such determination to each of the parties to the dispute; and

b. may issue directions relating to the matter in dispute to such member firm or the reviewer concerned and require such member or reviewer to comply with them.

46 Where a member firm or a member in public practice is required to comply with a direction given by the Practice Review Committee and fails to comply with the said requirement, the Practice Review Committee may make a complaint to the Investigation Committee regarding the member firm or member in public practice concerned on a simple majority basis.

Confidentiality

47 Strict confidentiality provisions shall apply to all those involved in the practice review process, namely the Registrar, reviewers, members of the Practice Review Committee, or any person holding a position who assists any of these parties.

48 Each person referred to in paragraph 47 above shall :

a. at all times after his/her appointment preserve and aid in preserving secrecy with regard to any matter coming to his/her knowledge in the performance or in assisting in the performance of any function;

b. not at any time communicate any such matter to any other person; and

c. not at any such time suffer or permit any other person to have any access to any record, document or other thing which is in his/her possession or under his/her control by virtue of his/her being or having been so appointed or his/her having performed or having assisted any other person in the performance of such a function; provided that the above provisions do not apply in relation to disclosures made in relation to or for the purpose of any investigation and disciplinary proceedings or criminal proceedings.

49 In order to enhance confidentiality and impartiality, neither the identity of the member, the member firm or the member's clients will be made known to the Practice Review Committee. Any report prepared by the reviewer for the Practice Review Committee will only identify the member firm and its clients by code numbers.

50 Where the final practice review report has been issued by the Practice Review Committee and no further action is required, the report, work papers and correspondence pertaining to the review shall be destroyed after one year. Data required for administration purposes shall be retained in order to evidence that a review requiring no further action has been completed and to identify the members and the firm reviewed. Where the Practice Review Committee decides that further action is necessary, all files shall be retained until such further action has been completed to the satisfaction of the Practice Review Committee.

Completeness of Review

51 For practical reasons, not all partners of a member firm that have been selected for practice review will be reviewed individually as regard to the current audit engagement files.

52 However, in most circumstances, the sample of files selected for on-site practice review should be reflective of the firms' overall operations and size. Appendix B on page 15 sets out a flow chart of a general indication of such file selection.

SUMMARY of Practice Review Procedures

Introduction

The Practice Review Committee shall, among other things, determine the detailed practice and procedures to be observed in relation to practice review. The framework for the review procedures as contained herein have been endorsed by the Council and shall act as supplemental to the Statement on Practice Review issued by the Council on 15 November 2002 and which comes into effect on 1 January 2003. These procedures are summarised below and can be categorised into three stages — planning, execution and reporting.

Planning

■ *Selection of member firms by Registrar*

The Registrar will select member firms randomly from the register of member firms maintained by the Institute. Each member firm shall have an equal chance of being selected. All member firms selected will be codified so as to ensure the identity of the firms concerned remains confidential.

■ *Notification — Choice of Reviewers*

A member firm will be notified in writing about an impending practice review and will be required to state their preference — to be reviewed by a reviewer who is a staff of the Institute or by a person appointed from the Panel of Reviewers.

i) **Notification — Enclosure of Questionnaire**

A Questionnaire will subsequently be sent to the member firm for completion after the option of review (see above) has been confirmed by the Registrar.

■ *Return of completed Questionnaire*

The member firm should complete and return the Questionnaire within one month of receipt. The information will be used for the planning of the review.

In addition, member firms are required to prepare a complete list of their audit clients, suitably codified if desired, and to provide any other information the reviewer considers necessary to facilitate the selection of a sample of audit engagements, representative of the member firm's client portfolio, for review.

■ *Confirmation of visit*

In consultation with the member firm, a date will be set for the on-site review to be carried out. Flexibility will be permitted to ensure that members in public practice are not inconvenienced at especially busy periods. The on-site review date will be arranged by mutual consent such that the review will be held within four months of notification. Further extension beyond four months will be at the sole discretion of the reviewer.

Execution

It is estimated that at least a full day will be needed to complete an on-site review for a member firm of a smaller size. However, this is based on the assumption that the member firm concerned has made all the necessary information and documentation available to the reviewer for his review. Reviews of larger firms may take longer to complete.

■ *Initial meeting*

An initial meeting will be held between the reviewer and a partner of the member firm designated to deal with the review (designated partner). The primary purpose of this meeting is to confirm the accuracy of the responses given on the Questionnaire. The description of the system in the Questionnaire may not fully explain all the relevant procedures and policies adopted by the member firm and this initial meeting can provide additional information. The reviewer should have a full understanding of the system and be able to form a preliminary evaluation of its adequacy at the conclusion of the meeting.

Larger firms which have extensive documentation regarding their practice and procedures (i.e. formal office procedures manuals and audit manuals) will find it unnecessary to document all the controls and will just cross reference the Questionnaire to the relevant sections of their manuals. For firms like these, an additional planning visit will be arranged before the on-site review to review the relevant manuals.

■ *Compliance review — general controls*

The reviewer may carry out a compliance review of the general controls of the member firm and evaluate the degree of reliance to be placed upon them. The degree of reliance will, ultimately, affect the sample size

of audit engagements to be reviewed.

The following five key controls are included in the Questionnaire :

- Independence;
- Maintenance of Professional Skill and Standards;
- Outside Consultation;
- Staff Supervision and Development; and
- Office Administration.

Member firms are expected to address each of the five key control areas.

In each key control area of the Questionnaire, there are supplementary questions and matters to consider. These are intended to indicate the kind of controls that are expected to be installed and operated within each firm.

All questions are not necessarily relevant to particular types of member firms because of their size and culture etc. However, member firms should still assess their internal control systems to ascertain whether they address the objectives under the five key control areas.

■ *Selection of audit engagements to be reviewed*

The number of audit engagements to be reviewed depends upon :

a. the number of partners involved in audit engagements in the firms selected; and
b. the degree of reliance placed, if any, on general quality controls.

For the number of audit engagements to be actually reviewed, please refer to the flowchart in Appendix B as provided herein as a general guideline.

From the clients list as provided and certified as complete, the reviewer, in consultation with the member firm, will proceed to select an actual sample of audit engagements for review. The engagements reviewed should be a balanced sample from a variety of different sized clients covering various industries so that they reflect the "overall performance" of the said firm under review. Accordingly, if the reviewer considers that the actual sample is not representative of the member firm's audit client portfolio, he may proceed to choose an additional number of files in excess of those as depicted in the enclosed flowchart in Appendix B.

The population from which files are selected for review will be audits completed at least 6 months preceding the date of the notification letter but not earlier than 18 months prior to the selection date.

■ *Review of files*

The reviewer may adopt a compliance approach or substantive approach or a combination selection of both in the review of audit engagement files.

■ *Compliance approach — audit engagements*

The compliance approach is to assess whether proper control procedures have been established by the member firm to ensure that audits are performed in accordance with approved Auditing Standards and Guidelines and such control procedures are consistently adhered to by the member firm.

The following six key controls are included in the Questionnaire :

- Audit File Administration;
- Financial Statements Presentation;
- Review and Evaluation of System of Internal Controls;
- Substantive Tests;
- Audit Conclusion; and
- Audit Report.

■ *Substantive approach — audit engagements*

A substantive approach will be employed if the reviewer chooses not to place reliance on the member firm's specific controls on audit engagements or is of the opinion that the standard of compliance is not satisfactory. This approach requires a detailed review of the audit working papers in order to establish whether the audit work has been carried out in accordance with approved Auditing Standards and Guidelines. Such a review is similar to the type of review performed by the engagement partner/manager during normal audit engagement procedures. This approach is likely to take longer than the compliance approach.

■ *Closing meeting*

At the end of the on-site review, a draft report of factual findings will be prepared for discussion with the designated partner of the firm being reviewed or the sole practitioner. During the closing meeting, the designated partner/practitioner has the opportunity to make representations, suggestions and recommendations in relation to the matters raised. The reviewer has the duty of explaining to the designated partner/practitioner the advantages and benefits of implementing suggestions and recommendations for improvements. At the conclusion of the closing meeting, the designated partner/practitioner and the reviewer are required to sign on the draft report of factual findings to signify their agreement of its factual accuracy.

Reporting

The reviewer will prepare a report to the Practice Review Committee (the reviewer's report), incorporating the report of factual findings as discussed with the member firm. After review by the Practice Review Director (or Senior Manager) of the Institute, a dated draft of the reviewer's report will be sent to the member firm for comments. This process should not take more than two

months after the closing meeting. Any comments made must be submitted in writing within 21 days. The reviewer will finalise his/her report upon the receipt of the submissions. In finalising the report, the reviewer may make changes to the dated draft he/she considers appropriate in the light of the submissions. The submissions will be attached (after properly codified) to the reviewer's report before it is sent to the Committee for consideration. A copy of the reviewer's report will be sent to the member firm for its information and record.

The member firm will be allowed the opportunity to make its representations throughout the review process. It is expected that the on-site closing meeting between the reviewer and the firm will provide an excellent channel for the communication of views concerning the findings and recommendations. In addition, the member firm has 21 days to consider the dated draft report and make its formal submissions and representations to the Practice Review Committee through the reviewer.

A meeting of the Practice Review Committee will be held to consider the reviewer's report and the member firm's submissions. The Committee may issue a final report to the member firm and instruct the reviewer to perform any follow-up action considered appropriate. The final report can be categorised as follows :

1. Such report may contain minor recommendations for improvements to the systems. The member firm may exercise its discretion in considering what course of action to be taken. The Institute will not perform any follow-up procedures to ensure changes are made.

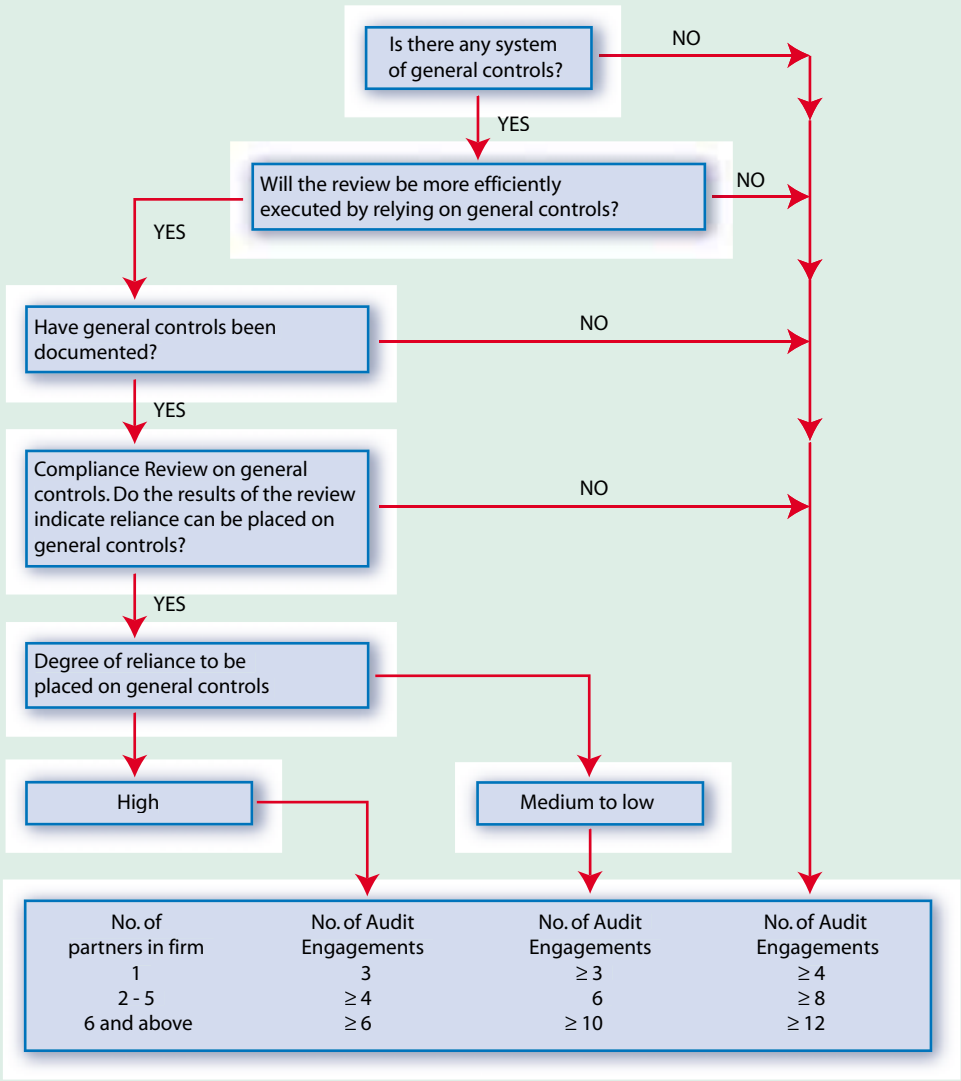
2. A variation to the type of report as mentioned in (1) above is issued where the member firm is found to have achieved the major control objectives but some weakness are found in certain control areas which are considered material enough to bring to the attention of the firm. The said firm should seriously consider the suggestions and recommendations and take all necessary action (implementing new procedures) to ensure the objectives of the particular control areas are achieved. A brief review/meeting will be arranged with the member firm about 12 months after the issue of the final report to establish whether changes have been implemented.

3. Finally, there is also a report where a member firm is deemed to have failed to satisfy the Practice Review Committee that it has sufficient controls to ensure its audit work is consistently carried out in accordance with applicable professional standards. In such case, the Practice Review Committee will order the reviewer to perform another practice review no earlier than six months after the issue of the final report. This will allow time for the member firm to take steps to improve its controls system as suggested.

It is possible that where the third type of report reveals extensive weaknesses amounting to unprofessional conduct within the meaning prescribed pursuant to the Malaysian Institute of Accountants (Disciplinary) (No. 2) Rules 2002, the Practice Review Committee can make a complaint to the Investigation Committee for its investigations. AN

APPENDIX B

FILE SELECTION PROCESS



Notes : i) The reviewer will decide how many audit engagements will be reviewed within a range at the planning stage.
ii) The above table only gives a general indication of the number of audit engagements to be reviewed. The exact number and extent of review will be dependent on the individual firm's circumstances.
iii) As a minimum guide, it is envisaged that the review of one audit engagement file per partner involved in provision of auditing services is to be conducted.

THE BCP BUDGET AND BUSINESS IMPACT ANALYSIS (PART 2)

By Dr. Josef Eby Ruin

The Budget for Cost of Recovery

Often the daunting questions that haunts a BCP Manager or BCP Project Team is :

1. does my organisation have a BCP budget?
2. if it does what is the amount and is it adequate?
3. what does my organisation invest its disaster recovery money in?
4. what is expected of my organisation from that kind of investment?

Total disaster recovery investments are sometimes obscure and hard to identify. The expenses can be hidden in normal production or operation and service support. The human resource cost portions may not be properly tracked, or they are buried in other HR and department costs. Very often it is not unusual to come across organisations that are not able to meet their 'time-to-recover', data protection objectives or plain business recovery let alone continuity with their current level of BCP expenditure-allocation. As a percentage of their budgets, financial institutions and service providers like telecommunications companies and airlines tend to be generous in their investment on their disaster recovery or business continuity. Other types of industries may not be that generous or committed. One simple rule-of-thumb may be for an organisation to set aside about 10 per cent of its IT budget to be dedicated as to its disaster recovery and business continuity programmes.

"… financial institutions and service providers like telecommunications companies and airlines tend to be generous in their investment on their disaster recovery or business continuity."

The Many Costs or Prices of Crisis

A surprised power outage can cause organisations to halt operations for an indefinite period of time. Some empirical studies reveal that nine out of 10 organisations reported that during a system's failure they :

1. encounter productivity losses;
2. have bigger incidence of end-user and management dissatisfaction, and
3. are confronted with deluge of customer dissatisfaction (and this is in fact very damaging for the long-term survival of the organisation).

The costs of a disaster includes the cost of :

1. replacing the malfunctioning equipment or service;

2. restoring the premises/structural facilities;
3. re-constructing or re-keying in the lost data;
4. productivity loss;
5. opportunity loss or notional income cost;
6. revenue loss;
7. customer attrition due to their dissatisfaction.

BCP Recovery Strategy Cost

Another way of looking at BCP recovery and crisis expenditure is by looking at two levels of cost, which are :

1. pre-event costs; and
2. the event (moment of truth) costs.

Pre-crisis event cost

These are costs incurred in either :

1. implementing risk mitigation strategies or,
2. allocation of resources and this includes both human, financial and the capital expenditure needed to develop the necessary infrastructure for the BCP recovery strategy.

'Moment of truth' or crisis event costs

These are expenses incurred during the 'moment of truth,' that is, when the crisis actually crops up. They include costs in invoking the BCP and implementing the BCP strategies to address the crisis. These costs are estimations of the probable costs to be incurred if the BCP were to be activated for some definite period, say, one-day, seven days, 10 days, or three weeks.

These costs can include any or all of the following :

1. activation of service level agreement (SLA). This is sometimes time cost, plus on-going expenses until services or products are no longer needed (end of crisis);
2. HR and people's expenses like overtime, temporary workers and contractors;
3. logistics for transportation and deployment of resources and people, couriers and removers;
4. accommodation costs for hiring HR, leasing of temporary offices, accommodation for staff and relevant para personnel;
5. procurement of non-IT resources such as cubicles, desks, chairs, tables, safes, cabinets, photocopiers, stationary items, news and PR releases;
6. compensation payments, and liabilities that are not claimable from insurance;
7. IT resources including faxes, handsets, phones, printers, desktop PCs, notebook computers, terminals, scanners, data wiring and cabling;
8. HR costs to train new hirers or other staff to replace victims;
9. Other miscellaneous costs like insurance deductibles, security, salvage and repairs of assets, clean up of disaster site, and emergency services costs.

BCP Cost Decision Matrix

An organisation likes to look at alternative decisions of :

1. whether it is prepared to accept higher risks with lower event costs or,
2. lower risk strategy with higher event costs.

In many ways, it is sometimes a 'trade-off' between (1) the risks that an organisation is prepared to accept and (2) the justifiable costs. Where two strategies have equal risks and costs, then a third element is brought into the equation. This third element is the so-called 'benefit'. The benefit(s) of each strategy are evaluated against the risks associated with the recovery strategy. After that the benefits are further considered in (1) the short and (2) the long-term for the added-value these benefits accrue to an organisation that operates in a competitive and dynamic market.

The Right Recovery Strategy and Cost

After careful debate and analysis, the management and Board usually will implement the BCP with the agreed-to budget. The reality is that there could be a situation where the wrong choice of recovery strategy will actually exacerbate the disaster. These turn of events can even cause organisations to go out of business. With a good BCP Team and supported by IS/IT personnel, there is always the favourable outcome of that one right recovery strategy being selected. This reduces the potential exposure to further disaster that can give an organisation a double whammy.

"The reality is that there could be a situation where the wrong choice of recovery strategy will actually exacerbate the disaster. These turn of events can even cause organisations to go out of business."

BUSINESS IMPACT ANALYSIS (BIA)

Developing the BIA

Having a good disaster recovery strategy (DRS) for IT/IS systems is half the battle won for a reliable BCP. Usually the prime question an organisation has to answer, when deciding to implement its recovery programme, is "what kind of DRS to implement?". It must be understood that the recovery point objective (RPO) is a key element or characteristic of a credible DRS.

To arrive at an organisation's RPO the fundamental issues that the BCP Team has to address first would be :

1. how long can our organisation go on without a computer environment?
2. how much data can our organisation afford to lose if our organisation encounters a crisis or disaster?

The BCP Team will have clues for the above questions by undertaking the BIA. BIA is tailored to identify :

1. business processes and systems that are critical to conducting business, and
2. resources essential to supporting those mission-critical functions.

Processes and systems are generally divided into three critical classifications of :

a) those that support the product or service delivery and are essential to the business *(mission critical)*;

b) those that are business-support functions and are necessary to run the core business *(major or key activities)*;

"Having a good disaster recovery strategy (DRS) for IT/IS systems is half the battle won for a reliable BCP."

c) and those that are deferrable *(need not have BCP documented)*.

The BIA looks at :

1. operational and intangible impact that revolve around public confidence, managerial control, image and reputation, and regulatory liability; and
2. financial impacts that revolve around direct financial loss, extra cost of working, and regulatory penalty.
3. Critical analysis of the BIA can help the BCP Team to establish the Recovery Time Objective (RTO) and Data Recovery Objective (DRO) of any business or support functions.

Business Survival and BIA

If a business is to survive a crisis, it has to select the right strategy. Development of BCP strategies starts with knowing the outcome of the BIA studies. A comprehensive BIA :

a) identifies an organisation's core business and service processes; and

b) maps out critical dependencies like computer systems and information technology; or

c) critical third party service providers.

In BIA, the four key questions often asked by the BCP Team are :

1. What functions are critical to our organisation's business operations and why?
2. What resources do our organisation's critical functions employ or resort to when those critical functions are being performed?
3. What is the duration, or how long will be the interruption that these functions can withstand?
4. How much does it cost for our organisation to establish its recovery capability to restores the resources needed by those critical functions in the standard time frame that our organisation has agreed upon?

BCP Strategies for Organisations

The table below summarises the advantages and disadvantages of each of the BCP strategies that an organisation can adopt or implement.

Internal redundancy — Activation is fast, cost can be medium while reliability is good.

Outsourcing — Activation is fast but cost can vary, while reliability is excellent. The problem sometimes is the 'queuing system' since the provider could be extending services to many applicants or subscribers; thus the availability of space and facility could be on a First Come First Serve basis.

Hot site — Activation can be fast but cost is high, though reliability is excellent.

Cold site — Activation is slow, cost is of course rather low, while reliability is quite poor.

Warm site — A halfway point between hot and cold site.

Reciprocal agreement — Activation may be slow, cost is low, while reliability is poor.

Mobile data or recovery centre — Activation is medium, but its cost is low while reliability is good.

Addressing Crisis is Part Operational Risk Management

When any one talks about operational risk management (ORM), there are seven risk areas to study or seven groups where any one can classify operational risks by.

"If a business is to survive a crisis, it has to select the right strategy."

They are :

1. strategic risk;
2. legal and regulatory risk;
3. product and customer service risk;
4. human resources risk;
5. IT/IS and computer systems risk;
6. crisis management risk;
7. operational errors risk;
8. internal and external fraud risk.

BCP is not a Privilege or Luxury Today

BCPs nowadays are not an option anymore. It has to be in place if an organisation wants to move forward and prosper. They are a critical and essential subset of operational risk management. As can be seen above, crisis management risk is one of the eight groupings or types of operational risks. Why is BCP a much talked-of topic these days? Simply because for many organisations, the decision to invest in a BCP is being forced upon them through requirements by regulatory bodies like Securities Commissions, Central Bank, etc; or by changing forces in accountability by legislation and other vested parties and stakeholders.

The Recovery or Continuity Phase

The three operational recovery or business continuity phases are :

1. To make the scene safe to work in;
2. To preserve evidence in the 'scene of crime' place;
3. To get business to continue on the 'business as usual' or at least the 'business survival'.

All aspects of recovery/continuity need to be documented and learned from. Some learning points have to be identified for posterity as well as for 'lessons learnt' examples for the sake of posterity in the event that a disaster strikes again in the future.

The 'Lessons Learnt' Checklist

An organisation can look at these administrative issues so that its BCP awareness environment is in top gear :

1. Ensuring that plans are in place;
2. Ensuring that key data are accessible;
3. Ensuring that the facts are communicated;
4. Ensuring that the hot staff are brought in only when they can work or help, (staff are categorised as hot, yellow and green with hot being the crucial and needed staff, while the yellow and green can stand by);
5. Ensuring the identification and usage of back-up storage;
6. Ensuring the operation of a clear desk policy;
7. Ensuring controls and display of leadership;
8. Ensuring prioritising, focusing and not getting distracted;
9. Ensuring that key or 'red' staff do take time off after the initial recovery/continuity process;
10. Ensuring the learning of critical human behaviour and experience from the staff involved.

"BCPs nowadays are not an option anymore. It has to be in place if an organisation wants to move forward and prosper. They are a critical and essential subset of operational risk management."

Generic Recovery Framework

The recovery and continuity framework can be in four dimensions, namely :

1. *Technical* — information technology such as desktop, client/server, mid-range, mainframe and personal computers; data and voice networks.
2. *Business* — logistics, accounting, human resources and functions.
3. *Tactical* — peculiar or specific action steps or work processes applicable only to the individual operations or business activity.
4. *Global* — action steps or work processes that can be applied generally to all the operations or business activities.

Coming to Terms with BCP Nomenclature

In discussing any BCP study, it is useful to be at home with two terms and they are :

1. the likelihood of event (disaster/crisis) happening, and
2. the consequences (impact or effect) when that event (disaster/crisis) has occurred on an organisation.

The likelihood of event to happen

Rare occurrence : For a disaster/crisis that may occur only in very exceptional circumstances.

Unlikely to occur : For a disaster/crisis that can occur at some time only.

Moderate occurrence : This disaster/crisis is, or should be, occurring at any time.

Likely to occur : For a disaster/crisis that is, or will probably be, occurring in most circumstances.

Almost certain to occur : This disaster/crisis is expected to occur in most circumstances.

Consequences (impact/effect) of event (disaster/crisis)

Minor impact : The consequence or impact is readily absorbed, but management effort is needed to minimise the effect or outcome of the crisis.

Moderate impact : The impact of the crisis can be managed with the appropriate process.

Major impact : The impact of the crisis can only be endured with substantial management involvement.

Catastrophic effect : There will be complete disaster, and the potential to destroy is going to collapse or bring about the demise of any activity or operation.

What is Deemed 'Vital or Critical'?

At one extreme, it could be misleading, if not mischievous, to assert that the impact of any interruption of a business process justifies some initiatives for BCP. At the other extreme, significant impacts need not, on their own, provide sufficient incentive to justify BCPs. The fact remains however that vital business functions do fall within certain categories. Thus many organisations define and see critical areas in their business environment to be those that involve :

1. revenue generation;
2. tarnished image/reputation;
3. customer service; or
4. regulatory compliance.

Areas such as quality control, payroll, or inventory management could also comprise broad groupings of criticality for major operations and business activities, while in some others they may not be really so.

The assessment of criticality or vitality is made by the leadership in an organisation (normally the BCP team with endorsement of the Management/Board). Such assessment reflects the perspective of what an unacceptable interruption in a business or operations process would be and is very co-related to the overall business and operational objectives of that organisation.

> "An organisation's recovery or continuity strategy is developed with the focus on the recovery of the core business and operations processes. Usually in the event of a disaster/crisis, it is business survival and not business as usual."

Obvious Minefields to Avoid

It is difficult, in today's ever-changing business climate, to justify expensive and long BCP efforts. An organisation's BCP Team can avoid the more obvious planning minefields by observing the following :

1. The BCP Team should not, at the outset, anticipate solutions and then slant its investigation to suit them. Be wary that data centre hot sites, work groups and mobile recovery units are all solutions that are in search of problems themselves.
2. The BCP Team should spend time defining what its organisation's business issues are. The right solution can emerge out from that definition.
3. The BCP Team must always bring in the business groups in its workshops and discussions. Listen to what the business groups have to say about their operations and business. They know better. Having the business group's support early and consistently is going to help the BCP Team in the long run.
4. The BCP or recovery strategy tool is not the BCP plan. To spend time and argue on the selection of planning software before the BCP Team has a clear idea of what it wants the tool to do is indeed unproductive, non-focussed as well as premature. The tool the BCP Team needs for the BCP purposes should be familiar and user-friendly to everyone in the organisation. Only after the BCP Team has a plan that is completed in a familiar format can a sensible business decision regarding BCP software be selected.

A Recap and Summary

An organisation's recovery or continuity strategy is developed with the focus on the recovery of the core business and operations processes. Usually in the event of a disaster/crisis, it is business survival and not business as usual. Once an organisation's board and management has

1. signed-off the BIA report,
2. endorsed the recovery of the recommended core business processes and
3. prioritised the recovery,

The logical follow up action is for the BCP Team to develop the BCP recovery/continuity strategies for each of the critical or major/key business and operations processes. Ideally, initiating the BCP recovery strategies ought to include inputs from all the relevant business and operations units, because experienced staff in these units understand many specific and peculiar business management controls and operations processes that are mission-critical. It is useful therefore that the BCP Team get the involvement and commitment of all users and business/operations owners in the workshops to arrive at the risk-consequence model (the BIA or business impact analysis matrix).

Business continuity planning is an ongoing process of ensuring the continual operation of critical business processes through :

1. the evaluation of risk and resilience,
2. the implementation of mitigation measures and
3. the establishment of a set of tested recovery outlines and strategies.

Business continuity is about (a) protecting the interest of an organisation, (b) ensuring that an organisation is able to bounce back from a disaster in an efficient manner with minimum disruptions to its customers/stakeholders' needs and expectations, or to recover and resume operations in the shortest time frame possible. AN

Note : The writer is General Manager/Head of Operational Risk Management for a commercial bank. He was a Fulbright Professional Exchange scholar and is a fellow member of ACCA (UK) and Chartered Accountant (M'sia). He has MSc (Bus Admin) and Doctor of Letters postgraduate degrees. He can be reached at jerwin001@hotmail.com

IT'S TIME LOCAL COMPANIES CAME CLEAN ON THEIR ENVIRONMENTAL RECORD

By Paul Thompson

In the business world conventional wisdom has it that companies can't afford to be environmental do-gooders. Environmentally responsible behaviour — like donating money to 'green' causes, investing in 'clean' technology and cutting environmentally damaging emissions from industrial facilities — shrinks a company's bottom-line, it is argued. Good deeds incur a cost with no corresponding financial return. To maximise profit, therefore, and create shareholder value, companies are best advised to just get on with the task of making money, legally, and not give a jot for environmental responsibility.

A number of influential commentators disagree. Strongly. They point to recent trends and events in the US and Europe — like the exponential growth in socially responsible investment and ballooning concern for the state of the natural environment — as a sign that conventional wisdom is about to get turned on its head. Increasingly environmentally friendly behaviour on the part of companies does earn credit, while environmental sins do get punished.

Before long environmental responsibility will, its advocates say, have to form an integral part of a company's strategy and core values. If not for all companies then at least those companies whose activities have a direct and obvious impact on the environment, such as those from 'smokestack' industries, those from extractive industries like minerals and oil, and utilities like water and electricity. Companies will find they can ill afford not to embrace it. And by the same token can ill afford not to tell us how they have embraced it.

Now the purpose of this article is not to assess how environmentally responsible local companies are. Rather it is to assess whether they tell us much about their environmental commitment and record. Before doing so let's first consider why the telling — demonstrating, explaining, reporting, call it what you will — what one does is so important.

Many commentators and think tanks reckon that the emerging environmental agenda — fuelled by growing public concern for ecology and the environment — will culminate in many, if not most, companies having to legitimise their existence. This will have to be done by providing an account, to wider society, on their environmental performance. Failure to convince society of their environmental responsibility may cause them to lose their 'licence to operate' — an unwritten permit that society bestows on companies granting them the right to operate. That would trigger censure, boycott, hijacking and eventual closure. The upshot of all this is that environmental responsibility is, they say, vital to the long-run survival and prosperity of many companies.

So how do companies communicate their environmental 'credentials'? Well typically it is done by way of corporate environmental reporting (CER), so called because it is the process of communicating externally the environmental effects of an organisation's economic actions. In a nutshell, CER is a summary of the company's environmental 'footprint'. It can be done either through the annual report or a separate stand-alone publicly available environmental report. CER may get lumped together with social issues

and labelled a 'sustainability' report.

Before addressing the state of CER in Malaysia let's look at the norm elsewhere. Earlier this year KPMG published its International Survey of Corporate Sustainability Reporting 2002. The survey — which looks at the reporting practices of the top 100 companies in 19 countries — finds that 72 per cent of Japanese companies, 49 per cent of UK companies and 36 per cent of US companies issue environmental, social or sustainability reports in addition to there financial reports. Health, Safety and Environment (HSE) are the most common types of reports.

For an example of international best practice in the field of social, environmental and sustainability reporting one need look no further than the Royal Dutch/Shell Group of companies. Shell operates in acutely environmentally sensitive sectors — namely oil and chemicals — and as such is at the sharp end of mushrooming societal concern for the environment. Shell, therefore, feels that communicating its 'environmental footprint' to the wider community is critical to demonstrating that it is doing its best to preserve the environment. That way it maintains its 'licence to operate'.

Shell is a seasoned exponent of social, environmental and latterly sustainability reporting. It has scooped numerous awards for the quality of its reporting, including that of Joint Best Sustainability Report in the Association of Chartered Certified Accountant's (ACCA) UK Sustainability Reporting Awards. To get a feel for what Shell does go to its website (www.shell.com) and download its *People, planet and profits. The Shell Report 2001.*

What then is the state of CER among local companies? According to an ACCA report entitled *The State of Corporate Environmental Reporting in Malaysia* published earlier this year the CER in Malaysia is in its infancy stage. The survey looked at the annual reports and any stand-alone environmental reports, including an internet search, of all companies listed on the Kuala Lumpur Stock Exchange (KLSE) main board between 1999 and 2001.

The survey found an increasing number of companies engaging in CER. From 1999 to 2001 the number increased from 25 to 40 representing 5.3 and 7.7 per cent respectively of the KLSE Main Board. All reporting companies used their annual report for communicating environmental information to their stakeholders. Some 95 per cent of those using CER devoted less than a page to it in the annual report. Of those doing some form of CER, few have started to include environmental performance data to provide an indication of their impacts and progress, or to provide quantifiable environmental objectives and targets. Environmental management and achievements were the two most commonly reported areas.

A somewhat cursory survey of the latest (2001/2002) annual reports and any stand-alone environmental reports of the top 10 local companies (by market capitalisation) conducted by Nottingham University Business School Malaysia Campus the author, reveals that seven companies made reference to the environment. Unfortunately, most of these seven companies devoted just half a page of the annual report to the environment. And the substance was typically just a policy statement and some unsubstantiated declarative statements along the lines of "Company X has taken a proactive stance in pursuing a policy of environmental management at several levels".

Leading the way in the area of environmental reporting is the tenth largest company on the KLSE, British American Tobacco (Malaysia) Berhad. In May of this year it published its stand alone Social Report 2001-2002. The report is essentially a 'sustainability' report — it summarises both the social and environmental effects of its business activities — and is modelled on what its UK parent does.

To view the report visit the company's website : http://www.batmalaysia.com/CorporateInformation/Corporate Responsibilities/downloads/BATMSocialReport.pdf. Incidentally, the parent company donated some US$6 million to Nottingham University Business School in the UK to fund the setting up of an International Centre for Corporate Social Responsibility (ICCSR). ICCSR will be hosting its inaugural conference in Singapore in February 2003 entitled *Corporate Social Responsibility in Asia.*

All told the evidence is somewhat sobering. It suggests that CER in Malaysia is low in quantity and quality. The implication is that Malaysians have little idea how the activities of local companies affect their natural environment, such as the quality of the air they breathe and the seas they swim in.

So what steps is the accounting profession taking to help boost the profile of CER in Malaysia? Well in July 2002 the ACCA launched the Malaysian Environmental Reporting Awards (MERA). The scheme is modelled on the ACCA's UK Awards scheme that's been running for some years now. The main objective of the award scheme is to encourage voluntary environmental reporting practices among organisations in Malaysia.

Perhaps most significantly both schemes appear to have the backing of the Malaysian government. The MERA scheme has the endorsement of the Department of Environment.

Government endorsement suggests that the Malaysian government want their domestic companies to take CER more seriously. This endorsement will surely make the schemes more effective. We can, therefore, look forward to much improved CER in Malaysia. AN

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THE ROLE OF THE CHIEF FINANCIAL OFFICER IN 2010

Strategic changes to the finance role : An Interview with Tony Isaac, Chief Executive Officer of the BOC Group, one of the world's largest industrial gases companies based in the UK..

For the majority of his career Tony Isaac was a finance man. This culminated in his role as Group Finance Director at the BOC Group in England. Then in the year 2000, he became the company's CEO. He brings a different perspective to how the role of the CFO will have changed by the year 2010. From his background and experience, he knows how solid and necessary an effective finance function must be. But he also knows that strategically, things are changing fast for the finance role.

The first change he pointed to was the merging of parts of different disciplines within a company into a shared services core. "Potentially, we will see not only financial services centres," he said ."But also customer services, IT and human resources all joined together." Like some other CFOs in this project, he sees the value of creating separate entities to provide the services that a company requires. "BOG has moved towards that in the last four years," he pointed out. "Financial services centres bring together all the transactional work." And he sees no reason why all four of the service disciplines he mentioned should not be combined by 2010, bringing together people with transactional skills as well as people skills.

The benefits are clear. The future will mean that service centres will provide all of the servicing skills. And that, in Isaac's view, will include basic management accounting. "The role of the business finance manager will be that of a finance director within their own business unit," he said, "and they will provide help with the strategic thinking. The translation of financial accounts into management accounts will disappear."

This is the first of the big changes that Isaac foresees by the year 2010. "We will have only one set of data," he said. "Many managers will be very computer literate and will get their day-to-day needs from databases within the company. So they won't need the management accounting which goes on in a company at the moment."

But the biggest change of all is going to be the operation of companies in a truly global market. This will provide challenges for the CFO who will need wider and wider knowledge of markets and cultural issues. And the means of doing business will become more complex. Most companies find that a lot more of their business will be done in areas like Asia and South America, where they will operate in joint ventures with local partners, and again the cultural issues will be important."

This also connects with the place of internal controls and risk management in the CFO's portfolio by the year 2010. "Risk management will be a major item for their agenda," he said. "Line managers will become more pro-active. Management teams will realise that it is not a burden. They will be working on eliminating or managing risk. And that means that the old financial stewardship role changes. There will be two areas: the facilitation role for risk management; and the risk assurance work checking internal controls on a selective basis."

But Isaac thinks that globalisation of data will crack much of this problem. "By 2010," he said, "we will have moved towards single instant data, using common data around the company. Then the chance of error and the need for some basic financial control should reduce significantly. You are already getting more robust systems which are all-embracing. So progressively, it is improving. Combined with the idea of shared services covering everything from human resources to the financial function that in itself should ensure quality and commonality of data."

Quality of the People

For Isaac, the main challenge in achieving this is the quality of the people working for the company. "There will need to be a continual development of people for the finance function. You will need a continuing flow of good people who you have developed in- house, have come through a graduate scheme, or have come from outside. "And the changes which will flow from shared services will have an effect here as well, "Splitting the role between finance and services will be difficult for the people developed in-house," he said. "Finance service centres could be seen as the less exciting areas and the business finance manager roles will be the popular ones because people there would be dealing with the total business team and all the business issues." How this will be resolved is a question for the future. This is not a fair view. Isaac believes it will re-

main absolutely critical to have both high quality financial information provision and finance management input to the business.

There is also the challenge of investor relations. "Anyone who becomes a CFO has probably not had experience of investor relations before," he said, "and it's a pretty steep learning curve." Isaac sees this as becoming evermore complex across the next decade. "Companies," he said, "will go to many different marketplaces for equity or debt. More and more, UK companies have American listings and are also trying to grow a set of relationships with French, German and Dutch shareholders, for example. This trend will accelerate."

This development will go hand-in-hand with changes in financial reporting. "There will be some harmonisation of financial reporting," he said.

Environmental Reporting

Another area which will become much more important is environmental reporting. "There is no alternative to substantially more environmental reporting," he said. "Safety statistics, for example, bring their own issues in making sure that the data is correct". And concept is still in its infancy when it comes to comparable figures across even industry sectors. All that will change by 2010.

"Trying to get commonality in a particular industry or across the FTSE 100, for example is very hard," he said. "But getting and understanding a commonality of data is very important."

The driver of this change, of course, is investment. "The potential investors in 2010 will be looking at environmental and ethical reporting as well as good corporate governance and risk management, "he said. "By then, we will find that executive management teams will really understand the risk issues for themselves," he said. "They will have regular risk reviews and it will be high on the agenda. Risk, safety and environmental issues will be significant agenda items for the board. They will demand much more frequent reporting and review."

"Executive directors have to accept the responsibility for the assets and the whole well-being of the organisation." He sees change coming in the way that remuneration is set. "There is a gathering momentum for major companies to agree to remuneration structures at annual general meetings and debate it in advance with significant numbers of the shareholders. That will be significantly formalised. Investors will demand it and I expect that to happen before 2005, let alone 2010."

Active CFO's

The role of the CFO in strategy will continue to increase towards 2010. "Many CFOs are already active members of the strategy team," said Isaac. "Many are already involved in mergers and acquisition work, in how the business should be shaped, or in the debating of investment decisions. Lots of organisations find that financial and strategic planning has moved into the CFO's arena. In the future, much of the CFO's role will include strategic planning, financial planning and risk management, for example, though the CFO could potentially also lose direct authority over the financial services function if the shared services concept progresses."

The CFO in 2010 will continue to have a significant role. "The CFO will probably be privy to more information than any others in the executive team," said Isaac.

Isaac, having moved from Finance Director to CEO knows more about this than most. "The relationship between the CEO and the CFO should be a close one, but then so should the relationship of the CEO with all of his director reports," he said.

"In terms of knowledge and information, the relationship between the CEO and CFO is an exceptionally close one," said Isaac. "The CFO should be privy to all of the main discussions. But it is not only the CFO, but the senior finance business management within the business units." AN

Note : The above article is extracted from the book issued by the International Federation of Accountants ([FAC), *The Role of the Chief Financial Officer in 2010.* The book features interviews conducted by Robert Bruce, accountancy editor of *The Times*, London with 10 CFOs from companies across the world to glean their opinions on how financial management is changing and their perspective on the future of the CFO.
The Book can be downloaded free from IFAC's website at www.ifac.org/store. Hard copies can be purchased for US$25.00 either through IFAC's online bookstore or its publications department (Tel : 1-212-286-9344)

DIVIDEND POLICY : DOES

By Rosiatimah bt Mohd Isa

Introduction

Dividend policy refers to the payout policy that managers follow in deciding the size and pattern of cash distribution to shareholders over a period of time. Many theoretical models have been developed to describe the factors influencing dividend policy decisions. Miller and Modigliani (M&M, 1961) and Black (1996) provided a hypothesis that dividend policy has no effect on the value of the firm in a perfect capital market. Miller (1986) and Martin *et al.* (1991) supported the dividend policy irrelevance hypothesis. However, models based on the presence of market imperfections suggest that dividends are relevant. Some explanations for dividend relevance include agency costs, signalling, and clientele effect.

The purpose of this paper is to gain some understanding of dividend policy and its controversies by looking at both the shareholders' and management perspectives. In the latter part of the paper, the author discusses some relevant theories and past empirical evidences on the dividend payments.

Types of Dividends

The term dividend usually refers to distribution of a certain portion of a firms' current or accumulated earnings to shareholders. Most companies pay cash dividends. The distribution of cash dividends can be regular or irregular depending on the firm's dividend policy. Irregular dividend is appropriate for a firm in a cyclical industry because earnings fluctuate over time and the firm may be hard pressed to maintain a higher level of regular dividend. Paying a cash dividend reduces the corporate cash and retained earnings.

Another type of dividend is paid out in shares of stock. This type is known as a stock dividend and there is no cash outflow from the firm. A stock dividend increases the number of shares outstanding, thereby reducing the value of each share. Stock dividend is very much like stock split. The main difference is a stock dividend is shown in the accounts as a transfer from retained earnings to equity capital, whereas a split is shown as a reduction in the par value of each share.

When a corporation wants to pay cash to its shareholders, a cash dividend is not the only means. The alternative way is to repurchase its own stock. Shareholders who sell their shares receive a premium price, and pay capital gains taxes rather than ordinary income taxes. Non-participating shareholders experience a large unrealised capital gain, since there will remain fewer shares outstanding after the repurchase is completed and their fractional ownership has increased (Megginson, 1997).

Companies repurchase shares when they have accumulated more cash than they can invest profitably or when they wish to increase their debt levels. A study by Comment and Jarell (1991) found that on average share repurchase resulted in an abnormal price rise of two per cent.

Stock repurchases may also be used to signal a manager's confidence in the future. Senior management and directors usually hold onto their stock when the company offers a repurchase of its stock at a premium. Many researchers have found that announcements of offers to buy back shares above the market price have prompted a larger rise in the stock price, averaging about 11 per cent (Comment & Jarell, 1991).

However, share repurchase is prohibited in some countries. In others, firms can hold repurchased shares only for a limited period of time, after which they must be either resold or cancelled, and this results in a nett reduction of the company's capital.

Shareholders' Perspective on Dividends

Stocks produce a combination of dividend cashflow and capital gains. Shareholders preference on this matter should have significant influence on decisions regarding dividend payout.

Earnings that are not paid as dividends can be reinvested and the potential for higher future earnings and capital gain may induce investors to accept a low dividend payout. Low yield may represent the market's collective belief that earning prospects are promising.

On the other hand, cash dividends received are taxed as ordinary income. Dividends are taxable when distributed, but taxes on capital gains are deferred until the stock is sold. Thus, for individual stockholders, the effective tax rate on dividend income is higher than the tax rate on capital gains. If the tax rate induces shareholders to favour capital gains over cash dividends, then management should reinvest rather than pay out earnings. Those shareholders with a need for immediate cash can always liquidate a portion of their investment portfolio to satisfy cash needs. But doing so can be costly to shareholders because they have to pay a brokerage fee and other transaction costs in order to sell their shares.

> "... cash dividends received are taxed as ordinary income. Dividends are taxable when distributed, but taxes on capital gains are deferred until the stock is sold. Thus, for individual stockholders, the effective tax rate on dividend income is higher than the tax rate on capital gains."

In developing countries, investors seem to be willing to forego dividend payments in return for possible future capital gain, as dividend yields declined over the last decade due to market liberalisation (Glen *et al.*, 1997).

Management's Perspective on Dividends

Theoretically, management makes decisions with the objective to increase the wealth of shareholders. This includes employing the lowest cost of capital as well as taking whatever actions needed that will enhance share value. By increasing dividend payout, firms reduce their access to retained earnings which is a relatively lowcost source of equity. For this reason, management may prefer lower dividend payout ratios, but must accept the realities of shareholder preferences for at least some payment of dividends. Firms that pay a lower percentage of earnings as dividends have to source out more capital from outside which by comparison is more costly.

Retained earnings as a source of capital is also determined by the growth rate of firms. It is expected that firms with high growth rates will choose a lower dividend payout rate in order to finance growth. The availability of external sources of capital would also be a possible influence on the use of retained earnings. Firms are willing to use them if the alternative sources of capital become more readily available and are reasonably cheap.

However, firms sometimes pay high dividends to their shareholders. The arguments for this policy by Benjamin Graham, David Dodd, and Sidney Cottle (Ross *et al.*, 1999) are :

- The discounted value of near dividends is higher than the present worth of distant dividends.
- Between 'two companies with the same general earning power and same general position in an industry, the one paying the larger dividend will almost always sell at a higher price.
- The two factors favouring firms that adopt a high dividend payout are the desire for current income and uncertainty resolution.

Theories and Evidences of Divident Payments

Researchers have proposed many different theories about the factors that influence a firm's dividend policy. Some theories involve agency costs, asymmetric information (signalling), residual, taxes and behavioural explanations. Others have developed and empirically tested different models proposed to explain dividend behaviour.

Lintner (1956) conducted a classic study on how US managers make dividend decisions. He concluded that the most important determinant of the size of a company's dividend is a change in the company earnings that results in a payout ratio, rather than making dramatic changes in the cash dividend paid. Management is reluctant to either increase or decrease dividend payments until they believe that future earnings will support these changes. This is in line with the shareholders preference for a steady stream of dividends to a fluctuating one. Smoothing dividend payments are based on the assumption that the shareholders are unable to gather the information they need to forecast future earnings from data the firm makes public.

From Lintner's Model, March & Merton (1987) summarised his description of how dividends are determined in four stylised facts (Breadley & Mayer, 2000):

1. Firms have long run dividend payout ratios. Mature companies with stable earnings generally payout a high proportion of earnings whilst growing companies have a low payout.
2. Managers focus more on dividend changes than on absolute levels.
3. Dividend changes follow shifts in long run, sustainable earnings. Transitory

earnings changes are unlikely to affect dividend payouts.

4. Managers are reluctant to make dividend changes that might have to be reversed.

The styles may be explained by the Residual Theory of dividend payments. The word 'residual' means the cash left over after corporations have funded all their positive NPV investments. From the value-maximising strategy perspective, firms in rapidly growing industries tend to retain almost all of their profits while firms in mature, slow-growing industries tend to have generous dividend payments.

The residual theory can also be explained in terms of capital structure policy. If a company decides that it wishes to maintain a 50 per cent debt-to-total-capital ratio over time, then in each period it will finance half its new investment needs with loans and half with retained earnings. Any remaining corporate profits will be paid out to shareholders as dividends.

The residual theory of dividends suffers from one massive empirical problem. Dividend payments are not as variable as residuals. In fact, dividend payments are the most stable of any cash flow into or out of a firm. Corporate managers are very cautious about changing established dividend payout levels.

Brittain (1964, 1966), and Fama and Babiak (1968) re-evaluated Lintner's model. Their results supported Lintner's view that managers prefer paying a stable dividend and are reluctant to increase dividends to a level that the firm cannot sustain. They also concluded that Lintner's basic model performed well relative to alternative specifications. This view has been supported by Benartzi, Michealy and Thaler (1997) in their comprehensive study about dividends.

Another model that can explain regularities of dividend policy is Agency Cost or Contracting Model of Dividends. This model assumes that dividend payments arise as an attempt to overcome the agency problems that result when there is a separation of corporate ownership and control (Megginson, 1997). In other words, the model explains cash dividend payments as value maximising attempts by managers to minimise the deadweight costs of the agency conflict between managers and shareholders that arises in large public companies. Obviously, corporate managers who pursue a dividend payment policy that is in the shareholders' best interest will be rewarded by the increasing share prices and greater professional tenure.

The stakeholder theory developed by Cornell and Shapiro (1987) that complements the work of Titman (1984) creates the link between the investment and financing decision of the firm such as dividend payout ratios. Empirical research that examined the relationship between the dividend policy and stakeholder theory by Holder *et al.* (1998) revealed that :

- More focused firms (with fewer lines of business) tend to have lower dividend payout ratios.
- Larger firms tend to have higher payout ratios than do smaller firms.

When they consider the influence of agency costs on payouts, their findings are : the greater the degree of insider ownership, the lower the payout; the larger the number of shareholders, the higher the dividend payout ratio; and the greater the free cash flow, the higher the payout ratio. Managers consider more the claims of stakeholders other than debt and equity holders when choosing a target dividend payout ratio.

The other model, Dividend Signalling Model assumes that dividends are needed to convey positive information from well-informed managers to poorly informed shareholders in capital markets characterised by asymmetric information (Megginson, 1997). In other words, cash dividend payments serve as transmitters of information from corporate management to the company's shareholders. When a firm pays dividends, it conveys that management has confidence in the firm's profitability that is enough for both its investment projects and dividend payout. In addition, a dividend initiation also implies that management is confident that future earnings will be large enough to support newly adopted payment levels.

The empirical study conducted by Aharony and Swary (1980), has documented the pattern of stock market investors reaction to dividend increases, decreases, and continuation. They show that dividend increases result, on average in a 0.35 per cent positive stock price change, while dividend continuations are financial non-events causing essentially no measurable change in stock prices. On the other hand, dividend cuts yield statistically significant average stock price declines of between 1.13 and 1.46 per cent on the announcement day and cumulative stock price declines between 4.62 and 5.36 per cent over a two-week period preceding and including the day the dividend cut is announced. Therefore, the markets react to announcement of dividend changes in systematic and predictable ways. Indeed, dividend is a transmitter of information as described by the Signalling Model.

Fama and Babiak (1968) documents that managers do in fact have target payout ratios in mind and that dividend payment per share tracks the course of corporate profits quite closely over time. They also found that managers employ a partial adjustment strategy in adjusting dividend payments to changes in corporate profits. An increase in profit levels will not fully reflect a higher equilibrium dividend per share until several quarters have elapsed. This allows management to become confident that profits have permanently increased before fully committing to higher dividend payments.

With regard to the Tax Preference Theory, Bernheimand and Wantz (1995) measure the relationship between dividend taxation and the stock market reaction to dividend announcement. A higher tax rate on dividend income makes paying dividends more costly. Thus, smaller payout is suggested when tax rates are high because any dividend increase causes investors to receive a smaller fraction. Therefore, a given dividend will have a diminished effect on the firm's share price. In their research, they found that dividends have stronger effect on stock prices in a higher tax regime, which is consistent with dividend signalling.

Instead of building models or developing theories about dividend policy, some researchers have attempted to study 'cultural phenomenon' by surveying corporate managers (Baker *et al.*, 2001). Several stud-

> "… the only important determinant of a company's value is its future earnings power … whether companies choose to pay low dividends and finance themselves with retained earnings or pay high dividends and retrieve the capital with new stock or debt, is largely a matter of indifference to investors. Investors care only about total returns, not about whether they receive it in the form of dividends or price appreciation."

ies attempted to identify factors that financial managers consider to be most important in determining their firm's dividend policies. According to a survey of 318 NYSE firms conducted by Baker, Farrelly, and Edelman (1985) and Farrelly, Baker, and Edelman (1986), they concluded that the major determinants of dividend payments are the anticipated level of future earnings and the pattern of past dividends. These factors are consistent with those identified by Lintner (1956). Their results also revealed that managers believe that dividend policy affects share value and the managers are very concerned with dividend continuity.

Does Dividend Policy Matter?

Let us look at the scenario reported in Economist (1992) :

> When British Petroleum (BP) halved its dividend on 6 August 1992, the shares lost five per cent of their value. On 8 June of the same year when General Dynamics (an American defence firm) announced that it would buy back 30 per cent of its shares, their price rose by nine per cent. When a Swiss chocolate maker, Nestle, made an announcement of a ten-for-one share split, its share prices jumped too.

The examples given relate obviously to the signalling effect of dividend that arises from asymmetries between managers and outside investors. Investors are aware that managers are likely to have a clearer view of their companies' prospects than outsiders. Thus dividend policy provides a signal to the market.

A dividend cut suggests that the insiders think profits are likely to languish for years. On the other hand, a share-buy-back signals that management feel that the shares are undervalued and are not about to waste the capital either over investing in core businesses or diversifying through acquisitions. A share split is taken as a sign that managers expect a sustained rise in profits.

Shareholders receive returns through both dividends and capital gains as a company's share price rises. Investors care about how their total returns are apportioned between dividends and price appreciation primarily because of the tax code. If dividends are taxed lower than capital gains, investors collectively prefer generous dividends. Dividend is preferred to capital gains due to the investors doubt about the ability of the firm's management to use its earnings profitably. In this case, dividend is perceived as more reliable and less risky.

However, according to 'dividend irrelevance' formulated by M&M, the only important determinant of a company's value is its future earnings power. Thus, whether companies choose to pay low dividends and finance themselves with retained earnings or pay high dividends and retrieve the capital with new stock or debt, is largely a matter of indifference to investors. Investors care only about total returns, not about whether they receive it in the form of dividends or price appreciation.

From the management perspective, the main aim of changing of dividend policy is to establish the right financial structure for a more competitive environment, not to provide accurate signals to the market. According to Barclay, Smith, & Watts (1995) a company's dividend payout ratio should reflect primarily the following considerations :

- its expected capital requirements
- the riskiness of its business
- the company's target capital structure and
- the availability and cost of external capital.

They concluded that mature companies with few promising investment opportunities tend to have significantly higher dividend yields and leverage ratios than growing companies. Mature companies pay high dividend to prevent themselves from wasting their excess cash or becoming a takeover target as a consequence of having to much cash. Conversely, growth companies tend to have lower dividend payouts due to high-risk and difficulty of raising external capital at a reasonable cost. Therefore these companies tend to use equity dominated capital structures by retaining rather than paying out earnings.

Conclusion

Dividend policy involves the decision to pay out earnings or to retain them for reinvestment in the firm. The reality has revealed that a properly managed dividend policy has a significant positive impact on share prices and shareholders wealth. Thus dividend policy does matter in certain circumstances. A generous dividend policy for companies in high growth and riskier businesses may reduce flexibility that causes management to pass up valuable investment opportunities. On the other hand, for mature companies with stable cash flows, paying out too little may cause managers to over invest. It can be concluded that, the optimal dividend policy for any firm is to strike a balance between current dividends and future growth, which maximises the price of the stock. AN

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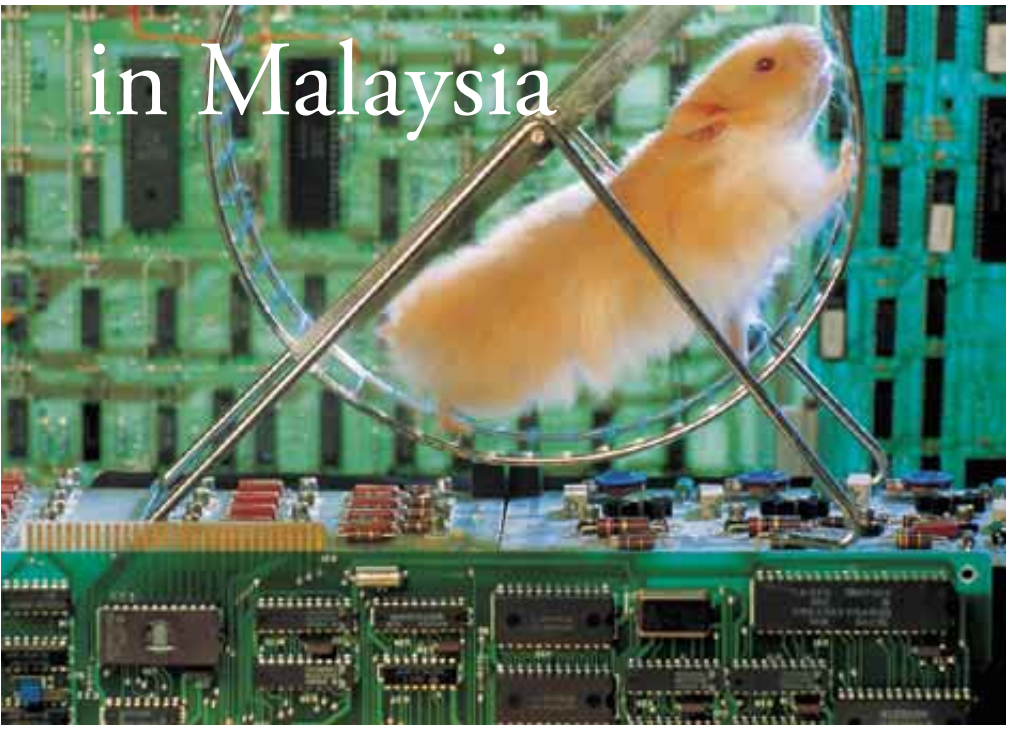
Strategic Planning of ADVANCED MANUFACTURING TECHNOLOGY in Malaysia



By Low Lock Teng, Kevin & Arumugam Seetharaman

In order to stay competitive, there is always a constant need to improve the efficiency of technology in a company. As a result of this, efforts have been made to develop new technologies such as Advanced Manufacturing Technology (AMT). This paper investigates the implementation justification of Advanced Manufacturing Technology (AMT) in manufacturing companies. This paper also provides information which will help companies in Malaysia, particularly the manufacturing industry, to be aware of AMT. Adoption of this technology will assist Malaysian companies to compete in the international market arena.

Introduction

Advanced Manufacturing Technology, better known as AMT, is among the new technologies being used by manufacturing industries in countries wanting to achieve an industrialised status. AMT is rapidly changing the nature of manufacturing. AMT involves new manufacturing techniques and machines combined with information technology, microelectronics and new organisational practices in the manufacturing process. AMT is a key enabler to help manufacturers meet the productivity, quality and cost reduction demands of competitive global markets. These hardware technologies have found wide acceptance in discrete manufacturing and in resource and processing sectors.

Literature Review

Sohal (1996) explored the aspect of nature, size of investment, speed of implementation and outcomes, including benefits and difficulties, experienced by firms in New Zealand. He found that factors such as management commitment and awareness, long-term and strategic planning, workforce involvement, and willingness to change and learn were the key points to a successful AMT investment. Small (1999) found that a majority of firms that had implemented AMT achieved improvements in performance, skills level and skills inventory of workers. Many firms assumed that the reduction in labour force would automatically lead to a reduction in average labour cost. However, this was proved wrong. Sohal, Burchen, Millen and Lee (1999) compared 93 large US companies and 67 UK companies and found that US companies placed more emphasis on obtaining financial benefits, competitive benefits, countering competitive threats and countering

TABLE 1

COMPANY CAPITAL

		N	%	Valid Per cent	Cumulative Per cent
Valid	Less than RM5 million	9	8.7	8.7	8.7
	RM5 million to RM 10 million	11	10.7	10.7	19.4
	RM 10 million to RM 25 million	17	16.5	16.5	35.9
	RM 25 million to RM 45 million	20	19.4	19.4	55.3
	More than RM 45 million	46	44.7	44.7	100.0
Valid	Total	103	100.0	100.0	

TABLE 2

IMPORTANCE OF OBJECTIVES FOR COMPANIES USING AMT

	n	Mean	Std. Dev.	t	Sig. (2-tailed)	Mean Diff.	Std. Error Mean
Improving product quality/reliability	103	3.6400	0.5400	7.4490	0.0000*	0.6400	0.0861
Reducing production costs	103	3.4872	0.7200	4.2210	0.0000*	0.4900	0.1200
Reducing manufacturing lead times	103	3.3590	0.6700	3.3540	0.0020*	0.3600	0.1100
Reducing scrap and rework	103	3.2821	0.8600	2.0560	0.0470*	0.2800	0.1400
Increasing labour productivity	103	3.2051	0.8600	1.4830	0.1460	0.2100	0.1400
Keeping up with the competitors	103	3.1000	0.8500	0.7520	0.4570	0.1000	0.1400
Reducing engineering/design lead times	103	3.0800	0.7400	0.6500	0.5200	0.0769	0.1200
Increasing market share	103	3.0800	0.7700	0.6210	0.5390	0.0769	0.1200
Decreasing labour costs	103	3.0300	0.9000	0.1770	0.8600	0.0256	0.1400
Increasing plant capacity	103	3.0000	0.8600	0.0000	1.0000	0.0000	0.1400
Increasing plant utilisation	103	2.9700	0.8700	-0.1830	0.8550	-0.0256	0.1400
Improving responsiveness to changes in customer needs	103	2.9700	0.8400	-0.1900	0.8500	-0.0256	0.1300
Reducing work in process inventories	103	2.9200	0.6200	-0.7710	0.4460	-0.0769	0.0998
Gaining earlier entrance to the market	103	2.8700	1.0300	-0.7770	0.4420	-0.1300	0.1700
Improving engineering expertise	103	2.8200	0.7600	-1.4820	0.1470	-0.1800	0.1200
Improving management expertise	103	2.7700	0.8100	-1.7800	0.0830	-0.2300	0.1300
Developing a more integrated organisation	103	2.7400	0.7900	-2.0390	0.0480*	-0.2600	0.1300
Reducing the variety of parts/ components per product	103	2.7179	0.9200	-1.9230	0.0620	-0.2800	0.1500
Reducing material handling	103	2.6410	0.5800	-3.8370	0.0000*	-0.3600	0.0936
Reducing set up time	103	2.4872	0.8200	-3.8910	0.0000*	-0.5100	0.1300

Note : Respondents evaluated their experience with the above variables on a scale of a (not important) to 4 (very important) * Denotes $p < 0.05$

TABLE 2a

CORRELATION BETWEEN THE IMPORTANCE OF OBJECTIVES AND SIZE OF COMPANY

		Amount of capital
Mean of importance of objectives	Pearson Correlation	0.106
	Sig. (2-tailed)	0.520
	N	103

skill deficiencies. The UK companies were more concerned on enhancing company image. In terms of the nature and size of AMT investments, US companies had a wide range of investments in computer hardware and software, and plant and equipment. US companies involved more functional areas in AMT idea generation compared to UK companies.

Methodology

The area under study focuses on the implementation of AMT on manufacturing companies listed on the Kuala Lumpur Stock Exchange (KLSE) Main Board and Second Board. Questionnaires were addressed to the Head of the Engineering Department, Manager of the Engineering Department, Chief Officer of the Engineering Department and Accountants. A total of 120 replies were received out of 250 questionnaires sent. The total replies were achieved after follow-ups being made through phone calls and faxes. After checking all the replies, only 109 were used for our data analysis. Fifty-five were returned to us as the respondents had moved to new or unknown addresses. Out of the 109 replies, six companies were not using AMT and 103 companies were using AMT. The company capital structure is shown in Table 1.

Data Analysis

H1 : The importance of objectives to acquire AMT and the size of the company

From the responses of companies using AMT, which consists of those who have implemented AMT as in Table 2, it was found that improving product quality/ reliability (mean 3.6400) is the most important objective for acquiring or installing AMT. The respondents from companies adopting AMT rated the other top four objectives as :

- Reducing production costs (mean 3.4872)
- Reducing manufacturing lead times (mean 3.3590)
- Reducing scrap and rework (mean 3.2821)
- Increasing labour productivity (mean 3.2051)

Generally, manufacturing companies implementing AMT have a common level of importance of objectives that are, reducing production costs, reducing manufacturing lead times and increasing labour productivity. These objectives are ranked the top as they are more important in comparison with other objectives. In Table 2a, the hypothesis concluded that no relationship exists between the degree of importance and the size of a company.

H2 : The problems faced in the installation of AMT

Table 3 displays the level of problems encountered before or during the installation of AMT for companies using AMT only. Companies using AMT seem to have more problems in integrating automatic and manual operations (mean 2.5526). However, the problems encountered are not serious. Among all the problems listed, none is considered a serious problem or reaching problematic level. Respondents have rated the other top few problems as :

- Justifying investment in AMT (mean 2.4737)
- Interfacing hardware and software (mean 2.3684)
- Developing AMT software (mean 2.3421)
- Encouraging cross-functional teamwork activity on the AMT projects (mean 2.2105)
- Installing and pre-installing support from AMT vendors/outside consultants (mean 2.1579)

This shows that most companies implementing AMT are prepared for the potential problems that will be encountered. The least problem faced before and during the installation of AMT is maintaining its relationships with suppliers (mean 1.5526). This reflects that companies using AMT are able to maintain its relationship with suppliers well. The results in Table 3a also shows that all problems encountered by companies have a relationship to the size of the companies.

TABLE 3

PROBLEMS FACED IN INSTALLATION OF AMT

	n	Mean	Std. Dev.	t	Sig. (2-tailed)	Mean Diff.	Std. Error Mean
Integrating automatic and manual operations	103	2.5526	0.7240	-3.8090	0.0005*	-0.4474	0.1174
Justifying investment in AMT	103	2.4737	0.8297	-3.9101	0.0004*	-0.5263	0.1346
Interfacing hardware and software	103	2.3684	0.6747	-5.7706	0.0000*	-0.6316	0.1094
Developing AMT software	103	2.3421	0.6689	-6.0634	0.0000*	-0.6579	0.1085
Encouraging cross-functional teamwork activity on the AMT projects	103	2.2105	0.7410	-6.5677	0.0000*	-0.7895	0.1202
Installing and pre-installing support from AMT vendors	103	2.1579	0.6378	-8.1387	0.0000*	-0.8421	0.1035
Acquisition and delivery of AMT hardware	103	2.1053	0.6058	-9.1045	0.0000*	-0.8947	0.0983
Training of operators	103	2.0263	0.7880	-7.6172	0.0000*	-0.9737	0.1278
Training of maintenance staff	103	2.0000	0.6576	-9.3742	0.0000*	-1.0000	0.1067
Training of technical/ engineering staff	103	1.8947	0.6893	-9.8847	0.0000*	-1.1053	0.1118
Gaining top management support for AMT	103	1.8684	0.6226	-11.2039	0.0000*	-1.1316	0.1010
Obtaining support from employees	103	1.8158	0.6516	-11.2028	0.0000*	-1.1842	0.1057
Maintaining relationships with suppliers	103	1.5526	0.5549	-16.0775	0.0000*	-1.4474	0.0900

Respondents evaluated their experience with the above variables on a scale of 1 (no problem at all) to 4 (serious problem) * Denotes p <0.05

TABLE 3a

CORRELATION BETWEEN LEVEL OF PROBLEMS AND SIZE OF COMPANIES

		Mean for level of problems
Amount of capital	Pearson Correlation	0.069
	Sig. (2-tailed)	0.025*
* Denotes p <0.05	N	103

TABLE 4

PLANT ATTRIBUTES AND PLANT PERFORMANCE FACTORS

	n	Mean	Std. Dev.	t	Sig. (2-tailed)	Mean Diff.	Std. Error Mean
Product quality	103	4.1351	0.7134	9.6780	0.0000*	1.1351	0.1173
Sales revenue	103	4.0541	0.7798	8.2219	0.0000*	1.0541	0.1282
Plant revenues from manufacturing operation	103	3.9730	0.6449	9.1770	0.0000*	0.9730	0.1060
Production lot sizes	103	3.6216	1.1390	3.3198	0.0021*	0.6216	0.1872
Inventory turnover rates	103	2.9459	0.9703	-0.3389	0.7367	-0.0541	0.1595
Floor space utilised	103	2.8919	1.3288	-0.4949	0.6237	-0.1081	0.2185
The number of machines	103	2.8649	1.2056	-0.6818	0.4997	-0.1351	0.1982
Overhead costs	103	2.8649	1.2728	-0.6458	0.5225	-0.1351	0.2093
Time needed for a major design change in an existing product	103	2.6757	0.9444	-2.0889	0.0438*	-0.3243	0.1553
Time between conceptualisation to product manufacturing	103	2.4865	0.9316	-3.3529	0.0019*	-0.5135*	0.1532
Lead-time from receipt of order to delivery	103	2.4595	0.9887	-3.3256	0.0020*	-0.5405	0.1625
Variety of part-types/products manufactured	103	2.4324	1.0419	-3.3135	0.0021*	-0.5676	0.1713
Changeover time from production of product	103	2.4324	1.0149	-3.4017	0.0017*	-0.5676	0.1668
Variety of part/components used per product	103	2.3514	0.9780	-4.0344	0.0003*	-0.6486	0.1608
The average number of tasks per operator	103	2.1622	1.0675	-4.7739	0.0000*	-0.8378	0.1755
Number of operators employed	103	2.0000	0.8819	-6.8972	0.0000-	-1.0000	0.1450
Scrap and rework	103	1.8378	0.7643	-9.2497	0.0000*	-1.1622	0.1256
Total labour costs	103	1.7027	0.9087	-8.6835	0.0000*	-1.2973	0.1494

Respondents evaluated their experience with the above variables on a scale of 1 (significantly decline) to 5 (significantly increase)

H3 : Plant Performance Factors and the Size of the Company

The results in Table 4 show that product quality (mean 4.1351) is the prominent factor among all. Total labour costs (mean 1.7027), on the other hand, is the least prominent factor among the 18 factors. The other vital factors include :

- Sales revenue (mean 4.0541)
- Plant revenues from manufacturing operations (mean 3.9730)
- Production lot sizes (mean 3.6216)

The plant performance has a significant relationship with the size of the company.

Conclusion

The results have shown that seven out of 20 objectives have a relationship with the size of the companies. The others are not affected. Before implementing AMT, companies might focus on achieving an objective, but after the implementation of AMT, the companies' attention would be directed to other objectives. Most Malaysian manufacturing companies did not face serious problems before or during the installation of AMT. Future research can be done on different industries on the implementation of AMT and the problems likely to be encountered. Besides, the effect of implementing different components of AMT on a company can be tested and it is anticipated that different components bring about different results on the company's financial and physical performance. AN

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The Assessability of INTEREST INCOME as a BUSINESS SOURCE

An Analysis after the Court of Appeal Decision in Pan Century Edible Oils Sdn Bhd

By Choong Kwai Fatt

Introduction

The Income Tax Act 1967[1] requires each source of income to be computed separately with its own rules before aggregating them into chargeable income for the purpose of ascertaining income tax payable. The Act specifically codified the various classes of income into six groups[2] and *inter alia* business income is spelt in Section 4(a) while interest, dividends or discounts are spelt in Section 4(c) of the Act. It is always lingering in the mind of the taxpayer whether interest income, despite being specifically legislated in Section 4(c) of the Act, could possibly be treated as business income as in Section 4(a) of the Act.

The Act accords preferential tax treatment to business income as compared to investment income such as dividends, rental and interest income. Business income can have adjusted loss[3] — it can claim capital allowances against its adjusted income, carry forward its unabsorbed losses to future years[4], grant specific deductions[5] and most importantly utilise any unabsorbed losses of the company to reduce its statutory income. All these preferential tax treatments are not available to investment income.

A company does derive business income and interest income regularly and given this inequality of tax treatment among business and investment sources, the company with its legal and tax adviser will argue forcefully that interest income received from its subsidiaries within a group of companies or from financial institutions is from a business source, assessable under Section 4(a) of the Act and not a passive investment income. In their opinion, only interest income derived from an investment activity is assessable under Section 4(c) of the Act. The issue whether an activity carried out by a company tantamounts to a business activity or investment activity is always a question of disputes between the tax authorities and the taxpaying company, a questionable fact, which is ultimately determined by the Special Commissioners.

> "… whether an activity carried out by a company tantamount to a business activity or investment activity is always a question of disputes between the tax authorities and the taxpayer company, a questionable fact, which is ultimately determined by the Special Commissioners."

The Court of Appeal[6] delivered a celebrated decision in *Ketua Pengarah Hasil Dalam Negeri vs. Pan Century Edible Oils Sdn Bhd*[7] on 31 July 2002 — that a company, if able to substantiate with evidence that its interest income is derived from its business activity as distinct from investment activity, then such interest income would be assessed as business income under Section 4(a), notwithstanding that interest income is specifically provided in Section 4(c) of the Act. This article analyses the development of the *Pan Century Edible Oils* case, from the Special Commissioners to the Court of Appeal, laying down the principles enunciated by the Courts, the possible hurdles that need to be passed, the evidence required for the satisfaction of the Special Commissioners to discharge the onus of proof to have the interest income assessed as business income under Section 4(a) etc.

The Story Begins …

The company, *Pan Century Edible Oils Sdn Bhd* was incorporated on 1 April 1997, and is carrying on the business of refining and processing palm oil. The Memorandum and Articles of Association provides the authority to advance deposits or lend money. The company retains a certain portion of cash proceeds from the sale of products to acquire raw materials, namely, the crude palm oil. As the price of crude palm oil fluctuates from time to time, the cash needed to purchase the crude palm oil also varies from time to time.

When less cash is needed to purchase palm oil when the price falls, the excess cash is placed in short-term and long-term deposits and on Negotiable Certificate of Deposits, that is, on very short-term negotiable deposits, i.e. 30 days or 1 day call.

The object of placing cash on short-term deposits is to deal with the excess money on hand, to turn over and make a profit for its shareholders before it is used to acquire raw

materials. Before placing the deposits, the company exercised managerial and organisational skills by monitoring the fluctuating prices of palm oil by resorting to *Reuter* reports, newspaper reports and bankers' advice on a daily basis. The company contended that once the interest income derived from the short-term and long-term deposits is 'part and parcel' of business activity or alternatively ancillary to its business or it is a business income arising out of an adventure or concern in the nature of a trade, it should be chargeable to tax as income under Section 4(a) of the Act. Evidence was adduced to show that the deposits followed the cycle of palm oil prices. In addition, the placement of deposits, which was from the proceeds of the sale of the palm oil products and the withdrawal of deposits to purchase the palm oil, formed the working capital of the business. Since the fund is part of the working capital process, it cannot be said to be held as an investment or form the investment activity.

The tax authorities however, contended that such interest income should be taxed as income under Section 4(c) of the Act, on the basis that such interest income was clearly 'interest' and not gains or profits from a business. The lack of risk in placing the deposits demonstrates that interest cannot be treated as business income; the repetitive transactions do not amount to trade and there was nothing done to deem it as an 'adventure' or concern in the nature of a trade.

The issue raised before the Special Commissioners was whether the interest income of the company is business income under Section 4(a) or interest income under Section 4(c) of the Act[8]. The Special Commissioners were influenced by the fact that the placing of deposits and lifting of deposits continued on a regular and repetitive basis (daily, week in and week out every month) for the relevant years of assessment under appeal and still continue to do so as at the appeal in 1997. They arrived at the unanimous decision that interest income satisfied the test laid down in the badges of trade[9] and thus qualified as business income or alternatively as income from an adventure or concern in the nature of trade. Noor Azian (Chairman of the Special Commissioners) said[10] :

"Considering the motive which was and still is profit-making and the high volume and frequency of transactions coupled with the organisation and the system adopted (details of transactions, accounts etc. in Exhibit "B"), we are of the view that the transactions are indicative of business or an adventure or concern in the nature of trade."

The Special Commissioners found that the badges of trade such as the presence of a profit-seeking motive, existence of an organisation, method of financing, period of ownership, frequency of transactions, nature of subject matter and circumstances leading to the realisation are sufficient to hold that the placing of the deposits

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1 The Act. Act 53/1967.

2 Section 4(a) to (f) of the Act.

3 See Section 44(2). This refers to a situation where the deductible expenses exceed gross income of the business source.

4 See Section 43(2).

5 Section 34(2) in relation to bad debts, Section 34(4) in relation to contribution to approved provident fund, social responsibility expenses defined in Section 34(6), double deduction are only granted to income from business sources.

6 Comprises of Abdul Hamid Mohamad, Mohd Noor Ahmad and P. S. Gill.

7 Rayuan Sivil W-01-200 Tahun 1997.

8 See the Special Commissioners case (1997) MSTC 2891.

9 For a detailed discussion on badges of trade, see Choong Kwai Fatt, *Malaysian Taxation — Principles and Practice*, 2002 8th ed., pp. 209-218.

10 Ibid at p. 2899.

amount to an adventure or concern in the nature of trade. They rejected the tax authorities argument that all the badges of trade must be present in order to establish a business source. The Special Commissioners firmly laid down that it is not necessary that all badges of trade must exist to establish business source. To do so, would be too far-fetched[11].

The Special Commissioners also rejected counsel for the company's argument that the placing of deposits and the processing and refining of palm oil are closely allied to form a single business source. In short, the placing of deposits are not ancillary to the main trade.

The rejection of this argument has no bearing to the company as the Special Commissioners already accepted that the placing of deposits is a new trade or an adventure into the nature of trade. Either one of these factors would enable the interest income derived to be treated as a business source. Thus the company can have its interest income to be set off by any unabsorbed loss available to the company to reduce its taxes.

It is interesting to note that in arriving at the decision, the Special Commissioners have taken note of the anti avoidance measures to ensure that the placing of excess cash to derived interest income is a transaction capable of commercial justification and not solely set up to take advantage of the unabsorbed loss of the company. The Special Commissioners said[12] :

"We were further satisfied that the transactions were … carried out through a genuine structure and not an artificial structure set up especially to take advantage of the fiscal benefit … under Section 43 of the Act."

The Special Commissioners relied on the principle approved by Lord Morris in *Lupton vs. F.A. & A.B. Ltd*[13] in relation to the tax avoidance scheme where the Lordship opined :

"If upon analysis it is found that the greater part of the transaction consists of elements for which there is some trading purpose or explanation (whether ordinary or extraordinary), then the presence of what I may call "fiscal elements", invented solely or mainly for the purpose of producing a fiscal benefit, may not suffice to deprive the transaction of its trading status. The question is whether, viewed as a whole, the transaction is one which can fairly be regarded as a trading transaction. If it is, then it will not be denatured merely because it was entered into with motives of reaping a fiscal advantage. Neither fiscal elements nor fiscal motives will prevent what in substance is a trading transaction from ranking as such. On the other hand, if the greater part of the transaction is explicably only on fiscal grounds, the mere presence of elements of trading will not suffice to translate the transaction into the realms of trading. In particular, if what is erected is predominantly an artificial structure, remote from trading and fashioned so as to secure a tax advantage, the mere presence in that structure of certain elements which by themselves could fairly be described as trading will not cast the cloak of trade over the whole structure."

> "… the Special Commissioners have taken note of the anti avoidance measures to ensure that the placing of excess cash to derived interest income is a transaction capable of commercial justification and not solely set up to take advantage of the unabsorbed loss of the company."

In this case, the Special Commissioners also suggested a test to distinguish whether the placing of deposits is a business activity or investment activity. In the event a company specifically sets aside funds to place in time deposits, then the intention is for investment. On the other hand, if the company is utilising the idle working capital funds in order to maximise profits for the company by placing the excess or surplus funds to time deposits, the intention for investment may not be present. The motive of placing the deposits is to deal with the excess money on hand, to turn over and make a profit. The activity is thus one of the business objectives of the company and hence, would tantamount to a business income.

The tax authorities being dissatisfied with the decision of the Special Commissioners appealed to the High Court[14]. Hj. Abdul Kadir J. accepted in total the Special Commissioners' decision as explained in the case stated. The learned judge approved the test suggested by the Special Commissioners as to distinguish the placing of deposits as a business activity or an investment activity. He was guided by the settled law that a High Court can only intervene with the decision of the Special Commissioners provided their decision was based on the misconception of law, there has been error from the point of law, or there was no evidence to support the determination or as one in which the evidence is inconsistent with or contradictory of the determination[15]. As the learned judge found that the Special Commissioners were correct in arriving at the decision that the amount of interest income is a business income assessed under Section 4(a), he gave his decision in favour of the company.

Hj. Abdul Kadir J. held[16] :

"… I cannot find anything ex facie bad law in the record which could tilt the balance in favour of the Appellant (tax authorities). The facts as found are simple. It is a case of a company whose purpose is to make as much profit as possible for its shareholders. Having excess cash over its daily business, it diverted the said excess for such period until it is needed for the purpose of business, by putting it in the bank to earn income. Otherwise, those excess found would remain idle to the disadvantage of its shareholders. It is not a case where a predetermined amount was set aside by the company from time to time for the purpose of it being invested in banks to earn interest. Those excess funds in this case together with the interest earned would be ploughed back into the company to be used in its business of the refining and processing of oil palm in time of need. Those excess funds were in fact the temporary surplus working capital of the Respondent (the company). Therefore, it is not right to say that any interest received on

[11] Ibid at p. 2898.

[12] Ibid at p. 2899.

[13] (1972) AC 634

[14] (1998) MSTC 3,675.

[15] These are the principles propounded by Lord Radcliffe in the House of Lords decision in *Edwards vs. Bairstow* (36 TC 207).

[16] Ibid at p. 3679.

the account of those short-term deposits is interest within the meaning of Section 4(c) of the Act as contended by the Appellant (tax authorities). On the facts, it is income in respect of gains or profits from a business, within the meaning of Sec.4 (a) of the Act as claimed by the Respondent (the company)."

It should be noted that the company in this case had three classes of deposits, two of which are short term while the latter is long-term, a fixed period of four years. The High Court merely addressed that the interest received on the account of those short-term deposit is interest within the meaning of Section 4(a) of the Act and nothing else. Hj. Abdul Kadir opined :

"Therefore, it is not right to say that any interest received on the account of those short-term deposits[17] *is interest within the meaning of Section 4(c) of the Act as contended by the Appellant (tax authorities). On the facts, it is income in respect of gains or profits from a business, within the meaning of Sec.4 (a) of the Act as claimed by the Respondent (the company)."*

The existence of *lacuna* in the High Court decision may suggest that long-term deposits be treated as a business source as found by the Special Commissioners, and after all the learned judge had accepted the decision of the Special Commissioners in total. It may also give grounds to the tax authorities to examine this issue in later tax appeal cases.

The Saga Continues ...

The tax authorities went to the Court of Appeal to seek final redress on the issue of interest income being assessed as business income. It took four years since the High Court decision. The Court of Appeal was bound by the facts determined by the Special Commissioners and they could only reverse the Special Commissioners' decision on the issues of law or mixed facts and law. The principles enunciated by Lord Radcliffe in the House of Lords decision in *Edwards vs. Bairstow*[18] were adhered to. The Court would only interfere if the case contained anything *ex facie* which was bad in law and which bore upon the determination, or if the facts found were such that no person judicially and properly instructed as to the relevant law could have come to the determination under appeal.

In this case, the Court of Appeal too had scrutinised the records in the review of the finding of primary facts made by the Special Commissioners and they were in complete agreement with what was summarised by Hj. Abdul Kadir J. in the High Court. The Court of Appeal held :

"Having reviewed the findings of primary facts made by the Commissioners and in the light of the relevant law we are satisfied that the Special Commissioners are correct in their decision in holding that the interest income falls within Section 4(a) of the Act. Therefore, we dismiss the appeal with costs and confirm the Deciding Order of the Special Commissioners."

In arriving at the decision, the Court of Appeal referred to the Malaysian Privy Council case of *American Leaf Blending Co. Sdn. Bhd. vs. Director-General of Inland Revenue*[19] where the law lords in England held that rental, despite being specifically provided in Section 4(d) of the Act, there is room for overlapping between Section 4(d) and business income Section 4(a) if a property company or an individual carries on the business of letting premises for rent from which the gains or profits of that business are derived.

Datuk Wira Haji Mohd Noor JCA, delivering the leading decision in the Court of Appeal followed the decision of *American Leaf Blending Co. Sdn. Bhd. vs. Director General of Inland Revenue*[20] held :

"In the same breath, we conclude that the interest despite the fact that it was referred to in paragraph (c) of Section 4 of the Act nevertheless constitutes income from a source consisting of a business if it was receivable in the course of carrying on a business of putting the Respondent's excess cash to profitable use by placing it on short term and long term deposits."

The Guiding Principles

With the amendment to the Courts of Judicature Act 1964[21] in 1995, the highest court to appeal for income tax cases is the Court of Appeal. This would mean that *Ketua Pengarah Hasil Dalam Negeri vs. Pan Century Edible Oils Sdn Bhd* will be the binding authority as to the assessment of interest income as business income. It is a settled law that interest despite being specifically codified in Section 4(c) of the Act, could be assessed as business income under Section 4(a). To do so, the learned Datuk Wira Haji Mohd Noor JCA requires the taxpayer company to adduce evidence to demonstrate that such "interest income is receivable in the course of carrying on a business of putting the taxpayer company's excess cash to profitable use." This phrase is highly subjective and will involve argument and convincing skills between the taxpayer and the tax authorities, which may result in a lengthy legal battle later on.

In the lordships opinion, once an interest income is said to be received in the ordinary course of business, it would be a Section 4(a) source notwithstanding the fact that the placement of deposits is for short-term or long-term.

With greatest respect, the writer wishes to depart slightly from this principle. In the case of *Pan Edible Oils*, the company derived interest income from various placements of deposits as shown in Table 1.

The writer is in total agreement of the company's argument that the excess cash

TABLE 1

Year ending 30 Sep	Interest income earned from placement of deposits (RM)		
	30 days or less	110 to 210 days	Fixed period of 4 years
1986	294,364	Nil	Nil
1987	577,252	Nil	Nil
1988	47,653	30,612	101,308
1989	Nil	Nil	37,997

[17] Emphasis of the writer.
[18] 36 TC 207.
[19] (1979) 1 MLJ 1.
[20] (1979) 1 MLJ 1.
[21] Section 96(a) of the Courts of Judicature Act 1964.

from the fluctuation price of raw materials placed on time deposits to maximise the profit from the idle cash is a business income as the company embarks actively in such placement of deposits by resorting to *Reuter* reports, newspaper reports, and bankers' advice daily.

Furthermore, the company exercised managerial and organisational skills by monitoring the fluctuating prices of palm oil daily. There exists a close connection between the fund and the business process. This would apply to the interest income appearing in Column 2 and 3. The fund inclusive of interest received is part of the working capital of the business, and the interest income is a business income.

> "… it is a unique feature that the company does have idle funds from time to time due to the fluctuation of raw material prices … In cases where manufacturing or trading companies whose funds to acquire raw materials is fairly consistent may find difficulty in having their case fall in the circumstances as in *Pan Edible Oils*."

However, in the event the company has excess cash from the sale of proceeds of palm oil and does not require it in the short run, the placement of the deposits for a period of four years is akin to an investment activity. It amounts to the setting aside of funds for investment purposes. The High Court was of the opinion that the excess cash over its daily business being put in the bank is a business activity as the excess fund together with the interest would be ploughed back into the company to be used in its business of refining and processing oil palm in time of need. Hj Abdul Kadir held :

"… Those excess funds were in fact the temporary surplus working capital[22] *of the respondent."*

In the writer's opinion, a fund, which forms the *temporary* surplus working capital and is ready to be ploughed back as needed must be placed in deposits for less than a financial year. The phrase 'working capital' would refer to a situation that the fund is needed within a financial year. A company which places an amount for a deposit period of four years would mean that such fund is never needed to form the working capital and it would be tantamount of setting aside an amount for investment. Therefore, interest income in Column 4 should be a Section 4(c) investment source and not Section 4(a) business source. To hold such income to be business income, in the opinion of the writer is too far fetched. It is unfortunate that the counsel for the tax authorities did not bring this to the attention of the Court of Appeal.

It is a principle of law that the test suggested by the Special Commissioners to distinguish the placing of deposits as a business activity or investment is an acceptable test. The Court of Appeal approved the adoption of the High Court in relation to this principle. According to the Special Commissioners, if a company specifically sets aside funds to place in time deposits, then the intention is for investment. Interest income is then assessed under Section 4(c) of the Act.

In *Pan Edible Oils* case, it is a unique feature that the company does have idle funds from time to time due to the fluctuation of raw material prices. The placement of these idle funds to derive interest income is a business activity. In cases where manufacturing or trading companies whose funds to acquire raw materials is fairly consistent may find difficulty in having their case fall in the circumstances as in *Pan Edible Oils*. To ensure that the interest income is assessed as business income, these companies must ensure that the placement of deposits are carried out on a regular and repetitive basis. The company must exercise managerial and organisational skills by monitoring the interest rates, by resorting to *Reuter* reports, newspaper reports, and bankers' advice daily, etc. When the holding company borrows from the bank and then lends to its subsidiaries within the group of companies it must ensure that it has the object of 'fund and treasury management' stated in the Memorandum of Company and possess the skill in fund management, in addition to the frequency and regular test suggested above. All this evidence must be properly documented to prevent unnecessary disputes with the tax authorises later on during the tax audit.

Conclusion

Since the Malaysian legal system abolished the appeal procedure to the Privy Council, coupled with the restructuring of Malaysian Courts, it is always uncertain as to the binding effect of the Privy Council decisions in modern days. The Court of Appeal followed the principle enunciated in the Malaysian Privy Council case in *American Leaf Blending*, confirming the application of these Malaysian Privy Council decisions in the Malaysian Courts and this is indeed a welcomed one.

The decision of *Pan Edible Oils* merely reiterates a settled principle that investment income such as rental, interest etc., despite being codified in Section 4(d) and 4(c) of the Act, nonetheless can be assessed as business income if the taxpayer company received such income (i) in the course of carrying on the business and (ii) from activity to put the taxpayer's asset into profitable use amounting to a business activity. These two factors are highly subjective, requiring the taxpayer to adduce evidence to discharge the onus of proof, a question of fact which is ultimately decided by the Special Commissioners.

The question is whether the placement of deposits for a long-term exceeding one financial year would be considered as a business source. In the opinion of the writer it remains unresolved as the Court of Appeal merely expressed it as a passing remark and did not address this issue specifically. In short, the tax authorities have not lost their battle, and neither can the taxpayer be confident that interest income is now a business income with the decision of *Pan Edible Oils*. The legal battle continues. AN

[22] Emphasis of the writer.

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REVIVING ENTREPRENEURSHIP IN YOUR BUSINESS

Entrepreneurship is recognised as being extremely important to business whether it is micro, small, medium or large. Many business people think they know what entrepreneurship is but even academics do not know what is entrepreneurship.

Many people think that being in business is entrepreneurship. "It is not," says Dr. Noel Lindsay, the Chairman of Vizier Meridian Centre for Entrepreneurship in his address at the National Accountants' Conference 2002 held at the Sunway Resort Hotel on 17-18 September recently.

Only a very small percentage of owner managers who are in business act in an entrepreneurial manner. Many do not understand the principles of entrepreneurship and how to develop them or revive them in their business. Some confuse the term with 'small business' — which it is not. Most small business owners/managers do not demonstrate entrepreneurial abilities at all or have forgotten how to be entrepreneurial.

Teachers sometime think that running courses for their students on bookkeeping and business principles is entrepreneurship but this is not entrepreneurship. Entrepreneurship is as much a way of thinking as it is a way of doing.

Although entrepreneurship is hard to define, there are certain ingredients that seem to pop up time and time again when people discuss entrepreneurship. These include (but are not limited to) the following …

- a degree of risk taking
- innovation (doing things differently … thinking outside the square).
- the pursuit of opportunity
- the ability to package up and communicate the business opportunity to others so that they will more readily invest in the opportunity (ability to develop a comprehensive business plan), and
- the ability to scrounge for and attract resources … to do more with less.

Dr. Noel Lindsay … True entrepreneurs add value; they create wealth … not only for themselves, but also for their employees

Although there is no one universally accepted definition of entrepreneurship, it can be thought of as the process of creating or seizing an opportunity through doing creative or innovative "things" — while seeing the upside potential but, at the same time, managing the downside risk — and without regard to the resources currently owned or controlled by the entrepreneur.

Many small business people are concerned about growing their businesses because they believe that this will make them more vulnerable to failure. They believe that the bigger they get, the "further there is to fall" if business matters go wrong. Larger businesses have a greater chance of succeeding … providing that entrepreneurship is embraced.

Entrepreneurial businesses have a greater chance of succeeding than non-entrepreneurial businesses. (More than 60 per cent of all new businesses tend to fail within the first few years; the more entrepreneurial businesses typically are the ones that succeed.) In addition, many financiers prefer not to finance businesses that are not entrepreneurship because of the risk that they will lose their money if they advance money to these businesses.

True entrepreneurs add value; they create wealth … not only for themselves, but also for their employees, their shareholders, and for their micro and macro economies. True entrepreneurs are there for the long-term. They build solid business structures based on high professional standards and ethical values.

Many people believe that successful entrepreneurs are "lone wolves"; that is, they are very individualistic in the way that they run their businesses. Nothing could be further from the truth. Most successful entrepreneurs develop teams of people around them to help them develop their businesses. Even high profile entrepreneurs such as Bill Gates and Richard Branson have excellent teams of people in their businesses and they empower these people to make decisions and act in a team way. They give them freedom to experiment and to make mistakes (with an emphasis on keeping the mistakes unique!).

There is no one psychological profile of

an entrepreneur. Many have tried to develop such a profile but this has been elusive. However, certain traits do tend to be present in successful entrepreneurial people.

These include the following :

- They are opportunity focused … forever looking for opportunities they are not crazy speculators … they do not take unnecessary risks … they can deal with uncertainty, change, and ambiguity.
- They have the ability to think outside the square in solving problems … they look to develop businesses that are not "me too" type businesses … they use their creative abilities in this regard.
- They have an internal locus of control … they believe that they are in control of their destiny and "if it is to be, then it is up to them" … where they end up.
- They do not try to blame others if things do not work out.
- They are action-oriented … they push to get things done.
- The major reason for their being in business is not money! They use money and wealth as a gauge to measure whether they are making progress; however, making money does not consume their focus.
- They have a high need for achievement. This often is the major reason why many entrepreneurial people go into business … they set themselves goals to achieve and they love achieving them and then move on to the next goal.
- They are very persistent. Even when things are not going as well as they could be, they push on relentlessly.
- They tend to have a positive attitude … a "can do" attitude.
- They demonstrate leadership … they have the ability to develop an excellent team that embraces their vision.

So, while there is no one perfect profile of an entrepreneur, many successful entrepreneurs demonstrate these types of traits/qualities.

There are some people who believe that entrepreneurs are born and not made. This is NOT correct. People can be taught how to become more entrepreneurial; businesses can be made more entrepreneurial with the right type of guidance given to the management team who are at the "helm" of the business. A great deal of research has been undertaken in this area and there is no doubt that people can be taught how to be more entrepreneurial.

Issues such as the following can be taught with success …

- How to recognise business opportunities.
- How to commercialise technology.
- How to develop comprehensive business plans to present those opportunities to others.
- To become "investor ready" so that financiers will more likely be inclined to put funds into the venture.
- How to develop the creative side of their brains so that they will be more inclined to think outside the square and come up with innovative businesses solutions, and
- How to use their business resources appropriately

Reviving entrepreneurship in a business involves understanding the driving forces that underlie the entrepreneurial process: the entrepreneur and the team put together to develop the business; the opportunity; and the right type of resources required to make it all happen. Owners, managers, and or key employees can be educated in this regard.

Once the key people in the business understand the principles, they then can be guided on how to apply these principles to their businesses … to develop comprehensive business plans that set out strategies for growing their businesses. Some people can do this themselves through simply reading about entrepreneurship. Most people appreciate that they need help and, in so doing, either develop an internal programme to help in educating themselves and their key staff members or they attend public entrepreneurship programmes. AN

K-ACCOUNTANTS — A HUMAN RESOURCE PERSPECTIVE

A K-Accountant must be a visionary, flexible, technologically sophisticated and highly experienced. In the past, an accountant were mere bean counters that records financial transactions and produce historical financial figures but a K-Accountant will need the knowledge and ability to analyse financial information and convert those results into predictive tools. It would not be wrong to say that gone were the days that ROI means Return on Investments, for a K-Accountant it would mean Return On Information.

"Accounting, as perceived today, will go away. The traditional functions will continue but will be less prominent. Less than 25% of AICPA members actually provide traditional corporate accounting and auditing services. The majority performs technology, management consulting and personal financial planning services. There's a new way of thinking. The profession is changing and evolving into more knowledge services," says Leigh Knopf, the Director of Strategic Planning & Change Management for the American Institute of Certified Public Accountants.

Traditional accounting skills will always be in demand as accountants' audit and report on company operations. In fact, a growing number of corporate boards of directors will include their Chief Financial Officers (CFO) who can make strategic informed decisions based on thoughtful financial analysis into their board meetings. However, to succeed in the future, accountants must supplement their core competencies such as technical skills and communications abilities. "The primary reason for this shift will be due to the nature of corporate accounting, which is seen evolving, creating new structures, job descriptions and report-

ing hierarchies. All these are caused by a changing economy emphasis," says Asohan S, the Human Resource Manager in his paper "K-accountant — A Human Resource Perspective" presented at the National Accountant Conference on 18 September 2002.

What Leigh Knopf the Director of Strategic Planning & Change Management for the American Institute of Certified Public Accountants says, is a real insight of the emergence of Knowledge Accountants or K-Accountants.

Based on the new trends in the accounting fraternity, let's examine its impact from a Human Resource point of view. Here we will see what these trends will take shape in the future, the necessary skills and competencies a K-Accountant will need to compete in a global market.

The Future of Accounting

In the future, accounting will become a knowledge services profession. In addition to traditional audit and reporting roles, K-accountants will serve as analysts, forecasters and managers. Rather than concentrating on compiling and presenting the numbers, a K-accountant will have to mine data, turn information into knowledge and share their forecasts with senior management.

Accountants will no longer be statisticians, but strategic partners. They will consider past performance, analyse existing data and evaluate changes in the economy to help position their companies for future success. As financial professionals spend less and less time on traditional functions and more time using their knowledge and insights to help companies grow, "Financial Manager" or similar titles will replace the term "accountant".

As investors insist on setting standards that can be used to accurately gauge a company's performance, the new K-accountant will furnish the factual basis and strategic advice for management's decisions and help demonstrate the impact of those decisions on the bottom line and in return improve investor relations. Major growth areas for K-accountants will be in cash flow forecasting and analysis; computer systems and other technology procurement; strategic planning and management; and international finance.

Career In Consulting

The vigorous growth of independent financial consulting as a career will continue as businesses rely on these professionals to introduce new concepts, provide expert advice, solve problems and conduct financial analysis and strategic planning. Such consultants will be sought for in supply chain management and business-to-business integration; resource planning; staff training and mentoring; financial systems conversions; reengineering and e-commerce (from advising on the business implications of a web initiative to testing for security, disclosure, integrity and delivery on all of the site's promises).


Asohan S.
Human Resource Manager

As the workforce becomes more entrepreneurial and mobile, an increasing number of K-accountants will elect to work for themselves, rather than one corporation. More young people will go into consulting because of the variety, fast pace and challenge that it offers. Retired professionals will return to work as consultants. Consultants will be called upon to serve their clients as mentors, strategists and acting or interim Chief Financial Officers. Advanced degrees and certifications — MBA, CPA, CMC (Certified Management Consultant) and CPM (Certified Project Manager) — will be increasingly important for consultants.

Mandatory Skills

Technical: To perform their jobs effectively, financial professionals will require broad-based expertise in every area of technological development — from an understanding of new applications and software to a working knowledge of wireless technologies.

Communication : Because they'll be speaking from top to bottom and vice versa, strong written and verbal communication skills will be critical. A K-Accountant must be able to explain financial data in non-financial terms and offer clear, concise recommendations.

Interpersonal : Tomorrow's financial professionals must be flexible, proactive and able to relate to colleagues from diverse backgrounds and professions. With increased interaction between accounting and other internal departments, K-Accountants will need to hone "soft" skills such as persuasion, diplomacy, negotiation, coaching and teambuilding.

Managerial : In addition to financial knowledge, accounting professionals must develop management, marketing and operational expertise. They will need to understand all areas and functions of a company and anticipate the needs of the business.

New Specialities Needed for K-Accountant

• Information Technology Services

Accountants who have multimedia expertise will be asked to work with IT to implement specialised, advanced computer systems.

• E-commerce Experts

The growth of e-commerce will drive the need for financial professionals who are systems security experts and Internet strategists. A comprehensive knowledge of Internet regulations and the ability to manage e-commerce initiatives will be indispensable.

• Assurance Services

Using both financial and non-financial information culled from past performance and/or present conditions, assurance services providers will put business intelligence into a financial context. They'll convert data into knowledge, especially in sectors such as elder care, e-commerce, risk assessment, performance measurement and information technology.

- **Personal Financial Planning**

K-accountants in this speciality will help their clients reduce debt; develop investment and asset allocation plans; control expenses and minimise their tax burdens. Personal Financial Planners also may get involved in insurance analysis and retirement planning.

- **International Accounting**

Cross-border transactions, overseas trade agreements and other daily activities in the expanding global economy will require the expertise of K-accountants who understand foreign laws, tax structures and business practices. Fluency in one or more foreign languages will be crucial.

- **Environmental Accounting**

As businesses strive to be environmentally responsible (as well as more profitable), they will list professionals with the CPA credential to handle projects ranging from environmental compliance audits to managing and preventing claims and disputes.

- **Forensic Accounting**

Those accountants who can identify and track computer fraud, particularly in the realm of e-commerce, will be in high demand as corporations increasingly rely on technology. Forensic accountants will work closely with the other financial and IT professionals to solve problems related to systems integrity and security.

The Evolution of the CPA

As businesses seek to turn information into knowledge, K-Accountants will move from the backroom to the boardroom. They will assume more consultative roles, combining traditional services with non-traditional ones such as technology consulting, assurance services and e-commerce consulting.

Many professionals with public accounting backgrounds will become information managers. Others will sell securities or become investment or asset managers.

The CPA credential will remain highly portable. A public accounting background provides a strong foundation in business and can be adapted to a variety of functions within companies. A CPA designation by itself will not be enough, however. Professionals will need to specialise in another area, such as information technology.

The Impact of Technology

A K-Accountant will be called upon to bridge the gap between technology and business. With the rise of integrated systems, technical expertise will go hand in hand with general business knowledge.

With the growth of e -commerce, safeguarding assets in the digital realm will be a critical area in accounting. A K -Accountant must know the company's web systems and functionality's, order to ensure the integrity and security of internal computer systems. To work productively with Chief Information Officers and the IT staff, a K-Accountant must be conversant with computer code and programming language; possess a working knowledge of new business applications and be proficient in database, spreadsheet and analytical software.

The Internet will continue to transform accounting's basic foundation of service and delivery. A K-Accountant must develop familiarity with Internet engineering as well as Application Service Providers and other web-deployed applications.

Survey With CFOs

(*Source*: Robert Half International survey of 1400 CFOs)

The CFOs pre' " . that issues and responsibilities outside of traditional accounting functions will py 37 per cent of a senior accountant's time five years from now. The most important ills, aside from financial expertise for financial professionals in the future will be technology expertise (44 per cent), followed by strong communication skills (24 per cent); general business knowledge (16 per cent) and leadership abilities (11 per cent).

Based on that survey, 52 per cent of CFO says that IT training will be their first priority in supporting professional development for their accounting staff in the next two years; 22 per cent ranked traditional financial skills development as most important.

82 per cent of CFO said their accounting departments have become more involved with their companies' technology initiatives in the last five years. More specifically, almost half of CFO said their accounting departments have become more involved with e-commerce in the last three years. There are 52 per cent of CFO polled said the most effective way for accountants to build their non-financial skills is through classes and seminars; 36 per cent said on-the-job learning was most valuable. 85 per cent of CFO believe that a professional certification, such as CPA or CMA, helps in career advancement.

Educational Outlook

With continued interaction between technology and finance functions in the workplace, the accounting curricular needs to be revised and expanded. Accounting majors will minor in Information Systems, or may ultimately seek a combined accounting/IT degree. To better prepare accounting students for evolving workplace trends, business and academia will collaborate to create more mentoring programs and internship opportunities.

Towards this direction, local universities and the traditional accounting department may eventually merge with a broader MBA-track program to educate and prepare future K-Accountants for both finance and general business issues.

The accounting curriculum should incorporate more on learning through team projects, rather than via the traditional model of lectures and tests. Critical instructional areas for tomorrow's k-accounting students will include entrepreneurial thinking, creativity, leadership and communication. The accounting major should embrace liberal arts and business courses.

Work Balance

Today Accountants work more than 40 hours each week. Some even go beyond those hours. All this adds up to their stress due to the rising workloads and creating an unbalanced work life that eventually disrupts their life style. Given a choice, the KAccountant would like to decrease job stress; have greater professional autonomy; more flexible work schedule and fewer hours at work. A K-Accountant will work from home to have flexible y" king hours and provide his expertise from the home to regain their lost life style.

Conclusion

The rapid changes in the technology and the need to keep business competitive in a borderless economy are some of the challenges that will be posed to a K-Accountant. Malaysian accountants on the whole, would need to move in tandem with those changes to secure its credibility of the profession.

To ensure maximum success, a K-Accountant should dedicate himself for life-long teaming opportunities to broaden his knowledge in this Information Age. This would require a K-Accountant to learn new skills and competencies, relearn information to keep abreast with the technological changes and unlearn obsolete information based on historical data. Such initiatives would put the K-Accountant in the mainstream business activities and deal with real time events around the globe. AN

The Integrated System of Financial Planning — Total Wealth Management System

By Yap Ming Hui

For any accountant who wants to advise their business-owner client on their financial affairs, you need an integrated financial planning system.

I have personally met with many accountants who are very enthusiastic about providing financial planning services. They have taken a lot of effort to equip themselves with various financial products and services like insurance, unit trust, Will writing and others. However, they complain to me about their frustration of not being able to impress upon their clients that they are different from a financial product agent. When I ask them how they approach their clients, I find that they do not have a financial planning system to integrate all areas of financial planning and products. What they have done is to just share with the clients the list of products and services they provide in an isolated manner.

In this article, I would like to share with you the integrated system we use in Whitman Independent Advisors to advise our business-owner clients. Our Total Wealth Management System is a proprietary system of financial planning created to help those who have accumulated a reasonable size of wealth to address the unique financial challenges this wealth brings. The Total Wealth Management System is a comprehensive financial checklist for high net-worth individuals to manage and maintain the fitness of accumulated wealth. Wealth management qualifies and manages a high new-worth individual's success in four financial components : wealth protection, wealth accumulation, wealth preservation and wealth distribution. Each of these different components is meant to play a different role in addressing unique issues of staying wealthy.

Wealth Protection

Wealth protection is the area where you help your clients have the assurance that they will live the lifestyle they desire. The area of wealth protection represents more than protecting a loss of income from death, disability and critical illnesses. It also includes protecting your client's cash flow through disciplined and conscientious budgeting, monitoring "under-earning" and actively pursuing means to protect his or her earned income from unacceptable tax consequences, something quite similar to business budgeting.

A proper understanding on sources of revenues and planning how to spend protects your client from the unwanted consequences of not saving and investing according to plan and therefore ultimately not providing enough for the desired lifestyle for tomorrow. This is the component that includes the

budget planning and control. It is dedicated to monitor what amount of money comes into your client's account throughout the year and where the money goes. It is also the component that determined some minimum protection should your client lose his income from disability, death and critical illnesses. We also evaluate tax planning under this component. The financial planner also helps the high-income clients explore the possibilities of tax-advantageous strategies under this area of wealth management.

Wealth Accumulation

Wealth accumulation aims to achieve reasonable capital growth with the primary objective of preserving accumulated wealth. This is the area that addresses the challenges of addressing the risk of losing capital and the risk of losing purchasing power at the same time. Despite the fact that wealth accumulation planning seems to be the component about which your client is almost always most concerned and excited, it is this very focus that makes them lose sight of other important components of wealth management. As your client's trusted advisor, it is your duty to remind your client to not overlook other areas of wealth management.

The area of wealth accumulation represents more than achieving maximum rate of return for accumulated wealth and savings. Our system also includes investment strategies to preserve the invested capital so that it cannot be lost under all circumstances. Success in wealth accumulation is very much dependent on effective application of the asset allocation principle. Effective application of asset allocation strategies allows an individual to minimise risk and maximise return on his accumulated wealth by diversifying the portfolio into diverse and uncorrelarated types of asset classes. This is the component that measures the actual performance of your client's investment planning efforts. It is dedicated to compare your client's actual investment performance and expected rate of return. It is also the component that monitors the actual savings contribution for wealth accumulation purposes. If you find this area of wealth management is beyond your competencies, you may want to be affiliated with to professionals to compensate your lack of experience in this area.

As financial planners, we must also make provision for short-term major financial purchases under this component. With such a proper provision, we can help to ensure minimum disruption to the long-term accumulation plan by introducing short-term monetary needs.

Wealth Preservation

If your client is a business-owner, you must never overlook his or her wealth preservation issues. Wealth preservation is another important component of wealth management. For an individual who has accumulated a reasonable amount of wealth, a bad investment can cause some major discomfort, but still, poor investment performance is not so serious. As far as wealth preservation is concerned, adequate efforts should be made to preserve the accumulated wealth. The wealth preservation component aims to protect the accumulated wealth against every conceivable financial risk and threat. It is one area a lot of individuals know they need work but because of preconceived notions, they may be disinclined to spend sufficient effort here. Almost everyone dislikes thinking about death, bankruptcy, disaster, or lawsuits, so enough planning may not be given. The financial planner has a duty to highlight the importance of proper planning for wealth preservation issues.

A proper understanding and honest assessment of sources of risks and threats helps your clients to make decisions as to which methods should be utilised to protect accumulated wealth. One major planning in wealth preservation is liability protection planning which includes personal, director and officer and personal guarantor's liability risks. This is also the component that includes risk planning and control for property and other physical assets. We can advise the client to shift the financial catastrophes for which they cannot fully self-insure to the general insurance company. Wealth preservation is also the component that makes sure that proper valuation and planning has been done on your client's business interests should his or her partner suffer from disability, death and critical illnesses or retire. We also evaluate debt control and management of the client under this component. It is very important for the financial planner to help high-income clients to contain the risk of being too highly leveraged.

Wealth Distribution

Wealth distribution is important in the discipline of wealth management because of its inevitability and its spectre. Death is something that most of your clients tend to ignore. The more wealth your client has accumulated, the more complicated his or her financial issues become when he or she passes away. The objective of wealth distribution is therefore to properly plan so that your client's accumulated wealth can be managed and distributed according to his or her wishes with minimum hassle.

The wealth distribution exercise starts with the identification of estate planning objectives. You must take into consideration the personal values and special provision based on your client's family circumstances. The most important area to look into in wealth distribution is to review your client's Will, if he or she has any. The Will must be valid and specify his or her wishes clearly. Due to the unique regulatory system, there are some assets that can be distributed outside the estate. As such, proper beneficiary designation would be required on the distribution of non-probate assets like life insurance proceeds and EPF moneys. In this component, you also help your clients to express how he/she wants his wishes to be carried out should he/she be no longer in a position to do it himself, for example, mental or physical incapacitation? Wealth distribution is also the component that provides for the unlikely and complicated situation whereby both husband and wife die together. Specific issues and challenges in leaving assets for the minors and dependents are explored in this component. To ensure the financial fitness of the estate, we also prepare and evaluate the projected balance sheet and potential liability risk should premature death happen to the client.

As discussed above, the discipline of wealth management encompasses a very wide range of financial issues and needs. To keep what your clients have accumulated and stay wealthy, you would need to have a balanced effort and control on all four components of wealth management. Each component of wealth management is just like the pillar of the empire. Overlooking any component of wealth management may cause damage that is irreparable to your client. If you aspire to be a trusted financial advisor to your clients, it is not enough to just let them know you sell insurance, unit trusts or provide will writing services. You must have an integrated system to advise your clients in a total manner. The system must also be able to integrate various financial products and services as you make recommendations to your clients. AN

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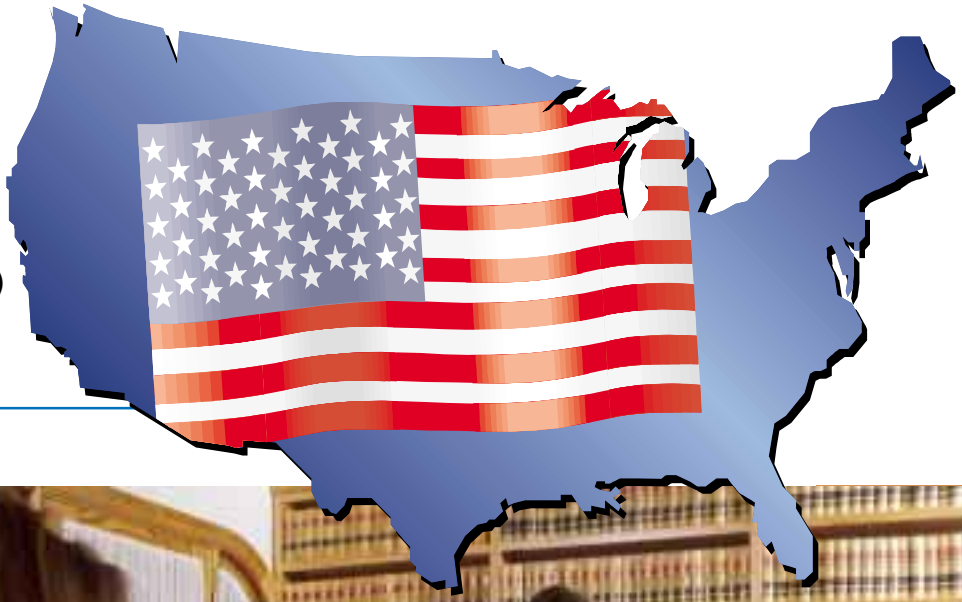
DOING BUSINESS IN THE USA (PART 2)



By Sergey Frank

The role of the consultant as a chartered accountant, or any other professional, is not identical all over the world. Despite this fact and despite all efforts to move closer to a single global set of accounting standards, the necessary communication with the international client is still and will also remain subject to a different set of rules.

The first part of this article described aspects such as communication, the time factor as well as the appropriate approach for conducting business in the US. Today we will have a closer look at the negotiating approach of business people in the US. It may happen that after a short introduction referring to abstract business principles and global considerations of business the discussion will turn to details of the actual project rather swiftly. Exact definitions of most key terms of an agreement are essential. Not without reason there is a well-known proverb saying "He who defines the terms wins the argument".

The style of negotiating is pragmatic, result-oriented and may sometimes be very fast and efficient. Communication is polite, direct and straight. The same applies to the mutual search for options for solutions. The American partner uses rhetorics for mainly pragmatic reasons in order to reach targets faster and more effectively. Interruptions during a presentation by asking questions are possible and not necessarily considered as impolite. American business people are open and flexible. Without being asked they illustrate their perspectives and support the other side in receiving the necessary information in order to see the 'whole picture'. Because of their distinctive pragmatism they are often quite creative in jointly finding new solutions and options. It is therefore advantageous to exchange information that is not confidential as well as have flexibility to explore new options in joint brainstorming-meetings. The negotiations in the US contain a fair deal of bargaining. The American partner makes compromises on the basis of reciprocity, he expects the other side to make similar concessions in return ('tit for tat'). He believes in fair competition, but has also a sound sense for fair-play and often tends to chose solutions based on the maxim that "I want to win" rather that "I want to see the other side lose". In this context it is often possible, to define mutual concessions in such a manner, that both sides are satisfied with the negotiation result and thus reach a so-called "win-win-solution" for both sides. This does not apply, however, in a situation where one party nego-

tiates from the position of strength.

The US is a country, where lawyers, especially attorneys play a very significant role. The attorney at law combines the different functions of a solicitor and a barrister as existing in the UK. A generally well-known fact is the common compensation law suits, in which enormous compensation amounts are claimed and are also partly granted by the courts. These circumstances also strongly influence business negotiations. In-house lawyers and attorneys are involved in the negotiating process more often and especially a lot earlier than in the UK. It is therefore advisable to involve an attorney for important deals in the US from the beginning. He should be a specialist in the particular business sector and, at the same time, be also familiar with the local legal system of the particular state. Such involvement may be very costly since nowhere else is legal advice as expensive as in the US. The amount of the hourly-based fee including additional expenses should therefore be negotiated in advance. The lawyer should be requested to prepare an estimate for his service.

Contracts based on Anglo-American law are generally coming from a case-law history and do not include the principles of a commercial code. Therefore, they usually are very detailed and consider all eventualities. This is why one has to prepare for a 'paper chase' when negotiating in the US, in other words long contracts commencing with detailed definitions and covering possibly all questions and contingencies which may arise. Americans stick to contracts as agreed upon. A kind of 'contract repentance' in case of later on changed circumstances is not usual. The American partner will in such a case feel nevertheless bound to the agreement. However, he will try to negotiate a contract amendment, but under no circumstances will he by nature consider the contract as non-committing.

Besides typical aspects during a negotiating situation such as the communication, the negotiating approach and various contractual points, the following aspects should also be considered.

- The US is a multi-cultural and multi-ethnic melting pot where also many business people are immigrants from first or second generation. All of them have one thing in common : they are American citizens, live and enjoy the high standards of the American way of life and its freedom.
- Women's liberation has won recognition in US business life. This is why many positions especially in various service sectors such as in management consulting, in chartered accounting, in the legal field as well as in advertising, just to name a few, are more often occupied by women than in Europe.
- The dress code is conservative and classic. Dashing combinations are not accepted in the majority of industries. Dark blue and dark grey suits with black shoes and dark socks in particular are appropriate. Light coloured or especially white socks are worn by the Americans for sports activities but not in business life.

After all that has been said, one should not forget one aspect : Americans love to have fun, and fun should also exist in the professional world apart from all the stress. It may be exactly this attitude which makes the opportunity of working or doing business in the US appear so attractive. AN

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Note : The ideas put forward in the articles apply for the actual international consultation regardless where it is taking place. The articles aim to educate on different ways of doing business in different countries. This is important since it helps to understand international business. And this conclusion is vital because nowhere in business, especially in international consulting, can so much be gained and lost so quickly as in international transactions and projects. The articles were first published in *Accounting & Business*, ACCA's monthly publication.

IFAC's International Auditing and Assurance Standards Board Invites Comments on its Operations and Guidance

The International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) has issued an exposure draft of three documents that are critical to its operations : its *Terms of Reference*, *Preface to the International Standards on Quality Control, Auditing, Assurance and Related Services* and *Policy on Bold Type Lettering*. Comments are requested by 28 February 2003.

"The IAASB believes that it is important that those with an interest in the setting of international standards for audit, other assurance engagements and related services are able to comment on how the IAASB, formed earlier this year, intends to operate. This will help to ensure that the IAASB operates in the public interest," emphasises Dietz Mertin, Chairman of the IAASB.

The IAASB is also significantly expanding the scope of its guidance and would like comments on whether the Terms of Reference and Preface to International Standards, when taken together, address all relevant matters. A new Auditing and Assurance Services Handbook will be developed focused essentially on four areas :

- Quality control;
- Audits and reviews of historic financial statements;
- Assurance engagements on other subject matters; and
- Related services.

Within the handbook, the IAASB intends to continue bold facing particular sentences in its standards. This is often referred to as 'black lettering'. Such lettering is used for sentences that convey basic principles or essential procedures. The process and rationale for black lettering is explained in detail in the exposure draft. AN

Note : The documents may be downloaded from the IFAC website at www.ifac.org/EDs. Comments on the Terms of Reference may be submitted online to EDComments@ifac.org or sent to the IFAC Chief Executive via fax (+1-212-286-9570) or by mail to 535 Fifth Ave., 26th Floor, New York, NY 10017. Comments on the other two documents may be submitted to the IAASB Technical Director at the same email address. All comments become a matter of public record and will be posted on the IAASB website (www.iaasb.org).

René Ricol Named President of the International Federation of Accountants

At its meeting in Hong Kong on 18 November 2002, the Council of the International Federation of Accountants (IFAC) announced the appointment of René Ricol of France as IFAC President for a two-year term, beginning this month. IFAC is the worldwide organisation for the accountancy profession, representing 156 accounting organisations with more than 2.4 million accountants.

Ricol, who has been an IFAC Board member since 1997, is President of his own accountancy firm, Ricol, Lasteyrie and Associates, which works nearly exclusively with listed companies. He has held various leadership positions within the international accountancy profession and is an ardent proponent of initiatives to strengthen the international profession.

During a keynote address at the World Congress of Accountants' Closing Session on 20 November in Hong Kong, Ricol announced new IFAC undertakings, supported by its governing Council, to :

- Renew IFAC's commitment to the public interest, through, for example, encouraging firm adoption of effective quality controls;
- Rebuild credibility in financial reporting through, for example, enterprise governance; and
- Revitalise the profession by reinforcing the concept of 'integrity'.

"There is no doubt we are in a new era of accountability and transparency," states Ricol. "The profession must re-engineer itself to effectively serve the public interest and we must work together with regulators, standard setters, and others to accomplish this. We must also recommit ourselves to integrity."

"The integrity of the profession is what distinguishes accountants. It is not something we can legislate. It is an attribute we must instil in new entrants into the profession and one that leaders of the accountancy profession and employers of accountants must repeatedly reinforce throughout an accountant's career," emphasises Ricol.

Ricol, who plans to work closely with IFAC's member organisations in efforts to strengthen the international profession, has extensive leadership experience at the national level. He has served as President of the two national French accountancy bodies, L'Ordre des Experts-Comptables and Compagnie Nationale des Commissaires aux Comptes, and is the founding President of Compagnie des Conseils et Experts Financiers (CCEF), an association of financial advisors whose membership includes accountants and other professionals from the finance sector. He is Honorary President and a founding member of France Défi (a French network of independent accountants) and of Euro Défi (a European network of independent accountants, lawyers and notaries).

In addition to his many leadership roles within the accountancy profession, Ricol serves as a legal expert registered with the Supreme Court (Cour de Cassation). Other activities include his appointment in 1991 by the Prime Minister of France as President of a study group for the advancement of small and medium-sized businesses. Ricol has also been honoured by the French Government through the awards of Officier de L'Ordre National du Mérite (1996) and Officier de la Légion d'Honneur (2000). AN

IFAC

IFAC Recognises Outstanding Articles on Financial and Management Accounting

A new publication released by the International Federation of Accountants (IFAC) recognises outstanding articles on financial and management accounting topics. Entitled, *Articles of Merit : 2002*, the book features articles selected by IFAC's Financial and Management Accounting Committee (FMAC) as part of its annual Articles of Merit Award Programme for Distinguished Contribution to Management Accounting.

"Calculating the Economic Value of Customers to an Organisation," written by Paul Andon, Jane Baxter, and Graham Bradley, was selected as the award-winning article by an international panel of judges. Nominated by CPA Australia, it first appeared in the *Australian Accounting Review*. The article examines how the economic value of customers to an organisation is calculated in practice and reports on the findings of a new exploratory field of study of three Australasian service organisations.

This article is included with10 other articles in the on-line and print booklet *Articles of Merit — 2002 Competition*. The other award-winning articles focus on such topics as :

- Behavioural finance;
- Internal reporting of derivatives;
- Equity restructuring techniques;
- Activity-Based Costing and Activity-Based Management;
- Budgeting; and
- Environmental policies.

The Articles of Merit Award Programme is designed to give recognition to published articles that have made or are likely to make a distinct and valuable contribution towards the advancement of management accounting. Articles selected for the 2002 Articles of Merit publication were nominated by the journal editors of IFAC's member organisations. They were originally published in 2001. As a result of the FMAC programme, these articles are now accessible to a broader international audience. AN

Note : The print booklet with all articles may be purchased for US$25 plus shipping and handling and can be ordered through the IFAC's online bookstore (www.ifac.org/store) or by calling +1-212-286-9344. The electronic version may be downloaded free of charge through the online bookstore. The winning article is also available through IFAC's online Articles and Speech Library (www.ifac.org).

IFAC Issues Exposure Draft on Compliance with International Financial Reporting Standards

The International Federation of Accountant's International (IFAC's) Auditing and Assurance Standards Board (IAASB) is proposing new guidance designed to clarify when financial statements are in full compliance with International Financial Reporting Standards (IFRSs), thus contributing to greater consistency in the application of these standards.

The exposure draft of International Auditing Practice Statement (IAPS) Reporting on Compliance with International Financial Reporting Standards makes clear that when an entity references compliance with IFRSs, auditors should issue an audit report with an unqualified opinion only if the entity complies fully with all applicable IFRSs.

"Examples have arisen of entities seeking to claim credit for complying with IFRSs when their financial statements have not complied in full with all applicable IFRSs," states IAASB Chairman, Dietz Mertin. "This can be misleading and confusing to users of financial statements. The proposed practice statement is designed to assist auditors in communicating more clearly when financial statements comply with IFRSs."

The proposed practice statement supplements guidance provided in ISA 200, *Objectives and General Principles Governing an Audit of Financial Statements*, and ISA 700, *The Auditor's Report on Financial Statements*. Specifically, it provides additional guidance when the auditor expresses an opinion on financial statements prepared :

- In accordance with IFRSs;
- In accordance with both IFRSs and relevant national standards and practices; and
- In accordance with relevant national standards or practices, but which disclose in the notes to the financial statements the extent of compliance with IFRS. AN

Note : The ED on Reporting on Compliance with International Financial Reporting Standards may be downloaded at no charge from IFAC's web site (www.ifac.org). Comments are due by January 15, 2003. They may be submitted online to EDComments@ifac.org or may be sent to IFAC IAASB Technical Director via fax (+1-212-286-9570) or by mail to 545 Fifth Ave., New York, NY. 10017.

IFAC

IFAC Task Force Focuses on Restoring Credibility in Financial Statements

Improving the credibility of financial reporting worldwide is the objective of a new task force appointed by the International Federation of Accountants (IFAC), an organisation representing more than 150 accountancy organisations from around the world. The IFAC Task Force on *Rebuilding Public Confidence in Financial Reporting* will be chaired by John Crow, former Governor of the Bank of Canada, and includes representatives from company management, boards of directors, the investment community, and the accountancy profession.

"The task force will provide an international perspective on the problem of the loss of credibility of financial statements. This loss of credibility occurred prior to the collapse of Enron and WorldCom, although these events have made addressing the issue all the more urgent," comments IFAC President Aki Fujinuma.

"Specifically, the task force will identify and analyse the causes of the loss of credibility, and consider alternative courses of action to restore credibility. These may include recommendations on principles of best practice in the areas of financial and business reporting, corporate governance, and auditor performance," adds Fujinuma.

In carrying out its work, the task force will give attention to :

- The considerable volume of work already undertaken by IFAC member bodies and others at a national level in addressing the loss of credibility;
- Cross-national variation in the extent of the loss of credibility and its causes; and
- The emerging patterns of convergence in such areas as financial reporting and corporate governance.

The task force plans to issue a report in mid 2003. This report will outline actions that the task force considers are necessary to restore public confidence in financial statements, with a focus on the role of the accounting and auditing profession. AN

IFAC Public Sector Committee Seeks Further Comments on Proposed Cash Basis Standard

At its meeting in Hong Kong on 21 November 2002 the Public Sector Committee (PSC) of the International Federation of Accountants (IFAC) will consider a proposed International Public Sector Accounting Standard (IPSAS) on the cash basis of financial reporting. This proposed standard follows the issue of Exposure Draft 9, *Financial Reporting under the Cash Basis of Accounting*, in November 2000.

Since the exposure draft was issued, the committee has considered responses received on ED 9 and undertaken further extended consultation with developing and transitional economies (see PSC Updates 3, 4, 5 and 6 for progress reports on this IPSAS). Based on responses to ED 9 and the extended consultation, the PSC has substantially restructured the IPSAS to make it more user-friendly. The PSC has also adopted a principles-based approach to the proposed IPSAS, which substantially reduces the level of prescription in the document.

Consistent with this principles-based approach, the proposed IPSAS has been restructured into a two-part document comprising mandatory requirements and underlying principles in Part 1, and non-mandatory encouragements in Part 2. This approach not only ensures that comprehensive cash basis financial statements are prepared but also enables governments and their agencies to report cash receipts, disbursements and balances in a format that is relevant to, and more readily understood by, their constituents. Part 2 of the proposed IPSAS also provides encouragements and guidance for governments and government agencies which are increasingly moving beyond a pure cash basis of accounting to supplement statements of receipts and payments with schedules of accruing receipts, payments and a range of other assets and liabilities. AN

Note : The PSC would welcome any comments from interested parties on its restructured proposed IPSAS. Comments should be e-mailed to EDComments@ifac.org. Comments received by the end of business on Friday November 8 will be considered by the PSC at its November meeting when it is anticipated that the IPSAS will be finalised.

IFAC PSC Advances Public Sector Standard Setting Program with Release of Two New Accrual-Based Standards

As part of its ongoing program to strengthen public sector financial reporting and contribute to increased transparency by governments worldwide, the International Federation of Accountants (IFAC) Public Sector Committee (PSC) has released two new International Public Sector Accounting Standards (IPSASs).

- IPSAS 19 — *Provisions, Contingent Liabilities and Contingent Assets*. This Standard defines provisions, contingent liabilities and contingent assets, sets out criteria for the recognition and disclosure of provisions, and rules for measuring those provisions. This standard excludes from its scope provisions and contingent liabilities arising from social benefits such as age pensions, child benefits and disaster relief, which are being considered in detail by a separate PSC Steering Committee on Social Policy Obligations.

- IPSAS 20 — *Related Party Disclosures.* This Standard requires entities to disclose the existence of related party relationships where control exists, and information about transactions between the entity and its related parties that occur outside the normal supplier or client/recipient relationship. It also requires disclosure of certain transactions with key management personnel and their close family members.

"The PSC has now completed the development of the core set of accrual based IPSASs. It has now issued 20 Standards. We will be moving forward to develop IPSASs that address the public sector specific issues that we have identified in this first phase of our standard setting process," says Ian Mackintosh, the PSC Chairman. Mackintosh also noted that work on the cash basis IPSAS was nearing completion and he anticipated the release of that Standard by the end of 2002. AN

Note : The IPSASs are posted on the IFAC website (www.ifac.org). Visitors to IFAC's website may download all International Public Sector Accounting Standards at no charge.

Actions by FASB, IASB Praised

The Chairman of the Securities and Exchange Commission applauded the decisions by the Financial Accounting Standards Board and the International Accounting Standards Board to work together toward greater convergence between US Generally Accepted Accounting Principles and international accounting standards.

"This is a positive step for investors in the US and around the world," said SEC Chairman Harvey L. Pitt. "It means that reducing the differences in two widely used sets of accounting standards will receive consideration by both boards, as they work to improve accounting principles and address issues in financial reporting."

SEC Commissioner Roel C. Campos, who has been the Commission's participant in recent meetings of the International Organisation of Securities Commissions, added : "I find it encouraging that interested parties in all countries can contribute their thinking. It is clear that investors globally could benefit to the extent that transparency and high quality information might be provided by a common worldwide approach."

Chairman Pitt and Commissioner Campos noted that international accounting standards have been a subject of interest for many years, and that the subject has received increased prominence with the decision of the European Union to adopt IAS in 2005, as well as similar actions being taken or considered in a number of other countries. They also noted that an effective infrastructure for interpretation and enforcement of accounting standards, and cooperation among regulators, would be critical to realising the benefits of convergence.

"For years, many have believed that a desirable goal someday would be to move towards a single set of high quality accounting standards around the world," Pitt said. "Now the time frame has a more immediate focus. With so many new users of IAS coming in 2005, in Europe and elsewhere, there is a great opportunity to focus attention on ways to improve information for investors while working for greater convergence in both the short-term and the long-term." AN

Financial Reporting : Commission Welcomes IASB/FASB Convergence Agreement

The European Commission has welcomed a joint announcement by the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) of their commitment to achieving real convergence between their respective accounting standards by 2005, when listed EU companies will be required to apply IAS. The announcement is a major step towards a global system of accounting standards and will in particular help the US Securities and Exchange Commission (SEC) to accept financial statements prepared by EU companies in accordance with IAS, without reconciliation to US GAAP, for the purposes of listing on US markets.

Frits Bolkestein, European Commissioner for the Internal Market, said "The recent scandals have shown how important top quality accounting standards are for the health of all financial markets. Today's announcement is a very positive move towards a single worldwide set of high-quality, best of breed, principles-based financial reporting standards, which would dramatically improve the efficiency of global capital markets : costs would decrease, comparability would improve and corporate governance would be enhanced. We must ensure convergence is achieved without diluting the quality of the standards. I am confident that the IASB and FASB will rise to that challenge."

The IASB and the FASB announcement are based on a Memorandum of understanding on convergence of their respective standards. The Memorandum formalises the commitment of the two bodies to convergence based on high quality solutions and, once convergence is achieved, to its maintenance through coordination of future work.

In June 2002, the EU adopted the IAS Regulation requiring EU companies listed on a regulated market to prepare their consolidated accounts in accordance with endorsed IAS from 2005 onwards. Member States may extend this requirement to unlisted companies and to annual accounts.

Bolkestein discussed the issues of convergence of accounting standards and of recognition by the SEC of accounts prepared in accordance with IAS with the Chairman of the US Securities and Exchange Commission (SEC), Harvey L. Pitt, during the latter's visit to Brussels on 9 October. AN

Note : The full text of the IASB/FASB announcement can be found at : http://www.iasc.org.uk/cmt/0001.asp

Changdeokgung is the best preserved of Seoul's five major palace compounds built during the Joseon Dynasty (1392-1910)

SOUTH KOREA

Seoul's skyline at night

Seoul's Old and New

This 600-year-old capital blends ancient and modern side-by-side making it one of the most amazing cities to discover

The first impression visitors might have of Seoul is that it's a bustling, thoroughly modern city that lacks any thing culturally enticing to savour. Not so. With over 5,000 years of culture, which is on display virtually everywhere — from ornate paper lanterns at Buddhist temples to street musicians playing the *koto*, there is a wealth of sights, sounds and smells for the senses to savour.

The whole experience is made more agreeable courtesy of a transport system that operates in clockwork precision. The 30-year-old metro system has eight lines stretching 287km with 262 stations and it's the best mode of transport for anyone to get around in the city. Signs are in both English and Korean, with literally litter-free stations that are clearly marked and well lit, making night journeys safer. In addition, there are 400 bus routes snaking around the city supporting a fleet of more than 8,500 vehicles.

Day-and Night Markets

The markets are probably the best place to get acquainted with Seoul's unique way of life. Take the subway and alight at the *Hoehyon* or *Myungdong* stop to get to the *Namdaemun/Myungdong* area.

Namdaemun, which literally means "great south gate", is the name both of the impressive stone and wood structure which still stands at the centre of the intersection, and of the large market nearby.

Since 1414, *Namdaemun* Market has been a lively place where merchants and buyers gather to bargain over a wide variety of goods. Travel east of *Namdaemun* and you get to the fashion Mecca of *Myungdong*, full of young people trying on the latest styles. To the south is the cable car station that will take you up to Seoul Tower for a picturesque view of the city.

Woman in traditional Hanbo — Korea's national costume

East of *Namdaemun* is *Dongdaemun* ("great east gate"), another large area packed with small shops and big malls. The place has become famous for having nearly the same clothing as available at department stores, but at very reasonable price. Take the subway and alight at either *Dongdaemun* or *Dongdaemun* Stadium. The bigger, modern shopping malls like Doosan Tower (that stays open till 5 a.m.!) and Freya Town (with movies shown 24 hours a day) have made *Dongdaemun* a must-see and experience place on any traveller's itinerary.

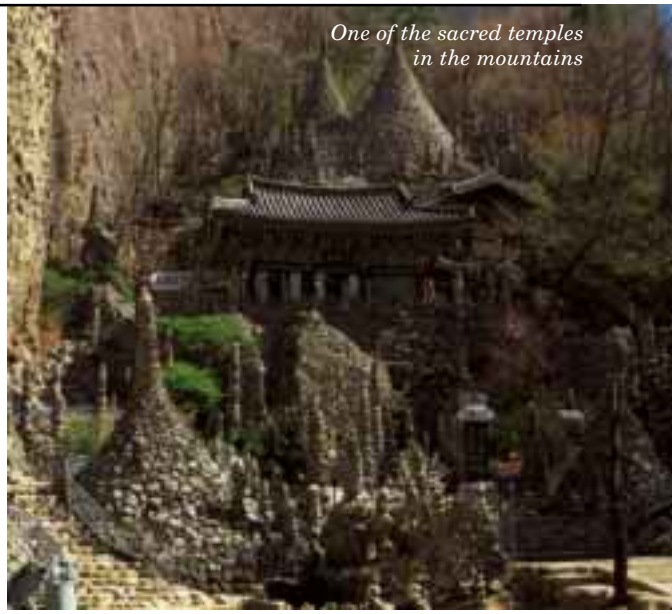
If the buzz gets too much for you, slip into any of the alleyways to discover a Korea that hasn't changed for the past 2,000 years. In this damp alley, old folks squat around with their vegetables and chopping boards as they prepare for the night market, while small groups of men huddle around board games encircled by the smoke from their lit cigarettes.

Ancient Artefacts

Korean history may date back 5,000 years, but there's precious little physical evidence left. Because many of Seoul's magnificent royal palaces and temples were destroyed during the Japanese invasion of 1592, and later from 1910 to 1945, many have been built and rebuilt. There are however two striking attractions in the city that deserve a viewing : *Changdeokgung* and *Jogyesa*.

Changdeokgung is the best preserved of Seoul's five major palace compounds built during the Joseon Dynasty (1392-1910). Today, it's a UNESCO World Heritage Site. The palace was built in typical ancient Korean architecture — with black-tiled ridged

Autumn in Seoul



One of the sacred temples in the mountains

roofs meant to imitate the spine of a dragon and intricately painted wooden frames in greens, yellows, reds and blues. The vast 100-acre grounds are also home to the palace's *piwon*, or secret garden. The garden is breathtaking, not so much from the foliage that makes up the ground, but the way each tree, flowerbed, lake and gazebo seem to balance harmoniously with nature and bring about an air of tranquillity through the gardens.

Unlike the palace, *Jogyesa* temple is a working centre and serves as the headquarters of the Korean Buddhist Order *Jogye* — the largest Buddhist sect in Korea. It's unique because it's the only Buddhist temple located in the heart of the city when the majority is often found nestled in the mountains. On every eight day of the fourth lunar month, the temple is transformed into a sea lotus lantern with a parade that begins from *Dongdaemun* Stadium, to mark the birth of Buddha. The temple's rich history and ancient artefacts can be enjoyed through a free English tour guide available on the grounds.

Quirky Takes

Even the modern takes on a unique Korean twist that highlights the local culture. There are more than 300 theatres, art galleries and museums to cater for all tastes, plus a plethora of historic monuments. But the one that tickles the senses (and the taste buds) has got to be the *Kimchi* Museum.

Kimchi is the most common dish to accompany the rice. This spicy vegetable dish is usually made up of Chinese cabbage and fermented in a mixture of fish juice, salt, sugar, red pepper and other ingredients. Koreans used to prepare *kimchi* as a substitute for fresh vegetables during the winter. Today there are more than 160 varieties of *kimchi*, made from ingredients as diverse as *persimmons* and cucumbers, and at the *Kimchi* Museum, you'll never be short of *kimchi* ideas to try.

Seoul's Ritz-Carlton Hotel

The other distinctive practice of the Koreans is sleeping on *ondol* (heated) floors. The individual Korean house, new or old, is built to protect its inhabitants from outside elements. Rooms often have *ondol* floors that are heated from under the floor. This system of heating is so ingrained in Korean life that even the most fashionable, Western-style houses and hotels built in recent years have rooms that are heated through the floor.

Even the Ritz-Carlton Seoul, famous for its personalised service and warm hospitality, offer bedrooms equipped with traditional *ondols*, courtesy of the hot water circulating under the floor. Likewise, if you want to experience the traditional Korean sleeping, you can also request for rollways to be sent to your room. These are thickly padded cushion-like mats found almost in every home in Korea.

And if you do stay at the Ritz, try out the Korean-style bath menu. These are specially designed bubble bath soaks prepared by your own butler, with a local menu to match. Whether you select the Mint and Citrus Tonic with a sweet array of Ginseng, or the Iced Green Tea Crisp Crudit's with Herb and Olive Tapenade, you'll experience the wonders of local herbs in the hands of professionals. AN

GOOD POSTURE Prevents BACKACHE

By Christina Chong

Back pain is very often caused by poor posture and faulty body mechanics. Months or even years of sitting, standing or lifting loads incorrectly will eventually lead to back problems.

What is Bad Posture?

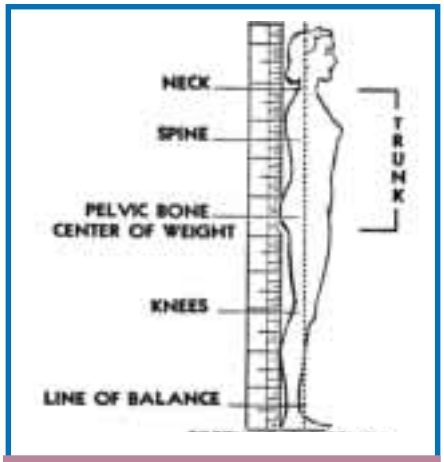
When viewed from the side, the human spine has four natural curves that help absorb shock and provide flexibility. When these curves are lost or exaggerated, some parts of the spine will have to bear more weight. This causes stress on the structures and results in backache.

In standing, a sway back is characterised by an increased curve in the lower back. The head is usually thrust forward, the shoulders rounded and the upper back humped. The abdomen protrudes forward while the buttock sticks out backwards. The knees are often locked straight. The opposite of a sway back is a flat back. This posture is characterised by a flat back, like a tabletop. The lumbar spine has lost its curve, while the knees are in a slightly bent position.

Neither of the above extreme positions is good for the spine. The 'neutral' position is in between these two postures. You are in 'neutral' when, in standing, your ear, shoulder, hip and knee joints are in a straight line as seen from the side.

Getting the Correct or Neutral Posture

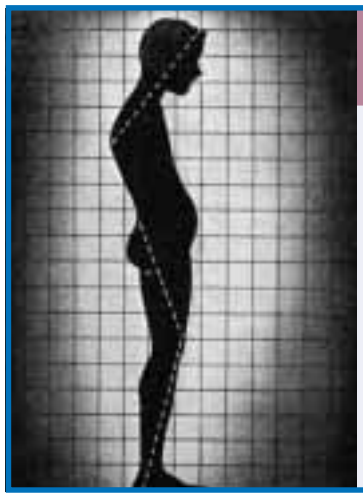
Maintaining a neutral (natural curve) posture in the lower back is a key factor to having a healthy back. This is where the spine tolerates the mechanical forces best. The general population does best in a mid-range position, one that is within the extremes of your pelvic movement. To find this neutral position, stand straight with your back against the wall. Keep your upper body erect with your chest out. Next, stick your bottom out at the back to arch your back as much as you can. This is the excessive sway back posture. Reverse this motion by flattening your back and tucking your tailbone forward to the flat back position. Now, adjust your low back/body to the mid-way of these two extremes. Usually this involves contraction of the abdominal muscle. How-



Testing Posture

Correct Posture Alignment

- Chin tucked in
- Head and neck straight
- Shoulders in midline
- Stomach tucked in (control of low back curve)
- Knees in midline



Unbalanced Posture

- An unbalanced body due to bad posture may result in sway back, rounded shoulders, spinal curvature, strain and backache

ever if one has spinal restrictions or pathology that causes pain, the neutral position may vary to the optimal position where activities of daily living may be tolerated with the minimal amount of stress to the back. A physiotherapist would be the best person to guide and help one attain this form of neutral posture.

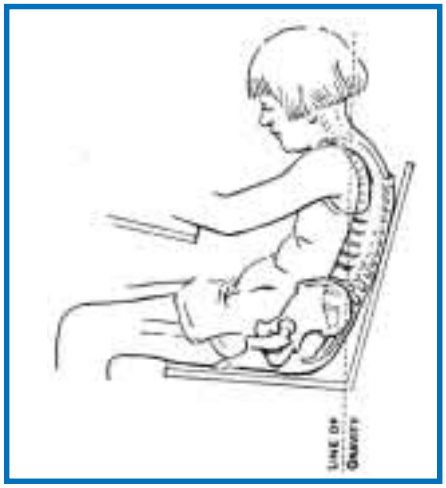
Do's and Don'ts for Healthy Daily Living Activities

Standing

Prolonged standing with both knees straight increases swayback. High heels further increase the curve in the back. Placing one foot on a stool flexes the hip and knee and relieves the strain on the back.

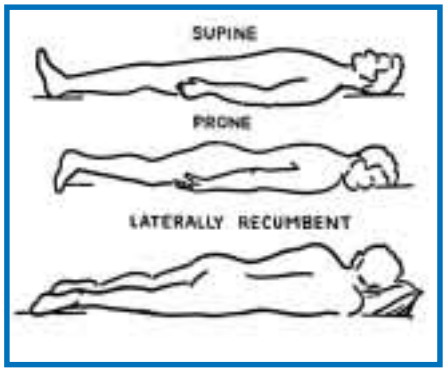
Sitting

Sitting in a slumped position with the back rounded for prolonged periods will cause over-stretching of the ligaments. Avoid sitting for too long. Sit on a chair that provides good support for your lower back. Both feet should be resting on the floor.



Sleeping

When sleeping on your back, place a small pillow under both knees to flatten the curve in your back. When sleeping on your side, bend the top knee while keeping the bottom leg nearly straight, and place a pillow between the legs. Sleeping on your stomach is not advisable because it strains the neck.



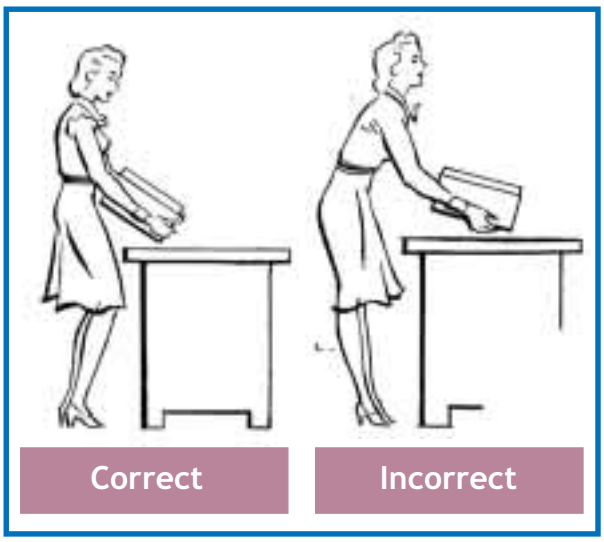
Driving

Maintain a balanced posture. Do not push the seat nor tilt the backrest too far back. Try not to grasp the steering wheel in such a way that you need to bend forward while driving. Grasp the wheel at 4 and 8 o'clock positions with at least forearms distance from the wheel.

Lifting

Lifting with straight knees and back bent forward is not advisable. Stand close to the load with your feet apart and one foot in front. Bend your knees and keep your back straight. Hold the load as close to you as possible. Keep you lower body/ low back in the neutral position mentioned above and lift the load via use of leg muscles.

If you have persistent backache, it is advisable to see a doctor or physiotherapist. Oftentimes the stabilising muscles that form a corset around your low back weakens after an injury or becomes de-conditioned with inactivity and poor postural habits. Take care of your back as your quality of life depends on it. AN



Note : The writer is a Registered Physiotherapist (NZRP, Auckland) and is currently attached to Documentation Based Care (DBC). **DBC** is an international network of active spine centres that offer a structured back and neck-reconditioning programme for people with chronic pain. Specialised equipment helps the patients work the weak muscles in the different directions that the back moves in. Proper stretching and strengthening exercises are individually taught and prescribed. For further information, call 03-7725 1335 or check out www.dbc.fi or www.dbcamerica.com. The writer can also be contacted via e-mail at dbcmsia@tm.net.my

Post Enron — Lessons Learnt

Over 150 participants comprising of Executive Chairmen, Audit Committee Chairmen, Managing Directors, and Directors of PLCs, senior management of MNCs and SMEs, academicians, accountants and auditors attended a forum on *Post Enron — Lessons Learnt*, held at the Universiti Sains Malaysia (USM) on 24 October 2002.

In his welcoming address, Professor Syed Ahmad Hussein, the USM Deputy Vice-Chancellor of Academic Affairs expressed delight that the University, once again, had worked with the Institute in organising this forum. Several years ago, the School of Management and MIA Penang Branch had jointly organised courses for the entrepreneurs and more recently, evening talks. He viewed these efforts as a good Universiti-Institute collaboration in promoting accounting and business knowledge among members of the business community as well as the public.

One for the album … (L-R) Dato' OK Lee, Ng Swee Weng, Dato' Yeo How, Steven Teh, Dato' Noor Ahmad Mokhtar Haniff and Prof. Dr. Daing Nasir Ibrahim

The Organising Chairman and Moderator, Ng Swee Weng who is the Partner in charge of Assurance Practice in KPMG Penang then kicked off the forum proper with an introduction on Enron. An eloquent speaker, Swee Weng had the audience in rapt attention as he elaborated on his slides which covered corporate information, fast facts, revenue/cost of goods sold/gross profit/net profit, key players, the employees retirement benefits and other pertinent information with regrads to Enron's affairs. He animatedly illustrated on how profits were so easily being generated and recognised using Special Purpose Entity (SPE) under FASB 140, which allows for non-consolidation within certain accounting criteria. i.e. creating off-balance sheet transactions. Swee Weng shared his thoughts on the causes of failure and identified noteworthy questions on corporate governance, culture and discipline, and culpability arising from this debacle. He closed his presentation with five questions for the panellists who were free to address any questions or any issues related to Enron.

The panellists were Dato' Noor Ahmad Mokhtar Haniff, a Board member and Audit Committee Chairman of a few listed companies; Dato' OK Lee, Executive Director of Toray Pen-Group and FMM Northern Branch Chairman; Dato' Yeo How, Group Executive Director (Finance & Corporate Affairs) of IOI Corporation Bhd, and Executive Director of IOI Properties Bhd. and Palmco Holdings Bhd, and Prof. Daing Nasir Ibrahim, Dean of the School of Management and the President of the Asian Academy of Management.

With such eminent panellists, the commentary session followed by Q&A was lively and stimulating with some thought provoking comments and suggestions. In closing the discussion, Swee Weng aptly summarised that the convergence and integration of the four E's, i.e. ethics, education, enforcement and effectiveness would contribute towards minimising corporate failures while acknowledging corporate failures are inevitable in certain market circumstances. Also present was MIA Penang Branch Chairman, Steven Teh, who in his closing remarks congratulated and thanked all the speakers for a job well done. AN

A section of the audience

USM Deputy Vice-Chancellor, Prof. Syed Ahmad Hussein welcoming the participants to the forum

Be Ready, Says Sabah Chief Minister

Distinguished Guest of Honour, YAB Datuk Chong Kah Kiat and Datin Ivy with MIA President Abdul Samad bin Alias (right) and MIA Sabah Branch Chairman Alexandra Thien (left)

In addressing the 500 members and guests present at the grand 35th Anniversary Dinner of MIA Sabah Branch held recently in Kota Kinabalu, the distinguished Guest of Honour, Chief Minister Datuk Chong Kah Kiat urged accountants to be adequately prepared to face foreign competition. Datuk Chong said that with the implementation of free trade and market liberalisation measures, Malaysia could not resist the waves of globalisation that are already lapping on her shores. He advised local accountants to adopt transparency at all times, to safeguard the interests of shareholders particularly those in major corporations and to check on any possible shortcomings within the local corporations in the effort to boost investors' confidence.

MIA Sabah Branch Chairman, Alexandra Thien in her address said that today's accountants have taken the role of business partners by providing value added services and therefore it was important for MIA members to cultivate the right attitude towards self-development and be motivated enough to acquire new knowledge.

Datuk Chong commended MIA's proactive steps to keep the public informed by strengthening its channel of communications through enhanced public relations programmes and the use of information technology.

Before dinner commenced, MIA Sabah Branch thanked her numerous generous sponsors and advertisers with a VCD display of their company logos and particulars. The hotel was gaily decorated with colourful musical notes and local Sabahan musical instruments in tune with the theme for this year's dinner — *Symphony Below The Wind*. Members and guests were entertained by the impressive performance of Tshung Tsin Chinese Orchestra on rare classical Chinese musical instruments like the *yang qing*, *gu zheng*, *pipa* , *zhong ruan* and *dizi*. Members who were winners in the recent branch's karaoke competition were 'contracted' to sing two numbers. Besides the music and songs, a group of young locals gave their modern dances a different but interesting interpretation

MIA President, Abdul Samad bin Alias giving his address at the Sabah Branch 35th Anniversary Dinner

Alexandra Thien presenting a special memento of a miniature crystal musical note and violin to YAB Datuk Chong Kah Kiat

This music theme was also carried in the first CD-ROM produced by any branch or

any dinner committee under the exceptional leadership of Alexandra Thien and the untiring efforts of Chang Yu Chuk and his supporting working committee. The CD-ROM was initiated by Sabah Branch to commemorate MIA's 35th anniversary and to replace the normal published dinner souvenir magazine. A special contribution on *The Music of Sabah* by Dr. Jacqueline Pugh-Kitingan from University Malaysia Sabah was included in the CD-ROM. During the dinner MIA Sabah Branch presented excerpts from the CD-ROM by projecting highlights of the various activities of the Sabah branch. AN

Dinner Organising Chairman, Chang Yu Chuk and Alexandra Thien surrounded by members of the Dinner Working Committee, all smiles of satisfaction after months of hard work

Guests ... (L-R) Ir Dr Jacob Yan, Chee En Loong and Sandakan Chapter Chairman Tan Huang Dak

Sabah Members ... (L-R) Titus Tseu, Dennis Wong and Suzanne Lim

MIA SARAWAK BRANCH

Oriental Values of Accountants

Sarawak Branch Chairman, David Tiang believes that in the pursuit of our goals in life we should think also about our social inheritance and humble beginnings. At the recent Sarawak Branch Annual Dinner held in Kuching, themed *Oriental Legacy* he remained members to not forget their roots and be proud that Malaysia, and Sarawak in particular, is such a potpourri of various ethnic groups living in harmony. While accountants value the morality aspects of legacy and culture, accountants should also accept behavioural change or transformational change in the way we do business today. His message was timely as accountants today have to brace themselves for greater changes and challenges in this globalised era.

In conveying the President's message, Vice President, Albert Wong highlighted the strategic objectives of the Institute namely to promote and regulate professional and ethical standards, to enhance members' competency through continuous education and learning, to lead research and development for the enhancement of the profession and to inculcate a high sense of social responsibility.

David Tiang, Sarawak Branch Chairman, addressing members and guests at the annual dinner

Appreciation to Fahehan Hussin, Dinner Organising Chairman and Committee Member 2002

True to the theme of the night , members and guests were dressed in their cultural attire while the organising committee succeeded in creating a cultural atmosphere in the grand ballroom of the hotel with fans and lanterns. Besides being entertained by a full cultural programme of drums, music, songs and dances there was the Mr. MIA and Miss. MIA contest, prize giving to the golf winners, lucky draws and the presentation of memento's to the branch committee members. The golf competition held in conjunction with the branch annual dinner was one of the social activities organised by the branch committee and it attracted many entries from golfing accountants, from as far as the Miri and Bintulu chapters. AN

Vice-President, Albert Wong and Branch Chairman, David Tiang with branch committee members

Yet Nai Sing (left) receiving his golf prize from Albert Wong (right), witnessed by Golf Organiser, Kenny Chong

Let the drums roll … welcoming the guests

Mr and Mrs MIA 2002

Members and guests from the Audit Department and Professional Bodies

Malaysian CFOs Have Greatest Concerns Over Non-Executives, Survey Shows

The need for independent and committed non-executive directors to play a much bigger role in companies is a greater concern for Chief Financial Officers (CFOs) in Malaysia than anywhere else in South East Asia, a new survey has shown.

In the survey, it has been noted that those working in Malaysia felt most strongly that non-executives should play a stronger role in corporate governance.

ACCA commissioned an independent agency to conduct interviews with 200 CFOs in Hong Kong, Shanghai, Kuala Lumpur and Singapore, complemented by case studies with CFOs, heads of corporate governance institutes and fund managers. All respondents to the survey were in the top 300 companies in each country.

According to their responses, it is also more difficult to appoint truly independent NEDs than it is in neighbouring Singapore. They also felt that there is not enough market pressure from shareholders or investors for companies to appoint non- executives.

And where NEDs are appointed by companies, more CFOs working in Malaysia than in any other part of the region felt strongly that NEDs do not devote enough time to their roles in those companies.

Datuk Khalid Ahmad, member of ACCA Malaysia Advisory Committee (MAC) said; "This survey demonstrates that the role of NEDs remains a live issue in the region, in terms of their availability, fitness for role and their ability to make a positive impact through the prevalence of company cultures which do not sit easily with the role of NEDs."

"It is difficult to be prescriptive. Moreover, it is not clear that companies anywhere are yet using NEDs as fully as they might. Nevertheless, our research supports the principle that NEDs can make a valuable contribution to companies, and, indeed, welcomes an expanded role for them in the future. While it is not yet clear how this might translate into action, it suggests that further education and pressure from investors could help to create the circumstances for a beefed-up role for NEDs, which, in turn, could lead to the introduction of more independence into corporate governance systems.

"ACCA also believes NEDs should be more involved in the appointment of auditors, along with audit committees, to protect the independent status of the audit. Clearly, this depends on the willingness of independent non-executive directors to take the baton. The evidence of this survey is that, while there is a willingness for the involvement of NEDs, there is not currently a way. Nevertheless, the belief that there is scope for a larger role for NEDs in the future is an encouraging sign," said Datuk Khalid.

On 12 November 2002, ACCA launched the corporate governance survey simultaneously in China, Hong Kong, Singapore and Malaysia.

In Malaysia, the panel who presented the research were YBhg Dato Khalid Ahmad, FCCA, a member of ACCA Malaysia Advisory Committee, Teo Ee Sing, ACCA International Council member and Adelina Iskandar, ACCA's Manager of Corporate Communications. AN

Briefing the media … (L-R) Teo Ee Sing, YBhg Dato' Khalid Ahmad and Adelina Iskander

CIMA Graduation Joy

Sixty-three graduates were newly admitted as Fellow & Associate Members of the Chartered Institute of Management Accountants (CIMA) during the CIMA Membership Graduation Ceremony recently. A total of 280 people attended the event and this included the families and loved ones of the graduates, representatives from professional accounting bodies, universities and colleges.

Fifty-eight graduates received the Associate title (ACMA) while five received the Fellow title (FCMA). Associates are students who have been admitted as members of CIMA after successful completion of the CIMA examinations and attainment of three years relevant practical experience. Fellows have a higher grade of membership, being elevated from Associateship after obtaining at least three years of senior and strategic experience, normally at Board level. Datuk Ishak Imam Abas, the Senior Vice-President of Finance, Petronas, was among the recipients of the Fellow title, having been granted a special elevation to Fellowship by the President of CIMA.

On hand to present the scrolls was the President of CIMA Malaysia Division, YBhg Dato' Lee Ow Kim, who is also the Executive Director of Pen-Group of Companies and Chairman of the Federation of Malaysian Manufacturers (FMM) Northern Branch.

In his special address, Dato' Lee reminded the newly admitted Fellows and Associates of CIMA that as professionals, they must at all times, endeavour to provide superior performance and to uphold their integrity and the CIMA Code of Ethics.

"Membership brings with it great honour and also heavy responsibilities. In the light of the Enron debacle, companies will be looking for integrity in their Chief Financial Officers and finance functions. Above all, accountants have a duty to their profession and this may at times conflict with immediate self interest or loyalty to one's employer but it cannot be stressed enough that it is important to maintain what is ethical and objective," added Dato' Lee.

Dato' Lee also touched upon new developments in CIMA, the most significant of which was that CIMA's qualification is now multi-level, to reward success at each stage of the journey to become a CIMA member. The new qualifications framework introduces the CIMA Certificate in Business Accounting for students who pass at Foundation Level and the CIMA Advanced Diploma in Management Accounting for those who complete the Intermediate Level.

The ceremony also saw 13 CIMA members and staff receiving Long Service Awards in recognition of their long and dedicated services to CIMA Malaysia Division. Among the outstanding recipients were YM Raja Dato' Seri Abdul Aziz b Raja Salim FCMA, the Founder President of CIMA Malaysia, who served for 20 years and Lim Eng Seng, Chief Executive of E S Lim & Co, who served for 18 years. AN

The old and the new ... Founder President, YM Raja Dato' Seri Abdul Aziz b Raja Salim (right) with his "Long Service Award" and Dato' O. K. Lee, the current President of CIMA Malaysia Division

Special "Fellow", Datuk Ishak Imam Abas (right) receiving his scroll from Dato' O. K. Lee

CIMA Fellow and Associate Members celebrate their achievement

List of New Books, Available in the MIA Resource Centre

E-Commerce Law and Practice, by Julian Ding, Petaling Jaya : Sweet & Maxwell, 1999.
Call No. : 343.09944 DIN

International Accounting Standards : A Guide to Preparing Accounts, 3rd ed., London : ABG Professional Information, 2001.
Call No. : 657.0218 INT

Survey and Analysis of Financial Reporting of Islamic Banks Worldwide, by Dr. Hamzah Ismail & Radziah Abdul Latif, Kuala Lumpur : AMBG & MAREF, 2001.
Call No. : 332.10917671 HAM

Accounting : Industry as a Partner for Sustainable Development, London : ACCA, 2002.
Call No. : 658.408 ACC

Kod Malaysia untuk Tadbir Urus Korporat/ Jawatankuasa Kewangan dalam Tadbir Urus Korporat, Kuala Lumpur : MICG & ACCA, 2002.
Call No. : 658.409595 MAL

Malaysian Taxation : Principles and Practice, by Choong Kwai Fatt, 8th ed., Kuala Lumpur : Infoworld, 2002.
Call No. : 336.2009595 CHO

2002 XYZ Model Financial Accounts : an XYZ Presentation, by Kevin W. Neville, Kew, Victoria : Thomson Legal & Regulatory Ltd., 2002.
Call No. : 657.3 NEV

Standar Profesional Akuntan Publik : per 1 Januari 2001, by Ikatan Akuntan Indonesia-Kompartemen Akuntan Publik, Jakarta : Salemba Empat, 2001.
Call No. : 657.021809598 IKA

Panduan Percukaian untuk Individu : Tax Guide for Individuals, by Lembaga Hasil Dalam Negeri, 3rd. ed., Kuala Lumpur : LHDN, 2002.
Call No. : 336.24209595 PAN

Auditing and Assurance Services in Malaysia, by William F. Messier, Jr. and Margaret Boh, Kuala Lumpur : McGraw-Hill, 2002.
Call No. : 657.45 MES

International Accounting Standards 2002, London : IASB, 2002.
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Personal Financial Planning, by Koh Seng Kee & Fong Wai Mun, 2nd ed., Singapore : Prentice Hall, 2000.
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Issues in Financial Accounting, by Scott Henderson & Graham Peirson, 9th ed., French Forest : Pearson Education Australia Pty Ltd., 2000.
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Call No. : 657.021809598 IND

Wonderful Malaysia Berhad : Interim Report — Third Quarter 2002, Kuala Lumpur : KPMG, 2002.
Call No. : 657.3 WON

Financial Accounting and Reporting, by Barry Elliot & Jamie Elliot, 6th ed., Essex : Pearson Education Limited, 2002.
Call No. : 657.3 ELL

Public Sector Accounting, by Rowan Jones & Maurice Pendlebury, 5th ed., Essex : Pearson Education Limited, 2000.
Call No. : 657.835 JON

Knowledge-based Economy Masterplan : Strategic Initiative One of the 21st Century, Kuala Lumpur : Institute of Strategic and International Studies, 2002.
Call No. : 330.9595 INS

Global Financial Stability Report : Market Developments and Issues, Washington D.C. : International Monetary Fund, 2002.
Call No. : 332.152 GLO

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1659	Koh Yoon Sing
2320	Pang Fook Yun
2688	Syed Ahmad Bin Tuan Temerang
3164	Amirruddin Bin A. Rahman
3455	Tham Sai Choy
3744	Chew Swee Ai
3958	Pushparani D/O A. Moothathamby
4415	Goh Teoh Ean
5159	Voon Siew Peng
5177	Tai Yuik Cheng
5210	Ganthimathi Subramaniam
5213	Mak Hing Kwai
5678	Wong See Hong
6067	Azman Bin Hj Mokhtar
6095	Wong Sau Yee
6186	Ahmad Skhri Ramli
6672	Wong Lee Tuck-Edwin
6743	Kalvathy D/O M Subramaniam
7068	Jane Soong Lu Yee
7240	Zamri @ Mohd Zamri Bin Shamsuddin
7246	Bazlan Bin Osman
7371	Yeo Beng Kheng
7388	Chen Kok Song
7511	Saw Teng Lam
7778	Che Ismail Bin Che Mood
7719	Tan Cheng Hock
7912	Teo Lay Beng
8010	Sohaimi @ Azmi Bin Mohd Salleh
8101	Ivan Foo Tze Khiong
8181	Koh Eng Wah
8254	Mohd Ali Hanafiah Bin Mohamed
8446	Lau Tian Chen
8769	Yusffy Yusoff
8839	Mohd Ridzuwan Bin Hj Abdullah
8938	Yong Wen Kiat
8948	Lam Yoke Lee
8998	Peck Vui King
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9450	Low Poh Ming

9578	Lee Seng Meng
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11149	Chan Foong Leng
11283	Stephanie Ling Yu Ming
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11384	Muhammad Fauzi Bin Abdul Hamid
11417	Andrian Khor Yew Meng
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11680	Abdul Rahim Bin Yahya
11698	Mohd Yusof Muhammad Isahak
12210	Lee Min Lan
12267	Ahmad Nasir Bin Mohd Daud
12286	Tong Chee Chew
12322	Noradlan Bin Abdul Latif
12329	Lai Chee Kong
12789	Fahimi Bin Faisal
13203	Richard Tan Ling Geck
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15566	Mohd Hakimi Bin Zabair
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15808	Lai Teck Choy
15961	Nik Khairil Azman Bin Nik Abdullah
16194	Hur Wei Wun
16277	Seew Choi Har
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19257	Muhamad Bin Yaacob
19403	Toh Lay Perk
19421	Mohd Suhaimy Bin Harun

REGISTRATION OF ACCOUNTANTS

AS AT 27 SEPTEMBER 2002

The following persons are now entitled to use the word 'Accountant' upon their admission to the Malaysian Institute of Accountants, in accordance with Sections 22 & 23 of The Accountants Act 1967.

CA — Chartered Accountant
AM — Associate Member
LA — License Accountant

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Mat Nazri Bin Harmine	5858
Chung Yit Chong	6448
Teo Kian Beng	6675
Tan Seet Choo	7089
Choo Kok Poon	7832
Gurjeet Singh	8096
Tan Kok Foo	8679
Chin Kok Siong	8796
Mah Kheng Hoe, Rachael	8924
Hue Kok Kee	9717
Mahmmud Bin Kindang	9968
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Jayasangaran Dhanapal	11658
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From AM to CA

Arfah Binti Salleh	17739

RESIGNATION

Cheong Wai Kuan, Stephanie	9977

Calendar of Professional Education Programmes

TOWN	DATE	PLEASE TICK ✔	TITLE	VENUE	CPE HOURS
Kuala Lumpur and Selangor	6-7 Jan 03	☐	Microsoft Word 2000 (Basic/Intermediate)	MCSB	16
	6-9 Jan	☐	Microsoft Visual Basic 6.0 Programming (Basic/Intermediate)	MCSB	32
	8-9 Jan	☐	Microsoft Excel 2000 (Basic/Intermediate)	Prince Hotel	16
	9 Jan	☐	Developing Enterprise Risk Management Framework	MCSB	8
	10 Jan	☐	Microsoft PowerPoint 2000 (Basic/Intermediate)	MCSB	8
	13 Jan	☐	Financial Analysis with Microsoft Excel	MCSB	8
	13-14 Jan	☐	Microsoft Access 2000 (Basic/Intermediate)	MCSB	16
	14-15 Jan	☐	Automating Tasks with Microsoft Excel	Pan Pacific KL	16
	15-16 Jan	☐	Inventory Management for Financial & Non Warehouse Managers 1/2-Day	Novotel Century	16
	18 Jan	☐	Modular Course — The Self Assessment System for all Categories of Taxpayers	Novotel Century	4
	21 & 23 Jan	☐	Introduction to Corporate Taxation for New Recruits/Tax Assistants	MCSB KL	16
	20-21 Jan	☐	Microsoft Word 2000 (Advanced)	MCSB KL	16
	20-23 Jan	☐	PC Configuration Troubleshooting and Data Recovery	MCSB KL	32
	22-23 Jan	☐	Microsoft Excel 2000 (Advanced)	MCSB KL	16
	23-24 Jan	☐	Knowing Your PC: A Giant Step Ahead for You	MCSB KL	16
	24 Jan	☐	Microsoft PowerPoint 2000 (Advanced)	MCSB KL	8
	24 Jan	☐	Introduction to Networking	MCSB KL	8
	24 Jan	☐	Introduction to Internet	MCSB KL	8
	25 Jan	☐	1/2-Day Modular Course — Preparing a Correct Tax Computation under the Self Assessment System	Novotel Century	4
	27-29 Jan	☐	Microsoft Access 2000 (Advanced)	MCSB KL	24
	30-31 Jan	☐	Designing Web Pages with MS FrontPage	MCSB KL	16
	15 Feb	☐	1/2-Day Modular Course — Getting Your Gross Income Correct & Differences Between Accounting Practice & Tax Principles	Novotel Century	4
	18 Feb	☐	New Form C & Form R under Self Assessment System	PJ Hilton	8
	19-20 Feb	☐	Report Writing Skills	PJ Hilton	16
	25 Feb	☐	Advanced Assessable Income & Deductible Expenses	PJ Hilton	8
	1 March	☐	1/2-Day Modular Course — Maximising Tax Deductions including Prepayments & Accruals	Novotel Century	4
	6 March	☐	Advanced Capital Allowances	PJ Hilton	8
	11 March	☐	Withholding Tax	PJ Hilton	8
	15 March	☐	1/2-Day Modular Course — Maximising Deductions for Capital Expenditure & Capital Allowances	Novotel Century	4
	18 March	☐	Real Property Gains Tax (RPGT)	PJ Hilton	8
	25 March	☐	Tax Incentives	PJ Hilton	8
	29 March	☐	1/2-Day Modular Course — Tax Incentives - Part 1	Novotel Century	4
	1 April	☐	Corporate Tax Planning — Basic	PJ Hilton	8
	8 April	☐	Double Tax Agreement & Cross Border Transactions	PJ Hilton	8
	12 April	☐	1/2-Day Modular Course — Tax Incentives - Part 1	Novotel Century	4
	26 April	☐	1/2-Day Modular Course— Surviving a Field Audit & Tax Investigation	Novotel Century	4
Penang	9-10 Jan 03	☐	Introduction to Corporate Taxation for New Recruits/Tax Assistants	City Bayview	16
	23 Jan 03	☐	Developing Enterprise Risk Management Framework	Shangri La Hotel	8
Johor Bahru	6-7 Jan 03	☐	Introduction to Corporate Taxation for New Recruits/Tax Assistants	Hyatt Regency, JB	16
	24 Jan 03	☐	Developing Enterprise Risk Management Framework	Hyatt Regency, JB	8
K Kinabalu	19-20 Feb	☐	Inventory Management for Financial and Non Warehouse Managers	Shangri-La Tanjung Aru	16
	21 Feb 03	☐	Developing Enterprise Risk Management Framework	Shangri-La Tanjung Aru	8
Kuching	17-18 Feb	☐	Inventory Management for Financial and Non Warehouse Managers	Holiday Inn	16
	20 Feb 03	☐	Developing Enterprise Risk Management Framework	Holiday Inn	8

Yes! I would like to know more about the programmes ticked above.
Please send the information to :

Contact Person : _____

Organisation : _____

Address :

_____

Tel : _____ Fax : _____

Malaysian Institute of Accountants
(Established under the Accountants Act, 1967)

FOR FURTHER INFORMATION PLEASE MAIL, FAX OR E-MAIL TO :

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e-mail : cpd@mia.org.my
Homepage : http://www.mia.org.my

MAAA AT A GLANCE

MALAYSIAN ASSOCIATION OF ACCOUNTING ADMINISTRATORS

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 (previously known as Malaysian Association of Accounting Technicians) 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 (2002 Term)

Elected Members

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

MIA Nominated Members

Manjeet Singh s/o Santokh Singh
Assoc. Prof. Dr. Nafsiah bt. Mohamed
Assoc. Prof Dr. S. Susela Devi

Secretariat Office

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

Editor for MAAA News : G. Mahadevan

The Malaysian Association of Accounting Administrators (MAAA) has had a fairly active year in 2002 as can be seen from this report. Among the activities organised were members dialogues, workshops and courtesy visits. A summary of these activities is listed below :

9 March 2002	One day workshop to develop a business plan for the MAAA Diploma in Accountancy.
25-29 March 2002	MAAA Council members served as members on the Committee on Occupational Analysis for Accounting invited by the National Vocational Training Council (NVTC) of the Ministry of Human Resources.
18 May 2002	MAAA 12th AGM — Cheah Foo Seong was elected as a new Council member. Seventeen resolutions were tabled and passed by members.
24-29 June 2002	MAAA Council members attended the second committee meeting on Occupational Analysis for Accounting invited by the National Vocational Training Council (NVTC) of the Ministry of Human Resources.
31 August 2002	MAAA President, Izhar Abd Kahar was invited to be a speaker at a seminar entitled *Accountancy Students Towards Professionalism* organised by UiTM Dungun, Terengganu
17 August 2002	MAAA Members' Dialogue/Membership Drive in Kota Kinabalu, Sabah.
18 August 2002	MAAA Members' Dialogue/Membership Drive in Kuching, Sarawak.
27 September 2002	Dennis Adams, Deputy Chief Executive Officer of the National Institute of Australia (NIA) and Gavan Ord, Technical Policy Manager of NIA paid a courtesy visit on the President and Council members of MAAA.
28 September 2002	MAAA submitted proposed examination syllabus to the Examination Board of the Ministry of Education to seek approval to conduct examination.

Despite the above activities, the Council is of the view that more can be done by the Association for its members. As such the Council looks forward to initiating many more interesting activities in the coming year with the continuous support of members.

The Council wishes all members **Selamat Hari Raya**, **Merry Christmas** and a **Happy New Year**. AN