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'Cooking the Books'

SUZIANNA'S STYLE

Suzianna Wong-Svrula
Piccolo Mondo Gastro Sdn Bhd



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(Established under the Accountants Act, 1967)

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

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

Executive Mode Sdn Bhd (317453-P)

Tel: +603-7118 3200, 3205, 3230 Fax: +603-7118 3220
e-mail: executivemode@executivemode.com.my
Homepage: <http://www.executivemode.com.my>

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Lot 2, Jalan Sepana 15/3, Section 15, 40000 Shah Alam
Tel: +603-5101 3888 Fax: +603-5101 3600

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Malaysian Institute of Accountants

Registered Office and Address
Dewan Akauntan

2 Jalan Tun Sambanthan 3, Brickfields
50470 Kuala Lumpur

Tel: +603-2279 9200 Fax: +603-2274 1783, 2273 1016
e-mail: mia@mia.org.my
Homepage: <http://www.mia.org.my>

Change for the better

Vigour is returning to the local bourse. A buoyant stock market instills confidence which translates into spending. This augurs well for the economy. To profit, one has to learn to spot opportunity, jump in decisively but act judiciously. If these virtues were missing from your personal make-up which led you to suffer the past year in financial and stock market ignominy, then now's the time to turn over a new leaf.

Change is indeed the accent in the Institute. You would notice that from the media coverage for the past few months, the Malaysian Institute of Accountants has been in the limelight. Starting from the launching of its Strategic Booklet to the development of the Institute's e-MIA Total Management System (e-MIA TMS). These are some of the changes that the Institute is currently embarking on to further enhance its services to members.

Moving forward. Accountants as we have known them in the past will have to evolve to make themselves useful and relevant today. If they stay mired in a cocoon of the past, they will find themselves not so indispensable after all. From mere 'bean-counters', they need to acquire new personas and offer new skills – a major reengineering task if ever there was one. Out of the ashes though will emerge a new breed of accountants. Out of adversity, a new entity. Done right, erstwhile accountants can face the world on equal terms.

In this issue we feature Suzianna Wong-Svrucula a chartered accountant by profession who turned herself into a successful entrepreneur. She shares with us her success story. This tough lady, pursued what she really wanted to do in life, and rather than merely keep step, she stepped out, difficult as it were for women in a male-dominated business world. Moreover, she took new responsibilities and risks without fear, built connections with the right people at the right time and became increasingly committed to her business venture.

Also featured on the cover this month is an article on the fight against money laundering. This article attempts to give readers a deeper insight as to the definitions of money laundering as well as the Malaysian reaction to the issue. In an accompanying article the writer seeks to inform readers about the role of banks in preventing money laundering.

As for Accountants Today, as with every endeavour, there are bound to be areas where improvements can be made. We therefore invite feedback from readers which can be either addressed directly to this magazine or to the Institute. The good prosperity ship is about to set off. Let us all hop on board and not get left behind. **AT**

Editor

ACCOUNTANTS TODAY

LETTERS TO THE EDITOR

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

CONTRIBUTION OF ARTICLES

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

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

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

Editor, *Accountants Today*

Dewan Akauntan, 2 Jalan Tun Sambanthan 3, Brickfields, 50470 Kuala Lumpur, Malaysia
Tel: +603-2279 9200, Fax: +603-2274 1783, e-mail: editor@mia.org.my Homepage: <http://www.mia.org.my>



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

VISION AND MISSION

MIA's Vision

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

MIA's Mission

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

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Is the sun setting on the accountancy profession?

Twenty years ago the accountancy profession was a well-honoured and deeply-respected profession. I remember reading an article in *Malaysian Business* (MB) in the 1980s that said accountants in the country were in short supply. MB statistics had it at 2,500 and back then that was worth a pot of gold.

However I have a different impression of the profession now. Compared to the situation in the 80s, we are experiencing a strong and healthy economy today. Yet many accountants be it in public practice or commerce are not doing that well - in fact I have spoken to some accountants in public practice who say accountancy is more of a 'sunset industry' these days.

Some attribute it to the fact that the Malaysian economy is contracting rather than expanding in real terms. Yet others say that the easy accessibility of accounting software from software houses is the root cause. LCCI holders too are becoming substitutes for accountants. It has become very 'affordable' these days to utilise them as cheap substitutes. This is an ominous sign of things to come when recruitment officers themselves fail to distinguish a non-qualified candidate from a qualified one, or a professional

with a few years experience and one with many years experience.

Yet I read a recent circular by MIA requesting for the completion of 90 CPE hours for members in public practice and 60 CPE hours for accountants in commerce so the professional standing of MIA accountants could be maintained.

Firstly, up-keeping this image in this day and age does not make sense and secondly doing a CPE course may cost RM800 for 16 hours on a technical subject. Well the income of an accountant does not match the expense required to up-keep this image. Secondly there is very low utilisation of the CPE courses in most Malaysian companies. If this is so, most clients would rather go to international accounting firms anyway and small firms will never be able to provide such services to clients even if they could.

So we find ourselves at a crossroad. I think it is high time for MIA to consider steps to really restore the image of the profession and to wake up from the delusion that the profession is doing well.

Regards
Wong Kheng Yong

Grass is greener.. depends which way you look at it

Each professional - whether they be IT professionals, lawyers or architects make their own contributions and play their own unique roles in society.

Pessimists dread others may encroach into their area. Stricken with fear or panic, they too may start jumping to other fields like ICT, law, marketing and such. While it may be alright to switch to other fields - for instance from accounting to HRM, engineering to stock broking or actuarial science to tax, one must remember to switch for the correct reasons.

The optimistic accountant will say the emergence of good accounting software will leave them with more productive things to do and think about. To create and enhance good accounting software requires a good accountant. This is how I see it. Since he is good with the language of business, many opportunities will open up for him. Take for instance Accountant 'A'. He reads financial records and statements. He knows the assumptions behind the figures. He can be a good auditor, financial analyst and tax professional among others. He will be consulted for financial

and business information. He becomes very knowledgeable about the business. He gets the trust of the board. After that he becomes CEO.

Going back to basics - what does an accountant do? The humble answer is accounting! It involves classifying, coding, recording, analyzing and presenting. And it involves systems and controls. Proactive accountants anticipate what other information is needed. Other people or computers can take over the routine task of classifying, coding and recording. A smart accountant uses his intelligence to analyze and his skills to present.

Only a person with a solid accounting background can design good financial systems and think about the controls. This is our forte. If others are also good at these, then they can switch from their original professions to join us.

Actually the grass on our side of the fence is greener when viewed from the other side! Be an optimist.

Sudirman Masduki
Council Member,
Malaysian Institute of Accountants

What the Accountants Say

Article featured gives more insight.

■ *The magazine keeps getting better each issue, so keep up the good work Accountants Today. I have to say your latest feature on the KLSE Berhad's new CEO was a rather interesting read.*

All in all, the editorial efforts have been improving. I hope Accountants Today continues to give its readers better reading material than that we find at the newsstands today. **Beck Kim Kee, Kuching, Sarawak**

Editor: *Thank you for your kind comments. We are continually striving to improve editorial quality. More personality pieces on successful accountants are planned for the future.*



'Spicier' Covers Each Month Please!

■ *I have been following the Accountants Today magazine since its first revamped issue and I have to say that you people are really working hard to come out with a quality magazine each month.*

Stories 'packing punches' should be considered. It is not that you don't bring us the informative news, it is just that articles in Accountants Today need to be more 'spicy'! **Cili Padi, Selangor**

Editor: *Well, we try to be more 'pedas' at times. Our commitment is to give our readers better reading material without being controversial.*

So good, I grab it before anyone else can!

■ *As a Company Corporate Secretary working with members of the Institute especially the Auditors and Tax Agents, I have the opportunity to read your invaluable magazine, Accountants Today quite regularly. I find it very up-to-date. It also provides contemporary professionals with pertinent information on the business environment. There is a good balance of articles in each issue with a little something for everyone. It also appeals to professionals across all ages.*

With the change in name in July 2003, its fresh outlook and the incorporation of the latest news available, I do look forward to reading each issue. I must confess that I even grab the magazine first before the other partners of the firm get to it. Great work and do continue to improve the magazine. Kudos to the Editorial team!

Yul Shin Kok

Editor: *Thanks for your input and glad it brings so much reading pleasure to you.*

Keep up the contributions

■ *The Institute's magazine, Accountants Today is what I would classify as "perfect!" The articles contained are so up-to-date. I am delighted to point out that the Chairman of the Editorial Board, Raymond Liew has done so much for the magazine bearing in mind that he also contributes an article each month coupled with his contribution towards the MIA Toastmasters Club which includes a write-up on every occasion. His contribution by way of articles is commendable as he shares his vast experience with members in an unselfish manner such as "Accountants scaling new heights" – tips and all, and the "Audit practitioner interview – are you ready?" Thank you, Chairman of the Editorial Board.*

Furthermore, I enjoy reading the magazine, as many of the articles are reader friendly... one in particular being the article on tax issues. The Editorial Board addresses current issues unlike before, when the issues were generally yesterday's news. I am extremely happy and grateful for that.

However, members of the Editorial Team should apply your expertise by proof-reading the many posters and banners that go out, namely the ones displayed in the NAPEI – 14th Malaysian Education Fair 2004. The errors associated with CIMA and ICAA were so unnecessary. I do hope such careless mistakes do not occur in the future.

Other than this, well done Editorial team! **Peter Lim, ICAA Chairman**

Editor: *Point noted... we are already on the job. Thank you for pointing it out to us.*

Exploring “Gastro”nomy

By Anuja Ravendran

A woman with short brown hair, wearing a bright red blazer over a black top and white pinstriped pants, stands in a restaurant. She is leaning on a dark bar counter with her left hand. The background shows a dimly lit restaurant interior with warm lighting and blurred figures of other patrons.

Naughty accountants cook the books. But thanks to a chance encounter with an entrepreneur, chartered accountant Suzianna Wong-Svrcula ‘cooks up’ gourmet Italian food. Oh, and she still does the books at her chain of restaurants, **Piccolo Mondo.**

Suzianna Wong-Svrcula's first taste of Food and Beverage business was 'Kenny Rogers Roasters' when she was a member of the Project Team in Berjaya Group Berhad to kick start the first outlet in Bangsar, in 1993. Subsequently a holiday to London rekindled her desire to bring the franchise of her favourite American Italian Pizza restaurant the 'Chicago Pizza Pie Factory' to Malaysia which later became part of the Tai Thong Group listing exercise.

Suzianna never expected that her interest in the food and beverage industry would culminate in a chain of Italian food restaurants but a night out with friends at an Italian Trattoria in the newly developed suburb of Taman Tun Dr Ismail changed her vocation forever.

Dinner at the Trattoria was proceeding as normal when one of the restaurant's owners, Catovic Zicrija approached Suzianna and friends to enquire if they were enjoying the meal. Suzianna's German husband, Kurt, then struck up a lively conversation with Zicrija who spoke little English but was very proficient in German having lived 20 years in Germany.

This conversation led to a partnership with the opening of their first outlet in Damansara Heights at a cost of RM 200,000. "As residents of Damansara Heights we felt that the affluent neighbourhood would be a good location" recalled Suzianna. The name 'Piccolo Mondo' which means 'Little World' was chosen for its easy rhythmic sound and also because Italian food is so universally loved. It is such a small world!

"The rest as they say, is history," Suzianna quipped. The Plaza Damansara restaurant is the forerunner of the Piccolo Mondo chain, which is housed under Piccolo Mondo Gastro Sdn. Bhd., where Suzianna and Zicrija are directors. Today, they have branches in Kelana Jaya, Sunway Pyramid, Jusco Bandar Utama, Mid Valley Megamall, and Sungei Wang Plaza. Their biggest outlet – and their biggest gamble – is the Piccolo Mondo at Wisma Peladang on Jalan Bukit Bintang.

Piccolo Mondo, Bintang Walk opened its doors to patrons in April 1999, after spending close to RM1 million in renovations and set-up costs. Suzianna admits to feeling very nervous on that day

which was a Saturday. "We opened for lunch, in keeping with tradition. Several minutes later an American couple walked in. At about 12.30 a small group walked in. Thereafter it was like opening a floodgate, people just kept streaming in! It has been that way ever since," she said cheerily.

The outlet's most high-profile patron was former Prime Minister Tun Dr. Mahathir Mohamed, who came to sample their cuisine and enjoy the alfresco ambience which was a very new concept then in 1999. "I was in my office then and one of my staff came up to me and told me that the PM was there. At first, it did not register that he was talking about the then Prime Minister and then my staff mentioned his name and it hit me!"

The PM's visit created a wave of publicity. "It was big because it impacted us positively. Immediately after we called for a press conference and an article was carried in The Star." That, she says, was the first big publicity for Piccolo Mondo.

Of course, location, location, location was key for the Wisma Peladang outlet. Shortly after Piccolo Mondo opened up there, YTL Group mooted plans to revive the Bukit Bintang area into a lively place to hang out. "We could safely claim that we were the catalyst for the birth of Bintang Walk" stressed Suzianna. When Bintang Walk took shape, Kuala Lumpur City gained a landmark synonymous with Orchard Road in Singapore.

Suzianna took a dynamic role in selling Bintang Walk. Since 1999, Piccolo Mondo Gastro has been actively working with the Dewan Bandaraya Kuala Lumpur to promote the Bintang Walk area further. "Since we are at one of the tourist belts in the country, this makes us one of the key players in the tourism industry and that means that we too have a role to play in promoting tourism." Piccolo-Mondo too organized its own stylish initiatives to lure people. It created the "4x4 Jungle in the City Challenge", "the Formula One Carnival" and teamed up with Tag Heuer for the "Go Kart Circuit in the City" event. She is also on the Committee of the Kuala Lumpur Tourists Association and the Women Sports and Fitness Foundation Malaysia.

But it hasn't all been plain sailing. Hard on the heels of the first Piccolo Mondo, they

opened a second outlet at Plaza Damansara, but this soon closed because patrons preferred the first outlet. "It is not as if everything I have touched turned to gold. I have also gotten knocked down sometimes," noted Suzianna.

Suzianna's foray into the food business was never seriously planned for but a chance-encounter led to the idea of starting up a restaurant, she says.

Her hard knocks include a battle with a brain tumour last year. But this gutsy lady was back at work seven days after the operation, in keeping with her personal motto: "Nothing can possibly put me down and if I do take a hit, I always get back up as quickly as I can," said this mother of two teenaged sons.

Despite these personal and professional setbacks, expansion plans for Piccolo Mondo Gastro are going strong. "Piccolo Mondo Gastro has plenty of plans on the drawing board but we are taking it one step at a time because we are working with our own resources," explained Suzianna. Apart from opening more outlets, it wants to introduce deli concept's or self-service outlets, and is in the process of identifying suitable locations.

Change is also vital to expansion, said Suzianna, since market forces – especially in the food and beverage industry – drive and demand newness. Recently, the Piccolo Mondo in Jalan Bukit Bintang underwent a facelift, gaining a posh brand-new appeal, and was rechristened *L'Opera*. "Our society is growing more sophisticated so in order to cater to them, we decided that the transformation was justified." The company has also ventured into airline catering, and is currently supplying vegetarian lasagna and ravioli in a small way to Malaysia Airlines. Also in the pipeline is the establishment of a factory to manufacture some of the ingredients used in Italian food like pasta and sauces. Added Suzianna excitedly, "We have been talking to supermarkets to see if they are interested in carrying some of the food we manufacture and they have been receptive to the idea." It also has plans for the 13 storey Wisma Peladang, for which it currently owns the lease. Suzianna is developing a shopping center there, with *L'Opera* as the anchor outlet and a deli-



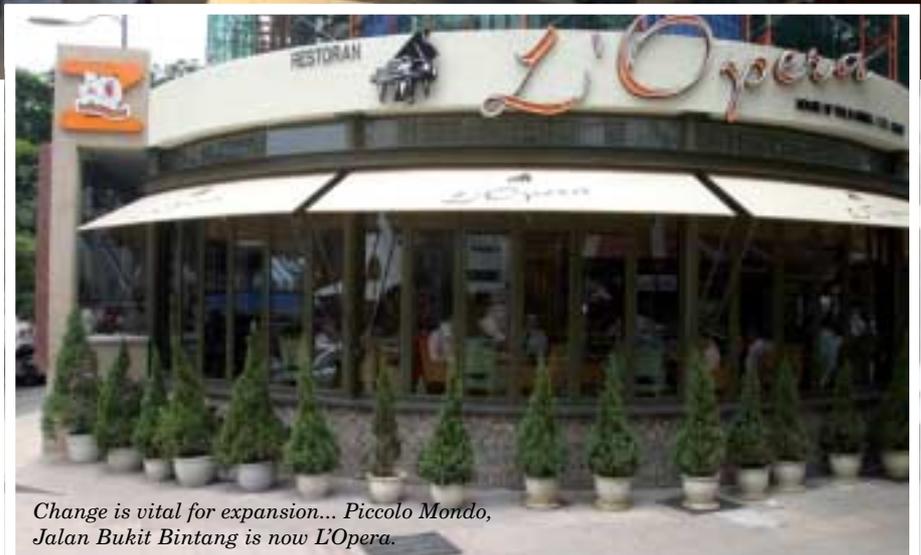
Thumbs up...Suzianna and her chefs.

market selling Italian and Continental food. After completing the shopping galleria, a hotel might be on the cards.

No matter how large it grows, Piccolo Mondo Gastro's core priority will still be the food and beverage business. "Essentially, we want to do what we do best, which is to bring the best of Italian cuisine to people," she stressed.

In her "new" vocation, her accounting background has come in useful. "I don't fear big figures," she said. "And I am more analytical after my experience as a management accountant."

Her accounting background also swayed her decision to invest in a full-fledged information technology system. "Our restaurants are fully computerized with data pulled into the head office for monitoring and controlling sales, cash and inventory control. The system has allowed us to effectively streamline our



Change is vital for expansion... Piccolo Mondo, Jalan Bukit Bintang is now L'Opera.

operations and I am not hesitant about investing into IT." Over the last few years, Piccolo Mondo Gastro has invested almost RM250,000 into its IT systems.

And like a true-blue accountant, she runs the company like a well-structured corporation. There is a very well-

established management structure and apart from the restaurants operations, Piccolo Mondo Gastro Head Office comprises a marketing department, human resource department, a finance and accounting department, a purchasing department and an Executive Committee. **AT**



One gutsy lady!... “Nothing can possibly put me down and if I do take a hit, I always get back up as quickly as I can.”

Dedicated to Work

Gutsy accountant Suzianna Wong-Svrcula lets nothing personal interfere with her duties – whether it’s confinement after pregnancy or a brain tumour.

In becoming a chartered accountant, Suzianna Wong-Svrcula was only carrying on a family tradition. Her father ran a private practice in Sibul, Sarawak, which was recently taken over by her brother Alex Wong.

Her path led her overseas to England, even though she felt rather intimidated travelling alone. “There were not many options open then because there were only a limited number of higher institutions offering accounting courses in Malaysia,” she recounted. Besides, educating children abroad was a status symbol in those days. Suzianna attended the South West London College between the years of 1969 to 1974, and opted for a professional course from the Association of Chartered and Certified Accountants (ACCA).

Upon completion of her professional qualification, she chose to remain in England to gain more working experience and did her articleship with a London firm. In her first job, Suzianna had a first-hand taste of the harsh realities of working life.

“In the beginning, I was a little upset at the way my boss told me off for making mistakes, but eventually I realised that it was for my own good, and I had to learn from my mistakes.”

In a way, Suzianna seems to have been a rolling stone, moving from company to company. One year later, she left to join a London-based American multinational company dealing in petrochemicals. Hired as a management accountant, she gained significant experience doing tasks such as collating information, and measuring the yield of the petrochemical industry.

Working as a management accountant, explained Suzianna, helped her develop more analytical skills and move forward in her career. “What I gained there was not just knowledge pertaining to work, I also learnt about teamwork and coping with the general pressures of holding a job,” she says.

Three years later, she joined EMI Music, again as a management accountant. “It was a totally different industry but the nature of the job was similar in the sense that I had

to analyse the market for music-related information.” And during her stint there, she also gained valuable exposure to the sales-oriented aspects of the industry. Two years later, she joined Texaco as a financial accountant after which she left for Overseas Containers Ltd as a management accountant.

In end-1982, Suzianna returned to Malaysia via Singapore to visit her parents in Sarawak. During her transit in Singapore, a friend informed her that a company in Singapore was scouting for a management accountant. After attending the interview, she was almost immediately offered the job but asked the company for some time to think it over.

She mulled over the decision during her holiday with her parents. Being happy where she was, she found it a tough call to make. She had actually been contemplating settling down in England, but this job would bring her closer to home. “My mom had been telling me to come home for quite awhile by then,” she grinned.

In the end, she decided to take the job offer in Singapore, and started work in January 1983. “Contrary to what I thought, I enjoyed my time in Singapore. Initially, I was afraid that it might be a tad bit boring in Singapore after having lived in London, but I had a good time.”

Singapore also holds sweet memories for Suzianna because that is where she met her German husband Dr. Kurt Svrcula, who was

stationed in Singapore at that time. After a 6-month courtship, the couple got married in December 1983.

In 1984, when her husband was transferred to Kuala Lumpur, Suzianna gave up her job in Singapore. She spent approximately 2 - 3 months looking for a job and got her break when she was hired as the Group Finance Manager for Samanda Holdings Bhd.

It was during this period that Suzianna encountered her mentor, Mr K.J. Teoh, who would turn out to be an instrumental figure in her career. “He was a charismatic leader who commanded respect from all his staff,” enthused Suzianna.

In 1984, Suzianna got pregnant with her first son. Due to extremely demanding work conditions, she worked till the very last day before her delivery and came back to work 2 weeks later, even sacrificing her confinement period. “I had to come in because the company was undergoing a particularly tumultuous period,” she confessed. The company then split and she was brought back into Ganda Holdings Bhd. to work as the finance manager.

A few months later, Mr. Teoh summoned her, telling her that he wanted her to become an industrialist. “What he actually meant was that he was taking over a company – security equipment manufacturer Lordsafe - that was on the verge of bankruptcy and he charged me with the task of turning it around.”

Accepting the challenge, Suzianna paid her first visit to the company only to realise that it was certainly going to be tougher than she expected. “The company was heavily in debt and there was a lot of hostility among staff there.” Going in as the general manager, she found many skeptics in the company. “They did not know who I was and more importantly, many probably thought that I was a woman and there was not much I could do.”

The first thing she did after that was to return to Mr. Teoh to ask him for money to try and settle at least some of the debts. “I

had decided that the first group of people that needed to be paid were the suppliers, so that we could start production again,” she says. “The amount that I was given was not much, but I had to roll it out in such a way so that work could begin.”

She also worked hard to secure clients for the company. “My go to market

“Although it was no walk in the park, and not everybody bought into my pitching, there were a few clients who decided to give me a break. In the end it was very fulfilling to see all that hard work pay off,”

Suzianna Wong-Svrcula



Hitting the right note... L'Opera, Piccolo Mondo's flagship.

strategy was simple. I went back to basics and went out by myself, bringing along a technical staff to help me with the technical aspects. In a day I tried my best to do at least four sales pitches.” If she could not do four in one day, she would do five the next day. She even spent six months on the road, doing sales for the company because she believed this was pivotal in building a good working relationship with clients and instilling confidence.

“Although it was no walk in the park, and not everybody bought into my pitching, there were a few clients who decided to give me a break. In the end it was very fulfilling to see all that hard work pay off,” she said. “Also, I was grateful for the support I later received from the staff there as I could not have done it without them.” During this phase, her accounting background came in very handy as it had instilled in her an analytical mindset that helped her weather the

turbulent times.

In February 1986, Suzianna became pregnant with her second child. Once again, the dedicated Suzianna came back to work early, just one week after delivery, beating her previous record.

However, the following year, a job opening at Raleigh Berhad (now known as the Berjaya Group) advertised in the papers caught her attention. She decided to write in for the post of general manager, finance. As one

of the short-listed candidates, she attended the interview shortly after.

Soon after, she was offered the job. She went on to work in Berjaya Group for 13 years, assisting its executive director with many exercises that involved turning around companies, in alignment with the Berjaya Group's strategy of growing via acquisition.

During her time in Berjaya, she gained more insights into legal matters. “I had to constantly go through legal documents pertaining to the acquisitions that the Group was undertaking. And I loved my time in Berjaya Group because it was so diversified, challenging and interesting. That is probably why I stayed on for so long,” she divulged with a smile.

In fact, Suzianna stayed at Berjaya even while her Italian restaurant chain - Piccolo Mondo - was getting off the ground. She only left in 2000, four years after the inception of Piccolo Mondo Gastro Sdn. Bhd. **AT**

The Fight Against Money Laundering

By Saravanan Ramasamy

Money Laundering Defined

Illegal arms sales, smuggling, activities of organised crime such as drug trafficking and prostitution rings, insider trading and computer fraud schemes generate huge sums of money. While these criminal activities generate substantial profits, the individual or group involved must find a way to disguise the funds since the 'money trail' is evidence of their crime and the money itself is vulnerable to seizure and has got to be protected. The individual or the group involved will resort to 'legitimise' the ill-gotten gains through money laundering. The principles underlying money laundering are essentially the same regardless of who and how it is used. Basically, money laundering is a three-staged process that requires *placement*, *layering* and *integration*.

To put this into perspective, let's say Mr. A has successfully profited a large amount of money from an illegal arms sale. In the *placement stage* of money laundering, Mr. A introduces his illegal profits into the financial system by breaking up the large amount of cash into less conspicuous smaller sums that are then deposited directly into a bank account, or by purchasing a series of monetary instruments (cheques, money orders, etc.) that are then collected and deposited into accounts at another location. After the funds have entered the financial system, the second, or *layering*, stage takes place. In this phase, Mr. A engages in a series of conversions or

movements of the funds to distance them from their source. The funds might be channelled through the purchase and sale of investment instruments, or Mr. A might simply wire the funds through a series of ac-

counts at various banks across the globe. The use of widely scattered accounts for laundering is especially prevalent in those jurisdictions that do not co-operate in anti-money laundering investigations. Mr. A can also disguise the transfers as payments for goods or services, thus giving them a legitimate appearance. Having successfully processed his criminal profits through the first two phases of the money laundering process, Mr. A then moves them to the third stage, or *integration*, in which the funds re-enter the legitimate economy. Mr. A might choose to invest the funds in real estate, luxury assets, or business ventures in places which offer an array of investment opportunities.

The Impact and Scale of the Problem

Unchecked money laundering activities do give rise to negative repercussions to the economy. In this regard the International Monetary Fund (IMF) has cited inexplicable changes in money demand and increased volatility of international capital



“The principles underlying money laundering are essentially the same regardless of who and how it is used.”

flows and exchange rates due to unanticipated cross-border asset transfers as some of the negative macroeconomic consequences. At the microeconomic level, pervasive money laundering erodes financial institutions by increasing their operational risks. The increase in money laundering activities increases the probability of the financial institution becoming corrupt or controlled by criminal interests and increases the risk of financial failure faced by the institution as a result of the institution itself being defrauded. The possible social and political costs of money laundering are equally serious. The economic and political influence of criminal organisations can weaken the social fabric, collective ethical standards, and ultimately the democratic institutions of society.

No doubt money laundering occurs outside of the normal range of economic statistics, a rough estimate has been put forward to give some sense of scale to the problem. The IMF has stated that the aggregate size of money laundering in the world could be



“The IMF has stated that the aggregate size of money laundering in the world could be somewhere between two and five per cent of the world’s gross domestic product (GDP). Using 2002 statistics, these percentages would indicate that money laundering ranged between USD640 billion and USD1.6 trillion. The former is roughly equivalent to the value of the GDP of Mexico in 2002.”

somewhere between two and five per cent of the world’s gross domestic product (GDP). Using 2002 statistics, these percentages would indicate that money laundering ranged between USD640 billion and USD 1.6 trillion. The former is roughly equivalent to the value of the GDP of Mexico in 2002.

Effort to Curb the Menace

In response to mounting concern over money laundering, the Financial Action Task Force on money laundering (FATF) was established by the G-7 Summit in Paris in 1989 to develop a coordinated international effort to combat money laundering. FATF today mainly consists of OECD members. One of the first tasks of the FATF was to develop Recommendations, 40 in all, which set out the measures that national governments should take to implement effective anti-money laundering programs. Ever since, the 40 Recommendations of FATF has become the de-facto standards against money laundering.

At a less elevated scale, the Asia/Pacific Group on Money Laundering (APG) was established in 1997. The APG consists of 22 members, of which Malaysia is a member.

The APG is one of the FATF regional groups and its work is underpinned by the FATF 40 Recommendations.

Malaysian Point of View

In the quest to strengthen its financial sector, Malaysia is always committed in ensuring that the integrity of its financial system is not in any way compromised by these criminal activities. In this regard, several measures have been put in place to combat money laundering. The significant developments noted were:

- The creation of the National Coordination Committee to Counter Money Laundering (NCC); and
- The enactment of the Anti-Money Laundering Act 2001 and Mutual Assistance in Criminal Matters Act 2002.

Since the fight against money laundering requires a multi-disciplinary approach, the NCC was set up involving 13 ministries and government agencies as members. The NCC provides a forum for coordinating national anti-money laundering strategies and policies in Malaysia. In this respect, the NCC is responsible for developing national policies and measures to

counter money laundering and coordinating Malaysia’s responses to international initiatives against money laundering.

The Anti-Money Laundering Act 2001 (AMLA) came into force on January 15, 2002. AMLA’s key elements include financial institutions setting in place internal policies and standards to ensure that sufficient information is obtained on the true identity of all their customers, outlining procedures for the reporting of suspicious transactions, retention of records and providing proper staff education and training. Financial institutions committing an offence under this Act are punishable by a fine not exceeding RM5 million, or imprisonment for a term not exceeding 5 years, or both. Under AMLA, the term “financial institutions” covers banks, finance companies, insurance companies, *bureaux de change* (money changers), money remittance companies and discount houses. In tandem with AMLA, Malaysia has also enacted the Mutual Assistance in Criminal Matters Act 2002 on 22 April 2002 which enables Malaysia to provide and obtain international assistance in criminal matters, including matters pertaining to money laundering. **AT**

The Way Forward

In a recent assessment of Malaysia's anti-money laundering programs by the APG, it was reported that Malaysia has taken the necessary measures to comply with most of the recommendations to ensure the effectiveness of the national anti-money laundering efforts. The evaluation process was designed to examine the areas where the standard benchmarks were met, to identify weaknesses and to make appropriate recommendations with a view to rectify and improve where necessary.

“Although APG’s assessment on Malaysia’s anti-money laundering programs seems to be satisfactory, Malaysia cannot afford to rest on its laurels. The need for proper controls to prevent money laundering needs to be continuously monitored and revamped, if necessary.”

Although APG's assessment on Malaysia's anti-money laundering programs seems to be satisfactory, Malaysia cannot afford to rest on its laurels. The need for proper controls to prevent money laundering needs to be continuously monitored and revamped. Rapid technological developments in the financial system have made the world increasingly borderless. In tandem, money launderers have developed new and more sophisticated methods to disguise their criminal proceeds. They are always swift in probing the financial system for vulnerabilities and they constantly devise new methods to circumvent the financial system to exploit these vulnerabilities. Virtually, any financial service provider can be used as a vehicle for money laundering activities. To effectively combat this menace, the whole financial system has to be vigilant and they must continually work together. **AT**

Aftermath of September 11

A Safety Net

Tools Required to Intercept and Obstruct Terrorism

By Saravanan Ramasamy

The US Patriot Act

Since banks have long since been the focal point of money launderers, attempts have always been made by the authorities to put new stringent anti-money laundering (AML) obligations on them. In the US, some rules have been accepted and implemented by the banks, while others, especially the “burdensome” rules have received objections potentially due to more paperwork, obligations and record keeping burdens. However, this situation changed dramatically after the terrorist attacks of September 11. Lawmakers in the US passed the United and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism

Act of 2001, dubbed as the USA Patriot Act. The USA Patriot Act is a new set of AML measures that was signed by President George Bush just 45 days after the terrorist attacks on New York. Basically, lawmakers have made the banks the police of the world when it comes to money laundering via the USA Patriot Act. The USA Patriot Act reinforces the need for all financial institutions to continue to maintain, as well as enhance, effective AML guidelines. “Like it or not, bankers



“Like it or not, bankers are the gatekeepers at the nation’s financial borders ... Instead of big seizures of cash, the programme (the USA Patriot Act) has led to books and records that help to identify, locate and capture the bad guys, and uncover (terrorist) plots.”

David Aufhauser, General Counsel, Department of Treasury.

are the gatekeepers at the nation's financial borders ... Instead of big seizures of cash, the programme (the USA Patriot Act) has led to books and records that help to identify, locate and capture the bad guys, and uncover (terrorist) plots." says David Aufhauser, General Counsel, Department of Treasury. To a certain degree, banks are used to the role of "the gatekeepers at the nation's financial borders". At least since the passage of the 1970 Bank Secrecy Act, banks in the US have worked to detect money laundering and help the authorities stop it. The "Know-Your-Customer" (KYC) requirement has forced banks to track customer transactions in order to detect unusual patterns, which could be the starting point in detecting potential money laundering activities.

On the local front, Malaysia's anti-money laundering policies are based on strict selection criteria for banks and financial institutions seeking admission to its financial sector and strict financial supervision. The Anti-Money Laundering Act 2001 requires banks in Malaysia to apply certain principles, including the KYC principle. The best way that a bank can detect suspicious behaviour is to know its customers. KYC, a form of due diligence, seeks to ensure that a bank has sufficient information on the following:

- customer's sources of funds;
- customer's business activities; and
- purpose of the customer's account.

Thus, when a suspicious transaction does occur, banks, equipped with the above mentioned information should be able to recognise it.

AML programs —

More than a matter of compliance

It is not surprising that most banks view these requirements as "burdensome" and as only a matter of compliance. As a result, money laundering prevention activities have inherently not garnered enough support and attention as they should. This has changed now, especially in the wake of the September 11 terrorist attacks. Unlike in the past where banks were never really at risk of losing their charters, paying hefty fines or being criminally charged, it is now possible for banks to face the above-men-

tioned risks when it has been established that these banks have failed to comply with the AML rules. Thus, banks have begun to put in place AML programs and rules on their radar screen. Banks have also realised that they can "hit two birds with one stone" by complying with the AML rules. For example, a bank can implement the KYC principle to comply with the AML requirement and at the same time use it to its own advantage. Intimate knowledge of a customer's financial circumstances and typical activities is the key to effective marketing of products and services to that client. After all, this is the very essence of the Customer Relationship Management (CRM) tools used by banks for which they spend

In the quest to build a track record and reputation as a clean and well-regulated financial centre, it is essential for Malaysian banks to continuously and relentlessly pursue efforts to combat money laundering activities.

huge amounts of money implementing. For instance, if a client makes an unusually large deposit, that they are able to satisfactorily explain, the bank could advise the client of investment opportunities available through the bank. If they don't, the money may ultimately be invested somewhere else. A timely call to the client, with an array of investment options, could yield significant benefits.

The role of technology in combating money laundering

One factor helping banks to comply with the stringent AML rules is the AML software. Traditionally, the complexity of the money laundering problem was considered too hard for systems to solve. Today, top banks are making use of artificial intelligence (AI) to remedy the problem. Various software solutions can now spot and explain suspicious transactions by "learning" a customer's individual characteristics. The solutions work using a combination of high dimension statistics and "adaptive" technology. The system automatically collects all the data within a bank, builds up behavioral profiles of the customers, and then red-flags any abnormal behaviour to the bank's officers. For ex-

ample, the software might red-flag a college student's account in which an unusual amount of travel expenses, car rental and hotel payments have been charged to the bank's debit or credit card. According to industry observers, banks shouldn't just install new software and assume that they have done their job. Indeed, installing the software is just the first step. Banks need well-trained people to analyse the transactions and to be alert to all suspicious activity. This is necessary to strike a balance between technology and the human element. In this regard, top banks in the US are even beginning to form a separate unit that deals only with the USA Patriot Act compliance.

USA Patriot Act

The effect on Malaysian banks

The USA Patriot Act requires account verification and other data from foreign banks that do business with the US banks. Otherwise, the US banks must end their business relationship with their foreign counterparts. Having said that, it is time to look at our own backyard to see how well-equipped Malaysian banks are when it comes to compliance with the AML guidelines. Because banks here have had to abide by strict anti-money laundering guidelines, industry observers say that all banks have put in place some form of safeguards to minimise the odds of doing business with a criminal. Since, as a practice, most banks in Malaysia regularly run their anti-money laundering programs, industry observers do not foresee any difficulty in complying with the new rules. As a nation aspiring to become a renowned financial centre, Malaysia has a compelling interest in combating money laundering activities. In the quest to build a track record and reputation as a clean and well-regulated financial centre, it is essential for the Malaysian banks to continuously and relentlessly pursue their efforts to combat money laundering activities. **AT**

Performance Reporting to Boards

By Danka Starovic



Most post-Enron discussions about corporate governance have focused almost exclusively on the responsibility of directors and the structure of boards. This is hardly surprising — after all, a company's survival ultimately depends on the effectiveness of its board decision-making processes. However, boards do not exist in a vacuum. In order to make the right decisions, directors must base them on good quality, timely information on how their businesses are performing. The quality of performance reporting to boards is therefore one of the key factors affecting companies' competitiveness.

Performance reporting is a means to an end, never an end in itself. The purpose of information is to promote action. The board report is therefore *the* document that pulls together all relevant information with balance and objectivity.

A good report should contain all the information necessary to facilitate decision-making at board level. It should lead directors to ask the right questions and initiate a chain of actions that will enhance the ability of the enterprise to achieve its short and long-term aims and create sustainable shareholder value. Finance departments are particularly important in this context, since the information they provide reflects the overall health of a company. Finance directors have a critical role to play in ensuring that the information received by the board is unbiased, even-handed and multi-dimensional.

Having robust systems for collecting, storing and analysing financial and non-financial information is important, but the value of integrity and transparency should not be overlooked. There is always a risk that information could be distorted on its way up to the board. In some companies, finance directors may face pressure from the chief executive to restrict the amount of negative information that is provided to other directors and investors. Working at the heart of shareholder-value-managed companies and the decision-making process, a CFO is in a position to give the board a more prudent view of the state of the business. Good quality information should be:

Relevant. Information presented to the board should be sharply focused and reflect the defined objectives and the overall strategy of an organisation. It must not obscure the overall picture with irrelevant detail.

The board should be able to drill down and access further supplementary reports where necessary. The information should be sufficient to allow the exploration of as many alternatives as are necessary for the impartial decisions to be taken.

If the board is to exercise its strategic, long-term planning function fully, it needs to focus on more than the current performance indicators. They may say something about historical performance — i.e. how it measures up to past objectives — but they can be a poor predictor of the future. The board should therefore have some forward-looking information at its disposal, including trends, projections and forecasts, but these should be based on more than a simple extrapolation of past data.

It is often hard for those who prepare the information to know what level of detail they should go into when compiling board reports. Non-executive directors may not know the ins and outs of the operational side of the business. Executive directors, on the other hand, need to balance the task of running the company with that of setting its strate-

gic direction — what have been called their conformance (past and present-orientated) and performance (future-orientated) roles. The right balance must be struck between too much and too little detail. As thought leaders and providers of decision information, finance professionals should be making this balance their goal.

Integrated. Organisations are obliged to produce information for a range of internal and external purposes. CIMA thinks that the systems and processes used to provide this information should, as far as possible, be integrated. In other words, the data collected internally should be managed in a way that satisfies both internal and external reporting needs. We believe that the information needs of directors are broadly similar to those of investors, except in the level of detail required.

Some of the information that boards require — e.g. benchmarking competitor data — cannot be generated internally but will have to be collected from external resources. The same principle of conciseness should apply. The overall objective should be to have information that maps the business entirely.

In Perspective. Information should be presented in relevant time context. Estimates of the projected time situation should always be plotted over time. This acts as an internal benchmark for the performance of each aspect of the information. Where, for example, historical, current and projected scenario are presented, operational problems are brought to light wherever the variances are significant. This applies as much to the monitoring of contracts and projects as it does to the profit and loss account and balance sheet.

Timely. It is better that the board receives information that is imperfect (but within acceptable tolerances of precision) in good time than completely accurate information too late.

Marconi is often cited as an example of a company that failed partly because its board did not receive timely information. In other

words, it was not simply a case of incompetence or flawed risk assessment, as is often stated. The simple truth is that the company's directors may not have had the chance to act, because they did not find out what was going on until it was too late.

Information should, as far as possible, be available in parallel with the activities to which it relates. The report should be available promptly enough to plan from it and/or take action to consolidate gains and recover shortfalls.

Monthly board reports should contain performance information relating to key operational issues as defined by the board: the critical success factors and key performance indicators. Quarterly board reports should contain a broader coverage of organisational activities and should also address qualitative areas of the business.

It is important that only the key pieces of information are presented monthly to enable a succinct and useful report to be produced.

Reliable. Information should be of good enough quality for the board to be confident in it. This will depend on its source, integrity and comprehensiveness.

The pack supplied by the management before the board meeting will be the key source of information for board members — especially non-executive directors. But there are other channels available, including business publications, formal and informal contacts with staff below board level and so on. Last, but not least, the extra information and analysis delivered orally by the CEO or other executives with different areas of responsibility will probably be the most useful in terms of decision-making.

Comparable. The board report is the performance report for the organisation and it covers both financial and non-financial aspects of performance. For financial performance, comparing what happens (actual) with what should have happened (budget/

plan/rolling forecast), or in some cases what did happen previously (last month/year), will be valuable. Presenting a forecast year-end position will focus minds on the effectiveness of an organisation, rather than just its economy and efficiency. Comparison with budget should be one of the key management tools, but the emphasis should be on the future, which can be influenced, rather than the past, which cannot.

Clear. Reports should always be written clearly and simply. Everyday language should be used wherever possible and jargon or acronyms should be avoided. Used judiciously, graphs and charts can be an effective communication medium for key indicators. They also enable trends to be identified more easily.

Apart from the information they receive at the start of their tenure, directors would normally expect to see:

- Monthly consolidated profit and loss accounts, balance sheets and cash flow reported against budget;
- A further breakdown of results by strategic business units, where they are of a size material to the overall performance of the company;
- A quarterly update of forecast results for the trading year;
- Specific papers on new investment projects above an agreed size;
- Updates, as appropriate, on major expenditure, such as acquisitions or large building projects;
- A six-monthly review of progress on the implementation of the strategic plan.

Finance professionals need to do more than simply put the right numbers on the boardroom table. If they are to add value, they must also act as strategic advisers, explaining what is behind the information and pointing out possible solutions to any problems. In order to do this, accountants in business need to have a real understanding of the business model and the value-adding processes that underpin it. **AT**

This article is contributed by CIMA and is an excerpt from "Performance Reporting to Boards: A Guide to Good Practice" written by Danka Starovic.

“The right balance must be struck between too much and too little detail. As thought leaders and providers of decision information, finance professionals should be making this balance their goal.”

Corporate Restructuring, Firm Performance and Value

An Agency Perspective

By Yusuf Karbhari and Rama Prasad Kanungo



In the last four decades, corporate restructuring became widespread in the corporate world as a potential explanation to the symptoms of poor governance and managerial irrationality. In particular, the 1980s became known as the decade of restructuring as company's worldwide increasingly adopted a host of strategic restructuring options such as management buy-outs, buy-ins, spin-offs, sell-offs, mergers and acquisitions, and divestments. The purpose of this article is to present two important themes related to the corporate restructuring process. First, we outline firm performance from the agency perspective and second, we provide a dis-

cussion on firm value. It is usual practice in corporate restructuring, that reorganisation entails the systematic elimination of current losses and rescheduling of assets along with the debt and the overall control of the firm. Losses of a firm as per accounting standards represented by the difference between market value of assets and nominal value of liabilities incurred over a period of time can be distributed to shareholders by diluting the non-core businesses. This could be allocated to depositors and external creditors by reducing the present value of their claims in deferral or default payments.

Essentially, there are three major patterns of restructuring that can be identified. First,

financial restructuring that includes recapitalisation, stock repurchases, and changes in capital structure. Second, *portfolio restructuring* involves divestment, acquisition and resourcing of core businesses resulting in portfolio diversity. The third is *operational restructuring*. This includes retrenchment policies, reorganisation and changes in business specific strategies. Generally, financial restructuring follows re-scheduling of debt-for-equity, extensions of bond maturity, lowering interest rates, long term liability versus debt forgiveness, indexing interest payments to earnings, etc. This type of restructuring gains synergistic efficiency leading to debt-asset management accommodating asset disposal and acquisitions. The portfolio restructuring often offsets the losses by cutting back on wages, bonuses and dividends meant for employees with mutually agreeable schemes. However, in the case of institutional investors such as government or government controlled banks losses are compensated by creating public-asset companies, facilitating moderate credit and tax laws, allowing 100 per cent equity ownership, adjusting inflation or floating the currency and continuing inflow of Foreign Direct Investment (FDI). The third category of restructuring, operational restructuring, emphasises not only on enhanced performance, efficiency and effective management, but reductions in staff and wages, disposal of assets; such as, closing subsidiaries, diverting suppliers to other small business units, and reorienting marketing strategy to promote profitability and sustain cash flows.

Agency Theory, Firm Performance and Value

Corporate restructuring involves restructuring the assets and liabilities of corporations, including their debt-to-equity structures, in line with their cashflow needs to promote efficiency, restore growth, and minimise the cost to taxpayers (see Singh, 1993). Both operational and financial sector restructurings are central to ongoing reform programmes in many corporate

firms. The objective of most restructuring exercises is to create an environment which is sustainable either on a long-term basis or for a specified period.

Moreover, corporate restructuring represents a range of organisational realignments such as; M&As, take-overs, joint ventures, spin-offs, equity carve-outs, tracking stocks, share repurchases, management buy-outs, leverage buy-outs and employee stock ownership plans etc., which involves simultaneous changes in ownership, financial, and incentive portfolios of the firms. The different types of restructuring are categorised into three broad spectrums such as, expansion, selling off and change in ownership structure. Expansion includes mergers and acquisitions, take-overs and joint ventures while sell-off includes spin-offs, divestitures, equity carve-outs and tracking of stocks. Changes in ownership structure represents exchange offers, share repurchases, management buy-outs and leverage buy-outs etc.

To date, agency theory stands as one of the prominent explanations for corporate restructuring transactions. Most of the previous studies are premised on the theoretical framework that agency conflict leads firms to adopt restructuring to alleviate organisational problems to induce enhanced performance and value to the firms. Usually, members of a corporation collectively strive towards a convergent goal bound together by a series of formal and informal contracts to ensure that they satisfy the purpose of the firm. However, since ownership and management of large organisations are almost always separated by the nature of their status, shareholders as owners, do not directly appoint managers, rather they elect a board of directors, who in turn, act as their agents in selecting and monitoring managers of the firm. This delegation entrusts managers with the control of the firm. But there lies a potential contradiction between the motives of the managers and shareholders.

Jensen and Meckling (1976) in their seminal article explained this phenomenon by examining the conflicting nature of this issue. This is known as agency theory. This conflicting nature of interests makes managers involved with self-serving discretion resulting in considerable cost and declining performance of the firm. Commonly, prob-

lems in a restructuring context represent a decline in operating performance, poor stock returns, non-value maximising diversification and negative NPV projects due to self-serving managerial discretion, poor internal governance and control, and principal-agent conflict. This imminent risk of performance decline frequently drives firms to undertake restructuring. Agency theory explains that restructuring corrects the immediate problem of poor performance but fails to realise the key cause of the problems such as, poor internal governance of the firms. In addition, the free cash flow hypothesis emphasises that a firm with excess cash and inadequate investment opportunities will face considerable agency costs if the cash is not distributed to shareholders. Such a scenario allows managers to be more self-serving irrespective of shareholders interest to gain wealth. At times, the marginal cost of correcting efficiency arising out of such conflict is much more in comparison to the marginal benefits. Therefore, firms are better off by delaying such corrective actions, which may well exacerbate the issues. Others have argued that the managers deliberately allow inefficiencies to accumulate so that an imminent crisis may increase their chance of survival (see for example; Miller, 1982; Singh and Markides, 1997). Another possibility is that organisational inertia prevents managers from taking further action unless and until they face an outside challenge or threat such as a take-over bid. From this contradiction, firms can suffer from performance decline and value erosion.

Usually, cash flow is instrumental in deciding firm performance. Performance in the context of restructuring, is measured by pre-tax operating cash flow of firms (see Healey *et al*, 1992). Pre-tax operating cash flow is denoted by sales, minus cost of goods sold and selling and administrative expenses, plus depreciation and goodwill expenses of a firm, which after restructuring mostly indicates improvement. Though in the short term, this may not seem very promising but in the long term it enhances performance. There are two strong arguments supporting this. First, unlike earning based performance measures, performance is not affected by depreciation and goodwill. Second, it can be compared on a cross-sectional basis with other industry

sectors to measure the difference over the period of restructuring. Agency theory postulates that performance improvements observed following a buyout are the result of management's increased ownership stake in the firm implying lesser agency conflict.

Agency theory also explains the logic of corporate restructuring in a linear way. Firms mainly restructure to improve their performance. The agency perspective interprets the corporate restructuring decision as a process to align the interests of managers and shareholders. After all, most managers do become reluctant to take risks on behalf of the shareholders and instead serve their own interests. This risk aversion strategy of managers is contradictory to the owners' interest leading to corporate restructuring. The literature suggests that equity ownership structure does affect the manager-shareholder agency conflict. The announcement of corporate restructuring signals different pieces of information to investors and to the market. When a restructuring is announced, three different sections of information affect the stock prices of the involved firms. First, the announcement reveals information about the potential synergies arising from the combination; second, in relation to stand-alone value of the firms involved with restructuring, such as, equity carve-out¹ and spin-offs². Finally, how the value will be split among the firm/firms following restructuring in the case of mergers and take-over activities.

This increase in performance measures of the restructured firms suggests that this enhanced performance is attributable to restructuring in sending a signal bearing a positive effect on the market. Subsequently, this reflects how the market reacts to the restructuring announcement and maximises the market value of the restructured firms. This registers evidence from the value maximisation hypothesis. The value maximisation hypothesis states that managers should act to increase the value of the firm for the collective interest of shareholders. Mainly, restructuring enables managers to act in that direction irrespective of their self-serving interest. Previous research findings also suggest that investors perceive corporate restructuring

to add positive value to firms.

Firms also show significant improved performance by effectively addressing debt to the asset liquidation problem after restructuring. Evidence of association between the increase in stock market performance and operating performance of the

Elliot, 1998).

Moreover, market rewards motivate shareholders to be more involved with the firms. In particular, the favourable reaction of shareholders brings better stock returns leading to improved performance. The improvement in performance and greater at-



firm following restructuring has been recognised in empirical studies such as that undertaken by Healy *et al.* (1992). The authors support the view that restructuring affirms significant benefits such as positive improvement in firm performance. According to Jensen and Meckling (1976), following the free cash flow hypothesis, management mainly invest in an over diversified way leading to organisational default and inefficiency, subsequently resulting in poor firm performance. Also, excess of cash and redundant diversification may sometimes force management to restructure the firm. Again, a review of the empirical literature indicates that in aggregate such corporate restructuring activities do appear to create value for the shareholders of the restructured firms. For instance, the stock market looks at restructuring favourably, and rewards restructured firms with a higher stock price (see for example; Higson and

The objective of most restructuring exercises is to create an environment which is sustainable either on a long-term basis or for a specified period.

tention from shareholders allow for better managerial incentives increasing the managers' stake in the firms. This has a noticeable significance in determining the firm performance following restructuring. Agency theory therefore argues that performance improvement observed following a restructuring is the consequence of principal-agents' interest alignment and better managerial incentives. Apparently this shows that agency conflict triggers restructuring.

However, a recent study undertaken by McKenna (2001) reveals another interesting aspect of corporate restructuring, which until now has been neglected. The author reports that performance improvement takes longer due to a lack of government officials' understanding of provincial knowledge. McKenna (2001), in the context of restructuring in China, summarises this issue well by stating that:

"A lack of understanding on the part of People's Republic of China debtors and non-People's Republic of China creditors of each other's legal systems, and what is expected of each party in the restructuring process is not well understood."

When attention is turned to firm value, it has to be recognised that this is equally an important aspect of the restructuring process. Firm value measured as wealth change in terms of positive abnormal return shows how restructuring has an effect on firms. In most cases, shareholders experience an increase in earnings following restructuring after comparing post-restructuring EPS versus pre-restructuring EPS. As restructuring itself is a lengthy process spanning over a certain period of time, some times the value change is assumed as a precursor of better performance. On the other hand, if the restructuring process begins well before the

firm's formal announcement, value change and performance then become two separate outcomes without any specific association. Nevertheless, in most cases, restructuring information conveyed

by firms is responded positively by the market and investors. The value of firms is generally estimated on the basis of abnormal returns to capture the full wealth effect of the firms following the transac-

1 A transaction in which a parent firm offers some of its subsidiary's common stock to the general public in order to bring in a cash infusion to the parent without loss of control.

2 A transaction in which a company distributes on a pro ratio basis all of the shares it owns in a subsidiary to its own shareholders. Creates a new public company with (initially) the same proportional equity ownership as the parent company.

tion. Boone and Mulherin (2001) register wealth changes at the initial announcement of the restructuring which is associated with shareholders' wealth gain. Studying different types of restructuring transaction, the authors concluded that a cumulative abnormal return (CAR) for each of the categories around the announcement period confirms the positive abnormal returns. But examining 38 distressed firms using five different measures to evaluate post-merger performance of the combined bidder and target firms, Clark and Ofek (1994) report that all performance measures suggest that bidders are unable to successfully restructure targets creating value for shareholders though the market demonstrates an ability to forecast the success of restructuring.

Some other studies (see Rosenfeld, 1984; Copeland *et al.*, 1987; Slovin *et al.*, 1995; Daley *et al.*, 1997; Desai and Jain, 1999; and McConnell *et al.*, 2001) report that the value of a firm measured in terms of stock returns following restructuring favours shareholders wealth gain and better market performance. In this context restructuring represents different types of transactions, such as spin-offs, equity carve-outs, sell-offs and divestitures. Hence, the market response explains the effect of value change in firms. It is also anticipated that the signal conveyed by restructuring is about the market reaction and share performance having a potential link with firm value leading to changes in cash flow and agency conflict. Price movement following a restructuring enhances the firm specific information transparency by disseminating the information and increasing interest among potential investors. These market changes impart a positive influence on the firm value. The firm value arises from the significant abnormal returns of the stocks following restructuring starting from the announcement period.

Following restructuring, the new stockholders also considerably contribute to the value enhancement of the firms. The interest of stockholders is usually triggered by the positive abnormal returns of the firms. This, in turn leads firms to better value and performance, which signifies the importance of restructuring. The agency

theory indicates that when there is a change in ownership structure following certain types of restructuring such as a management buy-out, a positive performance and value change occurs. Previous studies suggest increased managerial ownership leads to better firm performance, where managers intent to restructure a poorly performing firm are most likely to balance debt and equity to enhance the firm value. Some restructuring activities represent changes of sub-optimal contracts in response to changes in external and internal environments, and have a positive impact on the firm performance and value. Some studies document that restructuring represents a breach of implicit contracts which eventually increases future contracting costs and undermines long term performance of firms. In this process, market reaction can be seen as a systemic representation of corporate restructuring signaling information asymmetry to investors. In the main, restructuring reflects positive abnormal stock returns over several years following transaction completion. As the market behaves more effectively than the speculation of managers, ultimately, firms are rewarded with higher stock prices increasing their net present value. Hence, it is perceived that firm value increases after undergoing restructuring reflecting better performance with improved efficiency and productivity. This area of corporate restructuring draws attention in terms of value enhancement and improvement in performance measures.

Summary and Conclusion

Corporate restructuring as a management tool is becoming increasingly popular. It is also noticeable that a high level of diversity in theories and research approaches has been recognised in the corporate restructuring area. Despite many differences, there are some common key elements. For instance, the principal-agent conflict and excess of free cash flow allow managers to indulge in self-serving discretion inviting restructuring to take place. This discretion of managers originates from three main factors that act as a pre-cursor to restructuring. These are slow market response, a lack of efficient monitoring mechanisms and declining performance.

However, it should be noted that some

aspects of restructuring have not been fully explored, such as the effect of restructuring charges, as well as repeated and multiple restructuring and corrective action for poor internal governance mechanisms. Restructuring is also a lengthy process and most restructuring charges are paid after the completion of the process. So far, it is not certain as to what extent restructuring charges affect post restructuring performance. This could perhaps be due to:

- 1 market response to restructuring is exclusive to restructuring charges; and
- 2 the comparison between post +1 and +2 year performance has no association with the restructuring charges, if the restructuring is completed after three years or more.

Overall, very little research has been undertaken on the effects of repeated and multiple restructuring of the firms. In addition, the failure of internal mechanisms to monitor the managers during and after restructuring is another intriguing aspect of restructuring, which has not been paid due attention in the professional research. All these issues need further investigation and we therefore intend to examine these in more detail in our forthcoming articles. **AT**

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Dr. Yusuf Karbhari, is a Reader in Accounting and the Director of the Asian Accounting, Finance and Business Research Unit, Cardiff Business School, Colum Drive, Cardiff, CF10 3EU, UK, e-mail: Karbhari@cardiff.ac.uk, Tel: + 44 (0) 29 2087 6057.

Rama Kanungo is a Doctoral Student and Research Co-ordinator of the Asian Accounting, Finance and Business Research Unit, Cardiff Business School, Colum Drive, Cardiff, CF10 3EU, UK, e-mail: KanungoRP@cardiff.ac.uk, Tel: + 44 (0) 29 2087 6542

Solicitors' Accounts

A Critical Analysis

By Gunsaiklaram Malayalam

In Malaysia, there is no distinction between an advocate (or barrister) and a solicitor. Any person with an appropriate legal qualification who has been admitted as an advocate and solicitor of the High Court can practice as an advocate and solicitor. This practice differs from the entrenched legal system in England despite the pervasive influence it had and has on our legal system.

In England, the legal system is a divided legal profession where a lawyer is either a solicitor or a barrister. Each branch has its own distinct traditions, training requirements and custom of practice. It is because of the division and restrictive practices, that the solicitor or barrister enjoyed specific benefits, which were exclusively within their domain.



Under the restrictive practices, a barrister was not allowed to see a client. In addition, he was restrained from forming a partnership with solicitors. However, the Courts and Legal Services Act 1990 made radical changes to the restrictive practices. A solicitor is characterised as a general practitioner. He deals with the clients personally and directly. When a particular specialism or litigation is required, he will engage the services of counsel who is a barrister.

Most solicitors are experts in particular areas of law. They may confine their regular work to commercial conveyancing or revenue work or litigation. Barristers on the other hand might have a wide range of work including criminal, family matters and common law areas like tort and contract cases.

The role, duties and responsibilities of the lawyers as solicitors, as distinct from advocates, must be clearly understood particularly in relation to holding of clients' monies.

A solicitor is an avid entrepreneur as well as a legal professional. The entrepreneurship arises from the profit-motivated nature of the legal firm's business. On the other hand, his legal education, training and membership in a professional body gives him the status of a professional.

As a professional and entrepreneur, he needs accurate financial information to make enlightened financial and business decisions. Financial information is required for preparing financial statements, tax returns and the accountant's report. The required financial information is generally obtained from the firm's accounting records and documents.

Accounting records of the firms are primarily concerned with the collection, analysis and communication of economic information. This information can be used as a useful wherewithal for decision-making, planning and controlling of businesses and accounting for the stakeholder money he keeps on behalf of the clients. Solicitors, like other business entrepreneurs, prepare accounts for these purposes.

Solicitors' Accounts

Solicitors have to maintain two disparate types of accounting records for their practices. They are the firms' accounts which are also known as the **office accounts** and the **clients' accounts**. The clients' accounts are maintained exclusively for recording transactions relating to clients' monies held by the solicitors.

Office Accounts

The office accounts record the day-to-day business transactions of the firm. Such transactions are invariably the profit costs (professional fees) received and receivable and the business expenses paid and payable and the assets acquired and liabilities incurred by the firm. Basically, the trajectory of the financial accounting requirements of maintaining proper accounting records is the same as that of other types of business organisations.

It is important for solicitors to have a sound grasp of the fundamentals of financial accounting not only to understand and manage the office accounts but also to keep the clients' accounts properly to comply with the Solicitors Accounts Rules 1990.

Users of Accounts

Solicitors and their managers are the main users of the accounting information of the firm. There are also, however, many other people who are also interested in the accounting information of the firm. They are:

“A solicitor is an avid entrepreneur as well as a legal professional. The entrepreneurship arises from the profit-motivated nature of the legal firm's business. On the other hand, his legal education, training and membership in a professional body gives him the status of a professional.”

■ The solicitors of the firm.

To assess how effectively the managers are running the business and to make judgements about the likely level of risk and profit return in the future.

■ Bar Council

The Bar Council would inspect the accounts of the solicitor if there is any complaint against the solicitor made by any of his clients.

■ The Inland Revenue

To ascertain the tax liability of the individual partners of the firm.

■ The Customs and Excise

To ensure that the correct amount of service tax is collected and accounted for by the firm.

■ Creditors

To assess the ability of the firm to pay for the goods and services supplied.

■ Prospective partners

To assess the likely risks and returns from the firm.

■ Lenders of loans

To assess the ability of the firm to meet its obligations and to pay interest and repay the principal amount.

The office accounts are legally not required to be audited. However, the solicitors can do so voluntarily. Only in rare circumstances are the accounts subjected to an audit by an auditor. This is usually done at the behest of the owners or partners of the firm to settle disputes among partners professionally and amicably.

In the preparation of the financial accounts, the solicitors normally use accounting bases, concepts and convention and accounting standards. But, they are not mandatory. They are used in order to give the accounts of the firm a semblance of reliability and credibility.

Clients' Accounts

Solicitors who handle clients' money as

solicitors, agents, bailees, stakeholders or in any other capacity shall be required to maintain clients' accounts under Rule 3 of the Solicitors' Accounts Rules 1990.

Solicitors shall keep the money or monies of the clients in one common bank account for all the clients of the firm or separate accounts for each of their clients if it can be done expediently. Under Rule 6 of the Solicitors Accounts Rules 1990, no money other than money a solicitor is required or permitted to pay into a clients bank account shall be paid into that account.

Mandatory Examination (Audit)

Solicitors' clients' accounts that are kept by solicitors are subject to a mandatory examination (audit), if they handle clients' monies. The accounts shall be examined by a qualified accountant to give an accountant's report thereon. A copy of the accountant's report shall be submitted to the Bar Council by the solicitors when an application is made for the annual practicing certificate.

In the past, where a lawyer did not hold clients' monies because of the specific nature of the legal brief he undertook, he might have been dispensed with the requirement to submit an accountant's report. A statutory declaration stating that he did not maintain clients accounts or handle clients monies, was considered sufficient by the Bar Council in some cases.

However, the common practice is that the Bar Council insists that the lawyer must submit an accountant's report even if he does not hold clients monies. The reporting accountant must confirm affirmatively that the solicitor does not hold clients monies and does not operate a clients' monies bank account in addition to the submission of a statutory declaration.

It is also interesting to observe that from the year 2002, the accountant's report must be submitted by the reporting accountant

directly to the Bar Council. Prior to 2002, the reporting accountants gave the report to the solicitors to submit to the Bar Council.

The direct submission of the accountant's report is strictly a security measure introduced by the Bar Council to avoid insidious tampering with the accountant's report by unethical solicitors or others with a collateral interest.

Accountant's Report

The accountant's report shall clearly state his opinion (accountant's), based on a limited examination, whether he is satisfied that the solicitor has complied with the provision of the Solicitors Accounts Rules 1990.

As required by Rule 5 of the Accountant's Report, the report shall be in a prescribed format. It contains certain specified particulars of the reporting accountant and his professional opinion on the accounts that are being audited. The particulars often specified in the report are the accountant's name, his professional qualification(s), name and address of the firm, membership number, audit licence number, his signature and the date of signing the report.

In addition, the report also spells out clearly the name of the solicitor, name and addresses of his or her firm, whether practising alone or in partnership and the accounting period(s) for which the report is prepared.

A qualified accountant for the purpose of examination of solicitors' accounts is an approved company auditor as defined in the Companies Act 1965 and he has neither been any time during the accounting period nor subsequently, before giving his report become a partner, clerk or servant of such solicitors or of any partner of his.

The reason for the reporting accountant to be qualified is to ensure that the person



“To be an approved company auditor, an accountant must be a member of the Malaysian Institute of Accountants and hold a practicing audit licence issued by the Ministry of Finance of Malaysia.”

doing the reporting must be **technically, professionally and ethically competent**.

In the same vein, the Rules of the Accountant's Report also exclude a partner, clerk or servant of the solicitor from being the auditor to maintain **independence**. Independence is another crucial prerequisite of auditing to ensure that the opinion presented by an accountant is objective and free from bias.

To be an approved company auditor, an accountant must be a member of the Malaysian Institute of Accountants and hold a practicing audit licence issued by the Ministry of Finance of Malaysia.

In a distinct contrast to the office accounts kept by a firm, the clients' accounts

maintained by the solicitors are less complicated and simple as technical accounting principles, bases and concepts are not called into play. However, sometimes it is observed with disdain, that the accuracy of these accounts may be found seriously wanting because of the apathy of the solicitors and inadequate theoretical and practical accounting knowledge of their accounts clerks.

Proper Maintenance of Clients Accounts

It is imperative that the accounts maintained by the solicitors must always be timely and properly and accurately prepared to comply with the Solicitors Accounts Rules 1990. Despite the exacting requirements of the Act, recidivism continues to exist because of inadequate attention paid to the proper accountability of the clients' monies.

The Sun newspaper reported on 24 July 2003 that “24 per cent of the 11,000 lawyers have been referred to the Bar Council Disciplinary Board for dubious activities. On the second place of offences is the outright misuse of clients' accounts.”

This statistics dampen the favourable image of the noble

profession.

A cursory observation shows that a **credibility gap** exists in the legal profession as a result of impaired duty of proper accountability.

Maintaining a high moral rectitude and confidence-building will definitely narrow the perceived or actual credibility gap.

External examination (audits) also, however, help to ameliorate the credibility gap. It gives an assurance to the public that the examination of clients' accounts will effectively deter misuse of clients monies held by the solicitors. However, because of the inherent limitation of the examination, eliminating the dishonest activities completely can be highly tenuous.

Audit Risk

Inaccurately maintained accounts will pose immense examination (auditing) problems. Examination of the inaccurate accounts will be difficult and the time necessarily occupied on the examination will be inordinate. Consequently, the examination fees charged by the accountants will also be raised because of the extended time required to complete the examination (audit) and the elevated examination risk that becomes inherent in such examinations.

In addition, the nature of the solicitor's work devolves on him an easy opportunity — whenever raw greed overwhelms inherent human morality — to engage in undesirable activities which may be incompatible with the requirements of the Solicitors Accounts Rule 1990. The culmination of most incompatible acts is due to the unrestricted access to the huge amount of cash, which is often held in the clients' accounts under his complete control. A large amount of cash at his disposal combined with a small lethal spark of dishonesty can be extremely combustible. Once the genie comes out of the bottle the financial damage caused can be extensive and irreversible.

A report in *The New Straits Times* (datelined Singapore) entitled "Another lawyer charged with Criminal Breach of Trust (CBT)" which appeared on 29 May 2003 shows the seriousness of misappropriation of clients monies by solicitors. The report says that seven out of twenty cases in the last three decades involving misappropriation of clients' monies in Singapore have occurred in the last three months.

The current economic downturn might have contributed to the increase in momentum of such criminal activities.

Because of the potential risks the general public is exposed by entrusting the monies with solicitors and with the rising incidence of defaults, the work of the reporting accountant has become increasingly difficult and is also under intense scrutiny. Hence, it may be helpful to understand what are the role and responsibilities of a reporting accountant in safeguarding the solicitors' clients monies.

An accountant carries out an unfettered examination of the solicitor's books of accounts and documents to express an opinion on clients account. To accomplish this purpose ex-

peditiously, he needs to do only **test checks** of the solicitor's transactions — **that is he does not examine each and every transaction** — to form an opinion on the accounts being examined. However, if he discovers any suspicious matters during the examination, he is expected to probe to the bottom of the nefarious matters before an opinion is given.

So, reliance on the report of the accountants must be tampered with professional scepticism, as the purpose of the report is merely to express a professional opinion and not to unearth all frauds. Neither, is it an imprimatur of the accuracy of clients' accounts maintained by the solicitor.

Conventional Examination Methods

The conventional examination (auditing) methods of test checking, vouching, and verifying vouchers, receipts, accounting records and bank statements have been rendered obsolete because of the changing nature of deceptions. The reporting accountants must improve the examination techniques and also broaden the horizon of checking by gaining access to other relevant documents and correspondence — confidential or otherwise — held by the examinees to ensure that no deception escapes the dragnet of the examination.

Late Submission

A study carried out by **E. Skordaki and C.F. Willis on Defaults by Solicitors** published by the **Law Society of England**, found that a majority of the defaulting solicitors had a history of late submission of the Accountant's Report to the Law Society. Late submission is a good indicator of increased risk even if there is no possibility of default.

The study also found that defaulters were solicitors of between 10 to 20 years standing and had personal problems as well as work and financial worries. The majority of the defaults arose from an appropriation of money entrusted with them for property transactions. This is certainly obvious as large amounts of money changing hands in such transactions may entice them to dip their hands into these monies.

A research study by the Law Society of England revealed that dishonesty amongst the employees, sole-proprietors and partners of smaller practices are more common

than bigger ones. This is understandable as bigger firms will have better systems of internal control and management.

Protection

The compensation fund and professional indemnity insurance coverage provide monetary protection to the public in case of fraud and negligence of the solicitors.

Compensation Fund

Solicitors' clients who are ensnared in the web of deceit are quite well-protected under the compensation fund of the Legal Profession Act 1976 Section 80.

Under Section 80 (8), "if it can be proven that any person has sustained loss in consequence of dishonesty on the part of an advocate and solicitor or any clerk or servant of an advocate and solicitor in connection with that advocate and solicitor's practice in Malaysia as an advocate and solicitor or in connection with any trust of which that advocate and solicitor is a trustee, the Malaysian Bar, if the Bar Council thinks fit and reasonable, make a grant to that person out of the Fund for the purpose of relieving or mitigating that loss".

Negligence

All advocates and solicitors must have professional indemnity insurance to pay for compensations arising from negligence suits. Professional indemnity insurance coverage is a prerequisite for the issuance of a practicing certificate.

Clients may sue an advocate and solicitor for professional negligence if his work falls short of the standard normally expected of a person of his standing, qualification and experience. The professional indemnity insurance certainly provides a good safety valve for the distressed public for the legal work done negligently by solicitors. **AT**

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Gunsaikaran Malayalam is a Senior Accountant with M. Guna & Co. He can be reached at e-mail: mgunaco@hotmail.com

Offshore Outsourcing

By Saravanan Ramasamy

Is it Really a Threat to Economic Prosperity?



At one end we have US Trade Representative, Robert Zoelick going on a global tour to drum up support to revive talks after last year's failed World Trade Organisation (WTO) ministerial meeting in Cancun, Mexico which caused free trade negotiations to stall. At the other end of the spectrum, we have Senator John Kerry who had introduced a Bill last November requiring call-centre operators to disclose their physical location to consumers who call for customer service, supposedly to discourage US companies from moving such jobs overseas. Along with that we have Senator Craig Thomas who has pushed for the amendment to the Senate's omnibus Appropriations Bill that bans some federal contracts to vendors using offshore labour. Does this reflect some kind of double standard that the Americans apply when it comes to free trade policies in the service sector? After all, a country like

"Here you have a country whose mantra is market access and whose argument is that opening markets to competition is the solution to poverty in countries like India and then they enact something like this"

Arun Jaitley, India's Minister for Trade and Commerce, commenting on US policy

India has become a major outsourcing centre for American companies as a result of, among other things, strong pressure by the US to liberalise its economy and open it to foreign trade.

"Here you have a country whose mantra is market access and whose argument is that opening markets to competition is the solution to poverty in countries like India and then they enact something like this" said India's Minister for Trade and Commerce, Arun Jaitley. He added that the recent move by the US creates a far more adverse environment in India for selling trade liberalisation. Echoing the same sen-

timent was Indian Communications and Information Technology Minister, Arun Shourie who called for Asian countries to come together and find a consensus approach to fight this backlash.

The growing tension of outsourcing finally gave rise for a debate at the annual meeting of the World Economic Forum in Davos recently. This issue was said to be the hottest economic issue debated in the Forum. The mounting concern about job losses in the US from the outsourcing trend is said to be the main reason as to why the rapid growth of outsourcing services is now viewed as a serious threat, especially when

the trend has made inroads to the white-collar worker regime. Having started with labour intensive and low value added activities such as data processing, the outsourcing phenomenon is rapidly moving up the service-sector value chain towards software programming, engineering and design, and the professional expertise of lawyers, accountants, actuaries, financial analysts and doctors.

Britain, however, does not seem to share the same sentiment as the US. This is why

“What’s good for India is good for Britain ... India’s ability to reap greater prosperity via a higher employment rate would increase the Indian purchasing power. Since Britain already sells more to than it buys from India ... both Britain and India would mutually benefit from the outsourcing trend.”

Patricia Hewitt, British Trade and Industry Secretary

British Trade and Industry Secretary, Patricia Hewitt, amid the outsourcing brouhaha, claimed daringly that “What’s good for India is good for Britain”. India’s ability to reap greater prosperity via a higher employment rate would increase the Indian purchasing power. Since Britain already sells more to than it buys from India, Ms. Hewitt is confident that both Britain and India would mutually benefit from the outsourcing trend. Thus, it’s not surprising that many US chambers of commerce seem to concur with Britain that outsourcing is indeed a good thing. More so, they are aware that a ban on purchasing labour services from abroad would violate the General Agreement on Trade in Services (GATS), which is one of the basic tenets of the World Trade Organisation (WTO). The main objective of GATS is the same as of the older GATT, which is to take the liberalisation process further, by extending national commitments over a broader range of service sectors and by removing limitations from existing commitments. But what irked the Indians was the fact that US Charge d’Affaires in New Delhi, Robert Blake recently hinted that India needs to adopt greater balance and greater liberalisation in the insurance, banking and telecom sectors to counter efforts to restrict outsourcing to India, which is widely viewed

as a deal arranging *quid pro quo*.

Companies move their business services offshore (i.e. host country) because they can make more money, which in return means that wealth is created for the home country as well. A recent McKinsey Global Institute study revealed, for every dollar that was previously spent on business processes in the US and now goes to India, India earns a net benefit of at least 33 cents, in the form of government taxes, wages paid by US companies and revenues earned by

Indian vendors. On the other hand, US companies save 58 cents, mainly in wages. In addition, Indian suppliers of offshore services, in the quest to provide high quality service, buy an additional five cents worth of goods and services in the US ranging from computers and telecommunications equipment to legal, financial, and marketing expertise. Furthermore, many Indian

“... outsourcing is just a new way of doing international trade ... Americans are used to goods being produced abroad and being shipped to the US by ships or planes but are not used to services being produced abroad and being sent over the internet and telephone wires ... it’s a good thing that more things are tradeable now than were tradeable in the past.”

Gregory Mankiw, President George W. Bush’s chief economic adviser

offshore service providers are in fact US companies that repatriate earnings. Thus an additional four cents of every dollar spent on outsourcing creates value for the US in the form of repatriated profits. In addition to the direct benefits to the US in the form of savings, new exports, and repatriated profits, outsourcing can indirectly benefit the economy by freeing up the resources to concentrate on higher value-added, technology driven activities.

Outsourcing should be viewed as a catalyst rather than an impediment for long term trends of economic growth and development. In this regard, President George W. Bush’s chief economic adviser, Gregory Mankiw, was right in saying outsourcing is just a new way of doing international trade. At a briefing after the release of the *Economic Report of the President* very recently, Mr. Mankiw said that Americans are used to goods being produced abroad and being shipped to the US by ships or planes but are not used to services being produced abroad and being sent over the internet and telephone wires. He added that it’s a good thing that more things are tradeable now than were tradeable in the past. However, Mr. Mankiw’s explanation on outsourcing, which any trained economist would treat as rationale, was not well received by the US politicians. One politician denounced Mr. Mankiw’s analysis as “*unpatriotic economics*” while another dismissed it as “*Alice in Wonderland economics*”. Worst still, while some politicians demanded Mr. Mankiw to apologise, several others called for his resignation.

American politicians and policymakers should recognise the benefits of outsourcing. By restricting local companies from engaging in outsourcing, American politicians and policymakers are indeed slowing down their own economic develop-

ment while depriving other countries of economic prosperity. It may be a fact that the American election is fast approaching, but this does not warrant the politicians to scorn economic logic in search for political expediency. As long as countries practice the free trade agenda, be it in merchandise goods or services, Adam Smith’s “invisible hand” and David Ricardo’s “law of comparative advantage” can be trusted to guide us to greater efficiency and prosperity. **AT**

Managing Accounting Numbers

By Ananda R. Samudhram
& Roselee Shah

The Case of Malaysian Banks

This study looks at the use of loan loss reserves to improve capital adequacy ratios in the banking sector, which now comes under the purview of the Basle 1988 accord. An empirical investigation of the behaviour of Malaysian banks indicates that accounting numbers are being adjusted to improve capital adequacy ratios, but not accounting profits. The upcoming version of the Basle accord, that adds a supervisory review process to banking regulation, offers a direction for improving the reliability of accounting numbers.

Lately, a series of major accounting failures, from Enron and WorldCom in the US to Parmalat in Europe, have shaken up the accountant's world. The reliability of accounting numbers has been called into question. But while the world demands a fool-proof accounting structure, accounting information, by its very nature, has to be flexible enough to accommodate changing business environments, to continue to fulfil the requirements of its many users.

Within the accounting standards, that strive to remove discretionary decisions and channel all information into preset categories so the "true" performance of the business entity is revealed, little loopholes do exist, giving



managers some leeway in adjusting accounting numbers.

Such a loophole is particularly evident in the case of banks. In 1988, the G10 nations signed the Basle Accord, which prescribes minimum capital adequacy ratios for internationally active banks. The Accord fixes capital requirements at a minimum of eight per cent of risk weighted assets for sound banking, to ensure that the banks have sufficient funds to cover normal losses in the course of the business.

A major portion of a bank's assets is composed of loans, and the 1988 Basle Accord provides different risk weights for different categories of loans, so the capital adequacy requirements reflect the underlying riskiness of a particular bank's loan portfolio. Government backed bonds that are unlikely to default, for example, are given lower risk weights than commercial loans that have a relatively higher likelihood of default.

An important component of total risk weighted assets is the loan loss provision (LLP), which is comprised of reserves set aside to cover normal loan losses. The amount of provisions depends on the managers' estimations of the likelihood of loan defaults in the coming year. Higher provisions will result in more favourable capital adequacy ratios, because the estimated provisions are counted as part of assets. Thus, banks that do not otherwise meet the capital adequacy ratios could deliberately overstate the LLPs to levels sufficient to satisfy the regulatory capital adequacy standards. This practice is called capital management.

The 1988 Basle Accord limits capital management via LLPs to a certain extent, allowing only 1.25 per cent of the total risk weighted assets to be composed of LLPs in computing the capital adequacy ratios. However, Malaysian regulators do not limit LLPs to this 1.25 per cent limit, giving more freedom for banks to satisfy the capital adequacy ratios by manipulating LLPs.

A number of researchers have detected capital management in banks abroad, both prior to and after the 1988 Basle Accord, including Beatty et al (1995) and Kim and Kross (1998). In contrast, Bishop (1996) finds no evidence of capital manipulation.

Little empirical research has been conducted on capital management in Malaysian banks, particularly in the post Accord pe-

riod. This paper looks at a sample of Malaysian banks and uses an econometric model that considers factors specific to Malaysia, to study capital manipulation in local banks.

Methodology

This study uses financial reports from a sample of 21 commercial banks, covering 1997 to 2002. The relevant information was extracted from published annual reports and the banks' websites.

The loan loss provisions (LLPs) for a particular year are influenced by a variety of factors, including bank specific conditions such as changes in the volume of non performing loans, the loan growth, the amount of reserves recorded in the previous year, the total capital before provisions and losses, the growth in earnings before provisions and taxes as well as macroeconomic considerations such as the rate of the real GDP growth.

The LLPs are likely to increase with an expansion of non-performing loans and loan growth.

The loan loss reserves form a buffer against losses, and actual loan losses are written off against these reserves. Thus, if too many reserves were recorded in a particular year, fewer provisions are likely to be required the following year since the previous year's reserves will still be available. Thus, LLPs are likely to be negatively correlated with the previous year's loan loss reserves.

The total capital before provisions and taxes could reveal capital management. In theory, if a bank discovers that its capital before factoring in taxes and loan loss provisions is too low, it could push up the loan loss reserves to boost the capital adequacy ratios. Thus, if the regression model indicates a highly significant negative correlation between loan loss provisions and total capital before provisions and taxes, it suggests that the LLPs were used to buff up the capital adequacy ratios.

The LLPs could also be affected by the growth of earnings before subtracting provisions and taxes. When the growth in earnings dip, the management could be motivated to understate LLPs, thus lowering expenses and increasing accounting profits. During periods of strong growth, the

management could overstate LLPs and record lower profits. The net effect is a profit trend that stays steady, instead of falling and rising with business cycles. Such steady earnings trends create favourable impressions on investors, boosting stock prices. This practice, known as earnings management, is indicated by a significant positive correlation between LLPs and the growth of earnings before provisions and taxes.

The growth of the real GDP, which indicates the health of the economy, is another factor that influences the LLPs. When the GDP is growing strongly, the favourable business environment leads to lower likelihood of defaults, requiring lower LLPs. The reverse occurs when the GDP growth is poor. Thus, a regression analysis should indicate a negative correlation between LLPs and real GDP growth.

A regression analysis was conducted using an equation where the LLP is a function of the factors discussed above. The values were divided by total assets, where relevant, to overcome distortions due to different bank sizes. A particular assumption for most regression models is that the data should have equal variance. Since this particular data covers a wide range of time periods and banks, it is unlikely that all of the values would have equal variance. A relatively recent technique, the Generalised Least Squares (GLS) with fixed effects, was used to overcome this unequal variance limitation and account for the heterogeneous decision making environments across banks.

Results

An overall adjusted R² value of 51 per cent was obtained, indicating that the factors considered above do indeed influence the LLPs to a large extent. The findings on capital management and earnings management were especially interesting.

The capital before provisions and taxes was found to be negatively correlated to LLPs to a very significant extent. Thus, there are indications that banks manipulate the LLPs to meet regulatory capital requirements. These results are similar to that of Shrieves and Dahl (2003), who found that Japanese banks adjust LLPs to attain capital adequacy ratios.

On the other hand, the growth of earnings before provisions and taxes also showed a significant negative correlation to LLPs. It appears that Malaysian banks do not lower LLPs to smoothen income when their earnings growth is low.

Conclusion

In essence, this study concludes that Malaysian banks do practice capital manipulation, by manipulating LLPs to boost their capital ratios. However, they do not seem to be using the LLPs to adjust their accounting profits and show a better earnings trend.

Good governance in the banking sector can be driven by the regulatory authorities and the stock market. Regulatory agencies, such as Bank Negara, put up rules and standards that banks should achieve in order to show that they are sound. The minimum capital adequacy ratios are such standards, and it is understandable that banks would focus on attaining these standards.

In countries such as the US, the stock market plays a vital role in ensuring that banks are run well. When a bank shows poor or unpredictable profits, investors tend to sell off its stocks and drive down the stock price. The lower stock prices eventually results in a change of management, as shareholders could vote in a new management team. In such circumstances, the management would be inclined to shore up profits using LLPs. However, Malaysian banks do not rely on the stock market and shareholder actions for good governance — which is principally overseen by the regulatory agencies. Thus, it is not surprising that there are indications of capital management, but no manipulation of profits.

Technically speaking, discretionary adjustments of LLPs do not violate the letter of existing regulations, though they do not quite follow the underlying “true and fair view” philosophy of Malaysian and international accounting regulations. But there is another macroeconomic impact that deserves consideration.

During normal economic downturns, businesses tend to fall on hard times and credit becomes scarce. Following standard accounting regulations, with the higher likelihood of loan defaults in these circumstances, banks should increase LLPs. Higher LLPs increase expenses and lower profits, and intensify the pressure on banks to become more stringent in approving loans. The net effect is that promising smaller businesses with limited collateral, which might have had an easier time getting loans during booms, will face a shortage of funds, and might

to recover and grow when the economy recovers.

This interplay between stringent accounting regulations and wider macro economic considerations, particularly in these times, when the leeway given to certain kinds of accounting treatments and their potential for abuse is coming under increasingly intense review, is the subject of much debate. In the case of banks, since the advent of the 1988 Basle Accord, the Basle committee has received a wide range of comments pointing out a need for regulatory processes that depend on more than just meeting standard ratios.

In response, the Basle committee has drafted a second accord, popularly called Basle II. Overriding the previous accord, Basle II adds a supervisory process to oversee banks and requires a disclosure of important facts. The supervisory process gives some flexibility in attaining capital adequacy ratios, and offers an avenue to deeply consider additional factors in meeting regulatory standards.

This is a good direction for regulation driven businesses, where a combination of good standards coupled with effective supervision might provide the answer for reliable accounting data. **AT**



“Malaysian banks do not rely on the stock market and shareholder actions for good governance — which is principally overseen by the regulatory agencies. Thus, it is not surprising that there are indications of capital management, but no manipulation of profits.”

need to close up. The closing up of good businesses due to a lack of financial backing will aggravate the consequences of an economic downturn, making it longer and more severe.

On the other hand, if banks were to record more LLPs during boom periods, they could stack up reserves. During business downturns, they would need to record relatively lower LLPs, allowing them to show better earnings and easing the pressure on loan conditions, which in turn improves the supply of credit during difficult times. The improved availability of loans will tide the better businesses over difficult times, giving them a chance

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Ananda R. Samudhram is a Lecturer at Taylor’s Business School and Roselee Shah is a former banker. Roselee is currently completing her doctoral studies at Universiti Kebangsaan Malaysia.

Emotional Intelligence

As a Personal Asset

This is Part Two of a two-part series. Part One was published in the March 2004 issue of *Accountants Today*.

By Dr. J. E. Ruin

Good Decisions Come With Positive Emotions

The age-old advice is that you should make decisions only when you feel emotionally positive. But the truth out there is that such a state of mind may not always be with us since negative emotions also predominantly rule our daily lives. Negative emotions are in fact

the same thing as stress; but to overcome those negative emotions/stresses you should always try to learn to create a positive emotional state.

How do you cultivate such positive habits? It is not that difficult, really. When negative emotions overwhelm you, you can convert them to positive emotions/feelings by recalling the good times when you experienced a positive state like resorting to calmness and rational thinking. Imagine yourself

being back in that state for as long as you can. Then look at what is happening around you now and then notice how this makes you feel soon after.

Giving Oneself Encouragement

One's inner dialogue often determines one's feelings and thoughts. There could also be situations when 'self-talk' or thinking aloud can be negative. Let us look at an example. If something one did went wrong, one might say to oneself, *'why do I keep getting things wrong? Am I fated to suffer this wrath? Why me every time?'* Such self-dialogue might keep replaying that negative scene and make one feel bad about oneself. Should you find yourself doing this, you should replace negativity with more positive self-talk. You should then focus on the positive aspect of things, no matter how insignificant these things are. You could console yourself by citing things like: *'Hey, no one is perfect; I am still discovering and learning after all. My life has not been that bad really, compared to my friends/neighbours'*. The main thing is, always look on the bright side of events (optimistic), and do not always expect the worst (pessimistic). Look at the glass having half full of water, not half-empty. It does not bring any advantage if every time you are hard on yourself over an issue, especially an ordinary issue.

Many people can resolve their difficulties by using a three-stage self-coaching model of (i) problem, (ii) outcome, and (iii) action. First, identify the problem. Second, check that you are clear on the outcome that you desire. Third or lastly, compare or assess what you would do differently. Thinking aloud or self-talk can affect one's behaviour, thus it is wise not to ignore one's inner dialogue. Assess what 'self-talk' works best, but do not harp on negative thoughts about others, and apply good doses of humour in one's 'self-talk'.

Good Staff Treatment Produces Good Staff Emotions

To build a credibly good image of an organisation (or even your own self-image) will take many years. To destroy that good image, reputation or goodwill will take only a few seconds. Employers and managers need to work to maintain their hard-won and hard-earned reputation. They need to



show how they value their employees like, for example, by treating them well; and communicating openly with them. If staff are not happy they can tell their friends how dissatisfied they are. When this occurs the good employer's reputation is damaged. Staff who are not satisfied tend to provide poor and inefficient services and such a situation can indeed erode the company's goodwill. In a service-oriented industry, it is important to avail excellent customer care in order to avoid people coming in with their grievances/complaints. If complaints still occur, it is imperative that the company handle them fast, fairly/justly and with courtesy. Learn to recognise that a customer's complaint is not a bore or a bad thing and that the customer is a busybody or a nuisance. Look at such complaints as golden opportunities for you to improve whatever shortcomings there are. The staff or customer who complained actually is doing you a favour, and he is not sabotaging or letting you and your organisation down. Had he just kept quiet and not bothered to single out the weaknesses/failures (in his complaints), those weaknesses/failures would remain unresolved and other customers will also suffer the consequences. This could in the end drive all or most of the customers away. In fact the customer who complained was giving free advice or suggestions to you and for your organisation to act upon and improve.

Empathy and Emotional Intelligence

What do we mean when we say *'that guy has empathy?'* This simply means that he is able to understand other people's positions as well as his own. In plain language 'he understands and sympathises with other people'. Empathic people embrace superior and matured emotional intelligence. They have great compassion, trust, co-operation, and honesty in their interactions and relationships with others. How can we prepare ourselves to be more empathic persons? We can do so by beginning to identify ourselves in honesty and in earnest. We should let go of any limiting feelings/thoughts, since such thoughts can block our successes and we can lose other people's respect. We need to respect and understand other people's positions. When we communicate with people

we need to be aware of other people's body language, as well as our own body language. *Example:* If you keep eye contact and have open posture you can show your audience that you are listening to the person who is talking to you. You in turn acknowledge what that person says. That person, having now known or understood your sincerity, will be more honest, transparent and open to you. We need always to listen to others even under situations in life. If there are doubts in, say, your team members, make every effort to recognise that kind of doubt. Try as soon as possible to find the cause of that particular doubt/concern.

Managing Crisis using Emotional Intelligence

Any organisation is vulnerable to crisis. Organisational crisis can be in the guise of many inconveniences, sufferings and losses because of events like robbery, fraud, blackmail, leakage of sensitive information, boycotts and massive customers' break-away, sabotage by employees or by external parties (competitors), kidnapping of senior management personnel or board members or members of their families, hostile take-over bids, faulty product designs or dangerous goods/commodities, natural calamities like flooding, earthquakes, landslides, massive explosions/fire, employee strikes/picketing, internal and external accidents like fatal factory explosions or environmental pollution and toxic waste discharges that are not adequately controlled/treated. When fighting or addressing any of the disasters or emergency situations mentioned above, members of the board and management need good doses of positive and matured/superior emotional intelligence or emotional quotient to come up with effective plans and strategies to manage and resolve the crises. Disasters and crises might strike at any time and unannounced. Because they are unpredictable in nature, adequate preparation and emergency strategies have to be in place so that if the crisis does happen there will be less surprises and casualties/inconveniences. Effective business and contingency planning strategies need good doses of emotional intelligence. The disaster planning can start with the examination of the organisation's vul-

nerabilities so that pre-emptive actions can be strategized to reduce the risk-impacts. The crisis strategy or business continuity plan will strengthen an organisation's capability to manage uncertainties and calamities, making it a resilient entity. Good managerial emotional intelligence entails identifying the key issues or major and critical things that could go wrong within the organisation, however unlikely those crises may appear.

Managing our Emotional Issues

An individual who understands and improves his emotional intelligence can

- 1 enjoy greater success and happiness in his work,
- 2 more harmonious relationships with others and
- 3 better respect from people in society.

The principal thing to remember is that we should recognise and learn from our various feelings/emotions, and answer issues like

- 1 can we be more empathic to others, or
- 2 does it take much to be humble and to ask for support if necessary?

There are many questions or guides we may need to ask ourselves so that we can manage better our feelings and emotions. Six of the usual questions that I tend to ask myself every time I am in a quandary (or when my emotional intelligence is getting weak) are as follows:

- Have I taken into account the various feelings of others that are involved in the issue?
- Do I listen to my own feelings rationally before I make any decision or make the judgment-call?
- Am I humble enough and prepared to ask for whatever necessary support if I need further advice, others' opinions/comments or guidance?
- Are my actions always in tune with my general values, principles and beliefs?
- What would be the short-term influence, and the long-term effects, of my opinion or my team's decision?
- Lastly, am I able to manage my true feelings (emotions) and honest convictions?

Defining Task-Objectives to Improve Oneself

'Life is short, live it up'. This is a saying by an ex-Soviet President Nikita Khrushchev. All of us like to live well, and successfully without disrupting our comfort zones. How can we, as different individuals, live a successful, meaningful and well-balanced life? Firstly, I think we need to have clear and defined work goals (and meanings or values in life) that we can prioritise and focus on accordingly. Then we write down our priorities and realistic objectives. These objectives must be 'smart' (specific, measurable, achievable, realistic, and time-bound). We then examine our specific career aspirations (if one is employed), or our critical business aims and objectives (if one is self-employed or an entrepreneur). We need to assess or take stock to see if we are satisfied in our current positions or levels of business endeavour/activity. When taking stock, let us ask ourselves *"Is there anything I want to change, or any course of action/strategy I intend to alter?"* There is a need too for us to review our financial targets. Are we to remain at our current levels of income, or would we want to up our earnings? In the process of change, we may have to acquire new skills to maximise our value-potential at work and in our vocations/business pursuits.

Personal Enhancement

Be mindful of the fact that it is essential for people to commit themselves to lifelong learning in today's fast-moving and competitive world. Determine what kind(s) of personal development skills you want to hone. Perhaps it may be of value now for you (as you climb the corporate ladder) to improve your skills in leadership, motivation, self-confidence/self-actualisation and communication. These all help in one way or another to enhance your emotional intelligence quotient or level. Find out the types of workshops, seminars or other activities that could meet your skill's needs, then schedule time to attend those events. Reading various literature and getting coaching from others increases your knowledge, and in today's world knowledge is power and might. Remember the adage, *'Reading maketh a man'* (Francis Bacon).

Emotional-Fulfillment Areas

I like to use the acronym *'facts'* to denote six of the principal areas that one should consider when trying to fulfil one's emotions or feelings. This *'facts'* talks about family, leisure, amour, children, tasks, and self-improvement.

■ **Family:** one needs to commit and spend more quality time with one's family.

■ **Leisure:** one has to align or schedule some time/space for leisure/recreation/sports so that one can stay alert, revitalised, and healthy (both mentally and physically).

■ **Amour:** one ought to invest some of one's time and effort in one's loving relationships, with the aim to enjoy a balanced partnership with people who one loves and cares for.

■ **Children:** one has to spend meaningful time with one's children and family like having fun days out together now and then.

■ **Task:** one should analyse one's career aims or business pursuits, and endeavour towards achieving them successfully.

■ **Self-improvement:** to an individual, nothing is far more important than always having that 'self-improvement' skill. Such skill, coupled with looking out for opportunities to move forward, becomes the cornerstone for one's success and strengths.

Harnessing Change as an Emotional-Energy

All of us know that change is inevitable, it is the only constant in life and that everything else are variables. To energise change to your emotional intelligence's advantage, you can tackle it (change) in two simple ways:

- 1 resist it, or
- 2 welcome it.

If you resist it other problems might crop up like greater anxiety, fear, imbalance in thinking and procrastination. These all affect your emotions or feelings, causing your emotional intelligence to falter or become topsy-turvy; and you could end up feeling stuck, and ultimately your life will not change for the better. The other option/way to address change is you need to have the courage to face it head-on. Doing this will indirectly welcome that change into your environment. Have a leap of faith, make adjustments for the better by perhaps being will-

ing and able to take risks calmly. This calmness is a mark of strong and matured emotional intelligence. Adopting this proactive approach to change often pays dividends for you and, emotionally you become very satisfied and fulfilled. On the other hand, if you evade or resist change you could become 'dejected and forlorn'.

Changes and positive emotions

Will there be any change, major or minor, that you ought to make to your life? To take advantage of change to boost or improve your emotional intelligence you need to get some kind of leverage; meaning that you have to understand how that change shall or can affect you and your current status quo. You do this by taking any one of these two basic or common sense approaches.

1 Access the cost of *not* making the inevitable change for the better/worse in your life-balance and work. Ask yourself what the cost would be to

- (a) your quality of life;
- (b) your relationships with your family and others; and
- (c) your effectiveness/efficiency at work?

2 Or recognise the benefits of making the change by assessing

- (a) how happier or better would you or your status be;
- (b) how your friends and your family would feel; and
- (c) how much rewarding will your work be after the change?

Use your answers to these three scenarios to drive/spur you to make the change.

Obstacles and Positive Emotions

In one's office environment, the internal obstacles to change (like personal fear of failure), often outnumber external obstacles (like an uncompromising superior or boss). To enable change to flow in smoothly (and take advantage of it), one should let go of one's old pattern of behaving and thinking. Old fears and doubts should be let loose or thrown away. Then when one's mind is clear, one should be in a better position to address those external obstacles that become one's stumbling block. Having this approach will make one realise that the core-problem and fear of change will not be insurmountable after all.

Procrastination Begets Negative Emotions

You can both act and benefit from the action and be a great winner. Or you can wait for something to happen to you and risk nothing happening, so that inevitably you become the big loser. The key to making that move or momentum is to take a small step, and one step at a time. This should be sufficient to start your wheel moving. Waiting for a change to happen is called procrastination, and every one recognises that procrastination is a major block to change. Procrastination has been said to be a thief of time, stopping you from taking responsibility for your own life, fate and destiny. Procrastination is not an ally of positive emotional intelligence, but rather it corrupts your creative thinking, proactive living, and corrupts your decision-making. Ask yourself, *'what is the next best step I could take to achieve a better balance in my work-family-society life? Are these going to improve my emotional intelligence?'* Fix the relevant dates and milestones in your diary and work at achieving those milestones. Often (and it has worked for me) you can use the small non-complicated five steps below to embark upon your 'change-journey', so that you can take advantage of change and the right momentum for your positive emotional intelligence. These simple 5-step processes are: decide what change you want to make, get the right leverage, be brave and humble to ask for help or support if you find that necessary, address your obstacles and impediments, and then decide how, when, and where to act.

Emotional Obstacles to Changes

We as human beings have the capacity to think and rationalise, thus whatever the emotional obstacles exist in our journey to change things/events in our lives we are able (one way or another) to find solutions to defend and protect ourselves. Let me bring in four examples of common obstacles of our emotions to change events that can have negative impacts on our emotional intelligence, and how we ought to overcome them. These four common obstacles are; inner fears, self-doubt, negative thinking, and feeling overwhelmed.

Emotional obstacle	My kind of solution
1 Inner fears: Like when I lack the confidence to make the necessary changes that affect my comfort zone.	I ask for feedback from my family members and some of my trusted colleagues in order to understand better the reality and magnitude of my concerns.
2 Self-doubt: Like when I feel awkward about initiating the change.	I acknowledge the doubts. At the same time I recognise that I need not have to face that change all alone because I asked for support/aid from someone else that I trusted or had faith in.
3 Negative thinking: Like when I come across a situation like in the past where the expected positive outcome of the change has backfired and turned into a negative outcome.	I do not fret over the 'back-firing' effect of my action, no matter how rash it was. I have consolation in the fact that in the past when I was compelled to make a change, it had in fact worked out well. The same should be the outcome with other new changes I make in the future. I like to believe that the negative outcome for that past failure was a 'one-off' incident.
4 Feeling overwhelmed: Like when I say to myself that "I can only handle so much change" at any given moment of time.	I do not allow unnecessary 'fear' or negative emotions to get the better of me. Instead, I have myself focused on the benefits of the change I am going to make.

A recapitulation

In life, no one can act and plan things alone. We have read that even on a deserted island, Robinson Crusoe needed the support of his man Friday to survive and to keep his mental and physical sanity intact. *'No man is an island, I need you, honest I do'* said Ricky Nelson in his evergreen song entitled *"I Need You"*. So there you are. We have also looked at some of the basic fundamentals for honing and harnessing our emotional intelligence or intelligent quotient. We should all take the time to listen to our feelings, and being emotionally intelligent is the key to achieving success and harmony with our surroundings and with the people around us. By being aware of our own feelings, and the feelings of others, we can succeed in our work and business goals and life's journey. We need to realise that *'success is along the way, not at the end of the road'*. And we need to remind ourselves again that all 'along the way' we will require the high level and

sensible application of our positive emotional intelligence. We need to learn too to recognise the physical and mental signs of our feelings/emotions before we can act on them meaningfully and constructively. We have to stay and remain flexible when we realise that rigidity and formality do not work or are ineffective. Such ability to be flexible is the cardinal and fundamental key to positive, mature, and superior emotional intelligence where we can gain the respect and influence of the people that we need to interact with.

Last but not least, we should indeed remember that balancing our work and life is not just about logic and fair reasoning and or in good financial rewards alone. It is in fact all about our hearts, souls, and relationships; where we ought to envision all sides of a given situation because only by doing so can we become less likely to react negatively and hinder our progress or our journey along the path of success. Learning to be flexible is very rewarding as such an attitude protects us from being a victim of cynicism, doubt and sarcasm. Flexibility is also a very healthy habit to pursue/imbibe as we can ensure that our emotional intelligence remains solid, unruffled or unfettered. The ability to be flexible and adaptable to abnormal circumstances and unusual events in our lives/surroundings complements our desire to stay positive at all times, even when the eventual outcome appears different from our initial expectations or 'wish list'. This flexibility enables us to choose the many options to problem-resolutions that are available to us.

My parting reflection for you is to let you dwell on the subject of *'adaptability and flexibility'* and to let you realise that they are excellent virtues or precursors that any one can exude, display and possess. Doing so can fortify one's emotional intelligence or emotional quotient. You do like to possess EI that is stronger and superior to other peoples' EIs. My old secondary school Form 5 Biology and English teacher wrote in my autograph book in 1969 the following message: *'The fool fails to adjust, the mediocre adjusts, but the genius adjusts superiorly'*. This, to me, is the essence of emotional intelligence. **AT**

The writer, a member of MIA since 1984, was a Fulbright Professional Exchange scholar (1995/96), and currently is the Head/General Manager Operational Risk Management of a commercial bank. He can be contacted at e-mail: jeruin@hotmail.com

Level of Tax Compliance

Among Small Business Entrepreneurs

An Examination of their Demographic Profile

By Mottiakavandar, Dr. Hasnah Haron & Prof. Jeyapalan Kasipillai

This is Part Two of a two-part series. Part One was published in the March 2004 issue of *Accountants Today*.

Research Methodology

The methodology used for this research focuses on the use of a survey instrument. Four research assistants assisted the researchers to gather data from 500 individuals selected randomly to form the sample population. Due to the poor cooperation from several respondents, only 312 interviews were completed instead of the 500 originally intended. To ensure uniformity, discussion sessions were held between the researchers and the research assistants to clear any doubts over the wordings in the questionnaire. The respondents were from major urban and rural areas located in Northern Peninsular Malaysia, which include the states of Penang, Perak, Kedah and Perlis.

Study Instrument

The research instrument used was mainly a questionnaire consisting of seven parts spread over nine pages. English and Malay language versions of the questionnaires were used in this study. Four enumerators assisted the researchers in gathering data from the 312 randomly selected small-business respondents to provide the input. The questionnaire had four sections referred to as Parts A to D.

Part A of the questionnaire was used to measure attitude of the individual in paying income tax. These variables were measured using the dimensions formulated by Schmolders (1970) and several others including Fishbein and Ajzen (1975), Song and Yarbrough (1978), Lewis (1982), Sabri (1993), Robert et al. (1994), Fisher *et al.* (1992) and Fallen and Eriksen (1996). These dimensions were modified to suit the Malaysian environment. The measurements were based on a 5 - point Likert scale with 1 representing "strongly disagree", 2 "disagree", 3 "neutral", 4 "agree" and 5 "strongly agree". Based on this scale, the higher the degree of disagreement with the questions posed, the higher was the compliance level among the respondents and consequently the greater the tendency to fully comply with tax laws.



Part B was formulated to measure the amount of tax knowledge of the respondents. Tax knowledge scales were measured using the dimensions formulated by Sabri (1993), Fallen and Eriksen (1993) and Kasipillai (1996). Respondents were asked 'closed and open-ended' questions on tax laws such as personal tax exemptions and were also tested on their understanding of income tax laws. This section is also formulated to evaluate respondents' perception and their readiness to meet the requirements of the self-assessment system. Twenty-four questions with 'yes', 'no' and 'do not know' answers were formulated by the researchers. Three marks were given for each correct answer and one mark for each wrong answer and two for 'do not know' answer. These were in line with the system of marking set up by Fallen and Eriksen (1996) in their study where scores were given for the amount of tax knowledge of each respondent.

Intention to comply was used as a proxy to evaluate what the taxpayer will actually do, if faced with certain situations. According to the Theory of Reasoned Action Model, the best perception for behavior is the intention to act. Hence, **Part C** was formulated to measure intention to act as a measure for taxpayer's compliance behavior. In their Theory of Reasoned Action Model, Ajzen and Fishbein (1980) suggested that the perception for behavior was the "intention to act". Savondiah (1998), in his study, formulated questions based on scenarios with a 5-Likert scale.

Intention to comply was measured using case scenarios. The questions based on scenarios would reflect in an indirect way how taxpayers would behave in a particular tax situation. Seven scenarios were used in this study. Based on each scenario respondents were asked how they would behave in a given situation. The seven questions measured the 'intention dimension' for compliance based on range 1 (Definitely No), 2 (No), 3 (Neutral), 4 (Yes), and 5 (Definitely Yes) answers. Respondents were required to refer to the level of agreement against a 5-point scale for each question. For these questions, the higher the level of agreement with the question the more positive is the intention of the respondent towards tax compliance. A small modification was made on the scale whereby the phrase "uncertain" was changed to "non-committal". Earlier studies also used this approach to measure intention to comply with tax laws. For instance, Klepper and Nagin (1989), furnished respondents with scenarios that described self-employed individuals (taxpayers) with opportunities to reduce tax in their statement by increasing cash contributions for charity. The scale used to measure tax compliance behavior of taxpayers was taken from Klepper and Nagin (1989) with various modifications to suit local conditions.

Demographic Variables

Part D was drawn up to collect demographic information about the respondents. Information of respondents such as age, gender, ethnic background, education level, income level, employment level, business location, and lastly the persons who assisted in preparing income tax assessment forms were gathered. These demographic variables were measured by using close-end multiple-choice questions.

Sample and Data Collection

A personal interview was carried out by a group of three trained research assistants on small business entrepreneurs and partnerships who agreed to participate in this study. This study involved small business entrepreneurs and partnerships in rural and urban areas located in the northern region of Peninsular Malaysia, namely the states of Perlis, Penang, Kedah and Perak.

Care was taken to ensure as far as possible the sample profile was representative of the population of small entrepreneur population in Malaysia as a whole. For example, these states (Perlis, Penang, Kedah and Perak) represent a good ethnic mixture, a wide level of income and age variation, and particulars of employment that are reflective of the national data. An up-to-date list of registered small entrepreneurs and partnerships was made available to the researchers from the office of the Registrar of Business located at Kuala Lumpur. There was no sampling list of taxpayers from the IRB as the IRB regards such data as classified material and highly confidential in nature. Hence, a systematic sampling of all the taxpayers was not possible as no proper listing of taxpayers was available from the IRB. Sample size was based on measurements used by Roscoe (1975) who recommended that a sample of 300 to 500 items would be appropriate for the study. The total population of small entrepreneurs as at 31 December 1999 (Registrar of Business, Kuala Lumpur) was approximately two million in Malaysia with roughly 160,000 located in Northern Peninsular Malaysia. From this total, the researchers discarded all the hawkers on the assumption that they did not possess sufficient basic knowledge to participate in the survey.

The method of sampling used in this study was non-random sampling. The sample was selected from the list of names available from the Registrar of Business. Certain business categories were selected because previous studies have identified that businesses such as transportation, pharmacy and restaurants are among business types found to be not fully complying with tax laws. Thus, this study tried to concentrate on respondents from these categories.

Findings

A summary of the respondent's characteristics is reported in Table 2. It was found that 76.6 per cent of the sample were females. About 40 per cent of the respondents were Chinese, 36.2 per cent Malays, 22.8 per cent were Indians and the remainder were others. In terms of age, 53.2 per cent of the sample was below 45 years. As for educational level, 50.7 per cent have completed their secondary education. About 39 per cent of the respondents were earning an annual income ranging between RM24,001 to RM48,000 and nearly 30 per cent earned between RM12,001 to RM24,000. As for business classifications, almost 76.3 per cent respondents were sole proprietors, while the remainder were partnerships. Nearly 80 per cent of the respondents businesses were based in urban areas and the remainder were in local areas.

Table 3 highlights the mean score and standard deviation for each of the dimensions identified earlier. The prior reporting mean score reveals that the respondents, generally, have indicated a

Table 2 PROFILE OF RESPONDENTS

Characteristics	N	%
1. Gender		
Male	239	76.6
Female	73	23.4
Total	312	100.0
2. Race		
Malay	113	36.2
Chinese	125	40.1
Indians	22.8	22.8
Others	3	1.0
Total	312	100.0
3. Age		
18 to 30 years	37	11.9
31 to 45 years	129	41.3
46 to 60 years	119	38.1
60 years and above	27	8.7
Total	312	100.0
4. Education level		
Never attended a formal school	15	4.8
Primary school	50	16.0
Lower Secondary School	89	28.5
Upper Secondary School	56	17.9
Diploma	37	11.9
Degree/ Professional	37	18.3
Higher degree	8	2.6
Total	312	100.0
5. Income Level (Yearly)		
Below RM12,001	32	10.3
RM12,001 – RM24,000	93	29.8
RM24,001 – RM48,000	122	39.1
RM48,001 – RM96,000	44	14.1
RM96,001 – RM192,000	11	3.5
Above RM192,000	10	3.2
Total	312	100.0
6. Business Classifications		
Sole Proprietor	238	76.3
Partnership	74	23.7
Total	312	100.0
7. Business Location		
Rural	65	20.8
Urban	247	79.2
Total	312	100.0
8. Types of Business		
Mini Market	30	9.6
Restaurant	32	10.3
Laundry	29	9.3
Tuition centre	30	9.6
Plant nursery	31	9.9
Book store	30	9.6
Pharmacy	30	9.6
Computer shop	31	9.9
Retail Store	29	9.3
Transportation	40	12.8
Total	312	100.0

Table 3 DESCRIPTIVE STATISTIC

DIMENSIONS	N	Mean	SD
Amount of tax knowledge	312	1.82	0.54
Attitude towards own compliance	312	3.30	0.81
Intention to comply	312	3.66	0.69

SD: Standard Deviation

neutral stand in the amount of tax knowledge (mean score around 1.82 out of 3.00). The mean-score response for attitude towards own compliance was 3.30. Contrastingly, for the hypothetical evasion questions, slightly higher scores were observed indicating higher compliance behavior among the respondents. The mean score responses in reporting receipts of part time cash income and late submissions of tax returns was 3.66 (out of 5.00) suggesting a high level of non-compliance.

Analysis and Results

Previous studies have shown that demographic variables such as age, gender and education level can influence the attitude towards 'own compliance' and 'intention to comply with tax laws'. Lin and Carrol (2000) examined the linkages between an increase in tax knowledge on perceptions of fairness and tax compliance attitudes in a New Zealand setting. Their results indicated that an increase in tax knowledge did not have a significant impact on perceptions of fairness and tax compliance attitudes. This result is inconsistent with the findings of other researchers (see Chan, Troutman and O'Bryan (2000)) who found a positive linkage.

In this study, tax knowledge was categorized into either low or high levels. If the value is below the median level, it is assumed that the respondents had low tax knowledge and the reverse would be true if the value is equal or greater than the median level. Attitude towards own compliance is categorised into either positive attitude or negative attitude. Likewise, intention to comply was categorized into positive and negative intentions. This was done to get the median for attitude towards own compliance and intention to comply. A value below the median is assumed to imply a negative attitude and negative intention in complying with tax laws. The reverse is true if the value is equal to or above the median level.

Each of the demographic factors: gender, age, education level and income level were categorized into two groups. For gender: male and female, for age: old (> 45 years) and young (< 45 years), for income level: low (< or = RM48,000) and high (>RM48,000), for education: low level of education (until lower secondary school) and high (from upper secondary school until postgraduate degree). There are three categories for race: Malay, Chinese and Indian.

Findings of data will be discussed according to:

- ① amount of tax knowledge,
- ② attitude towards own compliance, and
- ③ intention to non-comply.

Table 4

CHI-SQUARE TEST FOR DEMOGRAPHIC VARIABLES USED IN THE STUDY

Demographic Factors		Gender		Age		Race			Education Level		Income Level	
		Male	Fem.	Young	Old	M	C	I	Low	High	Low	High
Amount of Tax Knowledge	Low	118	50	84	84	80	60	28	94	74	143	25
	High	121	23	82	62	33	65	46	60	84	104	40
	Total	239	73	166	146	113	125	74	154	158	247	65
Chi-Square Value		8.226*		1.502		22.414*			6.331*		7.820*	
Attitude Towards Own Compliance	Negative	129	25	88	66	65	56	33	81	73	120	34
	Positive	110	48	78	80	48	69	41	73	85	127	31
	Total	239	73	166	146	113	125	74	154	158	247	65
Pearson Chi-Square Value		8.707*		1.894		4.724			1.276		0.286	
Intention to Comply	Negative	118	32	89	61	45	68	37	75	75	120	30
	Positive	121	41	77	85	68	57	37	79	83	127	35
	Total	239	73	166	146	113	125	74	154	158	247	65
Pearson Chi-Square Value		0.687		4.358*		5.196			0.047		0.122	

M — Malay; C — Chinese; I — Indian

Amount of Tax Knowledge

The results indicated that age is not an important factor in determining a relationship with amount of tax knowledge. However, gender, race, education level and income level has a significant relationship with amount of tax knowledge. The findings can be observed as follows:

- Male respondents (50.6 per cent) have a higher amount of tax knowledge as compared to female respondents (31.5 per cent).
- Indian respondents (62.02 per cent) have the highest level of tax knowledge, followed by Chinese respondents (52.01 per cent) and Malays (29.2 per cent).
- As predicted, respondents with high level of education have a higher amount of tax knowledge (53.1 per cent) compared with respondents possessing a low education level (38.9 per cent). This finding is similar to a previous study by Kasipillai (1996).
- Respondents with higher income (61.5 per cent) have a higher amount of tax knowledge compared to those with lower income (42.1 per cent).

Attitude Towards Own Compliance

The results showed that only gender has a significant relationship with attitude towards own compliance. All other demo-

graphic variables were not found to be significant.

It can be seen that female respondents (65.8 per cent) have a positive attitude towards own compliance as compared to male respondents (46.0 per cent). This result is similar to findings by other researcher [see Sabri (1993) and Andreoni and Brian (1998)].

Intention to Comply

The results showed that only age has a significant relationship with intention to comply. All other demographic variables were not found to be significant.

It can be seen that older respondents (58.2 per cent) have a positive attitude towards own compliance as compared to younger respondents (46.4 per cent).

The chi-square tests for the numerous demographic variables are summarized in Table 4.

Conclusions

Based on the outcome of this research, demographic factors such as gender, age, racial background, education levels and income levels have a significant relationship with amount of tax knowledge, attitude towards own compliance and intention to comply. The 'gender' factor has a significant relationship with amount of tax knowledge

and attitude towards own compliance. As for the age factor, there is a significant relationship with intention to comply. However, factors such as race, education level and income level only have a significant relationship with amount of tax knowledge. The results from this study would be beneficial to tax policy makers as they could focus efforts on targeted groups of taxpayers if they would like to foster positive compliant attitudes. **AT**

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Mottiakavandar completed his accounting degree at Universiti Utara Malaysia (UUM) and his Masters degree at Universiti Sains Malaysia (USM).

Dr. Hasnah Haron is the Chairperson of the Accounting Programme at USM

Dr. Jeyapalan Kasipillai is a Professor attached to the School of Accountancy at UUM

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Handling Interruptions

By Gerry Robert



You are trying to workout the details of a very important spreadsheet and without stop; you are interrupted time and time again. This is a common problem for accountants.

If interruptions are a problem for you, consider using the strategies listed below. The way to determine the problem with interruptions is to ask yourself, “Am I receiving low-priority interruptions during high-priority projects?” If so, consider practicing these steps to curb the time wasting interruptions.

Interruptions Strategy 1

Schedule closed door periods

Many people think the only time you are really “busy” is when you have a person with you. A secretary looks into an accountant’s office sees no one and falsely assumes that he or she is available.

There is nothing wrong with scheduling time in your daily planner that will allow you to avoid the time wasting activity called interruptions.

Interruptions Strategy 2

Let others know you cannot be interrupted

If you want to eliminate interruptions, schedule closed door “uninterruption” periods. Let your staff and others know you can’t be bothered for any other reason than the building is on fire. And only if the fire is approaching the floor below, at that.

Interruptions Strategy 3

If interrupted, stand up

Do you want a technique that is guaranteed to cut interruption time in half? Stand up as soon as an interrupter enters the room. Simply stand up while they speak. They will soon get the message, “Be quick, I’m busy”.

If someone enters a room to interrupt you and you invite them in and sit comfortably, put your feet up on the desk, offer them a coffee, what message do you think you are conveying to them? “Sure come on in, let’s talk, what I was doing isn’t really important. Use my time in any way you see fit.”

Interruptions Strategy 4

Avoid eye contact

Ergonomic experts are now realising the importance of eye contact in office design. It plays a role in employee productivity. They are now designing offices to ensure less eye contact.

I have been on the telephone speaking to someone long distance, someone walks by my office and because we make eye contact they feel free to start speaking to me at the same time. It blows my mind.

So one way to lower interruptions is to make less eye contact with people. This is particularly true with telephones. Be sure to face a wall while on the telephone.

Interruptions Strategy 5

Make fewer trips through the office

Now this may seem a bit trivial but are you aware how much time is wasted in a day by running for a coffee, water and the washroom? What I am suggesting is becoming aware that when you leave your work area you are a prime target to get sidetracked.

60 Practical Time Management Tips

- 1 When cleaning out closets, storerooms etc, label three cartons “scrap”, “give away”, and “keep”.
- 2 If you haven’t used something for over a year, don’t let it take up prime space.
- 3 Schedule a “quiet hour” each day and consider it non-negotiable.
- 4 Don’t let others infringe on your valuable “prime-time”.
- 5 Each evening get out everything you will need in the morning.
- 6 Use your planning calendar to schedule your “to do” lists.
- 7 Schedule “appointments” with yourself.
- 8 Have an office in your home for writing and filing.

- 9** Take advantage of self-inking stamps to save time.
- 10** Delegate whenever possible.
- 11** Get things done during commuting time.
- 12** Make up casseroles in double quantity and freeze them.
- 13** Throw out as much correspondence and other paperwork as possible.
- 14** Store jewellery in egg cartons inside a drawer.
- 15** Maintain a stock of frequently used items such as paper goods, light-bulbs, garbage bags, paper clips, "post-its".
- 16** Make minor decisions quickly.
- 17** Don't waste time agonising after decisions.
- 18** Store items close to where they will be used. Duplicate where necessary.
- 19** Clean the bathtub during a shower. It is easier working from the inside.
- 20** Keep desk supplies in your briefcase or car for those unpredictable delays and waiting periods.
- 21** Say "no" more often. Stop volunteering for everything.
- 22** Don't keep shuffling paper. Handle each one as it appears.
- 23** Start earlier in the morning.
- 24** Don't read passively. Search for ideas. Use highlighters. Make marginal notes.
- 25** Don't store magazines. Tear out or photocopy relevant articles.
- 26** Set a deadline on all tasks and stick to it.
- 27** Always carry a small scratch pad with you for note-taking.
- 28** Plan in advance your TV viewing time. It can be a real time robber.
- 29** Use coloured labels to flag important dates in your planning calendar to highlight urgent requests that come up.
- 30** Carry a supply of "post-its" notes in your planning calendar.
- 31** Review "junk mail" during low energy times (i.e. the last 15 minutes of the day).
- 32** Take only carry on bags while travelling in airports. Delays occur when waiting for checked bags.
- 33** Use only transparent containers for leftovers so you can see what you have in the refrigerator.
- 34** When leaving a message to call you back, indicate the best time to call you back.
- 35** If the person you call is not there, try to get the information you need from someone else rather than leave a message to call back.
- 36** Keep paper and pen handy in every room.
- 37** Carry a portable "Trident" 3-hole punch (1 1/2" wide x 10 1/4" long x 3/8" thick) in your briefcase or meeting binder.
- 38** Record the time you must leave the house in your planning calendar when you must attend meetings some distance away.
- 39** Have more keys made than you think you'll need.
- 40** Don't be a slave to your telephone. Take messages during the dinner hour — or ignore it completely.
- 41** Make doctor and dentist appointments first thing in the morning so you're ahead of the crowd.
- 42** Keep a supply of greeting cards and stamps on hand. Also gifts.
- 43** Put away materials immediately after use. Clean up the mess as it is generated.
- 44** Use a highlighter when reading letters, reports, etc., so you can mark those parts requiring action.
- 45** Always confirm appointments; don't assume the other person will remember.
- 46** Use stacking trays to sort mail as to bills, correspondence, junk mail.
- 47** Place colour dots on all your credit cards for easy identification.
- 48** Photocopy sides of your credit cards (about nine per page) and leave a copy at your home and office as well as carry one with you.
- 49** Use driving time to listen to cassette tapes.
- 50** Record ideas from cassette tapes by dictating into a pocket recorder.
- 51** Keep a pocket recorder in your car for recording ideas, information, things to do, etc., as they occur to you.
- 52** Subscribe to newsletters related to your profession to cut down on reading time.
- 53** Colour code your various keys with small plastic rings available in many stores to avoid fumbling for the right key.
- 54** Photocopy birth certificates, marriage certificates, etc., and keep them in your files.
- 55** Form the habit of taking your planning calendar with you wherever you go — even on vacation. You can record those ports of call, favourite restaurants, hotels, people you meet, etc.
- 56** Store empty clothes' hangers to one side of the closet and use as required. Don't let them mix with used ones.
- 57** Keep a personal effect tote bag equipped with all personal items from toothbrush to travel hair dryer and use it only for travelling.
- 58** Find ways to delegate more.
- 59** Shorten telephone calls.
- 60** Phone instead of writing. **AT**



Gerry Robert is the best selling author of *The Millionaire Mindset* and founder of The MONEY Tree University. Over one million people have attended his live seminars. You can get a FREE Report entitled : *The Fine Art of Procrastination: How to overcome the disease of putting things off*, e-mail : gerry@gerryrobert.com requesting "Procrastination Report." Gerry helps individuals and organisations overcome procrastination with his Monthly Procrastination Buster ® service. For more information visit his website : <http://www.moneytreeuniversity.com> or write to him at 12 Geoffrey Crescent, Stouffville, Ontario, CANADA, L4A 5A6. © Copyright, 2003 — Gerry Robert. All Rights Reserved.

Ten Healthy Reasons to Drink Coffee

By Christina T. Chew

For many of us in Malaysia, drinking coffee has become a major part of our lifestyle. Many of us like to linger over a cup of local brew at the corner coffee shop. There are also the yuppies and connoisseurs who flock to the brand name coffee shops savouring every drop of the elixir they favour most.



Coffee drinking in moderation has been proven to be perfectly safe and has no threat to health. Coffee is one of the most heavily researched commodities in the world today. Scientific evidence continues to show that coffee has shown to have a lot of health benefits. The results listed below are all backed by medical research.

1 Coffee Improves Alertness and Mood

Coffee does have an effect on alertness and mood. Research has shown that alertness and concentration during night shift hours can be improved by drinking about two cups of coffee, therefore helping to prevent industrial accidents. After lunch, when the 'post-lunch drop' occurs, alertness and concentration can be improved by a cup of regular caffeine containing coffee. It has also been proven that reduced alertness and malaise due to the common cold can be improved by drinking a cup of coffee. Research carried out at the University of Loughborough, UK concluded that driver sleepiness could be countered by including a 30 - minute break, two cups of coffee (contains about 250mg caffeine) and if possible a short nap.

2 Coffee Reduces the Risk of Stone Formation (calculi)

- It has been found that caffeinated coffee was found to be more effective than water in helping women avoid kidney stones. Decaffeinated coffee gave a nine per cent lower risk and caffeinated coffee a 10 per cent lower risk. In studies carried out in men with no history of kidney stones, regular intakes of decaffeinated coffee, tea, beer and wine were associated with a decreased risk of stone formation. Apple and grapefruit juice increased the risk.

- A lower risk in gallstone disease has also been associated with drinking coffee.

Researchers have concluded that drinking two to three cups of caffeinated coffee per day reduces the risk of developing gallstones by 40 per cent. The effect may be due to caffeine as other drinks containing low or no caffeine showed no effect. Caffeine in coffee prevents cholesterol from crystallising, reduces fluid absorption that precedes gallstone formation, increases bile flow through the gallbladder and by energy expenditure, cuts fat storage.

3 Coffee Reduces the Risk of Colon Cancer

Coffee has been proven to show a protective effect against colon cancer. Colorectal cancer is the second highest cause of cancer related deaths in the US. A recent study showed that colorectal cancer was 24 per cent lower among those who drank four or more cups of coffee per day than those who seldom drink coffee. The most likely reason for a lower risk of colorectal cancer in those who are heavy drinkers of coffee experience enhanced colonic activity induced by coffee. Anti-mutagenic components in coffee and caffeine inhibit the cancer causing effect of various micro-organisms.

4 Drinking Coffee can Help Asthmatics

Many asthmatics have found that regular coffee consumption helps in moderating attacks. Improved ventilatory function was shown in exercise-induced bronchoconstriction in those who drank six cups of coffee per day. It was found that no problems occurred with the tolerance of this amount of coffee.

5 Coffee Consumption Helps Protect Against Cirrhosis of the Liver

Within the last ten years research carried out in the US, Japan and Italy have shown that consumption of coffee has a strong protective effect against cirrhosis of the liver. (Cirrhosis is a chronic disease which damages the liver's tissue causing the liver to be unable to remove waste products. The most common cause is excessive alcohol).

6 Coffee drinking does not induce heartburn (acid reflux) or gastric (stomach) or duodenal (upper intestinal) ulcers

Caffeine in coffee prevents cholesterol from crystallising, reduces fluid absorption that precedes gallstone formation, increases bile flow through the gallbladder and by energy expenditure, cuts fat storage.

7 Consuming coffee does not affect exercise tolerance or only slightly affects healthy people or those with cardiovascular disease

Some studies have found that consuming caffeine has a positive effect on exercise performance as both endurance and energy is increased.

8 Consuming coffee has no effect on men's fertility

9 Coffee shown to have positive effects on women's health

- It is perfectly safe for pregnant women to drink up to three cups of coffee per day (300-400mg/day of caffeine). However, some researchers recommend to be on the safe side to drink two cups per day (200mg/day caffeine).
- The most recent medical report has shown that there is no association between miscarriage and drinking caffeinated coffee.
- No relationship has been found between moderate caffeine consumption and the occurrence of pre-term or stillbirths.
- Studies have shown that foetal or congenital birth defects are not caused by caffeine consumption.
- Decreased fertility is not caused by caffeine consumption.
- Regarding Sudden Infant Death Syndrome (SIDS), a recent large study in Scandinavia found that consumption of coffee before, during and after delivery did not increase the risk of SIDS.
- No association has been made with caffeine and breast cancer.
- No conclusive evidence has shown that coffee/caffeine consumption increases the risk of ovarian cancer.
- Fibrocystic breast disease (multiple cysts in the breast), tumours or breast tenderness has not shown any associa-

tion with the consumption of caffeine intake in coffee.

- Consuming moderate amounts of caffeine does not increase a women's risk of osteoporosis, according to recent well-controlled studies.
- Although caffeine is found in breast milk in small quantities, it does not harm the infant.

However, it is suggested that those who are heavy coffee drinkers (i.e. five cups of coffee per day or more) take one glass of milk per day or take a calcium supplement as calcium is also necessary to aid in the prevention of osteoporosis.

10 Coffee consumption shown to have positive effects on the heart

- Blood cholesterol levels are not affected by the consumption of coffee if the coffee is prepared by drip method or percolated. Studies in Scandinavia have found that boiled unfiltered coffee, (the method used by them) does have a worsening effect on serum lipids. The causative agents are the 'oils' cafestol and kahweol found in boiled coffee.
- Regular coffee/caffeine consumption has little or no effect on blood pressure. First time caffeine use may produce minimal changes in blood pressure. In regular users of caffeine, no changes in blood pressure occur.
- Heartbeat irregularities in the vast majority of individuals both healthy and those with heart disease are not affected by coffee and caffeine consumption.
- Sixteen major studies in scientific literature which examined heavy coffee consumption and all forms of cardiovascular disease found no relationship between coffee consumption and high homocysteine levels.
- Coffee consumption does not cause palpitations of the heart.

Coffee and Caffeine Content

Unless decaffeinated, all coffee beverages contain caffeine. The amount of caffeine in a serving of coffee depends on many factors. Full-bodied, dark-roast coffee may contain less caffeine than coffee made from milder, more lightly-roasted beans. The amount of caffeine in a cup also depends on the recipe formula e.g. espresso-based may have 1 or 1.5 ozs. of espresso in a single “shot.” For those who wish to limit their caffeine intake you may consult the table below.

Coffee Product	Caffeine Range mgs.	Average mgs.
<i>Coffee (8 oz cup) (15)</i>		
Brewed	65-120	85
Instant	60-85	75
Decaffeinated, brewed	2-4	3
Decaffeinated, instant	1-4	3
Espresso, 1 oz. cup	30-50	40
Capuccino and Latte 1 oz shot	30-50	40
Moccachino, 1 oz shot	35-55	45

Recommended daily dose of Caffeine = 200 mg per day

Addiction and coffee

Addiction can be defined as the abuse of a psychoactive drug to the point where it interferes with an individual’s health, economic or social functioning. Habit forming would be a better word to use. Abuse is associated with the need for increasing amounts to achieve the same effect.

Coffee is NOT addictive. One does not need increasing amounts of coffee over a period of time and in fact, people can change their amount of consumption with no difficulty. Coffee does not cause psychosocial effects. Continual and extensive research have shown that regular coffee drinking does not constitute addiction.

With regards to withdrawal symptoms from habitual coffee drinkers, only a small percentage (less than 5 per cent) experience minor symptoms such as headache. However, these symptoms only last for a couple of days and there are no long-term adverse effects. Therefore, it is suggested that one should taper consumption gradually over several days.

Enjoy your morning ‘cuppa’ or daily ‘pick-me-up’ and continue on your journey to good health. **AT**

The writer can be contacted at christina@prohighway.com

Brief Profile on prohighwayhealthcare

ProHighway Healthcare Sdn Bhd provides health information to the public through its URL: www.prohighwayhealthcare.com

Such information includes useful health tips that range from baby to elderly health as well as information on diseases, drugs, statistics and treatment contributed by various national organisations such as the National Cancer Society and Malaysian Aids Council.

Linkages with various other websites also provide wider and more comprehensive content. Other community services in the URL are:

- 1 **Ask Dr Bella.** A question & answer column where the public can ask our team of medical specialists’ health questions.
- 2 **E-Family Counselling.** Focus on family counselling.

It’s what you Learn after you Know that matters

By Shiv Prasad

Leadership really stands out and ensures significant progress in an organisation — when leaders make courageous decisions not to give up on time to listen, to read and instead dedicate more effort to these pursuits than talking! This will ensure that you are on course for continuous progress through learning and self-improvement.

As managers, you are frequently placed in difficult positions that require you to make tough, challenging decisions to assure the organisation’s economic success. Are you the right person? Managers face the danger of being lulled into contentment with the status quo — *“after all I am the leader, I possess influence and have achieved a level of respect, why should I have to keep growing?”*

If you want to grow your organisation you have to remain receptive to the learning process — you have to be teachable. It is your growth that determines who you really are; and who you are determines whom you attract; and whom you attract determines the success of your organisation. Here are some guidelines to help you develop and maintain a teachable attitude throughout your professional career.

“If what you did yesterday still looks big to you, beware you haven’t done much today.”

Cure your destination ills — don’t stop growth

Lack of teachability is often rooted in achievement — a lot of people believe if they can achieve a particular goal, they have arrived and they no longer have to grow! This is a human error, because the day you stop growing is the day you forfeit your potential, and the potential of your organisation. Effective leaders simply cannot afford to think that way and be rooted to their last achievement.

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Moccachino, 1 oz shot	35-55	45

Recommended daily dose of Caffeine = 200 mg per day

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Enjoy your morning ‘cuppa’ or daily ‘pick-me-up’ and continue on your journey to good health. **AT**

The writer can be contacted at christina@prohighway.com

Brief Profile on prohighwayhealthcare

ProHighway Healthcare Sdn Bhd provides health information to the public through its URL: www.prohighwayhealthcare.com

Such information includes useful health tips that range from baby to elderly health as well as information on diseases, drugs, statistics and treatment contributed by various national organisations such as the National Cancer Society and Malaysian Aids Council.

Linkages with various other websites also provide wider and more comprehensive content. Other community services in the URL are:

- 1 Ask Dr Bella.** A question & answer column where the public can ask our team of medical specialists’ health questions.
- 2 E-Family Counselling.** Focus on family counselling.

It’s what you Learn after you Know that matters

By Shiv Prasad

Leadership really stands out and ensures significant progress in an organisation — when leaders make courageous decisions not to give up on time to listen, to read and instead dedicate more effort to these pursuits than talking! This will ensure that you are on course for continuous progress through learning and self-improvement.

As managers, you are frequently placed in difficult positions that require you to make tough, challenging decisions to assure the organisation’s economic success. Are you the right person? Managers face the danger of being lulled into contentment with the status quo — “*after all I am the leader, I possess influence and have achieved a level of respect, why should I have to keep growing?*”

If you want to grow your organisation you have to remain receptive to the learning process — you have to be teachable. It is your growth that determines who you really are; and who you are determines whom you attract; and whom you attract determines the success of your organisation. Here are some guidelines to help you develop and maintain a teachable attitude throughout your professional career.

“If what you did yesterday still looks big to you, beware you haven’t done much today.”

Cure your destination ills — don’t stop growth

Lack of teachability is often rooted in achievement — a lot of people believe if they can achieve a particular goal, they have arrived and they no longer have to grow! This is a human error, because the day you stop growing is the day you forfeit your potential, and the potential of your organisation. Effective leaders simply cannot afford to think that way and be rooted to their last achievement.

Overcome your success levels

Another ironical twist to teachability is that success often hinders it. Effective and successful leaders are aware that what got them there does not necessarily keep them there. Here is a word of advise from the wise: *“If what you did yesterday still looks big to you, beware you haven’t done much today.”*

Avoid shortcuts

Swear-off those irrelevant shortcuts ... for everything of value in life, you have to be prepared to pay a price. When you yearn to grow in a particular field, figure out carefully what it takes to get you there, includ-



ing the price — and then determine to pay for it! Many have found to their dismay that their *shortcut* turned out to be the *longest distance* between two points!

Trade in your pride — be humble

We are kidding ourselves when we assume we know everything; and teachability requires us to admit that, even if it makes us look bad. In addition we also need to understand if we keep on learning, we will

also keep making mistakes. It will be even a greater mistake in life, if you fear to make mistakes. To be teachable you must learn to swallow your pride — to gain growth, give up your pride. *“For everything you gain, you lose something.”* – Emerson.

Don’t repeat your mistakes

It’s true what Teddy Roosevelt said ... *“He who makes no mistakes, makes no progress.”* But the leader who keeps making those same mistakes will also not make any progress. Learn from the mistakes, remember what they taught you — otherwise you will pay more than double when you repeat the mistakes!

REFLECT & SELF EXAMINE

There is a wonderful principle in this farm sign: *“If you don’t like the crop you are reaping, check the seed you are sowing.”*

Reflect on the profound sentiment conveyed and apply this to your own life and leadership. What kind of crop are you reaping? Is your life and leadership improving or are you rooted to the ground ... immobile? Observe your attitude towards growing and learning and determine where you stand.

To improve your teachability, do the fol-

“For everything you gain, you lose something.”

— Emerson —

lowing:

- Observe how you react to mistakes. Do you admit to them? Do you apologise as appropriate or are you always on the defensive? Observe yourself, ask your circle of friends for their opinion on you. If you are reacting badly, or you are not making any mistakes at all, you need to put in work on your teachability.
- Try something new. Be different, go out of your way today to do something new that will stretch your imagination, your emotions, or challenge you physically. These activities will change you for the better and really help you grow.
- Learn in your area of strength. Read as many books as possible on leadership and your field of specialisation. Make this a habit and continue to learn in the area where you are already knowledgeable or an expert. This will prevent you from being jaded and unteachable!

“He who makes no mistakes, makes no progress.”

— Teddy Roosevelt —

Legacy of Charlie Chaplin

The comic genius, Charlie Chaplin, was a nobody from a very humble background who left a legacy of fame and success because he had great talent, incredible drive and both these traits were fuelled by teachability. Even when was the most popular and highest performer in the world, in his time, he was never satisfied with his status quo. He continually strived to grow, learn, and perfect his craft. The desire to grow made him successful economically, and it brought a high level of excellence to everything he did. Such was his success that even to this day, he remains a household name as a performer, and is appreciated as one of the foremost filmmakers of all time. Chaplin showed the world: *“It’s what you learn after you know it all that counts!”* **AT**

Commercial Skills in Dealing with People

By David Sharp Every business owner will readily admit to having faced more than their perceived share of difficult customers. Dealing with others in business takes special skill, skill that does not come overnight. It has to be worked at, honed in and practiced a lot.

Spotting the problem

As one prominent businessman disclosed, "When I enter a boardroom, and three or four of my customers are there, they all expect to be taken care of immediately, which is impossible. This of course means that the three or even the four may be dissatisfied by the time they leave. Coping with such expectations are so demanding!"

At least this top businessman recognises a difficult customer when he sees one. How many others do? The hardest part about dealing with a difficult customer or client is *spotting the problem* when the alarm bell rings! If you are diligent, and hard pressed coping with work, you may be so caught up in your process of helping a customer that you miss some important clues.

Gut-feeling

Well, if you are not seeing all of the problems as they originate, you need to develop certain preventive strategies and pay more attention to your very best ally in all of this - your *gut feeling*! Listen to what your intuition tells you, and develop an ability to trust it. Much of the time, your instincts will clearly advise you of the need for caution in coping with problematic customers, and it'll be telling you to establish good relationships with them.

Arrogance

Keep an eye out for *arrogance*. You would be prudent to steer clear of the customer who is certain about knowing everything about what he or she wants! If one is prepared to

pay *you* for the privilege of telling *you* how to provide *your* service, you will probably see the development of a dissatisfied customer. One who, because of personality - not your expertise, did not receive what he or she wanted. Avoid the pitfall, by being frank and explain your own work ethics. It is better to politely refuse the business transaction rather than accept!

Inattentiveness

Watch out for *inattentiveness*. The client, who cannot get the information straight, at the beginning, is most likely not going to follow you in the process of using your goods and /or services. Tell the person you are sorry, not to be able to help him or her further, but that you can see that you are having too much difficulty working together.

Disengage gracefully

Above all else, try to be courteous to your customer. The object here is to *disengage gracefully*, so that you and the customer can forget one another on the business at hand. If the person who leaves your operation is angry, chances are excellent that this will come back to haunt you!

Coping with non-payment problems

Many service businesses and professional offices are now using one-page descriptions of the services provided, and contracts of services, requiring the customer to sign acceptance. In either one or both, it is clearly stated that delinquent accounts will be referred to a collection agency. Such measures cut down

the number of after sales complainers and non-payers.

But all the same, some customers have to be simply dropped, because the grief and damage they can cause after sales far outweigh the worth and effort to collect. If you own a business, you know that it is really not true that the customer is always right. "Sometimes you just don't need that sale or continuing business relationship because of all the problems generated." These responsibilities are separate and distinct from your daily work anyway! Why add responsibility without an increased bottom line to your business?

Interpersonal skills when negotiating

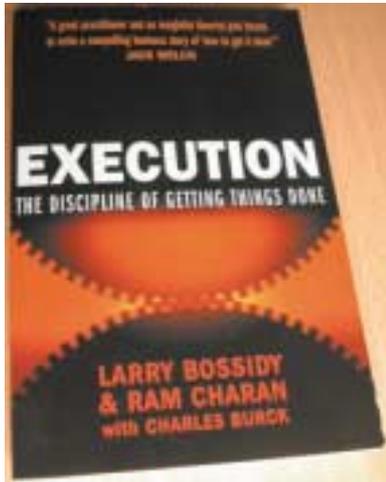
Commercial skills in the business world hinges heavily not only on good business judgement but also in a keen understanding of human nature. The proverbial 'bargaining table' is the focus of a tense drama where everything ranging from persuasion, economics, motivation and organisational skills converge. One should be able to handle changing situations and flow with the tide that pays off. In this arena interpersonal skills, such as that displayed in experienced negotiators, take centre-stage.

One has to have the ability to discern the real bottom line issues and the wisdom to be patient and allow others to unfold their story. The good businessman will negotiate effectively and win the confidence of business partners and associates. He needs to display an ability to tolerate some conflict and ambiguity and listen openly-mindedly. There has to be commitment to integrity and mutual satisfaction. Self-confidence based on knowledge and good planning are good catalysts that serve well when dealing with difficult customers. It displays a willingness to get involved with the clients and people in other organisations — the ability to not only deal personally but also with business depth, visualising hidden personal issues that can otherwise affect the outcome.

Communication, interpersonal skills, and courtesy ... they are all sensitive, highly salient factors when it comes to dealing with demanding clients! **AT**

EXECUTION: The Discipline of Getting Things Done

By Larry Bossidy and Ram Charan



Pages 278

Publisher Random House

“My job at Honeywell International these days is to restore the discipline of execution to a company that had lost it,” says Lawrence A. Bossidy, chairman and CEO at the US\$25 billion diversified technology and manufacturing giant.

He goes on to argue how some regard execution as detail work that’s beneath the dignity of a business leader. “That’s wrong. To the contrary, it’s a leader’s most important job,” he writes in *Execution: The Discipline of Getting Things Done*, co-authored with business advisor Ram Charan.

Recognising the importance of execution, the duo has tried to produce a guidebook for corporate leaders and executives. When companies fail to deliver on their promises, the book argues, the most frequent explanation is that the CEO’s strategy was wrong.

But the strategy by itself is not often the cause. Strategies most often fail, the duo say, be-

cause they aren’t executed well. “Things that are supposed to happen don’t happen. Either the organisations aren’t capable of making them happen, or the leaders of the business misjudge the challenges their companies face in the business environment, or both,” they write.

In the introduction, Ram warns that most of ten today the difference between a company and its competitor is the ability to execute. “Execution is the great unaddressed issue in the business world today,” he sates.

Point taken. We see execution failure all around. The book then shows that execution doesn’t just happen. Fundamental building blocks need to be in place, and we identify and describe the most important: the leader’s personal priorities, the social software of culture change, and the leader’s most important job-selecting and appraising people.

Then, the authors deliver the ‘how-to’. They show what makes them effective, and how the practice of each process is linked to and integrated with the other two.

To be sure, putting an execution culture in place is hard, but losing it is easy. In July 2001 Larry Bossidy was asked by the board of directors of Honeywell International to return and get the company back on track. He’s been putting the ideas he writes about in *Execution* to work in real time. **AT**

THE ALCHEMY OF FINANCE

By George Soros

Pages 391

Publisher Wiley

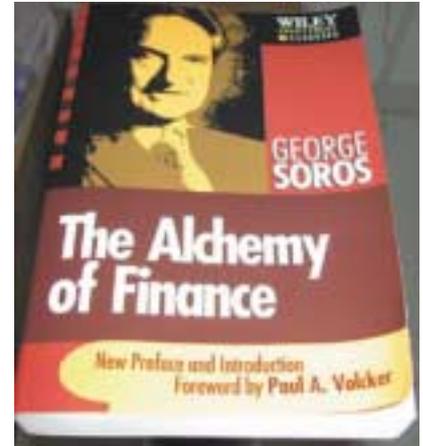
Like most readers, they will be more attracted by the author than the book. George Soros has built quite a reputation in the world of fund management. In Malaysia, his name shot to prominence during the 1997 Asian financial crisis.

The *Alchemy of Finance* first appeared in 1987. The new-edition carries a new preface, bringing us up to speed what the savvy fund manager has further learnt over the years.

Love him or hate him, Soros is probably one of the most powerful and profitable investors in the world today. So much so, the newsmagazine *BusinessWeek* dubbed him as the ‘Man who Moves Markets’. Quite a title.

Soros, President of Soros Fund Management which serves as the principal investment advisor to the multi-billion dollar Quantum Group of Funds, made a fortune competing with the British pound. He was said to have brought the Bank of England to its knees. He still remains active today in the global financial community, including as the Chief Investment Advisor to Quantum Fund N.V., a \$12 billion international investment fund.

In *The Alchemy of Finance*, Soros presents a theoretical and



Love him or hate him, Soros is probably one of the most powerful and profitable investors in the world today.

practical account of current financial trends and a new paradigm by which to understand the financial market today. This edition’s expanded and revised Introduction details Soros’s innovative investment practices along with his views of the world and world order.

He also describes a new paradigm for the “theory of reflexivity” which underlies his unique investment strategies.

What’s the book worth? Well, Quantum Fund is a successful investment fund, claiming an average 31 per cent annually for more than thirty years. Well, perhaps some discerning reader may gain some insight into the mind of Soros and his money making machine. **AT**

Kijal - Terengganu's Hidden Resort

By Nina Paricha

There's nothing more exciting than discovering a delightful holiday spot, particularly one which is new to exploration and yet unspoilt by over-commercialisation. Such is the case with Kijal. One of the main responses received when mentioning the town of Kijal was, 'Erm.....Where?'

The state of Terengganu is renowned for being Malaysia's golden coast and Kijal must definitely be one of Terengganu's best kept secrets. Located at the southern tip of Terengganu, Kijal is a quiet and peaceful location for a perfect seaside getaway.

Originally a small and laid-back fishing village, it has now become a retreat for avid golfers and a refuge for urban dwellers alike.

The Awana Kijal Beach and Golf Resort there boasts the first 5-star resort with an 18-hole championship golf course in Terengganu. This challenging golf course has served as a lure to fervent golfers who keep coming back to conquer the fairways.

However, Kijal has much more to offer than golf alone. The resort itself has numerous facilities like the largest landscaped swimming pool in the east coast, organised beach games and several water sports activities. It is also very child-friendly, thus explaining the many family vacationers



who opt to come here. A different activity for children is organised each day of the week. Activities include archery, jungle trekking, swimming lessons and indoor games.

The Minang architecture and 80ft high atrium here is unique. However, what totally captivates a visitor is the sublimely pristine view. Picture this - a golf course set beside the east coastline, edged by an unspoilt jungle. What you get is a magnificent blend of lush greenery set against the calming sea-waves of the South China Sea.

The people here are simple and Kijal is simply a must for durian lovers. Numerous durian traders can be seen a few metres apart selling their crop in bunches and at extremely cheap prices. It is not an uncommon sight to see travellers stopping by the road for a durian treat.

Prices for durians are as low as RM3 per small fruit and if you opt for the best quality available, be prepared to pay between RM7 and RM10 per fruit. These are kept aside and taken out upon special request as they are from trees with excellent yield. You will not get neatly packed fruit in sealed foam trays here. Eating durians at Kijal is done the true Malaysian way, by sitting on stools at the side of the road, while the vendor splits open one fruit at a time. You can even reject those





that are not up to par.

For a Malaysian, this would probably be reminiscent of their childhood and for a tourist, it would definitely be a cultural experience.

Also available in abundance at Kijal is *lemang*. *Lemang* is glutinous rice stuffed into hollow bamboo shoots, cooked with a dab of coconut milk. These shoots are placed on the sides of a flaming fire. The fire is fueled by a combination of charcoal and coconut husks that are readily available. *Lemang* is usually eaten with 'rendang', but in Kijal there is another variety of *lemang* available. The sweet *lemang* cooked in sugared coconut milk with red beans is made only here. This is very similar to a Thai version of the same, sold around the small towns leading to Pattaya.

Driving further north to the next small town of Kemasek, the road parallels with the sea-shore. The beach front is lined with numerous coconut trees. Coconut trees are abundant in this region and the natural sweetness of the fresh coconut water in Kijal is by far the best available in the country. Whether you decide to stop at one of the *pondoks* selling coconuts or have it in the air-conditioned comfort of a restaurant, no trip to Kijal would be complete without enjoying this fruit.

Handicraft is another interesting feature here. The state's main handicraft centre is in Kuala Terengganu, a 2-hour drive up north. However, a small handicraft store about 2 kilometres away from Kijal sells items with a local touch. Local batiks, rattan baskets and containers, carved wooden chests and native kites are all available here. The kites in particular, are inexpensive and make interesting gifts or wall hangings.

If you'd like to see how batik painting and basket weaving are done, the resort brings in a few handicraft traders every Monday afternoon. To enjoy a traditional *kampung* massage, the poolside ladies' changing room is equipped with a massage room and arrangements can be made for a relaxing rub-down at very economical prices.

Night-life in Kijal town is practically non-existent with the exception of *pasar malam* nights. *Pasar malam* are held in different towns in the area on most nights of the week. Monday night brings it to Kijal. Though very much like a usual night market, the one at Kijal has a little twist to it. Local fish and prawn crackers that are the speciality of this region are sold here. This is a thriving cottage industry in the area and packs of unfried 'keropok' hang on hooks at most

pasar malam stalls.

There are several islands around the shores of Terengganu that one can venture to as well. The closest to Kijal would be Pulau Tenggol. Pulau Tenggol is known to be a diver's paradise, with its amazingly clear waters and its beautiful marine life. The island has a luxury resort right at the beach. A day trip to Pulau Tenggol from Kijal can be easily organised. The journey by speedboat takes approximately an hour.

On reaching Pulau Tenggol, one cannot help but be taken aback by the unusual aquamarine colour of the South China Sea as seen from here. Snorkelling enthusiasts flock to this island because of its outstanding underwater visibility and the serenity it offers. The water here is yet unspoiled by pollution and taking a dip in the sea is a delight.

It must be every person's fantasy to relax and unwind on a hammock, soaking in the sun on a deserted land. And wouldn't that be great if this place was equipped with modern amenities as well? Now, that's a fantasy to which Kijal definitely does come close. **AT**

FAST FACTS

Accessibility : Getting to Kijal by road from Kuala Lumpur 352km - approx 5 hours.

From Johor Bahru 407km : approx. 6 hours.

Getting to Kijal by air : Flight to Kuantan and then an hour by road to Kijal - Flight to Kerteh and 15 minutes to Kijal.

Notice to all Member Firms Requirements Relating to Bonus Issues and Share Schemes for Employees (ESOS)

Members are hereby informed that pursuant to Section 9 of the Securities Industry Act, 1983, amendments have been made to the Listing Requirements of the Malaysia Securities Exchange Bhd (MSEB) ('the Amendments to the LR') and the Listing Requirements of the MSEB for the MESDAQ Market ('the Amendments to the MMLR') in relation to bonus issues and ESOS (collectively referred to as 'the Amendments').

The Amendments were undertaken in consequence of recent amendments to Schedule 1 of the Securities Commission Act ('SCA Amendments') exempting public companies undertaking bonus issues and ESOS from procuring the approval of the Securities Commission. The SCA Amendments took effect from 5 January 2004.

With the Amendments, public companies seeking a listing on the Official List and public-listed companies on the Official List (collectively referred to as 'companies') which undertake to issue and list securities arising from bonus issues and/or ESOS on the Official List are only required to apply to MSEB in relation to the listing of securities arising from such bonus issues and/or ESOS. Listing applications in relation to bonus issues and/or ESOS made to the MSEB must comply with the requirements in relation to bonus issues and ESOS as prescribed under the LR or MMLR, as may be applicable.

Key Changes to the LR

The key changes effected by the Amendments to the LR are as follows:

- 1 Prescribing the criteria and procedures involved in relation to an initial listing application involving a bonus issue and/or an ESOS.
- 2 Prescribing the processing fees payable in respect of a listing application in relation to a bonus issue and an ESOS.

Bonus Issue

- 3 Setting out the additional requirements and procedures for issuance and listing of bonus issue shares which are not from

retained profits and a bonus issue which is to be implemented on a staggered basis.

- 4 Prescribing the additional requirement to procure confirmation from the Securities Commission that the revaluation of land and buildings complies with the Securities Commission's Guidelines on Asset Valuation where the bonus issue is to be made by way of capitalisation of reserves arising from revaluation of land and buildings and the fee payable in relation thereto.
- 5 Enhancing the minimum contents of disclosure in announcements and circulars in relation to a bonus issue.

ESOS

- 6 Prescribing the requirements and/or procedures involved in relation to the establishment, implementation and termination of an ESOS including a requirement that the total number of shares to be issued under an ESOS does not exceed 15 per cent of its issued and paid-up capital at any one time.
- 7 Setting out the requirement in relation to participation of non-executive directors in an ESOS.
- 8 Enhancing the minimum contents of disclosure in announcements and circulars in relation to an ESOS.

Key Changes to the MMLR

The key changes effected by the Amendments to the MMLR are as follows:

Bonus Issue

- 1 Setting out the additional requirements and procedures for issuance and listing of bonus issue shares which are not from retained profits and also where a bonus issue is to be implemented on a staggered basis.
- 2 Prescribing the additional requirement to procure confirmation from the Securities Commission that the revaluation

complies with the Securities Commissions' Guidelines on Asset Valuation where the bonus issue is to be made by way of capitalisation of reserves arising from revaluation of land and buildings and the fee payable in relation thereto.

- 3 Prescribing the minimum contents of disclosure in announcements and circulars in relation to a bonus issue.

ESOS

- 4 Prescribing the requirements and procedures involved in relation to establishment, implementation and termination of an ESOS.
- 5 Setting out the requirement in relation to participation of non-executive directors in an ESOS.
- 6 Prescribing the minimum contents of disclosure in announcements and circulars in relation to an ESOS.

Implementation

The Amendments to the LR take effect from **10 February 2004**. Therefore, with effect from 10 February 2004, companies which intend to issue and list securities arising from bonus issues and/or ESOS on the Official List are only required to apply to MSEB in relation to the listing of such securities.

Additional Information

Please take note that the Amendments to the LR and MMLR (*Appendices 1 and 2*) and the Questions and Answers pertaining to the above (*Appendices 3 and 4*) are available for reference on the Institute's website at www.mia.org.my and also on the MSEB website at www.klse.com.my.

For further information or any enquiries on the Amendments, kindly contact:

Legal Advisory

9th Floor, Malaysia Securities Exchange Bhd.
Exchange Square, Bukit Kewangan
50200 Kuala Lumpur
Tel : 03-2026 7099 Fax: 03-2732 0065

Contact Persons:

Emilia Tee	Ext. 1016
Yew Yee Tee	Ext. 2338
Tan Ai Chia	Ext. 7089
Anisah Suyuti Low	Ext. 7970
Wong Sow Wei	Ext. 7092

Corporate Proposal to Meet the Requirements of the Foreign Investment Committee Guidelines

The Institute has received a letter from the Securities Commission which provides the following guidance on corporate proposals submitted to the SC for consideration in adhering to the Foreign Investment Committee (FIC) guidelines pertaining to acquisitions of Assets, Takeovers and Mergers (FIC Guidelines)

To expedite the process of consideration on applications received, the following should be adhered to:

1. Two copies of applications inclusive of Proforma I and II under the FIC Guidelines and one copy of diskette

in the form of soft copy; and

2. Additional information (as specified in Appendix I) in the form of soft copy.

Please take note that the adviser to the application has to verify the numbers of Bumiputera shareholders (as specified in the application) are based on the Record of Depositors from the said Share Register. For easier verification process, the definitions of Bumiputera is listed in Appendix II. Please be informed that the interest of Bumiputera in the initial listing proposal is based on their direct holding.

For any enquiries, kindly contact the Equity Compliance Department or Takeovers and Mergers Department.

Members can access Appendices I and II on the Institute's website at www.mia.org.my. **AT**

Notice to all Accountants

Demand for Audit Working Papers in the Event of Tax Field Audit

Pursuant to Section 78 of the Income Tax Act (ITA), 1967, the Inland Revenue Board (IRB) is allowed to demand for the production of books, accounts and other documents by any other person, for the purposes of obtaining full information for ascertaining whether or not a person is chargeable to tax or for determining the tax liability of that person. In addition, Section 80 of the ITA, 1967 allows IRB (for the purpose of the ITA) to have free access to enter premises and free access to books, and other documents in those premises, and to take possession of the same in limited circumstances. Section 81 of the ITA, 1967 in turn, empowers the IRB to require any person to give orally or in writing, such particulars or information as may be demanded by notice in writing.

If any of the above provisions are utilised by the IRB, it would be reasonable for the following matters to be addressed:

- 1 The IRB must give a notice in writing to the auditor, listing the documents requested and the section under which the request is

made before the auditor is to release any audit files to the IRB. As part of a firm's risk management process, the auditor should endeavour to secure the consent of the client before releasing such information as contained in the audit file in accordance with our By-Law A-5 on Confidentiality. If the client's consent is not expected, any disclosure can only occur if there is a compulsion by any statute to do so or if the auditors are under certain legal obligation to disclose. Hence, a notice or order in writing from the IRB would be necessary before any documents or copies thereof can be released by the auditor to the IRB. The auditor will need such a notice/order to protect himself/herself from any allegation of impropriety, wrongful disclosure or breach of confidentiality *vis-à-vis* the Institute's By-Law.

- 2 The auditor, before releasing any document, should make a list of the documents released as well as make copies of the documents for his/her record. He/She should also obtain acknowledgement of receipt of these documents from the IRB. This is to ensure that the auditor concerned, retains a copy of the audit working papers and all documents released to the IRB are properly accounted for.

- 3 In the event of any complication that may arise from the above action, legal advice should be sought to ensure that the interest of the auditor is taken care off. **AT**

Notice to all Members

Audit and Liquidator License Interview — Scope of Questions by the Securities Commission

Members are hereby informed that the Securities Commission (SC) has been appointed as a member of the Interview Panel for Audit and Liquidator Licences with effect from 10 February 2004. The following are the some of the topics that would be addressed by the SC:

- 1 Information on the capital market in Malaysia.
- 2 Role and obligation of auditors in physical monitoring system.
- 3 Enquiries pertaining to auditors independence and corporate administration.
- 4 Issues pertaining to the auditing profession.
- 5 Current developments pertaining to financial reporting.
- 6 Information on the latest amendments in laws and securities procedures.

Members intending to submit their application for the audit or liquidator licence and those awaiting their turn for the interview are expected to be prepared should the above topics be raised during the interview.

The Securities Commission (SC) and Malaysian Stock Exchange Berhad (MSEB), formerly known as the Kuala Lumpur Stock Exchange (KLSE) will be holding its annual Dialogue with the Institute in the third quarter of year 2004. In this regard, members are invited to submit their views, comments and issues together with its corresponding suggestions pertaining to the Malaysian Capital Market generally and specifically on the rules and regulations of the SC and MSEB.

Please respond by 15 May 2004 via e-mail to practice@mia.org.my or fax: 603-2273 1016.

The Institute looks forward to receiving your comments and suggestions. **AT**

Get Set, Ready, Go!

MIA takes a bold leap forward with its new integrated IT system



KarenSoft Berhad's CEO, Chee Chong Hwa.

MIA President, Datuk Dr. Abdul Samad Haji Alias.

In an effort to further streamline its operations, the Malaysian Institute of Accountants (MIA) has implemented a membership-based Enterprise Resources Planning (ERP) System called the e-MIA Total Management System (e-MIA TMS). It comprises a web portal front-end linked with a Windows-based backend and remote access capability by MIA branches and centres.

The primary objective of the system, according to MIA's president Datuk Dr. Abdul Samad Haji Alias, is to provide a fully integrated system towards total information management and to act as an effective communication network.

The priority of the Institute, he says, is to integrate its members' database and the event management system with the Institute's financial accounting system. "The new e-MIA TMS remedies the weaknesses of the independent systems utilised



Exchanging of documents... (from L-R) Mohammad Abdullah, Datuk Dr. Abdul Samad Haji Alias, Chee Chong Hwa and Anthony Ong.

by the Registration and Supervision Department, and the Continuing Professional Education (CPE) Department that oversees event management. These inherent weaknesses include duplication of work and lack of integration."

Apart from that, Datuk Dr. Abdul Samad states that CPE compliance is another factor driving the systems integration. The new IT infrastructure is a critical success factor in ensuring that all members are audited within a time-frame of three years.

Witnessing the signing were MIA's Registrar, Mohammad Abdullah and KarenSoft Berhad's General Manager Mar-

keting, Anthony Ong.

The Institute has been consistently preaching technological advancement to its members. E-management creates productivity gains and cost-efficiency and with the implementation of this system, MIA is practicing what it has been preaching by replacing the current IT system with an integrated system that enables better coordination of activities, Datuk Dr. Abdul Samad said to *Accountants Today* after signing of a Software Users Agreement (SUA) on behalf of the Institute with Mesdaq-listed company KarenSoft Technology Berhad on March 22, 2004.

Under the agreement,

KarenSoft's expertise and solutions will be harnessed to develop and deliver e-MIA TMS said KarenSoft Berhad's chief executive officer Chee Chong Hwa. Chee also said that the project, which kicked off with a detailed system study in Oct 2002 is presently at the parallel run phase and is scheduled to go live by this month.

He said that the infrastructure being used for the project includes a Windows 200x operating system, a Windows Terminal sever, two servers (one at MIA and another at a data centre to handle heavy traffic), TCP/IP Local Area Network (LAN) and SQL 2000 database.

Datuk Dr. Abdul Samad revealed that the Institute has invested approximately RM815,000 into the implementation of the E-MIA TMS. This covers the cost of the hardware, software as well as services rendered by KarenSoft. **AT**



So you want to be a Professional Emcee!

Think you have what it takes to be a professional emcee... or are you wondering where you could go to polish your skills at public speaking? You may find your journey takes you no further than the MIA Toastmasters Club.

Division W of the Toastmasters Club in Kuala Lumpur, recently hosted a one-day intensive course, 'How to be a Professional Emcee' for both Toastmasters and non-Toastmasters. Division W comprises of not less than 38 clubs in the Klang Valley with a combined membership of 1,200.

The course covered the A-Zs of being a professional emcee, from pre-preparation till after-event reviews with the organisers or clients. This included tips on harmonising the venue, ensuring AV systems are in order as well as scheduled programmes, speakers and performers. Even protocol was discussed.

According to the VP of Public Relations, Grace Tan, "The role of the emcee is equated to a 'captain' of the event, someone who is able to entertain the audience during the cruise".

To achieve this, an emcee should be able to uplift and sustain the mood. On the other hand, it is the role of the emcee to bring out the star among the speakers or performers, *not* be the star himself/herself. An emcee should not dominate the function.

MIA's Toastmasters Club continuously provides such training. At each meeting,



"The role of the emcee is equated to a 'captain' of the event, someone who is able to entertain the audience during the cruise"

VP of Public Relations, Grace Tan

there is an emcee, equivalent to a Master of Ceremonies, who is known as the Toastmaster of the Evening (TME). His/her role is to bridge the various

programmes planned and invite speakers on stage. Being a TME alone provides invaluable experience to those interested to be an emcee. The best thing is you get to practise in a friendly and supportive environment.

In a nutshell, nothing beats being present yourself and witnessing how the whole Toastmaster's event is run. Once you observe how the TME and other role players conduct the customary ceremony, we bet you will have something invaluable to take home with you!

As the Club President, CTM Raymond Liew always says, "Never say, "I cannot." Indeed, "**Nothing is insurmountable**, if you put your mind to attaining your goals!"

On this note, all of you are invited to join us in the forthcoming meetings to witness the events yourself and be your own judge.

The MIA Toastmasters meet on the first and third Thursday of every month.

The next meetings will be held at the MIA Office on 15 April, 6 May & 20 May 2004. The venue is:

Venue: Dewan Akauntan
2, Jalan Tun Sambanthan 3
Brickfields, Kuala Lumpur

Time: 6.30 to 7.00 p.m.
(refreshments & networking);
7.00 to 9.00 p.m.
(meeting proper)

Entrance fee: RM5 (except role players)

For further details, contact: Pn. Shuhairah @ +603-2279 9200 or Mr. Johnny Yong @ +603-2279 9252 (Practice Matters Department). **AT**

Education Fair Offers the Best in Accountancy Profession



The MIA booth at the Accountancy Pavillion: (clockwise)

A – Students filling up the survey forms with assistance from the secretariat staff. B – Potential member filling up her details. C – MIA secretariat staff manning the booth. D – Flurry of activity at MIA booth.

The Accountancy Pavilion, which was hosted by the Institute during the two-day National Association of Private Educational Institutions (NAPEI) 2004 Exhibition at the Mid Valley Exhibition Centre on March 13 to 14, received encouraging response from students, parents and other interested parties who were seeking information about the accounting profession and the opportunities it has to offer.

The MIA booth, which was the anchor booth at the pavilion attracted many visitors who were interested in pursuing a

career in accounting or simply just curious to learn more about the Institute's role in the profession. Although there were many walk-in enquiries, students who were looking at accountancy as a career option were asked to fill up a questionnaire. At the end of the exhibition, the Institute received 500 filled-up questionnaires. Other than students, many parents also visited the pavilion to find out how to go about finding a good educational institution that offers accountancy courses. Some wanted to know whether it was better to pursue

a professional qualification or a degree programme.

Also, during the exhibition, the Institute held a 'Member Get Member' rewards programme. Students and their parents were given an insight into how accountancy can turn out to be a rewarding career, its benefits and how to pursue an accounting qualification. Students had the opportunity to approach the counsellors/ advisors on duty on those days to get their questions answered and doubts cleared.

Apart from the MIA booth, the Accountancy Pavilion, which was hosted by the Institute, housed 8 other booths belonging to professional accounting bodies and public universities namely Chartered Institute

of Management Accountants (CIMA), the Association of Chartered Certified Accountants (ACCA), CPA Australia, the Institute of Chartered Accountants in Australia (ICAA), and public universities such as Universiti Malaya (UM), Universiti Sains Malaysia (USM), Universiti Utara Malaysia (UUM), and Universiti Teknologi Mara (UiTM). The participating bodies offered quizzes, career talks and games with attractive prizes to be won in order to woo the crowd.

All in all, it was felt by the Institute that the exhibition had served its purpose to further promote the profession and encourage students to consider accountancy as a career option. **AT**

Audit of Construction Projects

On February 17 2004, the Institute organised a one day practical course on audit of construction projects. The objective of the course was to create awareness among participants on the importance of the practice and the need to monitor projects from inception to post completion stage.

Also highlighted during the course were the aspects that should be monitored by the board audit committee and senior management. This aspect has become increasingly important because the method of awarding contracts have changed drastically in the last 20 years in addition to escalating costs of these projects that have moved from millions of

ringgits into the billions range.

The course is targeted at accountants/ finance managers, architects, contractors, internal auditors, property developers, and anyone involved in the construction industry. Some of the topics covered during the course included why audit of construction is important, confidence, review, detection, prevention, scope of audit awards process and implementation of audit of construction.

The course facilitator was Mr. Gursharan Singh, a chartered member of the Institute of Internal Auditors Malaysia who has 37 years of practical experience in audit of mega construction projects. **AT**

How to Prepare a Business Plan



Boey imparting useful knowledge to participants.

The Institute organised a 2-day workshop on "How to Prepare a Business Plan" at the Equatorial Hotel, Kuala Lumpur. The seminar, which saw the participation of approximately 20 participants was held to give attendees a broader understanding

and basic knowledge in the preparation of a practical business plan that is suitable for management to use to monitor business as well as to control major derivations from the approved Action Plan.

In addition, the workshop

was also beneficial for potential investors and financiers to better assess and determine business viability and financial objectives based on the commercial strategies and accounting assumptions adopted to prepare the business plan.

Some of the topics covered during this insightful workshop included today's business model, reporting fundamentals, corporate governance, structuring business plans and creating e-commerce business plans, among others.

The speaker for the workshop, Mr Boey Tak Kong is a fellow of the Chartered Association of Certified

Accountants, United Kingdom, a Chartered Accountant of the Malaysian Institute of Accountants, an Associate of the Institute of Chartered Secretaries and Administrators, UK, and an Associate at the Institute of Marketing Malaysia. He has more than 23 years of working experience with six public-listed companies in Malaysia and two public-listed companies on the London Stock Exchange.

How to Prepare a Business Plan will be held again between 10 – 11 August 2004 at the Petaling Jaya Hilton hotel. For more information please call the CPE Department of the Institute at 03-22799200. **AT**

Pahang Members Try Hand at bowling



Branch Chairman, Joseph Foo (second from right) presenting a hamper to the winning team.

On December 14, 2003, MIA Pahang organized a Bowling Tournament for its members in the state at the Berjaya Megamall in Kuantan. The response from members was truly overwhelming as 22 teams consisting 66 players participated in the event.

The aim of the event was to provide a platform for networking between members and a sense of camaraderie was felt as the members gathered at the bowling alley for an evening of socialising and fun.

The event reached a climax during the prize-giving ceremony, where winners of the tournament were rewarded for their sporting spirit. Kin Kee A won the team prize while Leong and Roziah respectively walked home with the individual male and female category prizes.

Finally, the Chairman of the branch, Joseph Foo, expressed his gratitude to the organising committee and all participants for making the event a great success. **AT**

Sabah Career Talks



One for the album...Students of Kinabalu College.



The UMS undergraduates listening to the career talk given by the Sabah branch Chairperson, Ms. Alexandra Thien.

The committee of MIA Sabah Branch were invited to present a career talk on the accountancy profession to 300 undergraduates at the Universiti Malaysia Sabah campus in Kota Kinabalu.

Branch Chairman, Mrs Alexandra Thien gave an insight into the role and functions of the Institute while her supporting committee members gave their personal views on their career

in the accounting profession. Sabah Branch Manager was also at hand to give information to UMS graduates who were very interested in MIA QE as the alternative route to be a Chartered Accountant.

The secretariat also visited a local college in Kota Kinabalu where Branch Manager gave a career talk to 40 students, graduates, lecturers and parents. **AT**



All smiles...Another winning team receiving their prize from the Chairman.

Career in the Accountancy Profession

In recognising the global demands and surging needs in the field of accountancy, the Systematic Institute of Klang, a member of SEG International Bhd organised an Accounting Convention to emphasise the message.

The main objectives of the Accounting Convention are to highlight the importance of the accounting profession in the business environment, to inform about the changes and developments of accounting standards, to promote accounting related qualifications for post SPM and STPM leavers and to continually organise and conduct beneficial and relevant outgoing activities to serve the people in Klang.

The Institute was invited to participate in the convention and was given a one hour opening slot to kickstart the convention for an audience of 100 people. The Institute's Editorial Board chairman

Raymond Liew represented the Institute to present a talk titled "A Career in Accountancy."

The 2 day convention was held from the March 6 – 7 at the Mutiara Hotel in Klang and was attended by the Systematic

Institute's students pursuing the London Chamber of Commerce and Industry (LCCI) UK certification and other students from schools in the vicinity seeking to pursue a career in accounting. **AT**



Career guidance given by Council Member, Raymond Liew.



FACULTY OF ACCOUNTANCY
UNIVERSITI UTARA MALAYSIA

JULY/NOVEMBER 2004 INTAKE

Faculty of Accountancy, Universiti Utara Malaysia invites you to apply for the following postgraduate programmes in accountancy:

- Doctor of Philosophy
- Master of Business Administration (Accounting)
- Master of Business Administration (Professional Accounting)
- Master of Business Administration (e - Commerce)
- Master of Science (Accounting)
- Master of Science (Management Accounting and Planning)
- Master of Science (International Accounting)

ADMISSION CRITERIA & FURTHER DETAILS, CONTACT

Deputy Dean (Administration)
Faculty of Accountancy, Universiti Utara Malaysia
06010 UUM Sintok
Kedah Darul Aman
Malaysia
Telephone : 604 - 9283904
Fax : 604 - 9285762
pg.spk@uum.edu.my
or surf
<http://www.spk.uum.edu.my>

**available for May 2004 intake in U.L*

Download application forms at <http://www.uum.edu.my/hea/siswazah.htm>

((CLOSING DATE))

JULY INTAKE : 10 MAY 2004
NOVEMBER INTAKE : 30 SEPT 2004



International Accounting Profession Calls for Greater Vigilance in the Wake of Parmalat Bankruptcy

In the wake of Parmalat's bankruptcy, the International Federation of Accountants (IFAC) is calling for greater vigilance by all those involved directly or indirectly in the production of financial information — from company management and their advisors to audit committees and audit firms.

"The Parmalat situation demonstrates that despite the measures that have been taken around the world by governments, worldwide regulators, IFAC, accountancy organisations and others to strengthen and improve corporate governance rules, regulations and audit standards, it is very difficult to achieve improvements if those involved in financial reporting are not fully complying with the spirit and letter of the new requirements and national jurisdictions are not enforcing these requirements," emphasises IFAC President René Ricol.

In the case of Parmalat, the fact that high-level and apparently capable company managers are alleged to have committed fraud and embezzled funds over such a long period demonstrates the difficulty of achieving effective security measures where there is no real will- ingness on the part of senior members of the Board of Directors of a company to act with integrity.

For its part, IFAC is closely monitoring the Parmalat situation as the facts become public and the truth of the situation emerges. While it is too early, and not IFAC's role, to determine the extent to which preparers of financial statements and auditors were or were not at fault in the Parmalat case, if the competent authorities determine this to be the case, IFAC will support the application of strong sanctions.

IFAC shares the views expressed by the Italian government and its Minister of Finance and Economy that Italy modernize its audit system and reform its financial markets and regulatory system to better protect investors. Adopting international standards is a key part in such a reform.

In recent months, IFAC has also called for cooperation by the international accountancy profession in meeting the requirements of its

new Membership Compliance Programme. As part of the Compliance Programme, member bodies (national accountancy institutes) will be required to implement (subject to national laws and regulations) both IFAC standards — including those requiring the implementation of firm-wide quality control systems for their members that provide audit services — and the International Accounting Standards Board's International Financial Reporting Standards. Under the Compliance Programme, all IFAC member bodies will be required to have appropriate investigative and disciplinary processes for their members as well as structures to ensure that their members are complying with international accounting and auditing standards.

"Despite these initiatives, we must recognise that the war on misleading financial reporting has to be fought on many fronts," emphasises Mr. Ricol. "As the independent Task Force on Rebuilding Public Confidence in Financial Reporting stated in its final report issued in August 2003, to improve the credibility of financial reporting, action will be necessary at all points along the information supply chain that delivers financial reporting to the market — this includes corporate managements and boards of directors, auditors, standards setters, regulators, and other participants in the process, such as lawyers, investment bankers, and analysts."

Finally, IFAC warns against the use of overly complex financial structures and tax havens as means of avoiding transparent reporting and compliance with laws and regulations. The increasingly widespread use of such structures and the association of tax havens with the movement of money linked to corruption and money laundering makes it difficult to track financial transactions and can undermine the issuance of accurate and transparent financial statements. **AT**

IFAC Launches Review of Public Sector Committee

IFAC has launched a wide-ranging review of the activities of its Public Sector Committee (PSC). The PSC focuses on the accounting, auditing, and financial reporting needs of national, regional and local governments, related governmental agencies, and the constituencies

they serve. The review will result in recommendations regarding how the PSC fulfils this role and meets its objectives in the long-term. Specific short and medium-term implications will also be identified.

Sir Andrew Likierman, Head of the Government Accountancy Service of the UK, is chairing the review process, which will be conducted by a Review Panel, including representatives from the World Bank, the developed and developing world as well as the incoming and outgoing chairs of the PSC.

An integral part of the review is finding out what key constituents think of the PSC's current approach and arrangements. In order to obtain the views of a wide range of constituents, the Panel has developed a questionnaire that focuses on a number of issues relating to the PSC's current role and governance arrangements. IFAC member body key contacts, members of ministries of finance and governmental agencies, accounting standard setters and regulators are among those invited to complete the questionnaire. Individuals who fall into these categories but have not been invited to complete a questionnaire may request a copy by contacting John Stanford at john.stanford@cipfa.org.

Introducing the PSC Review, IFAC's Chief Executive Ian Ball said, "Over the last six years, the IFAC PSC has made a significant contribution to sound financial governance in the public sector globally by producing a set of high quality core accrual standards. It is important that, in common with other IFAC committees with standard-setting responsibilities, the PSC examines its current processes and ensures that these are transparent, efficient and inclusive of key interests."

He added, "It is absolutely essential that all those interested in financial reporting of public sector bodies worldwide give us their views on the future of the IFAC PSC. I have confidence that the External Review Panel will make recommendations which can position the PSC for the next decade."

Since 1997, the PSC has focused its resources on international standard setting for the public sector through its ambitious Standards Project. During the first phase of the Standards Project, the PSC developed 20 core accrual-based standards based on international accounting standards (IASs, now known as International Financial Reporting Standards or IFRSs) and a comprehensive standard on the cash basis of accounting. The PSC also produced web-based guidance for jurisdictions em

barking on the transition from the cash to the accrual basis of financial reporting.

The second and more challenging phase of the PSC's project is now under way. This involves the development of accounting treatments for public sector specific issues such as the social policies of governments and non-exchange transactions such as taxation, as well as such issues as budget reporting and accounting for development assistance.

At its Council meeting in Singapore in November 2003, IFAC introduced a number of reforms designed to enhance the transparency of its standard-setting processes and ultimately increase public confidence in the work of the accounting profession. The reforms include the creation of a Public Interest Oversight Board (PIOB), comprising of international regulators and other public-interest constituents, to oversee IFAC's standard-setting activities in the areas of auditing, ethics, and education. Although the PSC will not be subject to the oversight of the PIOB, the PSC Review is responsive to the new IFAC reform agenda. **AT**

IFAC Invites Comments on Documents Addressing Social Policies of Governments and Revenue From Non-Exchange Transactions

The IFAC Public Sector Committee (PSC) has issued Invitations to Comment (ITCs) on two critical financial reporting issues for governments: *Accounting for Social Policies of Governments and Revenue from Non-Exchange Transactions* (Including Taxes and Transfers).

"The development of these two documents marks a significant step forward for the PSC because they address issues that are specific to public sector entities and central to good quality financial reporting by those entities," explains PSC Chair Philippe Adhémar.

"The PSC established Steering Committees that include non-PSC members to involve key constituencies at an earlier stage in the development of IPSASs. The views reflected in the two ITCs represent those of the respective Steering Committees and not necessarily those of the PSC. However, the PSC is of the view

that the ITCs are comprehensive, well-argued and make a significant contribution to the body of knowledge on these topics. They provide a sound basis for informed debate on these critical topics," adds Philippe Adhémar.

Accounting for Social Policies of Governments

The Invitation to Comment Accounting for Social Policies of Governments focuses on government obligations to account for the social benefits they provide. It addresses the financial reporting consequences of a government's actions in providing a wide range of social benefits to individuals and organisations and their undertakings to provide benefits in the future. This includes goods and/or services provided for collective and individual consumption and cash transfers to individuals, such as pensions and unemployment and similar benefits. It also considers the financial reporting consequences of undertakings governments may make to provide benefits in the future.

"The proper reporting of the financial consequences of these actions and undertakings is essential if the financial statements of governments and other public sector reporting entities are to be transparent, support informed assessments of financial condition, and discharge accountability obligations," notes Philippe Adhémar.

Revenue from Non-Exchange Transactions

The ITC Revenue from Non-Exchange Transactions deals with key public sector issues, such as the financial reporting for tax revenues and transfers, including grants, donations, appropriations, and gifts. The ITC proposes adoption of an assets and liabilities approach to recognition and measurement of revenue from non-exchange transactions.

"Taxes are the largest single revenue item for most governments, but other items can also be significant. However, there are few public documents available which address the conceptual issues underpinning financial reporting of revenue from non-exchange transactions for governments," notes Philippe Adhémar. **AT**

The ITCs may be downloaded free of charge by going to the public sector section of the IFAC online bookstore, www.ifac.org/store. Comments are requested by 30 June 2004. They may be e-mailed to publicsectorpubs@ifac.org, faxed to +1-212-286-9570 or mailed to the attention of the Technical Director, Public Sector Committee, IFAC, 545 Fifth Avenue, 14th Floor, New York, NY 10017.

IAASB Issues a New Framework and Standard for Assurance Engagements

Environmental, social and sustainability reports, information systems, internal control, corporate governance processes and compliance with grant conditions, contracts and regulations are some of the subjects about which assurance reports are increasingly being demanded. In recognition of this need, the IFAC's International Auditing and Assurance Standards Board (IAASB) has issued a revised "Assurance Framework" and an International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*.

The Framework defines and describes the elements and objectives of an assurance engagement, and identifies engagements to which International Standards on Auditing (ISAs) and ISAEs apply. It provides a frame of reference for practitioners and others involved with assurance engagements, such as those engaging a practitioner and the intended users of an assurance report.

ISAE 3000 establishes basic principles and essential procedures for all assurance engagements other than audits or reviews of historical financial information covered by ISAs. The standard is effective for engagements where the assurance report is dated on or after 1 January 2005. Existing *ISAE 100, Assurance Engagements*, will be withdrawn once ISAE 3000 is in effect.

While ISAE 3000 has been written for general application, the IAASB expects to develop further ISAEs to provide detailed guidance on specific subject matters and at future meetings will consider possible projects dealing with assurance on internal control and assurance on sustainability reports.

As the provision of broader assurance services is an evolving field, the IAASB intends to keep the practical implementation of the Framework and ISAE 3000 under review, and invites feedback from practitioners and others on their experience with applying them. **AT**

2004 Best Internal Audit Practice Award

THE INTERNAL AUDIT activity is pivotal to organisations as it adds value and facilitates in streamlining operations. An organisation will be able to accomplish its objectives by practising a systematic, disciplined approach to evaluate and improve the effectiveness of corporate governance, risk management and internal control. Internal auditing reviews the reliability and integrity of information, compliance with policies and regulations, the safeguarding of assets, the economical and efficient use of resources, and established operational goals and objectives.

As the Malaysian corporate scene evolves towards churning out successful organisations, internal audit is fast becoming a crucial area that imperatively needs looking into. Towards this end, more local companies have begun to realise the importance of establishing internal audit departments in their efforts to boost their operations.

In line with this portentous development, Malaysian Institute of Accountants (MIA) and The Institute of Internal Auditors Malaysia (IIA Malaysia) collaboratively identified the need to recognise organisations that demonstrate the most outstanding practice of internal audit. Thus, the Best Internal Audit Practice Award was conceived.

This inaugural Award will be held for the first time in the country and its primary objective is:

To recognise and award the company with the most outstanding internal audit practice that is being demonstrated by:

- Continuous development and promotion of best practice in internal audit;
- Promotion of leadership and professionalism in internal audit;
- Enhancement of internal audit roles in corporate governance, risk management and internal control.

Organised jointly by MIA (chaired by Raymond Liew) and IIA Malaysia (co-chaired by Wee Hock Kee), the Awards are expected to encourage local companies to adopt and implement internal audit practices to help them achieve efficiency and effectiveness in managing an organisation and subsequently attaining a world-class status. **AT**

Non-Audit Firms Registered with MIA

FROM 1 TO 29 FEBRUARY 2004

NON-AUDIT FIRM'S NAME NF NO

JOHOR DARUL TAKZIM

Marcus Ching Management Services 0497
8B, Jalan Anggerik 1
Taman Kulai Utama, 81000 Kulai
Tel: 07-662 6640 Fax: 07-662 6640
e-mail: loong98@yahoo.com

NEGERI SEMBILAN DARUL KHUSUS

K Y Koh & Partners 0500
No. 5F, Tingkat 1, Jalan Za'aba
70100 Seremban
Tel: 012-322 7111 Fax: 06-633 6498
e-mail: kykoh@pd.jaring.my

N. Lalitha & Associates 0502
No. 478, 2nd Floor, Jln Haruan 4/4
Oakland Industrial Commercial Square
70200 Seremban
Tel: 012-684 2927 e-mail: nlalr@lycos.com

PERAK DARUL RIDZUAN

Q. S. Leong & Co. 0504
24B, Jalan Chung Thye Phin
30250 Ipoh
Tel: 05-2550620 Fax: 05-2550620
e-mail: queesing@yahoo.com

THL & Associates 0494
13A, Jalan Medan Ipoh 5
Bandar Baru Medan Ipoh
31400 Ipoh
Tel: 05-546 3208 Fax: 05-546 3208
e-mail: hlthien@pd.jaring.my

PULAU PINANG

K.F. Fong & Co. 0496
4C-11-10, Lorong Semarak Api 1
Bandar Baru Ayer Itam
11500 Ayer Itam
Tel: 012-409 7330
e-mail: kff98@myjaring.net

K.S. Loo & Co. 0501
55B (2nd Floor), Lorong P.S. 1
Bandar Perda, 14000 Bukit Mertajam
Tel: 04-621 3688 Fax: 04-621 3689

SELANGOR DARUL EHSAN

BH Lim & Co 0493
No. 72A, Jalan SS 21/35
Damansara Utama, 47400 Petaling Jaya
Tel: 03-7727 1855 Fax: 03-7728 0328
e-mail: bhlim28@tm.net.my

C M Kan & Co 0495
35, 1st Floor (Back Portion), SS 2/55
47300 Petaling Jaya
Tel: 03-7875 6434 Fax: 03-7874 3714

WILAYAH PERSEKUTUAN

Chong Management Consultants Co. 0499
34, Jalan 38/48
Taman Sentul Jaya
51000 Kuala Lumpur
Tel: 03-4043 1529 Fax: 03-4043 1529
e-mail: k_s.chong@yahoo.com

Fadzilah & Co 0492
25, Jln Thambi Abdullah Satu
Off Jln Tun Sambanthan, Brickfields
50470 Kuala Lumpur
Tel: 03-2273 1702 Fax: 03-2274 8793
e-mail: fad3019@tm.net.my

Lim Siew Chan & Co. 0505
65-03-05, Bandar Baru Sentul
51000 Kuala Lumpur
Tel: 03-4041 2532

LMR & Associates 0503
27-1, Metro Centre, Jalan 3/146
Bandar Tasik Selatan
57000 Kuala Lumpur
Tel: 03-9058 0971 Fax: 03-9058 0972
e-mail: manoranjitham@accountant.com

Yong, Chew & Co 0498
No. 40, Jln Burhanuddin Helmi
Taman Tun Dr. Ismail
60000 Kuala Lumpur
Tel: 012-3816412 Fax: 03-87370235
e-mail: yongchew_co@yahoo.com

Audit Firms Registered with MIA

FROM 1 TO 29 FEBRUARY 2004

AUDIT FIRM'S NAME AF NO

JOHOR DARUL TAKZIM

See Hock Chuan & Co. 1528
10 Room C, (2nd Floor), Jalan 1A
Taman Maharani, Jalan Bakri
84000 Muar
Tel: 06-953 9431 Fax: 06-952 0551

KEDAH DARUL AMAN

S Associates 1521
No. 22, First Floor
Jalan Putra
05100 Alor Star
Tel: 04-735 5388 Fax: 04-7310388

PAHANG DARUL MAKMUR

K T Cheong & Associates 1524
3rd Floor, HSBC Bank Building
No. 1, Jln Mahkota
25000 Kuantan
Tel: 09-5165896 Fax: 09-5131246
e-mail: ktcheong@cktassociates.com.my

SELANGOR DARUL EHSAN

S P Tan & Sundar 1527
Suite 13A12, Level 13A, Block A
Damansara Intan, No. 1, Jln SS 20/27
47400 Petaling Jaya
Tel: 03-7725 5279 Fax: 03-7726 1027
e-mail: sarumugam@pd.jaring.my

WILAYAH PERSEKUTUAN

Lau, Kok & Associates 1525
3-35D, Jalan Desa 2/4
Desa Aman Puri
52100 Kuala Lumpur
Tel: 03-62771221 Fax: 03-62771225

CIMA

CIMA takes a leading role on enterprise governance with launch of a 'Strategic Scorecard'

CIMA has just made a major contribution to an innovative study on the causes of corporate success and failure by developing the 'Strategic Scorecard'.

CIMA is playing a key role in improving corporate governance by joining forces with IFAC (International Federation of Accountants) to release an original report on the emerging concept of *enterprise governance*. The report, *Enterprise Governance: Getting the Balance Right*, was published on 16 February. The report includes an in-depth analysis of corporate successes and failures in 27 case studies in 10 countries. This has led to several valuable conclusions about the causes of each example/case.

As part of this report, CIMA has developed a Strategic Scorecard as a means of avoiding the sort of strategic failures that were apparent in the case studies. These showed that companies were particularly vulnerable at times of transformational change and that there was a real need for improved strategic oversight.

The Strategic Scorecard is a pragmatic means of addressing what CIMA terms the strategic oversight gap. It covers four key elements of the strategic process: has four basic elements: strategic position, strategic options, strategic implementation and strategic risks.

The Strategic Scorecard is not a detailed strategic plan. Its aim is to give the board a true

and fair view of the company's strategic position. It helps the board to understand the company's strategic position, identify the key decision points and then the timing of strategic options, milestones in strategic implementation together with the identification and mitigation of strategic risks.

Bill Connell, Chairman of IFAC's Professional Accountants in Business (PAIB) committee and Chairman of CIMA Technical Committee, said: "Unlike the corporate governance dimension, there are typically no dedicated oversight mechanisms or ways of checking such as audit committees in the arena of strategy. Several of the high profile case studies in this report fell into difficulties as a consequence of their strategic choices. There is a danger that in the laudable attempt to improve standards of control and ethics, insufficient attention is paid to the need for companies to create wealth and ensure that they are pursuing the right strategies to achieve this. It is quite easy and common for boards to fall into the trap of getting immersed in detail at the expense of focusing on overall strategic risks and future opportunities that drive long-term shareholder value."

The Strategic Scorecard is a pragmatic tool to assist boards to:

- have an oversight of a company's strategic process;
- deal with strategic choice and transformational change;

- give a true and fair view of a company's strategic position and progress; and
- track actions in, and outputs from, the strategic process, *but not the detailed content.*

Bill Connell added: "The Strategic Scorecard provides a useful framework for boards to improve their strategic effectiveness. This falls somewhere between the controversial establishment of a strategy committee and the inappropriate reliance on the balanced scorecard for transformational change. In fact, the Strategic Scorecard is complementary to both these approaches as well as many other strategic tools and techniques. The purpose of the Strategic Scorecard is to set out the landscape and allow a state of preparedness."

The telecoms industry provides a good example of the consequence of strategic failure and the "oversight gap" that may have been filled by the Strategic Scorecard approach. The report highlights Marconi, whose shares were suspended in 2001. At the time, commentators suggested that the directors were slow to admit to themselves that the company was heading for trouble despite clear evidence to the contrary (profits warnings by other competitors, the peaking of the stockmarket and European mobile phone auctions that left its customers strapped for cash).

A more positive example of how a change in boardroom decision-making processes can reverse the fortunes of a company is Tesco. Having bought a chain of supermarkets in France that proved unprofitable, they learnt from their mistake and exited France swiftly. They redefined their acquisition strategy and over the last ten years have grown by merger to make ma-



Bill Connell

major profitable inroads into the emerging markets of central and eastern Europe and the far east. The key to this change of fortune was having a board that learnt from its mistakes, truly understood its strategic position, options and risks and had the information to take major strategic decisions quickly."

Bill Connell also said: "The tools and techniques that can be used to ensure effective enterprise governance, such as the Strategic Scorecard are very much the domain of the professional accountant in business. The challenge is to ensure that the quality of information being delivered to the board is understandable, reliable, relevant and timely."

He concluded: "We do not pretend to present a guaranteed formula for success. However, greater attention paid to strategic oversight, through the use of the Strategic Scorecard, will go some way towards ensuring both effective corporate governance and performance. We look forward to working with a number of organisations who would like to adopt the Strategic Scorecard approach."

The full report, *Enterprise Governance: Getting the Balance Right*, will be available free by downloading from <http://www.ifac.org>. **AT**

AUSTRADE : Adding Value to Malaysian Business

Austrade's Senior Trade Commissioner, Scott Caithness, recently spoke on the Malaysian-Australian Bilateral and Trade Relationship and the role of Austrade at a CPA professional development seminar in Kuala Lumpur.

Austrade KL can help Malaysian businesses by introducing them to Australian companies who are interested in exporting goods and services across all sectors.

Mr. Caithness demonstrated successful case studies where Malaysian businesses had won contracts as a result of alliances with Australian companies.

"With 90 per cent of CPA membership having studied in Australia, CPA members have a great knowledge of Australian capability, products and services and understand where we can complement Malaysian business," Mr. Caithness said.



Scott's presentation was well received by the audience.

"Austrade KL can help reduce the time and risk for Malaysian companies sourcing potential Australian business partners with our free business

matching services," he said.

Austrade KL also has a website which lists Australian clients who have expressed specific interest in doing business with Malaysian companies. The website is www.austrade.com.my

With a staff of 17, Austrade's KL staff have specialised expertise in the export of food, education and training services, energy and environment, construction and infrastructure, industrial products, IT products and services, health and consumer products. Austrade also has representation in Brunei, which covers East Malaysia. **AT**

Winning CPA Work Experience in Australia

Last year's International Work Experience Programme (IWEP) winner Elwin Goh Kok Chye who returned from Perth, Australia was full of praise for his work experience and the 'CPA hospitality'. He was particularly impressed with the arrangement of his accommodation at Quest on James service apartment which was strategically located in the city centre and was within walking distance from Wilson Parking, the company he was attached to.

Elwin said being part of Australia's largest parking operator had benefited him both professionally and personally. "It provided a glimpse and taste of working in an international business environment and had given me an insight into the multitude of international job opportunities a CPA career can offer", said Elwin. The program, he said, was well arranged and he was assigned



Elwin (front row, second from left) together with the IWEP students from other countries.

a different task each day with the objective to help gain an overview of the business processes of the company. The assignments at Wilson Parking ranged from Fringe Benefit Tax, Goods and Services Tax, internal auditing, superannuation, statistical analysis, etc. "On a professional level, the cross-cultural experience had

taught me to be outspoken and sociable", he explained.

Elwin's trip down under was not all work as he managed to cover famous landmarks including Fremantle, The King's Park, Hillary's Beach, Swan River, Cohunu Koala Park Adventure, Perth Zoo and Bell Tower, just to name a few. Elwin's satisfaction over the

IWEP experience is summed up in the following: "The IWEP was truly an excellent and fulfilling program. My appreciation towards the program is beyond words. As for future undergraduates, I strongly recommend this program as it will undoubtedly provide you with three of the best weeks in your undergraduate life." **AT**



MASB'S Solution for SUCCESS!

MASB's newly upgraded portal is expected to bridge the gap and effectively inform accountants about the profession updates.

Early this month, the Malaysian Accounting Standards Board (MASB) unveiled the live version of its newly upgraded and highly informative portal www.masb.com.my. Targeted for use by those within the accounting profession, the purpose of the website was two-pronged in that it is meant to serve as a knowledge building platform as well as to act as a tool that enhances management efficiency within MASB itself says its executive director Dr. Nordin Mohd Zain.



Dr. Nordin Mohd Zain.

Emphasising the need to facilitate knowledge-building amongst accountants in the information era, Dr Nordin states that the website allows users to keep in touch with key developments within the profession. "As the accounting profession undergoes a transformation with the introduction of new practices and standards, there is a need for our accountants to keep abreast with the latest.

However, in Malaysia, there seems to be a lack of understanding of global trends in accounting, he observes. This he attributes to a dearth of relevant reference material or literature to educate local accountants. This has proven to be a barrier in knowledge-building within the profession.

In this regard, there is a need to establish a platform that accountants can rely on to gain

the latest and more importantly relevant information that will be crucial for knowledge and capacity building." As such, the new MASB portal, which is also dubbed as the MASB Channel Network, is expected to bridge the gap and effectively inform local accountants about global as well as local happenings," he added.

The website, Dr. Nordin points out, features a segment in which the latest developments within the profession are highlighted via articles and write-ups that are picked based on its relevance to accountants. Most of these articles will feature accounting issues and topics that are of a global nature such as those concerning the International Accounting Standards Board (IASB) and other

pertinent areas of focus within the industry.

The website's news feeds are updated fortnightly ensuring that the news is current and up-to-date.

Apart from that, the portal also features the full text of the MASB standards which users will be able to download from the website. Dr. Nordin believes that this feature will be well-received by accountants because it is much more convenient compared to

before where the website only contained a summary of the standards. Now there is the full text, as well as the summary.

Also, this is a boon to those who are constantly on the move as they need not carry the hard copies around with them. He adds that there will be a search tool that conveniently helps users to locate the particular standards that they are looking for.

In terms of facilitating management efficiency, he says that the portal is also being used to manage MASB's day to day operations therefore resulting in a more streamlined approach to the agency's functions. It has significantly helped us in our daily work, as our secretariat is small. We have to manage many meetings

especially working group meetings, and the portal has made coordination activities much easier than before.

It allows for information sharing between authorised users. Among some of the features include the e-scheduler which is an online version of an appointment diary which allows the secretariat to keep track of the schedules of members of its committees and working groups. There is also a facility that allows for sending of mass mails or alerts to inform committee and working group members about meetings.

Also, via the Channel Network portal, authorised users will be able to work collaboratively on Exposure Drafts as these will be placed online for review of its 2000 associates. They will be able to respond online therefore offering much more convenience compared to before when it was done via snail mail.

Based on the convenience factor that the portal offers to all its users, Dr Nordin hopes that every accountant will take the opportunity to use the resources which are available on the portal. "Since it is only a click away, I hope that every accountant with an Internet connection will pay the website a visit." **AT**