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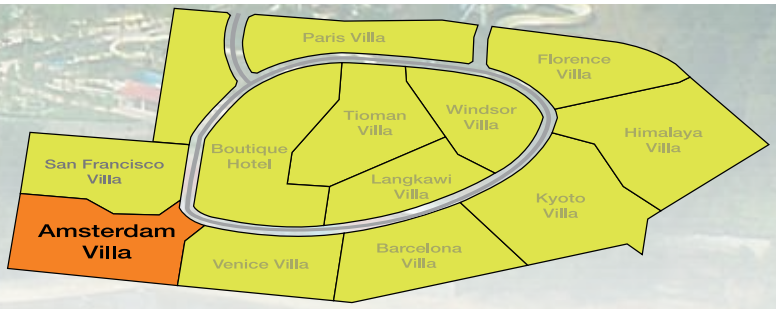

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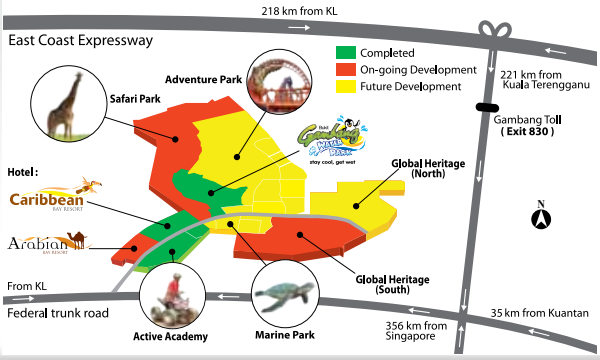

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MALAYSIAN INSTITUTE OF ACCOUNTANTS

Vision and Mission

MIA'S VISION

- To be a globally recognised and renowned Institute of Accountants committed to nation- building.

MIA'S MISSION

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

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

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

(a) To regulate the practice of the accountancy profession in Malaysia;
(b) To promote in any manner it thinks fit, the interests of the accountancy profession in Malaysia;
(c) To provide for the training and education by the Institute or any other body, of persons practising or intending to practise the profession;
(d) To determine the qualifications of persons for admission as members; and
(e) To approve, regulate and supervise the conduct of the Qualifying Examination.

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Calling All Members

To enhance competitiveness and competencies, the Institute is committed to informing its members on key developments within the profession and the global landscape.

A key move in this issue is to introduce the President's column, a regular feature where our President Datuk Mohd Nasir Ahmad will talk about the latest developments and initiatives being undertaken by the Institute. We believe that our members need to be aware of these issues and get proactively involved in order to improve our collective quality and perception among stakeholders, so please do take a little time to read the President's message. In this issue, Datuk Nasir discusses the proposed amendments to the Accountants Act 1967 and the outcome and follow-up from the last AGM.

Datuk Nasir also stresses the importance of engaging all MIA members equally, regardless of the sector we belong to. Beginning from this issue, we intend to devote equitable space to the issues facing our members in business, academia and the public sector, collectively known as Professional Accountants in Business or PAIBs. Our cover story for this issue zooms in on the changing roles and expectations facing PAIBs, and the strategies for success being employed by some of the leading role models in the profession, including some youthful and fresh faces.

We believe that our members need to be aware of these issues and get proactively involved in order to improve our collective quality and perception among stakeholders, so please do take a little time to read the President's message.

While the Institute can invest effort and resources in communicating these issues to members, members must do their own part by reading the magazine and visiting our online links in order to understand the Institute's strategies. There is a reservoir of valuable information in print and online that could impact members' development, if you are open to reading and learning.

Members must control and shape their own destinies by taking action, in order to be more updated and engaged with current issues and future developments. Becoming more knowledgeable and aware is a good start. Modern accounting professionals must go out and seize the opportunities available to improve ourselves and achieve long-term success. ■

Read on for your success!

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

Letter to the editor


management+business

The need to Merge or Affiliate

Practicing firms need to either merge and/or become strategically affiliated or face being wiped out.

Dear Editor,

I would like to refer to an article published in the *Accountants Today*, January/February 2012 issue, entitled **"The need to Merge or Affiliate"** by Dato' Raymond Liew.

In describing the pressures on SMPs to raise quality, a reference is made to the Audit Oversight Board (AOB) and I quote "Adding to this pressure is the Accounting Oversight Board (AOB), under the preview of the Securities Commission, which further imposes various restrictions and quality controls for the audits of public interest entities."

The impression that I have from the statement is that the AOB imposes additional expectations beyond the requirements of applicable auditing and ethical standards as adopted by the Malaysian Institute of Accountants (MIA).

We wish to clarify that the AOB believes audit quality would be achieved if the relevant standards are complied with, in substance, by audit firms and auditors. With that in mind, all our activities including registration, inspection and remediation are premised on ensuring audit firms and auditors comply with the standards adopted by the MIA, irrespective of the sizes of the firms.

We have, for example, allowed sole proprietors to be registered with us provided that they engage an external Engagement Quality Control Reviewer and establish an effective monitoring system which fits with their size and circumstances, without compromising audit quality. The AOB has not and does not intend to impose higher expectations than those prescribed by those standards.

I trust the above clarifies the position of the AOB with respect to compliance of standards by audit firms and auditors.

Regards,
Nik Mohd. Hasyudeen Yusoff
Executive Chairman, Audit Oversight Board
Securities Commission Malaysia

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Reforming In The Public's Interest

Dear Valued Members,

The Malaysian Institute of Accountants is a unique organisation that straddles a fence, so to speak. On the one hand, it is a statutory body and regulator of the Malaysian accounting profession. On the other hand, the Institute is also a professional body with an obligation to serve its members. These dual roles are enshrined in the Accountants Act, 1967 – we must accept that we are legally required to do both unless a separation of roles is proposed and enacted through legislation.

Our challenge is to strike an optimal balance between the two. However, I believe that these roles are closely intertwined. As a regulator, the bottom line is to safeguard public interest. On the other hand, as a professional body, it is incumbent on the Institute to look after our members' interests and educate our members thoroughly, so that they in turn will be ethical and competent accountants who are able to uphold our reputation and protect the public interest. In short, we kill two birds with one stone.

A chief responsibility to our members is also to craft strategies that can drive the profession's progress and escalate our members' well-being and reputation. I'm happy to report that since I took office in August 2011, the Institute has undertaken a number of initiatives to heighten the profession's growth and provide value-added services to all members.

Since the country is being helmed by a reform-minded leadership bent on achieving the goals of the Economic Transformation Programme (ETP), we must seize this window of opportunity to lobby for reforms in the accounting legislative framework.

Proposed Amendments to the Accountants Act, 1967

- One of the key initiatives undertaken by the Institute recently is to draft a set of proposed amendments to the Accountants Act, 1967, which had been submitted to the government in early February 2012. Since the country is being helmed by a reform-minded leadership bent on achieving the goals of the Economic Transformation Programme (ETP), we must seize this window of opportunity to lobby for reforms in the accounting legislative framework.

Some of the proposed amendments include:

First, Streamlining the Institute's regulatory processes and mechanisms to heighten transparency, accountability and independence. We have frequently debated whether investigative, disciplinary and enforcement processes should be separate from and independent of the Institute's functions proper. Following the MIA Council's intense discussion, it was decided that the best solution would be to retain these functions within MIA, but to remove and/or reduce direct Council Members' involvement.

Currently, the Act states that only MIA Council Members are to be involved in the Investigation, Disciplinary and Disciplinary Appeal Committees, thus we have proposed to amend this requirement for the purposes of improving transparency and independence. This means that the composition of these committees will change, and subsequently Council involvement in these committees will be minimal and perhaps limited to minority representation.

This also means that other members will have to step up to take on the roles in these committees vacated by Council Members. Furthermore, we proposed

that enforcement and disciplinary committees be composed of diverse members – perhaps even non-accountants and laymen – in order to augment independence. Ideally, multiple committees should be set up to deal with the backlog of cases and to expedite the investigative and disciplinary process.

Second, raising the quality of Malaysian accounting professionals to ensure our global competitiveness is in line with the International Federation of Accountants (IFAC) guidelines and to meet public expectations. To achieve this, we have proposed a Competency Assessment Framework as per IFAC requirements to assess the professional capabilities and competency of would-be members in accordance with public expectations.

Post-implementation, there may be duplication issues for Institute members who are also members of other professional bodies. In such cases, if the competency assessments of these professional bodies are recognised by the Institute, their members who wish to become members of the Institute may be exempted from the competency assessment requirement.

Third, empowering the Council to make decisions and take action on behalf of the members who elected them. Modernising the law governing accountants in alignment with current economic and global requirements will enable the Institute to move more swiftly and improve operational efficiency.

Outstanding AGM Issues

● I would also like to report our progress on some issues raised at the last AGM in September 2011, especially in relation to public practice matters.

During the AGM, public practitioners voiced their discontent with the current requirement of renewing their audit licenses every two years. Subsequently, the matter has been taken up with the Accountant-General and we are awaiting the outcome.

Public practitioners were also dissatisfied with how practice reviews are currently conducted. In response, the Practice Review Committee is reviewing the requests and recommendations of the Public Practice Committee but the outcome has not been determined yet. We are working towards finding a win-win solution for all.

Professional Accountants in Business

● While public practice issues are frequently in the limelight, we want to focus egalitarian attention on Professional Accountants in Business (PAIBs). The Institute is committed to promoting the interests of all accountants, and PAIBs are an important component of membership, comprising the majority.

To begin with, the Institute is working to increase awareness of current developments among PAIBs through professional programmes such as the organising of the first Accountants in Business Symposium (AIB) which was organised in March.

We hope to organise other similar events catering to PAIBs in future to ensure that the needs of members not in practice are addressed and to encourage their greater involvement in the profession.

Even more important, these events are a platform for the delivery of relevant skills, knowledge and experience that constitute and polish our professionalism. Such events are also a venue for the Institute to emphasise the internalisation of ethics and integrity. Sans integrity, accountants are not professionals, but mercenaries.

> *At the end of the day, we should take the findings of such reports like ROSC in good faith as public perception affects the value attached to accounting services. If we want our value to go up, we must manage our public image positively.*

World Bank ROSC

● The World Bank recently released a Report on the Observance of Standards and Codes (ROSC) on Accounting and Auditing, which highlighted quality issues in general among accountants in Malaysia. To address this, the Institute has proposed that local accounting programmes under *Halatuju II* be regularly reviewed to ensure their relevance and quality and the competency of graduates.

The ROSC's observations are directly linked to quality, which is an issue that we cannot afford to ignore. Even if there is only one blot in quality, it affects the public perception of the entire profession. At the end of the day, we should take the findings of such reports like ROSC in good faith as public perception affects the value attached to accounting services. If we want our value to go up, we must manage our public image positively.

Members must realise that the profession is being closely scrutinised by the public and other stakeholders. We have to be mindful of the public interest and equip ourselves with the necessary skills, knowledge and integrity to meet the expectations of the public and inspire their trust. ■

Secrets to success

Nazatul Izma

These are revolutionary times for accountants in business. They are no longer confined to vanilla, one-dimensional roles in the back office – unless they choose to limit their skills and risk being sidelined. Instead, many accountants in business have emerged as decision-makers, leaders of influence and agents of change who wish to share their knowledge and authority to shape a more positive world. As global paradigm shifts occur – whether in economics, society or sustainability, accountants in business will have to step up, speak out and take their talents to the next level in order to meet a myriad of changing demands and public expectations.

Like sepia-tinted photographs, accountants in grey diligently crunching numbers in the back-rooms of offices are a legacy of the past.

Today, professional accountants work in all walks of life – the savvy ones have responded to dynamic challenges and broken the vanilla mould to carve out their own personal paths to success.

"Economic challenges and technological changes drive a need for accountants in business to be better and faster and increases expectations with regards to our skills, capabilities and ability to adapt. With many elements evolving at the same time, accountants in business need to step up to lead and manage the changes with sound commercial knowledge, strong communication skills and an ability to manage stakeholders well (both within and outside their organisation)," summed up Jason Crimson, Director of Asia Pacific Shared Services for Kimberly-Clark Regional Services (Malaysia).

Recently, *Accountants Today* canvassed the comments of leading Professional Accountants in Business (PAIBs) to gauge how the winds of change are affecting accountants in business. These accountants in business have shaped their own path to success, proving that an accountancy qualification is truly flexible and what you make of it. While they come from diverse backgrounds and continue on different journeys, their insights reveal common secrets – and pitfalls! - to success for all accountants in business.

1. Modelling Ethical Behaviour

To keep abreast of compliance and evolving regulations, accountants need to continuously educate themselves in corporate governance and fraud-related matters, as emphasised by Bursa requirements, commented Tamil Selvan Durairaj, Executive Director of Century Software Holdings Berhad.

Importantly, ethics and integrity must be internalised. "They need to instill in themselves the discipline to be guided by their moral compass, to distinguish between what is right and what is wrong," said Crimson.

As part of the business food chain, accountants can influence good behaviour in their workplaces, leading by example. "Accountants need to realise that they play a role as a steward," said Crimson. This mindset can be strengthened by embracing the ethical and governance frameworks and culture of the accounting profession and its associated organisations. And they need to stand firm. "PAIBs should take a strong stance against bad behaviour, even if the infraction may be somewhat immaterial," he added.

To be just, it must be noted that good governance depends on the health of the entire financial reporting ecosystem, in which the accountant in business is just one player. To keep the ecosystem humming, accountants in business must be technically competent. "They must apply the applicable accounting standards correctly. If this is not strictly adhered to, then they have broken their oath of complying with the code of conduct and values of the profession," noted Tan Sri Datuk Dr. Abdul Samad Haji Alias, Chairman of Perbadanan Insurans Deposit Malaysia.

"From what we have read from public records, all the recent financial debacles have arisen because each party in the financial reporting function has been less than professional. The preparers have fudged their revenue numbers to meet targets by misapplying accounting standards, audit committees have been less than effective even though the members include accountants, and rules do not require reports to be reviewed by independent third parties which is not in the interest of investor protection," he continued in the same vein.

"The way forward would be for everyone involved in the function to be accountable and for the justice system to move away from joint and several liability to a system of proportionate responsibility. After all, in the insurance industry, the system of proportionate liability is alive and kicking. This I believe will stop the blame game."

2. Professional Qualifications versus Tertiary Education

For accountants in business, does a professional accounting qualification trump an accountancy degree? The debate rages on.

You may have a diploma hanging on your wall, but success takes work. "Having a degree and/or a professional or chartered accounting qualification does not guarantee success unless you

Tan Sri Datuk Dr. Abdul Samad Haji Alias
Chairman of Perbadanan Insurans Deposit Malaysia

"From what we read about Public Records, all the recent financial debacles have arisen because each party in the financial reporting function has been less than professional..."

Jason Crimson
Director, Asia Pacific, Shared Services, Kimberly-Clark Regional Services (Malaysia)

"PAIBs should take a strong stance against bad behaviour, even if the infraction may be somewhat immaterial."

are willing to invest the time in developing yourself and building your career step by step," said Crimson.

Meanwhile, most respondents are strong advocates for professional qualifications. "I would strongly say that pursuing a professional qualification is a must because it is the next level of your knowledge enhancement," stressed Dr. Nurmazilah Dato' Mahzan, Deputy Dean at the Faculty of Business and Accountancy at the University of Malaya.

"I am probably biased reflecting my personal experience but I would strongly recommend aspiring accountants to pursue a professional / chartered accounting qualification, as it provides a solid foundation for a broad range of careers. The great thing about an accounting training is that it opens up possibilities in terms of possible career paths. Ultimately, each individual will need to choose their own path based on their passion and competencies. Malaysia currently offers ample opportunities for accountants to pursue different careers given the strong growth in many leading sectors, such as business services, finance, commercial and business process outsourcing," said Johan Mahmood Merican, CEO of Talent Corporation Malaysia Berhad (TalentCorp).

Tan Sri Abdul Samad on the other hand, dissects the definition of a professional accountant. "Does getting a university degree in accounting, commerce or finance entitle you to be called a professionally qualified accountant? A university degree is an academic qualification. To be a professional person, one must pursue a set of training programmes designed to transfer knowhow/skill sets from a principal to an apprentice."

The process to becoming a professional is similar whether it's in the medical, legal or accountancy profession, whereby a degree is followed by a period of apprenticeship and accreditation examinations, where success culminates in professional recognition.

"The wisdom behind the approach adopted by the various professions lies in the assurance of transferring a certain level of quality in the knowhow and skill sets acquired by the students. Further, there is accountability in the process of the transfer of knowledge between the principal and his student," said Tan Sri Abdul Samad.

"There is no short cut to becoming a professional person. The journey to become a professionally qualified accountant in business, in public practice or in the academia is long and full of challenges. There must be an unwavering commitment to observe the ethics and values of the profession. This is critical as in the final analysis, it is the observance of these values and the ethical codes that will uphold integrity," he emphasised.

3. Add Value, Experience to Resumes; Know Your Passion

Should public practice be the starting point for all accountants? It can't be denied that many successful accountants in business started out in public practice as audit or tax juniors. But it's not the be-all and end-all.

"It is a good foundation but it does not mean you cannot succeed if you don't start your career in public practice," said Dr. Nurmazilah. Keep your options open. For her part, she makes sure that she is directly accessible to future accountants and able to offer effective and satisfying mentorship to her charges. "Young minds need to be stimulated with positive ideas and inspiration to be able to project a good career in accounting ahead of them," she remarked. Perhaps more accountants should help out as role models and mentors to share their insights into career development in order to attract young potential into the profession.

Most work experience – no matter how unorthodox - can enrich your resume. "Be open-minded about career options and seek experiences that can bring about value to your long-term professional career. It does not matter whether you begin in the practice, "traditional" accountancy routes or even a PAIB in a shared services environment. Each path provides its own unique experiences and how much value is garnered from it would depend on how the individual responds to the opportunity and challenges that

present themselves in those routes," said Crimson earnestly.

Knowing one's own self and passions is the key to success. "Whether one chooses to be a professional accountant in business, academia or in public practice is a matter of one's personal inclination. The fact of the matter is one must strive to be the best. It is this personal goal that separates the leaders from the followers," said Tan Sri Abdul Samad.

4. Strategic Thinking, Business Acumen, Decision-making Skills Add Value

While bread-and-butter finance and accounting skills are fundamental, the current crop of accountants in business should go beyond this to demonstrate strategic thinking, business acumen and decision-making skills to optimise their organisations' performance.

"Accountants in business can create and add value by bringing strong business acumen, professional work ethics and a continuous improvement mindset," said Crimson.

"Besides focusing on financial and management accounting, accountants in business are expected to contribute in improvements and putting in processes to streamline operations," agreed Durairaj. He also stressed business development skills, since accountants today are expected to contribute to top-line and bottom line enhancement.

To help optimise business, Crimson recommended that accountants in business equip themselves as well with capabilities in project management, change management and LEAN methodologies. "These form the new baseline for what each PAIB will need to have to remain relevant. This of course is in addition to the set of skills that is already expected of PAIBs such as financial and accounting knowledge, appreciation of the regulatory framework and strong ethics."

"It's very important that we have strategic thinking skills," said Christina Constance Foo, Managing Director of Priority One Consultancy Services Sdn. Bhd. "And as preparers, we must know the financial impact of our decision-making on organisations."

Beyond financial impacts, Foo "makes it a point to think about the impact and sustainability of decisions on the community. We have to make a conscious decision to contribute to our community. For example, how would you advise management to think about labour rights, waste management, and energy use when making a procurement decision?"

Accountants have an accountability beyond figures, which embraces the environment, society and governance. "It may be that our decisions and influence can help to alleviate social and environmental problems. We have to bring our conscience to the table."

5. Strengthen Soft Skills and Non-Financial Skills

Although technical skills are core, soft skills are equally critical. All respondents agreed that accountants in business really need to develop soft skills, communication skills, management skills, and leadership skills.

But not all accountants can deliver on these. While Malaysia has a tradition of accountants in management, leveraging on their strong financial background, "it cannot be taken for granted that all accountants can naturally transition into leadership management roles without due development and experience," said Johan.

In addition, management requires far broader competencies than just finance. "However, the environment in Malaysia is fast moving and often one is thrown in at the deep end, without ideal preparation. By the same token, one could say, Malaysia is currently where the action is, professionally."

Johan emphasised people management as a necessary skill. "Given the current stage of Malaysia's development, accountants in business must increasingly focus on talent management. To move up the value chain into knowledge-intensive activities, one cannot just manage by numbers but must be able to motivate talent to perform competitively at an international level."

Johan Mahmood Merican
CEO of Talent Corporation Malaysia Berhad (TalentCorp)

"To move up the value chain into knowledge-intensive activities, one cannot just manage by numbers but must be able to motivate talent to perform competitively at an international level.'

Dr. Nurmazilah Dato' Mahzan,
Deputy Dean, Faculty of Business and Accountancy University of Malaya

We face challenges in dealing with a high bureaucratic system that makes it tough for us to effect the necessary changes that we have identified. Despite these challenges, we strive to enhance our programmes and graduates'.

Tamil Selvan Durairaj
Executive Director of Century Software Holdings Berhad

"Besides focusing on financial and management accounting, accountants in business are expected to contribute in improvements and putting in processes to streamline operations"

Christina Constance Foo
Managing Director of Priority One Consultancy Services Sdn Bhd

"Accountants have an accountability beyond figures, which embraces the environment, society and governance. It may be that our decisions and influence can help to alleviate social and environmental problems. We have to bring our conscience to the table'.

At some point, as accountants move up the rungs, they will have to manage diverse stakeholders and develop holistic solutions. "Training as an accountant provides a good platform in business and equips one with the analytical skills to perform a range of roles beyond just finance. The key experience I draw upon from my time as an accountant is facing clients and delivering solutions; which in my current role, translates to being stakeholder-facing (major employers and relevant government agencies) and developing solutions in terms of policy and public private partnership initiatives," he elaborated.

6. Profile Yourself; Build Influence

Marketing and personal branding are key elements for the new breed of accountants in business.

"Raise your profile by marketing yourself. As a profession, we have had a very conservative outlook; self-promotion is not perceived as a professional thing to do. This mindset has to change," urged Foo. "We have to raise the perception of the profession by marketing our abilities and articulating our capabilities. We have lots of members out there who are technically competent, yet are unable to let others know how they can add value to organisations."

Building on this, Crimson urged accountants in business to "develop their personal circle of influence within their organisation and build on their professional reputation. This typically would then evolve into having strong leadership or people management capabilities which will be critical as they grow in the organisation and take up key leadership roles."

7. Shore Up Your Technical Foundation

While the demands on accountants in business are expanding, they still need to perform their traditional roles in accounting and financial reporting and management flawlessly. "Generally, PAIBs have a strong foundation in financial management and most organisations require this as a fundamental platform," said Durairaj.

Keeping abreast of the latest accounting developments is fundamental for accountants in business to remain technically competent. "The PAIB must maintain technical competency through continuous professional education. They must be up to date with developments in accounting standards such that PAIB accountants can fulfill their accounting obligations as required by the Companies Act 1967. They are the preparers of the organisations' financial reports and accounts and they must take full responsibility. During my entire life in public practice and after 12 years in retirement while remaining in PAIB, I cannot but lament the fact that apart from a small minority, PAIB accountants have continued to farm out this critical function to professional accountants in public practice. This says a lot of the technical competency of PAIB accountants," said Tan Sri Abdul Samad.

Currency with accounting developments has ripple effects not only on business, but also the talent pipeline. The issue of the talent crunch and human resource quality resonates in every globally competitive market today, and Malaysia is no exception. "Whatever updates in accounting environment will affect the relevance of the Bachelor Accountancy programme as well as the quality of our students," said Dr. Nurmazilah. Evidently, it's incumbent on academics to keep themselves current in order to influence student quality.

However, there are obstacles, such as bureaucracy. "Obviously, the public demands that we produce accountants that meet the immediate needs of the industry. However, they need to recognise the directives and policies of the ultimate policymakers. In addition, we face challenges in dealing with a high bureaucratic system that makes it tough for us to effect the necessary changes that we have identified. Despite these challenges, we strive to enhance our programmes and graduates," explained Dr. Nurmazilah.

8. Expand Your Horizons; Keep On Learning

Like the proverbial frog under the coconut shell, many accountants in business

are reluctant to step out from their comfort zones. But this limited mindset only exposes them to the risks of being left behind.

"International business knowledge and knowledge of current issues is necessary. We cannot afford to know only about the Malaysian market and only about our job," said Foo. While it's impossible to learn everything, accountants need to be in touch with the latest issues and developments. This can be achieved through channels such as reading, through the internet, through networking and business hook-ups, and through continuing professional education.

Dr. Nurmazilah recommended that accountants in business adopt a culture of continuous learning and improvement. "They need to keep pace with the knowledge economy. Without the latest knowledge, accountants in business will find themselves outdated or obsolete."

She placed equal stress on IT skills and awareness, since "accountants who work within a wired environment cannot function effectively if they do not keep abreast with IT developments." ■

Checklist FOR SUCCESS

+ **Enhance Your Knowledge** ~ Keep abreast of developments in the profession, global business and regulations, and information technology through continuous learning and continuing professional education.

+ **Improve your Technical Foundation** ~ Update yourself on global accounting standards and developments; solidify accounting and financial management and reporting skills.

+ **Strengthen Soft Skills** ~ Leadership skills, people management and motivation, personal branding and marketing, and communication are critical competencies.

+ **Be Accountable and Sustainable** ~ be mindful of the financial and holistic impact of your decisions and influence on the environment, society and community.

+ **Embrace Ethics and Integrity** ~ internalise a code of ethics and always be guided by your internal moral compass.

+ **Explore Diverse Career Options** ~ keep an open mind, seek avenues for growth.

+ **Enrich your Resume** ~ all experience adds value.

MIA Staff Alert: Auditing and Assurance 02/2012

MATERIALITY IN PLANNING AND PERFORMING THE AUDIT

A financial statement audit enhances the degree of confidence of intended users in the entity's financial statements. Accordingly, due to the importance of auditors' attestation, the auditing standards require auditors to design the audit to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. The concept of materiality is applied by the auditor when:

- Planning and performing the audit [ISA 320[1]];
- Evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements [ISA 450[2]]; and
- Forming an opinion on the financial statements [ISA 700[3]].

This article aims to provide some practical considerations in applying the concept of materiality in planning and performing the audit.

What is materiality in the context of an audit?

Materiality addresses the significance of financial statement information to economic decisions made by users on the basis of the financial statements.

The assessment of what is material is a matter of professional judgement. ISA 320 specifies 3 main characteristics of materiality:

- Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users based on the financial statements;
- Judgements about materiality are made in the context of surrounding circumstances, and are affected by the size (quantitative - the monetary amount involved) and/or nature of misstatements (qualitative); and
- Judgements about materiality are based on considerations of common financial information needs of users as a group.

In planning the audit, the auditor makes judgements about the size of misstatements that will be considered material which provide a basis for:

- Determining the nature, timing and extent of risk assessment procedures;
- Identifying and assessing the risks of material misstatement; and
- Determining further audit procedures.

ISA 320 states that materiality determined when planning the audit does not necessarily establish an amount below which uncorrected misstatements, individually or in the aggregate, will always be evaluated as immaterial. The circumstances surrounding some misstatements may lead the auditor to evaluate them as material even if they are below materiality. Although it is not practicable to design audit procedures to detect misstatements that could be material solely because of their nature, the nature of misstatements must be considered by the auditor when evaluating their effect on the financial statements.

Misstatements may arise from a number of causes and can be based on the following:

- Size;
- Nature of the item; and
- Circumstances surrounding the occurrence of misstatement.

Examples of misstatements which may be significant to users of the financial statements due to the nature rather than size are as follows:

- Transactions involving related parties may be very significant to a person making a decision based on the financial statements;
- Illegal acts; or
- Non-compliance with regulatory requirements.

1. *ISA 320, Materiality in Planning and Performing an Audit*
2. *ISA 450, Evaluation of Misstatements Identified during the Audit*
3. *ISA 700, Forming an Opinion and Reporting on Financial Statements*

What are the different types of materiality?

ISA 320 provides a number of distinctions into assessment of the materiality as shown in the diagram on the right:

Note: The terms "overall" and "specific" materiality are used in the International Federation of Accountants (IFAC) Guide to Using International Standards on Auditing in the Audits of Small and Medium-Sized Entities (hereafter referred to as "ISA Guide") and are not terms used in ISAs.

Overall Materiality	• Relates to materiality for the financial statements as a whole. • Established based on what could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.
Specific Materiality	• Established for classes of transactions, account balances or disclosure for which misstatements of lesser amounts than overall materiality could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. For example, disclosure note to the financial statements on management remunerations.
Performance Materiality	• The amount(s) set by the auditor or less than the overall materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds the overall materiality. • If applicable, it also refers to the amount(s) set by the auditor at less than the specific materiality (this refers to specific performance materiality). • Its purpose is to ensure immaterial misstatements less than the overall or specific materiality are identified and provides the auditor with a safety margin for possible undetected misstatements. This margin is between detected but uncorrected misstatements in the aggregate and the overall or specific materiality. • It is used to assess the risk of material misstatement and design further audit procedures to respond to assessed risks.

How to determine materiality?

Overall Materiality

- A percentage is often applied to a chosen benchmark as a starting point determination.
- Examples of benchmarks (depending on the circumstances of the entity) include categories of reported income such as profit before tax, total revenue, gross profit and total expenses, total equity or net asset value.
- Factors that may be considered in establishing benchmarks include:

  The elements of the financial statements

  ~ What are the major elements of the financial statements that will be of interest to users; for example, assets, liabilities, equity, revenue and expenses?

  Whether there are items on which users of the entity's financial statements will pay attention

  ~ What information will attract the most attention by users; for example users interested in evaluating financial performance will focus on profits, revenues or net assets.

  The nature of the entity

  ~ Consider the nature of the entity, where the entity is in the life cycle (growing, mature, etc), and the industry and economic environment in which the entity operates.

  The entity's ownership structure and the way it is financed

  ~ If the entity is financed solely by debt, users may put more emphasis on the pledged assets and any claims than on the entity's earnings.

  The relative volatility of the benchmark

  ~ Profit before tax from continu-

ing operations is often used for profit-oriented entities. When profit before tax from continuing operations is volatile, other benchmarks such as gross profit or total revenues may be more appropriate.

- In relation to the chosen benchmark, the auditor would also need to consider whether an adjustment to the benchmark is needed for significant changes in the circumstances in the entity. For example, income from continuing operations could be adjusted for unusual or non-recurring revenue or expense items.
- The ISA Guide provides "Rules of Thumb" (for use as a starting point) to determining overall materiality as there is no specific guidance provided in the ISAs. Income from continuing operations (3% to 7%) is often used in practice as having the greatest significance to financial statement users. If income is not a useful measure (such as for a not-for-profit entity or where income is not a stable base), then consider other bases such as:
  - ~ Revenue or expenditure, 1% to 3%;
  - ~ Assets, 1% to 3%; or
  - ~ Equity, 3% to 5%.

Specific Materiality

- Decision influencers include:
  - ~ Laws, regulations and accounting framework requirements (for example, related party transactions)
  - ~ Key industry disclosures (for example, research and development costs for a pharmaceutical company)
  - ~ Disclosure of significant events and important changes in operations (for example, discontinued operations).
- It will be useful to obtain an understanding of the views and expectations of those charged with governance and management in identifying whether there are particular items for which it would be appropriate to determine a specific materiality level(s).
- The ISA Guide "Rules of Thumb" provides that specific materiality level(s) can be determined by establishing a lower, specific materiality amount (based on professional judgement) for the audit of specific or sensitive financial statement areas.

Performance Materiality

- Relevant factors that may be considered in determining performance materiality include the auditor's understanding of the entity, nature and extent of previous audits misstatements and expectations of nature and extent of misstatements in the current period.
- As there is no specific guidance given in the ISAs, the ISA Guide "Rules of Thumb" suggests using percentages ranging from 60% to 85% (of overall or specific materiality), depending on the risk of material misstatements. The higher the risk of material misstatements, the lower percentage should be used.

Is there a need to revisit the initial materiality assessment?

- Yes, the auditor has to reconsider assessments of materiality if the auditor becomes aware of information during the audit that would have changed that determination of the amount(s) had it been known at the planning stage.
- If the auditor concludes that a lower materiality level than that initially determined is appropriate, the auditor must consider whether it is necessary to revise performance materiality and whether further additional procedures are required.
- A revision to materiality levels as audit progresses may be required in the following circumstances (see table on the right)

Overall Materiality	• A change in entity's circumstances (for example; sale of a part of the entity's business); • New information; or • A change in the understanding of entity and its operations (for example; actual financial results being very different from the anticipated period end financial results).
Specific Materiality	• A change in the special circumstances.
Performance Materiality	• Changes in assessed risks; • Nature and extent of misstatements found when performing audit procedures; or • Change in understanding of the entity.

How to use materiality in planning and risk assessment?

During the planning and risk assessment stage of the audit, materiality is used as follows:

Planning	• Determine financial statements areas that require auditing. • Set the context for the overall audit strategy. • Plan the nature, timing and extent of specific audit procedures. • Determine specific materiality and specific performance materiality. • Evaluate evidence to determine any revision required to the materiality levels as audit progresses.
Risk Assessment	• Identify the relevant risk assessment procedures. • Provide a context when evaluating audit evidence. • Assess the impact of the risk identified. • Assess the results of risk assessment procedures.
Team Meetings	• Ensure audit team understands the identified financial statements users and factors that will change their economic decisions. Such factors would include disposal of a major part of the business and significant difference between actual and anticipated results. • Establish overall audit strategy. • Determine the extent of testing in relation to performance and specific materiality. • Identify critical audit issues and significant audit areas.

How to use materiality in performing audit procedures?

In performing audit procedures, materiality is used to:

- Identify further audit procedures.
- Determine items for testing and whether to use sampling.
- Assist to determine sample sizes.
- Evaluate sampling errors by extrapolating across population to calculate 'likely' misstatements.
- Evaluate the aggregate total errors at the account level, financial statement level and opening retained earnings.
- Assess results of procedures.

Is documentation required on materiality?

- Yes, auditors need to provide documentation on materiality. As materiality amounts are based on auditor's professional judgement, it is important that all factors and amounts involved in determining materiality are properly documented.
- The auditor shall include in the audit documentation the following amounts and factors considered in the auditor's determination of:
  - ~ Overall materiality;
  - ~ If applicable, the specific materiality level(s);
  - ~ Performance materiality; and
  - ~ Any revisions to the above factors as the audit progresses.
- Example documentation for illustrative purposes only.

<u>Overall materiality</u>

The main users of the financial statements are the banks and the shareholders. Based on consideration of user needs, materiality for financial statements as a whole has been set at RM25,000 [RM500,000*5%]. This is based on 5% of an estimated profit before tax of RM500,000, which is a consistent basis to that used in previous audits. Other bases for materiality were also considered but it was felt that profit before tax was the most meaningful amount in relation to the identified financial statement users. An unadjusted profit before tax is appropriate as there are no exceptional items affecting profit before tax.

Specific materiality

A lower level of materiality has been set for related parties transactions at RM13,000.

Performance materiality

In assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures, performance materiality has been set at RM18,750 [RM25,000* 75%] (and RM11,050 [RM13,000* 85%] for related parties transactions). This is deemed sufficient as, on the basis of past audit errors (which have primarily been of a cut-off nature); there is a low probability that the aggregate of uncorrected and undetected misstatements will exceed the overall materiality. ■

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Global Accounting Standards Grow in Popularity

Malaysia positioned for enhanced competitiveness with IFRS convergence

Jennifer Lopez, Country Head, ACCA Malaysia

Over the last two decades, rapid globalisation has helped to facilitate international business and eliminate barriers to capital flows. From the perspective of accounting, auditing and non-financial reporting, standards have struggled to keep pace with the development of commerce, preventing both investors and issuers from better aligning their interests.

Lack of comparable performance measures force investors to base increasingly global asset allocation decisions on incomplete information. From a CFOs perspective, increasingly global competition for capital leads corporate boards to focus more on near-term earnings and less on ensuring the long-term sustainability of their businesses.

Fortunately, significant progress is being made in addressing the standards gap. The implementation of the International Financial Reporting Standards (IFRS) in many of the world's major markets is providing a foundation that enables investors to make accurate cross-border comparisons of companies. It also allows companies to better communicate their strategy to shareholders.

The spread of IFRS has reached countries across the European Union, to Hong Kong, Singapore, Australia, Canada, the Gulf States, Russia, Pakistan, Turkey and South Africa. Now, at the dawn of 2012, Malaysia has joined this long list of countries to be IFRS-compliant.

It has taken Malaysia several years to get to this stage, but we believe that this changeover will level the playing field for Malaysian companies. Malaysian businesses have had ample time to comply towards the IFRS with direction from the Malaysian Accounting Standards Board (MASB), which recently unveiled the Malaysian Financial Reporting Standards (MFRS) Framework that is fully IFRS-compliant.

Malaysian businesses should begin to see some exciting benefits as a result of this change, especially with recognition for and acceptance of the IFRS increasing worldwide.

It has taken Malaysia several years to get to this stage, but we believe that this changeover will level the playing field for Malaysian companies. Malaysian businesses have had ample time to comply towards the IFRS with direction from the Malaysian Accounting Standards Board (MASB), which recently unveiled the Malaysian Financial Reporting Standards (MFRS) Framework that is fully IFRS-compliant.

Towards greater convergence

In a survey conducted by ACCA (the Association of Chartered Certified Accountants), it was discovered that support for global standards amongst CFOs and investors has increased since the start of the economic crisis in 2008. Most importantly, as countries have gained experience in using global accounting standards, their support has tended to increase.

This survey gauged the value that investors and CFOs see in IFRS and other global standards. The findings provide compelling evidence for policymakers and regulators that global convergence would be beneficial

on a number of fronts – not just for IFRS, but also for audit and other areas such as corporate governance and non-financial reporting.

The survey of 163 CFOs and investors across the US, Europe, Asia and the Middle-East also found evidence that access to capital for companies has increased and its costs have been reduced by IFRS adoption.

The research also revealed that respondents' increasing familiarity with global standards in financial reporting continues to break down resistance to their implementation. More than 40% of respondents said that IFRS has improved access to capital, while around a quarter say adoption has lowered capital costs.

THE RESEARCH'S OTHER FINDINGS SHOW:

- The effect of the financial crisis has improved the perception of global standards among investors and issuers, with over half (52%) saying they view global standards such as IFRSs more positively in the wake of the economic crisis than in the last few years.
- 60% of respondents see international standards as facilitators of more consistent regulation.
- Investors favour global auditing standards more than CFOs – 27% of CFOs see some benefit from these, compared with nearly twice as many (49%) who see little or no benefit.
- Amongst investors, 44% are positive on this, compared with 30% who do not.
- Executives believe that global standards or benchmarks in corporate governance would encourage more long-term thinking with 70% of both CFOs and investors believing that standards for corporate governance would encourage more long-term thinking in the boardroom.
- There is also a clear recognition of the potential benefits of Integrated Reporting, with more than two-thirds of those surveyed saying there is much to be gained – both in terms of better decision-making (39%) and a more accurate picture of overall performance (28%) from the presentation of financial, governance and sustainability information in an integrated format.

It is important to note that the benefits of IFRS in terms of allowing investors to make accurate cross-border comparisons of companies will only be maximised if 'carve outs' of standards by governments and other national add-ons to rules and regulations are kept to an absolute minimum. It is essential that national policymakers resist as far as possible the temptation to include issues which may be important in their countries but which, when aggregated, will threaten the integrity of the international regime. Global standards need to be just that – global.

Nevertheless, standards in financial reporting are helping to facilitate cross-border business activities. More than half (53%) of the executives polled say they are positive about the effects of IFRS in this area. Given the effects of operational efficiencies on bottom line results, both issuers and investors view reporting to global standards as a source of material benefit.

A wider push for accounting standards

The push for global standards outside the realm of IFRS is gathering steam. Stakeholder groups such as the Global Reporting Initiative (GRI) are leading the drive for standards in non-financial reporting, while the International Integrated Reporting Committee (IIRC) is pressing national governments to integrate sustainability information in corporate reports. In 2011, South Africa's regulator became the first to require listed companies to produce integrated reports of financial and non-financial information on an annual basis. As shareholder concerns gain ground with elected representatives, demands on report preparers for increased transparency and accountability promise only to grow.

As the global body for professional accountants, ACCA has long supported global standards and was the first major body to qualify accountants in IFRS. We have also supported efforts by bodies such as the International Accounting and Assurance Standards Board (IAASB) and the Global Reporting Initiative (GRI) in their respective efforts to establish global standards for auditing and non-financial reports. We believe common sets of reporting standards will help raise the confidence of investors around the world in the information they are using to make decisions. ■

Governing bodies and institutions such as the G20, UNCTAD and the European Union have identified IFRS as a tool for performance measurement that permits the sort of plain speaking – the allocation of investment capital and rising share prices – that corporate boards keenly comprehend. This research suggests that the implementation of IFRS in many of the world's major markets has improved the dialogue among stakeholders, leading to greater efficiencies and, in turn, sparking demand for global standards in non-financial reports.

The power of change

If corporate boards and investors are to better align their interests, the first step is developing a common language through which they can more precisely articulate their goals and objectives.

Governing bodies and institutions such as the G20, UNCTAD and the European Union have identified IFRS as a tool for performance measurement that permits the sort of plain speaking – the allocation of investment capital and rising share prices – that corporate boards keenly comprehend. This research suggests that the implementation of IFRS in many of the world's major markets has improved the dialogue among stakeholders, leading to greater efficiencies and, in turn, sparking demand for global standards in non-financial reports.

Overall, pragmatism reigns among financial professionals when it comes to offering a fuller assessment. Among respondents who have yet to adopt IFRS, the majority (84%) say the experience of their subsidiaries that are compelled to report to the standard has had no bearing on their opinion.

NOTICE

DECISION OF THE DISCIPLINARY COMMITTEE OF THE MALAYSIAN INSTITUTE OF ACCOUNTANTS

NOTICE 1

The Council of the Malaysian Institute of Accountants hereby gives notice that on 7 December 2011, after due inquiry by the Disciplinary Committee of the Institute, **Abdul Halim Ahmad (Membership No: 12816)** was found to have committed an act amounting to 'unprofessional conduct' within the meaning as provided under Rule 2 of the Malaysian Institute of Accountants (Disciplinary) Rules 2002 [P. U. (A) 229/2002] (the MIA (Disciplinary) Rules).

The decision of the Disciplinary Committee was based on the member's own admission that he had failed to discharge his professional duties when, as the auditor for a legal firm, he had rendered an unqualified Accountant's Report on the accounts of the legal firm when there had been misappropriation of monies amounting to RM661,516.41, and, in preparing the Accountant's Report, did not check all of the financial records in accordance with the Accountant's Report Rules 1990.

The Disciplinary Committee in exercise of its powers under Rule 18(3) of the MIA (Disciplinary) Rules has ordered the member:

- to be reprimanded; and
- to pay the Institute the sum of RM3,000.00 in respect of costs and expenses of and incidental to the disciplinary hearing before the Disciplinary Committee and the investigation conducted by the Investigation Committee.

The decision of the Disciplinary Committee took effect on 5 January 2012.

NOTICE 2

The Council of the Malaysian Institute of Accountants hereby gives notice that on 7 December 2011, after due inquiry by the Disciplinary Committee of the Institute, **Mohd Fuad Mohd Yasin (Membership No: 18188)** was found to have committed an act amounting to 'unprofessional conduct' within the meaning as provided under Rule 2 of the Malaysian Institute of Accountants (Disciplinary) Rules 2002 [P. U. (A) 229/2002] (the MIA (Disciplinary) Rules).

The decision of the Disciplinary Committee was based on the member's own admission that he had failed to discharge his professional duties as company secretary when he submitted a false Form 49 under the Companies Act to a director of the company. The member has also admitted to failing to respond to the Notice of Complaint and correspondence in respect of the complaint against him, thereby refusing to provide assistance to the investigation of the complaint.

The Disciplinary Committee in exercise of its powers under Rule 18(3) of the MIA (Disciplinary) Rules has ordered the member:

- to be suspended for 6 months;
- to pay the Institute the sum of RM3,000.00 in respect of costs and expenses of and incidental to the disciplinary hearing before the Disciplinary Committee and the investigation conducted by the Investigation Committee; and
- to attend an additional 3 days (24 CPE hours) of courses on company secretarial practices during the suspension period.

The decision of the Disciplinary Committee took effect on 5 January 2012.

NOTICE 3

The Council of the Malaysian Institute of Accountants hereby gives notice that on 7 December 2011, after due inquiry by the Disciplinary Committee of the Institute, **Muzammil Hafiz (Membership No: 11443)** was found to have committed an act amounting to 'unprofessional conduct' within the meaning as provided under Rule 2 of the Malaysian Institute of Accountants (Disciplinary) Rules 2002 [P. U. (A) 229/2002] (the MIA (Disciplinary) Rules).

The decision of the Disciplinary Committee was based on the member's own admission that he had failed to adhere to the Institute By-Laws (On Professional Ethics, Conduct and Practice) by failing to purchase a policy of Professional Indemnity Insurance (PII).

The Disciplinary Committee in exercise of its powers under Rule 18(3) of the MIA (Disciplinary) Rules has ordered the member:

- to pay a fine of RM3,000.00;
- to be reprimanded; and
- to pay the Institute the sum of RM3,000.00 in respect of costs and expenses of and incidental to the disciplinary hearing before the Disciplinary Committee and the investigation conducted by the Investigation Committee.

The decision of the Disciplinary Committee took effect on 5 January 2012.

NOTICE 4

The Council of the Malaysian Institute of Accountants hereby gives notice that on 7 December 2011, after due inquiry by the Disciplinary Committee of the Institute, **Wan Shukri Wan Mustapha (Membership No: 21982)** was found to have committed an act amounting to 'unprofessional conduct' within the meaning as provided under Rule 2 of the Malaysian Institute of Accountants (Disciplinary) Rules 2002 [P. U. (A) 229/2002] (the MIA (Disciplinary) Rules).

The decision of the Disciplinary Committee was based on the member's own admission that he had failed to adhere to the Institute By-Laws (On Professional Ethics, Conduct and Practice) by failing to purchase a policy of Professional Indemnity Insurance (PII).

The Disciplinary Committee in exercise of its powers under Rule 18(3) of the MIA (Disciplinary) Rules has ordered the member:

- to pay a fine of RM3,000.00;
- to be reprimanded; and
- to pay the Institute the sum of RM3,000.00 in respect of costs and expenses of and incidental to the disciplinary hearing before the Disciplinary Committee and the investigation conducted by the Investigation Committee.

The decision of the Disciplinary Committee took effect on 5 January 2012.

ROSLI ABDULLAH
Registrar, on behalf of the Council of the Malaysian Institute of Accountants

Sniffing Out Fraud

Eddie Lee

FRAUD IS A CONTENTIOUS ISSUE.

Perpetuated by the wiliest of crooks, fraud is frustratingly difficult to detect and has been known to bring down giants among companies, such as Enron and WorldCom. Meanwhile, the extent of auditor responsibility for the prevention and detection of fraud has been and still is hotly debated. The implementation of ISA 240 has increased the auditor's responsibility on the matter, meaning that the proverbial 'watchdog' has now become a 'bloodhound.'

To get better insights into the issues, the Malaysian Institute of Accountants (MIA) organised a Technical Group Discussion on ISA 240. The following are highlights of the discussion:

DEFINING FRAUD AND PUBLIC EXPECTATIONS

Fraud is loosely defined as 'an intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage.' The key distinguishing factor between fraud and error is whether the underlying action that results in a misstatement of the financial statements is intentional or unintentional.

Is it incumbent on auditors to detect fraud? "The public expectation gap of the auditor is widening," said discussion group chairman Mohd Raslan Abdul Rahman, Managing Partner of KPMG, in his opening remarks at the MIA Technical Group Discussion on ISA 240. "In the audit report, it is clearly written that an audit does not give absolute assurance but reasonable assurance. Even the fraud standard been updated twice. The duty of care stemming from these standards seems to be increasing. And the many financial scandals in Malaysia and overseas do not help the profession. The new auditing standard ISA 240 comes about because of pressure from abroad. What is the role of society and companies with regards to this?"

RELEVANT FRAUDS TO AUDITORS

The technical group noted that there are two types of fraud that are relevant to the auditor. According to ISA 240, there are misstatements arising from fraudulent financial reporting and misstatements arising from the misappropriation of assets. Fraud responsibilities are more controversial than errors. By way of contrast to fraud, the term 'error' refers to an unintentional misstatement in financial statements, including the omission of an amount or a disclosure. Fraud may involve sophisticated and carefully organised schemes, designed to conceal fraudulent activity, such as forgery, deliberate failure to record transactions, or intentional misrepresentations being made to the auditor.

"We have to consider the possibility of fraud in our audit by assessing areas which are susceptible to fraud even before fraud is uncovered. Nevertheless, we are of the view that the auditors should never be given primary responsibilities for fraud and error."

Mohd Raslan Abdul Rahman,
Managing Partner of KPMG

ISA 240 makes it clear that the auditor has a responsibility for the detection of fraud. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management. ISA 240 states that an auditor conducting an audit in accordance with ISAs is responsible for obtaining reasonable assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

Hence, both the company itself and the auditors have responsibilities for fraud and error. It could be said that management, and those charged with governance, have the primary responsibility for fraud and error, whereas the auditor has a secondary responsibility. Moreover, the auditor is required to maintain an attitude of professional scepticism which involves maintaining an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence.

DETERMINING PRIMARY RESPONSIBILITY

"Technically, the management and those charged with governance should have the primary responsibility for fraud and error," said Mohd Raslan. "We have to consider the possibility of fraud in our audit by assessing areas which are susceptible to fraud even before fraud is uncovered. Nevertheless, we are of the view that the auditors should never be given primary responsibilities for fraud and error," observed Mohd Raslan.

Concurred Chong Sai Sin, Partner of LLTC, "Auditors are engaged to provide assurance services on a yearly basis and basically they design their work to express a "true and fair" opinion on the financial statements as the main objective. It was never to detect or find fraud and error."

"The argument is whether the auditor would pick up fraud and error in the course of his audit," argued Jason Sia, Managing Partner of Nexia SSY. "The auditor is not "responsible" for the detection of fraud, but is merely to report to the shareholders whether the financial statements prepared by the management

present a true and fair view of the financial position, results and cash flows of the company. Any fraud detected, if any, are by-products."

"It is not explicit in law that the directors are primarily responsible for the prevention and detection of fraud," noted Ooi Chee Kun, Partner of Folks DFK & Co/Azman, Wong, Salleh & Co. "Having said so, this may indirectly implicate the auditor as responsible as he may be expected to be the person retained to audit the financial statements and the directors may be deemed to have been reasonable in assuming the auditors should have the skills or expertise to audit and discover fraud in the financial statements.

"Therefore," he concluded, "there is a need to review the responsibility of directors under the Companies Act and be more specific in relation to the design of internal controls and risk assessment as well as the prevention of fraud and error."

RAISE THE RED FLAG

It is said that most of reported fraud cases are due to failure to see the 'red flags.' It becomes ever more challenging if the client's business is unique or complex. How good are auditors at spotting red flags? "If there are obvious red flags which were not spotted and no action was taken, then, the auditor has a problem," suggested Michael Tan Cheng Ooi, Managing Partner of Tan Cheng Ooi & Co. "If the client's business is too complex, an auditor should not undertake such an engagement."

"These red flags will more often than not be detected if the audit procedures are performed in accordance with auditing standards," observed Sia. "Analytical procedures, for example, will highlight significant movements of financial numbers and ratios. As the saying goes, numbers never lie." Chong agreed, "Yes, it is a very challenging task for auditors to spot red flags. Auditors are trained to be well-versed on audit and spotting red flags really requires higher and in-depth knowledge of the business environment."

"It would be incorrect to say that fraud cases are due to failure to see the red flags, if by saying this infers a failure on the part of the auditors," explained Ooi. "Indeed, in most fraud that are of significance, be it misappropriation of assets, deliberate misstatements or deliberate misinformation, unusually favourable terms of trade whether for sale or purchase of goods and assets (or related parties or parties acting in concert) one would suspect that many in the organisation would already have known that these were taking place. In the case of Enron the fraud was known to many in the organisation and it took some time before someone within the organisation decided to expose the matter," said Ooi.

"ISA 240 is good for auditors to apply to explore fraud risk factors. However, it is not complete and it will be more fruitful that legislation and regulations require management and those charged with governance to put in place comprehensive preventive and detection measures."

Ooi Chee Kun,
Partner of Folks DFK & Co./
Azman, Wong, Salleh & Co.

"With benefit of hindsight, one can obviously pinpoint the red flags that caused corporate failures," said Mohd Raslan. "However, we believe that experience from past cases will help and also the awareness of auditors that something can go wrong needs to be heightened in order to reduce the likelihood of missing red flags. Professional scepticism must be maintained throughout the audit," he notes.

In the absence of management's assessment and processes, auditors sometimes do not have sufficient in-depth knowledge and experience of the client's business and operations in order to effectively identify fraud risk factors. "The point to note is," explained Sia, "that in carrying out statutory audits, fraud detection is never the primary focus, as may be in the case of, say, an investigative audit." Tan said that it is essential that auditors must have reasonable background knowledge of clients business and processes. "In the absence of the latter, it is quite impossible to perform an effective audit, let alone detect errors or fraud," he noted.

"ISA 240 is good for auditors to apply to explore fraud risk factors. However, it is not complete and it will be more fruitful that legislation and regulations require management and those charged with governance to put in place comprehensive preventive and detection measures," observed Ooi.

Mohd Raslan noted that auditors can assist by prompting questions to management so that the questioning process

triggers their thoughts. "We cannot be doing it entirely ourselves as we may not have sufficient in-depth knowledge of the business operations to be able to effectively identify fraud risks," he agrees.

"Assessing fraud risks factors in the course or before an audit," explained Tan, "is part of the auditor's engagement to ensure an effective audit. The management's role and those charged with governance are distinctly different from the auditor's role." The question is how extensive will the assessment be, said Ooi. "If it is expected to be very extensive, the whole statutory audit process may be turned into a forensic exercise rather than an audit," he said, tongue-in-cheek.

ASKING THE RIGHT QUESTIONS

To root out fraud, auditors should ask the management the right questions. However, "if a lie-detector is not foolproof, will asking questions be 100 per cent effective against those with the intention to defraud," remarked Sia. Mohd Raslan said fraud usually requires the involvement of more senior members of the engagement team such as the engagement partner or manager. "In fact, responses gathered should be adequately challenged to ascertain that we have the appropriate understanding of the

responses," clarified Mohd Raslan. Tan observed that it would be very challenging to come up with the right questions, if collusions and contrived schemes of collusion among staff and worse by management and/or those charged with governance are involved.

Another area of contention is whether auditors are adequately trained to distinguish a true or false representation from the management. According to Ooi, it is mainly in areas where such evidence cannot be obtained that representation becomes critical. "Would it be considered fraudulent if management deliberately represents the opposite of what they suspect or know?" he asked.

Chong said, "Whether the auditors are adequately trained to do so depends on the skill and knowledge acquired in the years in audit." Sia argued that reasonable assurance is not an absolute level of assurance, because there are inherent limitations of an audit which result in most of the audit evidence on which the auditor draws conclusions and bases the auditor's opinion on being persuasive rather than conclusive. "We are not interrogators," Mohd Raslan said bluntly. "We can only collaborate client's representations with other available audit evidence but we are not trained to tell if the client is telling us the truth or not. Nevertheless, audit should not be taken as one of those criminal interrogations."

"With the adoption of the new clarity standards, the auditor would have covered areas that may cause material misstatements and, thus, be able to distinguish whether the representation made by the management on each item, is true or cause for concern" noted Tan.

Yet another question arises – do auditors have adequate knowledge and expertise on the financial reporting system in order to identify the fraud risk factors? "There are no foolproof systems," explained Ooi. Mohd Raslan noted that usually larger clients have more complex financial reporting systems which is applied consistently throughout the group. "Hence, work can be performed centrally by the IT audit team to ascertain the appropriateness of the system set up in delivering the set of financial statements," he said.

"With the adoption of the new clarity standards, the auditor would have covered areas that may cause material misstatements and, thus, be able to distinguish whether the representation made by the management on each item, is true or cause for concern."

Tan Cheng Ooi,
Managing Partner, Tan Cheng Ooi & Co.

SSO RISK FACTORS

The growing use of shared services centres and outsourcing poses challenges in addressing fraud risk factors. Perhaps the incorporation of the element of unpredictability in an audit procedure e.g. surprise visit and extent (e.g. additional samples) could be a factor in combating fraud. "The incorporation of the element of unpredictability is good so that there is an element of surprise in our audit. This will increase the possibility of uncovering fraud especially those planned around the audit procedures," said Mohd Raslan.

Ooi noted this area is fraught with minefields of legality. "What is the obligation of the service provider (i.e. the shared service centre) to open up to the auditors and to what extent will they cooperate? What if they do not cooperate?"

How far should the auditors go to sniff out fraud? "This is a question of professional judgement and it may differ from one auditor to another given similar circumstances," said Mohd Raslan. "However, it is expected that a reasonable auditor would have performed a similar level of sniffing or probing if red flags are identified." "If a particular exception turns up, more investigation needs to be done and if it has no pervasive effect it will stop there, or else, the appropriate level of management or hierarchy of the company will be informed," explained Tan.

The redrafting of ISA 240 has allowed for a timely review of audit responsibilities relating to fraud. It can be concluded that to describe the audit role as that of a 'watchdog, not a bloodhound' no longer holds true in the context of the requirements of the redrafted and revised ISAs; these negate the traditional 'passive philosophy' towards auditor responsibility for fraud detection, marking a significant shift away from a 'monitoring' role and towards the requirement for a very keen 'sense of smell'.

The Technical Discussion Group is a joint project of the Auditing and Assurance Standards Board (AASB) and the Public Practice Committee (PPC) of the Malaysian Institute of Accountants. ■

Separate or Joint Assessment for Married Couples?

Time flies; we now face another round of filing our year 2011 income tax returns. As usual, the due date for submission will be 30 April 2012 for individuals who do not carry out business transactions. Otherwise, submissions will be due on 30 June 2012.

Again, for tax filing purposes, this article will highlight the reliefs and rebates that are available to taxpayers but focus will be on those reliefs available if joint assessments are chosen.

Prior to year of assessment (YA) 1991, only a married woman who derived income from employment, a pension or qualifying profession could elect to be assessed separately from her husband. However, effective YA 1991, a married woman is assessed separately on all the sources of income she receives unless she elects in writing for her income to be aggregated with her husband's income. Later, the husband could opt to be jointly assessed with his wife with effect from YA 2001.

WHEN AND HOW CAN THE ELECTION BE MADE?

Section 45 of the Income Tax Act 1967 (the Act) provides that an individual taxpayer and his spouse are taxed as two separate individuals i.e. income from all sources earned by the wife will be assessed separately from the husband's income. Further, Section 45 does also allow the wife or the husband to elect to have their total income aggregated in a joint assessment provided that the following conditions are met:

- The husband and the wife were living together[1] in the basis year for a YA and did not in that basis year cease to live together
- The husband or the wife must have total income to be aggregated with the total income of the spouse who had made the election
- Must be a Malaysian citizen if not resident in Malaysia
- The aggregation can be made with one wife only. For instance, if Mr. A has two wives namely Mrs. B and Mrs. C. Mrs. B derives income and elects for separate assessment; Mrs. C has no source of income. In this respect, Mr. A may claim relief of RM3,000 for his second wife, Mrs. C.
- The election is valid only if no other wife/wives of his elects for joint assessment with him
- The election must be made in writing before 1 April of the year following the end of the tax year concerned.

1. *"living together" means living together in intention. For example, a husband and a wife are treated as living together even though they are temporarily separated because one or the other is away on business or holiday.*

Who is going to make the election? HUSBAND or WIFE

There is no definite measurement of tax exposure if separate or joint assessment is elected. As such, the taxpayer and his/her spouse will have to look at the circumstances of the case (for instance, a wife or husband who does not derive any income or a husband who is incurring business losses may elect for joint assessment so as to maximise the deduction/relief available under the respective spouse's name) and decide whether it would be more beneficial to jointly file the income tax returns. For this purpose, the Malaysian Inland Revenue Board has provided a summary of Frequently Asked Questions (FAQs) which is available on its website at *www.hasil.gov.my*.
Differences between separate and joint assessment are as follows:

SEPARATE ASSESSMENT	JOINT ASSESSMENT
1. Husband and wife are treated as separate individuals i.e. separate assessment will be used as the default mode of assessment under the Act.	1. Can elect in the name of husband or wife.
2. Wife is entitled to her own personal relief and other additional relief granted to a taxpayer.	2. The election must be made year by year.
3. Husband is not entitled to wife's relief of RM3,000 and a further relief of RM3,500 for a disabled wife.	3. Personal relief is limited to an individual's entitlement only (please refer to reliefs and rebates on the following pages).
4. Husband/ Wife may elect to claim child relief.	4. Where the husband has no total income and the wife is assessed separately, any insurance premium incurred by the husband is deemed to be paid by the wife .

The taxpayer is required to fill in the relevant parts in his/her income tax return form respectively (where applicable) which is indicated under Part A item No. A5: Type of assessment. In the case where a married taxpayer elects for joint assessment and has total income to be aggregated and assessed in the name of his/her spouse, both husband and wife are still required to fill out separate income tax return forms.

Reliefs and Rebates

The following deductions are available for YA 2011 for taxpayers who have opted for separate or joint assessment:

a. Reliefs

RELIEFS		Amount (RM)		Amount (RM)
ASSESSMENT		Separate		Joint
		Husband	Wife	
1.	Individual and dependent relatives	9,000	9,000	9,000
2.	Medical expenses for own parents certified by a medical practitioner	5,000	5,000	5,000
3.	Basic supporting equipment for disabled self, child or parent	5,000	5,000	5,000
4.	Disabled individual – additional personal relief	6,000	6,000	6,000
5.	Education fees (self)	5,000	5,000	5,000
6. 7.	Medical expenses on serious disease for self, spouse or child Complete medical examination for self, spouse or child (restricted to RM500)	5,000	5,000	5,000
8.	Purchase of books/journals/magazines/similar publications for self, spouse or child	1,000	1,000	1,000
9.	Purchase of personal computer	3,000	3,000	3,000
10.	Net deposit in Skim Simpanan Pendidikan Nasional (SSPN's scheme) for child	3,000	3,000	3,000
11.	Purchase of sports equipment for any sports activity as defined under the Sports Development Act 1997	300	300	300
12.	Payment of broadband subscription	500	500	500
13.	Interest on housing loan	10,000	10,000	10,000
14.	Husband/wife/payment of alimony to former wife	3,000	3,000	3,000
15.	Disabled husband/wife	3,500	3,500	3,500

16.	Unmarried child;			
	a.under the age of 18 years old	1,000/ child	1,000/ child	1,000/ child
	b.18 years of age and above i.receiving full time education	1,000/ child	1,000/ child	1,000/ child
	ii.receiving further education in or outside Malaysia	4,000/ child	4,000/ child	4,000/ child
	c .disabled child	5,000/ child	5,000/ child	5,000/ child
17. 18.	Life insurance premium and EPF contribution for self[2] (restricted to RM6,000) Deferred annuity	7,000	7,000	7,000
19.	Education and medical insurance for self or child	3,000	3,000	3,000

b. Rebates

DEDUCTIONS		Amount (RM)		Amount (RM)
ASSESSMENT		Separate		Joint
		Husband	Wife	
1.	Tax rebate for individual[3]	400	400	400
2.	Tax rebate for husband/wife[4]	-	-	400
3.	Zakat and fitrah[5]	Unlimited amount	Unlimited amount	Unlimited amount[6]

In conclusion, married taxpayers should consider carefully the pros and cons and make a decision as to which election better suits their particular tax situation. Thus, it would be more appropriate to calculate your tax separately or jointly to determine which method yields a lower tax liability. ■

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2. *Where the husband or wife elects for joint assessment, if the husband has no total income but contributes to EPF, the wife is not allowed to claim a deduction from her own income in respect of the husband's EPF contribution. It is likewise if the wife has no total income.*
3. *Chargeable income less than RM35,000.*
4. *Chargeable income less than RM35,000 and where he/she has been allowed a deduction of RM3,000 for the spouse.*
5. *The amount is subject to the maximum of tax charged.*
6. *In the case of joint assessment, only the actual zakat payment made by the husband or wife who is assessed is allowed tax rebate. As such, the zakat payment made by the spouse is not allowed as tax rebate against the total tax charges of the spouse as assessed.*

Bad Debts,

Provision for Doubtful and Specific Debts and Tax Deductibility

From the income tax perspective, a debt is a debtor's legally enforceable obligation to pay the creditor either in money or in kind and the creditor's right to enforce payment. Section 34(2) of the Income Tax Act, 1967 (the Act) provides that a deduction against assessable income is allowed in the case of any debt (defined in subsection 34(3) of the Act), as at the end of the relevant period, has been reasonably estimated to be wholly or partly irrecoverable in the basis period for a year of assessment (YA) or prior to the YA to which the relevant period relates.

The deductibility of the expense such as bad debt is not affected by the accounting treatment. For a debt which has become irrecoverable to qualify for tax deduction, the following should be observed:

(i) The debt has been included in the gross income of a trader (the exception is a person who habitually makes loans or advances in the ordinary course of his business such as a moneylender);
(ii) The business must be carried on in the basis year (deduction will not be allowed if the business has closed down or been discontinued. Similarly, any recovery of the debt later will not be taxable);
(iii) The debt must be bad and doubtful of recovery;
(iv) The expenses meet the definition stipulated under Section 33 of the Act i.e. it must be outgoings which is revenue in nature and incurred wholly and exclusively in the production of business income from that source where such expenditure is not specifically prohibited under Section 39 of the Act.

Section 169(6)(i) and (j) of the Companies Act 1965 provides that directors are obliged to take reasonable steps to ascertain what action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts and are aware of any circumstances arising thereto when determining the financial results for a particular period.

The Malaysian Inland Revenue Board had on 2 April 2002 issued a Public Ruling No. 1/2002 on Deduction for Bad and Doubtful Debts and Treatment of Recoveries (PR No. 1/2002). The said Public Ruling tends to explain the deductibility of general and specific provision for bad debts and bad debts written off as well as the tax treatment for recoveries of the bad debts.

A bad debt is defined in PR No. 1/2002 as a debt that is considered not recoverable after *appropriate steps* have been taken to recover it. Circumstances when a debt can be considered as bad are the occurrence of any one of the following:

- The debtor has died without leaving any assets from which the debt can be recovered;
- The debtor is a bankrupt or in liquidation and there are no assets from which the debt can be recovered;
- The debt is statute-barred;
- The debtor cannot be traced despite various attempts and there are no known assets from which the debt can be recovered;
- Attempts at negotiation or arbitration of a disputed debt have failed and the anticipated cost of litigation is prohibitive; or
- Any other circumstances where there is no likelihood of cost effective recovery.

Circumstances for evaluating a debt as doubtful should include the following:

- the period over which the debt has been outstanding;
- the current financial status of the debtors; and
- the credit record of the debtors.

Specific provision for doubtful debts means reasonable determination of the amount of particular debts which is doubtful of being recovered. For each specific doubtful debt, the amount of debt that is regarded as doubtful, should be after taking into consideration the following:

- the person's history of bad debts;
- the experience for the particular trade/industry; and/or
- the aging-analysis of the debts.

A general provision for doubtful debts means an estimation of the amount which is doubtful of being recovered which is usually made without separate evaluation of each debt and calculated as a percentage of all debts or of total sales or some other general basis i.e. say 5% for instance. On the other hand, recoveries would be tantamount to money or assets received in connection with a trade debt that has

been written off as bad in the earlier period.

CIRCUMSTANCES OF DEBTS AND THE TAX IMPLICATIONS		
CIRCUMSTANCES OF DEBTS	**TAX IMPLICATION**	**ACTION TAKEN TO CLAIM TAX DEDUCTIONS**
Bad debts written off	Trade debts written off as bad are generally ranked for deduction against gross income in arriving at the adjusted income of a business for the basis period for a YA. Before any decision to write off a bad debt, circumstances as to the likelihood and cost of its recovery should be taken into consideration. In practice, the Director-General may request for the following information in respect of each debt claimed as irrecoverable: ■ name of the debtor; ■ date on which the debt was first incurred; ■ nature and amount of the debt written off; ■ reasons for writing off the debt and efforts made to recover the trade debt.	To substantiate a claim for deduction of bad debt written off, there should be sufficient evidence that one or more of the following steps have been undertaken: ■ Issuing reminder notices; ■ Debt restructuring scheme; ■ Rescheduling of debt settlement; ■ Negotiation or arbitration of a disputed debt; and ■ Legal action (filing of civil suit, obtaining judgement from the court and execution of the judgement) Any steps taken or decision made should commensurate with the size of the debts and/or the anticipated cost effectiveness i.e. valid business or commercial consideration[1]. Where the decision warrants no further action to pursue a debt, it should be properly documented for inspection during tax audit.
General provision of bad / doubtful debts	General provision for bad and doubtful debts does not rank for tax deduction as it is arbitrary and are normally based on a percentage of total outstanding trade debts. Any increase in the general provision is not allowable for tax deduction and likewise, any decrease is therefore, not taxable. Adjustment should be made in the tax computation accordingly.	
Forgiving or waiving payment of debt	A decision to forgive or to waive payment of a trade debt (either wholly or partly) should not be regarded as a valid business or commercial consideration for tax purposes. Such an amount will not be allowed for tax deduction.	

1. *Business or commercial considerations refer to the information, factors and circumstances that any other person in that particular person's business and/or position acting at arm's length would have taken into account in making that business or commercial decision.*

<table>
<tr><th>CIRCUMSTANCES OF DEBTS</th><th>TAX IMPLICATION</th><th>ACTION TAKEN TO CLAIM TAX DEDUCTIONS</th></tr>
<tr><td>Specific provision of doubtful debts</td><td>Specific provision of doubtful debts will warrant a tax deduction if there is a reasonable ground (based on valid business or commercial considerations but not personal, private or other reason) to believe that a trade debt is doubtful of being recovered.

Where a specific provision has been allowed for tax deduction in the relevant basis period for a particular YA, any subsequent change in the said specific provision should be adjusted in the tax computation in the basis period where the change was incurred:

<table><tr><th>The amount of specific provision</th><th>Adjustment to tax computation</th></tr><tr><td>Increase</td><td>A deduction should be made against the gross income</td></tr><tr><td>Decrease</td><td>An addition should be made to the gross income</td></tr></table></td><td>To qualify for tax deduction, there should be evidence to show:
■ Each debt has been evaluated separately;
■ How the extent of its doubtfulness was evaluated;
■ When and by whom this was done; and
■ What specific information was used in arriving at that evaluation.</td></tr>
<tr><td>Non-trade debts</td><td>Example of non-trade debts:
(i) A loan by manufacturing company to an employee who has absconded and could not be traced.
(ii) Advances to a partner of a firm and these are written off on the partner's retirement.

Non-trade debts that are written off, specific or general provision of doubtful debts, are non-tax deductible.

Similarly, recoveries of non-trade debts are not taxable. As such, suitable adjustment would be necessary in the tax computation.</td><td></td></tr>
<tr><td>Purchased debts due to re-organisation or purchase of a business (takeover)</td><td>A claim for deduction will not be allowed by the vendor/purchasing company as the debts, when incurred, had not been included in the vendor's business income.

Conversely, the purchasing company will not be taxable on any recoveries of trade debts which had been written off by the vendor company.</td><td></td></tr>
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CIRCUMSTANCES OF DEBTS	TAX IMPLICATION	ACTION TAKEN TO CLAIM TAX DEDUCTIONS
Settlement of trade debts with assets	A debt may be settled by the foreclosure of an asset held as security for the debt or by an asset (such as a property or shares in a company) given in exchange for the debt. The net proceeds from the sale of the asset or the market value of the asset given in exchange will be the value to be taken for debt settlement. Any shortfall between the market value of the property and the debt, will rank for deduction so long it is construed as 'bad' or written off if such property is acquired at public auction. However, any gains arising therefrom should be brought to tax.	
Debt due from related or connected person[2]	Any decision to write off (or to extinguish by other means) or to make a specific provision for a trade debt due from a related or connected person should be subject to stringent examination before it warrants a tax deduction. In addition, there should be evidence to prove that the decision is made on an arm's length basis and with valid business and commercial reasons rather than private or personal. Otherwise, such an amount will not be allowed for tax deduction.	

Tax Implication on Application of FRS 139: Financial Instruments: Recognition & Measurement (FRS 139)

With the implementation of FRS 139, specific and general provisions for bad debts would no longer be made. Where a debt is classified as loan and receivables, it shall be measured at amortised cost and subject to impairment assessment every year. Impairment loss[3] is recognised when there is a difference between the asset's carrying amount and the present value of estimated future cash flow discounted at original effective interest rate. This means that the impairment loss under FRS 139 would comprise of a bad debt element and a discount factor which is akin to financing cost.

Based on the Discussion Paper arising from the Joint Tax Working Group on Tax Implications Related to the Implementation of FRS 139, the professional bodies have proposed that for income tax purposes, impairment losses incurred on financial assets in trade nature should be allowed for tax deduction and likewise, any subsequent reversal should be subject to tax as any difference arising is merely a timing difference. However, pending the final outcome from the Ministry of Finance on the proposed treatment, it is hoped that the guidelines to be issued will stipulate the conditions for the deductibility of impairment loss. ■

2. *'Related or connected person' refers to any person who is in a position to influence or be influenced by the other person in any significant way or to any substantial degree, or to control or be controlled by the other person. For further explanations, please refer to PR No. 1/2002.*
3. *Impairment loss incurred when a financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after initial recognition (a loss event) and that loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.*

Investing in Pakistan

Majella Gomes

The Institute in collaboration with the Trade Development Authority of Pakistan recently organised the Pakistan-Malaysia Business and Investment Forum to provide visibility for the ample business opportunities in Pakistan. The Forum is MIA's first initiative to encourage collaboration between business and professional organisations, aimed at boosting trade and investment ties between the two countries via the professional network.

Bilateral trade between Pakistan and Malaysia looks set to get stronger in the future, and Malaysian companies are urged to grab a piece of the Pakistani investment pie in these still early days.

One of the instruments fostering bilateral trade is the Malaysia-Pakistan Closer Economic Partnership Agreement (MPCEPA) which has been in force since 1 January 2008. This bilateral free trade agreement (FTA) encompasses trade in goods, services, investment and economic cooperation, and provides for a phased reduction or elimination of duties over a period of six years, beginning from 2008. The MPCEPA has been instrumental in increasing trade between Malaysia and Pakistan in the past four years.

"The balance of trade is currently in Malaysia's favour as we import a lot of edible oil, like palm oil. But joint ventures are still possible; and there is definitely a need for the private sectors of both countries to be proactive in this matter," said H.E. Masood Khalid, High Commissioner of Pakistan to Malaysia.

Tariq Iqbal Puri, Chairman of the Trade Development Authority of Pakistan (TDAP) said that bilateral trade had definitely increased since the FTA was signed in 2007. "In 2008, it touched US$1.8 billion, and increased to US$2.75 billion in 2011. Pakistan's exports to Malaysia doubled from US$125 million to US$250 million. Imports increased from US$1.7 billion to US$2.5 billion." Today, the single largest item that Pakistan exports to Malaysia is rice. Meanwhile, Malaysian investors are already participating in Pakistan's agriculture, manufacturing and construction sectors, among others. Other than these, Pakistan offers many sectors of interest to Malaysian investors including meat and dairy, fruits and vegetables, granite and marble, and textiles, along with rich mineral resources such as chromate, talc and iron ore reserves.

(left to right) M Bashir Jan Mohammad, Chairman, Pakistan-Malaysia Business Council; Masood Khalid, High Commissioner of Pakistan to Malaysia; Tariq Iqbal Puri, Chairman, Trade Development Authority of Pakistan; Dato' Zakaria Kamarudin, Deputy CEO, MATRADE and Abdul Rahim Abdul Hamid, Vice-President MIA.

PUTTING PAKISTAN ON THE RADAR

Malaysian businesses are strongly urged to take advantage of the fact that the FTA signed in 2007 will see the phasing out or elimination of duties over a period of six years from 2008. To improve Malaysian awareness of investment and business potential in Pakistan, Tariq proposed the establishment of a MATRADE Regional Office in Pakistan. "Currently, the MATRADE Regional Office in Mumbai is taking care of Pakistan," he continued. "This may account for the country remaining largely off the radar." Tariq further urged Malaysian businesses to actively participate in EXPO Pakistan which will be held from 4 to 7 October 2012, which he said would be a stellar opportunity to view first-hand the products that the Pakistani business community offered for export.

Pakistan could also be a launchpad to other desirable markets. Beyond regional trade, Pakistan is also a trade corridor to other important markets like China, Southwest Asia and the Middle-East, added Tariq. Apart from its strategic location, the country also has abundant natural resources, and human resources which make it a hub of economic potential.

A HALAL HAVEN

Pakistan admires Malaysia's economic prowess, and views the latter as a role model for Islamic nations. In particular, Pakistan is keen to emulate Malaysia's progress in the *halal* sector. "Cooperation in the *halal* sector may be deepened by establishing formal links with the Halal Industry Development Corporation (HDC) and the Malaysian Department of Islamic

Development (JAKIM)," said Tariq. "The establishment of a Halal Certification Body in Pakistan could be modelled on JAKIM."

Asad Sajjad, Chairman of Pakistan's Halal Association and Secretary/CEO of Pakistan's Halal Development Council remarked that non-*halal* ingredients can be found in virtually everything today, including skin care products, detergents, toys, crayons, puzzles, pharmaceuticals, wax, insulin, toothpicks, dental floss, glue and even renewable energy fuel. Since non-*halal* ingredients predominate in most products, it isn't unusual that almost 85% of the global *halal* trade is held by non-Muslim countries. "Malaysia and Indonesia are the only two Muslim countries which have started viable *halal* industries," Sajjad explained. "However, *halal* investment opportunities aplenty exist in Pakistan. We have 15 *halal* certifiers, plus testing facilities, *halal* food standards and accreditation. There is added incentive to invest as the domestic market itself is huge, and its proximity to the GCC (Gulf Cooperation Council) market makes it attractive."

MANY AREAS OF COLLABORATION

Apart from agriculture and *halal* products, Malaysian investors could find it worthwhile to explore other sectors, like construction, infrastructure and education. "There is a lack of awareness of business opportunities in Pakistan," said Dato' Zakaria Kamarudin, Deputy CEO, MATRADE, "but those Malaysian companies which decided to take the chance in an unknown market have done well. They have built factories, golf courses, residential areas, roads, highways and airports, and have provided engineering, architectural and higher education services."

On this note, M Bashir Jan Mohammad, Chairman of the Pakistan-Malaysia Business Council of FPCCI divulged that joint ventures in education may well be the next area of collaboration. "There are already 3,000 Pakistani students in Malaysia," he said. "This may encourage Malaysian colleges to open campuses in Pakistan on a joint-venture basis with Pakistani universities or colleges." Other areas he highlighted for possible business opportunities included dairy, fruit preservation, pharmaceuticals, *halal* meat export, and finance, particularly Islamic banking.

One example of a Malaysian company which has done well in Pakistan's construction sector is Bina Puri Holdings Bhd. Bina Puri's first project in Pakistan was the construction of 174 villas in 2007, said Matthew Tee, Executive Director of Bina Puri. The company then built a factory worth US$5.3 million for Japanese multinational Nippon Paint. In early 2012, it signed a Build-Operate-Transfer concession agreement for the 136km Karachi-Hyderabad Highway, which entails expanding the existing four-lane highway to six lanes, paving the way for Pakistan's further growth and development.

A FACILITATIVE FRAMEWORK

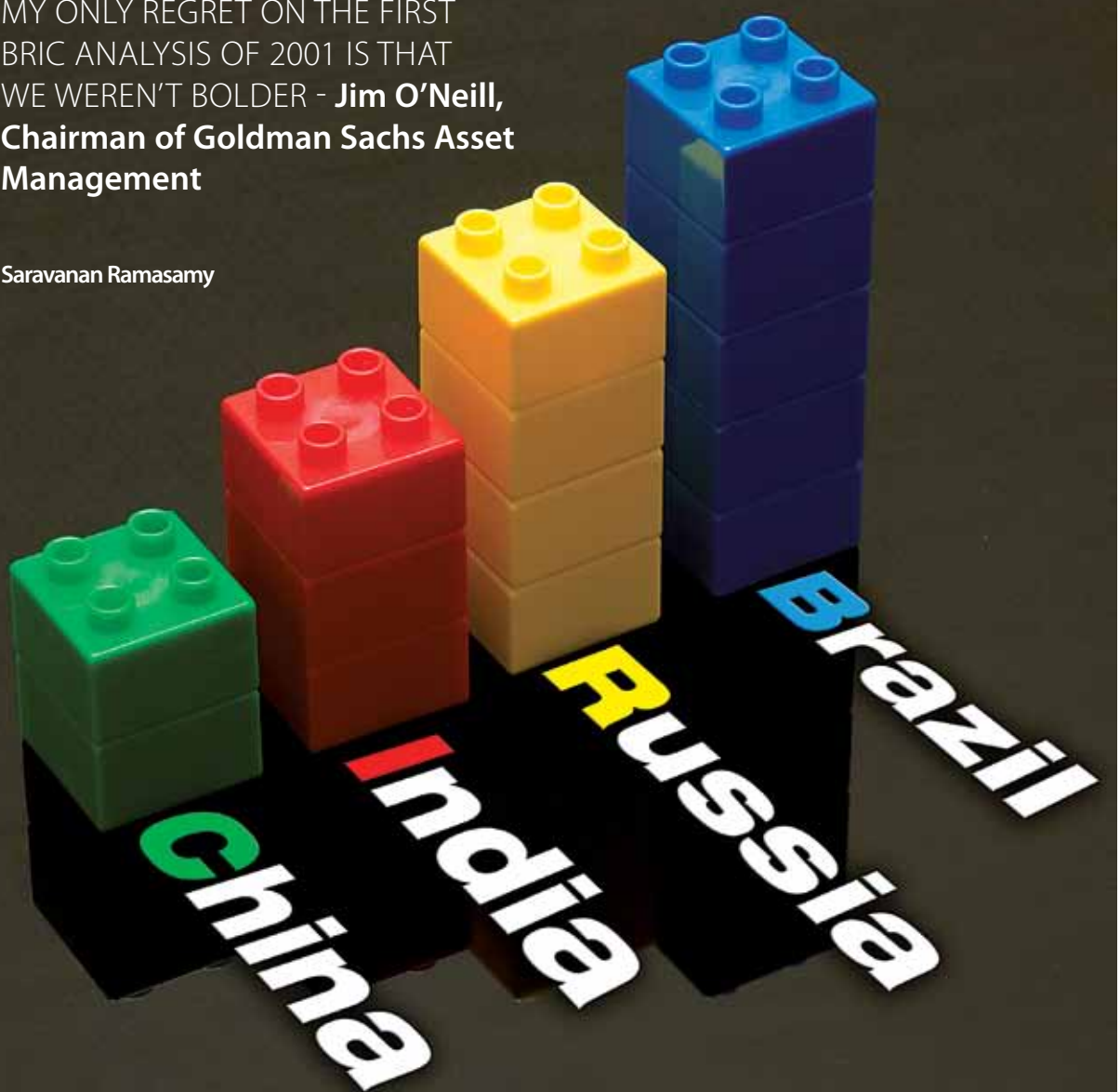
To be competitive in the global race for investment, Pakistan has liberalised and upgraded its incentives for foreign investors. "The Pakistani government has liberalised its investment policy," said Saeed Ahmad Shaikh, Council Member of the Institute of Cost and Management Accountants of Pakistan. "Almost all industrial sectors are now open to 100% foreign ownership – and there are many reasons for people to invest. The country has abundant resources – land, human resources, minerals. It is a leader in agriculture, with cotton, rice, sugar and fruit. It is the fifth largest milk producer in the world, and the second largest producer of meat. Pakistan has good infrastructure, two seaports and a well-established banking sector. It has strong human resources and a large – and growing – domestic market. Besides all these, it has a strong legal system and independent judiciary, and investment protection laws, in addition to being strategically located between the Indian subcontinent and the Middle-East."

Adding to the investor-friendly environment is minimal government intervention in the setting up of industry, with the exception of a few (like weapons) which could be detrimental to the country. There are few barriers to entry, with businesses being permitted to locate anywhere, and few restrictions on importing of machinery. Full repatriation of dividends and profits is permitted, and there are multiple tax incentives and tax credits (subject to terms and conditions) available, even for SMEs. Pakistan offers equal, non-discriminatory treatment in cases of compensation owing to war and armed conflict, said Saeed. For business convenience, a one-stop authority facilitates foreign investment so that investors do not have to go to the individual ministries to seek multiple approvals. ■

Wanted: More BRICs

MY ONLY REGRET ON THE FIRST BRIC ANALYSIS OF 2001 IS THAT WE WEREN'T BOLDER - **Jim O'Neill, Chairman of Goldman Sachs Asset Management**

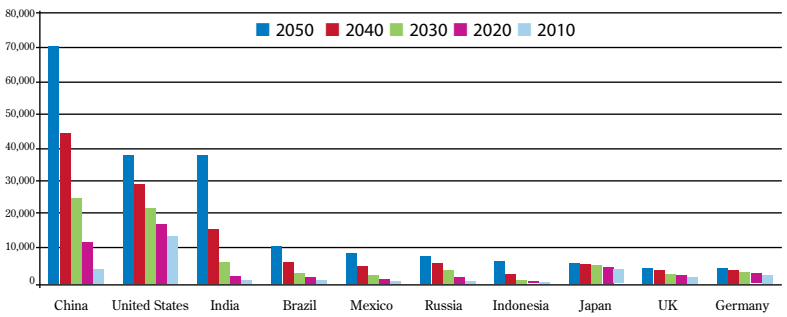
Saravanan Ramasamy



THE DEGREE OF ATTENTION NOW PAID to the global economic slowdown, largely caused by the US economic slowdown and widening European debt, leads naturally to the question whether it might show the way to some good end.

While the present crisis is of a totally different scale when compared with previous episodes of financial market turmoil, there is a growing recognition that global economic power and influence is indeed shifting from the West to East, and that the world is multi-polar with more than one engine of growth.

It is against this backdrop that Goldman Sachs, in 2011, argued that the economic potential of Brazil, Russia, India and China is such that they could become among the four most dominant economies by the year 2050 (see graph below). Jim O'Neill, Chairman of Goldman Sachs Asset Management first coined 'BRIC', the acronym for Brazil, Russia, India and China, in a 2001 Goldman Sachs economics paper titled 'Building Better Global Economic BRICs'.



Source : Wikipedia

Note: The ten largest economies in the world in 2050, measured in nominal GDP (billions of USD), according to Goldman Sachs.

BRICs AND MORTAR

Jim O'Neill claimed in his paper that between 2001 and 2010, the BRIC economies' Gross Domestic Product (GDP) rose much more sharply than possibly thought. Their citizens' wealth, according to him, showed equally remarkable increases, bringing hundreds of millions of people out of poverty.

China started the decade as the biggest of the BRICs and has remained so (see table on the right). Brazil surprised many when it became the 7th largest economy in the world, with a GDP of US$2.1 trillion for 2010. The BRICs, notably China and Brazil, have become powerful magnets for foreign direct investment, which was the contributing factor for their large foreign exchange reserves. According to a recent report, by the middle of 2011, China alone held more than US$3 trillion in foreign exchange reserves, vastly larger than any other country in the world, and close to 50% of its own GDP.

The four BRIC countries are home to close to three billion people, not far off half the world's population. Given the large populace, trade within the BRICs has accelerated sharply, largely because Brazil and Russia supply so many of the commodities needed by China and India. This pattern, according to Jim O'Neill, is set to continue in the next decade and beyond, forcing adjustments to these countries' foreign exchange policies.

In a recent article entitled 'The BRICs are coming', Tan Sri Lin See-Yan reiterated the fact that as early as the BRICs' first summit in 2009 held in Russia, leaders have already begun to discuss issues on international monetary reform, including possibilities of a new dominant reserve regime to replace the US dollar-based system. To start the ball rolling, China is reportedly to begin extending loans in *yuan* to *BRIC* countries in a step towards internationalising the national currency and diversifying from the US dollar. According to the *Financial Times*, the Chinese Development Bank is expected to sign a memorandum of understanding with the country's partners from the BRIC group on increasing *yuan*-denominated loans. At the same time,

BRICs Development Indicators

Indicator	Brazil	Russia	India	China
Population (2009)	194 mil.	142 mil.	1.15 bil.	1.33 bil.
GDP (US$ 2009)	1.573 bil.	1.232 bil.	1.310 bil.	4.985 bil.
GDP per capita (PPP Current Intl. US$2009)	$10,499	$14,913	$3,015	$6,778
GDP Avg. Growth Rate (1990-2009)	2.5%	0.3%	6.3%	10.1%
GDP Projected Avg. Growth Rate (2011-14, as of April 2011)	4.2%	4.5%	8.1%	9.5%
Merchandise Exports (US$2009)	153 bil.	303 bil.	162 bil.	1,202 bil.
HDI% Change (1990 - 2010, for Brazil only 2000 - 2010)	7.6%	3.8%	33.3%	44.2%

Global Sherpa, 2011 (www.globalsherpa.org); Data sources: World dataBank, International Monetary Fund (IMF), UNDP Human development Report.

BRIC partners are extending loans in their own national currencies amongst their fellow BRIC partners, thus shunning away from US dollar-denominated loans.

BRIC TO BRICS

In 2011, the group was renamed as BRICS, with the "S" standing for South Africa, to reflect the group's expanded membership. South Africa began efforts to join the BRIC grouping and the process for its formal admission began in August of that year. South Africa officially became a member nation on 24 December 2010. Formerly BRIC, the group is now BRICS.

The *Guardian Weekly* recently reported that initially, the decision to bring South Africa into the group prompted surprise, and even skepticism. Some critics questioned how this economic dwarf could be a member, when growth markets such as Mexico, South Korea, Turkey and Indonesia were left out in the cold. South Africa's gross domestic product only amounts to one-sixteenth of China's GDP. It only has 50 million inhabitants and annual growth barely exceeds 3.5%, far behind China which recorded a growth rate of 10.3% last year.

"For South Africa to be treated as part of BRIC doesn't make any sense to me," commented Jim O'Neill last December. Nevertheless, he added that "South Africa as a representative of the African continent is a different story."

FUTURE FOR BRICs

Given the current lack of cohesion in European economic policy, many analysts and commentators have raised doubts as to whether the BRICS group will eventually follow the same route. The BRICS demonstrate many common features such as big land size, large population and fast economic growth but important differences as well, due to their different models of economic development. Examples are differences in income levels, degree of openness, degree of technological innovation and economic and trade structures. Brazil, for instance, lags behind the other BRICS countries in many respects of technological innovation, where it needs to overcome the linear

BRIC Statistics

Categories	Brazil	Russia	India	China
Area	5th	1st	7th	3rd
Population	5th	9th	2nd	1st
Population growth rate	107th	221st	90th	156th
GDP (nominal)	8th	11th	9th	2nd
GDP (PPP)	7th	6th	4th	2nd
GDP (PPP) per capita	71st	51st	127th	93rd
GDP (nominal) per capita	55th	54th	137th	95th
GDP (real) growth rate	15th	88th	5th	6th
Labour force	5th	7th	2nd	1st
Current account balance	47th	5th	169th	1st
Received FDI	11th	12th	29th	5th
Foreign exchange reserves	7th	3rd	6th	1st
Exports	18th	11th	16th	1st
Imports	20th	17th	11th	2nd
External debt	28th	24th	26th	23rd
Public debt	47th	122nd	29th	98th
Human Development Index	73rd	65th	119th	89th
Electricity consumption	9th	4th	5th	2nd
Renewable energy source	3rd	5th	7th	1st
Road network	4th	8th	3rd	2nd
Rail network	10th	2nd	4th	3rd
Number of mobile phones	5th	4th	2nd	1st
Number of internet users	5th	7th	4th	1st

Source : Wikipedia

Note: The table illustrates how, despite their divergent economic bases, the economic indicators are remarkably similar in global rankings between the different economies

The BRICS demonstrate many common features such as big land size, large population and fast economic growth but important differences as well, due to their different models of economic development. Examples are differences in income levels, degree of openness, degree of technological innovation and economic and trade structures.

model of innovation and create incentive structures for exponential growth.

The centrality of China in the BRICS is also a risk factor. Even together, 'B' 'R' 'I' and 'S' would not be equal to 'C' in the grouping. The first question that arises is how to ensure that the other four countries of the grouping grow equally to China, without any conflict. The next question that arises is the extent to which 'B' 'R' 'I' and 'S' want to follow the model which China has followed. Questions also arise on what model BRICS as a grouping should follow so that it has an impact on the global community.

All is not lost. There is a bright economic future for BRICS. This was the unanimous view of panellists at the 12th Jeddah Economic Forum that included Mohammad Al-Sabban, senior economic adviser to the Saudi Minister of Petroleum and Mineral Resources; former Pakistan Prime Minister Shaukat Aziz; Jose W. Fernandez, assistant secretary of state

for economic energy and business affairs, USA; and Anil Gupta, professor at the University of Maryland and chief adviser to the China India Institute. The panel went on to conclude that the grouping's prospects are good given the interconnectedness of the world economies and room for expansion, powered by demographics, domestic and foreign investment within the BRICS economies. However, lessons from the developed economies, particularly Europe and the US, should be learned.

It is striking to note the magnitude of changes that have taken place in just a decade, despite how little the original BRICs' 2001 framework has altered. Despite their divergent economic bases, the economic indicators of the BRICS are remarkably similar in global rankings (see BRIC Statistics table). The need of the hour is to develop an internal consensus until BRICS have a global voice. Confucius said that if there are three people, there has to be one teacher. The teacher in the case of BRICS is China. ■

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US: Top Three Tax Mistakes for Small Businesses

When it comes to finances and taxes, small businesses are making common mistakes that can prompt an audit or leave money on the table, according to a new survey from Xero, an online accounting software company. Xero polled 500 US accountants to come up with the top three mistakes small businesses make. Top on that list: mixing business and pleasure, reports *Fox Business*. Nearly half of the accountants surveyed said mixing business and personal expenses in deductions is the most common mistake businesses make. The worse part: according to survey respondents that mistake can trigger an audit by the IRS. A quarter of accountants cited excessive deductions to income as the most common mistake that could prompt an IRS audit, the report said.

It noted that three in 10 survey participants, or 29%, said small businesses are overlooking the home office deduction, which means they are leaving money on the table. If a small business owner works from home, even if it's only part-time and passes the IRS rules then that business owner can write off part of the costs to operate his or her home. The home office tax deduction lowers the taxable income, reducing the amount the small business owes come tax time.

It added that one in four accountants, or 26%, cited a lack of ongoing insight into the business' financials as the most common mistake owners make. It quoted Simon Gray, an accountant in Xero's network and managing partner of Gray Consulting, as saying that many small business owners only dive into their finances during tax time.

Hence, the firm said it was critical that the business owner looks over past financial statements, activity and sales data to see what worked and what didn't so they can plan for the coming year. Xero says it is important to get an understanding of the sales tax the company owes and keep the money in a different account to prevent the chance of an error. Small business owners also have to know in real time what their bank balance is and look at it on a daily basis. Most banks have online banking and mobile apps that a small business owner can access quickly to keep on top of their balances, it added. ■

PCAOB CHAIRMAN JAMES DOTY SEES PROGRESS ON FOREIGN INSPECTIONS

James R. Doty has served for over a year as chairman of the Public Company Accounting Oversight Board, and in that time, the board has made progress in its efforts to inspect auditing firms in other countries, although China remains a sticking point, reports *Accounting Today*.

"We coordinate with our colleagues the registrants and the engagements that will be inspected in some countries," he said on PCAOB's efforts to conduct mutual inspections of firms in foreign countries, along with how some inspectors from other countries have begun mutual inspections of firms in the US.

"There's a lot of coordination, and a lot of give and take, furnishing of information and techniques and technical assistance, and they have become more accustomed to sending people over here. I think we will frankly see the Chinese do this in time. That's one of the great advantages they would have."

However, he acknowledged that the progress on inspections with China has been slow, the report added.

"We're not where we should be," said Doty. "I do not expect that following the next round of meetings and observations and cooperation-building exercises with the Chinese, we will be where we should be, but we are going to go on working in good faith with our colleagues to try to affect it. We remain convinced that it's very much in their interest to have this work. It's in our mutual interest to have it work. It is clear that we cannot shun or shirk our statutory obligations."

The online report also quoted Doty discussing the board's controversial proposals in areas such as mandatory audit firm rotation (see PCAOB Plans Meetings Across US on Audit Firm Rotation), along with changes in the audit reporting model, identification of the lead engagement partner on an audit, reporting of related-party transactions and significant unusual transactions, and the PCAOB's future priorities.

"We are 10 years out from the adoption of Sarbanes-Oxley. Congress considered the issue then. They requested a report of the GAO, and a year later the GAO rendered their report. They said the SEC and the PCAOB should get more information on it, and here we are. This is honouring or performing the completion of an investigative and information-gathering task, which is at the very centre of the act and independence. Independence is at the heart of Sarbanes-Oxley," he said. ■

US: Big Four Auditors Spend More Than Ever on Lobbying

The world's largest accounting and auditing firms, known as the Big Four, have been pumping more money than ever before into US lobbying and political campaigns as they confront new challenges from their regulator and Congress, report *Reuters*.

Deloitte, Ernst & Young, KPMG and PricewaterhouseCoopers last year spent a combined US$9.4 million on in-house and outside lobbyists, according to the newswire's analysis of congressional disclosure reports.

That is more than in any other year since 2002, the year of the downfall of former Enron Corp auditor Arthur Andersen, when the industry's dominant players fell to four from five. Even going back to 1999, the earliest year for which online reports are available, annual spending by the industry, including Arthur Andersen, was lower than last year's, the report said.

The Big Four's lobbying ranks have swelled, too. For instance, Deloitte since 1999 has more than doubled its stable of registered lobbyists to 25, including eight in-house staffers, according to the disclosure reports.

The report added: A significant portion of the Big Four's lobbying efforts goes to trying to influence the Public Company Accounting Oversight Board, or PCAOB. The nearly decade-old oversight panel is debating regulatory changes that could have major implications for the auditing business. Other Big Four lobbying efforts involve topics other than auditing, such as policies that would affect the consulting work that the firms do on contract for US agencies. The proportion of lobbying money spent on varying subjects could not be determined from congressional disclosure reports.

In an interview with *Reuters*, PricewaterhouseCoopers Chairman Bob Moritz said his firm's lobbying of the PCAOB is intended "to make sure we have a common understanding of the challenges that each of us face," adding that "we are absolutely aligned in taking the profession to the next level."

Kathryn Metcalfe, a Deloitte spokeswoman, said in an emailed statement to the wire service that some of the firm's lobbying "relates to policy issues that are germane to the type of work we do for the federal government." She said that kind of lobbying boosted Deloitte's spending beginning in 2010, after years of trailing the other big firms. She declined to comment on specific lobbying activities. ■

IFAC NEWS

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

IFAC POSTS CALL FOR NOMINATIONS FOR BOARDS AND COMMITTEES IN 2013

The International Federation of Accountants (IFAC), the global organization for the accountancy profession with members and associates in 127 countries, has issued an announcement to alert its members, Forum of Firms, other international organisations and the general public of its Call for Nominations for IFAC Boards and Committees in 2013 .

For the first time, all vacancies on the public interest activity standard-setting boards are open for nominations by the public. This change is due to IFAC's determination to ensure a transparent approach to filling available positions, while also achieving gender, regional, and professional balance, and is in response to the Monitoring Group's 2010 effectiveness review of the IFAC Reforms.

"The calibre of the volunteer members on our boards and committees is what makes these groups so effective. That is why seeking high-quality nominations is at the core of our nominations processes," said IFAC President Göran Tidström. "We aim to attract a wide variety of high-quality nominations, to ensure that we have a rich pool from which to find the right candidate for each position. We thank our member bodies and the public in advance for the thoughtful and valuable nominations we anticipate receiving this year."

Both the Call for Nominations and its companion guide, Developing a Nominations Strategy, are designed to help IFAC stakeholders identify the most qualified person for nomination to each available position on the boards and committees. These in-depth documents, located on the IFAC website, contain strategic and practical advice for nominating organisations and other individuals that allows them to make more informed decisions in their selections and decisions, and to understand the requirements of the various positions.

Each year, approximately one-third of the 155 positions on the boards and committees have openings, though, for some of those positions, serving members may be reappointed. In addition, this year, the position of the IFAC Deputy President is open for nominations from member bodies. For more information about the Nominating Committee, its due process, or for guidance in selecting the best candidate, please visit the IFAC website.

All applications should have been submitted before 15 March 2012 electronically via IFAC's nominations database; instructions are provided on page six of the Call for Nominations. ■

IFAC INVITES NOMINATIONS FOR IFAC INTERNATIONAL GOLD SERVICE AWARD IN 2012

The International Federation of Accountants (IFAC), the global organisation for the accountancy profession with members and associates in 127 countries, has opened nominations for the 2012 IFAC International Gold Service Award.

The IFAC International Gold Service Award was established in 2010 to recognise outstanding individual contributions to the accountancy profession, including protecting the public interest; exemplifying professional conduct and ethics; exceptional quality of work; and/or, contributions to a particular project or initiative. Candidates may or may not be members of the accountancy profession, and contributions may or may not be made through IFAC.

The recipients of the IFAC International Gold Service Award in 2011 were Sir David Tweedie (United Kingdom) and Professor Stephen Zeff (United States).The awards were presented on 16 November 2011 at IFAC's Annual Council Meeting in Berlin, Germany, by Göran Tidström, President of IFAC.

Nominations from IFAC member bodies should have been submitted to the chief executive officer of IFAC by 15 March 2012. The nomination should consist of a completed nomination form, available on the IFAC website, and a cover letter. The cover letter should include reasons why the member body believes that the individual should receive an award and must be signed by the president and/or chief executive, or their equivalents, of the member body. If a member body wishes to include other supporting material, it should not exceed two pages. Nominations received in a format other than the stipulated form will not be considered.

In addition to nominations from IFAC member bodies, IFAC's Nominating Committee will identify and recommend candidate(s) for this award. The Nominating Committee will review the nominations, make the necessary inquiries, and recommend candidate(s), if appropriate, to the IFAC Board, which will make the final selection(s), if any, during its meeting in June 2012. The chief executive officer of IFAC will notify the selected candidate(s) in writing, and the president of IFAC will present the award(s) at the Annual IFAC Council Meeting, to be held from 14 -15 November 2012. ■

GLOBAL ACCOUNTANCY LEADERS IDENTIFY KEY ISSUES FOR 2012

The International Federation of Accountants (IFAC), the global organisation for the accountancy profession with members and associates in 127 countries, released the results of its 2011 IFAC Global Leadership Survey of the Accounting Profession.

Respondents identified three issues of particular concern to the profession in 2012: the Difficult global financial climate, Enhancing the reputation/credibility of the profession, and Addressing the needs of SMPs and SMEs. Additional concerns for this year include: Issues related to EU draft legislation, public sector/sovereign debt issues, increased regulation, global regulatory convergence, role of the professional accountant in business, and auditor independence.

"The difficult financial climate was a strong theme in this year's survey," said Ian Ball, chief executive officer of IFAC. "Accountancy leaders around the world told us that a key concern is addressing the needs of SMPs and SMEs, important engines of economic growth and development that could be instrumental in improving the world's economies. Continued global regulatory convergence - which can help promote growth and development, reduce economic uncertainty, and enhance international financial stability - was also highlighted as a significant issue. Addressing the ongoing sovereign debt issues, which are impacting growth and contributing to economic uncertainty, were also highlighted as key concerns for 2012." ■

Boards need variety

THERE IS AN URGENT NEED FOR BOARDS TO DIVERSIFY ACROSS ASIA ACCORDING TO A **KORN/FERRY** BOARD DIVERSITY STUDY. FINDINGS REVEAL THAT OVER 70 PER CENT OF BOARDS ACROSS ASIA HAVE NO INDEPENDENT WOMEN DIRECTORS AND THAT DEMOGRAPHIC CHARACTERISTICS OF FEMALE DIRECTORS ARE FOUND TO BE MARKEDLY DIFFERENT FROM MALE DIRECTORS.

Findings in an inaugural board diversity study by Korn/Ferry International, The Diversity Scorecard: Measuring Board Composition in Asia Pacific, has found that female representation on boards of directors in the Asia Pacific region remains low and that female directors have different demographic characteristics compared to male directors.

The study's findings underscore an urgent need for Asia's boards to recruit more diverse directors, especially now when so many companies are at a turning point in the global economy. More than 70 per cent of boards in five countries - Hong Kong, India, Malaysia, New Zealand and Singapore - have no female independent directors. Boards with two or more female directors were rare, while boards with three or more female independent directors were almost non-existent.

The study, the first in Asia Pacific focusing on board diversity, covers the largest 100 domestic companies by market capitalisation in Australia, China, Hong Kong, India, Malaysia, New Zealand, and Singapore. The study compares the extent to which female and male directors hold key leadership positions on boards, as well as the profiles of female and male directors in these countries. A total of 6,538 directors holding a total of 5,793 directorships in these companies were included in the study.

The study was conducted in partnership with Associate Professor Mak Yuen Teen of the Business School at the National University of Singapore, who is a recognised authority on corporate governance in Asia.

"As Asia's growth trajectory propels it to a central spot in the global economy, the most effective boards will be the ones that are international - with functional, sector and gender diversity," said Alicia Yi, managing director, Global Consumer Market of Korn/Ferry Asia Pacific, and member of the Board & CEO Services Practice.

"The world is taking notice of the potential and power of women - as consumers, as leaders, and as a growing majority of the talent pool. Companies have started to recognise that successful boards should reflect the markets they serve and that homogenous leadership teams can be less equipped to do business in an increasingly complex business environment," she added.

The study also found a key number of differences between the demographic characteristics of female and male directors, including:

- Female directors are younger than male directors across all countries, by about three years on average.
- Female directors were more likely than male directors to have law or accounting educational backgrounds, while male directors were more likely to have engineering and science backgrounds.
- The average tenure of female independent directors is shorter than male directors across all countries.
- Female directors are more likely than male directors to have public sector or not-for-profit sector experience.
- Female directors are generally underrepresented in board leadership positions such as board chairs and board committee chairs.

Other aspects of diversity revealed that:

- On average, China had the youngest directors.
- Hong Kong companies, followed closely by China companies, are most likely to have directors from two or more generations.
- The majority of boards, other than those in Malaysia and Singapore, come from a single ethnic group.

"The world is taking notice of the potential and power of women - as consumers, as leaders, and as a growing majority of the talent pool. Companies have started to recognise that successful boards should reflect the markets they serve and that homogenous leadership teams can be less equipped to do business in an increasingly complex business environment," she added.

"A lot of leading companies are now taking diversity, including gender diversity issues quite seriously - setting employee targets, tracking and looking for ways to improve - as increasing evidence suggests that more diverse boards and management teams can be more effective and linked to better corporate performance," said Yi.

"I have no doubt that the diversity issue will accelerate in years to come. Only by having a diverse pool of independent, talented, and committed directors will companies be able to connect with and capitalise on the engine of Asia's consumption. Investors are also demanding diverse boards to promote good governance and sustainability and better navigate uncertain and challenging global economies," she added.

Read more at *http://www.kornferryinstitute.com/about_us/thought_leadership_library/publication/3188/diversity_scorecard* ■

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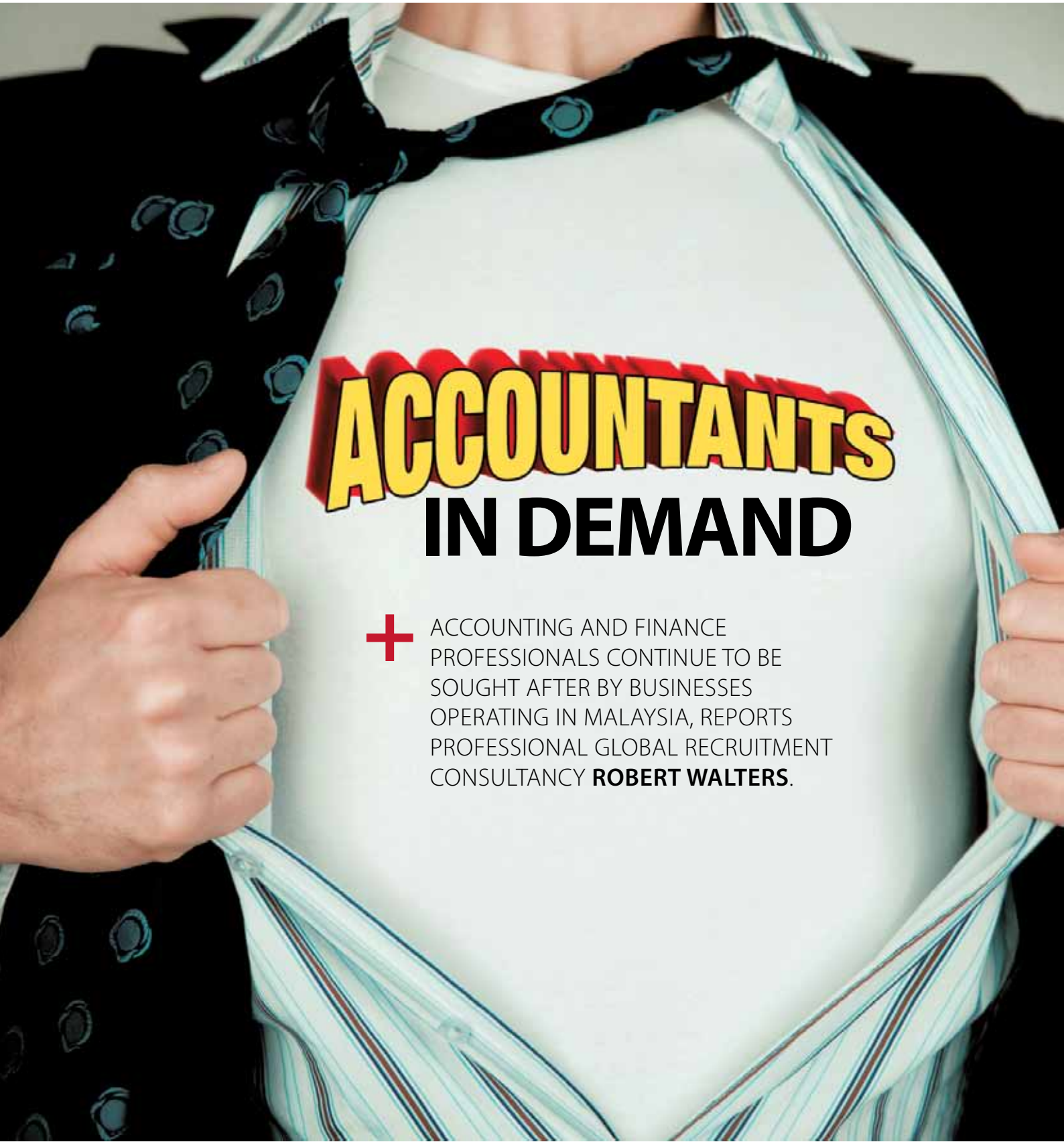

ACCOUNTANTS IN DEMAND

ACCOUNTING AND FINANCE PROFESSIONALS CONTINUE TO BE SOUGHT AFTER BY BUSINESSES OPERATING IN MALAYSIA, REPORTS PROFESSIONAL GLOBAL RECRUITMENT CONSULTANCY **ROBERT WALTERS**.

Demand for accounting and finance professionals in Malaysia is set to grow further in 2012, according to the Global Salary Survey 2012 from Robert Walters, a specialist professional recruitment consultancy.

2011 IN REVIEW

For 2011, the employment market for accountants and finance professionals remained buoyant thanks to rising globalisation and stricter demands for assurance and corporate governance.

The oil and gas sector hired most actively as roles with a global or regional focus were moved into Malaysia from overseas, said Andrea Ross, Managing Director – Singapore, Malaysia and Vietnam for Robert Walters, at the recent media launch of the annual salary survey which is now in its 13th edition. "Roles in demand were management accountants, finance managers and financial analysts especially at the senior level," said Ross.

Other drivers included an "influx of companies setting up shared services centres in HR, IT and operations as Malaysia became an attractive location to do so."

Other drivers included an "influx of companies setting up shared services centres in HR, IT and operations as Malaysia became an attractive location to do so."

Audit continued to thrive. "Stricter internal controls and a new regulatory financial landscape generated additional audit-related jobs. Internal auditors who were willing to travel extensively in the region were in high demand."

Big Four experience and a professional qualification were advantages. "Accountants with three to four years' experience in a Big Four firm and advanced qualifications such as ACCA and CIMA were sought after by both global MNCs and SMEs," added Ross.

OUTLOOK FOR 2012

FDIs AND SHARED SERVICES TO DRIVE DEMAND

Demand isn't expected to slack in 2012. "We anticipate demand for top accounting and finance talent will remain strong for 2012 following the government's stimulus package aimed at growing foreign direct investments (FDIs)," Ross continued. "Roles in demand will include heads of finance, chief financial officers and management accountants as companies continue to grow and as more overseas companies set up offices in Malaysia."

Shared services' ongoing expansion into Malaysia is set to drive recruitment trends, and could squeeze the existing talent pool. "Shared services are without doubt the big recruiters for 2012 and beyond. Increasingly multinational corporations (MNCs) have either already moved or are making plans to move into Malaysia. This puts a significant demand on the lower end of the pyramid and it will create the retention challenge for a lot of businesses, especially the shared services already in place," said Nick Fuller, manager of the commerce finance division at Robert Walters Malaysia.

Meanwhile, other sectors too are actively recruiting. "We are seeing demand in the oil and gas market as well as pharmaceuticals, information technology and FMCG. In fact, most sectors are still looking to recruit. We are also noticing that many multinationals are focusing on Southeast Asia and Malaysia particularly as these locations could potentially drive global growth for their businesses," said Fuller.

REGIONAL MOBILITY PAYS OFF

In 2012, increments for candidates who are willing to switch jobs will average between 20 – 25%, said Ross. Many candidates are keener on transitioning to positions with a regional rather than a local focus. "When looking for new roles, candidates are always keen to see their careers moving forward. Most candidates view the move to a regional role as a positive step for their careers and would therefore be more compelled to consider a change of roles for a larger portfolio," explained Fuller

The upcoming ASEAN integrated marketplace slated for 2015 could also be a boon for Malaysian talent. "With the advent of the ASEAN Economic Community, Malaysia is likely to be primed for hiring for regional positions, particularly with its rising position as a shared services centre," noted Fuller.

The (local) talent pool for CFOs and Head of Finance positions is excellent. It is often a perception that you need to go to Singapore to get a CFO but that is not the case. The quality of senior talent in Malaysia is very good.

ASEAN's status as an economic haven in the midst of global turmoil benefits Malaysia. "ASEAN is seeing significant recruitment demand because of the global focus on the area. It is one of the few regions where major businesses and governments can see future growth."

Currently, Malaysia ranks as a major exporter of accounting talent to neighbouring markets and global financial capitals, and the status quo isn't set to change anytime soon. "Malaysian accountants are a good fit within the ASEAN market. The rising number of MNCs setting up offices in Malaysia means that accountants here get a good grounding in finance and these experiences also provide an overview of global challenges and create the ability for accountants to see the big picture. The quality of English in the country also means that Malaysians can communicate well across the region."

Despite a market perception that there is a wide gap between employers' expectations and employee quality, this does not apply to senior executive talent. "The (local) talent pool for CFOs and Head of Finance positions is excellent. It is often a perception that you need to go to Singapore to get a CFO but that is not the case. The quality of senior talent in Malaysia is very good. In my opinion, the talent pool is there but it is a case of businesses taking a leap of faith to recruit a local candidate who has potential," Fuller remarked.

ACCOUNTANTS AS MANAGERS OF VALUE

While demand for talent might be healthy, accounting and finance professionals will have to step up their game and demonstrate added skills on top of traditional roles in order to meet changing expectations and global benchmarks. Value creation and enhancement for their respective organisations should be a priority. "The traditional finance roles continue to be in high demand. People with a solid grounding in accounts and who have strong knowledge about current regulations and reporting requirements are always going to be sought after. The way for an accountant to now standout in a crowd is through being commercial and really adding value to the business," stressed Fuller. ■

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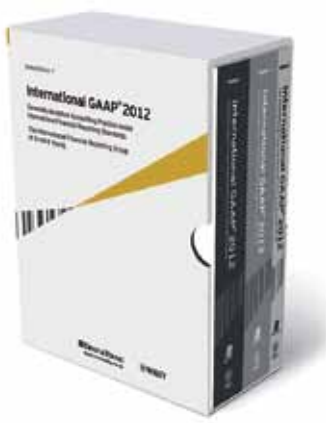

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Published by John Wiley & Sons

December 2011

ISBN: 978-1-119-96245-8

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Fraud continues to be a serious and costly problem for businesses

Fraud continues to be a serious, costly, and growing problem for businesses and government agencies. Sarbanes-Oxley and other regulations have been passed in an attempt to contain this growing problem but really, little is known about the true cost of fraud and the many ways fraud can occur within an organisation.

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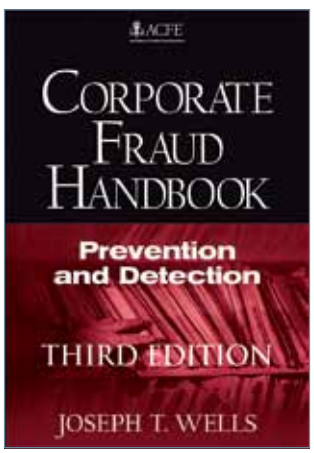

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F4 Corporate and Business Law (ENG)	49	54	+5
F5 Performance Management	38	65	+27
F6 Taxation (MYS)	53***	84	+31
F6 Taxation (UK)	48	71	+23
F7 Financial Reporting (INT)	56	87	+31
F8 Audit and Assurance (INT)	36	49	+13
F9 Financial Management	38	69	+31
P1 Governance, Risk and Ethics	51	62	+11
P2 Corporate Reporting (INT)	48	56	+8
P3 Business Analysis	51	57	+6
P4 Advanced Financial Management	34	51	+17
P5 Advanced Performance Management	29	42	+13
P6 Advanced Taxation (MYS)	42***	66	+24
P7 Advanced Audit and Assurance (INT)	31	41	+10

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FFA Financial Accounting	42*	84**	+42
FAU Foundations in Audit	53	79	+26
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