

## *Welcome to Akauntan Nasional*

Currently the Akauntan Nasional, the monthly journal of the Malaysian Institute of Accountants have a circulation of 24,000 copies nationwide. We are proud of the journal's evolution over the years and the facelift that it has gone through. We aim for more improvement and excellence, in order to provide the best news and information for our members and subscribers. The latest issue to be published is Volume 12, Number 5; May 1999.

### *Editorial*

May is another exciting month for the Institute, as on the 18 and 19 of the month, the National Credit Management Conference takes place at the Shangri-la Hotel, Kuala Lumpur. The title of the conference is "The Lessons of the 1990s - Credit Where Credit Is Due". This conference is in line with the prevalent sentiment - the birth of a new millenium. Hence this year being the end of the 20th Century, the objective of this conference is to review the critical lessons on Credit and Debt Management as a fundamental and major role towards corporate recovery.

In order to prepare members of the Institute to this important conference, Akauntan Nasional features two interesting articles, namely, "Does Cash Matter?", a research done by Radziah Abdul Latiff and "Managing Risks in Banks" by Joseph Eby Ruin. The former dwells upon the availability of cash and the mechanism of money. This research is funded by Malaysian Accountancy Research and Education Foundation (MAREF), whose objective is the betterment of education and the accountancy profession. Along with this, the article by Joseph Eby gives a good insight of risk management in the business world.

Meanwhile the President of the Intitute talks about the urgency of the need to introduce Judicial Management in Malaysia. There are many benefits that the public in general and the business community in particular could enjoy from the introduction of Judicial Management in the country. One of the benefits is the preservation of the status quo of the affected company and the maintenance of the employees whilst the viability of the entity is evaluated. Thus the Institute feels that it is paramount to introduce and implement Judicial Management in Malaysia as it will promote good business practice and better returns of investments.

We do think that this month's Akauntan Nasional has much to offer to the readers. We have two letters from readers, which we welcome and thank with appreciation. Having said that we invite more feedback and mails from readers. We assure you, our readers, that we will respond promptly to all mails forwarded and we always look for ways to improve the journal.

Hope you have a pleasant and interesting read of the journal. We bid you a good month ahead.

## The Importance of Cash Flow Statements

The cash flow statement is an important financial statement that could supplement the ubiquitous balance sheet and profit and loss account. The historical cash flow statement is capable of showing changes in an organisation's financial position. This statement shows real movements of cash as opposed to the accrual-based profit and loss account.

Mr Woon Chin Chan highlighted the importance of preparing cash flow statements in a recent Malaysian Institute of Accountants (MIA) seminar. The seminar, entitled *Preparation & Presentation of Cash Flow Statements*, also enlightened about 30 participants on how to prepare professional cash flow statements.

To get participants in the groove, Woon delved upon the origins of the cash flow statement. According to Woon, the cash flow statement is actually a successor to the fund flow statement. Most countries including the United States, the United Kingdom, Australia and Malaysia decided to adopt the cash flow statement in place of the fund flow statement a few years ago.

The fund flow statement had several limitations as a method of presenting changes in financial position. Woon said that the fund flow statement does not provide any new incremental information since it is derived from the balance sheet. Furthermore, the fund flow statement is usually laden with accounting jargons like working capital that most ordinary people do not understand.

“As opposed to the fund flow statement, the cash flow statement provides a more objective assessment of an enterprise's ability to generate cash and cash equivalents to meet its obligations to stakeholders. The cash flow statement examines how cash is actually generated and used for a certain period of time. In comparison, the fund flow statement looks at the source and application of funds as well as working capital on an accrual basis,” said Woon.

“Since historical cash flow statements are prepared for external consumption, the element of uniformity must be inherent in such statements. In comparison, cash flow forecasts and projections do not need a high level of harmonisation since they are utilised for internal reporting. In view of this, accountants need to follow their respective countries' standards in preparing historical cash flow statements to ensure uniformity.”

“According to IASC standards, a cash flow statement should have three headings including cash flows from operating activities, cash flows from investing activities and cash flows from financing activities. Cash flows from operating activities would include payment to creditors and receipts from customers,” said Wong

“Operating activities are the principal revenue-producing activities of the enterprises and other activities that are not investing or financing activities. Investing activities are the acquisition and disposal of long-term assets and other investments. While financing activities are activities that result in changes in the size and composition the equity capital and borrowings of the enterprise.”

According to Woon, there are two ways to prepare the cash flow from operating activities portion of the cash flow statement. “You can use the direct or indirect method to find out the net cash flow from operating activities. The direct method requires you to look for information in cash receipt and cash payment records. This method is quite tedious and time consuming as you have to gather information that might not be readily available,” said Woon.

“Using the indirect method, one can obtain the total cash receipt and payment figures by using the profit and loss account. These figures can be obtained by reconciling profit and loss account items like opening account receivable, sales, closing accounts receivable, cost of goods sold, opening inventory and closing inventory. Personally, I find that the indirect method offers a higher level of convenience relative to the direct method.”

Woon gave a demonstration of how to prepare a cash flow statement using both indirect and direct methods. He showed participants how to extract information from the profit and loss account and balance sheet when preparing a cash flow statement. To give participants a feel of preparing cash flow statements, Woon asked them to try out some cash flow exercises during the seminar. He also lent a helpful hand to participants who had problems completing the questions given.

## THE ROLES OF INTERNAL AUDITORS IN ENHANCING CORPORATE GOVERNANCE STANDARDS

At the recent Internal Audit Conference, Dato' Megat Najmuddin Khas presented a very interesting discussion paper on corporate governance. The paper entitled *Corporate Governance — Emerging Roles for Internal Auditors* looked at the importance roles that internal auditors have to play today in enhancing corporate governance standards. Megat Najmuddin is the president of the Federation of Public-Listed Companies and Malaysian Institute of Corporate Governance.

In today's trying economic conditions, it is crucial for Malaysian organisations to adhere to high corporate governance standards in order to survive. In addition, the uplifting of local corporate governance standards will also contribute towards the restoration of foreign and local investor confidence.

Megat Najmuddin got the ball rolling by giving a concise definition of what corporate governance is all about. According to Megat Najmuddin, corporate governance is a system on how an enterprise is governed and controlled. "It comprises the internal and external of the enterprise, management accountability of its authority and agency through an effective internal control system and legislation, and market control for disclosure of corporate information and transparency of the company's affair" said Megat Najmuddin.

"In the corporate sector, the prime responsibility for corporate governance lies with the board of directors and management. The observance of corporate focuses on the quality of the board as a whole collectively accountable to shareholders and stakeholders with diligence and care, and duty of compliance with relevant legislation to ensure upholding of fiduciary duty for best standards of corporate governance practices."

Megat Najmuddin said that corporate governance is mainly about accountability and transparency. "It is about how the board and management entrusted with the conduct of a company's affairs are held accountable to its shareholders and stakeholders, and the board control mechanism that should be put in place to underpin accountability," said Megat Najmuddin.

"It is also about how the enterprise presents itself transparently to the wider world outside the organisation — to shareholders, potential investors, employees, regulators and other interest groups with a legitimate interest in its affairs. As you are aware, disclosure is about internal stewardship and control, and the emphasis on the company's approach to promote the development of the best practices on corporate governance."

Megat Najmuddin mentioned that internal auditors can play an important role in uplifting corporate governance standards. "Good internal control is a prerequisite for effective corporate governance and management. The recent waves of massive corporate failures reflect a lack of this, resulting in an awareness of greater need for proper stewardship of enterprise and effective corporate governance," he said.

"I am convinced that internal auditors are well positioned to exert a greater role within the organisation to support all initiatives for corporate governance practices on ongoing activities of the company that require them to review the organisation from the top as well as analyse the structure of internal control processes which cut across the whole spectrum of the organisation.

Internal auditors should be expected to widen their roles and enhance their array of expertise in dealing with complex issues of company transactions and changing control environment.”

“For corporate governance to be effective, I believe it simply has to be a way of corporate life and should be placed in the context of corporate practices on social responsibility and environmental practices, delegation versus real empowerment, risk management and control as well as disclosure and transparency of financial information. This is where I would say an effective business requires an effective management structure and systems to underpin the direction, implementation and accountability of the board for their decision-making process,” he added.

At the end of his presentation, Megat Najmuddin reiterated that internal auditors have crucial roles to play in uplifting corporate governance standards. “In conclusion, I would stress that the internal auditors’ role in enhancing corporate governance is indispensable. A good system of internal control which promotes high standards of corporate governance is beneficial for all companies and the country’s economy as a whole. With our corporate governance standards uplifted, it would be easier for companies to raise funds during the current hard times and thereby enhance the dynamism of our economy.”

## IT in Auditing

According to Mr. Woon Tai Hai, there is a need for auditors to keep up with the latest developments in information technology (IT) in order to setup an effective security and protection mechanism for information systems. Woon said this when he presented a discussion paper entitled *IT in Auditing* at the recent Internal Audit Conference. Woon, who has vast experience in the field of information technology, is currently the Director of KPMG Consulting's Enabling Technologies division.

Woon divided his presentation into three main segments — an overview of information security, Internet information security as well as LAN & WAN information security. His overview of information security touched upon the core essentials of security and protection for information systems.

According to Woon, accounting system data is one of a company's most important assets. "Organisations should be aware that accounting system data contains a lot of confidential and valuable information. Surprisingly, many companies are not taking proper steps to safeguard and protect their accounting systems," said Woon.

Woon said that various elements of an organisation's accounting system are vulnerable to human abuses and natural failures. These elements include the hardware itself, communication channels, information, media, working files, documentation and reference materials.

In order to protect these various elements from abuses and failures, organisations have to establish an effective security and protection framework. "This security framework should be able to deal with a wide range of problems that can affect the organisation's information system. The organisation's security framework should encourage effective data back-up, change control management, virus detection and software piracy control," said Woon.

"More often than not, organisations fail to back up essential information. While others fail to test their recovery process adequately, resulting in an inability to restore backed-up data within an acceptable recovery window. Organisations also need to put in place effective mechanisms to manage major changes in information systems. An effective change control management would incorporate proper monitoring tools, procedures and project management," said Woon.

"Virus attacks can cause havoc on information systems that are not well protected. To establish an effective virus detection mechanism, we need to scan data on a regular basis, use up-to-date virus scanners and prevent unauthorised software installations. Moreover, unauthorised software installations may also give rise to software piracy problems. Thus, we have to enact policies to ensure that all users comply with existing anti-piracy regulations."

Woon said that security is not an inherent feature of the Internet. In view of this, organisations need to protect their external networks from Internet-related risks. "To prevent Internet security breaches from occurring, we have to put up firewalls. Firewalls are logical barriers that provide some protection for information from the Internet," said Woon.

Woon also urged organisations to ensure security and data integrity for their Local Area Networks (LANs) and Wide Area Networks (WANs). "Today, the network has become the backbone of the organisation. They need to have an effective management and control mechanism to ensure high enterprise-wide network and platform availability as well as preserve the integrity and confidentiality of data," added Woon.

## **LETTER TO THE EDITOR**

### **COMMENTS ON THE ARTICLE ENTITLED “IS IT THE PROFESSIONAL DUTY OF AN ACCOUNTANT TO EXPOSE CORRUPTION” BY JOHN GRUNER, DIRECTOR GENERAL, THE INTERNATIONAL FEDERATION OF ACCOUNTANTS.**

I think it is the professional duty of the accountant to expose corruption. True enough, when I exposed the corruption of directors in my company, I suffered loss of employment and reputation. There is no legal protection for accountants when they speak in good faith.

During this difficult period, to find a job is not an easy task. I realised this when I attended interviews, where questions were put forward to me as to the reason I left my previous employment. Obviously, the truth was not acceptable. An employer rather want an accountant who would not speak out on issues of corruption.

Thus at the moment, I think it is wise of a sensible accountant to ignore any corruption in his organisation, if he wants to keep his job. The other alternative will be to seek employment in another company if he wants to avoid any unpleasant situation. If an accountant wants to carry out his professional duty and expose corruption, then he must be willing to face the consequences that arises from his action. This is the reality of today’s business world.

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Sent in by : Lee Chin Kian  
Membership no : 7777

## **LETTER TO THE EDITOR**

### **SUGGESTION TO HAVE A SEGMENT ON Q & A.**

First of all, I would like to congratulate the editorial team for making the journal more informative, reader friendly and proactive.

It would help the students as well the practising members if we have a segment on Q & A regarding the accountancy profession related topics. This would definitely clear the air for ambiguous matters especially in taxation and best practices. It is best that we have our own forum to discuss areas specifically applicable to our country. The magazine can be a platform for cultivating local think-tanks.

I hope the editor will consider my suggestion.

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E-mail by : Thoong Lay Ting  
Student no : 0253027

## Malaysian Accountants for the 21st Century

Seminar conducted by **Encik Ahmad Mustapha Ghazali** (Council Member: MIA)  
University Putra Malaysia: National Accountancy Undergraduate Seminar.

The National Undergraduate Accountancy Seminar for 1999 opened with an introductory seminar by Encik Ahmad Mustapha Ghazali, council member for the Malaysian Institute of Accountants and Managing Director of accountancy firm Kassim Chan/Deloitte Touche.

The topic of Mustapha's seminar was the role of the accountant in the 21st century. He began by reminiscing his days as a student before embarking on his career as an accountant in a small firm. After a few years, he opened his own firm before later joining Kassim Chair. He spoke passionately to the undergraduates present at the seminar of the need to approach life positively and to proceed with as much determination as one could muster. With this background, Mustapha then spoke of his perception of the challenges ahead for those accountants entering the 21st Century.

Mustapha emphasised the rapidly changing nature of the business environment. He warned that the accounting profession needed to respond to the challenges brought about by these changes or lose credibility. Mustapha went on to describe these changes as a consequence of the globalisation of the business scene and included the emergence of strategic economic and trade alliances and the rapid improvements in communication and information technology. Mustapha also noted the contrast between the current business environment and that which existed since the early 1970s.

In recognising the changing business environment, Mustapha went on to describe the broad role of accounting in this new environment. Accountants must now deal with accounting standards that transcend political boundaries, and assume a responsibility beyond that of merely financial reporting.

In meeting these challenges, Mustapha went on to describe the attributes of today's accountant. A number were described and included:

- entrepreneurial skills
- financial analysis
- skilled salesperson
- a good communicator and negotiator
- a public relations skills
- a strategist

amongst many others. Mustapha entertained the participants in the seminar with a number of examples to illustrate his points.

Mustapha explained in depth the specific nature of these skills and how they could be obtained. Of special interest to the participants was Mustapha's description of the intellectual skills needed by today's accountant. These included the means to solve complex problems using creative techniques, and the skills of delegating responsibility. Interpersonal skills were not neglected by Mustapha, and he made a significant point on the need to recognise the human needs of understanding, sympathy, empathy, compassion and respect.

In outlining the specific knowledge needed by today's accountants, Mustapha emphasised the need for an understanding of group dynamics in business. He argued that it is not enough to have a strong fundamental understanding of business and auditing, but that the national and international business forces need also to be understood. Mustapha went on to explain that the modern accountant needs to have a knowledge of organisational practice and the advantages of information technology (IT).

In assisting students to acquire these skills and knowledge, Mustapha went on to explain that they need to learn *how to learn*. The focus should be on generic IT skills that can be applied across many domains rather than specific skills such as accounting standards and financial statements. Mustapha then focussed on educational institutions arguing that they should not be concerned with merely preparing students for examinations, but that they should teach students the strategies of effective learning.

Mustapha concluded a highly informative and entertaining seminar with a challenge to today's accountants, and to those reaching the end of their time as a student, that the key to success will be found in being adaptable and being able to continue to learn. The business world is moving at an ever increasing pace, and the accountant today must be able to solve problems rather than merely report. He reminded the participants of the role MIA plays in ensuring accountants are kept abreast of the developments and skills.

Questions by the students were answered with enthusiasm by Mustapha. One of the questions was whether it is wise to go into a big firm or a small firm once one graduates. Mustapha explained that from his experience, it does not really matter whether a fresh graduate starts of in a small firm or a giant. It is paramount that a graduate should go into an employment with an open mind and to learn the trait of the profession. This is a good advise that every graduate should keep in mind.

## National Accountancy Undergraduate Seminar '99

Malaysian Institute of Accountants (MIA), in collaboration with University Putra Malaysia (UPM), recently organised a four-day seminar to prepare accountancy undergraduates for challenges in the corporate world. The National Accountancy Undergraduate Seminar (NAUS) 1999 managed to draw a huge crowd of accountancy undergraduates from various local universities, who converged at UPM's campus in Serdang.

The four-day seminar did a great job at enlightening undergraduates on various aspects of the accountancy profession. The NAUS 1999 incorporated a mix of seminars, forums and inter-visibility debates to keep participants informed of the latest developments in the profession.

Various accountancy bodies including the Institute also set up exhibition booths during the event to attend to enquiries from undergraduates. Most of the participants who visited the MIA exhibition booth were curious to know what are the qualifications and working experience needed to become a professional accountant.

The Institute was honoured to have Deputy Education Minister Datuk Fong Chan Onn to officiate the opening ceremony of NAUS 1999. In his speech, Fong said that the Ministry of Education encourages projects like NAUS 1999 as such projects will help undergraduates face impending challenges in the working environment. He added that NAUS 1999 gives accountancy undergraduates a chance to meet up with representatives from various professional accountancy bodies and share knowledge.

The Institute's council member Mr. Daniel Chian, in his welcome address, said that accountants must be prepared to face imminent challenges in the profession. "Without doubt as the new millennium approaches, the accountancy profession will face many challenges ahead. We always have to keep up and change quickly with the rapid global environment and make plans and implement actions we can be proud of," Chian said.

"Hence, projects such as the National Accountancy Undergraduate Seminar are thoroughly welcomed and encouraged by the Institute as an eye opener and prepare the accountancy undergraduates to the possible challenges that are ahead of them."

"Malaysian Institute of Accountants encourages the graduates of accountancy degrees from local recognised universities to join the Institute as members. In Malaysia, one has to be a member of MIA to practise as accountant. As at March 1999, the Institute has 12369 members. The Institute projects a need of 60000 accountants by year 2020," he added.

"So we urge all future graduates in accountancy degree from local universities to join the Institute once they have three years of relevant working experience. We also feel that accountancy graduates should practise in the field of accountancy and not divert to other vocations."

"Graduates should also realise that the Government is spending large sum of money in training accountancy students to be accountants or auditors. We also urge students not to be lured by greed and forsake the accountancy profession by accepting other jobs, which are non-relevant even though they may pay more initially," said Chian.

"Therefore I would say that this project is rather auspicious as it is in time with the simultaneous graduation of accountancy undergraduates of two sessions from various universities in the coun-

try. As our youth who are the future leaders of the nation, the undergraduates should equip themselves with the essential communication skills and other knowledge which may prove to be useful for them.”