

# Akauntan Nasional

Volume 13 • Number 1

**SPECIAL MILLENNIUM ISSUE**

JANUARY 2000



(Established under the  
Accountants Act, 1967)

## Be A Y2K Accountant

The Virtual  
Accountant

Environmental Management —  
The Internal Auditors Role

The Asean Accountant —  
Posturing for the 21st Century



*Dato' Dr. Nellie Tan-Wong —  
Businesswoman with a Social Agenda*

ISSN 1394 - 1763



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# CONTENTS

Volume 13, Number 1

JANUARY 2000

2 From the Editor

4 From The President's Desk

## FEATURES

6 The Virtual Accountant

12 Environmental Management — The Internal Auditors Role

18 Asean Common Currency — From Dream to Reality

26 Dato' Dr. Nellie Tan-Wong — Businesswoman with a Social Agenda

28 Meeting the Challenge — Management Accounting and Value Creation

## INSTITUTE NEWS

34 Accountants Get Free Gold Cards

36 New Twist For Retreat

37 Lucky Caps

37 Blacklist Errant Clients

39 TAR College SBS Alumni Visits MIA

40 New AGM Record

41 New Face in MIA Council

42 Busy Sabah Branch

42 New Chapter in Bintulu

43 Branch's Intellectual Discussion

43 MIA Appointed to UN-Based Task Force

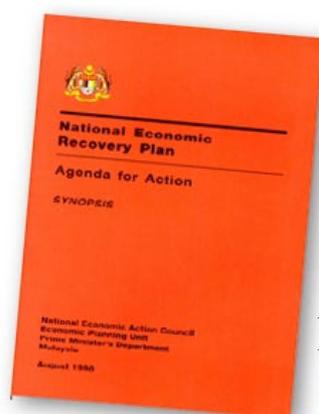
44 Managing Change in the 21st Century



*Asean Common Currency — From Dream To Reality* **Pg 18**



**Pg 36** *New Twist For Retreat*



*Pulse of the Economies*

**Pg 60**

## STUDENTS' NEWS

46 Accounting Week

46 Changes to Accounting Education

47 Career Talks in Kuching and Miri

48 Accounting Nite 2000

48 MIA Year 2000 Annual Subscription

## INTERNATIONAL NEWS

50 The Asean Accountant — Posturing For the 21st Century

52 Towards Achieving a Global Standard

52 53rd CAPA Executive Committee Meeting

54 IASC Publishes Study of Business Reporting on the Internet

## ISSUES

56 Sipadan's Beautiful Underwater World

## COLUMNS

60 Pulse of the Economies

64 NEAC — 20<sup>th</sup> "Status of Implementation" Report

66 MASB Standards 8-13

66 National Annual Corporate Report Awards — 1999

70 Library News

72 MIT News

73 MAAA News

74 MIA's Technical and Practice News

76 Young Accountants Convention 2000 — 'Living the Cutting Edge'

## Akauntan Nasional

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

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The **Malaysian Institute of Accountants (MIA)**, the country's national accounting body, was established in 1967 under an Act of Parliament, namely, the Accountants Act, 1967.

The functions of the Institute are, *inter alia* :

- To regulate the practice of the accountancy profession in Malaysia;
- To promote in any manner it thinks fit, the interests of the accountancy profession in Malaysia;
- To provide for the training, education and examination by the Institute or any other body, of persons practising or intending to practise the profession; and
- To determine the qualifications of persons for admission as members.

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## FROM THE EDITOR

# Welcome to the 21st Century!

**T**o usher in this new era, several futuristic articles have been lined up to whet your appetite in this special millennium issue.

*'The Virtual Accountant'* is a must-read for those wanting to know what skills and competencies are relevant in the new Century. More so, when the prediction is made that future accountants might need to take on the expanded roles of designer, manager and evaluator/auditor.

Future accountants would also need to be like grandmasters in the game of chess. "The Y2K accountant ... must always be a few steps ahead of the changes that would take place in the country and throughout the world .... (They) must thoroughly be prepared to handle problems that would present themselves in the year 2000 and beyond to emerge winners," the MIA President exhorted in his column.

To keep readers informed of possible changes in the years ahead, this issue carries a feature article on the *'Asean Common Currency — From Dream To Reality'*. Indeed, a similar subject was discussed at the recent joint 11th AFA Conference and 53rd PICPA Convention in Davao City, Philippines.

A new column called *'Pulse of the Economies'* features several hot news items, alerting accountants of important happenings locally and abroad. It seeks to provide micro-oriented accountants with a macro snapshot of events that are crucial to their operations. Not only must individual accountants think ahead and think broadly, the Institute must also be prepared to break new grounds in the new Century. It must stay clear of the mistakes of the Titanic of the past.

The write-up on the MIA's Council Retreat, *'Managing Change in the 21st Century'*, makes this point clear. More than that, the deliberations at the Retreat revealed the importance of aligning the initiative of change within the external environment, so as to enable the organisation to blossom.

The Institute has, *inter alia*, sought to introduce changes such as practice review, corporatisation of practices and multi-disciplinary practices, as mentioned in the Presidential address at the 13th Annual General Meeting.

To be sure, this special millennium issue is not all about serious or technical stuff. Readers will also find the article on Sipadan, located off the southern coast of Sabah, a good read. By the way, the late French oceanographer, Jacques Cousteau, described Sipadan as "one of the 10 wonders of the world." Unfortunately, the developmental pressure and the influx of too many tourists have somewhat damaged its natural beauty.

There is also an interesting personality profile of a prominent and successful lady, YBhg Dato' Dr. Nellie Tan-Wong, who was also recently nominated for the *'Malaysian of the Year Award'*. As one of the first few women who took up the accountancy profession, she recounted the prejudices of the past because nobody wanted to hire a woman accountant. Read on and find out how she overcame the hurdle, and how she used her knowledge, contacts and energy to champion issues concerning women.

I suppose one could go on, but suffice to say there is something for everyone in this special millennium issue. Needless to add, we welcome readers to drop a line to the Editor, and share your views on the published articles, and ideas for improvement or consideration.

Finally, season's greetings and happy ushering in the 21<sup>st</sup> Century!

*Editor*

## CONTRIBUTION OF ARTICLES

The *Akauntan Nasional* welcomes original and previously unpublished contributions which are of interest to accountants, executives and scholars. The author should ensure that the contribution will be 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). Diskettes (3.5 inch) in Microsoft Word or Lotus Wordpro are encouraged. Manuscripts are subject to a review procedure and the editor reserves the right to make amendments which may be appropriate prior to publication.

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# Be A Y2K Accountant

**B**y the time you read this, Malaysia and the world would have experienced the effects of the Year 2000 (Y2K) bug. How thorough and prepared the various industries and organisations were in tackling the bug would now be known.

Those who have successfully "exterminated" the bug would have won the trust and favour of many, but those who failed, whether with minor hitches or in a catastrophic way, would leave a tarnished image of their organisations in the minds of the consumer.

Why? Because before the dawn of the new millennium, everyone claimed that they would be Y2K-compliant when the clock strikes midnight on 1 January 2000. Some more ingenious ones, even placed a disclaimer to say that the fault will not lie with them if something adverse happened.

The crux of the matter is, those who did not succeed, failed because they were ill-prepared, due to either ignorance or because they were slow to react to the problem.

Whatever the outcome now, the more important issue at hand would be whether the services sector, in our case the account-

ancy fraternity, would remain Y2K-compliant after 1 January 2000.

Are we, as accountants, Y2K-complaint? Are we able to meet the many challenges that lie ahead of us in this new and uncharted millennium?

Being a Y2K-complaint accountant means more than surviving the attack of the millennium bug or being an expert in harnessing Information Technology (IT). The Y2K accountant, as I would now refer to him, must be all that, but more importantly, he must always be a few steps ahead of the changes that would take place in the country and throughout the world.

Just like the scenario above, Y2K accountants must be thoroughly prepared to handle problems that would present themselves in the year 2000 and beyond to emerge winners. This would earn them the trust and recognition among clients, fellow accountants, the Government and in the international arena.

Failing which, they would have to lag behind in an ever-changing and competitive global environment, and worse, gaining a reputation for it.

Although, the proposed Amendments to the Accountants Act, 1967, would be a con-

"Being a Y2K-compliant accountant means more than surviving the attack of the millennium bug or being an expert in the manipulation of Information Technology."

cern nearer to home, this round, I would prefer to bring members to the attention of the effects of globalisation.

In the new millennium, accountants must learn to look beyond their own horizons, as technology and developments in economic policies worldwide continue to make the world smaller than ever.

For example, the formation of the World Trade Organisation (WTO) has accelerated the momentum towards greater liberalisation of world economies.

Under the Uruguay round of multilateral trade negotiations, it was mandated that negotiations on trade in services and agriculture should commence in the year 2000.

This being so, the General Agreement on Trade in Services (GATS) would pose many new challenges as well as opportunities to those in the services sectors, of which our profession is a part of.

Even though the WTO's 3rd Ministerial Conference in Seattle ended in failure recently, progressive liberalisation in the services and agriculture sectors would still march forward. Accountants should, therefore, strategise effectively and search for ways to remain competitive globally from this very moment.

A common scenario for our profession as a result of further liberalisation, may be the influx of accountants from the major developed countries via big accounting firms or even newly formed ones.

However, the greater, more immediate threat could come from neighbouring coun-

tries. The advantage they have would be the fact that their professional practice and cultures are somewhat similar to Malaysia, which would make their penetration into our country much easier.

Negative threats could appear from some countries, as the quality of their educational system and training may be questionable. Monitoring such foreign accountants would take a great deal of effort and consume much resources.

Having said all that, I must stress that we would, by the same token, also have new opportunities to expand our practices to other countries. This would of course require smart strategic planning. In this respect, maybe one might find helpful ideas from strategy gurus like Sun Tzu and other successful entrepreneurs who made it when everyone else failed. On the part of the In-

stitute, I assure you that we would work hard to be Y2K-compliant, focusing more on being pro-active in order to help members anticipate the changes that could invade our shores sooner than expected.

We hope to do so through future instalments of the Professional Development programmes and induction courses for potential members. The Institute also welcomes ideas from members that would assist MIA's growth, for learning is a two-way process.

The Institute, the Council Members and I do not always have all the answers, but together we can weather through the storms and emerge more matured and resilient.

Finally, I would like to wish members and readers a fruitful year ahead in this new millennium and to all Muslim readers *Selamat Hari Raya Aidilfitri!*

"A common scenario for our profession as a result of further liberalisation may be the influx of accountants from the developed countries via big accounting firms or even newly formed ones."

## 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.

# The Virtual

By Khoo Sim Kee

Executive Director, Aimsoft Technologies Sdn Bhd

**Professional accountancy bodies must change from their traditional 'guild' roles as regulatory associations whose primary role is to protect members by guarding entry to the profession and passively disseminating updates of technical news to that of proactive bodies constantly identifying and creating new services/opportunities for their members. This re-engineering of the profession requires a rapid political commitment by the accountancy bodies' leaders to succeed.**

## INTRODUCTION

In a now famous article, Mr. Bob Elliot makes a point that "IT changes everything." Indeed it does, though it should now be phrased "The Web changes everything." Dramatic high profile 'Powershifts' are now taking place in every area of human endeavour. The dazzling combination of a global 'Second Reformation' and a 'Second Renaissance' is self evident to everyone in Asia.

The 'First Reformation' was driven by the printing press. The current exciting, challenging and dynamic changes are driven by the powerful and rapidly evolving digital technologies of the PC and the Internet. These commodity e- or i-technologies are on shocking 'down the slope' price curves. The 'New Economy' is arising based on radical changes in the historical rules for value creation. Value is created by availability and access not by restriction and scarcity, a radical departure from the economic models of the 'Old Economy'. The accounting profession does not live in isolation from such changes and must rapidly respond to create, dominate and retain a special position that offers competitive advantage.

This technology is dramatically changing the role of the accountancy profession in more ways than one. The traditional and now dated role of the accountant as an information recorder and processor is obsolete. Accountants are being asked to perform services that stretch the limits of their ability, training and imagination. The objectives of this paper are :

- 1 To review the effect of such rapid technological change and how it affects the profession and its provision of products and services.
- 2 To describe the difficulties facing accountants in meeting these challenges.
- 3 To examine education initiatives aimed at preparing the profession to lead and exploit the opportunities that arise from the New Economy.
- 4 To examine the new curriculum that aims to change the education profile of the future 'virtual accountant'.
- 5 To review the opportunities for accountants created by this global change in operating environment.

## BACKGROUND

The New Economy is no science fiction; it is here today and is growing at an exponential rate. It is completely transforming the way we work. It is a new business model that is totally transforming old established businesses and creating entirely new industries and services. New applications revealing explosive growth opportunities are launched frequently. US research estimates that e-commerce in Business-to-Business (B-B) and Business-to-Consumer (B-C) will soar to US\$2.75 trillion by 2003 from US\$0.5 trillion in 1999. In Europe, it will rise to US\$120 billion by 2001, from US\$1.2 billion in 1998. A recent e-commerce study says that half a million new jobs in the US alone will be created for the New Economy by 2002. A US Department of Commerce report sees nearly half the American workforce devoted to IT related services by 2006. The US and the global economy is becoming completely 'wired'.

Research on job creation predicts that 70 per cent of the new jobs created in the next 10 years will be industries and services that do not yet exist. Even more astonishing is that the research predicts that 90 per cent of the children currently in full-time education, the Y and Z generations, will start work in these new areas. This is the momentous scale of job churn created by the New Economy.

The New Economy will ultimately make voice, video and data services available anywhere and anytime as a basic commodity. This means an explosion of a new communications infrastructure provision that really paves the 'Information SuperHighway'. Tomorrow's businesses will need people to manage databases, networks and network traffic, carriers and service providers, virtual corporations and tele-workers. The

# Accountant

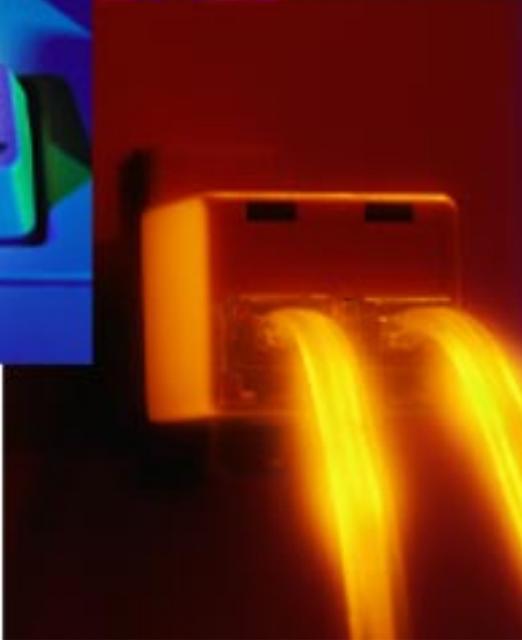
**“The traditional and now dated role of the accountant as an information recorder and processor is obsolete.**

**Accountants are being asked to perform services that stretch the limits of their ability, training and imagination.”**

telecommunications revolution is facilitating development of widely decentralised networks of organisations and individuals. The web that will link them is a high capacity network of interlocking digital ‘pipes’, providing customers and consumers with a plethora of access choices. These include the parallel provision of intelligent and interactive cable television, digital satellite, cable, digital subscriber phone lines, fibre-optics and wireless channels. It can be said that the problem for people will not be having access to such facilities, but that everyone is becoming ‘time challenged’ by the dazzling abilities that such systems impose on everyday life. A recent study found that 75 per cent of Americans said that their lives were ‘very busy’ or ‘insanely busy’. The New Economy will, therefore, bring about dramatic change in every area of human endeavour.

The importance of IT in the new economy and its impact on the accountancy profession are evidenced by the numerous conferences and studies in these areas. The AICPA and the American Accounting Association (AAA) held an IT Visioning conference in November 1998. A key issue addressed through a number of presentations included the convergence of accounting and information systems.

It is inevitable that ‘traditional’ accountants not only have to work in this New Economy environment, but also embrace it to provide new services to their clients. Accountants have now to change their role from that of an information recorder or ‘tick and bash’ auditor to that of a ‘plugged in’ corporate advisor or computer auditor.



**“Research on job creation predicts that 70 per cent of the new jobs created in the next 10 years will be industries and services that do not yet exist.”**

# Accountants Get Free Gold Cards

BY HAZEL ONG

**E**ON Bank Berhad and the Malaysian Institute of Accountants (MIA) recently signed an agreement to issue free gold credit cards exclusively to the 13,000 over accountants in the country. Institute President YBhg Dato' Hanifah Noordin said the move was one of the smart partnerships MIA has embarked upon to bring accountancy to a higher level in the next millennium.

"For the past 12 years, the Institute has been striving to improve the standards of the profession. To say that on our own we are successful would not be as credible as when other institutions recognise us to be so."

"We are pleased that this smart partnership had taken place. EON Bank's decision to join forces with the Institute shows that it regards the profession as a prestigious one," he said.

MIA was established as a statutory body under the Accountants Act, 1967 and now governs the profession within the country.

Since its establishment, the Institute had been actively involved in promoting the profession and taking it to greater heights.

It is responsible for updating accountants on the latest in accountancy, economics and financial matters.

Dato' Hanifah said that the MIA-EON Bank Affinity Gold Card, which was launched on 26 November 1999, during the National Accountants Update Conference in Penang, would double as the Institute's membership card.

The card was introduced to more members during MIA's Annual General Meeting (AGM) on 4 December 1999.

With the card, he said, the 13,000 accountants, would not only receive a higher credit limit, but also enjoy special privileges for housing loans with the bank.

Members, he said, could use it to pay their annual subscription fees through an 'auto debit' feature, which will enable the bank to carry out a standing instruction debit when the subscription was due.

He said members could also use this feature when they sign up for Professional Development programmes.

## Incentives Offered

**M**embers would be able to enjoy up to 95 per cent financing for a new house or refinance their existing housing loan at a lower interest rate if they sign up between 1 December 1999 and May 2000.

Under this scheme, refinancing of properties between RM100,000 to RM500,000 is also allowed.

The card's *Smart Payment Scheme* also allows MIA members to place a down payment on a new Proton car for up to 100 per cent of their approved card limit. Cardholders would enjoy the special interest rate of 1.25 per cent per month for the first six months on the down payment amount.

Existing and new MIA members would also benefit from the two-year annual fee waiver that covers the principal cardholder plus the first and second supplementary cards.

Other benefits of the Gold Visa or MasterCard include the balance transfer facility in which members can transfer their other credit card balances to the MIA-EON Bank Affinity Credit Card and immediately earn savings for the first six months as the interest attracted on this amount is 1.25 per cent per month as compared to 1.5 per cent per month charged by other banks.

In addition, the monthly rate charged on the balance transfer is now reduced to 0.75 per cent, while all new cash and retail transactions will attract a monthly charge of only 1 per cent instead of the usual 1.5 per cent per month.

New applicants who apply before February 2000 will enjoy these interest offers for six months from the date the card is approved.

A free Ericsson handphone will be offered to successful applicants.



*Signing ceremony for MIA-EON Affinity Card at the 1999 National Accountants Update Conference in Penang ... from left to right, Mr. Neoh Chin Wah, Council Member; Mr. Tony Seah, Council Member; Dato' Hanifah Noordin, MIA President; Dr. Sheikh Awab Sheikh Abod, EON Bank's General Manager and Head of Consumer Banking; and Mr. Peter Chow, EON Bank's General Manager and Head of Corporate and Commercial Banking*

# New Twist For Retreat

BY HAZEL ONG

Work and play. That was what 200 accountants and their family members from around the country did when they attended the inaugural National Accountants Update Conference which was held in Penang from 26 -27 November, last year.

The conference was actually the Annual Accountants' Retreat given a brand new twist to ensure that while taking a break from routine, accountants still spent quality time learning something new in order to constantly improve themselves.

Unlike the previous conference, the Update Conference emphasised more on the work element, allocating more hours to talks by industry experts from their respective fields.

Among other things, members were given a better insight on how to tackle the new tax regime, opportunities and challenges that would emerge in different stock markets within the Pacific Basin region and how to harness Information Technology in the next millennium.

Members were even given tips on how best to relieve themselves from common illnesses like the air-cond flu and headache, which resulted from working in a 'sick building.'

The final day of the conference was indeed most fruitful, as members thrashed out issues and concerns about the industry and the Institute during an hour-long members' dialogue.

As it was then just two days before the elections, small talk was abuzz, with many accountants giving their two cents worth of political analysis, speculating performances of certain candidates and parties.

During their leisure time, some members took their wives and children to the beaches, besides savouring the good food Penang is famous for.

The Malaysian Institute of Accountants (MIA) team from headquarters were also pleasantly surprised when taxi drivers willingly volunteered themselves as semi-tourist guides, bringing them to the best eating

haunts in the island for *char keow teow, keow teow teng, rojak, laksa* and *hiow pia*.

One cabbie, in particular, insisted (to the point of practically forcing the team) to try out some *durians* before they returned to the hotel. He even handpicked the fruits for them.

The most noticeable difference for those who have not visited the Pearl of the Orient for a long time, was the ability and fluency in which Penangites now speak Cantonese.

For example, the cabbie who took the MIA team to a *durian* stall spoke about life,

philosophy and many other interesting subjects in a dialect considered foreign in this part of the country not too long ago.

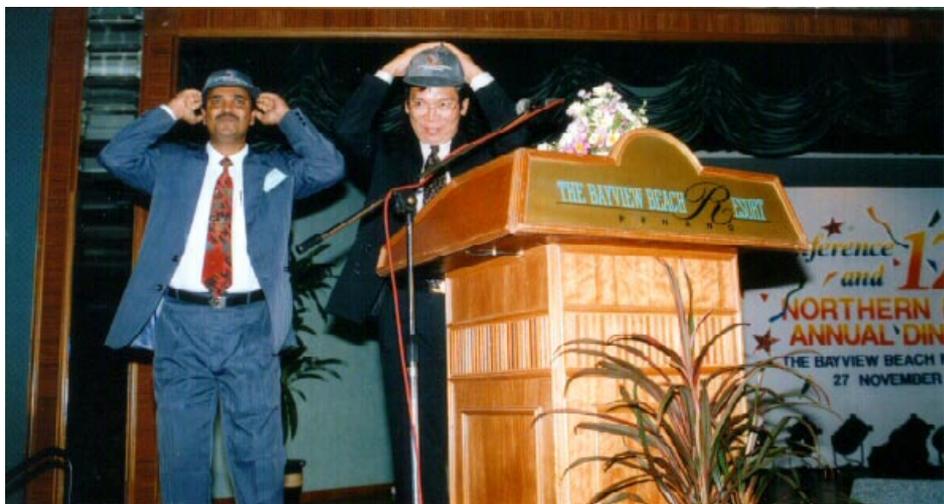
There were many other service industry people who could repeat this 'feat'. Three years ago, the average hawker could not even understand simple food orders in Cantonese.

Asked how they have improved so much, one Penang shopkeeper quipped: "Oh, we watch many Cantonese serials these days."

.....



Members rushing for copies of conference papers and shopping for souvenirs at the 1999 National Accountants Update Conference in Penang



Northern Branch Chairman, Mr. Neoh Chin Wah and 12th Northern Branch Annual Dinner Organising Committee Chairman, Mr. K. Shanbar putting on the lucky cap at the dinner in Penang

## Lucky Caps

Northern Branch Chairman, Mr. Neoh Chin Wah decided to spread some luck around to members during the branch's 12th Annual Dinner on 27 November 1999, at the Bayview Beach Resort in Penang.

He did so by giving everyone who attended the function a 'lucky cap'.

"When you put on the cap, your thinking will be clear and wise, your stress will be reduced and you will make lots of money."

"To fellow accountants, I urge you to always put on the MIA cap, collectively as a unified profession. We will ride through the rough sea of change into a better future in the new millennium," he said.

He said the cap would be a help to those who were still worried about the changes that lie ahead of them, like the pending change in the Accountants Act, liberalisation of the service sector, challenges of Information Technology and others.

The first lucky cap was presented to MIA President, Dato' Hanifah Noordin.

Besides the sumptuous meal, those present for the dinner held in conjunction with the National Accountants Update Conference, were entertained by comedian cum singer 'Sabri The Bear' and '1996 Asia Bagus champion,' Miki Low.



*Members putting on their 'lucky caps' at the 12th Northern Branch Annual Dinner in Penang*



*'Sabri the Bear' entertaining the crowd who attended the 12th Northern Branch Annual Dinner in Penang*

## BLACKLIST ERRANT CLIENTS

Clients who repeatedly fail to pay may be blacklisted on cyberspace, accountants were told during the dialogue.

The proposal was mooted by members to prevent their counterparts from falling victims to the same errant clients.

It was suggested that a list on such clients be hosted on the Malaysian Institute

of Accountants (MIA) website.

Only members with passwords can be given access to the information, one of the members stressed.

"Members should also be able to go into the website and add names and other relevant information on such clients. Members who supply such information must be accountable and responsible for it to avoid

abuses," he added.

The proposal seemed to go down well with most, judging from the cheers and applause received when it was put forward to the floor for discussion.

Council member Mr. Daniel Chian who agreed that the idea was good, cautioned that the legal aspects of it needed to be studied before any further action could be taken.

“We will look into the proposal. We need to fine-tune it and ensure that it is legally sound,” said Mr. Chian.

The issue cropped up when debating the professional fees within the industry.

Still on the subject, Southern Branch chairman and chairman of the dialogue Mr. Tony Seah said that no auditor should take on a job before the previous auditor was paid. A new auditor, he said, should also seek clarification from MIA before accepting a job.

“An auditor can retire from a non-paying client when the audit term expires. An audit term expires from one AGM to the next. No

extension will be granted without the approval of the Registrar of Companies,” he said.

He was responding to a question on whether an auditor should continue working for a client who failed to pay for three consecutive years. The question was asked as Mr. Seah had earlier stressed that, by law, an auditor could not hold back an Audit Report from a client who failed to pay.

Another member pointed out that some clients have even threatened auditors by asking them to retain their old fees or forget getting the job.

Mr. Seah said the situation was ‘food for thought’ and the new council might have to

decide what action to take.

Meanwhile, Northern Branch chairman Mr. Neoh Chin Wah said the National Economic Action Council (NEAC) wanted to review the fees for accountants, adding that, now was the time members should state whether they wanted a 50 per cent or 100 per cent increase, so that a survey on the appropriate fee could be submitted to the NEAC.

Mr. Seah said MIA will be conducting a random sampling of fees among members, clarifying that it was not going to be a witch-hunt.

## Retired Accountants To Do Review?

**R**etired accountants, especially those from prominent firms, may have to go back to work soon.

Why? Because with their vast experience, they are the right candidates to review member firms.

It was a proposal raised by a member who said that those who had retired from the Big-6, should consider reviewing the firms. Cheers from the floor indicated support for the idea.

The topic was opened up for discussion when Council Member Mr. Neoh Chin Wah wanted to find out whether members preferred to have their firms reviewed by appropriate staff or have firms of similar sizes review each other.

Unfortunately, Southern Branch chairman Mr. Tony Seah felt many of these retired accountants have found their way to bigger and better positions.

He added that the Institute would try its best to get such senior accountants back to the fold.

Council member Mr. Daniel Chian said the goal of the Institute was now to find the person with the right attitude for the job.

Mr. Chian said he had recently identified two former Managing Partners with years of experience and one of them was expected to make his debut during the Young

Accountants Convention in the first quarter of the year.

A vote of hands earlier showed that members preferred an appropriate staff to review their firms as compared to being reviewed by another firm.

## Work Without Pay, Till Law Changes

**A**ccountants who fail to submit Audit Reports to non-paying clients may still face stern action from the Disciplinary Committee (DC).

Council member Mr. Tony Seah, who chaired the dialogue, reiterated this during the hour-long dialogue.

“There are cases in which accountants hold up and refuse to give Audit Reports because clients owe them money. They delay the job even when clients call them four to five times.”

“We are an Institution and completing a job is a statutory requirement under the Companies Act. Unless the law changes to cash before the Audit Report (is given to the client), we are bound by law. If a complaint comes, it is difficult not to pursue the matter,” Mr. Seah said.

He said repeatedly that if the reason for holding back the report was monetary, the Institute would view the case very seriously and this could lead to the expulsion of the member concerned.

The enforcement arms of MIA, he said, were the Investigation Committee (IC) and the DC. They are independent of the council and the DC’s decision was final.

Seah pointed out that enforcement was the hallmark of any professional body’s ability to uphold its integrity.

The DC, he said, was however not inhumane, citing the example of advertising, in which the committee agreed that there were still insufficient guidelines for members to adhere to.

Mr. Seah said the DC was now moving towards using education, for example, 20 extra CPD hours to be accumulated, as a penalty option.

This, he said, was because a fine sometimes did not hurt the pocket enough to be a deterrent.

## Members’ Firms HomePage Sneak Preview

**T**he 100-odd members who attended the dialogue took a peek at what the Members’ Firm homepage would look like.

The short presentation showed how members could access the homepage, which would be hosted on the MIA website.

Members’ websites or links to their existing website on their firms would then be on cyberspace, making Malaysian accountants known not only in the country but also internationally.

# TAR College SBS Alumni Visits MIA

*Recently, the Institute, represented by the President, YBhg Dato' Hanifah Noordin, Vice President, Mr. Soon Kwai Choy and Council Member, YB Dato' Lee Hwa Beng had the pleasure of hosting a courtesy visit from alumni representatives of the TAR College School of Business Studies (SBS) Ex-Students Association.*

The SBS alumni association's delegation comprised the President, Mr. Huang Soon Fook; the Honorary Secretary, Mr. Adrian Yeo; the Chairman of the Education Committee, Mr. Lye Wing Fah; Committee Member of the Education Committee, Mr. Aric H.M. Low; and the Secretariat's Secretary, Ms. Olive Goh.

The SBS alumni association's vision is to be the largest network of professionals in business, accounting and management in Malaysia. TAR College had to date churned out over 60,000 graduates of which about 20,000 were graduates from SBS.

Due to this high number of graduates, it had become the biggest hurdle faced by the

SBS alumni association, i.e. in reaching out to its graduates to register as members. Hence, the SBS alumni association sought the assistance of the MIA to be the 'link' in roping in its SBS alumni to be members via its publications since most of its alumni would also be registered as MIA members. YBhg Dato' Hanifah and Mr Soon both agreed that the establishment of the SBS alumni was indeed a very good idea and would try to provide assistance to publicise the alumni.

The SBS alumni delegation took the opportunity to discuss the effects, issues and preparedness surrounding the country's accounting profession in the light of the liberalisation of the services sector under the World Trade Organisation (WTO) framework (see also page 60).

They also updated the President and Vice President on their activities and future plans. Some of the activities organised by the SBS alumni association were the Annual Dinners, Annual Career Talks to the School of Business Studies Students and Networking dinners. It had also offered its full support towards the establishment of the TAR College Alumni Education Fund in line with their vision "to provide networking and educational opportunities for all".

For further information on the Tar College School of Business Studies Ex-Students Association, please contact Ms Olive Goh at the following address and contact no. :



*L-R : Mr. Soon Kwai Choy, YBhg Dato' Hanifah Noordin and YB Dato' Lee Hwa Beng giving deep thought to SBS alumni association's request*



*L-R : Ms. Olive Goh, Mr. Adrian Yeo, Mr. Huang Soon Fook and Mr. Lye Wing Fah sharing their views on the SBS alumni*

TAR College School of Business Studies  
Ex-Students Association  
73C SS 25/2, Taman Bukit Emas  
47301 Petaling Jaya, Selangor  
Tel: 03-7035799, Fax: 03-7048009  
Website: <http://www.tarcians.org.my>  
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# NEW AGM RECORD

BY HAZEL ONG

**T**he Malaysia Institute of Accountants (MIA) broke its own record for holding the shortest Annual General Meeting (AGM) ever, when members and the Council met for the 13th time on 4 December, last year.

President Dato' Hanifah Noordin, who was himself surprised at how smooth the meeting went, declared the AGM closed in just 20 minutes. It ended so quickly because no questions were raised.

Dato' Hanifah then opened the floor for a members' dialogue, allowing the 200 members who attended the meeting, a chance to discuss issues relating to the profession.

"This is by far the most peaceful meeting," he said, garnering a round of applause.

Earlier, during his Presidential Address, he said, change was inevitable and could not be avoided because more often than not it was not within control.

"We should strive to ensure these changes are for the better and not for the worse. That is what the Council is working towards."

"The proposed amendments to the Accountants Act are an important change, and once amended will change the Institute and the profession. The changes that take place will depend on the amendments put through," he said.

He said the changes, whether great or small, would have a major impact on the structure and operations of the Institute and how the profession would be practised in the next century.

"We only hope the authorities will seriously consider the views of the accountants in the country obtained at the EGM (Extraordinary General Meeting) in August and through the Opinion Poll conducted this year."

"We hope the authorities will do the right thing for the good of the profession and the nation," he said.

However, Dato' Hanifah said, this did not mean the Institute was averse to change.

The Institute's new proposal, he said, would bring about changes like Practice Review, corporatisation of practices and multi-disciplinary practices.

Dato' Hanifah also highlighted some of the changes within the Institute which included the restructuring of existing Committees and formation of new ones, citing the example of the Economics Committee, which was headed by economist YBhg Dato' Dr. Vincent Lowe.

Information Technology, he said, was another area, which the Institute had invested heavily upon due to its importance.

"We are gradually moving towards a paperless environment. The Institute's new website was launched in May 1999, while a Meeting Tracking System (MTS) has been

developed and we are currently looking into e-commerce.

"Part of the Members' Handbook has been produced in diskette form and we will soon be issuing the handbooks in CD-ROM format," he said.

This, he said, was in line with the Institute's vision that not only the Secretariat should be IT based, but that accountants in the country should use IT to the fullest in their practice and work.

The Institute, he said, had also taken a pro-active stand, when it took the initiative to submit a Memorandum to the National Economic Action Council (NEAC) on "Corporate Governance, Investor Confidence and Economic Revival".

"I'm pleased to inform you that the Government has viewed a couple of our proposals favourably," he said.



*The Council at the 13<sup>th</sup> AGM held on 4 December 1999*



*MIA members enjoying the delicious spread before them*

## Know MIA Before Joining

Those who want to join the Institute are now required to attend induction courses to learn about the Institute, the profession and local practices and requirements, said President Dato' Hanifah Noordin.

The move was taken, he said, when the Council discovered that many new members did not know much about the Institute and the accountancy profession in Malaysia when they were admitted.

"This is partly due to the fact that most of them have foreign qualifications or are from local universities.

"Those with foreign qualifications are not aware of local requirements pertaining to practice issues and local standards and guidelines.

"Those from local universities have not been exposed to the requirements of professional practices," he said during his Presidential Message at the Institute's 13th Annual General Meeting.

The Council, he said, believed that it was very important for new members to be aware of the profession and the Institute when they join MIA.

He said the awareness and knowledge would assist them in the development of their careers as professional accountants.

Due to this, he said, the Council had recently decided to introduce induction courses for persons applying for MIA membership.

The courses, he said, would be conducted on a regular basis, adding that the first one was conducted last month (December).

## Videotaped Seminar and Conferences

Members may in future be attending a 'delayed telecast' of seminars or conference sessions as part of their Professional Development (PD) programme.

Council member Mr. Daniel Chian said the idea was presently being studied as the

Institute was sympathetic towards members who hardly had time to attend courses.

"We are thinking of compiling a library of videotapes on such seminars and conferences and also to get a facilitator to take the members through the course," he said.

"This way," he said, "accountants from the respective branches could attend PD programmes within their own states."

He was responding to questions from the floor on how the Institute was going to help busy practitioners attend PD courses.

Mr. Chian said the Institute now placed conference papers on the website, which could be downloaded by members with passwords.

Meanwhile, Council member Mr. Soon Kwai Choy encouraged senior members to earn PD points by giving seminars themselves.

"We welcome such members to give talks to the younger ones. If you feel that the speakers invited to present current PD courses don't speak half as good as you, then you should do it to gain some points," he said.

He was responding to a senior member who was distraught that the Institute's PD department had sent him a letter informing him that he had a shortfall in his PD points as he had not been attending the programmes

## New Face in MIA Council

Registered Accountant, Mr. Albert Wong Mun Sum, is the latest addition to the Institute's 15-member Council, following the 13th Annual General Meeting held on 4 December 1999.

Mr. Wong filled the position vacated by Council Member, Mr. Ong Euwan George who retired and did not seek re-election.

One of Mr. Wong's contributions to the profession was his service in assisting the organisation of the CAPA Conference hosted by the Institute in 1996. He is a councillor in the Asian Division of ASCPA. He is also active in many tertiary and campus programmes.

Other members of the Council, who offered themselves for re-election, were returned unopposed.

The Council comprise :

### President

YBhg Dato' Hanifah Noordin

### Vice President

Mr. Soon Kwai Choy

### Accountant-General

YBhg Dato' Mohamed Adnan Ali

YM Raja Datuk Seri Abdul Aziz Raja Salim; YB Dato' Lee Hwa Beng; YB Peter Nansian Nguse; Mr. Tay Beng Wah; Encik Ahmad Mustapha Ghazali; Mr. Neoh Chin Wah; Mr. Yue Sau Him; Mr. Goh Joon Hai; Mr. Seah Cheoh Wah; Mr. Chian Ngook For; Mr. Lam Kee Soon, and Mr. Albert Wong Mun Sum.

# Busy Sabah Branch

*Sabah Branch and staff were kept busy with events cumulating at end-1999, amid renovation at the new MIA Sabah branch office at Damai Point.*

The eighth Sabah branch meeting cum fellowship was held in Vincent Pung's weekend hideaway on top of scenic Kokol Hill, with sunset and night lights resembling 'The Peak' in Hong Kong. The winding road up the hill and the chilly weather created huge appetites for all the committee members and their families and friends.

Sixteen newly admitted members received their MIA certificates in a presentation ceremony cum fellowship in Kota Kinabalu.

Labuan chapter hosted the ninth branch meeting with an extensive programme including a visit to LOFSA (Labuan Offshore Financial Services Authority) plus fellowship and meeting with Labuan Chapter committee and members.



*Looks good, smells good and finger licking good!*



*Happy new Sabah Branch members with their Branch Chairman and Branch Vice Chairman*



*Directors and staff of LOFSA posing with Sabah Branch members*

# New Chapter in Bintulu

A new chapter has just been established in Bintulu. Bintulu members will be represented in the Sarawak Branch committee in the year 2000, as decided at the recent members' dialogue and fellowship held in Bintulu.

A total of 70 per cent of the registered members attended the dialogue and were briefed on the functions of the Institute and branch offices by the Sarawak and Sabah branch manager. Members are most keen for Professional Development programmes to be extended to this booming town in Sarawak.



*'Hari Ini Dalam Sejarah' for MIA members in Bintulu*

## Branch's Intellectual Discussion

MIA's Negeri Sembilan and Malacca branch ended the second millennium with an Intellectual Discussion cum Fellowship Luncheon at the Allson Klana Resort, Seremban on 11 December 1999. The response to the event was 'over-sold', with many members coming from the younger generation.

Mr. Goh Joon Hai (Council Member),

YBhg Dato' Dr. Nellie Tan-Wong (Branch Chairman) and Mr. A. Varan (Branch Vice Chairman) led the intensive discussion, which covered the professional approach on handling income tax matters in compliance with the latest tax amendments, as well as other professional issues. There was active participation on the interesting and important topics.



L-R : Mr. A Varan, Dato' Dr. Nellie Tan-Wong and Mr. Goh Joon Hai leading the discussion



Packed hall with participants eager to learn

### WE WANT YOU !

Calling all accountants! We want to get to know those of you who lead exciting or unique lifestyles after work. From sky-diving, rock-climbing or any other adrenaline pumping activities, to collecting curios, whipping up exotic dishes, or simply, someone with a story to tell.

If you fit the bill, or know of anyone who does, e-mail [hazel@mia.org.my](mailto:hazel@mia.org.my) with details of contact. We can also be reached at 03-2274 5055, ext: 273/274. Snail mail can be addressed to :

Dewan Akauntan,  
Communications Department,  
2 Jalan Tun Sambanthan 3,  
Brickfields, 50470 Kuala Lumpur.

*Why? Because Akauntan Nasional, will, in future issues, feature human-interest articles of members. We want to put faces to accountants, and most importantly, dispel the notion that accountants are a boring lot.*

HELP US MAKE THE MAGAZINE ONE  
THAT YOU WOULD LOVE TO READ!

## MIA Appointed to UN-Based Task Force

The Malaysian Institute of Accountants (MIA) achieved yet another milestone when it was elected as one of the six bodies to form a task force under the United Nations (UN) at an international conference in July 1999.

The conference, which was held in London and attended by the World Bank, the UN, regulatory and professional accountancy bodies as well as distinguished international institutions, focused on how individual national accountancy qualifications can be made more relevant across the world.

The Institute had the honour of being the only body from Asia to be elected to the 'Assessment of Professional Qualification' Task Force, which will study the process of

mutual recognition of professional accountancy qualifications worldwide.

The election is another feather in the cap for our nation in general and the accountancy profession in particular. It came at a time when the Institute is embarking on its very own professional accountancy examination, i.e. MIA Examination.

This Task Force is the follow-up step taken by UNCTAD (United Nations Conference on Trade and Development), following the issuance of the ISAR Guidelines on Accounting

Curriculum, which was adopted by the Institute as the basis for its examination curricula.

It is another step towards enhancing the free movement of professional accountants across national boundaries. It also aims to help developed countries identify elements of their qualifications that need to be enhanced. The assessment methodology from this exercise will provide international donor agencies with better guidance as to where to channel their funds more effectively.

The Institute will work alongside representatives from the American Institute of Certified Public Accountants (AICPA), the Association of Chartered Certified Accountants (ACCA), Certified General Accountants - Canada (CGA-Canada), the Eastern Central and Southern African Federation of Accountants (ECSAFA) and the University of Sao Paulo, representing South America. Representatives from UNCTAD and the World Bank will act as advisors for this exercise.

# Managing Change in the 21st Century

**T**he 1999 MIA Council Retreat was held on 6-8 November at Awana Resort, Genting Highlands. The Retreat focused on change management. Mr. Victor Tan, Chief Executive Officer from KL Strategic Change Consulting spoke on the theme, "Managing Change in the 21st Century" and facilitated several brainstorming sessions. The Retreat also covered issues pertaining to the Council/Secretariat working structure.

During his one-day talk, Mr. Tan highlighted several powerful ideas that are key to the survival of organisations in the future. These ideas include learning from the mistakes of the Titanic, changing mindsets, processes of change, value-driven motivation and motivating people to change.

## Learning from the Mistakes of the Titanic

Many organisations have failed because they have not learnt from the mistakes made by the Titanic, namely :

- Believing in invincibility.
- Underrating environmental threats.
- Not heeding warning signals.
- Not being armed with adequate contingencies.
- Doing too little too late.

## Changing Mindsets (BACHA Model)

The top change imperative in organisations today is changing mindsets. The prerequisites for changing mindsets are :

- Eliminate Blind-spots — have a wider-angle view of things.
- Question Assumptions — allow people to question.
- Reduce Complacency — set higher goals and benchmark against the best.
- Root-out Unproductive Habits — eliminate non-value adding activities.

- Abolish Negative Attitudes — look at the bright side of things.

## Processes of Change

Managing change is defined as the "process of aligning the initiative of change within, to the external environment so as to enable the organisation to compete." There are seven stages in the process of change :

- Anticipate change.
- Identify the change.
- Sell the change.
- Mobilise resources for change.
- Break down comfort zones.
- Reinforce change success.
- Continuous learning and change.

## Value-driven motivation

Value-driven motivation is basically adding value to oneself. "Value comes first, rewards will follow," Mr. Tan stressed. In developing such an attribute, people would need to :

- Change mindsets.
- Build knowledge and skills, and acquire experience.

- Develop performance track records.
- Increase value.

## Motivating people to change

Finally, Mr. Tan gave top tips on how to motivate people to change. These include :

- Giving people a compelling rationale for change.
- Addressing the 'What's in it for me?' question effectively.
- Ensuring benefits outweigh costs.
- Striving to excel and to be constantly remembered in the employer's mind (top of mind).
- Focusing on returns on investment on self.
- Developing the total selling ability.

"Change is the law of life and those who look only to the past and present are certain to miss the future."  
*~ John F. Kennedy, 35th President of the US ~*

Overall, the Retreat was exciting and fruitful. Participants found the talk enlightening and were united on the need to change for the better. The Retreat also provided a good opportunity to spawn ideas, as participants explored ways and means to develop a better working structure, and a conducive culture within the Institute.

Report by : Janet Leong, MIA

## POWER POINTS ON OPENING MINDS

- The most difficult thing to do is to open a closed mind.
- Small minds are the first to criticise large ideas.
- People with a one-track mind often have a derailed train of thought.
- Most people pride themselves in saying "yes" to old ideas and rationalise that great minds think alike, but the reality is that they are little minds stuck in the same rut.
- Too many people are broad-minded about the wrong things.
- No constitution, no court or law can save liberty when it dies in the hearts and minds of men and women.
- Minds are like parachutes; they only function when they are opened.

## CRITICAL KEY IT TRENDS

### ■ The Pipes

The rapid implementation of high capacity 'broadband' communication infrastructure to every part of the planet. The battles to develop the global digital satellite, cable, fibre-optic, phone and wireless networks for such pipes are now evident in the daily news.

### ■ The Enabling Technologies

These allow the easy access to and secure use of such pipes by all types of businesses and consumers in a seamless manner.

### ■ The Content

The 'value added' B-B and B-C traffic that will flow through these pipes. This is the application area that accountants must examine and prepare for if they are to create, lead and dominate new services.

## MAJOR BUSINESS AREAS AFFECTED BY THE IT TRENDS

### ■ Audit-Security and Control

All technologies will have a security implication which accountants must know about. Some of the major technologies and their impact on controls are as follows :

TECHNOLOGY	SECURITY ISSUES
Image processing	Information validity and integrity
E-commerce	Access by outsiders, lack of paper audit trail
Communication technology	Remote access, authentication of remote parties
Workflow technology	Adequate segregation of duties
Area networks	Remote access, authentication of remote parties
Collaborative computing and GroupWare	Document control, access to sensitive information, authentication of remote users
BPR	Adequate segregation of duties
Mail technology	Lack of paper audit trail

In the near future, auditors can expect most accounting transactions to be in electronic format without any paper documentation. The key technologies will change the nature of audit, which traditionally have relied on paper documents.

Auditors' schedules have always included discrete phases of planning, interim, year-end and final work. In today's technology-driven business this may have to change to continuous audit.

### ■ Information Overload

Sophisticated communication technology and complex financial application software make it easier to collect information and move it from one place to another. It has also led to the generation of an incredible amount of data. Getting the required data will no longer be a problem but accountants will have to filter, sort, compile, analyse and disseminate financial data in a way that add value to the company.

**"In the near future, auditors can expect most accounting transactions to be in electronic format without any paper documentation."**



to clients.

Specialist software in practice management and audit should be used to give better quality of service to clients and to reduce the cycle time for producing accounts for clients.

In the field of business, these developments will lead to a radical re-engineering of the logistic supply chain between a business, its suppliers and its customers for both products and services. The accountancy profession is a supplier of essential services and these must also be re-engineered to meet such needs. This is the challenge facing the profession if one is to become the Virtual Accountant.

Existing industries and services are being radically transformed. Markets whether fragmented or integrated are becoming completely transparent and leading to intensive competition with resultant pressure on margins. Companies and intermediaries that do not adapt to the new business model will be driven out of business. Numerous examples already abound of such wholesale change, e.g. share trading (Charles Schwab, etc.) is going completely electronic and online.

### ■ Practice Management

A combination of increased demands for more sophisticated services by clients and the increasing use of IT are influencing the way accountants run their practices. Many of the smaller firms will be forced to merge in order to achieve economies of scale in providing more services and in implementing IT. Only by increasing its size will the practice be able to attract quality IT graduates and offer more sophisticated services

Completely new e- or i-industries and services are being set up based on the new infrastructure and technologies and this trend is increasing at an astonishing rate, e.g. online auctions and car sales.

## SWOT ANALYSIS

This is the New Economy environment that the virtual accountant must now operate in. The profession must now be examined to see how it may best adapt to such changes.

### Strengths and Weaknesses

In his speech delivered at the Microsoft Partners' Conference, Mr. Barry Melancon the President of AICPA said that in researches conducted by the AICPA the positive things people say about CPAs are, "very reliable, highly intelligent, competent, ethical, honest." [Barry Melancon, 1998, 'A Path for the Future', Journal of Financial Accounting]. The fundamental strengths of the accountant lie in the education, training and the public's perception of the profession.

In the same research, the people interviewed also said that accountants are, "conservative, too slow to act, not technologically advanced, unaware of the big picture and behind the times." These are extremely damning criticisms from a New Economy perspective.

### Opportunities

#### Internal Control

While technological change presents challenges in terms of adequate accounting information system security, it also presents accountants with opportunities. Engineers and systems designers with little or no training in finance and internal control mechanisms determine technological advances. Accountants can work with these engineers and designers to develop adequate control measures as the technology evolves, rather than waiting until after the technology has been implemented. However, to do so they must have the skills and competencies to understand, forecast, specify, communicate, control and implement such systems.

#### Educating Management

A second opportunity for accountants lies in educating management concerning information system security. Even though upper management uses information system output, they seldom actually use the system to

enter and process data. Management may not be aware of the daily security concerns surrounding the system. Increasing management's awareness of and dedication to system security can enhance the control environment and place system security at the forefront of their awareness. This is even more critical in the totally distributed environment of the World Wide Web where security standards are still poor.

#### Business Process Reengineering (BPR)

BPR is :

"... the analysis and design of workflow and processes within and between organisations."

[Davenport & Short, 1990 'The New Industrial Engineering : Information Technology and Business Process Redesign', Sloan Management Review]. James Champy and Michael Hammer in their famous book 'Re-engineering the Corporation' call for a blank sheet approach to be adopted in designing the provision of products and services. This blank sheet approach should now be considered by the leaders of the accountancy profession to deal with the opportunities provided by the New Economy.

IT is a key enabler of BPR to fundamentally reshape the way business is done. BPR is primarily a business technique that has fundamental consequences in terms of satisfying the needs of the customers and the organisation's employees. Accountants whose audit role gives them valuable insight into the key processes of the organisation have an important and competitive position to serve as partners in enabling these radical changes. Accountants may need to play a behind-the-scene advocacy role, convincing senior management of the power offered by IT and process redesign. They would also need to incorporate the skills of process measurement, analysis and redesign. Senior management still regards IT as a cost centre rather than a value creation tool for the business. To compete in the New Economy they must be shown how it can be used to give competitive advantage.

#### Knowledge Management (KM)

KM is :

"... a framework or system designed to help companies capture, analyse, apply and re-use knowledge to make faster, smarter and better decisions to achieve competitive advantage."

(Ernst & Young Centre for Business Knowledge, November 1998). Improved decision-making is an end goal of KM. While technology is the key enabler in BPR technology, management and the organisation are the key enablers of the KM process. Accountants who through their audit work understand the formal and informal hierarchy of an organisation and who have understanding and intelligent use of the enabling GroupWare technologies of Intranets and Extranets must assume a central position in advising management. The shift is really from a production orientation to a customer centric or driven approach. Customer Service Management (CSM) and Enterprise Resource Planning (ERP) are now the standard tools for such a transformation to gain and retain competitive advantage. Knowledge management is also a key enabler of success. In this context

**"The fundamental strengths of the accountant lie in the education, training and the public's perception of the profession."**

Peter Senge has defined a 'Learning Organisation' as one which believes that its competitive advantage arises from continuous learning of all its people.

#### Enterprise Resource Planning (ERP) and Customer Service Management (CSM)

ERP systems are company-wide information systems that integrate information throughout the business function, from manufacturing operations through logistics, accounting and payroll. Major players in this market are SAP, Baan, IBM and Oracle. However, web-based ERP and Enterprise Resource Management (ERM) systems are fast-changing this area of service provision.

Of particular importance to accountants is the use of ERP systems for BPR. With the increasing use of ERP systems, there is

a growing need for qualified personnel with knowledge of business processes and capable of software selection and implementation. Again, accountants can capitalise on their insight and knowledge of the organisation and its operations to meet the market demand for such systems.

- *E-Commerce (EC)*

This is 'The Key Opportunity Area' for the profession and the Virtual Accountant. IBM's boss Lou Gerstner described the current dotcom companies as "fireflies before the storm". The storm would arrive he said "when the really big firms — the global 1,000 seized the power of the Internet and used it to transform themselves". From recent pronouncements by GM and Ford this storm has now arrived. E-business is about to come of age.

This unparalleled transformation is the wake up call for the profession.

'Creative Thinking' tools and techniques like those developed by Edward De Bono for Lateral Thinking, Surpetiton (competing above) and Concept R&D, are going to become a necessity for all members of the profession if it is to successfully adapt to this opportunity.

Entirely new products and services will change every area of business. The Virtual Accountant will have to define products and services to meet the needs of the New Economy.

- *Assurance Services*

Although e-commerce is growing, both buyers and sellers are still concerned about conducting business on the Internet. The fundamental concern is the distrust of the process of e-commerce. Buyers are especially concerned about sellers whom they may never have dealt with previously or even communicated with other than by the Web or e-mail.

Accountants by virtue of their education and experience are in an excellent position to provide assurance to consumers. The main concerns of the buyers that can be allayed by the accountant's assurance are :

- Confidentiality and Privacy (will the information provided be kept confidential?).
- Integrity (is the company trustworthy?).
- Authenticity (is this a real company?).
- Security (is the payment method secured and is the site virus free?).

Several accountancy bodies such as AICPA and more recently ICAEW have launched a service called 'WebTrust'. WebTrust is a 'seal of approval' given by the accountancy body to individual Web sites which meet strict conditions of good business practice. The service is designed to provide consumers with the confidence that using approved Web sites for transacting business is as safe as doing business in the traditional way.

Accountants who have undergone special training will examine the Web site operator's business methodology and practice as they have been applied over a period of time and assess the adequacy of security arrangements over the Web site. The findings are compared with laid down principles and criteria. If the findings are acceptable, a seal of approval is affixed to the Web site. The reviews are repeated at regular interval to ensure the standards are maintained.

The 'original' WebTrust service which was a collaboration between AICPA and Canadian ICA, was launched in the US and Canada in 1997. The ICAEW launched their own service recently in 1999. It is inevitable that similar services will be launched by other accountancy bodies worldwide.

WebTrust is not the only e-commerce service that accountants can provide. There are many e-businesses that may not be ready for their WebTrust examinations, due perhaps to insufficient internal controls. Accountants will have significant opportunities in helping clients prepare for such examination.

### ■ Threats

The threats to the accountancy profession come from both internal and external forces.

- *Internal Threats*

The internal threat to the profession comes from potential resistance to change. The old adage 'if it works don't fix it', has been the excuse of many member bodies who are apprehensive of the repercussion for members of any changes that takes the profession out of its traditional domain. It should be noted that the value system of the New Economy of open access and transparency is the complete antithesis of the ex-



clusion principles followed by the craft guilds that gave rise to the traditional professions.

- *External Threats*

The external threat to the profession comes from substitute professions who can perform the

same services. Potentially, IT professionals and MBA graduates pose the greatest threat. IT professionals with their basic education in IT are a strong contender to provide services such as systems audit and design, especially if this has been combined with business. In fact there is a trend by some universities to merge the IT and accounting curriculum. MBAs who now specialise in areas such as BPR, KM, also act as preferred consultants to companies in these areas. The Virtual Accountant must be the profession's answer to these companies' needs to re-engineer to survive in the New Economy.

## EDUCATION & TRAINING

It needs to be emphasised that IT is only one of the forces affecting the accounting profession but it is probably the one single force that has far more reaching consequences in terms of how we as a profession position ourselves and proactively adapt to meet these opportunities. To move forward into the new millennium, to meet the challenges created by the IT phenomenon, education and training for accountants will be crucial. It is important for the education and training to address two particular groups of accountants :

- Existing accountants.
- Future accountants.

### ■ Existing Accountants

Current accountants who received their training and qualified before the advent of the Internet will need to have their knowledge continuously updated throughout their working life to meet the needs of the New Economy. The natural way to do this is through structured and accredited CPE/CPD, with the CPE/CPD leading to further specialist qualifications if required. Future CPE programmes should be structured into

IT and non-IT areas and that all accountants are required to attain certain CPE points in each area. By structuring the CPE programme this way, it will ensure that accountants attend at least some IT courses. CPE programmes will have to be delivered in ways that meet the demands of increasingly busy accountants. CPE courses delivered online is one answer. A knowledge base of relevant courses would include IT courses ranging from basic literacy programmes such as foundation office productivity tools (Lotus Smartsuite and Microsoft Office) to specialist packages such as project management, auditing and accounting software. Accountants like all professionals are 'time challenged' with increasing demands on their limited time. Anywhere, anytime topic based 'workstyle' packages provided on a subscription basis with learning management that will have to become the norm.

At a more strategic level, accountants should also consider enrolling in MBA programmes, which can increase their value.

of the poor quality of graduates who they have to retain for work.

There needs to be a radical redesign of the accounting curriculum. IFAC has published its proposal on IT education within the accounting curriculum (IEG11). The implication of IEG11 is that IT is defined as a core area within the accounting curriculum. Accountants of the future will embrace one of the three roles identified by IEG11 : designer, manager and evaluator/auditor. However, there is a strong argument that the accounting curriculum should focus on control issues which has been a key part of the accounting profession's identity and which represents a major subset of critical IT knowledge.

Testing of IT related skills and knowledge should also be incorporated into professional exams. Unless this is done, it will not be effectively incorporated into the academic curriculum. It is both a foundation skill and a core competency that must be embedded throughout all areas of profes-

'guild' roles as regulatory associations whose primary role is to protect members by guarding entry to the profession and passively disseminating updates of technical news to that of proactive bodies constantly identifying and creating new services/opportunities for their members. This re-engineering of the profession requires a rapid political commitment by the accountancy bodies' leaders to succeed.

The accountancy profession is a century old. It has dominated the financial services market but it must be willing to change in order to go forward. Traditional services such as audits will still be there, but failure to change will make us a shadow of our former selves and our market value will be diminished in the eyes of our customers.

The Virtual Accountant requires a 'New Education' to be equipped with the skills and competencies for meeting the needs of the New Economy. This is the opportunity and the challenge that now faces the accountancy profession to position itself for

**“The Virtual Accountant requires a ‘New Education’ to be equipped with the skills and competencies for meeting the needs of the New Economy. This is the opportunity and the challenge that now faces the accountancy profession to position itself for the 21st Century and the new millennium.”**

Some MBAs offer electives in consulting skills, knowledge management and practice management. For example, The Open University in the UK ([www.open.ac.uk](http://www.open.ac.uk)) which operates the largest Business School in Europe, offers an MBA with specialist electives in knowledge and technology management. The programme is delivered mainly through the Web and CD-ROMs. Approximately 25 per cent of its students come from a 'finance' background.

#### ■ Future Accountants

The profession and academics have been slow to react to the changes in the global market place and especially the importance of IT to information oriented professions such as accountants. The lack of the IT component in the basic accounting education has left many accountants unprepared to cope with IT, either as users or as business advisers.

Accounting firms are hiring fewer and fewer accounting graduates. Much recruiting is now focussed on general business and IT graduates. Employers are complaining

of the poor quality of graduates who they have to retain for work. The Virtual Accountant must literally learn a new language if he is to communicate in the New Economy.

### CONCLUSION

**P**rofessional accountancy bodies must change from their traditional

the 21<sup>st</sup> Century and the new millennium.

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In the past, environmental audits may not have been concerned with the overall goals of the organisation, nor were auditors responsible for helping to devise better management processes that would reduce the organisation's impact on the environment. However, with the advent of ISO 14001, the adaptation of the internal auditor's role to a systems audit of environmental management systems is surely emerging.

# Environmental

## THE INTERNAL AUDITORS

By Dr. Maliah Sulaiman

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Dennis Taylor (Curtin University of Technology)

### Introduction

**T**he public is increasingly becoming more aware of environmental issues and the potential impact of businesses on the environment. This is not surprising now that the environment is regarded as an asset to be valued. Consequently, the ability to manage environmental performance is emerging as a strategic issue for many countries, worldwide.

In response to this, the International Organisation for Standardisation (ISO), in 1996, promulgated a series of standards, the ISO 14000, on environmental management and performance. The standards are poised to become the next gateway to the global market place, bringing environmental issues into the mainstream of the corporate decision-making process. Given that businesses are increasingly asserting their role as responsible social players and regarding environmental concerns as an integral part of their daily operations, the ISO 14000 may well be an indicator of a company's commitment to environmental responsibility.



The focus of this paper is on ISO 14001, the standard on environmental management systems (EMS). Like its predecessor, the ISO 9000, the ISO 14001 has a provision on certification. A prerequisite to certification is the conduct of an audit. Specifically, the paper looks at whether or not accounting qualified internal auditors would fit the role of environmental auditors now that the focus of environmental auditing has shifted from one of compliance to one that emphasises systems.

### What is ISO 14000?

**I**SO 14000 is a series of voluntary standards covering various aspects of environmental management and procedures that will help an organisation address the environmental issues it faces. Rather than specifying detailed compliance rules, the standards provide guidelines on maintaining a management system that will ensure compliance with environmental laws and regulations while promoting continuous improvement in environmental performance.

# ISO 14000



“ISO 14000 is a series of voluntary standards covering various aspects of environmental management and procedures that will help an organisation address the environmental issues it faces.”

## Management

## S ROLE

“It is imperative that any audit conducted for the purpose of certification should be able to uncover any violations or non-conformance of environmental policies.”

The ISO 14000 standards address six aspects of environmental management : environmental management systems, environmental audits, labelling, environmental performance evaluations, life cycle assessments, and terms and definitions. Issued in September, 1996, ISO 14001 consists of five essential requirements (that are based on traditional management principles) :

- i** Commitment and policy.
- ii** Planning.
- iii** Implementation and operation.
- iv** Checking and corrective action.
- v** Management review and continual improvement.

The first requirement necessitates the existence of a written environmental policy and a corporate commitment towards environmental improvement. Essentially, what this means is that the com-

pany must conform to all applicable national laws and regulations, must include pollution prevention as one of its policies and must have a commitment towards continuously improving environmental performance. The plan of action indicates the ‘what’, the ‘how’ and the ‘when’ of environmental management. Generally, this stage describes what the company is going to do, how it is going to go about doing it and when it is to be done. Central to the effective operation of the EMS is employee involvement. Without it, the system may not bring significant improvements to the environment. As a consequence, the allocation of responsibility is a crucial element of ISO 14001. The checking and corrective action elements of the system help ensure continuous improvement by addressing root causes or non-conformances. It is at this stage that the auditing aspects are pertinent. The ongoing management review of the EMS and its elements help ensure continuing suitability, adequacy and effectiveness of the programme. In addition, the management review gives the system credibility and reinforces its diligent op-

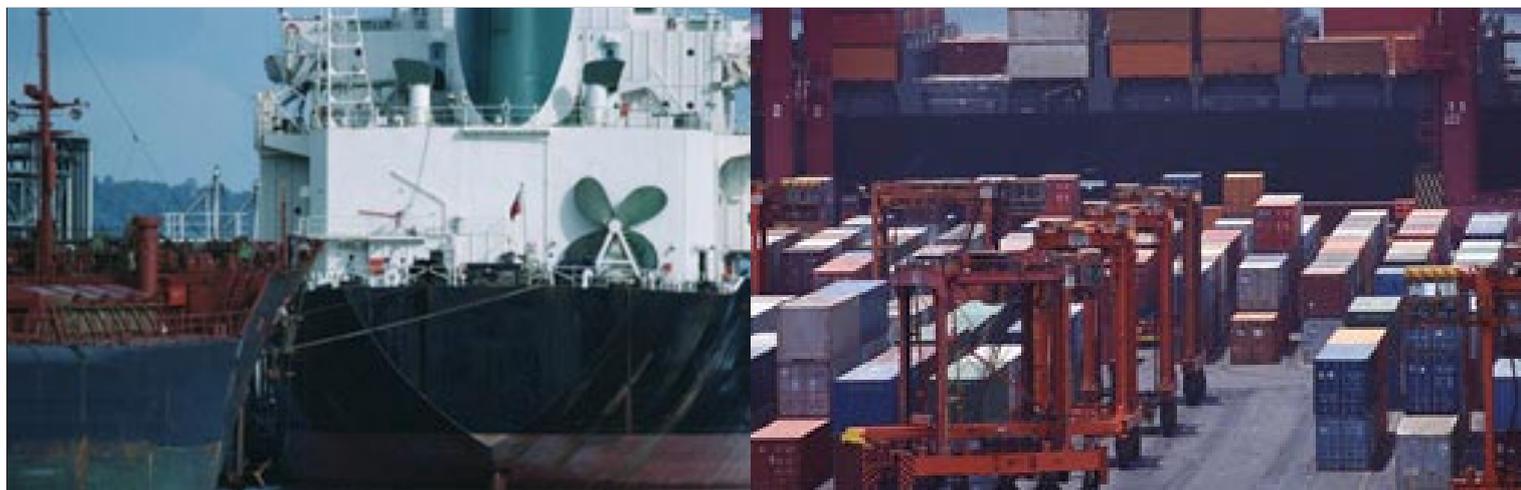
erations. Thus, while an audit examines the structure of the EMS and its component parts (ensuring that the requirements of ISO 14001 are in place), management review focuses on the EMS itself and its interrelationship with the functioning of the company as a whole.

Once the EMS is established, implemented and documented in accordance with ISO 14001, companies can choose whether or not to seek registration. To become certified, an entity can either self-declare that it has met all the requirements of the standard or undergo a third party audit. Regardless of the path chosen, an external body ultimately decides if the entity can be certified. Generally, certification involves selecting a registrar and a lead auditor, and then hosting an on-site audit for a pre-assessment of the EMS. It is imperative that any audit conducted for the purpose of certification should be able to uncover any violations or non-conformance of environmental policies. Subsequently, any incidents of non-conformances detected by the audit team should be corrected.

Some companies may choose to implement an ISO 14001 programme but not opt to get certified. However, certification brings with it several advantages to the company. Some of the advantages

The findings of Boiral and Sala (1998), however, seemed contrary to this assertion. They found that not all managers at Alcan Smelters and Chemicals Ltd (AS&C) in the US believe that adopting the ISO 14000 standards will improve environmental performance. Despite this, there has been an ever increasing number of companies getting certification. As at 30 June 1999, Japan heads the list of countries with more than 2000 companies registered. Malaysia has 101 companies that have been certified to-date. The numbers are increasing. This may be due to the benefits that certification brings, as enumerated earlier. More importantly, a country which is dependent on trade with advanced markets would tend to adopt ISO 14000 to enjoy a competitive advantage in the global market place. In Thailand, for example, many of the country's multinationals are already ISO 14000 certified.

Once an entity is certified, periodic EMS audits must be conducted to ascertain if the EMS conforms to the requirements of ISO 14001. This brings us to the focus of this paper, that is, whether or not a typical internal auditor (i.e. an accounting qualified internal auditor) is deemed appropriate to conduct an EMS audit.



**“In the past, environmental audits were carried out in order to ensure compliance with pollution control regulations.”**

claimed include improved public image, increased investor confidence, improved access to capital, conservation of materials, ability to express due diligence, reduced waste, improved process efficiencies, improved organisational culture and improved environmental performance (IISD, 1996). Thus, in broad terms, ISO 14000 certification enables companies to fulfil two requirements. The first is the internal need for a system that will help the organisation address all its legal, commercial and other challenges related to the environment, and the second stems from a need to assure those outside the company that it is meeting its stated environmental policies.

ISO 14000 provides a useful tool with which to hold a company accountable for the impact of its operations on the environment. When an entity establishes a positive environmental policy, the ISO 14001 standard can be used to check that it is actually accomplishing its goals and reporting appropriately on them. Additionally, it has been claimed that the existence of an EMS in an organisation will usually lead to environmental performance improvements.

### Who should perform EMS audits?

The ISO 14000 series of standards provide companies with a framework with which they can establish environmental policy, identify their environmental obligations and goals and then implement procedures and evaluate progress towards meeting these goals and obligations. Within this framework, environmental auditing serves to verify that the necessary EMS is in place and is operating effectively. With the current emphasis on integrating environmental management into the design, operation and maintenance of every process, service or product, the eventual outcome is a set of dynamic systems whose efficiency and effectiveness can be assessed by internal auditors.

In the past, environmental audits were carried out in order to ensure compliance with pollution control regulations. The emphasis on technical compliance led management to staff environmental audit teams with technical personnel such as scientists and engineers. The survey by Akers and Klos (1995) supports this contention somewhat. They found that, generally, environmental au-

audits were conducted by personnel from *other* than those of the internal audit department. In the sample studied, 17 per cent of those responded indicated that environmental audits were performed by staff from the internal audit department, while 79 per cent indicated staff from 'other' departments.

The new emphasis on evaluating systems, however, suggests a greater role for internal auditors, primarily because auditing system conformance is a fundamental internal auditing skill. This change in emphasis makes it easier for accounting qualified internal auditors to accept responsibility for environmental audits<sup>1</sup>. Consequently, this will have the potential to lead internal audit departments to train accounting qualified internal auditors in the basics of environmental auditing and the environmental laws that have to be complied with. Bearing in mind that compliance assessment is but a small part of the whole process of an EMS audit, Power (1991) cautions that environmental audits as practised by accountants may be another variant of compliance audit. He is of the opinion that accountants would very likely focus on issues that they find comfortable. Thus, issues that cannot be translated into the economic risk-based language of financial audit may be excluded.

The composition of the audit team should be directly related to the function that the team member is to perform during the audit (Greeno, *et al*, 1985). If it is desired that the team assesses environmental performance and identifies hazards, then technically trained people who have that experience and expertise (such as engineers, chemists, safety professionals, industrial hygienists and so on) are desirable team members. If the focus of the audit is to verify records and determine if policies and procedures are being followed, then people with experience in auditing, and not necessarily as much expertise in environmental control techniques, are good team members.

Picard (1998) supports this contention. According to him, the variety and complexity of environmental issues is fundamental in defining the internal auditor's role in EMS audits. An environmental engineer who is thoroughly familiar with regulatory requirements and supported by a specialist in environmental law can assess a site's compliance with government regulations while an internal auditor is more suited to evaluate conformance of a company's EMS specifications. Hence, *both* the environmental engineer and the internal auditor are valued contributors to the continual



**“If it is desired that the team assesses environmental performance and identifies hazards, then technically trained people who have that experience and expertise, such as engineers, chemists, safety professionals, industrial hygienists and so on, are desirable team members.”**



<sup>1</sup> It is usual to find a majority of accounting trained professionals in the internal audit departments of most companies.

improvement of the EMS. A cross-functional audit team would bring the advantage of providing more opportunities for both process changes and product specification revisions, each of which has a central role in eliminating or reducing the impact on the environment. Consequently, the key to maximising the contribution from internal auditors (in the field of EMS audits) is to ensure that staff from the internal audit department should be willing to participate as a cross-functional team.

Likewise, the American Society for Testing and Materials supports a cross-functional environmental audit team. They suggest that the environmental audit team should possess a collective knowledge of management information systems, engineering, control systems, management systems, accounting, finance, statistics and law. Additionally, each auditor should have an appreciation for management principles, environmental issues, quantitative methods and computerised information systems.

### Conclusion

Notwithstanding the criticisms that have been levelled at the ISO 14000 standards (Boiral and Sala, 1998), early indications are that the standards are here to stay. Clearly, the provisions of the standards are aimed at cleaning up the environment. Nevertheless, because the provisions do not require external reporting of environmental performance results, it is undeniably possible that a company could implement an EMS, conduct environmental audits and end up with the same level of environmental performance as pre-ISO 14000. However, this is not likely. One must bear in mind that the adoption of ISO 14000 standards alone will not maximise a company's benefits. Companies that adopt the standards for internally generated reasons are most likely to take it seriously and stress real performance improvements. However, those who act in response to market pressures or are forced into quick adoption may see it as yet another administrative procedure, focused merely on obtaining a "correct label".

To be adequate and effective, an EMS requires the committed involvement of top level management and the support of the internal audit function. One implication that management must consider when adopting the ISO 14000 standards is the need to transform the internal auditor's role. In the past, environmental audits may not have been concerned with the overall goals of the organisation, nor were auditors responsible for helping to devise better management processes that would reduce the organisation's impact on the environment. However, with the advent of ISO 14001, the adaptation of the internal auditor's role to a systems audit of EMS is surely emerging. There is a lot to be gained by melding traditional internal auditing and environmental auditing in organisations. Internal auditing is well-established. The profession has developed structured processes and standards for measuring the effectiveness of systems as well as an independent reporting structure to the board of directors — aspects that are lacking in environmental auditing. However, internal auditors do not possess the technical

**"One must bear in mind that the adoption of ISO 14000 standards alone will not maximise a company's benefits. Companies that adopt the standards for internally generated reasons are most likely to take it seriously and stress real performance improvements."**

knowledge necessary to assess physical environmental inputs and outputs. As such, companies will find it extremely valuable to combine their environmental and auditing functions to take advantage of the strengths of each.

Finally, there are several factors that can maximise the internal auditor's contributions in an EMS audit: a willingness to be part of a cross-functional team, the ability to identify those areas of the environmental management where the internal auditor is best suited to contribute and a willingness to "tool-up" (where necessary), to meet the qualification criteria for environmental auditors. In Malaysia, as in other countries with diverse economies, the ISO

14001 standard has thrown a challenge to accountants engaged in traditional internal auditing, especially in environmentally sensitive industries such as heavy manufacturing chemicals, timber and mining. The challenge is that they play a proactive role in the instigation and/or enhancement of the organisation's environmental management system

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## EURO EXPERIENCE

The process of European economic and financial integration began with the Treaty of Rome in 1957. Although the process was long and extremely complex, it succeeded after 40 years. Its momentum could be attributed to Europeans wanting to stay competitive in the global markets.

A single currency for Europe has been seen as a necessary element in order to complete the EU single market. Without such a reform, exchange rate fluctuations and the costs and inefficiencies



“A single currency for Europe has been seen as a necessary element in order to complete the EU single market.”

which result from trading between different currencies will create major barriers to cross-border trade and investment within Europe.

The Euro was finally launched on 1 January 1999, with 11 EU member countries merging their currencies and ceding control of their monetary policy to a European Central Bank (ECB). Since then, national currencies have functioned as sub-units to Euro, and are mainly used for retail activities, while Euro has taken over their role in the financial markets.

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# Asean Common

*The subject of Asean Common Currency (ACC) cannot be discussed without reference to what happened in the European Union (EU) and its single currency (Euro). There are valuable lessons which can be drawn from the EU's move towards monetary integration. Therefore, this paper will briefly examine Euro's experience, its convergence criteria and prospects.*

*Thereafter, the paper will deal with the topic of 'Asean Common Currency — From Dream To Reality' and the various key issues connected with it.*



# Currency

## *from Dream to Reality*



## EURO CONVERGENCE CRITERIA

Of the 15 EU member countries which were signatories to the Maastricht Treaty in 1991, 11 countries fulfilled the convergence criteria for participation in the initial phase of the Economic and Monetary Union (EMU) and Euro. These countries are Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, Netherlands, Portugal and Spain. However, Britain, Denmark and Sweden had opted to be out of the EMU, while Greece failed to meet the criteria.

There were five convergence criteria for Euro, namely :

- i** Fiscal deficit of not more than 3 per cent of Gross Domestic Product (GDP).
- ii** Government debt of not more than 60 per cent of GDP.
- iii** Inflation within 1.5 percentage points of the 12-month average of the three best performing members.
- iv** Long-term interest rates (10-year benchmark bond yield) within two percentage points above the 12-month average of the three best performing members in terms of inflation.
- v** Exchange rates within the fluctuation margins provided by the European Monetary System's Exchange Rate Mechanism (ERM) for at least two years.

The ECB, which was established in June 1998, is the sole issuer of Euro, and its main objectives are to maintain Euro and price stability. However, it does not function as a "lender of last resort" and is prohibited from supporting any EMU country through debt purchases.

With the birth of Euro, the idea of a one-

currency system in regional groupings has slowly emerged in other parts of the world. Certain Latin American countries are contemplating the use of the US dollar as their common regional currency, while Asean countries are exploring the idea of a single Asean currency.

**"With the birth of Euro, the idea of a one-currency system in regional groupings has slowly emerged in other parts of the world."**

## PROSPECTS FOR EURO

Currently, it is still too early to be able to assess accurately how important Euro will become in the global monetary system. Nevertheless, EU as a region could well rival the US economy in the longer term.

In comparison, the EU has a population of 292 million (US : 270 million), GDP of US\$6.3 trillion (US GDP : US\$8.1 trillion), share of international trade of 19 per cent (US : 18 per cent) and combined foreign exchange reserves (excluding gold) of US\$266 billion (US\$84 billion). The EU is a more open economy than the US, given that foreign trade currently accounts for 25 per cent of GDP (20 per cent in the US).

The large size and economic strength of EU would suggest that Euro has the potential to grow out of its infancy stage and sub-

sequently become a key reserve currency, as well as a currency of settlement for international trade and investment. Some quarters have even predicted that Euro may attain a share of around 25 per cent of global foreign exchange reserves in the medium-term. Similar effects can be expected for Euro's role in private portfolios.

However, Euro is confronted by several uncertainties in the short-term such as challenges facing the ECB, risk of deflation, differences between policy makers and possible asymmetric shocks (e.g. shocks may arise from a common monetary policy that will affect the Euro-11 countries which have different economic structures and production bases).

## FORMATION OF ASEAN AND ASEAN FREE TRADE AREA (AFTA)

In 1967, five countries (Indonesia, Malaysia, Philippines, Singapore, and Thailand) established Asean to promote political and economic co-operation. Thereafter, Brunei joined in 1984, while Vietnam, Laos, Myanmar and Cambodia joined in the 1990s. With 10 member countries, Asean now has a combined population of about 500 million.

Given the potential of increasing intra-regional trade, Asean then created AFTA in January 1992, with the use of a Common Effective Preferential Tariff (CEPT). The AFTA could become reality sooner than expected because subsequent deliberations led the six original AFTA signatories (Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand) to agree to transform



The Asean logo represents a stable, peaceful, united and dynamic Asean. The colours of the logo — blue, red, white and yellow — represent the main colours of the crests of all Asean countries. The blue represents peace and stability. Red depicts courage and dynamism. White shows purity and yellow symbolises prosperity. The ten stalks of padi represent the dream of Asean's Founding Fathers for an Asean comprising all the ten countries in Southeast Asia bound together in friendship and solidarity. The circle represents the unity of Asean.

the region into a free trade area by 2002. The goal is to reduce tariffs to 0-5 per cent for 85 per cent of products in the Inclusion List of the CEPT Scheme by the year 2000 (0-5 per cent for 100 percent of products by the year 2002).

### PUTTING ASEAN COMMON CURRENCY (ACC) INTO PERSPECTIVE

Much of the global trade has been transacted by using the US dollar as the base currency. For years, Asean businesses have preferred the US dollar as a currency of trade because of its stability and common reference point status. However, over-dependence on the US dollar has created significant downside risks, as the 1997-98 Asian financial crisis has shown.

stability, as well as strengthen economic resilience and co-operation among member countries.

As mentioned above, the ACC concept is an idea born out of the Asian financial crisis. Malaysia's Prime Minister has been a keen promoter of this concept. The vision and goal of Asean having its own common currency for trading purposes eventually is primarily to safeguard regional financial stability, more so as Asean will face challenges of greater liberalisation, globalisation and integration of the world economy in the 21<sup>st</sup> Century. Further, the ACC has been viewed as a tool to facilitate regional trade, and to enhance efficiency and productivity in the Asean business community.

Thereafter, at the Sixth Asean Summit in Hanoi (16 December 1998), Asean leaders *inter alia* agreed to intensify co-operation

“The vision and goal of Asean having its own common currency for trading purposes eventually is primarily to safeguard regional financial stability, more so as Asean will face challenges of greater liberalisation, globalisation and integration of the world economy in the 21<sup>st</sup> Century.”



Single Asean currency can promote intra-regional trade.

What started off as a currency crisis, with the devaluation of the Thai baht, unfortunately sparked off the region-wide financial and economic crisis. Asean countries saw their currencies grossly devalued, stock and property markets plunged, and their real economies severely damaged. The socio-political costs were steep for certain Asean countries.

The crisis triggered much thought on possible ways to avert a similar crisis in the future. It was around the peak of the Asian financial crisis that the idea of a single currency for Asean was mooted. To be sure, this was just one of the several proposals to enhance regional economic and financial

“It was around the peak of the Asian financial crisis that the idea of a single currency for Asean was mooted.”

in money matters, and hence agreed to study the feasibility of establishing an Asean currency and exchange rate system. They also agreed to look into the development of the clearing and settlement systems. In October 1999, Asean's Secretary-General noted the idea of ACC had gained grounds in that it has now become a talking point among the member countries, unlike before the Asian financial crisis. Indeed, the International Monetary Fund's report on the advantages, weaknesses, prerequisites and effects of establishing an ACC was deliberated at the 5<sup>th</sup> Asean Central Banks Forum Meeting in Hanoi on 3 November 1999.

## ISSUES FACING THE EMERGENCE OF ACC

Judging from Euro's experience, it will be a long track before the goal of ACC is reached. Asean countries would need to wrestle with the following key issues :

### **i** *Diverse political, religious and cultural backgrounds*

Asean countries' political systems, religions, historical background and languages are very different. Considerable efforts are needed to overcome national pride, historic rivalries, remaining territorial disputes and even mutual suspicions.

For the ACC concept to develop further, there ought to be greater cohesion, political maturity and a sense of belonging among the member countries. If the Asean monetary union is to emerge, it will require a paradigm shift in attitude, especially when people could well be nationalistic about their own currencies.

### **ii** *Diverse economies*

Asean countries are also diverse in terms of economic background, structure and level of development. Currently, there are significant development gaps among the member countries, especially with the inclusion of Cambodia, Laos and Myanmar.

If the idea of ACC is to make headway, Asean members would need to share some measurable core economic goals, as in the case with EU's convergence criteria. For Asean, they would need to think and work through these criteria, which may not necessarily be a carbon copy of EU's, at least in the initial stage.

### **iii** *Different levels of technological developments*

Currently, Asean countries are at different levels of technological developments. This raises the question as to whether sufficient technology would be transferred to the less developed ones, and whether the latter would be able to absorb the technology.

### **iv** *Issue of geography and labour movement*

Unlike in Europe, several Asean countries are separated by the sea, which tends to hinder the freer movement of goods. Also, the restricted movement of labour across borders may somewhat inhibit rather than promote greater regional trade.

**"If the Asean monetary union is to emerge, it will require a paradigm shift in attitude, especially when people could well be nationalistic about their own currencies."**

### **v** *Issue of an independent Asean Central Bank*

The ACC will require the establishment of an Asean Central Bank, which is a formidable task. An even bigger challenge is to ensure that its monetary policy decisions are independent of political pressures. Among other things, the Asean Central Bank will be required to follow a transparent approach to monetary policy, so as to inject confidence among market participants concerning what it hopes to achieve.

### **vi** *Issue of effectiveness of banking and payments systems*

The ACC will be heavily dependent on capabilities for payments and effectiveness of the banking systems in member countries. Currently, the pace of development of the payments and banking systems varies considerably among countries.

**"The ACC will require the establishment of an Asean Central Bank, which is a formidable task. An even bigger challenge is to ensure that its monetary policy decisions are independent of political pressures."**

## OTHER INTERIM OPTIONS APART FROM ACC

**T**he above issues suggest that the ACC is set for the long haul. Sceptics may even dismiss the ACC idea altogether as wishful thinking.

However, obstacles should not stand in

the way of Asean's efforts to find a workable solution to enhance regional economic and financial co-operation. If ACC is deemed far-fetched for now, Asean countries can always explore other interim options, and there are no shortage of options, which could eventually evolve into an ACC at a later time. These options include :

### **i** *Encouraging the use of Asean currencies primarily in intra-regional trade — 'Asean currencies option'*

Of late, Asean governments have encouraged the greater use of their currencies in the settlement of intra-Asean trade. This can be effected through the Bilateral Payments Arrangement (BPA) — a voluntary basis payments mechanism that was endorsed at the 1998 Asean Finance Ministers meeting in Jakarta. Incidentally, the idea of BPA is not new, as it has been used within the framework of South-South co-operation a decade ago. To-date, Malaysia and the Philippines have concluded such an arrangement, while others are under negotiations. Two more BPAs are at different stages of discussion, i.e. Malaysia and Thailand, and Malaysia and Indonesia. The longer-term goal is to evolve the BPA framework into a regional, multilateral payments arrangement.

### **ii** *Encouraging the use of Asean currencies in intra-regional trade, plus looking also at yen and Euro as potential currencies for intra-Asean trade (i.e. apart from the US dollar) — 'Asean currencies + 3 option'*

This proposal discourages the over-reliance of the US dollar in trade settlement. This proposal was highlighted at the Asean Informal Summit in Kuala Lumpur in December 1998.

### **iii** *Using the Singapore dollar as a common currency for intra-regional payments settlement*

This option is akin to the single Asean currency, but with an important difference, i.e. it is not an Asean 'composite' currency, but that of one Asean member's currency.

The choice of the Singapore dollar can be attributed to the perception that Singapore is the 'economic strong man of Asean' in economic and financial terms. The Thai Bankers' Association had proposed this hybrid version of ACC, which had elicited a remark from Malaysia's Prime Minister: "... (it is) an idea that we can examine. We have no objection to examining it. If it is workable, why not?"<sup>1</sup>

**iv Adopting a common currency for clusters of Asean countries**

This option will see the introduction of a common currency for clusters of Asean countries such as Malaysia, Singapore and Brunei. A good start would be to focus on harmonisation and integration on monetary matters within each cluster.

**v Using the Asian Currency Unit (ACU)**

The ACU has yet to be defined. But its definition may be based on the European Currency Unit (ECU). The ECU was conceived in March 1979, and was the precursor of the Euro. The ECU was a 'basket' of specified amounts of each EU currency. Amounts were determined according to the economic size of EU members, all of whose currencies participate in the ECU basket. In the European Monetary System (EMS), the EMS is used as a basis for setting central rates in the ERM, as an accounting unit, and as a reserve instrument and means of settlement among EMS central banks. The ECU is not used by persons.

Recently, Ms. Mercedes Suleik proposed that the ACU could be a 'third pole' (*vis-à-vis* US dollar and Euro), enabling it to be an

anchor currency for the Asian region, reflecting trade linkages. Needless to add, this option could well extend beyond the Asean boundaries.<sup>2</sup>

**vi Using Barter Trade**

An ancient option that can be employed to reduce the over-dependence of the US dollar in intra-Asean trade is barter trade. However, its use is unlikely to be pervasive, and hence its contribution to promoting regional trade and financial stability will be limited.

COMMENTS ON INTERIM OPTIONS

The above options (with the exception of barter trade) may be viewed as a staging post on the way to minimising risks arising from sudden, sharp and extended exchange rate fluctuations. At this juncture, one cannot be certain which road Asean countries will take. But some observations and comments can be made on a few of these interim options.

As mentioned earlier, ideological, cultural, developmental and geographical difficulties will mean that the ACC will be at the back burner for quite a while. Nevertheless, Asean countries are expected to explore the various options and come up with a workable option until such time they are ready to advance further to the ideal of an ACC.

**i Asean currencies option**

With regard to the option of using Asean currencies in intra-regional trade, there is the issue of mutual confidence. How confident is the private sector of Asean countries in using each other's currencies? For example, are Malaysian or Singaporean exporters willing to accept the Indonesian rupiah, Cambodian riel or Laotian kip? Will these exporters quickly convert the rupiah, riel or kip into US dollar or some other major currencies as a hedge?

Without mutual confidence in and acceptance of each other's currencies, it will be difficult to promote the greater use of Asean currencies.



<sup>1</sup> *New Straits Times*, "Malaysia, Thailand, Philippines May Initiate Trading in Respective Currencies", 7 February 1998.

<sup>2</sup> Ms. Mercedes B. Suleik, Executive Director, Capital Market Development Center Inc., "Asean Common Currency — A Future Possibility", paper presented at the 11th AFA Conference & 53rd PICPA Annual National Convention, Davao City, Philippines, 25 November 1999.

## ii *Singapore dollar option*

With the Singapore dollar option, the general perception is that the confidence issue may not be as serious. That is because Singapore is often viewed as the 'economic strongman of Asean':

- Its international competitiveness ranking is No. 1 in the world.
- Its economic and financial development are the most advanced in the Asean region; indeed, among many other countries
- Its national balance sheet is enviable.

Nevertheless, there is the issue of the internationalisation of the Singapore dollar. Will the Monetary Authority of Singapore allow this to happen any time soon? Furthermore, some would argue that the Singapore economy is not big enough for its currency to be used outside the Asean region. There is also the issue of international acceptance of the Singapore dollar as Asean's proxy currency.

## iii *Asean currencies + 3 option*

Then, there is the 'Asean currencies + 3' option. But this option runs the risk of having Asean currencies playing second fiddle to the other major currencies, specifically US dollar, Euro and yen. Therefore, the use of Asean currencies may fall below expectation, especially if confidence in member countries' currencies becomes a major issue.

The upside is that the risk of exchange rate fluctuations for the region as a whole will be minimised somewhat, with the use of multiple major currencies in intra-Asean trade. However, this option will require Asean governments to seek ways and means of encouraging their private sector not to overly depend on the US dollar, and start using Euro and yen more.

Also, if this option is to be considered, the implicit assumption is that Asean governments should have some idea about the desired proportion of currencies for intra-Asean trade (e.g. 20 per cent in Euro, 20 per cent in yen, 25 per cent in US dollar and 35 per cent in Asean currencies, or some other combinations). In reality, however, it is unlikely that they will be able to determine the proportion, mainly because Asean is a largely open economy.

In other words, there is no guarantee that

exchange rate risks can be totally eliminated with the 'Asean currencies + 3 option'. However, the good news is that exchange rate risks can at least be somewhat mitigated.

A related issue with regard to this option is that Asean countries need to guard against the pendulum swinging to the other extreme — that is to say, excessively reducing its exposure to the US dollar, and sharply increasing its exposure to Euro and yen. History has shown that no one major foreign currency (and that includes the US dollar) will remain strong forever. Therefore, if the Asean countries were to over-expose themselves to, say, Euro or yen, they could be severely affected when these currencies move against the Asean currencies.

Therefore, the guiding principle to the 'Asean currencies + 3 option' is to constantly practise prudence, apart from reinforcing the region's economic fundamentals. And prudence dictates that Asean countries should not depend excessively on one major foreign currency for trade (indeed, not only in the area of trade, but also foreign borrowing).

## ENHANCING PROSPECTS OF ACHIEVING GOAL OF ACC

**A**ny initiative that helps to strengthen the economic and financial fibre of Asean economies will go a long way to enhancing the prospects of the emergence of ACC and its eventual acceptance by the international community. In this regard, it is encouraging to note that Asean countries have generally not backslided in their financial and economic reforms, despite encouraging signs of recovery. Indeed, such reforms will be crucial in determining if the ACC will ever get off the ground.

It is important to reiterate here that sound economic and financial reforms are needed to ensure that Asean countries will not only be able to set credible convergence criteria, but also that they may be able to meet them. It is only then that the ACC can see the light of day.

Of particular relevance and significance, therefore, is the adoption of "Asean Vision 2020" on 15 December 1997 at the Second Asean Informal Summit, and the formulation of a series of action plans to achieve the vision and goals, beginning with the Hanoi Plan of Action, 1999-2004<sup>3</sup>.

The effective implementation of the vari-

ous Asean initiatives, especially those relating to hastening economic recovery, enhancing Asean economic fundamentals, and promoting financial co-operation and economic integration, is critical, if prospects of a narrowing of the ACC "idea-reality gap" are to be enhanced.

## CONCLUSION

**W**hen the idea of Euro was floated some 40 years ago, it was like an impossible dream. But that dream became reality on 1 January 1999.

Nearly two years ago, Asean countries had a dream — a single Asean currency. But for anyone to scoff at an idea similar to that of Euro would be to deny the possibility that what seems impossible can become possible. The Euro is a reality today, and there is no reason why ACC cannot be a future possibility.

But for ACC to take off the ground, Asean countries would need to :

- i** Have a strong political will — be 100 per cent convinced, united and committed to the ACC idea.
- ii** Strengthen their macroeconomic fundamentals individually and collectively as a region.
- iii** Be prepared to 'climb several mountains and persevere in removing mountains'. Undoubtedly, the prospective evolution of a single Asean currency will be a long and difficult journey, with many obstacles to overcome.
- iv** Sell the ACC idea not only to fellow Asean member countries, but also to their respective private sectors.
- v** Firm up a series of action plans to realise the goal of the ACC.

Finally, the question that begs to be answered is this :

**How convinced, united and committed are the Asean governments in pressing forward to achieve the goal of a single Asean currency?**

*Note :* The views expressed in this paper are the author's and do not necessarily represent those of the Institute. Many thanks to Ms. Janet Leong (Assistant Manager, MIA) for helping to prepare the groundwork for this paper.

<sup>3</sup> For details, visit Asean Secretariat's website : <http://www.aseansec.org>

# Dato' Dr. Nellie Tan-Wong — Businesswoman With A Social Agenda

BY KAREN HO

*After listening to Dato' Dr. Nellie Tan-Wong for two hours on how she overcame gender prejudices to start her accountancy firm, on her 25 years of social work for all races and her commitment to advancing women's causes, I began to understand why she was one of those nominated for the 'Malaysian of the Year Award'.*

**H**er's is a story of courage, hard work, determination, professionalism and sacrifice — driven by the zeal to see improvement in the life of others, particularly for less fortunate women. It might not be an earthshaking story, but it is certainly a story worth repeating to the young, professionals and the business community.

The Seremban-born Dato' Tan, who owns the accounting firm S.L. Tan & Co and several other businesses, is the Chairman of the Malaysian Institute of Accountants, Negeri Sembilan and Malacca Branch. She is the co-founder and Deputy Chairman of the Women's Institute of Management (WIM), a special skills training centre in Kuala Lumpur for women bent on becoming entrepreneurs and senior executives. Among others, she is also the National Vice Chairman of the Young Women Christian Association (YWCA) Malaysia.

Dato' Tan's fighting spirit was already apparent in her early years. As a teenager studying in Australia, she chose accountancy — a course avoided by girls during the 1950s and 1960s. "I was the only girl and the youngest in the class studying for accountancy. I was with the boys playing their games. That toughened me," said Dato' Tan at her office in Seremban.

But upon returning home to Seremban in the 1960s, she realised that no one — not even "my father's friends and cronies", would 'risk' employing a lady accountant.



"If a client wanted things to have been done yesterday, I would do it."

"I came home, but couldn't find a job. Nobody wanted a woman accountant. People said women had no business acumen. My father did his best, called up his friends and cronies. Since nobody wanted to employ me, I had to employ myself," Dato' Tan said.

So the angry but ambitious twenty-something lass got to work. But she was too proud to get financial help from her late father, Mr. Tan Beng Hock, a well-known local businessman. She used all her savings to set up a makeshift office, consisting of two wooden stands and old army furniture. She employed a clerk, who had nothing

much to do for the first two months.

The first break came when an old Australian gentleman came looking for an accountant to audit his accounts. This was followed by a local banker who had massive communication problems with income tax officials due to his quick temper.

"I went through the mill. After that, it's a story of pure hard work. If a client wanted things to have been done yesterday, I would do it. To be successful, I had to be better than average. I had to be very creative. Many people's perception of a typical accountant was one with brimmed spectacles and a stern countenance, but I had to break

that kind of *taboo*," said Dato' Tan, beaming with pride.

Since then, the first female accountant in Negeri Sembilan has moved her office to a better location. Her staff number in the accounting firm has increased to more than 30. And although she looks serious and stern as many accountants do, many of her employees are long-serving staff. Her management style must have gone down well with her employees. She emphasises mutual respect and her philosophy of life is: "treat another as how you wish to be treated".

After establishing her accounting firm, Dato' Tan moved into property development and other businesses, which included trading and services.

But while building up her businesses, Dato' Tan began to get involved in social work. She inherited her passion for social work from her late father — a businessman-turned social worker, she quipped. Her husband, a chartered engineer, has also joined her in doing social work.

Due to the accountancy degree she possesses, it was very natural for Dato' Tan to be appointed either the treasurer or auditor of charitable bodies when she first plunged herself into social work. In recognition of her contributions, she was awarded "Outstanding Young Person of Negeri Sembilan" by the Seremban Junior Chambers of Commerce International in 1976.

And the jobs given to her got bigger as her capability and commitment grew.

Apart from holding high positions in many local governmental and non-governmental organisations, Dato' Tan has also held leadership positions in international organisations. She was Finance Chairman of the World YWCA, Geneva, and served on the board of trustees of the Women's World Banking in New York. She is now National Vice Chairman of the Malaysian Red Crescent Society.

This prominent businesswoman is also a frequent guest speaker at international conferences on women, such as those organised by the Asian Development Bank (ADB) and Harvard University. She has also been invited by the governments of Canada, Western Australia and Fiji to speak on sub-

jects concerning women in business.

Although doing social work means sacrificing a lot of time and money, Dato' Tan sees herself benefiting from the work and international exposure. "I am a better world citizen now. My confidence in public speaking has grown. I was a very shy school girl, but after travelling widely, I have developed the ability to speak confidently in public."

For her, the most flattering experience was to speak at an ADB conference attended by finance ministers all over the world in the early 1990s. Malaysia's then Finance Minister Dato' Seri Anwar Ibrahim was among those in the audience listening to her.

"I have done social work for more than 25 years now. I enjoy it immensely. It's almost a hobby. I feel enriched. The inner satisfaction derived from doing social work is immense," she said.

The current pet project of Dato' Tan is undeniably the Women's Institute of Management (WIM), which aims to train women entrepreneurs and elevate their status in society. Dato' Tan has helped raise millions of ringgit for the project, which was launched in December 1994, by Prime Minister Dato' Seri Dr. Mahathir Mohamad.

Although WIM's RM10 million building in Bukit Kiara will only be open next year, its founders — who also include former Minister Datuk Napsiah Omar — have already conducted many courses and programmes targeted at women.

WIM has so far organised 113 training and dialogue events for grassroots women, single parent women, women entrepreneurs, executives, professionals, politicians and leaders. The courses have benefited over 7,200 women and 123 women organisations from all over Malaysia, according to the WIM.

Going down to women in small towns is no easy task for WIM leaders and its staff. Although the radio often co-operates by announcing WIM's local programmes, there is always the worry that women might not turn up for the talks and seminars. But fortunately, there is always a crowd of 100-300 each time.

The WIM is now planning to provide skills training to wayward girls and women who

have lost their jobs due to the recent Japanese Encephalitis epidemic. It is also planning to go to estates to help Indian women and the Orang Asli.

WIM has set up its own networking database, posted on the Internet. 70 countries have been browsing through its web page, at an average of 1,000 hits per month.

Dato' Tan said the Institute is now working on a book on women achievers, which will include prime ministers and company chief executive officers. The book will focus on outstanding women's success stories.

Although Dato' Tan has high political connections and royal links, she stays out of party politics. "For somebody like me, who is straightforward and honest, I will become political mincemeat in 24 hours," she said. But she survived well in the 1970s. She was the State Treasurer of the Malaysian Chinese Association (MCA), Negeri Sembilan, from 1970 to 1978, and Vice Chairman of the MCA political bureau in 1976-77.

Dato' Tan has been able to strike a balance between her career, social work and family life. Her three children appear to be achievers too. While one is still studying, two others have graduated with accountancy and engineering degrees.

"It's quality time spent with the family. A woman can have all the time in the world, but if she spends her time gossiping about others, the family will suffer. Sunday is family day for us. We go to Church and have meals together. I try not to have any outside activity on Sunday. We are a closely-knit family," said Dato' Tan.

**"You cannot do a  
kindness too soon,  
because you never  
know how soon it will  
be too late!"**

~ Author unknown ~

## FMAC of IFAC Year 1999 Theme Booklet

### *The Role of Management Accounting in Creating Value*

**T**he Financial and Management Committee (FMAC) of the International Federation of Accountants (IFAC) publishes annually a set of articles in booklet form, drawn from authors in nations whose accounting bodies are members of IFAC. Mr. Tay Beng Wah, a Council member of MIA, serves in the Committee as the Malaysian representative to the FMAC of IFAC. Another Council member, Mr. Yue Sau Him, acts as a Technical Adviser.

The Theme Booklet focuses on leading edge issues that are of interest to management accountants, their employ-

ers and others who use their services. It also aims to provide IFAC members with a range of viewpoints, share insights and acts as a resource for member bodies.

Entitled "*The Role of Management Accounting in Creating Value*", the 1999 Theme Booklet covers a broad range of topics, embracing the many aspects of value creation in companies, whether they be multinational, small or medium-sized organisations.

With each issue we will be publishing one article from the Theme Booklet to give an idea of the range of articles from different countries.

# MEETING THE CHALLENGES

## Management Accounting and Value Creation

BY RICHARD STEWART

DIRECTOR OF SHAREHOLDER VALUE MANAGEMENT, PRICEWATERHOUSECOOPERS, USA

*Managers create value by establishing and exploiting competitive advantage. Competitive advantage cannot be achieved by standing still — its achievement requires continual change and improvement.*

*It is a challenge for management accountants to remain relevant in a period where observers expect that the accounting function will shrink by more than half. The management accounting function must continue to evolve and help to build competitive advantage. This can be done by providing innovative solutions in the areas of strategic decisions, resource allocation, operations, and performance measurement.*

*These solutions will come from improving management decision quality by a more explicit shareholder value focus and refining the evaluation of other aspects such as risk and investment options. Performance improvement gains can be made by using reporting and remuneration structures to shape the form and culture of organisations in line with the sources of value.*

*Management accounting can also add value by streamlining its own organisation and by being positioned as "knowledge managers" which will be increasingly required in integrated organisations.*

*The reward for responding to this challenge will be a central role for management accountants not only in the organisations of tomorrow but also in the Accounting Profession of the next millennium.*

### INTRODUCTION

**H**ow do you stay ahead in a changing world? Stay ahead of the changes, goes a common response.

The world of management accounting is changing. The customers of the function, managers, are asking more and more for less cost than ever before. In turn, those managers are having more asked of them.

One of the first questions asked of senior managers is: "how do you create value?" Failing to answer that question adequately is costly — jobs, incomes, and reputations are at stake<sup>1</sup>. Recent market fluctuations bring this question into even sharper focus. Management accountants will not be able to satisfy their customers if they cannot help them answer this question.

This article explores what it means for managers to create value and how manage-

THE CREATION OF VALUE

In generic terms, value creation is the provision of a benefit that is in excess of cost. But for whom should managers create value?

To be successful in the long term, businesses can and should create value for all stakeholders' -customers, shareholders, suppliers, employees, and society at large. If value is not created for one of these groups, then the organisation will not be able to survive, as disadvantaged stakeholders will eventually curtail the organisation's activity<sup>2</sup>.

However, as managers are seen in most markets as the agents of shareholders, the creation of value for shareholders is usually advanced as the primary objective of managers. In addition, shareholder benefits and costs are more readily measurable when compared to other stakeholders' positions — a decided practical advantage for this point of view.

For shareholders, value creation means providing a return in excess of the cost of capital. This is more difficult than it looks — it is a competitive concept. The cost of capital is established by opportunity cost — what shareholders could get elsewhere for the same risk. If you are not competing in favourable markets and not doing so better than your peers, it follows that you will not be able to beat what your shareholders can get elsewhere. This means that you cannot create value unless you compete well in profitable markets. Put in another way, to create value you need to establish a sustainable competitive advantage<sup>3</sup>.

Sustainable competitive advantage means being better than your competitors — making better decisions and performing better than expected. However, the rate at which these advantages can be copied (60-90 percent in one year<sup>4</sup>) mean that rapid innovation and flexibility are critical.

For management accountants to play a role in creating value, all efforts must be focused on helping management teams achieve these elements of competitive advantage.

“Value creation is the provision of a benefit that is in excess of cost. But for whom should managers create value?”

Defining the role of the management accountant outlines the ways in which they can create value. For the purposes of discussion, Figure 1 shows a list of functions that a management accountant can and does perform. These functions extend from assisting decisions at strategic and tactical levels to providing management control through budgeting, cost control and risk management as well as reinforcing performance and organisation values through reporting and remuneration practices.

With such a broad role (or potential role), the management accountant has tremendous scope to create value for the organisation and its managers.

Many organisations currently have management accountants working in each of these areas. But how can these roles add value?

The following techniques can be used for adding value to a range of these functions.

Better Decisions

Most value is created or destroyed at the point a decision is made, as clearly seen in a merger or acquisition context, because the decision is coincident with a stock market announcement. The value creation or destruction is evident in stock price movements<sup>5</sup>.

However, the same consequences apply to management decisions such as adding a new product line or investing in plant and equipment. A management accountant can play either a strategic or a resource allocation role in these decisions. Here are some suggestions for better decision making:

■ **Linkage with shareholder value**

To make decisions that create value, it is axiomatic that your evaluation techniques should be expressed in value terms.

Accordingly, business plans, project evaluations, action plans, and feasibility studies should all be valued. Management forecasts discounted by an appropriate rate can be used for this purpose — keeping a sceptical eye to optimistic forecasts or unrealistically high hurdle rates (both can lead to value-destroying decisions).

FIGURE 1

The Functions Of Management Accounting

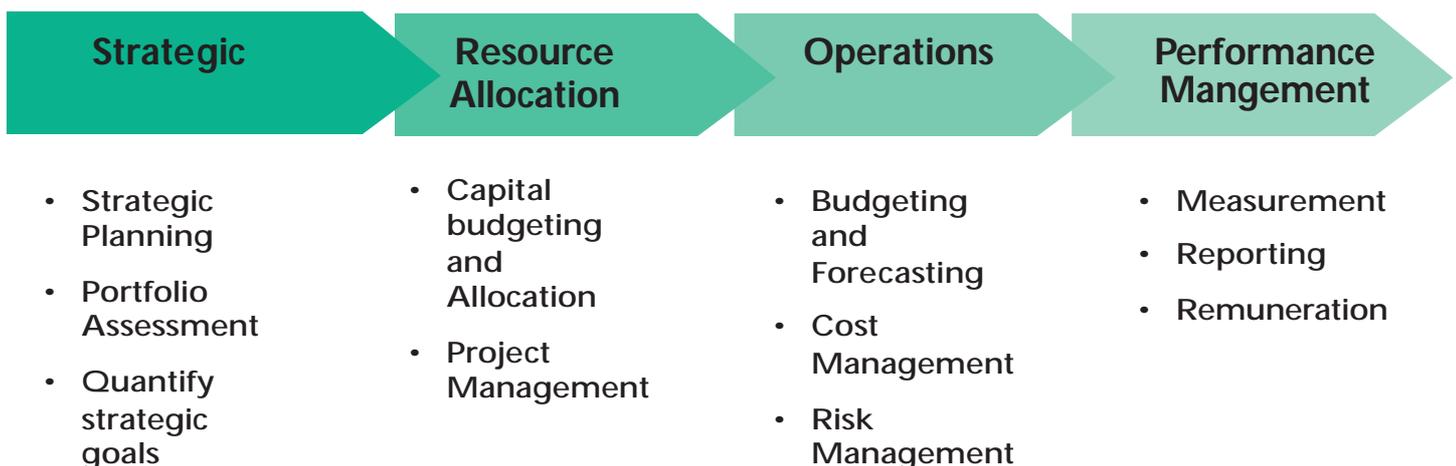
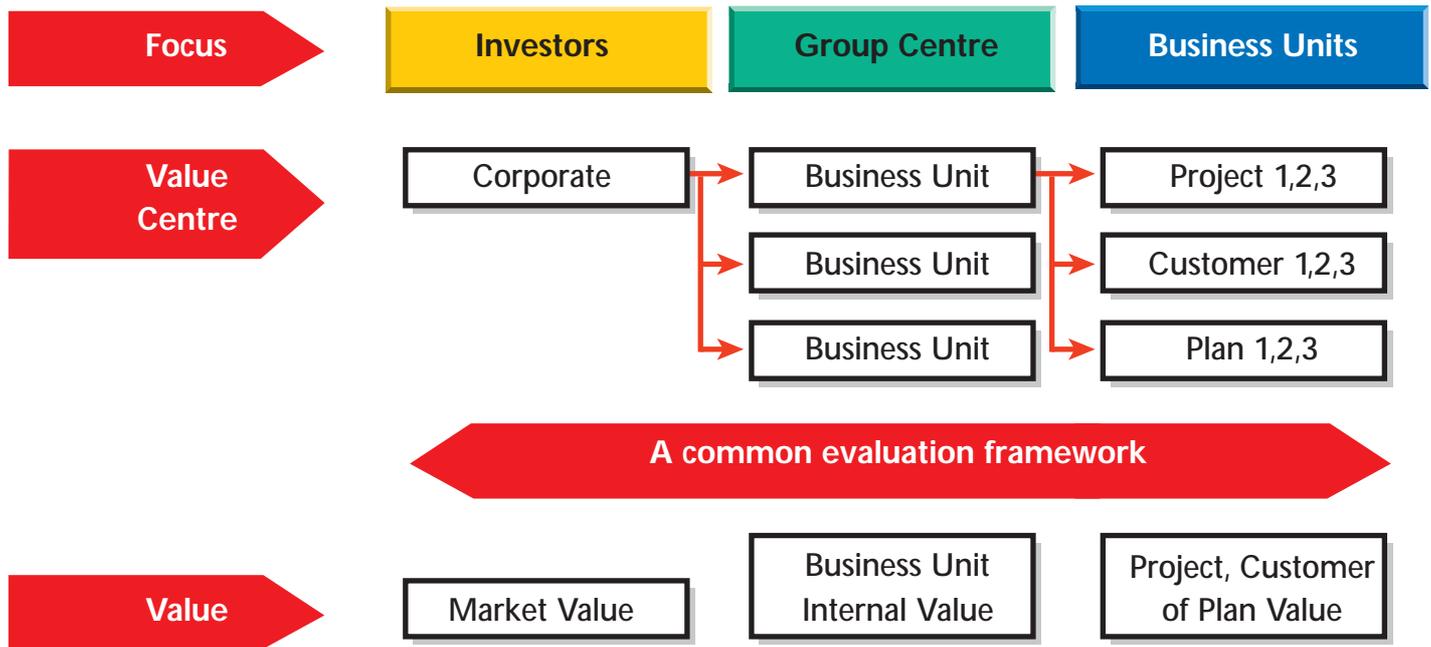


FIGURE 2

Value At All Levels Of A Business



In this way, you can examine all your decisions in the same way that investors look at your business. Figure 2 shows how a common evaluation framework can be used for “value centres” at all levels within your business. Value centres represent an activity or group of activities that create value. They can be defined in many ways depending on the sources of value in a corporation or business unit and the level of detail of your analysis. However, all value centres should create value; there should be no “cost” centres. What would traditionally have been viewed as such should be considered an integral part of a value-creating function — a more holistic view. Naturally, where functions are spread across a range of value-creating activities, activity based costing can assist this approach.

By using this framework, the objectives and outcomes of each aspect of your organisation, each value centre, become consistent with the creation of value. Just by removing inconsistency, value can be created — value orientation is an additional benefit.

These are not the only benefits; to successfully achieve this consistency not only provides a platform for operational success but it can give a meaningful basis for providing investors with greater insight into your business. Some of the best examples of this result are Lloyds TSB in the UK and Coca-Cola in the USA — these organisations use shareholder value models both within their businesses and to frame major aspects of their corporate reporting<sup>6</sup>.

■ **Risk assessment**

If you are to consider all of your decisions in value terms, it is important to understand the financial risks that each decision entails. That is, not only should you understand the likely value that your decisions will create but the variability of that value.

How should you do this? Well, risk analysis is one area where management accountants could adopt techniques used by exter-

nal analysts.

The plans and proposals you evaluate are similar to the companies that analysts evaluate. Those analysts have built databases based on their experience which allow them to understand the range of probability (and hence risk) of forecasted corporate results.

Analysts must first understand the critical success factors for a business. For one of your projects, these could be factors such as:

- Implementation time frame.
- Market penetration rates.

Having established these critical factors, analysts use historical experience with similar businesses and/or their experience with particular management teams to obtain a distribution of outcomes

for each of the critical factors. You can do the same - but you have the added information that can be gleaned from the major participants in the project (perhaps using secret ballot [Delphi] survey techniques). Once you have an understanding of the distribution of these underlying factors, you can run iterations of a valuation model to obtain a distribution of values for the project or business unit.

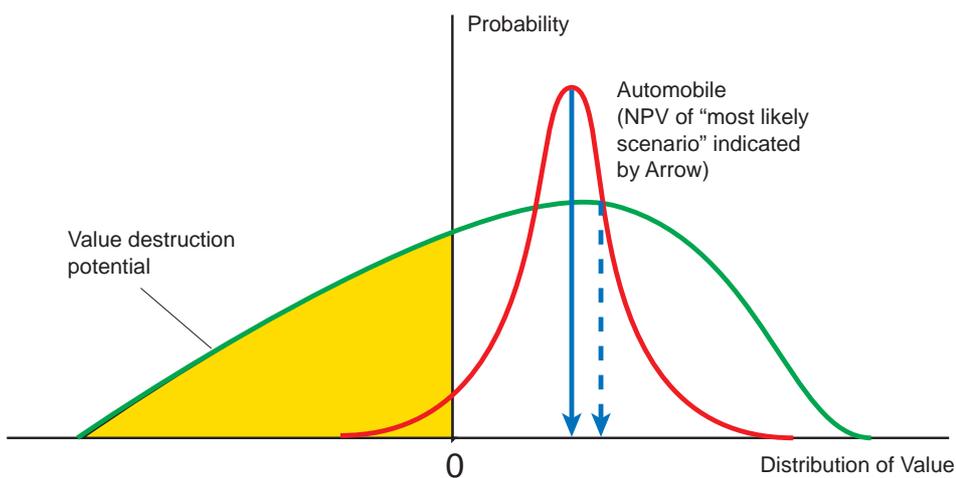
This approach has two main benefits. The first is you get an understanding of how likely the “most likely” scenario included in the initial project evaluation is. You may find that the most likely value is actually a “most optimistic” value!

The second benefit comes when you consider the different patterns of value creation from two projects that have a similar Net Present Value (NPV). This is best illustrated by an example. Figure 3 shows the value distribution that an automobile manufacturer faced when considering two new models. Both had similar NPVs. Using the cumulative experience of the project team and the track record for similar model types, the potential sales outcomes where

“If you are to consider all of your decisions in value terms, it is important to understand the financial risks that each decision entails.”

FIGURE 3

## Comparison Of Two Automobile Projects



computed as described above. Because of the significant retooling and branding that would have been required for Automobile A, it turned out that the volatility of returns was much greater than with Automobile B. By trading off some of the expected value in A for less down-side, management was able to minimise the loss that they were willing to risk, or at least be informed about the scale of risk that they were undertaking.

If the decision your management team makes were significant to the business as a whole, how much value would this information have?

### ■ **Investment options**

Taking the risk analysis further, value can be added by recognising implied options in investment plans. Traditional discounted cash flow or economic profit analysis by itself does not normally address this point.

To imagine the benefits of using this approach, consider a simple example. Your company is considering an investment in constructing a new type of plant. To construct a full-scale plant is quite risky with this new and unproven technology. However, an initial investment in a small-scale plant will provide the potential to expand at a later date, as well as giving you early market entry to what you suspect might be a very attractive market.

You can wait until the technology is more accepted, which could greatly increase the expected value of cash flows. Either way you have the option of not making the large additional investment. Does this sound similar to a plan that you have had to consider?

Intuitively, there is some value in this option (notwithstanding the risk of competitive changes in the deferral period). This should be explicitly valued<sup>8</sup> especially in plans or projects that have multiple decision points. You may find that using this approach will provide the financial justification for projects that have previously been justified on the basis of “the numbers don’t add up but we just have to do this for strategic reasons”!

By using shareholder value evaluation tools, risk profiling, and

options to make better decisions, some value can be created. However, to be fully effective in creating and managing value, management accountants need to not only help managers make the right decisions but help them deliver on those decisions in both the short and medium term.

### Improving Performance

This is an area of considerable debate in academia and industry<sup>9</sup>. The following section summaries some of the key issues that should be considered by management accountants.

### ■ **Reporting aligned with objectives**

Performance measurement needs to reinforce the behaviour that is anticipated by management decisions. This means translating “big picture” shareholder value (financial) targets and underlying strategic imperatives into meaningful measures at all levels<sup>10</sup>. These measures can then be reported in the management accounting process.

This approach captures a significant recent development in the area of management reporting and control systems. Addressing strategic issues by, inter alia, inclusion of non-financial measures, is a major way of linking long-term shareholder value to regular (and short-term) reporting<sup>11</sup>. This broadens the scope of management accounting significantly from pure detailed financial reports.

Other things that increase the potential for value creation by management accountants include the ability to make reporting as simple and clear as possible. Transparent reporting liberates resources and allows management to focus on the key variables related to value creation rather than being stuck in a morass of detail.

No corporation operates in a vacuum. Accordingly, the ability of the management accountant to include relevant peer benchmarks on these key variables will also provide value-creating potential. This is improved by regular updating of internal targets and the peer benchmarks to reflect prevailing industry trends<sup>12</sup>.

### ■ **Remuneration linkages**

Having excellent reporting is only part of the performance management process. Value creation for shareholders can still sometimes be defeated by what is often termed the “agency problem”. That is, the interests of managers and shareholders may not be fully aligned, causing management to act in ways that maximise their own position rather than shareholders positions. This has often been caused by management remuneration being based on short-term financial measures and not necessarily linked to shareholder value creation<sup>13</sup>. Designing a remuneration scheme that reflects strategic and operational targets that are regularly reported on, as discussed above, addresses this issue.

With the interests of shareholders and managers aligned, the

“Performance measurement needs to reinforce the behaviour that is anticipated by management decisions.”

management accountant has not only the opportunity to create value for shareholders, but as a direct consequence of this approach, to create value for colleagues.

■ ***Flexibility, integration and efficiency***

Pundits have observed that the finance function will shrink by 70 percent in the next decade<sup>14</sup>. Management accountants are well placed to deal with the consequences of this change by adopting the following :

- Automated and on-demand reporting. Managers should be able to seek out the information they need on a regular basis and to “drill down” as required. This will minimise the time spent by management accountants on this sort of activity. The reduction in routine activity should improve the efficiency of your departments and allow this resource to be transferred into value-adding activities like decision support and performance management.
- Integration of management accounting teams into operational units. This will allow cross-functional liaison with greater focus on the needs of decision-makers. Closer links with operational staff will improve the information richness of management accountants with consequent improvements in the ability to contribute value-creating suggestions.
- Focus on knowledge management. This knowledge can relate to supply chains, markets, and pricing - some of the most valu-

With the interests of shareholders and managers aligned, the management accountant has not only the opportunity to create value for shareholders, but as a direct consequence of this approach, to create value for colleagues.

able information an organisation possesses. By linking this information with shareholder value across lines of business, drawing new analytical insights, and promoting coordination across functions, management accountants will truly be able to create value.

The skills that are required to adapt to these changes will have to evolve in this context. However, dealing with these issues will enable some of the value created by improved decisions and performance to be shared amongst future management accountants.

## CONCLUSIONS

The creation of value for shareholders is one of the most popular topics in business today. The customers of management accountants -the managers themselves, have to respond to this challenge.

This article is a survey of some of the current thinking on value creation that can be used by management accountants. It is not a panacea for the profession. Creating and fostering value means creating a competitive advantage. Management accountants can help to create that advantage through some different techniques in their decision-support functions. These techniques can be integrated with performance management and remuneration practices.

Responding to the requirements of managers will only be part of the way that management accountants can add value. By working closely with management and refining the nature of their function, management accountants can become more efficient and develop the organisation's useable store of knowledge -an increasingly recognised contributor to value.

These changes represent a re-definition of the management accounting function. A proactive response will be required to retain and increase the relevance of the profession in the new millennium.

However, creating a competitive advantage, whether it is through product or management accounting process innovation is not a standstill concept. Continual development on all fronts will always be part of the value-creation process.



## REFERENCES AND NOTES

- <sup>1</sup> Examples of this increasingly prevalent phenomenon are widely reported but for a recent example of the global nature of this issue, see Sue Lecky, **Director Action : Board Stocks Down as Shareholders Take Aim**, *Sydney Morning Herald*, August 8, 1998, p. 91.
- <sup>2</sup> See Andrew Black, Philip Wright and John E Bachman, **In Search of Shareholder Value**, *Pitman Press*, 1988, pp. 14-15 and pp. 191-192, on this issue.
- <sup>3</sup> Alfred Rappaport, **Creating Shareholder Value : The New Standard for Business Performance**, *Free Press*, 1986, p. 12.
- <sup>4</sup> See Pankaj Ghemawat, **Sustainable Advantage**, Reprint # 86507 *Harvard Business Review*, September-October 1986. This article refers to several studies in this area.
- <sup>5</sup> See Mark Sirower, **The Synergy Trap**, *The Free Press*, 1997 for a detailed exposition of this topic.
- <sup>6</sup> For a future view on how this development might proceed see Black, Wright and Bachman, op.cit., p.268.
- <sup>7</sup> Thanks to my friend Maurizio Lualdi for sharing this example with me.
- <sup>8</sup> For an appealing methodology for doing this see Timothy A Luehrman, **Investment Opportunities as Real Options : Getting Started on the Numbers**, *Harvard Business Review*, July-August 1998, pp. 51-67.
- <sup>9</sup> For a survey of this debate see Robert G Eccles, **The Performance Management Manifesto**, Reprint # 91103 *Harvard Business Review*, January-February 1991.
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- <sup>11</sup> This is one of the major criticisms raised of corporate control systems by Robert S Kaplan and David P Norton, **Using the Balanced Scorecard as a Strategic Management System**, Reprint #96107 *Harvard Business Review*, January -February 1996.
- <sup>12</sup> For a more extensive discussion of best practice in performance measurement refer to Paul McMann and AJ Nanni, **Is Your Company Really Measuring Performance?**, *Management Accountant*, November 1994, pp. 55-58.
- <sup>13</sup> See Bernard C Reimann, **Managing for Value : A Guide to Value Based Strategic Management**, 1989, The Planning Forum.
- <sup>14</sup> For more detail on expected developments in the finance function see Daniel P Keegan & Stephen Portnik, **The 21<sup>st</sup> Century Chief Financial Officer — Accounting Will Survive the Coming Century, Won't It?**, *Management Accounting*, Vol. 77 (6), December 1995, pp. 24-29.

## ABOUT THE AUTHOR

**Richard Stewart** is a Director in PricewaterhouseCoopers' Shareholder Value Management practice, based in New York. Shareholder Value Management assists companies in a wide variety of industries to translate shareholder value concepts into an operational reality. Richard is both an MBA and a Chartered Accountant. He has extensive experience working with some of PricewaterhouseCoopers' major clients across a variety of industries in the USA, UK, Ireland, and Australia.

## OMISSION

The source of the cover story, "Strategy in Workshop with People", which appeared in the Nov-Dec 1999 issue, was inadvertently left out on page 14. As mentioned in the Editorial column of that issue, the article first appeared in The Royal Bank of Canada's publication, *'Money Letter'*, in 1954 and reprinted in 1977.

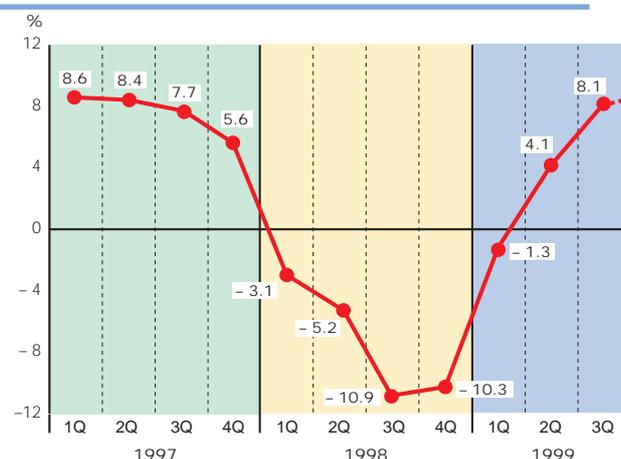
## CORRECTION

**"Budget 2000 — Investing for the Future"**, *Akauntan Nasional*, November-December 1999, Chart 1, p. 44.

The negative sign for the quarterly economic growth figures from 1Q98 to 1Q99 were inadvertently omitted. The correct Chart should appear as follows :

CHART 1

### V-Shaped Economic Recovery



Note : Ministry of Finance's estimate of 7.2% for the second half of 1999, and forecast of 5% for the year 2000.

# Accounting Week

*MIA jointly organised the Accounting Week with the Accounting Club, University of Malaya on 15-19 November 1999.*

**T**he theme for the 1999 Accounting Week was *'Repositioning the Modern Accountant'*. Various activities were organised to provide undergraduates opportunities to interact and foster ties with the corporate world, while at the same time creating opportunities for companies to seek potential employees.

Council member Encik Ahmad Mustapha Ghazali, officiated the opening of the Accounting Week. Among the interesting activities held was a forum entitled *'Women in Profession'*. YBhg Dato' Dr. Nellie Tan-Wong, Branch Chairman of Negeri Sembilan and Melaka, was one of the panellists of the forum.

There was also a presentation on the Institute, current development, as well as some useful tips on the repositioning of an

accountant in the new millennium by Council member Mr. Lam Kee Soon.

Accounting students of all levels appreciated the events organised during the week and their attendance was encouraging. They

learnt many new things about happenings in the corporate world that would certainly help them prepare for the working world when they graduate.



*L - R: Dr. Wan Nor Liza Wan Mahadi, Prof. Madya Loh Wei Leng, Prof. G. Sivalingam, Dato' Dr. Nellie Tan-Wong, Ms. Goh Siu Lin - Panellists in the 'Women in Profession' forum*

## Changes to Accounting Education

*More than 120 accounting educators from different local universities and colleges attended a half-day talk organised by MIA entitled 'Current Development and Future Direction of Professional Accountancy Education' on 3 November 1999.*

**T**he Institute of Chartered Accountants in England and Wales (ICAEW), Director of Education and Training, Mr. Phil Armitage, shared his views on the challenges and changes in the direction of professional accountancy education, especially at ICAEW.

For example, he said, ICAEW was now proposing new subjects such as Business Advisor, Knowledge Management and Communication as its advanced level examination, replacing conventional auditing and taxation subjects.

This is to project a new theme called *'Creating the Added-Value Business Advisor.'*



*Mr. Phil Armitage, Director of Education and Training, ICAEW UK, speaking to Accounting Educators during the Current Development and Future Direction In Education of Professional Development*

It is a high-risk strategy as it departs from the conventional topic lists. It breaks the conventional model of the boring accountant, challenging traditional academic approaches to accounting education.

Mr. Armitage concluded by saying, "It is a healthy challenge for us to approach the 21<sup>st</sup> century with confidence in a new approach, rather than to defend a qualification like that of Chartered Accountant that is firmly rooted in the Victorian age."

The roles of professional qualifications, particularly the relevant need for mutual recognition across national boundaries were discussed.

These are some of the fundamental issues surrounding global mobility as represented by cross-boundary recognition.

- Recognition of academic qualifications, with rules about accreditation and about credit transfer between awarding bodies.

- Recognition of licences to practise beyond geographical boundaries, between licensing authorities and between national governments (not necessarily the same).

- Recognition of membership, where a professional body might want to impose its own standards or extend its own privileges beyond those required by law.

## Career Talks in Kuching and Miri

*Sarawak branch conducts regular talks to highlight the accountancy career and profession in Sarawak.*

Universiti Technology MARA (Sarawak) invited the Branch Manager and Education Committee to present the annual career talk at its campus at Kota Samarahan recently. About 80 students from the accounting faculty and lecturers were briefed on how to become an accountant, the qualifications of the Institute's membership, and job prospects and opportunities.

In Miri, Ms. Tam Kam Peng from the MIA Examinations Department was the guest speaker to 300 secondary school students at a local hotel organised by the Miri Chapter with the endorsement and support of the Divisional Education Department.

Ms. Tam later asked questions and gave token prizes to students who answered her correctly.

Miri Chapter Chairman Ms. Tan Siew Bee, Chapter Committee members Mr. Bong (Sarawak Shell Bhd) and Mr. Yong Nyet Yun (Ernst and Young) gave presentations on their personal career paths.

As panellists, they answered several questions from students and teachers present.

*continued on next page ...*



*Mr. Simon Tan captures the attention of participants at UTM, Kota Samarahan*



*Miri students listen attentively to Ms. Tam Kam Peng*



*Mr. Bong speaks on career in Shell*

**“Men, for the sake  
of getting a living  
forget to live.”**

~ Author unknown ~

## Accounting Nite 2000

*The Accounting Club of the University of Malaya will organise its annual party, Accounting Nite 2000, on 14 January.*

**T**he night will also be a pre-graduation ball for final year students.

The main purpose of the project is to establish good relationships among members of the Club, staff and professionals.

Besides that, the event is aimed at giving undergraduates a chance to have hands-on experience in the management and operation of a project.

Also known as Generally Accepted Accounting Party (GAAP), the party is the main highlight of the year for the Club.

The event will be held from 7.30 pm to midnight at Hotel Istana, Kuala Lumpur. Tickets are priced at RM45 for individual students, while a couple will have to pay RM80. Tickets for corporate members are RM100 each or RM1,000 per table.

*For further information, please contact :  
Project Director, Ms. Lim Lay Suan at  
012-498 8345 or 03-7784 0187*

## MIA Year 2000 Annual Subscription

*for all students registered under the  
MIA/ACCA Collaboration Scheme*

The MIA Year 2000 Annual Subscription is due on 1 January 2000 and the amount due is **RM70-00**.

An invoice will be despatched to all students from mid-December 1999. If you have not received the invoice, you can still make your payment by writing your name and student registration number behind your cheque or bank draft/money order/postal order and quote payment of 'Annual Subscription Year 2000'. All payments must be made payable to '**Malaysian Institute of Accountants**' and sent to :

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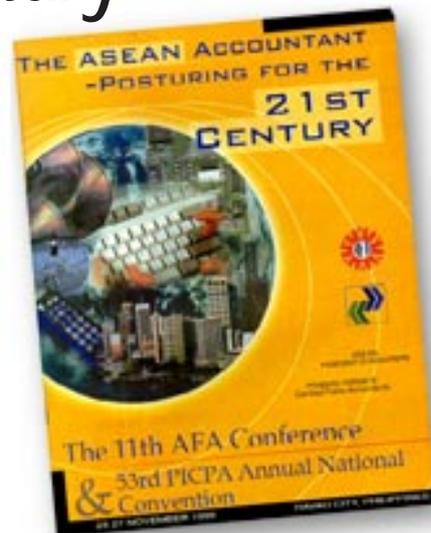
*For further information, please contact the Examinations Department :*

Tel : 03-2274 5055, Fax : 03-2273 7533 or  
e-mail : [education@mia.org.my](mailto:education@mia.org.my)

# The Asean Accountant — Posturing for the 21st Century

*The 11th Asean Federation of Accountants Conference (AFA) and 53rd Philippine Institute of Certified Public Accountants (PICPA) Annual National Convention were jointly held in Davao City, Mindanao, Philippines on 23-27 November 1999. The event was attended by well over 2,000 delegates and participants.*

MIA's delegates were Mr. Soon Kwai Choy, Mr. Tay Beng Wah (technical session introducer), Mr. Daniel Chian (commentator), Mr. Eugene Wong Weng Soon (speaker), Mr. Khoo Sim Kee (speaker), Mr. Robert Khaw (commentator), Encik Zainie Abd Aucasa, Mr. Wong Siew Chow and Mr. Johnny Yong Buong Peah.



## AFA's Milestones

Prior to the conference proper, AFA held its Council Meeting on 23 November 1999. For the first time, there was 100 per cent attendance — representatives from six primary member bodies, together with the acceptance of the Vietnam Accountancy Association (VAA) and the Myanmar Accountancy Council (MAC). When the national accountancy bodies of Cambodia and Laos are nominated and accepted into AFA in the future, the dream of having all national accountancy bodies in Asean under AFA will become a reality. Significantly too, AFA admitted the Australian Society of Certified Practising Accountants (ASCPA) as an AFA associate member during the AFA Council meeting in Davao.

Beginning January 2000, the incumbent President of the Institute of Certified Public Accountants of Singapore (ICPAS), Mr. Tan Boen Eng, will take over the reins of the AFA leadership from outgoing AFA President, Mr. Antonio P. Acyatan, of the Philippine Institute of Certified Public Accountants (PICPA). The Institute of Certified Accountants and Auditors of Thailand (ICAAT) will nominate the next AFA Deputy President.

## AFA/PICPA 'Oscar' Event of the Year

At the Opening Ceremonies held at the Bangko Sentral ng Pilipinas on 24 November 1999, the Editor of the AFA/PICPA's official daily newsletter aptly described the grand occasion as "a semblance of sorts, of the Oscar's ... guests, awardees or not were all donned in formal evening attire, wearing the most beautiful smiles."

During the Asean Fellowship Night, Mr. Soon Kwai Choy received the AFA's Certificate of Membership on behalf of MIA from AFA's Secretary-General, Ms. Frances S. Monje, which certified MIA as one of AFA's primary members. Meanwhile, one of MIA's macho delegates, Encik Zainie Abd Aucasa, had the good fortune

of being one of the winners of the ethnic attire award. Congrats!

The Asean Fellowship Night was filled with fireworks displays and merry-making, with Filipino singers and dancers putting up a lively and colourful show. There was never a dull moment in their presentation. Even the showers of blessing, which came down towards the end of the show, failed to dampen the spirit of the singers and dancers. Truly, they performed as if there was no rain!

Then, there was the 1999 Awards Night, where both young and older accountants received their awards, namely, Young Achievers, Accountancy Hall of Fame, Outstanding Certified Public Accountants, Outstanding Services, Leadership Recognition and Presidential Award. MIA's Council Member, Mr. Yue Sau Him, was among the AFA's Past Presidents who were cited for the Outstanding Leadership Award.

## Accountancy Hall Of Fame

The highlight of the Awards Night was the presentation of the Accountancy Hall of Fame Award — the highest award that PICPA bestows — to three personalities, namely, Hon. Celso D. Gangan, Dr. Mariano M. Levin and Dr. Renato L. Paras. On behalf of the Hall of Fame awardees, Hon. Celso D. Gangan delivered a most memorable speech.

He aptly said that the award is "the embodiment of all the best that can be found in a model accountant ... best contribution to the profession, best service to the people and the community, and best conduct and deportment in his dealings with the people and in the practice of his profession." To Hon. Celso, a successful accountant must have a "dogged determination to succeed, unsatiated yearning to learn, and when he is confronted with a complex situation, the accountant must have a sparkle of insight and the touch of ingenuity." Needless to add, accountants everywhere should aspire and uphold these ideals.

## Deepening Accountants' Knowledge

In between the merry-making and the awards, participants sat through several plenary and concurrent sessions under the overall theme of *"The Asean Accountant — Posturing for the 21st Century."* These were :

- An Entrepreneurial Mindset and the Accountant.
- Asean Business Advisors in Transitional Economies.
- Asean Common Currency — A Future Possibility.
- Assurance Services — The Challenges to the Profession.
- E-commerce : Challenges to the Accountancy Profession.
- Enterprise-wide Risk Management.
- Investment Trends in Asean Countries.
- Modernisation of Government Accounting.
- Refocusing Accountancy Education.

- The Asean Accountant's Road Map for the 21st Century.
- The CFO in the Year 2000 and Beyond.
- The Impact of Deregulation on the Accountancy Profession.
- The Virtual Accountant.
- Understanding Acquisitions, Mergers and Consolidations.
- Understanding New and Emerging Financial Instruments.
- Y2K, It's Now or Never Mind.

The pragmatic and futuristic sessions would have added a wealth of knowledge to participants, who would do well to apply them in the highly competitive and sophisticated information age.

## Adieu Davao!

With the successful conclusion of the AFA/PICPA event, it was time for the curtains to come down. Participants bade their fellow Asean accountants *adieu*. And farewell also to Davao — one of the largest cities in the world with over 244,000 hectares and also the land of the monkey-eating, monogamous Philippine eagle.

— Report by :  
Robert Khaw, MIA



Mr. Soon Kwai Choy (MIA's Vice President) receiving the AFA's Certificate of Membership from AFA's Secretary-General, Ms. Frances S. Monje, while PICPA's National President, Mr. Danilo A. Principe looks on



En. Zainie Abd. Aucasa (centre) - one of the worthy winners of the best ethnic attire



Beauties in a row ... participants showing off their ethnic attire during the Asean Fellowship Night

IASC Board Meeting — Venice, Italy, 15-16 November 1999

## Towards Achieving a Global Accounting Standard

**A**ccountants around the world may soon use a common accounting standard in efforts to achieve global economic stability and improve capital markets worldwide, MIA President Dato' Hanifah Noordin said.

He was responding to the International Accounting Standards Committee (IASC) Board's decision recently to support a proposed new structure for the committee (IASC) that would set the direction for a uniformed standard worldwide.

"It is timely for the committee to take a structural change. The move will offer a set of high quality, uniformed, globally applied and enforced accounting standards, which is essential for both domestic and cross-border investment and financing decisions.... a common accounting language acceptable by major capital markets would result in large savings of costs for preparers, auditors and investors," he stressed.

Dato' Hanifah also said that the use of a uniformed global accounting standard would reduce the danger of rapid changes in investors' confidence, and hence improve the chances of achieving global economic stability, as well as strengthen the global capital markets.

IASC, an independent private body, was formed in 1973 through an agreement made by professional accountancy bodies from Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom and Ireland, and the United States.

Since 1983, IASC's members have included all the professional accountancy bodies that are members of the International Federation of Accountants (IFAC). Currently, 143 accounting organisations in 104 countries, including MIA, are IASC members.

Dato' Hanifah and MIA Council Member Mr. Tony Seah currently sit on the Board as Malaysia's representatives.

Mr. Tony Seah who attended the IASC Board meeting, said the proposed structure would be established as an independent organisation such as a foundation.

The organisation, he added, would have two main bodies, the Trustees and the Board, as well as a Standing Interpretations Committee and Standards Advisory Council.

He said the nominating committee would appoint the Trustees based on geographic and functional background. The Trustees, in turn, would appoint the new Board members. The Trustees would also exercise oversight and raise funds needed by the body.

(The nominating committee is an ad-hoc committee appointed by the present Board for the sole purpose of appointing the Trustees for the proposed structure.)

The Board, with 12 full-time and two part time members, would be appointed on the basis of their experience and technical expertise. They would be responsible for setting accounting standards.

He said the proposed structure had obtained support from among others, the US Securities and Exchange Commission, the G-4 countries and the G-10 accounting firms.

The Board discussed its move towards full fair value accounting, relating to its current project on investment property and financial instrument.

"Full fair value accounting has recently become a controversial issue because in financial instrument projects, bankers have strongly opposed the application of fair value measurement especially to banks' non-trading items.... MIA's President has decided that the institute will carry out an in-depth study on the use of fair values in the financial statements of Malaysian companies, especially financial institutions," Mr. Tony Seah said.

## 53rd CAPA Executive Committee Meeting

*The 53<sup>rd</sup> CAPA Executive Committee meeting was held recently at the 'Pearl of the Indian Ocean' — Colombo, Sri Lanka. In the lush and serene surroundings of the Lanka Oberoi Hotel, it was indeed a perfect location for the gathering of great minds in CAPA, with waves lapping against Colombo City's esplanade. The meeting began with the Sri Lankan tradition of lighting of the ceremonial lamp, led by CAPA President, Mr. Carlos Alindada.*

**T**he Malaysian Institute of Accountants was represented by Mr. Daniel Chian, with Mr. Soon Kwai Choy and Ms. Barbara Er as the Institute's Technical Advisors. This meeting also saw the presence of the International Federation of Accountants' (IFAC) President Mr. Frank Harding, Deputy-President Mr. Tsuguoki Fujinuma and Director-General Mr. Peter Johnston.

In his opening address, Mr. Harding spoke briefly about IFAC's new structure and organisation, and called

for greater participation of regional bodies such as CAPA, at IFAC meetings, so as to ensure they play a major role in accountancy developments.

MIA tabled the following papers at the meeting :

- The Institute's involvement in the 'Assessment of Professional Qualification' Task Force, which was formed in July 1999 at an UNCTAD meeting in London, is to formulate a suitable assessment methodology to assist the process of mutual recognition of qualifications worldwide. CAPA Executive Committee members agreed to the Institute's efforts to obtain information from member countries on their assessment and accreditation methods.
- 'Accounting and Reporting Needs of Small and Medium Enterprises (SMEs)', with particular reference to the suitability of implementing full compliance of present International Accounting Standards (IAS) in emerging and developing economies, taking into account the development on the Malaysian scene.

It was also reported that under the leadership of IFAC, the international profession and the international financial institutions (IFIs) had developed a forum called the International Forum on Accountancy Development (IFAD). Its objective is to build accounting capacity, promote good governance and accountability, and jointly contribute to the enhancement of the developing and transitional economies. IFAD has a total of 24 founding members, including bodies such as CAPA, IASC, Asian Development Bank, IMF, World Bank.

Australia will conduct a fact-finding survey on 'areas of compliance and non-compliance with IAS issued by IASC in the CAPA region and to establish reasons for the cases of non-compliance'. It is envisaged that the findings would be made available to IASC's steering committee for future consideration and action.

A study on 'Continuing Professional Education' conducted by CAPA member bodies, was also initiated by Canada, with the objectives of sharing resources and speakers, and further enhancing the quality of existing Professional Development (PD) programmes. MIA will benefit from this exercise, as it aims to see an increase in the number of international speakers at its PD seminars and conferences.

This 53rd meeting also saw the revival of the Strategic Review Committee (SRC), under the leadership of CAPA Deputy President. Malaysia's leadership and foresight in the arena of accountancy development was once again recognised when it was chosen to contribute to the SRC, together with Australia, Canada and China.

The SRC aims to study the Mission Statement of CAPA and assess how well it could be implemented to ensure the attainment of CAPA's objectives, which are to :

- Enhance the standards and development of the accounting profession by promotion and adoption of IFAC and IASC.
- Encourage the formation and development of national and intra-regional accounting organisations.
- Foster a strong and cohesive accounting profession by encouraging effective and post certification education.

In conjunction with this meeting, an international seminar was held, co-branded with the Institute of Chartered Accountants of Sri Lanka (ICASL). The focus of this seminar was on 'Governance and Accountability', both in the public and private sectors. Representatives from Canada and Australia presented these papers, with Malaysia acting as a panellist for the session on the public sector. The papers were well received by the audience who showed serious concern on issues of transparency in reporting in the private sector, as well as ways to curb corruption in the public sector. The host of the event, Sri Lanka, closed the seminar with a paper on 'Financial Accounting and Reporting Aspects'.



Mr. Soon Kwai Choy lighting the ceremonial lamp at the 53rd CAPA Executive Committee meeting in Sri Lanka



Mr. Daniel Chian (left) and Mr. Soon Kwai Choy (right) posing with IFAC's Director-General, Mr. Peter Johnston

# IASC Publishes Study of Business Reporting on the Internet

The International Accounting Standards Committee has published a study of 'Business Reporting on the Internet' as the first step in a possible project to develop standards in that area. The study examined the following issues :

- Current technologies available for electronic business reporting.
- What companies around the world are actually doing (this involved a detailed analysis of the Web sites of the 30 largest companies in 22 countries - 660 companies in all).
- Kind of standards for electronic business reporting that are needed now, within the constraint of today's technologies.
- Shortcomings of business reporting on the Internet within current technologies.
- Technological changes that are on the horizon and how can they improve electronic business reporting (particularly the ability to go beyond the Internet as 'electronic paper' to facilitate downloading and analysis of financial data).

"Technology has altered irreversibly not only the physical medium of corporate financial reporting but also its traditional boundaries," Sir Bryan Carsberg, Secretary-General of IASC, commented.

"Paper reports are being supplemented and for many users, replaced by electronic business reporting, primarily via

the Internet. And while we accounting standard-setters have, even to this day, tended to focus primarily on the traditional financial statements and related note disclosures, investors and lenders have moved far beyond that," Sir Bryan added.

Four experts from academia, Mr. Andrew Lymer, Mr. Roger Debreceeny, Mr. Glen Gray and Mr. Asheq Rahman, authored the IASC study on '*Business Reporting on the Internet*'. Mr. Paul Pacter, who is managing the project for IASC, said :

"This is a pioneering study. It illustrates to accounting policy makers the nature of changes occurring in business reporting and explains how those changes are affecting the dissemination of accounting and business information."

The study also identified the effects those changes may have on accounting standard-setting in the future. And by recommending measures to deal with those changes in Internet corporate reporting occurring now and currently anticipated, the report has charted a sensible course for IASC to help ensure the availability of high quality data in electronic form to the users of business and financial information.

Among other recommendations, the study urged IASC to adopt a Code of Conduct for Web-based business reporting. A complete draft of a proposed Code is included in the report. The study also recommended that IASC join a consortium effort — which would include information intermediaries, software companies, securities regulators, national accounting standards-setters, international accounting firms, and others — to develop a global electronic business reporting language to meet the needs of investors, lenders, regulators and others who look to the Internet for financial and operating information about business enterprises.

# Sipadan's Beautiful Underwater World

BY T. J. TAN

**W**hile diving in Pulau Sipadan off the southern coast of Sabah, I am often fascinated by the nudibranchs that inhabit the Hanging Gardens. These flashy shell-less snails have elaborate and outlandish patterned body contours, earning them the nickname 'marine butterflies.' The Hanging Gardens is a coral garden filled with brightly coloured sponges, sea fans and other soft corals.

Nudibranchs secrete an evil-tasting and potent substance as part of a highly sophisticated defence mechanism. They are carnivorous and will eat anything from sponges and anemones to hydroids and small crustaceans. And they take hours over their hermaphroditic copulation.

Sipadan, Malaysia's only oceanic island, is also famous for its sea turtles. They can be seen on nearly every dive throughout the year. Because they often swim near the surface, they are easy to snorkel with too. Of the seven species of sea turtles in the world, at least three occur at Sipadan — the hawksbill, the Pacific or olive ridley and the abundant green turtle. The island is a nesting site for these gentle creatures, whose ungainly mating procedure, which involves much rolling about as the male tries to mount the female near the surface, has more than once been mistaken for divers in distress!

Another attraction is diving with sharks. Non-aggressive white tips, mostly measuring about a metre in length, abound. They swim in the shallows and for many people, including me, diving with them is an unforgettable experience. They give the lie to the old adage - "the only good shark is a dead shark." In deeper waters and at certain times of the year, it is possible to encounter bigger sharks such as hammerheads, grey reef and black tips. Where the currents are strong, large numbers of barracudas can be found, hanging motionless in mid water or

schooling in great circles.

A day's diving in Sipadan starts at 7 am, with a popular site being Barracuda Point, where big fishes tend to congregate in the mornings. It is possible to pack in as many as six dives a day. However, Sipadan is not to every diver's liking. The currents at several places are strong and diving at these sites is definitely for the more experienced only.

In 1980, Sipadan's beautiful marine life won it the description "one of the 10 wonders of the underwater world" from the famous late French oceanographer Jacques Cousteau.

In recent times, however, Sipadan has been under pressure from large numbers of divers. They come from all over the world, thanks to some very aggressive marketing in Japan and the United States. The divers are attracted by the fact that dive sites are only a few minutes boat ride away from the shore and for the thrill of 'wall diving.' The wall plunges straight down to 2,000 metres near the jetty. Until this year, there could be so many divers at one place at a time that it's easy to lose your buddy or collide with another diver if you're distracted because of the fishes gliding by.

When I first visited Sipadan over 10 years ago, the reefs were in pristine condition and almost untouched. Dolphins greeted us as we motored in. It was uninhabited and we lived in tents. Today, chalets crowd the beach near the jetty. There are five resort operators on the island, which is low-lying and measures only about three kilometres in circumference. Dive tourism in Sipadan generates a revenue of roughly RM20 million a year.

With the reefs becoming degraded, the authorities have taken action to protect them. Starting in October 1999, the number of visitors to the island is restricted to 100 at any one time. The rule is strictly enforced by police field force personnel stationed on the island. Pollution from untreated sewage



is a particular problem, as is sediments smothering corals. Corals have almost disappeared near the jetty. The island also suffers from pollution from the mainland.

Resort operators, who are now permitted only five staff each, are encouraging dive guides to become more knowledgeable about the reef ecosystem. And visitors are taught to respect the reefs.

Better conservation is also needed for Sabah's other coral reefs. Many are under great stress from the use of destructive fishing practices such as cyanide and blast fishing, according to researchers at Universiti Malaysia Sarawak (UNIMAS) who surveyed 2,500 kilometres of the coastline between Sandakan in southern Sabah and Pulau Layang Layang in the north two years ago.

Reefs were being progressively destroyed, there were no viable populations for commercial fish species in places and known natural destroyers of reefs were increasing in number, according to the survey. Many of the reefs surveyed were damaged and many reefs had less than 25 per

Staghorn corals in Sipadan

Sea turtles can be seen throughout the year in Sipadan



The flashy nudibranchs, or sea slugs, are a special attraction



A nudibranch showing its exposed gills



Sipadan's pretty soft corals have proved irresistible to photographers

cent of their reef structure intact. In some places, the three-dimensional complex structure of the reef had been completely destroyed.

Some reefs looked like “lunar landscapes, rubble piles or avalanche zones,” according to UNIMAS’ Professor Steve Oakley. Quick action is needed if the reefs are to survive and bring benefits to Malaysia beyond 2000, he said. “The health of the reefs of Sabah is dire.”



The sea turtle’s ungainly mating behaviour has sometimes been mistaken for a diver in distress

On bombed reefs, fish diversity was often reduced to less than half. Only five out of 55 reefs surveyed had breeding sized adults for the most important commercial fish species such as grouper and snapper. The most valuable commercial fish — Napoleon wrasse and large grouper — had disappeared from many sites. Significant numbers were only found at the two reefs protected by eco-tourism — Pulau Layang-Layang and Sipadan.

Invertebrates were also severely affected by the environmental degradation. Sea cucumbers, clams, triton shells and lobsters were absent or severely reduced in many reefs. In the absence of predators, the dreaded coral eating Crown-of-Thorns starfish and Diadema urchins had proliferated, reaching plague proportions in places.

At the island of Mabul, a half-hour by boat from Sipadan, the expedition recorded up to 15 bomb blasts an hour, some of which were “loud enough and close enough to be frightening.” Mabul is a primary fishing ground.

At Kunak, probably the most unprotected reefs studied, only one 30-centimetre grouper was found in 40,000 square metres of reef. By contrast, over 1,000 bigger groupers were found in a similar sized area on the protected reefs of Layang-Layang and Sipadan.

It will need more than better policing or simple declaration of parks and reserves to save many of Sabah’s reefs. Enforcement is difficult — catching a fisherman in the act

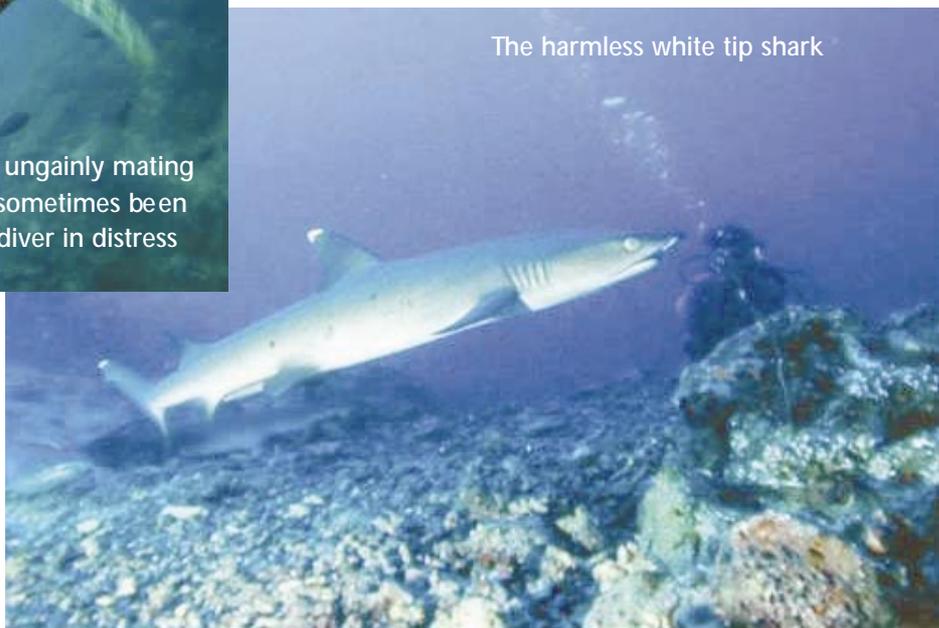
of throwing a home made bomb into the waters is virtually impossible. Bombs can be easily made from sugar, fertiliser

and empty beer bottles.

Coastal communities need to be educated on the importance of protected reserve areas as sources of juvenile fish to replenish heavily fished areas outside the reserves. They need to understand that their fortunes are inexorably linked with those of the reefs. Alternative sources of income must be developed for the villagers, who may be given ownership of part of the reefs to encourage them to participate actively in their protection.



TJ Tan studied marine biology/oceanography in college, but is now a Kuala Lumpur-based freelance journalist. He contributes frequently to the *Financial Times* newspaper of London and *Newsweek* magazine.



The harmless white tip shark



Divers have been flocking to Sipadan for the past 10 years

# PULSE

## *of the Economies*

BY MIA'S ECONOMIC RESEARCH TEAM

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.

### INTERNATIONAL DEVELOPMENTS

#### 3rd WTO Ministerial Conference failed to take off

**T**he recent multilateral trade negotiations (MTN) in Seattle ended in shambles, without any concrete results to show," an economist lamented. There was no written statement or communiqué issued by the World Trade Organisation (WTO), except for a one-page closing remarks by US Trade Representative and Chair of the Seattle Conference.

The only negotiations that will commence on 1 January 2000, regardless of the failed Conference, are the mandated negotiations under Article 20 of the Agreement on Agriculture for continuing the reform process, and the next round of negotiations for progressively higher levels of liberalisation of trade in services.

Indeed, the writing was already on the wall even before the Ministerial Conference shot off the block last November 1999. Lobbyists of different persuasion had already dug their trenches.

To start with, developing and developed countries had different ideas as to the agenda. Meanwhile, NGOs and others quickly descended on Seattle, seeking to exert their influence and creating much havoc in the process.

For developing countries (including Malaysia), disagreements centred on the linking of trade with environment and labour issues. But certain organised unions and environmental groups sought to pressure the Conference to acquiesce to US 'demands' for labour and environment standards at the WTO. The anti-dumping and subsidies issues were yet another mark of division.

Also, the intention to include new issues (e.g. industrial tariffs and non-tariff barriers, trade and investment, trade and competition policies, government procurements, trade facilitation, and e-commerce) became a sore point for developing countries, even before the Con-

ference started. They were adamant in wanting to focus on the aspects of implementation and problems of existing WTO agreements.

Too wide an agenda, Malaysia's Head of Delegation, En. Asmat Kamaludin, argued would be "taxing, particularly to developing countries, whose capacity to be effectively engaged is limited by their lack of resources."

There were also bitter complaints that developing countries were being excluded from decision-making, despite efforts to ensure transparency.

"Most of the important negotiations have taken place in 'green room' meetings where only a few countries are invited. Most of the developing country members of WTO have not been able to participate. Even if a country is invited to a meeting on a particular issue, it may not be a participant in other issues. Many developing countries were not invited to any meeting on any issue at all," Third World Network (TWN) charged in a press statement released on 3 December 1999.

Against this heated background, Mr. Mike Moore (WTO's Director-General) sought to reconvene a ministerial conference "as soon as possible." The urgency is understandable, as WTO's dream is to conclude the new trade round in three years' time. Whether this will become reality depends on member countries' commitment to the new MTN, as well as consultation and compromises all round.

But certain bodies entertain a different idea. For example, TWN has proposed that "Ministers take a procedural decision to adjourn the Conference and remit all the texts before it to the General Council in Geneva." What TWN wants is for the General Council to "exercise its responsibilities and hold discussions on how to proceed further, and take appropriate decisions in accordance with the powers and responsibilities under the Marakesh Agreement".

#### *Malaysia's Position on ...*

**Agriculture** - Malaysia supports the continuation of the reform process with the objective of eventually integrating agriculture into WTO rules. There is a need for clearer disciplines on the use of domestic subsidies and the elimination of export subsidies.

**Services** - Malaysia will participate in the negotiations and contribute in line with the principle of progressive liberalisation. The negotiations on specific commitments must give due respect to national policy objectives and the level of development of individual members. In order to encourage developing countries to further liberalise, negotiations on Emergency Safeguard Measures for trade in services must be completed without further delay.

### Economic Outlook in Developing Countries

**E**conomic growth rates of developing countries (excluding those in transition) are forecast to accelerate to 4.2 per cent in 2000 (estimate of 2.7 per cent in 1999).

Recovery is anticipated to be driven by :

- Effects of policy measures undertaken by major industrial countries (including interest rate cuts in US and Europe).
- Large fiscal stimulus in Japan.
- Early signs of recovery in crisis countries of East Asia, especially South Korea, Malaysia and Thailand.
- Easing of financial conditions in developing countries, evidenced by widespread declines in domestic interest rates and rising equity markets.

The envisaged expanding world trade (5 per cent in 1999, 6.4 per cent in 2000 and 6.3 per cent in 2001) and world economic growth (2.6 per cent in 1999, 2.9 per cent in 2000 and 2.8 per cent in 2001) will help to restore the fortunes of developing countries.

Nevertheless, the World Bank has cautioned that recovery from the financial crisis is still “fragile and uneven”, as developing countries have yet to fully recover from the financial crises of 1997-99.

Source : World Bank, *Global Economic Prospects and the Developing Countries 2000*, Dec 1999.

	1998	1999	2000	2001
World Economic Growth	1.9	2.6	2.9	2.8
Major 7 OECD Countries	1.8	2.6	2.4	2.1
World Trade Volume	4.2	5.0	6.4	6.3
Inflation				
Major 7 OECD countries	1.4	1.3	1.6	1.8
Commodity prices (nom. US\$)				
Commodity Prices (except oil)	- 15.7	- 11.2	2.8	4.2
Oil Price (weighted average)	- 31.9	37.8	2.8	- 2.7
Manufactures Export Unit Value	-3.9	- 0.6	2.5	2.5
Interest Rates				
6-month LIBOR (% p.a.)	5.6	5.5	6.0	6.0

Note : The seven OECD countries are Canada, France, Germany, Italy, Japan, UK and US.

### Clearing up the muddled interest rate ‘bias’ pronouncements

**W**henver the US Federal Reserve (Fed) decides to change its course in interest rate-setting, the global financial markets and world economy are affected —

for better or for worse.

Not surprising, therefore, is the growing number of ‘Fed watchers.’ Lately, there has even been a release of a book (*The Greenspan Effect* by David B. Sicilia and Jeffrey L. Cruikshank) which seeks to crack the ‘codes’ of the Fed’s Chairman’s pronouncements — a man widely acknowledged as the most influential character in the global financial scene today.

Lately too, the Fed has sought to revise its procedure for unveiling its perception of where the US economy might be heading. The aim is to bridge the perceived gap between what it says and what it means whenever the Fed announces the bias about future policy or actual policy shifts.

Undoubtedly, clarity in monetary policy statements will minimise needless confusion among investors and Fed officials alike, which unfortunately had occurred since Fed’s experiment with more openness some time in the mid-1990s.

The confusion so far can be gauged from the Fed’s practice of releasing its end-of-meeting ‘bias’ statements (i.e. its stance pertaining to future action on interest rates) effective from May 1999.

18 May	Fed adopts bias toward rates, saying it ‘recognises the need to be alert’ to inflation ‘over the coming months.’ Markets tumble, assuming a June increase.
30 June	Fed raises rates, adopts a neutral bias about ‘near-term policy action’, but says it ‘nonetheless, recognises that ... it must be especially alert to inflationary forces.’ Markets rally, assuming no August move.
24 Aug	Fed raises rates, adopts a neutral bias ‘over the near-term’, its action ‘should markedly diminish the risk of rising.’ Despite higher rates, Dow reaches record high the next day.
5 Oct	Fed doesn’t change rates, adopts a tightening bias ‘going forward’, saying it ‘needs to be alert’ to inflation, but that ‘did not signify a commitment to near-term action.’ Markets drift, confused.
6 Nov	Fed raises rates, adopts neutral bias, saying again its action ‘should markedly diminish the risk of inflation.’ Markets shake off the rate hike, rally on the bias.
21 Dec	Fed adopts neutral bias; maintains Fed fund rate at 5.5 per cent, but warns robust consumer demand could foster ‘inflationary imbalances’

Note : The above table was obtained from *Asian Wall Street Journal*, 14 Dec 1999 and *The Sun*, 23 Dec 1999.

Hopefully, the dawn of the 21<sup>st</sup> Century will see a less ambiguous Fed and happier investors, provided of course the Fed delivers its revised approach to interest rate ‘bias’.

TABLE 1	1998	1999	1999
	3Q	2Q	3Q
<b>OUTPUT AND PRICES</b> Annual change in %			
Real Gross Domestic Product	-10.9	4.1	8.1
Agriculture	-4.0	8.6	3.8
Mining	1.2	-5.9	-3.0
Manufacturing	-18.9	10.8	19.5
Construction	-28.0	-7.9	0.9
Services	-3.7	0.6	4.1
Consumer price index	5.7	2.7	2.3
Producer price index	13.9	-5.0	-4.3
Unemployment rate	3.3	3.3	n.a.
<b>FEDERAL GOVT. FINANCE</b> RM Million			
Revenue	14,435	15,041	14,574
Operating expenditure	9,351	10,059	12,158
Current account	5,084	4,983	2,416
Net development expenditure	3,585	5,317	7,487
Overall balance	1,498	-334	-5,071
<b>BALANCE OF PAYMENTS</b> RM Million			
Gross exports (f.o.b.)	73,310	77,864	83,485
Gross imports (c.i.f.)	57,034	59,702	64,871
Trade Balance	16,276	18,162	18,614
International reserves (end-period)	81,473.0	118,293.5	119,254.5
US\$ million equivalent	21,450.9	31,135.9	31,388.3
<b>EXTERNAL DEBT OUTSTANDING</b> RM Million			
Medium & long-term debt	123.4	132.3	137.3
Short-term debt	29.1	30.0	28.3
Total external debt	152.5	162.2	165.6
US\$ million equivalent	40.1	42.7	43.6
<b>MONETARY AGGREGATES</b> Annual change in % as end of quarter			
M1	-17.0	14.4	20.9
M2	5.9	10.7	11.4
M3	4.0	7.7	8.2
<b>BANKING SYSTEM</b> Change during period in RM million			
Loans <sup>1</sup>	-665	1,170	-1,842
Loans <sup>2</sup>	168	-2,804	-3,829
Deposits	419	4,545	-2,415
Resource balance	251	7,349	1,415
Loan-deposit ratio (%) (end-period)	95.0	86.8	86.4
<b>CAPITAL MARKET</b> RM Million			
Net fund raised by			
Public sector	533	2,756	74
Private sector	-2,297	1,543	10,148
Total	-1,764	4,299	10,222

<sup>1</sup> Including loans sold to Cagamas and Danaharta.

<sup>2</sup> Excluding loans sold to Cagamas and Danaharta.

M1 = currency in circulation + demand deposits.

M2 = M1 + narrow quasi-money.

M3 = M2 + deposits placed with other banking institutions.

Source: BNM's Press Release on "Economic and Financial Developments in the Malaysian economy in the Third Quarter of 1999."

## TRACKING THE MALAYSIAN ECONOMY

### Malaysian Economy Making Good Recovery

Malaysia came out completely from the recession in 3Q99 by recording the highest rate of economic growth (8.1 per cent) since July 1997. Its performance was the best among the crisis-hit countries in the region, except South Korea.

Growth was supported by strong external demand, accelerated government spending, accommodative monetary policy and improved consumer confidence. All economic sectors expanded, except mining.

Significantly, the strong economic rebound occurred in an environment of low inflation, improved labour market situation, continued large trade surplus, rising international reserves and moderately low external debt.

With continued strong external demand and fiscal expansion, the government's economic growth estimate of 4.3 per cent for 1999 is well within reach. For the year 2000, a 5 per cent expansion has been projected.

### Broad-based Recovery

During 3Q99, the economic recovery was powered by the robust manufacturing sector (19.5 per cent), with export-oriented and domestic industries expanding by 17 per cent and 10.9 per cent respectively.

The construction sector has turned around (0.9 per cent) due to increased activities in infrastructure and housing development, while the services sector chalked up an encouraging growth of 4.1 per cent.

In terms of demand, all indicators showed firm recovery. Significantly, private investment expanded by 13.7 per cent, followed by public consumption (5.3 per cent) and private consumption (4.6 per cent). This encouraging development can be attributed to higher public investment spending, revival in private investment activity, lower interest rates, better employment outlook, as well as higher spending on defence, emoluments, and supply and services.

CHART 1

Trade surplus expands further

Malaysia's trade account recorded its ninth consecutive quarter of surplus (RM8.6 billion) in 3Q99. Its January-September 1999 figure is almost 40 per cent higher than the corresponding period a year ago.

Manufactured exports performed very well (25.1 per cent) on the back of a broad-based expansion. Electronics led the way with a 40.2 per cent growth followed by furniture products (32.8 per cent), wood products (24.4 per cent), chemicals (21 per cent) and electrical products (13.9 per cent).

Primary commodities exports also displayed good performance, with saw logs recording a robust expansion of 89.3 per cent, followed by crude oil (47.4 per cent), liquefied natural gas (28.7 per cent), sawn timber (19.9 per cent) and palm kernel oil (11.3 per cent). This state of affairs reflected mainly improved export prices and volume due to firmer demand from the Asia-Pacific markets.

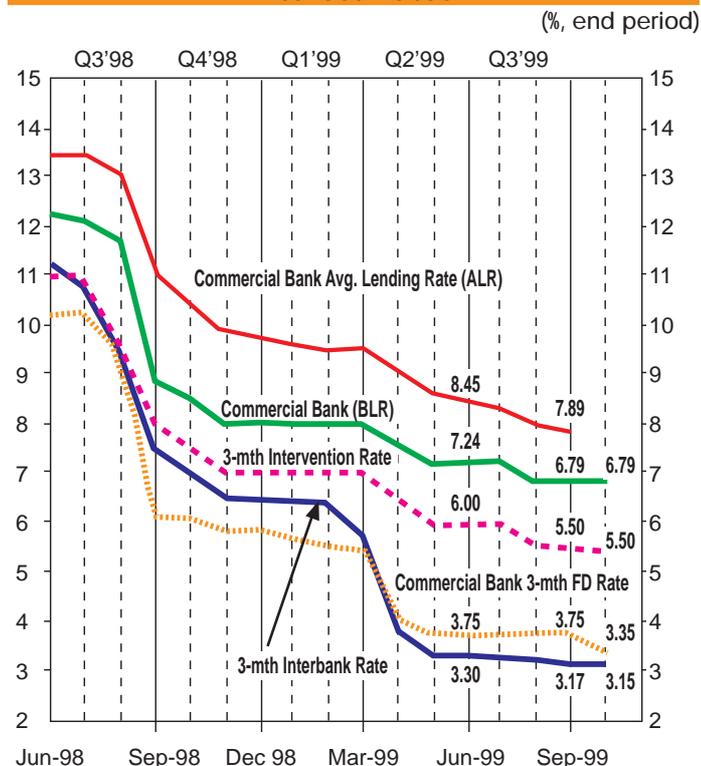
Meanwhile, imports of intermediate and consumption goods also expanded strongly by 24.1 per cent and 30.7 per cent respectively, in tandem with the economic recovery.

Other Macroeconomic Indicators Looking Good

Prospects of a sustained economic recovery have been enhanced, judging from the release of encouraging macroeconomic indicators. These include the following :

- Higher international reserves of US\$31.4 billion as at end-September 1999 (equivalent to 6.4 months of retained imports).
- Low and stable inflation (2.3 per cent) — excluding food, the inflation rate was even lower at 1.3 per cent.
- Fewer retrenched workers (7,690), coupled with the increase in job vacancies (35,363), resulting in a reduced unemployment rate of 3 per cent in 1999.
- Slight drop in interest rates, with the three-month intervention rate easing further to 5.5 per cent on 9 Aug 1999, resulting in the average base lending rates of commercial banks and finance com-

Interest Rates



Source : Bank Negara Malaysia

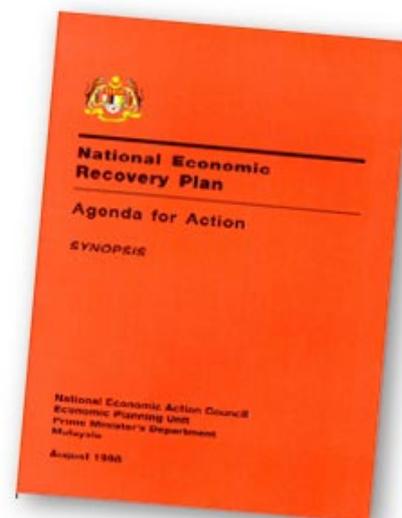
panies falling to 6.79 per cent and 7.95 per cent respectively on 22 Aug 1999 - a boon to the business community and investors.

- Net non-performing loans ratio of the banking system moderated to 7.9 per cent on a six-month classification as at end-March 1999 and has since stabilised at this level.
- Total external debt remained moderately low, rising only slightly by 2 per cent to RM165.6 billion (US\$43.6 billion) at end-September 1999, equivalent to 59 per cent of Gross National Product. Medium and long-term debt rose by 3.8 per cent to RM137.3 billion (US\$36.1 billion), while short-term external debt fell by 5.5 per cent to RM28.3 billion (US\$7.4 billion), equivalent to 17 per cent of external debt and 24 per cent of foreign reserves.

Note : Figures quoted in this section are taken from BNM's Press Release dated 24 November 1999 and they refer to 3Q99, unless otherwise stated.

# NEAC

*The National Economic Action Council (NEAC) was established on 7 Jan 1998 as a consultative body to the Cabinet to deal with the economic problems and restore the economy. As one of its primary tasks, the NEAC prepared the National Economic Recovery Plan (NERP) in order to provide a comprehensive framework for economic recovery.*



## SUMMARY OF NEAC'S 20TH "STATUS OF IMPLEMENTATION" REPORT AS AT 12 NOVEMBER 1999



### Bank Negara Malaysia

- *NERP recommendation* : Feasibility study on Asean currency.
- *BNM's response* : International Monetary Fund's report on the advantages, weaknesses, prerequisites and effects of establishing an Asean currency completed and discussed at the 5th Asean Central Banks Forum Meeting in Hanoi, Vietnam on 3 November 1999.

Meanwhile, BNM has sought technical assistance from the European Central Bank and Bank for International Settlements with regard to the setting up of the Asean currency.



### Securities Commission

- *NERP recommendation* : Establish an early-warning system to be monitored among key government agencies that identify negative developments within the financial and currency markets well ahead of time.
- *SC response* :
  - Implementation of risk-based capital requirement for member companies.
  - SC has advised KLSE that the enforcement of rules relating to the risk-based capital adequacy framework will be deferred until 1 December 1999.
  - Development of sound accounting standards for the industry through the Malaysian Accounting Standards Board. During 3Q99, MASB issued the following technical pronouncements for public comment viz. MASB ED15 Depreciation Accounting; MASB ED16 Property, Plant and Equipment; MASB DSOP3 Exempt Enterprises; MASB DSOP4 Interim Financial Reporting and MASB DSOP5 Income Taxes.

- *NERP recommendation* : Regulatory authorities, e.g. SC and KLSE, should exercise and enforce the regulations under their responsibility without fear or favour. No impression should be given that their ability to enforce is being compromised.
- *SC response* : Since the NEAC's quarterly report dated 20 July 1999, the Enforcement Division had filed a total of 14 charges, nine of which involved offences under section 87A SIA. SC also compounded offences under section 18(2) SIA on a few companies.
- *NERP recommendation* : An institution such as the Financing Reporting Foundation (FRF) should be entrusted to prepare a new framework for corporate governance within six months and submit it to the Minister of Finance.
- *SC response* : SC has set up an Implementation Project Team to oversee implementation of the recommendations of the Report on Corporate Governance. The first phase of legal reform is intended to rationalise the regulatory framework relating to prospectuses and related fund-raising provisions. This involved amendments to the Securities Commission Act, 1993 and the Companies Act, 1965.
 

Additionally, SC and KLSE are finalising a major revamp of KLSE's Listing Requirements, which would see the implementation of almost all the recommendations of the Finance Committee relating to listing rules.
- *NERP recommendation* : Private Debt Securities (PDS) should continue to be promoted among foreign fund managers, who should be allowed to purchase PDS irrespective of their sources of ringgit. Foreigners have been active participants in the development of the PDS market.
- *SC response* :
  - A National Bond Market Committee (NBMC) has been set up to lead bond market development efforts in Malaysia to :
    - Provide the policy direction and rationalise the existing framework for bond market development.

- Recommend appropriate implementation strategies to deal with issues which impede bond market development, e.g. fragmented regulatory framework, underdeveloped primary market and illiquid secondary market.

- Formation of three sub-committees (i.e. Legal and Regulatory Reform Committee, Product and Institutional Development Committee and Infrastructure and Operations Working Group) to assist NBMC in dealing with bond market development.
- SC will be the single regulatory authority to supervise and regulate the local corporate bond market.



## Kuala Lumpur Stock Exchange

- *NERP recommendation* : The regulatory authorities, e.g. SC and KLSE, should exercise and enforce regulations under their responsibility without fear or favour. No impression should be given that their ability to enforce is being compromised.
- *KLSE response* : KLSE, in consultation with the SC, publicly reprimanded a public listed company for breach of Section 36 and 114 of the KLSE Main Board Listing Requirements.

*Note* : The above represents only brief highlights of selected NERP's recommendations and responses by various bodies.

## CHANGING ECONOMIC AND CORPORATE LANDSCAPE

### Stunning Revelations

- 15 years ago, manufacturing companies dominated Forbes Global 400, with oil and real estate as runners-up. Together, they accounted for up to 60 per cent of the list. Today, their combined share is only 16 per cent.
- The turnover rate on Forbes 400 list is usually 10 per cent, but the changing corporate landscape has accelerated by 20 per cent in the 1999 list.
- Almost every new top 400 member in Forbes list comes via high technology, unlike a handful 17 years ago.

*Note* : Cited in "The New Economy" by Megatrends Asia & RAYMA Management Consultants Sdn Bhd.



## ACCOUNTANTS AND THE NEW ECONOMY

"What's so new about the new economy?", accountants may wonder.

It is new because it is digital – the Age of Networked Intelligence. And unlike the old economy where information flow was largely physical, increasingly the flow has become digital. Tons of information can travel across national borders in nanoseconds.

The new economy is also new because it is a knowledge economy (or k-economy) – one based on the "application of human know-how to everything we produce and how we produce it", as Don Tapscott, author of *The Digital Economy*, would define it.

Accountants may also question, "What's the big deal about the new economy?"

For one thing, the new economy is forcing more and more corporations (including accounting firms) to rethink its mission, review its strategies and revamp its operations.

These companies know that their competitors are not just located in the vicinity of their operations, but can pop up from anywhere. "Where information becomes digital and networked, walls fall and no business is safe", Don Tapscott predicted.

Therefore, let no accountant say he has not been forewarned!

## MASB Standards 8-13

**O**n 21 December 1999, the Malaysian Accounting Standards Board (MASB) announced the issuance [pursuant to subsection 7 (1) of the Financial Reporting Act, 1997 (Act 558) and Regulation 3 of the Financial Reporting (Publication of Approved Accounting Standards) Regulations 1999] of a further six MASB Standards as approved accounting standards viz. :

MASB Standard 8	Related Party Disclosures
MASB Standard 9	Revenue
MASB Standard 10	Leases
MASB Standard 11	Consolidated Financial Statements
and	
	Investments in Subsidiaries
MASB Standard 12	Investments in Associates
MASB Standard 13	Earnings Per Share

The six standards will become operative for financial statements covering periods beginning on or after 1 January 2000.

MASB Chairman, YM Raja Datuk Arshad Raja Tun Uda, said the issuance of the above standards was the “result of the ‘due

process’ that involved wide consultation within the Malaysian business community.” These standards supersede the respective extant accounting standards adopted in 1998 as approved accounting standards under the Act.

“(They) serve to enhance the reliability, relevance and comparability of financial statements in Malaysia and ... facilitate the ability of report users to assess the financial position, performance and future cash flows of an enterprise”, he added.

MASB Standards will be issued twice a year, i.e. during the first half and the second half of the year.

The MASB Standards can be purchased from :

Malaysian Accounting Standards Board  
Suite 5.01-5.03, Fifth Floor  
Wisma Maran, 338 Jalan Tuanku Abdul Rahman  
50100 Kuala Lumpur  
Tel : 03-4669199; Fax : 03- 4669212  
E-mail : masb@po.jaring.my

A summary will soon be available and can be downloaded from MASB website : <http://www.masb.org.my>

## National Annual Corporate Report Awards — 1999

**A**n Annual competition called ‘The National Annual Corporate Report Awards’ (NACRA) is an event jointly organised by this Institute, Kuala Lumpur Stock Exchange (KLSE), Malaysian Institute of Management (MIM) and Malaysian Association of Certified Public Accountants (MACPA).

It is Malaysia’s most prestigious award in recognition of excellence in annual reporting which fulfilled NACRA’s main objective to promote and maintain the highest standards in the presentation and reporting of financial and other information.

This year’s competition was held in conjunction with the NACRA Annual Dinner on 17 November 1999 at Shangri-La Hotel. The event, attended by close to 1,000 guests was



*Mr. Lam Kee Soon, Adjudication Committee Chairman and MIA Council Member announcing the winners of the Awards during the National Annual Corporate Report Award 1999.*

graced by YBhg Dato' Mohd Azlan Hashim, Executive Chairman of the Kuala Lumpur Stock Exchange. The dinner was attended by YBhg Dato' Hanifah Noordin, MIA President; Mr Soon Kwai Choy, Vice-President; En. Mohamad Abdullah, Registrar; Mr Daniel Chian, Council Member; Ms Ho Foong Moi, Executive Director and senior officers of MIA.

Three levels of awards were presented for public-listed companies, namely, the *Overall Excellence Award*, *Industry Excellence Awards* and *Presentation Awards*. The Best Annual Report for Non-Listed Organisations was presented to encourage continual improvement of annual reports to a company/organisation in this category, which has achieved overall excellence in annual reporting.

This year, the Committee considered 742 annual reports for the competition. A total of 91 listed companies or 12.5 per cent of them passed the preliminary screening process.

This is an improvement from last year of 12 per cent. After detailed adjudication, only 26 companies made it to the final round of the adjudication. The annual reports go through a tedious and thorough adjudication process.

The arduous task of judging the entries in the competition was undertaken by 58 adjudicators drawn from the accountancy profession, commerce and industry, advertising and communications firms and the academia.

For the year 2000, NACRA Organising Committee will introduce a new award on environmental reporting in order to address and recognise efforts towards the preservation of the environment. This award will stress the need for excellence in reporting of environmental issues which are of value and importance to the public in general and to affected parties in particular. Malaysian Institute of Accountants(MIA) will be the Organising Secretariat for the NACRA 2000.

## Industry Excellence Awards

### Main Board

#### *Consumer Products*

UMW Holdings Bhd.

#### *Industrial Products*

Petronas Gas Bhd.

#### *Trading & Services*

Telekom Malaysia Bhd.

#### *Finance*

Public Bank Bhd.

#### *Construction & IPC*

Puncak Niaga Holding Bhd.

#### *Properties*

Island & Peninsular Bhd.

#### *Plantations*

Kumpulan Guthrie Bhd.

### Second Board

#### *Industrial Products*

Tien Wah Press Holdings Bhd.

## Presentation Awards

### Best Annual Report in Bahasa Malaysia

Kumpulan Guthrie Bhd.

### Best Designed Annual Report

Malaysia Airlines

## Overall Excellence Award

### Most Outstanding Annual Report of the Year

Kumpulan Guthrie Bhd.



KLSE Executive Chairman, Y Bhg Dato' Mohd. Azlan Hashim presenting the Overall Excellence Award to a representative from Kumpulan Guthrie Bhd during the National Annual Corporate Report Awards 1999. Looking on (right) is KLSE President and Organising Chairman of the event, Dato' Mohd Salleh Abdul Majid.

## List Of New Seminar Papers In MIA Library

Seminar paper on “ **Minority shareholders (shareholders remedies)**” by *Peter Griffiths & Chan Kok Keong*. (1999, Kuala Lumpur)

**Code No : MIA 201/99**

Seminar paper on “ **The rescue culture**” by *Peter Robert Griffiths*. (1999, Kuala Lumpur)

**Code No : MIA 202/99**

Evening talk paper on “ **Exit levy**” by *Lee Guat Keow*. (12 July, 1999: Kuala Lumpur)

**Code No : MIA ETP 21/99**

Workshop paper on “ **Inventory management for finance and non-finance**

**manager**” by *Teo Kim Soon*. (21-22 September, 1999 : Kuala Lumpur)

**Code No : MIA WP 13/99**

Conference paper on **Emerging Roles for Internal Auditors**. (9-10 March, 1999 : Kuala Lumpur)

**Code No : MIA IAC 1/99**

1999 National Accountants Conference : *Thriving in the Digital Economy of a New Century*. (7-8 September : Kuala Lumpur)

**Code No : MIA NAC 15/99**

Conference on **Local Government Strategies and Entrepreneurship**. (24 January, 1999 : Kuala Lumpur)

**Code No : MIA CITI 3/99**

Seminar on “**E-Commerce Strategy for Networked Economy With Live Day Trading of the Internet Stocks**” by *Bruce Elliot* ( 5 May, 1999 : Kuala Lumpur)

**National Credit Management Conference**. ( 18-19 May 1999 : Kuala Lumpur)

**Code No : MIA NCM 2/99**

International Workshop on **WTO and Liberalisation of World Trade In Services**. (28-29 September, 1999 : Kuala Lumpur)

**Code No : WTO 57/99**

## List Of New Books In MIA Library

**The World Trade Organisation : A Guide to the Framework for International Trade**, by *Baghirath Lal Das*, Penang : Third World, 1999.

**Call No : 382 DAS**

**The WTO Agreement : Deficiencies, Imbalances and Required Changes**, by *Baghirath Lal Das*, Penang : Third World, 1999.

**Call No : 382 DAS**

**An Introduction to the WTO Agreements**, by *Baghirath Lal Das*, Penang : Third World, 1999.

**Call No : 382 DAS**

**Malaysian Taxation : Principles and Practice**, 5th ed., by *Choong Kwai Fatt*, Kuala Lumpur : Infoworld, 1999.

**Call No : 336.2009595 CHO**

**IFAC Handbook 1999 : Technical Pronouncements**, New York : IFAC, 1999.

**Call No : 657 IFA**

**Principles of Auditing : An International Perspective**, by *Rick Hayes... [et.al]*, London : McGraw-Hill, 1999.

**Call No : 657.45 PRI**

**The Analysis and Use of Financial Statements**, 2nd ed., by *Gerald I. White, Ashwinpaul C. Sondhi & Dov Fried*, New York : John Wiley & Son, 1997.

**Call No. : 657.33 WHI**

**Rangka Kawalan untuk Kawalan Dalaman — A Framework for Internal Control**, London : CIMA, 1998.

**Call No : 657.45 RAN**

**Guide to Understanding Money & Investing**, by *Kenneth M. Morris, Alan M. Siegel and Beverly Larson*, Hong Kong : Dow Jones Publishing, 1999.

**Call No : 332.66 MOR**

**Economic Report 1999/2000**, Kuala Lumpur : Ministry of Finance, 1999.

**Call No : 339.5 ECO**

**Peter Drucker on the Profession of Management**, by *Peter F. Drucker*, Boston : Harvard Business School Press, 1998.

**Call No : 658 DRU**

**The IASC — US Comparison Project : A Report on the Similarities and Differences Between IASC Standards and US GAAP**, 2nd ed., edited by *Carrie Bloomer*, Connecticut : FASB, 1999.

**Call No : 657.018 IAS**

**Guide to Company Law 1999**, 5th ed., by *Philip Goldenberg*, Illinois : CCH, 1999.

**Call No : 346.0668 GOL**

**Hand on Guide : Tax Compliance Singapore**, Singapore : CCH, 1998.

**Call No : 336.2095957 HAN**

**Auditing Handbook 1998/99**, London : ACCA, 1998.

**Call No : 657.45 ACC**

**Accounting Handbook 1998/99**, London : ACCA, 1998.

**Call No : 657.018 ACC**

**Korean Taxation**, Korea : Ministry of Finance & Economy, 1999.

**Call No : 336.209519 KOR**

# REPORT ON ASIA-OCEANIA TAX CONSULTANTS ASSOCIATION MEETINGS (AOTCA)

*Taipei, Taiwan 4 - 5 November 1999*

The 1999 AOTCA annual Council meeting was held at the Taipei Convention Centre on 4-5 November 1999. The Malaysian Institute of Taxation (MIT) was represented by two Council members and its Honorary Secretary and Council member, Mr Chuah Soon Guan. Mr Chow Kee Kan represented the President of MIT, Encik Ahmad Mustapha Ghazali, while Dr Jeyapalan Kasipillai pre-



sented a paper on behalf of MIT, entitled 'Malaysian's Tax System in the Year 2000 and Beyond'. Speakers from other member countries also presented papers on tax developments in their respective countries. Economic and taxation papers were presented

by at least three different speakers from the host country. Member countries of AOTCA include Australia, Hong Kong, Japan, Malaysia, Pakistan, Philippines, Singapore, South Korea and Taiwan.

During the Extraordinary General Meeting held at Taipei on 5 November 1999, AOTCA resolved the following :

- i The appointment of a Deputy President for AOTCA. A South Korean delegate, Dr. Koo Joog-Tea, was unanimously elected for the post of Deputy-President.
- ii Initiatives will be made to invite India, Indonesia and Thailand to become AOTCA members. Several delegates were specifically requested by the President to persuade these countries to join AOTCA.
- iii There would be a working relationship between AOTCA and the International Bureau of Fiscal Documentation (IBFD) located at Amsterdam, the Netherlands. *The Asia-Pacific Tax Bulletin*, a publication of IBFD, will publish research articles on behalf of AOTCA. AOTCA will however, retain its official journal — *Asia-Oceania Tax Consultants Association Technical Reports*.



*Malaysia's representative in the Council meeting (foreground), Council member, Mr. Chow Kee Kan (second from left)*



*Malaysia's speaker, Dr. Jeyapalan Kasipillai with Noel Rowland, CEO of the Taxation Institute of Australia and a Korean delegate*

The current AOTCA President is Mr. David Russel, a Queen's Council member from Australia. He is the second President of AOTCA and his term ends in 2001.

# GETTING TO KNOW YOUR MAAA COUNCIL MEMBERS

EDITOR FOR MAAA NEWS : LOW HAN MEN, ARIC



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).

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## 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 (1999/2000 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  
Raja Noorhana bt Raja Harun  
Yong Yoon Kee

### MIA Nominated Members

Chian Ngook For, Daniel  
Lam Kee Soon  
Yue Sau Him

## Secretariat Office

Malaysian Association of Accounting Administrators  
Dewan Akauntan, No. 2, Jalan Tun Sambanthan 3,  
Brickfields, 50470 Kuala Lumpur.  
Tel : 03-2274 5055 or Fax : 03-2274 1783  
e-mail : maaa@mia.org.my

## DEVELOPMENTS IN MAAA

*The following information is to update members on the latest happenings of the Association and what is in store for members in the coming months.*

### Tea Talks

MAAA would be holding 3 tea talks from January to April 2000. The tea talks are specially arranged for MAAA members which the Council hoped would provide members with opportunities to interact with fellow members as well as develop and enhance their knowledge in areas which may affect their profession as Accounting Administrators and Technicians alike.

For the coming Tea Talks :

**Team Building — Make your Team a Winner**, 21 Jan 2000, by Regina Morris

**Public Speaking — What it Really Takes to be a Good Speaker**, 24 Mar 2000, by Rayhel M. Mathews

**Management & IT — Heading Towards the New Millennium**, 27 Apr 2000, by V. Mahendran

For enquiries on the Tea Talks, please contact the MAAA Secretariat.

### National MAAA Conference

Members will be pleased to know that the National MAAA Conference with the theme, "Meeting the Challenges of New Technologies and The Regulatory Framework" has been tentatively scheduled for 26 February 2000. Members are encouraged to participate in this much-awaited Conference. Watch out for more information!

### Membership Drive in Johor

The MAAA will be conducting a membership drive in Johor sometime in January 2000. Members of the Council would be present to conduct the membership drive. Council member, Mr Lim Ah Leck who is based in Johor would be assisting the Association to co-ordinate the drive. We hope members down south will take this opportunity to come together to touch base with the Council for exchange of views and ideas, as well as introduce their friends and colleagues to become MAAA members. *For more information, please contact the MAAA Secretariat.*

### New Members

The following persons were recently admitted as Accounting Administrators (A.Adm.) and Associate Accounting Technicians (AAT) :

Yong King Lin (AAT)	Ahmad Nordin bin Mohd Zain (A.Adm.)
Kasman Bin Abdullah (A.Adm.)	Malek bin Sulaiman (A.Adm.)
Chuah Yew Yean (A.Adm.)	Ng Ai Hoon (AAT)
Ronnie Oh Weng Kee (A.Adm.)	Selvarajoo a/l Samykanoo (A.Adm.)
Teo Siew Tho (AAT)	Tan Kok See (A.Adm.)
Ang Chee Cheong (AAT)	Chua Vun Ket (AAT)

# REPORT ON IASC BOARD MEETING VENICE, ITALY ON 15-19 NOVEMBER 1999

The IASC Board meeting in Venice, Italy was attended by Mr. Tony Seah and Ms. Katharene Expedit. Among the issues discussed at the meeting were as follows :

## Reorganisation of IASC

The Strategy Working Party put forward a model for the reorganisation of IASC. The model reflected a structure of IASC, which obtained the support of the US Securities and Exchange Commission, as one which would enable IASC to be a global standard-setter.

The Board thus unanimously resolved to support the proposed structure and the Strategy Working Party in finalising its report based on the proposed structure.

## Business Combination

The national standard-setters of the US, Canada, Australia and New Zealand have moved or are moving towards eliminating the pooling-of-interest method for merger accounting. However, the Board decided that the Steering Committee should investigate further the pooling-of-interest method and consider if there is any conceptual reason/s why this method should be disallowed for merger accounting prior to proposing its elimination. It was also suggested that the Steering Committee in investigating the above, consider other new basis of measurement, e.g. 'new entity method'. Thereafter, the Steering Committee may proceed to consider grooming transaction, i.e. areas of perceived abuse and accounting for jointly controlled entities.

## Investment Property

The Board was briefed on commentators' views and suggestions on ED 64 (due date 31 October 1999) prior to detailed discussions being conducted by the Steering Committee on the issues. Upon deliberation, it was resolved that the Board work with a full fair value model. Further, it was decided that a residual approach be taken for recognition of investment property, i.e. that real estate be mark-to-market and the criteria on why it should not be treated as investment property be determined.

## Extractive Industries

On the above project, the Board decided that the Steering Committee consider the following issues :

- Measurement for external reporting purposes, of inventories of minerals that have been produced (extracted) at the end of upstream activities.
- Arguments for and against reporting revenue, results, assets and other IAS 14 segment data for upstream segments of vertically integrated oil and gas companies.
- Environmental disclosures, and employee safety and health disclosures.

## Discounting

On the project on discounting, the Board

decided the scope of the project should include the following :

- When assets and liabilities should be measured at present value (discounted).
- How present value measurements should be determined in those International Accounting Standards that require or permit discounting.
- How the effect of using discounting should be presented and disclosed in financial statements.
- Definition of 'probable' restricted to the use in the discounting project.

Further, it was decided that in coming up with a standard, the Steering Committee :

- i Should not specify a single measurement objective for all applications of discounting in financial reporting; and
- ii Should develop a standard that has the aim of making present value measurements consistent with the objectives set for that measurement.

## Financial Instruments

There is growing concern that greater dissemination of information on the economic concept of capital maintenance is required if we are to understand the fair value measurement of financial instruments and that we should continue with our consultation with financial institutions on the use of fair value measurement in their own books. It is also necessary that we have a clear concept of performance and direction that IASC wants to take before deciding on the use of fair value.

# FINANCIAL REPORTING BOARD

## Financial Statements Review

The Board reviewed findings made by both FRB's Committee members and the MIA Secretariat on randomly selected companies. It was decided that since non-compliance with section 174(2)(a) of the Companies Act, 1965 with regard to the recom-

mended format of an unqualified auditor's report (MIA's circular dated 30 April 1997) is very common among companies. The Auditing Practices Board should adopt the relevant provision and format as a Recommended Practice Guide.

Since the financial statements review exer-

cise is also conducted by the Kuala Lumpur Stock Exchange and the Securities Commission, it was decided that future reviews performed by the Board will be solely on non-listed companies, so as to avoid duplication of work.

The model account and the financial statements review checklist will be published in year 2000.

## COMPANY LAW FORUM

### Mode of Payment – Penalty due to Registrar of Companies

Currently, the Company Law Forum (CLF) was advised that the ROC would not receive cheques for penalty payment as a result of the large number of dishonoured cheques. The Forum wrote to the ROC to check on the magnitude of the problem faced by ROC with respect to dishonoured cheques and on the possibility of the ROC accepting cheques from accountants.

### Judicial Management

The Forum was informed that the National Economic Action Council (NEAC) is supportive of the introduction of Judicial Management (JM). JM will be introduced once the ROC ensures that its provisions do not contradict the Danaharta Act and the Corporate Debt Restructuring Committee framework. It was also reported that the term 'Judicial Management' will be changed to 'Official Management'.

### Conference on Company Law

The Forum has decided to organise a conference on company law sometime in May 2000, with the theme to be decided later.

### Chairmanship and Secretariat of CLF for 2000/2001

The Chairmanship and Secretariat of CLF for 2000/2001 will be assumed by the Bar Council and the meetings will be held at the premise of the Bar Council.

## COMPANY LAW PRACTICE BOARD

The Board decided, as part of a project in 2000, to hold a monthly Discussion Group on Company Law. The Discussion Group will be opened to all MIA members, and committee members will act as facilitators. The proposed terms of reference of the Discussion Group are :

- To provide a platform for practitioners to share their expertise and experience.
- To collate opinions, views and queries from members to be used as a basis for discussion at the Company Law Practice Board which will meet quarterly.

- To allow members who have encountered technical issues and are not sure of their interpretation and understanding of the law to exchange their views at the Discussion Group.

Members are encouraged to attend the Discussion Group, which has been set at **3.30 pm on the 3rd Wednesday of every month** as follows :

16 February 2000  
15 March 2000

19 April 2000  
17 May 2000  
21 June 2000  
19 July 2000  
16 August 2000  
20 September 2000  
18 October 2000  
15 November 2000  
20 December 2000

For enquiries, kindly contact MIA (03-2274 5055) - Ms. Winnie Hong (ext. 217) - Ms. Shan (ext. 238)

## INSOLVENCY AND CORPORATE RESTRUCTURING PRACTICE BOARD

### Problems faced by Special Administrators (SAs)

Although a Special Administrator is an independent person, he is subject to the guidance of Pengurusan Danaharta Nasional Berhad. A potential conflict of interest arises in that Danaharta is the loan holder, but at the same time gives guidance to SAs.

The Board meeting further discussed the absence of a specific provision in the Act on SA's duty to Danaharta. It appears that the Act does not provide any indemnity to SAs who were acting under the direction of Danaharta. As such, the Board felt that any directives by Danaharta ought to be put

in writing.

The Board will at its next meeting discuss further problems encountered by SAs in carrying out duties pursuant to the Act before any further action is taken.

### Insolvency Practice Discussion Group

The Board agreed to hold informal discussion sessions which are opened to general membership after every Board meeting this year to provide a platform for insolvency practitioners to meet and discuss issues encountered by them in the course of their duties.

Members are encouraged to attend the Discussion Group, which has been set at

**2.30 pm** on the following dates :

14 March 2000  
9 May 2000  
11 July 2000  
12 September 2000  
14 November 2000

The Discussion Group meetings will be held at :

Malaysian Institute of Accountants  
Dewan Akauntan,  
No 2, Jalan Tun Sambanthan 3,  
Brickfields, 50470 Kuala Lumpur  
Contact persons : Ms. Winnie Hong  
or Ms. Shan (03-2274 5055)

# YOUNG ACCOUNTANTS CONVENTION 2000

## 'LIVING THE CUTTING EDGE'



**W**e're not going to teach

you to rock-climb. But you will definitely learn to climb toward the top of the corporate ladder during the Young Accountants Convention 2000 - YAC2000 - to be held in March.

The YAC2000 will see the Institute emphasising

the importance of you possessing the right skills and aptitude to rise above challenges that awaits you along your career paths to become captains of industries in the new millennium.

Attending the YAC2000 will have you focus on people management skills to help you enhance your careers, with topic touching on self-development, harnessing Information Technology (IT) and strategy planning.

A convention with a difference, YAC2000 is breaking away from just holding the traditional sit-in Professional Development conference (PD), with games and outdoor activities aimed at

building and strengthening team spirit. Those who

are not in too good a shape - have no fear! As we had said before, we might make you move around a little - but we're not going to make you rock-climb!

Take the time to join us on 24 - 25 March 2000, at Bangi Equatorial Resort, not just to earn your CPD points, but to brush up on your 'other skills' such as Latin dancing, for mingling with high society, or even for a laugh. And maybe even show them off immediately at the convention dinner and dance, cum fashion extravaganza.

So if you are a MIA member, aged between 25 and 40, who prefers topics which would help you develop your career, instead of topics catered to more matured accountants currently featured in the Institute's PD programmes - make a date with MIA and sign up for the YAC2000 today!

However, those who still feel young at heart and are interested to learn something new are most welcomed to sign up for the programme. Competitively priced with savings of up to RM 740 - it's an event not to be missed!

For more information, call the Institute's Professional Development Dept at 03-2274 5055.

