ACCOUNTANTS today

Volume 17 • Number 11

DECEMBER 2004

MOF Looks Upon Accountants to Scale New Heights

An exclusive interview with Malaysia's Deputy Finance Minister, Dato' Dr. Ng Yen Yen

ISSN 1394 - 1763

9 771394 176008

Member Audit Bureau of Circulations (Malaysia)

- In Pursuit of Excellence
- MIA President Elected to the IFAC Board

A Monthly Publication of the Malaysian Institute of Accountants

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

The **Malaysian Institute of Accountants** is a statutory body set up under the Accountants Act, 1967 to regulate and develop the accountancy profession in Malaysia.

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

(a) To regulate the practice of the accountancy profession in Malaysia;

(b) To promote in any manner it thinks fit, the interests of the accountancy profession in Malaysia;

(c) To provide for the training and education by the Institute or any other body, of persons practising or intending to practise the profession;

(d) To determine the qualifications of persons for admission as members; and

(e) To approve, regulate and supervise the conduct of the Qualifying examination.

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

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

Published By
Malaysian Institute of Accountants
Registered Office and Address
Dewan Akauntan
2 Jalan Tun Sambanthan 3, Brickfields
50470 Kuala Lumpur
Tel: +603-2279 9200 Fax: +603-2274 1783, 2273 1016
e-mail: mia@mia.org.my
Homepage: http://www.mia.org.my

EDITOR'S NOTE

Accountants to scale new heights

As we progress amid information overload, enterprises have to live with a more transparent environment within the context of stakeholders and other decision-makers increasingly demanding reliable information. These users need to have the confidence that information provided by an enterprise is credible: that it has been prepared objectively and presented fairly by an organisation which has a sound corporate governance practice. Such credibility can be enhanced by accountants giving their professional verification.

No doubt the current business and financial systems in allocating scarce resources depend very much on up-to-date, reliable, relevant, complete, easy to understand and comparable financial information. As such, the financial statements are often the primary source of such financial information.

Accountants have to recognise the significance of professionalism in performing their respective roles. They should be committed to upholding both technical standards and ethical standards of conduct. They are expected to be dedicated to serving the public in return for pecuniary gains as well as job satisfaction.

This message was clearly put forward by Deputy Finance Minister, YB Dato' Dr. Ng Yen Yen during an exclusive interview with the Editorial Board Chairman, Raymond Liew together with Lydia Ng and Anuja Ravendran at her office in Putrajaya recently.

Accountants Today is honoured and would like to take this opportunity to thank YB Dato' Dr. Ng for taking time off her busy schedule and granting us the interview.

Apart from speaking at length on the role of the Ministry of Finance, the affable Wanita MCA chief also shared her thoughts on several other topics that are close to her heart, in particular, those related to the accounting profession. Some of these include her thoughts on the Institute and its future as well as her expectations of Malaysian accountants.

She noted and commended the Institute for striving hard to develop the local accounting profession thus far. She also applauded the Institute's president Datuk Dr. Abdul Samad Haji Alias for actively championing the importance of values such as integrity and accountability and stressed that it is absolutely crucial that accountants practise the highest levels of ethics and professionalism.

Take time to digest some of her tips, advice and observations in this issue.

From all of us at *Accountants Today,* Merry Christmas and a Happy New Year. AT

Editor
ACCOUNTANTS TODAY

LETTERS TO THE EDITOR

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

CONTRIBUTION OF ARTICLES

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

Manuscripts should be submitted in English and range from 1,000 to 2,000 words. They can be submitted in hardcopy or softcopy. Manuscripts are subject to a review procedure without prejudice and the Editor reserves the right to make amendments which may be deemed appropriate prior to publication.

Contents

December 2004


8


24


34


54

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

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

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

VISION AND MISSION

MIA's Vision

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

MIA's Mission

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

MIA BRANCHES

State	**Johor**
Location	Johor Bahru
Chairman	Soh Siong Hoon, Sam
State	**Kedah & Perlis**
Location	Alor Setar
Chairman	Chan Boon Jiun
State	**Kelantan**
Location	Kota Bahru
Chairman	Billy Kang
State	**Melaka**
Location	Melaka
Chairman	Halim Husin
State	**Negeri Sembilan**
Location	Seremban
Chairman	Tan Teng Chai
State	**Pahang**
Location	Kuantan
Chairman	Foo Tui Lee, Joseph
State	**Penang**
Location	Penang
Chairman	Fan Kah Seong
State	**Perak**
Location	Ipoh
Chairman	Soo Yuit Weng
State	**Sabah**
Location	Kota Kinabalu
Chairman	Alexandra Thien
State	**Sarawak**
Location	Kuching
Chairman	Tiang Kung Seng, David
State	**Terengganu**
Location	Kuala Terengganu
Chairman	Su Lim

What the Accountants Say

Failed Audit Interview

Dear Editor,

■ *In March this year I joined a small audit firm in Miri as Branch Manager in view of becoming a partner later on.*

On 21 September 2004 I attended an Audit Interview. However, I failed and will only be allowed to reapply for the next interview six months later.

From your experience, could you tell me the areas I am lacking in? I ask this because I found the tips featured in ACCOUNTANTS TODAY on the 'Audit Interview' informative and helpful and therefore followed them closely.

In addition, I have two suggestions in regards to the process in which the Audit Interview is held.

1. *Since the interview is meant to test candidates on the technicalities of their work, would it not be fairer to do so as a written examination?*
2. *The areas to cover for the interview should be made known to the candidates. If not, there are simply far too many topics to cover i.e. from CA 1965, BAFIA 1989, SCA 1993 … to ITA 1967 and the list goes on. What is more important in our day to day work is to know where to find the information we want besides the common knowledge which each of us must already possess.* — **Solomon Ong Chow Pheng**


A must-read for
Audit Practitioner Interviewees
Important amendments you must be aware of!

CHAIRMAN, EDITORIAL BOARD — *Thank you for your kind comments. I am happy to hear that ACCOUNTANTS TODAY was informative and helpful in some way.*

However I am sorry to learn of your recent failure in the Audit Interview. I do hope the "Audit Interview" articles we carry in ACCOUNTANTS TODAY can continue to serve as a reference on guidelines.

As in many other countries, Malaysia's Ministry of Finance must ensure quality controls are put in place in regards to the Audit Interview.

The Audit Interview is conducted orally as decisions can be made there and then, subject to the final approval from the Minister of Finance. One drawback about the written examination is that it takes time and requires more manpower. There is also much added administrative work plus a whole batch of other procedures that will come into play.

I wish you well in your next interview as the six-month waiting period means that yours was a marginal failure only. Do persevere, my friend and you will pass the Audit Interview. Remember: "Nothing is insurmountable when one puts one's mind into attaining one's goal!" All the best! AT

Where have all the writers gone?

Dear Editor,

■ *I refer to a recent comment in ACCOUNTANTS TODAY made by one of the MIA Council Members on plagiarism. I feel that if it is true, necessary action must be taken, more so if the writer is an MIA member.*


What the Accountants Say
Put a Stop to Copycats

What the Accountants Say *(continued)*

This brings me to a related topic that I have often raised with editors of newspapers, magazines and other media. The topic I refer to is the apparent lack of talent in writing thought-provoking, original articles by certain professionals. Or is there a tendency to think that writing is the least important work, best left to staff or ghost writers?

I believe the latter might be true as I am told repeatedly that some professionals have such hectic schedules, that it is difficult for them to come out with good articles. Come on, this can hardly be the case, can it? Is it so difficult to write 1,000 words once a month?

Perhaps it is a dilemma faced by the writers themselves. Could it be they cannot write about topics they themselves have no faith in? For instance, how can one write about the benefits of striking a balance between work and private life as enjoyed by professionals in other countries while in the corporations they work in, they only see the sun once in three months?

Editors too seem to have an insatiable hunger for articles written only by corporate leaders despite there being other more capable writers out there who can deliver more critical pieces.

I think articles should be 'cold read' to see their actual intrinsic value instead of placing too much focus on who the writer is. Only then can we stimulate intellectual discussions, even if the majority or the 'officials' in this case, don't agree with it. — **Radha K. Vengadasalam**

CHAIRMAN, EDITORIAL BOARD — *Your comments are duly noted.* AT

Tactless comments leave no winners

■ *I am a senior Toastmaster and wish to personally congratulate you on your article in the September issue of ACCOUNTANTS TODAY.*

If I ever found myself in a situation like the one you were in, I would speak to that person privately myself. If the general evaluator does not correct that person's behaviour, I certainly will do my best to communicate my displeasure at how the situation was handled.

Some might think that Dormant Toastmasters should keep their traps shut. However, I agree a speaker's welfare is paramount so the adage 'thou shall do no harm' applies.

If a speaker has made a mess of a speech and knows it, an evaluator should handle the situation with tact. That's because an evaluator may either make or break a speaker with a careless word.

As evaluators, we have to do whatever it takes to recover the situation and keep the member coming back. If he or she leaves, all is lost. So hold your head high, Raymond and carry on toastmastering! — **Katherine Lowe,** DTM, MIM Toastmasters Club of KL.

CHAIRMAN, EDITORIAL BOARD — *It is comforting indeed to know there are individuals like you out there. I believe we learn something new every day but the way in which it is taught makes all the difference. If humiliated, the 'lesson' is lost forever. If politely corrected, the 'lesson' is treasured for a lifetime. Thank you for your encouraging comments.* AT

Capital Reduction

Dear Editor,

■ *The article "Capital Reduction From a Tax and Accounting Perspective" by Tan Hooi Beng which appeared in the August 2004 issue of ACCOUNTANTS TODAY was quite informative.*

Capital reduction is undertaken for various reasons, including as a tax planning strategy in extracting profits from a company without having to incur any additional tax costs. However, the High Court's sanction on the capital reduction scheme must first be obtained and the payment under the scheme should be capable of being correctly viewed as a return of capital.

Under the Income Tax Act 1967 (ITA), a mere return of capital to shareholders is not taxable in the hands of the shareholders. However, if the shareholders receive payments from the company's profits, then the shareholders would be subject to income tax on these payments as dividend income.

The ITA does not define the meaning of 'dividend'. Five case laws which help to shed light on what may properly be regarded as capital payment to shareholders or alternatively as payment of dividend to shareholders were summarised in a table provided. The mechanism of dividend franking in respect of taxable dividends [whereby Section 108 credit by the Company and Section 110 set-off by the recipients of the dividends would be applicable] and the distribution of tax-exempt dividends [due to the availability of tax-exempt income accounts] were also explained.

Please continue to feature any further case law developments on capital reduction schemes. Thank you. — **Paul Vijiendran Thambyrajah**

EDITOR — *We are glad to know you found the article informative.* AT

KNOW YOUR COUNCIL MEMBERS

YM Raja Dato' Seri Abdul Aziz Raja Salim

YM Raja Dato' Seri Abdul Aziz Raja Salim is a highly respected figure in the local accounting scene. His involvement in the accounting arena started way back in the early 60s. He was one of the first Bumiputera accountants in the country.

Besides being a Council Member of the Malaysian Institute of Accountants, Dato' Seri Abdul Aziz, 66, is an Honorary Fellow of the Malaysian Institute of Taxation; a Fellow of the Chartered Association of Certified Accountants, UK and a Fellow of the Chartered Institute of Management Accountants (CIMA), UK.

He had a distinguished career in the Malaysian Civil Service. He was the Director-General of Inland Revenue from 1980-1990 and served as Accountant-General from 1990-1994. He was the President of CIMA, Malaysia Division from 1976-1993 and a Council Member of CIMA, UK from 1990-1996. He was awarded the CIMA Gold Medal in recognition of his outstanding services to the accounting profession.

Presently, he is actively involved in strategic committees in the Malaysian Institute of Accountants. He sits on the Editorial Board, Public Relations and Disciplinary Appeal Board Committees. Besides these three committees, he also represents the Institute in the Asean Federation of Accountants (AFA) and the Malaysian Accountancy Research and Education Foundation (MAREF).

In the coporate arena, Dato' Seri Abdul Aziz was appointed to the Board of Gamuda on 22 October 2001. He is the Chairman of the Audit Committee and a member of the Remuneration Committee of the Board.

His directorships in other public companies are with Amanah Saham Mara Berhad, Kenanga Unit Trust Berhad, Jerneh Insurance Berhad, Matsushita Electric Company (M) Berhad, Gran Asia Corporation Berhad, PPB Group Berhad and Southern Steel Berhad. He is also a Director and Chairman of the Audit Committees of K&N Kenanga Holdings Berhad, Camerlin Group Berhad, Jerneh Asia Berhad, Tasek Corporation Berhad and PBB (Oil Palms) Berhad. AT

Lam Kee Soon

Lam Kee Soon has been a member of the Institute since 1983. He has served as a Council Member of the Institute since 1996. With experience spanning more than two decades in the accounting profession and having been in public practice for 15 years, Lam has been actively contributing to the profession over the past couple of years.

At the Institute, he is the Chairman of the Public Practice Committee. He is also the Chairman of the Adjudication Committee of the National Annual Corporate Report Awards (NACRA) 2004. Apart from that, he sits on committees such as the Financial Statements Review, the Tax and the Executive Committees.

Lam, 51, is also a Member of CPA Australia, and the International Auditing Practices Committee. He is also a Technical Advisor to the Malaysian representative on IFAC.

He graduated from the Australian National University, Canberra in 1976 with a Bachelor of Economics degree. As for his experience in the profession, after working in the commerce and industry sector as well as in an audit firm, Lam ventured into public practice when he established his own firm, K.S. Lam & Co in 1989.

An extremely committed individual, Lam brings with him a wealth of experience from having been involved in the profession all these years to effectively serve the Institute and its members. AT

Sudirman Masduki

Sudirman Masduki has been a member of the Institute since 30 June 1988 and has been a Council Member since 2001.

In MIA, he is the Chairman of the Internal Audit Committee. He also sits on the Editorial Board, Continuing Professional Education and Professional Accountants in Business Committees.

Apart from being a member of MIA, Sudirman is also a Fellow of the Chartered Association of Certified Accountants, UK.

He served the Federal Government in the fields of Accounting Operations, Management Accounting, System Development and Internal Auditing.

Between 1996 to 2000, he held the position of Chief Accountant at the Inland Revenue Board with overall responsibility for the Finance and Accounts of the Board. Presently, Sudirman holds the position of General Manager of Amanah Raya Berhad, and is in charge of Finance and Administration, Human Resources and Information Technology.

Having gained much experience throughout his career in the field of accounting, especially in the public sector, Sudirman tells *Accountants Today* that he is highly committed to contributing towards the betterment and growth of the Institute, its members and the accounting profession as a whole.

Apart from holding an ACCA qualification which he completed in 1976 at the South West London College, UK, Sudirman, 52, holds an MBA from Universiti Kebangsaan Malaysia. AT

In Pursuit of Excellence

MIA President, Datuk Dr. Abdul Samad Hj. Alias, was a guest on a recent RTM TV1 television programme, Fast Forward. Hosted by Datuk Aziz Abd Rahman, the MIA president spoke on "Malaysian Financial Reporting Framework: Challenges and Opportunities". For almost 60 minutes, he candidly answered questions posed by the host and several viewers. Excerpts …

On NAC 2004 from 12-13 October 2004

We achieved our objectives. The theme "Principle-Centred Stewardship" was a reminder to all MIA accountants that apart from being technically qualified, they must abide by the core values of the accounting profession. Values of honesty, integrity, objectivity and independence are just as important as technical competency.

On the Institute's logo and the move towards forming strategic partnerships and enhancing respect and integrity for the profession's future:

The issue is to take the profession back to the trust given by the people who rely on us. As you know, the world has undergone several crises, the major ones happened outside the country. Nevertheless these have affected the accountants in the country. Their credibility is being questioned.

We want to re-position the MIA into a respectable entity in partnership with the government in nation-building.

We first decided to change our logo in 2000 when I first became President. The colour blue signifies the authority of MIA as the regulatory body for the accounting profession in Malaysia.

On the historical role of the profession as the custodian of assets and liabilities reflecting true and fair value to stakeholders versus its image following Enron, WorldCom etc:

As you know, I came from one of the firms that went down. I would like to make a distinction between the role of management and the role of the accountants preparing the numbers for management compared with the role of the people who are certifying or giving opinion on these numbers.

The issue is the blame is normally given to the people who are opining on these numbers. But my contention is the people preparing the numbers should first take the blame and jointly the people opining should also take the blame if they are at fault. This is where the challenges are. Unless the people giving their opinions can defend themselves, the profession stands to lose its importance or significance.

On the question of ethics and greed:

We can make accountants appreciate the relevance of good core values. Even ac-

Lights, camera, action … Datuk Samad (left) together with host, Datuk Aziz Abdul Rahman

counting principles say you must be conservative. But it is a human issue. When interaction happens, it will then boil down to the value judgment of the person.

On the small percentage (5.8 per cent) of bumiputera practitioners after 47 years of Independence Vs. doctors (39 per cent), engineers (43 per cent), architects (43 per cent) and lawyers (34 per cent):

It is due to various reasons but as far as I'm concerned, policy lapses.

Notwithstanding that, a lot of people just want to get university degrees to only become accountants. Fewer people want to practice or make a living out of the profession. One needs to have a licence to practice. This means additional training and professional qualifications.

There is a distinction between the two. One is where you want to become just an accountant. The other is where you want to be a practicing member of the Institute in practice.

My interest is to see that the number will increase to 30 per cent (minimum bumiputera numbers by 2020). Even so, numbers alone is not something which I want to go by. I also want quality, which will be significant in combination with technology.

Recently together with the Selangor and Federal Territory Education Department, we gave a career guidance talk to about 400 accounting teachers and career counsellors. Yes we try to raise the interest among people towards becoming professional accountants.

The public has to appreciate that there are two schools of training. One is simply to train people to be accountants and the other is training people to be in practice as professional accountants.

On placement arrangements with the Big Four and teaching at local varsities:

It is being done but one has to decide whether you want to be just an accountant or a practitioner. There are now more facilities for career guidance available than there were during my time.

Modules C & D can now be taken by students in the fourth year of an Honours accounting course … However there is still room for improvement. Definitely from my experience as President, certain things are lacking. For example at least certain modules like Commercial Law are not taught by the people in practice. This is important as it will ensure that the significance of the subject is well-understood by students.

The government has also started a sponsorship programme with the Big Four firms. It began two years ago. Besides, there are also opportunities to take the professional qualifications with the professional bodies.

All these are being done. We can obviously drag the horse to the water. However whether it wants to drink or not is another issue.

To a SMS question posed to viewers, *"Do you agree that accountants registered with MIA must have professional accountancy qualifications?", 84 per cent of the viewers who responded said accounting practitioners should possess professional qualifications, thus endorsing the MIA's stance.*

Thank you very much. It reflects our professionalism. Can you imagine a doctor who did not do housemanship cutting one's body?

On the perception that many accountancy students end up as teachers and the private sector is only after experienced candidates:

I disagree with the perception. Accounting graduates will find jobs if only they are willing to start at the bottom. You can't get your experience at the top. You can if you start from the bottom. If they have to start with something clerical in nature, so be it. If you want the training, you have to do it. Unless our people are resolute enough to take the challenge, they are bound to be dependent on handouts!

As for new entrants into the job market, fresh graduates just cannot become managers overnight. They just have to start somewhere down there, licking envelopes perhaps!

On globalisation/liberalisation and the need to be on par with best practices:

Practitioners must embrace global best practices. Otherwise, the marketplace will not accept them. Investors/stakeholders would be looking at credible reports and performance.

If you continue to dress up the numbers and these don't measure up at the end of the year, nobody will buy the shares. They will just dump.

The majority of public-listed companies must adopt them. It is a question of the integrity of our financial reporting system.

On discussion with the SC and the distribution of a directory of accountants to all Public Limited Companies to ensure that at least the Chairman of the Audit Committee is an accountant:

When the issue was first put in writing by the then Kuala Lumpur Stock Exchange, there was a lot of hue and cry over it. It has now settled down. Most major Public Limited Companies' Audit Committee Chairmen are either accountants or someone experienced in financial affairs. If not, they are experienced lawyers or engineers, professional people. They are equally good.

Whether MIA is in discussion with the SC to have a list of independent directors, the answer is "No!" We reckon that it is a management decision and it is up to them to think through what is best for them. If MIA were to say Audit Committee Chairmen must be MIA members, we would seem to be intervening … and fingers will be pointed at us.

On corporate failures and the percentage of ethics content in accounting education:

The ethics content in commerce/accounting courses is very minimal. We have to expand that. We also teach other modules such as Social Studies or Comparative Religion. The issue is to make these students appreciate business issues in areas like stock valuation. I must also admit (even in) professional qualifications, ethics is a subject. However we have taken up the issue in the Institute's by-laws where everyone is expected to read and abide by them.

On the trend of audit personnel joining commerce/industry and products of the accounting profession like Dato' Wahid Omar and Dato' Azman Mokhtar helming Government Linked Companies:

That has always been the trend and it is not just in Malaysia, but also in more industrialised countries. They have seen various sets or all sorts of accounts. They will come to make a choice as to which opportunities, among others, offer a better life, a good job and the chance to travel. AT

MOF Looks Upon Accountants to Scale New Heights

An exclusive interview with Malaysia's Deputy Finance Minister, Dato' Dr. Ng Yen Yen by Raymond Liew, Anuja Ravendran and Lydia Ng

Last month, the Editorial team received an opportunity to catch up with Malaysia's Deputy Finance Minister, Dato' Dr. Ng Yen Yen during an interview session at her office in Putrajaya. During the session, she shared with *Accountants Today* thoughts on various issues including the role of the Ministry of Finance, her views on the role of the Institute in contributing towards nation-building as well as her perspective on the role of an accountant in today's society.

Keeping Malaysia healthy — financially

Like all finance ministries worldwide, the major role of Malaysia's Ministry of Finance (MOF) is to ensure the financial health and wealth of the country. Due to market forces like globalisation, the world is changing and in view of this, the MOF needs to equip itself in order to effectively face the challenges that are thrust upon the country.

There is a need, to ensure that all our regulations, systems and procedures are relevant and appropriate in maintaining the competitiveness of the nation. Deputy Finance Minister Dato' Dr. Ng Yen Yen, points out that the Ministry has set up a Tax Review Panel to review the Income Tax Act, 1967 to make sure that the Act is in line with today's demands. The ministry, like any other private entity must be able to move in line with global trends to ensure that it is not just swept along with the currents of change.

She adds that when ensuring financial health, the ministry will also have to ensure that there is a healthy budget deficit. This is so that those who lead the country at a later stage will inherit a good financial system. "We can keep spending and borrowing but at some point there is a need to balance expansionary fiscal policy *vis-á-vis* a consolidated or disciplined fiscal policy", Dato' Dr. Ng offers.

"So far, I think Malaysia has done very well. Way back in 1997, when we needed an expansionary fiscal policy, we adopted it but we know that now, it is time to put in place a disciplined fiscal policy that moves away from public spending towards private spending."

Further illustrating her point, she spoke on the recently announced Goods and Services Tax. "Many governments would be cautious in implementing GST as it has been known to lead to the dilution of political power and influence. However, we feel that it is time we implemented it too, but we are giving the people adequate time before implementing the GST."

In implementing the GST, the Government is aware of the fact that there will definitely be pros and cons, and there will always be different schools of thought, but the role of the ministry is to look at the big picture. "We're implementing it because it is the way to move forward in order to increase the nation's competitiveness.

We want a broad-based taxation system whereby the user pays when he buys. When you pay income tax, some pay and some do not so the GST will ensure that everybody pays."

In assessing the implications, she offers that the Ministry will look into all the groups that will be impacted by GST including the poor. "We will study various GST models implemented in other countries to gain a deeper understanding on how to tackle issues that will crop up with the implementation. We will look for means to address all the concerns of the various groups but on the whole we know we cannot make everybody happy." She adds that GST will be introduced gently to address issues like inflation, and the changing of people's mindsets.

She further adds that the ministry is encouraging the *rakyat* to air their concerns by writing to the Inland Revenue Board (IRB) prior to the implementation of GST in year 2007.

"We, at MOF would like to listen to the various opinions of the *rakyat* for the ministry to look into ways and means to address some of the concerns in these two years before the GST is fully implemented."

Educating Malaysia

Dato' Dr. Ng wants the people of Malaysia to take a proactive stance in getting their thoughts heard. "Malaysians must learn to put their thoughts in writing and think about sharing their concerns and thoughts with the Government. For instance, with this GST issue, they can write to the Inland Revenue Board (IRB) and tell us what they think as there is two years for us to collect and collate feedback which will then be used in the formulating of policies and procedures."

On issues of income tax and why it is viewed as cumbersome Dato' Dr. Ng stresses that the reason that taxes are collected are not just to increase the nation's coffers. The people must understand that the rewards are reaped through health, transportation and education services among others.

The people must be made to understand why they pay taxes. They should not do it grudgingly. They must realise that the benefits are essentially transferred back to them at the end of the day.

The regulatory functions of the MOF

The MOF plays a regulatory role in ensuring, the accountability, transparency and credibility of financial institutions in Malaysia. It has to ensure that these organisations are credible in not only ensuring that domestic investment is healthy but they also play a crucial role in ensuring international confidence in our country. The 1997 currency crisis gave us a clear indication that without solid fundamentals it is like moving on sand, it can be shifty and treacherous.

That points to a necessity for controls which among others include the Capital Market Master Plan which ensures that the Malaysian capital market is internationally competitive in all core areas necessary to support the country's basic capital and investment needs, as well as its longer term economic objectives, a highly efficient conduit for the mobilisation and allocation of funds. This should be supported by a strong and facilitative regulatory framework that enables the capital market to perform its functions effectively and provide a high degree of confidence to its users.

However, she adds that the Government realises that there cannot be too many regulations as it may have a stifling effect on the economy. "Although there is a need to be cautious, we cannot afford to be cumbersome", she opines.

"We also understand the pull and push factor for financial institutions and players. All too often accountants are very pressured by clients to prepare 'nice' financial reports and financial returns. That is why we enacted the Accountants Act 1967 and the

"So far, I think Malaysia has done very well. Way back in 1997, when we needed an expansionary fiscal policy, we adopted it but we know that now, it is time to put in place a disciplined fiscal policy that moves away from public spending towards private spending."

Dato' Dr. Ng Yen Yen, Deputy Finance Minister

The interview in session … Dato' Dr. Ng Yen Yen responding to a question by Raymond Liew

"History has shown that many big nations pay a huge price, the moment they close themselves to others. On the other hand we also cannot afford to open up too fast because we will be gobbled up in the rat race. We must ensure readiness to be internationally competitive, and we must be self-sufficient"

Whistleblowers Act as a measure to ensure that the highest standards of financial reporting are maintained within the country".

Ensuring a pro-business environment

The other role of the ministry, Dato' Dr. Ng explains is to ensure a prosperity-oriented environment, which is pro-growth and open. This is necessary to ensure that businesses will flourish in Malaysia.

History has shown that many big nations pay a huge price, the moment they close themselves to others. On the other hand we also cannot afford to open up too fast because we will be gobbled up in the rat race. We must ensure readiness to be internationally competitive, and we must be self-sufficient.

For this, there is a need to make sure that our own delivery system is ready and capable. First up is the management of government-linked companies. There is a need, Dato' Dr. Ng states, to ensure that they are as well run, as good and as profit orientated and as ethical as any other corporate entity. "That is why they were revamped. We had to take a step back and look at what did not work in the past, and then we had to determine what will."

"And then there is the Government delivery system to contend with. The system must make sure that the *rakyat* is with us and to this end, we must maintain equality," Dato' Dr. Ng stresses. Painting an example, she states that when she first came to her position at the MOF and went around the country to listen to the people, she heard many complaints on late income tax refunds. Having heard this, the ministry has planned to establish the Income Tax Refund Fund which is to be tabled in Parliament at the end of this year to ensure that refunds are timely. The MOF will try to be as close as possible to the people because whatever decisions and policies that are made at the ministry will affect the livelihood of the *rakyat*.

Maintaining social equity

It is also the Government's responsibility to ensure that the pro-business policies and prosperity filters down to *rakyat* including the poor, the rural folk, minorities, *orang asli's*, and specific groups such as single mothers among others. They must also benefit from the nation's progress.

The ultimate goal is to ensure eradication of absolute poverty. "We understand that poverty cannot be eradicated entirely but I believe that no Malaysian should go hungry because food can be grown. One can grow vegetables and fruits in their own garden at home."

These groups need to be educated and empowered to ensure that they do not get marginalised while the nation records progress.

Managing Malaysia

Essentially, the responsibility of the MOF lies in ensuring that Malaysia is managed in an efficient manner. Its role does not cover money management *per se*, but to guarantee that the country is managed well to ensure that the *rakyat* also benefits from the nation's policies. It also plays a crucial function in ensuring that the highest levels of professionalism are maintained in fiscal matters and that Malaysia appears competitive in the eyes of the world to attract foreign direct investment (FDI). AT

Dato' Dr. Ng Yen Yen's thoughts on…

The role of MIA as a partner in nation-building

MIA was formed under the Accountants Act 1967 as a body recognised by the government to regulate and ensure professionalism within the accounting fraternity. MIA has been given the authority to ensure that the profession maintains the highest levels of professionalism and ethics.

Its role is also partially regulatory, as MIA can recognise who are accountants and who are not. In this matter, we try not to interfere.

On the other hand, MIA must realise that as we move towards becoming a borderless world in the era of globalisation, people can engage the services of accountants anywhere for accounting services. In this respect MIA needs to ensure that adequate steps are taken to ensure that Malaysian accountants are competitive and can meet international standards in wanting to be global players.

In addition, MIA also shoulders the responsibility of education. This goes beyond reaching out to its own members, as MIA will also have to educate the public including students. It is important especially to reach out to the students in order to instil within them a deep-rooted sense of pride in their pursuit of an accountancy qualification and profession. MIA must attempt to build that sort of an ethical platform.

MIA should also put more effort into enhancing its corporate social responsibility (CSR) image. By social responsibility, I would like to see MIA go beyond just charity projects. It should look at other ways of empowerment such as how issues such as gender discrimination are addressed. Does MIA talk about gender sensitization? For example, does it take a look as to why captains of industry, chief financial officers and other equally challenging positions are chiefly held by males?

"Accountants are the gatekeepers of financial credibility, truth and accountability both internally and internationally. They must ensure the whole accounting profession moves in tandem with globalisation by continuously updating and improving themselves".

Also, MIA can play its part in ensuring that its members are mobilised to do service for the community. As professionals, accountants are a privileged lot and it will do you good to contribute back to society.

I would also like to commend the Institute's president Datuk Dr. Abdul Samad Haji Alias who has been tirelessly preaching to the profession the importance of integrity and ethics in the accounting profession. The importance of these values cannot be stressed enough and we appreciate the fact that MIA puts in a lot of effort to disseminate this intended message out to the public at large.

On the role of accountants in Malaysia …

Accountants are the gatekeepers of financial credibility, truth and accountability both internally and internationally.

They must ensure the whole accounting profession moves in tandem with globalisation by continuously updating and improving themselves. They must not be technology shy and resistant to change within the business environment.

The Government has also strengthened the accountants position by giving them a whistleblower provision in the Companies Act and the Securities Industries Act. In this respect, accountants must educate their clients and if necessary act as a watchdog should the need arise.

Apart from that, they should see themselves in the context of belonging to a larger society and not just restrict themselves to their own profession. It is imperative that accountants contribute towards establishing an environment for younger accountants to carry the torch of accountability and ethics.

Ultimately, it is our hope that we the governement will be able to establish a smart partnership with Malaysian accountants to ensure that the nation operates within an effective financial system. AT

Keeping LOFSA Credible

"The impact of money laundering on financial institutions is greatest during the placement and layering stages, when illicit funds are laundered but not yet fully integrated into the economy resulting in reputational risks."

Datuk Zamani Abdul Ghani, Deputy Governor, Bank Negara Malaysia

By S. Paul

Keep Labuan Offshore Financial Services Authority (LOFSA), the country's offshore gateway, clean and credible. That sums up the message driven home by regulators at a recent conference on money laundering.

The need to ensure that LOFSA remains a credible offshore platform becomes all the more important as the nation looks at developing the Labuan International Offshore Financial Centre (IOFC) as an Islamic offshore financial centre.

"While LOFSA is on track to promote the Labuan IOFC as a progressive and robust offshore financial centre, effective regulatory and supervisory framework is crucial for Labuan IOFC to maintain and enhance its reputation as a financial centre, free from money laundering activities," said Bank Negara Malaysia's Deputy Governor Datuk Zamani Abdul Ghani.

The senior regulator from the central bank emphasised the importance for Labuan IOFC to maintain its reputation as a credible offshore financial centre.

The call came in a keynote address at the Anti-Money Laundering Seminar themed *Recent Initiatives and Offshore Experiences* in Labuan on 28 and 29 September.

LOFSA, in collaboration with Institut Bank-Bank Malaysia, organised the two-day seminar to further strengthen efforts in anti-money laundering activities. It attracted the participation of some 100 participants comprising mainly key international and local offshore financial institutions in Labuan and from Kuala Lumpur.

The main purpose of the seminar was to update participants on the local and global

legislative developments pertaining to the act of money laundering with particular emphasis to the offshore financial services and to provide an overview of international compliance standards to combat money-laundering activities.

Elaborating on efforts already taken by the country, Zamani noted that Malaysia had legislated the Anti-Money Laundering Act 2001 (AMLA) to ensure the country and the Labuan IOFC remains a conducive and attractive place for doing business.

"Malaysia has developed a comprehensive national anti-money laundering and counter terrorism financing regime, which has been implemented in conventional, Islamic and offshore sectors.

"The impact of money laundering on financial institutions is greatest during the placement and layering stages, when illicit funds are laundered but not yet fully integrated into the economy resulting in reputational risks."

"Malaysia has in place laws, regulations and guidelines to promote sound banking practices in the onshore and offshore sectors. Offshore financial centres should accord the highest priority to good corporate governance to mitigate any potential risks that could undermine the financial soundness of financial institutions," he says.

"While LOFSA is on track to promote the Labuan IOFC as a progressive and robust offshore financial centre, effective regulatory and supervisory framework is crucial for Labuan IOFC to maintain and enhance its reputation as a financial centre, free from money laundering activities".

Datuk Zamani Abdul Ghani, Deputy Governor, Bank Negara Malaysia

In Malaysia, a collaborative approach was taken to combat money-laundering activities through the National Co-ordination Committee (NCC) to Counter Money Laundering. The NCC continues to play a significant role of ensuring continuous enhancements to the national anti-money laundering and counter financing of terrorism programme, regulatory policies and the sustainable momentum of the measures implemented to combat money laundering and terrorism financing.

Elaborating further, Zamani said the Government agencies had undertaken various efforts to combat financial crimes by taking significant steps to enhance institutional capacity through increasing resources, training as well as reorganisation of personnel to increase efficiency and effectiveness in implementing the Anti-Money Laundering Act.

"LOFSA will ensure that all offshore financial institutions formulate and implement the anti-money laundering framework as required by the Anti-Money Laundering Act 2001 (AMLA) and the Financial Action Task Force".

Rosnah Omar, LOFSA Director-General

The Bank Negara Deputy Governor also highlighted that international bodies such as the Financial Action Task Force, the International Monetary Fund and the World Bank require offshore centres to implement the same stringent counter measures.

On its part, LOFSA officials voiced their commitment to ensure that the integrity of Labuan IOFC was not in any way compromised by these criminal activities.

"LOFSA will ensure that all offshore financial institutions formulate and implement the anti-money laundering framework as required by the Anti-Money Laundering Act 2001 (AMLA) and the Financial Action Task Force," say LOFSA Director-General Rosnah Omar.

She reiterated that it was crucial that a continuous close cooperation between LOFSA, other enforcement agencies and offshore participants is fostered to ensure the effectiveness of efforts and initiatives to combat these illicit activities.

Among the efforts taken by LOFSA include a consultation paper with Labuan trust companies on *Guidelines for a Trust Company* pursuant to Section 4 of the Labuan Trust Companies Act 1990. The proposed guidelines serve as a guiding principle for a trust company in terms of governance standards, management, supervision and controls, adherence to laws and regulations provides paramount consideration on anti-money laundering measures.

Another guideline on *Anti-Money Laundering Measures for the Insurance and Insurance-Related Companies* was also proposed to promote the offshore insurance licensees in Labuan IOFC to be constantly vigilant in avoiding the process of money laundering. It also requires offshore insurance licensees to have a framework that provides transparent policies and procedures for the implementation and enforcement of effective anti-money laundering measures. AT

Does Earnings Management Exist in a Good Corporate Governance Environment?

The Malaysian Case

By Takiah Mohd. Iskandar & Norman Mohd. Saleh

The concept of corporate governance has been in existence for decades. The primary concern was initially with the extent of its relevance in relation to increasing the bottom-line and shareholders' wealth (Anandarajah 2001) and in the stock selections (McKinsey 2000). Now, the issue of corporate governance has become a fundamental thrust for the purpose of company stakeholder protections. The issue of corporate governance has received an increasing focus particularly after the recent financial crisis in 1997 and the latest development of corporate failures in 2001. This is due to inherent weaknesses in financial reporting of not being able to withstand the economic pressures and opportunities for managing earnings particularly during the economic turmoil (Megat Najmuddin 1999). The question is whether the introduction of good corporate governance in Malaysia has been able to eliminate earnings management among companies. The objective of this article is to give an overview of the corporate governance environment in Malaysia and to help understand the meaning of earnings management. This article also provides evidence of the practice of earnings management among listed companies, which operate within a good corporate governance environment in Malaysia.

What is Corporate Governance?

As stated in the Finance Committee Report 1999, corporate governance is *"a process and structure used to direct and manage the business and affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realising long term shareholders value, whilst taking into account the interest of other stakeholders."*

Specifically, the term corporate governance refers to how the board of directors perform the responsibilities entrusted to them by the stakeholders to achieve the company objectives, to balance the objectives with the expectations of society and to provide accountability to the stakeholders. It focuses on the ethical conduct of management in carrying out its responsibilities in generating wealth for the stakeholders. The ultimate objective of corporate governance is to protect and realise long-term shareholder value and the interest of other stakeholders.

It is clear therefore, that corporate governance is a self-regulating process. It ensures that the processes implemented within a company and the directions of the affairs of the company and corporate accountability within an organisation is managed with prudence and integrity (Megat Najmuddin 1999). This objective is achieved through the established process and structure of corporate governance. The following section presents the process and structure of corporate governance, and highlights the principles underlying the structure. The discussion also includes the role of financial accounting in

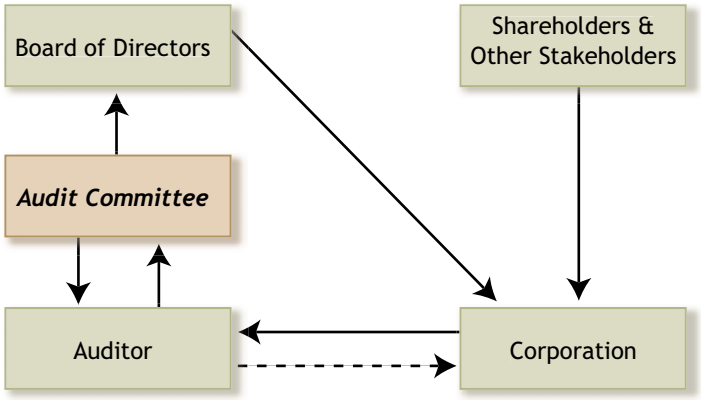
the process and some of the issues that arise from such a structure.

Process and Structure of Corporate Governance

Figure 1 depicts the process and structure of corporate governance. The structure reflects the separation between the management of the company, i.e. the board of directors (known as the agent) and the shareholders (known as the principal). There exists a separation between ownership and control over the company i.e. the custodianship over the assets and the management of the company. This separation often results in a conflict of interest between the agent and the principal (Fama & Jensen 1983). The nature of the relationship between these two parties involves costs to the principal, when the agent pursues an action that does not take into consideration the interests of the principal (Watts & Zimmerman 1986).

Figure 1

THE PROCESS AND STRUCTURE OF CORPORATE GOVERNANCE



The board of directors is appointed to ensure that the management acts on behalf of shareholders i.e. to increase the wealth of the corporation. An effective board of directors will provide a measure of reducing the agency problems stated above. Hence, it is necessary that the board possess characteristics that enable them to perform the monitoring function effectively. These characteristics include independence, knowledge and experience, and it must have an appropriate composition of members. Independent board of directors are expected to reduce earnings management and improve the quality of corporate reporting (Klein 2002). Companies should avoid appointing a CEO who is also the Chairman. The existence of CEO duality status may jeopardise his/her monitoring function over earnings management because a CEO has more discretion to monitor financial reports (Norman et al. 2004). In addition to independence, the accounting knowledge and experience from multiple directorships of board members would help the board perform effective monitoring (Beasley 1996).

Another important element of good corporate governance is the mandatory requirement for the formation of audit committees by all listed companies. The audit committee has an overseeing role in the financial reporting process to ensure that management does not practice inappropriate "earnings management," that is distorting the true financial performance of the company (Klein 2002). In doing so, the NYSE and NASDAQ have modified their requirements that firms must maintain audit committees with at least three directors, "all of whom have no relationship to the company that may interfere with the exercise of their independence from the management and the company" (NYSE Listing Guide, Section 303.01(B)(2)(a)). In Malaysia, the Listing Requirement requires company audit committees to have a majority of independent members. The audit committee meets the company's other directors and internal financial managers to review the company's financial statements, the audit process, and internal accounting controls (Klein 2002). Hence, the existence of effective audit committees will contribute to the success of the monitoring and controlling of the board of directors in eliminating the conflicts between the principal and agents (Fama & Jensen 1983; Jensen & Meckling 1976).

As emphasised by Sloan (2001), the financial accounting system provides an important source of information for governance mechanisms that help alleviate the agency problem described above. It has been noted that the financial accounting information is an input to the governance process and at the same time it is a product of the governance process (Sloan 2001). Hence, it is important to acknowledge that the credibility of the information is vital in order to ensure the acceptability of decisions made based on the information. The production of financial accounting information is primarily the responsibility of the management of an enterprise (i.e. of preparers) who must be aware of the fact that information is used as an input to the governance process. As such, a series of governance mechanism have evolved to ensure that the quality of accounting information supplied by management is not unduly compromised. It is necessary to ensure that management produces quality corporate financial reporting that can be used by stakeholders with confidence in order to reduce the conflict between the principal and agents (Chow & Wong-Boren 1987; Jensen & Meckling 1976).

"In Malaysia, the Listing Requirement requires company audit committees to have a majority of independent members. The audit committee meets the company's other directors and internal financial managers to review the company's financial statements, audit process, and internal accounting controls".

Issues of Concern

The issue that is often raised relates to the question of quality of reporting. There is evidence that the quality of reporting varies between companies depending upon the company characteristics. These characteristics include ownership structure (e.g. Cooke 1992, Fama & Jensen 1983, Michailesco 2000, Owusun-Ansah 1998,

Wallace & Naser 1995), leverage (e.g. Craswell & Taylor 1992, Jensen & Meckling 1976), profitability (e.g. Inchausti 1997, Raffournier 1995, Singhvi & Desai 1971), and type of external audit (e.g. DeAngelo 1983, Tan et al 1990, Walklace & Naser 1995, Watts & Zimmerman 1986). Lily and Takiah (2003) provide evidence that the quality of corporate reporting in Malaysia is significantly associated with the company profitability, leverage and type of auditors. The study shows that management makes attempts to provide good reporting for creditors and investors. This is done in order to gain the confidence of creditors and investors, being the important stakeholders of the company. The study finds that auditors play their role well in influencing the quality of financial reporting. This finding is consistent with earlier studies which show that a high quality audit results in high quality financial reporting (Fama & Jensen 1983).

The question remains as to what extent does a good corporate governance framework provide an environment for the management to provide credible information of the company?

Earnings Management

As mentioned above, one very serious consequence from the concept of separation between principal and agent is the practice of earnings management. Earnings management refers to a purposeful intervention by the management in the external financial reporting process for the purpose of gaining some private gains (Schipper 1989). Managers will attempt to either mislead stakeholders about the underlying economic performance of the company or to influence contractual outcomes that depend on reported financial numbers through earnings management (Healy & Wahlen 1999). Earnings management may take place as a result of the availability of various allowable accounting methods or the application of different assumptions or estimates within an accounting method. Consequently, the manager may choose the accounting method that can meet the need of management to reflect a good entity performance. Examples of alternative accounting methods that may lead to earnings management are the choice between LIFO and FIFO for inventory, the choice between straight-line and reducing balance method of depreciation, and the choice of estimated useful life for the purpose of amortisation of goodwill. The management can make a choice among accrual accounting methods that can best meet their needs either to show an income increasing or income decreasing trend in the company.

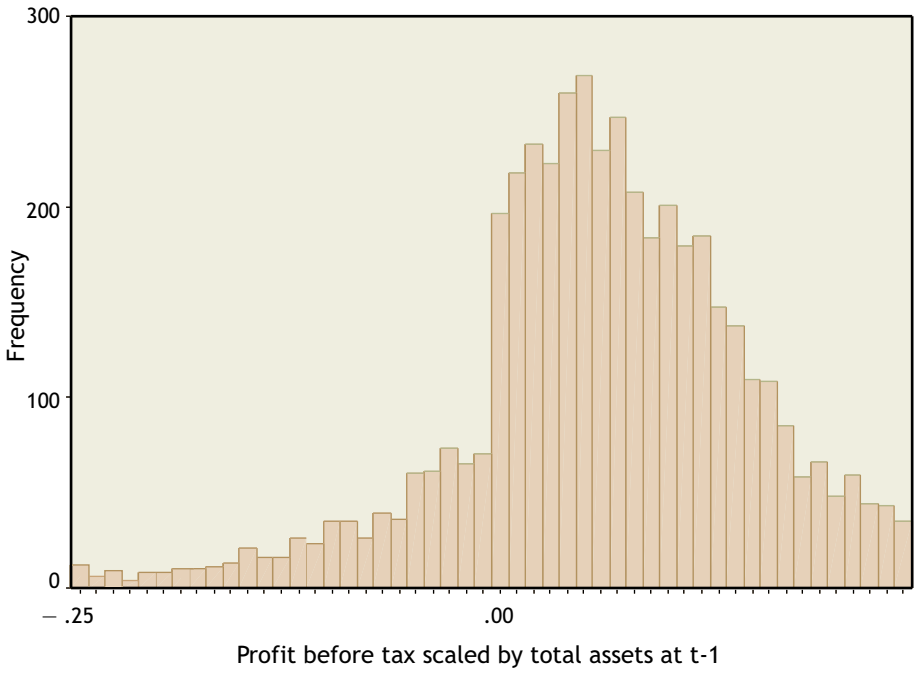
Earnings management may be potentially driven by a number of factors. These factors include debt covenants of the company, political costs, internal financing and equity ownership structure (Pourjalali & Hensen 1999). Studies in Japan found that managers of firms with large debt to equity ratio tend to choose income-increasing accruals. Managers may also choose income-increasing accounting accruals to increase their bonuses and to increase the amount of outside funding (Pourjalali & Hensen 1999). The study also shows that income-increasing choices are positively associated with the ownership of individual investors and trust companies and negatively associated with ownerships by other corporations and financial institutions. The latter indicates that institutional ownership provides an institutional monitoring that can reduce earnings management behaviour in companies.

In Malaysia, Takiah, Aini and Pourjalali (2002) find that ownership structure has a significant relationship with the management choice of accounting accruals. The study shows that companies having a higher degree of ownership by nominees choose income-increasing accruals in order to provide a more positive picture of the firm performance. Thus, the ownership characteristic may give rise to conflicts of interest between controlling owners and minority shareholders namely when there is a concentrated ownership (Fan & Wong 2002). The separation of control and ownership allows the controlling owner to extract wealth from the firm, receive the entire benefit but only bear a small fraction of the cost than when there is no separation of control and ownership (Fan & Wong 2002).

In an exploratory study, Norman, Takiah and Mohd Mohid (2003) examine the existence of earnings management practices among companies listed on Bursa Malaysia, which was known as the Kuala Lumpur Stock Exchange (KLSE), from 1990 to 2001. The study that utilises 4,858 observations, found that earnings management is used to avoid earnings decreases and losses across industries (see Figure 2). The result indicates that there is a jump in the distribution of earnings to avoid negative profits. The absence of a normal distribution of earnings indicates that there is earnings management. It was

Figure 2

EMPIRICAL DISTRIBUTION OF EARNINGS SCALED BY TOTAL ASSETS AT T-1



also found that companies avoid reporting losses by manipulating accounting methods.

Who Is Responsible?

The above discussion shows that the practice of earnings management exists particularly among public-listed companies with losses. This has happened despite the actions taken by the government through the setting up of the High-Level Finance Committee on 24 March 1998 comprising senior representatives from the private sector, the financial industry and relevant regulatory bodies including the Secretary-General of Treasury, Ministry of Finance as the Chairman, the Governor of the Central Bank, the Chairman of the Securities Commission and the Chairman of Bursa Malaysia. The 1997-98 regional financial crisis provided useful lessons that brought corporate governance into greater focus (Zarinah & Tang 2003). The framework for corporate governance was developed and the Best Practice for industries was determined as contained in The Finance Committee Report in 1999. The Malaysian Code of Corporate Governance in Malaysia was developed and the announcement on the development of the Code was made in March 2000. The Code sets out principles and best practices on corporate governance. Following this, the Bursa Malaysia revised its listing requirements, making all public-listed companies provide a mandatory statement of the extent of compliance with the Code. Statements of internal controls and composition of audit committee members are examples of the mandatory statements.

The establishment of MASB under the Financial Reporting Act 1997 and Foundation of Financial Reporting provides an important milestone in the development of the Malaysian financial reporting framework. As a result, in March 1998, the Malaysian Institute of Corporate Governance (MICG) was established as a public company limited by guarantee under the Companies Act 1965. MICG consists of members comprising the Federation of Public Listed Companies, Malaysian Institute of Accountants (MIA), Malaysian Association of Certified Secretaries and Administrators (now MAICSA), Malaysian Institute of Certified Public Accountants (MICPA), and Malaysian Institute of Directors. The Institute is responsible for outlining guidelines and the code of ethics for the business community.

There are often misconceptions among the public, at least in Malaysia, as to who is responsible for such an act as fraudulent reporting. Is it the responsibility of the company external auditor or the board of directors? Can good corporate governance curb the occurring of earnings management practices? The Malaysian corporate governance framework requirements clearly outline that the company is responsible for its financial statements and for the compliance with the financial reporting and disclosure standards. It requires companies to have a sound system of internal control and risk management. The ultimate responsibility lies with the board of directors to review the effectiveness of the system. Although the board delegates to the company management the task of establishing, operating, and monitoring the systems of internal control and management of risk, they cannot delegate their ultimate responsibility. It is the board of directors as a whole, with the assistance of senior management, who are responsible for the direction of the company. Hence, the responsibility for the accuracy and completeness of the financial statements issued by a company rests upon the board of directors and senior management. The integrity of financial statements and the efficacy of financial reporting to the Malaysian capital market are dependent on an effectively run board of directors and senior management who are fully cognisant of their respective roles and responsibilities within

Malaysia's legislative and corporate governance framework.

Some Empirical Evidence

In the U.S., Klien (2002) examined companies listed on the S&P 500 as of March 31 1992 and 1993 with annual shareholder meetings between July 1 1991 and June 30 1993. The objective of the study was to see whether audit committee and board characteristics are related to earnings management by the firm. The SEC, NYSE and NASDAQ assert that earnings management is positively related to poor corporate governance mechanisms (Klein 2002). The study found a negative relation between audit committee independence and abnormal accruals. The study also found a negative relation between board independence and abnormal accruals. This implies that an absence in board or audit committee independence is accompanied by a large increase in abnormal accruals. Most significantly, strong results are found when either the board or the audit committee has less than a majority of independent directors (Klein 2002). Klein (2002) suggests that, in the US, boards that are structured to be more independent of the CEO are more effective in monitoring the corporate financial accounting process.

The effectiveness of corporate governance in the monitoring function in Malaysia has also been subject to examination . Norman, Takiah and Mohd. Mohid (2004a) assess the effectiveness of corporate governance in the monitoring function with respect to certain characteristics of the board of directors. The study found that earnings management is negatively related to management equity ownership but positively related to the existence of the CEO-Chairman duality role. It means that the incidence of earnings management is lower when the management equity ownership is high. The incidence of earnings management is high among companies that are managed by CEOs who are also the Chairmen. The findings suggest that there is a need for strengthening these elements of corporate governance. The Bursa Malaysia may need to enforce the requirement for the Chairman and CEO roles. The study also shows that the directorship position held by the board members in other companies provides an important experience for them in reducing earnings management. However, it is perceived that more independent members of the board are not able to monitor the action of the CEO-Chairman towards earnings management practices.

In another study, Norman, Takiah and Mohd. Mohid (2004b) examined the monitoring role of audit committees with respect to earnings management. The study attempts to see whether audit committee characteristics are effective in controlling earnings management practices in Malaysian firms. The study found that although only a small percentage of audit committee members possess accounting knowledge, it has a significant relationship with earnings management practices. The study shows that earnings management practices are reduced when more members possess accounting knowledge. The results indicate that management has a strong incentive to manage earnings upward when the level of earnings is slightly negative. It is expected that audit committees that conform to the prescribed characteristics are able to control the practice of earnings management. This expectation is supported when a study found significant relationships (i.e. between audit committee characteristics and earnings management proxy) exist when unmanaged earnings are negative and no significant relationship when unmanaged earnings are positive. This finding provides strong evidence that earnings management is being practiced by companies to avoid losses. It is also true that some audit committee characteristics may be interacting with each other, to form a set of effective governance characteristics. The existence of one good attribute of audit committees (such as, financial literacy among the majority of its members) may be necessary but not a sufficient element to eliminate earnings management practices. The result indicates that activeness and accounting knowledge of the audit committee are important in controlling earnings management. The results of this study should become an important input for the authorities in drawing new regulations or in reviewing the existing regulations relating to corporate governance.

Summary

This article has highlighted the existence of earnings management practices among companies listed in Bursa Malaysia. The practices are done through the adoption of alternative accounting accruals. There is evidence that management tends to manipulate earnings in order to reflect better financial performance of the company. The existence of such practices will certainly reduce the quality of financial reporting of the company, hence, affecting users' decisions.

Based on past studies, it is concluded that the occurrence of earnings management has been driven by a number of factors including the lack of independence and inadequacy of accounting knowledge and experience among members of the board of directors and audit committees. The duality role of the CEO-Chairman will also reduce the independence of the board of directors and will provide an opportunity for earnings management.

The discussion attempts to provide an understanding on the importance of the board of directors and audit committee characteristics as elements of corporate governance. These characteristics are expected to minimise agency costs. The effectiveness of corporate governance is particularly important in a developing country, such as Malaysia, whose economy relies heavily on foreign capital investment. AT

References

Anandarajah, K. 2001, *Corporate Governance: A Practical Approach*, Butterworths Asia.

Cadbury Committee Report, 1992, Committee on the Financial Aspects of Corporate Governance, Final Report.

Cooke, T. E. 1992, "The Impact of Size, Stock Market Listing and Industry Type on Disclosures in the Annual Report of Japanese Listed Corporations", *Accounting and Business Research*, 22(87): 229-237.

For more information on reference materials please contact the writers.

This paper has benefited from the IRPA research grant. Prof. Dr. Takiah Mohd Iskandar is the Dean of the Faculty of Economics and Business, University Kebangsaan Malaysia (UKM) and Assoc. Prof. Dr. Norman Mohd Saleh is a lecturer at the same faculty . For enquiries and the additional list of the reference material kindly contact *takiah@pkrisc.cc.ukm.my* or *norman@pkrisc.cc.ukm.my*

The Impact of Export Instability on Malaysia's Economic Growth

By Dr. Nor'Aznin Abu Bakar
Shri Dewi Subramaniam &
Dr. Jeyapalan Kasipillai

This study examines the relationship between export instability and economic growth in Malaysia using time series data. The export instability has a deleterious (negative) effect on Malaysia's economic growth. Instability in export earnings can cause economic reprisals, which will affect the economic performance of the country. The balance of payment position will be jeopardised, unemployment levels would increase and individuals' income levels may decrease.

The issues surrounding export instability have received enormous attention during the last two decades. Most developing countries depend heavily on primary products for export. The high degree of instability in the export earnings for these primary commodities may have an adverse effect on the growth of the developing countries concerned. Several studies were carried out to testify to the detrimental effects of export instability on economic growth. Using the notion of Granger causality, these studies have shown that in most countries, export growth has made a significant contribution to economic development. On the other hand, several other studies indicate that the relationship between exports and economic growth is rather weak, thus casting considerable doubt on the validity of the export promotion hypothesis.

After experiencing negative growth over the 12-month-period to 31 December 2001, Malaysia's export performance has picked up since March 2002. With the increasing momentum of economic recovery in the US and the Asia Pacific region, Malaysia's export earnings recorded a growth of 4.5 per cent in 2002, compared to the dismal decline of 10.4 per cent in year 2001. This reversal of fortune was mainly driven by the better-anticipated export performance of manufactured goods and higher commodity prices. The export earnings of agricultural commodities increased by 22.9 per cent to RM9,631 million in 2002 mainly attributable to higher palm oil prices. However, there was a decline in major mining commodities in 2002 principally attributable to a global decline in crude oil and Liquefied Natural Gas (LNG) prices (see Table 1).

The earnings from manufactured goods accounted for 86.5 per cent of the total value of gross exports in 2002 compared to 86.1 per cent in 2001 resulting in a gain of 5.4 per cent compared to the previous year.

This article examines the effect of export instability on Malaysia's economic growth. Export growth rates are used under the conventional method as a measurement variable. As the export growth rate is an important determinant influencing economic growth, the ability to maintain stable exports is crucial to a developing nation such as Malaysia. Instability in export earnings can reduce a country's ability to generate foreign exchange, which is crucially needed to finance imports. Although the shortage of foreign exchange can be financed by international sources, i.e. through foreign borrowing and loans, in the long run it has serious limitations, at least in terms of servicing the debt. Based on this theoretical relationship, export instability is seen to have a deleterious (negative) effect on economic growth.

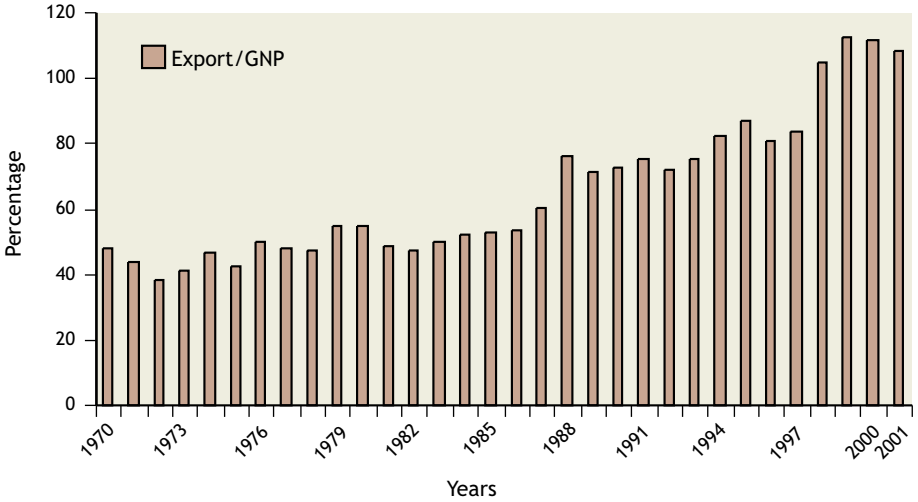
Exports that are derived from agricultural produce (rubber, oil palm and cocoa) and mineral extraction (petroleum, LNG and tin ore) are subject to frequent price fluctuations that cause unpredictable short run variation in earnings. Instability in export earnings becomes a real concern to developing countries in general, and to Malaysia specifically, as it has far reaching economic and policy implications.

Table 1 TYPES OF MANUFACTURED GOODS VALUE OF GROSS EXPORTS *(Half year-ending 30 June 2001 & 2002)*

	RM million		Share (%)	
	2001	2002	2001	2002
Manufactured Goods	**145,486**	**146,446**	**86.1**	**86.5**
Electronics, electrical machinery and appliances	101,188	103,044	59.9	60.9
Textiles, apparel and footwear	4,647	3,964	2.8	2.3
Wood products	4,518	4,344	2.7	2.6
Rubber products	2,296	2,246	1.4	1.3
Food, beverages and tobacco	2,812	3,090	1.7	1.8
Petroleum products	5,203	3,781	3.1	2.2
Chemicals, and plastic products	8,792	9,142	5.2	5.4
Non-metallic mineral products	1,193	1,384	0.7	0.8
Iron and steel and metal products	4,328	4,319	2.6	2.6
Transport equipment	1,264	1,660	0.7	1.0
Miscellaneous manufactured products	9,245	9,472	5.5	5.6
Major agricultural commodities	**8,050**	**9,631**	**4.8**	**5.7**
Palm oil	4,546	6,259	2.7	3.7
Sawn timber	1,177	1,053	0.7	0.6
Rubber	1,001	1,027	0.6	0.6
Sawn logs	751	688	0.4	0.4
Palm kernel oil	434	505	0.2	0.3
Pepper	113	52	0.1	0.0
Cocoa	28	47	0.0	0.0
Major mining commodities	**12,239**	**9,778**	**7.2**	**5.8**
Crude oil	6,337	5,236	3.7	3.1
LNG	5,683	4,268	3.3	2.5
Tin	219	274	0.1	0.2
Other exports	3,203	3,481	1.9	2.0
Gross Exports	**168,978**	**169,336**	**100**	**100**

Source: Economic Report, 2002/2003

Figure 1 MALAYSIA: TOTAL EXPORTS/GROSS NATIONAL PRODUCTS (GNP) (%)



The study is motivated by two factors; first, the export sector constitutes a significant proportion of Malaysia's gross national products (GNP). Figure 1 shows the upward trend of total exports as a percentage of GNP for the period 1970 to 2001 (inclusive of both years).

Secondly, there are few studies on Malaysia regarding the export instability issue. Furthermore, these studies use time series data that do not pay attention to the issues of co-integration, which could lead to 'spurious regression', implying that the statistical findings may conclude that there is a significant relationship when in actual fact there is little or no relationship between the variables. In this study, all variables used will be tested for co-integration so as to provide more reliable results. If the time series are held to be stationary then the data can be used to generalise the other time periods.

Literature Review

The theoretical rationale underlying the possible effect of export instability on economic growth has been extensively deliberated in the existing literature. The usual argument of a negative influence is based on two assumptions, namely:

1. export instability reduces productive efficiency by the unpredictable supply of foreign exchange required for capital expansion, and
2. export instability discourages capital formation and therefore output. However, the proponents of this hypothesis have argued that greater uncertainty about future income encouraged by higher export instability actually stimulates growth by increasing savings, and therefore investment through the precautionary demand motive. If this is true, then the harmful effect of export instability will be reduced.

Several approaches have been used to analyse the effects of export instability on economic growth. The most popular one is the cross-country regression analysis, which attempts to sum up the experience of a large sample of developing countries over a given period (Glezokos 1984). Another approach is the country-study ap-

proach, used when long and reliable time-series data on individual countries are available (Ariff 1972). The formal statistical modelling approach can also be used by adopting a general model to explain growth in a group of countries or a different model for each country.

In terms of empirical results, they can be divided into three groups. The first group consists of studies which show export instability resulting in the lowering of the rate of economic growth or the growth rate of some of its determinants (Menzels 1968, Glezokos 1984, Lim 1976, Moran 1983, Love 1989). Moran (1983) in his paper entitled *Export fluctuations and economic growth*, estimated the relationship between export instability and economic growth over the periods 1954-1965 and 1966-1975 and he found that there exists a negative relationship between the two, but the estimate for the latter period was statistically insignificant. The relationship was also insignificant over the combined 1954-1975 period.

The second group consists of studies that show export instability to have no impact on economic growth. Included in this group are the cross-country studies of Messell (1964), MacBean (1966), Ariff (1972) and Voivodas (1974).

The third group consists of studies which show how export instability has stimulated either economic growth or has identified some of its determinants. This includes the cross-country studies done by Knudsen and Parnes (1975) and Knudsen and Yotopoulos (1976). It is argued that a higher level of export instability would tend to produce a lower propensity to consume out of permanent consumption during shortfalls of income. Friedman's permanent income hypothesis of consumption saw instability as leading to a higher level of savings and economic growth. Hirschman (1958) in his study, however, postulated that export instability could be good for economic growth. Investment may be increased when import-substituting activities are encouraged by a fall in foreign exchange and a rise in import restrictions subsequent to a reduction in exports.

From the empirical literature, there are inconsistencies in the results obtained and it can be due to several weaknesses in the studies involved such as the inappropriate choice of data, inadequate structural formulations and also differences in the time periods that were considered for the research. The level of instability could vary between periods of time.

Findings

The findings of the study show that besides capital and labour, exports of primary commodities and electronic products play an important role in propelling economic growth in Malaysia. The results from the study, using time series data, suggest that export instability has a negative relationship with economic growth. The findings are therefore consistent with the conventional economic theory postulating that an increase in export instability depresses the GNP and economic growth. Instability in export earnings can cause economic upheaval, which in turn would affect the economic performance of the country. A fall in export prices will cause a reduction in export earnings, thus jeopardising the balance of payment position. This will then increase the unemployment rate and lower income levels, resulting in a fall of savings and investments.

Conclusion

The unfolding globalisation process, focusing on production and distribution networks and on financial institutions, products and transactions, is having a profound impact on a wide range of policies and practices in both the private and public sectors of the economy. The Malaysian government is consistently formulating various policies and schemes to lower export instability. For example, the agricultural diversification programme was introduced in the 1970s to reduce the heavy reliance on two primary commodities: rubber and tin. Broadening the manufacturing export base is also one of the efforts that could promote economic growth to avoid being too dependent on electronic products. With a broader export base, it is possible that a decline in global prices of a product can be offset by an increase in prices of other products. Direct market intervention is also used to control export instability i.e. international agreements for rubber and tin, which aim to reduce the volatility of the commodities price in the international market.

As the Malaysian economy is increasingly becoming more globalised, international trade will be a catalyst in providing a boost to economic growth in Malaysia. As export instability has a negative impact on economic growth, the government has to continuously review the existing export stability schemes to provide more resilience to the economy, if there is any downturn in export markets.

The 'foreign exchange market' is also important i.e. exchange rate depreciation will improve the competitiveness of primary commodities exports and this will help boost foreign exchange earnings. Thus at the same time, expanding the traditional markets as well as finding new markets for exports i.e. through South-south trade, can also help to increase export earnings. World trade is also expected to increase as a result of the East Asia Economic recovery and the inclusion of China and Russia into the World Trade Organisation (WTO). With the scheduled liberalisation of trade in goods and services under the WTO, as well as commitments to lower tariff under bilateral and regional trade arrangements, Malaysian exports are anticipated to penetrate a wider range of markets, thus ensuring stability at least in the short run. AT

Reference

Ariff, K.A.M. (1972) *Export trade and the West Malaysian economy: An enquiry into the economic implications of export instability*, Kuala Lumpur: University of Malaya, Faculty of Economics and Administration monographs on Malaysian economic development.

Caine, S (1954), Instability of producers' incomes: a protest and a proposal, *Economic Journal* 64, 255:610-614.

Chow, P.C.Y, (1987), Causality between export growth and industrial development: empirical evidence from the NICs. *Journal of Development Economics* 26, 55-63.

For more information on reference materials please contact the writers at *jeya@uum.edu.my*

Dr. Nor'Aznin Abu Bakar is an Associate Professor attached to the Faculty of Economics, Universiti Utara Malaysia (UUM). Shri Dewi Subramaniam is a Lecturer attached to the Faculty of Economics UUM, and Dr. Jeyapalan Kasipillai is a Professor attached to the Faculty of Accountancy, UUM.

Temasek's Conquest

The Singapore investment giant is already creating waves all around.

By K. Mohan

GLCs has been the buzzword in the Malaysian corporate scene for some months now. The Government-linked companies have been in the limelight following a major shift in policy. Across the causeway, the talk is about TLCs — Temasek-linked companies.

Over the years, the neighbouring state-backed outfit has been on a buying spree. Temasek's tentacles have reached choice assets around the region and beyond. The active investment house with a portfolio value of some S$90 billion today control a major bank in Singapore and two banks in Indonesia.

This year marks two major milestones for Temasek, which refers to itself as "an Asian investment company headquartered in Singapore". First: It is now 30 years old. Second: For the first time, the Government-controlled organisation has opened up its books to the public. "This is part of our ongoing efforts to institutionalise Temasek's role as a long-term shareholder and an active investor," explained Temasek Chairman, S. Dhanabalan.

Malaysian corporate watchers are keeping a close tab on Temasek. Its importance became all the more relevant following the improvement in relations between the two countries over the last one-year. This was evident following some of the early moves by Prime Minister, Datuk Seri Abdullah Ahmad Badawi when he took over the nation's leadership from Tun Dr. Mahathir Mohamad.

Not long after, Temasek had struck a deal to hold a five per cent stake in national utility Telekom Malaysia Bhd. At the moment, it is involved in a protracted acquisition of banking group Malaysian Plantations Berhad which owns the Alliance Bank Berhad.

Position Today

Established in 1974, Temasek today manages a diversified global portfolio of S$90 billion, spanning Singapore, Asia and the OECD economies. The figure is based on market value for listed assets and book value for unlisted assets as at 31 March 2004, as released in the Temasek Review 2004.

Its investments are in a range of industries: telecommunications and media, financial services, property, transportation and logistics, energy and resources, infrastructure, engineering and technology, as well as pharmaceuticals and biosciences.

> "Born of humble roots during a turbulent and uncertain time, many of Temasek's companies have survived, grown and extended their reach as leading regional and international businesses,"

Singapore-based TLCs include well known Singapore listed blue-chip brand names such as Singapore Airlines, SingTel, DBS Bank, SMRT Corporation and Neptune Orient Lines.

Now, these are major corporations to have under one's belt. Take SingTel, for example. It is one of Asia's leading telecommunications provider and Singapore's largest company in terms of market capitalisation. So is DBS Bank. It is the largest bank in Singapore as measured by assets, with dominant positions in consumer banking, treasury and markets, securities brokerage, equity and debt fund

raising. CapitaLand Limited is equally impressive. The largest listed property company in Asia has core businesses in residential, commercial and industrial property and property related services, such as property funds and real estate financials.

Besides Telekom Malaysia, Temasek's recent investments include ICICI Bank, Matrix Laboratories and the Apollo Hospital group in India, Bank Danamon and Bank Internasional Indonesia in Indonesia and Quintiles Transnational Corp in the US.

"Born of humble roots during a turbulent and uncertain time, many of Temasek's companies have survived, grown and extended their reach as leading regional and international businesses," proclaims one of its corporate messages.

Temasek's push outward is pretty evident. Asia plays a vital role as it moves ahead. In the Temasek Review 2004 report, Chairman, Dhanabalan emphasised the position. The former Singapore Foreign Minister and now Chairman of the DBS Group Holdings says: "As Asia develops, powered by a confident China and a connected India, we believe there is scope for Temasek to reshape its portfolio as an active investor in leading or emerging companies in Asia, and manage for value as an active shareholder … As Asia prospers, we expect to steadily increase our exposure to Asia, outside Singapore."

Where will this lead to? Dhanabalan went on to say that over the next 8-10 years, Temasek expects to see a portfolio with close to one-third of its operating assets in Singapore, one-third in the rest of Asia and the remaining third in the OECD and other economies.

In terms of investment themes of interest, among the areas highlighted by the report were global networks, Asia services, regional resources, scalable intellectual property and emerging champions. "The common thread which cuts across the five investment themes is our focus on leading players with competitive strengths and distinctive advantages and the potential to scale beyond their domestic markets," adds Dhanabalan.

"The common thread which cuts across the five investment themes is our focus on leading players with competitive strengths and distinctive advantages and the potential to scale beyond their domestic markets,"

S. Dhanabalan, Temasek Chairman

Nuts and Bolts

We have a vague idea of where Temasek wants to go. But how does this organisation operate? How did it make a net income of S$7.4 billion for the year ended March 2004?

Ho Ching, Temasek's Executive Director and Chief Executive Officer, gave an insight into how the group operates during a talk to a group of Malaysian businessmen in March 2004. The number one person at Temasek, who is also the wife of Singapore Prime Minister, Lee Hsien Loong, elaborated on the Government's role.

"Although the Singapore government is a shareholder, it does not direct our investment or commercial decisions. In turn, Temasek also does not get involved in the business or the day-to-day operational decisions of our investee companies, sometimes known as the Temasek-linked companies or TLCs. SIA does not seek our approval for their aircraft or equipment purchase — nor is government approval needed," she said.

She made it clear that Temasek had been investing as well as divesting its stakes in companies where it made commercial sense.

When presenting Temasek's maiden report, Chairman, Dhanabalan revisited the issue. He noted that Temasek was fully open to diluting its controlling stakes if it creates an opportunity to enhance long-term returns. "Similarly, we are not averse to holding minority stakes in promising companies with international potential," he added.

Temasek Board

Chairman:
S. Dhanabalan
Chairman, DBS Group Holdings

Deputy Chairmen:
Kwa Chong Seng
Chairman & Managing Director
ExxonMobil Asia Pacific
Lim Siong Guan
Permanent Secretary, Ministry of Finance

Directors:
Sim Kee Boon
Chairman, Council of Presidential Advisors
Fock Siew Wah
Deputy Chairman, Fraser & Neave Ltd
Koh Boon Hwee
Chairman, Singapore Airlines
Kua Hong Pak
Managing Director and Group CEO
ComfortDelgro
Ms Ho Ching
Executive Director & CEO
Temasek Holdings
Ng Kok Song
Managing Director (Public Markets)
Government of Singapore
Investment Corporation

Business Strategy

Moving forward, Temasek has seemingly outlined a clear business strategy. It intends to invest in companies with high regional or global potential and build them into successful enterprises. It is talking about being a pro-active, long-term shareholder. It is looking at driving performance and acting as a catalyst for wealth creation and delivery of value.

With that in mind, Temasek is organised into three broad thrusts:

1. **Strategic Development**: This provides the strategic oversight of Temasek's investments to ensure their long-term growth. Working with the boards and management of TLCs, Temasek proactively identifies business opportunities, and links the TLCs up with potential partners and new markets. While carefully monitoring the performance of its companies, Temasek ensures that the TLCs are addressing their strategic and operational objectives, and unlocking the value within.

Temasek Boys

SINGTEL

SingTel is one of Asia's leading telecommunications provider with a comprehensive portfolio of services that include voice and data services over fixed, wireless and Internet platforms. It is Singapore's largest company in terms of market capitalisation. The SingTel Group has expanded significantly into overseas markets, with investments and operations in over 20 countries and territories, including Optus in Australia.

ST TELEMEDIA

ST Telemedia is a leading information-communications company in Singapore and the Asia-Pacific region. Incorporated in 1994, it is focused on two core business areas: Telephony Services, and Global Internet Protocol (IP) services. Through its group of companies, ST Telemedia offers a full array of telecommunications, information technology and communications services including fixed and mobile services, wireless data transmission, satellite services, Internet exchange infrastructure solutions and services, and cable television. ST Telemedia is a major shareholder of StarHub, a Singapore-based infocomms company, Indosat in Indonesia, and Equinix in USA.

MEDIACORP PTE

MediaCorp Pte Ltd (MediaCorp) is Singapore's largest and most established broadcaster with a complete range of media businesses spanning TV, Radio, Entertainment Production, Newspapers, Magazines, Electronic Media, Movies and other broadcasting services. As part of its content-driven strategy, it produces highly-rated multi-lingual and multi-genre local content with a regional reach.

DBS BANK

DBS Bank is the largest bank in Singapore as measured by assets, with dominant positions in consumer banking, treasury and markets, securities brokerage, equity and debt fund raising. With the merger of its wholly-owned Dao Heng Bank and DBS Kwong On Bank operations in Hong Kong, DBS Bank is now the fourth largest banking group in Hong Kong. Beyond the anchor markets of Singapore and Hong Kong, DBS Bank serves corporate, institutional and retail customers through its operations in Thailand, the Philippines, and Indonesia. In China, the bank has branches and representative offices in Shanghai, Beijing, Shenzhen, Fuzhou and Tianjin. The Bank's credit ratings are amongst the highest in the Asia-Pacific region.

PT BANK DANAMON

Established in 1956, PT Bank Danamon Indonesia Tbk (Danamon) is the second largest private national bank and the fifth largest commercial bank in Indonesia, with a 5% share of the domestic system loans and deposits. Danamon has the widest geographic distribution network of all Indonesian banks with 500 branch offices, 750 ATMs and is well-supported by more than 13,000 employees. Danamon is recognised as Indonesia's leading SME and consumer bank and also serves corporate and institutional customers across Indonesia.

CAPITALAND LTD

CapitaLand Limited is the largest listed property company in Asia. Headquartered in Singapore, CapitaLand's core businesses in residential, commercial and industrial property and property related services, such as property funds and real estate financials, are focused in selected gateway cities in China, Australia and the UK. Its hospitality businesses, in serviced residences and hotels, have a global footprint in more than 50 cities worldwide.

SINGAPORE AIRLINES

The SIA Group is one of the world's foremost commercial aviation companies. The Group has over 20 subsidiaries, covering a range of airline-related services from cargo to catering, and baggage handling to engine overhaul. In addition to SilkAir, they include Singapore Airlines Cargo (a cargo carrier), Singapore Airport Terminal Services (a group of ground handling companies) and the SIA Engineering Company. Founded on its dedication to being an innovative market leader, SIA is also one of the most consistently profitable airlines in the world.

PSA INTERNATIONAL

PSA is a global leader in the ports and terminals business with investments in 17 port projects in 11 countries - Singapore, Belgium, Brunei, China, India, Italy, Japan, Netherlands, Portugal, South Korea and Thailand. It operates the world's largest transhipment hub in Singapore where shippers have a choice of 200 shipping lines with connections to 600 ports in 123 countries.

2. **Corporate Development**: This enables the TLCs to achieve sustainable growth by ensuring that they have good quality boards and management teams to lead the companies. In addition, Temasek promotes best practices among its companies and ensures that they are run well.

3. **Capital Resources Management**: Here, Temasek intends to maximise its financial resources so that it gets the best returns from its investment portfolio.

The buzzword is returns. According to its 2004 report, Temasek delivered a total shareholder's return of 18 per cent compounded over a 30-year period based on market value of its portfolio. In fulfilling its role as a shareholder and growth catalyst, Temasek aims to maximise sustainable shareholder returns.

> "Given the verve and vitality that is re-emerging in Asia, it is not a surprise that Temasek should be looking to transform itself from a Singapore overweight portfolio manager into an Asian equity house. We are looking to leverage on growth in Asia and the world, anchored on a home base of Singapore and Asean."
>
> **Ho Ching**
> **Temasek Executive Director and CEO**

Here, Asian corporations, including selected Malaysian outfits, will come under the watchful eye of Temasek.

Ho Ching's words in Kuala Lumpur are worth pondering over: "Given the verve and vitality that is re-emerging in Asia, it is not a surprise that Temasek should be looking to transform itself from a Singapore overweight portfolio manager into an Asian equity house. We are looking to leverage on growth in Asia and the world, anchored on a home base of Singapore and Asean." AT

Success Through Strategic Management Accounting

By Sri Srikanthan

This is Part One of a two-part series. Part Two will be published in the January 2005 issue of *Accountants Today.*

Strategic management accounting, with its focus on the importance of information external to the organisation, is seen as valuable by the companies that adopt it, and the techniques have become more widely used in recent years. This article explains what strategic management accounting is and why it is of benefit. It explains how management information should link to a company's competitive strategy, and suggests some techniques that can be used to achieve this.

Management accounting has traditionally been seen in terms of tracking costs and revenue within a business, providing information for planning and controlling operations.

However, since the early 1980s, the term strategic management accounting has come into common use. Strategic management accounting (SMA) has a much broader scope than traditional management accounting. Its focus is on addressing the critical success factors needed for a business to obtain sustainable competitive advantage in its markets.

Competitive advantage relates the company's activities to those of its competitors, and a key feature of strategic management accounting is that it is externally focused.

It is not enough just to monitor and manage costs and revenues within the business; this data must then be related to competitor, market and customer information to make it relevant and helpful to the determination of business strategy. Strategic management accounting takes the management accountant out of scorekeeping and into a key role in setting the future direction of the business.

Competitor Accounting

Strategic management accounting relates a business's activities to its external environment. Accordingly, a strategic management accounting system should contain almost as much information on competitors as it does on the company itself.

The collection and updating of this information should be the responsibility of specific named individuals to ensure that it is done. The sources of information will be varied, and could include the following:

- financial statements;
- press releases and information in trade journals;
- discussions with suppliers and with joint customers;
- discussions with ex-employees;
- knowledge of the manufacturing processes used by competitors (for instance their premises could be observed to see whether they run a two-shift or a three-shift system);
- research on the scope and level of competitors' advertising.

Most people do not realise how easy it is to derive a large amount of estimated cost data on competitors.

Once you have this cost data, it can be used to obtain an idea of competitors' costs relative to your own. Knowledge of their cost base indicates how close to break-even they may be operating. Then this information can be used, for example, to evaluate a competitor's likely reaction, in both the short

term and the long term, to any price-cutting strategy that you may propose.

Strategic Management Accounting Techniques

There is no accepted list of techniques that strategic management accounting consists of. Some authors see it only as relating to external issues; others include some practices that have passed into common usage.

Drury (2001) cited a survey carried out by Guilding, Craven and Tayles (2000) that identified 12 strategic management accounting practices in use by companies.

These are, in descending order of usage:

- competitive position monitoring;
- strategic pricing;
- competitor performance appraisal;
- competitor cost assessment;
- strategic costing;
- quality costing;
- target costing;
- value chain costing;
- brand value monitoring;
- lifecycle costing;
- attribute costing;
- brand value budgeting.

It can be seen that, although many of these relate to external influences, internal processes are also relevant.

It could be argued that, to carry out many of these strategic management accounting activities, a company also needs to be competent at activity based costing (ABC). ABC and activity based management help management by producing decision-focused information looking at the effect of changes in key variables that drive customer account profitability (if it is a market-driven business) or its product profitability (if such is its strategic focus).

Strategic management accounting, with its focus on measuring the effects of management decisions on the future, would place tools such as the balanced scorecard in the strategic management accounting portfolio. The balanced scorecard helps managers to identify performance measures that are relevant to the critical success factors in the achievement of business strategy.

Performance Measures

Business objectives have evolved over the last few decades, from an initial focus on profit, through to a consideration of return on investment (ROI), and, more recently, to a concentration on shareholder value.

Analysis 1 CALCULATION OF ECONOMIC PROFIT

	£
Operating profit after tax	250,000
Capital Employed	1,000,000
Cost of capital	10%
Operating profit after tax	250,000
Cost of capital (£1,000,000 @ 10%)	100,000
Economic Profit	150,000

(Economic profit is the excess of the after-tax operating profit over the cost of capital)

The advantage of using the return on investment measure rather than the profit measure was that it made managers consider the capital employed to achieve the profits; the advantage of shareholder value over return on investment is that it also focuses their attention on risk.

Shareholder value models such as economic profit (explained in detail by Minchington and Francis (2000)) recognise that value to the shareholder is created when the business generates an income greater than the opportunity cost of capital to the investor. This is illustrated *in Analysis 1.*

From *Analysis I,* it can be seen that there are three key variables in value creation. Value can be created only if the business is able to do one or more of the following:

- make a bigger profit (by offering a product or service at a higher price or incurring lower costs);
- minimise its capital employed;
- reduce its cost of capital.

Strategic management accounting has a role to play in helping in the management of each of these three variables to achieve a sustainable competitive advantage.

Managing Risk

One of the drivers of value is the cost of capital, and the cost of capital relates directly to the perceived riskiness of the business.

Thus one key aspect of strategic management accounting is the provision of information to assist in risk management. This is one area in which strategic management accounting goes well beyond the bounds of traditional management accounting.

From a strategic management accounting perspective, risk is the volatility in returns from a product, customer, or market segment relative to that of its competitors, used as a benchmark. Strategies aimed at reducing the risk in market segments and hence creating value should start with an understanding of the key drivers of volatility for these products, customers or market segments.

Understanding what drives internal volatility in returns is a major step for an organisation aiming to create value. The market drivers of volatility obviously vary from business to business, but some common factors feature in most companies, for example the strength of the distribution channel, after-sales care and relative quality. In the traditional context of management accounting, the operating leverage (proportion of fixed to variable costs) is another key driver of volatility.

It is important to understand these drivers, not only in relation to your own business, but also those of competitors. Without this comparative knowledge, it is difficult to determine value-enhancing strategies. Strategic management accounting systems should help managers to measure the costs and benefits of strategies that aim to reduce these business-related risks and thus create value.

For example, once an organisation understands what its core competencies are, it may decide to outsource non-core activities to provide more flexibility in its cost base. Although discussion of outsourcing has been extensive in recent years, not many organisations see outsourcing of fixed expenses contracted out on a variable cost basis as a strategy to reduce risk through a reduced operating leverage.

British Airways, Tesco and BP are examples of organisations that have benefited through the use of this strategy. Success in these strategies requires accountants and management to work together with a clear understanding of the real purpose of outsourcing and of the costs and benefits of doing this in terms of the following:

- the service received;
- the cost base;
- the volatility in returns. AT

Sri Srikanthan is a Senior Lecturer in Finance at the Cranfield School of Management. This article appeared in the Institute of Chartered Accountants in England and Wales published journal *Management Quarterly* in January 2002.

Management Accounting Best Practice

A Conceptual Framework

By Normah Omar, Ibrahim Kamal Abdul Rahman and Suzana Sulaiman

Today, the role of managerial accounting is very different from what it was a decade ago. In the past for example, it was typical to see managerial accountants operating in a strictly staff or advisory capacity and physically separated from the managers for whom they provided reports and information. In recent years however, businesses have been faced with radical changes. As such, the environment in which businesses operate has become increasingly turbulent and competitive. Managerial accountants are now expected to work side-by-side in cross-functional teams with managers from all areas of the organisation. Instead of isolating managerial accountants in a separate accounting department, companies are now locating them in the operating departments where they are working with other managers to make decisions and resolve operational problems (Hilton, 2004). The proactive role of managerial accountants in leading-edge companies is best described by Seigel (2000) as "has been transformed from number crunchers and financial historians to being business partners and trusted advisors". Interestingly, a recent survey on *Job profiles and Job Characteristics of CIMA members in Malaysia* (Omar, 2004) noted a significant shift in job title from the generic *Managerial Accountant* to something more specialised such as *Investment Manager, Strategic Accountant, Financial Planner, Operation Strategist* and *Internal Accounting Manager*.

Management Accounting and Other Best Practice Framework

Unlike financial accounting, which is statutorily governed, the practice of an effective management accounting system is generally left to the interpretation and initiatives of individual organisations. As such, some organisations continue to use traditional management accounting techniques while others continuously attempt to practice innovative methods. Yet, numerous research findings have provided empirical research evidence on the positive relationship between effective management accounting systems and corporate performance (e.g. Hiromoto, 1988; Monden, 1989, Epstein, 2002; Mendoza and Saulpic, 2002 and Nishimura, 2004). Evidently, there is a need to develop a suitable Management Accounting Best Practice Model.

This article is written as a result of a collaborative project between various parties, which aims towards assessing management accounting practice in Malaysia. The article reviews published management accounting best practice frameworks as suggested by various organisations worldwide and proposes a suitable model for Malaysia. In line with the management accounting evolution described by the International Federation of Accountants (IFAC, 1998), the proposed framework hopes to facilitate Malaysian organisations to use management accounting information as strategic tools towards achieving the *Value Creation* goal. The development of this framework resulted from a cohesive discussion and collaboration with academics, accounting professional bodies, accounting practitioners, regulators and

managers. Though the framework is not intended to be prescriptive in nature, it can provide guidelines and directions to companies using management accounting as a competitive tool.

IFAC's Conceptual Framework on Management Accounting focuses on four interrelated characteristics. Figure 1 illustrates the conceptual framework:

- The distinctive *function* of management accounting within the management process in organisations;
- The way in which the *utility* of the outcomes of the management process can be tested;
- *Criteria* which can be used to assess the value of the processes and work technologies used in management accounting; and
- *Capabilities* necessarily associated with the effectiveness of the management accounting function overall.

Distinctive managerial function describes a management accounting system that focuses on value creation through four activities: efficient and effective use of resources in organisations; optimisation of value generation over the long run; continuous evaluation of organisational value chain and the formation of strategic teams.

Utility of work outcome addresses the utility and assessment of the management accounting function in terms of accountability, performance criteria and benchmarked performance. The outcomes of the management accounting processes are assessed on the value they add to an organisation.

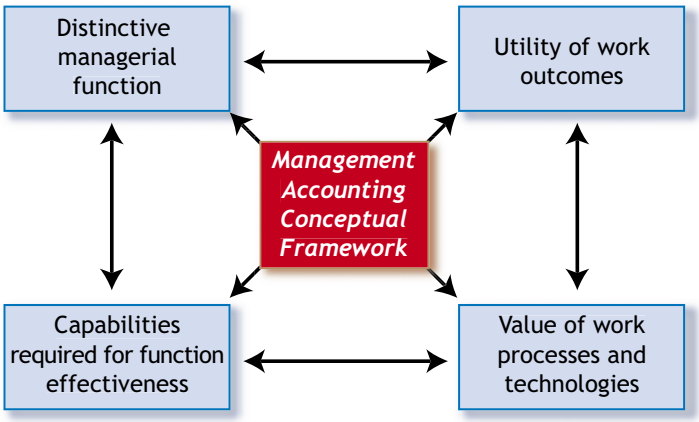
Value of work processes and technologies is where management accounting processes interface or integrate with other management processes and is used to assess or guide the development of the work technologies of more effective and innovative management accounting systems.

Function capability related concepts refer to the capabilities required for effective performance by the management accounting function. They are basically centred on the core competencies seen as necessary, on a culture that embodies continuous improvement and opportunity creation, and on a capacity for critical self-consciousness.

IFAC further proposes that the development of an effective management accounting best practice framework in organisations requires deliberate actions and collaboration among four significant players as follows:

- **Managers** in organisations for understanding, evaluating and developing that distinctive area of their work (e.g. marketing, production, human resources etc) concerned with the effective use of resources;

Figure 1 MANAGEMENT ACCOUNTING CONCEPTUAL FRAMEWORK



Source: IFAC

- **Professional accountants in management** in focusing, benchmarking and developing their contributions to management accounting processes in organisations;
- **Educators** in refocusing and consolidating their efforts on a rapidly evolving area of practice, where capacities to both understand and contribute to change are important outcomes of learning processes;
- **Professional associations and others** in reformulating and consolidating the work technologies to be associated with management accounting now and in the future.

In a more focused study on small and medium enterprises, several researchers developed some useful management accounting system (MAS) models. With reference to IFAC's proposal, the framework used by Reid and Smith (2002) for example, was premised on three basic theories: MAS helps a small firm to adapt to new contingencies; MAS helps a small firm to achieve the entrepreneur's goals; and MAS helps small firms to function as an organisation. As such, their investigation focuses on four areas: *MAS management* (preparation, scope and contents); *MAS Utilisation* (for investment, controlling, software development, performance measurement, budget); *MAS Information handling* (planning, directing, problem solving and decision making) and *MAS challenges and problems* (reliability and accuracy of data, and management support).

Abd Rahman, *et. al.* (2002) used the Japanese management accounting evolution framework as proposed by Nishimura (2002) to assess management accounting practices by small and medium enterprises in Malaysia. Basically, the management accounting techniques were categorised into Drifting (utilisation of basic financial data only), Traditional (standard costing, budget, CVP etc), Quantitative (LIFO, EOQ, Regression etc) and Integrated (JIT, Target Costing, TQM etc). Assessment of management accounting practice was based on the actual application of management accounting techniques used for each category.

The integrated nature of management accounting in organisations requires researchers to examine other best practice frameworks. Specifically, in addition to the IFAC framework, we looked at three main quality criteria: The Malcom Baldridge Quality program (2004), The Prime Minister's Quality Award (NPC, 2003) and the European Quality Award (EQA, 2003). Evidently, one common characteristic of the criteria is the integrated approach adopted by the awarding bodies when assessing an organisation. Such an approach is in tandem with the framework propagated by IFAC. Table 1 summarises the criteria used for each respective award.

Management Accounting Best Practice Framework

Basically, IFAC provides a prescriptive model for management accounting best practice without focusing on details as to how it should be practiced by organisations. The researchers, working together with

Table 1

CRITERIA USED FOR QUALITY ASSESSMENT OF ORGANISATIONS

Baldridge	NPC	EQA
■ Leadership ■ Strategic Planning ■ Consumer & Market focus ■ Measurement, Analysis & Knowledge Management ■ Human Resource Focus ■ Process Management ■ Business Results	■ Top management leadership & management of quality ■ Use of Quality data & information ■ Human Resource Management ■ Customer focus ■ Quality assurance of external suppliers ■ Process management ■ Quality and operational business results	■ Result orientation ■ Customer focus ■ Leadership and constancy of purpose ■ Management by processes and facts ■ People development and involvement ■ Continuous learning, innovation and improvement ■ Partnership development ■ Public responsibility

Table 2 NAFMA BEST PRACTICE FRAMEWORK

No	Criteria	Explanation
1	Leadership	Leadership describes the top management's commitment and responsibility in driving the organisation towards its vision and strategic goals. This section focuses on management support for the management accounting applications in the organisation
2	Management Accounting Information (MAI)	MAI describes the strategic functions of management accounting in the formulation and implementation of organisational objectives. Effective management accounting information focuses on accessibility, reliability and timeliness of the information.
3	Resource Management	Resource Management focuses on the overall career development for the accounting personnel within the organisation. Specifically, it addresses issues on career opportunity, training, recognition, incentives and other continuous improvements
4	Customer/Market Focus	This item highlights the steps taken by the organisation in establishing its market niche and in fulfilling customers' needs and satisfaction. Strategically, it addresses techniques used to meet market demand
5	Partnership Management	Partnership Management refers to the organisation's strategic approaches in managing relationships with its various stakeholders (e.g. Government, suppliers, customers, employees and the community at large) in achieving a win-win situation.
6	Value Creation	Being the core variable for this framework, value creation focuses on the deliberate steps taken by top management as well as personnel in promoting value added activities in management accounting applications. The outcome is overall value enhancement for the company (financially or otherwise). Though value creation is the ultimate aim of the fourth stage of IFAC's management accounting evolution, companies must always focus on creating organisational value in each of the other three earlier stages.
7	Business Results/ Performance Measurement	This section summarises the application of the various management accounting techniques and their implication on business results and organisational performance
8	Corporate Social Responsibility (CSR)	Corporate Social Responsibility is practiced by many organisations and due recognition should be given. Items covered in this section include attributes such as environmental commitment, community services and the like.

MIA, CIMA, NPC and other experts from the industry developed the criteria suitable for the National Awards for Management Accounting (NAfMA) Best Practice in Malaysia. Since NAfMA is a pioneering project in this country, we decided to focus on the development of management accounting framework suitable for large corporations, namely either Public-Listed Companies (PLCs) or Multinational Corporations (MNCs). The framework, which integrates IFAC's proposal and other worldwide best practice criteria was finally developed after undergoing several painstaking brainstorming and benchmarking sessions, detailed focus group discussions and several management accounting workshops with practitioners. Table 2 depicts the Management Accounting Best Practice Framework.

Conclusion

In developing the management accounting conceptual framework for this project, we took serious note of the need to provide an integrated perspective as suggested by Nishimura (2002). As such, we have integrated IFAC's management accounting best practice framework with other quality management criteria adopted worldwide. To be effective and successful, management accounting must be continuously supported by leadership commitment, effective resource management, effective stakeholders, community and customer management. AT

References

Abd Rahman, I.K., Omar, N. and Hoo, T. Y. (2002), "Management Accounting Practices in SMEs in Malaysia", *Proceedings of the Asian Accounting Academic Association Conference, Nagoya, Japan,* pp. 23-29.

Epstein, M. J. (2002), "Measuring the Payoffs of Corporate Actions: The Use of Financial and Non-Financial Indicators", *Performance Measurement and Management Control,* Vol. 12, pp. 3-13.

Hilton, R. W. (2004), *Managerial Accounting: Creating Value in a Dynamic Business Environment*, New York: McGraw-Hill Irwin.

For more information on reference materials please contact dr.normah@accountant.com

The article is co-authored by Prof. Dr. Ibrahim Kamal, Dean, Faculty of Accountancy, UiTM, Prof. Dr. Normah Omar, Deputy Dean (Research & Quality), Faculty of Accountancy, UiTM and Assoc. Prof Dr. Suzana Sulaiman, Lecturer, Faculty of Accountancy, UiTM. This research paper is a product of the CIMA-UiTM Asian Management Accounting Research Centre (AMARC)

Instant Contentment or Long-term Value Creation?

By Saravanan Ramasamy

"Insistently, persistently, relentlessly, the new manager must ask, "What for? What is it that we're in business for? What is this process for? This product? This task? This team? This job: What are we doing here, anyway" **James Champy**

Many companies become short sighted, focusing on quarter-to-quarter results at the expense of the big picture — long-term shareholders' value. It wouldn't be far fetched to state that 'value' is one of the most misused terms in business today, as evidenced by the quarter-to-quarter earnings mentality. This has given rise to the view that earnings per share will inevitably create value if it is the focus of quarterly announcements to the investment community. The media and industry analysts who create great hype about earnings per share and various other accounting-based measures reinforce this belief. But many studies indicate that this method is flawed. More than 40 years of research indicates that the market price of a company's stock is based on expectations of future cash flows, not just traditional accounting measures. This is what we call shareholders' value — the present value of expected future cash flows discounted at a rate that appropriately reflects the company's relevant risk. Thus, enhancing shareholders' value should be the primary objective of companies.

Most analyses of recent business collapses have focused on the failure of corporate governance, but the theory of corporate governance argues that regulatory conformance alone cannot make a business successful. Businesses have got to equally match conformance with performance. The performance dimension requires businesses to remarkably rejuvenate the organisation by transforming the whole culture and behaviour at all levels. These involve the internalisation of good ethics and integrity at the personal level and finally help evolve a culture, which has got good values. Corporate leaders, must understand that their behaviour will be observed and will be taken as the way to progress. As such they need to act in ways they can be proud to share with others. After all, if the head of a fish stinks, so does the body.

In a world of turbulent uncertainty, formal authority *per se* is not sufficient. "We will only accept leaders who have 'moral' authority and, what's more, every member of staff has to have the quality of leadership, not just manager," claims Stephen R. Covey in his international bestseller entitled *Principle-Centred Leadership*. In the very same book, Mr. Covey links the concept of moral authority with team reaction based on mutual 'trust'. A leadership approach combining both moral authority and mutual trust will drive all successful teams through stormy waters to a safe shore, reaching the intended goal — creating shareholders' value. Mutual trust doesn't take place overnight. It doesn't happen unless people are 'trustworthy' which in turn entails competence, integrity and good business ethics. When one's behaviour exemplifies these qualities, trust is developed. Organisational integrity driven by mutual trust is more than just honesty or ethical standards. It is also a function of how employees approach everything they do. Employees in such an organisation are often found to work together, say what they believe and generally behave in a healthy way, all of which will ultimately result in shareholder value creation.

Managing shareholders' value goes beyond computing and tracking performance measures such as Economic Value Added (EVA®) or even Cash Flow Return on Investment (CFROI). It is indeed a "holistic management approach" that encompasses everything a company does. A fundamental weakness in much of the recent press about shareholder value is the notion that value creation somehow "just happens" — driven by the quality of investor relations of the market's overall performance — and is separate from what managers actually do. Generating superior shareholder returns requires great strategies and great execution. And while many companies are beginning to recognise the link between shareholders' value and strategy, relatively very few have attempted to link the concept of 'stewardship' with shareholders' value. Good stewardship requires business leaders, who are responsible in managing shareholders' wealth, to have good ethics, integrity and to be accountable. No doubt, the road to achieve good stewardship is indeed rarely easy to travel; the benefits reaped when the ultimate destination is reached are enormous. AT

Performance Management Systems

The Use of Key Performance Indicators

By Siti Nabiha Abdul Khalid

The rapid change in business environment

Over the last 60 years, there have been rapid changes in the business environment. Changes have arisen from the deregulation of industries and the removal of trade barriers, which have created a more competitive environment. There have also been advances in information and manufacturing technology and these have influenced organisational activities. Besides these external changes, there have been internal changes within organisations. Organisational boundaries are becoming more vague since organisations have merged into chains, clusters, networks and strategic alliances. Contemporary organisations have changed from a centralised hierarchical structure to more flat, flexible and leaner structures. Teamwork has replaced individual tasks and expert power has replaced hierarchical power.

These new forms of organisations have also led to new forms of control. In bureaucratic types of organisations, control was exercised through its formal structure. With the empowerment of employees, control in an organisation is exercised through the use of teamwork and peer pressure and is internalised in the members of the organisation, through, self-discipline or self-accountability. Managerial control has been replaced by the peer pressure of teamwork.

These changes have led to the implementation of new ideas and techniques in organisations. They have also placed significant strains on organisations and their cost and management accounting systems. Arguments have been advanced for the reform of accounting practices so that they can serve the needs of modern organisations. In line with this, 'innovative' accounting techniques have been introduced in organisations.

The new accounting practices that were introduced have led in some cases to changes in organisations. These have in turn influenced accounting practices. This is because accounting is not an independent phenomenon. It can be changed by organisational and wider societal factors and can also act as a vehicle for organisational transformation (Ezzamel et al., 1997; Hopwood, 1987; 1990; Libby and Waterhouse, 1996).

A number of researches have found that the main changes in organisations were the

emergence of multifunctional teams, the reorganisation of organisations into business units and the decentralisation of accounting. These changes occurred as a result of changes in the environment and the pressures of non-price competition. The decentralisation of accounting led to an increase in communication between accountants and other managers and this in turn facilitated accounting change. Furthermore, the empowerment of employees led to new measures of accountability, and advances in production technology have led to the development of machine and equipment performance.

There are changes in the way performance is measured at the individual and organisational level. New measures of performance are also being used and information is reported more broadly and more frequently. There is also the use of non-financial measures together with financial performance measures. A new terminology, *performance management system* has been coined to emphasise the new direction of the control system.

Performance Management System — The Key Performance Indicators

Organisational control practices have evolved in line with the changes in both the external and internal business environment. However, the main issue of the traditional management control system, i.e. ensuring the organisational members act in the best interest of the organisation, still remains at the heart of the current performance management system. In contrast to the traditional control system which focuses only on accounting control and ignores the strategic and operational control, *the performance management system* is a more integrated system and it encompasses the following key areas (Otley, 1999; 2003):

1. Evaluation of performance against the key objectives which are deemed to be central to the organisational success.
2. The measurement of the organisation's process and activities that are implemented to achieve its plans and strategies.
3. The setting of appropriate targets and level of performance required to achieve the objectives of (1) and (2) above.
4. The rewards and penalties given to employees for their success or failure in meeting the set targets.
5. The feedback from the system is a requirement to ensure that the organisation learns and adapts to the current environment.

These key issues on performance management systems complement various other management tools such as, value based management, balanced scorecard and the use of other performance-based measures, like economic value added (EVA®), economic earnings (EE) and other measures. For example, all the issues addressed in the framework are encompassed within the value based management system.

It should be noted that the heart of the new performance measurement system lies in the use of key performance indicators (KPI's) in various organisational processes and activities such as in employee compensation, strategic evaluation and in the budgeting and planning process. Hence, standards and targets need to be set for these key activities. The underlying philosophy of the system is "what gets measured gets done". It has been argued that employees will become committed and have the motivation to achieve their stated objectives if their activities are measured, reported and subsequently rewarded or penalised based on their achievements against the set targets and indicators. Performance evaluation will be more objective and fairer as it would lead to a reduction in employee manipulation.

The setting of targets and indicators for key organisational activities will result in performance being more transparent and subsequently becoming more amenable to control. Key performance indicators are therefore needed to translate strategic plans into specific initiatives, and to allocate responsibilities and accountability to those who will be responsible for achieving the targets set for those initiatives. KPI's are also crucial in the operationalisation of the strategic plans. Hence, an organisation's strategic performance can be monitored through the use of KPI's.

The use of KPI's will provide the link between financial performance and strategic decision-making, and subsequently they will provide an input into the resource allocation process and influence the organisation's portfolio management process. The reporting of KPI's will serve as an early indicator of which businesses need particular attention, and it will indicate how each unit will contribute to the value creation of the whole organisation. Therefore, the use of KPI's in various organisational processes will provide the linkage between day-to-day activities and decisions to the overall financial performance of the company.

Although utilising KPI's is deemed to be beneficial, several case studies researched have shown that the implementation of KPI's is problematic. There are various pitfalls faced in the organisation — from the initial tasks of formulating the key indicators and its associated targets, to the measuring of performance and the rewarding of managers based on their achievements against these targets.

Formulating the Measures and the Targets

How do we formulate measures for performance? Various suggestions have been given on the characteristics of the performance measures to be used in an organisation. The measures, among others, should be congruent with organisational objectives, controllable, timely, accurate, understandable, actionable, measurable and assignable. Therefore, the indicators used should cover areas within the manager's control; it should be easy to measure, and be easily understood throughout the organisation. It should also be assignable to a specific person or team or department, which will be responsible for the achievement of the targets.

First and foremost, managers need to formulate key indicators that are linked to organisational key objectives, which ultimately, for commercial organisations, would be expressed in financial terms. It is not surprising that some managers have difficulty in formulating the key indicators that ultimately would be linked to the organisation's key objectives and at the same time, are truly reflective of their jobs and activities, especially if they are to be evaluated and rewarded against these indicators. To add to the problem, some of a manager's day to day activities and routine jobs are not measurable and cannot

be fully captured by several indicators. Hence, it is understandable that from some case studies researched there is some resentment towards the use of KPI's among managers. This is because the indicators are not seen to be truly reflective of managerial performance because it cannot fully reflect the manager's jobs and activities.

In addition, there are things or activities that cannot be measured or quantified, especially activities of the units that provide services. It is problematic to formulate indicators for those in the service units as they do not have tangible outputs and their activities and processes are very difficult to quantify. How do we fairly evaluate performance for these units?

To compound this problem, data collection, compilation and reporting of KPI's are very time-consuming. Hence, sometimes, the use of KPI's in various organisation processes might necessitate an IT infrastructure that would provide a direct linkage from the operational data to the financial data. As these KPI results would be online, the measure and the result of performance will be more transparent and subsequently more amenable to control. It is not unexpected therefore to find initial resentment to this system. The use of KPI's in almost all-key management processes can create confusion. Hence, linkages between the indicators for the various organisational processes need to be very clear if it is to be of help in decision-making.

The Use of KPI's in the Appraisal System

KPI's try to objectivise performances of the organisation and its members. However, the organisation's decision-makers need to bear in mind the constrains of trying to objectively use KPI's. The inter-dependencies of activities between departments and units within an organisation would mean that the results of the KPI's will be influenced by the results or activities in other areas of operation or in other units in the organisation. The organisation's compensation system which is based only on the managers' achievements against the KPI's would result in the managers being unfairly penalised for the non-achievement of their targets. Therefore, there should be managerial discretion attached to the numerical value of KPI's due to the inter-dependencies of tasks and activities.

Another issue in trying to objectively use KPI's is the fact that, KPI's and targets for performance, measure only quantity and not quality of work. This issue was raised by a senior accountant of a big multinational firm, the case site for the research on this subject which was undertaken by the author. He noted, "For example, in making sure that the staff is motivated. How do you put KPI's on that? The KPI's don't measure the quality of work. We measure quantity; quality is not easy to measure." Measuring quality of work and presenting it in a numerical form is not easy.

Therefore, decision-makers in an organisation should avoid managing purely "by the numbers" that is, managing purely by looking at the numerical results as it could lead to negative consequences. One of those consequences is that it may lead to 'short-termism', i.e. managers' managing their activities with an eye on short-term results rather than overall long-term benefits to the organisation. This does not mean the system of KPI's is not useful. It is helpful in motivating employees but what is necessary is not to penalise employees on matters beyond their control or to activities of other units. Hence, KPI's should be the starting point in measuring performance. Other qualitative measurements are also needed to complement the use of KPI's within the measurement system.

Conclusion

There have been changes in the way performance is measured at the individual and organisational levels. New measures of performance are also being used. However, the performance management systems still have the same focus, i.e. ensuring that employees act in the organisation's best interests. In addition, the two key issues of the traditional management control system are as important within the new performance management system. The first issue is designing a system that will ensure appropriate action is taken and that there is accurate reporting of what is being achieved and the second issue is how to motivate managers to do what is best for the organisation.

Within the last decade, there has been increasing use of key performance indicators as a means of control and as a measurement of and reward for employees' performance. Performance indicators should be used with care, more to review the problems and achievements in each area, rather than to be solely used to penalise employees. AT

References

Ezzamel, M., Lilley, S. and Willmott, H. (1997) "Accounting for management and management accounting: reflections of recent changes in UK", *Journal of Management Studies,* 34(3), pp. 439-463.

Hopwood, A. (1987) "The archaeology of accounting systems", *Accounting, Organisation and Society,* 12(3), pp. 207-234.

Hopwood, A. (1990) "Accounting and organisational change", *Accounting, Auditing and Accountability Journal,* 3(1), pp. 7-17.

Libby, T. and Waterhouse, J. (1996) "Predicting change in management accounting systems", *Journal of Management Accounting Research,* 8, pp. 137-150.

Otley, D. (1999) "Performance management: a framework for management control system research", *Management Accounting Research*, 10, pp. 363-382.

Otley, D. (2003) "Management control and performance management: whence and whither?" *The British Accounting Review*, 35, pp. 309-326.

Note : The writer is currently attached to the School of Management, University Sains Malaysia and she can be contacted at nabiha@usm.my

Regional Service Hub

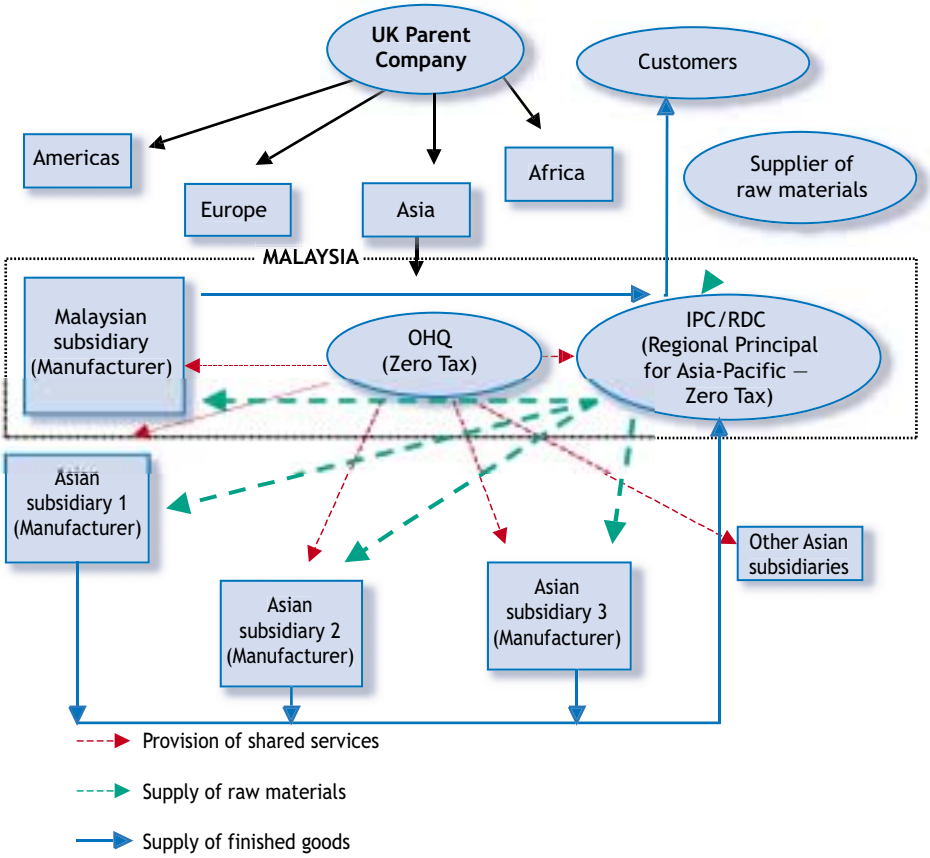
By Tan Hooi Beng

Opportunities and Challenges

In the past, Malaysia was viewed as one of the most preferred manufacturing hubs in the region. It was not surprising, given the various incentives available for the manufacturing sector, ranging from fiscal to non-fiscal ones. Among the most common tax incentives enjoyed by the manufacturing companies are Pioneer Status (PS), Investment Tax Allowance (ITA) and Reinvestment Allowance (RA).

As Malaysia has great potential in emerging as a centre of excellence for shared services and manufacturing-related services, various new and existing incentives are being introduced and enhanced, e.g. Approved Operational Headquarters (OHQ), Regional Distribution Centre (RDC), International Procurement Centre (IPC) as well as the Multimedia Super Corridor (MSC).

THE POSSIBLE REGIONAL STRUCTURE — AN ILLUSTRATION



The Incentives for Regional Operations

The present incentives are summarised below:

Type of incentive	Definition	Key fiscal incentive	Key non-fiscal incentives	Authority/Legislation
Operational Headquarters (OHQ)	■ A locally incorporated company that carries on a business in Malaysia to provide qualifying services to its offices or related companies outside Malaysia. ■ The qualifying services include general management and administration services, treasury and fund management services, corporate financial advisory services, R & D, training and personnel management, business planning and coordination and technical support and maintenance.	■ Income tax for a period of 10 years for its business income, and interest and royalties derived from the services it renders. ■ Expatriates working in an OHQ are only taxed on that portion of their chargeable income attributable to the number of days that they are in the country. ■ Distribution of tax-exempt dividends.	■ Allowed to obtain credit facilities in foreign currency to fund their treasury and fund management operations and open foreign currency accounts to retain their export proceeds in foreign currency and crediting their foreign currency receivables other than export proceeds. ■ 100% foreign ownership of the OHQ as well as the flexibility in the number of expatriate posts.	■ Malaysian Industrial Development Authority (MIDA). ■ Income Tax Act 1967 (Exemption Order yet to be gazetted to-date). The only guidance is the Guidelines by MIDA.
International Procurement Centres (IPC)	■ A locally incorporated company that carries out the procurement and sale of raw materials, components and finished products to its group of related companies in Malaysia and abroad.	■ Upon meeting additional criteria, a full tax exemption on statutory income for 10 years. ■ IPC can also distribute tax-exempt dividends to its shareholders. ■ Raw materials, components or finished products that it brings into the free industrial zones, licensed manufacturing warehouses, free commercial zones and bonded warehouses for repackaging, cargo consolidation and integration before distributing them to its final consumers are exempted from customs duty.	■ 100% foreign equity ownership. ■ Allowed to open foreign currency accounts to retain export proceeds.	■ Malaysian Industrial Development Authority (MIDA). ■ Income Tax Act 1967 (Exemption Order yet to be gazetted to-date). The only guidance is the Guidelines by MIDA.
Regional Distribution Centres (RDC)	■ A locally incorporated company which acts as a collection and consolidation centre for finished goods, components and spare parts produced by its own group of companies for its own brand to be distributed to dealers, importers or its subsidiaries or other related companies within or outside the country. Its activities include bulk breaking, repackaging and labelling.	■ See IPC.	■ See IPC.	■ See IPC.
Multimedia Super Corridor (MSC) Status Company	■ A locally incorporated company or a branch of a foreign company that is a provider or a heavy user of multimedia products or services, employs substantial number of knowledge workers, transfers technology to Malaysia etc.	■ Income tax exemption under PS or ITA for 5 years. ■ Distribution of tax-exempt dividends. ■ No duty on importation of multimedia equipment.	■ No restriction on the employment of foreign knowledge workers. ■ Support from the Multimedia Development Corporation's (MDC's) one-stop centre that will expedite visas, licenses and permits. ■ Freedom of ownership. ■ Exemption from exchange control and foreign currency regulations.	■ MDC/Promotion of Investments Act 1986 (PIA).

Why Shared Services?

One must bear in mind that tax should not be the sole factor for adopting a business model/structure or for selecting a location as a shared service hub. Otherwise, the tax authorities in most countries may invoke the anti-avoidance provisions to counteract the effect of the transaction. Hence, commercial and business factors must be integrated with the tax aspects so as to provide a strong justification to the taxmen in selecting a business structure or location.

Generally, a centralised service centre in an efficient jurisdiction will give rise to the following:

- Economies of scale;
- Elimination of non-value added functions;
- Cost savings and efficiencies as marketing and other activities are concentrated in a single company;
- Consolidation of various functions generating cost savings from the use of global/regional agreements with vendors, customers, service providers;
- Optimisation of inventory cycles and working capital use by efficient allocation of orders, improvement of customer service through reorganisation and automation of processes, enhancement of back-office cost performance through centralisation, automation and streamlining of order entry, accounts management and logistic functions;
- Reduction of working capital requirements through centralised and efficient management of cash, accounts payable and receivable, information technology investments and intra-group flow;
- Tax benefits;

The Challenges — Tax Perspective

The Over Spilt Problem — Tax Sparing Relief (TSR)

From a quick glance, it appears that the tax exemptions for OHQ, MSC, RDC and IPC and the subsequent distribution of Malaysian tax-exempt dividends to the foreign parent company benefits a MNC. The said incentives are aimed at encouraging MNCs to establish their regional service hubs in Malaysia.

On closer analysis, the repatriation of profits via dividend distribution will really benefit the MNC if there is a TSR provision in the double tax agreement (DTA) concluded between Malaysia and the foreign country where the parent company is located. A TSR provision embodied in the DTA is intended to encourage foreign investments in Malaysia as the TSR can assist the MNC in preserving the Malaysian incentives.

In a normal circumstance where TSR is not available, the parent company will only be granted a tax credit on the dividend income repatriated if the said income has been subject to the foreign tax (i.e. Malaysian tax). If this is the case, then the parent company will pay tax in UK on the dividend distributed by the Malaysian OHQ, RDC, IPC or MSC, without any tax credit, since the said dividends have not been subject to any Malaysian tax. Effectively, in the absence of TSR, a MNC does not really fully enjoy the Malaysian tax incentive. Nevertheless, of course, the Malaysian tax exemption would help the MNC in improving its preliminary cash flow.

To a certain extent, fortunately, most of the DTAs concluded by Malaysia include the TSR provision. However, most of the TSR are only applicable to the incentives under the Promotion of Investment Act 1986 (e.g. PS, ITA and MSC) and Schedule 7A of the Income Tax Act 1967 (i.e. RA). So, are incentives for OHQ, RDC and IPC (all are supposed to be legislated under the Income Tax Act 1967) eligible for TSR? It does not seem to be, unless the competent authorities agree to include them for TSR purposes. Moreover, even with TSR embodied in the DTA, there is always a time limit to apply TSR. For example, the TSR provision in the Malaysia-UK DTA will apply only up to 31 December 2005. Unless there is an extension of time, the problem as detailed above will arise.

Transfer Pricing

As globalisation takes place and cross border transactions become more significant, each country's tax administrator will attempt to have a fair share of the cake. From the MNC's perspective, systematic and defensible transfer pricing must be adopted in order to justify the quantum of service fees charged by the OHQ, MSC, RDC or IPC in Malaysia. Naturally, as these regional set-ups are exempted from Malaysian tax, the service fee would be increased and as a result, the service recipient, who is a related entity, will maximise the tax deduction.

Legislation

It is interesting to note that apart from the guidelines issued by MIDA with regard to OHQ, IPC and RDC, no exemption orders have been gazetted to-date to govern the taxation of the said regional operations. As such, it is hoped that the relevant laws will be legislated soon so as to provide a higher degree of certainty in tax treatments.

> "… other non-fiscal and social aspects may lead to certain investment decisions by a MNC. Whilst Malaysia can boast of its political stability, we may face intense competition from countries like Thailand, India and China in terms of labour cost."

Regional Competition

Other countries in the Asia-Pacific region also provide attractive incentives to encourage foreign direct investment. In this regard, other non-fiscal and social aspects may lead to certain investment decisions by a MNC. Whilst Malaysia can boast of its political stability, we may face intense competition from countries like Thailand, India and China in terms of labour cost.

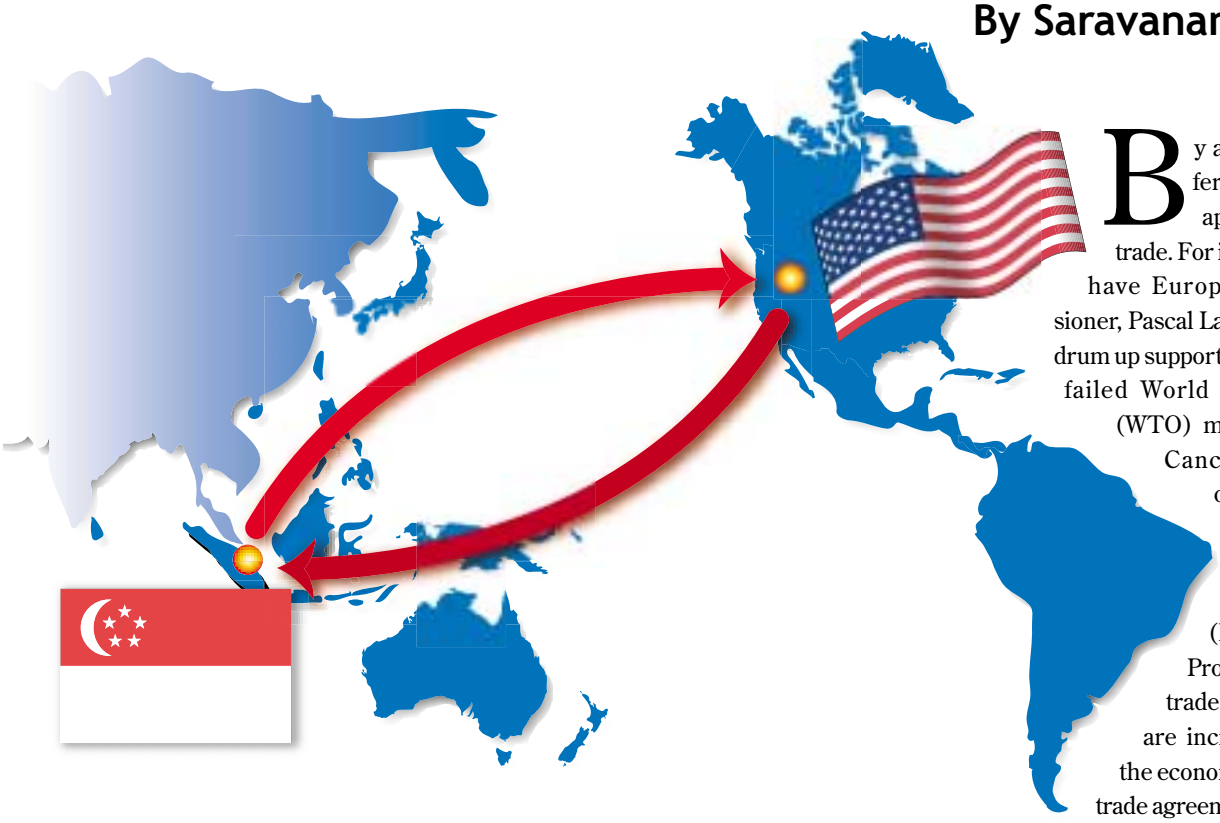
The Way Forward

As the Shared Services and Outsourcing Industry gains momentum, Malaysia has aptly introduced and enhanced new and existing incentives for regional operations respectively. From time to time, the said incentives should be reviewed so we remain conducive. More importantly, to ensure that the relevant tax incentives remain relevant, perhaps the time has come for the Malaysian government to re-look at the existing DTAs and to embody the TSR provision accordingly. Also, the scope of TSR provision should be expanded and the time frame extended. AT

Tan Hooi Beng is a Director at Niche & Milestone Corporate Advisory Sdn Bhd. The above views are his own. He can be contacted at hooibeng@lycos.com

ASEAN and the Implications of the US-Singapore Free Trade Agreement (USSFTA)

By Saravanan Ramasamy



By and large, opinions differ when it comes to the approach to freeing up trade. For instance, at one end, we have European Trade Commissioner, Pascal Lamy, on a global tour to drum up support to revive talks after the failed World Trade Organisation (WTO) ministerial meeting in Cancun, Mexico. At the other end of the spectrum, we have countries actively pursuing free trade agreements (FTA's) aggressively. Proponents of multilateral trade negotiations (MTN's) are increasingly questioning the economic viability of bilateral trade agreements. At the same time, it is also interesting to note how countries like Singapore, in the quest to ensure that MTN's prevail, are using bilateral trade agreements as catalysts to achieve such an ambition. The *Singapore Straits Times* in a recent editorial said, "Ultimately, multilateral trade regimes are indeed best. Like a rising tide, they lift all boats. Bilateral free-trade agreements are second best. But with the multilateral trade negotiations stuck in a rut, second best is not only a good substitute, it may kick-start first best."

The signing of the US-Singapore Free Trade Agreement (USSFTA) on 8 May 2003 is definitely one of the culminations of Singapore's overall trade initiatives and economic strategy, which involves forging

"European Trade Commissioner, Pacsal Lamy will leave for Bangladesh, India and Indonesia to try to support for reviving the Doha Trade Liberalisation round following the failure of the November 2003 meeting in Cancun, Mexico"

***Business Times* (Singapore), 14 January 2004**

"The prevailing philosophy in Asia appears to be that the road towards pan-regional union should be paved with bilateral FTAs or economic partnership agreements (EPAs)"

***Business Times* (Singapore), 7January 2004**

FTAs with other countries outside the ASEAN region.

"The USSFTA signifies the presence of the US within the closer economic partnership of ASEAN through its cooperation with Singapore, especially in the financial services sector in the region," said Thanavath Phonvichai, director of the Thai Chamber of Commerce's Centre for Economic and Business Forecasting. As Singapore is one of the region's leading financial hubs, it should lead to an increased flow of trade between the US and the region. Under the agreement, the US will immediately eliminate 92 per cent of tariffs on Singaporean imports. The remaining tariffs will be eliminated within eight years. Sectors that will benefit are electronics, chemicals and petrochemicals, instrumentation equipment, processed foods and mineral products. Only exports that have undergone substantial transformation in Singapore can be designated as originating there and qualify for preferential tariffs.

US banks will be able to offer previously restricted retail banking services and insurance services in Singapore. The existing quota for US banking licenses in Singapore will also be lifted. Singapore will give US banks better access to Singapore's retail banking sector by removing the restrictions for qualifying full banks (QFBs) and wholesale-bank licenses. Another highly regulated area — the legal services sector — will also be opened up significantly to US companies after the free trade agreement. Singapore will also amend legislation to further enhance its protection of intellectual property rights

As highlighted above, the USSFTA can certainly offer economic opportunities for trade-dependent Singapore, but what this means for the ASEAN countries as well as for ASEAN economic integration is not quite straightforward and more difficult to gauge. Numerous questions have been raised. These include — will the USSFTA be a backdoor entry to ASEAN's Free Trade Area (AFTA)? How do such bilateral agreements impact on the multilateral negotiations? How does the bilateral agreement affect relations with third countries and other trading partners? Indeed, in a nutshell, studying the terms of USSFTA gives the impression, that Singapore has "economically" become the 52nd State of the US. (Japan has always been considered the 51st State). Echoing the same sentiment is UCLA's Professor Tom Plate, who said, "The deal will make bilateral trade between tiny Singapore and gigantic America almost as economically efficient as the movement of goods and services between Hawaii and California."

"Ultimately, multilateral trade regimes are indeed best. Like a rising tide, they lift all boats. Bilateral free-trade agreements are second best. But with the multilateral trade negotiations stuck in a rut, second best is not only a good substitute, it may kick-start first best."

Singapore Straits Times

The USSFTA does present some risks and challenges to ASEAN as a preferential economic grouping. The said bilateral pact can be regarded as a means of providing a 'back-door' entry for non-ASEAN countries to the region, *vis-à-vis* undermining the effectiveness of ASEAN Free Trade Area (AFTA). According to an *Asiaweek* article dated 8 December, 2000, critics perceive the USSFTA as providing the trade partners a tariff-free access into ASEAN markets through Singapore without providing reciprocal access to the ASEAN countries. This fact could potentially undermine the relationship between Singapore and her neighbouring ASEAN countries. ASEAN has always been an important source of raw materials and cheap labour for Singapore. In return, Singapore is also equally important to ASEAN as she has benefited the region both economically and politically. Trade with ASEAN countries constitutes a major portion of Singapore's total import and export. This is shown in Table 1 which offers a snapshot of Singapore's total exports (2001) and total imports (2000) to its major trading partners.

Table 1

SHARE OF SINGAPORE'S MAJOR TRADING PARTNERS IN SINGAPORE'S TOTAL EXPORT (2001) AND TOTAL IMPORT (2000)

Country	Total Export (%)	Total Import (%)
Malaysia	17.3	17
US	15.4	15
Japan	7.7	17.2
Thailand	4.4	4.3
Philippines	2.5	2.5
China	4.4	5.3
Korea	3.8	3.6
India	2.2	0.8
Australia	2.6	1.7
Canada	0.3	0.4
New Zealand	0.3	0.1
Hong Kong	8.9	2.6
Europe	14.8	14.2
Others	15.3	15.4

Source: Ramkishen S. Rajan, *Economic Globalisation and Asia* (Singapore: World Scientific Publishing, 2003).

Thus, it is extremely vital for both ASEAN and Singapore to foster close ties. The risk of increased extra-regional trade at the expense of intra-regional trade is always there, as many goods and services traded with ASEAN will be substituted by similar goods and services produced by the US. It is not only crucial for ASEAN to forge ties in economic terms but also in the political sense. A stronger and credible ASEAN can be the source of a stronger bargaining power for individual small countries *vis-à-vis* other regional groupings at times of regionalism. While the case for a stronger and credible ASEAN is definitely a source of concern, what's more worrying is the fact that the USSFTA has not been seen to be contributing much to the growth of Singapore itself. It has been reported that Singapore's economy grew at a rate of 21.9 per cent for the first half of this year. The strong performance was attributed to increasing demand from the electronics industry which in turn, lead to an increase in exports to Singapore's top 10 markets, except the US. While it may be too early to pass judgment and claim that Singapore's GDP did not grow because of the USSFTA, it is sincerely hoped that the much talked about FTA will deliver on its promise. Only time will tell and we definitely live in interesting times. AT

Transfer Pricing: Is Law Overdue?

By Anand Raj & Irene Yong

It is axiomatic that the ability to impose new obligations upon, or regulate the conduct of, persons through the use of 'rulings', 'guidelines', 'regulations', 'directions' or other imperative edicts, coupled with a sanction for non-compliance, is a legislative authority which must come within the province of Parliament or be delegated by Parliament itself.

On 2 July 2003, the Director General of Inland Revenue (DGIR) 'issued' a *Garis Panduan Pindahan Harga* or Transfer Pricing Guidelines (TP Guidelines). The DGIR's covering letter stated that the TP Guidelines were 'formulated' by the Inland Revenue Board of Malaysia (IRB). What are the DGIR and IRB seeking to achieve by 'issuing' the TP Guidelines in this way? What are the 'sanctions' for non-compliance? Are either the DGIR or the IRB empowered to issue the TP Guidelines?

The Form of the TP Guidelines

Article 44 of the Federal Constitution (FC) vests the legislative function and powers in the Parliament of the Federation of Malaysia. In the specific context of taxation, Article 96 of the FC provides: *"No tax or rate shall be levied by or for the purposes of the Federation except by or under the authority of federal law."* (emphasis added).

It is clear therefore that legislative authority is expressly and exclusively reserved to Parliament by the FC. Although, in practice, the DGIR and the IRB are consulted by the Treasury in the course of proposing and drafting tax laws, they are not invested with legislative authority.

Following the 'issuance' of the TP Guidelines, two Budget Speeches (i.e. 2004 and 2005) have been delivered in Parliament and two Finance Bills have been introduced and yet there is still no mention of legislation on the subject of transfer pricing. Only the TP Guidelines have been 'issued'.

Under Section 134 Income Tax Act, 1967 (ITA), the DGIR has the 'care and management' of income tax. This is an administrative function. Section 134 ITA does not invest the DGIR with legislative powers. Additionally, following corporatisation of the Inland Revenue Department and the constitution of the IRB, the IRB is now principally a collection and advisory agency — see Section 10 Inland Revenue Board of Malaysia Act 1995 (IRBA).

Section 134 ITA and Section 10 IRBA do not grant the DGIR or the IRB the general power to enact law, issue 'guidelines' or 'rulings' or create or impose obligations upon taxpayers. Neither does such a general power exist elsewhere in the ITA or the IRBA.

This is clear when read in light of Articles 44 and 96 of the FC and instances of specific powers granted to the DGIR and the Minister of Finance (MOF) under the ITA. As regards the latter, Sections 36 and 127 ITA grant specific powers to the DGIR and MOF respectively in regard to certain types of subsidiary legislation. However, neither Section 36 nor 127 empower the DGIR or MOF to issue the TP Guidelines. Neither do the TP Guidelines contain a reference to either section.

In other words, if Parliament granted specific powers to enact subsidiary legislation ONLY in certain cases, applying principles of statutory interpretation, those specific cases are deemed to be exhaustive. No general power to enact subsidiary legislation may be inferred. The DGIR and IRB must therefore act within the confines of the statutory scheme of the ITA and may not supplant it with their own general administrative rules.

The TP Guidelines do not state the section of the ITA or other enabling/parent statutes under which they are purportedly

issued but merely refer to Section 140 ITA[1] as providing the 'legal basis'[2] for the TP Guidelines. This is somewhat surprising as Section 140 does not contain any power to enact subsidiary legislation. Further, quite apart from the problems with the legal form, conceptually, **Section 140, being only a general anti-avoidance provision, is not the appropriate section under which broad issues of transfer pricing should be addressed**. Anti-avoidance and transfer pricing are distinguishable fields of taxation. The trend of anti-avoidance and transfer pricing legislation in other jurisdictions is also towards more specific and detailed provisions.

Meanwhile, Section ITA 141[3] has been completely ignored. Even putting the TP Guidelines in their best light, the most that can be said of the TP Guidelines is that they represent a public statement of the DGIR's and IRB's views.

In **Director General of Inland Revenue vs. Kok Fai Yin** (unreported), his lordship, Tan Sri Dato' Hj Mohd. Eusoff b. Chin J (as he then was) held that the DGIR *"…should not assume authority or exercise power which is not expressly given to him by the law and if he does so, the exercise of such power is invalid and must be declared illegal."*

Could the TP Guidelines be a form of 'filling up the gaps' in the ITA or Section 140 ITA that the DGIR and IRB perceive exist?

In the authoritative text of *Statutory Interpretation, A Code*, 4th Edition by F. A. R. Bennion, the author cites an important cautionary note: *"Strained construction must not however be carried too far. Viscount Simonds, referring to the suggestion by Denning L.J. in the court below that judges should 'fill up the gaps and make sense of the enactment', said: "It appears to me to be a naked usurpation of the legislative function under a thin disguise of interpretation" [Magor and St Mellons RDC vs. Newport Corpn [1952] AC 189 at 190. The dictum of Denning LJ is at [1950] 2 All ER 1226 at 1236]."* (emphasis added)

If a court is not allowed to 'fill up the gaps' in legislation, neither can the DGIR, IRB or any other administrative/executive body, unless specifically authorised by Parliament. Any attempt to 'fill up the gaps', in the absence of specific legal authority for the same, could be considered a usurpation of the legislative function of Parliament.

Suffice to say that a Malaysian court has the judicial discretion to question the validity of the TP Guidelines on the basis of existing Commonwealth and Malaysian case law. There are numerous other concerns, ambiguities and problems with the contents of the TP Guidelines which time and space do not permit a discussion thereof. Needless to say, the following discussion of the contents of the TP Guidelines does not in any way constitute an endorsement or acknowledgement of the form of the TP Guidelines, which is clearly wanting.

The Contents of the TP Guidelines

■ Contents/Scope of the TP Guidelines

Paragraphs 3.1 and 3.2 of the TP Guidelines set out the "scope" of the TP Guidelines:

"3.1 The Guidelines are applicable on transactions between associated enterprises within a multinational where one enterprise is subjected to tax in Malaysia and the other enterprise is located overseas.

3.2 The Guidelines are also applicable by analogy, in relation to transactions between a permanent establishment (PE) and its head office or other related branches; where for the purpose of the Guidelines the PE will be treated as a (hypothetically) distinct and separate enterprise from its head office or other related branches". (emphasis added).

The choice of wording for Paragraphs 3.1 and 3.2 of the TP Guidelines is unfortunate: it is unclear from a literal reading thereof as to the exact nature of transactions which could potentially fall within the scope of the TP Guidelines. Would two foreign enterprises located overseas still be subject to the TP Guidelines if one of the enterprises were subjected to tax in Malaysia on income arising from Malaysia, even if it did not have a place of business in Malaysia? What about two associated enterprises (or branches thereof) located within Malaysia and transacting with each other?

Some practitioners, and possibly even the IRB and DGIR, take the view that the TP Guidelines would apply to the latter case. However, this analysis is potentially flawed as:

i) conceptually, transfer pricing regulations are designed to prevent profits earned in one country from being shifted to and taxed in another country;

ii) the ambiguity in Paragraphs 3.1 and 3.2 of the TP Guidelines does not warrant such a wide construction; and

iii) although reliance is placed, albeit erroneously, upon Section 140(1) ITA as the 'legal basis' for the TP Guidelines, it must be noted that Section 140 ITA had been passed by Parliament as a general anti-avoidance provision decades before the TP Guidelines came about and makes no reference to transfer pricing.

■ Arm's Length Price (ALP)

Paragraph 3.4 of the TP Guidelines states that the TP Guidelines are largely based on the arm's length principle set out under the Organisation for Economic Co-operation and Development (OECD) Transfer Pricing Guidelines. ALP is almost universally understood to mean the transfer price used in transactions between independent entities, as opposed to associated parties, under similar circumstances. The TP Guidelines refer to the following methods of determining the ALP:

i) comparable uncontrolled price involves the direct price comparison for the transaction of a similar/comparable product between independent parties.

ii) the resale price method uses the resale price margin to determine the ALP of a product purchased from an associated enterprise and resold to an independent party. The resale price margin is established from comparable trans-

1 Section 140 ITA is a general anti-avoidance provision under which the DGIR may disregard or vary any transaction which he reasonably believes to have altered the incidence of tax payable, relieved any person from liability to pay tax or file a return, evaded duties or liabilities under the ITA or hindered/prevented operation of the ITA.

2 See Paragraph 4.2 TP Guidelines.

3 Section 141 ITA enables the DGIR to assess a non-resident on a fair and reasonable percentage of the turnover of its business done through/with a resident. This occurs where owing to the close connection between the non-resident and resident and the substantial control exercised by the non-resident over the resident, no or less income is produced in Malaysia as might be expected to arise from such business carried out.

actions between the reseller and other independent purchasers.

iii) **cost plus** is often used for semi-finished goods transferred between associated parties, determined based on the cost to the supplier plus an appropriate mark-up, which is determined according to a comparable sale to an independent party.

iv) **profit split** is used where no comparable transactions between independent parties can be identified. Profits earned in a controlled transaction would then be equitably divided between the associated parties involved in the transaction according to the functions performed.

v) **the transactional net margin method** compares the net profit margin relative to an appropriate base (costs, sales or assets) attained by the multinational enterprise (MNE) from a controlled transaction, with the net profit margin from comparable uncontrolled transactions between the same taxpayer and independent parties.

■ TP Documentation

The ITA is silent on the standard/type of transfer pricing documentation required. Under the general record keeping section, Section 82 ITA merely provides that taxpayers must retain tax records for seven years from the end of the relevant basis period.

The TP Guidelines, however, purport to require transfer pricing documents to, amongst other things, be contemporaneous and include particulars of the company, cross-border intra-group transactions and reasons for the pricing methodology adopted, together with functional and comparability analyses. The TP Guidelines' documentation requirements appear to be non-exhaustive and suggest that the DGIR/IRB could request for additional documents/information as and when required. This may be contrasted with the position in, for example, India where the transfer pricing documentation requirements are exhaustive and require an accountant's certification that the taxpayer has maintained proper information/records.

"The TP Guidelines clearly impose an excessive and onerous documentation burden on taxpayers. In this regard, it bears noting that the OECD has made a point of warning that documentation requirements implemented by tax authorities should not cause MNEs to incur costs and additional burden disproportionate to the circumstances."

The TP Guidelines clearly impose an excessive and onerous documentation burden on taxpayers. In this regard, it bears noting that the OECD has made a point of warning that documentation requirements implemented by tax authorities should not cause MNEs to incur costs and additional burden disproportionate to the circumstances.

■ Sanctions for Non-compliance

What can we elicit from the slant of the TP Guidelines and the references to Section 140 ITA? It would appear that the DGIR/IRB at least proposed to invoke Section 140 ITA to tax transactions that do not 'comply' with the TP Guidelines. The net effect of this appears to be an attempt to elevate the TP Guidelines to a legislative or quasi-legislative status, which they clearly lack.

It is unfortunate that all enquiries on the TP Guidelines should be addressed to the Audit Division of the IRB instead of a specialised TP unit. Would any such enquiry precipitate an audit of that taxpayer's affairs? Revenue authorities/agencies in developed countries have separate transfer pricing divisions, recognising that this is a technical and specialised field of taxation. It is surprising that more attention was not given to this.

Conclusion

The 'issuance' of the TP Guidelines in the present form is ill advised. When transfer pricing rules were introduced in other jurisdictions, they were passed as legislation and, as such, would have gone through democratic legislative processes. In Malaysia, however, the IRB and DGIR have attempted to use Section 140 ITA, which is a general anti-avoidance provision, for purposes not intended by Parliament.

This is a retrograde step and constitutes a denial rather than an affirmation of the concept of Parliamentary democracy. Even if the DGIR and IRB did not intend the TP Guidelines to be a legislative type Act, the way in which they proposed to 'implement' the TP Guidelines presupposes the power to issue the TP Guidelines and implement it as a system of rules backed by sanctions for non-compliance. Therefore, in practice, the end result would be to 'implement' or 'enforce' the TP Guidelines as if they are law, which they are clearly not.

Parliament should not have been bypassed on a matter as important as transfer pricing which affects MNEs. MNEs invest heavily in Malaysia and Parliament regularly enacts, and the government regularly issues, numerous statute-based incentives, exemptions, special rules etc. to attract such MNEs and to avoid losing such investment to neighbouring or other Asian countries. Surely transfer pricing is a subject worthy of Parliamentary attention.

A considered effort in transfer pricing legislation would leave no uncertainty on the effect thereof. Transfer pricing legislation would enable a comprehensive body of Malaysian case law to develop and evolve over time. As mere 'guidelines' the TP Guidelines are inchoate, uncertain and vulnerable to legal challenges. Transfer pricing in Malaysia is clearly law overdue. AT

Anand Raj is an Advocate & Solicitor, and Partner of Tax & Revenue Practice Group, Shearn Delamore & Co. Irene Yong is an Advocate & Solicitor also with Tax & Revenue Practice Group, Shearn Delamore & Co.

MASB Issues
Five Exposure Drafts

The Malaysian Accounting Standards Board (MASB) recently published five Exposure Drafts (ED) for public comment and invites professional accountancy bodies, public-listed companies, regulators, individuals and any other interested parties to comment on the proposed accounting standards it plans to issue by the second half of 2005. The public is invited to give feedback on the following proposed standards:

1. **ED 40** ***Business Combinations***
2. **ED 41** ***Impairment of Assets***
3. **ED 42** ***Intangible Assets***
4. **ED 43** ***Proposed Improvements to MASB Standard on Leases***
5. **ED 31** ***(revised) Investment Property***

These Exposure Drafts are revision to the existing accounting standards. EDs 40, 41, 42 and 43, when finalised, will supersede *MASB 21 Business Combinations, MASB 23 Impairment of Assets, MASB 4 Research & Development Costs and MASB 10 Leases* respectively. ED 31 (revised) will supersede *MASB Approved Accounting Standard IAS 25, Accounting for Investments, with respect to investment property*.

In a statement issued, the MASB reiterates its policy of convergence with the IASB standards. MASB said, all future Standards will be closely modelled after IASB standards. Modifications will be made only if it is absolutely necessary.

ED 40 is virtually identical to *IFRS 3 Business Combinations*, which was issued by the IASB in March 2004. The main changes proposed, among others, are abolition of the merger method in accounting for business combinations. ED 40 also covers the accounting treatment for goodwill. For the first time, the standard will prohibit amortisation of goodwill. Instead, goodwill should be tested for impairment annually or more frequently if there is indication of impairment.

ED 41 is virtually identical to IAS 36 (revised) Impairment of Assets which was issued by the IASB in March 2004. The main change in ED 41 from the existing MASB 23 is on impairment test for goodwill. This change is as a result of the proposal in Business Combination.

ED 42 is virtually identical to IAS 38 (revised) Intangible Assets which was issued by the IASB in March 2004. The proposed standard sets out the recognition criteria and measurement of intangible assets as well as prescribes specific disclosures about intangible assets. An intangible asset is defined as an identifiable non-monetary asset without physical substance, examples of which are computer software, patents, copyrights and motion picture films. An entity shall recognise an intangible asset if it meets the recognition criteria prescribed in the proposed Standard. An intangible asset shall be measured initially at cost. After initial recognition, an intangible asset shall be carried either at cost less any accumulated amortisation and impairment losses or at revalued amount less any subsequent accumulated amortisation and impairment losses.

ED 43 is virtually identical to the revised IAS 17 Leases issued by the IASB in December 2003. ED 43 now requires a leasehold property, comprising both land and building, to be considered separately as the lease of land and lease of building for the purposes of lease classification. The MASB, in maintaining its policy on convergence with standards issued by the IASB, decided to remove the classification of leasehold land and buildings as fixed assets. The basis for this decision was that significant risks and rewards associated with leased land do not pass to the lessee at the end of the lease term. Because this accounting treatment is a departure from past practice, the Board would like to hear views from interested parties before it finalises this document as a Standard.

ED 31 is re-exposed as ED 31 (revised) following the issuance of the revised IAS 40 Investment Property by the IASB in December 2003.

Main changes proposed in ED 40

- All business combinations shall be accounted for using the purchase method. The merger method is prohibited.
- In a reverse acquisition, the cost of the business combination is deemed to have been incurred by the legal subsidiary in the form of equity instruments issued to owners of the legal parent. Consolidated financial statements shall be issued under the name of the legal parent and described in the notes as a continuation of the financial statements of the legal subsidiary.

- Costs expected to be incurred to restructure the acquirer's activities must be treated as post-combination expenses, unless the acquirer has a pre-existing liability for restructuring its activities. Goodwill is not amortised but tested for impairment annually.
- Negative goodwill is recognised in profit or loss immediately.

Main changes proposed in ED 41

- Intangible assets and goodwill acquired in a business combination to be tested for impairment annually.
- Cash flow projections exclude any estimated cash inflows or outflows expected to arise from future restructurings and improving or enhancing the asset's performance.
- Goodwill should be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination.
- The Standard prohibits the recognition of reversals of impairment losses for goodwill.
- The Standard requires disclosure of the key assumptions used to measure the recoverable amounts of intangible assets.

Main feature of ED 42

- An intangible asset is an identifiable non-monetary asset without physical substance.
- Intangible asset should be recognised if, and only if, it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably.
- Internally generated goodwill shall not be recognised as an asset.
- Expenditure on research shall be recognised as an expense when it is incurred.
- An intangible asset shall be measured initially at cost. After initial recognition, an intangible asset shall be carried either:

i) at cost less accumulated amortisation and any accumulated impairment losses;

ii) at revalued amount less any subsequent accumulated amortisation and any subsequent accumulated impairment losses.

- An intangible asset with a finite useful life is amortised. An intangible asset with an indefinite useful life shall be tested for impairment annually and whenever there is an indication that the intangible asset may be impaired.

Main changes proposed in ED 43

- Entity needs to classify leasehold interests into land and building elements separately.
- Leasehold land is normally classified as an operating lease unless the title is passed to the lessee at the end of the lease term. The building element is classified as operating or finance lease.
- Initial direct costs incurred by lessors in negotiating a lease are capitalised and allocated over the lease term. The choice of allowing such costs as expenses when incurred in the existing MASB 10 is prohibited.

Main changes proposed in ED 31 (revised)

- The Standard allows a property interest that is held by a lessee under an operating lease to be classified and accounted for as investment property provided that:

a) the rest of the definition of investment property is met;

b) the operating lease is accounted for as if it were a finance lease in accordance with MASB ED 43 Proposed Improvements to MASB Standard on Leases; and

c) the lessee uses the fair value model set out in this Standard for the asset recognised.

- The classification alternative described above is available on a property-by-property basis. However, because it is a general requirement of the Standard that all investment property should be consistently accounted for using the fair value or cost model, once this alternative is selected for one such property, all property classified as investment property is to be accounted for consistently on a fair value basis.

Interested parties are welcome to give comments on the EDs to the MASB by 28 February 2005. Copies of the proposed Standards are available free of charge at:

Malaysian Accounting Standards Board, Suites 5.01-5.03, 5th Floor, No. 338, Jalan Tuanku Abdul Rahman, 50100 Kuala Lumpur. Tel: 03-2715 9199 Fax: 03-2715 9212 e-mail address: masb@masb.org.my

Alternatively, the proposed Standards are also available on MASB website at www.masb.org.my/masbdp_edonline.asp. The public may also provide their comments electronically through ED Online on our website. AT

Amendments to the Listing Requirements in Relation to:

1. The Definition of "Rules of the Depository"
2. Continuing Education Programme

Bursa Malaysia has recently informed the Institute that the amendments to the Bursa Malaysia Securities Berhad ("Bursa Securities") Listing Requirements for the Main Board and Second Board (LR) and the Listing Requirements for the MESDAQ Market (MMLR) have been issued as follows:

Definition of "Rules of the Depository"

The definition of *Rules of the Depository* under the LR (Para 1.01) has been amended by inserting the word "Securities Industry (Central Depositories) Act 1991" in place of the word "Securities Industry Act, 1983". This amendment will take effect from 8 October 2004.

Continuing Education Programme (CEP)

Amendments have been made to both the LR and MMLR respectively ("the CEP Amendments") in relation to the Continuing Education Programme (CEP).

Scope and Objectives of the CEP Amendments

Since the introduction of the Mandatory Accreditation Programme (MAP) for directors of listed companies ("Directors") by Bursa Securities in 2001 and the CEP in 2003, we believe that there has been greater awareness of the importance and benefits of training or continuing education amongst the directors of listed companies.

To date, approximately 6,329 directors have attended the MAP whilst approximately 3553 directors have attended the CEP. The mandatory continuing education requirement (CEP) was prescribed by Bursa Securities for the years 2003 and 2004. Given the varying training needs of Directors, from year 2005 onwards, the boards of directors of listed companies ("Boards of Directors") will assume the onus of determining or overseeing the training needs of their Directors. This will enable the Board of Directors to assess the training needs of the Directors and ensure fulfilment of such training deemed appropriate by the Board of Directors.

Key changes of the CEP Amendments

The salient features encompassed in the CEP Amendments are as follows:

(a) the CEP requirements as set out in Practice Note No 15/2003 and Guidance Notes 10 ("CEP requirements") will be repealed from the effective date;

(b) Directors are required to compulsorily attend the MAP;

(c) the Board of Directors of each listed company must evaluate and determine the training needs of its Directors on a continuous basis. The training must be one that aids the Director in the discharge of his duties as a Director; and

(d) the Board of Directors must disclose in the annual report whether its Directors have attended training for that financial year and the type of training attended. Where any Directors have not attended any training during the financial year, the Board of Directors must state the reasons thereof.

Implementation of the CEP Amendments

The CEP Amendments shall take effect from 1 January 2005.

Although the CEP Requirements will be repealed with effect from 1 January 2005, all Directors who are required to accumulate either 72 CEP points or 48 CEP points, as the case may be, by 31 December 2004 will still be required to comply with the existing obligation in respect of the CEP Requirements for the years 2003 and 2004, but have been given an extension of time until 31 December 2005 to accumulate the requisite CEP points. In addition, these Directors must also continue to attend such training as may be determined by their Boards of Directors from 1 January 2005 onwards.

All other Directors who are not required to accumulate CEP points under the CEP Requirements for the years 2003 or 2004, must attend such training as may be determined by their Boards of Directors from 1 January 2005 onwards.

In this regard, listed companies must disclose the training attended by their Directors, other than training attended for the purpose of fulfilling the CEP Requirements, in the manner required under paragraph 15.09(2) and paragraph (27) of Part A, Appendix 9C of the LR or Rule 13.5.2 and paragraph (15) of Appendix 7B of the MMLR, as the case may be. The disclosures must be made in respect of annual reports issued for financial years ending on or after 31 December 2005.

Additional information

To aid listed companies and the Directors in complying with the CEP Amendments, a set of Questions and Answers has also been issued.

Please take note that the amendments referred to above and the Questions and Answers in relation to the CEP Amendments are available for reference on the Bursa Malaysia's website at www.bursamalaysia.com.

Amendments to Chapter 16 of the Listing Requirements for the Main Board and Second Board

Members are hereby informed that the Exchange had issued amendments to the Bursa Securities Malaysia Berhad (Bursa Securities) Listing Requirements for the Main Board and Second Board (LR) ("the said Amendments") in relation to Chapter 16 of the LR.

The said Amendments, which took immediate effect, have been made to reflect the current arrangements with the Securities Commission in relation to enforcement actions taken by Bursa Securities pursuant to the LR. AT

Please take note that the said Amendments are available for reference on Bursa Malaysia's website at www.bursamalaysia.com.

For further information or enquiries on the above, kindly contact:
Legal Advisory and Corporate Legal Affairs, 9th Floor, Bursa Malaysia Berhad, Exchange Square, Bukit Kewangan, 50200 Kuala Lumpur.
Tel: 03-2034 7000 Fax: 03-2732 0065

Contact persons

Emilia Tee (Ext 7335)
Yew Yee Tee (Ext 7336)
Tan Ai Chia (Ext 7089)
Noraishah Ismail (Ext 7297)

Please be guided accordingly.

SC Revises Capital Framework *for* Stockbroking Companies

The Securities Commission (SC) recently announced revisions to the capital framework for stockbroking companies. These revisions take effect from 1 November 2004.

The revisions are intended to provide the stockbroking industry with greater flexibility in managing their capital requirements *vis-à-vis* their business activities and to enhance their overall competitiveness, while preserving the prudential standards of the framework.

These revisions are made following engagement with Bursa Malaysia Berhad and the Association of Stockbroking Companies in Malaysia, and after conducting jurisdictional studies to ensure compatibility with international standards.

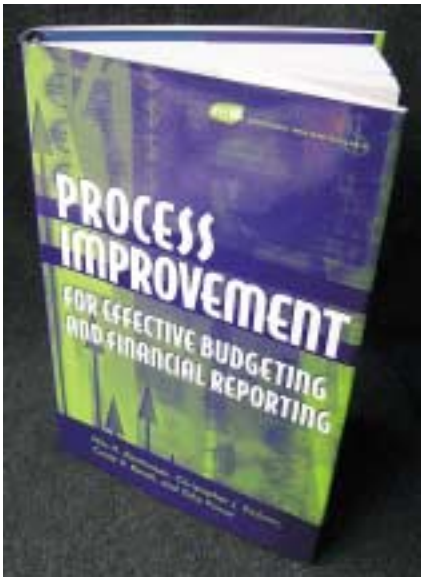
The revised capital framework will be included in the Rules of Bursa Malaysia Securities Berhad (Bursa Malaysia). Details of the revisions are listed in the table below.

Area	Existing Requirements	New Requirements
Minimum paid-up capital	■ RM20 million for non-Universal Brokers (non-UBs) licensed before 1997 and RM100 million for non-UBs licensed after 1997 ■ RM250 million for Universal Brokers (UBs)	■ RM20 million for non-UBs ■ RM100 million for UBs
Minimum core capital	■ RM250 million for UBs	■ Subject to Rules of Bursa Malaysia where every Participating Organisation's (PO) core capital must be greater than its operational risk requirement
Minimum shareholders' funds unimpaired by losses	■ No specific requirement	■ RM20 million for non-UBs ■ RM100 million for UBs
Large exposure risk requirement to single equity	■ The threshold for computation of large exposure risk requirement (LERR) for exposure to single equity is based on 5% of the total size of issuance. ■ Full value on the position risk factor (PRF) for computation of LERR for single equity held as collateral.	■ The threshold for computation will be increased from 5% to 10% of the total size of issuance. ■ To apply a discount of 70% on the PRF for computation of LERR for single equity held as collateral.
Definition of single equity for large exposure risk requirement	Where a PO has an exposure in excess of 20% of the issuer's capital, the PO shall be deemed to be an associate of the issuer.	Only exposure arising from a PO's investment in the stock accounts under Rule 1105.8(5)(c)(iii) will be used to ascertain whether a PO has an exposure in excess of 20% of the issuer's capital.
Operational risk requirement	A PO authorised by Bursa Malaysia to carry out all types of permitted business shall apply a minimum operational risk amount stipulated under category A of Schedule 8B of the Rules of Bursa Malaysia. APO : i) whose business activities are limited by Bursa Malaysia to agency business, principal securities trading, sub-underwriting ii) who has, or may have, subsidiaries involved in exchange traded futures and options shall apply a minimum operational risk amount stipulated under category B of schedule 8B of the Rules of Bursa Malaysia.	The previous categorisation which is based on the type of allowable business will be replaced by the categorisation of non-UBs and UBs.
Liquid capital	Bursa Malaysia's approval is required for the inclusion of liquid asset charged to 3rd party, for the purpose of raising funds from a 3rd party, on an arm's length basis, for use exclusively in the PO's business.	Bursa Malaysia's approval is not required. However, PO is required to inform Bursa Malaysia and make full disclosure on compliance with the necessary conditions stipulated by this Rule.
Position risk on suspended securities	Presently comprises: ■ Voluntary Suspension The position risk requirement for voluntarily suspended securities shall be calculated by applying the applicable position risk factor prescribed in Scheduled 8C of the Rules of Bursa Malaysia, to the *mark to market value* of the securities. ■ Compulsory Suspension The position risk requirement for compulsorily suspended securities shall be calculated by applying the applicable position risk factor prescribed in Scheduled 8C of the Rules of Bursa Malaysia, to the *mark to market value* of the securities.	The valuation is based on the *Last Done Price for securities suspended for a period of 3 or less market days*.

PROCESS IMPROVEMENT

For Effective Budgeting and Financial Reporting

by Nils H. Rasmussen, Christopher J. Eichorn, Corey S. Barak and Toby Prince



Publisher: John Wiley
Pages: 284

How many companies still retype data from printed reports to spreadsheets? A waste of time? Naturally. But it has a more serious downside. Such manually generated reports are bound to have discrepancies, whether due to human error or differences in presentation.

What happens next is only too obvious. You spend more time in trying to reconcile your numbers to those in the various other spreadsheets.

It is amazing how many corporations — big or small — are still plagued with such inefficiencies.

It goes without saying that companies' financial executives inevitably come and go. In the process, there is little time or attention paid to improving essential budgeting and financial reporting processes that in fact, dramatically affect a business's performance.

For those interested in resolving the problem, help is here. *Process Improvement: For Effective Budgeting and Financial Reporting,* released not too long ago, attempts to provide valuable tips to busy executives.

This book is not about loading your computer with more software. In fact, the authors contend that new software has little effect when incorporated into inefficient routines. Worse still, it only adds to cost when management styles fail to address fundamental procedural problems.

What's in store for you? The book begins with an introduction to business process improvement. Among others, it discusses the need to focus on the issue. The authors then outline some of the 'projects' that readers can implement.

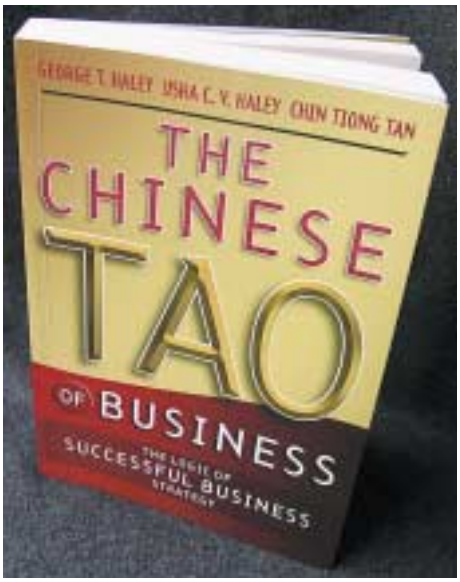
For example, one of the chapters deals with improving budgeting process. After dishing out ideas and suggestions, the book ends with a list of best practices.

In a book packed with charts, diagrams and other exhibits, *Process Improvement* is challenging entrepreneurs and managers to apply the famed 80/20 rule. How does it work? Well, improve 80 per cent of processes in 20 per cent of the time that it would take to improve 100 per cent. AT

THE CHINESE TAO OF BUSINESS

The Logic of Successful Business Strategy

By George T. Haley, Usha C.V. Haley, Chin Tiong Tan



Publisher: John Wiley
Pages: 329

The Tao literally means the 'road' or the 'way'. With China becoming a giant in the land of business, understanding better Chinese ways is taking on greater importance. The survival of some corporations may actually hinge on clearly reading the signals.

As with most things in life, there are no shortcuts. But help can always be found. In the quest for better understanding of the business side of things, *The Chinese Tao of Business* may be good for a couple of pointers.

The authors make a pertinent observation. History, they argue, has had an enormous influence on business operations and environments in China today. In one of the sections, the book explores its implications for business-government relations, markets and information.

The Chinese Tao of Business also goes into gauging the strengths and weaknesses of Chinese strategic management. The first part of the book revolves around the questions above. Among others, the chapters talk about the economic and ethical roots of Chinese strategy, the historical roots of Chinese business, the legal roots of Chinese strategy and the roots of the networks.

Here, the authors describe and analyse Chinese business strategy. They explain its origins, influencing factors and evolution.

Let's take an example of the legal system. Seasoned Chinese dabblers would have noted some major difference in doing business in the US and in China. Unlike the former, the Chinese legal system places much greater emphasis on mediation rather than litigation, 'reflecting the Chinese culture's historical tendency to seek social harmony through compromise'.

Of course, more recent corporate boys with experience of doing business in China will also warn you to look beyond the fine print. AT

Dramatic Backdrop Dramatic Play

By Anis Ramli

For a whole new Kiwi experience, bring along your zipped-up and strapped-down bags of clubs

Golfers are heading to New Zealand in droves. Thanks to some idyllic courses playable year-round, those with an appetite for the sport are discovering the other pleasurable side of the country.

Known for its fresh clean air and extreme sports, New Zealand also provides golfing pleasure intensified by some of the most magnificent scenery in the world. At last count, New Zealand has over 400 courses. That makes it a country with the highest number of courses per capita in the world. For avid sportsmen, it translates to an endless string of options to spoil them silly.

New Zealand courses could run anything from a nine-hole farm layout to a modern luxurious resort and sandy coastal establishments. Some, like Arikikapakapa in Rotorua, are even wedged between bubbling mud pools and steamy vents.

Others, like the Clearwater Resort in Christchurch and Millbrook Resort near Queenstown, were designed by New Zealand golfing great, Sir Bob Charles, that claim spectacular landscapes. Clearwater is also the permanent home of the New Zealand PGA Championship, and boasts of spring-fed lakes and trout-filled streams, with uninterrupted views of the dramatic Southern Alps. Millbrook, on the other hand, is nestled within a magnificent alpine amphitheatre and is a challenge for both higher and lower handicap golfers.

A round on New Zealand's public courses costs NZ$20 to NZ$25. Country courses have green fees paid into an honesty box from NZ$15 or less. The more established courses may incur a heftier fee, but most cost between NZ$25 to NZ$60.

What makes golfing in New Zealand an experience is the picturesque beauty each course offers. Imagine playing to terraced holes with snow-dusted alps and golden tussocked foothills as your backdrop (at Queenstown's Kelvin Heights). Or teeing in autumn overlooking the calm waters of Lake Wakitipu (at Wairakei Resort). And it really doesn't matter if you're playing on a private, club or resort golf course. Or whether it's in the North or South Island. Whichever course you choose, you can always expect a change in scenery but the drama remains the same.

The country's burgeoning golf tourism sector has also spawned an entire genre of self-indulging golf tours. Packages often combine golfing with sightseeing and adventure. So you can golf one day and bungee jump the next. They range from self-style, self-drive or chauffer-driven to customised tours with specific itineraries. And if luxury (and more time on the greens) is what you want, consider staying on the golf course. Courses like Kauri Cliffs, Clearwater, Terrace Downs, Millbrook and Gulf Harbour are also home to a range of lavish and secluded accommodation with service equalling that of any five-star hotel.

Whether you're a serious golfer or not, some of New Zealand's top courses provide a fantastic opportunity to improve your technical and strategic game at any level. Golf schools in Clearwater and Millbrook Resort cover all aspects of the golf game. An intensive workshop can range from three days to a week, and often cover long game, pitching, chipping, bunker play and putting with computerised video analysis.

And what about the non-golfers? New Zealand's top-notch shopping, mesmerising scenery and multi-cultural food scene will guarantee to provide you with endless possibilities. Plus, they don't call New Zealand the adventure capital of the world for nothing! AT

TRAVEL TIPS

Golfing tours: Get in touch with Tourism New Zealand (www.newzealand.com) to design your own golfing holiday or get in touch with a golf tour operator. The website also lists excellent holiday choices for sightseeing, adventure and current events.

Getting there: Malaysia Airlines flies direct to Auckland daily. From there, you can take connecting flights on MAS' airline partners to Christchurch and other cities.

Beyond Golf: Upon hanging up the clubs, why not explore New Zealand's vast land? Here are some options:

- Do the Auckland Bridge climb for spectacular views of the bay.
- Explore the olive and lavender fields near Akaroa in the South Island.
- Visit Willowbank Wildlife Reserve and get up-close and personal with the kiwi.

Physicists love the word 'entropy'. It refers to the tendency every natural system has to move from a state of order to that of maximum chaos. Entropy explains why astronomers believe the universe *appears* to be heading toward a final 'heat death' countless billions of years from now. Entropy can also be used to rationalise why your clients' accounts sometimes refuse to balance; and why your teenager's bedroom might look like a concussion grenade just went off in it.

Not surprisingly, entropy also works in our financial lives. This regular feature represents *Accountants Today's* serious bid to educate all Malaysians on the need for wise adherence to sensible financial planning principles and strategies. Each accountant is a centre of influence — in your office, to your colleagues and clients; and in your home, to your family. Money Tree is thus designed to help you learn and then teach — in steps — all that is important in crafting a life of financial abundance, bounty and contentment.

Mission Possible!

By Rajen Devadason

Chances are high your company boasts some form of a corporate mission statement. Chances are even higher it has little relevance to you because of minimal or no personal involvement in its construction!

This sad situation is par for the course in corporate haunts everywhere, from Rome to Nairobi, from LA to KL. Nonetheless, a not-too-different type of mission statement — a personal one — can make a huge difference in your life. If, that is, you write it yourself.

According to business consultant and marketing professor Dr. Randall S. Hansen, "Writing a personal mission statement offers the opportunity to establish what's important and perhaps make a decision to stick to it before we even start a career."

Even for those of us who've worked for a long time, the true power of a personal mission statement is released when we tap into our deepest, most cherished dreams.

That 'psychic' power — for want of a more accurate term — rises exponentially when we additionally invest time and thought in observing the pattern our daydreams form.

If approached correctly, that unique personal pattern you observe can propel you up an untrodden path toward your life's culminating purpose. George Bernard Shaw revealed his immense insights into the human condition when he wrote, "This is true joy of life — the being used for a purpose that is recognised by yourself as a right one, instead of being a feverish, selfish little clod of ailments and grievances, complaining that the world will not devote itself to making you happy."

Because the most well-known definition of financial planning (which you can check out for yourself at *www.cfp.net*) is 'the process of meeting your life's goals through the proper management of your finances', it makes sense to integrate your key financial goals — such as funding a more-than-adequate retirement, paying for your kids' university education, building a RM5 million general nest egg, affording an around-the-world cruise, sponsoring an orphan or building an orphanage, and so on — into a broader personal mission statement that incorporates every key dimension of life, including the physical, financial, spiritual, career, social and family ones.

Obviously, that is a t-a-l-l order!

But even if it takes effort, desire and motivation to break out of our normal humdrum routine to begin proactively thinking, sensing and planning, it's worth the exertion.

That provocative actress of yesteryear Mae West once observed, "Everything's in the mind. That's where it all starts. Knowing what you want is the first step toward getting it."

Merely reading (or even rereading) this article is not going to magically provide you with a fully formed, functional personal mission statement.

Creating it will require deep thought and much writing and arduous rewriting. My personal and consulting experience suggests you can expect to invest between five days to five weeks on that process, depending upon your schedule, and how much you crave for success.

My understanding of how important a mission statement is has evolved over many years. I first became exposed to this idea the same way most professionals of my generation did – through the phenomenal writing of Stephen Covey in both

"My personal, financial and career success is largely a result of those eight days, three years ago, I invested crafting a comprehensive mission statement!"

The 7 Habits of Highly Effective People and *First Things First*.

Much later, as my understanding of the deeper issues of financial planning grew, it dawned on me that mere money management should not — and optimally cannot — be done in isolation. As the ancient Greeks realised, only a holistically integrated person is fully healthy.

Within the specific ambit of my current consulting, speaking and writing work, I have begun to notice tight connections between time and money, and deep ones between striving for success and achieving significance.

There are numerous resources on the Internet and in our bookstores that will help you craft a powerful personal mission statement. Use them.

The Covey books I mentioned are great ones to begin with. Also, consider checking out *www.franklincovey.com/mission builder/index.html* for useful online help.

But before doing all that, you might find it useful to work through my simplified, guided eight-step blueprint.

Step 1: Ask yourself why you were put on earth. What's your purpose for living?

Step 2: Ask yourself what you are good at. What are your strengths?

Step 3: Ask yourself what you love doing. What are you passionate about?

Step 4: Make a list of your top five values. Then ask yourself which are your top three values.

Step 5: Drill deeper. Why are those three values important?

Step 6: Expand your search. What are your most important roles in life?

Step 7: Get practical. For each of those roles, what are your most important, long-term goals?

Step 8: Finally, begin writing contemplatively as you consider everything you've answered above.

Do not rush through this process. To make things easier, this is what I suggest you do: Work on your embryonic mission statement every single day for the next several days, but do not rush. View yourself as a word-wielding Michelangelo who keeps chipping away at the extraneous marble of his jumbled thoughts, dreams and words until something of great beauty and significance takes shape.

Instead of Michelangelo's masterpiece 13-foot 5-inch high statue *David*, your goal is to craft between three and six sentences of pure, distilled individuality that will eventually become both the compass and road map of your life!

You don't need to show what you've written to anyone, unless you want to. A personal mission statement is often the most private document of those wise enough to craft one!

Now, let's imagine 32-year-old Susan working through these steps. Her answers are in italics:

Step 1: Ask yourself why you were put on earth. What's your purpose for living? *To live a life that makes a difference, for the better, to a lot of people.*

Step 2: Ask yourself what you are good at. What are your strengths? *I'm numerate, literate and articulate; and I can sense business opportunities in the burgeoning local food sector.*

Step 3: Ask yourself what you love doing. What are you passionate about? *Building business systems and listening to classic rock & roll!*

Step 4: Make a list of your top five values. Then ask yourself which are your top three values. *In no particular order: cleanliness, integrity, prosperity, joy, and influence. The top three values from the most important to the least are integrity, cleanliness and prosperity.*

Step 5: Drill deeper. Why are those three values important? *I'm not willing to compromise my integrity to make more money. I feel physically repulsed by filth. I've been poor and I have no desire to return to that state!*

Step 6: Expand your search. What are your most important roles in life? *Mother, wife, business development manager, daughter, daughter-in-law, friend.*

Step 7: Get practical. For each of those roles, what are your most important, long-term goals? *To spend time with my two children and be able to send them to university in the UK or US. To strengthen my relationship with my husband. To play a key role in increasing my employer's revenues from RM3 million a year to RM7 million a year within five years, while raising profit margins by five percentage points from 20% to 25%. To spend quality time with my parents. To stop fighting with my in-laws. To make it a point to see my closest friends at least once every two months.*

Step 8: Finally, begin writing contemplatively as you consider everything you've answered above.

My mission in life is to achieve joyful balance in all areas. I want to succeed in my career by providing Malaysians with an affordable, completely clean eating experience through a franchise chain that specialises in tasty, healthy food served in an environment of great service enjoyed by patrons who love 1950s music.

The previous paragraph contains the kernel of a fairly decent mission statement.

As you do something similar for yourself, invest time in Step 1, and try to look beyond the narrow confines of your life. As the novelist George Eliot (who was actually a woman) asked, "What do we live for if not to make life less difficult for each other?"

(As a fun exercise, if you'd like to beef up Susan's personal mission statement, based solely on the information provided, write your 80 to 90 word version of Susan's mission statement based on my eight steps. Quickly send it to me at *rajen@Rajen Devadason.com* with MISSION STATEMENT CONTEST in your subject header. The first 20 entries will be assessed for quality and insight. The winning entry will win a copy of my US$99 life planning eBook, *5 Steps to a Saner Life*, and the runner-up will win a copy of my US$39 goal-setting eBook, *UNLEASHED!*)

Whether you try your hand at bagging one of those two prizes is not too important. What is more important is you not waste this opportunity to design, craft and build your own personal mission statement.

Robert Byrne said, "The purpose of life is a life of purpose." Go find yours. AT

Rajen Devadason, a certified financial planner, is a speaker, author and independent consultant. He is CEO of a corporate mentoring consultancy, RD WealthCreation Sdn Bhd. Rajen welcomes feedback at rajen@RajenDevadason.com.

How to Identify your Brand

By Vithyaa L.R.

More than marketing, branding attracts workers, sets direction. In this article you will learn the four steps to building your brand: identifying your brand, articulating your brand promise, acting on your brand and measuring success.

What brand?

Do your audiences — customers, employees, and peers — know your company's unique value? Do you promise customers they will receive that value in every contact with your organisation? If not, it's time to do some branding work.

Branding can help you:

- Market to the right people — the ones who value your "brand promise" (what your company stands for);
- Attract the right employees who fit in with your corporate culture;
- Make the right products or offer the right services;
- Plan your strategic direction.

The brand promise

The first step is to identify your brand promise, which is your unique value. Companies that are growing quickly — or industries that are changing rapidly — often think they're offering one value, when customers actually use them because of another. For example, you might believe the company's value is speed, when customers come back for its consistently good advice.

Remember: A brand is not merely a symbol or a name, but the culmination of communications and experiences that a person receives from every contact with your organisation. Power brands like Nike and Starbucks are easy to identify. Nike stands for courage and sportsman-like competitiveness. Starbucks stands for cultured relaxation. Both are business-to-consumer companies trying to reach mass audiences.

The success of your brand hinges on building strong relationships. Relationships are built on trust. For someone to trust you, they need to know that you will

consistently deliver what you promise.

Trust leads to loyalty, which ultimately leads to greater profits for your company.

The emotion behind the product: Emotions play a critical role in both the decision-making process and building relationships. When potential employees choose a place to work or customers choose a trusted adviser, part of their decision is based on emotions. Prospective customers and employees need to feel that your company is going to provide them with a better product or service than any other competitor.

> "Trust leads to loyalty, which ultimately leads to greater profits for your company."

That's why branding is so important — brands create the emotion behind your product and service. If your brand promise is clear, you will attract the right customers who will benefit most from your product or service. If you're worried that a brand will simply label you as the flavour of the month, only to become irrelevant later, think again. A real brand helps your company stay true to its core strengths and competencies.

Here's how to identify your company's brand promise

■ ***Create a task force***

Two heads — or more — are better than one. Form a task force with employees from all levels — front-line workers, managers, and senior management. As the CEO or founder, you'll need to step back and let your employees run with this. People may not be as open when you're in the room.

■ ***Identify interview targets***

Remember: You have a brand, but you don't own it. Your brand resides in the minds of your constituents — customers, employees, potential employees, community and shareholders. To find out how they see you, select a sample, including the CEO or founder. Try to conduct at least 15-20 interviews.

■ ***Create a questionnaire***

Have the task force put together a list of questions ranging from general (What business is "X" company in?) to specific (Tell me about a time when "X" company helped you out of a jam).

■ ***Get to the emotional appeal by asking: What were the circumstances?***

Who helped you? How did it make you feel? Create a comprehensive guideline of questions so that everyone on the task force collects the same information. However, don't be afraid of straying from the list if your interview candidate goes down an interesting path.

■ ***Tip: Focus on the positives***

Find out what your company does well. That way, you can try to replicate those successful moments. Don't prompt someone to say something negative. If people have strong negative feelings, they will air them.

> "… brands create the emotion behind your product and service. If your brand promise is clear, you will attract the right customers who will benefit most from your product or service … A real brand helps your company stay true to its core strengths and competencies.

Some sample questions

■ ***Employees***

Why did you accept a job at this company? What surprised you about the company once you started? How do the people here make you feel? Even after a stressful day, why do you still work here?

■ ***Customers***

Who made the decision to start working with our company? Why did you give us a chance? Tell us about how we fixed a pressing problem you had. How are we different from the competition?

■ ***Owner***

Why did you start this company? Running a company takes a lot of hard work and dedication — why didn't you give up? What were your biggest obstacles? What is your vision for the company? What is your strongest asset? Especially in smaller companies, the organisation's personality is often a reflection of the owner's personality. Try to identify what drives the people running the organisation. You may find a connection.

Tips

Be creative with your questions. Sometimes surprising questions reveal the best information. You want the underlying emotions and feelings the person has about your company, so keep asking "Why?" until you get the information you need.

Set a deadline for interviews. Conduct the interviews in a short period of time — one or two weeks. The faster you do so, the fresher the information will be in the minds of the task force members.

Analyse information. Here's the fun part. Put the task force in a room and have them discuss what they learned. Each person should offer what he or she feels are the unique attributes of the company.

Write them on a board. No idea is too silly. You should see patterns start to develop or ideas being repeated. The more repetition, the stronger the attribute. Look for disconnects. Do your employees think you excel at customer service, while your customers never mention it?

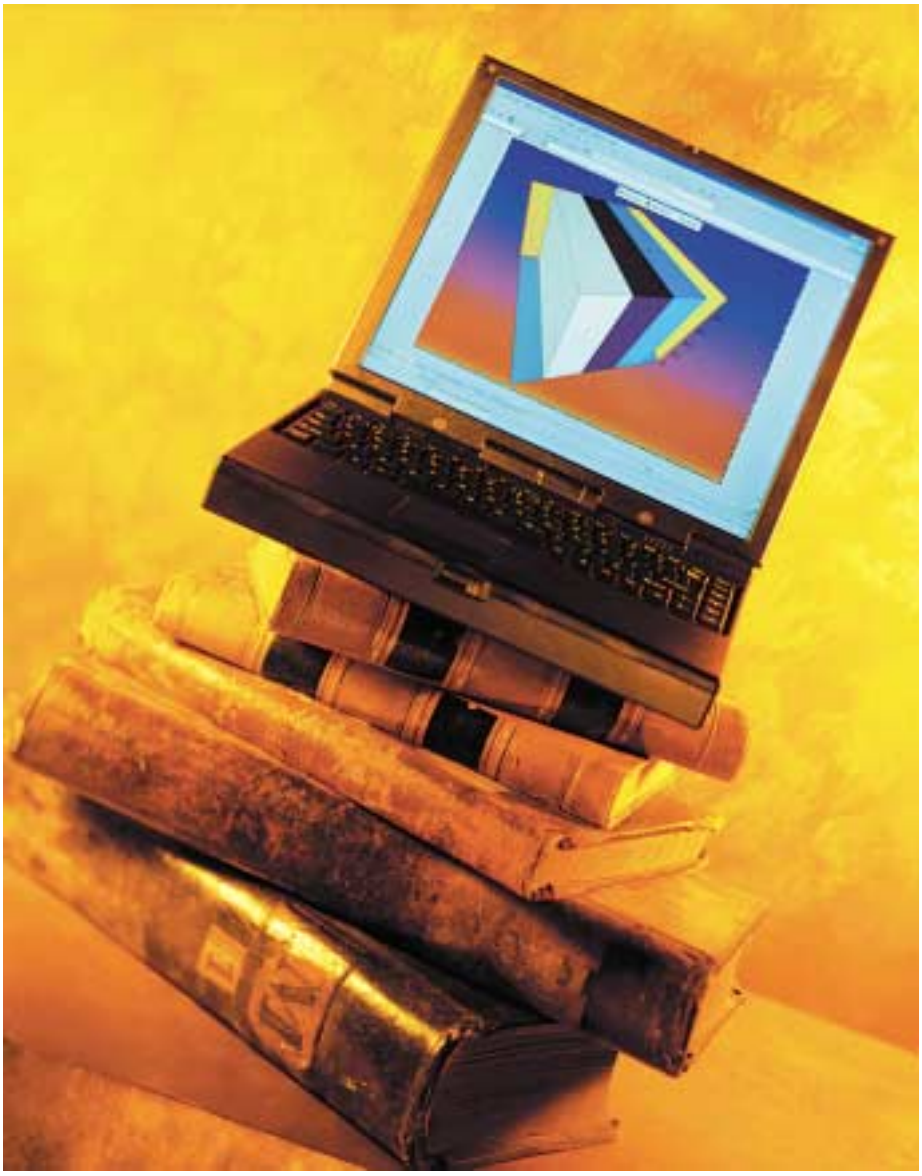
Document your findings. The task force should produce about 10 key insights or characteristics that make your company special. Be sure they indicate why these insights are important and to whom.

Remember: Not all insights need to be customer focused. These insights will provide the foundation for articulating your brand promise. AT

Be Ahead with Knowledge Management

By Chris Read

Everybody in your organisation has ideas, but do you know how to tap into this gold mine of information? Foster an environment of gaining and sharing information by learning to manage knowledge throughout your company.



Having the competitive edge

Would you have a competitive advantage if all the units of your operation — R&D, production, marketing, office support operations and management — operated just as efficiently as possible?

Would the people in those units operate more efficiently and make better decisions if each and all were familiar with best-practice options for their functions?

Knowledge management (KM) comprises methods for making important knowledge about each function easily available whenever it is needed. The most common manifestation of KM is a database in Lotus Notes or a similar database-management system with records of who at a company is expert at what, and of what worked well and what didn't as decisions were made and as procedures were established in various work settings.

The perspective on KM's potential time, demands and value …

KM is simply this: systematically seeing that expert knowledge is found and used whenever it is needed for decisions and work tasks. Companies of all sizes have used KM systems for years. The office card file or Rolodex® of people to contact for information is a KM database in directory form. Procedure manuals with tables of contents or indexes are KM databases that provide access to recorded best practices in book format. Modern KM systems are just more comprehensive and more widely shared variations of the Rolodex® and procedure manual collections.

As your company expands and departmentalises, the risk increases that

expertise in one unit won't be available, or even known about, when it is needed in another. The more you grow, the more you need KM.

Unless you have a special need for explicit-expertise KM, it makes sense to start by establishing a directory-of-experts database, and tackle the tougher database of recorded knowledge later if at all.

"Knowledge Management … systematically seeing that expert knowledge is found and used whenever it is needed for decisions and work tasks."

Getting a Directory-of-Experts Database Started

List and prioritise the kinds of knowledge and skills that you want to make easier to find, for example, market research, one-on-one selling, team presentations and office design.

Survey employees to find out to whom they would turn to for the kinds of expertise you assigned high priority — both inside and outside the company.

Assign your head of Human Resources to check resumes and personnel files and make an organised listing of all special skills — not just those you selected as high priority.

Consider supplementing the general listings by surveying employees to confirm which ones consider themselves or co-workers to be experts on what. If you use a checklist, be sure to ask an open-ended "For what other expertise should other workers come to you?"

Enter the information that has been gathered into a Lotus Notes file or as a database on your Intranet. Then publicise it.

Make a knowledge worker who has access to personnel files responsible for updating the database as employees get training and as they come and go.

Once you have projected your needs for expertise and listed what is available, take action to fill in the gaps. Hire the talent that you need, get the right people trained, or provide incentives for employees to seek training where it is most needed.

Getting an Explicit-Knowledge Database Started

If you want to establish a KM system for sharing explicit knowledge, you can control its cost by controlling its size. Starting small will make ultimate success more likely by enabling you to test and debug the system before you take on the major task of convincing everyone to use it. Starting within just one unit also will allow you to determine the best ways to convince your experts to contribute to the database through trial and error before you do it company-wide.

Select a function to start with. What shared expertise would add the most return on investment? Perspective on your market? Sales techniques? Product knowledge (yours and your competitor's)? Technical production know-how? Office management techniques? Think about future needs as well as present needs — especially if you expect your business to grow rapidly.

Decide what knowledge contributions to future decisions or operations will contribute most to the bottom line. For example, should you include management lessons learned: Why do staff members think a product line had to be abandoned or failed to deliver the expected return on investment? What would a project manager have done differently with the benefit of hindsight? Decide who should manage the database. If you can identify one or more information gatekeepers — those to whom others turn to most often for advice or referrals — they are prime candidates.

Arrange for KM training. Training opportunities can be found by searching for knowledge management and workshops with your favourite Web browser. The book titled "Offering Training and Continuing Education Opportunities" gives tips for confirming that a training source is reputable. Work with the database manager to define the system. Will useful articles from outside your workplace be used? Will there be a limit to the length of items? The number? Will there be a formal content-quality control system? Who will have the right to add comments or make changes in items? Will you need to provide different content views to different users because of classified or sensitive details? It will be comparatively easy to set up the database. The major hurdles will be convincing experts to give up their unique value to the company by contributing their special knowledge for others to apply, and then motivating those others to find and use that special knowledge when it will do the most good.

If you establish a database of explicit knowledge as well as a directory of experts, be sure contributors get credit. It will make them feel valuable and they will be more likely to contribute in the future, and it will make it easy for someone else who needs their expertise to find them. Always ask when making a critical decision if the KM database has been consulted. AT

Penang Annual Dinner

Some 330 accountants, corporate leaders and guests converged at the E & 0 Hotel on 1 October 2004 for the MIA Penang's annual banquet themed *Pearl of the Orient*. The pearl has been known to symbolise pure heart and mind, traditions and simplicity. In choosing this theme, the organising committee ably led by Adelena Chong hoped to reinforce the Institute's penchant for ethical values and good moral standing as members and guests rekindled ties and fostered new friendships.

YB Dato' Dr. Toh Kin Woon representing the Penang Chief Minister, was the guest of honour. In his address, Dr. Toh commended the Institute's leadership for its proactive measures to organise and initiate various programmes in enhancing, guiding and preparing the Malaysian accountancy profession for the progressive liberalisation of markets and heightened competition. Earlier, En. Abdul Rahim Hamid, MIA Vice-President in his speech, updated members on some of the more significant achievements and progress reports recorded by the Institute, in the past year.

All in all, it was an evening of grandeur and fun with good food, entertainment, dinner gifts and many lucky draw prizes including two return air tickets to Paris as the grand prize. These were made possible by the good team effort of branch chairman Fan Kah Seong, his deputy, Adelena Chong and all committee members. Also present were Datuk Nur Jazlan, Dato' O.K. Lee and representatives from various government authorities, professional bodies and key private sector organisations. AT

Dato Dr. Toh and his wife, Datin Vera Loh reading the souvenir programme

Adelena Chong presenting a memento to Vice-President, En. Abdul Rahim Hamid

COLUMNS news from professional bodies

ACCA

Companies see need to do environmental and social reporting, but little action taken yet, survey shows

Despite the claim that companies now are more aware of corporate social responsibility and willing to prepare environmental and social reporting to show their CSR behaviour, ACCA's latest survey shows that only 10 per cent of public-listed companies in Malaysia engaged in some form of environmental and social reporting.

This figure represents only 60 companies of public-listed companies which prepare environmental and social reporting, either through a stand-alone report or incorporated in the annual report. The percentage only shows a slight increase from 7.7 per cent in 2001 to 10 per cent in 2003.

ACCA Malaysia commissioned an independent agency to conduct a survey on all companies listed on Bursa Malaysia's Main Board and 500 companies listed on the SMI Business Directory. The findings of the survey are now compiled in the *Report Summary — The State of Environmental and Social Reporting in Malaysia*.

"CSR issues are just beginning to make inroads into the Malaysian business scenario. Given the increasingly global nature of business, we would hope to see the gulf between the leaders and the laggards cut in the next few years," said Tay Kay Luan, Head of ACCA Malaysia.

"However non-reporting does not necessarily mean complete apathy towards environment issues. It is very important to note that while the percentage of reports may be rather low, a large number of companies have already addressed environment issues, and many are in compliance with the Environmental Quality Act of 1975. Reporting is *"the next step"* explained Tay further.

In Malaysia, the ACCA Malaysia Environmental and Social Reporting Awards (ACCA MESRA), previously known as the ACCA MERA, was the first attempt introduced in 2002 to promote 'transparency' — where companies communicate their environmental impacts to different audiences, such as shareholders, investors, government, regulators, customers, non-governmental organisations and the public. The Awards are endorsed by the Department of Environment (DOE), Malaysia.

"We hope to create more awareness and educate more companies on environmental and sustainability reporting. In addition to the Awards, this year ACCA collaborated with the DOE to have a series of road shows nationwide in October to introduce how to carry out environmental and sustainability reporting for companies in Malaysia. We hope that this will further encourage companies to take *"the next step"*, said Tay. AT

Financial Planning: *Shaping an Industry*

As the nation moves into an e-knowledge economy, a need to establish better wealth management facilities has become imperative. In light of this several initiatives have been undertaken by the government, putting greater emphasis on financial planning and management. Kick-starting this effort was the recent amendment of the 1983 Securities Act, which made the licensing of all financial planners in the country a mandatory requirement.

Treading in similar paths, with the intention of generating the right mindset for the industry, CPA Australia has embarked on numerous ventures with local regulators and professionals alike. CPA Australia's Financial Planning Manager, Chris Benson was recently invited to present a talk to Malaysian members on the financial planning industry focusing on the global trends and challenges faced.

The 2-hour presentation emphasised on identifying the current trends in the industry as well as its development history. The talk also explored the status of the industry locally and the opportunities that it presented. On a smaller scale. Chris also focused on aspects to be considered by individuals looking to launch themselves into financial planning as a career choice.

His presentation also looked at the various compliance regulations that have been established in Asian countries such as Malaysia, Singapore and Hong Kong which according to Chris was mainly based on the elements of the Australian model.

Chris stressed on accountability as an important criteria in the FP industry whereby the current global trend is to "protect the consumer first". "Clients want to know what they are paying for and expect value for money," said Chris who added that matter such as 'hidden costs' do not apply anymore.

Chris stressed on accountability as one of the main criteria of the FP industry

He also said that while Malaysia had the right economic climate to facilitate the proper development of the industry, it is not necessarily an important factor. "You move into financial planning as a long term measure and not something that you take up when things are bad. A proper management of investments in the long term for instance would help a company efficiently weather financial and economic tribulations," said Chris.

He also stressed on CPA Australia's role in promoting the industry, stating that the organisation is well-positioned to set the financial standards in the industry. In addition to this, he said that CPA Australia had established several strategies to further educate the local business community as well as to strengthen the credibility of the industry. He regarded the recent amendment of the 1983 Securities Act to license all local financial planners as a positive move that displayed the Malaysian government's seriousness in promoting the industry.

Among the proposals include practical management courses, setting up of businesses, media promotions and collaborating with local regulators. More specifically, Chris said that CPA Australia is in the midst of generating an education pathway to offer a specialised designation in financial planning to Malaysian members. AT

ICAEW Malaysia to Launch Register of Independent Directors

The Malaysian chapter of the ICAEW is soon to officially launch a new online register designed for businesses and not-for-profit organisations looking for non-executive board members from its membership in Malaysia.

The Independent Directors Register is expected to provide ICAEW Malaysia members with a number of benefits:

- opportunity for a rich variety of roles, sectors, types of organisations and geographical locations
- support and encouragement from experienced independent directors via networking activities
- opportunities to build on existing experience and career options
- access to a professional development framework and network
- active promotion and marketing of the service by ICAEW Malaysia

Chartered Accountants are ideal candidates for the role of Independent Director. For organisations looking for an Independent Director this facility will provide a valuable source of candidates who are able to exercise professional judgement, are committed to an ethical code of conduct and who have gained a wealth of finance skills in a variety of business contexts. At the present moment no fee is charged.

The Register will be set up along the lines of the ICAEW UK Register. Registration is open to any ICAEW member providing personal details of their employment history, qualifications, experience and preferences. Companies searching for independent directors are required to give details of their requirements and candidates are matched to these searches. The possible candidates are informed and left to make contact with the interested company. ICAEW members in Malaysia who are interested in offering their services as Independent Directors can register or find further information about this exciting initiative at **www.icaew.com.my/idregister**

Since its launch in November 2003 the ICAEW Independent Directors Register in the UK has been extremely well received, with more than 1,300 registrants and many successful placements.

The register addresses a pressing need to broaden the pool of independent directors who can exercise professional judgement and demonstrate broad experience, integrity and financial awareness. Dato' Narendra Jasani, Chairman ICAEW Malaysia believes "there is an opportunity to show similar leadership in this area by extending the register to Malaysian members." AT

IFAC

MIA President Elected to the International Federation of Accountants' (IFAC) Board

Led by the Malaysian Institute of Accountants (MIA) President, Datuk Dr. Abdul Samad Haji Alias (pic), the efforts by Malaysia's accounting fraternity in proactively promoting accounting best practice and better corporate governance were internationally recognised when the MIA President was elected as a Board member of the International Federation of Accountants.

IFAC is the worldwide organisation for the accountancy profession dedicated to serving the public interest by strengthening the profession globally and contributing to the development of strong international economies. Its current membership consists of 163 professional accountancy bodies in 119 countries, including Malaysia.

As the first Malaysian to be elected to the IFAC's 22-member board, he will contribute his knowledge and expertise for the benefit of 2.5 million accountants worldwide. Datuk Dr. Abdul Samad will serve for a three-year term until November 2007.

His election took place in Paris early this month when leaders from the highest international accounting authority met to deliberate on accounting issues affecting developing nations, corporate governance and economic stability.

A delighted Datuk Dr. Abdul Samad said: "While continuing to encourage high quality work by professional accountants in practice, we will also focus on expanding support for professional accountants in business. They play a pivotal role in ensuring the fiscal soundness and accountability of diverse enterprises and we cannot underestimate their value in the international financial framework."

A stronger presence in IFAC will enhance MIA's ability to develop the profession further by working more closely with its members, international regulators and standard-setters to strengthen transparency and accountability, to ensure that sound financial structures are in place and to promote convergence in international standards. The regulatory body will also encourage strong governance and corporate codes of ethics so that management embraces its public interest responsibilities.

Envisaged Datuk Dr. Abdul Samad: "IFAC together with its member bodies will work to help developing nations build an accountancy profession characterised by adherence to high standards and IFAC's core values of integrity, transparency and expertise. IFAC will support them in developing strong infrastructures that protect the public interest, thereby promoting employment, financial health and stability. IFAC will also provide practical support to the small and medium-sized practices in both developed and developing countries." AT

Graham Ward Named President of IFAC; Calls for Strong Standards and Support for Developing Nations

The Council of the International Federation of Accountants (IFAC) has named Graham Ward, CBE, MA, FCA, as its new President for a two-year term concluding November 2006. Mr. Ward will lead IFAC, which represents 157 accountancy bodies worldwide and their 2.5 million accountants, at a time when the work of both professional accountants in business and professional accountants in practice is increasingly recognised as being critical to business prosperity and capital market development and stability.

Commenting on his appointment, Mr. Ward said: "I am delighted to serve in this position. IFAC is an organisation that can contribute so much to worldwide economic growth and stability."

Commenting on IFAC's role, Mr. Ward added: "IFAC has a responsibility to serve all members of the profession. While continuing to encourage high quality work by professional accountants in practice, we will also focus on expanding support for professional accountants in business. They play a pivotal role in ensuring the fiscal soundness and accountability of diverse enterprises and we cannot underestimate their value in the international financial framework."

He further explained: "IFAC will work in the public interest with our member bodies, international regulators and standard setters to strengthen further our transparency and accountability, to ensure that sound financial structures are in place and to promote convergence to international standards. We will also encourage strong governance and corporate codes of ethics so that management embraces its public interest responsibilities. These priorities are key to obtaining market confidence in financial information and ensuring the efficient allocation of resources, especially capital."

"Over the next two years, we will focus on helping developing nations to build an accountancy profession characterised by adherence to high standards and IFAC's core values of integrity, transparency and expertise. We will support them in developing strong infrastructures that protect the publics interests, thereby promoting employment, health and stability. Recognising the vital importance of small and medium-sized enterprises to driving economic growth, we will also provide practical support to the small and medium-sized practices that serve them, in both developed and developing countries."

Mr. Ward has been a member of IFAC's Board since 2000. During that time he was instrumental in the creation of the Task Force on Rebuilding Public Confidence in Financial Reporting and in developing its final report issued in August 2003. He also contributed to the development of IFAC's reform proposals, designed to strengthen IFAC's standard setting and was a member of IFAC's Strategy Review Group, Regulatory Liaison Group and Quality Control Group.

Currently a senior partner within the Global Energy and Utilities Group of PricewaterhouseCoopers, Mr. Ward has held

numerous leadership positions within the accounting profession and within the energy field. He is a member and former Deputy Chairman of the Financial Reporting Council and a member of its Corporate Governance Committee, a former Vice-Chairman of the Auditing Practices Board, a former Chairman of the Consultative Committee of Accountancy Bodies and a former member of the City Panel on Takeovers and Mergers, all in the UK. He is also a past President of the Institute of Chartered Accountants in England and Wales, an IFAC member body.

Mr. Ward is also currently a member of the Executive Council of the UK's Parliamentary Group for Energy Studies, a member of the Board of the Indo-British Partnership and a former Chairman of the British Energy Association of the World Energy Council and of the Power Sector Advisory Group of UK Trade and Investment. AT

Fermín del Valle Named Deputy President of IFAC

The Council of the International Federation of Accountants (IFAC) has named Juan José Fermín del Valle as its new Deputy President for a two-year term concluding November 2006. Mr. del Valle will be working closely with IFAC's newly elected president, Graham Ward.

"I am looking forward to working with Mr. Ward to strengthen and develop the profession so we can effectively contribute to economic growth and stability," states Mr. del Valle.

Mr. del Valle first came on the IFAC Board in 1997. During his time as a Board member, he served on IFAC's Compliance Committee, Audit Committee and Structure and Organisational Task Force. He is also currently a member of the IFAC Regulatory Liaison Group.

Mr. del Valle has been a Partner of Deloitte & Touche since 1980. He is currently a member of Federacíon Argentina de Concejos Profesionales de Ciencias Económicas (FACPCE), an IFAC Member Body, where he served on various commissions and technical committees. Additionally, he also served on the Accounting Standards and Commercial Companies Regulations Committee of the Buenos Aires Stock Exchange. He previously served as a President of the Interamerican Accounting Association's Technical Commission of Accounting Investigation from 1993 to 1995.

Active in the academic field, Mr. del Valle is an Associate Professor at the School of Economic Sciences at the University of Buenos Aires and a Professor of Accounting and Auditing at the University of San Andrés. He has authored several publications on accountancy and has lectured extensively at conferences and seminars relating to the accounting profession. AT

IFAC Convenes Global Accounting Leaders; Focus on Developing Nations, Corporate Governance, and Economic Stability

Newly elected IFAC's Board Member, Datuk Dr. Abdul Samad Haji Alias was one of more than 100 leaders of national accountancy institutes who met in Paris early this month to participate in the International Federation of Accountants' (IFAC's) Board and Council meetings. They took action on such issues as corporate governance, developing nations, convergence to international standards and other ways accountancy can contribute to economic growth and stability.

During the meeting Graham Ward, the newly elected President of IFAC, emphasised his commitment to economic development and stability by promising to "deliver quality in all we do " — by developing high quality international standards, providing ethical and practice guidance for professional accountants in business and working with accounting firms in strengthening their quality control systems.

Echoing the same message, Datuk Dr. Abdul Samad who is also the president of the Malaysian Institute of Accountants said: "As partners with a common professional objective, we believe our roles and responsibilities towards the development of the profession can be fully exploited by promoting greater integrity and values in the profession."

Recognising that corporate governance is central to efficient investment, including public confidence in capital markets, IFAC established a working group to identify initiatives that IFAC should undertake in this area. The group, headed by Patrick Barrett, an IFAC Board member and Auditor General of Australia, will report to the Board in March 2005.

In addition, the Board and Council approved a Memorandum of Understanding with the United Nations Conference on Trade and Development to work more closely together to achieve greater recognition of the value of good governance, reliable accounting and clear accountability to economic growth and social development. Early projects will focus on education and training programmes and corporate governance.

IFAC also signed a Memorandum of Understanding with the Institute of Internal Auditors. The two bodies will participate in joint activities, including those related to corporate governance and the accountability of public sector organisations.

IFAC's Board and Council reconfirmed their commitment to achieving convergence to international standards, agreeing to move ahead on recommendations in the recently issued report, *Challenges and Successes in Implementing International Standards: Achieving Convergence to IFRSs and ISAs,* giving particular attention to the needs of small and medium enterprises and practices.

During the meeting, Council also accepted six new organisations as members of IFAC:

- Association of Accountants and Auditors of the Republic of Srpska (associate member);
- Chamber of Financial Auditors of Romania (associate member);
- Certified Public Accountants Association of Morocco (full member);
- Estonian Auditing Board (full member);
- Iranian Association of Certified Public Accountants (associate member); and
- National Institute of Accountants in Australia (full member).

In addition, the Association of Professional Accountants and Auditors of the Republic of Moldova, previously an associate member, was made a full member of IFAC. AT

For more information about IFAC membership and activities, visit the IFAC website, www.ifac.org.

IFAC

IFAC Board Exposes International Guidelines on Environmental Management Accounting

To eliminate confusion and help clarify the definition, benefits and applications of environmental management accounting (EMA), the Board of the International Federation of Accountants (IFAC) has exposed for comment *International Guidelines on Environmental Management Accounting*. This exposure draft (ED) is aimed at accountants and organisations interested in the potential economic and other internal management benefits of EMA and will be helpful to public accountants and auditors who are responsible for tracking or verifying environment-related information in financial and other reports.

The document, commissioned by IFAC and supported by the Division for Sustainable Development of the United Nations Department of Economic and Social Affairs (DSD/UNDESA), was written by Deborah Savage of the Environmental Management Accounting Research and Information Centre and Christine Jasch of the Austrian Institute for Environmental Management & Economics.

As pointed out by the authors, there are several core reasons for the current level of international interest in EMA:

- Increasing pressure from stakeholders interested in environmental issues;
- Increasing importance of environment-related costs; and
- Increasing recognition of problematic accounting practices.

The ED brings together some of the best existing information on EMA from a variety of authoritative bodies. It provides a general framework and set of definitions for EMA that is consistent with other existing, widely used environmental accounting frameworks with which EMA must coexist. In addition, the ED addresses both the physical accounting side and monetary accounting side of EMA and includes a number of real-world examples of EMA applications and links. AT

The ED may be viewed by going to www.ifac.org/EDs. **Comments on the ED are requested by 28 February 2005**. Comments may be submitted to EMAComments@ifac.org. All comments will be considered a matter of public record and will ultimately be posted on IFAC's website.

Non-Audit Firms Registered with MIA

FROM 1 TO 31 OCTOBER 2004

NON-AUDIT FIRM'S NAME	NF NO
JOHOR DARUL TAKZIM	
E.C. Business Advisory 32B, Jalan Pingai, Taman Pelangi 80400 Johor Bahru Tel: 07-333 7612 Fax: 07-331 4058 e-mail: earnchai@hotmail.com	**0580**
PERAK DARUL RIDZUAN	
M.A. & Co. No. 196 First Floor, Market Road 34000 Taiping Tel: 05-805 4340 Fax: 05-805 4340	**0586**
SELANGOR DARUL EHSAN	
KI Professional Consultancy Services No. 10-3, Jalan PJU 8/5E Perdana Business Centre Bandar Damansara Perdana 47820 Petaling Jaya Tel: 03-7729 6636 Fax: 03-7727 0826 e-mail: klh@pc.jaring.my	**0588**
Leongch Management & Advisory Services L-5-3 Arcadia Jalan USJ 11/1 47620 Subang Jaya Tel: 03-5631 5067 Fax: 03-5631 5067 e-mail: ndleo@time.net.my	**0578**
Muaz & Co No. 12-2, Jalan Opera D, U2/D TTDI Jaya 40150 Shah Alam Tel: 03-7859 1872 Fax: 03-7846 7048	**0583**
S. L. Tan & Associates 38D, Jalan Petaling Utama 9 Taman Petaling Utama Batu 7, Off Jalan Kelang Lama 46000 Petaling Jaya Tel: 03-7785 4227 Fax: 03-7785 4227 e-mail: tan6868@time.net.my	**0579**
T.C. Ong and Co. 657, Jalan Jasmin 19 Taman Jasmin 43000 Kajang Tel: 019-355 2868 e-mail: otc73@hotmail.com	**0585**
WILAYAH PERSEKUTUAN	
LK Management Services 6 (Tingkat Mezzanin), Jalan Tago 12 Taman Perindustrian Tago Sri Damansara 52200 Kuala Lumpur Tel: 03-6275 6022 Fax: 03-6275 5039	**0582**
PSY Management Services 28-2, Lorong 6E/91 Taman Shamelin Perkasa 56100 Kuala Lumpur Tel: 03-9200 7239 Fax: 03-9200 7239 e-mail: yapsp65@yahoo.co.uk	**0584**
WILAYAH PERSEKUTUAN	
TY Lam Management Services 19, Jalan Lazat, Happy Garden 58200 Kuala Lumpur Tel: 016-274 1320	**0581**
Zainuddin & Co. Lot 24 Jalan Pantai Permai 9 Jalan Pantai Dalam 59200 Kuala Lumpur Tel: 016-213 5657 e-mail: fanzalili@tm.net.my	**0587**

Audit Firms Registered with MIA

FROM 1 TO 31 OCTOBER 2004

AUDIT FIRM'S NAME	AF NO
SELANGOR DARUL EHSAN	
Parker Randall 305 & 503 Block E, Pusat Dagangan Phileo Damansara 1 No. 9, Jln 16/11, Off Jln Damansara 46350 Petaling Jaya Tel: 03-7665 1738 Fax: 03-7665 1739 e-mail: parkerrandall@raymond-liew.com	**1565**
Edgar Ralph & Co. 2, Lorong 10/10B Jalan Gasing 46000 Petaling Jaya Tel: 03-2693 0802 Fax: 03-2691 3816	**1566**
EK Lim & Associates 26/1, Jln PJS 5/4 Taman Desaria, Off Jalan Kelang Lama 46000 Petaling Jaya Tel: 03-7877 3443 Fax: 03-7877 4287	**1568**
WILAYAH PERSEKUTUAN	
Alan Chin & Associates 50-1, Jalan 1/76D Desa Pandan 55100 Kuala Lumpur Tel: 03-9283 1160 Fax: 03-9200 9762	**1562**
Jenchang Affiliates The Penthouse 31 Jalan Barat Off Jalan Imbi 55100 Kuala Lumpur Tel: 03-9283 6819 Fax: 03-9283 0643	**1564**
N. Param & Co. No 23-1, Jalan 11/48A Sentul Raya Boulevard, Off Jalan Sentul 51000 Kuala Lumpur Tel: 03-4045 1197 Fax: 03-4045 1201 e-mail: nmsparam@hotmail.com	**1567**
Rosdelima & Co No 12-1F, Bilik 2, Jalan AU 1A/4A Keramat Permai Business Center Tmn Keramat Permai 54200 Kuala Lumpur Tel: 03-4257 8725 Fax: 03-4256 8727 e-mail: rosdelima_co@yahoo.com	**1563**

IFAC

IFAC Board Exposes International Guidelines on Environmental Management Accounting

To eliminate confusion and help clarify the definition, benefits and applications of environmental management accounting (EMA), the Board of the International Federation of Accountants (IFAC) has exposed for comment *International Guidelines on Environmental Management Accounting*. This exposure draft (ED) is aimed at accountants and organisations interested in the potential economic and other internal management benefits of EMA and will be helpful to public accountants and auditors who are responsible for tracking or verifying environment-related information in financial and other reports.

The document, commissioned by IFAC and supported by the Division for Sustainable Development of the United Nations Department of Economic and Social Affairs (DSD/UNDESA), was written by Deborah Savage of the Environmental Management Accounting Research and Information Centre and Christine Jasch of the Austrian Institute for Environmental Management & Economics.

As pointed out by the authors, there are several core reasons for the current level of international interest in EMA:

- Increasing pressure from stakeholders interested in environmental issues;
- Increasing importance of environment-related costs; and
- Increasing recognition of problematic accounting practices.

The ED brings together some of the best existing information on EMA from a variety of authoritative bodies. It provides a general framework and set of definitions for EMA that is consistent with other existing, widely used environmental accounting frameworks with which EMA must coexist. In addition, the ED addresses both the physical accounting side and monetary accounting side of EMA and includes a number of real-world examples of EMA applications and links. AT

The ED may be viewed by going to www.ifac.org/EDs. **Comments on the ED are requested by 28 February 2005**. Comments may be submitted to EMAComments@ifac.org. All comments will be considered a matter of public record and will ultimately be posted on IFAC's website.

Non-Audit Firms Registered with MIA

FROM 1 TO 31 OCTOBER 2004

NON-AUDIT FIRM'S NAME	NF NO
JOHOR DARUL TAKZIM	
E.C. Business Advisory 32B, Jalan Pingai, Taman Pelangi 80400 Johor Bahru Tel: 07-333 7612 Fax: 07-331 4058 e-mail: earnchai@hotmail.com	**0580**
PERAK DARUL RIDZUAN	
M.A. & Co. No. 196 First Floor, Market Road 34000 Taiping Tel: 05-805 4340 Fax: 05-805 4340	**0586**
SELANGOR DARUL EHSAN	
KI Professional Consultancy Services No. 10-3, Jalan PJU 8/5E Perdana Business Centre Bandar Damansara Perdana 47820 Petaling Jaya Tel: 03-7729 6636 Fax: 03-7727 0826 e-mail: klh@pc.jaring.my	**0588**
Leongch Management & Advisory Services L-5-3 Arcadia Jalan USJ 11/1 47620 Subang Jaya Tel: 03-5631 5067 Fax: 03-5631 5067 e-mail: ndleo@time.net.my	**0578**
Muaz & Co No. 12-2, Jalan Opera D, U2/D TTDI Jaya 40150 Shah Alam Tel: 03-7859 1872 Fax: 03-7846 7048	**0583**
S. L. Tan & Associates 38D, Jalan Petaling Utama 9 Taman Petaling Utama Batu 7, Off Jalan Kelang Lama 46000 Petaling Jaya Tel: 03-7785 4227 Fax: 03-7785 4227 e-mail: tan6868@time.net.my	**0579**
T.C. Ong and Co. 657, Jalan Jasmin 19 Taman Jasmin 43000 Kajang Tel: 019-355 2868 e-mail: otc73@hotmail.com	**0585**
WILAYAH PERSEKUTUAN	
LK Management Services 6 (Tingkat Mezzanin), Jalan Tago 12 Taman Perindustrian Tago Sri Damansara 52200 Kuala Lumpur Tel: 03-6275 6022 Fax: 03-6275 5039	**0582**
PSY Management Services 28-2, Lorong 6E/91 Taman Shamelin Perkasa 56100 Kuala Lumpur Tel: 03-9200 7239 Fax: 03-9200 7239 e-mail: yapsp65@yahoo.co.uk	**0584**
WILAYAH PERSEKUTUAN	
TY Lam Management Services 19, Jalan Lazat, Happy Garden 58200 Kuala Lumpur Tel: 016-274 1320	**0581**
Zainuddin & Co. Lot 24 Jalan Pantai Permai 9 Jalan Pantai Dalam 59200 Kuala Lumpur Tel: 016-213 5657 e-mail: fanzalili@tm.net.my	**0587**

Audit Firms Registered with MIA

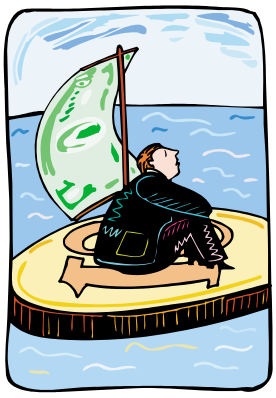
FROM 1 TO 31 OCTOBER 2004

AUDIT FIRM'S NAME	AF NO
SELANGOR DARUL EHSAN	
Parker Randall 305 & 503 Block E, Pusat Dagangan Phileo Damansara 1 No. 9, Jln 16/11, Off Jln Damansara 46350 Petaling Jaya Tel: 03-7665 1738 Fax: 03-7665 1739 e-mail: parkerrandall@raymond-liew.com	**1565**
Edgar Ralph & Co. 2, Lorong 10/10B Jalan Gasing 46000 Petaling Jaya Tel: 03-2693 0802 Fax: 03-2691 3816	**1566**
EK Lim & Associates 26/1, Jln PJS 5/4 Taman Desaria, Off Jalan Kelang Lama 46000 Petaling Jaya Tel: 03-7877 3443 Fax: 03-7877 4287	**1568**
WILAYAH PERSEKUTUAN	
Alan Chin & Associates 50-1, Jalan 1/76D Desa Pandan 55100 Kuala Lumpur Tel: 03-9283 1160 Fax: 03-9200 9762	**1562**
Jenchang Affiliates The Penthouse 31 Jalan Barat Off Jalan Imbi 55100 Kuala Lumpur Tel: 03-9283 6819 Fax: 03-9283 0643	**1564**
N. Param & Co. No 23-1, Jalan 11/48A Sentul Raya Boulevard, Off Jalan Sentul 51000 Kuala Lumpur Tel: 03-4045 1197 Fax: 03-4045 1201 e-mail: nmsparam@hotmail.com	**1567**
Rosdelima & Co No 12-1F, Bilik 2, Jalan AU 1A/4A Keramat Permai Business Center Tmn Keramat Permai 54200 Kuala Lumpur Tel: 03-4257 8725 Fax: 03-4256 8727 e-mail: rosdelima_co@yahoo.com	**1563**

… Counting on Humour

Shipwrecked

Following a shipwreck, an engineer, a lawyer, and an accountant are adrift on a raft. In the distance, they see an island.



The engineer, using his technical skills and knowledge of physics, ties himself to the raft using a rope. He dives into the water and swims towards the island pulling the raft behind him. Sharks attack. The lawyer and the accountant barely manage to save him.

Next, the lawyer dives in planning to use his golden tongue as well as speedy footwork to get the castaways to the island. At once, the sharks attack and the accountant saves him.

Finally, the accountant dives into the water not even bothering with the rope. The sharks sweep in, but instead of attacking the accountant, they push the raft to the island. The engineer and lawyer are amazed. *"How did you do that?"* they ask. *"Professional etiquette,"* he replies.

Top ten signs your *Accountant is Nuts*

10 In several places on your tax forms, he's written, *"Give or take a million dollars."*

9 Tells you to put all your money into British cattle futures.

8 You notice that his "calculator" is just a broken VCR remote.

7 Insists that there is no such number as four.

6 He laughed at Bob Dole's background check (I am sorry — that's a sign he was hypnotised).

5 Counts family of squirrels living in your yard as dependents.

4 Advises to save you postage by filing your taxes telepathically.

3 Instead of a CPA license, he's got a framed photo of a shirtless Alex Trebek.

2 Demands that you call "Una-countant."

1 He's got a tax form tattooed on his … #!?

Qualified accountant

The company personnel department had carefully interviewed 38 people for the job of assistant to the financial director.

The chief executive thought that one candidate — Charles — seemed ideal. Charles had been to a major public school. Not only was he a qualified accountant, but Charles also had a masters degree in business administration. He seemed fully aware of the latest creative accountancy techniques.

"Charles," said the chief executive, *"we've decided to offer you the job. And as you're so well qualified we've decided to start you off on a slightly higher salary than the one advertised. We'll pay you 36,000 pounds a year."*

"Thank you," replied Charles. *"But how much is that per month?"*

The FBI test

A lawyer and an accountant are applying to join the FBI. They have passed all tests but the final one. Both are in a waiting room ready for their final test.

First, the lawyer is given a gun and told to go into the room and execute the spy sitting in the chair. The lawyer goes into the room, sees the person sitting in the chair blindfolded. She lifts the blindfold and sees its her husband. She leaves the room saying she could not shoot him. The lawyer is told she failed the test and cannot become an FBI agent.

The accountant is given a gun and is told to execute the spy. The accountant goes into the room and the agents outside the room hear a gun shot. After this they hear a lot of rustling and banging.

Finally the accountant comes out and says, "someone put blanks in the gun so I had to choke him to death."

Heart transplant

A fellow walks into a hospital and sees two doctors down on their hands and knees in one of the flower beds. He goes over and says, *"Can I help? Have you lost something? "*

"No," says one of the doctors. *"We're about to do a heart transplant on an accountant and we're looking for a suitable stone."*

Accountants are much too logical to be motorbike gang members. The accountant is the biker that has the following written on the back of his leather jacket: *"If you can read this then honk, because my girlfriend has fallen off"* AT