GROWING ISLAMIC FINANCE • WORLD RECOVERY LOSING STEAM?

THE MALAYSIAN INSTITUTE OF ACCOUNTANTS

accountants today

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Nurturing Small Business

+ THE FUNDAMENTALS OF DOUBLE TAX AGREEMENTS

+ ACCOUNTING IN EMERGING ECONOMIES

* DOING THE RIGHT THING

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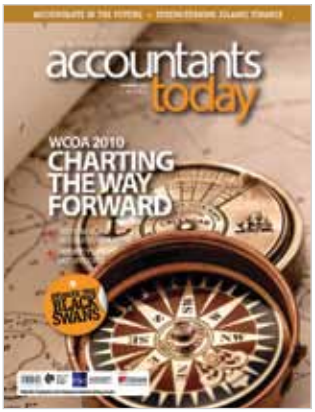

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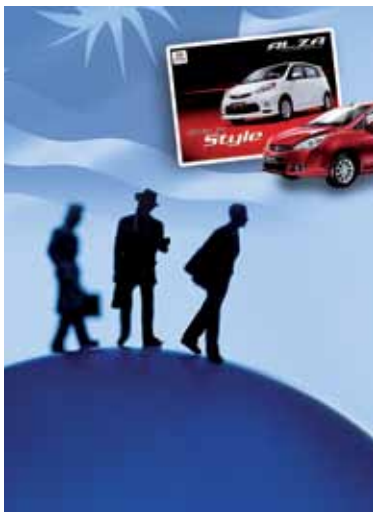

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- To develop, support and monitor quality and expertise consistent with global best practice in the accountancy profession for the interest of stakeholders.

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

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

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Innovating in the New Year

It's that time of the year again when we turn to a new page and resolve to start afresh.

While the challenges facing us remain – such as the threat of being sidelined globally and the battle to stay competitive and relevant and explore new sources of growth – what we can do is to find new and fresh avenues for growth. This is especially true for the small and medium practitioners who form a large part of our membership. While traditional sources of income – such as mandatory audit services – might be shrinking, it is incumbent upon SMPs to diversify in order to grow and sustain themselves. In this issue, we take a look at how SMPs can explore new avenues. This could include alternatives to the bread-and-butter service of audit via the provision of review and compilation services and even offering business advisory services to cater to SME markets, the logical counterpart of SMPs.

This could include alternatives to the bread-and-butter service of audit via the provision of review and compilation services and even offering business advisory services to cater to SME markets, the logical counterpart of SMPs.

In this issue, we also feature the 18th World Congress of Accountants (WCOA) 2010 in pictures. This pictorial captures the highlights and essence of the WCOA 2010, which was deemed a triumph for the accounting profession in raising its global profile, reclaiming goodwill and establishing its relevance as creators and sustainers of value for business going forward. Do relive the moments in these pages!

Like others, we hope and pray that this new year will offer more prosperity and less volatility. While projections of doom and gloom persist – there are still rumours of the dreaded double-dip recession, over in the business and management pages, we offer some suggestions for how companies can improve their productivity and performance. For example, sleep is a great rejuvenator. See how some of the world's leading companies have introduced nap-time in the office. Could it catch on here? Plus, if you're not leveraging on the power of women workers, you could be handicapping your organisation by shutting out half of the country's talent pool. See how to capitalise on girl power.

On a lighter note, check out how once-insular South Korea is reaping awesome rewards from cultural exports – by capitalising on its ultra-hot celebrities. Last but not least, Denmark might not be on the beaten path for tourism, but this is precisely its charm for jaded travellers, says Anis Ramli.

Wishing all our readers a Happy New Year and may the new year bring tidings of serenity and prosperity.■

Happy reading!

EDITOR

LETTERS TO THE EDITOR ///// A key element in the world of publishing is what readers have to say. We want to hear from you on just about anything that appears in each issue of ***Accountants Today***. Why not drop us a line now? e-mail: communications@mia.org.my

Sustainability for SMPs

As the world changes and becomes more complex, small and medium practices (SMPs) have to explore new avenues for innovation and sustainability. This could include searching for alternatives to the bread-and-butter service of audit via the provision of review and compilation services and even offering business advisory services to cater to SME markets.

Majella Gomes and Nazatul Izma

1. Alternatives to Auditing

With audit quality and services coming under scrutiny, it has often been asked whether there is an alternative to auditing. And if there is, will it work as efficiently?

This is a question worth pondering, especially for the accounting profession, as there are instances where small entities especially have been exempted from audits. Instead, assurance services are provided as an alternative to auditing. These include review and compilation services, which would be worthwhile for small and medium practices particularly in Malaysia to explore in light of the emerging global trend favouring audit exemption for entities which fall below a certain threshold in terms of value or size.

The issue is not far-fetched. The International Auditing and Assurance Standards Board (IAASB) has been asked to consider what assurance service might be provided as an alternative to an audit. And at the concurrent session on review and compilation services at the recent World Congress of Accountants (WCOA) 2010, it was announced that standards pertaining to review and compilation services were going to be revised.

Since review and compilation services are not as widely utilised in Malaysia, foreign perspectives and best practices from leading markets, such as Canada, Australia, Germany and South Africa, are one means of learning before doing.

SUFFICIENT BUT PRIMITIVE

"Canada is very familiar with assurance and compilation services," said Phil Cowperthwaite, partner of Cowperthwaite Mehta, a public accounting firm in Toronto, Canada and a member of the IAASB. "Until 1980, only incorporated entities had to have audits, driven mainly by the banks which had many requirements. There is more stringency in Canadian compilation requirements now, inline with Canadian GAAP. There have also been increases in regulatory pressure but there is no need for audit if compilation is comprehensive enough."

He pointed out that compilations are comparatively primitive statements, however, and that there were no disclosures – although they were deemed acceptable for tax filing and other special purposes. "Standards for compilation were written in the early 1990s, and have not been updated since," he said. "But they are now being developed with an eye to better servicing SMEs, and applicable to a wider range of industries. The focus is on adding value to users, and the key component is communication. There are clear objectives of engagement and the standards will be robust enough to withstand consistent application."

Although compilations are the most basic services offered by accountants, reviews and compilations contribute to the audit nevertheless, stated Dianne Azoor-Hughes, Partner, Pitcher Partners Australia. She explained that audits, reviews and compilations are common in Australia but where audit provides reasonable assurance, reviews give only limited assurance and compilations give none at all. "However, users do take assurance from financial statements prepared by professional accountants," she said. "This requires the minimal level of competence but due care is needed. Management is still responsible for the financial statements."

Reviews focus on 'grey' areas and single them out for enquiry and more analysis, especially if there are complex transactions. Sometimes conflicting or contradictory elements that arise from the review show a need for deeper investigation. Practitioners must not knowingly be involved in the falsification of accounts and be aware of any fraud or misdeed. "Reviews and compilations contribute to sustaining value creation by identifying elements that require clarification," she concluded.

Sometimes conflicting or contradictory elements that arise from the review show a need for deeper investigation. Practitioners must not knowingly be involved in the falsification of accounts and be aware of any fraud or misdeed.

Dianne Azoor-Hughes, Partner, Pitcher Partners Australia.

DIFFERENT CONDITIONS APPLY

In Germany, audits were historically mandatory for stock-quoted companies only but since 1979, have become mandatory for limited-liability companies as well. "Small entities are exempted," said Josef Ferlings, Director of Professional Practice for the Central Europe Area at Ernst & Young AG and an IAASB Member. "This refers to companies that have fewer than 50 employees, revenues of less than €2 million annually, and assets less than €1 million. There is no mandatory audit but the German banking regulator has instructed banks to give loans only to companies which comply with a certain level of audit, or reviews and compilations."

South Africa, on the other hand, has adopted International Standards on Auditing (ISAs) so practitioners there already know how to handle changes in standards, said Bernard Agulhas, CEO of South Africa's Independent Regulatory Board for Auditors (IRBA). "But South Africa's Companies Act is still a work in progress," he admitted, "so there is no certainty as to what will happen to assurance services in the future." Having adopted the full suite of international standards, such as those relating to auditing, related services, assurance engagements and review engagements, South Africa has been recognized as first from among a field of 138 countries for the strength of its auditing and reporting standards by the World Economic Forum. "We've also adopted clarity ISAs and harmonized standards, so it is not difficult to move to international standards," he added.

Acknowledging that South Africa is not a sophisticated market, Agulhas stated that it was the responsibility of auditors to assure clients of auditing standards. At present, the Companies Act requires all companies to be audited; all audits can only be done by registered members of the Audit Board. While the Companies Act 2008 requires all public companies to be audited, and all other companies to undergo review, it was not clear what role compilation will play.

GREY AREAS

Currently, while public companies are audited based on thresholds, it is understood that thresholds may change, and the situation is by no means settled yet. The main challenge in the South African environment appears to be this uncertainty; even though regulations exist, there is no guarantee that they will not change, or if there will be an alternate assurance standard.

Other worries include possible escalation in costs if there are changes, and the quality of reviews and compilations that are carried out. "Unsettled conditions have resulted in confusion in the market place," Agulhas remarked. "Our main concern is that regulations be instituted in the best interest of the public. We will continue to monitor the situation closely, especially where it affects regulating of reviewers."

Apart from regulatory uncertainty, there are some issues pertaining to fraud and how it will be treated in the future, if acceptable regulations for reviews and compilations are put in place. There is also concern over auditors' liability in the event of reviews and compilations being implemented, and if this will become a bone of contention as changing regulations start to place more responsibility on the professionals who offer these services.

> *...escalating demand for business advice also derives from the growing information needs of SMEs to meet increasingly stringent regulatory demands, which extend outside traditional financial compliance into health and safety, human resources, labour law, etc.*
>
> Professor Robin Jarvis,
> Head of SME Affairs, ACCA

2. Exploring business advisory services

As the market for audit services may shrink and become more competitive, it might be worthwhile for SMPs to explore high value added consultancy services in markets where they have an advantage, such as business advisory for SMEs. "In the current regulatory environment, for example where there is a constant move in shifting audit thresholds, many jurisdictions are moving to exempt micro-businesses from preparing and filing accounts," said Professor Robin Jarvis, Head of SME Affairs, ACCA at the recent WCOA 2010. Although the paring down of the audit market is a challenge for traditional audit practices, it opens up new vistas for SMPs that are willing to reinvent themselves.

SMEs are a promising playground for SMPs. Panelists at the WCOA 2010 were optimistic that the worldwide market for business advisory services is projected to grow exponentially along with the flourishing of SMEs as drivers of national economies. This is being helped along by yet another trend – the downsizing of larger businesses. There is a perceived shift in business stock in Europe and the UK where the population of business entities, primarily SMEs, is expanding while larger and listed firms are decreasing their number of employees.

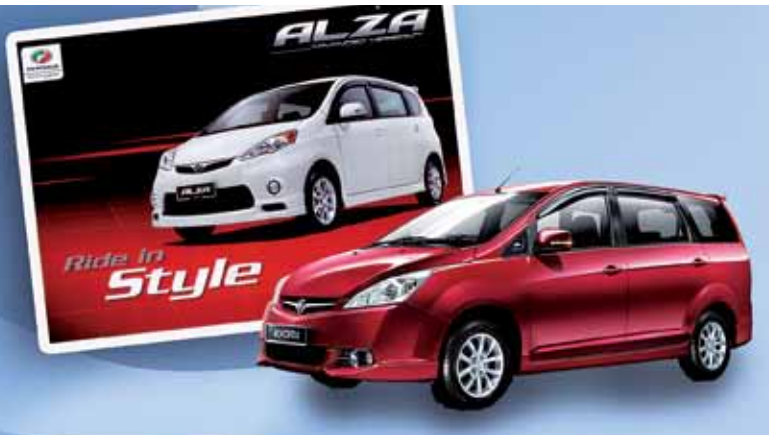
Given that accountants are consistently voted as the most trusted source of business advice, it could be argued that business advisory services is the future of the profession for SMPs which are traditionally the counterparts of SMEs. "All studies (that I've looked at) indicate that accountants are preferred as a first source of advice for SMEs," said Jarvis.

Since SMEs and SMPs are subject to the same compliance requirements e.g. labour and maternity laws, this is part of motivation for SMEs to seek advice from SMPs. Apart from technical competency, trust between the SMP and their SME clients is a very important factor. Likewise, proximity is important. Owner/managers prefer face-to-face meetings, and the frequency of meetings increases as the SME grows. Therefore, local smaller SMPs are in a better position to service SMEs and they should be willing to enlarge and tap their networks of expertise in order to meet the needs of SMEs who demand a one-stop shop for business advisory.

He added that the escalating demand for business advice also derives from the growing information needs of SMEs to meet increasingly stringent regulatory demands, which extend outside traditional financial compliance into health and safety, human resources, labour law, etc. Because of their limited size, SMEs lack the inhouse expertise to deal with these problems and SMPs can leverage on this gap in knowledge.

Despite bright prospects, lack of expertise could be a stumbling block for SMPs in delivering business advisory services. Therefore, capacity building is critical. Typically, there are three models of SMPs. Under the qualified HR model, a HR person is employed and a large proportion of fee income is coming from this source. In the payroll model, the firm provides payroll services to clients and will subsequently begin providing employment law and HR advice as well, being forced into the business through the payroll process. And in the minimalist model which is typical of very small practices, the SMP is very cautious about giving advice but is being forced into business advisory to avoid losing clients.

It is thus recommended that SMPs implement key business strategies such as mergers of practices and the brokerage referral model whereby they network locally with specialists in other disciplines, and invest in further education and training, said Jarvis.



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Equally important is for SMPs to offer value-added business advisory services, which would enable them to discard the cost-based mindset that afflicts the profession currently. Stuart Black, Founding Chair and Board Member of the Accounting Position and Ethical Standards Board (APESB) Australia, recommended that SMPs study the features of the "adaptive capacity model" used by airlines to maximise yields on each flight. "Like airlines, accountants should segregate their client base and offer different value propositions to different clients," said Black.

This could backfire though. Allocating the best services and the best resources for the best paymasters could shut out companies with high potential but limited cash, such as start-ups. In practice, Black said his firm has a policy of selectively working with entrepreneurial business and philanthropic organisations. "While they appreciate value-added services, they don't have the cash so we undertake the risk."

Migrating to a value-added pricing model might heighten reluctance to use accounting services which are deemed costly in developing markets such as Ghana, where owners prefer to manage their businesses themselves. In such cases, Black recommended that practitioners offer the "virtual CFO" service.

Of course, entrepreneurship in a SMP may not be the ideal choice for all accountants. Asked what advice he would offer accountants who intend to set up new business advisory practices, Black said they should gain "depth of experience" first to meet client expectations. He also noted that being a self-practitioner is a "very, very hard road." ■

WCOA 2010 pictorial

Befitting the tag of the "Olympics of Accounting", the 18th World Congress featured a dazzling opening ceremony full of glitz, glamour and traditional Malaysian hospitality.
The WCOA was staged in the state-of-the-art premises of the Kuala Lumpur Convention Centre, which impressed many foreign delegates who especially loved the location right next to the PETRONAS Twin Towers.

The 18th World Congress of Accountants held for the first time in Malaysia from 8 – 11 November 2010 was billed as the "greatest show on earth" for accountants all around the globe.

Jointly organised by the Malaysian Institute of Accountants (MIA) and the International Federation of Accountants (IFAC), the latest congress was deemed a triumph in terms of attendance - it succeeded in drawing a record-breaking 6,050 delegates from 134 countries and over 100 high-powered speakers.

Themed "Accountants: Sustaining Value Creation", the Congress was held in Malaysia for the first time. Under the umbrella of sustainability, the key issues under discussion included understanding how accountants can add sustainable value and remain relevant; the development of a new integrated reporting framework to strengthen corporate reporting and enable the accurate valuation of enterprises; the alternative role of Islamic finance in global markets; and profiling the accountants of the future.

Beginning from the glamourous opening ceremony steeped in Malaysian traditions to the closely-attended plenary and concurrent sessions, the WCOA was considered an overwhelming success in branding the accounting profession as creators and sustainers of value and in raising the relevance and profile of the profession.

Pictures tell a thousand words, and the following photospread captures the highlights and essence of the 18th World Congress.

WCOA 2010 pictorial

Audiences enjoyed up-to-the-minute presentations from a diverse line-up of speakers on subjects ranging from sustainability to global Islamic finance.

Delegates listening raptly to the points being made during the concurrent and plenary sessions.

Apart from the event proper, the gala cocktail held on the sidelines of the WCOA was a chance for delegates to mingle and network and talk shop on a global scale, while letting down their hair.

Visitors thronged the interesting exhibitions onsite featuring the latest in accounting and business products, services and trends; some delegates even took time to tee off!

Environmental consciousness is a pillar of sustainability; the WCOA tree-planting programme was a symbolic representation of the profession's commitment to sustainability.

doing the right thing

HOW CAN ACCOUNTANTS RECOGNISE AND HANDLE ETHICAL DILEMMAS IN A WORLD THAT ISN'T BLACK AND WHITE?

Eddie Lee

Could good corporate behaviour have curbed or mitigated the impact of the recent financial crises? Certainly, ethics or the lack of it counted as essential ingredients in the recent global financial crisis. And as key players in business and the corporate world, the ethics of the accounting profession too have come under scrutiny in the fallout from the crisis.

"Ethics is about making a decision or taking an action that is considered right, both socially and morally. In order for an action or (decision) to be ethical, it has to be universally accepted. Justice and fairness are the foundations of ethics," explains Professor Dr. Shamsul Nahar Abdullah, Professor in Accounting and Dean, Faculty of Management & Economics, University of Malaysia Terengganu, Terengganu.

Dato' Raymond Liew, Managing Partner, Macmillan Woods believes the word ethics is very often misused without a clear understanding of its true meaning. "Ethics is often confused with "values" and the issues must relate to the moral principles of an accountant," he says.

Accountants are often faced with having to make the decision of doing what is right versus doing what is wrong. Some say that ethical decisions should not be conditional. However, that is not as simple as it may sound. What constitutes "right" to one person may be "wrong" to another, agrees Prof. Dr. Shamsul Nahar. What is unethical may well be ethical in another culture in another country in another jurisdiction, says Liew. What clearly distinguishes the line between right and wrong? What some may look at as being unethical does not necessarily make it illegal.

Accountants in Daily Dilemmas

What are the most common ethical dilemmas faced by accountants today? "Accountants are in a dilemma because they are remunerated by the top management of the company but they are answerable to the shareholders in the case of serious wrongdoings," notes Prof. Dr. Nahar. "The accounting profession is different from other professions such as lawyers or doctors who are answerable only to their clients. The most common ethical issue that accountants face is "managing" the accounts to satisfy management."

Accountants should avoid pitfalls wherever they can when it comes to ethics. Accountants should watch out for threats to ethical conduct such as threats to objectivity posed by inadequate self-review; the risk of wrongly advocating the interests of an employer or client; undue influence of a client, employer or third party; and intrusion of one's own financial interests or the financial interests of someone close to you (for


ethics
integrity
loyalty
$$

example, owning stock in the firm you are auditing).'

Safeguards against Ethical Breaches

Assess the relative severity of potentially compromising situations. Not all ethical dilemmas are created equal. If the threat can be reduced or eliminated by installing safeguards with the result that a reasonable observer can agree that ethical rules are not being violated - i.e., the threat is moderate enough to be regarded as "acceptable" - the accountant may be able to continue the activity posing the ethical dilemma.

Examples of such safeguards include subjecting his decision-making to peer review to reduce the possibility of undue influence; steering clear of joint ventures with a client to reduce the threat of self-interest; and providing avenues of internal "whistleblowing" that employees can use without fear of reprisal.

If the ethical dilemma confronting the accountant is clear-cut, severe, and impossible to ameliorate, escape the compromising situation posing the ethical dilemma. This can mean severing a relationship with a client or quitting his job at an accounting firm, after having clearly documented his concerns. While drastic, such a course may be the only way to con-

duct oneself ethically and protect against legal liability.

How can Ethical Conduct be Embedded?

Certainly there is a need to understand how individuals experience ethical dilemmas within specific circumstances and the factors that influence their response. There is also a need to question what individual moral development means and how the profession can help accountants, faced with complex ethical dilemmas in practice, to make the right decisions.

There has been a sea change in the treatment and emphasis on ethics in the past decades. Factors such as the collapse of some of America's most admired companies, such as Enron and WorldCom, inspired organizations to assure and push ethical policies. For instance, some organisations require accounting professionals to complete continuing professional education courses on ethics. In addition, a number of companies establish whistleblower hotlines to encourage employees to demonstrate honesty and integrity in the workplace.

This renewed focus on ethics did not prevent basket cases, such as the devastation of Lehman Brothers during the recent financial crisis. What went wrong? How can ethics or education and training be improved and enforced to help individuals make better financial decisions?

"Formal education, training and dissemination of information to accountants are some ways to improve on ethics," observes Liew. To inculcate self-control, self-discipline and most importantly, upholding moral principles in one's professional practice with integrity at all times would help to improve on ethics. "Unfortunately, accountants are also entrepreneurs and material wealth may tempt them to diverge from such principles, not forgetting that greed is very often the cause of the "compromising" principles," says Liew.

Will regulation help? "No regulation or law or the word of God for that matter can help. It boils down to the moral principles of that individual," stresses Liew. Conversely, Prof. Dr. Nahar believes that regulation does help. "But when regulation is enforced, it is most times already too late." says Prof. Dr. Nahar. "Wrongdoings have been committed and the damage is done. Often times, the penalty is paltry. Moreover, regulation requires enforcement which at times is perceived to be selective."

Since ethics is a moral issue, perhaps ethical guidelines might be a viable solution, such as MIA's proposed code of human governance. The main rationale behind ethical guidelines is not to provide an exact solution to every problem, but to aid in the decision-making process. An established set of guidelines provides an accounting professional with a compass to direct him towards ethical behaviour. Specific responsibilities of the accounting profession are expressed in the various codes of ethics established by the major organizations such as the American Institute of CPAs (AICPA). The AICPA Code of Professional Conduct outlines an accountant's responsibilities towards the public interest and emphasises integrity, objectivity and due care.

Ethics can't be taught, while breaches must be recognised

Many accounting professionals do not encourage ethics courses and argue that ethical behaviour is not taught, but is inherent in an individual's personality. "It's a question of moral principles, associated with integrity," says Liew. Prof. Dr. Nahar notes that accounting professors do not like to research or study ethics because of its unscientific approach. The results are difficult to examine and it is hard to gauge the level of success from teaching ethics courses.

To worsen the situation, unethical practices are so commonplace that it is sometimes ignored. Indeed, one of the issues that must be addressed is the recognition of an ethical dilemma. Many people find it difficult to recognise an ethical dilemma as such. It is not that most people are inherently unethical. Instead, the problem is that many people are unconscious of the fact that nearly everything that they do has an ethical dimension.

It may be interesting to pause and consider some of the relatively 'invisible' cases where ethical questions seem to be ignored. Take a simple example; have you ever seen a person avoid taking a telephone call by telling someone else to answer and saying that the person is not there? Even such a simple case has at least two ethical aspects – firstly, there is the matter of deceit and secondly, there is the matter of getting someone else to do the 'dirty work'.

Some might respond by saying that this sort of behaviour is quite harmless. But is it really? What sort of message does such behaviour give about the prevailing values of an organisation? How easy is it to accept an avowal of honesty from a person who is habitually deceitful for the sake of minor personal convenience?

Accounting firms should therefore take proactive steps during the hiring and training of accountants to stamp out such behaviour before it spreads. "Education is very important and any loopholes that allow for malpractices should be identified and addressed accordingly. The culture of whistleblowing should also be encouraged," says Prof. Dr. Nahar.

Firms hiring accountants must ascertain if they are adequately trained on issues of ethics and professional responsibility. Once hired, the new employee should receive extensive training with regard to the ethical environment of the firm and the profession. Guidance in the form of seminars and continuing education in ethics should be provided, ensuring that accountants develop genuine understanding and expertise on issues arising under the Code of Professional Responsibility. Professional responsibility principles should be incorporated into every area of office operations and procedures.

Accounting professionals must take it upon themselves to acquire ethics education and expertise." It's essential for companies to deliver ethical training from the bottom up to help their employees make ethical decisions," says Liew.

Tone from the Top

However, those in senior positions often need ethical guidance, too. The people at the top exemplify the true ethical standards of an organisation — whether these are the same as the company's stated values or not. It is up to senior employees to demonstrate to others the ethical expectations within the business." Unless they model these desired behaviours themselves, ethics training for other employees will have a seriously limited impact," observes Liew.

Generally, accountants see the relevant ethical principles as those relating directly to their profession — to tell the truth, to properly and accurately prepare statements on their company's financial position and to tackle impropriety. Similarly, most large companies have an ethical code — which states that they are opposed to bribes, collusion and other criminal acts. All these ethical standards are excellent — as far as they go.

In a related development, non-executive directors play a particularly vital role in setting the ethical tone. The most effective non-executive directors challenge management where appropriate, acting as a check and a balance. Their role can be broad, beyond operational matters. Rather, they tend to be instrumental in developing a clear mission and strategy for the company and helping to ensure that strategic objectives are fulfilled.

Professional accountants who are non-executive directors have a particularly important role to play in creating and maintaining an ethical culture. They may be approached by employees wishing to report unethical behaviour and, as a senior figure within the organisation, will have an impact on its ethical tone. Accountants acting as non-executive directors in a voluntary capacity, for example for a small charity or school, have the same responsibility to behave professionally despite the position being unpaid. Balancing confidentiality with professional duty, dealing with a junior employee's ethical concerns and resolving a conflict of interest are relevant issues for accountants in business at all levels.

They focus on how to safeguard the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour — which together form the backbone of the code — by reducing or eliminating threats. ■

++ **GUIDANCE** *in the form of seminars and continuing education in ethics should be provided, ensuring that accountants develop genuine understanding and expertise on issues arising under the Code of Professional Responsibility.*

++ **ACCOUNTING** *professionals must take it upon themselves to acquire ethics education and expertise." It's essential for companies to deliver ethical training from the bottom up to help their employees make ethical decisions.*

tax

In the borderless world, cross-border transactions are imminent. As the saying goes, nothing is certain in life except for death and taxes. With various international deals taking place every minute, comes various tax issues, be it a simple one or otherwise. One of the most important aspects of international taxation is the taxing rights of the jurisdictions involved, namely the source country and the resident country. In a triangular case, a third jurisdiction could also be in the picture. Along the way, there would be an overlapping area that gives rise to double taxation. Against this background, whilst it is not possible to deal with each aspect of the double tax agreement (DTA), this article discusses several fundamental issues surrounding a DTA. Discussions are based on years of experience in practising international tax and the present international thinking. Where relevant, the Malaysian aspects are included to give the readers a better perspective.

The Fundamentals of DOUBLE TAX AGREEMENTS

part 1

Tan Hooi Beng

OBJECTIVES OF DTAs

In the simplest manner, I always believe that A. McKie has aptly summarised the purposes of a DTA at the 22nd Tax Conference of the Canadian Tax Foundation where he said:

"The taxpayer hopes that the treaty will prevent double taxation of his income, the tax gatherer hopes the treaty will prevent fiscal evasion and the politician just hopes."

> *Over the years, different jurisdictions have adopted different approaches but by and large, majority of the jurisdictions adopt the view that the DTAs are meant to relieve and not impose a higher tax than what is provided under the domestic law. From the Malaysian perspective, the majority view is adopted and supported by the ratio diciendi laid down in Walter Wright (Singapore) Pte Ltd v DGIR)1990 (2 MTC 115).*

Paragraph 16 of the Introduction to the Organisation for Economic Co-operation and Development ("OECD") Model Tax Convention on Income and on Capital (OECD MTC) states that:

"In both the 1963 Draft Convention and the 1977 Model Convention, the title of the Model Convention included a reference to the elimination of double taxation. In recognition of the fact that the Model Convention does not deal exclusively with the elimination of double taxation but also addresses other issues, such as the prevention of tax evasion and non-discrimination, it was subsequently decided to use a shorter title which did not include this reference. This change has been made both on the cover page of this publication and in the Model Convention itself. However, it is understood that the practice of many Member countries is still to include in the title a reference to either the elimination of double taxation or to both the elimination of double taxation and the prevention of fiscal evasion".

Malaysian treaties generally follow the present practices of the OECD member countries. Let's look at the title and preamble to the DTA concluded between Malaysia and Singapore as follows:

"AGREEMENT BETWEEN THE GOVERNMENT OF MALAYSIA AND THE GOVERNMENT OF THE REPUBLIC OF SINGAPORE FOR THE AVOIDANCE OF DOUBLE TAXATION AND THE PREVENTION OF FISCAL EVASION WITH RESPECT TO TAXES ON INCOME."

"The Government of Malaysia and the Government of the Republic of Singapore desiring to conclude an Agreement for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income, have agreed as follows:.."

BROADLY SPEAKING, THE DTA IS MEANT TO ACHIEVE THE FOLLOWING OBJECTIVES:

- avoiding double taxation of the same income;
- facilitating cross-border/international trade and investment;
- providing fair treatment to residents of different jurisdictions; and
- preventing tax evasion and fiscal fraud.

DOES DTA OVERRIDE DOMESTIC

TAX LAW?

From the international perspective, generally this is the case. From the Malaysian perspective, to begin with, there must first be a tax liability under the Malaysian Income Tax Act, 1967 (ITA). Once this is established, then one has to check the provisions in the DTA to see whether a reduction of tax rate or total elimination is available. If so, the DTA must be respected. This is clearly provided in the ITA, namely S 132(1) which states that:

(1) If the Minister by statutory order declares that-

(a) arrangements specified in the order have been made by the Government with the government of any territory outside Malaysia with a view of affording relief from double taxation in relation to tax under this Act and any foreign tax of that territory; and

(b) it is expedient that those arrangements should have effect,

then, so long as the order remains in force, those arrangements shall have effect in relation to tax under this Act notwithstanding anything in any written law (emphasis added).

Whilst the above law is quite clear, there have been litigations on this aspect. And, as expected, it has been established that due respect should always be given to the DTAs that the Malaysian Government has entered into. Cases like *DGIR v Euromedical Industries Ltd (1983) 2 MLJ 57* and *SGSS (Pte) Ltd v KPHDN (2000) 7 MLJ 229* remain to be celebrated ones until today.

IS DTA A TAXING STATUTE?

As mentioned above, DTA prevails over the domestic tax law. It is interesting to ask whether a DTA can impose a higher tax burden under domestic law. In other words, can DTA act as a taxing statute (i.e. taxing right is provided in the DTA but no taxation is imposed by the local law)? Over the years, different jurisdictions have adopted different approaches but by and large, majority of the jurisdictions adopt the view that the DTAs are meant to relieve and not impose a higher tax than what is provided under the domestic law.

From the Malaysian perspective, the majority view is adopted and supported by the ratio diciendi laid down in Walter Wright (Singapore) Pte Ltd v DGIR)1990 (2 MTC 115).

THE STRUCTURE OF THE DTA

Broadly speaking, in any DTA, articles can be categorised as follows:

Article	Title	Category
1	Personal scope	Scope
2	Taxes covered	Scope
3	General definitions	Definition
4	Resident	Definition
5	Permanent establishment	Definition
6	Income from immovable property	Operative
7	Business profits	Operative
8	Shipping, inland waterways transport and air transport	Operative
9	Associated enterprises	Anti-avoidance
10	Dividends	Operative
11	Interest	Operative
12	Royalties	Operative
13	Capital Gains	Operative
14	Independent personal services (deleted from OECD model but the Malaysian treaties still maintain this)	Operative
15	Income from employment	Operative
16	Directors' fees	Operative
17	Artistes and sportsmen	Operative
18	Pensions	Operative
19	Government service	Operative
20	Students	Operative
21	Other income	Operative
22	Capital	Operative
23A	Exemption method	Elimination of double taxation
23B	Credit method	Elimination of double taxation
24	Non-discrimination	Miscellaneous
25	Mutual agreement procedure	Elimination of double taxation
26	Exchange of information	Anti-avoidance/anti-evasion
27	Assistance in the collection of taxes	Anti-evasion
28	Members of diplomatic missions and consular posts	Miscellaneous
29	Territorial extension	Miscellaneous
30	Entry into force	Scope
31	Termination	Scope

Let us look at the practical application of this principle. Article 13 of the Malaysia-UK DTA reads as follows:

1. *Technical fees derived from one of the Contracting States by a resident of the other Contracting State who is the beneficial owner thereof and is subject to tax in that other State in respect thereof may be taxed in the first-mentioned Contracting State at a rate not exceeding 8 per cent of the gross amount of the technical fees (emphasis added).*
2. ….
3. ….
4. *Technical fees shall be deemed to arise in a Contracting State when the payer is that State itself, a statutory body thereof, a political subdivision, a local authority or a resident of that State (emphasis added). Where..*

In a case where a Malaysian resident company makes a payment for services to a UK resident company for technical services that are rendered outside Malaysia, the issue is whether the Malaysian resident company is required to deduct and remit Malaysian withholding tax (WHT) under S 109B of the ITA given Malaysia's taxing right (in the form of WHT which is capped at 8%) which is clearly stated in Article 13.

The answer to the above is "no" since the Malaysian domestic tax law, namely the provisio to S 15A itself excludes offshore service fee as special class of income that is deemed to be derived from Malaysia. Once this is ascertained, it does not matter anymore whether Article 13(1) and (4) gives Malaysia the taxing right to impose WHT at the rate of 8%. There is no Malaysian WHT as the DTA is not a taxing statute!

I always regard the Malaysia-Singapore DTA as a modern treaty that takes into account the development of the Malaysian tax regime. Let us compare Article 13(4) of the Malaysia-Singapore DTA with that of the Malaysia-UK DTA. Article 13 of the Malaysia-Singapore DTA reads as follows:

1. *Technical fees derived from one of the Contracting States by a resident of the other Contracting State who is the beneficial owner thereof may be taxed in the first-mentioned Contracting State. However, the tax so charged shall not exceed 5 per cent of the gross amount of the technical fees.*
2. ….
3 ….
4. *Technical fees shall be deemed to arise in a Contracting State when the payer is a resident of that State and the services are performed in that State (emphasis added).*

In a case where a Malaysian resident company makes a payment for services to a UK resident company for technical services that are rendered outside Malaysia, the issue is whether the Malaysian resident company is required to deduct and remit Malaysian withholding tax (WHT) under S 109B of the ITA given Malaysia's taxing right (in the form of WHT which is capped at 8%) which is clearly stated in Article 13.

Article 13(4) of the Malaysia-Singapore DTA is very much in sync with the provisio to S 15A of the ITA which was introduced in 2002.

THE MODELS THAT MALAYSIA FOLLOWS

Generally, the treaty negotiators around the world rely on the following model tax conventions when negotiating treaties:

- Organisation of Economic Co-operation and Development (OECD)
- United Nations (UN) Model

Countries like the US and Netherlands have their own treaties, but basically are also modelled after the OECD Model. Suffice to say that the OECD Model is more dominant and indeed, Malaysian treaties are predominantly based on this model coupled with some modifications to follow UN Model.

The first example is concerning the taxing right on the royalty income. Article 12(1) of the OECD MTC provides that "Royalties arising in a Contracting State and beneficially owned by a resident of the other Contracting State shall be only taxable in the other State (emphasis added)". In other words, a residence country has the sole taxing right on the royalty and the source country is not permitted to impose royalty WHT, even though if there is a WHT regime in the source country's domestic tax law.

On the other hand, Article 12(1) of the UN MTC provides that "Royalties arising in a Contracting State and paid to a resident of the other Contracting State may be taxed in that other State (emphasis added)". Article 12(2) provides that "However, such royalties may also be taxed in the Contracting State in which they arise and according to the laws of that State, but if the beneficial owner of the royalties is a resident of the other Contracting State, the tax so charged shall not exceed ___ per cent (the percentage is to be established through bilateral negotiations) of the gross amount of the royalties. The competent authorities of the Contracting States shall by mutual agreement settle the mode of application of this limitation". In essence, the UN MTC also provides certain taxing rights to the source country, i.e. to impose royalty withholding. As far as royalty is concerned, generally Malaysia follows the UN Model for a simple reason, i.e. it is not willing to surrender the right to impose Malaysian WHT under S 109 of the ITA. ■

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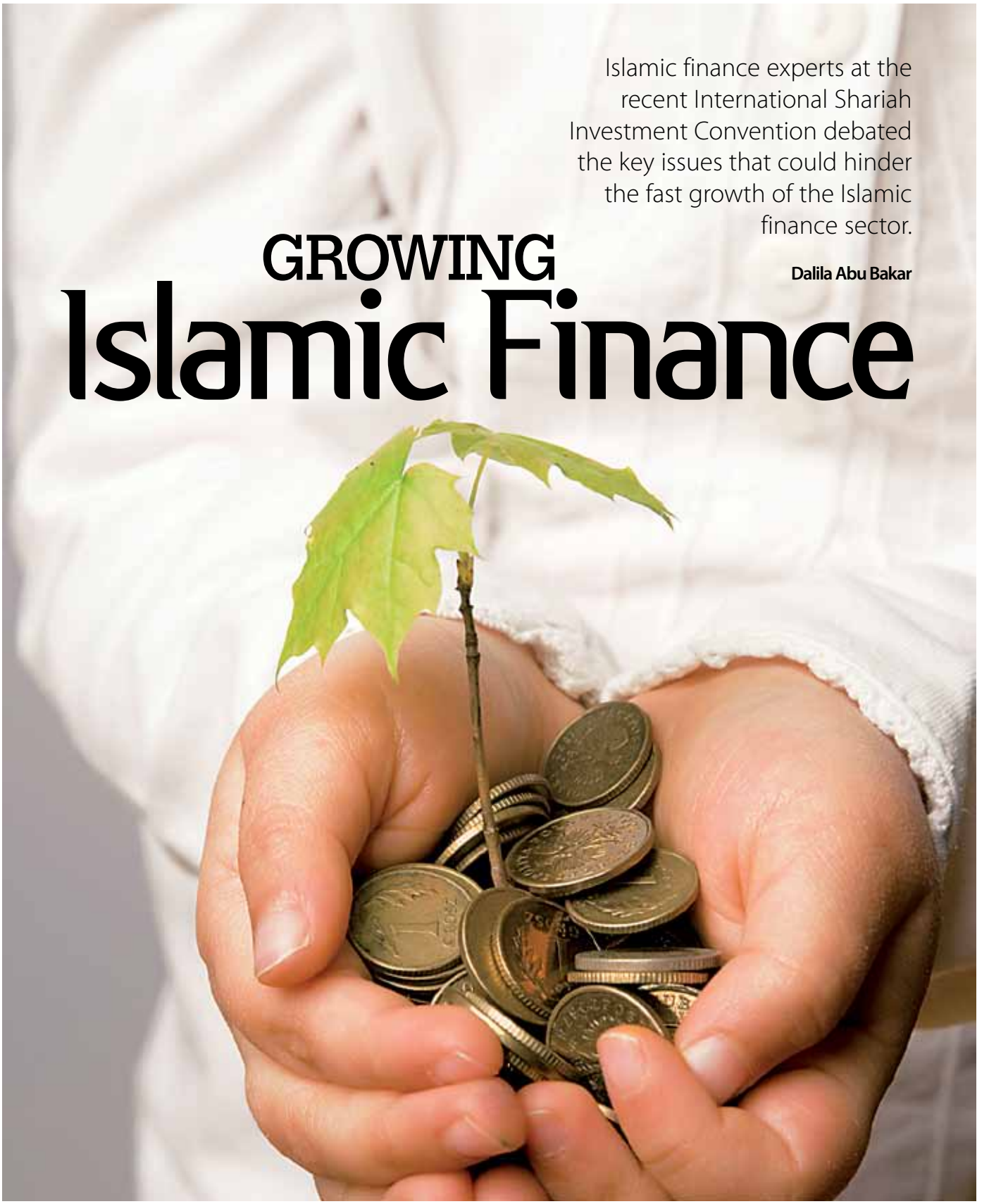
GROWING Islamic Finance

Islamic finance experts at the recent International Shariah Investment Convention debated the key issues that could hinder the fast growth of the Islamic finance sector.

Dalila Abu Bakar



While the global Islamic finance sector is expected to stage a bullish performance next year, there are still key concerns and issues that need to be ironed out.

Image and Perception

Perception management is vital. Datuk Noripah Kamso, Chief Executive of CIMB-Principal Asset Management Sdn Bhd said the Islamic finance industry has to manage the misconception that Islamic funds underperform and that the funds are meant only for Muslims. Hence, there is a need to educate the investors that *Shariah* investing is not volatile and it offers returns that parallel conventional funds.

Education is not an issue in Asia because the region, especially Malaysia, is naturally embracing *Shariah* and Islamic finance as a lifestyle. "But education is needed in Europe, United Kingdom and the United States," said Noripah. It is also necessary to address the misconception that the industry does not have enough expertise and that there is no liquidity in the Islamic funds market.

Diversifying Distribution Channels

Currently, there is a lack of proper and efficient distribution channels which prevents Islamic products from becoming mainstream, said Baljeet Kaur Grewal, Managing Director & Vice-Chairman of KFH Research Limited, Malaysia. For example, Islamic banks are only offering wealth management products to their existing customers without any drive to attract new clients. This contributes to the lack of awareness of Islamic offerings among the public and has resulted in the low penetration levels seen today.

Exploring Advanced Markets

Islamic funds should also establish themselves in advanced markets and benchmark themselves internationally in order to grow. Large conventional funds benefit from the top experienced fund managers and newer Islamic funds will be considered as a viable option if they can prove themselves.

There is a need for Islamic funds to be set up in developed or advanced economies as they would attract a much larger investor base due to the familiarity of the market and also the diversity in risk, said Baljeet Kaur.

Currently, the two major markets for Islamic funds, namely Saudi Arabia and Malaysia are heavily concentrated domestically. Most Islamic funds are also based either in Asia Pacific (mainly South East Asia) or Middle East, both of which can be considered as emerging markets and therefore might only appeal to an aggressive investor class.

Looking ahead, it may be possible for Islamic funds to target emerging markets such as China which is growing very strongly despite the financial crisis. So far, fund managers have not been able to tap this market due to the absence of a *Shariah*-compliance screening process.

Limited Asset Classes

Limited asset classes also make it difficult for existing distributors to remain profitable given the reliance on the money markets as an asset class. Compared to fixed income from money markets, equity returns could provide distributors with much higher rates of return. "From the capital market perspectives, we need more products, more different types of *Sukuk* structures, greater depth of the Islamic debt capital market and more money market products," said Yavar Moini, Senior Advisor, Global Capital Markets of Morgan Stanley, Dubai, UAE. He added that there should be more standardisation in Islamic finance instruments to enhance the prospects of the Islamic finance sector. Yavar also stressed the importance of having a greater secondary market in the Islamic finance sector. Beyond this, the limited number of Islamic funds and investment asset classes is a major constraint for the growth of the sector. If Islamic fund managers had access to a range of investments like conventional funds do, companies would be able to specialise in providing Islamic wealth management services. It would also allow them to benefit from the different legislation and tax laws available in the different jurisdictions, Baljeet added. However, legislation in certain jurisdictions encumbers the innovation of new funds by only allowing the investment in simple equity. This could be overcome by the passing of new legislation which opens up the funds market to invest in a range of asset classes.

Size Constraints

KFH Research Limited, Malaysia said the size of Islamic funds also hinders growth as funds must reach a particular size in order to survive. Currently, more than 70% of the Islamic funds are less than US$100 million and would most likely need to amalgamate with other funds so that they can continue.

Lack of Product Offerings

The Islamic products for wealth distribution are also largely undeveloped. The limited offerings available are based on basic *Fiqh* concepts that are accepted under existing civil laws whereas conventional products are comparatively more developed and have greater variety. "For instance, the concept of trust can be applied to various purposes such as living trusts, family trusts, education trusts and unit trusts. A conventional trust deed does not confine the assets settled to be *Shariah*-compliant," KFH Research said.

"There is a need for a specific document that functions as a trust but is *Shariah*-compliant. The Islamic Trust Deed or Amanah Deed may provide a solution. Such an Amanah Deed would ensure that the assets are settled and managed in accordance with the *Shariah*," it added.

Innovative Approaches – Tapping the Conventional Markets

Kamran Mahmood, CEO of MINC Investment Management, London said the company is trying to adopt an approach where its Islamic funds will look into getting investments from the non-*Shariah* market even though the whole infrastructure is identical.

Competitiveness is key to this concept. "Ideally, a *Shariah* fund should give a fair return just like the return profile of other funds. The more you demonstrate you are inline with the current market trend, the more likely you can raise funds from non-*Shariah* investors as well," Kamran said.

"The challenges are to get the funds at the right people, at the right time and to convince them that your asset class and your papers meet their requirements. The focus that I have with my company is that we have to be *Shariah*-compliant and on top of all, is to provide good returns. To convince investors, you need to have a compelling argument that the risk returns profile is inline with their expectations. We are looking at risk and return to make sure that investors are happy with that part of their investment," he said.

From an investor's point of view, there is still a lack of international funds for investment purposes. "In the *Sukuk* market, there are not many investment-grade foreign *Sukuk* compared to Ringgit-denominated *Sukuk*. These are the normal challenges faced by investors investing in any new market," said Jaafar Rihan, General Manager, Islamic Investment Development Department, Employee Provident Fund (EPF).

Jaafar said the EPF, in supporting the initiatives of the Malaysia International Islamic Financial Centre, is committed to provide funds to fund managers to manage both foreign *Sukuk* and *Shariah*-based equity. "On that note, EPF faces a few challenges. For instance, the appointment of the right fund manager with the proper track record is important. Apart from that, 'cleansing' is an issue for a public fund like EPF," he added. ■

The Australian Experience

Growth in Islamic finance in Australia is mainly constrained by the lack of understanding of the *Shariah* concept.

"They don't really understand the difference between ethical and *Shariah* investing," said Chaaban Omran, Chief Executive Officer of Crescent Investments, Australasia. He noted that education to increase the awareness of Islamic finance is needed in certain countries like Australia. The lack of *Shariah*-compliant stocks to invest is still a challenge for the Islamic finance experts. According to Chaaban, the number of *Shariah*-compliant companies listed on the Australian Stock Exchange is very limited.

"There are no certified *Shariah*-compliant companies on the Australian Stock Exchange. Of the 2,000 companies, if you do a screening process, you will have around 300 stocks and the majority of them are resources and small companies with businesses including engineering and mining. Of the 300 stocks, 30% are small companies that are worth greater than AUD50 million capitalisation. From the Islamic fund point of view, the primary make-up of an Islamic fund is generally resources and innovative small companies," Chaaban said.

"Given these constraints, it is imperative that fund managers seeking value and returns be specialist stock pickers based on fundamentals and valuations and Crescent is uniquely placed, in conjunction with our sub-advisor, to work closely with the Shariah Supervisory Board on a continuous basis to screen stocks for analysis and evaluation." Another constraint is savings and the challenge is to convince the world to save more as that will result in more funds in the Islamic equity market space, he added.

MIA was an associate partner for the International Shariah Investment Convention held in Kuala Lumpur.

WORLD RECOVERY LOSING STEAM?

AFTER A YEAR OF FRAGILE AND UNEVEN RECOVERY, GROWTH OF THE WORLD ECONOMY DECELERATED ON A BROAD FRONT, PRESAGING WEAKER GLOBAL GROWTH FOR 2011 AND 2012 ACCORDING TO THE UNITED NATIONS REPORT "WORLD ECONOMIC SITUATION AND PROSPECTS 2011" (UN-WESP). WILL THE YEAR OF THE RABBIT SEE A HOP UP AND DOWN RECOVERY?

Jennifer Lopez, Country Head, ACCA Malaysia

The road to recovery from the Great Recession has been long, winding and rocky. Worse, the recovery seems to be losing steam now, hit by austerity drives in rich countries and with insufficient growth to restore the 30 million lost jobs in the next two years, according to the latest UN-WESP.

Risks arising from macroeconomic uncertainty clearly increased during 2010. Concerns are that with global recovery possibly decelerating, the present poorly-coordinated policy stances may be inadequate for reinvigorating growth and could lead to renewed instability. The report forecast that after a better-than-expected growth rate of 3.6 per cent in 2010, the world economy's growth would slow to just 3.1 per cent this year and 3.5 per cent in 2012.

The projections were broadly inline with those issued in the past two months by the International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD), which both forecast a 4.2 per cent and 4.6 per cent rise in 2011 and 2012 respectively (UN economists said the discrepancy with the UN figures was mainly accounted for by different ways of calculating exchange rates).

Findings from the ACCA's (Association of Chartered Certified Accountants) Global Economic Conditions Survey Report: Q3, 2010 parallel that of the three world bodies. According to the ACCA's survey, the fragile global recovery went into reverse in the third quarter of 2010 with investment and business confidence suffering a serious setback.

Nearly half (49%) of the 1,895 professional accountants surveyed believe that conditions are stagnating or deteriorating, and for the first time in the survey's two-year lifespan, ACCA's key economic and business confidence indicators do not point towards improving conditions.

While it is too early to tell whether any particular economies are about to suffer a renewed downturn, it is expected that the full year's figures will illustrate whether the world's economy is dealing with a temporary 'pause for breath' or something much more dangerous. The probability of the latter is reinforced by a sharp deterioration in the survey's investment indices.

Although 14% of respondents reported a rise in investment (whether in capital or staff), the number of respondents reporting a drop in investment rose further with 28% scaling back capital projects and 27% scaling back investment in staff. This has pushed both of ACCA's investment indices (staff and capital) deeper

After a better-than-expected growth rate of 3.6 per cent in 2010, the world economy's growth would slow to just 3.1 per cent this year and 3.5 per cent in 2012.

Malaysia registered a 5.3 per cent Gross Domestic Product (GDP) growth in the third quarter of 2010 as compared with 8.9 per cent in the second quarter and would likely have an overall growth of six to seven per cent.

Although 14% of respondents reported a rise in investment (whether in capital or staff), the number of respondents reporting a drop in investment rose further with 28% scaling back capital projects and 27% scaling back investment in staff.

into negative territory and cancelled out some of the gains recorded in the second quarter of 2010.

ACCA believes that governments' gradual withdrawal of support for investment is now beginning to tell as demand and financing conditions weaken once again. Accountants based in Western Europe believe that their governments will reduce spending substantially over the next five years, and those in the Americas are slowly coming to anticipate some measure of austerity as well. Meanwhile, ACCA members in Africa and Asia expect public spending to rise substantially. Of those, members in the Asia Pacific region are much more confident that their governments can afford increased levels of spending, while those based in South Asia and Africa expect a tough balancing act ahead.

Despite the gloom, the worst of the economic downturn provided opportunities for astute business people. Overall, the main trends in business opportunities identified in ACCA's survey were that accountants are reporting fewer projects based on cost-cutting alone and more purely value-added opportunities, especially with regard to investments in quality and innovation.

Malaysian respondents are no different – opportunities in new markets and cost-cutting (reported by 25% and 20% respectively) continue to be the most common for respondents in Malaysia, followed by opportunities to invest in quality standards and explore niche markets (18%). More than half (55%) believe economic recovery to be imminent or already underway. Most respondents also believe that government spending will continue to rise in the medium-term, with 24% expecting a sharp rise and another 36% expecting a moderate rise.

This is further buoyed by Governor Tan Sri Dr. Zeti Akhtar Aziz's announcement that Malaysia will see moderate growth in the first half of 2011 and stronger growth in the second half. Malaysia registered a 5.3 per cent Gross Domestic Product (GDP) growth in the third quarter of 2010 as compared with 8.9 per cent in the second quarter and would likely have an overall growth of six to seven per cent. She also stated BNM would maintain the overnight policy rate at 2.75% and that Malaysia will not change its normalisation policy at this point in time as the country's interest rate was at an appropriate level.

With so many organisations predicting a "soft spot" in 2011 as government stimulus is withdrawn and as investment recovery slows, there is so far no lighter side, as even numerologists are jumping on the bandwagon with gloomy readings.

While it is too early to tell whether any particular economies are about to suffer a renewed downturn, it is expected that the full year's figures will illustrate whether the world's economy is dealing with a temporary 'pause for breath' or something much more dangerous.

Divided in the way 2011 should be viewed, some numerologists are referring to it as a Universal Year 4 (UY4) and others as a Universal Year 13 (UY13). Either way, both numbers do not bode well for the global economy with 4 being considered unlucky by the Chinese and 13 an unlucky number for many cultures.

While UY4 proponents have a more practical, cautiously optimistic reading, the UY13s are more demanding of change, progress, and a call for revolution. Where these two divergent readings converge is in caution of the unknown; thus most numerologists agree that the current worldwide economic crisis will be getting worse before it gets better, and that in 2011 many countries would need to stay vigilant in their efforts to stay afloat.

With global imbalances remaining wide, and in some cases widening again, there are rising concerns that they may threaten any progress towards steady recovery.

This new chapter in the global economic recovery appears to involve more uncertainty, further financial turmoil and an even stronger divergence between the fortunes of developed and developing countries, this time based not only on demand or access to credit but also on the quality of government finances in Europe and beyond. The latter continues to cast a shadow over the recovery. However, ACCA's survey found that accountants are increasingly expressing the belief that governments will manage to live up to the challenge in the medium-term and are even increasingly satisfied with their actions in the short term.

As G20 countries formulate strategy to promote stability and stimulate growth, weaknesses in major developed economies will continue to drag down the global recovery and pose risks for world economic stability. The interconnectedness of our economies, and how they are managed and regulated, is firmly in the spotlight. There will be no quick fix for the problems the world is still facing in the aftermath of the financial crisis. ■

ACCA's (Association of Chartered Certified Accountants) Global Economic Conditions Survey Report: Q3, 2010 can be downloaded from: http://www.accaglobal.com/pubs/general/activities/library/other_issues/surveys/tech-ms-gec07.pdf

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ACCOUNTING IN emerging economies

BY FOSTERING ALLIANCES BETWEEN REGIONAL ACCOUNTING BODIES AND LOCAL ACCOUNTING ORGANIZATIONS, THE ACCOUNTING PROFESSION CAN ENSURE THAT IT PLAYS AN EFFECTIVE ROLE IN DRIVING GROWTH, ESPECIALLY IN EMERGING ECONOMIES.

Majella Gomes

Seventy per cent of the world's poor live in middle-income countries, the majority of which are Third World or Emerging Economies. Therefore, it stands to reason that empowering these people and eradicating poverty will see quantum jumps in the quality of life and the welfare of the impoverished across the globe.

One of the ways to achieve this is for emerging economies to place equal emphasis on investing in financial infrastructure and systems as they do in physical infrastructure in order to achieve sustainable growth and equitability of incomes.

"There is still a lot of investment in physical infrastructure today but very much less in financial infrastructure. But isn't financial infrastructure at least as important as physical infrastructure?" argued In Ki Joo, President of the Confederation of Asian & Pacific Accountants (CAPA), at the recent World Congress of Accountants (WCOA). Speaking on the topic of "Strengthening the Accounting Profession in Emerging Economies", In said that high-quality financial management systems, the result of appropriate investments in financial infrastructures, have been known to encourage foreign direct investment (FDIs).

As key players in the financial value chain, accountants could have a major role in economic development. Speaking from the agency perspective, Anthony M Hegarty, Chief Financial Management Officer, World Bank, said the accounting profession has to ask itself how it is contributing to sustainable growth and the reduction of poverty. "Is it attracting FDIs, or helping to make corporations more transparent?"

Hegarty said that members of the profession can ensure that funds are used properly to build robust financial systems with good governance. Since analysis has shown that the most pressing issue is weak capacity, the focus should be on long-term capacity-building, he said. "Perhaps both sides (the agency and the profession) should look for more effective ways to collaborate. Global strategic partnerships are imperative to the World Bank, and we face the same challenges that the profession does: lack of awareness, internal weaknesses, inadequate capacity – all the elements that contribute to less-than-robust systems."

There is still a lot of investment in physical infrastructure today but very much less in financial infrastructure. But isn't financial infrastructure at least as important as physical infrastructure?

Global strategic partnerships are imperative to the World Bank, and we face the same challenges that the profession does: lack of awareness, internal weaknesses, inadequate capacity – all the elements that contribute to less-than-robust systems.

Effective partnerships will require efforts from both developed countries and emerging economies. We need robust accounting systems, as much as accounting professionals need to constantly improve their skills. One drives the other.

THE ROLE OF REGIONAL ALLIANCES AND BLOCS

To counter these, the profession relies heavily on building strategic and regional alliances and blocs which encourage the philosophy of prosper thy neighbour. In some ways, ASEAN countries are already moving in this direction, pointed out MIA President Abdul Rahim Abdul Hamid, in a short presentation on the ASEAN Federation of Accountants (AFA), of which he is also President. "With members from ten ASEAN countries which are all at different stages of development, AFA has moved to include China as a Dialogue Partner, and is considering forming an ASEAN economic community by 2015," he said.

"Regional organizations can assist in strengthening local accounting organizations," said In. "Besides promoting the organization more visibly, a regional organization can also provide developmental assistance, and help in resource-sharing. At local level, training and resources may not be adequate, so regional organizations can assist perhaps in arranging partnerships with donor communities. Capacity-building is a long-term commitment, so obtaining applications that benefit members of the profession will ultimately benefit the emerging economy where they operate."

Of course, different regions have different needs and there is no one-size-fits-all solution. For instance, the Eurasian Council of Certified Accountants and Auditors (ECCAA) plays a pivotal role as the reference point for former USSR states.

As the new official translator for IFRS, the regional ECCAA has done a lot of work to enable members to access and understand new standards, reported Dmitriy Shyutts, Executive Director of the ECCAA. "A change of mindset is needed," he acknowledged. "There must be a switch from 'Soviet' accounting to international accounting and reporting standards. Existing laws must also be changed."

There is more translation work on the horizon for the ECCAA, but the burden will be eased somewhat through the application of technology; the organization is already looking at new software and hardware. Technology has also helped it design the Russian CIPA programme for use in all member countries. The Certified International Professional Accountant (CIPA) is a world-class, fully IFAC compliant, Russian language professional accountancy certification. "Underpinning this is the thrust of the organization in helping its members to understand what is needed in the future. We realize that we need to change from thinking like bookkeepers, to operating like accountants in every sense of the word. Our efforts so far have shown some very encouraging results. Many CIPA-trained accountants are now very good. We also have new members, which means new horizons and new targets are being developed, so we are looking forward to new achievements."

In Africa, there are varying definitions of what constitutes an emerging economy, because the respective national economies on that continent are at various stages of development. Many countries inherited their legal and commercial frameworks from colonizers, and thus have to grapple with outdated regulations and other elements which are long past their sell-by dates. Besides having to contend with ancient and inadequate legal frameworks, accountants in Africa are further challenged by non-compliance with standards, weak national accounting policies, and inadequate funding. They also lack local capacity, as professional education and training are far from adequate due to resource constraints, and there is a general lack of guidance for young people entering the profession.

"Since 1982, ABWA has collaborated with other professional accounting bodies to improve standards in Africa," said Past President of the Association of Accountancy Bodies in West Africa (ABWA) Elizabeth Adegite. "Together, we have published journals and research papers in English and French, and developed strategic action plans, as well as monitored knowledge-sharing among members. We have also pooled resources and networked to develop our own seminars and conferences. In the course of all this, we have realized that accounting professionals on this continent have to be financially and technically supported to produce the level of competency that is internationally required. We want to ensure that accounting standards are adhered to, and that there is transparent corporate governance."

"It is ultimately about empowering people," Hegarty concluded. "Effective partnerships will require efforts from both developed countries and emerging economies. We need robust accounting systems, as much as accounting professionals need to constantly improve their skills. One drives the other." ■

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Beware the Black swans

part 2

NON-EXECUTIVE DIRECTOR AND FORMER CFO JOHN COOMBE FEEDS THE BUSINESS REPORTING DEBATE WITH A FEW (PERSONAL) LESSONS FROM THE FINANCIAL CRISIS.

FORGET ABOUT MAKING THE ANNUAL REPORT MORE CONCISE

Talking about the volume and complexity of the annual accounts, is there anything that we could take out?

"I fear we are in an area where it is easy to work out additional bits of reporting, but extremely difficult to scale back. We particularly see this with the banks: the regulator is constantly asking for more and more explanation of how things are valued, what the credit crunch has done to us, et cetera. The annual report gets longer and longer. Banks are under pressure now to produce a specific corporate governance report, rather than integrating in the directors' report, the audit committee report, and the remuneration committee report. It is difficult to see this trend diminishing, but it is not helping the clarity and value of company accounts as a communication tool."

PRODUCE AN ADDITIONAL COMMUNICATIONS REPORT THAT TELLS A COMPANY'S STORY

"The only solution that I can come up with is that the annual accounts become absolutely a compliance document, with various different reports written for various different agencies who are interested in them. But in addition, the board is required to publish a 50€to 70€page communications document that tells the story of that year's results and performance as the board would wish to have it told.

John Coombe started his career at chartered accountants Dixon Wilson & Co. in the UK. He then moved to the position of management accountant at British Oxygen Group Ltd, followed by a number of senior financial roles within Charterhouse Group plc and Charter Consolidated plc. In 1986, he joined the then Glaxo Holdings, and retired in 2005 as chief financial officer of GlaxoSmithKline plc. Until 2003, he was a member of the UK Accounting Standards Board. From 2003 to 2008 he was member of the Supervisory Board of Siemens AG. Currently he is, among other roles, non-executive chairman of Hogg Robinson Group plc, non-executive director of HSBC, and non-executive director of Home Retail Group plc.

"So I am edging toward a world where, first, you have a communications report in some smartened€up form of the current MD&A. In addition, you have a whole series of compliance filings, which include audit committee reports, remuneration committee reports, directors' reports, specific issues, and all the detailed accounting reports. This would all be available on the web, and so those investors who really want to dig into the detail will have the ability to do so.

"Maybe this should be the price for being a director: at the end of the year,

you have to put your name to that communications report and say, 'We, the board, consider that this communications report is giving the shareholders a balanced story of how the company has done and the issues it is facing'."

Do we need more forward looking information than we have at the moment, particularly about risk?

"I do think we need more forward looking information, but speaking as a director, and bearing in mind the increasingly litigious world in which we live, I think it is a real challenge to produce forward looking business information that attempts to guide without creating hostages to fortune. It is a great aspiration, but it is difficult to achieve. Forward looking information on risk is worthy of continuing effort. By its nature, risk information must be forward looking, and the shareholders are entitled to have the board's best view on this."

LIMIT LIABILITY FOR DIRECTORS

Do we need to address the issue of liability for directors?

"When you expose directors to unlimited liability and increasing responsibility, logically you run a serious risk of people just deciding they don't want to sit on boards anymore. Interestingly, candidates continue to put themselves forward. This is combined with increased professionalism and focus on governance among directors."

Could you limit liability on that communications report if you said it was subject to full liability only under the full compliance report?

"Obviously, the short form communications report would have to reflect what the compliance documents show in infinitely greater detail. It would be a short version of that. And as long as the directors - if they were challenged - could show that the communications report is a fair reflection of all those detailed compliance documents, then there should be no liability for them."

ALLOW AUDITORS TO CERTIFY THIS COMMUNICATIONS REPORT

Should there also be some form of external assurance?

"It would require some mechanism to ensure that this communications report, for want of a better word, is genuinely telling a balanced story. My suggestion would be to put pressure on the auditors to confirm that, in their view, this communications report is a true and fair description of the company's activities for the year just ended. That would also avoid cherry-picking. It would be a 'warts and all' disclosure. The communications report would have to highlight the tricky stuff as well as the good stuff.

"Now, that would cause angst among the auditors because of the liability aspects of that, but I do think you need some independent comment. Realistically, it is only the auditors that can do that, because they are the ones who know the detail."

Maybe you could ask the auditor to provide some sort of negative assurance on this short-form report?

"An opinion such as, 'We have not seen anything in this report which is not right,' could be an option. There may be something there, and maybe you combine it with a limit on liability, so the auditors are limited to, say, a multiple of the fees they have received in all their time as auditors of the company."

The only solution that I can come up with is that the annual accounts become absolutely a compliance document, with various different reports written for various different agencies who are interested in them. But in addition, the board is required to publish a 50- to 70-page communications document that tells the story of that year's results and performance as the board would wish to have it told.

My suggestion would be to put pressure on the auditors to confirm that, in their view, this communications report is a true and fair description of the company's activities for the year just ended. That would also avoid cherry picking. It would be a 'warts and all' disclosure. The communications report would have to highlight the tricky stuff as well as the good stuff.

"One example, in my view, is International Financial Reporting Standard 2, Share Based Payment, where immense amounts of detailed calculations are introduced into the accounts. And the degree of complexity of reporting is leading to pages in remuneration reports. I think we can cut that out. There are many other examples in the reporting area where we should go for simpler reporting rather than more complex reporting."

FAIR VALUE ACCOUNTING HAS EXACERBATED THE FINANCIAL CRISIS

In terms of the financial accounts, do you subscribe to the view that fair value accounting is partially the cause of the financial crisis?

"I am in the camp that thinks yes - I wouldn't use the word 'caused,' I would use the word 'exacerbated' - that fair value accounting has exacerbated the financial crisis, by requiring companies to use pricing mechanisms or price relativities that are based on forced selling into a very unusual market. Therefore, fair value in this specific situation is not a good reflection of the underlying value of a particular security. So I am in the 'fair value has exacerbated the problem' camp.

"The banks had to write down the bonds they held because they had to show them at market value. That meant that, because the write€down exceeded a certain amount, they had to repay money to investors. The only way they could do that was to sell the bonds. The direct result of selling the bonds to repay the money was that it drove the price down further. It became a vicious circle."

FAIR VALUE INFORMATION HAS TO BE GIVEN, BUT NOT NECESSARILY ALWAYS IN THE KEY ACCOUNTS

Do the changes that have now been made address your previous concerns, or still leave you concerned?

"They do help, but I think we should look again at whether further easing of the application of fair value accounting is possible for a wider range of instruments, and if it would allow, for example, for more holding at amortized cost rather than writing down. I am not trying to abandon market value. I think it is absolutely clear that fair value information has to be given, but the question is whether you make it the key figure in the accounts, or a note to the accounts. It would work for me if a bank says, 'We will hold these instruments; the market is unusually low at the moment, but it will recover at some stage, and we have no need to sell until it does recover. We continue to get the interest on them, the issuer is solvent and thus they are not impaired. Therefore, we continue to hold them at cost. If we were forced to sell them today, however, then there would be a loss of X'."

They could also present it the other way around: writing the assets down in the accounts and explaining in their management analysis that this is not a realistic view of what they think it is worth.

"The only trouble with that is that the headline figure includes all the write€downs, whereas my headline figure would not. My headline figure would allow the company

to report on what they believe to be the fairest basis, but it would require them to make very clear what the situation would be if they applied market value."

ALLOW FOR MORE ACCOUNTING PRUDENCE, NOT HIDDEN RESERVES

What would be your accounting suggestions going forward?

"We should allow for more accounting prudence in assessing the size of provisions. We got rid of using prudence in accounting some 10 or 15 years ago, because too many companies had made big bath provisions only to produce good figures in future years as a result. On the other hand, it is very frustrating when you see that losses are going to arise in the future, but you can't provide for them because a particular event has not yet happened. There are some signs that easing in this area may be possible, and I hope that proves to be the case.

"However, I wouldn't go the hidden reserves route. I am old enough to have accounted for a bank with hidden reserves an awful lot of years ago, and I think that is dangerous, because it disguises the true and fair financial position, potential problems, and risks. I suspect the outcomes of both methods at the end of the day are not very different, but if it is restricted to accounting prudence, it is possible at least to have a worthwhile debate with your auditors as to the rationale behind your prudent action."

SINGLE SET OF ACCOUNTING STANDARDS IS GOOD BUT NOT VITAL

Is getting to one set of financial accounting standards worldwide a prize worth having at any cost, even if that would mean moving increasingly towards a rules-based system? Or would you say that preservation of principles is actually more important than a single set of accounting standards?

"I think I am in that second camp: a single set of standards is a good prize, but I am not sure it is something I would regard as absolutely vital (see also 'No one ever asked a question about it').

"I have wavered on this. There is a part of me that really believes that if you were trying to explain to a man from Mars why America might account for something one way, and an identical situation might be accounted for differently in the UK or Europe, I would have to say that would be a very difficult explanation

to give. On the other hand, there are cultural, business, and regulatory differences between the US and UK/Europe which have caused accounting standards to evolve in different ways, most noticeably rules versus principles. The situation is now exacerbated by the desire of politicians in Europe to be involved in the approval of accounting standards."

LET'S GO FOR SIMPLER REPORTING RATHER THAN MORE COMPLEX REPORTING

Apart from what you have already mentioned above, are you generally satisfied with the current accounting standards in the UK?

"Generally yes, but there is one other thing I would like to mention. Some of the accounting standards have taken complexity to a level that it creates impediments to understanding rather than improving clarity of understanding. The accounting standard setters have pursued technical, theoretical, and detailed accuracy to a point at which the actual plot has sometimes been lost.

"One example, in my view, is International Financial Reporting Standard 2, Share Based Payment, where immense amounts of detailed calculations are introduced into the accounts. And the degree of complexity of reporting is leading to pages in remuneration reports. I think we can cut that out. There are many other examples in the reporting area where we should go for simpler reporting rather than more complex reporting."

How did we end up with this complexity, and more importantly, how can we get rid of it?

"The International Accounting Standards Board (IASB) has taken up something that I first experienced with the UK Accounting Standards Board, which is a desire to break every transaction down into its smallest unit part. That has lead to a great deal of complexity. Instead, there should be more freedom to look at rounded transactions. I know you run a risk of burying the details, but I don't see how we can ever simplify corporate reporting without taking a deep breath and saying, 'We really can do without that.'

"So the general point is, 'Could we please look again at accounting standards and see whether there aren't some of them - just as with pursuing the holy grail of a single set of standards - possibly beyond the bounds of reasonableness?' And in those cases where good understanding is being lost under the welter of information that is being provided, we need to redress that balance. Somehow!" ■

INDIA: Auditors to earn more from new accounting norms

The implementation of International Financial Reporting Standards (IFRS) in India is set to bring more revenues for audit firms that are looking to hike fees from clients, citing increased workload and complexity involved in the new accounting regime, reports *The Mint*. According to the IFRS roadmap of the Ministry of Corporate Affairs, firms in the 50 stock Nifty index, companies listed abroad and all firms having net worth of at least 1,000 crore will have to report their financial statements under the new regime by April 2011. The report said that while details of the accounting regime that will be finally adopted in India are still being worked out and analysts are trying to figure out the impact the new accounting standards will have on company valuations, auditors are enthusiastic about the changes. They are looking to charge more fees and have already been earning a fair share of revenue from the special teams that they have formed to help firms transition to the new regime. It quoted N. Venkatram, IFRS country leader, partner at Deloitte Touche Tohmatsu International, as saying: "In our experience the new standards will increase the costs of compliance, as both the time involved and the level of specialization will undergo significant change in the initial period. "Over time, without considering inflation, we may see a 15-25% correction (increase) in fee levels for existing clients, with significantly larger increases on new accounts." Unlike the Indian accounting standards, which are rule-based and rely more on historical costs when it comes to valuation of assets, the report added that IFRS involves principle-based standards. For instance, while all preference shares are classified as equity under Indian standards, in the new system of accounts, the preference shares could be classified as debt or equity depending on the rights of the preference shareholders. IFRS will also bring about a change in the accounting standards for derivative contracts. Under Indian accounting standards, "the practice followed for accounting of derivatives and financial instruments is diverse and most of the derivatives and financial instruments are not accounted for in the balance sheet or the profit and loss account," a 2 December report by Charanjit Attra, head of the IFRS research advisory team at ICICI Securities Ltd, said. Also, foreign exchange gains and losses on any asset has to be recognized immediately in the income statement under IFRS, *The Mint* report added. ■

UK: ICAEW hits out at lease accounting rules

The Institute of Chartered Accountants in England and Wales has warned that proposed rules over lease accounting are too complicated and that potential benefits could be better understood. In a reply to the International Accounting Standards Board's consultation, the ICAEW says that proposals to bring all leased assets and liabilities onto company balance sheets will have a wide-ranging impact on many businesses, reports *GSF. News*. The head of ICAEW's financial reporting faculty Nigel Sleigh-Johnson fears that businesses may have to prepare two different sets of accounts to comply with both national rules and the new IFRS standard, adding to the cost of implementation. While arguing that changes are necessary, with shorter-term operating leases and lengthier finance leases currently being accounted in different ways undermining comparability, the organisation says that the IASB must engage with investors' views over information that could be embedded in financial statements and disclosed in the notes, the report said. It added that the ICAEW also believes that a June 2011 deadline for completing the project is "unrealistic". Sleigh-Johnson says: "The potential implications go well beyond a change in accounting. The proposed requirements are likely to have a knock-on effect on everything from bank covenants to tax payments in addition to the more obvious initial adoption costs. "In the UK, as in many other countries, tax legislation will have to be changed if the proposed removal of the distinction between finance leases and operating leases is implemented." Sleigh-Johnson says that retail, construction and airline industries will be hardest hit by the proposals, as these rely heavily on leases. ■

HONG KONG: Exchange To Let China Companies Use Mainland Accounting Rules, Auditors

Hong Kong Exchanges & Clearing Ltd. said it will allow locally listed Chinese companies to prepare their financial statements using Chinese accounting standards and also permit mainland auditors to vet them, according to a *WSJ* report. Under a reciprocal arrangement with China, Hong Kong companies listed on the mainland will be able to use their own standards and auditors, HK Exchanges said in early December. The agreement comes after the Hong Kong stock exchange launched a consultation on the proposed changes in August 2009 and is the result of a joint effort between mainland China authorities and Hong Kong regulators, the statement said, the report added. Mark Dickens, HK Exchanges' head of listings, said the framework "is expected to increase market efficiency and reduce compliance costs of mainland incorporated companies listed in Hong Kong." ■

NZ: New international-scale accounting degree in NZ

New Zealand will this year offer its very own new accounting masters degree available for graduates from across all disciplines - a programme already popular around the world. The new Master of Professional Accounting (MPA), offered by AUT University, will be available from February 2011 providing a pathway for graduates of any subject area to qualify for professional accounting membership, reports National Business Review (nbr.com). AUT Professor of Financial Accounting Keith Hooper said degrees of this kind are common in Australia with most major universities offering them to meet the domestic and international demand for professional English-speaking accountants. "Arguably, accounting is one of the job areas with a bright future as more and more countries sign up to adopt international accounting standards, which is some 110 so far," he said, reports *Nbr.com*. The MPA programme, which is supported by the New Zealand Institute of Chartered Accountants (NZICA) and CPA Australia, will take two years of full time study to complete. CPA Australia's general manager in New Zealand Geoff Duncan said the new degree will help graduates develop their careers and take a step from a specialty to management. "Strength in one discipline overlaid with a financial qualification will help them form valuable strategy for companies and broaden the scope of what a finance professional can offer." The first intake of the MPA will accommodate 30 students with subsequent intakes every semester. ■

IFAC NEWS

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

WORLD CONGRESS OF ACCOUNTANTS 2010 OPENS WITH RECORD NUMBER OF DELEGATES

(Kuala Lumpur / 8 November 2010)

The 18th WCOA Co-Hosted by the International Federation of Accountants and the Malaysian Institute of Accountants - The 18th World Congress of Accountants (WCOA) opened recently with the participation of 6,050 distinguished delegates from 134 countries, a record-breaking number. The Congress, which originated in 1904 and has been held regularly since 1977, was jointly organised by the Malaysian Institute of Accountants (MIA) and the International Federation of Accountants (IFAC). It was officiated by the Minister in the Prime Minister's Department Tan Sri Nor Mohamed Yakcop on behalf of the Prime Minister Datuk Seri Najib Tun Razak. Najib's speech was delivered by Nor Mohamed Yakcop. Themed "Accountants: Sustaining Value Creation," the Congress, which was held in Malaysia for the first time, brought together 183 eminent speakers from over 40 countries. "The theme of the Congress is consistent with the role of the accountants to add value to the performance of an organisation," said MIA President Abdul Rahim Abdul Hamid at the opening of the Congress. Abdul Rahim said as value creation becomes vital to the business agenda, more accountants are taking on strategic and leadership roles and increasingly being held accountable for the business performance of their organisations. World-renowned speakers explored the issues related to key areas that affect the accountancy profession now and in the future and provided concrete solutions to overcome the challenges faced by the industry in four plenary sessions and 35 concurrent sessions. "The accountancy profession continues to evolve," said IFAC Chief Executive Officer Ian Ball. "Years from now, the profession will be quite different, with different skills and competencies. At this Congress, we will explore new opportunities and potential challenges, and how we will meet them." The key issues that were discussed included accounting ethics, governance, standards, and development of the accountancy profession. Issues such as International Financial Reporting Standards (IFRS) convergence were deliberated upon. Among the distinguished speakers were China's Vice-Minister of Finance Dr. Wang Jun; Chairman of the International Public Interest Oversight Board Prof. Stavros Thomadakis; Chairman of the International Accounting Standards Board Sir David Tweedie; Chairman of the International Valuation Standards Council Michel Prada; Bank Negara Malaysia Governor Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz; Securities Commission Chairman Tan Sri Zarinah Anwar; Khazanah Nasional Bhd's Tan Sri Dato' Sri Azman Mokhtar; and SME Corp Malaysia CEO Dato' Hafsah Hashim. "As we move forward, it is more important than ever that we continue to learn from each other, exchange ideas, and discuss best practices," said Robert Bunting, President of IFAC. "I look forward to engaging discussions and debates in the days to come." Chief Executive Officer of MIA Rosli Abdullah said the Congress provided benefits to all participants. "The Congress gives insights on critical issues such as the development of global accounting standards and opportunities to network with business professionals and thought leaders worldwide," Rosli added. The World Congress of Accountants, also dubbed "the Olympics of the accountancy profession," is the foremost international event for the accountancy profession. The Congress gathers influential communities, including leaders in accountancy, business, and regulation, to explore the latest issues and innovative ideas on a platform of international and regional interests. The choice of Malaysia as the host for WCOA 2010 by IFAC reflects the trust and confidence of the global accountancy profession in the high professional standing of the Malaysian accountancy profession. ■

WORLD CONGRESS OF ACCOUNTANTS: ACCOUNTANTS IN THE NEXT DECADE

(Kuala Lumpur/ 11 November 2010)

– **Accountants Must Embrace Change and Seize Opportunities, According to Chief Executive Officers from Around the World** – Chief Executive Officers of accounting institutes from around the world shared their visions on the accountants of the future at the World Congress of Accountants 2010. The World Congress closed recently with the final plenary session titled "Accountants in the Next Decade – Embracing Change and Seizing Opportunities," which asked the following questions:

- How has the recent global economic crisis changed the environment for the accountancy profession?
- What impact will increased globalization have on the profession?
- How should the audit evolve to meet new needs?
- How might the skills and competencies of accountants change in the years ahead?
- Will accountancy still be an attractive option for young people in the future?

"The clear consensus among the panel was that increased globalization and the recent financial crisis have placed the profession squarely in the spotlight," said Ian Ball, Chief Executive Officer of IFAC. "Professional accountants play a key role in reporting on financial results and providing assurance on those reports, which is particularly important in this challenging time." "Going forward, the profession is certain to continue to evolve," continued Ball. "For example, integrated reporting - which encompasses an organization's economic, social, and environmental results - will become the norm, and the profession will play a key role in providing assurance on non-financial results, as well as embedding these results into strategy and performance management. As we lead this transformation, we will need to enhance our collective skills and competencies. We expect these changes will increase the profile of the profession and help us continue to attract the best and brightest to the profession." Chaired by Ball, the plenary session panel also included Alex Malley, CEO, CPA Australia; Barry Melancon, President & CEO, American Institute of Certified Public Accountants; Michael Izza, CEO, Institute of Chartered Accountants in England and Wales; Helen Brand, CE, Association of Chartered Certified Accountants; and Charles Tilley, CEO, Chartered Institute of Management Accountants. ■

DOWNTURN RAISES BAR FOR NEXT GENERATION OF finance leaders

THE RECESSION EXPOSED SOME WEAKNESSES IN FINANCE FUNCTIONS. CANDIDATES FOR FINANCE LEADERSHIP OR POTENTIAL LEADERSHIP ROLES ARE EXPECTED TO SHOW HOW THEY CAN FIX THEM.

In the post-recessionary multinational organisation, finance leadership is about applying a deep understanding of reporting and management accounting in the business and its industry. But it's also much more. Chief financial officers played a crucial role in supporting CEOs and effectively acting as their deputies when times were at their toughest. This has meant that the bar has been raised in many organisations seeking new finance talent with leadership prospects.

'The will to make things happen, a workman-like diligence and an instinct to take personal responsibility without delegation will be the essential qualities of our next generation of finance leaders,' says the CFO of a US-owned technology company's EMEA business. 'For us, recruitment drives will now be modelled far more around how we require each person to perform and excel, rather than traditional job specifications.'

Show the gain from pain

Even in respected, well-managed companies, the downturn exposed weaknesses in finance teams. This continues to provide a talking point at job interviews today. Kira Owen, director of the finance division of Twenty Recruitment, says: 'CFOs want to know about the skills and mindset that candidates developed when under extreme pressure or with limited resources. Senior finance managers and financial controllers can expect to be asked about the lessons they learned, as

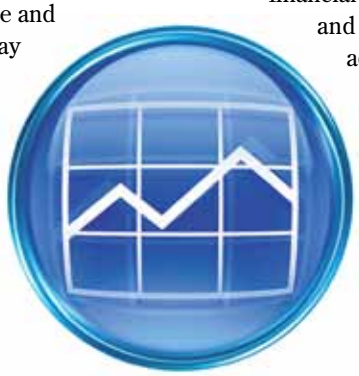
FINANCE PROFESSIONALS will be expected to demonstrate a good understanding of the world economy, and the short and long-term effects of volatility on the markets where their employer operates.

Kira Owen,
Director of the finance division of Twenty Recruitment

well as any unexpected challenges they encountered, and how they'd draw on that experience to overcome any future obstacles.'

In organisations where finance is relied on to support growth, innovation and efficiency, the concept of the finance professional as business partner is well established. But business partnering only works if those at the top set an example. 'If the CFO or FD is visibly working in partnership with the CEO and other board directors, productive relationships are more likely to be forged further down the line,' says Barbara Kollée of recruiters Robert Half Finance & Accounting in the Netherlands. 'Previously poor relations between finance and non-finance teams may mean that, at interview, CFOs will look for strong personal characteristics as much as technical prowess.'

This means candidates for senior finance roles may find line managers or the heads of non-finance support departments joining an interview. 'If the role requires a close working relationship with, say, the sales director or the CIO, that person may well be asked to jointly conduct or observe an interview,' says Kollée. 'They'll be looking for someone who can talk their language instead of resorting to jargon – someone who can empathise with their challenges and support their people with meaningful information and insights.'



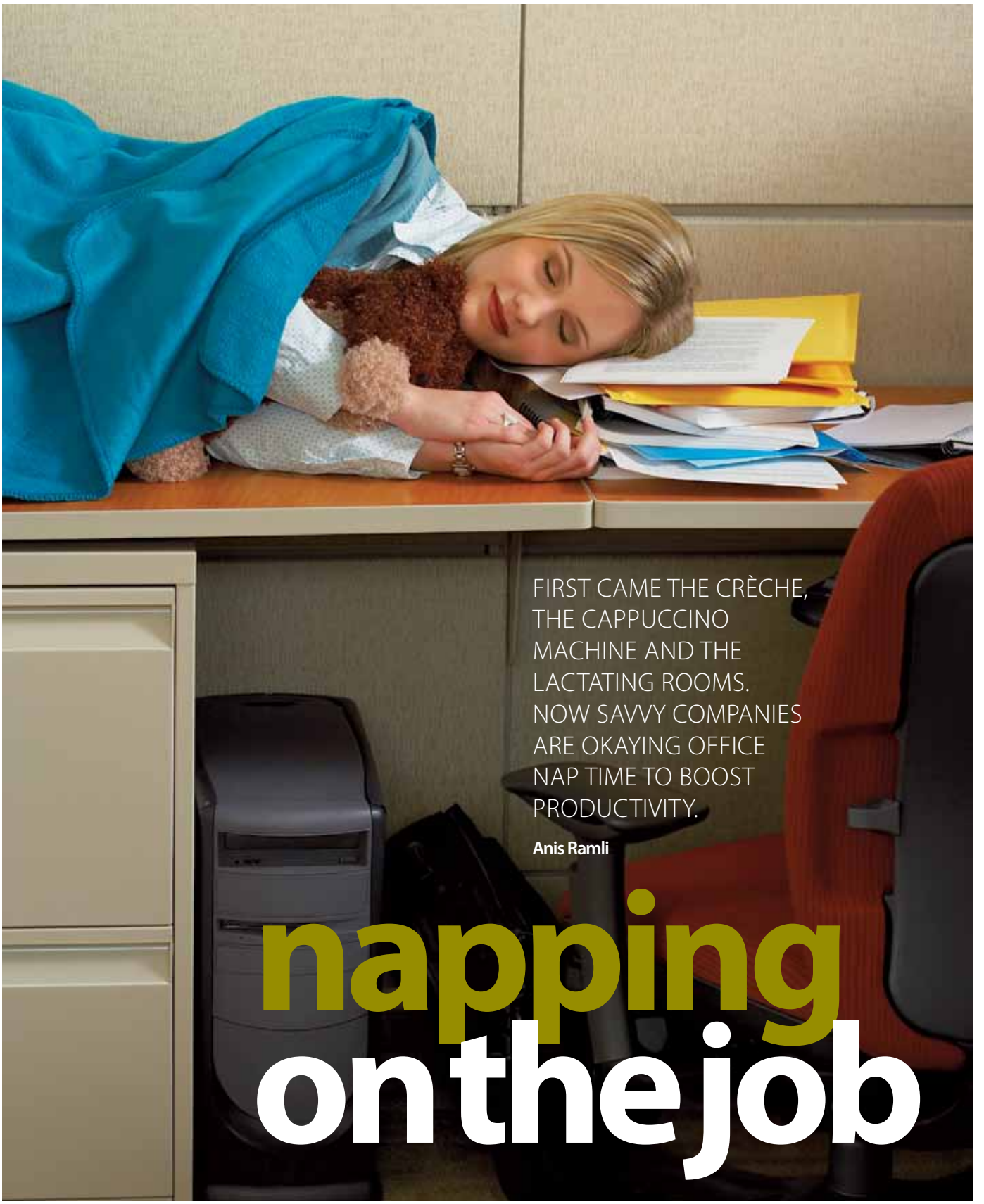
Think globally, understand volatility and plan your succession

The credit crunch was the first global financial crisis. Tomorrow's CFOs and FDs will be required to adopt a more global mindset. 'Finance professionals will be expected to demonstrate a good understanding of the world economy, and the short and long-term effects of volatility on the markets where their employer operates,' says Owen.

This also extends to personal outlook. Especially in blue-chip multinationals, accountants are likely to find themselves working alongside, or speaking regularly to, colleagues or business associates from other countries. Owen says CFOs at her clients increasingly ask for candidates who demonstrate an ability to assimilate other cultures and working practices with ease.

Succession planning was given little consideration amid job losses and headcount freezes in the downturn, but it can no longer be ignored. With more people on the move, CFOs need those coming through the ranks to be ready to step into unexpected vacancies. 'Employers want evidence that you can develop junior colleagues,' says Owen. 'You may excel at your job – but if you neglect to ensure there's a clear successor in place, your progression will be limited.' ■

This article first appeared in CIMA Insight, and it is published by CIMA (Chartered Institute of Management Accountants).



FIRST CAME THE CRÈCHE, THE CAPPUCCINO MACHINE AND THE LACTATING ROOMS. NOW SAVVY COMPANIES ARE OKAYING OFFICE NAP TIME TO BOOST PRODUCTIVITY.

Anis Ramli

napping on the job

Winston Churchill's been known to put on his PJs for a snooze on his bed a couple of hours every afternoon. Margaret Thatcher dozed for 20 minutes before Prime Minister's Questions. Another famous nap champion is Bill Clinton. But before we frown upon such explicit displays of siestas outside of Latin America, it's worth knowing that short periods of sleep, even power naps, help maintain productivity, improve concentration and reduce stress. Napping may even reduce heart disease.

Sleep deprivation is not all that uncommon. In sleep-deprived America, about 20 per cent of Americans suffer from sleepiness during the day, which is hardly surprising considering they work an average of 9.5 hours a day yet sleep just 6.5 hours a night. Similar findings from a Mori poll in the UK also found that sleep deprivation made half of the country's managers irritable, with a predisposition to shout at employees. Results of the latter survey in 2004 prompted then-Prime Minister Tony Blair's favourite think tanks to push employers to provide rooms for power naps.

A bit too far-fetched? Not according to some corporations. With one recent study of four U.S. companies finding that sleep deprivation cost them US$1,967 per employee per year in lost productivity — a figure that rises to US$3,556 for employees with frequent insomnia – some companies are taking serious note of sleep.

Companies like Nike and Pizza Hut are leading the way by providing workers 'nap-friendly' rooms, complete with reclining chairs. British Airways encourages pilots on long-haul flights to catch some ZZZs in the air in a special room to keep them alert and well rested when they land. Google, well-known for its worker-friendly policies, has already got a number of bean bags and massage chairs in common areas. Now it's added futuristic napping pods in its California campus, further endearing itself as the employer everyone wants to work for.

When Firefly CEO Claire Walker found herself falling asleep in cabs coming back from meetings, she decided to have a nap room for her employees. Not all of the PR agency's workers go there just to snooze; some use it simply to escape from the phone, e-mail, stress, and general noise. Similarly, at its headquarters in Berkshire, industrial giant 3M has a sealed zone with 10 electrical *shiatsu* massage chairs. Workers relax to chill-out music and there's a strict no-mobile-phones policy while in the room.

Perhaps the best example of a company that really puts its workers' interests first is the architectural firm Gould Evans Goodman Associates in Kansas City. Its idea of a nap room is a collection of three tents, each outfitted with an air mattress, sleeping bag, foam pad, flannel pillow, eye shades, Walkman and alarm clock discreetly set up in a corner of its office.

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Developing a corporate policy around sleep would encourage better productivity and a happier, perhaps more risk-free work environment.

Most companies that have restructured their workplace to provide employees the chance to snooze at work say they do so for their staffers' well-being. A smart idea, as research by NASA suggests that a quick nap can boost worker output by 34 per cent. So if you're running a business, the question is: Whom would you want on your staff – the person who performs 34 per cent better after a nap and is 100 per cent mentally alert, or the other guy?

Due to the relentless nature of modern work, sleep often gets compromised as much as a healthy diet and exercise. While companies are willing to implement policies around harmful practices such as smoking and drinking, many still view sleep as redundant. It doesn't help either when managers tacitly encourage employees to work long hours.

Developing a corporate policy around sleep would encourage better productivity and a happier, perhaps more risk-free work environment. It was theorized that disasters such as Chernobyl, Bhopal and the Exxon Valdez spill could all have been avoided if only the people manning the proverbial switch had enough sleeping time. But it's not just the white-collar workers whose lack of sleep has compromised work performance. Corporate executives are also part of a sleep-deprived nation, and frighteningly, they are among the top decision-makers in an economy. Perhaps more effective sleep patterns could improve the quality of decision-making and risk management?

Understandably, employers new to the concept may be concerned about abuse: staffers may take advantage and snooze at inappropriate times when they should be doing it at home. 'Strategic napping' is one way around it; plan nap periods and encourage employees to take part, rather like naptime at kindergartens. In one study, air traffic controllers in New Zealand working the night shift scored better on tests of alertness and performance after a planned nap period of 40 minutes.

Sleep can even be outsourced for better management. Hearst, Yahoo and

The benefits gained from allowing workers the privilege to nap may outweigh any disadvantages in the long run. It reflects the level of trust employers have in their staffers while presenting an employee-friendly workplace to the world.

TimeWarner engage YeloSpa, a company that offers power naps in private rooms complete with customised aromatherapy, music or nature sounds, and lighting. 'Nap breaks' allow employees to visit YeloSpa during their lunch breaks for a quick nap ranging from US$15 for a 20-minute snooze and US$40 for a 40-minute nap.

Companies should also consider implementing nap policies. This will help determine guidelines and prevent abuse, while encouraging employees to make use of the option and avoiding the stigma attached to snoozing on the job when they actually use the privilege. The benefits gained from allowing workers the privilege to nap may outweigh any disadvantages in the long run. It reflects the level of trust employers have in their staffers while presenting an employee-friendly workplace to the world. Explaining his decision to set up a nap room, one CEO says, "We know this (sleeping on the job,) has always been going on. Now, we're putting a structure to it."

As for employees who really want to bring workplace naps to the office, try getting together with co-workers and drafting a proposal that is a win-win for both parties. Present the arrangement through the lens of the employer and stress the workplace benefits. Explain that napping reduces absenteeism and encourages productivity. Napping on the job is still a nascent movement but it's fast gathering speed in developed economies. If the first attempt with the boss fails, don't lose sleep over it. Try again and with any luck, your teddy bear and security blanket could be included in the arsenal of workplace productivity tools. ■

Holding up half the sky

INCLUSION AND DIVERSITY PROGRAMMES ARE BEING IMPLEMENTED TO FOSTER WOMEN'S PARTICIPATION IN BUSINESS AND THE ECONOMY, BUT JUST HOW FAR HAVE WOMEN PROGRESSED ALONG THE PIPELINE TO LEADERSHIP?

Ng Poh Ling

Men may still dominate choice positions in senior management in many corporations; however, this landscape is changing, albeit at a snail's pace. More women are taking on senior roles and in Malaysia this is clear in the accounting and finance professions. Malaysia has an arsenal of women at the top such as Tan Sri Dr. Zeti Akhtar Aziz (Governor, Bank Negara), Tan Sri Zarinah Anwar (Chairman, Securities Commission Malaysia) and Rita Benoy Bushon (CEO, Minority Shareholder Watchdog Group) to name a few.

However, such representation isn't across the board. Despite these women's sterling achievements, their sisters are less well represented.

For instance, according to a 2009 Grant Thornton International survey which found that women still hold less than a quarter of senior management positions in privately-held businesses globally, Malaysia is tied with mainland China in fifth position, with 31% of women in senior management in private businesses.

And in the Global Gender Gap report spanning 134 countries, Malaysia dropped in the index from 96th in 2008 to 100th in 2009, with a slight trajectory upwards in 2010 to 98. At the boardroom level, there were only 14% of women in government-linked companies and 6.1% in the corporate sector.

Public sector representation by women in Malaysia looks equally dismal; women remain a small minority in Parliament and hold about 10% of the 222 seats in the lower house of Parliament and just eight per cent in the various state assemblies - lower than the global average of 16%.

Public sector representation by women in Malaysia looks equally dismal; women remain a small minority in Parliament and hold about 10% of the 222 seats in the lower house of Parliament...

GENDER PENALTIES?

But Malaysia isn't an isolated case in terms of the gender gap. Despite increasing awareness of gender disparities in the workplace, women around the world lag behind their male peers in many areas, including pay and opportunities for professional advancement. While many companies now have an inclusion policy, still as many have yet to implement policies to address these gaps.

Studies done by the Chartered Institute of Management Accountants (CIMA) seem to confirm this view. Says CIMA R&D Manager, Sandra Rapacioli, women still lag behind men in terms of salary and seniority. "In Asia, our male members are 6 times more likely than our female members to be CEOs or CFOs. Given the lack of women in senior roles, it is then perhaps not a complete surprise to learn that in Malaysia CIMA male members earn 51% more than CIMA female members."

Gender equality fuels growth by bringing women into the workplace and by raising the overall level of human capital, productivity and wages. Growth bolsters gender equality by raising the returns to women's participation in the workforce; this in turn underscores the importance of girls' education and health, and further strengthens the case for women to play a meaningful role in local and national politics.

However, the gender pay penalty of women with higher qualifications compared to men with higher qualifications is substantially smaller than the pay penalty among those with lower qualifications, noted Rapacioli.

Here in Malaysia, could the choice of industry and sector also make a difference in how women are treated in terms of remuneration? Cristine Cheim, Senior Consultant for Financial Services at Robert Walters, counters that gender has never been a criterion for recruitment nor has it been a barrier. Instead, work experience and skill sets are what set an individual apart and these are typically reflected in the remuneration package. A tight talent pool accords equal status and opportunities between both genders. "We do see women leaders in the financial services industry and there is no discrepancy in pay packages across the board. In fact, men and women are both equally confident in pursuing what they think they should deserve."

Reza Ghazali, Managing Director of Korn/Ferry International (Malaysia) echoes the view that there is no gender discrimination across all levels and functional lines. In fact, he stresses that in many cases, as women move up the corporate ladder, their pay packages could accelerate as fast as their male counterparts. "In terms of quantity, there are more men in the talent pool but in terms of quality, women lead," he quips.

While there seems to be no gender pay penalty in the workplace, he does allude to some amount of preference, namely in 'rough & tough' business functions where men heavily dominate, such as engineering, construction, automotives and oil and gas. Trends are changing, however, as "there is an even greater push and awareness, not only in the political circle but also the corporate world, for gender equality," added Reza.

MORE WOMEN RISING

Although more men still dominate the top finance positions globally, this is changing. More women are stepping up to fill the positions and Rapacioli cites as an example, Helen Weir, Group Executive Director of Retail Banking, Lloyds Banking Group. More women are entering the accounting and finance professions and having more women at the top of these traditionally male-dominated environments is becoming more widely accepted.

Even so, there are many barriers to entry for women participating in both the public and private sectors. These include a plethora of cultural and financial concerns and range from a lingering prejudice towards women however infinitesimal, cultural perceptions, a lack of education and support networks, a lack of female role models and a lack of time and financial resources.

The dual burdens of professional and domestic responsibilities weigh especially heavily on women. Despite their positions in the corporate workplace, they still remain the centre of family life with all its attendant constraints. In contrast, the dominant model in the business environment equates leadership with unfailing availability and geographic mobility.

CHANGING THE MODEL

But should this prevailing model be changed to include more women and increase diversity? Studies by McKinsey

& Co exploring the link between women in leadership positions and business performance have shown a positive correlation between gender diversity on top leadership teams and a company's financial results. Corporations with three or more women in senior management functions performed better across all organizational functions. Upon closer examination, it was found that these companies outperformed their sector financially, in areas such as return on equity, operating result and stock price growth.

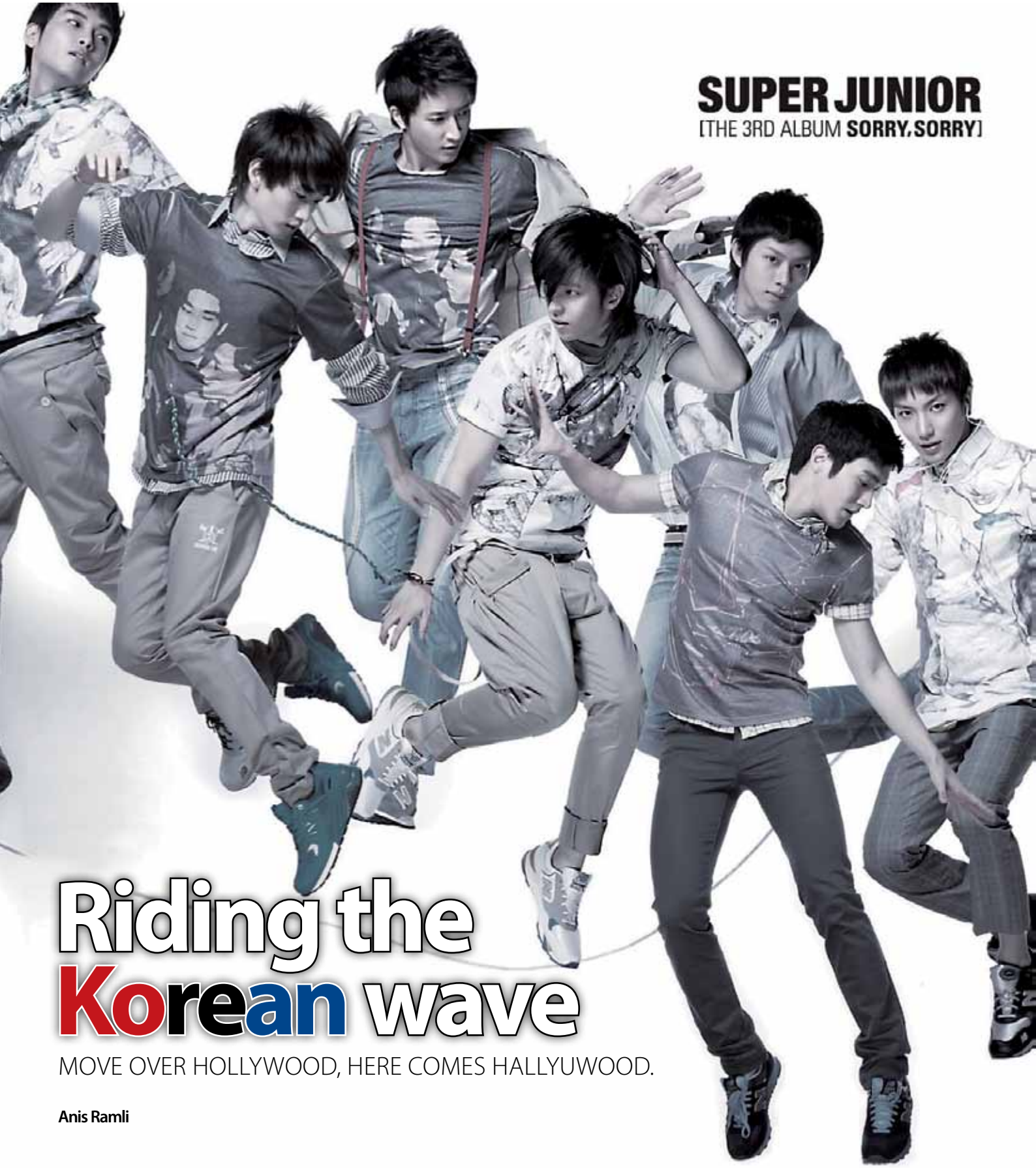
Elsewhere, a report by the United Nations Economic and Social Commission for Asia and the Pacific Countries found that restricting job opportunities for women costs the region between US$42 and US$46 billion a year. Greater economic opportunity and participation for women in developed countries such as Japan and the United States could also play an integral role in tackling future problems of rising aging populations and growing pension burdens.

To corroborate the findings further, studies by Goldman Sachs have shown that the combined impact of growing gender equality, the emerging middle class and women's spending priorities will lead to rising household savings rates and shifting spending patterns that are likely to benefit sectors such as food, healthcare, education, childcare, apparel, consumer durables and financial services, particularly in emerging markets.

Gender equality fuels growth by bringing women into the workplace and by raising the overall level of human capital, productivity and wages. Growth bolsters gender equality by raising the returns to women's participation in the workforce; this in turn underscores the importance of girls' education and health, and further strengthens the case for women to play a meaningful role in local and national politics.

It is imperative for a country's competitiveness and economic robustness to fully utilize its female talent. Given that women account for 40% of the world's workforce, not utilizing their talents is akin to not utilizing resources. More importantly, with women making up almost 40% of the world's college-educated population, the war for talent will be won only by those organizations and corporations who recognize and make women's advancement and retention a priority.

Likewise, here in Malaysia, economic and social transformation as promulgated by the ongoing change management programme can only be wholly achieved by fully engaging female talent. Sidelining women will only handicap the country in the race for global competitiveness. The onus is on our business leaders and policy makers to provide equal opportunities for women to rise to positions of leadership. ■



Riding the Korean wave

MOVE OVER HOLLYWOOD, HERE COMES HALLYUWOOD.

Anis Ramli

Even cosmetics giants Estee Lauder, MAC and more recently, Clinique, could not escape the Korean revolution. The three Western cosmetics companies were among a slew of skincare brands that have jumped on the BB bandwagon. BB what?

BB, short for Blemish Balm, is a foundation at its core made popular by Korean celebrities. It's also a Korean cosmetic staple and the hottest trend in skincare at the moment. In a market dominated by Western imports, the success of the BB cream is monumental, made even more so when Western companies decided to emulate the product. There's no escape from the Korean Wave no matter where you look.

The Korean Wave, or 'hallyu' wave, has swiftly gained trendsetter status in Asia. This powerful lifestyle trend is being driven by the spread of Korean pop culture such as daytime soaps to K-pop and idol bands, and the world, it seems, can't get enough of hallyu.

Once confined to the Asia Pacific region, the hallyu wave has stormed regional boundaries to sweep across diverse markets in other countries, including the Middle East and the US. Take Korean cosmetics. The popularity of Korean cosmetic brands is even more significant as many of the homegrown brands are considered young in the market. Despite competing with established imports, Korea's cosmetics industry grew 12.5 percent and was valued at US$6.4 billion in 2009.

Part of the appeal is the fact that many of the brands, such as The Face Shop, Skin Food and Missha, are made from pure, natural ingredients, filling the present need for plant-based, free-of-chemicals skincare. Match this with attractive packaging and affordability, and it's no wonder women from Japan and Taiwan come to Korea in search of Korean lines of beauty products.

POP CULTURE DRIVERS

But skincare is only the tip of the iceberg that has made South Korea among the world's top ten cultural exporters today. Media and entertainment is another huge part of the hallyu juggernaut. South Korean TV dramas, ranging from classics such as Winter Sonata to newer productions like Princess Hours, Boys Over Flowers and Iris aired in homes across South East Asia, China, Japan, Taiwan, and more recently, Dubai and Iran. Responding to the popularity, the Korea National Tourism Organization (KNTO) has even introduced TV-drama-related tours. Fans can either travel to the film locations made famous in the series, or attend fan club meetings. Interestingly, the fan club of Korean boy band DBSK ranks as the world's largest according to the Guinness Book of Records with over 800,000 fans in Korea alone.

The harnessing of the hallyu wave to sell South Korea is a far cry from a country that could not even provide figures for its cultural exports prior to 1997. Historically, Korea has always been more worried about fending off cultural domination by China and Japan, focusing primarily on promoting domestic travel and protecting traditional culture. South Korea wasn't even a popular tourist destination. This mindset has changed. In 2003, South Korea's cultural exports reached US$650 million, prompting the government to look into the possibilities and power of pop culture in marketing tourism.

By enrolling idol bands such as Super Junior, SNSD and 2PM to promote Korean tourism in catchy ads, the nation's tourism industry has benefited hugely from the Hallyu wave. In November 2010, the number of visitors to Korea increased by 12 percent to 8 million visitors compared to the same period in 2009. Sixty-five percent of those visitors were from Asia, with Japanese and Chinese making up the majority.

Then there's the Hallyuwood theme park slated to open by 2012 with an investment of KRW 2.8 trillion. Built on a 990,000 square metre site in Gyeonggi Province, the theme park will house studios where Korean dramas and films are made, entertainment facilities, a museum, shops, Korean cooking classes and restaurants. No doubt it will feed fans' increasing hunger for all things Korean.

Tourism aside, the Hallyu wave has been a springboard for other Korean products, giving them high visibility overseas. Lifestyle brands such as Samsung and LG have gained from riding on the trend, and expanded market share considerably. Again, Korea's obsession with celebrity culture is fueling the spread of the phenomenon. Using local celebrities as brand ambassadors helps consumers identify with their favorite brands, appealing emotionally to such groups as Japanese housewives (electronics) and Taiwanese teens (makeup).

Among the famous celebrity endorsers are Big Bang, brand ambassador for LG, which together with stablemates 2NE1 produced the hit song Lollipop to sell the eponymous phone. The Wonder Girls are brand ambassadors for Sony Ericsson phones in the Asia Pacific. To front its campaigns, Laneige uses Song Hye-kyo, the actress from the 2004 rom-com Full House and a household name in China. Kim Hyun Joong of SS501 and Boys Over Flowers is the brand ambassador for The Face Shop that now has outlets in 19 countries. More recently, Yu-Na, the 2009 winner of the World Figure Skating Championship was appointed brand ambassador for the 2010-2012 Visit Korea Year. The campaign is aimed at upgrading the nation's brand value to

attract 10 million foreigners and earn US$10 billion in tourism income.

Apart from the obvious boost for tourism, many other Korean products, from pop music and films to computer games, fashion styles and food are also part of the hallyu wave phenomenon. K-pop, a term to describe Korean popular music, has also been making inroads into Asian entertainment markets, sweeping the music charts and building multinational fan bases. Its similarity to American hip hop, R&B, dance and pop music makes it easily identifiable with a wholesome appeal, despite being formulaic. Artists such as Rain and the Wonder Girls are making a name in America, while others, such as 2PM, Big Bang, the now-defunct DBSK, 2NE1 and SHINee have made inroads into Japanese and Taiwanese music charts. SM Entertainment, a Seoul-based star agency whose stable includes Girls' Generation and Super Junior, saw outbound sales jumping to US$25 million during the first half of 2010, a notable increase from 2009's whole year sales of US$16 million. Ditto for JYP Entertainment and YG, managers of artistes like the Wonder Girls and Big Bang and 2NE1 respectively.

How will the trend last before fizzling out? Right now, hallyu is still going strong. And with positive effects that include increased foreign interest in Korean culture and language, rising tourist numbers, and impressive revenue streams, the Korean Wave is perhaps the best ride ever to be experienced by the Korean nation. ■

The idea was to visit Roskilde, once a thriving Viking community that lay west of Copenhagen. It's an easy drive perfect for a day trip that takes about 30 minutes on the E21, that is, if you don't miss Exit 11. Which we did. But as it turned out, kismet had grander ideas. Hesitant to turn back, we let our spirit of adventure take over, and soon found ourselves landing in the quiet, off-the-grid village of Gershøj, a place that – even if you were to Google it – will not provide you much, let alone lure you to visit. But it was in this tiny town that we experienced the true spirit of Denmark.

Gershøj is a lovely hamlet with a fishing bay that turns stunning in summer and boasts a rich collection of conserved timber houses. Exiting the highway, the road leading to the village is a pleasant flat drive hugged by the Roskilde Fjord on one side and vast fields that blush red in summer from strawberries and turn a mélange of honey in autumn from wheat.

There are only about 300 inhabitants in the village, and many living here are commuters working in Copenhagen. Long-time resident Annette Skaarup says, "When you drive from the city to Gershøj and see the fjord and the greens, there's no other feeling like it. It takes all the day's stress away."

Written history of the town goes back to the 13th century of a village then named Gæshove, or in modern Danish, Gåsehøj. In 1995, excavation works that took place north of the village's church revealed, among others, the outline of a number of stone buildings believed to date about 5,000 years old including a Viking Age farm. There were only 12 houses in Gershøj in the 18th century. Today, apart from houses now numbering almost a hundred, and a recent construction of a 30-metre telecoms beam for better mobile phone connectivity, pretty much all else remains the same.

an old soul

OUTSIDE COPENHAGEN, A TRUE DANISH EXPERIENCE.

Anis Ramli

There are no malls or grocery stores in the village. No Nike shops or McDonalds to stain the landscape. But Gershøj is strong in community spirit, and though there's little by way of history to attract the regular tourist, life goes on as it had for centuries in true Danish style, reminding one of the life of the past by way of the present.

On one visit last spring, I walked through lanes past backyards being readied for barbecues in the summer. The sun was out but it was still a chilly day, yet people were busy fixing their gardens and giving their fences and homes fresh coats of paint. Others took advantage of the clear day to have tea and test their new garden furniture.

Typical of many small northern European towns, Gershøj is a community with strong social responsibility. Neighbours watch out for each other and, as though to drive the point home, Annette's husband, Michael, was called to check on the stove of a neighbour who forgot to turn it off as they left for the city in a hurry. The community spirit is further enhanced by many social activities. There is a senior club where members meet regularly to play cards, and there is a kids club where children and parents meet for various events. Winters can be harsh, drowning the village in snow so thick that last year, they were cut off from the city for several days. But when the sun shines, the village parties with harbour festivals and carnivals staged by the villagers, complete with a local skit about what happens in the village.

The tiny harbour offers plenty of fishing. While tourists may not know much about Gershøj, it's the opposite with the locals. Summer brings in kayakers, cyclers and nature lovers out to the bay. In the cold months, before the water turns to ice, villagers and locals come for winter swimming, swimming in ice-cold water that seems to be a popular sport in Scandinavia.

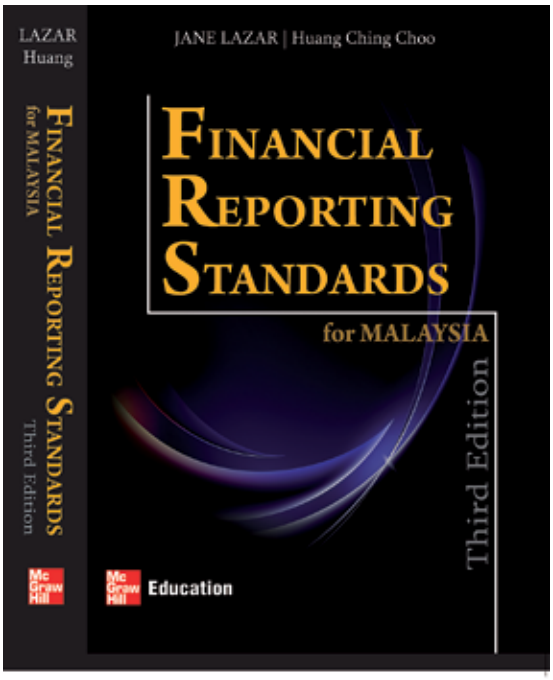
A few days in Gershøj make a good base to explore nearby Roskilde, where the Viking Ship Museum offers plenty of distraction. Watch an ongoing workshop restoring a 12th-century cargo ship found in the fjord, or view five fully restored 11th-century Viking ships at the Viking Ships Hall gallery, lurking eerily but full of splendour nonetheless against the backdrop of the fjord. For something kitschy, there's a 50-minute tour of Roskilde Fjord on a reconstructed square-sailed Viking longboat. Be warned that when there's no wind you will have to row!

Elsewhere, the town of Hillerød, another pleasant 30-minute drive past infinite farms lined with wind turbines and charming cottage-dotted towns, beckons busloads of tourists with its gloriously romantic Frederiksborg Slot (Castle). Built in the early 17th century by Christian IV, it has all the trappings of a fairytale confection: a cobbled courtyard, an extravagant fountain, and a huge formal baroque garden. Transformed into the National Museum of History in 1993, the castle's various rooms are a study in art and decorative furniture, towering paintings of past royals and court scenes, and a pictorial history of the land.

An escape to the castle's third floor will swiftly bring you back to the present. Here is housed a collection of modern paintings from the 20th and 21st centuries, including famous Danes such as Queen Margrethe, Crown Prince Frederik, painter Peter Severin Krøyer, and Karen Blixen, aka Isak Dinesen, best known for her book *Out of Africa* based on her years spent as a farmer in Kenya.

Don't leave the castle without a stroll of the gardens. Dating from the 1720s and completely restored in 1996 based on studies of J.C. Krieger's gardens from 1725, it features boxwood shrubs pruned into the shape of four royal monograms and landscaping borrowed from palace designs in Italy and France.

As we watched the caravan of tourists prepare to leave the castle, our guide, Gershøj born-and-bred Kristin Ingolfsdottira said, "We may not have the colourful history or the fancy castle, but when you want to kick back, relax and live the moment to find the soul of Denmark, you come to Gershøj." ■



Financial Reporting Standards for Malaysia, Third Edition

Professor Jane Magdalene Vimola Lazar, Associate Professor Dr. Huang Ching Choo

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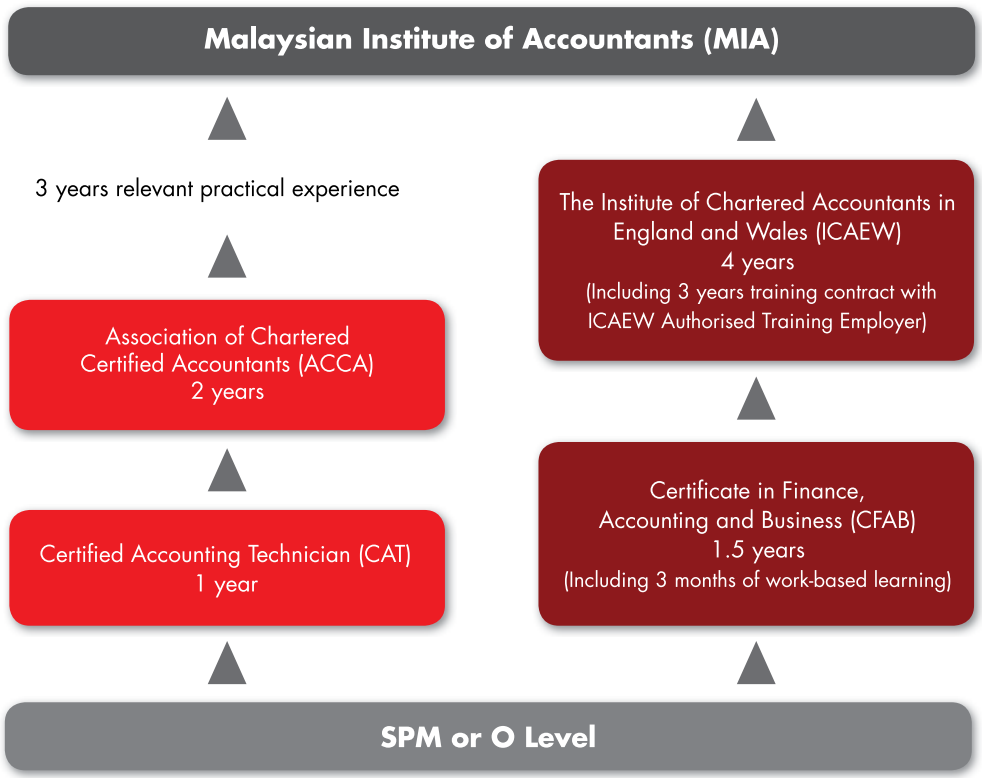

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