TIPS FOR COST-EFFECTIVE ISA APPLICATION • HARKING BACK TO HISBAH

THE MALAYSIAN INSTITUTE OF ACCOUNTANTS

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WATCHING THE WATCHDOGS

Can stakeholders anticipate better corporate governance and improved policing against fraud and mismanagement?

+ UNDERSTANDING FINANCIAL INSTRUMENTS

+ DEBT CRISIS DEJA VU

A NEW EMPLOYMENT DEAL?

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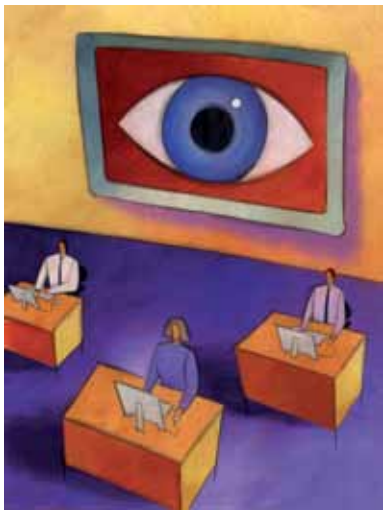

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(d) To determine the qualifications of persons for admission as members; and
(e) To approve, regulate and supervise the conduct of the Qualifying Examination.

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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: communications@mia.org.my
web: www.mia.org.my

accountants today

publisher

Malaysian Institute of Accountants
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
web: www.mia.org.my

publishing consultant

Executive Mode Sdn Bhd (317453-P)
Tel: +603-7118 3200, 3205, 3230
Fax: +603-7118 3220
e-mail: executivemode@executivemode.com.my
web: www.executivemode.com.my

printer

BHS Book Printing Sdn Bhd (95134-K)
Lot 17-22 & 17-23, Jalan Satu, Bersatu Industrial Park
Cheras Jaya, 43200 Cheras, Selangor DE
Tel: +603-9076 0816, 9076 0825, 9074 7558
Fax: +603-9076 0785, 9074 7573
e-mail: bhsprint@tm.net.my

MIA Branches

BRANCH	CHAIRMAN
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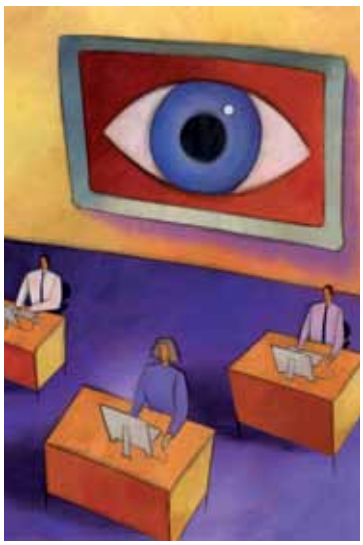

Upgrading Corporate Governance

The upcoming establishment of the Audit Oversight Board (AOB) via the Securities Commission Amendment Act 2010 sends a clear signal that Malaysia is committed to enhancing corporate governance by reforming the current audit oversight framework. There is no doubt that the role of statutory auditors is critical because the efficient functioning of the capital market depends on investors having confidence in the financial reporting of companies.

In essence, the AOB's mission is to oversee the auditors of public interest entities and protect investors' interests by promoting confidence in the quality and reliability of their audited financial statements. The establishment of an independent AOB will ensure that our regulatory framework for auditors is at par with international best practices in other jurisdictions, such as the US which has the Public Company Accounting Oversight Board (PCAOB) and the UK with the Professional Oversight Board for Accountancy.

It is to be hoped that the upcoming AOB will help curb financial statement fraud, the rarest type of fraud yet also the costliest. Malaysia isn't immune to white-collar crime, as local fraud cases like Transmile, Megan Media and United U-Li Corporation attest. In addition, the reality that the majority of financial statement frauds occur with the collusion of top management makes it imperative to enhance corporate governance and ethics while pushing for regulatory reform and more effective enforcement.

But companies aren't the only ones that should be tasked with governance. Massive stimulus programmes coupled with growing fiscal deficits mean that debt-ridden governments too should be focused on their good governance to prevent the eruption of sovereign debt crises that would shake the global financial world. In addition, governments should strive to honour their implicit and explicit sovereign debt guarantees to avert panic in world financial markets and perhaps another round of nerve-racking asset devaluations. We take a look at this issue in the Economy section.

Elsewhere in these pages, do check out the stories on fair value accounting and International Financial Reporting Standards (IFRS for SMEs) to keep updated. And on a lighter note, travel specialist Anis Ramli takes a walk down heritage lane in Penang, just a short trip away by rail, air or road from Kuala Lumpur. Delegates in town in October 2010 for the World Congress of Accountants hosted by the Malaysian Institute of Accountants are strongly urged to savour the historical delights of Penang, which offer a lovely change in pace from urban Kuala Lumpur.

Happy reading! ■

EDITOR

In essence, the AOB's mission is to oversee the auditors of public interest entities and protect investors' interests by promoting confidence in the quality and reliability of their audited financial statements.

ERRATA

The article "Building the Leadership Skills that Matter" in the March 2010 issue of *Accountants Today* (page 20) should have been attributed to the Korn Ferry Institute.

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? e-mail: communications@mia.org.my

WATCHING THE watchdogs

Majella Gomes

With the recent passage of the Securities Commission Amendment Act 2010 in Parliament, the Audit Oversight Board (AOB) is now a reality in Malaysia. What does this mean for local public interest entities? What will be the impact on audit and assurance firms? Can stakeholders anticipate better corporate governance and improved policing against fraud and mismanagement?

Over the last few years, several fraud incidents were uncovered in errant local companies – Transmile, Energro, Welli Multi, Megan Media, GP Ocean and that behemoth, the Port Klang Free Zone – that taken together could put Enron in the shade. Fraud has siphoned away billions of ringgit – and that's just what came to light. How much remains unaccounted for?

Is it any wonder that the klaxons have sounded, and the authorities have moved to set up more stringent checks and balances? As far back as 2007, plans were already in the pipeline to establish a Public Companies Accounting Oversight Board under the Securities Commission. In 2008, the SC set up a task force to hammer out a framework that would be acceptable to all parties, and in December 2009, the Securities Commission (Amendment) Bill 2009 – which proposed the establishment of the Audit Oversight Board (AOB) - was passed by both Houses.

Plainly, the AOB will have immense implications on auditor quality. There is no doubt that the role of auditors is critical because the efficient functioning of the capital market depends on investors having confidence in the financial reporting of companies. "Statutory auditors play an important role in ensuring that companies' accounts are trustworthy and reliable. Audit plays a vital role in a market economy," noted Securities Commission Executive Director Goh Ching Yin at a

forum on 'The Audit Oversight Board & Ethical Dimensions — Credibility of Accountants' organised by the Malaysian Institute of Accountants (MIA), Universiti Teknologi Mara (UiTM) and the Malaysian Accountancy Research and Education Foundation (MAREF).

REFORMING THE FRAMEWORK

While the collapse of large firms and increasing fraudulent practices had raised concerns regarding the credibility of the audit profession, this has nevertheless spurred the reform of the current audit oversight framework via the Securities Commission Amendment Act 2010, which will promote and develop an effective audit oversight framework in Malaysia.

Under the amended act, the Audit Oversight Board (AOB) will be established. "The AOB's mission is to oversee the auditors of public interest entities and protect investors' interests by promoting confidence in the quality and reliability of their audited financial statements. It will ensure that our regulatory framework for auditors is on par with international best practices," added Goh.

Malaysia is the latest in a long line of countries to set up an independent AOB. The US has the Public Company Accounting Oversight Board (PCAOB), while the UK has the Professional

Oversight Board for Accountancy. Australia has an Auditing & Assurance Standards Board which sets auditing standards, and a Financial Reporting Council that monitors auditor independence. Egypt, Lithuania, Mauritius and Sri Lanka all have some form of independent regulatory oversight over their respective auditing professions, but with differing levels of empowerment.

THE ROLE OF THE AOB

The AOB will work with other regulatory agencies like the Companies Commission of Malaysia, Bank Negara and the MIA. It is empowered to share information with these bodies, granting it a wider regulatory and enforcement reach. In other words, the AOB will facilitate regulatory oversight and enforcement, in the wake of the recent global financial crisis that has reshaped thinking and tested capital market regulators, placing new demands and responsibilities on both institutional and independent regulation.

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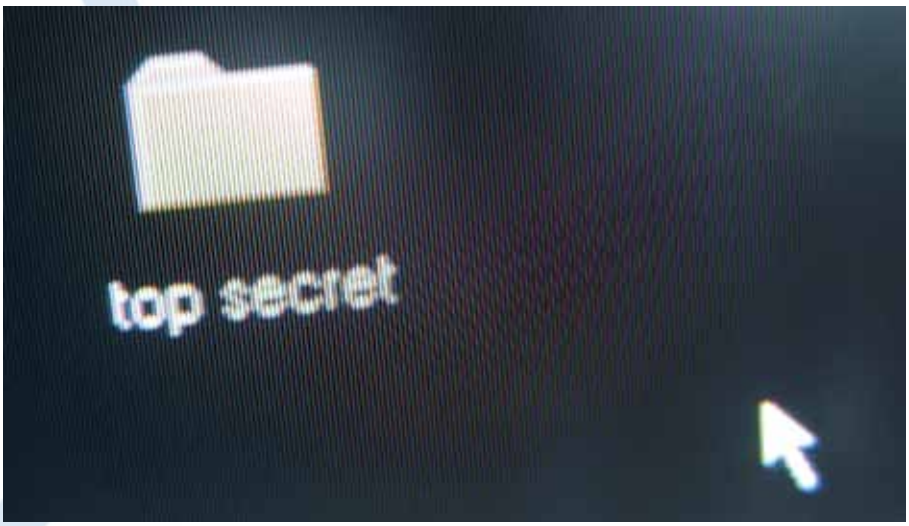
Collaboration, particularly with the auditing profession, is imperative if the AOB is to succeed. "Our commitment to working with the auditing profession will be reflected in the composition of the AOB," said Goh. "Individual AOB members must understand their responsibilities, and the nature of the financial disclosures as required by public interest entities." To fulfill this role, two of the six non-executive AOB members will be members of the MIA, i.e. accountants.

Benefits arising from the AOB are not a one-way street, and the AOB's emphasis on audit quality will boost the profes-

sion. "While the AOB oversees auditors and protects the interests of investors, it also benefits the auditing profession. Audit quality will be raised, which in turn will promote confidence in the assurance work that is performed by the auditing profession," said Goh.

To cope with concerns on independent oversight and thus the need to improve audit quality, the MIA recommended that audit firms of all sizes should aim to be fully compliant with the International Standards on Quality Control 1 (ISQC 1), which aims to embed best practices and enhance quality control among firms that perform audits and other assurance and related engagements. Speaking at the forum, MIA President Abdul Rahim Abdul Hamid stressed that "compliance with the international accounting best practices of ISQC 1 and MIA By-Laws will prepare audit firms to face the rigour of any additional oversight regime that may be introduced at a local level."



The AOB's activities will also encompass inspection, inquiry, enforcement and standards-setting, which will coalesce into a supervisory model. There are future plans to expand into research and risk analysis to supervise the audit firms and auditors who will by then be registered with the body.

GOOD FOR THE PROFESSION

Instead of being daunting, the AOB's oversight function should be regarded as a catalyst to the profession, particularly in helping auditors identify weaknesses. For this reason, the AOB would prioritise incentives rather than sanctions. The AOB has also set its sights on helping local auditors by reducing the regulatory burden that is inevitable with cross-border trade and globalisation.

A case in point is the EU Directive on Statutory Audits, which provides that firms auditing companies incorporated in a third country but listed on a regulated market in the EU should come under the independent public oversight of the EU Member State concerned. This will lead to public oversight bodies in the EU Member States starting to regulate and inspect audit firms in non-EU countries. To avoid this, the AOB can try to get EU Member States to recognise its oversight over Malaysian audit firms, thus relieving local audit firms of the additional weight of individually conforming to these regulations.

Extend this a little further, and the now-global characteristics of auditing will become apparent. Multinational companies with cross-border activities and subsidiaries abroad will require international audit services. Auditing is a global activity, and thus close co-operation between audit regulators is necessary. The AOB will be playing a crucial role in establishing mutual relationships with foreign counterparts, which has been provided for under the Act, enabling it to enter into arrangements and share information with foreign audit regulators. Critically, where local audit firms are concerned, compliance with ISQC 1 will be vital if they want to take advantage of international opportunities.

ENFORCEMENT

As an oversight body, the AOB's main thrust will be to ensure only fit and proper persons are allowed to conduct audits. It will also modernise the appeal process and put in place a broad range of sanctions. To do this, it will first establish a registration process for all individual auditors and audit firms to determine auditing ability and capacity. Non-registration will be an offence, and auditors who are found unfit run the risk of suspension or may have their licences revoked.

The AOB's activities will also encompass inspection, inquiry, enforcement and standards-setting, which will coalesce into a supervisory model. There are future plans to expand into research and risk analysis to supervise the audit firms and auditors who will by then be registered with the body. The subsequent phase will be to gain international recognition from ASEAN counterparts.

With the AOB ensuring compliance with relevant auditing standards, the risks of auditing failures would likely be reduced, strengthening the local capital market. "I firmly believe the independent oversight by the AOB will promote higher quality audit work," remarked

Goh further. "Knowing that the auditor's work is subject to independent review will increase the standard of care and thought that goes into it."

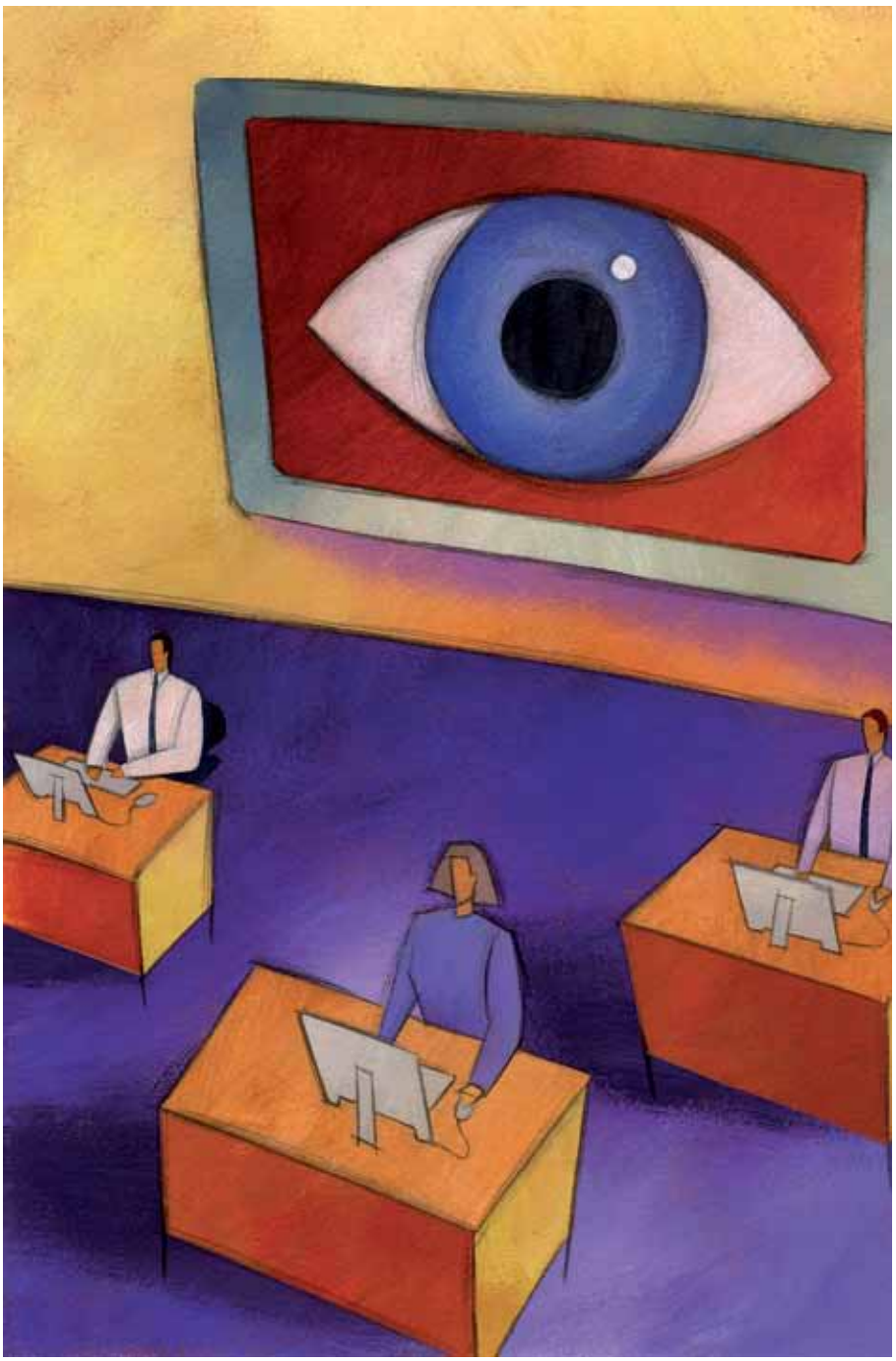
Adding that the AOB may also review how to resolve difficult audit issues, Goh pointed out that this is expected to empower auditors to exercise prudent judgement and resist management pressures on questionable accounting concepts. "Don't ignore red flags that arise in the course of audits," he urged.

BENCHMARKING

Malaysia is not alone in its review and reform of auditing. The entire global perspective of audit is changing. In response to higher expectations from stakeholders, the auditing profession itself has undertaken some initiatives to provide comfort to stakeholders; the most notable being the Audit Firm Governance Code, a project by the Financial Reporting Council of the UK.

Singapore too is moving to enhance governance via boosting audit quality. Shirlyn Loo, Head of Strategy & Planning of the Accounting & Corporate Regulatory Authority (ACRA) of Singapore said that ACRA's objectives were similar. Its strategy focuses on attaining an internationally reputable policy and legislative framework, high-quality audit and financial reporting, and effective and efficient regulation. ACRA sees this as a concerted move towards a transparent and informed market, supported by a strong professional environment.

Its Public Accountants Oversight Committee (PAOC) is already registering public accountants, and administering the Practice Monitoring Programme (PMP) and continued professional education programmes for public accountants. "The PAOC protects the public interest by helping the ACRA to determine codes of professional conduct and ethics for public accountants," Loo explained. "This includes investigating complaints against public accountants and public accounting entities, and – where necessary – instituting disciplinary proceedings."



There may be impressive structures being constructed to ensure the quality of audit in various countries, but these would be hollow without a good set of ethics. The two elements complement each other in the professional environment when high ethical standards become the yardstick by which audit practice is judged.

AUDIT AND ETHICS GO HAND-IN-HAND

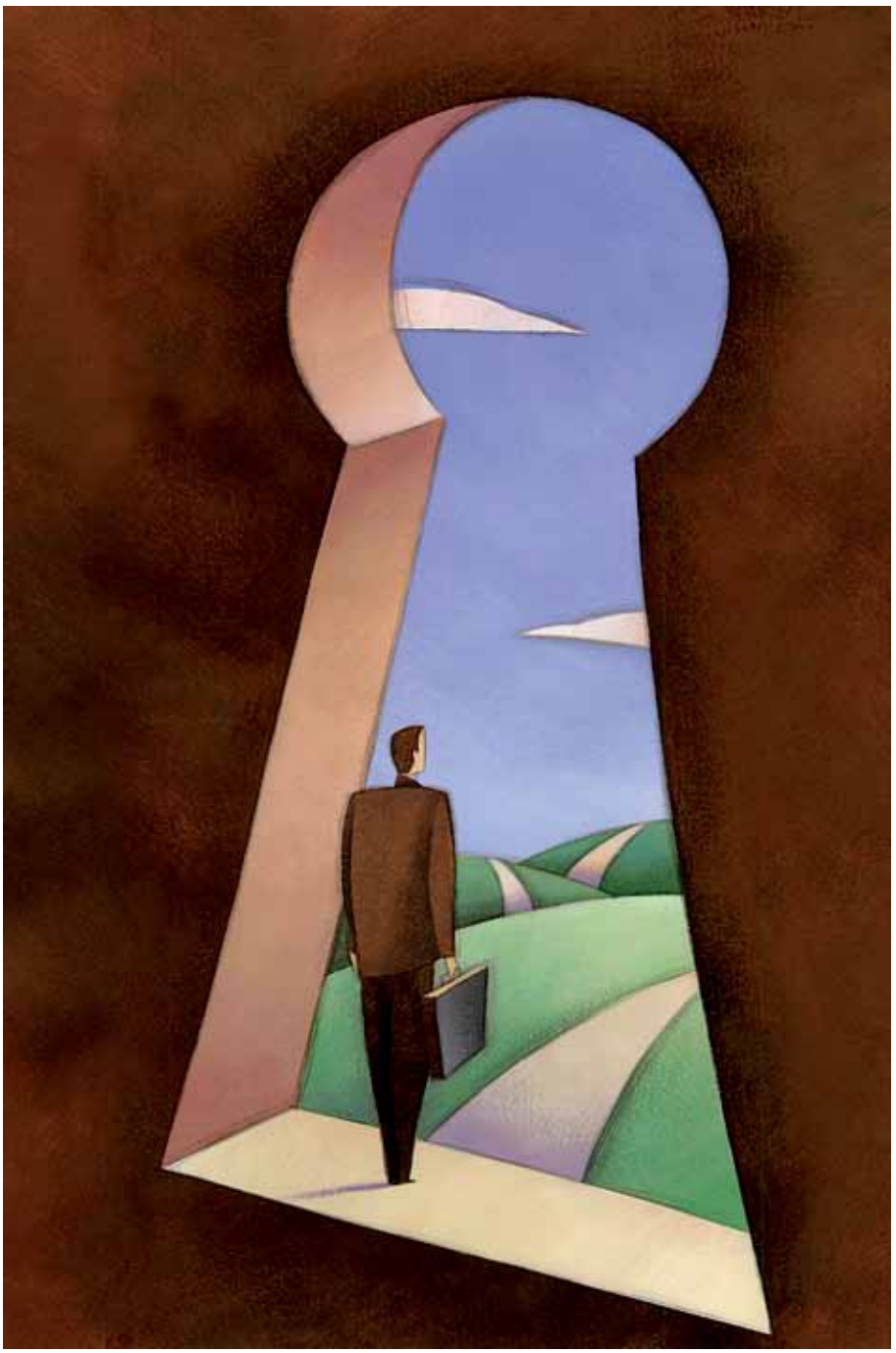
There may be impressive structures being constructed to ensure the quality of audit in various countries, but these would be hollow without a good set of ethics. The two elements complement each other in the professional environment when high ethical standards become the yardstick by which audit practice is judged.

To promote and support high standards of rules and regulations governing audit assurance and professional practice and conduct, MIA introduced the Audit Assurance Standards Board (AASB) and the Ethics Standards Board (ESB) in June 2009. The Boards, through MIA, also play an active role in international standard-setting processes to ensure that the standards are relevant and applicable in the Malaysian context.

Furthermore, accounting regulations will be reformed to support ethical best practices going forward. "We will be amending our By-Laws (of Professional Ethics) to reflect revisions in the International Federation of Accountants (IFAC) Code of Ethics," said MIA Vice- President Christina Foo, who also chairs the ESB.

To embed the link between ethics and audit quality, MIA's mission is to promote good ethical practices and global best practices among accounting professionals in Malaysia. One of its main objectives is to speak out on public interest issues where professionalism and the ethical conduct of accountants are required and relevant. The audit-ethics link becomes evident when viewed within the context of the By-Laws of Professional Ethics.

Ethics underpin the fundamentals of the profession. Auditors and accountants are called upon to uphold integrity and to be straightforward in all business dealings. "They should not allow bias, conflict of interest or the undue influence of others to override



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their professional business judgement," said Ravi Navaratnam, Member, Ethics Standards Board, Malaysian Institute of Accountants. "It is their responsibility to maintain their knowledge and skill at a professional level to appropriately service their clients, and be able to maintain confidentiality where necessary. Their behaviour must be professional at all times."

While relationships or circumstances could cause threats that could compromise an auditor's compliance with the fundamental principles, there are safeguards that can be put in place to mitigate these possibilities. These safeguards include continuing professional development, corporate governance regulations, professional or regulatory monitoring, and external review by a third party.

However, in focusing on ethics, the profession ran the risk of losing sight of integrity, which is just as important. Whereas ethics is an external system of rules and laws, integrity is an internal system of principles which guides our behaviour. "Integrity is a choice rather than an obligation," said Navaratnam. "When we act with integrity, we are doing what is right, even if nobody is watching. Compassion, dependability, generosity, honesty, kindness, loyalty, maturity, objectivity, respect, trust and wisdom are the virtues which form the core of integrity. These are what the individual brings to his/her position every day."

Integrity and ethics strengthen and reinforce each other. Personal integrity is the foundation of ethics, and a person who has developed a high level of integrity is likely to transfer these principles to his/her professional life. Like many of life's core values, integrity starts at home, and should ideally be built into the education system. "We need to understand that ethical standards themselves are not enough," Navaratnam concluded. "Integrity is vital – it's what you do when there is nobody around to police you. Just knowing what is right is insufficient. This knowledge has to be applied."

Finally, integrity goes deeper than simple rules-based compliance. "We want our members to go beyond complying with the ethical minimum," urged Foo. To achieve this, MIA is championing 'human governance', which is principles-based rather than rule-based. Human governance which comes from a good heart is congruent with rising global expectations of genuinely good corporate behaviour and substance, and dovetails perfectly with the AOB's objectives. ■

Harking back to *Hisbah*

Amalina Abdullah

AS INTEREST IN ISLAMIC FINANCE AND ISLAMIC ECONOMICS ENJOYS A GLOBAL REVIVAL, IT MIGHT BE WORTH IMPLEMENTING THE HISTORIC INSTITUTION OF *HISBAH* AND THE ROLE OF *MUHTASIB* TO IMPROVE GOVERNANCE IN BUSINESS AND MARKETS.

According to the doctrine of *laissez-faire*, minimal control is exercised over the free market. Islam acknowledges the validity of the open market mechanism, based on a saying by the Prophet that "It is *Allah* who fixes price" through an open market mechanism of supply and demand. Western economists regard the forces of supply and demand as the "invisible hand", but Islam recognises these as *Allah*'s will. Therefore, in Islam, interference with a free market mechanism is totally unacceptable, and absolute honesty in business is mandated.

Human nature being what it is, there is always the possibility of dishonesty and fraud in doing business. Thus, it is mandatory for the state to ensure that Muslim business persons conduct their business transactions in a proper, fair and ethical manner, noted Fauzan Salleh, in his paper entitled *The Institution of Hisbah: Its Roles in Nurturing a Fair and Just Economic System in Islam*, presented at the National Conference on Islamic Economics 2009. The state has an important role to play in safeguarding fairness in business, as well as to eradicate possible fraud and dishonesty in the marketplace.

In realising this responsibility, the Islamic state during its heyday established *hisbah*, a religious institution established under the authority of the state. *Hisbah* is responsible for appointing people to carry out the responsibility of enjoining good, whenever people are neglectful, and forbidding evil. The purpose of *hisbah* is to safeguard the members of society from deviance, protect their faith and ensure the welfare of the people in both religious and worldly matters according to the law of God. The domain of *hisbah* therefore essentially deals with safeguarding the limits of *Allah* against violation, protecting the honour of the people, and ensuring public safety. In addition, it also includes monitoring marketplaces, craftsmanship and manufacturing to make sure that the laws of Islam are upheld. In other words, the *hisbah* is actually a control mechanism established by Islam to maintain the order of social life, so that everyone will enjoy security and the fulfillment of his or her basic needs.

Hisbah plays an important role in protecting the nation socially, economically and politically by emphasising "amal maaruf, nahi mungkar" (inviting to good, and forbidding the bad), which is consistent with Shariah law.

The Prophet himself acted as the first *muhtasib*, or the person responsible for the maintenance of the institution of *hisbah*. Subsequently, he appointed some of his companions to perform this duty, including Said Al-'As in Makkah and Umar Al-Khattab in Madinah. In general, the functions of *muhtasib* cover the rights of God and the people, including duties dealing with prayers, maintenance of mosques, community matters, market dealings, etc.

THE ROLE OF HISBAH AND MUHTASIB

Hisbah plays an important role in protecting the nation socially, economically and politically by emphasising "amal maaruf, nahi mungkar" (inviting to good, and forbidding the bad), which is consistent with *Shariah* law, noted Mohd Rumaizuddin Ghazali in *Institusi Hisbah Pemangkin kepada kesejahteraan Masyarakat dan Negara* (The Institution of *Hisbah* as a Catalyst for Social and National Well-being). To facilitate the proper running of *hisbah*, the state must appoint a person or a group of persons to run the *hisbah*.

A person who is appointed to administer the *hisbah* is generally called *al-muhtasib* or *muhtasib*. He or she must have certain qualifications to assure that he or she can fulfill his or her duties in compliance with Islamic law. The most important criteria for *muhtasib* are: sincerity and impartiality, knowledge and wisdom, and mild temper. In addition, the *muhtasib* has to oversee those functions that could be categorised as relating to:

1. **The rights of God, such as punctuality of prayers, the organisation of *Jumu'ah* (Friday) and Eid congregations, and the maintenance of mosques.**
2. **The rights of people, such as dealing with community affairs and behaviour in markets.**
3. **Municipal administration, such as keeping the roads and streets clean and lit at night and preventing construction which could harm the community interests.**

To fulfill his functions, the *muhtasib* cannot sit in an office waiting for complaints. He must always be out of his office and on the ground conducting field inspections to guarantee observance of the *Shariah*. A good part of his day is usually spent in the marketplace, where most disputes and acts of injustices may take place. He has also to inspect the weights and measures to prevent cheating. He has the right to check the notaries who write down the contracts on behalf of the contracting parties, and the deeds of sale. He listens to the complaints of the public and attends to them on the spot, paying special attention to children and women. He inspects the *kuttab* (schools), the law courts, and all places where people congregate to enforce observance of Islamic law and ethics. He has to examine the goods and services of the whole village or town in order to prevent cheating in their quality or measurement, keeping the standard units of measurement in his office. The *muhtasib* also has the responsibility to stop cruelty to animals. He has to see that vessels and transport vehicles are not overloaded, thereby exposing the lives of humans and animals to danger. Therefore, he is also authorised to intervene to stop cruelty to animals. His other priorities include public services, the freedom of passage on the streets, and the maintenance, lighting and cleanliness of the mosques, restaurants, and public baths.

Although the economic history of the Muslim people has not been chronicled in detail, literature on *hisbah* helps reconstruct a vision of the economic system of Islam during its heyday. Importantly, many of the *muhtasib*'s functions imply that the economy was actively managed by the state and was not left to the vicissitudes of events. Economic equilibrium was manipulated to attain a reasonable degree of efficiency and justice, as opposed to the classical economist vision of *laissez-faire*. Accordingly, the *muhtasib* had the authority to regulate production and supply of goods and services in ways that were ethical. Namely:

1. **He would see that resources did not flow to the category of *haram* (prohibited).**
2. **He would keep a strict watch on the supply of essential articles, especially foodstuff.**
3. **All trade should be done in an open market.**
4. **The traders should not collude to bid up prices artificially.**
5. **The traders should not form groups or blocs to push newcomers out of the market.**
6. **The urban traders were not allowed to meet the rural suppliers on their way and to buy their products at cheaper rates, keeping them in darkness about market conditions.**
7. **The middlemen who did not add any utility to the products but only reaped margins from buyers and sellers were disbanded.**
8. **The interest of merchants as a class was also protected against dumping in the market by a minority of merchants.**
9. **The traders and the craftsmen were not allowed to hide the defects of a product.**

WHY IS HISBAH IMPORTANT FOR GOOD GOVERNANCE AND ETHICAL PRACTICE?

The implementation of *hisbah* principles will lead to good governance in government as well as business organisations, thus enhancing integrity and efficiency and effectiveness in both the public and private sectors.

In the modern local context, the *hisbah* mechanism does not require a new department or ministry to function. For example, the best way to implement the principle of *hisbah* in Malaysia is through existing agencies such as the Malaysian Anti-Corruption Commission (MACC), National Audit Department of Malaysia, local district councils, the Religious Affairs Department, and the Human Rights Commission of Malaysia (SUHAKAM). At the same time, the government also needs to comply with the *hisbah* principle while empowering these agencies to do their job independently, noted Mohamad Ezam Mohd Nor in *Penghayatan Prinsip Hisbah Dan Urus Tadbir Yang Baik Di Malaysia* (The Understanding of *Hisbah* Principles and Good Administration in Malaysia). In addition, every state, district, community centre and village should also appoint the *muhtasib* to ensure the principle of *hisbah* is implemented in their respective areas and localities.

In the business context, normally accountants, auditors, audit committees, and "whistleblowers" are those people entrusted to play the role as *muhtasib* in their organisations. Business owners need to ensure that these *muhtasib* (in substance, if not in name) are responsible to create a more ethically-oriented organisation and subsequently, minimise the potential of fraud. ■

This article is condensed from a research paper entitled "The Role of Hisbah" by Amalina Abdullah, a lecturer in Financial Accounting, Management Accounting, Ethics and Governance, and Islamic Finance with the Faculty of Economics and Management, Universiti Putra Malaysia. She can be contacted at lina@econ.upm.edu.my.

Debt Crisis Déjà Vu

THE DUBAI WORLD DEBACLE HAS FORCED INVESTORS TO REEVALUATE THE CREDITWORTHINESS OF BOTH EXPLICIT AND INFERRED SOVEREIGN GUARANTEES. COULD THE WORLD BE ON THE BRINK OF YET ANOTHER CONTAGIOUS DEBT CRISIS, OF WHICH DUBAI IS ONLY THE TIP OF THE ICEBERG?

Saravanan Ramasamy

Last Thanksgiving eve, fear was reawakened amongst investors when Dubai World, Dubai's state-owned development company, flustered the financial world by releasing a statement seeking a moratorium on its debt and interest payments until May 2010. From a micro perspective, the repudiation of the perceived guarantee by United Arab Emirates (UAE) definitely leaves a bitter taste in the mouth of investors. From a macro perspective, investors will now hesitate to factor the implicit backing provided by the government to its national protégés into their risk equation. The fear factor has been reawakened as investors question the worthiness of both explicit and inferred sovereign guarantees, sending fresh tremors to an already earthquake-prone financial world.

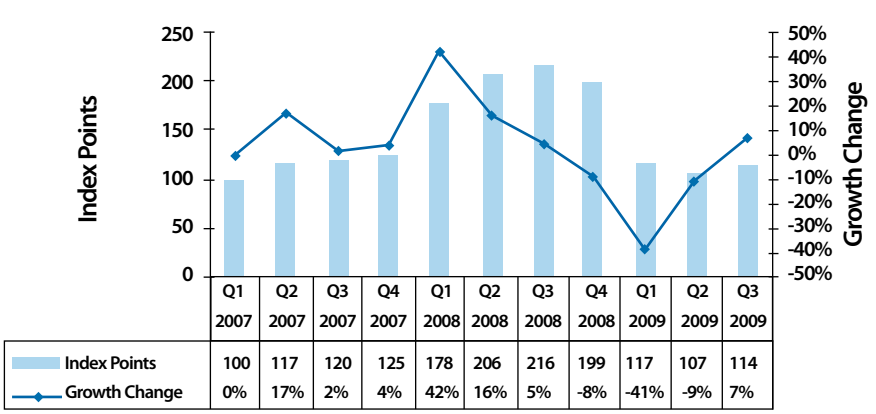
THE VOLATILE WORLD OF DEBT

The issue of Dubai sovereign guarantee has an eerie sense of déjà vu. In December 1994, the 'Tequila Crisis' started in Mexico and spread through Latin America and other parts of the developing world. Subsequently, the East Asian crisis hit in 1997 while Russia defaulted on its debt in 1998. Turkey came next in 2001 and the biggest sovereign default in history occurred when Argentina defaulted on US$141 billion of public debt in 2002. Throughout the crises, investments with implicit government guarantees in the economically trouble-ridden countries were both riskier and less promising than those that would have been undertaken without those guarantees.

As night follows day, one crisis has spawned the next. Spain and Greece are frequently featured in the news at present, chiefly because of the possibility that they will not be able to discharge their sovereign financial obligations and therefore, may have to default on their debt repayments. Sadly, as the world lurches from one crisis to another, the end-game is not only gloomy but treacherous. The question is: why has the world not learned its lessons from varied experiences in both emerging and developed economies? Behavioural economics has taught us that the pain of loss should be far greater than the joy of gain; why is this not the case here? Do the causes vary from one crisis to another, making the lessons learnt redundant?

FROM THE FINANCIAL FRYING PAN INTO THE FISCAL FIRE

Though crises are labeled with different names, the fundamental causes are somewhat similar. A closer look at the various crises reveals that they are indeed fueled by some kind of speculative frenzy. Lacking any strong fundamentals, these speculations have added fuel to the perceived growth resulting in overheated speculative booms. During these booms,



	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009
Index Points	100	117	120	125	178	206	216	199	117	107	114
Growth Change	0%	17%	2%	4%	42%	16%	5%	-8%	-41%	-9%	7%

Source: Colliers International

the prices of real estate and stock markets go up not due to fundamental changes, but more because there was a kind of frenzied buying. As long as real estate prices and stock markets are booming, even questionable investments tend to look good. As the air begins to escape the bubble, losses mount, reducing confidence and causing the supply of fresh loans to shrink, ultimately leading the region into an economic crisis mode.

Concerns about potential government insolvencies took the spotlight after Dubai's debt crisis erupted, followed by ratings agencies recently cutting Spain's credit outlook to negative and downgrading Greece's credit ratings. Dubai has always been associated with a mystical economic growth, unexplained by any economic textbook. What was just sand and camels is now dominated by numerous record-setting skyscrapers, built relentlessly by Dubai's sovereign and state-controlled companies. Indeed, a November 2009 article in *The Sunday Herald* reported that there were more cranes in Dubai with a total area of 4,144 square km than in China with a total area of 9,640,821 square km. The government of Dubai continued to invest in infrastructure and commercial development projects which, in most cases, would not be dreamed of by the private sector. So, what went wrong with Dubai?

DUBAI OR DU-BYE?

Dubai's growth was too much, too fast. The same November 2009 article in *The Sunday Herald* claimed that Dubai had skyscrapers which were empty because no access roads had been built. Dubai's property boom was fuelled by easy credit and a poorly regulated market overrun by speculators (see table: Dubai Property Index).

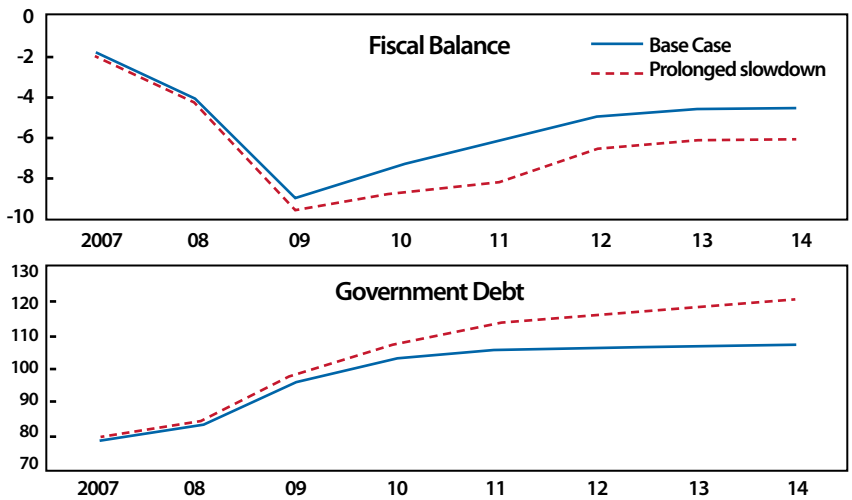
Indeed, it would not be farfetched to state that the era of Dubai's mystical growth belonged to speculators who made easy money during the boom. In an article entitled 'Dubai, or is it bye-bye?', Tan Sri Lin See-Yan, a Harvard-educated economist, stated that Dubai's sovereign and its state-controlled companies' debts could reach up to US$80 billion, in excess of the size of its gross domestic product (GDP). Dubai is not rich in oil and thus borrowed heavily from investors around the world to fund its ambitious projects, which include the infamous Palm Islands and the world's tallest tower Burj Khalifa. Dubai, being poor by Middle Eastern standards, funded its mega-projects mainly using petrodollars from neighbouring countries and cheap funds from the West.

Dubai has set many records not only in terms of state-of-the-art property developments but also in the world of debt. Foreign investments in Dubai have grown by leaps and bounds over the past few years, transforming Dubai from a mediocre port to a global financial hub. The ever-widening range of issuers, investors and instruments has been deeply embedded in Dubai's financial sector resulting in a colossal muddle that no financial maverick can unwind. Indeed, Dubai World's woes are a symptom of widespread problems in the commercial bond market whereby Dubai presently finds itself in an awkward position after all these years when it cannot refinance its debt at reasonable rates. Where have the cheap funds gone? Will Dubai fail or rather can Dubai fail given the implications worldwide?

Despite being such a large and complicated problem, the global impact of the Dubai crisis seems to be limited. Worse still, there are claims from some quarters that Dubai's problems are not that large and that is why the negative news is mostly only limited to plunging stock markets in the region. With the financial world being so interwoven, repercussions of a crisis in one part of the world can be almost immediately felt elsewhere. The same happened in the case of Dubai but the impact may have been artificially contained. For example, when the full implications of the Dubai financial crisis emerged, London shares tumbled just 3% on November 19.

Could it be that Dubai is flush with foreign direct investments and thus it is too costly to fail? It is indeed a catch-22 position for investors whereby pulling out their investments will only result in further deterioration of their value. The situation can be likened to a case of a shopkeeper who was lending ever-larger amounts of money to an important customer who happens to be an extravagant spender, so that said customer can maintain consumption. Of late, the customer has been signing ever-increasing IOUs and the shopkeeper has decreasing faith in these. However, the shopkeeper cannot sell them so long as he depends on

Advanced G-20 Countries: Prolonged Slowdown Scenario



Note: List of G20 countries (by alphabetical order)
Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, South Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, United Kingdom & United States.

V

Company	Country	Industry	% ownership	Comments
Och Ziff Capital Management Group LLC	United States	Financials	51.40%	Dubai Holding (Subsidiary)
Nasdaq OMX Group Inc	United States	Financials	43.60%	Borse Dubai (Subsidiary)
London Stock Exchange Group	United Kingdom	Financials	20.60%	Borse Dubai (Subsidiary)
China Enersave Ltd	China	Unknown	10.89%	Dubai Group --> Dubai Holding (Subsidiary)
Orient Express Hotels Ltd	United States	Consumer	9.20%	Dubai Holding (Subsidiary)
Marfin Investment Group Holdings SA	Greece	Financials	9.07%	Dubai Group --> Dubai Holding (Subsidiary)
EADS N.V.	Netherlands	Defense	3.12%	Dubai International Capital Investment(Subsidiary)
ICICI Bank Limited	India	Financials	2.87%	Dubai International Capital Investment(Subsidiary)
DaimlerChrysler AG	Germany	Auto	~2%	Dubai International Capital Investment(Subsidiary)

Source: www.swfinstitute.org

Foreign owners of US Treasury Securities (December 2009)

Nation	USD Billion	%
People's Republic of China	894.8	24.3
Japan	765.7	20.8
Oil exporters	207.4	5.6
United Kingdom	178	4.8
Brazil	169.3	4.6
Hong Kong	148.7	4
Russia	141.8	3.8
Caribbean Banking Centers	128.2	3.5
Republic of China (Taiwan)	116.5	3.2
Switzerland	89.7	2.4
All others	848.9	23
Grand Total	**3,689**	**100**

Source: Wikipedia

keeping the customer happy. In Dubai's case, foreign investors play the role of the shopkeeper and the Dubai government is indeed the extravagant spender. The IOUs come in the form of US treasuries, bonds and Islamic financial instruments which are the main element of the foreign direct investments. This is a delicate and dangerous balancing act of a structure of mutual dependence between foreign investments and the Dubai government. Can anyone risk upsetting it?

WHAT DOES IT MEAN?

Governments' hesitation in saving their national champions demonstrates their fiscal limits and proves that no debts are risk-free. The Dubai saga is indeed a nasty wake-up call. It is against this backdrop that we are witnessing the recent surge in government-sponsored stimulus packages and various incentives to spur spending amidst the global financial meltdown. These stimulus programmes coupled with falling tax revenues have in turn resulted in trail-blazing and record-breaking budget deficits which are increasingly funded by external government borrowings. In other words, governments' attempts to emerge from the global economy slowdown are being burdened by heavy external borrowings, usually in various forms of financial instruments. For example, both Greece and Spain are now carrying heavy public liabilities denominated in a currency that they cannot print (the euro), giving rise to the increasingly looming risk of sovereign default. Elsewhere, foreign ownership of US treasuries has been increasing at an alarming rate, with China topping the list.

While the government debt of developing G20 countries have been hovering around the same level over the years, it is the advanced G20 countries' debts which are of concern

Based on a recent report by the IMF, it was estimated that if growth was 1 and 2 percentage points lower in 2009 and 2010 respectively and then gradually converged to baseline growth in 2013, the advanced economies' debt ratios would rise by an additional 12 percentage points with respect to the baseline

Dubai World's debt issue may only be the tip of the iceberg. The varied experiences of emerging and developed economies with over-borrowing in recent years have highlighted the importance of good macroeconomic, financial, and regulatory policies. Unless and until the excesses of the debts are corrected, any government efforts at stimulus are most likely to be ineffective, inefficient and simply expensive, and may only delay inevitable market corrections.

These countries are ranked by their cumulative probability of default (CPD), which is a measure that quantifies the probability of a country being unable to honour its debt obligations over a given time period. For example, if a country has a 20% CPD rating for its five-year bond, this debt has a 20% chance of defaulting in the next five years. ■

Saravanan Ramasamy has a Master's degree in economics from the National University of Singapore. He can be contacted at sr_vanan@yahoo.co.uk

THE WORLD'S RISKIEST SOVEREIGN DEBT

Rank	Country	Cumulative Probability of Default (CPD)	Previous Ranking
1	Venezuela	57.7%	3 (down 2)
2	Ukraine	54.6%	1 (up 1)
3	Argentina	49.1%	2 (up 1)
4	Latvia	30.1%	4 (no change)
5	Iceland	25.4%	5 (no change)
6	Dubai	25.1%	8 (down 2)
7	Lithuania	19.3%	6 (up 1)
8	Greece	17.4%	New entrant
9	Romania	17.2%	New entrant
10	Lebanon	17.0%	9 (up 1)

Source: CMA Data Vision, Sovereign Risk Report

MAJOR FOREIGN DIRECT INVESTMENTS (PRIVATE)

Company	Country	Type	% Ownership	Comments
Travelodge UK	United Kingdom	Subsidiary	100.00%	Dubai International Capital (Subsidiary)
Mauser AG	Germany	Subsidiary	100.00%	Dubai International Capital (Subsidiary)
Chiranjjeevi Wind Energy Ltd	India	Private	40.00%	Dubai Investment Group

Source: www.swfinstitute.org

Corporate FDI Plans on hold for the next two years

"FLIGHT TO SAFETY" LIFTS ADVANCED ECONOMIES IN A.T. KEARNEY RANKINGS, WITH INVESTOR OUTLOOK HIGHEST FOR EMERGING MARKET GIANTS CHINA, INDIA, AND BRAZIL. HALF OF INVESTORS SURVEYED EXPECT TO POSTPONE PLANNED INVESTMENTS DUE TO ECONOMIC CRISIS.

FDI flows will likely remain disappointing through 2011, according to the 2010 A.T. Kearney Foreign Direct Investment Confidence Index, a regular assessment of senior executive sentiment at the world's largest companies.

The Index also found executives are wary of making investments in the current economic climate and revealed that they expect the economic turnaround to happen no earlier than 2011. Half of the companies surveyed also report that they are postponing investments as a result of market uncertainty and difficulties in obtaining credit.

Conducted regularly since 1998 by global management consulting firm A.T. Kearney, the Index provides a unique look at the present and future prospects for international investment flows. Companies participating in the survey account for more than $2 trillion in annual global revenue.

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China remains the top-ranked destination by foreign investors, a title it has held since 2002. The United States retakes second place from India, which had surpassed it in 2005. India, Brazil and Germany complete the top five favoured investment destinations.

Overall, developed economies rose in the Index as investors looked for safety. The most striking exception is the United Kingdom, whose reliance on financial services left it exposed in the current crisis. At the same time, the placement of China, India and Brazil in the top five shows a strong vote of confidence for the strength of these economies. Investors also expressed the most optimism about the future outlook for China, India and Brazil.

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"The results indicate a return to market fundamentals and a flight to quality for corporate executives," said Paul A. Laudicina, Managing Officer and Chairman of A.T. Kearney. "Companies are looking for the antidote to uncertainty and increasingly looking to invest in the near abroad."

INVESTORS POSTPONE INVESTMENTS

The global economic crisis has already had a significant impact on FDI flows and the Index indicates that this will continue. Of the nearly half of investors that indicated plans to postpone their FDI investment, most will do so for a year or more, probably presaging flat FDI lev-

els for the foreseeable future. The main drivers behind these low numbers are uncertainty about market opportunities amid the current turmoil (cited by two-thirds of executives) and difficulty finding financing.

A stunning 72 per cent of investors believe that the Asia-Pacific region will lead the world out of the recession. Only 15 per cent believe that North America will rebound the fastest and a mere six per cent believe that Europe will lead the way to recovery.

Not surprisingly then, Asian investors exhibit more optimism and FDI investment intention than their counterparts from the United States or Europe. Seven of the top 10 preferred investment targets for Asian investors were "near abroad" countries from the Asia-Pacific region.

The emerging market giants China, India, and Brazil are gaining strength out of the crisis, as investors from all regions report strong confidence in their future outlook and see investments to these countries as indispensable to maintain competitiveness in tomorrow's marketplace.

The 25 Most Attractive FDI Destinations According to Corporate Executives:

COUNTRY	2010 RANK	2007 RANK	CHANGE
China	1	1	0
United States	2	3	+1
India	3	2	-1
Brazil	4	6	+2
Germany	5	10	+5
Poland	6	22	+16
Australia	7	11	+4
Mexico	8	19	+11
Canada	9	14	+5
United Kingdom	10	4	-6
United Arab Emirates	11	8	-3
Vietnam	12	12	0
France	13	13	0
Hong Kong	14	5	-9
Other Gulf States*	15	17	+2
Romania	16	-	N/A
Czech Republic	17	25	-8
Russia	18	9	-9
Saudi Arabia	19	-	N/A
Indonesia	20	21	+1
Malaysia	21	16	-5
Chile	22	-	N/A
Turkey	23	20	-3
Singapore	24	7	-17
Egypt	25	-	N/A

* Includes Bahrain, Kuwait, Oman and Qatar

CHINA, INDIA, AND BRAZIL DOMINATE THE INDEX

For the first time, the three major emerging markets—China, India, and Brazil—all ranked among the top four investment destinations as investors expect these countries to continue to deliver growth despite the economic crisis. Investors also reported the highest degree of optimism in the outlook for three countries, with nearly one-third seeing a more positive outlook for China (32 per cent) and India (31 per cent) compared to one year ago, and 22 per cent saying Brazil's outlook had improved. In contrast, investor outlook for the United States was decidedly more negative, with 22 per cent of executives having more negative outlook for the country than a year ago.

China continued as number one in the Index and the distance between it and the next competitor, the United States, is larger than any of the subsequent gaps between countries in the ranking. FDI inflows to China in 2008 grew to $108.3 billion, up from $83.5 billion in 2007, and investment announcements reflect its continued attractiveness. Despite the positive investor outlook, India fell behind the United States to third in the ranking. While investors may have long-term confidence in the Indian economy, in times of economic uncertainty they prefer the more predictable and better-known destination. India scored well across industries and was number one among non-financial services investors, however.

Brazil has been on an upward trajectory since 2004. Having grown robustly despite the severity of the global financial crisis, it has now reached the top five for the first time since 2001.

"The emerging market giants China, India, and Brazil are gaining strength out of the crisis, as investors from all regions report strong confidence in their future outlook and see investments to these countries as indispensable to maintain competitiveness in tomorrow's marketplace," said

Johan Gott, Manager of the FDI Confidence Index.

MIDDLE EAST FARES WELL

Unlike many emerging markets, the economies of the Middle East fared well and investor confidence is even higher than in past years. The top destination in the region, the United Arab Emirates, home to Dubai and Abu Dhabi, held up well in spite of a flurry of negative publicity during the survey period.

"The UAE's number 11 ranking indicates that investors both have grasped the importance of the Middle East and North Africa region with its 500 million consumers and that they expect the Emirates in general, with Dubai as the preferred entry point, to continue to be the leading hub for investments to the rest of region," said Dirk Buchta, A.T. Kearney Managing Director Middle East.

The largest consumer markets in the Middle East, Saudi Arabia and Egypt, entered the FDI Confidence Index for the first time, indicating investors' interest in the increasingly affluent consumers in these countries.

Additionally, "Other Gulf States" (referring to Bahrain, Kuwait, Oman, and Qatar) improved over its performance in the last Index.

EXECUTIVES BRACE FOR NEW CONSUMER PATTERNS AND SUPPLY CHAINS

Despite the economic crisis, executives see some lasting and transformative trends developing in consumption patterns, including increased internet shopping, higher saving rates and thriftier shopping. But, perhaps surprisingly, the most significant shift is expected to relate to increased consumer awareness of sustainability, with 60 per cent of executives citing this as the consumption pattern most likely to endure post-recovery.

"Companies believe that continuous investment in sustainable business practices is not a luxury but a necessity to compete in the future business environment and to deliver broadly on the needs of stakeholders," Laudicina said.

Executive also indicate that global supply chains are under intense scrutiny, with two-thirds saying they have changed their supply chain strategy over the last year. Examples of supply chain changes most frequently cited include relocating production to lower cost locations, investing in better quality and decreasing the number of production locations.

"This global crisis has precipitated the type of global supply chain reassessment that we have not seen since the accelerated globalisation days of the 1990s," Laudicina said. ■

Nazatul Izma

Dr. Paul Pacter (left) and Michael Wells

IFRS for SMEs

GIVEN THAT SMALL AND MEDIUM ENTERPRISES (SMEs) ARE THE LIFEBLOOD OF BUSINESS, IT IS HARDLY SURPRISING THAT INTEREST IN THE INTERNATIONAL FINANCIAL REPORTING STANDARD (IFRS) FOR SMEs IS HIGH.

Over 95% of all businesses in the world are small and medium enterprises, so interest in the International Financial Reporting Standard for Small and Medium Enterprises (IFRS for SMEs) is not surprising.

To ensure that guidance on the standard is properly disseminated, the Confederation of Asian & Pacific Accountants (CAPA), the organisation representing all professional accounting organisations in the region, including the Malaysian Institute of Accountants (MIA), recently held a major international Train-the-Trainer workshop on IFRS for SMEs in Kuala Lumpur. Over 50 leading professional accountancy trainers from 11 countries across Asia-Pacific were in Kuala Lumpur from 20 -22 January and were personally trained by Dr. Paul Pacter, Chairman of the SME Implementation Group and Director of Standards for SMEs, International Accounting Standards Board (IASB) and Michael Wells, Director of IFRS Education Initiative of the International Accounting Standards Committee Foundation (IASCF)

"These are the people responsible for the Standards, so to have them lead the training is a real coup", said Brian Blood, Chief Executive of CAPA. Blood added that the CAPA workshop was "a real milestone for the profession in the region". First, it was the first time in a decade that a Train-the-Trainer programme of this magnitude had been held in the region. Second, the initiative has the support of the Asian Development Bank and attracted many participants from developing and emerging economies, attesting to the deep interest in the standards. Third, this is the first Train-the-Trainer workshop in the world to be presented on the recently introduced IFRS for SMEs.

Training and guidance is especially important for SMEs, which typically lack the resources available to public-listed companies in understanding and implementing new accounting and financial reporting standards. Historically, standards were written for PLCs to meet the requirements of capital markets. Therefore, the people involved in the IASB's due process have been from PLCs, as well as the Big 4. "IFRS can be a culture shock for small

companies, which comprise about 99% of companies in the world. Therefore, we felt obligated to help companies in implementing this standard for SMEs," explained Pacter, who wrote the IFRS for SMEs which was issued in July 2009.


Brian Blood

"The Standard was developed to assist these businesses report high quality financial information in a consistent manner, whilst acknowledging the need to be not overly complex and hence cost effective."

Brian Blood, Chief Executive
Confederation of Asian & Pacific Accountants (CAPA)

Critics argue that the IFRS for SMEs is a stripped-down version of regular IFRS designed for PLCs and other public-interest entities, and thus unsuitable for SME needs. In its defence, Pacter describes the Standard as "tailored for SMEs, designed to meet user needs for cash flow information, costs and SME capabilities. It is simplified IFRSs, but built on an IFRS foundation. The Standard is completely standalone. The only 'fallback' option to full IFRS is the option to use IAS 39 instead of the financial instruments sections of IFRS for SMEs."

How was the Standard simplified? According to Pacter, some topics in IFRSs were omitted if irrelevant to private entities. Where IFRSs have options, only the simpler option was included. There were recognition and measurement simplifications, since this is the bane of fair value accounting, as well as reduced disclosures and simplified drafting.

"The Standard was developed to assist these businesses report high quality financial information in a consistent manner, whilst acknowledging the need to be not overly complex and hence cost effective," Blood agreed. As a result, the IFRS for SMEs weighs in at just 230 pages compared to 2,855 pages in full IFRS. Disclosure requirements have also been simplified. Full IFRS lists more than 3,000 items in the disclosure checklist, while IFRS for SMEs has roughly 300 disclosures. What is kept includes disclosures about short-term cash flow, liquidity, solvency, measurement uncertainties, and accounting policy choices. What was dropped includes disaggregations and public capital market disclosures.

Entities eligible to use the Standard include any entity without public accountability, meaning securities which are not publicly traded and non-financial institutions. Pacter estimated that over 99% of private entities around the world are eligible to use the Standard. Subsidiaries of listed companies can use IFRS for SMEs if the subsidiary itself is not listed. As of mid-January, Pacter estimated that over 40 jurisdictions already planned to require or permit the Standard for entities that do not have public accountability. In comparison, full IFRS are being required or permitted for listed companies in 117 jurisdictions and unlisted companies in 92 jurisdictions. Once adopted or permitted, the IFRS for SMEs will ease the burden of financial reporting for smaller entities in jurisdictions requiring full IFRS of full national GAAP.

A key benefit of the Standard concerns lending. SMEs have been hard-hit by the credit crunch as banks and other financial institutions unnerved by the global recession tightened lending. Enhancing and standardising the quality of SME financial reporting will improve their access to credit and enable these smaller entities to borrow cross-border. "The Standard will support lending based on financial statements and make it easier for vendors to evaluate the finances of buyers and improve access to foreign loans and suppliers. It will also improve their access to equity capital from non-management investors and foreign venture capital," added Pacter.

Knowing these benefits, should the standard be imposed on all small companies, regardless of size? Currently, decisions on which entities are required or permitted to use the IFRS for SMEs rest with legislative and regulatory authorities and standard-setters in individual jurisdictions. Mohammad Faiz Azmi, MASB Chairman, has indicated at forums on convergence that Malaysia will not require the IFRS for SMEs since it would be taxing for small mom-and-pop shops to adopt fair value accounting, albeit a watered-down version. Non-adoption of IFRS for SMEs also does not imply that a jurisdiction is not IFRS-compliant. Malaysia intends to be fully IFRS-compliant by 2012.

Widespread implementation of full IFRS along with the SME standard begets another question: what will happen to national standard-setters, such as the Malaysian Accounting Standards Board (MASB)? Pacter foresees a huge role for national standard-setters as a major participant in due process as accounting standards continue to evolve. "They will provide guidance for implementation and identify implementation challenges," he said.

There will also be major implications for talent and accountancy education and training with the implementation of IFRS for SMEs. Full IFRS would be more burdensome since it would be challenging for education systems to deliver enough trained accountants. The IFRS for SMEs will fill the gap between PLCs and micro-companies, and will require more accounting technicians, which is an area already being targeted by developing countries.

Taxation systems too will have to be revised to cope with the new IFRS for SMEs once implemented, to avoid further burdening small businesses with compliance and documentation issues arising from non-IFRS compliant tax laws. ■

IFRS Implementation: A SYSTEMS VIEWPOINT

K. Raman

While moving to IFRS will make life easier for analysts and investors in comparing and analysing the financial health of global companies, the transition will cause challenges for accounting and finance staff who must report results in local GAAP and IFRS during the transition period. To counter these challenges, a four-phased approach using key technologies will ensure a successful transition to IFRS.

IFRS has already been widely accepted as the global accounting standard by accounting bodies around the world. Since its official launch in 2005, many countries in Europe have migrated to IFRS standards. The wave of IFRS adoption is still going strong and countries in Asia have announced their commitment by fixing their own adoption deadlines. The U.S. is also going through the process of changing its domestic accounting standards based on IFRS requirements. Locally, the Malaysian Accounting Standards Board (MASB) has announced full compliance with IFRS by the deadline of 1 January 2012 via a phased adoption approach.

As Malaysia heads towards full compliance, Malaysian companies listed on KLSE are expected to retrospectively apply IFRS standards to their previous fiscal years for comparative purposes. Therefore, it is critical for KLSE companies to fully consider compliance now and not wait until 2012, which would be too late because IFRS is not something that can be implemented within a short period of time. It requires full synchronisation of people, process and systems, and it is crucial that the implementation plan is carefully mapped out.

It is important for Malaysian companies to fully think through the effort needed to implement IFRS. For example, a system that is flexible and able to adapt to ongoing changes will be the most suited for IFRS needs. From the systems perspective, IFRS implementation doesn't mean the existing system has to be completely replaced.

When shopping for an IFRS solution, companies should ensure that their system fully satisfies all aspects of the requirements including subsidiaries, financial data quality management and evaluation, and consolidated disclosure. Ideally, the solution should enable companies to maintain existing processes as much as possible and to implement IFRS policies with consistency based on an integrated platform.

BEST PRACTICES: A FOUR-PHASED APPROACH TO IFRS ADOPTION

The following four-phased approach to adoption is recommended to facilitate the transition process. Each of these phases should be monitored and controlled to ensure compliance with company policy and internal control policies.

PHASE 1

Study Impact and Determine Strategy

The first step is to evaluate IFRS with respect to current financial reporting policies, practices and technologies to identify differences and software upgrade strategies. Companies in this phase are hiring and training as well as engaging with professional services firms. This process typically takes weeks or months to complete.

PHASE 2

Enable Top-End Reporting

Because many of the IFRS-impacted accounts are "headquarters-only" accounts - for example, share options, intangibles, tax reserve accounts, pensions, financial instruments, etc. – the solution should be able to handle a majority of the IFRS accounting on a "top-end" basis. Given the probable requirement for 2011 IFRS closing balances, the best practice recommendation for top-end reporting is to run parallel throughout 2011 so that IFRS financial statements can be reviewed and approved internally prior to 2012. Starting in 2011, companies would start building their prior-year IFRS history so that when the first 2012 reporting date arrives, they are ready to go with all prior periods under IFRS.

From a technology standpoint, the best practice here is to leverage best-of-breed financial consolidation applications that can collect financial results from multiple general ledgers using different accounting standards. These applications support the necessary adjustments and audit trails to consolidate under multiple standards such as IFRS and local GAAPs, and also handle the reporting and reconciliation requirements.

PHASE 3

Record Transactions in Both GAAPs

IFRS accounting for certain accounts is best handled in the underlying subsystems. For example, companies moving to IFRS typically need to break-down or "componentise" a single asset like a building into multiple asset types, such as building versus HVAC equipment versus elevators/escalators, etc., before assigning each with a different useful life or fair value. They will then want to consolidate the individual asset types for a single view of the total building. Multi-GAAP fixed asset books are the best practice approach in these cases – they can recognise component-specific depreciation based on fair value concepts or traditional

straight line depreciation on the total building in compliance with local GAAP in a simultaneous fashion. Typically, customers will want to activate multi-ledger accounting in 2011, run parallel for a few quarters, and then begin storing the IFRS alternative accounting in 2012.

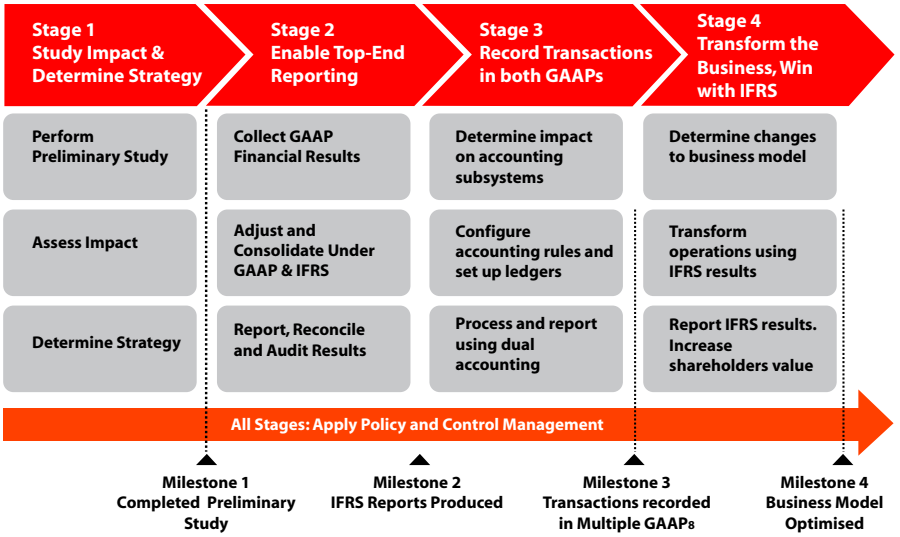
PHASE 4

Transform the Business, Win with IFRS

Once top-end and transactional reporting has been resolved and understood, management can begin to leverage IFRS to possibly help transform the business.

Based on the conversion process in Europe, many companies' results were quite different under IFRS. Deals are structured to reflect the way in which their results are measured, and will be restructured to reflect IFRS valuation. New product development, for example, might be capitalised. Leases might be rewritten either as financing or as monthly rentals. Customers will also look to optimise their IT and accounting systems in a world sharing reporting standards.

Throughout all four phases, customers will need to track and monitor compliance with the new regulations. They will benefit from a single documentation repository for all financial policies and procedures, date-effective audit trails that track the "who, what and when" of changes to internal controls, and automated controls monitoring to ensure ongoing compliance with policies and procedures. The key technologies for supporting a successful, phased transition to IFRS include:



1. Robust financial consolidation applications for multi-GAAP, top-end IFRS reporting
2. Global transactional accounting systems with multi-GAAP sub-ledger and general ledger accounting
3. Governance Risk and Compliance applications to manage changes to policies and enforce internal controls

To reiterate, some Malaysian companies might be delaying their IFRS implementation efforts thinking that there's ample time for them to converge. There's no time to lose. Companies who get ahead of the issue by investing in training and technology now could gain significant competitive advantage down the road. Like it or not, a new era of global accounting is upon us and businesses that ignore the IFRS – and the implications on systems and solutions - will fall behind. ■

K. Raman is the Managing Director of Oracle Corporation Malaysia. Oracle has one of the most widely used IFRS solutions around the world. Oracle's IFRS solution fully satisfies all aspects of the requirements including subsidiaries, financial data quality management and evaluation, and consolidated disclosure. Oracle's solution enables companies to maintain existing processes as much as possible and to implement IFRS policies with consistency based on its integrated platform.

UNDERSTANDING Financial Instruments

Dr. Hassan Ali

Many entities are still reeling at the prospect of understanding the financial reporting standards affecting financial instruments since its full adoption recently. There are now over 500 pages of rules and guidance on financial instruments promulgated in three different standards where five years ago there were less than 70 pages.

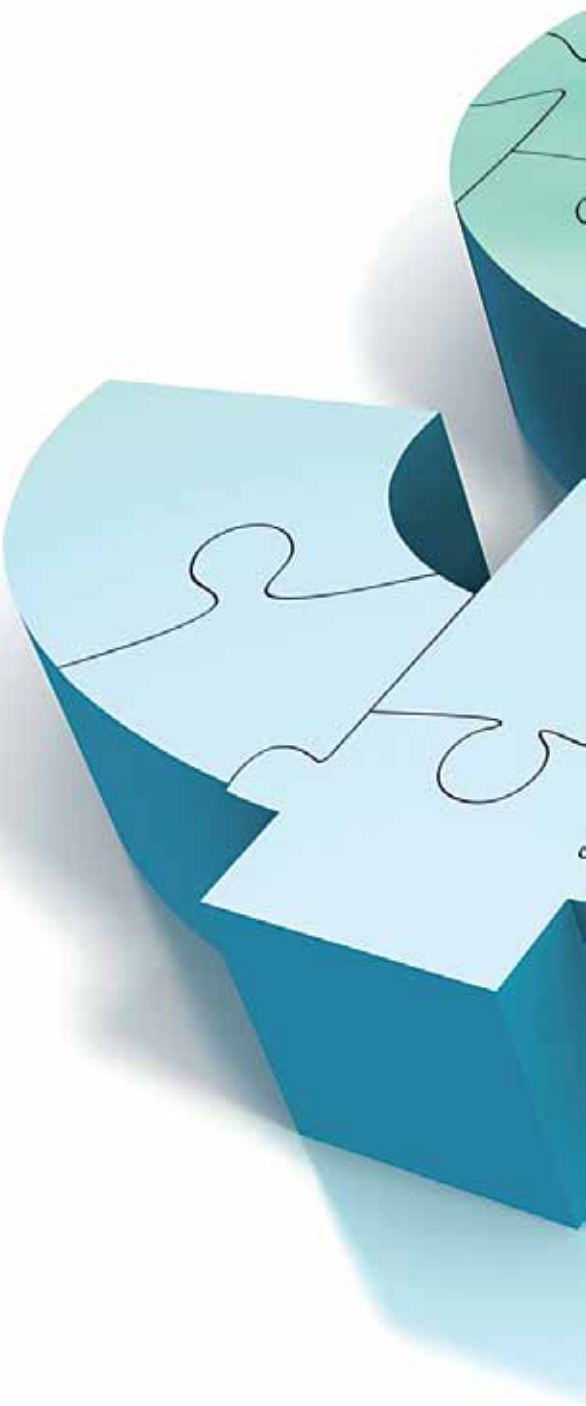
Understanding the standards require practitioners to view the entire three standards from a holistic point of view while appreciating MASB's strategy towards adopting the fair value reporting approach, which is the thrust of FRS 139 Financial Instruments: Disclosures and FRS 132: Financial Instruments: Presentation. It helps practitioners to be aware of the issues pertaining to the application of fair value measurement, changes to the measurement of debts, and the disclosure requirements.

To begin with, it is important to note that each of these standards has their own set of objectives. FRS 132 provides guidelines on the recognition of financial instruments from the perspectives of the issuer such as dividends, related interests, gains and losses; and rules governing the offsetting of financial assets and liabilities. FRS 139 aims to measure such instruments and include non-monetary items. FRS 7 focuses on the disclosure requirements that include 68 pages of extensive guidance on the scope, basis of conclusions and the extent of disclosures relating to risk. In understanding financial instruments, there are thus three major areas of concern:

- **determining the fair value**
- **implications on debt modification and financial guarantee contracts**
- **the extent of disclosure requirements prescribed under FRS 7**

DETERMINING THE FAIR VALUE

The approach towards financial instruments has always been guided on the principle of fair value measurement. There is a general perception that most financial instruments can be reliably measured in an active market and thus the measurement should be relatively simple. An active market is defined as a market based on the homogeneity of the items, the presence of willing buyers and sellers, and the need for the prices to be publicly available (FRS 141, para 8). Examples of active markets are stock exchanges, regulatory agencies or industry groups. If none exists, the next hierarchy would be the use of valuation techniques. The standard does not prescribe specifically the type of valuation models that should be used except the need to ensure that it is "consistent with economic methodologies for pricing financial instruments" and "commonly used by market participants to price

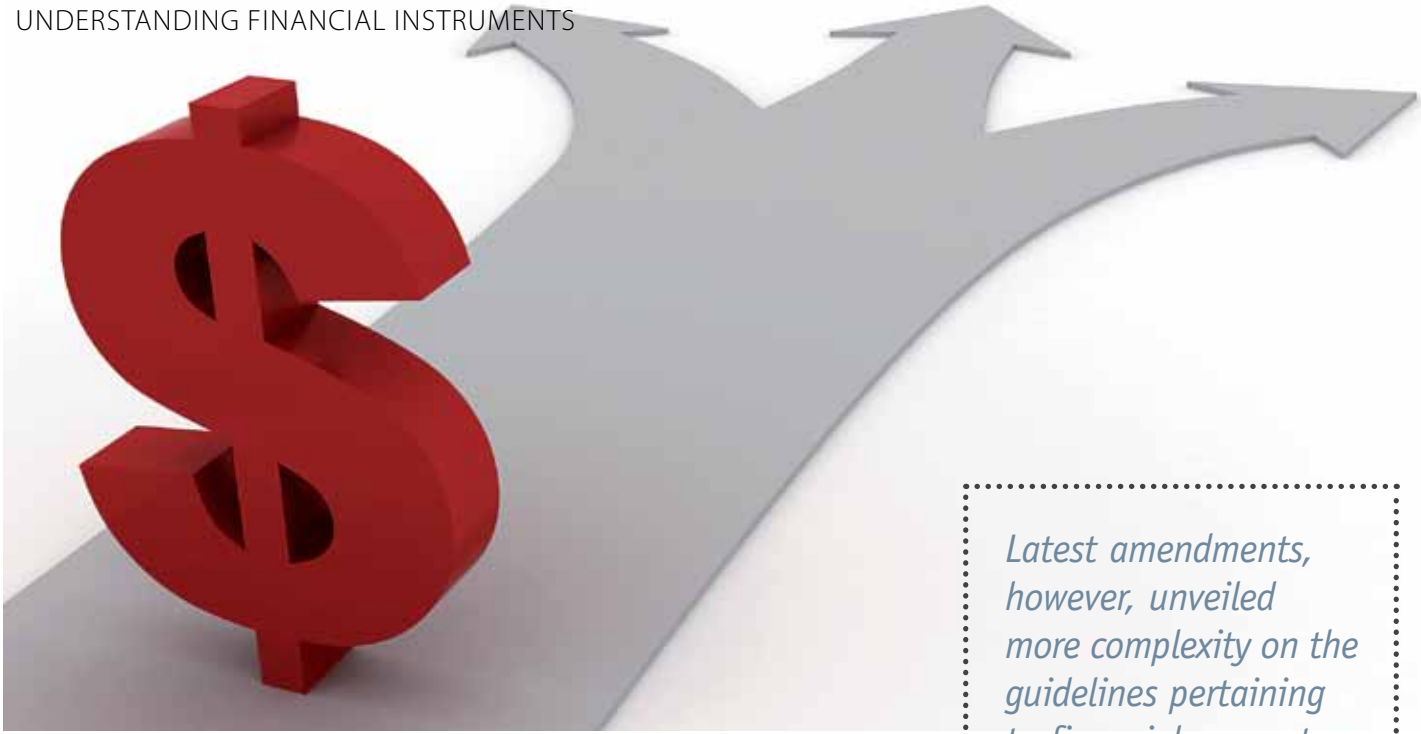


When an entity changes the terms of their debt agreements, it is important to determine whether it has been modified or derecognised. This requirement has unforeseen accounting implications for many organisations. Even if the entity retains the right to receive the cash flow but still assumes the obligation to pay the cash flow to another recipient, then derecognition is deemed to have taken place (FRS 139, para 17 [b]).

the instrument and that technique has been demonstrated to provide reliable estimates of price" (FRS 139, AG74). The challenge for most entities is to obtain the market data to input into the model. If no market data is available, other data from similar assets are allowed to be used. Once a valuation model is applied, it should be calibrated regularly with the current market transactions to ensure consistency. The market data should take into consideration important factors such as the time value of money, credit risks, prepayment risks, commodity prices etc. Entities should, however, be careful when claiming that a financial instrument cannot be valued. Instruments can also be measured by other means such as through business combination, payment to third party through equity instruments and dividends or bonuses paid to employees.

DEBT MODIFICATIONS

Under FRS 139, removing a financial liability from the balance sheet is only allowed when the obligation is being derecognised. In simple terms, derecognition occurs when the cash flow from the financial asset expires or are transferred. When an entity changes the terms of their debt agreements, it is important to determine whether it has been modified or derecognised. This requirement has unforeseen accounting implications for many organisations. Even if the entity retains the right to



receive the cash flow but still assumes the obligation to pay the cash flow to another recipient, then derecognition is deemed to have taken place (FRS 139, para 17 [b]). To determine whether it has been modified or derecognised, there are many factors that need to be considered. These factors can be categorically divided into either qualitative or quantitative. Quantitative factors should include the analysis on the transfer of risk and rewards of ownership, the net discounted cash flow, the volatility of future changes in the instrument and servicing costs. Qualitative factors include an analysis on the credit and prepayment risk, foreign currency exchange prices and debt covenants. If there has been a significant change in the debt because of the qualitative or quantitative analysis, then a debt derecognition has occurred. If not, there is a debt modification.

Derecognition requires the elimination of the original debt including the removal of any gains or loss and creation of liability. If the instrument is part of a hedging relationship, the entire hedging must be discontinued as the relationship no longer exists. Any unrealised gain or loss arising from the discontinuation of the hedging will be recorded in the profit or loss account together with the gain or loss of the financial instrument.

FINANCIAL GUARANTEE CONTRACTS

Entities would be forgiven if they thought that any additional amendments on the measurements affecting financial instruments would be easier. Latest amendments, however, unveiled more complexity on the guidelines pertaining to financial guarantee contracts. A financial guarantee contract is a contract that requires the issuer to reimburse the holder for a loss it incurs because the debtor fails to make payment in accordance to the terms of the debt instrument (FRS 139, para 9). In simple terms, the standard now requires the issuer of the guarantee contract to recognise financial guarantees as liabilities on the balance sheet. This is a major departure from previous application that allows it to be classified as contingent liabilities. For example, if a parent entity decides to guarantee any payment to a supplier for goods purchased by its subsidiary, the parent would need to disclose such guarantee as a liability and no longer a contingent liability.

The initial recognition on the measurement of financial guarantee liability is based on its fair value which is equal to the amount of premium, computed based on the prevailing interest rate. As with other financial instruments, subsequent measurements involve measuring it at amortised cost using the effective interest rate method (FRS 139, para 47), unless the guarantee is called upon

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or is likely to be called. In which case, it is measured based on the provision under FRS 137, Provisions, Contingent Liabilities and Contingent Assets.

DISCLOSURE REQUIREMENTS UNDER FRS 7

The extensive disclosure requirements under FRS 7 became necessary as a consequence of the increasing sophistication of financial instruments. The requirements are broadly categorised into three major areas – significance of instruments; nature and extent of risk; and hedge accounting. The extent of disclosures depends on the 'entity's use of financial instruments and of its exposure to risk'. It requires entities to provide information on the exposure to risk and how those risks are managed. Usually, information that describes an entity's risk exposure is prepared through internal management reports and is not publicly available. With the introduction of FRS 7, entities are now compelled to disclose the extent of risks involving credit, liquidity and market risk. It also requires the entities to prepare a sensitivity analysis on each type of market risk it is exposed to at the end of the reporting period. A sensitivity analysis can be a formula used to gauge the co-relation between risk variables such as interest rates and exchange rates to manage the financial risk.

FRS 7 is designed not only for financial institutions but all entities in Malaysia including parent entities or entities that are part of a consolidated group. Since its adoption this year, entities must be aware that the comparative prior period is required; thus, the need to ensure that such information is available.

Undoubtedly, the recently adopted standards on financial instruments present a challenge to most Malaysian entities because of their complexity and extensive disclosure requirements. The standards contain mostly rules-based prescriptions aimed at guiding entities towards fair value reporting. The issues discussed here barely scratch the surface of the complexity surrounding financial instruments. There are many other areas within the standard that are highly analytical and require a thorough understanding to ensure full compliance. Entities should now prepare themselves by understanding the key requirements, and if in doubt, seek early help from experts. ■

The writer is an Associate Professor at the Graduate School of Business, Universiti Sains Malaysia. He can be contacted at hasanali@usm.my

AUSTRALIA: Audit firms can't verify findings

One in five audits conducted by the nation's major accounting firms delivers an opinion that the auditor cannot verify, according to a review by the corporate regulator that calls for broad improvements in practices, reports *The Australian*. The newspaper said an inspection of auditors by the Australian Securities & Investments Commission (ASIC) has detailed systemic problems within the sector, including a widespread failure of auditors to perform "mandatory" procedures. It said ASIC reviewed 95 audits conducted by 19 major Australian firms categorised as "national" or "network" firms. Of the audits conducted by national firms -- global firms with national partnerships such as the big four accounting firms -- one in 10 did not hold sufficient audit evidence to support all "key conclusions" made by the auditor. The report added that for "network" firms -- those firms operating as individual offices under the banner of international brands -- a massive 30 per cent of audits failed to support key conclusions. There (are) cases where the necessary audit evidence and analysis to support the audit opinion was not obtained or performed. There may be no material misstatement in the audited financial report, but if evidence and analysis are not obtained or performed, the auditor does not have a basis for their opinion," the report says. ASIC, the newspaper report added, noted that the global financial crisis had raised more concerns about the conduct of auditors but "Australia's audit regime compares well internationally". It went out to quote CPA Australia Chief Executive Alex Malley as saying ASIC's report was a "cause for concern". "The report highlights that documentation needs to be improved and that's something CPA Australia has identified in its own quality assurance reviews. "Further work is being done on the development and enhancement of auditing and accounting standards and the profession is collaborating globally on an unprecedented scale to improve the processes," Malley said. It noted that ASIC did not disclose which accounting firms it investigated under the programme and that consumer groups have accused ASIC of failing to enforce penalties that are sufficient to deter auditors from breaching obligations. In one of the biggest cases against major auditors in recent years, the report said ASIC in August last year banned three KPMG partners from acting as auditors after an investigation into the 2005 collapse of the $300 million Westpoint property empire. The penalties enforced by ASIC -- which included temporary auditing bans for the men of between nine months and two years -- were seen as light, given the weight of ASIC's allegations, it added. ■

INDIA: Cabinet set to consider Bill on acts governing accounting work

Professionals such as chartered accountants and company secretaries would finally be able to reap the benefits of the new form of business entity, Limited Liability Partnership, as the government is likely to put before the Cabinet the Bill for amending the acts governing these professions. The amendment would pave the way for the insertion of the new business entity in the acts governing the three professions — chartered accountants, company secretaries and cost and works accountants, reports *ENS Economic Bureaeu*. The amendment Bill for the Chartered Accountants Act, 1949, the Company Secretaries Act, 1980, and the *Cost and Works Accountant Act, 1959,* is likely to be presented before the Cabinet so that LLPs, introduced last year, can be recognised by these acts, the report added. It noted that the amendment comes at a time when the Finance Bill, 2010, has laid down the taxation rules for conversion of companies and firms into LLPs. More entities are expected to be interested in it as the conversion would not attract capital gains tax. As of now, if a firm or a company wants to convert into an LLP, it has to pay capital gains tax as the transfer of assets is considered to be a sale. LLP is a hybrid of partnership and companies in the sense that it has characteristics of both these entities. The main advantage of an LLP is that the liability of a partner is limited to the extent of stake held by him in the LLP. Also, there can be unlimited number of partners in an LLP. As of today, there are 994 registered LLPs in the country, the report said.■

UK: PwC warns of need to prepare for new accounting practices

The financial reporting arrangements of local authorities will be affected by the introduction of new accounting practices, it has been claimed. *Birmingham Post* reported that PricewaterhouseCoopers partner and assurance expert Andy Hammond warned councils of the potential impacts of the International Financial Reporting Standards (IFRS), which must be used to prepare financial statements from next year. He said it is vitally important that local authorities begin to adopt the new reporting standards as soon as possible, helping to ensure that problems are avoided with their 2010-11 accounts, according to a report at *Accountancy News*. The report quoted him as saying: "Moving to IFRS can be a major project and will affect all areas of an organisation, not just the finance department. Our experience from other parts of the public sector which have already converted to IFRS, is that the task is not to be underestimated." Hammond added that failure to make a successful transition to IFRS could cause "significant reputational damage" to individual local government authorities. The International Accounting Standards Board is responsible for governing the International Financial Reporting Standards. ■

EUROPE: Small firms slam 'deceptive' EU accounting plans

EU's plans to exempt smallest firms from having to draw up annual accounts came under fire from a leading European small business group claiming it will distort the internal market without cutting red tape. The European Parliament voted on 10 March to allow national governments to make "micro-companies" exempt from EU accounting rules, reports *EuroTiv*. It said firms will still have to keep records of their business transactions and the implementation of the proposal will be left to the discretion of individual member states. The Parliament said the exemption would primarily apply to local businesses with fewer than 10 employees, the vast majority of which are not engaged in cross-border trade. The plan has already caused consternation among governments and received a mixed response from business groups when it was initially floated by the EU executive, the report added. Andrea Bernassi, UEAPME's general-secretary, said the move is unlikely to live up to MEPs' claims that it can save money for companies, but will "decrease transparency and create an uneven playing field between businesses operating in different member states". Firms will still have to file accounts for national administrations, banks, suppliers and customers, he said, casting doubt on suggestions that small businesses will face less red tape. The European Small Business Alliance (ESBA) welcomed the decision and called it the "first real EU effort specifically aimed at micro-businesses". The measures approved by MEPs will help governments meet the target of reducing administrative burdens by 25%, said the ESBA. ■

IFAC NEWS

THE IFAC UPDATE PROVIDES SUMMARIES OF IFAC DEVELOPMENTS OVER THE PAST MONTH.

IFAC LAUNCHES NEW AND IMPROVED PUBLICATIONS AND RESOURCES WEBSITE

(New York/March 9, 2010) - The International Federation of Accountants (IFAC) has launched a newly redesigned and expanded Publications and Resources website, featuring over 200 titles developed by IFAC and its standard-setting boards and committees. This new site improves the user experience through enhanced navigation and features, including links to recommended publications based on user's selection.

The website includes the following broad range of pronouncements and resources:

- IFAC policy position papers and special reports;
- International standards on auditing and assurance, accounting education, ethics, and public sector financial reporting developed by IFAC's independent standard-setting boards;
- Good practice guides on corporate governance, sustainability, and other topics of interest to professional accountants in business; and
- Videos, presentation slides, guides to assist small and medium accounting practices, and other tools and resources to facilitate the adoption and implementation of international standards.

Visitors will experience enhanced functionality and interactivity with the addition of a search engine to facilitate user search and retrieval of specific resources of interest. Located on the homepage, a listing of the most recent and most popular publications, along with links to recommended publications, helps professional accountants find publications that are relevant to the work they do. Explore all the new features and download IFAC publications and resources for free by visiting the website at *web.ifac.org/publications*.■

IAESB ISSUES CONSULTATION PAPER ON COMPETENCE REQUIREMENTS FOR AUDIT PROFESSIONALS

(New York/March 12, 2010) - The International Accounting Education Standards Board (IAESB) will be revising International Education Standard (IES) 8, Competence Requirements for Audit Professionals, and strongly encourages organisations and individuals to comment on proposed revisions. Comments can be submitted through the IAESB's newly issued Consultation Paper, which can be found online at *www.ifac.org/Guidance/EXD-Outstanding.php*.

IES 8 is one of eight standards that addresses the principles of learning and development for professional accountants. The IESs prescribe good practice in learning and development for professional accountants and should be incorporated into the educational requirements of IFAC's membership body, which is comprised of professional accountancy institutes from around the world. The IESs are also considered relevant to stakeholders interested in the education and development of professional accountants and audit professionals, such as public accounting firms, regulators, and employers.

The IAESB is seeking guidance on a number of issues, including IES 8's target audience, the knowledge and skills required to work as a competent audit professional, and the advanced-level competences required by audit professionals.

"We want to make IES 8 clearer and more readable, and reduce ambiguity about the requirements imposed on IFAC member bodies," said Mark Allison, IAESB chair. "In revising IES 8 and developing implementation guidance for this standard, we intend to ensure consistent application, assist in its adoption, and facilitate international implementation."

The IAESB's objective in revising IES 8 is to:

- Implement a revised structure that clearly sets out the objective of the IES;
- Clarify obligations imposed on IFAC member bodies;
- Eliminate ambiguity about the requirements;
- Improve the explanation and guidance to support consistent application of IES requirements; and
- Ensure consistency with the other IESs.

The IAESB encourages IFAC members, associates, and regional accountancy bodies to promote the availability of this Consultation Paper to their members and employees. ■

IAASB WELCOMES NEW AUDITING RESEARCH INITIATIVE

(New York/March 16, 2010) - The International Auditing and Assurance Standards Board (IAASB) looks forward to findings from four new auditing research projects announced by the Association of Chartered Certified Accountants (ACCA) and the International Association for Accounting Education and Research (IAAER). ACCA, which is funding the project, the IAASB, and the IAAER are committed to supporting this initiative as it will help to inform debate within the profession on a range of important subjects relating to auditing and assurance, and thereby contribute to public confidence in financial reporting. Through conducting this research, ACCA and the IAAER seek to contribute to the development of the assurance profession around the world and the quality of the standards underpinning the services they provide. The research is expected to provide insights into matters of relevance to the IAASB.

Research topics have been selected in the following four areas:

- International consistency and convergence in the application of auditing standards;
- The implications of eXtensible Business Reporting Language (XBRL) for audits of, or other assurance services on financial statements;
- The use of risk-based audit methodology by small- and medium-sized practices; and
- The nature of professional judgement in auditing.

"We welcome this research, as we expect it to make a contribution to the implementation and application of international standards and our future standard-setting decisions," said IAASB Chair Arnold Schilder. "This initiative aligns with the IAASB's ongoing agenda for innovation within the field of auditing and assurance and our efforts to further our understanding of international developments, including the needs of those using our standards."

The research, which will be conducted by international teams from Australia, Germany, the Netherlands, the U.K., and U.S., will be presented in stages. Research designs will be presented at the International Symposium on Audit Research this summer. Interim research findings will be presented in the spring of 2011, and final results will be available in October 2011.

Further information on the research projects can be found on the websites for ACCA *(www.accaglobal.com)* and the IAAER *(www.iaaer.org)*. ■

Mastermind your people strategy

Chris Roebuck

IN A BUSINESS WORLD DOMINATED BY A NEED TO MAXIMISE PERFORMANCE, MINIMISE COSTS AND RISK AND DELIVER THE BEST CUSTOMER SERVICE, EVEN THE BEST FINANCIAL MANAGEMENT TOOLS WON'T DELIVER SUCCESS WITHOUT THE EFFECTIVE MANAGEMENT OF HUMAN CAPITAL.

The effective use of an organisation's human capital isn't just a problem for CFOs trained in handling complex financial data; it is an issue for everyone on the Board. All the top teams need to think about how to create an environment in which everyone gives their best and aligns it to what the organisation needs to do. People are the asset that doesn't sit on the company's books at night; it goes home and has the option of whether to come back the next day, and even when it is on the premises it has an option as to how well it performs.

Many organisations leave the strategic management of human capital to HR departments. Often the presence of a few visible strategic HR initiatives lulls the CEO to assume, incorrectly, that the business is maximising the human capital return. In many cases the strategy may be in place but the delivery doesn't happen effectively. There needs to be a proactive human capital strategy to turn the potential into bottom line results.

It begins with the CEO, CFO and the rest of the top management, supported by the HR director. HR as a whole is only there to provide technical advice and support, not to take action.

MAXIMISING RETURN ON INVESTMENT

The objective of a human capital strategy is to maximise the return on investment in the human capital of the organisation, to impact the bottom line in the best way possible.

You achieve that by making sure that all your people are better motivated, more engaged, supported, skilled, customer-focused and qualified than your competitors' people. This requires the CEO, CFO, other senior management and human resources (HR), all acting as hands-on, proactive champions, to make it happen - driving and communicating down to the line managers who will then make it happen through their people.

A senior management team that shows true, on the ground, day-to-day leadership creates the potential to improve employee engagement and productivity significantly.

CFOs have not traditionally been involved in the development of human capital primarily because their early professional training tends to make them more likely to focus on numbers than people. Sadly, that professional training will probably not have included understanding the potential of human capital returns and how to realise them. An Accenture study found that 46% of CFOs felt they had little understanding of the benefits of human capital management, 30% rated themselves as having a modest understanding and 16% a good understanding. As a consequence of this, many CFOs feel that it is not their place to get involved with the human capital side of the business.

Furthermore, because human capital investment and the associated time lag to deliver a return is often not in line with the traditional cycles of annual financial and corporate planning processes, it is often perceived as a distraction to real business activity.

SOFT AND CUDDLY?

Additionally, visible, concrete benefits from human capital initiatives are difficult to link to specific financial results using traditional financial measures, so they seem to fall outside the comfort zone. So in reality it's not surprising that most CFOs feel it's safer to leave these 'soft and cuddly' projects to the HR

director.

But no true professional CFO can afford to neglect this area because today the business case for driving the people agenda is beyond dispute; it links directly to share price and other key financial measures. Indeed, some corporate researchers estimate that up to 70% of share price is now derived from intangibles. Key elements of these are made up of brand, strategy, and current and future leadership capability, the success of which is determined by the quality of human capital management.

A senior management team that shows true, on the ground, day-to-day leadership creates the potential to improve employee engagement and productivity significantly. According to a Towers Perrin study of major companies, the 50 firms with the highest levels of employee engagement (defined as those where 70% of staff say they are engaged) showed operating income improvements of up to 20% over a year. Conversely, in firms with low engagement (under 70%), operating income fell by a third.

In terms of other benefits, studies reveal:

- Top-tier leadership development organisations outperform their peers in total shareholder return (TSR) by 10% over a three-year period.
- This means the average organisation (£2 billion market cap) increases market capitalisation by approximately £200 million due to development and talent.
- Low leadership quality organisations lose about 6% on TSR and about £110 million on market capitalisation.
- Top quartile performing companies have a higher focus on developing leadership than bottom quartile companies.
- Companies with stronger leadership development systems have ROE and profit up to 7% higher than competitors.
- 85% of top performing companies hold their leaders accountable for developing talent.
- There is a direct link between good succession planning and shareholder return. (Sources: CLC, Hewitt, McKinsey, DDI)

Six essential elements for an effective human capital strategy

1. FIND COST EFFICIENCIES

Costs are minimised by employees constantly thinking about helping the organisation save cost. Recent studies point out that over two-thirds of highly engaged employees think they can make a positive impact on their organisation's costs and efficiencies, while just 19% of disengaged staff felt the same.

2. MINIMISE RISK

Ensure that potential regulatory, legal or financial risk is minimised together with the loss of key personnel and damage to reputation. Increasing engagement can reduce the risk of the loss of key staff by up to 87%. Reputational risk management can be delivered through an effective 'moral compass' as part of the organisation's culture.

3. ALIGN PERFORMANCE

Ensure that the effort made by people is aligned to a small number of critical deliverables rather than a wide range of general outputs. Lack of clarity about key objectives is a common reason for poor delivery.

4. IMPROVE PERFORMANCE

Ensure that people perform at their best to deliver more at better quality in the same time. Good leadership by line managers can increase discretionary performance by up to 30% and increase staff engagement.

5. DELIVER BEST CUSTOMER SERVICE

Activity should be aligned with delivering the best possible service to customers. All teams, irrespective of their position, identify how they can contribute to delivering this. Where possible, customers are involved in the organisation's decisions about products and services and give feedback on performance.

6. INNOVATE CONSTANTLY

Always look for opportunities in the market for new or disruptive offerings.

But such financial success will only come if the CEO, CFO and other senior managers lead this process and drive it forward as a key, non-negotiable business requirement. This means CFOs setting an example in their own areas with their own teams.

The strategy should focus on six key areas of organisational performance (see left). But is everyone doing something about it? The answer is no, hence the opportunity to beat the competition. One study by the Corporate Leadership Council showed that 54% of those questioned thought that it was vital for managers to develop people on the job, but only 24% said that senior managers do this well.

However, they emphasised something more important: 'The example senior management sets influences everyone else'. Where organisations get these six factors (or even two or three of them) wrong, the consequences can be extremely costly in terms of lost potential profit. Everything, from the content of initiatives to communication from senior management and what people are rewarded on, must be aligned to deliver on the six key areas and be directly linked to the corporate objectives, vision and values.

CRUCIAL ROLE FOR THE CFO

It is only by ensuring that the human capital in the business is aligned with the overall objectives that real, ongoing corporate performance can be realised. Study after study shows that getting these basics right leads to ongoing world class performance. But if this agenda is treated as an HR issue and not a strategic business issue, then everyone below senior management level will draw the conclusion that it's not important and the benefits will never be realised. In all this, the CFO can play a crucial role, linking with human resources to develop and review the critical areas and to create a strategy and objectives to deliver improvement, making a business case for the CEO to champion the human capital (HC) strategy into the business as the 'people and

performance strategy'.

The CFO should also ensure that the HR department (HRD) has sufficient resources to facilitate the human capital strategy programme – particularly in having enough business-facing relationship managers per employee to facilitate the required changes. HR needs to step up and deliver transformational support as well as transactional services. This will, of course, depend on the degree to which a business has outsourced its HR transactional services.

The CFO's role in providing management data to senior management in conjunction with the HRD to monitor and fine tune the implementation of the human capital strategy is also vital. Indeed, the CFO's involvement underscores both the viability and the legitimacy of the process. The CFO is also likely to have experts who may be able to help HR deliver more effective metrics on human capital performance.

A CFO is also the leader of the financial community in the organisation. However, often CFOs who have followed a traditional career path haven't had much opportunity, or need, to develop people skills and leadership skills. But in creating, championing and being an active part of the process, CFOs need to develop excellent leadership skills. To do this, CFOs need to devise a personal strategy to enable them to develop their leadership skills further. There are many quick, simple and effective ways that even the most 'technical' CFO can become a competent leader.

MEASURING PERFORMANCE

As far as seeing a return on this type of investment goes, and using some or all the activities suggested, there could be a measurable benefit within six months of implementation - others will take longer. For example a mentoring programme for a key group of people or good leadership development programmes for line managers certainly should produce positive data within six months and then ongoing from there. Some of this return may not be demonstrated by specific, measurable financial data, but by data that will indicate a business performance improvement has occurred. New business initiatives or cost savings often rapidly come to the surface.

Examples of data that could be useful are:

- group retention figures
- promotion rates of developed groups versus control groups which are not yet developed
- 360-degree feedback
- level of new business ideas and their outcomes
- employee engagement figures
- employee focus groups, all targeted at finding cost savings or innovations
- attitude surveys
- brand perceptions from customers, clients and potential employees.

The CFO must play a crucial role in maximising the potential of HC, working with the HR director and the CEO, leading the finance function, and providing a positive example from senior management in the organisation. It will take hard work, it will take time but the returns on the organisation's human capital will be seen on the bottom line. More than that, the CFO will have made a real difference to the organisation and grown not only as a finance professional but as a business leader as well. ■

Chris Roebuck is a visiting professor of leadership at Cass Business School, London and former global head of talent for UBS.
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HIRE ME!

A new employment deal?

THE RECESSION HAS FUNDAMENTALLY ALTERED THE STRUCTURE OF THE EMPLOYER-EMPLOYEE CONTRACT AND LEFT A TRAIL OF INSECURE EMPLOYEES IN ITS WAKE, REPORTS THE **TOWERS WATSON** GLOBAL WORKFORCE STUDY 2010, A SURVEY OF MORE THAN 20,000 PRIVATE SECTOR EMPLOYEES IN 22 MARKETS TO GAUGE EMPLOYEE ATTITUDES AND ENGAGEMENT.

The worst of the recession may be over, but its impact on the workforce and employment looks to be deep and long-lasting, according to the results of new research from global professional services company Towers Watson.

The Global Workforce Study – a survey of employee attitudes and workplace trends – confirms that the recession has fundamentally altered the way employees view their work and leaders, while significantly accelerating changes to the basic social contract that underpins employment.

In stark contrast to earlier Global Workforce Studies, the 2010 results – which covered 20,000 employees from private sector organisations across 22 countries – demonstrate employees have dramatically lowered career expectations. Advancement now takes a back seat to a desire for workplace security and stability.

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Some 62% said they are willing to put a great deal of effort beyond what is normally expected to help their organisation be successful and only 12% are actively looking for another job. However, only 39% believe their senior leaders are trustworthy and 30% believe their organisations did not treat their employees fairly in the last 12 months.

Cost, risk and responsibility for employees' financial security, well-being and career development has shifted further to the individual. The Towers Watson survey shows that on a rational level most employees understand this change but they do not feel fully equipped to deal with it.

For example, cost cutting measures during the recession have had a painful impact on many employees, reminding them they are now increasingly on their own for everything from career planning to financial security. These survey results are a reflection of a changing social contract – and the related realignment of priorities, expectations and actions.

According to Towers Watson, the results may at the same time represent the final nail in the coffin of the 'free agent' concept hyped as a new approach to work just a decade ago. Eight out of ten employees want to settle into a job, with roughly half saying they want to work for a single company their entire career and the rest wanting to work for no more than three companies.

"Employees have become surprisingly traditional in the 'deal' that they want from their employer, with an emphasis placed on security and desire for a stable career with a small number of organisations," said Towers Watson. "However, other aspects of the current 'deal' have emerged unscathed through the downturn. For instance, two-thirds of employees are comfortable with pay being driven by their personal performance."

The study also highlights how career advancement is being redefined. It is now more about acquisition of new skills, and less about a traditional progression through the ranks of the organisation. For example, 53% of employees define career advancement as being about acquiring new skills to do their current job better and to make them eligible for other jobs.

Employees were asked about the three most significant barriers to advancing their career within their organisation. The top three were: there are no career advancement opportunities (53%), the organisation has reduced the number of job levels so there is less opportunity of advancement (42%) and it is difficult to identify the opportunities available (37%).

53% of employees define career advancement as being about acquiring new skills to do their current job better and to make them eligible for other jobs.

"While retaining staff may not be high on many companies' agendas currently, they would be wrong to ignore the retention issue," warned Towers Watson. "Companies have many frustrated employees who can see no opportunity for advancing their career within the organisation and some of the actions companies took during the economic downturn are likely to have further limited their options. When the jobs market eventually opens up, this pent-up frustration could have significant consequences on morale and performance – hindering growth and recovery at the very time it is needed most. Moreover, our research shows that it is high potential employees who are most willing to move employers to advance their careers – just the people companies least want to lose."

Unsurprising, given the current economic climate, job security is high on many peoples' agendas – a secure and stable position is regarded as important by 81% of employees. But other factors are also considered key: 59% want a wide range of jobs and experiences, 58% want the opportunity to rapidly develop their skills and abilities and 56% are looking for substantially higher levels of pay. As might be expected, age has an influence in the motivations of employees, with workers under 25 more interested in career advancement opportunities and, interestingly, work life balance and flexible work hours. This contrasts with the focus on job security and better pensions for older workers.

Some 12% of people are actively looking for another job, with a further 4% having made plans to do so. But most are currently not looking for another job – 46% have no plans to leave while a further 37% are not looking though would consider another offer if one presented itself.

"Has the recession bred a new era of 'company men'?" asks Towers Watson. "Where once employers fretted over a 'War for Talent', they must now plan for a workforce that intends to stay on-board for years – perhaps even decades. This log-jam of long-tenured employees will help keep a lid on the dreaded 'brain drain' but may ultimately lead to reduced opportunities and declining morale if not well-managed."

The recent tough times and the current climate of uncertainty have also created a longing for leaders who "connect" with the workforce. Trustworthiness is rated by employees as the most important attribute of senior business leaders – cited by 71% of employees. Next are care about the well-being of others (62%), being highly visible to employees (56%) and encouraging the development of employees (50%). Yet the roles that most senior leaders would consider to be crucial are not highly rated by employees – promoting the brand (22%), positioning the organisation to compete in the global business environment (24%) and keeping a high profile outside the organisation (13%).

... rather than ignoring employee engagement, or leaving it to HR, business leaders need to redefine for their employees how they intend to build trust and demonstrate interest in employees' well-being. This will be critical in order to re-motivate employees in a post-recession world.

"Employees appear to want their senior leaders to be focused on the workings of the organisation, while most business leaders consider their roles to be primarily focused on the performance of the organisation," said Towers Watson. "The role that senior leaders play in winning back the trust of their employees is to build a successful competitive organisation with a strong external brand and reputation, and to embed a culture that enables people to contribute fully to this success. This is much more than simply creating a workplace that people feel 'great about'.

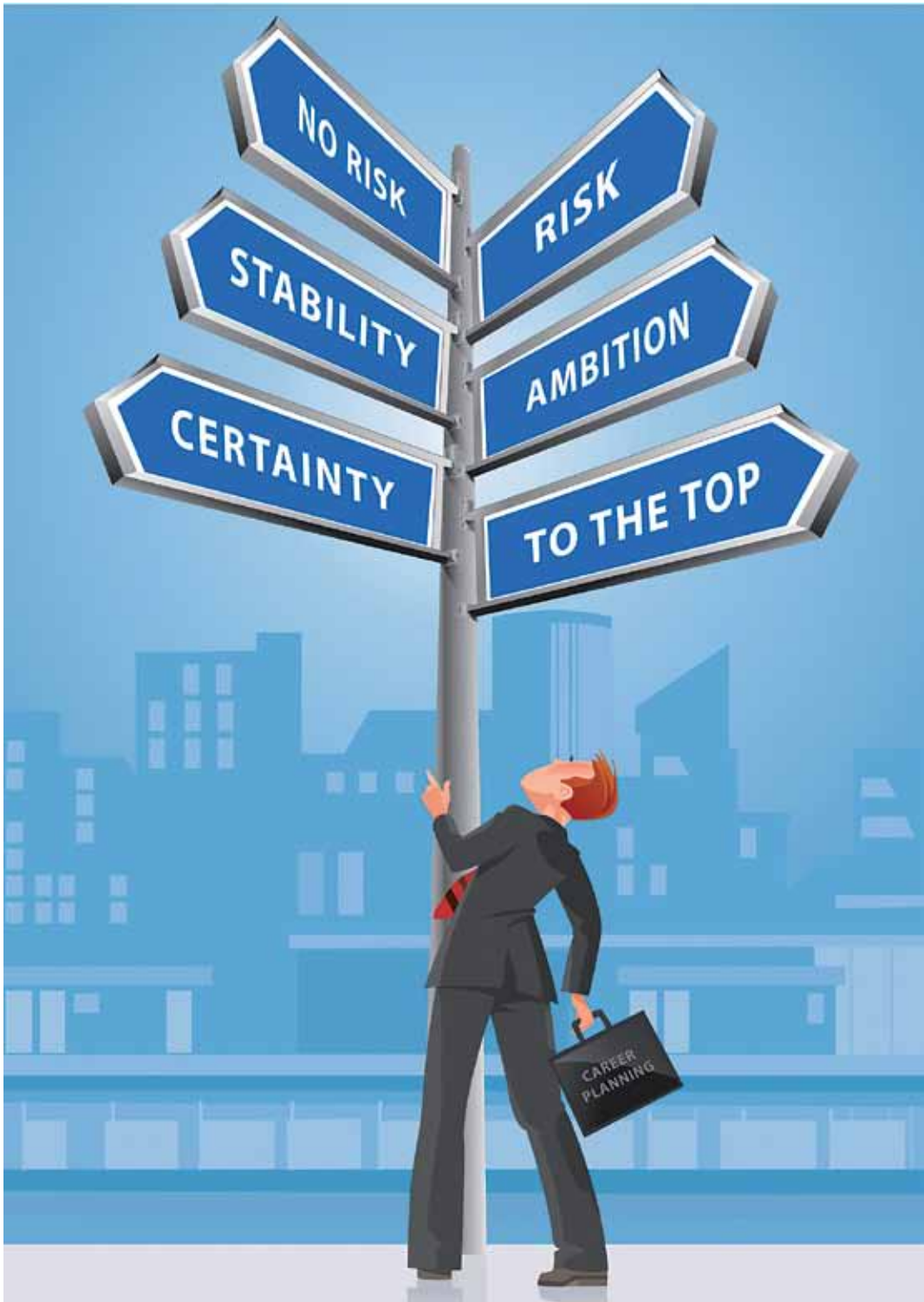
The link between increased employee engagement and improved business performance is well-established, as is the fact that senior leaders play a key role in driving employee engagement. So rather than ignoring employee engagement, or leaving it to HR, business leaders need to redefine for their employees how they intend to build trust and demonstrate interest in employees' well-being. This will be critical in order to re-motivate employees in a post-recession world.

According to Towers Watson, what worked for an organisation pre-recession will not cut it in today's workplace. Fundamental changes in both the employee/employer contract and employees' own priorities make a 'return to normal' nearly impossible. Instead, organisations must hone their ability to educate employees in self-reliance, fostering within each person the knowledge and confidence necessary to effectively manage their careers and their financial future outside the safety net provided in the past. ■

Turning risk into opportunities

Patrick Ow

Organisations must move away from the traditional culture of risk avoidance to risk optimisation by positively leveraging on opportunities to create value and to achieve organisational objectives. Best practice organisations in risk management have moved into opportunity recognition where risk management has become opportunity management. It is not necessarily the path with the least risk but the path with the best return or outcomes that matter most.



Risk management can become a very strong competitive advantage if organisations are able to identify risks and opportunities earlier or better than others, and when they are better positioned to manage foreseeable opportunities and unpredictable threats/events. We need to encourage everyone to think positively about risk in terms of competitive advantage.

Risk management can be more relevant and engaging for all decision makers within organisations when they deliberately address both opportunities (upside risk) and threats (downside risk). This enables the business to take the risks it wants to take and then manage those risks effectively within its overall risk appetite and risk tolerance.

For example, if an oil company is extremely cautious (or risk averse) about investing in new oilfields, it may avoid costly mistakes or downside risk in the form of dry wells. But the upside risks or opportunities of not exploiting profitable wells is that other less risk averse competitors may invest in these oil wells instead.

THE NATURE OF RISK

Risk is unavoidable. If we recognise that risky changes can be beneficial and choose not to sit idle while the risky world evolves around us, how can we begin to develop a framework for managing risk responsibly?

The first important thing to realise about risk is that it can represent either a threat or an opportunity. People still see risk as a consequence rather than an opportunity to improve. As a result, organisations fail to recognise opportunities to achieve their strategic, project or business objectives, and this affects ongoing organisational commitment, credibility, trust and value.

The new risk standard ISO 31000:2009 – Risk Management - Principles and Guidelines defines risk as the "effect of uncertainty on objectives". It allows for the inclusion of opportunities as well as threats within the risk management process, since an opportunity is simply the uncertainty with a positive effect on an objective. In fact, the management of risk should enable organisations to improve on the identification of opportunities and threats. It is also important to identify the risks associated with not pursuing an opportunity.

There is no risk so great that it must be eliminated at all costs. The issue is not whether or not bad risks should sometimes be reduced, but whether the benefits of reducing bad risk outweigh the cost of doing so. Risk management thus must consider not just the benefits of reducing risk — if risk is indeed a thing to be reduced — but also the cost.

EXECUTING YOUR STRATEGY

Risk management has become essential for successful and sustainable strategy execution. As uncertainty in the external environment increases, organisations are under tremendous pressure to effectively manage the risks associated with strategy execution. Risk can only be defined in relation to strategies and objectives. Smart organisations know that both risk-taking and risk-avoidance go hand-in-hand when it comes to risk management – after all, the better you can avoid downside risks, the more you will be able to pursue upside risks or opportunities.

Good risk management starts with a clear understanding of your strategy, since each of the choices an organisation makes (e.g. to enter a new market, launch a new product, or form a strategic alliance) comes with a set of possible events that could lead to different outcomes, either positively or negatively. The key is to understand what events could take place and actively anticipate their magnitude and probability in advance of execution.

Few organisations have mastered the challenge of integrating risk management with strategy management, planning or budgeting and ensuring that risk-taking and risk-avoiding is part of one integrated management system. We need to integrate risk, strategy and performance management into an integrated management framework and process.

FRAMEWORK FOR EXPLOITING OPPORTUNITIES

The Framework for managing both threats and opportunities is shown in **Table 1**.

Our key focus is in executing our strategy and achieving our SMART (specific, measurable, achievable, realistic and timed) objectives. This is placed at the centre of our framework. And this is what matters most.

We then use the generally accept-

Table 1

ed SWOT Analysis as a strategic planning tool to identify and evaluate the Strengths, Weaknesses, Opportunities, and Threats that are favourable and unfavourable to the achievement of our strategy and objectives. If the objective is NOT attainable, a different objective must be selected and the process repeated. The SWOT Analysis is just one of many methods of categorisation and has its own weaknesses.

RISK MANAGEMENT PROCESS

This is where we can integrate the risk management process and activities into the strategic planning process by extending the outputs of the SWOT Analysis to further identify the uncertainties to the achievement of objectives (risks).

The risk management activities can be designed to: (1) mitigate and/or minimise threats, as well as (2) to actively exploit and maximise opportunities. The aim of managing both types of uncertainties or risk in a single risk management process is to actively optimise the achievement of objectives. Since opportunities and threats involve uncertainties which have the potential to affect objectives, both can be handled by the same risk management process, although some modifications may be required to deal effectively and adequately with opportunities.

It may also be useful to state explicitly that the organisation's risk management plan or approach is intended to deal with both opportunities and threats, since as discussed above, this is not common practice and may therefore require emphasising to ensure that everyone in the organisation knows what is expected.

RISK IDENTIFICATION

There are other techniques for risk identification apart from SWOT analysis, such as brainstorming and workshops, checklists and prompt lists, questionnaires and interviews. These commonly-used risk identification techniques could, in theory, be employed equally effectively to identify opportunities as well as threats. Unfortunately, we usually tend to focus on negative issues when using these methods.

As a result, there is a natural resistance or reluctance to broaden the technique to include upside risks (or opportunities). But through the active use of the Framework that incorporates the SWOT Analysis, we are able to manage opportunities better.

RISK ANALYSIS

Existing controls and their effectiveness and efficiency are subsequently taken into account when analysing the risk identified within the four SWOT quadrants. This is a holistic and comprehensive approach in identifying and managing business risk.

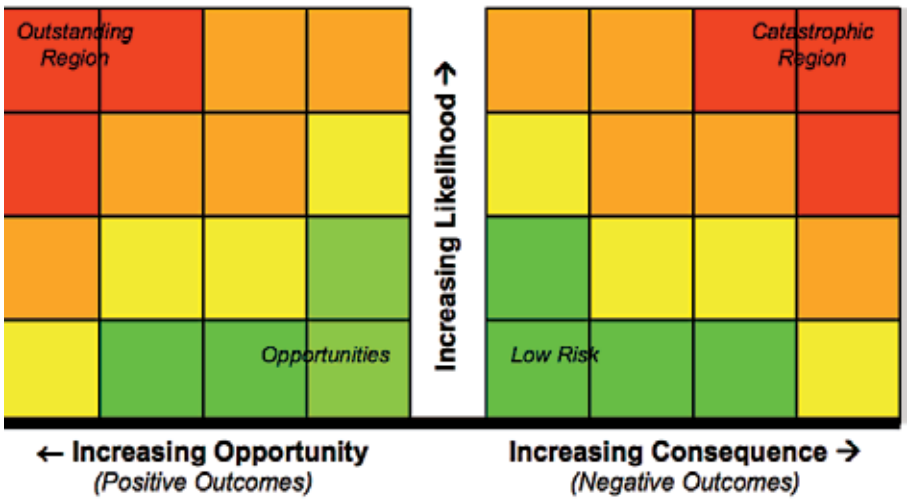
Controls are effective when business processes and the control environment are operating in a manner that provides reasonable assurance that the organisation's objectives will be achieved. An example of a control effectiveness rating is illustrated in **Table 2**.

Identified risks are assessed qualita-

Table 2

Control Rating	Description of Control
Good	Controls are sufficiently tuned to business requirements to achieve objectives.
Satisfactory	Controls require improvement and are insufficiently tuned to business requirements to achieve objectives.
Unsatisfactory	Controls need serious and immediate improvement and are hardly tuned to business requirements to achieve objectives.

Table 3



It may also be useful to state explicitly that the organisation's risk management plan or approach is intended to deal with both opportunities and threats, since as discussed above, this is not common practice and may therefore require emphasising to ensure that everyone in the organisation knows what is expected.

tively to determine their consequences and likelihood on objectives, allowing risks to be prioritised for management attention.

The standard risk matrix could be used for both threats and opportunities, where a double-format 'mirror' matrix is recommended to rank threats and opportunities and separate them into priority regions, as shown in **Table 3**.

RISK EVALUATION AND TREATMENTS

Risk treatments set out in ISO Guide 73:2009 may not be fully applicable for opportunity management and further modification may be required, as suggested below:

- exploiting the risk source;
- enhancing the risk source;
- enhancing or increasing the likelihood;
- maximising the consequences;
- sharing the opportunity with another party or parties that can maximise the chance of it happening and/or increase the potential benefits; and
- ignoring the opportunity by informed decision.

The Framework provides further guidance and risk treatment strategies by: (i) enhancing existing controls, and/or (ii) implementing planned cost-effective risk treatments through:

- exploiting organisational strengths,
- preventing weaknesses from further deterioration,
- mitigating negative outcomes or threats, or
- enhancing positive outcomes or opportunities.

Once implemented, risk treatments become part of the organisation's existing control environment that needs to be regularly monitored and reviewed, supported by an assurance plan.

Underlying the entire framework are the following elements:

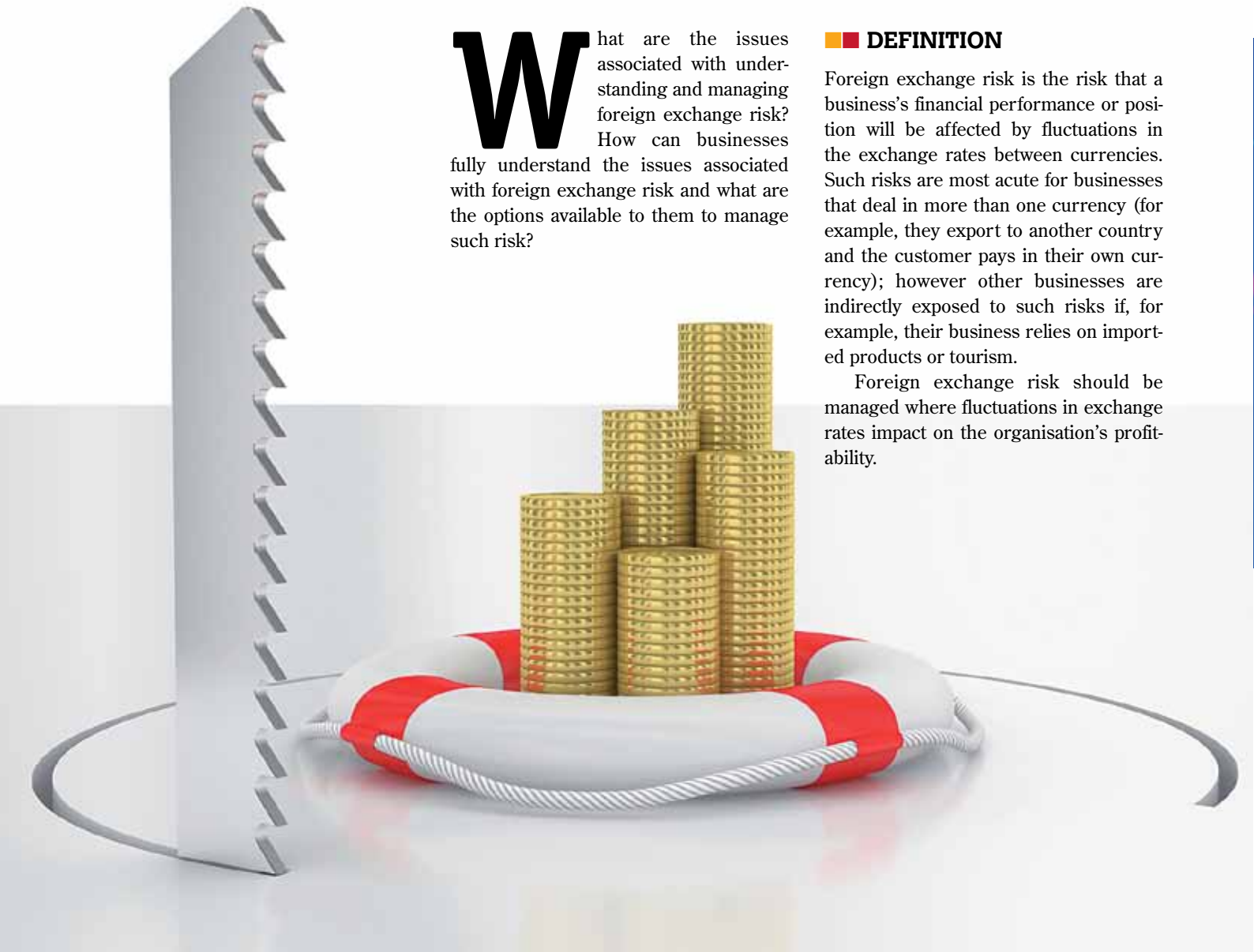
- For risk management to be effective, an organisation should at all levels comply with the 11 principles referred to in ISO 31000:2009.
- Application of the risk management process or activities, comprising of:
  - Establishing the external / internal context.
  - Risk identification
  - Risk analysis.
  - Risk evaluation.
  - Risk treatment.
  - Risk management audit.
- Identify your external and internal stakeholders, and understand their expectations, perceptions, intentions and capabilities, where possible.
- Like any planning process, identify and understand all underlying assumptions of your strategic planning process, SWOT Analysis and risk management process. Document assumptions as these may become risks in the future if assumptions do not hold true.
- Communication and consultation with external and internal stakeholders must regularly take place during all stages of the strategic planning process, SWOT Analysis and risk management process.
- Monitoring the activities of the Framework by continual checking, supervising, critically observing or determining the status in order to identify change from the performance level required or expected as part of the organisation's performance management system.
- Reviewing the activities of the Framework by determining the suitability, adequacy and effectiveness of the subject matter to achieve established objectives.

The writer can be contacted at patrickow@gmail.com.

Managing Foreign Exchange Risk

WITH THE GLOBAL NATURE OF BUSINESS AND THE WEAKNESS OF THE US DOLLAR (AND CURRENCIES PEGGED TO THE US DOLLAR SUCH AS THE HONG KONG DOLLAR), IT IS IMPORTANT FOR BUSINESS TO CONSIDER THEIR FOREIGN CURRENCY RISK EXPOSURE AND IF NECESSARY MANAGE SUCH RISKS.

What are the issues associated with understanding and managing foreign exchange risk? How can businesses fully understand the issues associated with foreign exchange risk and what are the options available to them to manage such risk?



DEFINITION

Foreign exchange risk is the risk that a business's financial performance or position will be affected by fluctuations in the exchange rates between currencies. Such risks are most acute for businesses that deal in more than one currency (for example, they export to another country and the customer pays in their own currency); however other businesses are indirectly exposed to such risks if, for example, their business relies on imported products or tourism.

Foreign exchange risk should be managed where fluctuations in exchange rates impact on the organisation's profitability.

MEASURING FOREIGN CURRENCY RISK

There are many ways to measure foreign exchange risk ranging from simple methods to quite complex methods. These measurement methods include:

- A register of foreign currency exposures
- Projecting foreign currency cash flow if your business both pays in and receives foreign currency
- A sensitivity analysis to measure the potential impact on your business of an adverse movement in exchange rates
- An extension of the sensitivity analysis is to use probability approach (Value at Risk) – that is determine the probability of various currency movements.

MANAGING FOREIGN CURRENCY RISK

Having identified and measured the potential exposure – the next question before determining how to manage such a risk is what is the risk appetite of the business, i.e is the business comfortable with wearing the foreign currency risk or is the risk to profitability such that the business wants such risks managed?

There are many ways that foreign exchange risk can be managed. Below are the main methods:

Forward Exchange Contract. This method allows your business to protect itself from adverse movements in exchange rates by "locking in" a pre-agreed exchange rate for a pre-agreed date. The limitation on this product is that the business is locked into the contract price, even when the exchange rate movement is advantageous to the business.

For example, if an importer is importing goods denominated in US dollars for delivery in three months and enters an agreement with their bank for a forward exchange contract, then the importer is contractually bound to accept the US dollars at the agreed rate (for Malaysian ringgit) on the agreed date. If the Malaysian ringgit has strengthened against the US dollar in that time, the importer must still honour the contract even if it is less favourable than the current exchange rate.

Foreign Currency Option. This method provides your business with the opportunity to purchase or sell foreign currency under an agreement that allows for the right but not the obligation to undertake the transaction at an agreed future date. Due to the greater flexibility of this method, such a product comes at a premium.

For example, if the importer enters into a foreign currency option, if the Malaysian ringgit increases in value (in other words the current exchange rate is more favourable than the rate in the option), the importer can abandon the option (and use the current exchange rate). If the Malaysian ringgit diminishes in value, the importer can rely on the rate in the option to purchase the goods.

Foreign exchange risk should be managed where fluctuations in exchange rates impact on the organisation's profitability.

Perfect Hedge. A simple method is to match any outgoing foreign currency payments against foreign currency inflows received at exactly the same time. This method is rarely used due to the uncertainty of timing of the cash flow, that is each inflow and outflow must occur at exactly the same time to provide a "perfect" hedge

Foreign Currency Bank Accounts/Loan facilities. These methods of managing foreign exchange risk can be used where the timing of the foreign currency inflow and outflow don't match. These timing issues can be managed by depositing surplus foreign currency in a foreign currency account for later use, or by borrowing foreign currency to pay for foreign currency purchases, and then using the foreign currency receipts to repay the loan. ■

This article was contributed by CPA Australia. For more information, visit www.cpaaustralia.com.au

Tips for cost-effective ISA APPLICATION

Stuart Hartley, FCA

AUDIT FIRMS ARE URGED TO EMBRACE THE INTERNATIONAL STANDARDS ON AUDITING IN ORDER TO DELIVER HIGH-QUALITY AUDITS WITHIN BUDGET.

As attention turns to the clarified International Standards on Auditing (ISAs) issued in 2009, it may be a good time for auditors to assess whether the risk-based approach, which became effective for 2005 audits and underpins these ISAs, is being applied in a cost-effective manner.

The IAASB staff issued a Q&A document, Applying ISAs Proportionately with the Size and Complexity of an Entity, in August 2009 to assist auditors in applying the clarified ISAs in a cost-effective manner. Below are some additional tips that may help:

- Embrace the ISA requirements.
- Identify sources of risk, not just the effects.
- Spend time to plan well.
- Understand the control environment.
- Aim for continual improvement.
- Two-way communication.

TIP 1

EMBRACE THE ISA REQUIREMENTS

"Knowledge is power" Sir Francis Bacon, 1597

It is surprising how many small and medium-sized practices (SMPs) have yet to take the time required to study the ISAs. Incomplete knowledge can be self-defeating as it creates uncertainty about what is really required by the ISAs. The

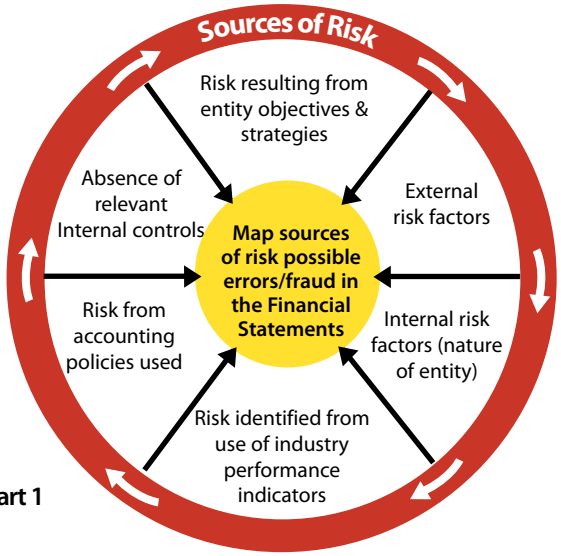


Chart 1

result is wasted time deliberating over what has to be done and performing unnecessary work, just in case it may be needed. In particular, lack of knowledge about requirements may lead to:

- The entire risk assessment phase of the audit becoming an "add-on" to the other substantive audit work performed, instead of being used to focus audit effort on areas where there is a greater risk of misstatement in the financial statements.
- Turning what should be a simple audit into a complex and time consuming project. This can arise if efforts are focused on completing needless standard audit forms and checklists rather than using professional judgement to scale the work according to the size and complexity of the entity being audited and the risks involved.

Another important element is attitude. If the engagement partner has a negative attitude then ISA implementation may simply mean extra work just to comply rather than an opportunity to improve the quality and cost effectiveness of the audit. It is better to embrace the ISAs. Gaining a sound knowledge of what is required can be empowering. It equips partners and key staff to lead the way, to use their professional judgement wisely, and to make informed, confident decisions on matters such as:

- Changes needed in engagement workflow and the firm's system of quality control, including:
  - Partner involvement in planning.
  - Customising audit forms and checklists to be scalable for different sizes and complexity of audit clients, particular industries, and particular engagement risks.
  - Ongoing staff communication and file reviews.
  - Engagement productivity.
- Identifying the areas where staff training is required.
- Determining what to include (and what not to include) in audit scope, risk assessment, and designing responsive audit procedures.
- How to address the risk of fraud.
- Efficient allocation of staff and other resources.
- An understanding of the ISA requirements is also important for:
  - Building the underpinning required to implement future changes to the ISAs.
  - Refining the firm's audit approaches to deal with issues arising from implementing the standards on particular engagements. Audits of many small entities may be straightforward, but some can also pose challenges (such as less sophisticated accounting expertise and less formalised internal control) that do not exist in larger entities.

TIP 2:

IDENTIFY SOURCES OF RISK, NOT JUST THE EFFECTS

"Learning is the discovery that something is possible" Fritz Perls

When auditors are asked to identify risks, the natural tendency is to start by reading the financial statements. While this may identify the effect of risks that could apply to virtually any entity, such as valuation of inventory, completeness of sales, or accuracy of estimates, such an approach may fail to identify fully the bigger and more pervasive risks that are specific to the entity. These sources of risk could include adverse industry trends or an accountant prone to error, which could affect virtually any account balance.

Rather, start by identifying the sources of risk and then, as the second step, linking those sources to possible effects in the financial statements. For example, a source of risk could be a declining demand for the entity's products. One obvious misstatement (effect) in the financial statements would be valuation of inventory. But it would be a mistake to stop there. Think about other possible misstatements emanating from this source of risk. For example, declining sales could result in a sales manager just missing a bonus threshold, banking covenants could be breached, or a going concern issue may exist. In fact what seems, on the surface, to be a straightforward business risk may also provide someone with the opportunity or incentive to commit fraud — take that sales manager who stands to get a reduced bonus.

ISA 315 is entitled Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment. Therefore, risk identification should come from our understanding of the entity as a whole, not just from reading the financial statements.

One way of thinking about this is to consider the sources of risk, obtained from understanding the entity and its environment, such as those in **Chart 1**.

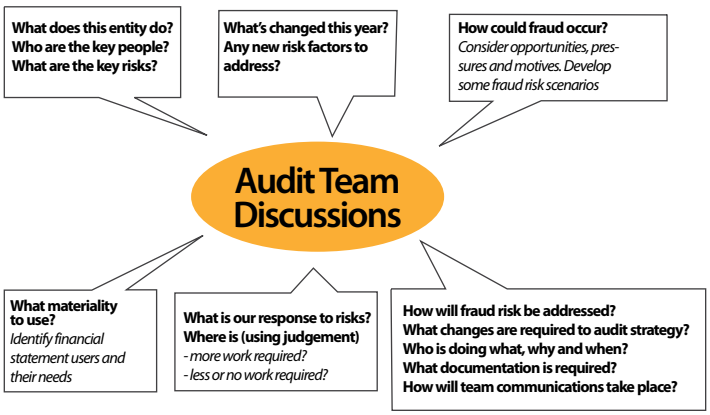


Chart 2

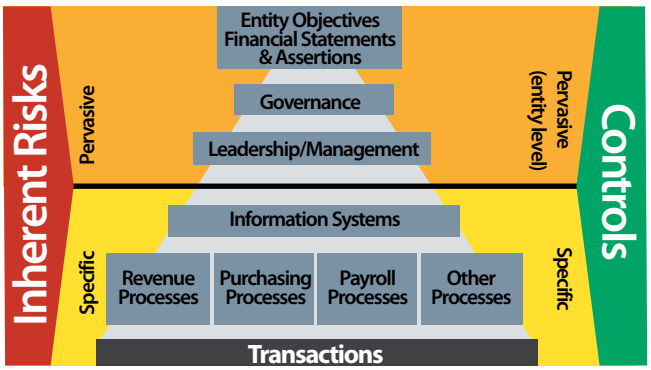


Chart 3

As information is obtained about each area, take time to identify possible sources of risk. Then consider what misstatements (including those that might arise due to fraud) could occur in the financial statements as a result. Many of the risk sources identified in this way will likely be pervasive in nature (they cannot be allocated to specific assertions), which will help in assessing risks at the financial statement level.

Effective risk identification also provides information that can be used to develop constructive recommendations in areas the entity should consider.

TIP 3:

SPEND TIME TO PLAN WELL

"He who fails to plan, plans to fail"
Anonymous

It has been said that for every hour spent in planning, five hours can be saved in execution. Many SMPs have found this to be true. Effective audit planning is often the difference between a quality audit within budget and a poor quality audit over budget.

Effective planning requires two key ingredients:

- Undistracted time of the engagement partner and key staff. This does not necessarily mean dedicated team meetings held in the office. On very small engagements, planning can be achieved through brief discussions at the start of the engagement and as the audit progresses.
- Willingness to make key decisions based on appropriate professional judgement.

Planning involves:

- Informing the team on what the entity is all about, what has changed in the past year, and the likely implications of those changes.
- Addressing audit inefficiencies identified in prior year engagements.
- Ensuring staff fully understand what they are required to do and why.

Key questions that should be discussed at the planning session include those in **Chart 2**.

In addition, encourage staff to identify areas where audit procedures seem excessive in relation to the risk of misstatement being addressed. For example, if a number of account balances are immaterial, is it necessary to perform a long list of standard audit procedures that might be more applicable to a much larger balance?

Take time to ensure each staff member understands the necessity and purpose of the documentation they are required to complete. Countless hours can be lost by staff attempting to complete a form they do not understand.

Other planning tips include:

- Ensure that fraud risk is properly addressed. Because fraud is deliberate, detecting it may require some element of unpredictability, such as performing certain audit procedures on a surprise basis. Encourage staff to be sceptical and inquisitive and empower them to raise issues, observations, or unexplained matters. Fraud may be discovered through piecing together a number of small matters that by themselves would seem insignificant.
- Consider assigning similar or related file sections to the same staff member. This will ensure work performed in one area is not repeated again in another.

TIP 4:

UNDERSTAND THE CONTROL ENVIRONMENT

When obtaining an understanding of internal control relevant to the audit, see that controls, such as those found in the control environment, are identified. One may wish to refer to such controls as "pervasive controls." Pervasive controls, which are quite different from transactional controls, address matters such as integrity and ethics, corporate governance, employee competence, management's attitude towards control, fraud prevention, risk management, and control monitoring. **Chart 3** above illustrates one way of viewing pervasive and transactional controls.

The most important controls in entities of any size are those found in the control environment. This is sometimes

referred to as the "tone at the top," which outlines the values of the entity and management's commitment to competency and ethics. If the tone at the top is good, the owner-manager of a small entity may exercise effective control over transactions which otherwise might be done through extensive segregation of duties in a larger entity. However, if the tone at the top is poor, management override can easily occur and even the very best transactional controls over processes, such as purchases and sales, could be overridden.

One can see that under the risk-based approach, only relevant controls are identified, documented, and assessed.

TIP 5:

AIM FOR CONTINUAL IMPROVEMENT

There is a tendency for some auditors to blindly follow the example of the previous auditor, resulting in a file that mirrors that of last year. A better approach would be to document once (in the first year) and then update the existing documentation (to the extent possible) for changes in subsequent years. The documentation in year one should enable auditors in subsequent years to leverage their understanding of the entity and focus attention on new industry trends, key operational changes, new inherent risks, and revised internal controls. If changes are minimal, then so too will be the additional documentation.

Achieving continual improvement requires consideration of existing practices at all planning meetings. Here are a few suggestions:

Revise the file index.

- The ISAs have introduced new terminology and concepts that are central to the audit. Review your firm's file index to incorporate the new terminology and processes.

Consider how file information can best be reviewed—this year and in future years.

- Document all risks identified, and their assessment, in one place. Recording risks in one place reduces the chance of missing some, helps ensure risks get assessed in a consistent manner, and makes the file easier to review. One can also include cross-reference risks to the risk response. Finally, it also makes the task of updating risk factors, later in the audit and in subsequent years, easier.
- Standardise how internal controls will be documented. When documenting internal controls, ensure that the linkage between the risks of material misstatement and the control procedures to mitigate such risks is clear. This enables the file reviewer to assess control design, and when changes take place, the impact on control design can easily be identified.
- Record audit issues, their resolution, and any related communications to management or those charged with governance in one place. This might take the form of a summary memorandum. This will ensure key issues are not missed in the file review process and will assist in planning the audit in subsequent years.

TIP 6:

TWO-WAY COMMUNICATION

Good ongoing communication (while maintaining the auditor's independence and objectivity) between the auditor, management, and those charged with governance is important to avoid misunderstandings and to develop constructive working relationships. Consider, for example, explaining to management (and those charged with governance) what an audit is all about, the responsibility of the auditor under the ISAs, and what management can do to help the audit go smoothly. ■

Stuart Hartley (shartley@focusroi.com) is a consultant and writer who specialises in auditor training.

TIPS FOR COST-EFFECTIVE ISA APPLICATION: A SUMMARY

- Take time to study the ISAs. Embrace them.
- Identify the sources of risk specific to the entity, and then identify the effects on the financial statements.
- Time spent in planning will save hours in execution. Use professional judgement to focus audit effort where it is needed most.
- Understand the control environment.
- Aim for continual improvement in the audit. This includes documenting audit evidence in year one so that it can be easily updated in subsequent years, as well as considering each year how audit efficiency can be improved.
- Ensure management is fully informed as to what an audit is all about and establish clear and constructive channels of communication that will help the audit run smoothly.

MORE INFORMATION AND GUIDANCE ON THE ISAs CAN BE FOUND AT THE FOLLOWING SITES:

IFAC RESOURCES

Online

- International Center for Small and Medium Practices at *www.ifac.org/smp* which includes:
- Relevant links at *http://www.ifac.org/SMP/relevant_links.php*
- Free quarterly e-newsletter at *http://www.ifac.org/SMP/index.php#News*
- IAASB Clarity Center at *http://web.ifac.org/clarity-center/index*

Publications

- All IAASB and SMP Committee publications can be found under the Publications & Resources Section of the IFAC website at *http://web.ifac.org/publications.*
- Applying ISAs Proportionately with the Size and Complexity of an Entity is at *http://web.ifac.org/publications/international-auditing-and-assurance-standards-board/practice-alerts-and-q-as#applying-isas-proportionate.*
- ISA Modules developed by IAASB staff are at *http://web.ifac.org/clarity-center/support-and-guidance#support-modules.*

Anis Ramli

Buying into upscale during the downturn

"They were courting the young crowd – the aspirational consumers – who were more into the status symbol of the 'It' bags and de rigueur fashion." Yet, these are the very people who are now hard hit financially and rethinking their buying during the economic turbulence.

Siew Ching Chua,
Former Marie Claire (Malaysia) Editor

On a wintry afternoon, the Gold Coast of Madison Avenue, a 20-block elegant shopping corridor and home to some of the world's most recognisable fashion labels, is fluttering with the usual shoppers and fashion's diehard followers. But just a year ago, the street was as bleak as Manhattan on the cusp of spring. Bored sales assistants stared out of their store windows; others dusted imaginary specks off displays of US$5,000 shoes and US$10,000 handbags, trying to kill time.

Today, signs of life appear to be coming back to the retail industry hard hit by the global slowdown. Shoppers are walking into stores but they shop with caution. At a time when rampant distrust and dislike for bankers and financiers remain palpable, buying into luxury and exercising none of the expected fashion frugality is likely to invite more hostility. So those with money, whether they're American heiresses or mistresses of Russian oligarchs, or even the new breed of Asian super-rich, are buying albeit discreetly. And luxury brands are all too aware that if they are to ride out the storm, these are the core consumers they have to focus on.

"The problem previously was that many high-end fashion brands were overstretching themselves, says former

Marie Claire (Malaysia) Editor, Siew Ching Chua. "They were courting the young crowd – the aspirational consumers – who were more into the status symbol of the 'It' bags and *de rigueur* fashion." Yet, these are the very people who are now hard hit financially and rethinking their buying during the economic turbulence.

According to a recent *CNN* report, having a big name is no longer enough in corporate fashion. Last year, Christian Lacroix, Escada and uber sartorial Japanese house Yohji Yamamoto were some of the big names that filed for bankruptcy. Elsewhere, jewellery maker Bulgari struggled with a deficit of over 40 million euros in 2009 while Prada was reported to have asked creditors to reorganise its debt which stood at 1.2 billion euros as of April 2009, reported *Bloomberg*.

Those that continue to survive are rethinking their marketing strategies. In an attempt to stay afloat amid the current gloomy climate, fashion companies are forced to focus on those that buy not for status symbols, but for 'status stories'.

Take the case of Louis Vuitton's new print ad campaign. Never has there been a communications drive that so clearly underpins the importance of connecting with the customers. The advertisements feature three artisans from its factories complete with stories on the delicate and time consuming process that go into the Louis Vuitton leather goods. The core message is hard to ignore; focused on reminding Louis Vuitton's customers of the company's long history, heritage, artisanal craftsmanship and traditional know-how. By investing in a Louis Vuitton, the ads seem to suggest, customers are buying into quality, exclusivity and products of enduring value.

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Furthering to underscore this return to *savoir faire*, Louis Vuitton's parent company Moet Hennessy Louis Vuitton had, in February, reported a 5 per cent increase in revenue (6.3 bn euros) for the fourth quarter of 2009. Interestingly, it was Louis Vuitton that led the growth in the leatherwear goods and accessories department despite the company having fashion design darling Marc Jacobs and Spanish brand Loewe, famous for its buttery soft leather bags, in its brand repertoire.

Another luxury brand that works hard to take the fashion element out of the marketing is the 100-year-old Italian fashion house Ermenegildo Zegna. Their take? Focusing on slow fashion, an intrinsic business philosophy that focuses on the company's sustainable practices and craftsmen's skills that go into making a Zegna product. Zegna was only too happy to highlight the group's investment in improving the water supply of its farmers in Mongolia that in turn, they say, provides higher quality cashmere wool. Together with the emphasis on form and detailed tailoring needed to produce any of its suits, Zegna believes these are the qualities that will see them through as they open at least 20 new stores this year.

Perhaps in what is the most telling indication that companies with a storied legacy and heritage will bear the bite of the economic climate better came from the luxury French leather goods company Hermes. Last year, Hermes revealed it has resorted to breeding its own crocodiles in Australia to meet demands for its leather bags. Their Birkin handbags enjoy iconic status and can demand anything from US$5,000 to a six-digit figure, with a universally cited waiting time of approximately two years. The company admits they are not growing as fast as they could and, as CEO Patrick Thomas told the *Financial Times* last year, "We do not want to waste the image and the heritage that this company has developed in six generations just to make short term money."

Still, Hermes was also quick to respond to customers needing to tone down the vulgarity of luxury shopping in these times. The appetite for inconspicuous consumption has prompted their New York store to offer shoppers the option to walk out with their purchase nicely packaged not in the brand's iconic brown-and-orange bag, but a white paper carrier. Similarly, some jewellers in London's Bond Street provide customers with nondescript bags for their furtive shopping upon request. "People are simply tired of frugal fashion," Chua commented. "Those who have the cash are eager to spend again but they don't want to be seen as doing it in a tasteless manner."

London-based style consultant Veronica Chee agrees. "You hear so much about how this season's trend is a throwback to the Eighties. But you'll not find the affluent walking around clad top-to-toe in logos. Fashion in these times is marked by a quiet sense of humility and simplicity." And Chanel's couture show last January probably sums up best how luxury brands approach the downturn. With not one signature gold button appearing on the runway, it's a return to genuine luxury and understated perfection.■

past *perfect*

BEAT THE CROWD AND CAPTURE THE REAL ESSENCE OF PENANG ON A SELF-GUIDED HERITAGE WALK.

Anis Ramli

No one really stumbles upon Little India in Penang's George Town, the island's colourful capital. It's more likely that the area springs a surprise on you with its myriad assault on your senses – from the colourful curtains of sarees that hang in the store windows to the blasting Bollywood arias that serve as background music for Penang's laidback, islandic atmosphere. It's these extremes that shape the city; a sort of *ying* to the island's seaside *yang*.

Amid the pre-war shophouses, with its kaleidoscope of freshly painted exteriors, there is a unique identity to Penang's past. These are tiny hole-in-the-wall shops that, despite its size, could rival the big stores in Little India with its cornucopia of merchandise. From rubber flip flops to laundry detergents, the shops, better known as *ottu kadai*, were once such a familiar scene that every neighbourhood had one. Opened by South Indians who came to Penang in the early 1800s, it was the people's 7-Eleven, so to speak; a place to sneak a popsicle before supper or where housewives skittered for kitchen emergencies.

These *ottu kadai* near No. 75, Market Street in Little India are among the gems visitors get to discover on Penang's self-guided heritage trail. The trail showcases past trades of the islanders, bringing visitors through ethnic quarters and colourful backlanes that would have otherwise skipped many travel guides. The self-guided tour has not come at a better time than now with George Town being listed as a UNESCO World Heritage Site.

The trail showcases past trades of the islanders, bringing visitors through ethnic quarters and colourful backlanes that would have otherwise skipped many travel guides.

The trail, one of the programmes drawn up by the Penang Heritage Trust, is aimed among others to encourage local traders to continue with their trades and

help rejuvenate dying social customs. It's a move that many living in UNESCO-inscribed cities have said help engage small local communities with their own way of life, interests and social relations. After all, being listed is not just about protection and exhibition of existing sites, but also about keeping local traditions and customs alive so that future generations can enjoy them.

For 65-year-old Kok Ah Wah, a first generation Chinese sign engraver who settled on the island after his father migrated from Guangdong, China, renewed interest in his trade takes a bit of getting used to. Previously, his shop at 41, Queen Street, was visited only by the locals and his neighbours. Now, he says, "I get foreigners popping in at odd hours and taking photos. I don't mind sometimes, because business has picked up too since then." Kok remains one of the 'old school' engravers who insists on hand-engraving signboards using only his set of chisels, as taught to him by his craftsman-father. Despite modern day technology that can mass produce signboards in the hundreds within minutes, Kok's work harks back to an era where craftsmanship is everything.

Similarly at 4, Armenian Street, visitors get to look at how the beautifully, hand-

beaded Nyonya shoes are made. Once considered *de rigueur* among the women of the Peranakan Chinese, a community dating back to the 16th Century when migrant Chinese first intermarried with local Malays, the beaded shoes remain popular among today's clothes-horses for their intricate design. Although the shoes have seen a metamorphosis, fashioned with high heels and designs that range from clogs to mules, the original shape, the slip-on slippers, continues to be the favourite among die-hard shoe collectors.

But these aren't all. The heritage trail meanders on to other parts of George Town that includes a rattan weaver (102, Armenian Street), an Indian goldsmith (38, Queen Street), and a *songkok* maker (Malay men's headgear) at 157, King Street. The trail can be as long or as easy as you wish. In between stops, there are Western cafes, old coffee shophouses and drinks and food stalls that make perfect stops to rest the feet. Or, you can plan to end the walk at Ismalia Bakery, 114, Transfer Road.

This popular bakery churns out one of the island's most iconic breads called *roti benggali*. It's a three-by-six inch loaf with a leathery crust and the softest of centres and Penangites have them with everything – from jam to butter to *kaya* (coconut custard) to dunking it in curry or coffee. The bakery was founded in 1932 and today still supplies the island's large population of hawkers. The breads are baked fresh daily and the third-generation owners even let you into the kitchen to see how they're made. Incidentally, the word 'benggali' was derived from the Tamil word 'panggali', which means `shareholders'. When founder Sheikh Mohd Ismail first set up a co-op with his friends in 1932 for the bakery, he called it 'roti panggali'. Locals, however, have colloquialised the word and have since referred to the bread as 'benggali' bread.

You had better see the sights while you can, because heritage trails are notoriously vulnerable to rampant investment and modernisation. In perhaps what best exemplifies how fragile these trails are, house number 53 on Stewart

To prevent similar losses, the Penang Heritage Trust continues to support these endangered trades and has recently launched the Penang Apprenticeship Programme for Artisans in an effort to preserve the living cultures and promote the development of the various products in a sustainable manner.

Lane was, until two years ago, a coffee factory. It was quite surreal to see a colossal wok with roasted beans in the middle of the house with equally huge fans as soon as you entered. The coffee, with beans imported from Indonesia and roasted with a mix of sesame seed, salt, sugar and butter, was a favourite among Penangites. The family who operated the factory has since ceased operations when the house was bought *en bloc* with other units in the vicinity by a foreign investor and turned into boutique accommodation.

To prevent similar losses, the Penang Heritage Trust continues to support these endangered trades and has recently launched the Penang Apprenticeship Programme for Artisans in an effort to preserve the living cultures and promote the development of the various products in a sustainable manner. In what has become one of the most prevalent trends in tourism in the 21st century, Penang's past indeed has something for everyone to discover, in the present. ■

Historic Penang is easily accessible by air, rail or road from Kuala Lumpur, venue of the 18th World Congress of Accountants from 8 – 11 November 2010. Delegates are encouraged to take a weekend break to indulge in Penang's heritage, as well as its gastronomic cuisine and breathtaking wonders of nature.

2010 CALENDAR OF MIA PROFESSIONAL DEVELOPMENT CENTRE (MPDC) TRAINING PROGRAMMES

LOCATION	DATE	PROGRAMME TITLES	SPEAKER	VENUE	FEE (RM)	CPE Hours	REMARKS
April 2010							
Klang Valley	1 & 2 April	Effective Financial, Taxation and Treasure Management for Cross Border Investments	Lim Chor Ghee	Hilton Petaling Jaya	1000	16	HRDF Claimable
	2 April	Impairment of Assets	Danny Tan	Concorde Hotel KL	580	8	HRDF Claimable
	5 & 6 April	Malaysian Financial Reporting Standards - Recent Developments and Updates	Lim Geok Heng	Concorde Hotel KL	850	16	HRDF Claimable
	6 & 7 April	Sharpening the Audit Committee Governance Challenges & The Internal Audit Function Value Creation Culture	Boey Tak Kong	Concorde Hotel KL	950	16	HRDF Claimable & SIDC Accredited
	8 & 9 April	Auditors and Fraud: Auditor's Responsibility – Considering Fraud in Audit	Janise Lee	Concorde Hotel KL	800	16	
	12 & 13 April	Sustainable Financial Strategies - Case Studies Approach	Dr. Steven Liew	Concorde Hotel KL	800	16	HRDF Claimable
	13 & 14 April	Implementing Quality Control- Incorporating ISQC1 and Practice Review Findings	Lim Seong On	Concorde Hotel KL	650	16	SMECorp Subsidised
	14 & 15 April	Negotiating for Results	Shuba Kumar	Hotel Istana KL	900	16	HRDF Claimable
	15 & 16 April	Financial Essential for Non-Financial Professionals	S. Yoga Thevan	Concorde Hotel KL	800	16	SMECorp Subsidised & HRDF Claimable
	20 April	Women in Leadership Today	Various Speakers	Concorde Hotel KL	380	8	
	20 & 21 April	Practical Audit Series (Advanced Level)	Ramesh Ruben	Hilton Petaling Jaya	900	16	SMECorp Subsidised
	21 April	Corporate Governance Guide - Towards Boardroom Excellence	Lee Min On, Tan Kim Chuan & Mohd Khaidzir Shahari	Hotel Istana KL	650	8	SIDC Accredited
	21 April	Updates of 2010 New & Revised FRSs, Amendments & IC Interpretations for Accountants	Woon Chin Chan & Tan Liong Tong	Hilton Petaling Jaya	550	8	HRDF Claimable
	21 April	Accounting for Financial Instruments	Lim Geok Heng	Hilton Petaling Jaya	500	8	HRDF Claimable
	21 & 22 April	Budget and Variance Analysis Modelling for Accountants	Kok Yee Lan	Training Choice KL	1100	16	HRDF Claimable
	22 April	Protect Your Business from Prevailing Cheque Scams / Fraud	William Leong Siew Sun	Concorde Hotel KL	400	8	HRDF Claimable
	22 & 23 April	Financial Due Diligence	Ramesh Ruben	Hilton Petaling Jaya	800	16	HRDF Claimable
	23, 27, 28 & 29 April	Business Analytics & Reporting	KK Tang	PentaWise Sdn Bhd KL	4000	32	HRDF Claimable
	22 & 23 April	Accounting for Construction Contracts, Property Development Activities & Borrowing Costs	Lim Geok Heng	Concorde Hotel KL	850	16	HRDF Claimable
	26 April	Effective Stock Take Technique	Teo Kim Soon	Hotel Istana KL	400	8	HRDF Claimable
	26 & 27 April	Financial Decision-Making for Non-Finance Managers	Bryan Ng CS	Hilton Petaling Jaya	1100	16	HRDF Claimable
	26 & 27 April	Tax Planning for Employers & HR Managers	Krishnan KSM	Concorde Hotel KL	800	16	HRDF Claimable
	28 & 29 April	Business Strategies Development and Implementation	Tan Kok Tee	Hotel Istana KL	800	16	HRDF Claimable
	28 & 29 Apr	Effective Corporate Presentation that Speaks to the Management	Amelia Ng	Training Choice KL	1100	16	HRDF Claimable
	28 & 29 April	Six Thinking Hats	Paul Chan	Hotel Istana KL	1700	16	HRDF Claimable
	28 & 29 April	Business Writing : Write for Result	Lum Woon Foong	Best Western Premier Seri Pacific KL	850	16	HRDF Claimable
	29 & 30 April	Optimising Corporate Tax Planning Strategies	Sivaram Nagappan	Hilton Petaling Jaya	850	16	HRDF Claimable
Northern Region	2 April	An Overview of GST Bill (Its Impact, Policy and Implementation)	Robin Chia	Impiana Hotel Ipoh	400	8	
	7 & 8 April	Risk Management Through Effective Internal Control	Ramesh Ruben	Traders Hotel Penang	900	16	HRDF Claimable
	12 April	An Overview of GST Bill (Its Impact, Policy and Implementation)	Robin Chia	Starcity Hotel Alor Setar	400	8	
	13 April	An Overview of GST Bill (Its Impact, Policy and Implementation)	Robin Chia	Evergreen Laurel Hotel Penang	400	8	
	15 April	Corporate Governance Guide - Towards Boardroom Excellence	Lee Min On, Tan Kim Chuan & Mohd Khaidzir Shahari	Traders Hotel Penang	650	8	
	21 & 22 April	Practical Accounting Principles & Practices	Kenneth Tham	Impiana Hotel Ipoh	900	16	HRDF Claimable
	27 & 28 April	Financial Instruments: FRS 132, FRS 139, FRS 7 & FRS 9	Selvarajah Jebaretnam	Traders Hotel Penang	850	16	HRDF Claimable

2010 CALENDAR OF MIA PROFESSIONAL DEVELOPMENT CENTRE (MPDC) TRAINING PROGRAMMES

LOCATION	DATE	PROGRAMME TITLES	SPEAKER	VENUE	FEE (RM)	CPE Hours	REMARKS
Southern Region	5 & 6 April	Financial Essential for Non-Financial Professionals	S. Yoga Thevan	Mutiara Hotel Johor Bahru	800	16	SMECorp Subsidised & HRDF Claimable
	12 & 13 April	Auditors and Fraud: Auditor's Responsibility – Considering Fraud in Audit	Janise Lee	The Puteri Pacific Johor Bahru	800	16	
	14 & 15 April	Risk Management Through Effective Internal Control	Ramesh Ruben	Grand Paragon Hotel Johor Bahru	900	16	HRDF Claimable
	19 & 20 April	Cost Reduction & Profit Improvement Strategies	Steven Liew	The Puteri Pacific Johor Bahru	800	16	HRDF Claimable
	22 & 23 April	Preparation of Group Accounts (Covering FRS127, FRS128, FRS131 & FRS3)	Woon Chin Chan & Tan Liong Tong	Grand Paragon Hotel Johor Bahru	1000	16	HRDF Claimable
	26 & 27 April	Budget and Variance Analysis Modelling for Accountants	Kok Yee Lan	I World Technology Sdn Bhd	1100	16	HRDF Claimable
East Coast	6 April	An Overview of GST Bill (Its Impact, Policy and Implementation)	Robin Chia	M.S.Garden Hotel Kuantan	400	8	
East Malaysia	7 & 8 April	Strategic Cost Management Techniques for Profit Improvement and Maximisation	Kenneth Tham	Shangri-La Tg Aru Resort & Spa Kota Kinabalu	900	16	HRDF Claimable
	15 & 16 April	Auditors and Fraud: Auditor's Responsibility – Considering Fraud in Audit	Janise Lee	Four Points by Sheraton Kuching	800	16	
	20 April	An Overview of GST Bill (Its Impact, Policy and Implementation)	Robin Chia & Leung Yew Kwong	Shangri-La Tg Aru Resort & Spa Kota Kinabalu	400	8	
	22 April	An Overview of GST Bill (Its Impact, Policy and Implementation)	Robin Chia & Leung Yew Kwong	Hilton Kuching	400	8	

Information Technology

LOCATION	DATE	PROGRAMME TITLES	SPEAKER	VENUE	FEE (RM)	CPE Hours	REMARKS
Klang Valley	5 April	Microsoft PowerPoint 2003 (Fundamental & Intermediate)	tba	PentaWise Sdn Bhd	150	8	
	26 April	Microsoft PowerPoint 2003 (Advanced)	tba	PentaWise Sdn Bhd	170	8	
	1 & 2 April	Microsoft Word 2007 (Fundamental & Intermediate)	tba	PentaWise Sdn Bhd	250	16	
	27 & 28 April	Microsoft Word 2003 (Advanced)	tba	PentaWise Sdn Bhd	270	16	
	1 & 2 April	Microsoft Access 2003 (Fundamental & Intermediate)	tba	PentaWise Sdn Bhd	250	16	
	27 & 28 April	Microsoft Access 2007 (Advanced)	tba	PentaWise Sdn Bhd	300	16	
	6 & 7 April	Microsoft Excel 2003 (Fundamental & Intermediate)	tba	PentaWise Sdn Bhd	250	16	
	20 & 21 April	Microsoft Excel 2003 (Advanced)	tba	PentaWise Sdn Bhd	300	16	
	22 & 23 April	Microsoft Excel 2003 Macro/VBA (Advanced)	tba	PentaWise Sdn Bhd	850	16	
	29 & 30 April	Microsoft Excel 2007 Macro/VBA (Advanced)	tba	PentaWise Sdn Bhd	850	16	
	8 & 9 April	Microsoft Project 2003 (Fundamental & Intermediate)	tba	PentaWise Sdn Bhd	520	16	
	12 April	Microsoft Office 2007 Upgrade	tba	PentaWise Sdn Bhd	180	8	
	15 & 16 April	Microsoft Excel 2003/2007 Functions & Formulas	Chan Phooi Lai	PentaWise Sdn Bhd	800	16	
	12 April	Expanding Microsoft Excel 2007 Charts	Chan Phooi Lai	PentaWise Sdn Bhd	350	8	
	5 April	Analysing Financial Data with Microsoft Excel 2003	Chan Phooi Lai	PentaWise Sdn Bhd	500	8	
	1 April	Analysing Financial Data with Microsoft Excel 2007	Chan Phooi Lai	PentaWise Sdn Bhd	500	8	
	13 & 14 April	Tasks Automation using MS Excel 2003 Macro/VBA	Chan Phooi Lai	PentaWise Sdn Bhd	800	8	
	8 & 9 April	Tasks Automation using MS Excel 2007 Macro/VBA	Chan Phooi Lai	PentaWise Sdn Bhd	800	8	
	2 April	Financial Data Management with Pivot Table using Microsoft Excel 2003	Chan Phooi Lai	PentaWise Sdn Bhd	400	8	
	19 April	Financial Data Management with Pivot Table using Microsoft Excel 2007	Chan Phooi Lai	PentaWise Sdn Bhd	400	8	

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

MIA Professional Development Centre (MPDC)
Malaysia Institute of Accountants
Dewan Akauntan, 2, Jalan Tun Sambanthan 3,
Brickfields, 50470 Kuala Lumpur
Tel: +603-2279 9200 Fax: +603-2273 5167
e-mail: mpdc@mia.org.my Homepage: www.mia.org.my