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Akauntan Nasional

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A big event last month was the Annual Budget 2000 Dialogue Session of the Ministry of Finance. The theme was “Sustaining Recovery and Reinvigorating Economic Growth and Strengthening National Competitiveness.”

The theme could not have been more apt, coming at a time when encouraging signs of economic recovery have emerged. Rising external reserves have strengthened the country’s economic resilience, while investor and consumer confidence have gradually returned. The stock market has seen its worst and sentiments have improved over the months. These are only a sampling of the positive news that have so far emerged.

Meanwhile, several international organisations, research houses and ratings agencies, as well as foreign banks in Malaysia have re-rated upwards Malaysia’s economic outlook. On the domestic front, the Malaysian Institute of Economic Research has also revised upwards its economic growth forecast to 1.8 per cent in 1999 and 4.3 per cent in 2000.

The Institute concurs with such a reassessment of the country’s economic prospects. “We believe our economy can do much better than 1 per cent this year. As for the year 2000, the economic outlook is expected to improve further, with a 4 per cent - 5 per cent growth within reach, barring major shocks,” YBhg Dato’ Hanifah predicted in this issue.

The Institute, as a partner in nation-building, made numerous policy recommendations at the abovementioned Budget Dialogue. This issue carries the Executive Summary of the Institute’s Memorandum, which covered issues ranging from macro-economic policies to foreign direct investment and human capital formation.

In this issue too, there is a broad selection of informative, pragmatic and thought-provoking feature articles to suit the diverse needs of readers. Many are bound to find great value in understanding the concept of accounting as value creator. The articles dealing with the issues of “loophole mining” of existing tax legislation and corporate governance mechanism for safeguarding investors are particularly relevant for our times. Another article highlights the business environmental risks which risk-driven internal auditors should be aware of, and the need for an effective and well-equipped information infrastructure.

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The *Akauntan Nasional* welcomes original and previously unpublished contributions which are of interest to accountants, executives and scholars.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. Manuscripts should be submitted in English or Bahasa Malaysia and range from 3,000 to 10,000 words (about 10-24 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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The functions of the Institute are, inter alia :

- (a) To regulate the practice of the accountancy profession in Malaysia;
- (b) To promote in any manner it thinks fit, the interests of the accountancy profession in Malaysia;
- (c) 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
- (d) To determine the qualifications of persons for admission as members.

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On The Road To Recovery



We believe our economy can do much better than 1 per cent this year. As for the year 2000, the economic outlook is expected to improve further, with a 4 per cent-5 per cent growth within reach, barring major shocks.

The Malaysian economy has shown encouraging signs since early this year. In particular, the contraction in the real Gross Domestic Product fell sharply to -1.3 per cent during the first quarter of 1999, from a dismal -10.3 per cent in the final quarter of last year.

Several other economic indicators suggest the Malaysian economy has bottomed out and is on the path towards a gradual recovery. These indicators include the following :

- Rising external reserves (US\$31.3 billion as at mid-June 1999, sufficient to finance 6.9 months of retained imports).
- Increasing trade surplus (RM28.2 billion during January-May 1999).
- Approved foreign manufacturing investment accounted for 84 per cent or RM6.4 billion during January-May 1999 (50 per cent or RM13 billion in 1998, slightly higher than the RM12.8 billion in 1997).
- Low inflation (2.9 per cent in April-May 1999).
- Improved liquidity in the banking system (RM50.9 billion at end-March 1999, compared with RM37 billion at end-December 1998).
- Higher Kuala Lumpur Stock Exchange Composite Index (over 200 per cent increase to 829.77 on 22 July 1999 from 262.70 on 1 September 1998).
- Lower interest rates are aiding the business community (weighted average 3-month Klibor fell markedly from 7.8 per cent to 3.3 per cent between September 1998 and June 1999, while the average base lending rate of commercial banks dropped from 8.9 per cent to 7.24 per cent).
- Several international financial organisations, ratings agencies and research houses, as well as foreign banks and

multinational corporations in Malaysia, have re-rated upwards Malaysia's economic prospects.

Nevertheless, the government has maintained a conservative stance by sticking to its 1 per cent economic growth forecast for this year. We believe our economy can do much better than 1 per cent this year. As for the year 2000, the economic outlook is expected to improve further, with a 4 per cent - 5 per cent growth within reach, barring major shocks.

Against this backdrop, there is no reason why Malaysia should not be an attractive destination for foreign investors. Its improving socio-economic infrastructure is well-suited to meet the demands of the future. The literacy rate is very high, with the English language widely spoken among Malaysians. The workforce is industrious and the country has abundant natural resources.

Furthermore, the Malaysian government has been consistently pro-business and flexible through the years. It warmly welcomes genuine foreign direct investment. This is reflected, for example, in its liberalisation of the equity policy for the manufacturing sector last year. Specifically, the 30 per cent limit imposed on foreign ownership of certain domestically-based activities and approved activities in the Multimedia Super Corridor was relaxed. Foreigners were also permitted greater opportunities to own properties in the country. Added to these are other attractive incentives, ranging from pioneer status to reinvestment allowance and incentives for operational headquarters located in Malaysia.

To be sure, the government's macro-economic policies are geared towards restoring the private sector to its rightful place, i.e. as the country's engine of growth. This explains why, for example, the monetary policy was relaxed and

much liquidity was injected into the banking system. The resultant low interest rates have greatly facilitated the recovery in the business community. Furthermore, the establishment of the National Economic Action Council is proving to be helpful in setting the Malaysian economy on the path towards a strong and sustainable economic recovery.

The selective exchange control measures have also helped to promote economic and financial stability. This has brought much relief to businesses, which had previously been severely crippled by uncertainty in the financial and real sectors. They can now invest and plan their businesses with greater certainty and confidence.

Several other policies have been put in place, which will contribute to building investor confidence. This is reflected, for example, in the Securities Commission's move towards the full disclosure-based regime in the capital market by the year 2001, and the recent implementation of the Institutional Settlement Service by the Kuala Lumpur Stock Exchange to facilitate the direct trade settlement between institutional investors and the clearing house. In March this year, the government also released the Report on Corporate Governance, containing about 70 recommendations aimed at boosting investor confidence.

Two other reasons beckon the attention of foreign investors, i.e. the ringgit and sentiments in the regional economies. The ringgit, which was fixed at 3.80 to the US dollar, has helped to boost the nation's external reserves. Foreign investors can take comfort in this indisputable fact, i.e. the external reserves position of Malaysia

has strengthened considerably.

More than that, foreign investors should realise that they will lose a golden opportunity to invest in Malaysia at an exchange rate perceived by many to be undervalued. In other words, investment in Malaysia is at an attractive discount. Therefore, the time to invest in Malaysia cannot be more opportune than now.

In addition, sentiments in the regional economies have improved since the height of the Asian financial crisis. Therefore, there is no reason why Malaysia should be different and not keep pace with the positive developments around the region. Foreign investors scouting for opportunities in this region should not be unduly influenced by negative foreign reports, but should see for themselves the inherent strengths of the Malaysian economy.

Insofar as the Institute is concerned, we share the concerns of our government in wanting a healthy and vibrant Malaysian economy. We would like to view ourselves as a partner in nation-building. In fulfilling this role, the Institute has responded to the government's invitation to submit a Memorandum to the Ministry of Finance in conjunction with its Annual Budget 2000 Dialogue Session.

In line with this year's theme, "Sustaining Recovery and Reinvigorating Economic Growth and Strengthening National Competitiveness", the Institute put forth several policy recommendations to the government recently (see Executive Summary on pp. 32-34). We sincerely hope that the government will give due consideration to our proposals, which we believe will further enhance the socio-economic well-being of our country.

More than that, foreign investors should realise that they will lose a golden opportunity to invest in Malaysia at an exchange rate perceived by many to be undervalued.

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Feature

FMAC of IFAC Year 1999 Theme Booklet — The Role of Management Accounting in Creating Value

The Financial and Management Accounting Committee (FMAC) of 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 employers 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 multinationals, small or medium-sized organisations.

Dr Mohammad Adam Bakar and Pn Ainun Hj. Abdul Majid’s article entitled “Towards a Concept of Accounting as Value Creator : Issues, Possibilities and Ways Forward” was selected from a pool of international submissions and published in this booklet. This booklet has been widely disseminated internationally, especially to IFAC member bodies of which to-date total 143 bodies. In this respect, the Institute would like to take this opportunity to congratulate the authors for their effort in putting Malaysia on the “management accounting map”.

Towards a Concept of Accounting as Value Creator : Issues, Possibilities and Way Forward

By Assoc. Prof. Dr. Mohammad Adam Bakar and Pn. Ainun Haji Abdul Majid (Lecturer) from the Accounting Department, Faculty of Business Management, Universiti Kebangsaan Malaysia

Abstract

This article seeks to present arguments that traditional ways of viewing accounting as existing to perform score-keeping, attention-directing, and problem-solving roles is neither helpful in elevating its position nor useful in enhancing its importance in organisational functioning. We would like to suggest that for accounting to be relevant and its roles to be better appreciated, research and reform efforts done in accounting must not be made in the name of improving or illuminating services it renders or in carrying out those functions. Rather, we contend accounting can be more dominant and its contribution can be better valued, if it is viewed from the perspective of its contribution in enhancing value of the organisation through stakeholders value creation.

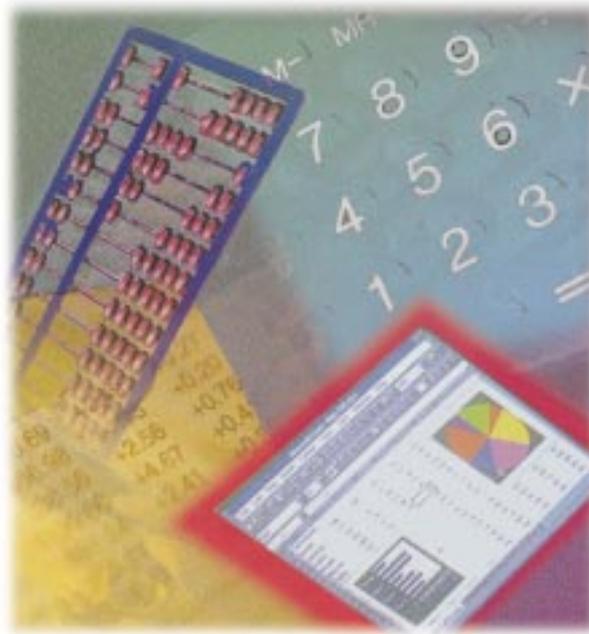
The wider role of accounting is that of creating and enhancing the value organisations through shareholders', managers', and customers' value creation.

Introduction

The standard normative prescription of accounting presumes that it carries out score-keeping, attention-directing, and problem-solving roles. Its main preoccupations were related to the provision of information on costs and (financial) benefits of organisational actions, the setting of financial standards and norms, the representations and reporting of organisational performance, and the planning and control of resources. Research and reforms carried out in accounting were designed to facilitate activities in furtherance of economic rationale for action. Insights provided are frequently used to form a basis to fine-tune the technology and practice of accounting — to improve the efficiency of its services and to enhance its organisational effectiveness. Accountants are mere information providers and seldom (if ever) directly involved in decision-making processes of organisations. In fact, what gives accounting its *raison d'être* is its ability to offer a particular economic reality of organisational activities and outcomes (cf. Raun, 1961; Golembiewski, 1964; Gandhi, 1976; Hopwood, 1983).

This view of accounting has been criticised as being outdated, narrow in interpretation, and shallow in perspective. It tells little about the organisational nature of accounting and in some ways, put forth a view of accounting that is what it is not and can become what it was not. By being concerned only with costs and benefit assessments, standards and norm-setting, performance reporting, and resource planning and control, accounting was able to create only an economic visibility of the functioning of a modern organisation. But such a visibility is rather technical and views accounting in a rather uninvolved manner. Accounting is seen as simple, its phenomenon taken for granted and accounting issues assumed to be non-problematic. Accounting, it seems, is a relatively independent art and existed rather detached from the context in which it operates (Hopwood, 1983; Kaplan, 1984; Burchell et al., 1980).

Recognising the need to incorporate the wider roles that accounting plays, researchers and accounting reformers are urged to adopt a new approach that views accounting from more holistic and process-wide viewpoints. They must aim to understand meanings given to accounting in the settings in which



accounting exists. They must also change their focus — from regarding accounting as a passive phenomenon to one that is in itself actively involved in shaping, moulding, and even playing a role in the construction of the setting of which it forms a part. It is only by doing so that insights provided can shift our attention away from the focus on technicalities — the often functionalist presumptions of the earlier analysis and the theoretical stance, which failed to highlight the broader understanding of accounting in practice and what might be at stake in the accounting endeavour (Burchell et al.,

1980; Hopwood, 1983, 1990; Berry et al., 1985).

However, this latter view of accounting, to a large extent, is also concerned with the origins of the accounting functions — score-keeping, attention-directing, and problem-solving. We felt that research and reform efforts carried out under the new approach were still dominated by concerns of accountants to enhance the effectiveness of these roles based on values they espoused. We contend that such a stance is still inward-looking, internally motivated, and self-reflecting because it uses criteria set by accountants themselves. It gives an impression that those (research and reform) efforts are designed by accountants to give them legitimacy of existence and reinforces the (traditional) roles assigned to it. Further, such efforts undervalue the larger role accounting must perform in providing the institutional framework for organisational activities. What is needed, we believe, is to view the role of accounting beyond its own domain. We need to adopt a new perspective, which looks at the roles of accounting from the outside and uses values set by other organisational participants for accountants to meet.

Accounting and Value Creation : The Issue

We want to propose that the wider role of accounting is that of creating and enhancing the value organisations through shareholders', managers', and customers' value creation. Besides encompassing and superseding its traditional functions, the value-creation role will give accounting a wider and more external and dominant outlook befitting its position as an (if not the most) important input to decision-making.

Boland & Pondy (1983) is one of the earliest works to capture both the technical and dynamic nature accounting. Based on Scott's (1981) reviews of the development of organisation theory in this century, they drew out issues from two case studies. The first was the process of budgeting in an American university and the second, a research to study the roles that accounting analysis plays in a decision to close a school. The university budgeting was carried out in a climate of financial constraints caused by a declining student population and reduced state funding. The decision to close the school, in the second case, was done in response of declining enrolment. From the analysis, they concluded that enough evidence to suggest that accounting possesses a dual feature — the rational and the natural. Other researchers on the same issue such as those by Berry et al (1985), Ansari & Euske (1987), Ansari & Bell, (1989) and Covalleski & Dirsmith (1988) supported Boland & Pondy's analysis.

A common feature of these studies is that they attempt to understand accounting in action. They focused on accounting practices and are concerned with trying to understand the rationale for action of participants and the role accounting plays in facilitating them. Their analyses show that, in its rational state, accounting defines economic realities of organisational actions, thus fulfilling its constitutive 'given' roles — score-keeping, attention-directing, and problem-solving. At the same time, its natural feature allows accounting to provide a common language defining what is real, dignifying certain questions as important and stopping others as inappropriate or irrelevant. Its natural form also establishes a system to define new frames of reference, frameworks for an adaptation to external and internal environments, and unwritten rules to regulate the allocation and use of scarce resources.

An important feature of their findings is the demonstration that the usefulness and the nature of use of accounting information relies not on how the best accountants want accounting to be. Rather, it depends on how the recipients of the information intend to use it, and even what parts of it. In other words, accounting information is defined as meaningful only within a specific context and only by those who consider that the information adds value to a decision they are making. It is for these reasons that we feel value-creation aspects accounting should be the focus and should be emphasised as the new concept to understand the wider role of accounting in organisational functioning.

Accounting and Value Creation : The Possibilities

A new approach is thus needed to focus on the positive, value-creation aspects of accounting, and to emphasise it as the wider role of accounting. A new perspective and perhaps a new language are also required to provide understanding of it. This is because conceptualising accounting as a creator of value is somewhat different from viewing them from the score-keeping, attention-directing, and problem-solving perspectives. Even though it is recognised that each of these roles creates value, each limits accounting to a particular area of activity, and in so doing, loses sight of the core responsibility – to create value for the collectivities.

In the quest for new ways to establish a competitive edge, organisations employ various efforts to create and enhance their economic values. Conceptually, economic value added (EVA), shareholders value added (SVA), and economic value creation (EVC) are concepts that refer to similar principles. Armitage & Jog (1996) view them as frameworks, which represent ways to link strategic decisions at senior level with the operational drivers used by frontline managers and employees. These concepts are used both as principles to value companies and as valuation tools to improve decision-making throughout the organisation. Others such as Jancsurak (1998) describe the concept as "that value which customers perceived as something worth paying for", whilst Bughin & Copeland (1997) defined them as "values created for shareholders above normal expected levels of return". Rappaport (1998), on the other hand, explained value creation (in a merger situation) as the difference between post-merger value of the combined company and the sum of the stand-alone values of the buyer and the seller.

Four main questions must be asked and answered to highlight the roles of accounting in value creation.

First, how are values created?

One can advance a simple proposal to demonstrate the possibility of accounting in value creation. For instance, it is expected that, and this is a taken-for-granted assumption, accountants must provide timely and accurate information to decision-makers. Giving timely and accurate information, which enables its recipients to make good decisions, provides a service of great value to the organisation. More forcefully stated, by producing such information, accounting creates value that benefits managers,

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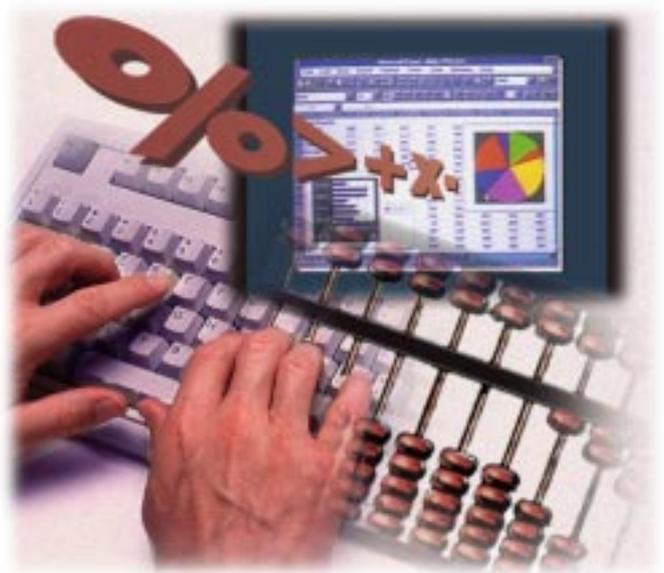
who in turn create further value to the organisation. In other words, by providing the framework within which decision-makers and other organisational members can create value, accounting creates a broader and more pervasive value for the organisation.

The types of value created by unit managers' actions can be related to enhancing value to shareholders and customers. In fact, creating stakeholders' value should be what all managers must be concerned with.

Second, in what ways and with what performance criteria can we measure value created in organisations?

The types of value created by unit managers' actions can be related to enhancing value to shareholders and customers. In fact, creating stakeholders' value should be what all managers must be concerned with. Bughin & Copeland (1997) argued that such a focus boosts productivity and liberates resources that benefit stakeholders of all kinds in the long-term. Jancsurak (1998) suggested that focusing on consumers will make them continue buying the products and enable firms to define their market niche. Goh & Pritula (1996) provided evidence that organisations can increase their market share when they are focused on activities that create value to shareholders and customers. Finally, Armitage & Jog (1996) highlighted cases to suggest that creating managerial value contributes in guiding their strategy and in monitoring their performance, which subsequently maximise shareholders' wealth.

A variety of value criteria have been suggested to be used as measures for shareholders' value creation. Bughin & Copeland (1997) used the above-normal expected levels of return, while Shiely (1996) employed the difference between market value of the firm and the capital invested in it. On the other hand, Goh & Pritula (1996) suggested the increase in value as a percentage of average common equity as the criterion, while Armitage & Jog (1996) calculated value created as the entity's net operating profit after tax (NOPAT) minus a charge for its use of capital.



Organisations will be able to gauge that their customer value creation activities (such as improving customer service and translating innovative technologies into products attractive to clients through the use of technology and human resources) are effective if they are able to maintain a competitive edge, as well as attract new and satisfy the needs of existing customers and consumers.

Several other criteria have been suggested to measure value created for customers. Langley & Holcomb (1992) and Holcomb (1994) proposed effectiveness, efficiency and differentiation criteria. They argued that for customer value to be created, their requirements in certain critical result areas must be met. These key result areas include product guarantee, availability (places, quality, quantity, and price), convenience of placing orders and length of order cycle, timeliness and consistency of delivery, completeness of shipments and market standing. Harker & Hunter (1995) suggested convenience in product delivery and access, precision in product functionality, cost effectiveness in the design of delivery capabilities, adaptability to market and customer needs, and penetration of customer markets and households.

Finally, since the responsibility to maximise shareholder value and to satisfy customer requirements rest with the managers and executives, their value too must be created and measured. Bickford (1990) suggested specific achievement of multi-year

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performance goals or a standard that is based on the relative value of the company's share, compared with shareholders' value in similar companies. Goh & Pritula (1996) proposed more specific criteria. The first is the increase of cost management skills (measured by the increase in the firms' economic value as a percentage of their average common equity). The second is based on their capabilities to combine hardware, network, and database capabilities to reduce costs and manage their businesses better. Finally, managers' value creation can be measured based on how well they adapt to a performance-oriented organisational culture that strives for profitable growth.

Third, what is the process through which organisational value can be created?

Hirst & Baxter (1993) suggested that there are three perspectives of information used. First, information is used as rational instruments (*instrumental perspective*) to improve decision quality. Normally, from this perspective, information is used to :

- a** provide answers about the consequences of adopting a particular course of action.
- b** learn (or reduce uncertainty) about a problem and its associated alternatives and outcomes.
- c** promote dialogue in circumstances where there is conflict over decision objectives.
- d** promote ideas (or trigger creativity) in ambiguous choice settings (Earl & Hopwood, 1980).

In contrast, information may be used in a political fashion — as ammunition to promote and perpetuate the preferences of powerful chosen participants. In this case, information is collected and presented selectively to shape or define problems and solutions to suit certain purpose(s) of the dominant group. This is labelled as a *strategic* perspective. Finally, the use of information may be construed from a *symbolic* perspective whereby a decision-maker uses information based on the meanings or the evocative qualities he or she attached to it and the decision situation. The chosen behaviour is to promote an image of rationality and neutrality.

Organisational value can thus be created if the information

Organisational value can thus be created if the information chosen enables managers to make better decisions which will eventually lead to enhanced customer value and finally to greater value created for shareholders.

chosen enables managers to make better decisions which will eventually lead to enhanced customer value and finally to greater value created for shareholders.

Preston (1986) found that the process of informing was two-fold. First, managers arrange to inform each other predominantly through interactions and formal reporting channels. Second, managers arrange to inform themselves through observation and keeping of personal records. This means that the more similar the information that managers receive to what they already have, the more effective the arrangement and the greater the chance that value will be created.

Fourth, how can accounting and the information it provides create value?

The possibility for accounting to create value is great indeed because the accounting system is able to command powerful attention in organisations. Vancil (1979) noted that this may be due to the ability of accounting to :

- a** provide a detailed set of rules for an organisation to impose on itself.
- b** aggregate activities of an organisation and express them in financial terms that facilitate comparison.
- c** mandate a reality containing data that are hard to ignore.
- d** make things visible so that managers can obtain new insights into their business. Swieringa & Wieck (1987) provided another reason, namely, the system initiates and sustains forceful actions.

Hopwood (1990) pointed out that accounting has great potential to create value because it can play a significant role in facilitating change processes in organisations. He argued that by creating a particular visibility in the organisation, accounting can make things visible that otherwise would not be. Records can even be kept of phenomena that can never be seen. For example, no one has ever perceived a cost or a profit. They are abstract and conceptual phenomena, creations of human intellect shaped by economic, social, and institutional forces. As Vancil (1979) put it,

“Breaking return on investment into its components of profitability and turnover can clarify the structure of profit and loss in operations. Essentially, accounting is a way of making things visible”.
 (Swieringa & Wieck, 1987, p.294)

Secondly, Hopwood argued, by functioning as a calculative practice, accounting is implicated in the 'objectification' of phenomena, making subjective and abstract concepts appear real and seemingly precise.

The combination of calculative and visibility elements of accounting can be a potent weapon for value creation. By being able to convert an idea to a fact, accounting can be used as a concrete

The combination of calculative and visibility elements of accounting can be a potent weapon for value creation. By being able to convert an idea to a fact, accounting can be used as a concrete instrument of organisational governance and control.

instrument of organisational governance and control. At the operational level, many activities can be brought into the calculative sphere. In doing so, new organisational interdependencies can be created, and couplings between accounting and other aspects of organisational life can be forged. Explicit inter-relationships can thus be established. Accounting data can now be used to control costs, identify problems, assess alternative ways of solving problems, and select and implement solutions. These initiatives put accounting and the information systems it creates into a strong position to be used as active participants and important instruments to articulate actions that create value for organisations.

At the more strategic level, accounting and its information systems can be used to reflect the practices of accountability. Roberts (1990) found that, at the strategic level, accounting was used to supplant the dominance of non-accounting logic, thereby giving it power to act as a source of discipline. Further, accounting provides a framework for top management to institute changes in the name of (economic) rationality. It also provides a framework for organisational members to be informed, to define and redefine their views of what is right and what is not, and finally to make their decisions. Perhaps this capability is the reason why a particular accounting control system could create a climate that works for and against both the successful formulation and the successful implementation of strategy. These observations suggest that accounting and the way its information system is designed are powerful mechanisms for value creation at the strategic level of the organisation.

Accounting and Value Creation : The Way Forward

So far, we have put a case for a new perspective of the scope of accounting in action, i.e. to create value for organisations. This value creation can be done through accounting if it provides an institutional framework, and if its information system is designed to give managers (the decision-makers) the informational input that can add value to decisions they make. Through such focusing, products produced and services rendered can satisfy customers' needs and demands. In so doing, accounting contributes positively to organisational profit and value, creating shareholder value.

How are these results possible? At the operational level, because accounting is able to integrate diverse requirements and to make organisational actions visible, accounting becomes a language for economic discourse. Its vocabulary can influence perceptions and infuse dialogue, thereby allowing alternative actions to be expressed. Its calculative capabilities further contribute by 'objectifying' and operationalising abstract phenomena. In all, these capabilities enable accounting to be involved in both the revelation and construction of new domains of economic activity, as well as their resultant value creation for organisations.

Technically, this means that accounting can be used to ensure purposive, rational, and goal-directed behaviour, as well as promoting consistency and co-ordinating organisational actions and processes (Preston, 1986). As such, accounting is readily accepted as a tool that must be used in allocating scarce resources.

Further, accounting logic is appropriate for determining economic consequences of actions and in making choice(s) among alternatives (Swieringa & Wieck, 1987). Besides, as Brunsson (1990) argued, by securing such compliance from decision-makers, organisational actions can be mobilised. Accounting provides the framework and language that allow the value-creation potential of an organisation to be defined and developed.

Accounting information systems can also be used both to shape and to incorporate expectations of organisational members. Swanson (1978) observed that reports are generated, not simply to inform, but also to influence one's superior by marshalling certain needed 'evidence'. Samuelson (1986) noted that intentions can shape the expectations that are held of the (management accounting) system, resulting in both positive and negative response. Pseudo-participation, biases, and 'game-playing' are but a few of the influences that lead to negative impact on organisations and that adversely affect the value-creation potential of accounting. In addition, accounting may be used to imitate the behaviour and attributes of financially successful organisations and also as some kind of insurance against financial waste (in case of budgeting), which in turn contributes positively to value creation.

Gordon et al. (1978) suggests that accounting and its information can be used to influence decision-makers, because in a decision-making process, accounting information is an integral part. Decision-makers, they noted, usually adjust their decision process when the accounting process is changed if they want to keep the overall process unchanged. This feature of accounting

Accounting and its information can be used to influence decision-makers, because in a decision-making process, accounting information is an integral part.

makes it useful as a value creator because it can be used as a mechanism to highlight forces affecting the relative transactional efficiencies of alternative ways of organising.

At the more strategic level, Ezzamel & Bourn (1990) argued that accounting's contribution lies in the abilities to perform three functions. These are :

- a** to shape the perceptions of decision-makers in relation to (strategic) issues at hand.
- b** to provide early warning by screening out irrelevant information to reduce perceived time pressure and surprise.
- c** to buffer the impact and cope effectively with crisis by shifting priorities and perceptions that rely on information it provides.

The value-creating potential of accounting at the strategic level rests on its system to provide a learning mechanism that generates ideas, so that decision-makers can improve their surveillance capabilities of their working environment.

At the strategic level, accounting can also act as a change agent. Hopwood (1990) argued that accounting can play a role in strategically changing managerial awareness and realigning their view towards a particular direction because it can turn abstract concepts into concrete facts. Accounting has the power to shift patterns of organisational visibility, so that concerns of the external world can permeate and influence internal organisational affairs. Lateral linkages can thus be formed across functional units and organisations, rather than only up and down within the same bureaucratic hierarchy. That is, for accountants to be more relevant and able to create value for organisations, they must not only provide internal data—accounting must now seek to provide information concerning both the firm's markets and its competitors' products (cf. Bromwich, 1990; Colignon & Covalesski, 1988; Simons, 1987, 1990).

Finally, a political scientist, Barber (1966, p.65) argued that :

"... around and beneath the technical considerations another set of meanings, involving the interplay of communication and power, is to be found. Insofar as knowledge is power, communication systems are power systems".

Pettigrew (1985) suggested that a power relation is a causal relation between preferences of an actor regarding an outcome and the outcome itself. Power involves that ability of an actor to produce outcomes consonant with his perceived interests. An actor's power is derived from his possession and control of the (power) resources, and his ability to skilfully use them.

The above description of power reflects the possibility of accounting information being used in the communication system designed to aid decision-making. Since accounting systems can be used as the formal systems of authority, relations can be considerably modified by the control of communication channels to propagate hidden agenda. Thus, accounting can be used as a

mechanism to offer an image of reality, however biased it may be. Such an image may then create a climate conducive to accounting information being used for facilitating economic and social activities of organisations. This may, in turn, become a part of the technology of control within organisations, shaping the activities and relationships, which accounting then reports upon. The challenge, therefore, is for accountants to design a system of accountability that adds value to managers' decisions, which in turn create value for organisations.

Concluding Remarks

In this article, we put forth a view that the "real" and the wider role of accounting is value creation. We present arguments that indicate that this role can be achieved through the design of accounting systems that provide information, creating managerial value. This in turn contributes to customer value creation and profitability, and ultimately enhances organisational value. Once this is achieved, the organisation can reward shareholders, thus creating shareholder value.

At the outset, we feel that this new perspective will highlight the more dominant role of accounting in organisational functioning. Accounting is unique in that it is able to integrate various organisational actions and processes. It possesses features that can visualise abstract concepts and turn them into hard facts, which become conduits through which economic discourse enters the world of practice. All these contribute to accounting becoming a common language through which organisational members understand the impact of organisational activities. Used wisely, accounting provides a potent weapon to create organisational values.

However, the actual relationships and the organisational value creation process articulated above are never so simplistic as the description suggested. Accounting is neither a static phenomenon nor are all its activities mirrored in the financial sphere. The dynamic and changing nature of accounting makes the process problematic, although still capable of value creation. Tentative though this idea is, we submit it for debate and more discussion.

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Note: IFAC has kindly given its permission to publish this highly-regarded article in the Akauntan Nasional.

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Feature

Role of Shareholders, Directors and Managers in Corporate Governance

By Dr. R. Thillainathan

Do shareholders have a role in corporate governance? If so, how do they exercise this role in a world of dispersed shareholding and in a world of concentrated shareholding? What role do directors and managers play in governance?

The Extent to Which We Can Rely on Shareholder Voting to Limit Managers' Discretion

First, let us deal with the role of shareholders in corporate governance, the extent to which we can rely on shareholder voting to limit managers' discretion, and whether we can rely on shareholders to make voting proposals or to become informed. Thereafter, we will examine if we can rely on institutional investors to play a role in corporate governance and the extent to which they suffer from distorted incentives or conflicts of interest.

There are differences between a hostile takeover, proxy fight and shareholder vote. The focus of shareholder activism is on shareholder voting, as in a hostile takeover or a proxy fight. But the aim is not to seek majority control of a company's board of directors and neither is it directed at replacing particular corporate officers.

The principal rights that shareholders have is the right to vote on :

- election of directors.
- amendments to the corporate charter, which include :
 - any changes in the nature of business of the company.
 - transfer to another jurisdiction or
 - change in the nature of its shares.

It is held that the directors, who are elected by the shareholders, will watch or monitor the corporate officers, to ensure that they work to maximise shareholder value. Corporate governance is therefore based on the notion of representative democracy and not direct democracy.

■ key corporate matters such as :

- sale of all or a substantial part of the company's assets.
- mergers and acquisitions.
- liquidations.

The rights of shareholders to vote on these matters limit, at least in theory, the discretion of insiders on these key corporate matters.

Corporate officers who manage the company on behalf of the shareholders are said to make the decisions on all other matters, including operational matters.

It is held that the directors, who are elected by the shareholders, will watch or monitor the corporate officers, to ensure that they work to maximise shareholder value.

Corporate governance is, therefore, based on the notion of representative democracy and not direct democracy.

Why is it that in a world of dispersed shareholding we cannot rely on shareholder voting to limit managers' discretion?

This can be attributed to :

- problem of collective action.

For managers' proposals, they exercise agenda control almost in its entirety. For shareholders' proposals, managers lose their proposal packaging edge, but retain a significant procedural edge in terms of timing control.

- free rider problem.
- agenda control by managers.

The voting rights of shareholders are of limited value unless they are concentrated.¹

Contacting and persuading a large group of small shareholders through the proxy mechanism is difficult and expensive.

This *collective action problem* is compounded by the free rider problem faced by the small individual or retail investors.

The *free rider problem* makes it uninteresting for the individual investors to learn about the firms they have financed, or even participate in their governance.²

An important dimension of shareholder voting is *agenda control*. For most part, managers control the agenda i.e. :

- what shareholders vote on.
- how proposals are packaged.
- when shareholders vote.
- when shareholders find out what they are voting on.

Public choice theory teaches that the one who sets the agenda can often control the substantive outcome.

For *managers' proposals*, they exercise agenda control almost in its entirety. For *shareholders' proposals*, managers lose their proposal packaging edge, but retain a significant procedural edge in terms of timing control.

Even when legal rules permit shareholder action, they raise *costs*. These costs are important because :

- a shareholder proponent bears most of the cost of actions taken.
- receives a fraction of the benefits.



- faces an opponent who has the enormous advantage of being able to spend other people's money.

- any obstacles to forming groups magnify these cost barriers by discouraging cost-sharing among shareholders.

From the preceding arguments, it is obvious why there are few or no shareholders' proposals.

An important dimension of agenda control is that the *election of directors* is turned into a one-party "election" i.e. :

- shareholders vote for or against a slate of directors selected by the managers.

- shareholders cannot propose their own nominees or even choose among more candidates than there are positions to be filled.

- managers' candidates (as in one-party election) win routinely, with an overwhelming percentage of the votes.

In an environment of dispersed or concentrated shareholding, and where there are no large institutional shareholders, we cannot rely on shareholder voting to limit managers' discretion because shareholders would not have the incentives to :

- make voting proposals or
- become informed.

The elected directors may not be sufficiently independent to provide a check and balance on managers.

Where there are large institutional investors with shareholding across several companies, they are likely to enjoy economies of scale when they press common issues at these companies. The economies of scale can offset the incentives for passivity created by partial ownership of any one company. However, shareholder voice holds more promise for process and structural issues than for company-specific concerns.

Examples of such issues include :

- process by which directors are nominated.

¹ Or there is a proxy fight for corporate control and hence for concentrating ownership through a hostile takeover. However, even a proxy fight for a hostile takeover can succeed only when the premium on offer is 50% or more.

² The individual investors can take a free ride. But this is possible if there are large investors who are willing and able (because of their large shareholding) to monitor the insiders controlling the firm.

- dual-class recapitalisation.
- anti-takeover measures.
- confidential voting.
- management compensation.

In an environment of concentrated shareholding, even where there are large institutional investors, for the election of more independent directors, there is a need for :

- proxy by mail (to minimise the cost of shareholder voting).
- cumulative voting (whereby shareholders are allowed to cast their votes for one candidate, thereby increasing the probability of outside directors).
- non-staggered boards (i.e. for all directors to retire and be up for election at regular fixed intervals but simultaneously).

Otherwise, a director can be elected only with the support of the controlling shareholders, and this may undermine independence.

Do shareholders have an incentive to be informed?

As regards the incentives of non-proponent shareholders to become informed, Professor Black concludes as follows :

“While many small shareholders will remain uninformed, apathy makes exponentially less sense as shareholdings grow, as long as there is a critical mass of other large shareholders. Increased stake in the outcome, increased ease of co-ordinated voting among institutions, and scale economies combine to create substantial incentives for institutions to become informed voters.”

(Prof. B.S. Black, “Shareholder Passivity Re-examined”, *Michigan Law Review*, Dec. 1990, p.524)

Can we rely on institutional investors to play a role in corporate governance? Do they suffer from distorted incentives and conflicts of interest?

In an environment of dispersed shareholding with no large institutional investors, we cannot rely on shareholder voting to limit managers’ discretion because of the collective action problem and the free rider problem.

In an environment of concentrated shareholding, we cannot rely on the market for corporate control (whether it is through hostile takeovers, mergers or acquisitions) to limit managers’ discretion because no such market may exist given the existence of large controlling shareholders.

However, we have noted that where there are large institutional investors and both proxy by mail and cumulative voting for directors are allowed, then we may be able to rely on shareholder voting to limit managers’ discretion, provided the institutional

investors do not suffer from a conflict of interest.

Most institutional investors (e.g. corporate pension funds, bank trust funds and insurance funds) will suffer from a conflict of interest between their desire to maximise shareholder value (which may then require them, where necessary, to vote against the corporate managers) and their desire to retain or solicit business from corporate managers (which may then induce them to vote with the managers).³

On the other hand, public pension funds (and this would include the Employees Provident Fund, or EPF) and mutual funds (to some extent) do not solicit business from corporate managers and therefore face no constraints on how they can vote. Their incentives for maximum effort on their beneficiaries’ behalf are still limited, since the beneficiaries get the upside,⁴ but at least those incentives are not perverted by direct conflicts. But public fund managers do have conflicting incentives between the need to be good political operators or good money managers and can be subject to public pressure to support social responsibility proposals or invest in local enterprises at the expense of investment returns. Such conflicts will be minimised to the extent that these funds are accountable to individual contributors, but will be enhanced to the extent that their returns are government-guaranteed.

Corporate Governance Mechanisms for Protecting Investors vis-à-vis Insiders and Other Stakeholders

In the Anglo-Saxon world of dispersed shareholding, we have noted that we cannot rely on shareholder voting to limit managers’ discretion. And yet there is a heavy reliance on external financing from outside shareholders as attested to by its well-developed public markets in equities. The outsiders have been prepared to provide the finance because the corporate governance mechanisms in place have enabled them to maximise the return on their investments by hiring the best managers (i.e. through a separation of management from financing) and to minimise their risk through diversification.

The corporate governance mechanisms, which have enabled heavy reliance on external financing in the Anglo-Saxon world, are as follows :

- a First, there are good rules and infrastructure for disclosure and transparency, and hence for monitoring by the outside investor. This enables the outside investor to vote with his

³ The institutional investors are managed by money managers who are themselves imperfectly monitored agents, i.e. who have imperfect incentives at best and significant conflicts of interest at worst.

⁴ “Institutional fiduciaries have strong incentives to avoid legal risks, because they face personal exposure if the risk comes to pass, while their beneficiaries get most of the upside. They care less about the conduct that legal rules, read narrowly, might permit, than about what those rules, read broadly, might prohibit.” [Prof. B.S. Black, p. 523]

feet if the insider is not maximising shareholder value.

- b** Second, there is a satisfactory legal framework and enforcement machinery. This machinery supports an internal corporate governance mechanism that minimises abuses by the insiders but maximises business flexibility. For instance, the legal and judicial system in the Anglo-Saxon world recognises that outside shareholders need stronger protection in the form of shareholder voting rights, supplemented by an affirmative duty of loyalty of the managers to shareholders. The business judgment rule that governs the attitude of courts on the separation of management and financing (and hence towards the agency problem) keep the courts out of corporate decisions except on matters of executive pay, self-dealing and protection of shareholders against expropriation by the insider.
- c** Third, the Board of Directors who are elected by shareholders exercise management oversight on behalf of shareholders with the assistance of the auditor, thus acting as a check and balance on managers.⁵
- d** Fourth, there is a well-developed market for corporate control which throws out entrenched insiders who have captured the Board of Directors and who are maximising their private benefits of control and not shareholder value.^{6,7} (Where the board is captured, the internal control mechanisms of corporate governance do not provide the necessary check and balance on insider excesses).

Given the well-developed infrastructure on disclosure and market for corporate control as well as a well-functioning legal enforcement machinery and judicial system in the Anglo-Saxon world, the rights that shareholders require are voting rights and the rights that support the voting mechanism against interference by the insiders. These rights dubbed as anti-director rights by La Porta, Lopez de-Silanes, Schleifer & Vishny (LLSV)⁸ are as follows :

- a** that shareholders are allowed to mail their proxy vote.
- b** that shareholders are not required to deposit their shares prior to the general shareholders meeting.
- c** that cumulative voting is allowed (whereby shareholders are allowed to cast their votes for one candidate, thereby increasing the probability of outside directors).



Securities Commission's (SC) new building ... SC chaired the working group on law reform issues in corporate governance

- d** that an oppressed minority mechanism is in place (whereby minority shareholders are granted either a judicial avenue to challenge the management decisions or the right to step out of the company by requiring the company to purchase their shares when they object to certain fundamental changes, e.g. mergers).
- e** that shareholders have pre-emptive rights to new stock issues.
- f** that the minimum percentage of share capital that entitles a shareholder to call for an extraordinary general meeting is reasonable, i.e. 10 per cent or less.

In their cross-country study of law and finance in 49 countries (both developed and developing), LLSV found that the average score for the sample as a whole was 3.0 whereas it was 4.0 for the English common law countries, 2.33 for the French and German civil law countries and 3.0 for the Scandinavian civil law countries. This index aggregating shareholder rights was formed by adding 1 to each of the anti-director rights as specified above and 0 otherwise (with the index ranging from 0 to 6).

⁵ Even if shareholders elect the board, directors need not necessarily represent their interests. The question of board effectiveness has proved to be controversial even in developed countries. In the US, boards, especially those dominated by outside directors, sometimes remove top managers after poor performance. However, a true performance disaster is required before boards actually act. The evidence on Japan and Germany similarly indicates that boards are quite passive except in extreme circumstances. See Schleifer & Vishny, "Survey of Corporate Governance", *Journal of Finance*, 1997, Vol 52.

⁶ There was a hostile political response to the 1980s takeovers in the US. Schleifer and Vishny view this as a continuation of the pro-management and anti-large shareholder policies that have typically characterised the American political system. Schleifer & Vishny, *op cit*, p 27.

⁷ In the traditional approach of lawyers, corporate governance is said to be exercised by directors and there is little or no role for shareholders. Good corporate governance also requires good bank and political governance but there is no reference to their inter-connections in this Note.

⁸ See La Porta, R. Lopez de-Silanes, F. Shleifer, A., and R.W. Vishny, "Law and Finance", *Journal of Political Economy*, December 1998.

a *Other Stakeholders and Rationale for Protecting Shareholders*

Managers have a duty to act in shareholders' interest and the courts in the developed countries have generally accepted the idea of manager's duty of loyalty to shareholders versus other stakeholders. The investments by shareholders are largely sunk and further investment in the firm is generally not needed from them. This is much less the case with employees or community members. "The employees for example, get paid almost immediately for their efforts and are generally in a much better position to hold up the firm by threatening to quit than the shareholders are. Because their investment is sunk, shareholders have fewer protections from expropriation than the other stakeholders do".⁹ To induce them to invest, shareholders therefore need stronger protection.

Managers have a duty to act in shareholders' interest and the courts in the developed countries have generally accepted the idea of manager's duty of loyalty to shareholders versus other stakeholders.

b *Concentrated Shareholding and Required Corporate Governance Mechanisms for Outside Investors in Asia*

In Malaysia and Asia (ex-Japan), concentrated shareholding is the norm. Over-protection and weak competition in product markets makes for concentrated shareholding. In such an environment, a controlling shareholder does not want to share his super profits with outsiders.

Even in a competitive environment, there will be a tendency towards concentrated shareholding if the legal rights of minority shareholders or enforcement of these rights are weak.

A substantial controlling shareholder, because of his dominant voting rights, is even better-placed to expropriate the minority shareholders than a manager who operates in an environment of dispersed shareholding. In an environment of concentrated shareholding, the problem is not necessarily that a controlling

Even in a competitive environment, there will be a tendency towards concentrated shareholding if the legal rights of minority shareholders or enforcement of these rights are weak.

shareholder will not maximise shareholder value. Rather, there is a higher probability of expropriation of the minority shareholders.

In a company with concentrated ownership, there is a better matching of the control rights of the dominant shareholder with its cashflow rights. There will, therefore, be a greater incentive for that control to be exercised in maximising shareholder value. Thus, the incentive of the controlling shareholder is more likely to be aligned to the interest of other shareholders.¹⁰

In Asia, the more serious problem arises not from large shareholdings but from the more widespread practice of pyramiding and cross-holdings. This causes a major divergence between the control and cashflow rights of insiders.¹¹ Therefore, the incentive is for the insiders in such companies to maximise their private benefits of control and not necessarily that of shareholder value. There is thus a higher probability that minority shareholders run the risk of being expropriated or squandered in these companies.

The dominant voting rights of the controlling shareholders also makes for a weak market in corporate control in Asia. Weak boards compound the problem.¹² As such, external financiers require more rights to protect their interest. This typically takes the form of restrictions placed on the voting rights of controlling shareholders to vote on related or interested-party transactions.

In Asia, the more serious problem arises not from large shareholdings but from the more widespread practice of pyramiding and cross-holdings. This causes a major divergence between the control and cashflow rights of insiders.

⁹ Schleifer & Vishny, *op cit*, p. 13.

¹⁰ On the other hand, a manager has control rights with little or no cashflow rights. A manager therefore has less incentive to maximise shareholder value. It is to deal with this problem that a manager is given an incentive contract in the form of share ownership or a stock option to align his interests with those of investors. Even with such incentive contracts the mismatch between control and cashflow rights will still be large in a management-controlled company. Therefore, a company with concentrated ownership, where the mismatch between control and cashflow rights are significantly less, is likely to promote shareholder value much more than a management-controlled company.

¹¹ See the World Bank-sponsored study by R. Thillainathan, Philip Koh & Shanti Kandiah on *Corporate Governance in Malaysia - An Assessment*, February 1999, especially Sections III and IV for a more extensive discussion of this point.

¹² To strengthen the internal control mechanisms of corporate governance, the listing rules of the KLSE now provide for the establishment of an Audit Committee comprising of a majority of independent directors. There are currently moves also to set up independent board committees on remuneration and for the nomination of directors. There are also proposals for increasing the number of independent directors on boards to increase the check and balance on insiders.

Unlike the listing rules, the laws of many Asian countries including that of Malaysia do not prohibit a shareholder from voting on an interested transaction. Amendments to the laws are required to rectify this situation.

Presently, the listing rules of many Asian exchanges require interested party transactions to be put to a meeting of non-interested shareholders. This does not provide adequate protection to minority shareholders in companies which are controlled by a dominant shareholder. This is because the worst punishment an exchange can impose on a violator is to suspend or delist the company. This may end up hurting the minority shareholders more. This problem has now been partly alleviated in Malaysia. Amendments to the Securities Industry Act now empower the Kuala Lumpur Stock Exchange not only to take actions against the listed company, but also against individuals who have breached its rules. But an exchange does not have the enforcement infrastructure available to a statutory regulator (which would include, for example, the statutory right to require information as well as the rights for search and seizure), thus undermining the potency of the amendment.

Unlike the listing rules, the laws of many Asian countries including that of Malaysia do not prohibit a shareholder from voting on an interested transaction. Amendments to the laws are required to rectify this situation. Such amendments will decrease the flexibility and increase the cost of doing business. But in an environment of concentrated shareholding, especially one where control is exercised through an indirect shareholding, the benefit of increased protection of external financiers is likely to outweigh the cost of decreased business flexibility. In any case, the restrictions of voting rights only apply to voting on interested transactions. It is not intended to interfere with ordinary business transactions of the company.



Role of Institutional Shareholders

As mentioned earlier, where there are large institutional investors and both proxy by mail and cumulative voting for directors are allowed, then we may be able to rely on shareholder voting to limit managers' discretion, provided the institutional investors do not suffer from a conflict of interest.

In Malaysia, there is the EPF which is a large domestic institutional investor. However, the EPF has captured a large chunk of national savings and its investment management is centralised. Conflicts and perverse incentives from its funds management and corporate governance activities can be minimised not by breaking up the EPF, but by parcelling its funds for management on a passive and active basis, with the passive portfolio managed in-house and the active portfolio managed (largely if not wholly) by the external fund managers.

It should be readily apparent why passive management will minimise conflicts and perverse incentives. The operation of its externally managed funds will not cause any conflicts or perverse incentives only if the mandate for such management is based strictly on commercial considerations. This is more likely if the external funds are managed for the account of individual contributors.

Presently, EPF's decision to invest its funds is on a portfolio basis and it does not seek any board positions. This stance cannot be faulted. If it actively seeks a position on the boards of companies in which it invests and monitors its nominees, then it runs the risk of becoming an insider, thus adversely affecting its short-term trading opportunities in these companies.

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The EPF can, of course, choose to exercise its voting rights on related party transactions. This can have a telling effect where only non-interested parties are allowed to vote. It can also have a significant impact on the election of directors who are independent of the controlling shareholders, provided cumulative voting is permitted. Minimising on conflicting objectives or perverse incentives will always remain a major challenge in the exercise of such voting rights.

The EPF has to be ever vigilant against abuses of minority shareholder rights by the insiders. Although it held 10% of the shares in UEM and 14% in KFC, it failed to initiate any actions against the insiders in these companies whose apparent disregard of minority interests led to a steep fall in the shareholder value of these companies.

A case can be made for the setting up of a Minority Shareholder Watchdog Group to monitor and combat abuses by insiders against minority shareholders. Initially, the EPF as the major institutional investor can take the initiative to set up and organise such a Watchdog Group, with the technical assistance of the World Bank or the Asian Development Bank. Representatives from the Malaysian Institute of Corporate Governance, the Malaysian Association of Investors and the Malaysian Association of Asset Managers should be invited to participate in the Group. As the growth of the fund management industry in Malaysia gathers momentum through a decentralisation of EPF's investment activities, these fund managers can then play a more active role in this Watchdog Group.

If institutional investors take actions against insiders who have violated the trust that ought to be accorded to minority shareholders, then this will send a clear signal and insiders are likely to engage less in dealings which are detrimental to minority shareholders.

New restrictive rules were introduced in Malaysia in late 1998 on wholesale fund managers. These rules require them to open accounts and maintain records in the name of each of their individual clients. This will increase cost and decrease the level of fund management activity and hence aggravate the problem of concentrated shareholding in Malaysia.

If institutional investors take actions against insiders who have violated the trust that ought to be accorded to minority shareholders, then this will send a clear signal and insiders are likely to engage less in dealings which are detrimental to minority shareholders.

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The Case Against Governance by Banks and State Enterprises in Asia

Banks in Malaysia do not have a governance role, save in bankruptcies. But there are some who are in favour of promoting governance based on banks or even state enterprises (as large shareholders) as an alternative to our current arrangements. There are problems with this recommendation. Banks in Malaysia as well as in Asia are hardly able to take care of themselves. Therefore, it will not be advisable to entrust them with a key role in the governance of listed companies. The loss of focus is likely to make matters even worse.

Furthermore, the incentive of a bank in governance is likely to be severely distorted, as its primary interest is in lending. Where it is a significant minority shareholder and exercises control over a company by voting these shares and the shares of others for which it acts as a proxy, its main interest is in enhancing its own income from its lending and other related activities, and not in enhancing shareholder value. Empirical findings in Japan and Germany attest to this and are highlighted by Shleifer and Vishny in their survey article.¹³ Where a state enterprise, through its shareholdings in a listed company, plays a role in governance, here too the incentive is likely to be distorted because of the divergence between the control and cashflow rights of state enterprise managers. This point is also made very strongly by Shleifer and Vishny.

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Note : The above paper was delivered at the World Bank Conference on "Importance of Corporate Governance" in Jakarta on 20 April 1999.

¹³ Shleifer & Vishny, *op cit*. It has been suggested that in a bank-centered system of corporate governance such as that obtained in Germany and Japan, the monitoring of companies by the bank as an informed investor encourages investments in the companies by the outsiders. But the problem is who is to monitor the monitor? It appears that German banks are large public institutions that effectively control themselves, that there is little evidence from either Japan or Germany that banks are very tough on corporate governance and that at least in Germany, once the banks "became sufficiently powerful, they discouraged the introduction of disclosure rules, prohibitions on insider trading, and other protections of minority shareholders thus making sure that these investors never became a significant economic or political force to protect their rights", p 28.

Hidden Economy and Tax Investigations : A Malaysian Perspective

by Dr. Jeyapalan Kasipillai, School of Accounting, University Utara Malaysia

Introduction

A specialised study of the hidden economy as an intricate phenomenon was first applied to industrialised countries and has been subject to considerable development during the last two decades. It has long been realised that the existence of widespread tax evasion as a part of the hidden economy is not only confined to industrialised countries, but also exists in developing countries such as Malaysia. The hidden economy phenomenon is known by different terms in different countries. In the US, it is called the underground or the subterranean economy; in Britain and India, it is called the black economy; in Belgium, the undeclared income; in Germany, the *Schattenwirtschaft* or shadow economy; in South Africa, the unrecorded sector; in the former Soviet Union, the second economy; and in Italy, the *economia sommersa* or sub-merged economy.

The next section (Section 2) outlines the concepts of hidden income, hidden economy and tax revenue. Section 3 outlines the importance of estimating tax evasion and the following section (Section 4) involves a broad review of tax investigations in Malaysia. This section also outlines in detail the operational functions of the Inland Revenue Board (IRB) with particular reference to the functions of the specialised Investigation and Intelligence Unit. The methods of computing undisclosed income are discussed in Section 5. Some concluding comments are contained in Section 6.



Concepts of Hidden Income, Hidden Economy and Tax Returns

Hidden income can be defined to include legitimate earnings which are hidden in order to evade tax, as well as illegal earnings derived from clandestine operations (such as smuggling and unlicensed money lending) and illegal services (such as cuts and kickbacks on contracts and other financial malpractice's) over a defined period, normally a calendar year.

There are various interpretations to the definition of hidden economy. Some researchers include all

expenditure on illegal drugs and gambling, while others would include only incomes that originate from these activities. Often the definition given by different authors do not specify whether they are using gross or net concepts. A simple and convenient definition of the underground economy provided by Tanzi (1983) is the Gross National Product, which because of unreporting or underreporting, is not measured by official statistics.

Since hidden economy refers to the unreported portion of income generated in an economy, this portion of income will by definition be precluded from any form of taxation. Therefore, these funds become a major portion of the total amount of tax that is evaded. Since measuring tax evasion *per se* is often marred by very approximate estimates and also because estimates of hidden economies are more readily available, the size of the hidden economy is used as a proxy for ascertaining the extent

of tax evasion. Hence, the size of the hidden economy is only an indirect indicator of tax evasion.

According to Tanzi, the two main groups or factors that create an underground economy are taxes and government restrictions, both of which can bring about an underground economy. Assuming that there are no government restrictions, taxes alone will induce some activities to go underground so that they go unrecorded and escape the payment of taxes. In every fiscal system however, there are several forms of taxes of varying importance, meaning greater stress is applied to various types of taxes such as personal and corporate tax. In the US, for instance, the discussion on estimating the hidden economy has almost exclusively centred on income tax, which is a major form of direct tax. Conversely, value added tax, which is a form of indirect tax, is popularly focused on in Europe. This paper confines the discussion to evasion of income tax.

Importance of Estimating Tax Evasion

Estimating tax evasion provides an important tool to the tax administrator to detect and evaluate the attainment made in what concerns compliance with tax legislation on the part of taxpayers, and efficiency in tax administration within its availability of human and material resources. In this respect, it is prudent for tax administrators to develop systematic programmes aimed at both measuring tax evasion and interpreting the results of their measurements.

The case for measuring evasion is based both on administrative grounds and on fundamental issues of tax policy.

■ *Administrative grounds*

A knowledge of the amounts and patterns of tax evasion permit more effective management of administrative resources devoted to the enforcement programmes and for controlling evasion. Another administrative point is that skill in measuring evasion is an important tool in evaluating the success of enforcement or anti-fraud programmes, as well as other measures employed to control or reduce evasion. It is necessary to know whether the measured patterns of evasion have changed. This requires measuring evasion both before and after enforcement programmes are instituted.

■ *Tax Policy*

Tax policy makers make assumptions about evasion in deciding about the proper balance among taxes and the tax system and the proper structure of rates and special provisions within particular taxes. Tax rates on withholding income, at least in the case of Malaysia, are low because enforcement of income tax on those incomes is more effective than on other types of income. Various types of indirect taxes such as sales and service taxes, excise and import duties are justified on the ground that they will reach taxpayers who have learnt to evade income tax. Also,

the measurement of evasion is necessary for efficient design of efforts to curb it. For example, knowing the different degrees of underreporting that characterise the various sectors of the industry will permit the 'crusade' against evasion to be designed with minimum cost but maximum results in terms of money generated.

The treatment of hidden (underground) activity may differ from one country to another. For example, the Australian Bureau of Statistics makes adjustments to income tax data in order to account, in a very rough and ready way for income concealed (or expenses overstated) when compiling national accounts estimates. Therefore, the Gross Domestic Product figure as measured on the income side of the accounts already includes an estimated value for the hidden economy. Such a treatment is not followed in Malaysia.

Tax Investigations

The policy of the Malaysian Inland Revenue Board is to achieve, as far as possible, voluntary compliance with the Income Tax Act (ITA) by the majority of the taxpayers. It hopes to achieve this objective by a vigorous but uniform enforcement of the ITA, in particular those provisions relating to offences and penalties, against all taxpayers, irrespective of status or social standing.

The ITA has provided for varying penalties, fines and periods of imprisonment for tax evasion in order to demonstrate that understatement of income does not pay in the final analysis (see Appendix I for a summary of offences and penalties, ITA, 1967). The penalties also provide compensation to the government for having been deprived of revenue due to deferred tax payment.

Serious cases of tax evasion are vigorously prosecuted in court. Such a move would act as a deterrent to other taxpayers as well as to publicise that tax evasion is as serious a white-collar crime as a criminal breach of trust. For instance, the amount of cases compounded for various tax offences in 1997 was 16,340, an increase of 2.3 per cent compared to the previous year. The amount of compound fees collected in 1997 was RM5.17 million, the highest recorded in the history of IRB. At the same time, only one taxpayer in Malaysia has been known to be sentenced to imprisonment for one day (in 1989) and fined RM750 for each of the offences for not submitting a Return Form for years of assessment 1984, 1985 and 1986 (*Berita Harian*, 1 November 1989).

In any prosecution, the burden of proof that a return has been made or a notice given shall be on the taxpayer (Sec 112 ITA). In the case of wilful tax evasion, the presumption of guilt, where the Revenue Board proves that the taxpayer has made a false statement or entry in a Return, is also on the taxpayer (Sec 114(2) ITA).

The special task of investigating suspected cases of tax evasion is entrusted to the Investigation and Intelligence Unit of the IRB.

The following are discussed below :

- Organisational functions.
- Decision to investigate.
- Indicators of fraud.
- Investigations of companies.

Organisational Functions

The Investigation and Intelligence Unit is directly headed by the Director General of Inland Revenue (DGIR) who is assisted by three Deputy Director Generals. The operational functions of the IRB are carried out by 33 branch offices located throughout Malaysia and headed by Senior Assistant Directors. The Directors of Sabah and Sarawak are responsible for administering branch offices within their respective states. Most branches have an investigation unit and they are staffed by at least 6-21, senior officials, depending on the size of branches and the concentration or density of taxpayers.

Duties of an Investigation Officer

The duty of an investigation officer is to pursue diligently all cases of investigation allotted to the officer. The officer is to investigate firmly but also fairly, all possible leads so as to obtain the necessary evidence of fraud or other acts, which may have led to a reduction in tax liability. Proper records of the work completed have to be maintained in an orderly manner. When an investigation is completed, the officer has to list his findings in a comprehensive report setting out the facts uncovered with supporting documents. For this role, the investigation officer is provided with special understanding of court procedures. When the taxpayer is prosecuted in court, an investigation officer will have to brief the legal officer assigned to the case who will then go through the evidence with him.

Objectives of an Investigation

The main objective of an income tax investigation is to trace understated or unassessed income by examining books of accounts and other primary records or documents. The initial task of an investigation officer is to establish that the income in taxpayer's hands is taxable and that the evader has failed to declare it in the returns. The officer would then have to obtain all evidence to show that the omission is wilful with intent to evade.

Decision to Investigate

In determining whether or not to investigate, it is clear that the powers vested with the DGIR must be used for the purposes of the ITA, 1967 (see Appendix II for an outline of the scope for back duty inquiry). It appears that the Director General has an unfettered discretion as to whether or not to issue a notice under Sec 78 or to seek access under Sec 80 to carry out an investigation under the ITA. Nevertheless, there are several

factors that the DGIR would take into account. A few of these factors are discussed below :

Cost and Effect of the Investigation upon the General Public

The DGIR would take into account the cost to the taxpayers as a whole of having resources tied up in and expended in a normally prolonged detailed investigation. A heavy-handed approach would attract adverse response from certain taxpayers with vested interest. This may or may not be desirable depending upon the circumstances. For instance, the DGIR would want to demonstrate to the taxpayers at large a crack down on tax evaders and would thus obtain maximum deterrent value from such activities. However, it is only the potential evaders who need to worry about these surprise 'raids'.

No Person is above the Law

The DGIR would have to demonstrate that certain persons are not above the law of the land. Press releases highlighting tax evasion are necessary to ensure that the public believes that taxpayers, irrespective of their status, comply with the law as it stands. For instance, a newspaper report highlighted the following : "The Inland Revenue Department (as it was known then) has identified several companies, including multi-national companies, as hard-core tax evaders and will charge them in court soon" (*New Straits Times*, 15 March 1992). Another report highlighted that two foreign multinational companies and two corporate figures have been identified by the Inland Revenue Department as having evaded tax amounting to some RM62 million (*New Straits Times*, 17 September 1992).

Cost and Likely Benefits to Raise Revenue

The upgrading of computers and the use of sophisticated hardware have raised efficiency, and reduced the cost and time factor in carrying out investigation work. Such a move had the effect of increasing productivity of the investigation staff and boosted revenue.

Necessity for an Immediate Response

A taxpayer may be leaving the country for one reason or another. For instance, the taxpayer may decide to migrate without settling their tax liabilities. Any information regarding such taxpayers is promptly acted upon while they are within the jurisdiction of the country.

The next section outlines the numerous ways of detecting potential cases for investigation from the accounts submitted by taxpayers.



Indicators of Fraud

The following indicators of fraud could prompt a taxpayer's case to be taken up for investigations :

- Variations in the size of items recorded in the balance sheet at the end of two or more consecutive years of assessment.
- Sudden increase in sundry or other creditors.
- Insufficient drawings for private living expenses.
- Investment income does not commensurate to earnings reported.
- Irregular patterns in income reporting.
- Deviation of inter-firm comparison : for instance gross profit ratios may vary from the norm.
- Disproportionate deduction.
- Conspicuous operating expenditure : for example, a huge electricity bill is not matched with value of output.
- Unreasonably low turnover or profits having regard to the type of business, its location or number of customers.

Investigation of Companies

The Inland Revenue Board has not set any criteria as to which areas of a company's affairs would be examined to confirm the basic accuracy of the accounts and returns submitted but it is logical to assume that the following areas will be the subject of scrutiny :

- Calculation of capital allowances and verification of source documents, such as sale and purchase agreements.
- Valuation of trading stock, confirmation of closing stock for the previous year.
- Section 33(2) restriction, confirming allowability of interest expenses claimed.
- Repairs particularly to ensure that no capital items have been charged.
- Examination of remuneration paid to both directors and employees to ensure that correct Employer's Return have been made.
- Heavily qualified auditor's report.

Computing Understated Income

Methods of Computing Omitted Income

There are various methods adopted for recovery of understated income. Broadly, they could be classified under three categories :

1 Capital Accretion or Net Worth Method

This method is widely employed to determine the understated

income of individuals, *viz.* sole-proprietors, directors of companies, partners in a partnership or even salaried employees. Initially the capital statement method involves the collection and examination of the taxpayer's personal and business records to obtain particulars of assets and liabilities and for establishing the lifestyle. It is a long drawn out process, which entails a study and verification of the detailed movement of the taxpayer's assets. The DGIR will be comparing increments in wealth with known income on an annual (calendar year) basis to determine whether there has been any omission or understatement of income, which is shown by discrepancies in the comparison. From the investigators' point of view, time, patience and experience are required for this type of work and there is no tailor-made formula which can be applied to tax investigation work. Another consideration that needs to be considered is the marital status of the taxpayer. A married person is required to include the investments and assets held in the name of the spouse and dependent children in the capital statement.

2 Accounting Basis

This is another method for determining omitted income. Where bookkeeping records are available, the accounting basis could be used to recover understated income of an individual business. In the case of companies, investigation not only entails an examination of the accounts of the company but also includes an appraisal of the directors assets, especially in the case of companies controlled by family members or controlled companies within the meaning of Sec 139 of the ITA, 1967.

3 Technical Adjustments — Interpretation of the Relevant Law

An investigation case may unearth land transactions, which the IRB would consider as 'an adventure in the nature of a trade'. Such profits could be regarded as a technical adjustment, depending on the circumstances of the case, and are taxable under Sec 4(a) ITA. The additional tax imposed would normally not attract penalties because it is not considered as evasion of income. Technical adjustments, however, are comparatively less popular in their usage with respect to computing omitted income.

Concluding Comments

This paper sought to gaze through the hidden economy and at that 'tax crystal ball' and revealed a number of interesting possibilities. The Malaysian taxpayers like their counterparts elsewhere are seriously engaged in "loophole mining" of existing tax requirements. The tax authorities will no doubt be close behind to plug the loophole in the existing legislation. Before long, the determined taxpayer will find a new loophole. This dialectic discourse between the tax collector and the taxpayer will remain an on-going saga with no end in sight. This is because the parting of one's hard-earned income is painful for most people. Therefore, the partial movement towards indirect taxes

where the 'extraction' is not directly visible is absolutely logical.

In the final analysis, the extent of growth in the hidden economy and tax evasion in a country does not depend on isolated factors but on a complex combination of circumstances. While an ideal situation of full voluntary compliance of the law remains an elusive dream for every government, it is nevertheless prudent to take every practical measure towards its realisation.

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(The above edited article was first published in the Tax Nasional, September 1998, and is reprinted with permission from the Malaysian Institute of Taxation.)

About the Author

Dr Jeyapalan Kasipillai is currently Associate Professor at the School of Accountancy in Universiti Utara Malaysia (UUM). He completed his doctoral thesis in taxation at the University of New England, Armidale, Australia. After graduating from the University of Malaya in May 1974, he joined the New Straits Times Group as a journalist. In 1975, Dr Jeyapalan began his employment with the Inland Revenue Department, serving the Assessment Branch for five years and the Investigations Unit for another eleven years. He held the post of Assistant Director (Tax Investigations), prior to joining UUM as a full time lecturer on 1 August 1991.

Besides serving the education and examination committees set up by the tax profession, he has published numerous articles and papers on taxation in both local and international journals. He is also a fellow member of both the Malaysian Institute of Taxation and Institute of Chartered Secretaries and Administrators.

APPENDIX 1

Summary of Offences and Penalties (ITA, 1967)

Offence

- Failure to furnish a return under Sec. 77(1) or give notice of chargeability [Sec. 77(2) or (3)]
- Incorrect return or incorrect information on income or chargeability [Sec. 113(1) and (2)]
- Wilful evasion of tax [Sec. 114(1)]
- Leaving Malaysia without settlement of tax [Sec. 115(1)]
- Obstruction of officers [Sec. 116]
- Breach of confidence by classified person [Sec. 117(1)]
- Offences by officials [Sec. 118]
- Failure to comply with a notice :
 - (i) calling for specific returns and production of books [Sec. 78]
 - (ii) calling for bank statements, etc. [Sec. 79]
 - (iii) requiring books, accounts or records kept to be translated in the national language [Sec. 80(3)]
 - (iv) calling for information and particulars [Sec. 81]
 - (v) requiring records to be kept and receipts issued in a proper manner [Sec. 82(3)]
 - (vi) requiring audited accounts to be produced [Sec. 82(5)]
 - (vii) requiring returns containing particulars of income to be submitted by agents [Sec. 84(1)]
 - (viii) requiring returns by occupiers of land or premises [Sec. 85]
- Failure to comply with a statutory order :

- (i) requiring records to be kept in a proper manner and receipts issued [Sec.82(3)]

Penalty

- Fine of not less than RM200 and not more than RM2,000 or six months' imprisonment of both [Sec. 112(1)], or
- No prosecution, but taxpayer required to pay penalty of three times the amount of tax [Sec. 112(3)a]
- Fine between RM1,000 and RM10,000 plus penalty equal to twice the amount of tax undercharged [Sec. 113(1)], or
- No prosecution, but taxpayer required to pay penalty equal to the tax undercharged [Sec. 113(2)]
- Fine between RM1,000 and RM20,000 or three years imprisonment or both plus penalty of three times the tax [Sec. 114(1)]
- Fine between RM200 and RM2,000 or six months imprisonment or both
- Maximum fine of RM4,000 or one year imprisonment or both
- Maximum fine of RM4,000 or one year imprisonment or both
- Maximum fine of RM20,000 or three years imprisonment or both
- Fine between RM200 and RM2,000 or six months imprisonment or both
- Fine between RM200 and RM2,000 or six months imprisonment or both [Sec. 120]
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 - (i) requiring employer to submit a return of its employees [Sec. 83(1)]
- Failure to give notice by an employer [Sec. 120] :
 - (i) of an employee who has commenced work for the employer [Sec. 83(2)]
 - (ii) of an employee who is ceasing work for the employer [Sec. 83(3)]
 - (iii) of an employee who is about to leave Malaysia [Sec. 83(4)]
- Contravention of the duty imposed under the Act [Sec. 120(d)]
 - (i) by a person who fails to keep business records and issue receipts under [Sec. 82 (1)]
 - (ii) by an agent acting for a non-resident who fails to submit quarterly returns [Sec. 84(2)]
 - (iii) by precedent partner who fails to submit a partnership return [Sec. 86(1)]
 - (iv) by chargeable person who fails to inform of change of his address in Malaysia [Sec. 89]
 - (v) by a person who holds himself out as a tax agent and does not satisfy the provisions of the Act [Sec. 153(1)]
- Failure to comply with a direction to deduct tax from emoluments and pensions [Sec. 107]
- Fine between RM200 and RM2,000 or six months' imprisonment or both [Sec. 120]
- Fine between RM200 and RM2,000 or six months' imprisonment or both [Sec. 120]
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APPENDIX 1I

Scope for Back Duty Inquiry

The Director General of Inland Revenue (DGIR) has wide powers to combat tax evasion. A summary of the administrative powers to investigate and collect information on tax evaders is given below :

- Power to call for specific returns and production of books (Sec 78 ITA).
- Power to call for statement of bank accounts, sources of income, statement of all assets in the name of taxpayer, spouses, dependent child or nominees (Sec 79 ITA).
- Power of access to land and buildings including documents (Sec 80 ITA).
- Power to call for information from any person other than those who are required to observe secrecy (Sec 81 ITA).
- Power to obtain information concerning other persons income or assets or liabilities (Sec 84 ITA).
- Power to go back 12 years if it appears to the Director General that sufficient assessment has not been made on a person liable to tax [Sec 91(1)].
- In the case of fraud or wilful default or negligence committed by or on behalf of any person, there is no time limit to raise additional assessment [Sec 91(3)].
- Recovery of unpaid tax from persons leaving Malaysia (Sec 104).
- Arrest without warrant a person who attempts to leave the country without paying all the taxes specified in the Certificate (Sec 115).
- Finally, it should be noted that documents, information and communication, in the possession of taxpayer's accountant, advocates and solicitors are not privileged from disclosure to the Director General [Sec 142(5)(6)].

Feature

What Internal Auditors Should Know About Business Environmental Risks

By Robert Khaw, Senior Technical Manager, Malaysian Institute of Accountants

Introduction

Businesses need to grapple with a myriad of risks on a constant basis. These risks, if not properly managed, have the potential to be disastrous for companies and financial institutions.

Herein lies the relevance of internal auditors in managing and mitigating the diverse business environmental risks. Internal auditors must understand the environment in which they operate and cannot afford to have a blinkered view of things. Their roles cannot be overemphasised, given the magnitude of the financial losses of numerous companies and the fast-paced developments that are taking place around the globe. These phenomena have resulted in the development of the risk-driven audit approach, as opposed to the traditional transaction-based audit approach.

This paper has a threefold objective. Firstly, it highlights the nature of risks. Secondly, it seeks to explore, *inter alia*, a major development which will impact businesses in the next millennium, i.e. the Internet revolution. The Internet revolution can be likened to the industrial revolution in the UK of the past, which not only opened a window of opportunities, but also gave birth to new risks. Thirdly, the paper stresses the vital ingredient of information in risk management.

Needless to add, the development of an information infrastructure is not only relevant in managing risk arising from the Internet revolution, but also is vital and necessary in managing other business environmental risks such as those emanating from globalisation and liberalisation.

Internal auditors must understand the environment in which they operate and cannot afford to have a blinkered view of things.

Nature of Risks

The nature of risks can be described in the following terms :

- Some risks are controllable, others are not so easily controllable.
- Some are external (e.g. globalisation and liberalisation), while others are internal (e.g. unhappy or temporary employees leaving with stolen key information and joining a rival organisation; lack of an effective risk management framework or good internal control system and fraud).
- There is a saying which tells us that history does not repeat itself, but it rhymes. This is true of risks, which does not occur in exactly the same manner, but in different forms.

Like cells in the body, risks can multiply. And like blood in the body, risks can travel or migrate, sometimes faster than expected.

Risks Can Multiply, Migrate and Mutate

1 *Multiply and Migrate*

Like cells in the body, risks can multiply. And like blood in the body, risks can travel or migrate, sometimes faster than expected. This can be gleaned from the following examples :

i *Recent dioxin food scare which originated from Belgium*

The discovery of dioxin in a certain food product led to many other foodstuff being on the watch list or banned list not only in Belgium and Europe, but also in the US and Asia.

We can only imagine the severe impact that the above discovery had on Belgian financiers and certain food-based companies. Beyond Belgium, the businesses of overseas suppliers and food-based wholesalers and retailers were also adversely affected to some extent.

ii *South-east Asian haze in 1997 which originated from Indonesia*

The regional haze created a health hazard for those with respiratory and eye problems.

But this environmental risk had also severely affected the tourism, hotel and airline industries and other related industries. That such a risk can multiply and migrate should not escape the eyes of internal auditors, especially those working in the affected sectors, as well as the financial institutions.

iii *Asian financial crisis in 1997-98 which originated from Thailand*

Sectorally, the Asian financial crisis moved from the financial sector to the real sector. That is to say, the crisis migrated from foreign exchange market to stock market, then from these financial markets to the property and property-related sectors (e.g. cement, bricks, ceramics, iron and steel, electrical fittings, piping, 'white goods' like refrigerator and microwave ovens, furniture and so on). Thereafter, other companies got hit and eventually the full-blown crisis knocked out many Asian financial institutions.

Geographically, the crisis migrated from Thailand to regional countries and beyond, causing untold socio-economic and political damage along the way.

2 *Mutate*

But risks do not just multiply and migrate. Sometimes, some risks mutate, i.e. they can change and take on different forms, in a similar way some good cells inexplicably mutate and become life threatening. The following examples will elucidate this point :

i *Risks to our food*

Today's risk to our food may lie in the excessive use of growth hormones, pesticides, herbicides, banned antibiotics, dioxin (e.g. in vegetables, fertilisers, animal feed, poultry, etc).

Perhaps, tomorrow's risk to our food and our environment could originate from genetic engineering? The debate on genetically modified (GM) food is still raging. Such food is currently being lambasted in Europe by consumers and environmentalists, as they claim such food destroy the environment and threaten food safety.

The Internet revolution, while opening a window of opportunities for companies, will give birth to new risks.

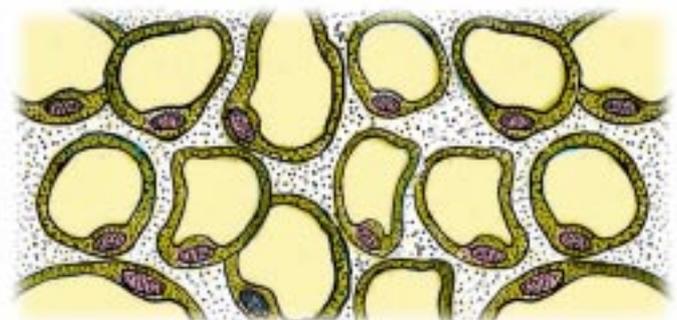
ii *Risks in e-commerce or e-business*

The new business rules in the digital economy can also give rise to new risks unheard before. The Internet revolution, while opening a window of opportunities for companies, will give birth to new risks.

Indeed, if businesses remain as they are in the next millennium, they will probably be overtaken by the rapid developments in the new world of e-commerce (retail) and e-business (commercial). Some businesses might just fade away, while new ones emerge. Countries that adapt quickly to the new business rules for the networked economy are more likely to enhance their competitive advantage over those that choose to neglect it. These then are the micro and macro challenges and opportunities that come with embracing e-transactions.

Risk-driven internal auditors should not be caught unaware by such a development, which may create unexpected business risks. The following developments are merely samples of how the risk profile of businesses may increase in the digital age :

- Amazon.com is beginning to cause some competitors in the retailing and book business to sit up and respond.
- The migration from magnetic stripe-based cards to smart cards is on the way, and this too is not riskless.
- Stock trading using the Internet is becoming a hot phenomenon in the US. With the availability of Web stock trading services, investors will be empowered to trade shares on their own



without the assistance of stock brokers?, predicts Bruce Elliot, Managing Director of the World Wide Web Institute.

- On-line banking, loans and bill payments fraud are set to rise, as we march forward to the digital economy. This anticipated development has implications for the banking industry. For example, are financial institutions giving adequate attention to the development of knowledge-based workers such as IT and cyber auditors, forensic auditors, etc. Financial institutions should also take note of the risk exposure in a virtual private network (VPN) environment where one bank's system may be grafted to another bank's insecure system.

The above phenomena have long-term ramifications not only for companies, but also countries. National competitiveness can be adversely affected, if we are slow to latch on to the new wave — the networked economy of the 21st Century. And the loss of national competitiveness can adversely affect businesses and financial institutions in the longer term.

While business environmental risks can multiply, migrate and mutate, the good news is that they can be managed and mitigated to some extent.

Risks can be Managed and Mitigated

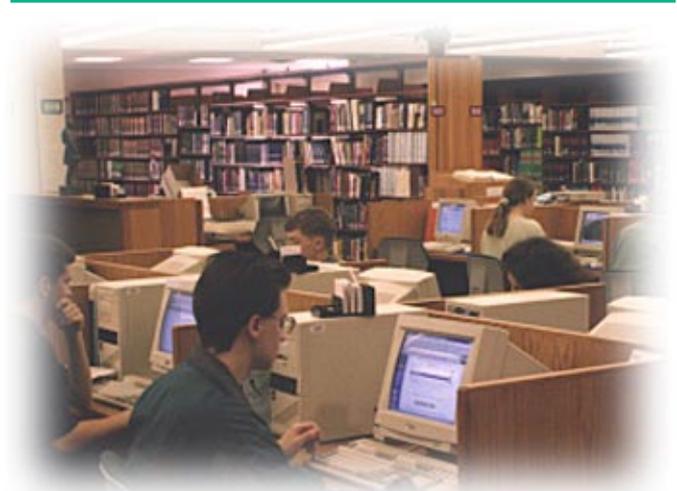
While business environmental risks can multiply, migrate and mutate, the good news is that they can be managed and mitigated to some extent. An effective risk management system, coupled with management's commitment to risk management, can help to mitigate risks, even as risks multiply, migrate and mutate. This was evident, for example, in some of the better managed and prudent Malaysian companies and financial institutions, which were less severely affected than those without a proper risk management framework. Unfortunately, the number was not as many as it should have been.

Information — The Oxygen of Risk Management

Risk-driven internal auditors are expected to play an increasingly prominent role in the future. Their skills and competence will be fully tested as they undertake their new portfolio of managing and mitigating risks. Their added heavy responsibilities will require, *inter-alia*, a thorough review of the set-up of the Internal Audit Department.

What is also fundamentally important is that they pay particular attention to the vital ingredient in their work — information.

While risk management is a critical concept for management to buy in, it would not do any good without information. One must understand that information is the oxygen of risk management.



1 Information as a Crucial Ingredient in Risk Management

While risk management is a critical concept for management to buy in, it would not do any good without information. One must understand that information is the oxygen of risk management. Information that is needed in risk management must be relevant, accurate, reliable, timely and sufficiently comprehensive.

That information is important to risk management can be gauged from, for example, Bank Negara Malaysia's GP/10 (Guidelines on Minimum Audit Standards for Internal Auditors of Financial Institutions) which states that :

"Internal auditors should also be concerned with the relevancy, accuracy, reliability and timeliness of information generated for management's attention and decision-making."

(section 3.4.2)

With regard to the banking industry, internal auditors should be increasingly aware of the various financial sector's environmental risk profiles *viz.* credit (e.g. asset quality, collateral concentration, borrower's capacity to repay, management, legal, etc), market (e.g. value at risk, interest rate, liquidity, price, etc) and others (operational risks, e.g. weak internal control system, fraud, poor customer service, human resources, legal, location, logistics, management, political, regulatory, reputation, security,

technology, underwriting position and so on)¹. It is evident that risk-based internal auditors have a huge task ahead of them.

But beyond just awareness, internal auditors should periodically review the state of their information infrastructure. This will become increasingly critical not just in capitalising on opportunities, but also in reducing risk exposures. The questions that beg to be answered include the following :

- What is the state of the information infrastructure like with regard to gathering, analysing and interpreting material information pertaining to the various business risk profiles (e.g. globalisation and liberalisation), apart from those emanating from the Internet revolution?
- How well-funded and adequately staffed is the information infrastructure needed to provide the vital support to decision-makers?
- Do we have the right type and number of knowledge-based workers required to undertake the risk-driven audit?
- What opportunities are there for internal auditors to upgrade their level of competency?
- Have our organisations made use of the global digital library to source for value added material or time-sensitive information?
- Are our Internal Audit Departments connected to the Internet to take full advantage of the global digital library and do internal auditors have access to this facility?

The case for effective and well-equipped information infrastructure in risk-based audit work is indisputable. Nevertheless, information *per se* is not the panacea in mitigating business risks. The Second Finance Minister, YB Dato' Mustapa Mohamed, said it well recently :

"Inadequate communication of information between levels of management within the organisation, especially in the upward communication of problems, even when telltale signs have clearly emerged, is one of the key weaknesses of corporations."

(The Star, Business Section, 15 June 1999, p. 5)

Speed of communication of strategic information to key decision-makers is vital. Many Asian companies went into financial coma or died because the response time to a crisis situation was just too long.

Speed of communication of strategic information to key decision-makers is vital. Many Asian companies went into financial coma or died because the response time to a crisis situation was just too long.

Concluding Remarks

The role of the Malaysian internal auditors has been elevated in recent years, given the migration from the traditional transactions-based audit to the risk-driven audit. Increasingly, internal auditors would need to equip themselves to manage and mitigate the numerous and diverse business risks. The Internet revolution is just one such source where risks can unexpectedly emerge.

Others will emerge externally (e.g. globalisation, liberalisation, political instability) and internally (e.g. computerised fraud, and inadequate investment in R&D or skills development). Indeed, such business environmental risks can multiply, migrate and mutate faster than expected.

Therefore, an effective and well-equipped information infrastructure should be put in place to gather, analyse and interpret information. This is critical because information is the oxygen of risk management, and risk-based internal auditors should procure this 'oxygen'.

Beyond that, internal auditors should pay particular attention to the speed with which time-sensitive and material information is communicated to decision-makers. At times, it may just mean the survival or collapse of an organisation. Risk-driven internal auditors have a vital role to play — they can help to prevent the untimely demise of their organisations.

¹ BNM/GP10 (Part V) has documented the various risks that internal auditors should take cognisance of : credit operations (section 2.3), treasury operations (section 3.2), derivatives (section 4.2), investment in debt and equity securities (section 5.3), computer operations and security (sections 6.4 and 6.5) and insurance underwriting (section 7.2).

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 Note : The views expressed in this article are the author's and do not necessarily represent those of the Institute.



Institute News

Memorandum to the Ministry of Finance for the 2000 Budget

Upon the invitation of the Ministry of Finance (MOF), the Malaysian Institute of Accountants submitted its Memorandum in July 1999 based on the theme “Towards Sustaining Recovery and Reinvigorating Economic Growth and Strengthening National Competitiveness”. The submission was in conjunction with the MOF’s Annual Budget 2000 Dialogue Session.

In the Memorandum, the Institute noted that regional economic activities are gradually picking up. Nevertheless, “one can never be too sure about the shape of things to come, given certain downside risks in the global economy”, the Institute cautioned.

The Institute also expressed its full support to the government in safeguarding, restoring and strengthening the Malaysian economy. “We are beginning to see some encouraging developments arising from efforts to free ourselves from the vice-like grip of unbridled ‘market forces’”, the Institute added.

The text that follows is the Executive Summary of the abovementioned Memorandum, which the Institute believes will contribute towards achieving the overriding objective of achieving sustainable and strong economic growth.

EXECUTIVE SUMMARY

1.1 Preamble

1.1.1 This Memorandum to the Ministry of Finance (MOF) represents the views of the Malaysian Institute of Accountants (MIA), which is the national accountancy body entrusted with the responsibilities of regulating the accountancy profession. The Institute aims to be a partner in nation-building.

1.1.2 The Memorandum is in response to the government’s call to contribute towards efforts in sustaining recovery and fostering economic growth, as well as strengthening national competitiveness.

1.1.3 The Institute has identified several critical issues that we respectfully raise for the attention of the MOF, as well as put forth policy recommendations that we hope will achieve the theme as clearly defined by the MOF.

1.2 Fiscal Policy

1.2.1 We support the government in reversing its unduly tight fiscal budget at the height of the crisis. The expansionary budgets may need to continue, at least for the next year or two, before consolidation takes place.

1.2.2 The disbursement of public funds, if not quickly rectified, will delay the recovery process. The funds should also be allocated efficiently and yield the maximum dividends for the country.

1.2.3 A measure that will greatly assist the business community is to make the corporate income tax regime even more competitive as we move into the next millennium.

1.2.4 We propose that personal tax relief should be raised to lessen the financial burden, especially those at the lower to lower-middle income brackets. This measure can also stimulate consumption, which will help the economic recovery process.

1.3 Monetary Policy

1.3.1 The monetary easing has been a tremendous help to the business community, and especially to those who have substantial debts. However, we feel that the prevailing interest rates are low enough. Pensioners in particular who rely on interest income have been adversely affected by the low interest rate regime. This group of people should be provided some form of relief.



1.4 Foreign Direct Investment (FDI)

1.4.1 FDI is still needed to complement the domestic engine of economic growth, especially during this period of low economic growth.

1.4.2 We wish to stress that the following factors affecting FDI or the investment climate should be carefully assessed from time to time, and not left to chance.

i There should be no letup in the government's efforts to ensure that the political stability should not be undermined, particularly amidst the rising "election fever". A relapse in investor confidence should be avoided at all cost because it will have far-reaching implications on the socio-economic equilibrium.

ii Our Prime Minister has recently asserted that the fixed exchange rate (RM3.80 to the US dollar) will be maintained for a long time, even after other countries' currencies have appreciated. We should capitalise on this to draw in the FDI for as long as we are able to keep the ringgit at this level.

1.4.3 The Institute through its accountants' wide and established international affiliations can contribute to attracting FDI into Malaysia. In view of this, we propose that incentives in the form of tax deduction be given to encourage practising accountants to attend or organise conferences at the local and international fora where they have opportunities to promote Malaysia as an attractive investment location.

1.5 Human Capital Investment

1.5.1 We view investment in human capital as a key factor in promoting sustainable and strong economic growth. This should be clearly defined and elevated in this year's Budget, and should be followed through in subsequent Budgets in the next millennium.

1.5.2 We propose that the allocation for education should be commensurate with the great importance attached to education and training. Education should be viewed as a long-term investment, and not so much as an expenditure item to be maintained or reduced during the economic downturn.

1.5.3 Our country needs to invest for the future and expand its educational opportunities for several reasons :

i The currency crisis has resulted in thousands of our students being left with few or no options, but to study locally. We urgently need to cater for this marked increase in demand for educational services.

ii The government's aspiration to establish Malaysia as a global education centre of excellence must find its expression in a strategic plan, which should include the development of universities and colleges. In particular, we need to build more institutions of higher learning and upgrade the existing ones. Properly developed, the realisation of the country's goal as a global education centre for excellence can contribute in no small way to foreign exchange earnings in the next millennium.

iii Much foreign exchange can be saved by giving Malaysian students affordable and good alternatives in the form of more local educational opportunities.

1.5.4 In this regard, we wish to highlight that it will not be long before our accountancy profession is subject to the World Trade Organisation's (WTO) liberalisation of the services sector. Therefore, we feel the relevant authorities should give its urgent attention to the MIA's plan to embark on a full-fledged accountancy examination. The examination, which is provided for under the Accountants Act, 1967, will promote the Institute's agenda of upgrading our accountancy qualification and seeking greater international recognition. The benefits of having our own full-fledged Chartered Accountancy Examination are immense, namely :

i Reduction in the outflow of funds on expenditure for subscriptions of foreign accountancy qualifications estimated at RM50 million a year. This does not include the costs of acquiring accountancy degrees overseas and education expenditure for twinning programmes in Malaysia. The outflow of funds could well exceed RM500 million a year.

ii Malaysian students can become chartered accountants without going overseas.

iii An exportable professional examination has the potential to earn foreign exchange earnings.

iv It will reduce the current over-dependence on overseas accountancy bodies, thereby restoring Malaysia's sovereignty and independence of its accountancy profession.

v MIA needs a world-class benchmark qualification for the purpose of Mutual Recognition Agreement (MRA) under the WTO framework.

1.5.5 There is a need for a world-class governance infrastructure for education, which will require a review and a renewal of the existing educational infrastructure. We propose the following initiatives :

i Create opportunities for people to participate in what is known as lifelong learning. Entry requirements for such classes should not be restrictive.

- ii** Professional bodies, as well as private colleges should be given the incentives to help translate the proposed strategic national manpower plan into reality. Tax rebates could also be considered for members of professional bodies who attend accredited training programmes, as well as others who might be interested in these programmes.
- iii** Universities and colleges should be constantly renewed in the sense that they are properly and adequately equipped and maintained for the modern times. They should be developed to become mega educational establishments of excellence, comparable with renown ones abroad.
- iv** Careful attention should be given to issues such as the quality and advancement of the teaching staff, as well as the examination standard to meet the exacting demands of the digital economy.
- v** The educational curricula should also be periodically reviewed to ensure they are relevant for the times.
- vi** To ensure the effective functioning of the abovementioned strategic plan, there is a need for a co-ordinating body or unit to track the major global and domestic developments which have an impact on the education sector and to advise the government on policy adjustments that need to be taken.
- vii** There is also a need to link any educational policy changes (which may require funding to implement them) to the national budgets.
- viii** Incentives should be given to the public universities in their effort to develop knowledge-based manpower, as the current incentives apply only to the private educational establishments.
- ix** Mergers of the smaller private colleges should be encouraged in the face of the anticipated imminent shakeout.
- x** Schooling for our children should begin a year earlier, in line with the practice of several developed and newly industrialising countries. This being the case, we can augment the supply of semi-skilled and skilled manpower to meet the increasing demand, as we move towards the status of a developed country by 2020.

1.6 Small and Medium-scale Industries (SMIs)

1.6.1 SMIs have yet to reach their potential in contributing to the economic progress of our country.

1.6.2 A major constraint is in the area of financing. The government should continue to urge financial institutions to be supportive of an important sector of growth such as the SMIs. They should work closely with the relevant authorities and the various industry associations representing the SMIs.

1.6.3 A review of the requirements governing the disbursement of government funds for the SMIs should also be undertaken. Periodic consultations with the various industry associations should take place to ascertain their views on the requirements relating to funding. Where the requirements are found to be unduly restrictive, we would urge the government to amend them.

1.7 National Competitiveness

1.7.1 The common denominator that will critically determine national competitiveness is that which cuts across all industries — productivity.

1.7.2 This message needs to be widely disseminated not only in the private sector, but also the public sector. This is because an efficient public sector will contribute to greater efficiency and lower cost of doing business, thus enhancing national competitiveness. Therefore, we propose that the bonus payment in the public sector be reviewed and be linked to performance as in the private sector. Civil servants should continually be exposed to programmes which emphasise the delivery of quality, efficient and friendly service.

1.7.3 The various industry associations and professional bodies should likewise be urged to play a greater role in imparting the message of productivity. Productivity should become a critical component of our national culture. Therefore, both the public and private sectors should continually explore ways and means to enhance total factor productivity (TFP).

1.7.4 With regard to the export-oriented sector, focusing on productivity *per se* is insufficient. It must be combined with good marketing skills and networking abroad. Therefore, Malaysia's missions abroad should be more fully utilised to help our local exporters to be connected abroad. Staffing the missions with competent, resourceful and helpful staff will greatly advance the interests of Malaysian exporters.

1.7.5 Our local exporters should also take advantage of the Internet to scout for opportunities and to make known their products or services. To encourage exporters to “think global and go digital”, the government could consider providing incentives for them to accelerate their plans to make their presence felt in the arena of e-commerce (retail) and e-business (commercial).

Environmental Accounting and Reporting Workshop

To keep accountants abreast of environmental accounting issues, the Institute recently organised the Environmental Accounting and Reporting Workshop in Kuala Lumpur. This workshop was organised with the support of the United Nations Conference on Trade and Development (UNCTAD). The Guest-of-Honour who officiated the event was the Secretary General of the Ministry of Science, Technology and Environment, YBhg Dato' Cheah Kong Wai.

During the opening ceremony, the President of the Institute, YBhg Dato' Hanifah Noordin, expressed his concern towards the environmental problems faced by the world today. He mentioned that for countless generations, people had neglected the environment in the process of creating wealth. For the sake of development, people destroyed forests, polluted water ways and upset the balance of nature.

"With our minds set mainly on dollars and cents, we maximised our profits by exploiting and exhausting the earth's natural resources. At the same time, we also resorted to using low-cost but environmentally-damaging production techniques. Such practices caused untold damage to the environment," stressed Hanifah.

In the course of time, a percentage of the public realised the environment is an invaluable asset that must be preserved at all costs. The emergence of environ-

mental movements around the world prompted many organisations to change bad habits and adopt eco-friendly production techniques.

Although significant progress has been made in promoting awareness of environmental conservation, Hanifah said that the community still had much to do in restor-

ing the environment. Hanifah was glad the Ministry of Science, Technology and Environment has been proactive in this area.

"As environmental issues are now becoming part and parcel of an organisation's operations on a global basis, we need to have a set of harmonised accounting and reporting standards for dealing with environmental transactions. A harmonised international accounting framework will lessen the chance of national standard-setters adopting divergent accounting treatments for various environmental



Participants signing up for the workshop



Full concentration ... the topics managed to grasp the participants attention

Closing Ceremony

The two-day Environmental Accounting and Reporting Workshop was closed by YBhg Datuk Mohd Salleh Majid the President of the Kuala Lumpur Stock Exchange (KLSE). In his speech, Salleh said that the increased liability facing companies which do not comply with environmental regulation was the reason why environmental issue has emerged as one of the company's top agenda. As such, corporate executives should move beyond the view that environmental compliance is a necessary evil. Instead, they should see it as an exciting opportunity for their companies to embrace and ultimately profit from it.

"As the 20th century draws to a close, two global trends are converging. The first, and more powerful, is the increasing integration of the world economy, and the resulting interdependence of domestic and international policies that affect trade in goods and services. The second is the need to protect the environment," added Salleh.

These trends are now intertwining in complex ways. In the same way that inter-

national trade rules have evolved in response to global economic interdependence, so too are new environmental rules evolving in response to global environmental interdependence, and opportunities arising out of this to link the objectives of market integration with environmental protection.

The linkages between trade and environment are complex. Trade promotes more efficient use of natural resources, and reduces waste in production and consumption. But trade distortions and the scale of trading activity can result in environmental damage. To reconcile such conflicts and to promote sustainable development, it is vital to co-ordinate policies internationally, said Salleh.

Environmental issues are always associated with sustainable development. Sustainability concepts confirm what the economists have long known, namely, that economic growth was and often still is measured by some misleading indicators. In particular, environmental damage is not accounted for in the Gross Domestic

costs and liabilities," stressed the President.

The Institute is glad that UNCTAD's Inter-governmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) has come up with a set of guidelines on accounting and financial reporting for environmental costs and liabilities. These guidelines will assist corporations, regulators and accountancy bodies in finding the best accounting practices for dealing with environmental transactions.

The two-day workshop was well-received by participants.

Product (GDP). As a result, it can give false information. Therefore, the KLSE President strongly called upon corporate entities to contribute substantial effort to better account for aggregate environmental loss and change.

"By having accurate environmental accounting data, better overall cost data can be produced and thus help companies survive in today's marketplace. Companies are encouraged to adopt managerial accounting and capital budgeting practices that integrate environmental costs into private sector management decisions," added Salleh.

Datuk Mohd Salleh Majid ended his speech by reiterating the importance of protecting the environment. Corporate executives must lead the way, take a stand and turn environmental concerns into competitive advantages. Environmental efforts must be addressed throughout the corporation to be effective and efficient. Environmental issues are here to stay; therefore those who face these issues head-on will ultimately reap the rewards.

Activities Organised by MIA Northern Branch

The Northern Branch under its proactive CPD sub-committee organised three programmes during the first half of this year. These programmes were aimed at meeting the many and different needs of members and the business community in this region. Members also enjoyed the benefit of having a wider choice of topics in addition to the CPD programmes brought to the branch from head office.

The branch kicked off the year by organising a half-day programme on "The Recent Amendments to the Employment Act 1955" on 22 January 1999. Mr. Ajit Singh, an advocate and solicitor with extensive experience in labour, personnel and industrial relations, enlightened the 73 participants on the recent amendments. The Senior Assistant Director of the Department of Labour (Butterworth), Mr. Chee Choo Kooi was present for the panel discussion chaired by Mr. Ng Swee Weng, Northern Branch Committee Member.

In February 1999, over 90 participants attended the half-day seminar, "The Recent Amendments to the Companies Act 1965" held in Penang. The first session, "Commentary in the Legal Aspect" was presented by Mr. Jeyasingam Balasingam Senior Legal Assistant from a leading legal firm in Penang. The second speaker, Mr. Ng Swee Weng, Partner of KPMG presented a helpful paper, "Implications on the Audited Accounts". Mr. Danny S. C. Goon, Chairman of the Northern Branch, Company Law Practice Sub-Committee chaired all the sessions.

Responding to a few registered accountants' request, a full-day Practical Course in Company Secretarial Procedures was



Mr. Neoh Chin Wah, Northern Branch Chairman, presenting a memento to Mr. Choo Chee Kooi. Sitting at the head table (L-R) are Mr. Ng Swee Weng and Mr. Ajit Singh.



Speakers, Mr. Ng Swee Weng and Mr. Jeyasingam Balasingam with sessions chairman, Mr. Danny S.C. Goon during the Q&A session at the seminar on "The Recent Amendments to the Companies Act, 1965" on 25 February 1999

held in June. The course leader, Ms. Sawarn Kaur, FCIS effectively presented a practical perspective of the key areas of company secretarial procedures to 45 participants. She was one of the recipients of the Best Company Secretary Award given by the Registrar of Companies (ROC) in conjunction with the ROC's centennial celebration last year.

A forthcoming event will be a major

conference entitled, "Mergers and Acquisitions — Challenges and Opportunities in Year 2000 and Beyond". It will be held on 9 August 1999 at the Equatorial Hotel Penang. A panel of six experts and speakers from the relevant authorities, merchant bank, public accounting firm, legal firm and consulting firm will be invited to speak at the conference. For details, please call the branch at 04-229 4203 or fax 04-229

5546, or e-mail at mianb@po.jaring.my

Members of the working CPD Subcommittee are Major Chow Cho Han (Chairman), Mr. Ng Swee Weng, Mr. Fan Kah Seong, Mr. Oh Thean Khoon, Mr. David Her, Mr. Jerome Tan, Mr. Low Teng Lum, Mr. Michael Lim, Mr. Neoh Chin Wah (ex-officio) Ms. Oon Hooi Khee, Ms. Noorhayati Mansor and Mr. Yap Soon Hin.

Sibu Chapter Dialogue with the IRB



The MIA Sibu Chapter held a dialogue with the Inland Revenue Board (IRB) recently. Mr. Low Sang, who is the Assistant Senior Director, and his team of senior officers were present during the dialogue. A lively discussion was held and accountants were briefed on the introduction of the current year basis year of assessment and self-assessment system. The accountants also queried and sought advice on administrative matters on tax payments and other related matters.

Active participation ... accountants engrossed in discussion

MIA Negri Sembilan-Melaka Branch Extends Co-operation to IROU and IRB Seremban

The IROU and IRB Seremban organised a Tax Briefing entitled "Changes to the National Tax System and Structure" in Seremban recently. The event was officiated by YB Dato' Wong See Wah, the Deputy Minister of Finance. The Chairman

of the MIA Negri Sembilan-Melaka Branch, YBhg Dato' Dr. Nellie Tan-Wong, was invited by the joint organisers to chair the session. The speaker was Mrs. Wong Kim Seong, Assistant Director General (Technical Division), IRB. More than 200

participants attended the briefing and Puan Najirah Mohd Tassaduk Khan, CEO/Director-General of IRB, was also among those present at the briefing.



Dato' Nellie welcoming the speaker and participants



Full attention ... participants listening attentively to the speaker

Managing Non-Performing Loans and Debt Restructuring

The management of non-performing loans (NPLs) and debt restructuring is a pertinent issue during this period. The financial crisis, which hit the Malaysian economy beginning in July 1997, adversely affected both the banking and corporate sectors. This is evidenced by the banking sector's net NPL ratio, which escalated to 13.2 percent as at end-December 1998 from 4.7 percent as at end-December 1997, based on the three month NPL classification.

At the 1999 National Credit Management Conference, YBhg Dato' C. Rajandram presented a discussion paper on how to manage NPLs and debt restructuring. He is currently the Deputy Chairman of Rating Agency Malaysia (RAM) and Chairman of the Corporate Debt Restructuring Committee (CDRC).

Rajandram said that Danaharta plays an important role in cleaning up the NPLs of local financial institutions. "From the banking system perspective, Danaharta purchases NPLs from financial institutions

and manages these NPLs to maximise recovery value. This removes the NPL impediments from the banking system and allows financial institutions to resume lending activities, which in turn spurs economic recovery," said Rajandram.

"On the other hand, Danamodal will help revitalise local financial institutions that have been weakened by NPLs. Where the banks' risk-weighted adequacy ratios have been pressured by the losses incurred due to NPLs, Danaharta comes into the picture to recapitalise the affected bank-



YBhg Dato' C. Rajandram stressing a point

ing institutions to healthy levels. However, Danaharta and Danamodal do not address the other side of the equation, which is strengthening the health of the corporate sector”, stressed the CDRC Chairman.

“CDRC was set up to provide a framework for informal workouts between financial institutions and borrowers without resorting to legal proceedings. The idea behind the voluntary workouts is to evolve win-win solutions that benefit both creditor banks and debtors. As the corporate sector is an important component of the economy, the recovery in this sector can be viewed as getting the country’s industrial output growing again through new capital investment, increased capacity utilisation and higher productivity,” said Rajandram.

“In short, for the economic recovery process to be sustained, we need to revive business investment and productive activities. Increased business spending is required to generate new employment opportunities and create additional demand for intermediate inputs and supporting services. Therefore, a critical aspect of any economic recovery effort must be channelled towards restoring corporate health. As the strength of the banking sector and health of the corporate sector are intertwined, this will in turn benefit the banking sector.”

According to Rajandram, CDRC will be able to provide the range of solutions required to preserve value for affected stakeholders, especially in complex multi-lender situations. He said that the spate of Section 176 applications to seek court protection in the first half of last year, as well as actions by financial institutions to initiate insolvency proceedings, have unveiled several shortcomings of the current insolvency legislation. The usual receivership and liquidation administrations do not discriminate the viable businesses from the non-viable, resulting in the inevitable demise of these affected companies.

In helping to resolve debtor-creditor issues, CDRC aims to :

- Minimise losses to creditors, shareholders and other stakeholders through voluntary co-ordinated workouts.

- Preserve viable businesses that are affected by current economic conditions, and hence preserve jobs.

- Introduce and implement a comprehensive framework for debt restructuring.

“CDRC is primarily concerned with actions in the period from application to assistance to the restructuring of the facilities over a longer term. Therefore, it provides a framework of terms upon which the lenders will continue to extend support, and, where necessary, provide additional short-term liquidity during this period pending a decision on the way forward.”

“It further seeks to ensure that decisions about a company’s future are based on sound and reliable information to avoid corporate collapses resulting from possible inter-creditor disputes or ill-informed decisions. The entire approach is premised on the contention that collective support from lenders during initial period of uncertainty would yield higher rates of recovery than would be achieved by premature initiation of insolvency administration,” added Rajandram.

The CDRC’s operations are guided by four basic principles :

- Financial institutions must be supportive, and not precipitate insolvency proceedings.
- Decision-making is on the basis of sharing reliable information among all parties involved in the workout.
- Financial institutions must co-operate to reach a collective view on whether a company should be given financial support based on specified terms.
- Losses should be jointly borne in a fair manner to specified categories.

“We note that these principles are not new and have been successfully implemented in various other countries, most notably in the United Kingdom. The intention of the guiding principles is to achieve a fair solution on a consensus basis between lenders and borrowers. As a Steering Committee set up to assist in debt restructuring, the CDRC facilitates a conducive environment for parties to reach a

common understanding on pertinent issues for debt restructuring to proceed.”

The CDRC also has its terms of reference. The terms of reference of CDRC are as follows :

- The company/business must be viable.
- The debtor must not be in receivership or liquidation.
- Total aggregate bank borrowings should be about RM50 million or more.
- The borrower company must have multi-bank borrowings.
- Debtors that have already obtained a Restraining Order pursuant to Section 176 may also apply on condition that the Restraining Order against the financial institutions be withdrawn once a standstill agreement is reached.

Rajandram also elaborated on what CDRC has achieved since its establishment. “CDRC is pleased to report that progress has been made in the restructuring of corporate debts in Malaysia. Out of the 57 applications to CDRC as at 30 April 1999, four applications have been withdrawn by the applicants or rejected by CDRC for not being viable. The remainder 53 cases comprised of debts amounting to RM30 billion. To-date, CDRC has completed seven cases. Of the six, four debt restructuring proposals have been accepted by the creditors. We also assisted in the remainder three cases that are restructured by Danaharta under its special administration powers.”

“Our most notable achievement so far is the debt restructuring proposals for Renong Berhad and United Engineers Malaysia Berhad, involving total debts of RM8.4 billion. Although the proposals are awaiting lenders’ decision, we expect a favourable result when the lenders meet for a decision of CDRC’s proposals. Including Renong and UEM, CDRC is well on its way to completing the restructuring of an estimated 26 companies involving total debts of RM14.8 billion by mid-1999. This accounts for close to 59 percent of debts under restructuring with CDRC,” added Rajandram.

IFAC News

Enhancing Shareholders Wealth by Better Managing Business Risk is Subject of New FMAC Publication

Accountants interested in significantly enhancing an organisation's economic performance by better managing risk can gain insights from a new publication entitled "Enhancing Shareholder Wealth by Better Managing Business Risk" just released by the International Federation of Accountants (IFAC) Financial and Management Accounting Committee (FMAC).

Developed in conjunction with PricewaterhouseCoopers' Global Risk Management Solutions group, the study was written in response to an increasing demand for information on risk management issues.

"In the past, risk was generally viewed by business as a negative concept — a hazard or downside. However, there has been a growing trend recently to put a positive spin on risk, as more is understood about the connection between well-managed risk and improved performance," said William McElroy FMAC chairman. "Accountants looking to better understand how newly emerging risk management tools and techniques can be utilised to create opportunity and value will find this study particularly beneficial." The study provides information on evaluating an entity's risk, developing a risk continuum, and assessing the

impact of risk on a company's operating procedures and strategy objectives.

Readers will come away with a better understanding of why risk management is important to preserving shareholder wealth, how they can better identify an organisation's risk profile and how they can establish an integrated risk response strategy. The study also includes a section on what the authors believe the future holds for risk management.

"Enhancing Shareholder Wealth by Better Managing Business Risks", FMAC Study 9, is available on the IFAC Website (www.ifac.org).

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IFAC is the worldwide organisation for the accountancy profession. Its mission is to develop and enhance the profession to enable it to provide services of consistently high quality in the public interest. Its current membership consists of 143 professional accountancy bodies in 104 countries, representing more than two million accountants in public practice, education, government service, industry and commerce.

Student's Column

University of Malaya

Accounting Club Interaction Week

In conjunction with the University of Malaya (UM) Accounting Club's Interaction week, Council member Mr. Daniel Chian spoke to 300 first-year Bachelor of Accounting undergraduates. Mr. Chian began by congratulating them on their academic success to-date and asserted that they were indeed the nation's finest students and the answer to the nation's call for future top-class accountants. He also highlighted on the Institute's vision, mission and roles.



Closer relationship ... Mr. Mok (UM) expressing his gratitude to Mr. Daniel Chian

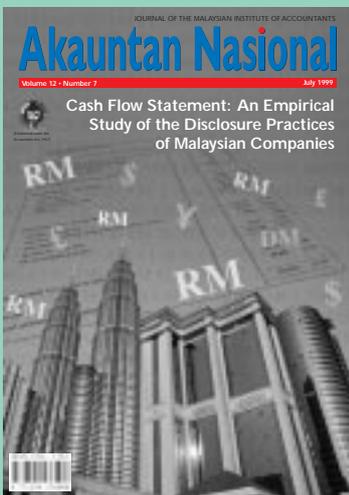
Mr Chian highlighted that accountants made good corporate leaders due to the academic and practical training that each accountant diligently undergoes, which is geared towards expanding the individual's mind and views on the organisation as well as the outside world. The training, which forms the crux for a successful accountant, is also tailored to teach the individual to look out for inconsistencies and irregularities. Mr. Chian then dispensed some personal tips to the undergraduates to prepare them for the real world out there.

The session ended with Mr. Chian telling the undergraduates that 'Nothing is impossible' and that he believes that they will each be great and enterprising individuals in the future.

Following that, the undergraduates asked several questions one of which was on the lack of jobs available for accountants, even with the anticipation of the need for more accountants towards the year 2020. Mr. Chian responded by saying accountants are competitively more sought after than other professionals in the job market.

The Interaction Week was held as part of the introduction to university life for first-year undergraduates. The Institute also had a booth at the event and it was well-received by the undergraduates. The morning saw many of them crowding the stand to seek answers to their many questions from the Institute's representatives.

Place your Recruitment Advertisements "FREE OF CHARGE" In Our Classified Pages



As part of the privileges accorded by the Malaysian Institute of Accountants, members and member firms will from January until December 1999 be entitled to place recruitment and positions wanted advertisements in the *Akauntan Nasional* free of charge.*

* Size of ad space depends on availability and the discretion of the Editorial Board.

Akauntan Nasional

For bookings and enquiries, please call :
Ms Shazrina of Communications Department,
Malaysian Institute of Accountants at 03-2274 5055, ext 256.

Library News

List of New Books in MIA Library

The following is a selection of new books in the Institute's library.

International Accounting Standards : Illustrative Financial Statements, Amsterdam : KPMG, 1998.

Call no : 657.3 INT

Legal and Accounting Implication of Section 67A of the Companies Act 1965 : The Scope and Strategic Operation of Share Buyback by Philip Koh Tong Ngee and Tan Liong Tong
Kuala Lumpur : MAICSA, 1998.

Call no : 346.595066 KOH

Productivity Report 1998, Petaling Jaya : NPC, 1999.

Call no : 330.595 PRO

Malaysian Taxation : Administrative and Technical Aspects (4th ed.) by Verinderjeet Singh
Petaling Jaya : Addison Wesley Longman Malaysia, 1999.

Call no : 336.2009595 VER

Percukaian Malaysia : Pentadbiran, Penaksiran dan Pematuhan Cukai : Termasuk Cukai Keuntungan Harta Tanah by Jeyapalan Kasipillai and Mustafa Mohd. Hanefah
Serdang : Penerbit Universiti Putra Malaysia.

Call no : 336.2009595 JEY

1999 Malaysian Master Tax Guide (16th ed.) by CCH Tax Editor, Consultant Editor : Verinderjeet Singh
Singapore : CCH Asia Limited, 1999.

Call no : 343.595 052 MAL

List of New Seminar and Conference Papers in MIA Library

The following is a list of new seminar and conference papers in MIA Library. The seminar and conference papers are for reference only. Contact the librarian for more information.

Seminar paper on “**Companies winding-up and Amendment to S176 of the Companies Act**” by Mr. Alex Chang. MIA seminar on 9 February 1999. Kuala Lumpur : MIA, 1999 (52 pages).

Code no : MIA 191/99

Seminar paper on “**Group Accounts**” by Assoc. Prof. Tan Liong Tong. MIA seminar on 9-10 Feb 1999. Kuala Lumpur : MIA, 1999.

Code no : MIA 192/99

Seminar paper on “**Offshore companies & jurisdictions — Tax Planning & Use**” by David Chong Kok Kong. MIA seminar on 5 Feb 1999. Kuala Lumpur : MIA, 1999.

Code no : MIA 194/99

Seminar paper on “**The recent amendment to the Employment Act, 1955**” by Mr. Ajit Singh Jessy. MIA seminar on 27 May 1999. Kuala Lumpur : MIA, 1999. (Handout - Bill - Employment (Amendment) Act 1955).

Code no : MIA 195/99

Seminar paper on “**Debt recovery — Legal procedures**” by Mr. Alex Chang Huew Wah. MIA seminar on 1 March 1999. Kuala Lumpur : MIA, 1999.

Code no : MIA 196/99

International Seminar on “**Accounting Profession in the New Millennium**”. Confederation of Asia and Pacific Accountants (CAPA). New Delhi, India, 23-25 April 1999.

Code no : CAPA 54/99

“**Environmental Accounting and Reporting Workshop**”. MIA/UNCTAD : Kuala Lumpur, 17-18 June 1999.

Code no : MIA UN 2/99

Registration of Accountants

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

	REG. NO.		REG. NO.
JOHOR DARUL TAKZIM		MENGLEMBU	
JOHOR BHARU		NG CHEE KAN	13916/PA
GERALD TEO KIAN HUAT	13928/RA	PULAU PINANG	
LEE SWEE TEK	13879/PA	BUTTERWORTH	
TAN HUI MING	13883/PA	LIM LAI SEE	13931/RA
TEY CHEW KUAN	13943/RA	GEORGETOWN	
TONG SWEE SEOT	13971/RA	CHAN CHIN GUAN	13945/RA
KLUANG		GOH POAY KUAN	13873/PA
LEW SWAN SWAN	13939/RA	LIM LAY EAN	13876/PA
KULAI		LUKE ONG CHOON HUAN	13903/PA
ELANCHELVAN A/L A. MUNIANDY	13944/RA	NG AIK KOK	13922/RA
MUAR		STEPHANIE CHEE JEE HUA	13926/RA
CHOON JOO EE	13882/PA	TANG HOOI YING	13987/RA
MOHD NIAM BIN MAHMUD	13904/PA	TOH EE LIN	13918/PA
SEGAMAT		PENANG	
LAW CHWAN YAW	13915/PA	CHEW MOH CHYE	13902/PA
KEDAH DARUL AMAN		LEE HAU CHERN	13953/RA
JITRA		TANJONG BUNGAH	
HAZLINA BINTI HANAFIAH	13912/PA	KHOO KIM SEE	13925/RA
KUALA KEDAH		CHONG MENG FONG	13906/PA
ROSLI BIN HAMID	13919/RA	SABAH	
KULIM		KOTA KINABALU	
NG SU CHING	13972/RA	CHANG HWAI TJET	13964/RA
LUNAS		JENNY WONG PING CHENG	13932/RA
SHANTI A/P RAMASAMY	13920/RA	OLIVIA CHONG SHIOW HUI	13947/RA
PENDANG		SANDAKAN	
ROSMADI NASIR BIN AHMAD	13936/RA	ANG SEA CHONG	13934/RA
SUNGAI PETANI		ANTHONY LAU BONG HORNG	13995/RA
KAHARIZAL BIN ISMAIL	13891/PA	SARAWAK	
MELAKA		KUCHING	
MASJID TANAH		KUEH KENG KIANG	13999/RA
ROSLI BIN SAMAT	13982/RA	LEE YUNG CHING	13887/PA
MELAKA		LIAW LI PING	13991/RA
EVELYN OH YEOK PIN	13954/RA	SIBU	
KOH PEI HONG	13948/RA	WONG KIE NAI	13949/RA
NORULAMIN BIN AHMAD	13994/RA	SELANGOR DARUL EHSAN	
PAHANG DARUL MAKMUR		AMPANG	
KUANTAN		CHRISTINE LIEW WAI KUEN	13921/RA
ABDUL MANAN BIN ABDUL GHANI	13889/PA	NOR ALISMA BINTI CHE ALIAS	13905/PA
NURULHIZAM BINTI KAMALUDIN	13884/PA	TER PEK HING	13978/RA
WAZIR BIN BAHARUDDIN	13895/PA	BANDAR BARU BANGI	
YAP YEE CHANG	13870/PA	SALINA BTE SAID	13893/PA
PERAK DARUL RIDZUAN		BANDAR PUCHONG JAYA	
IPOH		WAN MOHD ROZI BIN WAN HUSIN	13983/RA
ABDUL MAJID BIN EMBONG	13937/RA	BATU CAVES	
LIM YUK MENG	13924/RA	LEE AH TIN	13913/PA
WONG YET LING	13957/RA	KAJANG	
		SITI AMINAH BINTI PAHARUDIN	13950/RA
		SEI ENG SHUEY	13907/PA
		KLANG	
		EDVIN ONG MENG KWANG	13988/RA
		GAN HO ONG	13861/RA
		SIA GEOK SIM	13952/RA
		PETALING JAYA	
		ALLAN CHEAH FOOK SANG	13900/PA
		FOONG WEE TIN	13901/PA
		HELENA TAN CHENG AN	13975/RA
		HOE LEE LENG	13965/RA
		KHOO OOI KEAT	13917/PA
		LEE CHUAN SENG	13958/RA
		REG. NO.	
		LEE MEI HSIANG	13976/RA
		LEE YEE HWA LORRAINE	13880/PA
		MOHAMMAD ABDUL WAHAB	13956/RA
		BIN MOHD MARZUKI	
		MOHD RIDZWAN BIN ZAKARIA	13996/RA
		NG BEE LIEN	13890/PA
		ONG LAI SIONG	13981/RA
		OOI POO BENG	13896/PA
		RAMESH S/O PATHMANATHAN	13929/RA
		RANDALL NG TECK MENG	13992/RA
		SHAHRIK BIN ABU BAKAR	13927/RA
		TAI FOONG CHEONG	13955/RA
		TAN SIEW POH JULIANA	13970/RA
		TAY YIK PIOW	13871/PA
		THERESA CHAN TET LEE	13985/RA
		THO YOKE LAI	14000/RA
		TSEN VUI CHUNG	13923/RA
		WENDY KHOO SEOW PHENG	13959/RA
		WONG CHOU HONG	13878/PA
		PUCHONG	
		SHEOW SIEW YENG	13966/RA
		TEH TIONG KHIM	13898/PA
		SELAYANG	
		TAN CHING HOCK	13874/PA
		SEMENYIH	
		JEYASEELAN A/L SELIAH	13969/RA
		SUBANG JAYA	
		CHOONG POH CHOO	13872/PA
		CHUNG CHI FOH	13935/RA
		CHUNG SIEW KEONG	13899/PA
		KUSAINI BIN SHARIF	13977/RA
		TEEM MOI LYE	13940/RA
		ZAINAL BIN ADAM	13869/PA
		TERENGGANU DARUL IMAN	
		DUNGUN	
		MOHAMED ROSDI BIN WAHAB	13989/RA
		KUALA TERENGGANU	
		ABDILAH BIN SIDEK	13877/PA
		WILAYAH PERSEKUTUAN	
		KUALA LUMPUR	
		ADELIN ONG WHAI LING	13986/RA
		AMELIA WOO SOOK JEE	13885/PA
		ANG KOK SENG	13881/PA
		ARIZA BINTI ZAINAL	13968/RA
		AZIZAH BT YUSOF	13930/RA
		CHEE SOO YUEN	13933/RA
		CHEN OOI LI	13984/PA
		CHEN SIEW FONG	13909/PA
		CHOO KAM YIN	13967/RA
		CHOY YIN SEONG STELLA	13951/RA
		CHUNG LEE WOON	13980/RA
		G.K. PRASAD A/L GOPALKRISHNAN	13938/RA
		GAN CHOO MOY	13942/RA
		HEAW YOONG YEOW	13979/RA
		HEE YAW CHOO	13914/PA
		HIDZIR BIN HASHIM	13888/PA
		KAREN NG KWAI YING	13941/RA
		LAM SAU KUAN	13960/RA
		LEE KOH KEONG	13910/PA
		LILIAN CHEE SAU LENG	13963/RA

	REG. NO.		REG. NO.	REG. NO.	
LIM CHING SZE	13961/RA	RECLASSIFICATION FROM REGISTERED ACCOUNTANT TO PUBLIC ACCOUNTANT	CHEAH GOAY HONG	9366	
LOK YOON KAM	13993/RA		LIM WAI YONG	10446	
MOHAMMAD FAIZ BIN MOHD AZMI	13875/PA		CHANG HING WAI	10739	
NG MENG WAH	13973/RA		KOR SIEW LOOI	11008	
OOI ENG KHENG	13908/PA		VAHEESAN A/L VIJAYENDRA	11438	
SEAH CHEONG WEI	13897/PA		WONG YUEN HOI	12091	
SH SAIDTUL FAZILAH BT S. AZMAN ZURIMY	13946/RA		LEONG SIEW YEAN	12211	
SOO MEI MEI	13998/RA		LIM JOOKY	13048	
SUDHERMAN A/L SHANMUGARAJAH	13892/PA		RESIGNATION	JAMES VOON KYAM KIUN	334
SUKHVINDER KAUR RANU A/P INDAR SINGH RANU	13886/PA			TANG THIN WOH	689
TAN MING HONG	13974/RA	TAN TECK LEONG		2701	
TING KUAN UNG	13911/PA	SEET KEONG HUAT		2777	
TSEN KET SHUNG @ KON SHUNG	13962/RA	GOH KGIRR SENG		3194	
WAN CHEE WAI	13997/RA	CHOW HONG CHEONG		5685	
YAP CHUI FAN	13990/RA	AILEEN KONG		6594	
ZARINA BTE ZULKIFLI	13894/PA	TAN MENG CHU		6929	
		TAN ENG SUAN		8599	
		TAN KAY THYE		9227	

Note: PA – Public Accountant
RA – Registered Accountant

MIA'S Technical and Practice News

1. FINANCIAL REPORTING BOARD

■ Status of Accounting Standards Issued by MIA

A draft circular and an amended preface will be circulated to members on this matter. The circular and preface will state that MASB shall be the body issuing approved accounting standards. The Institute recommends that in the absence of an MASB standard, IASs shall form the basis for good practice.

■ Interpretation issued by SIC of IASC

The Board reviewed SIC 12 : Consolidation — Special Purpose Entities.

This interpretation addresses the question of when a special purpose entity will be consolidated by a reporting enterprise. The SIC of IASC agreed that an enterprise should consolidate a special purpose entity (SPE) when, in substance, the enterprise controls the SPE.

A summary of the interpretation will be published in the *Akauntan Nasional*.

■ Meeting with Prof. Dr. Rifaat Ahmed Abdul Karim of the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI)

A meeting with Prof. Dr. Rifaat (Secretary General of AAOIFI) was held on 29 April 1999 to gauge the development of Islamic accounting in Malaysia. Prof. Dr. Rifaat was informed that MIA currently has a Working Group on Islamic Accounting, Finance and Insurance, which is studying the applicability of Islamic accounting standards in Malaysia. The Working Group, compris-

ing mostly of academicians and practitioners, aims to expand the applications of Islamic principles not only to financial institutions, but also to the whole spectrum of commerce and industry.

■ Standards Issued by the IASC

The following IASs were reviewed by the Board Members and it was decided that the standards will be issued to members as GAAP :

- SIC 5 : Classification of Financial Instruments — Contingent Settlement Provision
- IAS 33 : Earnings per Share
- IAS 34 : Interim Financial Reporting
- IAS 35 : Discontinuing Operations
- IAS 36 : Impairment of Assets
- IAS 37 : Provisions, Contingent Liabilities and Contingent Assets
- IAS 38 : Intangible Assets

A summary of the standards will be published in *Akauntan Nasional* requesting members to purchase the standards.

2. MASB'S WORKING GROUP

■ Working Group 41 : Impairment of Assets

The MASB's Working Group on Impairment of Assets met for the third time on 26 April 1999. The meeting was attended by Encik Ahmad Mustapha Ghazali (Chairman), Ms Josephine Edward (Project Manager) and Encik Akhiruzzaman Samsudin from MIA.

The Working Group discussed general comments and main issues raised by the Standard. Reference to the UK and the US Standards was made. It was agreed that the examples be localised and an introduction paper summarising the issues be included as part of the standard.

■ Working Group on Income Taxes

Ms. Josephine Edward and Mr. David Oo attended MASB's Working Group on Income Taxes at MASB on 21 May 1999.

It was decided that a DSOP will be issued to members on the revised IAS 12. However, a summary of issues will be prepared as an introduction to the Standard due to the complexity and the significant change in the approach to be taken in the calculation of deferred tax in Malaysia.

3. MEETING AT THE SECURITIES COMMISSION ON THE ACCOUNTING TREATMENT FOR ZERO-COUPON BONDS ISSUED BY PENGURUSAN DANAHARTA NASIONAL BERHAD

A meeting was held at the Securities Commission on 6 May 1999 to discuss the accounting treatment of the zero-coupon bond issued by Danaharta to financial institutions. The Institute was represented by Mr. Geoffrey Wong and Ms. Katharene Expedit.

A circular by Bank Negara Malaysia dated 30 April 1999 was issued to all financial institutions on the accounting treatment for amounts due from Danaharta, as well as the interest income on the bonds issued by Danaharta. The circular stated that bonds issued by Danaharta will be considered as investment instruments and consequently banking institutions will not be required to mark-to-market these bonds. Interest income on such bonds should be recognised using a constant rate of return on the

carrying value of the bond, which is consistent with the requirement of International Accounting Standards.

4. MEETING WITH MINISTRY OF LAND AND CO-OPERATIVE DEVELOPMENT AND INSTITUTE OF CO-OPERATIVE AUDITORS

The Co-operative Development Department of the Ministry of Land and Co-operatives Development held a meeting on 12 May 1999 at its premises to discuss matters pertaining to the qualifications of Co-operative Auditors. YBhg Dato' Hanifah Noordin and Mr. Goh Joon Hai represented the Institute. Tuan Hj. Sahir Hj Sanawi, the President of the Institute of Co-operative Auditors (ICA) was in attendance, as well as representatives from the Ministry of Land and Co-operatives Development.

The meeting was called in light of ICA's recent requirement, i.e. requiring persons who audit co-operatives to be members of the ICA. The ICA is considering waiving membership requirements for MIA members who intend to audit co-operatives.

Announcements

- MIA President, YBhg Dato' Hanifah Noordin, was re-elected as the Vice-President of the Malaysian Institute of Corporate Governance during the Annual General Meeting on 29 June 1999.
- MIA's telephone and fax numbers have been changed to 03-2274 5055 and 03-2274 1783 respectively, effective from 18 July 1999.
- We wish to inform members that the minutes of the 12th Annual General Meeting may be viewed on the Institute's web-site at <http://www.mia.org.my>

Summary of SIC Interpretations

The Institute's Preface to Approved Accounting Standards provides that published financial statements should not be described as complying with applicable approved accounting standards, as well as International Accounting Standards (IAS) issued by the International Accounting Standards Committee (IASC) where appropriate, unless they comply with each applicable approved accounting standard, each applicable Interpretation issued by the MASB's Interpretations Committee, and each applicable IAS and each applicable Interpretation of the Standing Interpretations Committee of the IASC respectively.

The Institute recently reviewed SIC 9 - SIC 16 and is of the view that the Interpretations are consistent with the Malaysian Conceptual Framework. Therefore, the Institute recommends the said Interpretations. Summaries of the Interpretations follow.

SIC 9

Business Combinations — Classification either as Acquisitions or Uniting of Interests

An enterprise should classify a business combination as an acquisition, unless all of the three essential characteristics of a uniting of interests are present. Even if all three characteristics are present, an enterprise should classify a business combination as a uniting of interests only if the enterprise can demonstrate that an acquirer cannot be identified.

SIC 10

Government Assistance — No Specific Relation to Operating Activities

Government assistance to enterprises meets the definition of

government grants in IAS 20, even if there are no conditions specifically relating to the operating activities of the enterprise other than the requirement to operate in certain regions or industry sectors. Such grants should therefore not be credited directly to equity.

SIC 11

Foreign Exchange — Capitalisation of Losses Resulting from Severe Currency Devaluations

Foreign exchange losses on liabilities should be included in the carrying amount of a related asset only if those liabilities could not have been settled and if it was impracticable to hedge them prior to the occurrence of severe devaluation or depreciation of the reporting currency. The adjusted carrying amount of the asset should not exceed its recoverable amount.

SIC 12

Consolidation — Special Purpose Entities

An SPE should be consolidated when the substance of the relationship between an enterprise and the SPE indicates that the SPE is controlled by that enterprise.

In the context of an SPE, control may arise through the pre-determination of the activities of the SPE or otherwise.

SIC 12 provide circumstances, in addition to IAS 27.12, that may indicate a relationship in which an enterprise controls an SPE and consequently should consolidate the SPE.

Examples of SPEs include entities set up to effect a lease, a securitisation of financial assets or R&D activities.

SIC 13

Jointly Controlled Entities — Non-Monetary Contributions by Venturers

In applying IAS 31 to non-monetary contributions to a JCE in exchange for an equity interest in the JCE, a venturer should recognise in the income statement for the period the portion of a gain or loss attributable to the equity interests of the other venturers except when :

- (a) significant risks and rewards of ownership of the contributed non-monetary asset(s) have not been transferred to the JCE;
- (b) gain or loss on the non-monetary contribution cannot be measured reliably; or
- (c) non-monetary assets contributed are similar to those contributed by the other venturers.

Unrealised gains or losses on non-monetary assets contributed to JCEs should be eliminated against the underlying assets under the proportionate consolidation method or against the

investment under the equity method. Such unrealised gains or losses should not be presented as deferred gains or losses in the venturer's consolidated balance sheet.

SIC 14

Property, Plant and Equipment — Compensation for the Impairment or Loss of Items

Impairments or losses of items of property, plant and equipment, related claims for or payments of compensation from third parties and any subsequent purchase or construction of replacement assets are separate economic events and should be accounted for as such. The three economic events should be accounted for separately as follows :

- (a) impairments should be recognised under IAS 36; the retirement or disposal should be recognised under IAS 16.
- (b) monetary or non-monetary compensations from third parties for items that were impaired, lost or given up should be included in the income statement when recognised.
- (c) the cost of assets restored, purchased, constructed as a replacement, or received as compensation should be determined and presented under IAS 16.

SIC 15

Operating Leases — Incentives

All incentives for the agreement of a new or renewed operating lease should be recognised as an integral part of the net consideration agreed for the use of the leased asset, irrespective of the incentive's nature or form or the timing of payments.

The lessor (or lessee) should recognise the aggregate benefit of incentives as a reduction of rental income (or expense) over the lease term, on a straight line basis unless another systematic basis is representative of the time pattern over which the benefit of the leased asset is diminished (or of the time pattern of the lessee's benefit from the use of the leased asset).

SIC 16

Share Capital — Reacquired Own Equity Instruments (Treasury Shares)

Treasury shares should be presented in the balance sheet as a deduction from equity. The acquisition of treasury shares should be presented in the financial statements as a change in equity.

No gain or loss should be recognised in the income statement on the sale, issuance, or cancellation of treasury shares. Consideration received should be presented in the financial statements as a change in equity.

MIT News



How to become a Member of the Malaysian Institute of Taxation

Benefits and Privileges of Membership

The principal benefits to be derived from membership are :

- 1 Members enjoy full membership status and may elect representatives to the Council of the Institute.
- 2 Status attaching to membership of a professional body dealing solely with the subject of taxation.
- 3 Supply of technical articles, current tax notes and news from the Institute.
- 4 Supply of the Annual Tax Review, together with the Finance Act.
- 5 Opportunity to take part in technical and social activities organised by MIT.

Qualification Required For Membership

There are two classes of members, namely, Associate Members and Fellows. The class to which a member belongs is herein referred to as his status. Any Member of MIT so long as he remains a Member may use after his name in the case of a Fellow the letters FTII and in the case of an Associate the letters ATII.

Associate Membership

- 1 Any person who has passed the Advanced Course examination conducted by the Department of Inland Revenue and who has not less than five years practical experience in practice or employment relating to taxation matters approved by the Council.
- 2 Any person whether in practice or in employment who is an advocate or solicitor of the High Court of Malaya, Sabah and Sarawak and who has had not less than three years practical experience in practice or employment relating to taxation matters approved by the Council.
- 3 Any Registered Student who has passed the examinations prescribed (unless the Council shall have granted exemptions from such examinations or parts thereof) and who has had not less than five years practical experience in practice or employment relating to taxation matters approved by the Council.
- 4 Any person who is registered with MIA as a Registered Accountant and who has had not less than two years practical experience in practice or employment relating to taxation matters approved by the Council after passing the examination specified in Part 1 of the First Schedule or the Final Examination of The Association of Accountants specified in Part II of the First Schedule to the Accountants Act, 1967.
- 5 Any person who is registered with MIA as a Public Accountant.
- 6 Any person who is registered with MIA as a Licensed Accountant and who has had not less than five years practical experi-

ence in practice relating to taxation matters approved by the Council after admission as a licensed accountant of the MIA under the Accountants Act, 1967.

- 7 Any person who is authorised under sub-section (2)/(6) of Section 8 of the Companies Act, 1965 to act as an approved company auditor without limitations or conditions.
- 8 Any person who is granted limited or conditional approval under Sub-section (6) of Section 8 of the Companies Act, 1965 to act as an approved company auditor.
- 9 Any person who is an approved Tax Agent under Section 153 of the Income Tax Act, 1967.

Fellow Membership

- 1 A Fellow may be elected by the Council provided the applicant has been an Associate Member for not less than five years and in the opinion of the Council he is a fit and proper person to be admitted as a Fellow.
- 2 Notwithstanding, Article 8(1) of the Articles of Association, the First Council Members shall be deemed to be Fellows of MIT.

Application of Membership

Every applicant shall apply in a prescribed form and pay prescribed fees. The completed application form should be returned accompanied by :

- 1 Certified copies of :
 - (a) Identity Card.
 - (b) All educational and professional certificates in support of your application.
- 2 Two identity card-size photographs.
- 3 Fees :

	Fellow	Associate
(a) Admission Fee :	RM300	RM200
(b) Annual Subscription :	RM145	RM120

Every member granted a change in status shall thereupon pay such additional fees for the year then current as may be prescribed.

The Council may at its discretion and without being required to assign any reason reject any application for admission to membership of the Institute or for a change in the status of a Member.

Admission fees shall be payable together with the application for admission as members. Such fees will be refunded if the application is not approved by the Council.

Annual subscription shall be payable in advance on and thereafter annually before 31 January of each year.

MALAYSIAN ASSOCIATION
OF ACCOUNTING ADMINISTRATORS

MAAA News

INCORPORATION AND AIM

The Malaysian Association of Accounting Administrators (MAAA) was incorporated in 1990 with limited liability under Section 16(4) of the Companies Act, 1965 in recognition of the two-tiered nature of the accountancy profession. MAAA (previously known as Malaysian Association of Accounting Technicians) is a company sponsored by the Malaysian Institute of Accountants (MIA).

MAIN OBJECTIVES

- To provide a qualification to be known as Accounting Technicians/Administrators for persons employed on duties customarily undertaken by assistants to accountants registered with the MIA.
- To provide an organisation and membership for such persons who are desirous of acquiring such qualification and persons who are granted such qualification.
- To promote in the public interest the technical competence of such persons engaged in positions and performing the functions of accounting technicians/administrators.

COUNCIL MEMBERS (1998/99 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

Editor for MAAA News: Low Han Men, Aric

MAAA's 9th Annual General Meeting

On 12 June 1999, the Malaysian Association of Accounting Administrators held its 9th AGM at the premise of the MIA. The meeting was adjourned from the previous scheduled date of 22 May 1999 due to the lack of a quorum. The adjourned meeting was attended by 34 members, including outstation members.

MAAA Examination

MAAA's President, Encik Izhar bin Abd Kahar, chaired the meeting. The Chairman began the meeting by updating members on the activities and developments of MAAA over the past year. In particular, he spoke of the progress of the MAAA examination and the related challenges it faced in its development.

Annual National Conference

MAAA's President explained that the regular annual national conference was not held last year due to the prevailing economic downturn, but he was confident that the conference would be held this year.

Better Communication with Members

He thanked to members who had taken time to complete the recently held survey questionnaire sent to them. He reported that the Council was pleased with the number of responses and feedback, and would try its best to meet members' expectations. The President was of the view that there



A cross section of members at the 9th Annual General Meeting

was a need for better communication with members on events that were taking place in MAAA. He pledged to keep members informed through the MAAA Newsletters which appeared regularly in the *Akauntan Nasional* and also through circulars whenever appropriate.

Amnesty Programme

MAAA's Vice-President, Mr. Allan Koo Yew Fook, informed members that he was currently working with representatives of a local university to design a suitable course for the long overdue amnesty programme. Mr. Koo hoped that the arrangement would be concluded soon, so as to allow members who are eligible for the amnesty programme to proceed to acquire the relevant academic requirements that would enable them to apply for the MIA membership.

Elected Council Members

During the meeting, Encik Kasim Darus, Mr. Mok Kam Seng, Mr. Chin Wah Yin and Mr. Mahadevan s/o Gengadaram were re-elected as Council members.

Members Needed to Serve on Committees

MAAA's President invited members to serve in the Association's Committees. The Council encouraged members who had special skills, talents or expertise to volunteer themselves to serve on the various Committees, namely, Education & Training; Examination; General Purpose & Finance; Membership; Promotions/Publicity and Conference Organising. Members who are interested to serve on the Committees, please contact the MAAA secretariat.



MAAA's President, Encik Izhar bin Abd Kahar, addressing members

ATTENTION

The MIA would like to contact the following members and would be grateful if they (or any person who know of their location) could contact the Institute (Finance Department) before 31 August 1999.

M'ship No.	Name	M'ship No.	Name	M'ship No.	Name
191	Francis Tan	2468	Quek Kar Tung	5438	Awang Hashim
224	Wong Toh Ming	2546	Sek Chee Who	5531	Mohd Johari Jemali
313	Chin Lee Yon	2559	Chan Kum Fatt	5573	Omar Mohamad Tahir
437	Lim Chee Jin	2587	Dalbir Singh	5584	Tse Wai Lam
447	Michael Tan Poh Wah	2822	Lim Eng Hong	5646	Roslan Sudin
472	Liew Teng Sang	2914	Khoo Ming Koong	5860	Khadijah Abdul Rahman
716	Abdul Rahman Hussein	3211	Koy Mui Sing	5917	Koay Hooi Gan
791	Lim Jit Kim	3269	Thomas Song Chai Leng	5980	Chuan Hui Hong
850	Liew Kai Choon	3315	Ashok Virendra Shah	6226	Ng Kok Hok
921	Kuek Chee Yeam	3330	Faridah Hj. Ahmad	6672	Wong Lee Tuck
1266	Koh Boon Chin	3520	Lim Bok Huat	6675	Teo Kian Beng
1345	Loong Siew Wah	3541	Lawrence Nguoi Ing Tiing	6774	Lee Li-Lin
1384	Ng Thien Teck	3625	B.Venugopal	6992	Choong Lai Meng
1390	Noran Hasan	3635	Raymond Chong Kui Fong	7000	Tarsoloo Ayasamy
1424	Senathi Rajah Vettivelu	3681	Moo Chee Kong	7090	Tay Cheng Im
1453	Tan Siew Ghee	3777	Low Meng Choon	7092	Azhar Zainal Abidin
1477	Tung Yoke Chan	4064	Chong Sun Fu	7095	Low Kong Loy
1647	Yeoh Beng Hoe	4089	Alain lee Kok Kay	8796	Chin Kok Siong
1711	Chew Eng Huan	4335	Ling Ung Hiing	8860	Yen Siew Peng
1969	Ling Poh Hwa	4584	Wong Le Na	9457	Abd Rahman Abu Samah
2130	Tee Kim Ching	4957	Zahri Abdullah	9782	Shamugam Karupiah
2236	Kok Kum	5061	Soh Chee Gee	9809	Poon Yook Lin
2282	Low Eng Kiat	5199	Susan Chee Siew Sim	9825	Loh Soo Har
2401	Yap Kam Lem	5328	Yee Yoon Lai	9891	Nor Azila Zainal Abidin
				11716	Daud Alan

Updates

Press Releases/Guidelines

AMBM	: Association of Merchant Banks in Malaysia
BNM	: Bank Negara Malaysia
Danaharta	: Pengurusan Danaharta Nasional Berhad
KLSE	: Kuala Lumpur Stock Exchange
SC	: Securities Commission
MCD	: Malaysian Central Depository Sdn Bhd
MOF	: Ministry of Finance

Securities Commission

Press Release on “Malaysia to Begin Implementation of Corporate Governance Report recommendations” dated 19 April 1999

- Malaysia will begin detailed implementation of the recommendations of the Finance Committee on Corporate Governance (Finance Committee) through an Implementation Project Team (IPT).
- The IPT reports to the Finance Committee and comprise SC, Registrar of Companies (ROC), KLSE and Federation of Public Listed Companies (FPLC).
- Dr. Nik Rahman of SC said the report has also earned Malaysia the title of the Pacific Rim’s designated leader of corporate governance reform.

Press release on “Corporate Governance Implementation Project Team to Release Detailed Implementation by end May” dated 23 April.

It highlighted that the IPT was formed to lead and oversee the implementation of recommendations of the *Report on Corporate Governance* on behalf of the Finance Committee. The SC also said that strengthening of minority shareholders rights will be an underlying priority of the IPT in dealing with the implementation of recommendations on the *Report on Corporate Governance*.

Press Release on “SC Working with Minister of Finance to Deal with Unclaimed Shares” dated 7 June 1999

The SC is working closely with MOF to deal with securities which have not been claimed by investors within the statutory share recovery appeal period of 1 December 1998 until 1 June 1999. With effect from 1 November 1998, Section 29 of the Securities

Industry (Central Depositories) (Amendment) (No. 2) Act 1998 had required persons who still had scrips of KLSE listed counters to deposit these scrips with the MCD by 1 December 1998 unless they fall within the exempted categories.

Persons who failed to do so had recourse in that the SC was given the jurisdiction under the law to receive share recovery applications for a six-month period, i.e. from 1 December 1998 until 1 June 1999.

Under the same law, once the appeal period of six months lapses on 1 June 1999, MOF is accorded discretion to deal with those shares for which a claim has not been made to the SC by 1 June 1999.

The SC is also working closely with MOF to give careful consideration to all relevant factors in deciding the next steps for investors who have not submitted their claims by 1 June 1999. Investors will be informed in due course once a decision has been made.

The SC had in the past six months implemented several measures to inform and remind investors of the mandatory deposit requirement and the availability of an avenue for appeal from 1 December 1998 to 1 June 1999. Those measures included roadshows, briefings and a media publicity campaign that involved advertisements in all major dailies, press releases and radio talk shows.

The SC had also ensured that Malaysian representative offices overseas were informed of these requirements, so that investors residing overseas could get information. The SC homepage also carried the SRU forms and frequently-asked questions to help investors make their applications.

As a result of these efforts, the SRU had received some 35,000 applications to reclaim an estimated 500 million shares. Almost a billion shares had been transferred to the MOF’s legal custody at the outset.

Kuala Lumpur Stock Exchange

Press Release on “KLSE enhances foreign interest in Malaysian shares” dated 3 May 1999

- The KLSE is enhancing foreign interest in Malaysian shares through the regulation of depository receipts.

- Depository receipts issued and traded in the US are termed as American Depository Receipts (ADR), while those issued outside the US are termed Global Depository Receipts (GDR).
- The amendments to the rules of MCD were made pursuant to the decision of SC to allow sponsored ADR/GDR programmes to continue to operate for Malaysian listed companies.
- The rules governing ADR/GDR will come into effect beginning 3 May 1999.

Key amendments

- The depository receipt programme must be a sponsored depository receipt programme. This is to ensure that the programme is registered with the proper regulators, that there is compliance with the disclosure requirements of the regulators and direct participation in the programme by the issuer. This would increase transparency of investor activity.
- The approval of MCD must be obtained for holding underlying shares in a GDR. This measure would enable MCD to monitor and evaluate appropriate GDR programmes.
- The underlying securities for each depository receipt programme are held by not more than five custodians. The limit of five custodians per ADR/GDR is to enable MCD to effectively monitor the total number of underlying securities for each programme.
- The total number of underlying securities for all depository receipts entered into by an issuer on the stock exchange is not more than 5 per cent of the total issued paid-up capital of the issuer as defined in the Rules of KLSE. This limit is to ensure that the ADR/GDR programme supports the conduct of a fair and orderly market for KLSE as the primary market for Malaysian listed securities.
- Each custodian shall hold the underlying securities for a depository receipt programme in a securities account opened solely for that purpose and is clearly designated in the manner prescribed by MCD. This requirement would enhance transparency and facilitate the Malaysian regulatory authorities to monitor ADR/GDR activities effectively.

Benefits

- i** Increasing the profile and liquidity of Malaysian shares while enabling Malaysian companies to maintain an international profile.
- ii** Providing foreign investors with options to trade in Malaysian securities.
- iii** Attracting long-term investors.

Danaharta

Danaharta unveils its loan restructuring guidelines in a public announcement on 7 April 1999

While the removal of non-performing loans (NPLs) remains its top priority, the growing number of NPLs in its asset portfolio means that the task of managing these loans has become increasingly important.

Danaharta's approach to management is to apply either loan management or asset management strategies. It will apply loan management strategies to loans that it finds viable after careful evaluation. This involves a set of guidelines that Danaharta has formulated to assist it in the restructuring of these viable loans. Guidelines for asset management will be released in due course.

The loan restructuring guidelines are divided into four segments :

- Loan Restructuring Principles.
- Guidelines for corporate borrowers.
- Guidelines for individual borrowers.
- Guidelines for guarantors.

The Loan Restructuring Principles must be adhered to, whereas the guidelines should, as far as possible, be applied.

Public announcement by Danaharta on 17 May 1999

Danaharta reiterated that no individuals, firms, bodies corporate, whether private or public, or any persons whatsoever, have been appointed or authorised by Danaharta to act on its behalf to render any services on a commission basis. Danaharta deals directly with its borrowers.

Press Release on "Danaharta Confirms 23 Proposals Received for Six Stockbroking Firms dated 3 June 1999

Danaharta announced that 23 proposals (including from borrowers themselves) have been received for the six stockbroking companies over which Special Administrators were appointed on 12 February 1999. In each case, the proposal addressed a specific stockbroking company.

The six stockbroking companies are Alor Setar Securities Sdn Bhd, WK Securities Sdn Bhd, Labuan Securities Sdn Bhd, Taiping Securities Sdn Bhd, MBf Northern Securities Sdn Bhd and Halim Securities Sdn Bhd.

Danaharta is currently evaluating all 23 proposals and will announce the final decisions in due course.

All Special Administrators of stockbroking companies use a standard approach which was presented to the task force on resolving the problems of the stockbroking industry, headed by

SC and including representatives from Danaharta and KLSE.

The steps taken by the Special Administrators can be summarised as follows :

- 1 Take control of the company and institute management controls over the business.
- 2 Prepare a statement of financial affairs of the company.
- 3 Preserve business value, as far as possible, by ensuring that key clients, remisiers/dealers and staff are retained by the company.
- 4 Deal with the borrower and ascertain if there is a viable solution that they can put forward. This is to ensure that borrowers are treated fairly.
- 5 If the borrower's proposal is weak or unacceptable to the Special Administrators, an assessment is then made as to whether the company can continue as an independent company or merged with another stockbroking company. Third party proposals are also considered at this stage.

This process ensures that the value of the business is maximised. Throughout the process, the Special Administrators conduct regular discussions with Danaharta.

All workout proposals are subject to review by Independent Advisors who also review the evaluation processes.

The Independent Advisors were appointed on the basis of their

experience, expertise and absence of any conflict of interest situations.

Ministry of Finance

Press Release on reviewing dividend restrictions under Section 365 of the Companies Act, 1965 by the Minister of Finance 1, YB Tun Daim Zainuddin dated 14 April 1999

The provisions on dividend restrictions under Section 365 (1A), (1B) and 1(C) of the Companies Act, 1965 were introduced by the government as part of the policy on selective capital controls because of incidences of companies suddenly declaring exceptional levels of dividends, which were far too high compared to those declared in the previous years.

Due to the improving economic conditions in the country and the recent relaxation of the selective capital controls measures with introduction of the exit levy, the government is currently reviewing dividend restrictions under Section 365 of the Companies Act, 1965. In undertaking this review, the government welcomes suggestions, views and comments from all relevant parties.

Legislation Updates

The following bills have been passed by the Parliament recently :

Customs (Amendment) Bill 1999

This Bill seeks to amend the Customs Act 1967 (Act 235).

Clause 3 seeks to introduce into Act a new Section 16 to enable importers to apply for duty drawback claims where duty has been paid under protest, within one year after the decision on classification or valuation on the goods is made known to the claimant.

Clause 4 seeks to introduce into Act a new Section 17A to prevent owners of firms, directors of companies or anyone who has not settled customs duties from leaving the country.

Clause 5 seeks to amend subsection 65B(1) of Act to ensure that liquidators pay any customs duties that are payable. Any liquidator who fails to comply with subsection (1) shall be guilty of an offence.

Clause 6 seeks to amend subsection 65C(1) of the Act to ensure that receivers pay any customs duties that are payable. Any receiver who fails to comply with subsections (1) shall be guilty of an offence.

Sales Tax (Amendment) Bill 1999

This Bill seeks to amend the Sales Tax Act 1972 (Act 64).

Clause 3 seeks to amend Section 5 of Act 64 to require an officer of sales tax to produce on demand a badge or an authority card as he has been directed to carry under subsection 9(1) of the Customs Act 1967.

Clause 6 seeks to introduce a new subsection (4) into Section 13A of Act 64 which provides that before the Director General revokes a license under subsection 13A(2), he shall serve a notice of revocation of licence on the person to whom the licence was issued.

Clause 6 also seeks to introduce new subsections (5) and (6) into Section 13A of Act 64 to require the Director General, before he revokes a licence under subsection 13A(3), to allow representation to be made by the person to whom the licence was issued. If after considering the representation the Director General is satisfied that the licence should be revoked, he shall serve upon that person a notice of revocation of the licence.

Clause 8 seeks to amend subsection 23(1) of Act 64, so that any surcharge accruing under Act 64 may be recovered as a civil debt due to the government. Clause 8 also seeks to introduce a new subsection 23(3) into Act 64 to provide that a penalty or surcharge imposed under Act 64 will not be subject to a limitation period of one year from the date on which the cause of action accrued.

This clause also seeks to introduce new subsections (4) and (5) into Section 23. The new subsection (4) deals with the amount of sales tax that is recoverable from a taxable person who issued an invoice. The new subsection (5) enables the Director General to recover sales tax from persons who have issued an invoice charging an amount which purports to be sales tax.

Clause 14 seeks to introduce a new Section 31B into Act 64 to allow a licensed manufacturer to deduct sales tax from the amount payable in a tax return for which credit notes have been issued for taxable goods returned by the purchaser or discounts subsequently given to the purchaser.

Service Tax (Amendment) Bill 1999

This Bill seeks to amend the Service Tax Act 1975 (Act 151).

Clause 2 seeks to amend Section 2 of Act 151 by deleting the definition of 'taxable goods' since the provision or sale of taxable goods will be prescribed as a taxable service by regulations. It also seeks to introduce the definition of 'surcharge' into that Act and to amend the definitions of 'taxable person' and 'taxable service' since both will be prescribed by regulations.

Clause 3 seeks to amend Section 3 of Act 151 to provide that service tax shall be charged and levied on any taxable service provided by any taxable person, except exported taxable service.

Clause 7 seeks to introduce a new Section 7A into Act 151. The proposed Section 7A provides that if the Director General is satisfied that any separation of business activities is artificial, he may make a direction that the persons named in the direction shall be treated as a single taxable person.

Clause 8 seeks to introduce new subsections (2A) and (5) into Section 8 of Act 151. The proposed subsection 8 or 8A of Act 151 shall remain a taxable person until his license is revoked.

The proposed subsection (5) deals with the licensing of a person who takes over a taxable person's business of providing taxable service.

Clause 13 seeks to introduce new subsections (1A) and (1B) into Section 12 of Act 151. The proposed subsection (1A) requires a taxable person who ceases to carry on a business of providing taxable service or ceases to be a taxable person or whose licence is suspended or revoked to submit a tax return for the last taxable period. The proposed subsection (1B) and the amended subsection (2) contain further provisions with regard to the above matter.

Income Tax (Amendment) Bill 1999

This Bill seeks to amend the Income Tax Act 1967 (Act 53).

Clause 2 seeks to amend Section 20 of Act 53. The proposed amendment is to provide that the basis year and the year of assessment shall be the same calendar year. Prior to this amendment, the basis year is the calendar year which precedes the year of assessment. This amendment is effective from 1 January 2000.

Clause 3 seeks to amend Section 21 of Act 53. The new subsection (2) specifically provides that where the accounts of a business have been made up for a period of twelve months straddling over two calendar years, that period of twelve months shall be taken as the basis period for a year of assessment for that business. This amendment is effective from 1 January 2000.

Clause 4 seeks to amend Section 42 of Act 53. The amendment introduces subsection (2) to provide that where two basis periods overlap, the adjusted income shall be apportioned on time basis, so that the income will be distributed evenly over the periods and the income attributed to that overlapping period will not be taxed twice. This amendment is effective from the year of assessment 1999.

Clause 8 seeks to provide that tax on income arising in the basis period ending in the year 1999, other than those mentioned in that clause shall be waived. This amendment is effective for the period of assessment 2000 on a preceding year basis.

Clause 9 is introduced to provide that the basis period for the year of assessment 2000 in respect of a person whose business ceased in 1998 is that period which begins after its last basis period until the day of cessation. This is so provided to enable that person and that business to still get the benefit of the waiver. This amendment is effective for the year of assessment 2000 on a preceding year basis.

Clause 10 is introduced to provide that where the accounts of a business are made up for a period of more than twelve months, tax shall be waived on the income attributed to the first twelve months and the remaining period shall be taken to be part of the basis period for the year of assessment 2000 on a current year basis. This amendment is effective for the year of assessment 2000 on a preceding year basis.

Clause 16 provides for the computation of tax on income where the waiver does not apply by taking the difference between the tax on the chargeable income and the tax on the chargeable income excluding the statutory income on which tax is not waived. This amendment is effective for the year of assessment 2000 on a preceding year basis.

Clause 17 explains that the year of assessment 2000 on a preceding year basis is followed by the year of assessment 2000 on a current year basis. This means that there would be two years of assessment for the calendar year 2000. This clause is effective from 1 January 2000.

GENUINE PRACTICES WANTED

Wishes to purchase fees from RM100,000 (prefer tax and audit clients) in KL/PJ areas. Those planning for retirement, looking for merger or partnership will also be considered.

Interested candidates please contact:

William Wong (Public Accountant)
012-6833128, 06-767 6128, 06-761 5608

An established CPA firm in Singapore is looking for

AUDIT/ACCOUNTS ASSISTANTS

Pre-requisites:

- LCCI, CIMA, ACCA or ACIS part qualified or qualified
- Computer literate

Salary will commensurate with qualifications and experience.

If interested please fax to:

Mr. Tan at 02-463 2342

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- To be involved in quality control/testing of Tax Software.
- To conduct consultation/training on Tax Software and Courseware for the Company's clients.

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- ACCA/MACPA Graduate/MIT member with minimum 3 years working experience as a Tax Consultant/Tax Advisor.
- Full exposure to individual and corporate taxation is a must.
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CALLING ALL MEMBERS! BE A MIA CPD SPEAKER

The Professional Development Committee of the Malaysian Institute of Accountants (MIA) has the challenging task of continuously upgrading and updating MIA members with the latest developments in the profession.

In our endeavour to deliver even greater quality events, we are providing an opportunity for members who are skilled in their respective fields and interested in being a speaker to share their experience with others in the profession.

Do contact us and provide us with details of your area of speciality in accountancy-related or management topics e.g. Financial Accounting, Management Accounting, Company Law Practices, Insolvency, Internal Auditing, Taxation etc. We are also open to other topics which are of interest to members.

We would be most happy to hear from you and look forward to working out possible events. Competitive fees will be paid to speakers.

One more plus point, as a Speaker for MIA, you would be fulfilling your CPD requirements too!!!

Correspondence with full c.v. and details of speaking experience should be faxed to:

HEAD, CONTINUING PROFESSIONAL DEVELOPMENT DEPARTMENT
MALAYSIAN INSTITUTE OF ACCOUNTANTS
at fax number : 03-2273 5167
or e-mail : cpd@mia.org.my

BE ONE OF MIA'S SPEAKERS AND AT THE SAME TIME, EARN EXTRA INCOME AND FULFIL CPD POINTS REQUIREMENT!

Calendar of Professional Development Programmes

TOWN	DATE	PLEASE TICK R	TITLE	VENUE	CPD PTS
Kuala Lumpur	4-5 Aug	<input type="checkbox"/>	Executive Letter and Report Writing (Repeat)	MIA	32
	18 Aug	<input type="checkbox"/>	Deferred Taxation (Repeat)	Eastin Hotel	16
	26 Aug	<input type="checkbox"/>	Managing Cash Flow Crisis	PJ Hilton	16
	7-8 Sept	<input type="checkbox"/>	1999 National Accountants' Conference	Sunway Lagoon	32
	21-22 Sept	<input type="checkbox"/>	Inventory Management for Finance & Non-Warehouse Manager	Eastin Hotel	32
	4-5 Oct	<input type="checkbox"/>	Tax Planning and Advisory Strategies	PJ Hilton	32
	20 Oct	<input type="checkbox"/>	Preparing Business Plan To Obtain Financing	Istana Hotel	16
	15 Nov	<input type="checkbox"/>	Tax Planning for Employee	PJ Hilton	16
Penang	5 Aug	<input type="checkbox"/>	Workshop on Financial Analysis with Microsoft Excel	MSCB	16
	9 Aug	<input type="checkbox"/>	Mergers and Acquisitions — Challenges and Opportunities in Year 2000 and Beyond	Hotel Equatorial	16
	16-17 Aug	<input type="checkbox"/>	Workshop on Automating Tasks with Microsoft Excel	MSCB	32
	10 Sept	<input type="checkbox"/>	Preparing Business Plan To Obtain Financing	Shangri-La Hotel	16
	11-12 Oct	<input type="checkbox"/>	Tax Planning and Advisory Strategies	Shangri-La Hotel	32
	19 Nov	<input type="checkbox"/>	Tax Planning for Employee	Shangri-La Hotel	16
Ipoh	15 Sept	<input type="checkbox"/>	Preparing Business Plan To Obtain Financing	Casurina Parkroyal	16
	14-15 Oct	<input type="checkbox"/>	Tax Planning and Advisory Strategies	Casurina Parkroyal	32
	11 Nov	<input type="checkbox"/>	Tax Planning for Employee	Casurina Parkroyal	16
Kuala Terengganu	23 Aug	<input type="checkbox"/>	Preparing Business Plan To Obtain Financing	Primula Parkroyal	16
Kuantan	24 Aug	<input type="checkbox"/>	Preparing Business Plan To Obtain Financing	Hyatt Regency	16
Johor Bahru	25 Aug	<input type="checkbox"/>	Workshop on Financial Analysis with Microsoft Excel	MSCB	16
	26-27 Aug	<input type="checkbox"/>	Workshop on Automating Tasks with Microsoft Excel	MSCB	32
	20 Sept	<input type="checkbox"/>	Preparing Business Plan To Obtain Financing	Grand Bluewave	16
	18-19 Oct	<input type="checkbox"/>	Tax Planning and Advisory Strategies	Grand Bluewave	32
	17 Nov	<input type="checkbox"/>	Tax Planning for Employee	Grand Bluewave	16
Kuching	29-30 Sept	<input type="checkbox"/>	Tax Planning and Advisory Strategies	Holiday Inn Kuching	32
	9 Nov	<input type="checkbox"/>	Tax Planning for Employee	Holiday Inn Kuching	16
	15 Nov	<input type="checkbox"/>	Preparing Business Plan To Obtain Financing	Holiday Inn Kuching	16
Sibu	3-4 Aug	<input type="checkbox"/>	Practical Taxation — Introduction	Tanahmas Hotel	32
	17 Nov	<input type="checkbox"/>	Preparing Business Plan To Obtain Financing	Tanahmas Hotel	16
Miri	10-11 Aug	<input type="checkbox"/>	Practical Taxation — Introduction	Dynasty Hotel	32
	27-28 Sept	<input type="checkbox"/>	Tax Planning and Advisory Strategies	Dynasty Hotel	32
	16 Nov	<input type="checkbox"/>	Preparing Business Plan To Obtain Financing	Dynasty Hotel	16
K.K.	22-23 Sept	<input type="checkbox"/>	Tax Planning and Advisory Strategies	Hyatt Kinabalu	32
	1 Nov	<input type="checkbox"/>	Preparing Business Plan To Obtain Financing	Hyatt Kinabalu	16
	8 Nov	<input type="checkbox"/>	Tax Planning for Employee	Hyatt Kinabalu	16
Tawau	20-21 Sept	<input type="checkbox"/>	Tax Planning and Advisory Strategies	Belmont Marco Polo	32
	3 Nov	<input type="checkbox"/>	Preparing Business Plan To Obtain Financing	Belmont Marco Polo	16

Yes! I would like to know more about the programmes ticked above.

Please send the information to :

Contact Person : _____

Organisation : _____

Address : _____

Tel : _____ Fax : _____



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

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