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Effective Audit Committee : The Chairman's Perception

Revamped Listing Requirements For The Good Of All

Member Audit Bureau of Circulations (Malaysia)


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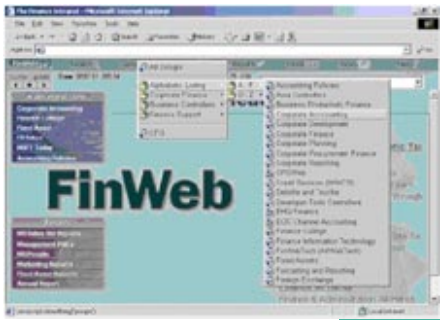

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Akauntan Nasional

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FROM THE EDITOR

Let's Build MIA Together

So, the amendments to the Accountants Act have been passed. What next, pending the date of it becoming operational? As members eagerly wait for the appointed date for the changes to materialise, the MIA Council is busy strategizing its next step, while we, the 'foot-soldiers' at the Institute are busy drawing up working papers to ensure a smooth implementation of the changes. The respective Committees have been entrusted to look into the details of the amendments and how best to dilute transitional inconveniences to members.

It takes integrity, trust and perseverance to initiate a smooth transition. Sometimes, there may even be a need to adopt a whole new approach in doing things. It is not so much what we achieve that is important but rather how we go about achieving it. The Institute is firm on its stand that there be no compromise when it comes to protecting our members' interest.

After taking into account the various suggestions and comments on enhancing transparency at the Institute's level, we have introduced a section on the MIA Committees' agenda for the year. This section is a window to the Institute's role in addressing global issues on accountancy. In fostering closer ties with the respective professional accountancy bodies and institutions of higher learning, the *Akauntan Nasional* has allocated several pages to highlight their news events and announcements. We are pleased to inform you that our gesture has been reciprocated.

Our cover story this time looks at the Chairman's perception on the effectiveness of the Audit Committee. The concept of audit committee though first introduced in the US, has been accepted worldwide as a necessary 'tool' in promulgating corporate governance. One common lament from internal auditors who present their findings to the audit committee, though this does not represent all industries, is that there is a general lack of technical knowledge in IT matters among members of the committee. This has led to more emphasis being placed on the findings of financial related matters and a cursory glance at IT issues which in fact constitute a huge chunk of an entity's expenses. Perhaps, in fine-tuning the role and function of an audit committee, one important aspect to consider is competent representation of all aspects of an entity to ensure thoroughness.

As a wise man once said, " Knowledge is power". In this case, "knowledge may just arrest a wrong".

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.

VISION AND MISSION

The Malaysian Institute of Accountants is the exclusive accountancy body, representing the voice of all accountants in Malaysia and a leading partner in nation-building. The Institute is committed to serving the profession and the nation with integrity and professionalism.

Its mission is :

- To promote and monitor professional standards and integrity.
- To provide education and training to meet the challenge of the ever-changing global economy.
- To conduct and promote research and development for the enhancement of the profession.

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Financial and Management Accounting Committee of the Malaysian Institute of Accountants

Thus far, the Financial and Management Accounting Committee of 2000/2001 has held two meetings to discuss various issues. On 23 November 2000, the Committee met to decide specific terms and references relating to its scope of activity. During this meeting, the Committee also reviewed the Statements on Management Accounting, and implemented various means of creating publicity and gaining feedback for key financial and management accounting issues. At the second meeting held on 12th January 2001, the Committee discussed the key issue of student practical training.

Terms of References

During the first meeting, the Committee decided upon the following Terms of References.

First, it will study and/or review the "practices" and "studies" issued by the Financial and Management Accounting Committee (FMAC) of the International Federation of Accountants (IFAC) and/or other relevant sources. Appropriate forewords will be provided for these documents. Also, the Committee will make recommendations to Council for adoption and issuance to members.

Second, the Committee will issue Malaysian Management Accounting Guidelines (MMAGs).

Third, the Committee will maintain regular dialogue sessions and organise seminars for members in the commercial, industrial and public sectors.

Fourth, the Committee will create or highlight certain documents and current issues on matters related to financial and management accounting. These documents will then be published.

Fifth, the Committee will work to increase recognition of the professional capabilities of financial and management accountants.

Review of Statements on Management Accounting (SMA)

As a top-priority project for the year, the Committee has undertaken to review and adopt the Statements of Management Accounting issued by the Institute of Management Accountants (ICM, US). The SMAs serve as a guide for MIA members. To date, the committee has begun to review the first batch of documents, comprising the first five sets of SMAs related to Activity-Based Costing.

These five SMAs are:

SMA 4B — Allocation of Service and Administrative Costs

SMA 4G — Accounting for Indirect Production Costs

SMA 4X — Value Chain Analysis for Assessing Competitive Advantage

SMA 4CC — Implementing Activity-Based Management : Avoiding the Pitfalls

SMA 4EE — Tools and Techniques for Implementing ABC/ABM

Publicity/Feedback

MIA is committed towards increasing the knowledge base of MIA members and creating interest in financial and management accounting among the public. In order to achieve these objectives, more information is being made available. This includes a summary of the first five SMAs, which can be reviewed on the MIA website or in the February issue of Akauntan Nasional. Members are encouraged to send in their comments, views and enquiries, if any, on the above-mentioned document to the e-mail address: fmac@mia.org.my

We also welcome feedback on all other aspects of financial and management accounting issues. Members as well as the general public are invited to send their comments, views and enquiries to us via our e-mail address: fmac@mia.org.

To keep members up-to-date on Committee activities, news on selected Committee activities will be posted on the MIA website.

In addition, the Committee has also decided that it will organise seminars, workshops and conferences in co-operation with the CPD department of MIA and other relevant professional bodies. These activities are all aimed at creating awareness and educating MIA members on recent and current practices in management accounting.

Practical Training For Students

At the second meeting on 12th January 2001, the Committee learnt that students at Institutions of Higher Learning (IHL) currently face problems in seeking practical training at commercial firms. Since training is a key factor in accounting education, the Committee has decided that it will co-ordinate with the IHL and our members in practice to solve this pressing problem.

THE EFFECTIVENESS OF THE AUDIT COMMITTEE : The Chairman's Perception

By Zulkarnain Muhamad Sori
Shamsher Mohamad
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Introduction

The idea of audit committees as an internal control mechanism to mitigate corporate fraudulent practices was first introduced in the US[1]. The Securities and Exchange Commission (SEC) and the New York Stock Exchange (NYSE) first recommended the institution of audit committees in 1940, and it has become a listing requirement since 1978.

The literature documents various definitions of an audit committee and generally relates to the members and the expected functions of the committee. For example, one definition refers to an audit committee as "a standing committee selected from the non-officer members of the board of directors to appoint or select the auditor, arrange the details of the audit, and oversee the financial reporting process" (Crawford, 1987). "The objective of having an audit committee is to increase public confidence in the credibility and objectivity of published financial information, assist directors to meet responsibilities regarding financial reporting and strengthen the independence of external auditors through the ability to communicate to non-operational directors" (Venables and Impey, 1988).

Malaysia

In Malaysia, the increasing need of good corporate governance and accountability in the corporate sector was substantiated by making the audit committee a listing requirement on the Kuala Lumpur Stock Exchange (KLSE) since August 1994. For an audit committee to perform effectively, Section 344A of the KLSE listing requirement requires at least three members of the committee to be non-executive directors, conversant about the firm's business and preferably with strong financial credentials. The idea is to make the audit committee independent and impartial in its decision-making. It is perceived that an effectively functioning audit committee should consist of members from all walks of life such as CEOs of firms, lawyers, educators, substantial shareholders, and representatives from minority shareholders and bankers.

> "… an audit committee is a standing committee selected from the non-officer members of the board of directors to appoint or select the auditor, arrange the details of the audit, and oversee the financial reporting process"

Recently, Mohamad Ali, Shamsher and Annuar (1999) studied on the internal auditor's perception of the effectiveness of audit committees among Malaysian listed firms. They found that the internal auditors view the audit committee as being proficient in its traditional role of reviewing the financial statement and as a liaison between the external auditor and the management. The audit committee is also perceived to be technically competent. However, the internal audit profession is sceptical about the benefits that the audit committee can generate for the company. Their scepticism stems from the fact that audit committees in Malaysia are still in their infancy stage and probably need time to prove themselves to the business and financial community. The findings suggest that the effectiveness is explained by two major factors : first the effectiveness of an audit committee in its traditional responsibilities; and second its technical competency with regard to the accounting and psychological aspects of the internal audit profession.

Objectives of the Study

The objectives of this study are to explore and evaluate the audit committee

[1] The development of the audit committee followed the case of Mc Kesson-Robbins, where the company operated as a wholesale drug company, which was listed on NYSE. The company's alleged operations included a fictitious Canadian subsidiary. This non-existing subsidiary showed sizeable purchases, sales, and inventories in the books. Non-existent warehouses in Canada were supposed to contain the inventory. The annual reports contained $87 million in assets, which included an approximate $10 million overstatement of inventory and $9 million in fictitious accounts receivable (Robertson, 1979)

chairman's perception of the effectiveness of the audit committee in performing its responsibility. This relates to issues concerning responsibilities and authority of the audit committee in listed firms, knowledge of the audit committee members, information exchange and interaction between the audit committee. The findings are important for policy-makers, stakeholders and the company's management to help them formulate practical guidelines to improve the corporate governance practices among listed firms. A good corporate governance practice builds investor confidence, attracts both portfolio capital and direct foreign investment that contributes towards the economic growth of the nation.

Methodology

The questionnaires distributed in this study approach, was adopted from Kalber's (1992) has been used with 14 variables, similar to that used by Mohamad Ali's *et al.* (1999) study. The respondents were required to rate their opinion on a seven (7) scale effectiveness rating. The demographic information on the respondent's background and the firm's audit committee background were enquired to ascertain the credibility and reliability of the data. The questionnaires were mailed to 500 audit committee chairmen or representatives of the committees; with only 72 usable questionnaires received; representing a 14.4 per cent response rate. Factor analysis was used to analyse the inter-relationships among a large number of variables and to explain these variables in terms of their common underlying dimensions (factors).

Findings

The 14 variables analysed using principal component analysis were categorised into two groups, one relating to the chairman's perception on effectiveness of the audit committee in the financial and audit aspects of the organisation (variables B1 to B10) and another relating to the audit committee chairman's perception regarding the effectiveness of the committee with respect to non-financial and audit aspects of the firm (variables B11 to B14). Definitions of these variables are summarised in Table 4.

Table 1 shows the descriptive statistics of the variables analysed in this study and the same variables used in Mohamad Ali's *et al.* (1999) study to analyse the perception of internal auditors on the effectiveness of audit committees.

The findings indicate that the chairman of the audit committee rated the effectiveness attributes relatively higher than internal auditors, suggesting that they perceive the audit committees are effectively performing their responsibilities.

An analysis of variables in group 1 (variables B1 to B10) shows the mean value ranging from 4.53 to 5.68. This implies that the chairman perceives the audit committee as fairly competent in reviewing, analysing and evaluating matters concerning the audit and accounts of the company. On the other hand, the internal auditors rated their audit committee slightly lower with a mean value ranging from 4.00 to 5.00 except for variables B9 and B10. The standard deviation ranges between 1.03 to 1.41, consistent with the notion that the frequencies of the mean values are closer to a bell shaped distribution.

For variables B11 to B14 the mean values ranged from 4.73 to 5.63, implying that the audit committee chairman believes that the committees are also effective in non-finance

TABLE 1 Variables Descriptive Statistics

Variables	Mean	Mean (Mohamad Ali et al., 1999)	Standard Deviation	Standard Deviation (Mohamad Ali et al., 1999)
B1	4.53	4.04	1.39	1.75
B2	5.14	4.26	1.29	1.88
B3	5.01	4.17	1.32	1.81
B4	5.68	4.98	1.03	1.85
B5	5.05	4.34	1.41	1.88
B6	5.32	4.53	1.35	1.83
B7	5.32	4.64	1.31	1.69
B8	5.49	4.77	1.14	1.76
B9	5.63	5.02	1.14	1.67
B10	5.38	5.45	1.21	1.49
B11	5.63	2.77	1.07	1.68
B12	5.58	2.81	1.26	1.89
B13	5.41	3.53	1.22	1.70
B14	4.73	3.87	1.22	1.76

TABLE 2 Principal Component Analysis

Variables	Communality	Factor	Eigenvalue	Percent of Variance	Cumulative Percent of Variance
B1	0.89718	1	12.35	88.20	88.20
B2	0.87942	2	0.34	2.44	90.64
B3	0.89553	3	0.30	2.11	92.75
B4	0.86389	4	0.19	1.38	94.13
B5	0.88755	5	0.16	1.14	95.27
B6	0.86912	6	0.15	1.08	96.35
B7	0.93783	7	0.11	0.78	97.13
B8	0.90905	8	0.09	0.63	97.76
B9	0.89826	9	0.08	0.57	98.33
B10	0.88506	10	0.06	0.45	98.78
B11	0.88402	11	0.06	0.40	99.18
B12	0.90030	12	0.05	0.36	99.54
B13	0.92913	13	0.04	0.28	99.82
B14	0.71140	14	0.03	0.18	100.00

and non-audit matters. However, these variables were rated low (in the range of 2.77 and 3.86) by internal auditors (Mohamad Ali *et al*., 1999) who believed that the audit committees were still on a trial period and their effectiveness is not evident yet. This difference in perception of chairman and that of the internal auditor indicates that there exists an expectation gap with respect to the effectiveness of audit committees.

Table 2 summarises information from factor analysis. Factor 1 accounts for 88.2 per cent of the variance and the remaining 13 factors account for the 11.8 per cent of the variance.

Eigenvalues, or measures of the relative importance of the function and used as a criterion in determining the number of factors to extract, suggests that the findings in this study are derived predominantly by factor 1. That is only one factor contains all variables which explains the effectiveness of the audit committee, in contrast to Mohamad Ali's *et al*. (1999) two dimensions that explain the effectiveness of an audit committee.

To understand the relationship among variables in factor 1, the factor coefficient matrix is summarised in table 3, which indicates the importance of the variable in factor 1, arranged in a descending order. Most of the variables were perceived to be important attributes contributing to the effectiveness of the audit committee. The chairman of an audit committee perceives their function relating to review and analysis of GAAP (B1) as the least important in factor 1. This relates to the audit committee chairman's doubt concerning the committee members' technical skills. The audit committee believes that they are more effective in evaluating the independent auditor's performance (B6), then the review of results of annual audit by the independent auditors, (B8) and so on.

TABLE 3
Factor Coefficient Matrix

	Factor 1
B6	0.947193
B8	0.937772
B13	0.946327
B9	0.929459
B12	0.942098
B3	0.932268
B11	0.968418
B7	0.953441
B4	0.947765
B10	0.940774
B5	0.940222
B2	0.948843
B14	0.963912
B1	0.843446

Conclusion

This study analyses the perception of the chairman of an audit committee on the effectiveness of audit committees in performing their responsibilities. The findings suggest that the audit committee chairman believes that the committee plays an effective role in monitoring audit and financial functions. However, the chairman doubts on the actual effectiveness of the committee's role in the application of approved accounting standards, due to lack of experience and skills for such functions.

Though the KLSE listing requirements rule explicitly spells out the criteria of selecting audit committee members, there are audit committee members who are executive directors with substantial shareholdings. Although this does not contravene the listing requirements, it could have an effect if the decision made by the substantial shareholder outweighs the decision of other members. This implies that the enforcement of the requirements could be further improved.

There also exists an expectation gap between the perception of the audit committee chairman and internal auditors on the effectiveness of the audit committee in performing its function. This study reports that the chairman perceives only one dimension to be an important determinant of effectiveness whereas the earlier study (Mohamad Ali *et al.*, 1999) suggests that internal auditors perceive at least three dimensions as determinants of audit committee effectiveness.

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TABLE 4
Variables in the Factors

Variables	Factor 1
B1	Review and analysis of the application of alternative Approved Accounting Standards
B2	Review and analysis of significant changes in accounting policies and year end adjustments
B3	Review and analysis of accounting estimates and judgement
B4	Review of the annual financial statements and interim reports, in general
B5	Selection of independent auditors
B6	Evaluation of independent auditor's performance, including determination of independence
B7	Review and analysis of the scope and activities of the annual audit by independent auditors
B8	Review and analysis of the results of the annual audit by independent auditors
B9	Monitoring of corrections by management of reported deficiencies in the independent auditor's management letter
B10	The audit committee enhances the effectiveness of the independent auditors
B11	Review and analysis of the adequacy and effectiveness of the internal accounting and financial controls of the company
B12	Beyond meeting legal or other regulatory requirements, the audit committee serves an important need in this company
B13	The company's audit committee is very effective
B14	Other audit committees would do well to use this audit committee as a model

MEASURING THE PER SERVICE ORGANISATI ANALYSIS : A Local Case Study

By Dr. Mohd Yussoff Ibrahim, Kamil Mohd Idris and Abdul Halim Hj Hassan

This paper describes an approach to measure the performance of a service organisation using activity analysis. It adopts one Malaysian Public University as case illustration on the process of data collection, analysis on the data and interpretation of the findings. Adopting the measures suggested in Atkinson *et al.* (1995) as the basis, the authors use service cycle efficiency (SCE) to measure the efficiency of a service organisation. Using this measure, the efficiency of the workers, the administrative units and the faculties in the University in providing services to customers were measured. The findings of this survey suggest that there is a wide variation between units. Comparisons of performance between types of units (production versus supporting, open versus close and academic versus administrative) in terms of their efficiency, provide additional insight on the performance of the university. The result of the analysis also sets out the possible areas for improvement.

Introduction

In our efforts to enhance the quality of the products, services and the productivity of government departments and private organisations, many approaches and methods have been introduced. Among them ore the popular Total Quality Management (TQM), Just-in-time (JIT), Quality Cost Control (QCC), Continuous Improvement, Workers' Empowerment, Competitive Benchmarking and Process Reengineering. All these approaches focus on the three main elements of the production activity; process, workers and equipment. Out of these three elements, major emphasis is given to workers and equipment, but the process element is often neglected. This may affect the achievement of the organisational objectives. The possible reasons for ignoring this element are as follows :

- Processes are not physically identified.
- The weaknesses in process cannot be easily traced.
- The effect of the process weaknesses on the products and services are not easily traced and measured.
- Task involved in making changes to the process is difficult.

In striving towards success, one needs to acknowledge that operating systems need continuous revaluation. From experience in conducting Total Cost Management, it was found that activity is the focal point, besides labour and facilities (Ostrenga, 1995). It is also essential that when one designs a system he needs to look at the production activities as part of a value chain (Drucker, 1990).

One of the recent developments in management and management accounting is the use of process or activity as the basis of planning and control. Management accounting books have included the process/activity element as one of the elements that is required to be managed besides worker, material and equipment. New techniques or approaches like Activity Based Costing (ABC), Activity Based Management (ABM), Value Chains and Activity Analysis have been introduced and adopted by academicians and practitioners. The inception for the changes/development is referred to as activity analysis.

A study has been carried out to identify and document activities performed by all units in a particular university. This report is divided into six sections. Section two is the literature review, section three details the methodology, section four reports the results, section five discusses the findings and finally section six highlights possible areas for further research.

Literature Review

Much has been said on the productivity of an organisation and units within it. Atkinson (1988) quoted a study of a large organisation in the UK that suggested that managers use 50 per cent of their working hours on rework, 45 per cent on examining the quality of products they produced and five per cent on avoiding mistakes.

The staff in personnel were overworked. On average, the seven members of the department spent 50 per cent on rework, cre-

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ated by line managers who were not committed to doing things right the first time, 45 per cent to inspection and five per cent preventing problems arising.

Therefore it is the responsibility of the managers to continue striving to get the best economic effect from the existing resources. Improving resource utilisation will reduce the cost of the product produced. One approach that will enable the management to reduce production cost is through identification of non value-added activities and striving to minimise those activities. This will reduce the difference between cost of input and the selling price of a product. (Shank, J., and Govindarajan, V. 1995). Convey (1991) stressed the role of activity analysis in eliminating the inefficiency and released resources from non-value added activities.

Activity analysis is becoming more important as a basis for performing ABM and achieving continuous improvement. Jason (1989) suggested steps in conducting diagnostic activity analysis on organisations in the service sector where the productivity of the workers are very difficult to improve. Brown (1989) stressed that activity analysis provides significant contributions towards quality enhancement in the non-manufacturing divisions of an organisation. He suggested seven steps in conducting such analysis. Both the above mentioned studies indicate the importance of activity analysis in organisations providing services, like a university.

Methodology

The data for this study was collected from a public university in Malaysia. To maintain anonymity of the subject in this study, the subject will be referred to as 'the university' and all the departments and cost centres are coded. For the purpose of coding, the departments in the university were grouped into three sets : Nine Administration Departments, like chancellery and students' affairs were numbered from A10 to A90; the seven Faculties were numbered from F10 to F70; and the seven Centres, like the computer centre and research centre were numbered from C10 to C70. Each department has from one to eight cost centres. The cost centres in each department were coded using the first character of the department's code while adding a second character (number) in sequence.

The data on output and activities in every cost centre (department) in the university were collected using questionnaires and an interview. A set of questionnaires, together with explanations, to guide the respondent was prepared. Briefing sessions were held for the head of departments on the purpose of the study and how to fill in the questionnaires. Pilot tests were conducted on the A71-A78 and the A41-A45 departments.

The head of departments accordingly directed their staff to identify activities and documented them in the forms provided. Research assistants were available on call to help departments whenever needed. Several departments did utilise this service. The completed forms were then sent to and checked by the researcher/assistant. The forms were checked for logical errors in the flow. Accordingly an interview was arranged between the researcher/assistant and the staff who completed the

form. Comments and suggestions were discussed during the interview session. When both parties were satisfied with the documentation, the staff was requested to endorse it. An example of the documented activity is given in Table 1.

Using the classification proposed by some analysts and quoted by Atkinson *et al.* (1995 pp. 67), the research assistant then labelled each task in an activity into the following categories; processing, moving, inspecting and storing[1]. For each activity, total time spent on processing and the other three categories were calculated. The time spent on processing was considered as value-added while the time spent on the other three categories were considered as non value-added. (Atkinson *et al.*, 1995; 67). The researcher then computed the Service Cycle Efficiency (SCE)[2] for each activity in each cost centre using the following formula;

$$SCE = \frac{\text{Processing time}}{(\text{Processing time} + \text{Moving time} + \text{Storing time} + \text{Inspection time})}$$

SCE is a measure for efficiency (in terms of time) of a particular activity. The formula measures the proportion of the time taken for the processing activity from the total time taken by the department in producing a particular service. The higher the ratio, the higher the efficiency of the activities measured.

TABLE 1

Activity Description and Classification Cost Centre : Public Relations Activity : Publish Newsletter 'MMMM'

No.	Task / Process	Time Consumed	Process Category
1.	Collect news	5 minutes	Process
2.	Write news	8 hours	Process
3.	Pass to PRO	5 minutes	Transfer
4.	PRO checks the typed material	30 minutes	Inspection
5.	Proof-reads the material typed	20 minutes	Process
6.	Corrects mistakes	15 minutes	Process
7.	Sticks 'dummy' for printing	20 minutes	Process
8.	KIV	1 day	Storing
9.	Send to Printing unit	45 minutes	Transfer
10.	KIV	1 week	Storing
11.	Receive printed 'MMMM'	30 minutes	Process

Once the SCE for every activity in every cost centre was calculated, the average, the maximum, the minimum and the standard deviation for each cost centre and department was then computed.

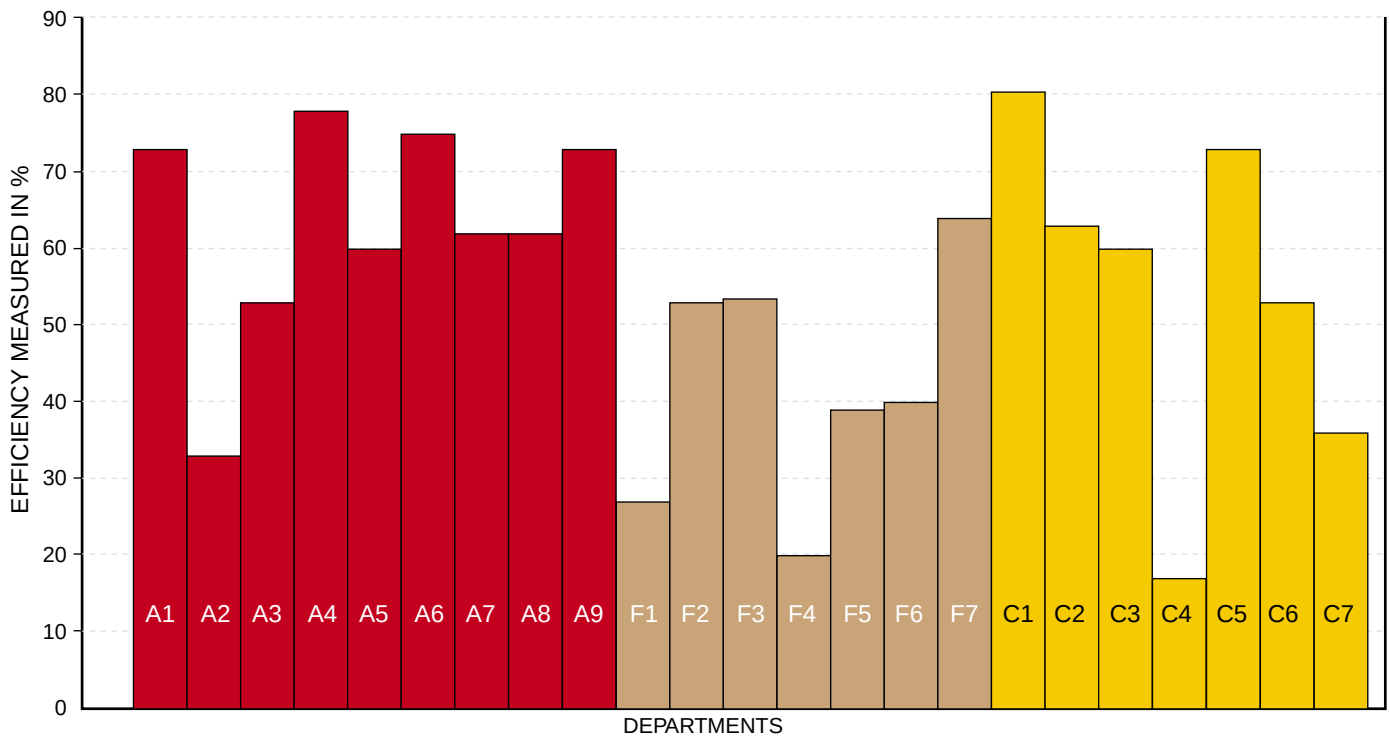
Results

1 One important question is how can the university measure the efficiency of its operation? One dimension that can be used to measure the performance of an organisation is the time it consumes in providing value to customers. We proposed using the activity analysis to measure such a criteria. From the data gathered and analysed, we found that the SCE for the university as a whole was moderate. Taking the overall average of the SCE for all the departments, the SCE for the university was 53.84 per cent with SD 18.5 per cent.

[1] Process is defined here as work that produce the attributes which customers required and valued. Moving is defined as work that results in the product or work in process being transferred from one place to another. Inspections are work performed to determine whether the work done on the products were as required or otherwise. Storing refers to the time lapse without any action being taken on the product or the work in process.

[2] This is the researcher's version of the Manufacturing Cycle Efficiency (MCE) as proposed by Atkinson *et. al.*, 1995.

EXHIBIT 1 The SCE of the Departments in the University



2 How were the departments within the university performing? Exhibit 1 displays the bar chart showing the average SCE of the respective departments. Based on the average SCE for departments, we noticed wide variations. The averages ranged from the highest 80.26 per cent to the lowest of 17.51 per cent, with SD 18.50 per cent.

3 How were the cost centres in each department performing? Based on the means, all departments except U5 (which had only one cost centre) showed variation in terms of the performance of the cost centres. The measure for variation, SD varied between cost centres from the highest 29.41 per cent to 0.73 per cent.

4 Even within the cost centres, we saw variations in the efficiency measure of the activity. Based on the average SCE of the activities for each cost centre and also the SD, we saw a wide variation in SD ranging from 39.41 per cent to zero percent.

5 Comparing the performance of groups of departments provided additional evidence on the performance of the university. Departments in the university were classified as 'Production' and 'Supporting' departments. Production departments were defined here as those involved directly with the processes and the materials used in producing the main products. Based on the university's objectives[3], we identified the main products of the university as the graduates, research and consultancy, and publication. By looking at the processes that produced the output, the departments that we considered production were the various schools, the Co-curriculum, Career and Industrial Emplacement Units, and the Research and Consultancy Centre. The other departments were considered as supporting. Exhibit 2 displays the chart for the average SCE and the SD for the groups.

6 We also grouped the departments with respect to the frequency of interaction with the customer. The university's main customers are students. The University interfaces with students through the various departments. We identified 13 departments that interacted heavily with students and we called them 'open' departments while the other departments were classified as 'close'. Exhibit 3 displays the performance of the groups.

EXHIBIT 2

Comparison of Performance Between Production and Supporting Departments

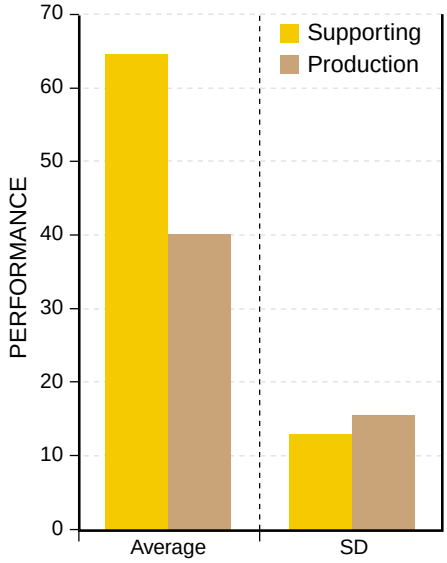
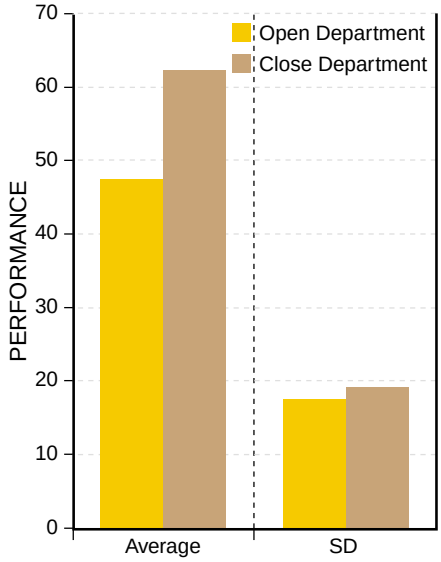


EXHIBIT 3

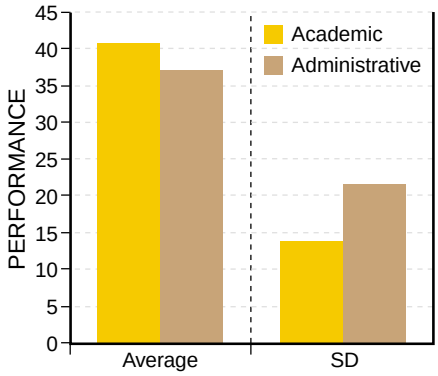
Comparison of Performance Between Open and Close Departments



7 We analysed the performance of the production departments by looking at the SCE of the Academic and Administrative activities. Exhibit 4 displays the averages graphically.

EXHIBIT 4

Comparison of Performance Between Academic and Administrative



Conclusion and Discussion

The results of the analysis indicated that there is wide room for the university to improve. The average SCE for the university is slightly above 50 per cent which means that about 50 per cent of the time taken to provide services in the university does not contribute to value to customers. In such a situation, the university can readily find areas where it can reduce cycle-time and thereby increase the SCE. Should the university succeed in doing so, the staff will be extremely motivated by the results, especially in the initial stage. To begin with, the university can set the SCE of 100 per cent as the benchmark. If the university achieves that target, it would mean achieving an almost 100 per cent improvement from where it currently is. However the measure does not indicate the position of the university in contrast to time or other universities. To do that we need to make comparisons between time or entities. What it does is show how the university was performing during a given time.

A point worth noting at this juncture is whether reducing the non-value-added activities will necessarily mean reducing cost. By focusing on the value-added activities, the university can eliminate waste in terms of resources and improve the quality of services provided. However if the excess resources resulted cannot be released, then eliminating non value-added activities will not reduce cost (Johnson, 1988). Even then, the university would have already reaped benefits in the form of enhanced customer satisfaction and support.

From the study, it was also found that there

[3] University Academic Calendar 1996/97, page 3.

were differences in levels of performance between and within the departments and cost centres. With the SD of the departmental average of 18.5 per cent, this indicates that the effort to improve the performance of the university has to be carried out selectively. It cannot be performed at random. Cost centres and departments with low SCEs should be given priority because it is there that the need and opportunities for improvement are high.

We noted some inspiring results in analysing the performance of the various units in the university from three perspectives;

1. **Performance of Production versus Supporting departments**. The performance of the former is very much lower than the latter in terms of the SCEs measure. From the findings, it is critical that the performance of the production departments need to be greatly enhanced because they have a direct relationship with the quality and volume of the products the university produces. Improving the SCEs' of the production departments, will reduce the time that customers have to wait for services and thereby, enhance their satisfaction. This will influence the demand for the services and the competitiveness of the departments and the university.
   It doesn't mean that the service departments should feel contented. With an SCE of 65 per cent, there are wide opportunities for improvement.

2. **Performance of the 'open' verses 'close' departments**. Based on SCE measures, we noted that the performance of 'open' departments, the ones that interact heavily with customers, were found to be low compared to 'close' departments. This is a serious setback because the 'open' departments have direct impact on customers' satisfaction. These are the departments that customers make orders to and receive services from. Improving the efficiency of these departments will directly enhance the quality of services and ultimately the satisfaction of customers. The current performance levels of less than 50 per cent indicates that a lot can still be done that would enhance customer satisfaction.

3. **Performance of the academic and administrative activities in the production departments.** It was found that both were about equal in terms of performance. However the performance of both can be vastly increased and the variation of activities can be reduced. Both the cost centres are important in ensuring quality products and customer satisfaction.

As a final note, activity analysis is a tool that management can use to measure the performance of an organisation and the units within it, and identify areas where focus for improvement should be directed. To be effective, the use of the tool needs full support and commitment from the management. Results of a successful undertaking will provide opportunities to push the organisation towards the forefront of the competition.

Limitations and Suggestions for Future Research

The results of this research should be interpreted cautiously in view of the following limitations and constraints.

The level of comprehension of those involved in documenting the activities with respect to activity, function, input and output concepts is also limited. This could occur possibly because of the following reasons :

- The staff in the departments have difficulty in following the explanation given by the researcher.
- There are cases where the staff who documented the activities of the department were briefed by a third party (Head of department or research assistant).
- Insufficient time spent in orienting the staff to the work involved.

To a certain degree, we cannot be totally sure that all activities conducted in the period had been identified and documented. This had been discovered when the value chain for each department was developed. In that process, the output of each department was identified and the documented activities were arranged in sequence toward each output. There were outputs where the activity related was incomplete. This problem could be avoided if meetings were held between researcher and key personnel in each department to identify output and to list briefly the activities performed for each output. The staff of the department/cost centres would then be asked to describe the activities identified in detail.

There were a few cases where the documentation of activities was done mostly or wholly by research assistants (a student). The students were thoroughly briefed on the concepts involved like activity, process, input and output. They were trained to describe and to flowchart activities. However their level of comprehension was not equal. Their initiative and commitment also differed. Furthermore they had not performed or seen the activity being performed. This affected the accuracy of the flow shown and the estimated time of the activity documented.

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A PRIMARY ROLE OF THE SPECIAL ADMINISTRATOR

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On 20 June 1998, Pengurusan Danaharta Nasional Berhad ('Danaharta') was established by the Government of Malaysia to act as Malaysia's national asset management company. Their mission was to remove the distractions of non-performing loans ('NPLs') from the financial system and maximise the value of assets acquired. The objective of Danaharta was to allow financial institutions to refocus their attention on lending activities in order to spur economic activities, whilst Danaharta took over the tasks of managing the NPLs.

Coupled with their mission objectives, on 1 September 1998, Danaharta was given wide legal powers which allowed them to acquire, manage, finance and dispose of NPLs, via the legislated Pengurusan Danaharta Nasional Berhad Act 1998 ('the Danaharta Act'). Danaharta also has the power to appoint a Special Administrator over a company if the company is unable or likely to be unable to pay its debts to protect the value of the Company and maximise the returns to Danaharta and other creditors.

Under the Act, Special Administrators ('Special Administrator') have the power to do all things necessary for the management and realisation of the assets and affairs of the distressed borrower. As the concept and application of Special Administration is fairly new to accountants in Malaysia, this brief's focus is on four key areas :

1. The primary role of the Special Administrator;
2. The issues in deciding the way forward;
3. The content of the workout proposal prepared by the Special Administrator; and
4. The effects of the proposed amendments to the Danaharta Act in particular to the Special Administrators.

What Does a Special Administrator Do?

The primary role of a Special Administrator as defined essentially in Section 44 of the Danaharta Act, is to prepare and submit to Danaharta a proposal setting forth its plans with respect to the distressed borrower. This is accomplished by stepping into the shoes of the borrower and carrying out an independent assessment of the financial and operational position, before proceeding to establish a borrower's rescue or restructuring plan. The tasks set out for a Special Administrator would appear to be goal and objective oriented, where the framework is taken from previous checklists developed by the accounting firms involved.

Since the roles of the Special Administrators are usually undertaken by partners of accounting firms, Danaharta has since set up procedures for the pre-qualification of these firms. This, not only saves time, during the short notice period for appointments but maintains confidentiality at all times between the parties involved, until they are ready to commence the engagement.

Upon appointment, the Special Administrator will assume control of the company by securing all assets and instituting management controls to ensure that operations continue with minimal disruptions. The special administration acquires and duplicates many segments from the traditional receivership or liquidation working plans. The methodology employed by the Special Administrators would have to be derived and adopted from best practices of these instead of other disciplines.

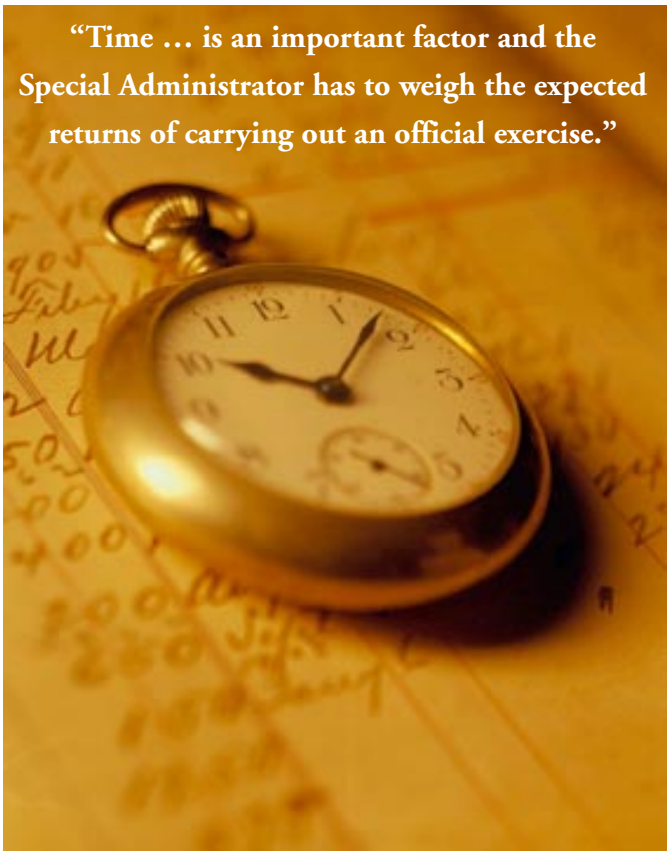
The directors of the company are then requested as required under the Act to prepare a statement of financial affairs of the company which is crucial in an exercise of this nature to be conducted as early as possible

after commencement, to provide a financial benchmark comparison for creditors and shareholders. The Special Administrator would evaluate and present this financial study to establish the reasonableness of any plans set forth having established the break up position of the company. Here, the Special Administrator would verify the statement of assets and liabilities and also carry out an evaluation of the same to establish the break up position of the company in the event that the company is liquidated. This objective of doing this is to justify that the Special Administrator's workout proposal will eventually show that all stake-holders would benefit more going ahead with his proposals rather than winding up the Company.

Other key tasks, which the Special Administrator would perform at the early stage of the assignment, would include briefings and assurance to key clients, management and employees to stay with the company to preserve the company's business. In addition, the Special Administrator would evaluate trading forecasts and ensure that there is sufficient cash-flow for the business to continue as a going concern. In most instances, the area of debt recovery is almost a certain task which a Special Administrator would have to look into. Here, the Special Administrator will ascertain the recoverability of all debts outstanding or written off and initiate aggressive recovery action on debts to improve the cash-flow of the company.

One would think that companies in distress are unlikely to have any realisable assets of liquid value. However every effort must be made by the Special Administrator to source and extract funds by for example, disposing all non-core assets, to finance the operations. The powers given to the Special Administrator would also enable them to enhance and preserve value to the business, to facilitate the rescue plans of the company later.

The approach generally adopted by the Special Administrators during the early stages would be :



APPROACH BY SPECIAL ADMINISTRATORS

Company

Financial/Viability Assessment

- realisable values of assets
- extent of liabilities, including contingencies
- returns to creditors and shareholders
- viability of the existing business
- conditions required to make business viable

SA

No Borrower's Rescue Plan

Restructuring Scheme

Settlement of Creditors

Sale of Assets/Business/White Knights

Workout Proposal

The immediate funding requirements of a distressed borrower is one of the most common critical factors for a Special Administrator to quickly report and where necessary take appropriate action on. This may include seeking the assistance of the existing lenders to continue financing the company and granting them priority over other creditors, including existing secured creditors.

As there has been no prescription for receiving bids, the borrower is also given the opportunity to come up with a rescue plan for the company, where the Special Administrator will accommodate as the mediator to facilitate and present the borrower's plans for the creditors. It is likely that the Special Administrator will set a timeframe (usually within the first month) for the borrower to strengthen up its proposals to cater for changes and for a preliminary feel of the regulators to ensure that time and effort is not wasted if its plans are unsuccessful. However, there are many instances where the borrowers do not have any plans for their companies and simply cannot be identified or located. In these events, it is usual for the Special Administrator to carry out business reviews of the companies to determine their viability. However, it is important for the Special Administrator to remain impartial to all the needs of the borrowers to give them the final opportunity to salvage and participate in the re-organisation of their companies.

The Special Administrator will inevitably be receiving inquiries including offer bids for the assets, business and even the company or the Directors or shareholders may already have a proposal which they wish the SA to consider. The Special Administrator is under a duty to listen and seek out potential elements which could facilitate the Special Administrator's decision in going forward. The Special Administrator would also, where he feels necessary, carry out an advertisement to tender the assets, business and/or the company unless there is sufficient reasons to delay the administration by going for such an exercise. As the job of the Special Administrator is to resolve the problem in a proper manner with time as a critical element, it has to make this decision within the first month of commencing the engagement. This decision is not easy as parties often revert back to the Special Administrator after a successful rescue frame-

work has been finalised with possibly more advantageous schemes. Time, however, is an important factor and the Special Administrator has to weigh the expected returns of carrying out an official exercise.

In ascertaining the viability of the company, there is a need to conduct an operational review and determine the financial viability and valuation of the assets and business of the company. The issue of viability requires the role of the Special Administrator to transform from the auditor accountant into the business entrepreneur, displaying business acumen and financial skills. It is important for the Special Administrator to conduct a study into the viability of the company to determine the parameters within which restructuring can take place, in addition to being able to see the involvement of external and internal contribution in the rescue. The plans set forth in evaluating the core competencies and the strengths of the business, whilst assessing the market and competitors strategies, must be realistic and achievable in the eyes of the Special Administrator.

For valuations of the distressed company, the models used by the Special Administrator would revolve around the usual accounting practice factors or normal valuation methods. These could include using the earnings capacity of the company to forecast the terminal disposal value of the company in later years. However, the valuations would have to factor in the use of the realisable value of the remaining assets of the company to derive complete value. At times, experts are sometimes engaged by the Special Administrator to provide the indicative values of the assets and business, to assist the Special Administrator in making recommendations.

The following generic factors can be used in the review and valuation of business framework in a Special Administration :

BUSINESS REVIEW FACTORS

SA

Company

Business Review

External/Internal

- operations/processes
- management/employees
- marketing/strategy
- cash-flow/financial review
- asset and business valuations
- markets
- products
- economy
- politics
- offers/bids

Parameters Determined

Sale of Assets / Business

On ascertaining the viability of the company, the Special Administrator would have to indicate preliminary recommendations to Danaharta to identify the next course of action for the company.

To secure the best value for the assets and the business, the Special Administrator will proceed with the appropriate action to ensure transparency and confidentiality of the process. As time is usually of the essence in this process, the Special Administrator must exercise his professional judgment on proceeding with the sale of assets and the business, if any, of the company after reviewing the financial and operational viability and careful consideration of available options. It must be stated that in situations where the viability indicates low recovery rates and the business cannot be revived, it is likely that the Special Administrator would transform the administration path to that following a traditional liquidation.

Special Administration assignments are relatively few in number due to the newly enacted legislation behind it. However, the variety of industries for each administration will result in differing objectives of the exercise based on the available working parameters and involvement of the distressed borrower. The role and task of a Special Administrator is not clearly set out, as compared to say Liquidator, however it has evolved to presently having a good platform for aspiring accountants when handling such assignments.

Deciding on a Way Forward in a Special Administration

Although third parties are at times invited by the Special Administrator via tender exercises to rescue the distressed borrower, interest is normally received immediately after the appointment of the Special Administrator upon the administration being made public. The Special Administrator has a duty to respond to inquiries and receive all communications from the various parties who are interested in finding out if the company is for sale, and to discuss their plans for the company/assets. The interested parties will be requested to submit a proposal to resolve the financial problems of the company. In order to ensure fairness to the company, besides ascertaining if a workable solution by the interested parties have been put forward, the Special Administrator will at the out-set, write to all shareholders and directors of the company to ascertain their plans to resolve the problems of the company.

In corporate restructuring involving regulated industries, like the stockbroking houses, the regulators look closely over the rescue schemes with the Special Administrators. In these instances, there may even be a Task Force set up to comprise of representatives from say the

"… interested parties will be requested to submit a proposal to resolve the financial problems of the company …. the Special Administrator will at the out-set, write to all shareholders and directors of the company to ascertain their plans to resolve the problems of the company.

Securities Commission, Kuala Lumpur Stock Exchange, Ministry of Finance and Bank Negara Malaysia, and Danaharta itself to act as a consultative unit for the Special Administrator's generic plan. The involvement of the Task Force adds governance to the Special Administrator's process and administration, acting as a check and balance to the Special Administrator's plans where it concerns industry specific objectives.

If sufficient interest is received, the Special Administrator will consider proposals submitted whilst also informing the borrower of their plans. In the event that the Special Administrator decides not to proceed with a public tender, a deadline for accepting proposals will be set and communicated via press statements and letters to all interested parties. This includes the existing shareholders and parties in negotiation to allow reconfirmation and revisions of earlier proposals. The Special Administrator would determine if adequate notice has been given and responses have been received by using the assessments carried out on the viability and valuations to reach the decision of going forward. However, in most cases a formal tender exercise is usually carried out within the first few months of the Special Administration.

Upon the deadline set, the Special Administrator would have received the final proposals, which may include proposals from the existing shareholders of the company, and communicated the same to Danaharta so that no one party could change the offers after the date.

All proposals, including the shareholders' existing proposal, will be evaluated using the following parameters as a guide :

EVALUTION OF PROPOSAL RECEIVED BY SPECIAL ADMINISTRATOR

SA

Company

Evaluation of Proposals Received

Qualitative

Quantitative

- sound profile
- listed entity/PLCs
- public recognition
- direct experience in local and foreign industries
- directors and shareholders profile
- related subsidiaries and associates
- management capabilities
- operational capabilities
- controlling interest in local related industry companies
- ability to raise necessary funding internally
- ability to raise external funds

Personalities

- national interest/policies
- business continuity
- statutory and regulatory approvals required
- unsecured creditors interests
- dealing with contingent liabilities
- cash offer
- net present value
- quantum of additional fresh cash injection
- comparison of offer with indicative break up values plus realisable value of assets
- settlement structure to creditors and shareholders
- returns to all creditors and shareholders

These proposals once evaluated by the Special Administrator would be reported and presented by the Special Administrator as to highlight its recommendations on the way forward to Danaharta.

After the preliminary presentation by the Special Administrator on the recommendations, the Special Administrator would meet and obtain further information from the recommended party, where confidentiality statements would be obtained in order to cater for discussions to develop the workout proposal. Where circumstances require, the regulatory bodies would also be alerted by the Special Administrator, to provide them with information on the recommended party. Legal advisors would also be involved to secure the intent of the recommended parties prior to the workout proposal being finalised vie agreements of subscription, sale of assets and so on. Since the legislation provides the Special Administrator and Danaharta with broad powers, solicitors acting for the Special Administrator have an important role to provide them with legal advice. Where the assignment involves listed entities, the Special Administrator would have to cater and account for additional tasks related to listed entities to ensure that all procedures are met and followed with the regulators.

As transparency and confidentiality of the process undertaken by the Special Administrator are of utmost importance, the Special Administrator has to conduct its work professionally and independently as an agent of the company, to ensure that all parties who have shown interest were not privy to any information or documentation relating to the financial and operational position of the company, other than those which are publicly available. The Special Administrator also has the onus to ensure all interested parties including those who had not submitted proposals, and the directors and shareholders of the company who were invited, provide further information and revise their proposals by the deadlines. Invariably, the directors and shareholders do have more information.

An example of ensuring confidentiality in the working process would be where the Special Administrator shares the information on the proposals to no more than four staff in the office of the Special Administrator and Danaharta, in addition to using codes to identify the interested parties until the respective agreements are signed. For rescue schemes in special administrations to be deployed quickly and successfully, a Special Administrator would have to possess multi-talents to be able to manoeuvre and find a workable path forward. However, he must always remain equitable and judicious in arriving at his decisions taking the interest of all stakeholders into account.

The Special Administrator's Workout Proposal

Having decided on a way forward for the distressed company, the Special Administrator will work closely with Danaharta, its legal advisors and financial advisors (where required), to discuss the preparation of the workout proposal.

The purpose and role of the Independent Advisor is to evaluate the Special Administrator's plans for the distressed borrower vie his workout proposal, primarily taking into account the reasonableness of the proposals to the unsecured creditors, secured creditors and the shareholders. The Independent Advisor is appointed by Danaharta and is entrusted to provide independent commentary on the Special Administrator's

plans for the company to Danaharta.

Essentially, the workout proposal will serve as a technical and legal document, which will be sent to the secured creditors by the Special Administrator for their consideration and approval. The Special Administrator will also furnish the secured creditors with copies of the Independent Advisor's report, a copy of the letter of approval from Danaharta and a notice that calls for the meeting.

The surrounding issues of concern fuelling the content of the workout proposal would usually be centred around (but not limited to) the following :

- Salient features of the workout proposal.
- Practicality of the workout proposal.
- Legal implications of the workout proposal.
- Regulatory approvals required for implementation.
- Interests of unsecured creditors, secured creditors and shareholders of the company.
- Maximum value and extraction of all benefits in the company within the workout proposal

Some of the basic workout proposal contents would be quite similar to restructuring parameters available to distressed borrowers, which may include a cocktail of capital reduction, debt restructuring, share issues, asset acquisitions and disposals, injection of cash and alternative assets and others. As many financial advisors would agree, there exists no prescribed mixture for a restructuring exercise to be successful. However, the Special Administrator in his workout proposal has the added emphasis of ensuring the assets of the company are realised effectively and creditors repaid accordingly. A simple example would include the continuation of the business operations, the elimination of the adverse social and economic impacts of winding up and the continued employment of staff.

The workout proposal must be practical in the implementation, as the Independent Advisor will be reviewing it for the benefit of the secured creditors, as well as the unsecured creditors who have no voting rights and shareholders. The essence of the exercise leading to the workout proposal must cater for all parties, unlike a traditional restructuring which is not required by law to take into account the views of an independent advisor. It is inherent that the workout proposal prepared by the Special Administrator be reviewed by the appointed Independent Advisor, who reviews the proposal to confirm that due consideration has been given to the interests of the unsecured creditors, secured creditors and shareholders of the Company. However, the final say in the approval process before the regulators are presented with the scheme, lies with the secured creditors who will consider it and if thought fit, approve the proposal for implementation. If the structure of the Special Administrator's plans consists of issuance of financial and debt instruments, it will then work with the financial advisors who are usually merchant banks to prepare and present a consultative paper to obtain the preliminary views of the regulators before the workout proposal is finalised.

As the workout proposal ultimately determines the future of the company and the settlement scheme to the creditors and shareholders, it is essential that all aspects and areas relating to the company be reviewed. The Special Administrator is entrusted with wide powers under the Danaharta Act, with the main purpose of driving the rescue exercise without administrative barriers. The purpose and content of the workout proposal under the Danaharta Act is quite ambiguous as it simply requires the Special Administrator to prepare one as soon as reasonably practicable setting forth plans for the distressed borrower.

Since the workout proposal becomes binding on all creditors and the shareholders on approval of the secured creditors, there will likely exist operational issues concerning the implementation of the workout proposal, which have yet to be carried out for the recent appointments. There are those who view the Danaharta Act as 'draconian' but from an accountant's point of view and on a practical basis, it is evident that the aim of the legislation is for the expeditious resolution of the company's financial problem whilst remaining impartial to all parties. Examples of practical driving factors, which the workout proposal could encompass to save time by usage of the enacted legislation, would include :

- effecting capital cancellations and reductions without obtaining Court orders.
- transferring and assumption of assets, liabilities, licenses, entitlements etc. between entities without Court vesting orders.
- empowering the Special Administrator to appoint and replace constituents of the board of directors of the company.
- treatment of creditors within the same class in varying settlement forms for practical reasons.
- approval required only by secured creditors voting in majority in value.

Some of the methods used to draw out all value in the company could include a sharing arrangement on unutilised tax losses between the company and the shareholders or prospective investors, under the Special Administrator's control, which would ultimately be paid to the creditors. Another common agreement is one which would commit the 'new owners' of the distressed company to recover all book debts, even those provided for and written off, and share the upside benefits over time. The recent changes to the Income Tax rules on tax deductions and stamp duty exemptions for administrations supervised by Danaharta and mergers of broking houses complete these arrangements. Another workout strategy that could be employed by the Special Administrator is the preservation of the listing status of the distressed borrower, as the borrower has a premium value in the assets and furthermore, the alternative would have devastating effects on the public shareholders.

On completion of a workout proposal and obtaining approvals by the secured creditors, the plans of the Special Administrator will be put into effect for implementation. The workout proposal, on approval by the secured creditors, will bind the distressed borrower, all it's creditors and shareholders to the plans set within and the implementation thereof will commence as the Special Administrator will start applying all proceeds towards the proposed endeavours of the workout proposal.

The task of the Special Administrator is

not deemed to be complete until the Oversight Committee of Danaharta (comprising of representatives from the Ministry of Finance, Bank Negara Malaysia and Securities Commission) terminates the appointment, as the Committee is instrumental in the appointment as well. The Committee will decide on termination of the Special Administrator whilst Danaharta reviews the tasks carried out during the appointment till implementation.

Under the Danaharta Act, the approval of the secured creditors is only required for the Special Administrator's workout proposal to be implemented, as seen in the diagram below :

PROCESSES SURROUNDING THE SPECIAL ADMINISTRATOR'S WORKOUT PROPOSAL

IA reviews reasonableness

Danaharta considers IA's comments and approves SA proposal

SA prepares workout proposal

Implementation of SA proposal

Regulators approve

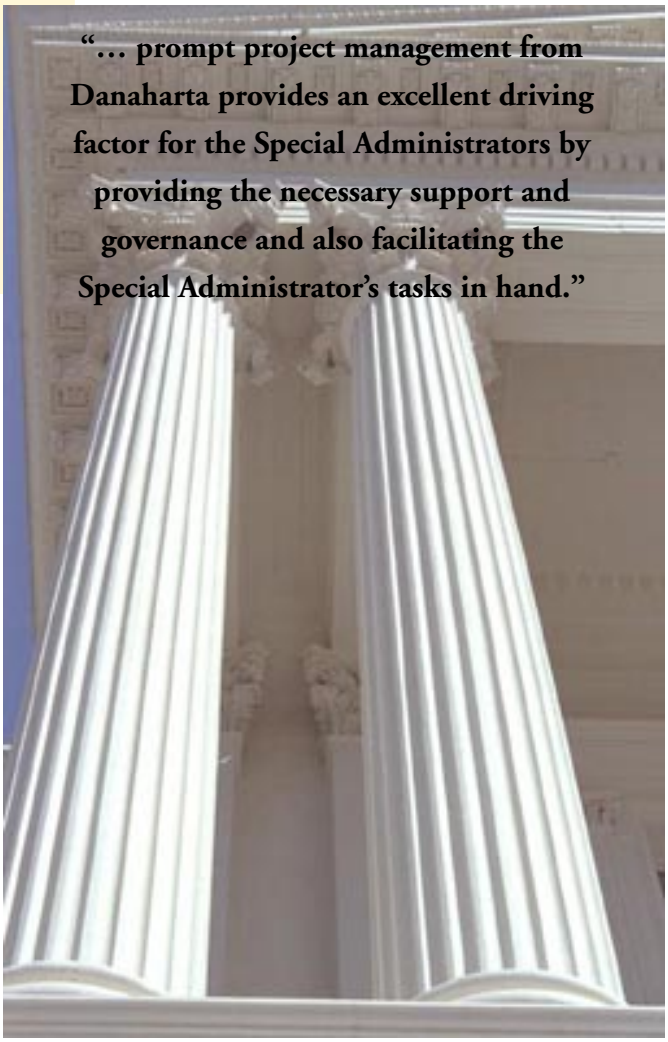
Secured creditors vote in majority in value

Termination of SA

The important learning factor to note is the speed at which the Special Administrator's workout proposal can be approved and put forward to the authorities which is astonishingly faster than the traditional restructuring modes. For example, Special Administrators have stepped into the shoes of the distressed borrower and within 75 days the secured creditors have approved the Special Administrator's workout proposal. In contrast to that, there are a number of Section 176 restructuring schemes which have yet to reach their Court hearing dates although it has already been three years.

In addition, in circumstances where there are industry formed task forces who have worked closely with the Special Administrator and Danaharta from the beginning of the exercise, the process of approvals and submissions for the Special Administrator's workout proposal (if required) can be made quicker. It must be said that the prompt project management from Danaharta provides an excellent driving factor for the Special Administrators by providing the necessary support and governance and also facilitating the Special Administrator's tasks in hand.

The legislation also provides for modifications to be made to the workout proposal subsequent to the approval of the secured creditors, that calls for the Independent Advisor to review the gravity of the modifications and their effect on the creditors. This section of the Danaharta Act is friendly, as the Special Administrator is able to cater for changes unlike a traditional restructuring scheme where the shareholders would have to be notified and huge administrative costs incurred for revisions.



The appointment of Special Administrators provides maximum value to all parties involved when a borrower starts to default, as the new statutory framework facilitates the rescue of viable business entities and provides structured legislative avenues for all parties concerned. The effectiveness of the legislation is illustrated by the success of the Special Administrations and the engagements themselves have spoken to lend credibility to what the country's rehabilitation program had set out to achieve.

Effect of the Amendments to the Danaharta Act on the Special Administrators

The Danaharta Act was enacted by parliament in September 1998. Since then, there has been a need to administer specific amendments to facilitate and provide clarifications to the old law. Several of the amendments, when enacted in full will be retrospective, in that they will relate to and be concerned with the duties of the Special Administrators to aid them in their tasks of recovery. The writer has reviewed the amendments and has reflected his comments, which should not be taken in specific context but as a basis for discussion only.

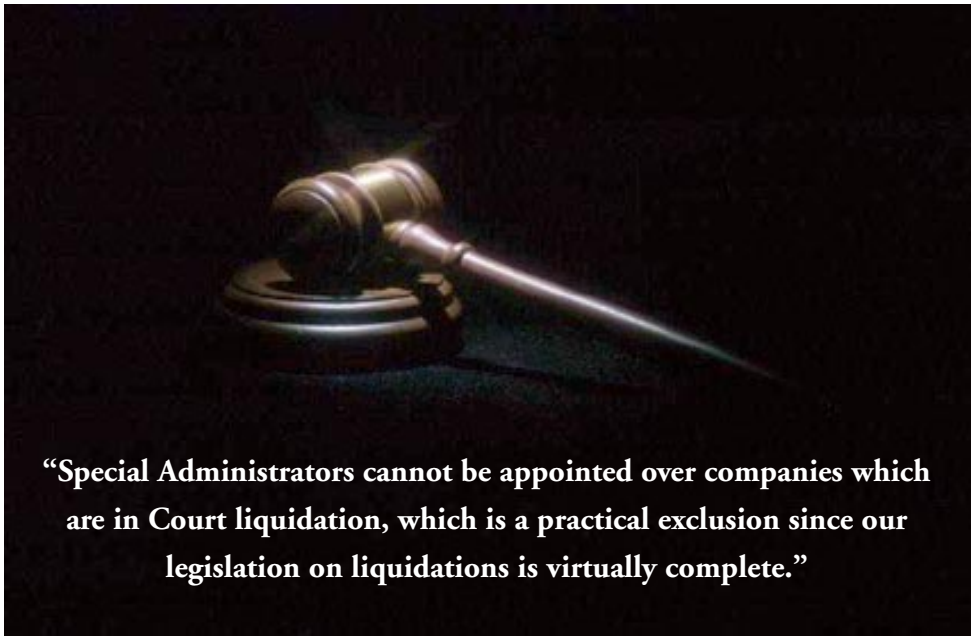
The first amendment of importance to the Special Administrator is the clarity the amendments provide to the definition of a secured creditor. As the secured creditor is the voting creditor to approve the workout proposal prepared by the Special Administrators, the new definition explains that they are persons who hold as security for a liability of a distressed company in respect of land charges, fixed or floating charges, assignments, documents of title or lease, over property, securities, deposit moneys and assets of the distressed company. The Bankruptcy Act definition does seem wide and the Special Administrators can now identify with confidence who a secured creditor is. However, the

amended definition does not specifically exclude contingent creditors who hold security belonging to the distressed company. This, in context, can cause working related problems as the Companies Act does preclude contingent creditors from voting at creditors meetings and the Special Administrators workout proposal has to be voted on only by secured creditors.

Under Section 21 of the Act, the term affected person previously related to the distressed borrower only. However, with the proposed amendment to this section, it now includes the distressed company's subsidiaries, companies with at least two per cent of share capital charged to secure liabilities owed to Danaharta as lenders and companies which have provided security to Danaharta. The primary affected party is now the distressed company which is in default and, although I foresee this to be used in rare circumstances, Special Administrators can be appointed over the other related companies to facilitate the process of recovery.

A new Section 25A has been proposed to give Danaharta the powers on consultation with its Oversight Committee to have additional or to replace existing Special Administrators. This section gives clarity and creates a mode for the Special Administrator to be replaced if it is unable to act due to personal or obligatory commitments. Another amendment relating to the Special Administrators is Section 28(1) where it clearly defines the instance where a Special Administrator is released from his appointment and is terminated by Danaharta (with Oversight Committee approval) and which varies in nature and effect.

As regards circumstances where Special Administrators cannot be appointed, the revised Act now only excludes a distressed company which has been wound up by the Courts and where the winding up order is still in effect. This revision seems to allow Special Administrators to be appointed where a distressed borrower is in a Court Section 176 (of the Companies Act 1965) scheme of arrangement, even if the S176 creditors have voted, approved and implemented the scheme. Although this may seem very powerful and odd, the speed and success of Special Administrations along with this new amendment would possibly act as a catalyst to push all those borrowers who are in S176 without much progress. However, it is clear that Special Administrators cannot be appointed over companies which are in Court liquidation, which is a practical exclusion since our legislation on liquidations is virtually complete.



"Special Administrators cannot be appointed over companies which are in Court liquidation, which is a practical exclusion since our legislation on liquidations is virtually complete."

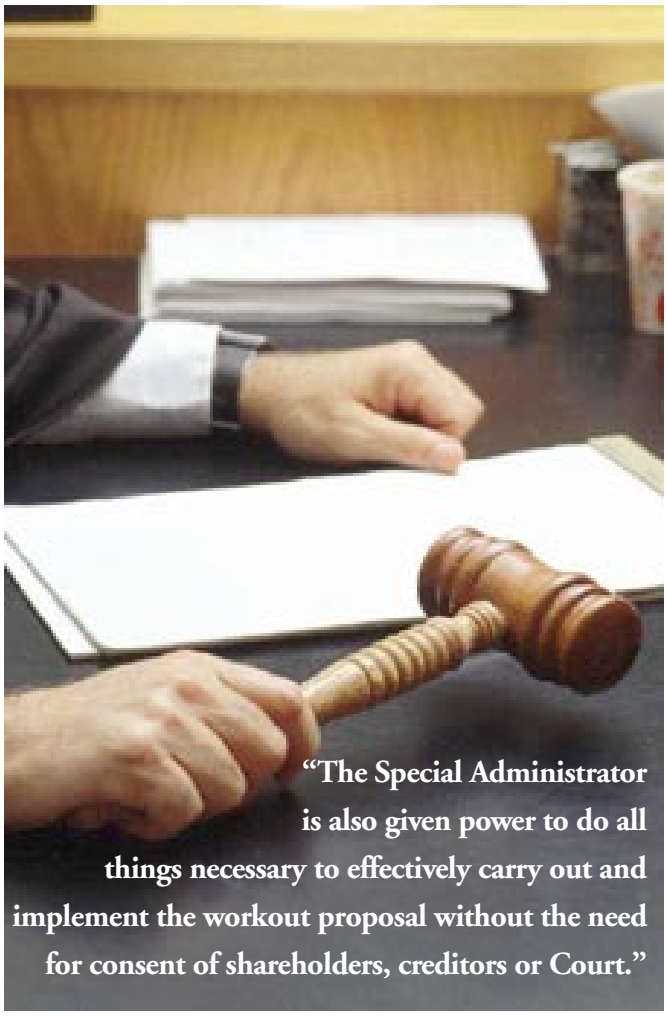
Many parties have possibly attempted to use the appointment of the Special Administrators as a legal contentious avenue for arguing their plights further, where action is in Court. One example of this is Section 29A where the new amendment introduces a new section altogether to ensure that parties who are contractually bound with the distressed borrower continue to be obligated to their agreements even after Special Administrators are appointed. The amendment to Section 33 also makes the directors and officers of the company liable to fines and/or three years jail if they do not seek the prior approval of the Special Administrator to exercise or purport to perform a function as an officer of a company. This amendment is critical on inception week by the Special Administrator when all aspects of the business are still being reviewed. In addition, the definition and functions of the outgoing officers of a company newly placed under Special Administration under Section 36 now also includes employees of the company.

The new amendments also allow the Special Administrator to seek the statement of assets and liabilities from the directors on inception of the engagement in the format determined by the Special Administrators. Previously, the format used was the same as the one used in the Companies Act for liquidations and receivers, where the strict usage of the form (bearing in mind that the various accounting firms use different variations) is dispensed with. To assist the Special Administrators, another new Section 39A has been inserted to make persons liable with fines and jail terms if they obstruct or hinder any exercise of duty, right or power by the Special Administrators. Further interpretation of Section 41 is also made, where no proceedings (or other legal process) may be commenced, or continued with, against any person providing a guarantee (or acting as a guarantor) for the liability of the affected person in respect of that liability except with the prior written consent of the Corporation. This seeks to indicate that the guarantors cannot enforce their rights without Danaharta's approval only for the guaranteed liability they have provided and not other liabilities.

One of the more powerful new sections added on is Section 42A, which provides avenues for the Special Administrator to

recover in cash, the value paid in excess of the value of the assets purchased or sold by the distressed company, within two years prior to appointment, which involved the vendor/purchaser being a director of the affected person or having same directors. The determining factor here is that these assets purchased or sold have created losses for the distressed company in comparison to the market value, indicating some form of transaction gain on the other side. This attempts to recover any goodwill or profit that might have been made, from the asset or similar considerations arising from these transactions involving assets prior to the Special Administration.

In relation to the Special Administrator's workout proposal, the amendments incorporate an allowance for the Special Administrator to include in the document any provision he may deem fit. The amendments to Section 44 also set out some of the provisions which may be included in such a workout proposal. These include, grouping creditors within classes, capital reduction, sale of assets, transfer of liabilities and shares of the affected person to another company and dissolution of the distressed company without having to formally go through the processes of winding up. Although many of these provisions have been used by Special Administrators in their workout proposals and have since been approved and implemented without hindrance, it is worth noting that the new law confirms that the Special Administrators, subject to the Independent Advisors approval, are given a free hand in constructing the provisions. The Special Administrator is also given power to do all things necessary to effectively carry out and implement the workout proposal without the need for consent of shareholders, creditors or Court.



Having seen that the old Act contained no provision to cater for distressed companies which did not have any secured creditors, since voting rights are determined by them, Section 47 now has been appropriately amended. In these circumstance and similar required approvals, Danaharta's approval will now subsist as the final approval required without further creditors approval. The new Act also impresses that upon approval by the Independent Advisor of the workout proposal and modifications thereof, the document is binding on all members and creditors, even if they have knowledge or notice of the workout proposal and modification thereof.

Finally, the last amendment provides an assurance to the Special Administrator to be indemnified for his costs, expenses and fees (as approved by Danaharta) and Danaharta if providing advances to fund the administration, from the assets of the company in priority of all secured and unsecured creditors. The indemnity also covers advances taken in the administration given by lenders or other parties provided that the transaction is approved by Danaharta.

Despite these amendments, there still exist some doubts with regards to specific sections of the legislation. One of these is the area of moratorium and whether it continues to exist on discharge of a Special Administrator. Technically, it would be easy and practical to assume that the moratorium (which goes into a 12-month effect on appointment of the Special Administrator) ceases on upliftment of the Special Administrator. However, the Act and the proposed amendments still keep this open, which we suppose will have the effect of deterring creditors for a couple of months at maximum before naturally expiring. In practice, Danaharta does get the Oversight Committee to uplift the moratorium simultaneously whilst terminating the Special Administrators.

One of the items which we would not see in the amendments, which could be useful to the Special Administrators, would be to have fluid working arrangements with regulatory and statutory bodies as to implementation of the workout proposal. The Act, at present, still does not sufficiently cater for requisite forms and notices to be lodged with say the Registrar of Companies for capital reductions or allotments done by the Special Administrator alone, opposed to shareholder or directors. In general, the Act also does not cater for any sort of formal documents to effect specific functions and tasks, such as the Companies Act forms in the appendices. This may not be important at this juncture, but would make the tasks of the Special Administrator more complete and effective in future.

Note : Girish Ramachandran has a BA (Hons) from University of Kent in the UK and has six years of experience in assurance and advisory business services, corporate insolvency/recovery and corporate finance fields, specialising in liquidations and Special Administrations. He is also currently the project leader for several Special Administrations and has worked with Pengurusan Danaharta Nasional Bhd to witness the evolution of the Special Administration process since the first appointment of Special Administrators in early 1999.

KNOWLEDGE WORKERS — THE BACKBONE OF A SUCCESSFUL K-ECONOMY

BY ROBERT KHAW AND JANET LEONG

A column to provide accountants with a macro snapshot on the major economic and financial developments and to alert accountants on leading edge issues that are crucial to their operations.

"The illiterate of the 21st Century will not be those who cannot read and write, but those who cannot learn, unlearn and relearn."
Alvin Toffler

Knowledge — A Critical Economic Resource

"Knowledge is being applied to knowledge itself. It is now fast becoming the one factor of production, sidelining both capital and labour," the legendary management guru Dr. Peter Drucker said. The noted economist Dr. Lester Thurow concurred when he wrote : "Natural resources have dropped out of the competitive equation. In fact, a lack of natural resources may even be an advantage. Because the industries we are competing with — the industries of the future — are all based on brain power."

In a sense, this has led several nations to embark on their knowledge-based or K-economy strategies in a rush to transform their economies. They recognise knowledge is a vital source of economic growth and competitiveness, amid the pressures of increasing globalisation, liberalisation and rapid changes in information and communications technology (ICT).

The essence of the K-economy is a dynamic innovative labour force that focuses on developing brainpower in all sectors, especially in education, science and technology. The success of developed countries such as the US, Japan, South Korea and Singapore is due largely to their commitment to heavy investment in education and training, as well as research and development (R&D). Their consistently high ranking in the "World Competitiveness Scoreboard" of the International Institute of Management Development is evidence of the critical importance of knowledge in international competitiveness and wealth creation.

With regard to wealth creation, it is about "adding value to this knowledge through our creativity," Dr. Yew Kam Keong observed.[1] Unfortunately, much is left to be desired in the area of creativity — in our schools, universities, as well as the public and private sectors. The inadequate emphasis on creative skill training and the lack of a culture of creativity must be reversed, if Malaysia is to fast-forward towards the K-economy.

Moving up the 'Knowledge Curve'

Globally, many organisations have long recognised that innovative, value added knowledge is the driving force that changes the rules of business, which largely determines growth, competitiveness and profitability. Organisations which are passionate about innovation often invest considerably in training, research and development, as well as encourage idea generation at all levels of management. Their structures and systems allow ideas to be tested, refined and developed into actions or new products and services. Not only that, they tend to be innovative too when it comes to marketing their new creations.

In this kind of liberal environment, workers are motivated to learn, unlearn and relearn. Such workers will not just be managing change, but initiating changes in a competitive K-economy landscape as well.

According to David Skyrme Associates, a networked management consultancy in the US, "efficient production relies on information and know-how; over 70 per cent of workers in developed economies are information workers; many factory workers use their heads more than their hands."

In the *Knowledge Executive Report* (1996), Paul Strassman, a former chief information executive with three major multinational corporations gave kudos to successful corporations such as Microsoft, Coca-Cola and Abbott Laboratories which consistently turned intellectual assets into a competitive advantage. Strassman highlighted that, "the company that has created more Knowledge Capital than anyone else in the US in the last decade, in terms of absolute amounts, is Coca-Cola. It is a knowledge company. All they sell is water with a little sugar and bubbles. It is their intimate knowledge of the marketplace, their brand name advertising and relationships with their distribution outlets that create their superior valuation."

In short, the smart generation and exploitation knowledge is the key to creating new value for organisations. But its impact on the nation will only be limited, if both the public and private sectors are slow to move up the 'knowledge curve'. We need to go beyond knowing that knowledge will provide the competitive edge, and to rally the whole nation — each individual, every organisation and all sectors — to think K- economy.

[1] Dr. Yew Kam Keong, *You Are Creative*, Mindbloom Sdn Bhd, 2000.

Common Traits of Knowledge Workers

"Knowledge worker" is a term coined by Drucker in the late 1960s. It describes an employee's expertise and specialisation as the new and emerging "means of production" over expensive and sophisticated machinery characteristics of the manufacturing era. "Knowledge, not capital", Drucker said "is and will be the true measurement of wealth in the information revolution."

Increasingly, more employers today are opting to become knowledge-driven organisations, developing new corporate strategies based on intellectual capital. Forward-looking organisations seek to create and attract knowledge workers by encouraging knowledge-sharing through the Internet, Intranet and business practices.

The common traits of knowledge workers include the following :

- Use technology to gather data, analyse information and articulate knowledge.
- Possess strong analytical skills.
- Able to cope with rapid and unexpected changes.
- Benchmark their work against best practices.
- Understand how their work fits into the business of the organisation.
- Apply emotional intelligence at the work place.

Knowledge workers never stop learning in their lifetime, and are constantly generating and using knowledge to create competitive improvement or new value for the organisation. As such, they often become the target for recruitment by competitors, both within the country and abroad.

Build the Intellectual Capacity

Over the years, Malaysia's global competitiveness has eroded. *The Global Competitiveness Report 2000* showes that Malaysia's growth competitiveness ranking has dropped to 25th position (16th and 17th in 1999 and 1998 respectively).

Gone are the days when the country could rely chiefly on cheap labour cost to sustain competitiveness. Malaysia's ability to compete in the global K-economy environment is now much more dependent on how fast it is able to leverage on knowledge and ICT.

COMPARISON BETWEEN YESTERDAY AND TODAY'S WORKER/MANAGER

Yesterday's Worker/Manager	Today's Worker/Manager (Reality and Expectation)
Waits to be taught	Seeks to learn
Assumes that learning occurs in the classroom	Recognises the power of learning from work experience
Holds superordinate (boss) responsible for his/her career	Takes responsibility for own career
Not accountable for own development	Accountable for own development
Holds view that there is completion of school	Views education as continuous, lifelong
No link between training, performance and business	Sees how learning affects business
Leaves learning to intuition	Makes decision on what to learn
Waits for others to envision future	Envisions own future
No serious sense of urgency	Serious sense of urgency for continuous reinvention
No passion for innovation	Passion for innovation for wealth creation
No sustained efforts for networking	Serious networking efforts
Not seriously competitive	Thrives on healthy competition

Source : Above Table by Prof. Datuk Dr. Ibrahim Ahmad Bajunid, Dean of Faculty of Humanity and Social Sciences, Universiti Tun Abdul Razak, Malaysia — cited in Neela Mehan M.'s article entitled, "HRM in K-Economy", *New Straits Times*, 13 May 2000.

There is an urgent need to build the nation's intellectual capacity, which is needed to increase knowledge content into its exports. To this, Dr. Noordin Sopiee, Head of Malaysia's Knowledge Economy Master Plan, said : "In the years ahead, we must make sure that every factor of production not only works harder, more importantly, every factor of production must be made to work smarter .... we must make sure that we put more K (knowledge) into the P (production)."[2]

K-economy Transition Encompass All Sectors

The transition to a K-economy should encompass all sectors of the economy. Indeed, the public sector should also generate and use knowledge to continually improve its efficiency and effectiveness, which will enhance the competitiveness of the private sector. Also, there should be adequate knowledge workers to meet the country's requirements, as well as attract foreign investors to invest in Malaysia.

Undoubtedly, the transition to the K-economy is a big challenge, which must be satisfactorily tackled. This is well-recognised by Dato Seri Dr. Mahathir Mohamad when he said : "In pursuit of information, knowledge and wisdom, we must be prepared to face reality. We must embrace change, pursue novelty, crave innovation. We must learn. Even harder still, we must unlearn. We must remember to forget old ways. We must force ourselves into new habits. We must build new processes, institutions and organisations that are necessary for the Information Age."[3]

In other words, for Malaysians to thrive, they must be prepared to adopt new ways of thinking and applying it to the way they work and do business.

With e-commerce and e-business fast reshaping commerce and industry, brick-and-mortar organisations will increasingly be forced to adopt or increase technology usage to remain competitive. Coupled with the emergence of New Economy companies, this development will further increase the demand for knowledge workers in the ICT industry.

[2] Asiapulse, "Malaysia Not to Abandon Basic Economic Structure", 28 August 2000 — cited in http://www.skali.com

[3] Dato Seri Dr. Mahathir Mohamad's speech entitled, "Transcending the Divide", Second Global Knowledge Conference (GKII), Kuala Lumpur, 8 March 2000.

The rapid growth of this industry has created ample job opportunities for skilled professionals in several segments of the market. According to Jobstreet.com, an online recruitment outfit, experienced ICT professionals will be in great demand in software development, consulting and project management where ICT is being used to foster expansion and diversification, as well as to increase product quality.[4]

Other recruitment agencies have also identified several areas experiencing a shortage of skilled professionals in the ICT sector such as Web-based technology, mobile Internet, customer relationship management (CRM), call centres, third-generation technology and general packet radio service (GPRS). Besides these technical skills, organisations are also looking for other traits in knowledge workers such as entrepreneurial spirit, motivation, creativity, communication skills and ability to learn new things.

"If I ... can fathom ... all knowledge ... but have not (sacrificial, selfless) love, I am nothing."

Paul from Tarsus in Cilicia

With the demand for skilled professionals outstripping the country's supply, the shortage, if allowed to continue, will hinder the country's progress. This calls for Malaysia to not only prevent the outflow of talents to other countries, but also attract them into the country. There is a need to speed up the process of augmenting the pool of knowledge workers in the country.

K-ECONOMY, WEALTH CREATION AND CREATIVITY

The US, the most powerful economy in the world, relies on ideas as its main source of foreign exchange income. A staggering 42 per cent of US exports are ideas in the form of music, software, books and a plethora of other intellectual capital.

The legendary El Dorado of the American Wild West, where gold is plentiful does exist. However, El Dorado is not a place. It is a state of mind. Ideas are the true gold of El Dorado.

We are now in the knowledge economy where knowledge is accessible to every one. Wealth creation is about adding value to this knowledge through our creativity. An organisation's greatest asset is no longer about physical possession of buildings and machinery, but the collective creativity of its people. For instance, IBM paid US$3.5 billion for Lotus that on paper was worth only US$230 million. Why? Because of the customer base and the creativity of the team that created the best-selling software — Lotus Notes.

We are paying more and more for creativity and imagination and less and less for the materials for the things that we buy. Just consider computer software on compact disks (CDs). The material cost for a blank CD is probably about US$1.00, yet the CD with software may cost US$50,000 or more. The material cost is insignificant. What we are paying for is not material but the imagination contained within the software. That is why, Bill Gates, the richest man in the world got rich by selling to us the imagination of his people.

According to the September 1999 issue of the *Fortune* magazine, the ten richest men in the US under 40 years old created their enormous wealth over a short time by leveraging their creativity over the Internet. More than ever before, wealth creation depends on our ability to leverage creativity and imagination.

However, wealth creation is much more than just software and the Internet. Most business empires were built over a single creative concept alone. General Motors became the world's largest corporation at one time by introducing the concept of instalment payment for car purchases. CNN became the most popular global TV network by introducing the new concept of 24-hour news. Federal Express made its fortune by introducing the innovative concept of overnight delivery.

Source : Dr. Yew Kam Keong, *You Are Creative*, Mindbloom Sdn Bhd, 2000.

Knowledge Workers — Get Them Fast!

Generally, knowledge workers are highly mobile as they are well-equipped with expertise and skills that are easily marketable across countries. Although the Government has in various ways shown its commitment and seriousness towards making the K-economy a reality, it must deal with the issue of 'brain drain' more forcefully.

During the past few decades, Malaysia has lost considerable talents to other countries through migration due to reasons such as more conducive working environment, more competitive remuneration package, perception of equal opportunities, better educational opportunities for children, higher quality of life. In addition, many of the country's best and brightest have been head-hunted to work in other countries, especially in Asian corporations located in China, Hong Kong and Singapore.

There are many areas that the Government and the private sector can work together to make the local environment more conducive for knowledge workers to stay. These include the following :

- Foster a culture of innovation by increasing private R&D spending, promote a spirit of creativity in organisations and provide greater incentives to Malaysians who continuously upgrade themselves in new technical skills.
- Relax immigration policies, in anticipation of greater competition for knowledge workers, especially among knowledge-based economies.
- Promote new businesses through industry clusters, similar to what is done in the US Silicon Valley.
- Develop incentive systems in the public and private sectors that are linked to performance.

Knowledge is Power, but ....

The world's most successful economies are supported by knowledge-driven organi-

[4] Ferina Manecksha and Amie Pardas, "Rising Demand for Tech Professionals", *News Straits Times* (*Computimes*), 8 January 2001.

sations. Without a critical mass of knowledge workers to build a strong foundation of a K-economy, Malaysia will run a great risk of sliding lower in global competitiveness in the future. This must not be allowed to happen.

In response, the Government announced the commissioning of the Knowledge Economy Master Plan last year. The Plan is expected to be launched in March this year. Malaysians eagerly await as to what might be in store in this Plan. Hopefully, the Plan will be the beginning of a reversal in the competitiveness fortune of our country.

Finally, a few words need to be said about maintaining the balance in the excitement over the K-economy concept. Nations should guard against the abuse and misuse of knowledge to impoverish other nations. Both knowledge-rich nations and individuals alike have a social responsibility to their poorer or needy neighbours. Likewise, nations should prevent the abuse of, for example, genetic knowledge to promote eugenics or impose "genetic discrimination against people carrying the 'wrong' DNA ...."[5] That is to say, while knowledge has immense power, that power should be exercised with responsibility and charity.

Note : Robert Khaw is the Senior Manager and Janet Leong is the Assistant Manager in the Technical Department, MIA. The views in this article are the authors' and do not necessarily represent those of the Institute.

[5] *Financial Times*, "Book of Life that Rewrites Existence," 27 June 2000.

SNIPPETS AROUND THE GLOBE

US Macroeconomic Policy Initiatives — Mixed Views

Horst Kohler, managing director of the International Monetary Fund (IMF), has given support to the prospect of tax cuts and further interest rate cuts in the US. "The most immediate task is to safeguard the growth in the world economy," he said. Actions taken to cut the US interest rate in early January and embark on an expansionary fiscal policy in the US, plus the growth-oriented structural reform in Europe and Japan will help the world economy.

The IMF support reflected a change in thinking due to the rapid spread of pessimism about the prospects of the US economy. In July 2000, the IMF had urged the US not to use its budget surplus to cut taxes or increase government spending.

However, Fred Bergsten (Director of the Institute for International Economics) argued that the long-term effects of US President-elect George W. Bush's plan to cut federal taxes would be economically disastrous. New tax cuts would increase government borrowing and therefore put pressure on interest rates, as well as jeopardise continued foreign funding of the external deficit (currently at nearly US$500 billion and rising by about 50 per cent annually for the last three years). He advocated a policy course of relying on further reduction in market and Fed interest rates, pointing out that real US interest rates remain very high and could fall substantially without creating inflationary risks.

Financial Times, 8 & 11 January 2001

Impact of Tax Cut

John Makin, an economist at the American Enterprise Institute, offers an estimate of just how stimulative an income tax rate cut could be. If a US$1 trillion tax cut added, conservatively, one half of one per cent to average annual growth over the next decade, it would lift the underlying average growth rate from 3.5 per cent to four per cent. This increase would add US$3.4 trillion to Gross Domestic Product (a return of 13.1 per cent).

That US$3.4 trillion, according to Makin, would generate US$689 billion in federal revenues, leaving the net revenue reduction at US$311 billion, enough to leave the currently estimated US budget surplus of US$5 trillion intact. This represents an amazing return of 27 per cent a year. (If the cut in tax rates over the next decade boosted average annual growth by 0.7 per cent, the tax rate cuts would result in no loss of federal revenue over the decade.)

Asian Wall Street Journal, 10 January 2001

Will the US Interest Rate Cut Work?

The Federal Reserve 0.5 percentage point cut in its federal funds rate was the first time since the global financial crisis that the Fed had cut rates between regularly scheduled meetings of the policy-making open market committee. And it was the first time in more than eight years that the committee had reduced the cost of borrowing by 50 basis points in one go, instead of the customarily cautious approach of moving a quarter point at a time.

To be sure, changes in the cost of borrowing had occurred with differing success. In 1989, the Fed began cutting rates aggressively as the US economy deteriorated, but it was not enough to forestall recession. In 1995-96 it did act in time, trimming rates just enough to produce a soft landing after the economy had turned down sharply. In 1998, it cut rates three times in two months and prevented a serious financial crisis from turning into a full-blown recession.

The decisive factor on each occasion was the impact on confidence. In 1995 and 1998, the rate cuts — both totalling just 75 basis points of easing — quickly restored flagging morale and faltering demand. In 1989-90, by contrast, the imbalances in the economy were so great and so entrenched that the Fed was unable to avert a collapse in confidence. "Which is it to be this time?", asked Gerard Baker.

Financial Times, 5 January 2001

Japan's Huge Public Debt — A Bigger Threat to Global Financial Stability?

"The risks", Prof. Rudi Dornbusch argued, "are in Japan, where balance sheets beyond repair create the potential for a world financial crisis." The Japanese government has a public sector debt well above 200 per cent of Gross Domestic Debt (GDP), if unfunded pension liabilities are included. The budget deficit is in the range of 6-7 per cent of GDP and there is no pros-

pect of significant reduction. With high and sustained growth absent, there is no chance of stabilising the debt ratio and even less of bringing it down. Exploding debt means higher interest rates and a tendency for savings to look for safety offshore, even in Japan. When that happens, a world financial crisis is not far off, Dornbusch said.

Financial Times, 15 December 2000

Argentina's Financial Crisis on the Mend?

Argentina accounts for up to a quarter of tradable emerging market debt, and a default by the nation on its US$123.5 billion in foreign debt could set off a new round of financial contagion. The crisis back in November-December last year began when investors, worried about the country's ability to continue meeting its payment, steered clear of Argentine debt. That forced it to turn to the IMF for help, which announced a package of public and private sector aid totalling nearly US$40 billion in December last year.

Since the IMF announcement, the premium the country would have to pay to borrow has fallen from a high of nearly 10 per cent over US Treasuries in November 2000 to just over seven per cent currently. Interbank rates, which peaked at over 21 per cent in November last year, have now settled at around seven per cent. The government was also able to auction US$700 million in Treasury bills on 9 January 2001 at far more reasonable rates than it did only a month ago.

Meanwhile, the recent cut in the US interest rates gave a boost to Argentina, while the more than 10 per cent peso depreciation is helping to make the country more competitive. Prices of Argentina's agricultural commodities such as wheat and soya have also begun to recover.

Notwithstanding the above, investors are still concerned about the country's fractious political environment.

Financial Times, 20 December 2000 & 10 January 2001

Different Exchange Rate Systems

Countries open to international capital flows are right to move away from adjustable peg exchange rate systems, Stanley Fischer, the International Monetary Fund's first Deputy Managing Director said. They were doing so not because of pressure from the IMF or the US Treasury, as some alleged, but because "soft peg systems have not proved viable over any lengthy period".

He questioned the view that the only viable regimes were either hard pegs or free floats. His three conclusions "for countries open to international capital flows" are :

- Pegs are not sustainable unless they are very hard.
- A wide variety of flexible rate arrangements is possible.
- Most countries would not be indifferent to exchange rate movements.

These conclusions exclude systems "in which the government is viewed as being committed to defending a particular view of the exchange rate, or a narrow range of exchange rates, but has not made the institutional commitments that both constrain and enable monetary policy to be devoted to the sole goal of defending the parity".

He noted that fewer countries are, in practice, choosing intermediate regimes, while more are on either hard pegs or floating rate regimes. The former includes currency boards, dollarisation or currency unions. The latter include a variety of floating rate arrangements, including managed floating.

The choice between a hard peg and floating "depends in part on the characteristics of the economy and in part on its inflationary history". The argument for dollarisation versus a currency board depends on the gains of greater credibility, versus the loss of seignorage from currency issue and the value of retaining the option of devaluation.

Yet he noted that a peg can still be used "to disinflate from high inflation, without a crisis, but it is important to exit from the peg during the process".

Financial Times, 7 January 2001

When Exactly is a Recession?

"... it will be months — or even years — before economists know for sure if the US has entered (a recession), partly because the definition is fluid," Nicholas Kulish said.

The most common definition of recession is two consecutive quarters of economic contraction. But economist Greg Mankiw argued that "economic growth is sort of more a continuum, there's nothing special about zero." He defined a recession more generally as "a period of declining real incomes and rising unemployment."

For professional economists, the ultimate arbiter of economic peaks and troughs is the US National Bureau of Economic Research's Business Cycle Dating Committee (www.nber.org). Their definition is "a recurring period of decline in total output, income, unemployment and trade, usually lasting from six months to a year, and marked by widespread contractions in many sectors of the economy." In simpler terms, they refer to it as the three Ds : depth, duration and dispersion. That means it cannot just be one part of the economy, and neither can it be too short nor too mild.

Asian Wall Street Journal, 11 January 2001

New Technology, Labour Market and Random Shocks

It is time to prepare for the social and economic uncertainties that new technology may produce, Prof. Robert Shiller at Yale University said. New technology can hurt some individuals by lowering the market value of their labour and other assets, but it can also help others. The resulting swings in individuals' economic well-being could be large. Identifying the risks associated with new technology and developing procedures to minimise those risks is one of the biggest challenges facing our society.

According to Shiller, measures that can be undertaken today to help deal with these uncertainties involve both improvements in government social insurance and innovations in private institutions and markets. "Social security systems around the world need to be reformed to deal appropriately with these genuine risks .... to cope with possible significant changes in the distribution of income," he asserted. "The plans", he added, "must be integrated worldwide to account for the increase in the international mobility of labour."

Financial Times, 12 January 2001

The World's Most Respected Companies

Year 2000 global survey of the most respected companies reflected the staying power of established corporations, the Financial Times/PricewaterhouseCoopers poll revealed (see table).

In five year's time, many of the businesses that top the year 2000 list will still be there, CEOs who were polled reckoned.

The companies that will make it to the 2005 list shared a number qualities, although in some cases to varying degrees : current market presence including industry dominance and icon stature; company's ability to perform well including year-on-year growth rates and increasing shareholder value; vision and innovation; business strategy; product portfolio; company's ability to adapt or diversify; company's leadership and management; ethical and social responsibility; good customer service. Bringing up the rear, factors such as global reach, marketing and organisational structure were also mentioned, but reckoned to have much less impact on future success.

Given the rapid and continuing growth of information technology and telecommunications industries, it is no surprise to find that companies from these sectors take up 40 per cent of the nominations for the world's most respected companies in 2005. Engineering companies make up the third largest category, with 12 per cent of the total nominations, while electrical, financial and food/beverage companies each secured eight per cent.

Financial Times, 15 December 2000

Note : The above snippets were compiled by Robert Khaw, Senior Manager, Technical Department, MIA.

Rank 2000	Rank 1999	Rank 2005*	Company	Country	Sector
1	1	2	General Electric	US	Electrical/Electronics
2	2	1	Microsoft	US	IT
3	6	6	Sony	Japan	Consumer Goods
4	3	4	Coca-Cola	US	Food/Beverages
5	4	5	IBM	US	IT
6	10	10	Toyota	Japan	Engineering
7	—	3	Cisco Systems	US	IT
8	12	9	Intel	US	IT
9	15	—	3M	US	Consumer Goods
10	17	—	General Motors	US	Engineering
11	=13	8	Nokia	Finland	Electrical/Electronics
12	5	13	DaimlerChrysler	Germany	Engineering
13	=36	43	Procter & Gamble	US	Food/Beverages
14	—	—	Berkshire Hathaway	US	Financial
15	19	—	McDonald's	US	Media/Leisure
16	8	24	Nestle	Switzerland	Food/Beverages
17	—	—	JP Morgan	US	Financial
18	—	—	Nike	US	Consumer Goods
19	7	11	Dell	US	IT
20	9	15	Wal-Mart	US	Retail
21	—	=16	Vodafone	UK	Telecoms
22	24	=16	Citigroup	US	Financial
=23	28	22	BP	UK	Energy/Chemicals
=23	21	26	Royal Dutch/Shell	Netherlands/UK	Energy/Chemicals
25	=38	—	Honda	Japan	Engineering
26	31	21	Amazon.com	US	Retail
27	=41	27	Siemens	Germany	Electrical/Electronics
=28	—	—	Virgin	UK	Transport
=28	=41	—	L'Oreal	France	Consumer Goods
30	=32	=28	SAP	Germany	IT
=31	=13	=37	DuPont	US	Energy/Chemicals
=31	18	—	ABB	Switzerland/Sweden	Engineering
33	25	36	Disney	US	Media/Leisure
34	=38	=37	AIG	US	Financial
35	11	34	Hewlett-Packard	US	IT
36	—	14	Sun Microsystems	US	IT
37	20	=40	Unilever	Netherlands/UK	Food/Beverages
38	27	—	Goldman Sachs	US	Financial
39	—	23	Pfizer	US	Healthcare
40	=32	33	Airbus Industrie	France/Germany/ UK/Spain	Engineering
41	—	19	Oracle	US	IT
42	=38	—	Exxon Mobil	US	Energy/Chemicals
43	=29	30	Ford	US	Engineering
44	—	—	Matsushita Electric	Japan	Electrical/Electronics
45	—	—	Boeing	US	Engineering
46	16	12	Merck	US	Healthcare
=47	—	—	Philip Morris	US	Food/Beverages
=47	46	—	Axa	France	Financial
49	—	—	UPS	US	Transport
50	—	7**	America Online	US	IT
—	—	18	Yahoo	US	IT
—	—	20	NTT	Japan	Telecoms
—	—	25	General Motors	US	Engineering
—	—	=28	AT&T	US	Telecoms
—	—	31	Vivendi	France	Utilities
—	—	32	Deutsche Telekom	Germany	Telecoms
—	—	35	Glaxo Wellcome/ Smithkline Beecham	US	Healthcare
—	—	=37	Ericsson	Sweden	Electrical/Electronics
—	—	=40	Lucent Technologies	US	Telecoms
—	—	42	Alcoa	US	Resources
—	—	=44	Telefonica	Spain	Telecoms
—	—	=44	HSBC	UK/HK	Financial
—	—	46	Merrill Lynch	US	Financial
—	—	47	Volkswagen	Germany	Engineering
—	—	=48	BT	UK	Telecoms
—	—	=48	WorldCom	US	Telecoms
—	—	=48	Compaq	US	IT

* Companies that CEOs believe will be the most respected in five years' time.

** America Online/Time Warner. (The Federal Communications Commission gave its approval — with some conditions — on 11 January 2001 to the AOL-Time Warner deal, following approvals from the Federal Trade Commission and European Union regulators. Reported in *The Sun*, 14 January 2001.)

STRENGTHENING THE CAPITAL MARKET

The Malaysian Institute of Accountants (MIA) fully supports the revamped requirements for listing on the Kuala Lumpur Stock Exchange (KLSE). The Institute is pleased to note that its recommendations, in particular pertaining to corporate governance and audit committee, have been incorporated in the changes adopted.

The following is a summary of the key changes to the listing requirements. You are, however, advised to refer to the full text of the listing requirements for the purpose of compliance.

Previous Listing Requirements	Revamped Listing Requirements
General	
There were two sets of requirements, i.e. the Main Board Listing Requirements (MBLR) which are applicable to the Main Board companies and the Second Board Listing Requirements (SBLR) which are applicable to Second Board companies.	■ There is now only one set of requirements applicable to companies listed either on the Main Board or the Second Board. ■ The provisions have been streamlined and rearranged into appropriate sections to facilitate easy reference and understanding, thereby making the revamped Listing Requirements more user friendly.
■ There is a requirement for the submission of a listing application and supporting documents to the Exchange. ■ The timeframes in relation to rights and bonus issues have been prescribed.	■ The listing documentation has been simplified. This includes an abbreviation of the listing application as well as the removal of the requirement to submit certain documents. ■ These timeframes have been shortened. These provisions have already been implemented in advance of the implementation of the revamped Listing Requirements to cater for electronic management of provisional allotment letters.
Corporate Governance	
There are provisions requiring public listed companies to appoint independent directors and to have audit committees.	The provisions relating to corporate governance have been significantly enhanced and there is now a chapter dedicated to corporate governance. In drawing up some of the provisions of this chapter, the recommendations of the Finance Committee on Corporate Governance have been taken into consideration. Some of the material details are as follows :
■ New requirement	■ Public listed companies must disclose in its annual reports, its application of and compliance with principles and best practices of the Malaysian Code of Corporate Governance.
■ New requirement	■ Public listed companies must also make a statement in their annual reports on the state of internal control of their companies on a group basis. In this regard, the Taskforce on Internal Control, which was established by the KLSE in May 2000, would soon be issuing a guidance to assist directors of public listed companies in making this disclosure.
■ The previous requirement states that public listed companies must have at least two independent directors. The definition of independent director excludes certain persons from being eligible to be appointed as independent director.	■ Public listed companies must ensure that at least one-third of their board of directors consists of independent directors who fulfil the strict requirements of independence pursuant to the revamped Listing Requirements. The definition of an "independent director" has been clarified and enhanced. The categories of persons who have been expressly excluded from being eligible to act as an independent director have been expanded. The additional exclusions include, amongst others, major shareholders, relatives of an executive director or major shareholder or professional advisers of the listed company. In addition, an independent director has to also satisfy a general test of independence from management, any busi-

Previous Listing Requirements	Revamped Listing Requirements
	ness or other relationship which could interfere with the exercise of independent judgement or the ability to act in the best interests of the public listed company.
■ New requirement	■ All directors of public listed companies are required to furnish undertakings to the KLSE to comply with the Listing Requirements of the KLSE. Independent directors must confirm their "independence" in writing to the Exchange.
■ The role of the audit committee includes review of financial results, internal audit and related party transactions.	■ The role of the audit committee has been enhanced to include, amongst others, review of conflict of interest situations that may arise within the public listed company or its group of companies.
■ New requirement	■ The composition of the audit committee has been strengthened to include a person who must be a member of the Malaysian Institute of Accountants or if he is a non-member, he must fulfil the specific requirements set out in the revamped Listing Requirements.
■ New requirement	■ Public listed companies are also required to make enhanced disclosure in their annual reports on the activities of their audit committees.
■ New requirement	■ The rights of directors and audit committee members have been expressly set out. This includes access to information and professional advice.
■ New requirement	■ All directors of public listed companies are required to attend training programmes prescribed by the Exchange. These programmes consist of the mandatory accreditation programme and the continuing education programme. The details of the requirements for attendance of training programmes will be prescribed by way of a Practice Note.
Transparency	
There are provisions on disclosure which covers, amongst others the following : ■ Corporate Disclosure Policy; ■ immediate announcements; ■ periodic disclosures; and ■ financial reporting.	Disclosure requirements are significantly enhanced. These enhancements include clarifications of existing disclosure requirements, insertions of additional disclosures and prescription of standards of disclosure and minimum contents of disclosure. The details of some of the enhancements are as follows :
■ The Corporate Disclosure Policy and the specified events of immediate disclosures are set out.	■ The existing Corporate Disclosure Policy (CDP) has been strengthened. A more prescriptive approach has been taken in amending the provisions of the CDP to ensure that all material information is disclosed to the market on a timely basis. The events which require immediate announcements by public listed companies have also been expanded to include, material developments to corporate proposals previously announced and purchases or sales of quoted securities.
■ A standard of disclosure for announcements is prescribed.	■ The standard of disclosure for contents of announcements has been strengthened. The requirement includes a requirement for revenue or profit estimate, forecast or projection to be reviewed by external auditors of the accounting bases and calculations and assumptions.
■ New requirement	■ Similarly a standard of disclosure has also been prescribed for the contents of circulars to be sent to shareholders. This ensures that the circulars contain accurate and adequate information to aid informed investments.
■ New requirement	■ The Listing Requirements impose a responsibility on the advisers, in addition to public listed companies, to ensure that announcements and circulars issued by public listed companies meet the standards of disclosures prescribed by the Listing Requirements.
■ New requirement	■ The Listing Requirements also impose obligation on all public listed companies, their advisers or directors to ensure that any information that is submitted to the Exchange pur-

Previous Listing Requirements	Revamped Listing Requirements
	suant to the Listing Requirements is clear, unambiguous, accurate, does not contain any material omission and is not false or misleading.
■ There is a list of matters which must be included in the annual reports of public listed companies.	■ The disclosure required in the annual reports of public listed companies has been enhanced. Some of the additional disclosures required in addition to those mentioned above are as follows :
• New requirement	• remuneration of directors, i.e. aggregate remuneration with categorisation into appropriate components, and in successive bands of RM50,000 distinguishing between executive and non-executive directors;
• New requirement	• particulars of sanctions and/or penalties imposed on the public listed company by relevant regulatory bodies;
• New requirement	• total number of board meetings held during the financial year; and
• New requirement	• amount of non-audit fees paid to external auditors.
■ Generally, only the minimum contents of announcement in relation to transactions have been prescribed. There is no prescription of minimum contents of circulars.	■ The minimum contents of certain documents, such as announcements and circulars have been prescribed to promote consistent and adequate disclosure.
■ New requirement	■ Public listed companies will be required to make announcements of certain dealings in quoted securities.
	■ The Listing Requirements provides that the statutory declaration that accompanies the annual audited accounts must be signed by a member of the Malaysian Institute of Accountants or if he is a non-member, he must fulfil the criteria specified under the Listing Requirements.
Enforcement Actions	
Enforcement actions in respect of breaches of the Listing Requirements may only be taken against the public listed company.	■ The scope of enforcement actions in respect of breaches of the Listing Requirements has been expanded to empower the KLSE to take enforcement action against directors and advisers for breaches of the Listing Requirements. Enforcement actions may be taken against directors in the following circumstances :
	• Where a listed issuer has breached a Listing Requirement, enforcement action may be taken against a director of that listed issuer if he : a. caused, aided or abetted the breach by the listed issuer; or b. permitted either knowingly or where had reasonable means to obtaining such knowledge, the listed issuer to commit the breach.
	• Enforcement action may also be taken against a director for breach of a specific obligation placed on the director personally under the Listing Requirements. An example is if the director does not abstain from voting in a resolution when he is required to do so under the Listing Requirements.
	■ The type of penalties that may be imposed has been expanded to cater for advisers, directors and other persons to whom the Listing Requirements are directed.
	■ The Exchange has been vested with additional powers to facilitate its enforcement actions, such as power to require production of documents for inspection and to require attendance of relevant persons for interview in the course of its investigation.
Continuing Listing Obligations	
There are provisions relating to continuing listing obligations.	The continuing listing obligations contained in the Listing Requirements have been enhanced. The salient enhancements include :
■ New requirement	■ A provision requiring public listed companies to have financial condition and level of operations that, in the opinion of the KLSE, would be sufficient to justify continued trading and/or listing on the KLSE.
■ There is provision regulating financial	■ The provision relating to grant of financial assistance by public listed

Previous Listing Requirements	Revamped Listing Requirements
assistance granted to unrelated third parties.	companies and their subsidiaries has been enhanced. This provision regulates the grant of financial assistance, such as loans, guarantees, indemnities or provision of collateral for a debt, and subjects them to stringent requirements. A public listed company and its subsidiaries are only permitted to grant financial assistance to persons who are permitted under the revamped Listing Requirements.
Transactions	
There are provisions relating to transactions entered into by public listed companies which require them to make announcement, issue information circulars and/or obtain shareholders' approval, depending on the materiality and type of transaction entered into.	Provisions regulating transactions entered into by public listed companies have been clarified and strengthened.

Previous Listing Requirements	Revamped Listing Requirements
■ The same definition of "transactions" is applicable to related and non-related party transactions.	■ There is a distinction between transactions which are non-related party and related party transactions. Non-related party transactions (i.e. transactions not involving interests of directors, major shareholders or persons connected with them) are defined more narrowly to include acquisitions or disposals of assets, but exclude transactions of a revenue nature in the ordinary course of business. On the other hand, related party transactions are defined more widely to include amongst others, provision of financial assistance and provision or receipt of services. ■ The Exchange has prescribed the minimum contents of announcement or circular in relation to transactions entered into by public listed companies and this includes the minimum contents of information for various types of transactions such as joint ventures or acquisitions or disposals of construction companies.

QUESTIONS AND ANSWERS RELATING TO THE LISTING REQUIREMENTS OF THE KUALA LUMPUR STOCK EXCHANGE

GENERAL

1 *What are the objectives in revamping the Main Board and Second Board Listing Requirements (MBLR & SBLR)?*

The key objectives of the revamp are to :

- enhance corporate governance and transparency;
- enhance efficiency in capital market activities;
- strengthen investor protection; and
- promote investor confidence.

In line with these objectives, the following was undertaken :

- strengthening provisions in areas relating to disclosure, corporate governance, continuing listing obligations, financial reporting and protection of minority shareholders;
- codifying unwritten rules and procedures relating to listed issuers;
- simplifying procedural requirements and processes;
- clarifying requirements and removing ambiguities; and
- adopting global trends and standards in listing rules, where applicable.

2 *Are the Listing Requirements applicable to companies listed on the Main Board as well as the Second Board?*

Yes. The Listing Requirements are applicable to all companies listed on the Main Board as well as Second Board. In fact, one of the objectives of the revamp is to produce one rulebook that is applicable to both the Main Board and Second Board companies. It is mandatory for companies listed on either the Main Board or the Second Board to comply with the Listing Requirements.

3 *Is the format of the Listing Requirements different from the previous MBLR and SBLR?*

Yes. Some of the salient changes are as follows :

- "Parts" are now referred to as "Chapters".
- "Sections" or "Clauses" are now referred to as "paragraphs".
- There are now 16 Chapters compared to the previous 13 Parts.
- Each Chapter relates to a specific topic.
- All admission requirements have been set out in two Chapters, i.e. Chapters 3 and 4.
- All requirements relating to new issues of securities, such as rights or bonus issues or issues of debt securities or convertible securities have been set out in one Chapter, i.e. Chapter 6.

4 *Does the Listing Requirements incorporate the existing MBLR and SBLR?*

Yes, the Listing Requirements do incorporate most of the existing provisions of the MBLR and SBLR in substance. However, the Listing Requirements are not a rehash of the existing MBLR and SBLR and every effort should be taken to familiarise oneself with the provisions therein. Existing provisions from the MBLR and SBLR were amended, re-worded and in some instances deleted. A significant number of new provisions have also been incorporated in line with the objectives of the revamp.

5 *When will the Listing Requirements take effect?*

With the exception of the provisions stated under Table A below, the Listing Requirements will take effect from 1 June 2001. The provisions stated under Table A will take effect from 15 February 2001.

6 *Has the Exchange identified provisions for which timeframes for compliance would be given?*

Yes, the Exchange has identified certain provisions for which timeframes for compliance would be given. These provi-

TABLE A Effective Dates for the Listing Requirements

Chapter 1
The definitions of terms used in provisions of the Listing Requirements, which have taken effect in accordance with this Table A, shall apply accordingly.
Chapter 8
■ Paragraph 8.14 – Financial condition ■ Paragraph 8.23 – Provision of financial assistance *Note* : During the period between 15 February 2001 and 31 May 2001 (inclusive of 31 May 2001), any reference to paragraph 10.08 in paragraph 8.23 shall be taken to refer to section 118 of MBLR or clause 5.8 of SBLR, as the case may be. As such, during this period, listed issuers must comply with section 118 of MBLR or clause 5.8 of SBLR, as the case may be instead of paragraph 10.08.
Chapter 15
■ Paragraph 15.09 – Directors' training
Chapter 16
■ Paragraph 16.02(d) – Suspension of trading imposed by the Exchange ■ Paragraph 16.09(b) – De-listing by the Exchange

sions, together with the timeframes and other relevant obligations are set out in Table B below.

7 *Will all the existing MBLR and SBLR provisions continue to be in force? If so, for how long?*

All existing MBLR and SBLR provisions save for the provisions set out in Table C (on page 36) will continue to be in force until 31 May 2001. The provisions in Table C are deleted with effect from 22 January 2001.

8 *Will the existing Practice Notes, i.e. Practice Note No 1/1998 on Year 2000 Disclosure, Practice Note No 2/1998 on Default in Payment, Practice Note No 1/1999 on Requests for Suspension and Practice Note No 1/2000 on Disclosure in Relation to Internet-Related Businesses or E-Commerce Activities continue to be in force?*

Yes, the existing Practice Notes will continue to be in force until 31 May 2001. With effect from 1 June 2001, these existing Practice Notes will either be repealed or renumbered and modified pursuant to the Listing Requirements.

9 *What is the common requirement appearing throughout the Listing Requirements*

TABLE B Periods for Compliance with Certain Provisions of the Listing Requirements

Chapter/Paragraph	Periods for compliance and other obligations
Chapter 7 — Articles of association	All listed issuers who are subject to the requirements of this Chapter will be required to amend their articles of association to comply with this Chapter no later than 31 January 2002.
Paragraph 7.28 — Election of directors	With respect to contracts between a Managing Director (MD) and a listed issuer entered into prior to 1 June 2001, this requirement need not be adhered to if such adherence would result in the listed issuer being in breach of the contract with the MD. Where MDs of listed issuers do not retire in accordance with the requirements of paragraph 7.28; listed issuers must make disclosure in their annual reports of this fact and also the reasons thereof.
Paragraph 9.27 — Statutory declaration in relation to accounts	All listed issuers must ensure that the statutory declaration accompanying their annual audited accounts for the financial years ending on or after 31 December 2001 shall be signed by a person who fulfils the requirements of paragraph 9.27.
Paragraph 10.09 — Recurrent Related Party Transactions of a Revenue Nature	In respect of related party transactions that are referred to under subparagraph 10.09(1), all listed issuers must ensure strict compliance with paragraph 10.08 except where a general mandate is procured pursuant to paragraph 10.09. As a transitional measure, in respect of related party transactions referred to under subparagraph 10.09(1), listed issuers are allowed up to 31 January 2002 to procure the general mandate and effective 1 February 2002, listed issuers that do not have a general mandate in respect of the related party transactions referred to under subparagraph 10.09(1) must strictly comply with the requirements of paragraph 10.08.
Paragraph 15.02 — Composition of the board of directors	All listed issuers must comply with paragraph 15.02 no later than 31 July 2001.
Paragraph 15.10(1)(c) — Composition of audit committee	All listed issuers must comply with paragraph 15.10(1)(c) no later than 31 July 2001.
Paragraph 15.19 — Quorum of audit committee	All listed issuers must comply with paragraph 15.19 no later than 31 July 2001.
Paragraph 15.26 — Disclosure pursuant to the Code (on Corporate Governance)	All listed issuers with financial years ending after 30 June 2001 must ensure that their annual reports comply with paragraph 15.26. However, all listed issuers are encouraged to make the disclosure pursuant to paragraph 15.26 in respect of their annual reports for financial years that end on or before 30 June 2001.
Paragraph 15.24 — Review of statement (on internal control by external auditors)	All listed issuers with financial years ending after 31 December 2001 must ensure that their annual reports comply with paragraph 15.27(b) (and thereby, also ensure compliance with paragraph 15.24).
Paragraph 15.27(b) — Additional statements by the board of directors (on the state of internal control of the listed issuer as a group)	However, all listed issuers are encouraged to make the disclosure pursuant to paragraph 15.27(b) on a voluntary basis in respect of their annual reports for financial years that end on or before 31 December 2001.

TABLE C Deletions of Existing Provisions of the Main Board Listing Requirements and Second Board Listing Requirements

Parts/sections/clauses deleted	Effective Date(s)
Prospectuses Section 2(5) of MBLR Section 11 of MBLR and clause 1.13 of SBLR Parts 6 and 7 of MBLR and SBLR respectively	22 January 2001
Abridged prospectuses Parts 7 and 8 of MBLR and SBLR respectively	22 January 2001
Loan securities Section 3(1) and (3) of MBLR and clause 1.4 of SBLR Parts 9 and 10 of MBLR and SBLR respectively	22 January 2001
Property trust units Section 329(1) to (3), (5) and (9) of MBLR Section 350 of MBLR Section 351 of MBLR Section 352 of MBLR Section 353 of MBLR Section 375 of MBLR Section 383 of MBLR	22 January 2001

with regard to the submission of documents to the Exchange for perusal?

Every submission of a document to the Exchange for perusal must be accompanied by a checklist showing compliance with the relevant requirements of the Listing Requirements.

CHAPTER 1, Definitions

10 *Which are the definitions in Chapter 1 that will take effect on 15 February 2001?*

The definitions that will take effect on 15 February 2001 are limited to those that are used in the provisions that will take effect on 15 February 2001, i.e. paragraphs 2.08, 8.14, 8.23, 15.09, 16.02(d) and 16.09(b). The application of these definitions is limited only to the provisions of the Listing Requirements and will not be applied to the provisions of the MBLR or SBLR.

11 *The term "adviser" also includes "any other person who, acting in the capacity of an adviser, presents, submits or discloses an application, a circular or any other document to the Exchange on behalf of an applicant or a listed issuer." Would this definition also include valuers, accountants or advocates and solicitors who act for a listed issuer but do not file or submit any application, circular or other document to the Exchange on behalf of such listed issuer? Such valuer, accountant or advocate and solicitor may merely provide a report or opinion that forms part of an application, circular or other document submitted to the Exchange.*

Valuers, accountants or advocates and solicitors who do not file or submit any application, circular or other document to the Exchange on behalf of a listed issuer will not be considered an "adviser" under the Listing Requirements. If, at any time, such valuers, accountants or advocates and solicitors act for a listed issuer, inter alia, by submitting an application, circular or other document directly to the Exchange on behalf of an applicant or a listed issuer, they would be considered "advisers" pursuant to the Listing Requirements.

12 *Are advisers required to file undertakings with the Exchange?*

Yes, advisers are required to file undertakings with the Exchange. (Please refer also to questions 21 and 22)

13 *Would a director who is currently acting as an "independent director" have to resign from office as a director if he does not comply with the new definition of "independent director"?*

If the director is not an independent director according to the new definition, he cannot continue to act as an independent director on or after 31 July 2001. Whether he needs to resign or not as a director of the company is a separate issue. The Listing Requirements do not prohibit such persons from continuing to act as a directors.

14 *Where the Listing Requirements specify that a transaction requires the approval of shareholders, would ratification of the transaction by the shareholders be acceptable?*

No. A listed issuer must ensure that approval of shareholders, where required, be obtained prior to completion of the transaction.

CHAPTER 2
Application of these Requirements

15 *If a listed issuer breaches a requirement set out in a Practice Note, will it be in breach of the Listing Requirements?*

Yes. Practice Notes form part of the Listing Requirements. Hence, if it were a requirement which must be complied with, a listed issuer that fails to comply with it would be in breach of the Listing Requirements and would be subject to enforcement action by the Exchange.

16 *What should be contained in a "letter of compliance" referred to in Part C of Chapter 2 and to whom shall the "letter of compliance" be addressed?*

A "letter of compliance" must be addressed to the Exchange and should confirm that the provisions of the document to which it relates, comply with the Exchange's Listing Requirements and the Rules of the Malaysian Central Depository Sdn Bhd (MCD).

17 *Can a listed issuer provide a letter of compliance which contains certain qualifications, for example, that generally a particular document complies with the Listing Requirements except for a few provisions, which are specifically set out in the letter of compliance itself?*

Listed issuers must ensure that the articles of association, trust deed, deed poll or bylaws of a share scheme for employees and any amendments in relation to them comply with the Listing Requirements. As such, a letter of compliance must not contain any qualifications. The letter of compliance must state that the whole document complies with the Exchange's Listing Requirements and the Rules of the MCD.

18 *Who should write the letter of compliance?*

The letter of compliance must be written by a person with legal qualifications provided that in circumstances set out below, it may be written by the following additional persons :

a. in the case of bylaws of a share scheme for employees (and any amendment thereto), by the listed issuer's advisers; and

b. in the case of an amendment to the articles of association, by the listed issuer's advisers or its company secretary.

19 *Can the in-house legal adviser of a listed issuer write the letter of compliance to the Exchange?*

Yes, the in-house legal adviser of a listed issuer may write the letter of compliance to the Exchange.

20 *Has the Exchange prescribed an "electronic medium" to be used by a listed issuer or its advisers for provision of information to the Exchange pursuant to paragraph 2.12?*

Yes, currently the Exchange has prescribed the usage of an electronic medium only for one category of information to be provided to the Exchange, namely, announcements to the KLSE. In this regard, the electronic medium to be used is the KLSE LINK, which was launched on 8 October 1999.

21 *Would an adviser have to file an undertaking each time it acts for a client who is a company listed on the Exchange?*

No, the adviser has to file only one undertaking. Such an undertaking will be applicable for all clients. The form of the undertaking has been prescribed in Appendix 2A.

22 *When must an adviser file an undertaking with the Exchange?*

An adviser must file an undertaking with the Exchange prior to submission of documents to the Exchange. As explained under question 21, an adviser needs to file only one undertaking with the Exchange. All merchant banks and stockbroking companies which have been approved to act as advisers may file undertakings immediately. In any event, such undertakings should be filed no later than 1 June 2001 to ensure that there is no disruption to the submissions of documents by the adviser to the Exchange when the Listing Requirements come into effect.

23 *If a listed issuer were a property trust which has no legal personality, how does it ensure compliance with the Listing Requirements?*

If a listed issuer were a property trust, the management company of the property trust must ensure that the property trust complies with the Listing Requirements.

CHAPTER 3, Admission

24 *Are there changes to the admission criteria compared to the previous requirements?*

The admission criteria set out in MBLR or SBLR have been superseded by the requirements of the Securities Commission (SC) as contained in SC's Policies and Guidelines for Issue/Offer of Securities ("the Issues Guidelines"). The amendments to the admission criteria in the Listing Requirements are merely updates to ensure that the requirements are consistent with SC's requirements for admission.

25 *Have the procedures for admission in the Listing Requirements been changed?*

Yes, but the amendments are merely to clarify the steps, codify the existing practices and be consistent with the changes in law.

26 *Does an existing listed issuer have to provide a new undertaking in the form of Appendix 3B?*

No, existing listed issuers do not have to provide a new undertaking in the form of Appendix 3B where undertakings in the form of Appendix 1 under MBLR or SBLR had been given previously.

27 *Has the requirement for at least 2 independent directors in the board of directors of an applicant or a listed issuer been changed?*

Yes, the requirement now states that the applicant or listed issuer must ensure that at least 2 directors or 1/3rd of its board of directors, whichever is higher, are independent directors. For example, where a board consists of 11 directors, at least 4 must be independent directors.

28 *Has the definition of "independent director" been changed?*

Yes, it has been clarified and expanded. The definition is now contained in Chapter 1. It must be noted that even if a director was not excluded from being an "independent director" by virtue of not falling under any of the categories stated in the definition, he is nevertheless subject to the general requirement that he must be "independent of management and free from any business or other relationship which could interfere with the exercise of independent judgement or the ability to act in the best interests of an applicant or listed issuer."

29 *Is there an increase in the fees payable to the Exchange such as listing fees or perusal fees?*

No, the fees remain the same.

30 *What are the sectors prescribed by the Exchange under paragraph 3.18?*

The sectors have already been prescribed by the Exchange. They are as follows :

Main Board	Second Board
Industrial Products	Industrial Products
Consumer Products	Consumer Products
Construction	Construction
Trading/Services	Trading/Services
Property	Property
Finance	Plantation
Hotel	Technology
Plantation	
Mining	
Infrastructure Project Companies	
Closed-end Funds	
Property Trusts	
Technology	

31 *What are the criteria to be applied by listed issuers for the purpose of classification into the sectors set out above?*

The criteria will be prescribed by the Exchange under a Practice Note, which will be issued soon.

CHAPTER 4, Special Requirements for Specific Applicants

32 *Are all the requirements in this Chapter new?*

They are based primarily on SC's existing Guidelines for infrastructure project companies, closed-end funds, foreign-based companies and property trust funds. The requirements for property trust funds were modified based on the Exchange's requirements in the MBLR.

33 *There appears to be no requirement for the infrastructure project companies, closed-end funds and foreign-based companies to provide undertakings provided in this Chapter. Does it mean that such companies do not need to provide any undertakings at all?*

Such companies must provide undertak-

ings to the Exchange in the same way as other types of companies. The requirements in this Chapter are to be complied with in addition to the requirements in Chapter 3. If there is a requirement in this Chapter which conflicts with the requirements in Chapter 3, the requirements in this Chapter shall prevail.

CHAPTER 5, Call Warrants

34 *Are the provisions in this Chapter new and different from the guidelines issued by SC in relation to call warrants?*

The provisions are clarified and streamlined versions of previous Guidelines issued by the Exchange for the issue and trading of call warrants and are consistent with SC's guidelines.

35 *Does an issuer of call warrants and its directors have to provide any undertakings to the Exchange?*

An issuer of call warrants has to furnish to the Exchange an undertaking in the form as prescribed in Appendix 5C while its directors are to provide undertakings in the form as prescribed in Appendix 5D.

36 *Does a director of an issuer of call warrants have to provide a statutory declaration on the number of directorships he holds in listed and non-listed companies?*

No, he does not have to provide such declaration as the restriction on the number of directorships that may be held by a director of a listed issuer does not apply to him.

37 *Does an issuer of call warrants have to comply with the provisions relating to corporate governance, for example, the requirement to set up an audit committee?*

No. Although an issuer of call warrants is nevertheless encouraged to maintain good corporate governance in its company, it is not required to comply with the provisions on corporate governance as set out in Chapter 15.

38 *Does an issuer of call warrants have any other continuing listing obligations apart from those stated in this Chapter?*

As stated in this Chapter, apart from Chapters 1, 2 and 16, the rest of the Listing Requirements do not apply to an issuer of call warrants.

CHAPTER 6
New Issues of Securities

39 *Have the procedures for admission of new securities been changed?*

Yes, but the amendments are merely to clarify the steps, codify the existing practices and be consistent with the changes in law.

40 *The minimum information that is to be disclosed in an announcement or circular in relation to a new issue of securities has been prescribed. Would a listed issuer be in compliance with the disclosure requirement if it were to merely comply with the minimum content of information prescribed?*

No, it would not be sufficient to comply only with the minimum content of information prescribed under the Listing Requirements. A listed issuer must make an assessment and disclose all material information in the announcement or circular, as the case may be, in compliance with the standard of disclosure prescribed under paragraphs 9.16 and 8.11 respectively.

41 *It is noted that Chapter 6 has been segregated into various Parts dealing with various modes of new issues of securities, for example rights, bonus, share schemes for employees, issues of debt securities and convertible debt securities. If a listed issuer were to undertake a rights issue, does it have to comply only with Part F on Rights Issues?*

No, the requirements in Part F are to be complied with in addition to the other applicable requirements in the other Parts of this Chapter. So long as a particular provision is applicable, a listed issuer must comply with it. For example, the procedures provided in the Listing Requirements for a new issue of securities are the same for all modes of new issues and these are set out in Part C.

42 *Does a listed issuer still have to write to the Exchange for a waiver from having to convene an extraordinary general meeting to obtain its shareholders' approval if it were to issue securities not exceeding 10 per cent of its issued capital?*

In the abovestated situation, a listed issuer that has a valid resolution pursuant to section 132D of the Companies Act 1965 does not have to apply for a waiver to convene an extraordinary general meeting to obtain its shareholders' approval provided that paragraph 6.10 is complied with.

CHAPTER 7
Articles of Association

43 *Would a listed issuer have to amend its articles of association immediately to reflect the changes contained in this Chapter?*

As stated in the timetable set out under Question 6, listed issuers must effect the changes to their articles of association no later than 31 January 2002.

44 *Would a listed issuer be required to comply with the applicable provisions in this Chapter only after it has effected the changes to its articles of association as stated above?*

A listed issuer who may not have effected the changes to its articles of association with effect from 1 June 2001, must nevertheless still comply with the applicable provisions of Chapter 7 with effect from 1 June 2001.

45 *If a listed issuer has entered into an agreement with its managing director prior to 1 June 2001 to engage him as its managing director for a period of five years, would the listed issuer be required to ensure that notwithstanding this agreement, the managing director must retire from office at least once in each three years?*

No. With respect to a contract between a managing director and a listed issuer entered into prior to 1 June 2001, the requirement under paragraph 7.28 that all directors shall retire from office once at least in each three years, need not be adhered to if such adherence would result in the listed issuer being in breach of the contract with the managing director. However, where managing directors of listed issuers do not retire in accordance with the requirements of paragraph 7.28, listed issuers must make disclosure in their annual reports of this fact and also the reasons thereof.

46 *In the case of a managing director, would the 3-year period referred to under paragraph 7.28 to hold office commence only on 1 June 2001?*

No. When paragraph 7.28 takes effect on 1 June 2001, the 3-year period is taken to commence from the time the managing director was last appointed. For example, if as at 1 June 2001, a managing director has already served for 4 consecutive years, he should be required to retire at the next annual general meeting of the listed issuer following 1 June 2001. This is on the as-

sumption that by requiring him to do so, the listed issuer would not be in breach of its contract with the managing director. If however, on the same assumption, as at 1 June 2001, a managing director has served only two years, he may continue to serve for another year, before being required to retire.

47 *If a listed issuer amends its articles of association and has paragraph 7.38 of the Listing Requirements contained in it, would it still have to amend its articles of association each time a relevant provision in Chapter 7 is amended?*

No. If a listed issuer has paragraph 7.38 of the Listing Requirements in its articles of association, it may opt not to amend its articles of association each time a relevant provision in Chapter 7 is amended.

CHAPTER 8
Continuing Listing Obligations

48 *Is there a change in the requirement to submit annual returns?*

The requirement has been increased in relation to frequency of reporting. Semi-annual returns have to be submitted i.e. twice in a year as at 30th June and 31st December and within two months therefrom. The detailed contents of the semi-annual returns will be prescribed under a Practice Note, which will be issued soon.

49 *When does a listed issuer have to propose a change in its classification pursuant to paragraph 8.03(1) of the Listing Requirements?*

The circumstances in which a listed issuer must propose a change in its classification pursuant to paragraph 8.03(1) of the Listing Requirements will be prescribed by the Exchange under a Practice Note which will be issued soon.

50 *Is there a deadline for directors of listed issuers to submit their undertakings as per Appendix 3C?*

Yes. Directors of listed issuers must submit their undertakings to the Exchange no later than 15 June 2001. In respect of directors who are appointed after 1 June 2001, the undertakings must be submitted within 14 days from the date of their appointment.

51 *Must property trust funds comply with all the Chapters set out in the Listing Requirements?*

Property trust funds must comply with all Chapters of the Listing Requirements except Chapters 10 (on "Transactions") and 15 (on "Corporate Governance") which do not apply to property trust funds. However, property trust funds should also take note of SC's guidelines, which regulate property trust funds.

52 *Paragraph 8.23 on "Provision of financial assistance" refers to paragraph 10.08 on "Related party transactions". Although paragraph 8.23 takes effect on 15 February 2001, paragraph 10.08 only takes effect later, on 1 June 2001. Does this mean that between 15 February 2001 and 31 May 2001 a listed issuer does not have to comply with paragraph 10.08?*

From 15 February 2001 to 31 May 2001 (inclusive of 31 May 2001), any reference to paragraph 10.08 in paragraph 8.23 shall be taken to refer to section 118 of MBLR or clause 5.8 of SBLR, as the case may be. Therefore, although during the aforesaid period, a listed issuer does not have to comply with paragraph 10.08 on "Related party transactions", it must comply with the related party transaction provisions under section 118 of MBLR or clause 5.8 of SBLR, as the case may be.

CHAPTER 9
Continuing Disclosure

53 *Is there any additional requirement applicable in relation to the annual audited accounts of a listed issuer?*

There is a requirement that the signatory to the statutory declaration accompanying the annual audited accounts must satisfy the requirements prescribed under paragraph 9.27, i.e. :

a. the signatory must be a member of the Malaysian Institute of Accountants; or
b. if the signatory is not a member of the Malaysian Institute of Accountants, the signatory must have at least 3 years' working experience and :
   i. must have passed the examinations specified in Part I of the 1st Schedule of the Accountants Act 1967; or
   ii. must be a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act 1967.

54 *Are there any changes in the disclosure requirement in relation to annual reports of a listed issuer?*

Yes. The significant changes include the following :

- particulars on directors and their remuneration;
- statements relating to corporate governance and internal control;
- responsibility statements in respect of accounts;
- a brief explanation of the status of utilisation of proceeds raised from corporate proposals;
- the amount of options, warrants or convertible securities exercised; and
- particulars of sanctions imposed on the listed issuer, subsidiaries, directors or management by relevant regulatory bodies.

55 *When does a listed issuer have to commence compliance with the disclosure requirements in the Listing Requirements in relation to its annual report?*

A listed issuer has to commence compliance with the disclosure requirements in respect of its annual report issued on or after 1 June 2001.

56 *With regard to the disclosure of net asset value per share of a closed-end fund pursuant to paragraph 9.35, when would the first disclosure have to be made?*

The requirement under paragraph 9.35 is similar to SC's requirements for weekly disclosure of a closed-end fund's net asset value per share. As such, so long as a closed-end fund continues with its compliance with SC's requirements after 1 June 2001, it would have complied with paragraph 9.35.

CHAPTER 10, Transactions

57 *Does the definition of "transaction" remain the same for both non-related party and related party transactions?*

No. There is a different definition of "transaction" in the context of non-related transactions and related party transactions respectively. In the context of non-related party transactions, it means acquisitions or disposals of assets by a listed issuer or its subsidiaries but excludes transactions of a revenue nature in the ordinary course of business. In the context of related party transactions, it includes, acquisitions, disposals or leasing of assets, establishment of joint ventures, provision of financial assistance, provision or receipt of services or any business

transaction or arrangement entered into by a listed issuer or its subsidiaries.

58 *If the application of a prescribed percentage ratio to a transaction results in an anomalous result, must it still be applied?*

The Exchange has a discretion to disregard such percentage ratio and substitute it with other relevant indicators of size.

59 *Has an interested director been imposed with any additional duties in relation to the related party transaction under this Chapter?*

Yes. An interested director is imposed with an obligation to ensure that the board of directors is notified of the nature and extent of his interests. He must also abstain from board deliberation and voting on the relevant resolution in respect of the transaction.

60 *Does a listed issuer have to obtain shareholders' approval for related party transactions which are recurrent transactions of a revenue or trading nature and necessary for its day to day operations, where such transactions reach the threshold that requires shareholders' approval?*

Yes. A listed issuer may seek a general mandate from its shareholders on a yearly basis pursuant to paragraph 10.09 for such transactions. However, in a case where no general mandate is obtained from its shareholders, specific shareholders' approval must be obtained for such transactions that reach the threshold, which requires shareholders' approval.

CHAPTER 13, Arrangements and Reconstruction

61 *Which announcements are affected by the requirement to incorporate the minimum contents of information specified in Appendix 13A into an announcement of a scheme of compromise, arrangement, amalgamation or reconstruction (hereinafter referred to as "a proposed Scheme")?*

The said disclosure requirement applies to the following announcements :

- announcements of proposed Schemes made by listed issuers on or after 1 June 2001; and
- announcements of proposed Schemes made by listed issuers prior to 1 June 2001, but which relate to Schemes that have not been completed as at 1 June 2001.

CHAPTER 14 Dealings in Securities

62 *Pursuant to paragraph 14.08 of the Listing Requirements, a director who wishes to deal in securities during a closed period must make an announcement to the Exchange prior to the proposed dealing. Currently, all announcements to the Exchange are made via the KLSE LINK. How can a director make an announcement to the Exchange if he has no access to the KLSE LINK?*

The director who wishes to make an announcement to the Exchange should request the listed issuer to send the announcement to the Exchange on his behalf using the KLSE LINK.

CHAPTER 15 Corporate Governance

63 *How much time would be given to a listed issuer to comply with the revised requirements for composition of the board of directors of a listed issuer?*

Listed issuers would be given up to 31 July 2001 to comply. This is also stated in the table set out in Question 6 above.

64 *Would a director who sits on the boards of directors of a few listed issuers be required to provide a separate undertaking in respect of each listed issuer?*

No. Such director may provide one undertaking to the Exchange in respect of all his directorships in various listed issuers. However, if after filing the undertaking, such director becomes a director of another listed issuer which is not indicated in the undertaking, he must provide another undertaking in respect of that listed issuer.

65 *What are the training programmes that must be attended by a director of a listed issuer?*

The Exchange will issue a Practice Note soon setting out the training programmes to be attended by a director of a listed issuer.

66 *Is there a change in the audit committee composition requirement?*

Yes. The following are the salient changes :

- No alternate director can be appointed as a member of the committee.
- One of the members must be a member of the Malaysian Institute of Accountants (MIA) or if he is a non-member, he must have at least three years' working experience and further, he :
  - must have passed the examinations specified in Part I of the 1st Schedule of the Accountants Act 1967; or
  - must be a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act 1967.

67 *Is there any guidance to assist directors of listed companies in making the statement on internal control?*

Yes. The directors should refer to the guidance on internal control, which is expected to be issued in February 2001 by the Taskforce on Internal Control.

68 *Are there any specific requirements in relation to the disclosure to be made in the annual report in relation to the Malaysian Code on Corporate Governance?*

The Exchange will issue a Practice Note soon to clarify this obligation.

CHAPTER 16 Suspension, Withdrawal, De-listing and Enforcement

69 *Other than the listed issuers, are there any other persons against whom the Exchange may take enforcement actions for breaches of the Listing Requirements?*

In addition to the listed issuers, the Exchange is empowered to take enforcement actions against advisers, directors, officers of listed issuers as well as any other persons to whom the Listing Requirements are directed.

70 *If a listed issuer breaches the Listing Requirements, can enforcement action be taken against its directors?*

Yes. Enforcement action can be taken against its directors where the listed issuer has breached the Listing Requirements under the circumstances referred to in paragraph 16.11 of the Listing Requirements. In addition, enforcement action can also be taken against a director if he breaches an obligation placed specifically on him as a director pursuant to the Listing Requirements.

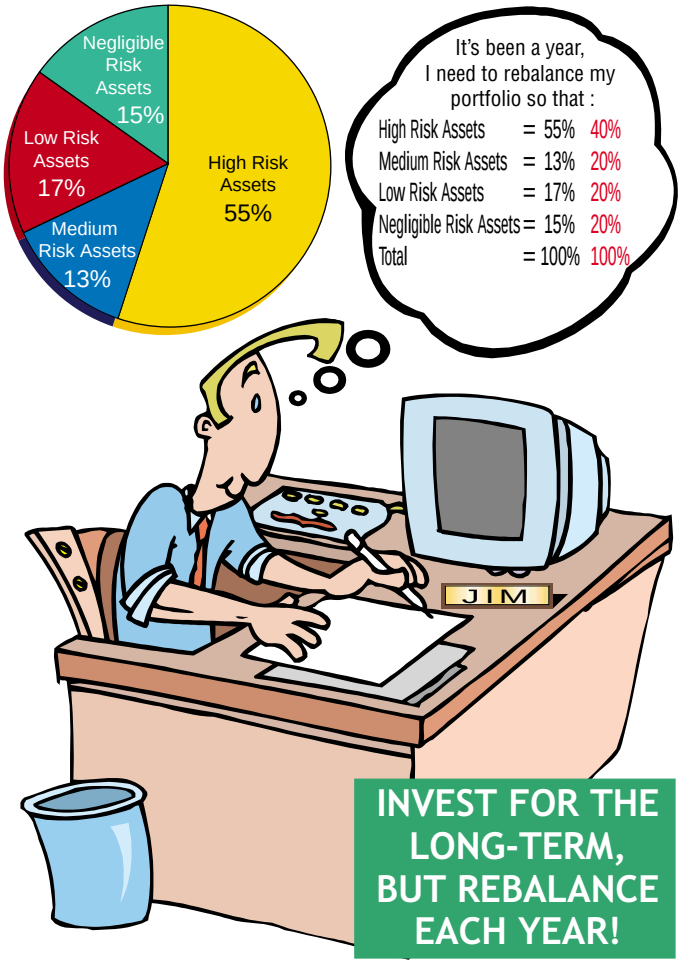
Physicists love the word 'entropy'. It refers to the tendency every natural system has to move from a state of order to that of maximum chaos. Entropy explains why astronomers believe the universe appears to be heading toward a final 'heat death', countless billions of years from now. Entropy can also be used to rationalise why your clients' accounts sometimes refuse to balance; and why your teenager's bedroom might look like a concussion grenade just went off in it.

Not surprisingly, entropy also works in our financial lives. This regular feature represents Akauntan Nasional's (AN) serious bid to educate all Malaysians of the need for wise adherence to sensible financial planning principles and strategies. Each accountant is a centre of influence — in your office, to your colleagues and clients; and in your home, to your family. Money Tree is thus designed to help you learn and then teach — in steps — all that is important in crafting a life of financial abundance, bounty and contentment.

Your Annual Tune-Up

By Rajen Devadason

An accountant's work makes him exceptionally sensitive to 12-month cycles. Almost all 9 a.m. to 5 p.m. (or should that be 7 a.m. to 10 p.m.?) activity is obsessively focused on quantifying, justifying or (dare I write this *here*?) dressing up what's taken place during the financial year of his employer or audit clients. And that's okay; everyone's got bills to pay.



The problem is that frenetic activity, synchronised to just a single orbit of the Earth, causes some professionals to forget an important lesson : The moral of that ancient story of a hard-working, long-range planning ant and a lackadaisical grasshopper whose theme song must have been *Que Sera Sera, Whatever Will Be Will Be*.

For those whose televisions were on the blink the day that Aesop fable was aired, let me give you the thumbnail version : During long warm summer days the ant toiled and stoically bore the derision of his green neighbour. But when winter came, the ant was well fed, snug and warm in his little hole-in-the-ground. A few feet above the ant's head, the grasshopper was starving to death in the middle of a cold, white field.

The moral : Good times don't last. Plan for winter.

In your planning, be acutely aware of your financial future. All of it.

Logically, financial planning then should be carried out over a period of several decades; not over a single year. Yet calendar-acclimatised accountants can take comfort in one truth. Just as a commercial airliner spends most of its journey slightly off course, only to be constantly brought back to the correct flight path by a competent, alert pilot, each of us should check and readjust our portfolios at least once a year.

When the word 'portfolio' rears its head, the first word that probably pops into yours is 'investing'. While the bulk of this column will focus on investments, risk profiles and asset allocation, please don't make the common mistake of thinking that financial planning is tantamount to investing. It's not.

Investing *per se* is only a part of financial planning. When I meet with first-time clients, I usually explain that there are 10 areas to be covered in the process of putting together a holistic financial plan. They are :

1. Goal-setting;
2. Cashflow planning;
3. Liability management;
4. Estate planning;
5. Retirement funding;
6. Home ownership;
7. Kids' education funding;
8. Insurance needs analyses for life, general and medical coverage;
9. Universal wealth accumulation; and
10. Planned giving to charity.

The need to invest arises because it is the common means to achieve the disparate ends of 'FP Areas' 5, 6, 7 and 9. In simpler terms, you invest because you want to eventually be able to retire in style, own a nice home, send your kids to the best universities, or simply have a tall stash of cash.

As I write this, I can't know with any certainty what your situation is or why you might want to invest. I'll simply assume that you have some core reason for doing so, and that you'd appreciate guidance on how to invest in a manner that conforms to sound financial planning principles. (If that's not what you're after, you'll save time by not reading any further.)

For those still with me, the first thing you've got to do is identify your investment risk profile. There are numerous tests available. Since it is safest for me to focus on those I know best, I'll just say that the three risk profile quizzes I'm most familiar with are Standard Chartered Bank's, SBB Unit Trust Management's and KL MUTUAL's.

Standard Chartered's proprietary profiling methodology is available from the bank's financial consultants (you can call 03-234 4163). SBB's quiz is found on page 65 of Nathan Balakrishnan and Geoff Stecyk's excellent book *Wi$e Move$ to Retirement*, which for some unfathomable reason seems to be out-of-print. And KL MUTUAL's, found in Appendix A14 of *Financial Freedom — Your Guide to Lifetime Financial Planning* and which is also available at www.klmutual.com.my. Regardless of which quiz you take, you'll quickly discover your risk profile : **conservative**, **moderate** or **aggressive**.

Once you know that, the entire process of intelligent asset allocation becomes easy. To prove it, consider the following material based on a portion of Chapter 11 (The Safety in Using Asset Allocation Models) of *Financial Freedom 2 — Through Malaysian Equities and Unit Trusts* by Edmond Cheah, Wong Boon Choy and myself.

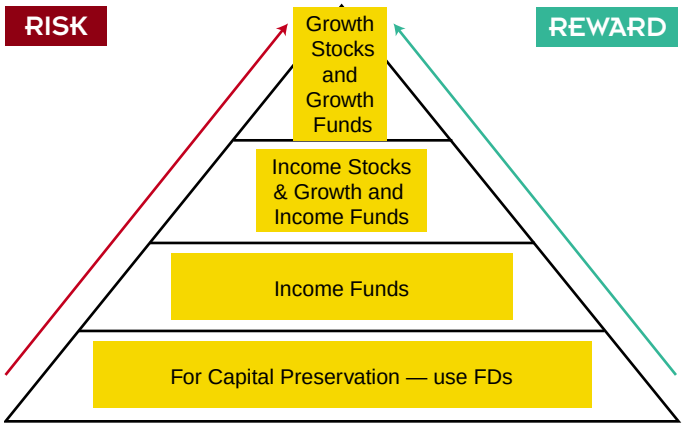
For completeness, to reiterate : The first step in ascertaining your asset allocation plan is to determine your personal investment risk profile. The second : Identify your goals. And the third : Pinpoint the time horizons of those goals.

Let's consider two 42-year-old friends, Jim and Jane. Jim has a conservative investment risk profile. He values certainty and low volatility more than the chance to earn high returns at what is to him the unacceptable cost of high portfolio volatility. Jane has an aggressive investment risk profile. She craves risk in the hope of eventually making a lot of money.

In investment science, risk is associated with the historical volatility of assets. The higher an investment asset's potential reward, the greater the risk (and volatility) associated with it.

In the Risk-Reward Pyramid, you see that the closer you get to the top, the riskier the investments become. The risk-reward relationship dictates that — generally speaking — the more short-term risk (up-and-down volatility) you're willing to stomach, the more money you should make in the long-term.

CHART 1 The Risk-Reward Pyramid



Obviously, if that were it, then Jane should merely buy the riskiest assets shown, growth stocks and growth funds, and Jim should stick to the safest ones, FDs and income funds.

But there is more to this exercise : Their dreams.

Jim wants to retire at 55, which is 13 years from now. Funding a great retirement is his primary financial goal.

In contrast, Jane wants to stop working for others in six years to start her own boutique. She has always wanted to be her own boss and hopes to grow her nest egg sufficiently in that time to be able to risk venturing out on her own.

The similarities between Jim and Jane are now eclipsed by their differences. Their investor profiles are disparate and their investment time horizons are seven years apart.

How can they apply the asset allocation process most intelligently to grow their assets, in line with their respective time horizons and appetites for risk?

Asset Allocation Models

That is where asset allocation models come in. Consider this table.

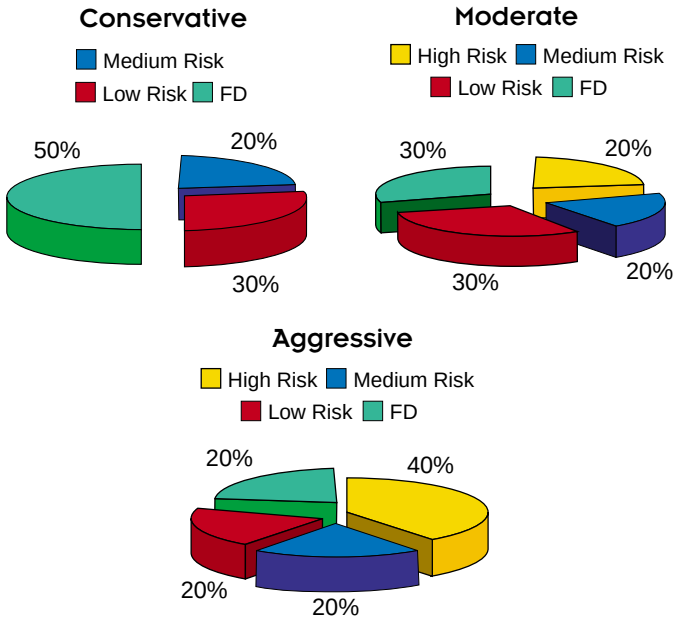
Potential Investment Appropriate for Most Malaysians	
High Risk	: Growth Stocks and Growth Funds
Medium Risk	: Income (high dividend yielding) Stocks, and Growth and Income Funds
Low Risk	: Income Funds (say, bond-based unit trusts)
Negligible Risk	: Fixed Deposit Accounts in Malaysian commercial banks or finance companies.

Now, these are the facts surrounding Jane's case :

Amount to be invested : RM100,000
Time Horizon : 6 years' time
Goal : Money to start her own business

Based on KL MUTUAL's methodology, this series matches Jane's investment horizon of six years :

CHART 2 Suggested Asset Allocation Plans for a Time Horizon of 4-7 Years

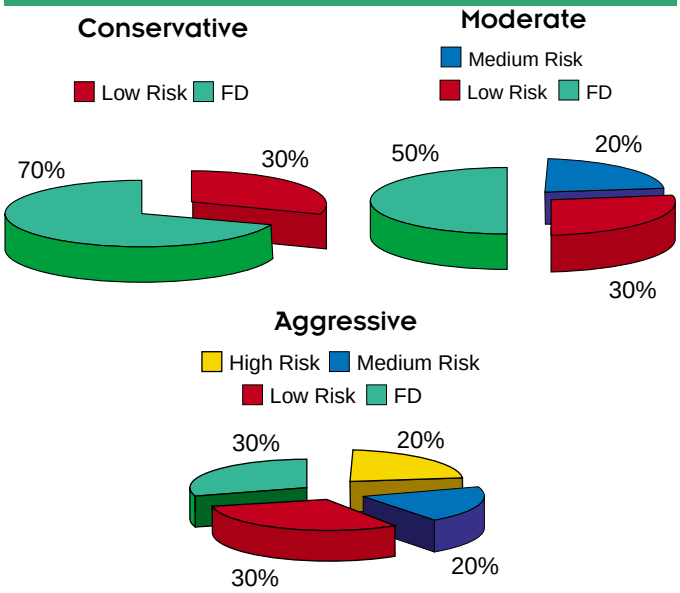


Jane's investor risk profile is aggressive. So she should invest her RM100,000 in these ratios.

	%	RM
High Risk : Growth Funds and Growth Stocks	40	40,000
Medium Risk : Growth and Income Funds, and Income Stocks	20	20,000
Low Risk : Income Funds	20	20,000
Negligible Risk : FDs	20	20,000

But, as the years roll by, she will eventually need to make adjustments based on shortening investment time frames. Also, remember what I said earlier about a plane's pilot constantly making course adjustments to stay on the correct flight path?

CHART 3 Suggested Asset Allocation Plans for a Time Horizon of 1-3 Years



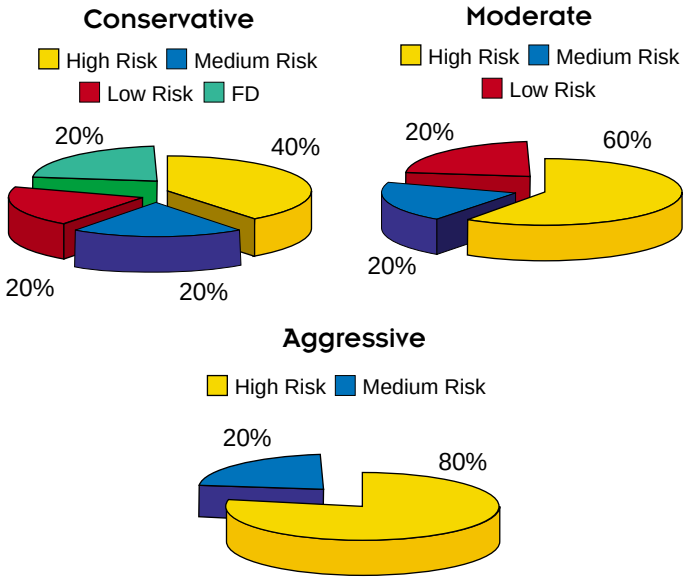
Similarly, at least once a year, Jane should scrutinise the performance of her various investment classes and make readjustments to bring the ratios back in line with the plan. But once Jane's target period dips under four years, she should readjust the plan itself and look at the appropriate chart, which in this case would be for '1-3 Years' (see chart 3).

Let's now look at Jim's plan.

Amount to be invested	: RM100,000
Time Horizon	: 13 years' time
Goal	: Retirement

This chart matches Jim's time horizon.

CHART 4 Suggested Asset Allocation Plans for a Time Horizon of More than 10 Years



Jim's investor risk profile is conservative. For the next three years, for as long as Jim's goal of retirement remains more than a decade away, he should invest his RM100,000 in these ratios :

	%	RM
High Risk : Growth Funds and Growth Stocks	40	40,000
Medium Risk : Growth and Income Funds, and Income Stocks	20	20,000
Low Risk : Income Funds	20	20,000
Negligible Risk : FDs	20	20,000

If those numbers look familiar, that's because they are. This asset allocation breakdown is exactly the same as Jane's!

How can two individuals with diametrically opposed risk profiles, different investment horizons and markedly different goals end up with the same set of numbers?

The answer lies in the way asset allocation models are put together; based on the critical criteria of risk profile and time available.

First, obviously the higher a person's risk profile score, the more she is willing, even eager, to embrace more risk in the hope of earning better returns. So, if Jane has a sister Eyre in an identical situation, but who has a moderate investor risk profile, this is what their differing asset allocations would look like :

	JANE (Aggressive)		EYRE (Moderate)	
	%	RM	%	RM
High Risk : Growth Funds and Growth Stocks	40	40,000	20	20,000
Medium Risk : Growth and Income Funds, and Income Stocks	20	20,000	20	20,000
Low Risk : Income Funds	20	20,000	30	30,000
Negligible Risk : FDs	20	20,000	30	30,000

You can see that the bulk of Eyre's portfolio is concentrated at the lower risk end of the asset spectrum, while Jane favours the higher risk end.

If Jim has a twin brother who plans to retire at the same time as he, in 13 years, but has a moderate investor risk profile, this is what their two sets of numbers would look like :

	JIM (Conservative)		KIRK (Moderate)	
	%	RM	%	RM
High Risk : Growth Funds and Growth Stocks	40	40,000	60	60,000
Medium Risk : Growth and Income Funds, and Income Stocks	20	20,000	20	20,000
Low Risk : Income Funds	20	20,000	20	20,000
Negligible Risk : FDs	20	20,000	0	0

Because Kirk has a higher risk profile than Jim, you can easily understand why Kirk's allocation favours higher risk instruments.

This brings us to another key point : The longer a person's investment horizon, the more risk he can afford to take for any given risk profile.

We now compare asset allocation breakdowns of two people - Eyre and Kirk — with the same risk profile but different time horizons. They are both moderate investment risk-takers. Eyre's time horizon is six years. Kirk's 15.

	EYRE (Moderate) 6 years		KIRK (Moderate) 15 years	
	%	RM	%	RM
High Risk : Growth Funds and Growth Stocks	20	20,000	60	60,000
Medium Risk : Growth and Income Funds, and Income Stocks	20	20,000	20	20,000
Low Risk : Income Funds	30	30,000	20	20,000
Negligible Risk : FDs	30	30,000	0	0

While diamonds might be 'a girl's best friend', equities are an investor's best asset class. But they do, ironically, tend to act 'inequitably' (pun intended!) in one respect. Equities treat those with the longest investment horizons best. The short-term volatility associated with them makes sure of that.

Although Eyre and Kirk have the same risk profile, Eyre's shorter timeframe means she cannot afford to take on as much investment risk. While Kirk can stomach parking 80 per cent (RM60,000 plus RM20,000) of his money in medium and high-risk instruments, Eyre should only commit half as much (RM20,000 plus RM20,000) to them.

(The suggested ratios are not cast in stone; you must be able to sleep with your investment decisions. That is called exercising the all-important, overriding 'sleep test'. So, if after you have taken a risk profile quiz and determined which asset allocation model best suits you, you find it can't pass the sleep test, then readjust your portfolio to one of lower risk. Always err on the side of caution.)

Once you have determined the ratios you can live with, and which work for you, leave the investments to grow without too much tinkering. However, you should check back once a year to see how each component has performed. Each asset class would have grown by a different amount. This will result in the percentages slipping. So, after this annual portfolio tune-up, make the necessary readjustments to bring your plan back to the correct proportion of investments between those four risk-defined asset classes.

For instance, let's say that one year into the programme, Jim finds that his overall portfolio has grown from RM100,000 to RM140,000. That's an astounding growth rate that is unlikely to be repeated for a long time.

On scrutinising his entire portfolio, Jim finds that his high risk assets have grown to RM77,000 (55 per cent of the swollen portfolio), his medium risk assets have, unfortunately, shrunk to RM18,200 (13 per cent), his low risk assets have grown to RM23,800 (17 per cent) and his negligible risk assets to RM21,000 (15 per cent).

Since his investment time horizon is now 12 years — which still falls within the 'above 10 years' category — Jim only needs to rejig his portfolio to maintain his 40:20:20:20 asset allocation balance. He'll do this by selling RM21,000 of his high-risk assets and ploughing RM9,800 into medium risk assets, RM4,200 into low risk assets and RM7,000 into negligible risk ones. Once he's done that he will be back at the required balance for a larger portfolio.

This approach requires discipline and the ability to think long-term. The biggest advantage is that it protects a portion of the supernormal gains earned during the preceding bumper year by shifting it into safer 'buckets'.

In closing, here are three keys for you to use in your pursuit of financial freedom :

1. Focus on growing your assets as safely as your personality and circumstances allow;
2. Take a long-term view of volatility and remind yourself that in the long run volatility is your friend; and
3. Make sure that you carry out your annual portfolio rebalancing exercise religiously and meticulously.

Note : The writer, a financial planning consultant and trainer, is co-author of the best seller *Financial Freedom — Your Guide to Lifetime Financial Planning* and its just released sequel *Financial Freedom 2 — Through Malaysian Equities and Unit Trusts*, (publisher : KL MUTUAL). He welcomes questions and comments on any aspect of personal finance in Malaysia. Feel free to 'snail mail' c/o *Akauntan Nasional* or e-mail rajendevadason@yahoo.co.uk.

Accounting — the Digital Way

By Scott M. Boggs

How Microsoft Adds It Up

Five years ago it took Microsoft Corp. two weeks of every month to close its books. Today it takes four days, and the finance team soon expects to achieve a continuous close — where information is accurate and current every day of the month.

Until recently the company printed and distributed 350,000 hard-copy management reports. Today, no paper reports are produced. All that information, and then some, is not only available online but users can recast it as needed to add custom perspectives to the numbers. Plus they can drill down to access the source of nearly every figure.

How did Microsoft implement these changes, and how do they affect the company and its professional finance team?

None of the technology that Microsoft used to achieve these objectives is beyond the reach of any organisation — large or small.

Technology is providing the tools that are revolutionising the role of financial professionals from that of information recorders and processors to business strategists — making them much more critical to the success of an enterprise.

The changes started about a decade ago, when the personal computer began to supplant the mainframe computer. The desktop machine was suddenly available at the right price and with enough computational power to make it an essential business tool — streamlining manual processes, managing data and exchanging knowledge. And when the PC was linked to an enterprise network, the evolution became a revolution, totally transforming the business environment and the role of the financial professional. Add the incredible growth of the Internet and we have the communication medium for a true global economy in which data can be transmitted around the world almost instantly. Suddenly a company's value is determined not only by its tangible assets but also by its ability to collect and use information.

Business continues to face other transformations triggered by widespread computerisation. The number of distribution channels is growing, forcing most companies to increase their mix of products and services — and making the task of keeping track of revenues, expenses and other financial information far more complicated. At the same time, many companies are finding that to stay competitive they must update their fundamental business model to adapt to the ever-changing marketplace.

The Challenge

The financial professional is expected to keep pace with these changes and provide accurate and timely financial information that can be accessed and analysed quickly and easily. While digital technology may make it easier to collect information and move it from one place to another, it also has led to an incredible proliferation of data. Filtering, sorting, compiling, analys-

Microsoft's FinWeb, an intranet system that allows employees to get detailed financial data about the company, provides data at the desktop. It also lets them submit travel- expense reports and purchase goods and services. Result : reduced paper work, transaction time and publishing and distribution costs

ing and disseminating financial data in ways that add real value to a corporation have become daunting tasks.

At Microsoft, where 54 financial groups are charged with providing financial support to more than 85 global subsidiary operations, we have struggled with these challenges. Our answer is something we call the financial "digital nervous system", an intranet-based environment that links all of the company's financial groups into a single, coherent system and provides our employees with real-time access to information and financial reports through the Internet.

This system — called FinWeb, short for Financial Information Network — was launched in 1995 and is part of a company-wide effort to build a larger digital nervous system at Microsoft. Through FinWeb's network of intranet sites, our employees can submit travel-expense reports and be reimbursed, purchase goods and services and even transfer capital assets — all from their desktops. We've reduced paperwork, transaction time, and publishing and distribution costs.

Most important, we've made it possible for any employee who needs financial information for decision-making to access detailed reports that are updated daily. Our financial system lets people drill down through layers of information to get answers quickly — without computer programming skills.

As a result, we've been able to achieve something finance organisations strive for : the ability to add more value at the strategic end of the business and spend less time processing transactions.

Warehousing Data

The system we have in place now is a far cry from the one that existed when I joined Microsoft as a Finance Manager in 1993. We had no intranet, no central direct access point for electronic distribution of financial information. More than 30 separate general ledgers were scattered around the world and were consolidated on a Digital Equipment VAX mainframe. During the month-end close, I'd get a huge stack of reports every day and spend the week typing numbers into spreadsheets. We spent an enormous amount of time and money copying and collating reports and then shipping them around the world by mail, courier and Fax.

The key to solving this problem was to create a data warehouse using an extract of the general ledger in a Microsoft Access database. It was relatively easy to link that data to Microsoft Excel to create standard management reports. As the underlying data is updated, the standard reports are automatically refreshed to reflect the most current information. These electronic files are stored on network file servers, where they can be accessed by anyone with the right password.

It took us about four months to build the system. When it was ready, I e-mailed everyone on where to find the electronic reports and informed them that the days of printed management reports was over. Within five minutes of sending the e-mail, a senior executive stormed into my office, saying the information was totally worthless. The problem stemmed from the cryptic eight-character spreadsheet names : You might open a file named eu_ww.xls, expecting to read a customer unit profit and loss spreadsheet but get a European unit spreadsheet instead. There was no way to know until you looked.

Around that time we were just starting to learn about the Internet, and we realised that we could create an Excel sheet that essentially looked like a Web page, with a list of profit and loss sheets designated by simple, clear names and pictures. Beneath each name was a macro that pointed to a particular spreadsheet on the network. When we sent that Excel sheet out, we were basically launching the first inter-company intranet application at Microsoft.

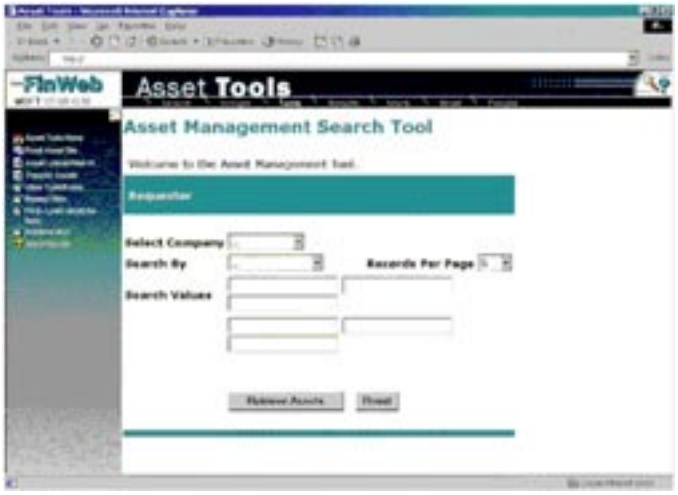
While that was a big step forward, we still had a long way to go. For example, we still had more than 30 separate legacy databases (those original general ledgers) and a system riddled with multiple charts of accounts and other inconsistent data taxonomies (rules for classifying and naming information). Although we had simplified the distribution process, it was still impossible to access the origin of the information. So in 1995 we made the commitment to purchase SAP R/3 accounting software as our core system. It took about seven months to implement the financial modules. This system allowed us to have a single chart of accounts and consistent views of information across the organisation. It also has significantly decreased our support costs by eliminating multiple accounting systems.

From there we developed a number of Web-based applications that automated routine tasks — such as administrative procurements, employee-expense reimbursements, asset transfers and journal-entry postings — and then fed all the transactions directly into the SAP R/3 system. Automating these processes has allowed us to reduce the cost of some transactions by as much as 90 per cent.

The system is set up so that virtually every transaction flows automatically from a website on the Microsoft intranet into the SAP system and is extracted on a daily basis into several SQL server-based data warehouses, which then produce standard reports. As a result, authorised users can access on their desktop computers standardised consolidated revenue reports summarising sales for broad product and geographic categories and then drill down through the databases virtually to the level of part numbers. More important, the system allows users to customise reports and to answer questions on almost any financial issue.

Drilling for Answers

Here's how I use FinWeb : Each week, I receive an e-mail message that contains a link to a standard Excel-format report showing actual and budgeted revenue figures by geographic area and product for the month, quarter and year. One report is dated 25 December and covers the first three weeks of the month. Because it's nearing the end of the month and it's time to start thinking about the close, it's an appropriate time to survey our financial condition.



With such up-to-date information, I'm able to spot trends-on with enough time to act on them. I notice we're slightly behind budget for the month, but I'm not worried because we have one week left in the month. The original equipment manufacturer (OEM or PC manufacturer) numbers also are behind budget, but I know that a lot of our OEM revenue is billed during the last week of the month, so I'm not worried about that either. And Europe (which is designated as EMEA) is doing great — already ahead of budget.

Further down, I can look at revenue by products. I notice we are over plan for Microsoft Office. Scanning further down, I see that the Windows NT operating system is slightly behind plan, and the Windows 98 operating system is lagging. The fact that games are already well ahead of projection indicates that this is turning into a good Christmas season. (While I have called up this spreadsheet using the link embedded in an e-mail message, I also could have navigated easily to exactly the same spreadsheet from the FinWeb home page.)

Digging Deeper

Next I begin to drill down to see the source of the numbers. The system uses Excel's PivotTable dynamic views, so I can reconfigure the spreadsheet to show details I'm interested in. (For more on PivotTables, see "Add Perspective to Spreadsheets," : Jofa, December 1998, p. 91.) PivotTable views are an important part of FinWeb, providing an easy-to-use link between the spreadsheet on my desktop and all of the information in the data warehouses. A PivotTable lets me customise a spreadsheet by moving rows and columns and defining the data in those fields. For FinWeb, we've created formatted PivotTable views with pre-selected fields that users can choose from.

Using the PivotTable feature, I select Europe, in US dollars, and "All" for most of the other fields. I see that the Office Standard edition is ahead of plan, while the Office Professional version is exceeding budget by a little less. With a week to go, Microsoft Office sales in Europe are significantly ahead of projection.

I continue to reconfigure the data to find out why Europe is doing so well. For example, a new PivotTable, which includes revenue totals by country, shows that revenue in Denmark is almost double our plan. If I slice and dice the data in yet another way, I see that much of that comes from sales of Office.

For still more in-depth analysis, we use an internally developed application called MS Reports. This tool allows me to create custom queries against the underlying data in the warehouse by dragging and dropping fields into a standardised template within Excel. The MS Reports interface shows in plain English the available fields. Once the template is populated by the fields I'm interested in, MS Reports automatically resolves it into SQL query language, executes the query against the data and formats the results into a standard Excel report.

So if I want to understand why Office is doing so well in Denmark, I can turn to MS Reports and figure which customer segments are responsible. After setting up a query that looks at Office sales by licensing program, I see that the major contributor was the licensing of Office to corporate customers.

It took just a couple of minutes to set up the query and less than a minute to get the results. With these tools, I am not only able to access up-to-date revenue figures quickly and easily, but I also can set up a sophisticated analysis to help me explore the data and understand the numbers. And I can do this without having to understand the programming language used to query the SQL database.

One reason all this runs so seamlessly is because we have worked to make sure that all data that go into the system are created equal. We want to make sure, for example, that when we compare Denmark's revenue figures for Office with the figures from Japan, the numbers mean the same thing. The same must be true for travel and entertainment expenses and every other transaction recorded in the SAP database. Every number one business unit enters must be comparable to corresponding numbers every other business unit enters.

The key to achieving this kind of company-wide uniformity is a site called MAP, short for Microsoft accounting policies. MAP contains each of the 500 or so accounting policies that we follow, and it helps us ensure that data conform to common rules

and taxonomies across the entire company.

Because it is so easy to access and update and because the information is always current, MAP is an ideal place for posting policies and procedures of all kinds.

FinWeb is more than just a portal for accessing and analysing corporate financial data. It's the entry point for virtually every transaction. FinWeb's network of websites includes MS Expense, which allows employees to submit expense reports and receive prompt reimbursement; MS Invoice, used by Microsoft vendors for submitting electronic invoices; and MS Marker, our internal procurement tool.

Another FinWeb feature is Headtrax, which shows the employment hierarchy at Microsoft making it possible for managers to see which positions are open and which are filled in their group. It lets them make changes within their organisations. With Headtrax, for example, I can move one of my employees to another group or give a raise to someone who reports directly to me. Assuming I've followed all standard accounting and administrative policies, I can take this action from my computer in seconds, without generating any paperwork. (Of course, you can only access this confidential information if you have the proper approvals and clearances.) And, like all FinWeb transactions, any change I make immediately enters the SAP database and is extracted within 24 hours to a data warehouse, where it becomes part of the information pool available to anyone in the company who needs it.

Implementation Steps

What are the most critical prerequisites for putting such a system in place? There are about a half-dozen, and they fall into two categories : technical and cultural.

To most financial professionals, the technical challenges may sound daunting, but they are fairly straightforward. To build a financial digital nervous system, a company must have a robust computing infrastructure in which all computers share a common operating system and are linked by a reliable network.

Most important to achieving such a system is the cultural context. In many organisations, while the information technology (IT) people understand technology, they don't understand business. Likewise, financial people understand business but may not understand technology. To create a system comparable to ours requires teamwork between the IT and finance people.

Another essential cultural element is executive commitment. There is always a certain amount of discomfort when old systems are discarded and new ones are put in place. To implement the magnitude of change required to build a financial digital nervous system requires a clear mandate and support from executive management. An organi-

STEPS TO DEVELOPING A DIGITAL INFORMATION SYSTEM

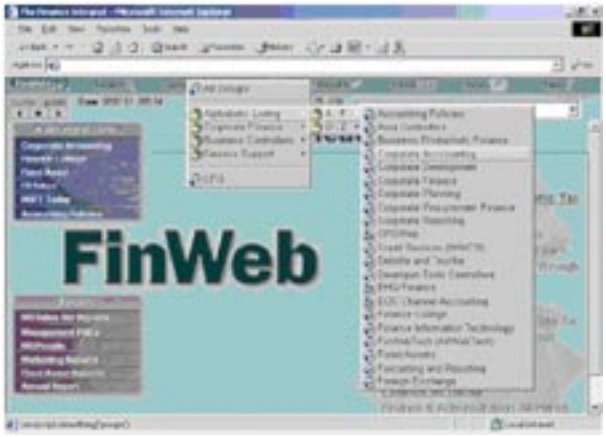
A simple financial digital nervous system begins with a basic computing environment that includes a network and intranet infrastructure. Users must have common desktop applications. Once these pieces are in place, the system can be developed following these steps :

- Create a data warehouse by extracting and summarising transaction data from the general ledger system to an ODBC-compliant database. Most common general ledger applications provide a variety of ways to export data into other applications. Depending on the nature of the extraction, data can be summarised as extracted or processed within the data warehouse.
- Implement pivot table functionality to create standard management reports. Data fields can be organised into rows, columns and page fields, and reports can be formatted to match existing reports. Users with some advanced programming knowledge can use additional tools within their spreadsheets to create custom queries against the data warehouse.
- Create a Web page that shows an index of available standard reports. Icons can be created to open spreadsheet files from the network. Additional Web pages can be created to describe major accounting policies, procedures, assumptions and other relevant information.
- Automate routine transaction processes by creating forms to perform tasks such as the creation of master data and updates, journal entries and invoice processing. Most general ledger applications provide a way to import data from external sources. Once created, these forms can be saved in HTML format as Web pages and users can access them through the intranet. Users with some advanced knowledge of databases can program additional front-end validation.
- Eliminate reports and manual processes that duplicate information available on the financial digital nervous system.

sation with a CEO who doesn't use a PC probably shouldn't embark on this path.

At the same time, a certain amount of patience is required.

Building a financial digital nervous system has been an incremental process : eliminating paper reports, adding a Web interface, implementing financial software. That process must start with a vision : information at your fingertips. Along the way, our idea of what is possible has expanded. Originally, we were pleased to reduce our closing time from two weeks to four days. Now we are challenging ourselves to achieve a continuous close, where information is accurate and current every day of the month.



As we continue on this path, I see many other opportunities to increase the value of financial information. One project is a new data warehouse that will allow us to consolidate disparate types of data and make it possible for users to create the equivalent of a balanced scorecard. Another project is incorporating new OLAP services included in Microsoft SQL Server 7.0 to significantly increase the performance of our data warehouses. Finally, we are implementing middleware-software that will allow us to create Web-based applications in which users can construct queries without ever knowing which specific databases contain the data. Ultimately, we hope to create an authentic enterprise information portal, where any company can have its information truly at its fingertips.

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Note : This article first appeared in *Journal of Accountancy* (published by the American Institute of Certified Public Accountants) in May 1999. Reprinted with permission. The International Federation of Accountants' (IFAC) Financial and Management Accounting Committee selected the article as the winner in its Articles of Merit 2000 Competition, an Award Program for Distinguished Contribution to Management Accounting.

Executive Summary

- **TECHNOLOGY IS** dramatically changing the role of the financial professional from that of information recorder to business strategist — making the financial manager much more critical to the success of an enterprise.
- **TO KEEP PACE WITH** these changes, the financial professional is expected to provide accurate and timely financial information that can be accessed and analysed quickly and easily. While digital technology may make it easier to collect information and move it from one place to another, it also has led to an incredible proliferation of data. Filtering, sorting, compiling, analysing and disseminating financial data in ways that add real value to a corporation has become a daunting challenge.
- **MICROSOFT CORP.** with 54 financial groups charged with providing financial support to more than 85 global subsidiary operations — has struggled with these challenges. Its answer is the financial "digital nervous system" : an intranet-based environment that links all of the company's financial groups into a single, coherent system and provides its employees with real-time access to information and financial reports through the internet.
- **FIVE YEARS AGO**, it took Microsoft two weeks to close the books. Now it takes four days. The company used to print and distribute 350,000 hard-copy management reports each year. Today, none. Through FinWeb, a network of intranet sites, its employees can submit travel-expense reports and be reimbursed, purchase goods and services and transfer capital assets all from their desktops. They've reduced paperwork, transaction time and publishing and distribution costs.
- **IT'S POSSIBLE** for any of its employees who need financial information for decision making to access detailed reports that are updated daily. The financial system lets people drill down through layers of information to get answers quickly, easily and without computer programming skills. None of the technology used to achieve the objectives is beyond the reach of any organisation-large or small.
- **AS A RESULT,** the company is able to achieve something finance organisations strive for : the ability to add more value at the strategic end of the business and spend less time processing transactions.

GLOSSARY

ODBC is the acronym for open database connectivity. It's a database-programming interface from Microsoft that provides a common language for Windows applications to access databases on a network.

HTML stands for hypertext markup language. It's the standard document format used on the World Wide Web. A subset of SGML (standard generalised markup language), HTML defines the page layout, which includes fonts and graphic elements as well as hypertext links to other documents on the Web. Each hypertext link contains the URL, or address, of a Web page that *can* reside on the very same server or on any server worldwide, hence the "Worldwide" Web.

SQL stands for structured query language (SQL is pronounced sequel), a language used to interrogate and process data in a relational database. Originally developed by IBM for its mainframe computers, all database systems designed for client/server environments support SQL. SQL commands can be used to work interactively with a database or can be embedded within a programming language to interface with a database. Programming extensions to SQL have turned it into a full-blown database programming language.

OLAP is the acronym for online analytical processing. OLAP software allows users to quickly analyse information that has been summarised into multi-dimensional views and hierarchies. For example, OLAP tools are used to perform trend analysis on sales and financial information and to drill down into masses of sales statistics in order to isolate the products that are the most volatile.

Smart Stops on the Web

PORTFOLIO AND MONEY MANAGEMENT SITES

A Plan of Action for Portfolios
www.strategies-tactics.com

This site's objective is to "maintain an interactive forum within which portfolio management issues can be discussed and explored." It focuses on the analytic framework and market analysis, in addition to the strategies and tactics, for both portfolio management and risk management. It offers features and a glossary, as well as excerpts from writings on Sun Tzu's "The Art of War," with comments on their application to portfolio and risk management.

Find Investment Links Fast
www.geoinvest.com

This investment site is one of many Geo has developed—among them, GeoAuction, GeoInsure, GeoSports and GeoWeather. GeoInvest gives users links to relevant sites and organises them into categories including stock market insights, free stock research, investor fraud and global investing. The portfolio management and monitoring section includes links to Quicken.com and Thomson Investors Network.

Find Investment Managers Here
www.nelnet.com

Nelson's Investment Management Network bills itself as "the Internet authority for the institutional investment management industry." Users can access surveys and analyses of the "world's best money managers" as well as their rankings. A handy feature on this site is its links to more than 2,700 investment management firm Web sites worldwide.

Asset Management for the New Millennium
www.fee-only-advisor.com

Frank Armstrong, an investment adviser and president of Managed Account Services, Inc., has packed this site with information for portfolio holders to consider while reorganising or adapting assets for the 21st century. Visitors can sign up to receive the firm's free newsletter and take advantage of a free consultation and portfolio analysis. The full text of Armstrong's book, *Investment Strategies for the 21st Century,* is also available.

Education for Investors
www.aaii.org

The American Association of Individual Investors (AAII) offers interested parties a free two-week trial membership to its site, which provides articles and educational materials about portfolio management and retirement planning as well as stock investing and mutual funds. Among the available articles recently were "How to Invest in the New Global Economy" and "Timing Strategies and the Risk of Missing Bull Markets."

Bone Up on Financial Knowledge
ourworld.compuserve.com/homepages/Bonehead_Finance

[No www designation is required to access this site.]

Don't be fooled by the URL—this site offers practical information on money management, including suggestions for budgeting and saving money, mutual fund and retirement planning advice and ways to manage investment portfolios. Also included is a glossary of finance terms and links to many other financial Web sites.

GENERAL INTEREST SITES

An Index to the Internet
lii.org

[No www designation is required to access this site.]

This search engine is maintained by the experts in organising and categorising information—librarians. Data is grouped into general categories such as business, computers, education, politics, organisations and science. Those are then subcategorised so users can eliminate extraneous pointing and clicking.

Online Team Investing
www.wevest.com

Log onto this site and join a team of investors with like interests. Create an online portfolio and find a team with similar investment goals. Or post your investing profile and let a team find you. WeVest lets users create their own newsletters as well as subscribe to other teams' online publications.

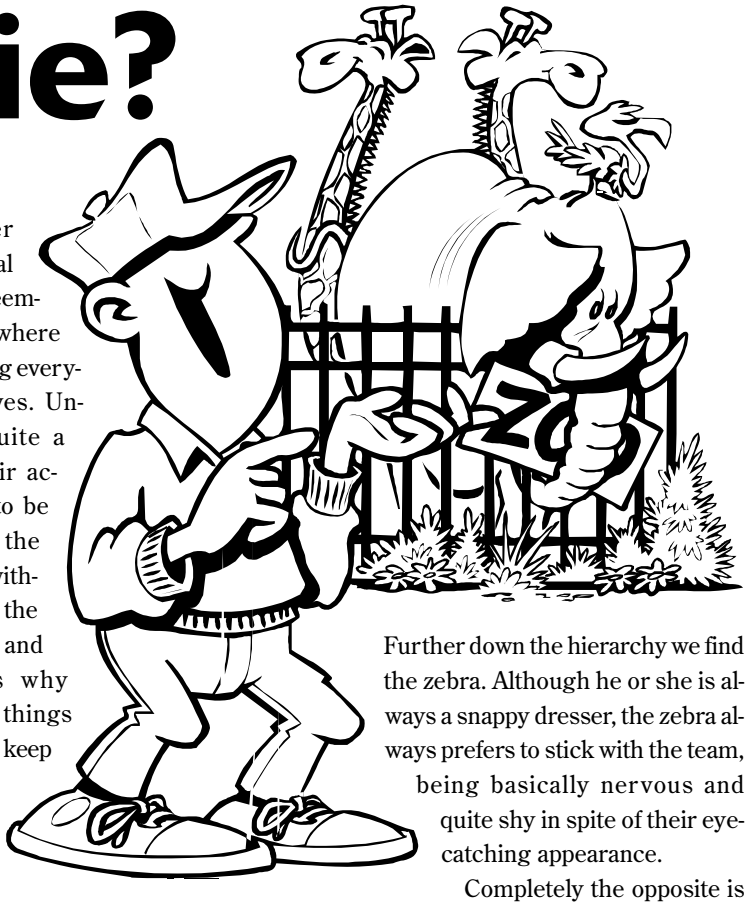
A Site for Software
www.findaccountingsoftware.com

This site offers a database for researching accounting software packages for various applications and industries. You can also compare—or be put in touch with a local consultant and have him or her compare—the software packages you're considering to find the one that most closely fits your needs. Also available are the recent and archived issues of *inSITE Magazine,* which features articles on selecting accounting software and related topics

An Accounting Portal
www.accountantsworld.com

This portal has something of interest for everyone in the accounting community: It features daily news stories, tax resources, links to accounting associations such as the AICPA and sites for e-commerce, mobile technology and payroll information. Also available are free accounting courses and financial calculators.

Where Do You Fit in the Workplace Menagerie?



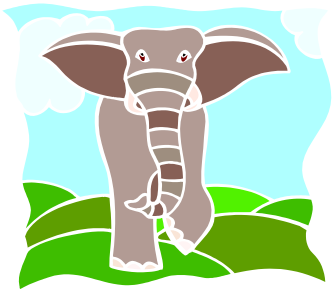
Can the appearance and behaviour that people display at work fit them into an animal category? Answer these questions to find your place in the human zoo.

Is your office more like a zoo? Have a look around and see if you can identify some of the 'animals' you work with.

And although our quiz is intended just for fun, understanding the people you work with is a useful tool in maintaining office harmony and efficiency. Can you be objective enough to find your own type? You may be surprised!

At the top of most large organisations, as you would expect, you will generally find the lion. He, for it usually is a he, probably looks impressive, and perhaps a bit soary, which is how he got there in the first place. Underneath that bold exterior, however, there is often someone rather complacent, who is very adept at getting other people, usually wife/secretary/or women in general to do most of the work.

Another type found throwing their weight about quite a lot is the elephant. This person has the capacity to occupy quite a lot of personal space, either through physical size or just by seeming to be everywhere at once and doing everything themselves. Unfortunately, quite a number of their actions turn out to be destructive, as the elephant acts without considering the consequences, and then wonders why things keep going wrong.



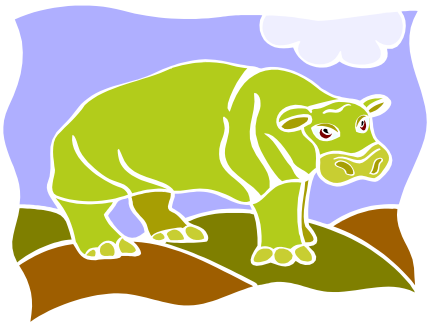
Similar in some ways to the elephant is the rhino, another worker who makes his presence felt. Again lack of foresight is a real problem. The rhino lacks vision, and is very easy to fool. This can lead to a temptation to the rhino's colleagues to try to pull the wool over his eyes, but unfortunately he can turn very nasty all of a sudden, either lashing out or blaming others, so it's best to stay clear until the dust dies down.

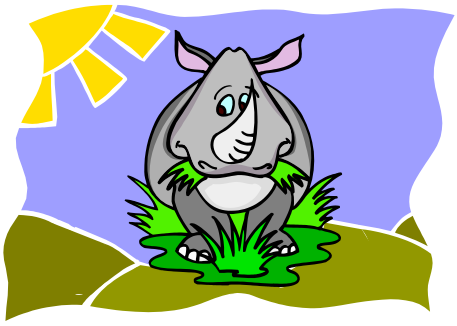
Further down the hierarchy we find the zebra. Although he or she is always a snappy dresser, the zebra always prefers to stick with the team, being basically nervous and quite shy in spite of their eye-catching appearance.

Completely the opposite is the wart-hog. For this employee, appearance and personal hygiene are a serious issue, which is why they rarely move up in any organisation. They tend to be avoided by fellow workers and are usually side-tracked into jobs which require little contact with clients or senior management

The giraffe is usually a tall, effete, public school type, who has charming manners and is basically a decent sort who can be relied on in most situations. His main fault however is that he tends to have problems when flexibility is required, which these days in business is pretty much all the time.

Now we come to the animals at the bottom of the work menagerie. They are there because no one wants to work with them and they have little to offer. There is the baboon, who is rude and aggressive, often embarrassingly greedy and prone to inappropriate sexual behaviour. He is only rivalled by the hippo, who generally lies about a lot during the day, not doing much work, even though he often skips lunch. He usually makes up for this by eating a lot at night, so that his unappetising appearance and bulldozing manner make him an uncongenial work mate.





Now answer these questions and find out who's who in your zoo.

1 How would you describe your boss?

a. bossy but lazy.
b. confident, public-school type.
c. acts big but lacks vision.

2 What does your boss look like?

a. impressive and in control.
b. a mess.
c. my boss is always smartly dressed.

3 How do you know when your boss is in the room?

a. he's usually asking someone to do something for him.
b. there's a lot of noise and commotion.
c. by his rude aggressive manner.

4 What do you like best about your boss?

a. he inspires confidence.
b. he is really a decent type.
c. there isn't anything I like.

5 What is your boss's worst fault?

a. his revolting personal habits.
b. he's always making decisions without thinking it through.
c. he can turn nasty when things go wrong.

6 Is your boss well suited to his position?

a. yes, he has a natural talent for delegating work.
b. no, he is really a team player.
c. no, he is a liability to the company.

7 How do your clients and customers react to your boss?

a. they think he is a bully.
b. they like him and trust his judgement.
c. they find him a little inflexible at times.

8 Would a change of boss help your company?

a. yes, he alienates everyone with his rudeness.
b. no, he is a good leader.
c. yes, we need someone more up to date.

9 Does the boss tend to gather similar people around him?

a. no, he likes to have a group of subordinates he can use.
b. yes, he tends to be happier with a team of similar types.
c. no, they would fight all the time.

10 Would your boss recognise him or herself as one of the types?

a. no, he is completely lacking in insight.
b. yes, but he wouldn't care.
c. yes, and he might be pleased.

NOW CALCULATE YOUR SCORE

1.	a. 10	b. 5	c. 0
2.	a. 10	b. 0	c. 5
3.	a. 10	b. 5	c. 0
4.	a. 10	b. 5	c. 0
5.	a. 0	b. 10	c. 5
6.	a. 10	b. 5	c. 0
7.	a. 0	b. 10	c. 5
8.	a. 0	b. 10	c. 5
9.	a. 10	b. 5	c. 0
10.	a. 5	b. 0	c. 10

86-100 : Your boss sounds like a natural leader, a lion, who inspires confidence and can put on a bold, impressive show. At the same time, he has the useful ability to delegate work to others, especially the female of the species. On the other hand, he or she might be an elephant, good at throwing their weight around and appearing to do a lot, but actually not very constructive as they never think things through.

35-65 : Your boss could be a zebra, who is really a team player, needing the support of others to feel happy. Although he or she might look good, they are really quite nervous and need lots of back-up.

Similarly, your boss might be a rhino, who lacks vision, and tends to blame others mercilessly when things happen that he did not foresee. You might have a giraffe for a boss, a decent, well-educated type who means well, but can be a bit rigid at times.

0-34 : Hard luck — you seem to have a boss from the bottom of the animal hierarchy. If he is a hippo, you will definitely be doing all the work, but getting bullied all the time, and never listened to. It could just be that your boss is a wart-hog, although how he got there with his revolting personal habits, is anyone's guess. If you are really unlucky, you might have the baboon, who is just downright rude and aggressive.

Watch out for this one at the office party.

Book Review on YOU ARE CREATIVE

By Robert Khaw*

"The greatest obstacle to creativity is when you think you are not creative." But you are creative, Dr. Yew Kam Keong (or YKK) writes with passion and conviction in his latest book, *You Are Creative*.

Many books have been written on creativity, but this book is unique in that it makes you want to read on. Non-stop.

And that is not all. The author has a way of communicating with you — he inspires you with power quotes and creative stories, puzzles you with mind-boggling exercises, amuses you with great cartoons and helps to unlock your creative potential — all in a 'talking' style.

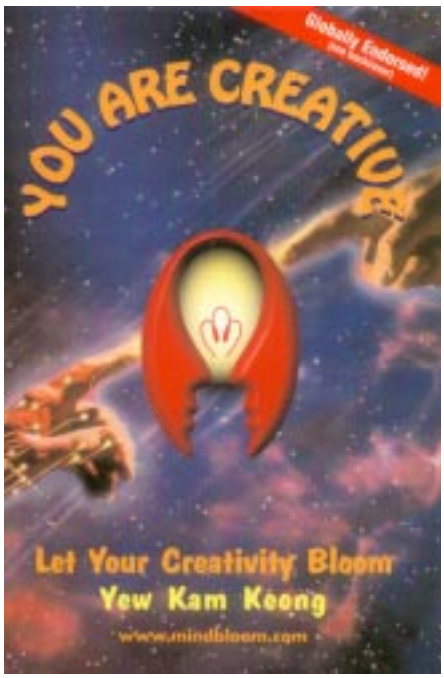
Its uniqueness also lies in YKK's teaser for readers to discover or rather gradually uncover "the greatest secret about creativity!" And the secret is ... (drum-roll, please) :

"If you think you are _____ , you are; if you think you are not _____ , you are not." *(fill in the blanks)*

In a nutshell, the book offers readers with the basic tools to the world of creativity. The five steps to creativity (*viz.* knowledge, thinking, incubation, eureka! and development) and three primary creativity techniques (brainstorming, forcing new connections and breaking the rules) are easy to follow inasmuch as they are practical. The book promises handsome dividends to those who are willing to work the principles, employing whichever technique suits them best.

Any blemishes in *You Are Creative*?

Unfortunately, typo errors are one too many for a book. One of them was even humorous : "In their bid to turn around, Xerox pioneered the concept of 'bench-making'." (p. 107) No, Xerox didn't make benches, but engineered the bench-marking concept! But others may not be that funny such as Steve Jobs' name being changed to Steven Jobs! (p. 80).



"Creativity is about making connections where none existed before."

Dr. Yew Kam Keong

Also, readers may find a couple of YKK's hyperbolic statements too sweeping such as "there is no greater joy than the joy of creativity" (p. 32) or "creative effort is an antidote to worry" (p. 1). Fortunately, these are few and far between.

Nevertheless, *You Are Creative* is a good book of great value for corporations and individuals. You will not be disappointed nor waste your time reading it.

YKK's book, *You Are Creative* (152 pages), is published by Mindbloom Sdn Bhd, 2000. Website : www.mindbloom.com

* Robert Khaw is the Senior Technical Manager of MIA.

Making Connections

- Akio Maita, a sales and marketing executive at Bandai Company in Japan, made the connection between young Japanese who like to flash their portable handphones and pocket pagers, and other Japanese who were keeping tiny pets in their cramped apartments, to develop the concept of portable digital pets called *Tamagotchi*.
- Johan Gutenberg made a connection between a winepress and a coin punch to invent the printing press.
- Sylvan N. Goldman, a supermarket operator, made a connection between his customers struggling to carry all their purchases and two small folding chairs to develop the shopping trolley.
- Bette Nesmith, a secretary who made mistake after mistake using her new electric typewriter, made a connection between her art training where she had learned to paint over mistakes with a special paint called *Gesso* to discover the corrector fluid, *Liquid Paper*.
- Levi Strauss, the original jeans maker, came out with the latest concept for jeans by making a connection between jeans and engineering to create the *Engineered Jeans* by using the principles of engineering to design jeans that facilitate movement and at the same time provide comfort for those living physically active lifestyles.
- Clarence B. Darrow, who was always short of money, made a connection between poor people and people who could imagine that they were rich to invent the game called "Monopoly".

Source : Dr. Yew Kam Keong, *You Are Creative*, 2000.

New Providence Island, Wesy Bay Beach

The Beautiful Bahamas

By Nicole Burnham Onsi

The Bahamas, made up of over seven hundred islands and 2,000 islets, makes the perfect tropical vacation if you're looking for a balmy island paradise

From Palm Beach, Florida, it's a scant 70 miles to Grand Bahama Island, where you'll find the carefree beaches and bustling casinos of Freeport and Lucaya. Not far to the south, New Providence Island beckons travellers to golf, gamble, or relax with a tropical drink at any of Nassau and Paradise Island's luxury hotels.

For something a little more remote, the Out islands (including Abaco, Andros, Bimini, Cat Island, Eleuthera, the Exumas and Harbour Island) offer vacationers the chance to forgo shopping in favour of snorkelling, diving and sport fishing. No matter what your preference, you'll find it in the Bahamas, where the prevailing attitude of the locals is "don't worry, be happy."

New Providence Island

Located on New Providence Island, the Bahamian capital city of Nassau bustles with activity day and night. Only a 35-minute flight from Miami, this is the centre of banking, business, and tourism for all the Bahamas. In town, most of the hotels cater to businessmen, but just west of the city on glitzy Cable Beach, tourists will find every amenity imaginable.

Overlooking Nassau and the harbour is the stately Graycliff. The former home of Lord Dunmore, first governor of the Bahamas, it's now a hotel catering to those who want the best of the best. With only nine rooms and five suites, this is the ideal honeymoon hotel for those who want to be close to the activities and sights of Nassau, but still feel pampered and isolated from the fray of Nassau nightlife. Expect a fluffy robe in your room, spring water on your nightstand, sauna, pool and health club access, and smiles from the staff. It's also home to the only five-star restaurant in the Caribbean — definitely a 'jacket and reservations required' establishment.

On Cable Beach, ideal places to stay include : the new and ultra-posh all-inclusive Sandals Royal Bahamian Resort & Spa, which boasts four gourmet restaurants, a superb fitness facility, and unlimited watersports; Breezes Bahamas, an all-inclusive SuperClub resort offering scads of evening activities; and the Radisson Cable Beach Casino & Golf Resort, which is great for those interested in evening gambling, daytime golf, and endless shopping. There's an optional all-inclusive rate that is worth checking out.

Finally, the Nassau Marriott Resort & Crystal Palace Casino offers spectacular water views from most rooms, and easy access to the island's most modern casino. On the second floor of the casino tower, you'll find wonderful Italian dishes and seafood at Sole Mare, one of Cable Beach's classiest restaurants.

For water-lovers, it's worthy to note that nearly all the hotels offer dive packages and access to watersports — ask for details when you make your reservations, since packages change frequently. If you decide to stay in the Nassau/Cable Beach area, a trip along Bay Street, Nassau's shopping district, and the adjacent Straw Market is well worth your time. You can purchase just about any duty-free item your heart desires on Bay Street, and haggling with the local vendors in the Straw Market

is great entertainment. You're likely to walk off with some wonderful bargains.

If you're not big on city life, a short drive across a high, arched bridge will take you from Nassau to Paradise Island. Paradise Island is the place to stay if you want something with easy casino and beach access, sans the downtown atmosphere.

Here, you can stroll through the Versailles Gardens and Cloisters, an immense garden complex and French stone monastery, or luxuriate the day away on Paradise Beach.

Of course, Paradise Island's biggest attraction is the Atlantis Resort & Casino, a spectacular complex of six lagoons, gardens, an 18-hole golf course and the largest outdoor, open-water aquarium in the world. If you opt to stay in this hotel, you'll never have to leave the complex — you can swim or snorkel right alongside the fish in Paradise Lagoon, wander through underwater grottos where you can observe sharks, barracudas and eels, shop at glitzy shopping malls, or catch a show at the cabaret theatre.

The 30,000 square-foot casino can keep you occupied for your entire honeymoon, if your luck is good.

Other places to consider on Paradise Island : the all-inclusive Club Med, a 21-acre complex that includes golf lessons, snorkelling and sailing; the Comfort Suites, which provide easy access to the Atlantis, right across the street; the Radisson Grand Resort, a plush hotel that is within walking distance from both the beach and the casino, and the Ocean Club Golf & Tennis Resort, one of the most opulent spots to stay in Paradise Island and home to the Courtyard Terrace, a restaurant that's as romantic as they come.

Grand Bahama Island

If you'd like something less glitzy than New Providence Island, try the more laid-back, almost rural pace of Grand Bahama Island. While you will find a Burger King and Kentucky Fried Chicken in Freeport, there's not much more here to remind you of life in the US.

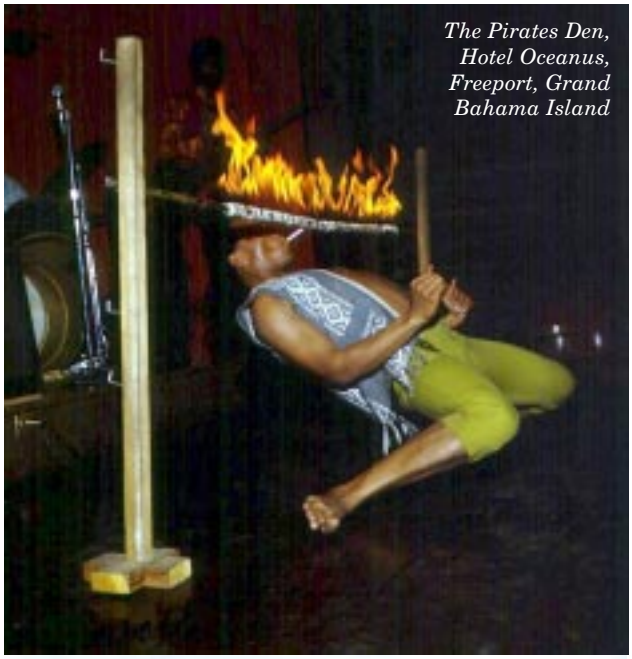
The best place to stay — and the most convenient to the island's attractions — is the Bahamas Princess Resort & Casino, located in Freeport. The hotel offers some of the better food on the island, and operates the adjacent casino, which boasts everything from roulette to craps to sports betting. There are literally hundreds of slot machines, accepting anything from nickels to five-dollar tokens. The casino is casual; the dealers are all friendly, relaxed Bahamians.

The hotel is next door to the island's biggest shopping area, the international Bazaar. Here, you can find everything from duty-free alcohol and emeralds to straw hats and conch shells. The hotel also offers a free shuttle to nearby Xanadu Beach, and if you dive or snorkel, the hotel offers a number of packages with the nearby Underwater Explorers Society (UNEXSO).

You'll also find it easy to visit the Rand Nature Centre, a 100-acre park just minutes from the Princess Casino. The park offers visitors the chance to see hundreds of native plants, including 20 species of wild orchids. Hummingbirds fill the park daily.

As for food, Ruby Swiss, across the street from the hotel, offers the best service you'll find anywhere, all the better to accompany its mouth-watering lobster and steak specialities. The peach flambé dessert, made at your table, isn't to be missed. Another must-try restaurant is Pier One, located a short cab drive away at Freeport Harbour. Built on the docks and specialising in seafood, the view can't be beaten.

However, the real attraction here is the nightly shark feeding. A bell rings nightly



The Pirates Den, Hotel Oceanus, Freeport, Grand Bahama Island

Local handicrafts on display in Lucaya, Grand Bahama Island

at seven, eight, and nine, at which time diners gather at the balcony to watch the owner feed dozens of large sharks. And yes, shark is on the menu.

Grand Bahama's second largest city, Lucaya, offers several good places to stay. The all-inclusive Club Fortuna Beach is Italian-owned, and offers a variety of European cuisine to tantalise your palate. There's also a large private beach, but these amenities come with a drawback : the hotel is a bit isolated. You'll need to rent a car, take a taxi, or use one of the hotel's bikes if you plan to go the eight to ten miles into town.

Another option is the Lucayan Beach Resort and Casino, which offers a two-mile long beach and a 20,000 square-foot casino. As with the Princess Casino in Freeport, you're right at the heart of the gambling action. You can walk to shopping, at nearby Port Lucaya Marketplace. China, crystal, jewellery, alcohol and clothing are just a few of the items available. UNEXSO offers diving trips for scuba aficionados, and the world's largest dolphin facility, the Dolphin Experience, is a great place to spend the day getting to know some of the Caribbean's friendliest inhabitants.

Great food is available in Lucaya, as well. Two places to try : Luciano's, in the Port Lucaya Marketplace, and the Arawak Dining Room, a jacket-required establishment at the Lucaya Golf & Country Club. At both restaurants, you'll find a variety of local dishes, together with delicious Continental cuisine. The Arawak offers jazz on weekend evenings.

Nassau, Bahamas

Gale winds and rain on Bimini, Bahamas

The Out Islands

Far more remote than Grand Bahama, a honeymoon to the Out Islands is definitely for isolationists only.

These less-populated islands offer virtually no gambling, shopping, or nightlife. However, if you're looking for quiet, outdoor beauty and access to diving, snorkelling and the like, you'll be just fine on the Out Islands. Most days, you can stroll for miles on the pink sand beaches without seeing another person.

Snorkelling and fishing are a joy, since the waters are clear as glass. And on Great Abaco Island(s), early-morning bird-watchers can see the endangered Bahamian parrot and nearly 100 other species of birds.

There are several hotels on the Out Islands, although you're less likely to have air conditioning, a television or even a telephone in your room. In fact, you may have to get a ride to the local phone company office if you hope to make a call, so consider this while planning your trip if access to the outside world is important to you.

For those who desire high-end luxury, Club Med operates fantastic resorts on the islands of Eleuthera and San Salvador. Other posh hotels on Eleuthera to consider if you've got the budget : the Pink Sands, the Coral Sands Hotel and Romora Bay Club, all of which are popular with honeymooners. Hotel Higgins Landing, the Coconut Cove Hotel and Club Peace & Plenty, are all worth checking out on Great Exuma Island. On Bimini, die-hard fishermen will be right at home at the Bimini Big Game Fishing Club and Hotel.

Otherwise, it's best to call the Out Islands Promotion Board to discover the myriad hotel, condo and villa options on the various islands. Since most are small and privately owned, be sure to book well ahead if you'd like the honeymoon of your dreams.

JUST THE FACTS

Travel Documents — For US citizens, a valid US passport, or a birth certificate plus two forms of photo identification, are needed for entrance into the Bahamas. You'll also need to show your return or onward-bound ticket.

Time — Same as Miami and New York; either Eastern Standard or Eastern Daylight Time.

Language — English.

Currency — The Bahamian dollar is legal tender, and is always of equal value to the US dollar. Both are accepted everywhere on the island. Credit cards are widely accepted in the tourist cities of Nassau and Freeport/Lucaya, and to a lesser extent on the Out Islands.

Tipping — Check your bill at restaurants and hotels before you leave a tip. It's common practice on the islands for an establishment to add an automatic 15 per cent service charge to the check. If in doubt, ask. For tour guides, tip US$2-US$5 per person ; for taxis, 10-15 per cent of the fare is standard.

Dress — Generally casual; shorts and T-shirts or slacks and a nice shirt are fine for shopping and the casinos, but save the skimpy swimsuits for the beach. Some of the better restaurants require a jacket for men and dresses for women.

Climate — Temperatures in the Bahamas average a balmy 70-75°F from December through May, which is the high tourist season; temperatures range from 80-85°F the rest of the year and the air tends to be more humid. Trade winds blow year round, so expect a breeze.

Electricity — Outlets are 120V/60 cycles, which is compatible with all US appliances.

Multi-link Millennium Night

It was a grand night of celebrations, as representatives from the MIA[1], ACCA[2], CPA Australia[2], MACPA[4], CIMA[5] and the institutions of higher learning (IHL), as well as the Accountant-General's office converged at University Malaya's recent Accounting Nite. Organised by the University's Accounting Club from the Faculty of Business and Accountancy, the event was the culmination of the Club's efforts to set up a Board of Alumni (BOA) to represent accounting graduates of the University. It is hoped that the graduates, who eventually become members of the various professional accountancy bodies, will use the BOA as a platform to exchange information as well as to disseminate information on current developments in the accountancy profession to one another. Thus, the theme for the night, *Multi-link Millennium Nite,* was aptly chosen. MIA President, Abdul Samad Haji Alias, was the guest of honour. He was accompanied by his wife, Jauriah Mohd Noor.

The night kicked off with the launching of a multimedia presentation by MIA, which showcased the Institute's vision to spearhead the accountancy profession to new heights of excellence. As the regulator of the profession, the Institute aims to play an aggressive role in facilitating the activities of the various players in the profession, namely the Government, professional accountancy bodies and the academia. At the launch of the BOA, the students also put together an impressive multimedia presentation that highlighted the events organised by the Club throughout Year 2000. The Club's advisor, Assoc. Prof. Dr. S. Susela Devi, who is also a member of the Council of MIA, was visibly pleased with the success of the launch.

Abdul Samad, in his speech that night, commended the students for their effort in organising the dinner which served to promote networking between all players of the accountancy profession. He said that the exchange of ideas and knowledge between people with different skills augurs well for the betterment of the individuals concerned and the profession. In welcoming the Accountants (Amendment) Act, 2000, Abdul Samad called for the consolidation of all players in the accountancy profession in anticipation of liberalisation and globalisation. He urged the respective entities, i.e. the Government, IHL, professional accountancy bodies, public practitioners and MIA to play their roles effectively. In particular, he gave the assurance that MIA will offer increased support to the activities of the academia in the latter's efforts to upgrade the standard of the profession. On the continuous advancements in information and communications technology and the immense opportunities in electronic commerce, Abdul Samad urged all parties to empower themselves with this knowledge so as to be able to exploit its potential and reap the benefits. He encouraged the possibility of seeking the expertise of the Big-5 firms, which have the resources to provide ideal training environments.

From left, seated : Yue Sau Him; Jauriah; Samad and member of the ACCA Advisory Committee, Teo Ee Sing. Standing : Tan Shook Kheng; Dr. Susela; Accounting Club President, Soh Hong Wee and Project Director, Teoh Siaw

From left, seated : MIA Council members, Yeo Tek Ling and Nik Hasyudeen Yusoff; AG's office representative, Mohd Mohsin Hussein; MIA staff, Ahmad Nadzif Md Nor and Head of ACCA Malaysia Office Nik Roseli Mahmood. From left, standing : MIA staff, Johnny Yong, Nirmala Ramoo and Sazalina Kamarudin

Also present at the dinner that night were MIA Vice-President, Yue Sau Him; Regional President of CPA Australia, George Ong; President of CPA Australia Malaysia Division, Viji Nair; Executive Director of MACPA, Tan Shook Keng and the President of CIMA, Tuan Haji Mustaza Haji Mohamad.

1 MIA — Malaysian Institute of Accountants.

2 ACCA — Association of Chartered Certified Accountants.

3 CPA Australia — Certified Practising Accountants Australia.

4 MACPA — Malaysian Association of Certified Public Accountants.

5 CIMA — Chartered Institute of Management Accountants.

MIA Open House — Ramah Mesra Aidilfitri

In the spirit of festive cheer, the Malaysian Institute of Accountants recently hosted a *Malam Ramah Mesra Aidilfitri* at Sheraton Hotel, Kuala Lumpur. Among the guests at this gala event that night were, Deputy Minister in the Prime Minister's Department, Tengku Datuk Seri Azlan Sultan Abu Bakar; Accountant-General, Siti Maslamah Osman; Securities Commission Chairman, Ali Abdul Kadir; Executive Director of the Malaysian Association of Certified Public Accountants (MACPA), Tan Shook Kheng and President of Barnet Global Limited, Douglas Barnet.

From left : MIA President, Abdul Samad Haji Alias and Tengku Azlan

From left : Tengku Azlan, MIA Council member; YM Raja Dato' Seri Abdul Aziz Raja Salim and MIA Vice President, Yue Sau Him

Tan Shook Kheng (2nd from left), flanked by, from left : MIA Staff, Sazalina Kamarudin, Shamsiah Abdullah, Nor Azimah Abd Aziz and Marini Abu Bakar

From left : MIA staff, Nirmala Ramoo; Executive Director, Ho Foong Moi; MIA council member, Nik Hasyudeen; Executive Director of the Malaysian Institute of Corporate Governance (MICG), Lee Leok Soon and MIA staff, Johnny Yong

Abdul Samad (far right) with from left Ali Abdul Kadir, Douglas Barnet and MIA staff, Katherine Expedit

Helping themselves to the mouth-watering Hari Raya delicacies like 'serunding', 'rendang', 'satay', 'lemang' and a variety of cakes are, from left : MIA staff, Janet Leong, Rashidah Alwi, Katherine Expedit, Ho Foong Chin and Kalsom Mat Akil

Investors' Association National Convention

The Malaysian Institute of Accountants' (MIA) Accounting and Audit Committee Chairman, Goh Joon Hai was the session chairman at a recent National Conference organised by the Malaysian Investors' Association. The 2-day conference which discussed 'The Vital Corporate Issues in 2001' was officiated by the Deputy Minister of Finance, YB Dato Chan Kong Choy. Goh who is a member of the MIA Council is also a member of CPA Australia.

Goh (right) with Malaysian Investors' Association Founder-President Dr. P. H. S. Lim

Sarawak Branch Welcomes New Members

After the celebrations of multiple festivities over the end of Year 2000 and the beginning of 2001, the Sarawak Branch is back to its usual self doing its bit for members in East Malaysia. The Branch held its first members gathering at the Kuching Office on the 10th day of the Snake Year. Its newly appointed Branch Chairman, David Tiang was on hand to welcome ten new members and present them with their MIA Certificates. Aptly called the Chinese New Year Fellowship Gathering, the ceremony was witnessed by 35 other members. In his maiden address, Tiang reminded all members to participate actively in the events organised by the Sarawak Branch. Among the activities organised is the Accountants' Games which is open to MIA members and staff of members' firms. Winners will be selected to represent MIA in the annual Inter-Professional Games scheduled for September 2001.

David Tiang (5th from left), with newly admitted members

Members enjoying the delicious spread at the gathering

Meanwhile, Branch Manager Lucy Read, recently presented an Evening Talk on "Professional Conduct & Ethics". In her talk, Lucy highlighted the recent by-laws which are of importance to members who intend to set up their own practices, audit and non-audit firms. She also briefed members on the recent amendments to the Continuing Professional Development (CPD) guidelines.

IASC Trustees Announce New Standard-Setting Board to Reach Goal of Global Accounting Standards

The International Accounting Standards Committee (IASC) on 25 January 2001, announced the appointment of the new International Accounting Standards Board (IASB). In its press release, IASC announced that the newly appointed Board will play a major role in creating a single set of high quality accounting standards that national bodies around the world can broadly support.

The statement also pointed that the successful development of the convergence toward high-quality internationally accepted accounting standards will provide benefits to auditors, users, preparers and regulators of financial information and statements.

Furthermore, the availability of a common and more reliable financial data will facilitate a better investment climate and reduce the cost of doing business globally. For example, the accounting costs for multinational firms operating in different jurisdictions, will be reduced with the narrowing and eventual elimination of national differences. As a result, regulators will benefit from the greater consistency and quality of information.

The IASC, chaired by former US Federal Reserve Chairman, Paul A. Volcker, is a 19-member oversight body, representing six continents and 14 different countries. The IASC Trustees were appointed in May 2000 by a Nominating Committee composed of leading policy-makers throughout the world and chaired by Arthur Levitt, US Securities and Exchange Commission Chairman. The selection of the standards-making Board marks the completion of one of the major tasks of the Trustees.

The Trustees reviewed over 200 candidates for Board positions. The IASC Constitution mandated that the Board comprise of individuals who represent "the best available combination of technical skills and experience of relevant business and market conditions."

Volcker has been quoted saying : "The Board has been selected on the basis of experience and high professional qualifications. The Trustees were extremely pleased with the exceptional quality of the candidates and believe that the Board truly reflects the best in the field. The decision was reached unanimously, demonstrating the Trustees' conviction. This group is exceptionally well qualified to ensure we reach the goal of globally accepted standards. The result should bring highly significant economic benefits to both the developed and emerging economies."

In accordance with the new IASC Constitution, the IASC Trustees appointed 12 of the members to full-time positions, including the Chairman and Vice Chairman, and two to part-time positions. The Board will be led by Sir David Tweedie, whose prospective appointment was announced earlier. Volcker, on behalf of all of the Trustees, expressed his delight with the willingness of Sir David to accept this responsibility and the warm reception that his appointment has received among interested parties.

In order to encourage cooperation among the new Board and national standard-setters, the Trustees appointed seven of the Board members as official liaisons to national bodies. These liaison Board members will maintain close contact with their respective national standard-setters and will be responsible for coordinating agendas and ensuring that the new IASB and national bodies are working toward the goal of convergence on a single set of high quality standards around the world. Countries with formal liaisons are Australia and New Zealand together, Canada, France, Germany, Japan, the US and the UK. In addition, Board members will have frequent contacts with financial regulators and central banks, private industry, analysts, and academics throughout the world.

Sir David Tweedie, the Chairman of the IASB, remarked, "The mission of the newly-created IASB is simple. In partnership with national standard setters, we will aim to increase the transparency of financial reporting by achieving a single, global method of accounting for transactions — whether in Stuttgart, Sydney, Seattle or Singapore. The potential benefit to the world economy by removing barriers to investment through applying uniform, high-quality standards is enormous. The fact that such eminent professionals are prepared to resign from senior positions in successful careers to back the project is extremely positive. I am delighted to have them as colleagues."

The Trustees have also emphasised their commitment to achieving a broad and representative balance of perspectives, both professionally and geographically, through the creation of a Standards Advisory Council. The Trustees are currently advertising worldwide for suitable candidates. The Advisory Council will meet regularly with the IASB to advise the Board on priorities and to inform the Board of implications of proposed standards for users and producers of financial accounts.

Volcker added, "The Advisory Council must represent the diverse interests involved in the standard-setting process to ensure that the result is usable and relevant information. The new Advisory Council will be a key vehicle for obtaining advice and fresh-thinking."

The new Board is expected to meet for the first time in April 2001. The names of the Board's members and brief biographies are as follows :

Brief Biographical Information on IASB Members

Sir David Tweedie, *Chairman*

Sir David Tweedie served as the first full-time Chairman of the UK Accounting Standards Board, with a term from 1990 to

2000. Before assuming the Chairmanship of the UK Board, Sir David was national technical partner for KPMG and has served as a professor of accounting in his native Scotland. He has worked on international standard-setting issues both as the first Chairman of the G4+1, a cooperative group among leading standard setters, and as a member of the previous IASC Board.

Thomas E. Jones, *Vice Chairman*

As the former Principal Financial Officer of Citicorp and Chairman of the IASC Board, Tom Jones brings extensive experience in standard-setting and the preparation of financial accounts for financial institutions. A British citizen, Jones has worked principally in Belgium, Italy, France and the US throughout his professional career.

Mary E. Barth

As a part-time Board member, Mary Barth, an American citizen, will retain her position as a Professor of Accounting at the Graduate School of Business at Stanford University. Among the academic community, she is widely known and has won national awards both as an educator and for her body of scholarly work. Before entering academia, Prof. Barth was a partner at Arthur Andersen.

Hans-Georg Bruns, *Liaison to German Standard Setter*

Hans-Georg Bruns has served as the Chief Accounting Officer for DaimlerChrysler and has been head of a principal working group of his home country's German Accounting Standards Committee. In his role at Daimler-Benz and now DaimlerChrysler, Dr. Bruns was in charge of the task force listing Daimler-Benz on the New York Stock Exchange and was responsible for the accounting issues related to the DaimlerChrysler merger.

Anthony T. Cope

Tony Cope joined the US Financial Accounting Standards Board in 1993. Prior to that engagement, Cope, a British citizen, worked as a financial analyst in the US for 30 years, ultimately becoming the Director of Fixed Income Research, Wellington Management Co. in Boston. Cope, as a member of the IASC Strategy Working Party, was closely involved with the organisation's current restructuring, and has served as FASB's observer to IASC Board meetings for the last five years.

Robert P. Garnett

Robert Garnett is the Executive Vice President of Finance for Anglo American plc, a South African company, listed on the London Stock Exchange. Garnett has worked as a preparer and analyst of financial statements in his native South Africa throughout his career and, as an IASB Board member, will reach out to the economies of Southern Africa to improve accounting standards.

Gilbert Gélard, *Liaison to French Standard Setter*

Currently a partner at KPMG in his native France, Gilbert Gélard has extensive experience with the French industry. He served as a Deputy CFO with Groupe Hachette from 1973 to 1982 and Deputy Group Comptroller with Elf Aquitaine from 1982 to 1987. Mr. Gélard speaks eight languages and has been a member of the French standard-setting body (CNC). He served as a member of the former IASC Board.

Robert H. Herz

Robert Herz, as a part-time member of the Board, will continue to be a partner at PricewaterhouseCoopers where he has been in charge of technical and professional matters in the US and in the Americas. Herz has been a member of several FASB task forces, and professional and academic committees, and has recently been nominated to become the Chairman of the new Transnational Auditors Committee of the International Federation of Accountants. Though a US citizen, Herz has also lived in England and Argentina, speaks Spanish, and has worked with many international companies on accounting and reporting matters.

James J. Leisenring, *Liaison to the U.S. Standard Setter*

Jim Leisenring has worked on issues related to accounting standards setting over the last three decades, as the Vice Chairman and most recently as Director of International Activities of the US Financial Accounting Standards Board (FASB) in his home country. While at FASB, Leisenring served as FASB's observer for several years at meetings of the former IASC Board.

Warren McGregor, *Liaison to Australian and New Zealand Standard Setters*

Warren McGregor developed an intimate knowledge of standard-setting issues with his work over 20 years at the Australian Accounting Research Foundation, where he ultimately became the Chief Executive Officer. In his most recent position with Stevenson McGregor, a company he co-founded in his native Australia, he has been involved in advising ASEAN nations on adopting high quality accounting standards.

Patricia O'Malley, *Liaison to Canadian Standard-Setter*

Patricia O'Malley currently serves as Chair of the Accounting Standards Board of Canada. She has worked on issues related to global standard setting since 1983 and brings vast experience on work with financial instruments. Before joining the Canadian Board, O'Malley was a Technical Partner at KPMG in her home country of Canada.

Harry K. Schmid

Harry Schmid brings over 40 years of experience as a preparer of financial statements for Nestlé, ultimately becoming Senior Vice President at its headquarters, responsible for corporate reporting. During his professional career and before returning to his native Switzerland, Schmid lived in Latin America for 17 years and was responsible for finance and control of a Latin American subsidiary. Schmid speaks four languages (German, French, English and Spanish). He served as a member of the former IASC Board and the Standing Interpretations Committee.

Geoffrey Whittington, *Liaison to UK Standard Setter*

Geoffrey Whittington is the

PricewaterhouseCoopers Professor of Financial Accounting at Cambridge University and formerly served as a member of the UK Monopolies and Merger Commission. In academia, Professor Whittington is widely respected internationally on issues related to accounting and financial statement analysis and has served as a member of the UK Accounting Standards Board in his native England.

Tatsumi Yamada, *Liaison to Japanese Standard Setter*

Tatsumi Yamada is currently a partner at ChuoAoyama Audit Corporation (a member firm of PricewaterhouseCoopers) in Tokyo. Yamada brings extensive experience with international standard-setting as a Japanese member of the previous IASC board between 1996 and 2000, of which he became an Executive Committee member in 2000.

International Accounting Standards Committee Update

■ The IASC Board at its meeting in Tokyo in October 2000 :

i. Approved limited revisions to *IAS 12, Income Taxes, IAS 19, Employee Benefits, and IAS 39, Financial Instruments : Recognition and Measurement.*

ii. Approved two SIC Interpretations.

IAS 12 (revised 2000), Income Taxes includes now within the scope of the standard the income tax consequences of dividends. The amendment thus addresses the recognition, measurement.

Measurement

On the measurement of income tax consequences of dividends the standard states that, in countries where income taxes are payable at a higher or lower rate depending on whether all or part of the net profit or retained earnings is paid out as dividends to shareholders, current and deferred tax assets and liabilities are to be measured at the tax rate applicable to undistributed profits.

Recognition

Current and deferred tax should be recognised as income or a loss and included in the income statement (except those arising from the circumstances described in Paragraph 58(a) and (b)). However, where an enterprise is required to pay a portion of the dividend to taxation authorities on behalf of shareholders, that amount is charged to equity as a part of the dividends.

IAS 19 (Revised 2000), Employee Benefits extends the definition of plan assets to include certain insurance policies (now described as qualifying insurance policies) that satisfy the same conditions as other plan assets. The revision also introduces requirements for the treatment of reimbursements related to defined benefit obligations.

IAS 39 (Revised 2000), Financial Instruments : Recognition and Measurement provides five limited revisions to IAS 39 and other related International Accounting Standards (IAS 27, IAS 28, IAS 31, and IAS 32) was approved by the Board in order to improve specific paragraphs and help ensure that the Standards are applied consistently. These changes become effective when an enterprise applies IAS 39 for the first time. The revision :

(a) requires consistent accounting for purchases and sales of financial assets for each category of financial assets using either trade date accounting or settlement date accounting;

(b) eliminates the requirement for a lender to recognise collateral received from a borrower in its balance sheet;

(c) provides more explicit requirements for impairment recognition;

(d) requires consistent accounting in the consolidated financial statements for temporary investments in equity securities in accordance with IAS 39 and other International Accounting Standards; and

(e) eliminates redundant disclosure requirements for hedges in IAS 32.

The limited revisions to the three standards and other related standards are operative for annual financial statements covering periods beginning on or after 1 January 2001. Early application is however encouraged.

■ The Board approved two new interpretations to clarify accounting issues under the International Accounting Standards. The two new interpretations are :

i. SIC 19, Reporting Currency — Measurement and Presentation of Financial Statements under IAS 21 and IAS 29 : effective for annual financial periods beginning on or after 1 January 2001.

ii. SIC 24, Earnings Per Share — Financial Instruments and Other Contracts that May be Settled in Shares : effective on 1 December 2000.

SIC 19, *Reporting Currency — Measurement and Presentation of Financial Statements under IAS 21 and IAS 29* states that, the measurement currency selected by the management of an enterprise should provide information that is useful and reflects the economic substance of the underlying events and circumstances relevant to that enterprise. If a particular currency is used to a significant extent in, or has a significant impact on, the enterprise, that currency may be an appropriate measurement currency. All transactions in currencies other than the measurement currency should be treated as transactions in foreign currencies when applying IAS 21. Once an enterprise has selected a measurement

currency, this should not be changed unless there is a change in the underlying events and circumstances relevant to that enterprise.

Although an enterprise in normal circumstances presents its financial statements in the same currency as the measurement currency, the SIC agreed that it may choose to present its financial statements in a different currency. The method of translating the financial statements of a reporting enterprise from the measurement currency to a different currency for presentation should not lead to reporting in a manner that is inconsistent with the measurement of items in the financial statements.

SIC 24, *Earnings Per Share — Financial Instruments and Other Contracts that May be Settled in Shares* clarifies the determination of diluted earnings per share in cases where the form of settlement of a financial instrument or other contract may be either by payment of financial assets or by payment in the form of an issuance of ordinary shares of the reporting enterprise to the holder.

The SIC agreed that all instruments which may result in the issuance of ordinary shares of the reporting enterprise to the holder of the financial instrument or other contract, at the option of the issuer or the holder, are potential ordinary shares of that enterprise. If a potential ordinary share is dilutive, (that is, its conversion to ordinary shares would decrease net profit per share from continuing ordinary operations) then its dilutive effect is included in calculating diluted earnings per share.

IFAC Seeks Comments on Standards to Improve Government Accountability

The International Federation of Accountants (IFAC) Public Sector Committee (PSC) has released for comment four new exposure drafts of proposed International Public Sector Accounting Standards (IPSASs) on 26 January 2001. The exposure drafts have been issued as part of the PSC's ongoing project to develop a comprehensive body of international accounting standards for governments around the world. Titles of the exposure drafts and comment deadlines are as follows :

ED 16 ***Events After the Reporting Date***

Proposes criteria for determining whether the financial statements should be adjusted for events occurring after the balance date and/or additional note disclosures should be made about those events.

Comment deadline : 31 May 2001.

ED 17 ***Segment Reporting***

Proposes that the external financial statements of governments and their agencies include the disclosure of certain information about the segments that are reported internally to the governing board and senior management.

Comment deadline : 31 May 2001.

ED 18 ***Financial Instruments : Disclosure and Presentation***

Proposes requirements for the disclosure of information about financial instruments. The exposure draft includes substantially the same requirements as those in International Accounting Standard IAS 32, *Financial Instruments : Disclosure and Presentation* accounting treatment

Comment deadline : 31 May 2001.

ED 19 ***Investment Property***

Proposes that either a cost or fair value model be adopted for initial recognition and subsequent measurement of Investment Property.

Comment deadline : 31 May 2001.

The PSC Chairman, Ian Mackintosh said, "The PSC set itself the ambitious task of developing by the end of 2001 a core set of International Public Sector Accounting Standards based, to the extent appropriate, on the Standards of the International Accounting Standards Committee (IASs) in place as at August 1997. The issue of these four Exposure Drafts marks another significant step towards the achievement of that objective."

However, Mackintosh also noted that the PSC still had much work to do to complete this first stage of its Standards project and that there was an ongoing need for the PSC to maintain its Standards-setting capacity into the future.

He said, "By the end of the year we need to have completed the major task of converting these and other exposure drafts into final Standards, including the development of a Standard on the cash basis of accounting and guidance to assist entities in moving from the cash to the accrual basis.

"We should not underestimate the difficulty of that task. We also need to acknowledge that while the completion of this first stage of the Standards project will be a major achievement, it will not be the end of the process — the PSC must then deal with a number of significant and difficult public sector specific issues such as the treatment of tax revenues and recognition of social policy liabilities."

All four exposure drafts are posted on the IFAC website at www.ifac.org. Comments may be submitted or faxed to the IFAC Secretariat (1-212-286-9570). Visitors to IFAC's website may also download International Public Sector Accounting Standards (IPSASs) 1-8, Study 11, *Governmental Financial Reporting : Accounting Issues and Practices*, and other recent exposure drafts issued by the PSC including ED 9, *Financial Reporting Under the Cash Basis of Accounting*.

Twenty-Three International Accountancy Firms Launch Effort to Create a Global Quality Standard for Auditing

Twenty-three international accountancy firms met in London on 18 January 2001, to develop a Global Quality Standard for firms conducting transnational audits. The intention is to ensure consistent, high-quality auditing practices worldwide, as a means of protecting the interests of cross-border investors and other economic decision-makers, and of promoting financial market stability. The International Federation of Accountants (IFAC) sponsored the meeting, and the firms will operate as a new section of IFAC known as the Forum of Firms.

According IFAC President, Tsuguoki (Aki) Fujinuma, "The launch of the Forum of Firms is another significant step in implementing the plan IFAC adopted last year to strengthen its role as the global standard-setting, self-regulatory and representational body for the profession's audit and assurance-related services."

He added, "Commitment to the obligations of membership in the Forum will raise the standards of the international practice of auditing and will strongly serve the interests of the users of the profession's services."

Globalisation of business and commerce has highlighted the inadequacy of financial reporting and auditing in accordance with purely national standards. Decision-makers need assurance that the financial information on which they base their decisions is transparent, consistent, comprehensive and comparable across national boundaries. Through their commitment to a Global Quality Standard, audit firms that are members of the new Forum of Firms will be able to provide this assurance.

Membership in the Forum of Firms is open to any firm that has or is interested in accepting transnational audit appointments, provided the firm :

- agrees to conform to the Forum's Global Quality Standard, and
- agrees to subject its assurance work to periodic external quality assurance reviews.

The Forum's Global Quality Standard is likely to include :

- having audit policies and a methodology for conducting transnational audits in accordance with International Standards of Auditing;
- complying with the IFAC Code of Ethics;
- maintaining training programmes to keep partners and staff up to date on international developments in financial reporting; and
- maintaining quality control standards and conducting regular quality assurance reviews to monitor compliance with the firm's policies and methodology.

The Forum of Firms will operate on a provisional basis until IFAC and the participating firms agree on a formal constitution and operating procedures. Considerable work has already been done and the intent is to move from provisional to permanent standing in the next few months.

The creation of the Forum of Firms is just one prong of a four-pronged program to restructure and strengthen IFAC. Other aspects of the program include :

- The introduction of a programme for monitoring the compliance of IFAC member bodies (153 professional institutes in 113 countries) with IFAC standards;
- the strengthening of the processes and broadening of the membership of the International Auditing Practices Committee, which sets International Standards on Auditing; and
- the establishment of a Public Oversight Board to oversee the activities of IFAC and the Forum of Firms that affect the public interest.

The IFAC strengthening programme, in turn, fits into the broader initiative to improve the quality of financial reporting and auditing around the world that is being implemented under the auspices of the International Forum on Accountancy Development (IFAD). IFAD brings together more than 30 international public and private organisations, including those representing the accounting profession, regulators, standard-setters, development banks and agencies, governments, and users and preparers of financial information. IFAD was first presented with a 'vision' for improving financial reporting and auditing on a worldwide basis in June 1999. IFAD participants endorsed the initiative at their meeting in October 1999.

According to Richard Findlater, a senior partner in Ernst & Young, who participated in the Forum of Firms meeting and represents his firm in IFAD, "After 18 months of consensus-building and planning, the IFAD 'vision' is now taking concrete form. The agreement to move ahead on the IFAC Forum of Firms is a significant milestone. The coming year will see more, equally important implementation steps. Success will depend upon the commitment of all the interested parties represented in IFAD."

Report of 70th AFA Council Meeting

The 70th AFA Council Meeting was held in Ho Chi Minh City, Vietnam, from 7-8 January 2001. The meeting was attended by representatives of member bodies from Singapore, Philippines, Myanmar, Laos, Indonesia, Brunei, Vietnam, Thailand and Malaysia. The Institute was represented by the President, En Abdul Samad bin Haji Alias, three Council Members namely Raja Dato' Seri Abdul Aziz Raja Salim, Goh Joon Hai and Nik Mohd. Hasyudeen and Katharene Expedit from the Secretariat.

Amongst the issues discussed at the meeting, are as follows :

One for the album... MIA President, Abdul Samad Alias with AFA Vice President, Paitoon Taveebhol

1 Cambodia

AFA is currently working on the invitation for Cambodia to join AFA. All attempts to contact the Institute in Cambodia by Vietnam and Thailand had been unsuccessful. However, Singapore and Veitnam have been requested to continue to make contact with the relevant counterpart in Cambodia

ii. **ICAA**

The application of ICAA to become an associate member of AFA was approved.

2 AFA Financial Accounts

i. AFA Financial Accounts was approved by the Council.

ii. The Council also considered the request by Laos to be given 50 per cent exemption of membership fees, i.e. S$1,250 similar to that given to Brunei due to its small membership.

3 IFAC/IASC Payment

Representative from Singapore was of the view that currently contributions made to the IFAC by the various countries appeared to have varied and the amounts payable were large. Thus AFA should join IFAC as a block member and in such an event would only have to pay US$100,000 per annum. However the minimum requirement to be eligible for block membership is 10 primary members representing a minimum of 100,000 accountants.

4 Liberalisation of Services under the AFA's

i. All member bodies presented rules, by-laws and other requirements affecting the licensing of Public Accountants in their respective countries.

ii. After extensive deliberation on the above and related issues, it was decided that :

- Discussions be limited to Practising Accountants only.
- Only Mode 3 (Commercial Presence) and Mode 4 (Presence of Natural Persons) be considered.
- All countries having citizenship requirement for public practice should be persuaded to remove this condition.
- For accountability and consumer protection purposes, residency requirement should still be maintained.
- A foreign citizen wishing to practise in a host country must comply with the standards, ethics and competency as required by the host country, which should not be more than that required of citizens of the host country.
- Member bodies should work out bilateral agreements amongst themselves, including the recognition of academic qualification, experience requirements and qualifying examination, where required.

5 Other Matters

With the objective of working towards harmonisation of accounting and auditing practices amongst the ASEAN countries, there was general consensus that all countries must move towards IASs. As such countries that have not done so todate, were encouraged to do so without further delay.

Among Malaysia's Representatives, (L-R) Nik Mohd Hasyudeen, Samad, Goh Joon Hai and YM Raja Datuk Seri Abdul Aziz Raja Salim

The next meeting will be held in Brunei Darussalam, from 13-14 May 2001.

Recommended Practice Guide 4 Reports and Qualifications

The Matrix table and the appendix showing the samples of unqualified reports. Continuation from the January 2001 issue.

Matrix Table

Circumstances	Material and Not Pervasive	Material and Pervasive
Limitation on the Scope	Exempt for	Disclaimer
Disagreement		Adverse

THE APPENDIX SHOWING THE SAMPLES OF UNQUALIFIED REPORTS

MODEL AUDIT REPORTS
Reports pursuant to the Companies Act 1965

Model 1 : Unqualified opinion

REPORT OF THE AUDITORS FOR COMPANIES INCORPORATED IN MALAYSIA PURSUANT TO THE COMPANIES ACT, 1965.

Company No

XYZ	

Report of the Auditors to the members of XYZ Sdn Bhd
(Incorporated in Malaysia)

We have audited the consolidated[1] financial statements set out on pages ___ to ___ of XYZ Sdn Bhd.

The financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with approved Standards on Auditing issued by the Malaysian Institute of Accountants. These standards require that we plan and perform the audit to obtain all the information and explanations, which we consider necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. An audit includes an assessment of the accounting principles used and significant estimates made by the directors as well as evaluating the overall adequacy of the presentation of information in the financial statements.

We believe our audit provides a reasonable basis for our opinion.

In our opinion :

a) the financial statements which have been prepared under the historical cost convention, as modified by the revaluation of certain assets, are properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards so as to give a true and fair view of :

(i) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the accounts of the Company **and of the Group**; and

(ii) the state of affairs of the Company **and of the Group** as at 31st December 20xx and of the results of the operations of the Company **and of the Group** and of the cash flows of the Company[2] **and of the Group** for the year ended on that date; and

b) the accounting and other records and the registers required by the Companies Act, 1965 to be kept by the company and by the subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the said Act.

(We have considered the financial statements and the auditor's reports thereon of the subsidiaries of which we have not acted as auditors, as indicated in Note xx to the accounts)*.

We are satisfied that the accounts of the subsidiaries that have been consolidated with the company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

The audit reports on the financial statements of the subsidiaries were not subject to any qualification and did not include any comment (or any adverse comment) made under Subsection (3) of Section 174 of the Act.

ABC & Co (AF-xxxx) — Mr X — Partner
Public Accountants (Malaysia) — No. xxxxx
Address

Dated : xx/xx/20xx

Alternative Note* : (The names of the subsidiaries of which we have not acted as auditors are indicated on Note xx to the accounts. We have considered the financial statements of the subsidiaries and the auditor's reports thereon.)

[1] 1. Words in bold are for report on group
2. Words in bold and in (bracket) apply only where subsidiaries are not audited by the holding company

[2] There is no exemption set out in MASB5 or MASB 1 for the preparation of the parent company's cash flow when consolidated cash flows is prepared.

Model 2 : Statement pursuant to Section 165A of the Companies Act, 1965

Company No
XYZ

XYZ Sdn Bhd
(Incorporated in Malaysia)

STATEMENT BY AUDITORS PURSUANT TO SECTION 165A, COMPANIES ACT, 1965

In pursuance of Section 165A of the Companies Act, 1965 the accounts made up to xxxxx which have been laid before the company in the Annual General Meeting held on xxxx to which this statement relates to :

(i) have been audited in accordance with the said Act; and

(ii) have not been qualified and no comments were made in pursuance of Section 174(3) of the Companies Act, 1965;

and in our opinion, the company,

(i) has kept proper accounting records and other books during the period covered by those accounts; and

(ii) as at the date to which the profit and loss has been made up appeared to have been able to meet its liabilities as and when they fall due.

Dated this
MR X - PARTNER NO. xxxxx
PUBLIC ACCOUNTANT

ABC & CO (AF - XXXX)
PUBLIC ACCOUNTANTS, MALAYSIA

LODGED IN THE OFFICE OF THE REGISTRAR OF COMPANIES BY

NAME	:	**ABC MANAGEMENT SERVICES SDN BHD**
ADDRESS	:	**XXXXXXXXXXXXXX**
TELEPHONE NO.	:	**XX-XXXXXXX**
FACSIMILE NO.	:	**XX-XXXXXXX**

Model 3 : Unqualified opinion — foreign incorporated corporation carrying on a business in Malaysia.

REPORT OF THE AUDITORS ON THE CORPORATION'S OPERATIONS IN MALAYSIA PURSUANT TO SECTION 336 OF THE COMPANIES ACT, 1965.

Title]
Addressee] *as in model 1*

We have audited the financial statements of the corporation's operations in Malaysia set out on pages___ to___of XYZ Sdn Bhd.

Responsibility]
Scope] *as in model 1*

In our opinion :

a) the financial statements which have been prepared under the historical cost convention, as modified by the revaluation of certain assets, are properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards so as to give a true and fair view of :

(ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the accounts of the corporation's operations in Malaysia: and

(iii) the state of affairs of the corporation's operations in Malaysia as at 31st December 20xx and of the results of the operations of the corporation's operations in Malaysia and of the cash flows of the corporation's operations in Malaysia for the year ended on that date;

and

b) the accounting and other records and the registers required by the Companies Act, 1965 to be kept by the corporation's operations in Malaysia have been properly kept in accordance with the provisions of the said Act.

ABC & Co (AF-xxxx) Mr X — Partner
Public Accountants (Malaysia) No. xxxxx
Address
Dated : xx/xx/20xx

Special purpose reports and reports under other legislation

Model 4 (a) : Unqualified Opinion

REPORT OF THE AUDITORS TO THE CONTROLLER OF HOUSING

Company No
XYZ

Report of the Auditors to the Controller of Housing
XYZ Sdn Bhd *(Incorporated in Malaysia)*

We have audited the financial statements set out on pages ___ to ___ of XYZ Sdn Bhd.

The financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion on the financial statements based on our audit pursuant to Section 9(3) of the Housing Developers (Control and Licensing) Act, 1966 and of the Housing Developers (Housing Development Account) Regulations, 1991.

We conducted our audit in accordance with approved Standards on Auditing issued by the Malaysian Institute of Accountants. These standards require that we plan and perform the audit to obtain all the information and explanations, which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. An audit includes an assessment of the accounting principles used and significant estimates made by the directors as well as evaluating the overall adequacy of the presentation of information in the financial statements.

We believe our audit provides a reasonable basis for our opinion.

In our opinion:

a) the financial statements which have been prepared under the historical cost convention, as modified by the revaluation of certain assets, are properly drawn up in accordance with the provisions of the Housing Developers (Control and Licensing) Act, 1966 and applicable approved accounting standards

so as to give a true and fair view of :

(i) the state of affairs of the company as at 31st December 20xx and of the results of their operations for the year ended on that date;

(ii) the accounting and other records required by the Housing Developers (Control and Licensing) Act, 1966 to be kept by the company, have been properly kept in accordance with the provisions of the said Act; and

(iii) we have received satisfactory information and explanations from officers and agents of the company as required for the purposes of our audit,

and

b) the account maintained for Lot PTD No : xxxx, Mukim of xxxx, in the District of xxxxx, in the state of xxxx, has been opened and maintained pursuant to the Housing Developers (Housing Development Account) Regulations, 1991.

Based on our work done, nothing has come to our attention that causes us to believe that the monies in the Housing Development Account have not been withdrawn in accordance with the Regulations.

ABC & Co (AF-xxxx) Mr X — Partner
Public Accountants (Malaysia) No. xxxxx
Address
Dated : xx/xx/20xx

Model 4 (b) : Unqualified Opinion

(a) Model 4 (b) (i); and

Company No : xxxx-x

AUDITORS' REPORT PURSUANT TO SECTION 9(3) OF THE HOUSING DEVELOPERS (CONTROL AND LICENSING) ACT, 1966

Controller of Housing
XYZ SDN BHD

We have audited the financial statements set out on pages ___ to ___ of XYZ Sdn Bhd.

The financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion on the financial statements based on our audit pursuant to Section 9(3) of the Housing Developers (Control and Licensing) Act, 1966.

We conducted our audit in accordance with approved Standards on Auditing issued by the Malaysian Institute of Accountants. These standards require that we plan and perform the audit to obtain all the information and explanations, which we consider necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. An audit includes an assessment of the accounting principles used and significant estimates made by the directors as well as evaluating the overall adequacy of the presentation of information in the financial statements.

We believe our audit provides a reasonable basis for our opinion.

In our opinion :

(i) the financial statements are properly drawn up so as to give a true and fair view of the state of affairs of the Company as at 31st December 20xx and of the results of the Company for the year ended on that date;

(ii) the accounting and other records examined by us are properly kept; and

(iii) the explanations and information given to us by the officers of the Company have been satisfactory.

ABC & Co (AF-xxxx) Mr X — Partner
Public Accountants (Malaysia) No. xxxxx
Address
Dated : xx/xx/20xx

(a) Model 4 (b) (i); and

Company No. : xxxx-x

AUDITORS' REPORT PURSUANT TO REGULATION 12 OF THE HOUSING DEVELOPERS (HOUSING DEVELOPMENT ACCOUNT) REGULATIONS, 1991

Controller of Housing
XYZ SDN BHD

ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 20xx

In the course of our audit as external auditors of XYZ SDN BHD (Company No : xxxx-x) for the year ended 31st December 20xx, we have audited the Housing Development Account required to be opened and maintained pursuant to the Housing Developers (Housing Development Account) Regulations, 1991.

The account maintained is for Lot PTD No : xxxx, Mukim of xxxx, in the District of xxxxxx, in the state of xxxx.

Based on our work done, nothing has come to our attention that causes us to believe that the monies in the Housing Development Account have not been withdrawn in accordance with the regulations.

ABC & Co (AF-xxxx) Mr X — Partner
Public Accountants (Malaysia) No. xxxxx
Address
Dated : xx/xx/20xx

Model 5 : Co-operative societies

REPORT OF THE AUDITORS FOR CO-OPERATIVE SOCIETIES

REPORT OF THE AUDITORS TO THE MEMBERS OF KOPERASI XYZ LTD

We have audited the financial statements set out on pages ___ to ___ of Koperasi XYZ Ltd (the Co-operative Society) pursuant to the requirements of Section 63(2), (3) and (5), Co-operative Societies Act, 1993.

Responsibility]
Scope] *as in model 1*

In our opinion,

(a) proper accounting and other records have been kept in accordance with Section 58 of the Co-operative Societies Act, 1993;

(b) the receipt, expenditure and investment of monies and the acquisition and disposal of assets by the Co-operative Society during the year ended xxxx are in accordance with the Co-operative Societies Act, 1993, the Co-operative Societies Regulations, 1995 and the regulations and by-laws of the Co-operative Society;

(c) the assets and liabilities statements including unsettled debts are reasonable; and

(d) the financial statements which have been prepared under the historical cost convention, as modified by the revaluation of certain assets, are properly drawn up in accordance with the provisions of the Co-operative Societies Act, 1993 and applicable approved accounting standards so as to give a true and fair view of the state of affairs and financial transactions of the operations and cash flow statement of the Co-operative Society for the year ended as at 31st December 20xx.

ABC & Co (AF-xxxx) Mr X — Partner
Public Accountants (Malaysia) No. xxxxx
Address Approval No. J. P. K. Xxxx
Dated : xx/xx/20xx

Model 6 : Clubs/societies/non-profit organisations

REPORT OF THE AUDITORS FOR CLUBS/ SOCIETIES/NON-PROFIT ORGANISATIONS

REPORT OF THE AUDITORS TO THE MEMBERS OF THE IMPAIRED SOCIETY

We have audited the financial statements set out on pages ___ to ___ of the Impaired Society (the association).

The financial statements are the responsibility of the management committee. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with approved Standards on Auditing issued by the Malaysian Institute of Accountants. These standards require that we plan and perform the audit to obtain all the information and explanations, which we consider necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. An audit includes an assessment of the accounting principles used and significant estimates made by the management committee as well as evaluating the overall adequacy of the presentation of information in the financial statements.

We believe our audit provides a reasonable basis for our opinion.

In our opinion;

a) the financial statements which have been prepared under the historical cost convention, as modified by the revaluation of certain assets, are properly drawn up in accordance with the provisions of the rules and regulations of the association and applicable approved accounting standards so as give a true and fair view of the state of affairs of the association at 31st December 20xx and of the income and expenditure account and cash flow statement for the year ended on that date; and

b) proper accounting and other records have been kept in accordance with the rules and regulations of the association.

ABC & Co (AF-xxxx) Mr X — Partner
Public Accountants (Malaysia) No. xxxxx
Address
Dated : xx/xx/20xx

Special circumstances that require the special purpose reports.The following are the sample reports for those circumstances

Model 7 : Pioneer certificate

REPORT IN SUPPORT OF THE APPLICATION FOR PIONEER CERTIFICATE UNDER THE PROMOTION OF INVESTMENTS ACT 1986

Date

The Directors
XYZ Sdn Bhd

Dear Sirs,

In accordance with your instructions, we have examined the annexed application for pioneer certificate under the Promotion of Investments Act, 1986, which we have signed and stamped for the purpose of identification with this report.

The annexed application for pioneer certificate is the responsibility of the company's directors. Our responsibility is to express an opinion as to whether it was prepared in accordance with the records made available to us for our examination.

We conducted our examination in accordance with approved Standards on Auditing issued by the Malaysian Institute of Accountants. These standards require that we plan and perform the examination to obtain all the information and explanations, which we consider necessary to provide us with sufficient evidence to give reasonable assurance that the annexed application is free of material misstatement. Our examination includes on a test basis, evidence relevant to the amounts and disclosures in the annexed application. Our examination includes an assessment of the accounting principles used and significant estimates made by the directors as well as evaluating the overall adequacy of the presentation of information in the application.

We believe our examination, to the extent considered appropriate, provides a reasonable basis for our opinion.

In our opinion, the annexed application for pioneer certificate under the Promotion of Investments Act, 1986 has been properly drawn up in accordance with the records of the company.

Yours faithfully,

.....
Mr X - Partner (No. xxxxx)

ABC & Co (AF-xxxx)
Public Accountants (Malaysia)
Address

Model 8 : ECM 5

Our Ref :

Date

TheDirectors
XYZ Sdn Bhd

Dear Sirs,

AUDIT REPORT FOR EXPORT RECEIPTS FOR THE QUARTER ENDED 31 MARCH 20XX

We have examined the annexed report on the exports for the quarter ended 31st March 20xx, which we have stamped for the purpose of identification with this letter, with the records of the company.

The preparation of the quarterly reports is the responsibility of the company's directors. Our responsibility is to express an opinion as to whether it was prepared in accordance with the records made available to us for our examination.

We conducted our examination in accordance with approved Standards on Auditing issued by the Malaysian Institute of Accountants. These standards require that we plan and perform the examination to obtain all the information and explanations, which we consider necessary to provide us with sufficient evidence to give reasonable assurance that the annexed report is free of material misstatement. Our examination includes, on a test basis, evidence relevant to the amounts and disclosures in the annexed report. Our examination includes an assessment of the accounting principles used and significant estimates made by the directors as well as evaluating the overall adequacy of the presentation of information in the annexed report.

We believe our examination, to the extent considered appropriate, provides a reasonable basis for our opinion.

In our opinion, the annexed report on exports for the quarter ended 31st March 20xx has been prepared in accordance with the requirements of ECM 5.

Yours faithfully,

.....
Mr X - Partner
(No. xxxxx)

ABC & Co (AF-xxxx)
Public Accountants (Malaysia)
Address

Model 9 : Income Tax

AUDITOR'S REPORT PURSUANT TO SECTION 82(5) OF THE INCOME TAX ACT, 1967

The Directors
ABC Partnership

We have audited the financial statements set out on pages ___ to ___ of ABC Partnership.

The financial statements are the responsibility of the partners of ABC Partnership. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with approved Standards on Auditing issued by the Malaysian Institute of Accountants. These standards require that we plan and perform the audit to obtain all the information and explanations, which we consider necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. An audit includes an assessment of the accounting principles used and significant estimates made by the directors as well as evaluating the overall adequacy of the presentation of information in the financial statements.

We believe our audit provides a reasonable basis for our opinion.

In our opinion:

a) the financial statements which have been prepared under the historical cost convention, as modified by the revaluation of certain assets, are properly drawn up in accordance with applicable approved accounting standards so as to give a true and fair view of the state of affairs of the partnership at 31st December 20xx and of the results of the operations of the partnership and cash flows of the partnership for the year ended on that date; and
b) the accounting and other records required by the Income Tax Act, 1967 to be kept by the company have been properly kept in accordance with the provisions of the said Act.

ABC & Co (AF-xxxx) Mr X — Partner
Public Accountants (Malaysia) No. xxxxx
Address

Dated : xx/xx/20xx

Model 10 : Sales Tax

The Directors
XYZ Sdn Bhd

AUDIT REPORT UNDER SECTION 64 OF THE SALES TAX ACT, 1972

In accordance with your instructions, we have examined the information set out in the annexed Audit Certificate under Section 64 of the Sales Tax Act, 1972, which we have signed and stamped for the purpose of identification with this report.

The Audit Certificate is the responsibility of the company's directors. Our responsibility is to express an opinion on the Audit Certificate based on our examination.

We conducted our examination in accordance with approved Standards on Auditing issued by the Malaysian Institute of Accountants. These standards require that we plan and perform the examination to obtain all the information and explanations, which we consider necessary to provide us with sufficient evidence to give reasonable assurance that the annexed Audit Certificate is free of material misstatement. Our examination includes, on a test basis, evidence relevant to the amounts and disclosures in the annexed Audit Certificate. Our examination includes an assessment of the accounting principles used and significant estimates made by the

directors as well as evaluating the overall adequacy of the presentation of information in the annexed Audit Certificate.

We believe our examination, to the extent considered appropriate, provides a reasonable basis for our opinion.

In our opinion the annexed Audit Certificate has been properly drawn up in accordance with the records of the company/business; and the books and records required by the Sales Tax Act, 1972 to be kept by the licensee has been properly kept in accordance with the provisions of the said Act.

Yours faithfully,

ABC & Co (AF-xxxx) Mr X — Partner
Public Accountants (Malaysia) No.xxxxx
Address

Dated: xx/xx/20xx

Model 11 : Service Tax

The Directors
XYZ Sdn Bhd

AUDIT REPORT UNDER REGULATION 8 (8) OF THE SERVICE TAX REGULATION, 1975

In accordance with your instructions, we have examined the information set out in the annexed Audit Certificate under Regulation 8(8) of the Service Tax Regulation, 1975 which we have signed and stamped for the purpose of identification with this report.

The Audit Certificate is the responsibility of the company's directors. Our responsibility is to express an opinion on the Audit Certificate based on our examination.

We conducted our examination in accordance with approved Standards on Auditing issued by the Malaysian Institute of Accountants. These standards require that we plan and perform the examination to obtain all the information and explanations, which we consider necessary to provide us with sufficient evidence to give reasonable assurance that the annexed Audit Certificate is free of material misstatement. Our examination includes, on a test basis, evidence relevant to the amounts and disclosures in the annexed Audit Certificate. Our examination includes an assessment of the accounting principles used and significant estimates made by the directors as well as evaluating the overall adequacy of the presentation of information in the annexed Audit Certificate.

We believe our examination, to the extent considered appropriate, provides a reasonable basis for our opinion.

In our opinion, the annexed Audit Certificate has been properly drawn up in accordance with the records of the company/business; and the books and records required by the Service Tax Regulation, 1975 to be kept by the licensee, have been properly kept in accordance with the provisions of the said Regulation.

Yours faithfully,

ABC & Co (AF-xxxx) Mr. X — Partner
Public Accountants (Malaysia) No.xxxxx
Address

Dated: xx/xx/20xx

Model 12 : Trade Union

Report of the Auditors for Trade Union

REPORT OF THE AUDITORS TO THE MEMBERS OF KESATUAN X

We have examined the financial statements as set out on pages ___to ___of Kesatuan X (the registered Trade Union).

Responsibility]
Scope] as model 1

In our opinion,

a) the financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain assets, in accordance with the provisions of the Trade Union Act, 1959 and Regulation 30 of the Trade Union Regulations, 1959 and applicable approved accounting standards so as to give a true and fair view of the state of affairs and of the financial transactions and of the results of the registered Trade Union as at 31st December 20xx; and

b) the accounting and other records and the Register of the registered Trade Union examined by us have been kept in accordance with the Trade Union Act, 1959, Trade Union Regulations, 1959 and the regulations and by-laws of the registered Trade Union.

ABC & Co (AF-xxxx) Mr. X — Partner
Public Accountants (Malaysia) No.xxxxx
Address Dated: xx/xx/20xx

Compilation report

Model 13 : Accountants' Report for Unincorporated Bodies

ACCOUNTANTS' REPORT TO THE PARTNERS OF SYARIKAT ABC

We have prepared the financial statements, on pages ___ to___ of Syarikat ABC, comprising of the balance sheet and the notes to the accounts as at 31st December 20xx and of the profit and loss account and the cash flow statement for the year ended on that date from the accounting and other records of Syarikat ABC under the historical cost convention as modified by the revaluation of certain assets and from information and explanations supplied to us by agents and employees of Syarikat ABC and the partners.

The financial statements are the responsibility of the partners. Under the terms of our engagement, the financial statements are prepared at the request of and exclusively for the use and benefit of Syarikat ABC and its partners and we have not audited the accounting and other records of Syarikat ABC or the financial statements.

Accordingly we express no opinion as to whether they present a true and fair view of the state of affairs of Syarikat ABC at 31st December 20xx and of the results of their operations and cash flows of Syarikat ABC for the year ended on that date.

ABC & Co (AF-xxxx) Mr. X — Partner
Public Accountants (Malaysia) No.xxxxx
Address Dated: xx/xx/20xx

PROFESSIONAL EXAMINATIONS

of the Malaysian Institute of Taxation

One of the main objectives of the Malaysian Institute of Taxation (MIT) is to train and build up a pool of qualified tax personnel as well as foster and maintain the highest standard of professional ethics and competency among its members.

One avenue of producing qualified tax personnel is through professional examinations. As such, MIT conducted its first professional examination in December 1995. To-date, MIT has successfully conducted five examinations. The professional examinations also seek to overcome the present shortage of qualified tax practitioners in the country.

Examination Structure

The professional examination is currently held annually and is comprised of three levels.

Foundation Level

- Taxation I
- Economics & Business Statistics
- Financial Accounting I

Intermediate Level

- Taxation II
- Taxation III
- Company & Business Law

Final Level

- Taxation IV
- Taxation V
- Business & Financial Management
- Financial Accounting II

How to Register

You can contact the Institute's Secretariat for a copy of the Students' Guide. The Guide contains general information on the examinations and a set of registration forms, which must be submitted with the necessary documents to the Secretariat.

Entrance Requirements

(a) Minimum Entry Requirements :

- At least 17 years old.
- At least two principal level passes in the HSC/STPM examination (excluding *Kertas Am/Pengajian Am*) or equivalent.
- Credits in English Language and Mathematics and an ordinary pass in Bahasa Malaysia at MCE/SPM level.

(b) Degrees, diplomas and professional qualifications (local/overseas) recognised by MIT to supersede minimum requirements in (a).

(c) Full Members of local and overseas accounting bodies.

Exemption

Exemption from specific papers in the professional examinations is available, and the extent of exemption granted will depend on qualifications attained and course contents as determined by the MIT Council.

Exemption Fees

Foundation	RM50.00	per subject
Intermediate	RM60.00	per subject
Final	RM70.00	per subject

Examination Fees

Foundation	RM50.00	per subject
Intermediate	RM60.00	per subject
Final	RM70.00	per subject

DATES TO REMEMBER FOR 2000 EXAMINATION

1 September

Closing date for registration as a student to sit for the examination of that year.

15 October

Closing date for submission of examination entry for the examination of that year.

December

Examination.

For further enquiries, please contact the Secretariat at Dewan Akauntan, 2 Jalan Tun Sambanthan 3, Brickfields, 50470 Kuala Lumpur. (Tel : 03-2274 5055; Fax : 03-2274 1783)

ACCA UNVEILS NEW CORPORATE IDENTITY

The Association of Cahartered Accountants (ACCA) launched its coporate identity at a dinner cum exhibition recently. The logo was unveiled by the Tengku Mahkota Of Kelantan, Tengku Muhammad Faris Petra Ibni Sultan Ismail Petra. Also present at the launch were ACCA President Dr Morya Kedslie, ACCA Chief Executive Anthea Rose and Chairman of its Malaysian Advisory Committee and Malaysian Institute of Accountants (MIA) Council member Abdul Rahim Hamid.

The simple yet attractive logo reflects ACCA's dynamism in facing challenges in the new century as well as its strong foundation and its sense of balance. Its strong foundation is evident in the position of the logotype at the bottom of the block while its sense of balance is reflected in the equal margins on the left, bottom and right hand sides.

From left to right : Dr. Moyra Kedslie — ACCA President, His Royal Highness Tengku Muhammad Faris Petra Ibni Sultan Ismail Petra — Tengku Mahkota Kelantan, Mrs. Anthea Rose — ACCA Chief Executive and En. Abdul Rahim Hamid — Chairman, Malaysian Advisory Committee (MAC).

Communicating In A Truly Professional Approach

ACCA Malaysia Sdn Bhd (473007 P)

UNDERSTANDING BODY LANGUAGE

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 (2000/2001 Term)

Elected Members

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

MIA Nominated Members

Lam Kee Soon
Yue Sau Him

Secretariat Office

Malaysian Association of Accounting Administrators
Dewan Akauntan, 2 Jalan Tun Sambanthan 3,
Brickfields, 50470 Kuala Lumpur.
Tel : 03-2274 5055 or Fax : 03-2274 1783
e-mail : maaa@mia.org.my

Editor for MAAA News : Low Han Men, Aric

Report by Thane Meyyappan & Aric Low

Understanding body language adds a new dimension to our understanding of the communications process that we are all so accustomed to, i.e. the written and verbal form. It can be a very useful tool during negotiations and presentations said Jackson Yogarajah, Principal Training Consultant of Sales Excellence Training, (M) Sdn Bhd.

Yogarajah was invited to give a talk on "Understanding Body Language" recently, during MAAA's monthly evening talk. He has authored and published more than a dozen articles on body language and was a former Council Member of the Malaysian Association of Productivity (MAP).

What is body language? How do we interpret body language?

Body language is the non-verbal cues and signals (such as the tone of voice, touch, looks, body movements and gestures etc.) expressed during a social interaction between two or more persons. Most of the time, these signals are unconscious reflex actions or expressions. Understanding body language helps us learn more about others and ourselves, and thus can improve interpersonal relationships.

Jackson Yogarajah giving a talk on "Understanding Body Language"

To be able to understand and interpret body language correctly requires certain skills. According to Yogarajah, we can apply the 6 C's formula as a general guide to help us 'read' body language:

Cluster — This involves the interplay of complementary signals that must be considered before arriving at the correct interpretation. For example, an arm-crossing gesture may denote defensiveness, negativity, insecurity or uncertainty, etc. But, it could also mean that the person is feeling cold or is in the habit of crossing his arms. It would therefore be wise to consider another one or more surrounding gestures before making an interpretation.

Some of the members at the evening talk session

Consistency — This relates to the constancy of the same principles of thought or action; a certain gesture in a particular situation being compared with another gesture that follows in order to determine the true intention. Going back to the arm-crossing example, it can be concluded correctly that the person is feeling cold if we find that his subsequent gestures include the rubbing of the palms to keep warm and/or the mouth blowing warm air into his palms.

Congruence — Here, there is agreement of the actions and the spoken words. The scratching of the back of the head is usually taken to mean uncertainty. If' this gesture is accompanied by some spoken words as "I don't really understand, can you repeat that?", then it is clear that there is congruence (an affirmation) between the gesture and the words spoken.

Context — The surrounding circumstances when considered would usually help provide the true reading of the signals. Referring to the arm-crossing example again, one could conclude that the person is not being defensive but feeling cold if it is known that the air-conditioner in the room had been set at a high-cold level, *and/or* the other persons in the room are also folding their arms.

Culture — This relates to the interpretation of a signal that is peculiar to a particular

society or group of persons. We all know that the smile is universally accepted as a sign of happiness. However, in Brazil, the smile is read as a sign of weakness, in Kenya a sign of dominance, and in Japan a mask and may be read as an expression of embarrassment or reservation. Care must therefore be taken to understand the different cultural factors whenever applicable.

Custom — These are habitual gestures done as a tradition or as an established way of behaviour. Sometimes, the repeated gestures have no particular meaning, and have its own origin and reasons best known only to the person alone. For example, a girl who from childhood days, is in the habit of twirling her hair when speaking, may when she enters the adult world, find herself being misunderstood by the opposite sex as being romantically interested, when no such intention was meant.

Hence, effective interpretation of the body language is a creative art, exclaimed Yogarajah. Once the skills are mastered well, it can help enhance one's communication skills; be it to send a specially cued message or to read the 'hidden or unconscious messages revealed in the encoded signals.

List of New Books and Seminar Papers Available in the MIA Resource Centre

NEW BOOKS

Accounting, Auditing and Governance Standards for Islamic Financial Institutions, by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), Manama, Bahrain : AAOIFI, 2000.
Call No. : 657. 45 0218 ACC

Illustrative Annual Report, by PricewaterhouseCoopers, Kuala Lumpur : PWC, 2000.
Call No. : 657.3 022 PRI

MACPA Statement : Model Holdings Berhad : Specimen Financial Statements, by the Malaysian Association of Certified Public Accountants, Kuala Lumpur : MACPA, 2000.
Call No. : 657.3 022 MAL

Financial Markets in Malaysia, by Low Chee Keong, Kuala Lumpur : *Malayan Law Journal*, 2000.
Call No. : 658. 1511 LOW

Administrative Law of Malaysia and Singapore, 3rd. ed, by Professor M. P. Jain, Kuala Lumpur, *Malayan Law Journal*, 1997.
Call No.: 342. 59506 JAI

Task Force on the Future of the Profession : Final Report, by Certified General Accountants Association of Canada, Vancouver, Canada : CGA-Canada, 2000.
Call No. : 657 CER

AOTCA Collection of Technical Reports 2000, Sydney, Australia : AOTCA, October 2000.
Call No. : 336.20095 AOT

Statement on the Purpose and Calculation of the Capital Adequacy Ratio for Islamic Banks, by Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), Manama, Bahrain : AAOIFI, March 1999.
Call No. : 332.1 ACC

A Guide to E-Commerce for Your Small Business, by Cisco Systems & Microsoft.
Call No. : 658. 403801 CIS

A Guide to Good Software Management, London : BSA/CIMA, 2000.
Call No. : 658.403801 GUI

World Economic Outlook, October 2000 : Focus on Transition Economies, a survey by the Staff of the International Monetary Fund, Washington, DC : IMF, 2000.
Call no. : 338. 5 443 09048 WOL

International Capital Markets : Development, Prospects, and Key Policy Issues, by Donald J. Mathieson and Garry J. Schinasi, Washington, DC : IMF, 2000.
Call No. : 330. 673 MAT

Understanding Consumerism, by Mohd Hamdan Hj. Adnan, Petaling Jaya : FOMCA, 2000.
Call No. : 381. 3 09595 MOH

Memahami Kepenggunaan, by Mohd Hamdan Hj. Adnan, Petaling Jaya : FOMCA, 2000.
Call No. : 381. 3 09595 MOH

T + 3 Settlement System : An Investor's Guide, by Kuala Lumpur Stock Exchange, Kuala Lumpur : KLSE, 2000.
Call No. : 332.642 595 KUA

Preface to International Public Sector Accounting Standards, by the International Federation of Accountants (IFAC), New York : IFAC, May 2000.
Call No. : IPSC.PRE 5/00

Presentation of Financial Statements : International Public Sector Accounting Standards, by the International Federation of Accountants (IFAC), New York : IFAC, May 2000.
Call No. : IPSAS 1

Cash Flow Statements : International Public Sector Accounting Standards, by the International Federation of Accountants (IFAC), New York : IFAC, May 2000.
Call No. : IPSAS 2

Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies : International Public Sector Accounting Standards, by the International Federation of Accountants (IFAC), New York : IFAC, May 2000.
Call No. : IPSAS 3

The Effect of changes in Foreign Exchange Rate : International Public Sector Accounting Standards, by the International Federation of Accountants (IFAC), New York : IFAC, May 2000.
Call no. : IPSAS 4

Borrowing Cost : International Public Sector Accounting Standards, by the International Federation of Accountants (IFAC), New York : IFAC, May 2000.
Call No. : IPSAS 5

Consolidated Financial Statements and Accounting for Controlled Entities : International Public Sector Accounting Standards, by the International Federation of Accountants (IFAC), New York : IFAC, May 2000.
Call No. : IPSAS 6

Accounting for Investments in Associates : International Public Sector Accounting Standards, by the International Federation of Accountants (IFAC), New York : IFAC, May 2000.
Call No. : IPSAS 7

Financial Reporting of Interests in Joint Ventures : International Public Sector Accounting Standards, by the International Federation of Accountants (IFAC), New York : IFAC, May 2000.
Call No. : IPSAS 8

Joint Working Group of Standards Setters : Draft Standard and Basis for Conclusions Financial Instruments and Similar Items, London : IASC, December 2000.
Call No. : 657.0218 JOI

The International Insolvency Professionals Directory, 2001 ed., Oxfordshire, UK : GTI Specialist Publishers, 2000.
Call No. : 336.368 025 INT

Kuala Lumpur & Klang Valley Street Directory, 3rd ed., Petaling Jaya : Rimman International/UBD.
Call No. : 025. 388 411 KUA

International Accounting Standards : Illustrative Corporate Financial Statements, London : PricewaterhouseCoopers, 2000.
Call no. : 657. 3 022 INT

International Accounting Standards : Financial Instruments : Understanding IAS 39, London : PricewaterhouseCoopers, 2000.
Call No. : 657. 0218 INT

International Accounting Standards : Similarities and Differences, IAS, US GAAP and UK GAAP, London : PricewaterhouseCoopers, 2000.
Call No. : 657. 0218 73041 INT

International Accounting Standards in Europe : 2005 or now?, (London) : PricewaterhouseCoopers, 2000.
Call No. : 657. 0218 4 INT

Making the Change to International Accounting Standards, London : PricewaterhouseCoopers, 1999.
Call No. : 657.0218 MAK

GAAP 2000 : Interpretation and Application of Generally Accepted Accounting Principles, by Patrick R. Delaney *et. al.*, New York : John Wiley, 2000.
Call No. : 657.0218 GAA

SEMINAR PAPERS

1st National Creativity Convention 2000 : The Success Factor in the New Connected World, Sunway Pyramid Convention Centre : 19-20 December 2000.
Code No. : MIA NCC 1/2000

Workshop on Shariah Principles in Islamic Financial Systems, Kuala Lumpur : 30-31 October 2000.
Code No. : CERT 5/2000