ACCOUNTANTS today

Professionalism at the Forefront

MAY 2006
Vol. 19 No. 5

9th Malaysia Plan

... provide us with people who are sincere, trustworthy, noble and honest; responsible in building a developed nation, building a united people, we forever seek Your blessings, Towards Excellence, Glory and Distinction.

Prime Minister, YAB Datuk Seri Abdullah Ahmad Badawi

Seeking the Right Values

ISSN 1394 - 1763
9 771394 176008

Member Audit Bureau of Circulations (Malaysia)

A Monthly Publication of the Malaysian Institute of Accountants

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(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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MIA'S VISION

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

MIA'S MISSION

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

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Good values *must* prevail

On 31 March 2006, Prime Minister, Datuk Seri Abdullah Haji Ahmad Badawi concluded the tabling of his Ninth Malaysia Plan 2006-2010 (9MP) with a prayer in which he asked God for strength to overcome the various challenges that will be posed upon him and his administration in light of the new plan. He also called out for righteous people with good values to help him lead Malaysia towards realising her vision of becoming a developed nation.

Accountants Today, as the voice of the accountancy profession in Malaysia hears and supports his call. The 9MP delivery system should be based on integrity, honesty, good governance, and accountability in order to ensure full transparency where the implementation is concerned.

As guardians of financial truth and champions of integrity, we too believe that nothing is more important than the human factor. People with the right values and competencies are vital in ensuring that the implementation is carried out effectively and efficiently without being impeded by undesirable practices and events.

Much criticism has been directed at the Government of late. People do not seem to trust the things they hear or read. By adhering to these good principles there might be success in winning the confidence of its stakeholders — particularly the *rakyat* — that ultimately it is the latter's interests that are being looked after.

Indeed, achieving the status of a developed nation is no small task. In a world where globalisation reigns supreme and competence is key, the country will have to fall back on its human capital to inch forward in the quest for progress. The need for sincere, trustworthy, noble, honest, responsible and competent people will be heightened with these developments and the premier rightfully highlighted this when concluding his presentation.

Meanwhile, the plan itself is a very forward-looking one, setting a lot of medium to long-term goals for a nation that is serious in achieving a fully-developed status. The burning question on everyone's minds is whether the implementation will be carried out efficiently. Have any lessons been learnt at all from the previous plans?

> "The 9MP delivery system should be based on integrity, honesty, good governance, and accountability in order to ensure full transparency where the implementation is concerned."

Our cover feature this month focuses on the various aspects of the 9th Malaysia Plan. We have even included an article from Patrick Ow who suggests an accountants perspective on how to ensure proper implementation of the 9MP.

Also in this issue are other articles of interest such as ACCA Malaysia's *Corporate Social Reporting: Making Business Sense in Malaysia*, and Richard Plasek's *How to Manage Performance in Shared Services*. Try not to miss marketing guru Hermawan Kartajaya's *Brand and Product Placement* which gives us fodder for thought. Also, allow *Accountants Today* to take you to the beautiful *'Tip of Borneo'*, to a place known as Tanjung Mata Pengayau in Sabah via Janet Lo's lens'.

As usual, we have lined up an array of interesting articles that we hope will make this issue of *Accountants Today* an interesting read! Happy Reading!! AT

Editor
Accountants Today

membership subscription notice 2006/2007

The Institute will be sending the Payment Advice for Membership Subscription fees 2006/2007 soon.
We are pleased to announce that in addition to the conventional mode of payments via cash, cheque, credit card, online payment (www.maybank2u.com.my and www.rhbbank.com.my), we are introducing payment through any credit cards (only Visa and Mastercard issued by banks and financial institutions incorporated in Malaysia) using Maybank's portal. For this service, you are not required to be a Maybank account holder.
We hope you will use the new mode of payment to your convenience. Thank you.

letters to the editor

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

contribution of articles

Accountants Today welcomes original and previously unpublished contributions which are of interest to accountants, business leaders, executives and scholars. Manuscripts should cover domestic or international accounting developments. Lifestyle articles of interest to accountants are also welcomed. Manuscripts should be submitted in English and range from 1,000 to 2,000 words. They can be submitted in hardcopy or softcopy. Manuscripts are subject to a review procedure without prejudice and the Editor reserves the right to make amendments which may be deemed appropriate prior to publication.

WORLD news

Ernst & Young to probe China fraud

Ernst & Young, one of the "Big Four" accounting firms in the US, said it set up a team in Shanghai to tap China's 'growing' fraud-investigation market. The team will sell its services to Chinese companies seeking to prevent, detect and address fraud, said David Stulb, who heads Ernst & Young's investigation and dispute services group, according to a *Bloomberg* report.

The team has about 20 people and will double in number within three years, he said in Shanghai in early April 2006.

"It's a growing market worth millions of dollars as we're starting to see demand up from Chinese companies who are looking to raise capital overseas. Wider recognition for fraud and corruption from the regulators will help support our expansion here," said Stulb in the report published by Hong Kong's *The Standard*.

China, which last year overtook the UK to become the world's fourth largest economy, has urged government departments and companies to combat corporate corruption. Premier Wen Jiabao on 24 February 2006 called on companies to curb bribery and to 'rectify' business operations.

Stulb was quoted as saying: "Fraud is a growing concern for companies as it is one of the only business risks that is deliberately disguised. Some estimates claim five to six per cent of business revenue is being lost worldwide."

China's biggest fraud since the Communist Party took over in 1949 led to the collapse of D'Long International Strategic Investment Group. The fraud involved 2,500 organisations and 32,000 people in 20 provinces, reports *Bloomberg*.

Company president, Tang Wanxin and six managers were alleged to have raised more than 45 billion yuan (HK$43.51 billion) illegally from the public between 2001 and 2004 and made 9.8 billion yuan by rigging stock prices since 1997, according to a statement by the Wuhan Intermediate Court. While the trial ended on 20 January 2006, no court decision has been made public.

The report added that Guangdong Kelon Electrical Holdings, China's biggest refrigerator maker, in January said a probe by auditor KPMG International found that former executives had inflated sales and embezzled at least 592 million yuan.

Ernst & Young will double its workforce in the fraud-investigation business to 2,000 worldwide in the next two to three years. The Big Four — Deloitte & Touche, Ernst & Young, PricewaterhouseCoopers and KPMG — audit 80 per cent of US public companies, US Securities and Exchange Commission chairman, Christopher Cox said in December 2005. AT

New accounting rules for derivatives soon

The Institute of Chartered Accountants of India (ICAI) is working on the formulation of separate accounting standards for financial instruments and derivatives and would be ready with the exposure draft by June this year, reports *The Telegraph*.

ICAI President, T. N. Manoharan told reporters here today that the Reserve Bank of India (RBI) has asked the Institute to formulate accounting standards for financial instruments and derivatives since these were gaining importance. ICAI is in touch with market regulator, Sebi to prepare the accounting standards.

"To-date, we have created 29 accounting standards for various sectors. The board, which sets the accounting standards, has already held a series of meetings. The exposure draft for the 30th and 31st accounting standards would be ready by July 2006," Manoharan said.

He said ICAI would come out with two accounting standards, one relating to recognition and measurement, and the other on disclosure and presentation. The first one will essentially lay down the rules on how to treat the income earned from various financial instruments and derivatives in the balance sheet — whether at cost price or market price.

The second will suggest ways on how to make information more lucid for shareholders so that they can make sound investment decision on the basis of facts provided in balance sheets. ICAI was also working on formulating accounting standards for local bodies, he said, adding that the draft preface was ready.

In the Calcutta-based report, Manoharan said separate accounting standards for local bodies were needed to harmonise and improve accounting and financial reporting in these institutions.

The Institute is also going in for a branding exercise to promote chartered accountancy as a viable career option and has commissioned the National Institute of Design in Ahmedabad to design a new logo which could be used by the members of the council as a symbol of the profession. The Institute plans to come out with advertisements both in print and electronic media to popularise the accounting profession among students.

ICAI today said it had issued a notice to Rajendra Lodha, heading the MP Birla group of companies, contending that a practising chartered accountant could not be involved in day-to-day running of a company.

"We have issued notice to Lodha and others on the basis of complaints received against them and are waiting for their response before taking any action on the matter," Manoharan said. AT

CPA body plans registry for auditors

An industry body governing certified public accountants will start a registration system next April to help it weed out accounting firms or auditors found to have violated Japanese accounting rules, reports *The Japan Times*.

The Japanese Institute of Certified Public Accountants will compile a list of registered auditing firms to help it publicly identify those found to have breached accounting regula-

tions or failed to maintain high auditing standards, JICPA President, Tsuguoki Fujinuma said.

The disciplinary action will help ensure that problematic auditing firms are effectively barred from auditing and certifying the earnings reports of listed companies.

The Institute will ask accounting firms — especially the nation's 250 top major auditors — to register as members of what it is tentatively calling "the club of auditing offices for listed companies."

"What counts under the system is how society will perceive auditing companies that have not registered as club members," Fujinuma said at a news conference. "We believe that the society's common sense will work to prevent unregistered auditors from engaging in accounting work."

He suggested that registration would effectively serve as a qualification for any auditor wishing to screen-listed companies' financial reports. AT

New accounting technology associate degree programme online

DeVry University, known for its career-oriented technology programmes, announced it would offer a new associate degree programme in accounting technology online beginning in May 2006.

New regulations dealing with corporate governance, audit independence and financial reporting, including the Sarbanes-Oxley Act of 2002, have resulted in a dramatic increase in demand for trained accounting professionals. According to the US Bureau of Labour Statistics, employment of accountants and auditors is expected to grow faster than the average for all occupations through the year 2014.

"We're excited to offer this new online degree programme," said David Overbye, Ph.D., Dean of Curriculum for DeVry University. "As businesses continue to grow and governmental regulations on corporate accounting practices continue to evolve, the volume and complexity of accounting will increase. We're confident that graduates of DeVry University's accounting technology degree programme will be ready to meet the need for skilled professionals that can respond to industry challenges in this quickly changing field."

Students in DeVry University's accounting technology degree programme will complete coursework in key functional areas, including financial accounting and reporting, managerial accounting, personal taxation and accounting technology, as well as specialised courses such as principles of ethics and fraud. Program coursework also addresses key principles of business administration and provides students with a solid foundation of coursework in communication and the humanities.

Graduates will be qualified for positions as accounting clerks and bookkeepers at public accounting firms, federal, state and local government agencies, private corporations, non profit agencies and independent accounting practices. Additionally, graduates will be prepared to sit for the American Institute of Professional Bookkeepers (AIPB) Certified Bookkeeper Examination. This credential has grown in importance with potential employers as confirmation that a candidate has the required skills and knowledge.

According to *Salary.com*, the median expected salary for an entry-level accounting clerk is US$28,496 and a bookkeeper is expected to make US$33,714 annually.

Celebrating 75 years as one of the largest degree-granting higher education systems in North America, DeVry University provides high-quality, career-oriented associate, bachelor's and master's degree programmes in technology, healthcare technology, business and management. Approximately 46,000 students are enrolled at its 80 locations that are in 23 states and Canada, as well as through DeVry University Online. DeVry University is accredited by The Higher Learning Commission and is a member of the North Central Association (NCA). DeVry University, a division of DeVry Inc. (NYSE:DV), is based in Oakbrook Terrace, Ill. AT

www.devry.edu

Investors pick new audit fight

Investors claim that the profession once again is trying to drastically limit its exposure to liability claims over the issue of companies keeping proper books and accounting records, reports *Accountancy Age*.

About six months ago, representatives from some of the largest UK investment bodies were fighting tooth and nail to ensure that the true and fair view audit, previously the cornerstone of UK auditing practice, did not disappear from company law.

A hard-fought campaign eventually saw the investors emerge victorious. Now a new battlefront has emerged. Investors claim that the profession is once again trying to drastically limit its exposure to liability claims, this time over the issue of companies keeping proper books and accounting records.

Amendments to the company law reform bill proposed by opposition Treasury spokeswoman Baroness Noakes last month would, the investors claim, significantly reduce the auditors responsibility to check that a company keeps sufficiently accurate day-to-day records on its activities. Ironically, it would mean that the auditors' duty was solely focused on judging the true and fair view of the accounts.

The problem is, they argue, that the accounts of a company may give a true and fair view on the financial position of a company, but the accounting records and returns could still be in disarray.

According to the online report, such problems with records have been the basis of many an accounting scandal over the years, such as those at Parmalat and Barings, and the amendments would distance auditors from any responsibility in such cases, it is feared.

It seems that the investors will not have to fight so furiously over this one, however. While some of the amendments proposed by Baroness Noakes were taken into consideration, government whip, Lord McKenzie of Luton seems to have the measure of the potential implications of the changes and has so far proved quite resistant to them.

For her part, Baroness Noakes told *Accountancy Age* that the concerns of investors had not been made known to her.

But that won't stop investors from pressuring the government to ensure that this matter doesn't slip through the net. Concerns over the erosion of audit quality are high, despite initiatives like the audit quality forum aimed at

improving the service provided to shareholders.

Further talks between the two parties may be necessary in order to resolve any outstanding conflicts. AT

Restatements deliver fuel for reform

Providing support for arguments against regulatory breaks for small caps in the US, Richardson Electronics and Hemispherx Biopharma announced restatements stemming from accounting errors and saw their share prices dive, reports *CFO.com*.

US Securities and Exchange Commission chairman, Christopher Cox said recently that small companies shouldn't necessarily expect a pass on complying with Section 404 of the Sarbanes-Oxley Act, which dictates stiff rules for assessing internal controls. Former SEC chairs, Arthur Levitt, Richard Breeden, and Lynn Turner have already expressed their opposition to such exemptions.

In April 2005, Richardson Electronics reported that it would recast its results for the three years ending in May 2005 as well as for the first two quarters of the current fiscal year. The US$112 million market-cap electronics distributor made the announcement after it discovered errors in financial accounting at one of its Italian subsidiaries. Investors sliced off about a quarter of the company's market capitalisation when shares began trading.

Investors in Hemispherx were a tad kinder: its share price decreased 10 per cent for the day it announced its restatement after dropping nearly 14 per cent at one time. The US$166 million market cap biopharmaceutical company admitted that an incorrect accounting principle was applied to certain debentures and warrants issued between March 2003 and August 2005.

The wayward application of the principle caused errors in reporting convertible debt, additional paid-in capital, and non-cash financing charges in the company's financial statements between March 2003 and September 2005. AT

Citigroup to pay university US$13 million

Citigroup Inc. will pay US$13.25 million to the University of California to settle allegations linking the financial services company to the accounting fiasco that toppled WorldCom Inc. nearly four years ago, reports *AP*.

The settlement announced recently is the latest in a series of investor lawsuits targeting Citigroup for its business ties with WorldCom, the telecommunications company that plunged into bankruptcy in July 2002 after revealing that its profits had been grossly exaggerated.

The legal fallout so far has cost New York-based Citigroup more than US$2.65 billion. Most of that money covered a settlement of a federal class-action lawsuit approved last year.

The University of California, whose pension and endowment funds invested in WorldCom's stock between 1998 and 2000, didn't participate in the federal class action, electing to sue separately in the San Francisco Superior Court.

"The merits of that strategy were borne out by the result we were able to achieve," said James Holst, the university's general counsel. He said the federal class action settlement wouldn't have been as fruitful because that suit primarily covered investors that invested in WorldCom after the university's money managers did.

Citigroup spokeswoman, Christina Pretto said the company is pleased with the settlement.

The report says the payment reimburses the University of California for a sliver of its losses on WorldCom's stock. The university's funds suffered a US$353 million loss on its WorldCom investment when it sold 10.2 million shares after the scandal ravaged the company's stock price.

Echoing other lawsuits, the University of California's complaint alleged Citigroup's investment banking subsidiary — then known as Salomon Smith Barney — consistently recommended WorldCom's stock to keep the company as a customer.

The university's suit continues to seek damages from Arthur Andersen, the now-defunct accounting firm that audited WorldCom's books.

After going bankrupt, WorldCom changed its name to MCI Inc. and eventually was sold for US$7.5 billion to Verizon Communications Inc. AT

Critics push to ease parts of accounting reform law

Critics of the Sarbanes-Oxley law to tighten US accounting rules are taking their case to Congress, beginning a push to ease parts of the legislation enacted after the collapse of Enron and WorldCom.

Bloomberg News reports that Republican Representatives, Tom Feeney of Florida and Mark Kirk of Illinois and Democrat, Gregory Meeks of New York will tell a House Government Reform subcommittee that the law has driven up company compliance costs, threatening small businesses in particular. The lawmakers have conducted a three-month "listening tour," talking to chief executive officers, entrepreneurs and investors.

"At this point, there is an increasing recognition that the application of Sarbanes-Oxley has created some unexpected and unintended problems," Feeney said in an interview with the news agency.

The hearing is the first in Congress that focuses on revising the law, which was named for its chief sponsors and was passed in 2002 with almost no opposition after Enron's bankruptcy and other scandals. Opponents claim the law has stifled innovation by putting burdensome regulations on companies.

Sarbanes-Oxley set up a new system of regulation for the accounting industry, required top corporate officials to certify that their company books were in order and increased penalties for corporate fraud.

A recent study by AMR Research, a Boston-based advisory company, estimated North American companies would spend US$6 billion this year to comply with the law. But a study of 47 companies by Compliance Week, a Boston-based newsletter, found median compliance fees paid to outside auditors under the law were 0.6 per cent less in 2005 than the previous year. The median decline in overall accounting fees was 7.4 per cent. AT

UK's self assessment filing deadlines

UK's largest accounting bodies have persuaded government

away from shifting self-assessment filing deadlines several months forward, reports *Accountancy Age*.

The UK's largest accounting bodies are taking an urgent approach in persuading the government that shifting self-assessment deadlines is not in the public's interest.

Following a meeting between the major accounting bodies, the profession is set to act together to persuade the government away from shifting self-assessment filing deadlines several months forward. But discussions will be delicate and private, according to attendees of the meeting.

"We want to keep [discussions] behind the scenes", said ICAS assistant director of tax, Donald Drysdale.

But he confirmed that the bodies agreed that Lord Carter's recommendation to HM Revenue & Customs to shift the deadlines was 'out of Carter's remit', and would increase error rates on returns.

The institutes expressed fears that the proposal on filing dates would overshadow other reforms. The statement of intent was signed by the ICAEW, ICAS, ACCA, ICAI, CIoT, ATT and AAT. Lord Carter has proposed moving forward self-assessment filing deadlines from 31 January to 30 September for paper returns and 30 November for online filing. AT

SEC office selects two accounting fellows

The US Securities and Exchange Commission's Office of the Chief Accountant has selected two professional accounting fellows for two-year terms beginning in June 2006.

SmartPros reports that the selected fellows are Sandie E. Kim, currently a senior manager in Deloitte & Touche LLP's National Office Accounting Consultation Group based in San Francisco, Calif., and Josh K. Jones, currently a senior manager in Ernst & Young LLP's Atlanta, Ga., practice office.

Kim and Jones will join the current professional accounting fellows — Joseph D. McGrath, Michael G. Gaynor, Timothy S. Kviz, and Joseph B. Ucuzoglu. Outgoing professional accounting fellows are Shan L. Benedict, Jennifer M. Burns, Mark A. Northan, Brian K. Roberson, and Pamela R. Schlosser.

At the SEC, the newly selected professional accounting fellows will be involved in the study and development of rule proposals under the federal securities laws, liaison with the professional accounting and auditing standards-setting bodies, and consultation with registrants on accounting and reporting matters.

"Sandie and Josh were selected in a highly competitive process and bring valuable experiences and skills to our office. These individuals will be instrumental members of our team as we work to accomplish our mission of protecting investors. I would also like to express my thanks to the outgoing professional accounting fellows for their outstanding efforts during the past two years," said Scott A. Taub, Acting Chief Accountant. AT

Dutch supermarket executives could face jail

Four former executives of the Dutch supermarket chain Ahold are standing trial in Amsterdam in one of the biggest ever accounting scandals in Europe. The prosecutor is demanding prison terms for the four defendants. These are tough sentences by Dutch standards.

Radio Netherlands, in a report on its website, reports that public prosecutor Hendrik-Jan Biemond described the four Ahold suspects' business methods as "unbelievable, underhanded and definitely illegal". He then demanded relatively severe prison sentences for former CEO, Cees van der Hoeven, Chief Financial Officer, Michiel Meurs, board member, Jan Andreae and supervisory board member, Ronald Fahlin.

Van der Hoeven and Meurs face 20 months in jail with six months suspended. The prosecutor demanded one year in jail with six months suspended for Andreae, and one year with nine months suspended for Fahlin.

White-collar crimes seldom carry jail sentences in the Netherlands. The usual punishments are fines or community service. Van der Hoeven's lawyer called the demands "horrific" but the public prosecutor believes they are justified because the suspects lost all sense of integrity in their pursuit of maximum profit. He added that the affair had seriously damaged confidence in the Dutch business community.

The report says the Public Prosecutor's Office believes there is conclusive evidence that the suspects falsely represented the entire turnover of several joint ventures in Europe and South America as belonging to the parent company. This 100 per cent consolidation of sales was a completely unacceptable move since Ahold did not have full control of the joint ventures.

According to the prosecutors, Ahold signed control letters claiming to exercise full control over these ventures in order to increase its own apparent turnover. At the same time, it issued so-called side letters to the joint venture partners which contradicted this claim. Only the control letters were shown to the accountants. This, the prosecution says, constitutes fraud and falsification of documents. In the course of the trial, Van der Hoeven said he could not remember signing the side letters.

For the past few weeks, the suspects have been trying to convince the court that the side letters were of no significance at all, and that Ahold was certainly in control of the "subsidiaries" and was therefore entitled to consolidate their sales in its annual accounts. Any covert agreements or side letters would, they claimed, have made no difference to the daily running of the business.

Michiel Meurs is regarded by the prosecution as the architect of the consolidation construction. As financial director he is seen as responsible for concealing Ahold's covert agreements. On the other hand, they also believe Cees van der Hoeven must have played a significant part. He was always a major presence in the company and must have known what was going on. In its investigation prior to the trial, the Public Prosecutor's Office accused him of prima donna behaviour.

While the sentences demanded may be stiff by Dutch standards, convicted white collar criminals have received much heavier sentences in the United States in recent years. Prosecutor Biemond says, if tried in the US, the Ahold executives could have expected up to 30 years in prison.

Next week the defence lawyers will have a chance to present their view of the case. The Amsterdam court will announce its verdict on 22 May 2006. AT

MIA Benchmark Audit Fees

THE CASE OF SMEs

By Hasnah Haron, Ishak Ismail, Mohd Nizam Kasim and Zamri Ahmad

Audit fee has been a part of an overall auditing work structure. The MIA By-Law Appendix 11 was introduced by the Malaysian Institute of Accountants (MIA) to assist members to compute audit fees. This is important to ensure consistency and harmonisation in the amount of audit fees charged to clients. This can also prevent client companies from 'window shopping' for auditors who offer the lowest audit fee, which in the long run could be detrimental to the auditing profession. This study seeks to determine whether audit firms are following the benchmark that has been set by the MIA when charging their clients.

Data from annual reports of 70 small and medium-sized enterprises (SMEs) in Malaysia for the years 2001 and 2002 was collected. Results show that only one-third of auditors charged clients lower than the minimum charges recommended by MIA. This paper extends the theory of audit fee determination by providing further insight into the factors that determine audit fees charged to SMEs. In addition, this study contributes to practitioners such as audit firms, firms, and regulatory bodies in gauging whether MIA benchmarks have been adhered to by audit firms.

Introduction

The purpose of auditing is as a 'check and balance' tool to assist companies in achieving accountability, transparency and corporate governance, which are the key aspects to ensure a reliable and efficient reporting system is in place.

External auditors are appointed by companies to provide professional services to ensure that financial statements of companies are true and fair. In order to come out with an audit opinion, external auditors need to evaluate the internal control system of the company. This is done by conducting compliance and substantive tests.

> "… audit fees as defined by MIA … based upon the degree of responsibilities, risk and skill involved and the time necessarily occupied on the work by the partner and staff in terms of the quality and level of competence required to meet auditing standards and statutory compliance with reference to the size, complexity and technical input expected of the audit assignment."

The extent of tests conducted and the amount of time spent in audit work will be the main components considered in determining the audit fee.

Amongst the important points to be noted with regard to the determination of audit fee is that the fee can be based on gross turnover and total assets or total operating expenditure basis. Total operating expenditure is used only if there is a marked discrepancy between it and total assets and total turnover.

MIA By-Laws have recommended that the fee be determined as follows:

1. compute the amount of fee charged based on gross turnover.
2. compute the amount of fee charged based on total assets.
3. compare the amount of fee based on time charged. Time charge should include the cost involved in conducting the audit, overhead charged and a certain percentage of profit.

Usually, the highest of the three options would be used to determine the audit fee. For companies with a gross turnover or total assets of RM10 million, the audit fee is negotiable.

Literature Review

Audit fees can be defined as the price charged for the audit services by audit firms (Che-Ahmad & Houghton, 1996). More specifically, audit fees as defined by MIA: *"… based upon the degree of responsibilities, risk and skill involved and the time necessarily occupied on the work by the partner and staff in terms of the quality and level of competence required to meet auditing standards and statutory compliance with reference to the size, complexity and technical input expected of the audit assignment"* (p. 33).

MIA By-Laws also provide that audit fee for professional auditing services should be based on the actual value of the work that has been done and is measured on four dimensions:

1. level of expertise and knowledge needed in completing the related task;
2. level of training and experience of individual engaging in the auditing work;
3. period needed by each individual in completing their task; and
4. level of responsibilities and importance of the auditing work done (By-Law B-6.1, p. 29).

MIA through its By-Law recommended a basis for practitioners especially audit firms to determine minimum charge-out rates for the audit services that had been performed on their clients:

a) Gross Turnover or Total Assets Basis

Gross Assets or Turnover for every ringgit (RM) of		Rate (%)
The first	100,000	0.8
The next	150,000	0.35
The next	250,000	0.25
The next	500,000	0.15
The next	1,500,000	0.10
The next	2,500,000	0.08
The next	5,000,000	0.075
The next	10,000,000	Negotiable

b) Total Operating Expenditure Basis

Total Expenditure for every ringgit (RM) of		Rate (%)
The first	50,000	2
The next	150,000	1
The next	800,000	0.5
The next	1,000,000	0.2
Above	2,000,000	0.1

As we can see from those two bases i.e. Gross Turnover or Total Assets, and Total Operating Expenditure, the MIA guideline is applicable for those companies that have gross turnover, total assets and total operating expenditure less than RM10 million as the rate for the amount exceeding that is negotiable.

As for SMEs, there is still no universally accepted definition (Hashim & Ahmad, 2001). Nevertheless, in general, SMEs in Malaysia are defined according to fixed quantitative criteria such as number of employees, amount of capital, amount of assets and amount of sales turnover (Hashim & Ahmad, 2001). However, a generally accepted definition of SMEs in the Malaysian manufacturing sector was proposed by the Ministry of International Trade and Industry

(MITI) which is as follows:

1. A small-scale firm is a company "with less than 50 full-time employees, and with an annual turnover of not more than RM10 million."
2. A medium-scale enterprise is a company "with between 51 and 150 employees, and with an annual turnover of between RM10 million and RM25 million."

As stated previously, an external party such as audit firms is needed to ensure that management is working in the best interests of the owners. Nevertheless, auditors should also be subjected to a set of guiding principles in ensuring that the audit done is of quality and recognised professionally. Hence, accounting and auditing standards of a high and internationally acceptable quality contribute to promoting relevant and reliable financial information useful to a wide range of users for decision-making purposes (A Statement of the Technical Committee of the International Organization of Securities Commissions, 2002). Auditor independence requirements also contribute to promoting investor confidence in published financial statements, irrespective of whether such requirements are the responsibility of securities regulators in their jurisdictions (A Statement of the Technical Committee of the International Organization of Securities Commissions, IOSC, 2002). While any consideration of the effectiveness of external audits involves a wide variety of issues, it is fundamental to public confidence in the reliability of financial statements that external auditors operate, and are seen to operate, in an environment that supports objective decision-making on key issues having a material effect on financial statements (A Statement of the Technical Committee of the IOSC, 2002). Put differently, the auditors must be independent in both fact and appearance (A Statement of the Technical Committee of the IOSC, 2002). Thus, the standards of independence for auditors should be designed to promote an environment in which the auditor is free from any influence, interest or relationship that might impair professional judgment or objectivity or, in the view of a reasonable investor, might impair professional judgment objectivity (A Statement of the Technical Committee of the IOSC, 2002).

Another matter of concern for ensuring that audit fees are charged according to MIA guidelines is the avoidance of low-balling activities, which is charging audit fees significantly below cost (Kanodia & Mukherji, 1994; Schatzberg, 1990; Magee & Tseng, 1990). This practice is not supported by regulatory bodies as it has a negative impact on auditor independence and audit quality itself (Kanodia & Mukherji, 1994; Schatzberg, 1990; Magee & Tseng, 1990). Hence, it would be of value to investigate whether audit firms for SMEs are using this "low introductory pricing" or "predatory pricing" (Lee & Gu, 1998) in their determination of audit fees charged.

Currently, research on developing countries related to determinants of audit fees are scarce; nevertheless, studies on companies being audited such as SMEs are even more rare. As such, it is the aim of this paper to examine further the determination of audit fees for client companies which are SMEs.

In general, the key factor influencing audit fee is the size of the company that is being audited (Francis, 1984). Simunic (1980) used total assets in determining the size of the company. Taffler and Ramalingam (1982) used total sales, whilst Elliot and Korpi (1978) used a combination of total sales and total assets in determining the size of the company.

Other than the size of companies, how complex an organisation is also plays a role in determining the audit fee (Francis, 1984). Companies with more subsidiaries are presumed to be more complex compared to other companies. This will contribute to a higher audit fee as there is more work to be done by the auditors and the responsibility level is higher towards the audit work to be implemented.

Other factors that influence the determination of audit fee is the peak period or busy season in the audit work and the location of the audit firm (Rubin, 1988). The peak period is a period when the audit firm has a heavy workload to meet each client's deadlines.

Past research has looked at multiple factors influencing the determination of audit fee, but to-date there is no study that examines compliance of audit fee with MIA's benchmark audit fee. Multiple regression was used in previous studies and the sample of companies was based on the KLSE (now known as Bursa Malaysia) listed companies.

The population for this paper is SMEs in Malaysia listed in the SMIDEC database,

Table 1 Descriptive statistics for undercharged and not undercharged (year 2001)

Undercharged	Frequency	Per cent
Not undercharged	45	64.3
Undercharged	25	35.7
Total	70	100.0

Table 2 Descriptive statistics for undercharged and not undercharged (year 2002)

Undercharged	Frequency	Per cent
Not undercharged	46	65.7
Undercharged	24	34.3
Total	70	100.0

Table 3 Descriptive statistics of continuous variables (before Log transformation) — Year 2001

	N	Minimum	Maximum	Mean	Std. Deviation
Audit Fees	70	RM700	RM14,000	RM4,922.61	RM2,956.57

Table 4 Descriptive statistics of continuous variables (before Log transformation) — Year 2002

	N	Minimum	Maximum	Mean	Std. Deviation
Audit Fees	70	RM1,050	RM11,000	RM4,986.83	RM2,687.19

which totals about 10,066 companies as of 30 October 2004. The population covers SMEs in all states in Peninsular Malaysia, including those in Sabah and Sarawak.

The audit fee variable measured in ringgit was obtained from the notes to the financial statements pertaining to the income statement for each company. The measures for the independent variables were gathered from the Income Statement and Balance Sheet of each company.

Figure 1 Frequency for Audit Fees for 2001

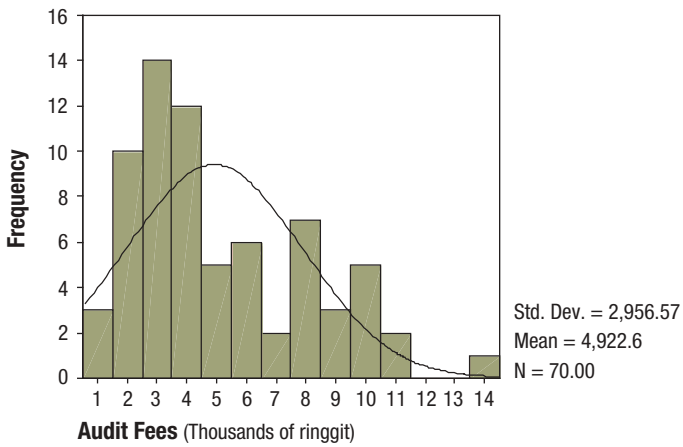
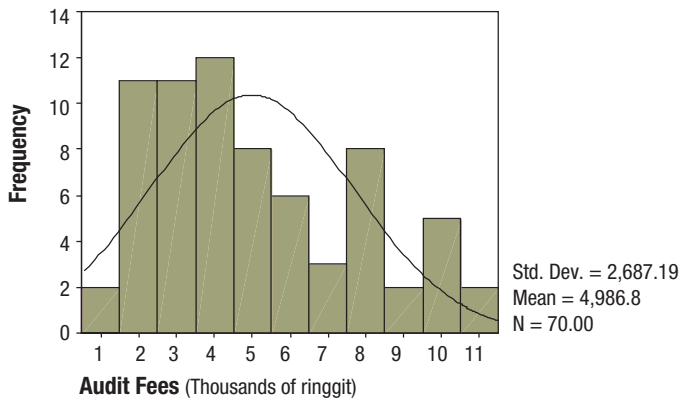


Figure 2 Frequency for Audit Fees for 2002



Descriptive Analyses

As for the nominal variable of fees being undercharged, the descriptive statistics are presented in Table 1 for 2001. This shows that 64.3 per cent of the firms selected were not being undercharged by their auditors according to the MIA guidelines. This percentage rose to 65.7 per cent in the following year (Table 2), indicating that low-balling activities by the auditors for SME organisations are not very severe.

The finding shows that approximately one-third of auditors charged a lower rate than proposed by MIA, one of the indications that low-balling activities are being practised by auditors. Therefore, a further insight into this issue should be conducted in order to investigate the reason why the auditors do so for these firms, in order to prevent a low quality of audit being performed by auditors.

The results in Table 3 also show that the range of audit fee charged to SMEs in year 2001 ranges from RM700 to RM14,000 with the mean of RM4,922.61. The trend is quite similar in 2002, whereby the mean is RM4,986.83 although the range is from RM1,050 to RM11,000 (Table 4). Thus, we can conclude that on the average, the amount of audit fee charged to SMEs in 2001 and 2002 is within the same range, whereby there was no major increase or decrease in audit fees charged to SMEs from 2001 to 2002.

Conclusions

The study has shown that about 30 per cent of companies investigated did not comply with the MIA Benchmark Audit Fee. Undercharging of audit fee needs serious attention by the regulators as this could lead to window-shopping by client companies for audit firms that can perform the audit work at a cheaper price. This could lead to poor quality audit work performed by audit firms as they try to conduct the audit at a lower cost, which would be detrimental to the auditing profession. Increased compliance could be made if there is monitoring of this issue and penalties imposed for non-compliance.

The regulatory bodies can see that a majority of audit firms are adhering to the MIA guidelines and only a few are practising low-balling activities. Perhaps, these audit firms will need to be further investigated for these practices.

Limitations

One of the major limitations for this research has been that it was more cross-sectional in manner rather than being time-series. The effect of time and perhaps the frequency of changing audits over audit fees could not be captured in this paper.

Another limitation of this paper is the small sample size. However, there are strong reasons for this size as the collection of data was difficult because of very poor response. Furthermore, after collecting from a secondary source such as the SSM, it was difficult because of the database and the time needed to retrieve the information from this database. Nevertheless, it was indicated that there would be an upgrading to the IDAMAN system, which would enable a better chance in getting faster data from the system in the future. AT

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CORPORATE SOCIAL REPORTING

Making Business Sense in Malaysia

By ACCA Malaysia

Corporate Social Responsibility or CSR remains the new buzzword in the Malaysian business sector. Yet for many companies, it is an acronym that remains remarkably unfamiliar. The Association of Chartered Certified Accountants (ACCA) in Malaysia has been at the forefront of the CSR movement here because it realises that this fog of ignorance must be lifted, if Malaysian companies are to compete in the increasingly competitive, globally and borderless markets.

Panellists (left to right) … John Zinkin, Tunku Alizakri, Datuk Sabri Ahmad, Zarir J. Cama, Dato' Johan Raslan, Tay Kay Luan and James Blakelock

ACCA recently organised a roundtable and had seven corporate chiefs share their organisations experiences and thoughts on CSR. The seven included John Zinkin (Managing Director of Zinkin Ettinger Sdn Bhd), Dato' Johan Raslan (Executive Chairman of PricewaterhouseCoopers Malaysia), James Blakelock (Corporate & Regulatory Affairs Director of British American Tobacco, Malaysia, Berhad), Tay Kay Luan (Head, ACCA Malaysia), Tunku Alizakri bin Muhammad Alias (Head of Corporate Affairs, DiGi.Com Berhad), Zarir J. Cama (Deputy Chairman & CEO of HSBC Bank Malaysia Berhad) and Datuk Sabri Ahmad (Group Chief Executive of Golden Hope Plantations). Karamjit Singh (editor of Netv@lue 2.0, the technology section of the business weekly *The Edge*), moderated the event.

The roundtable titled *CSR in Malaysia: Reality or Fad* kicked off briskly with a general sharing of how one defines and contextualises CSR, to the growth and sustainability of their respective organisations. John Zinkin management and CSR guru shared the fact that many Malaysian companies still equate CSR with philanthropy or giving to charity. In fact the *Malaysian Business* magazine cites South-East Asia's second-richest man and Malaysian tycoon T. Ananda Krishnan as giving RM160 million to charity over the last two years, followed by Syed Mokhtar Al-Bukhary who donated RM127 million and casino king Lim Goh Tong who gave away RM26 million. Between 2003 to 2004, T. Ananda Krishnan via Maxis Telecom topped the list of charity givers with RM10.5 million, Public Bank's tycoon Teh Hong Piow was second with RM10.1 million and Shell Malaysia came third with RM10 million for charity. In that same period, a total of RM88 million was donated to charity by the 65 listed firms surveyed.

Johan Raslan from PwC reckons that CSR is no longer about giving super-sized cheques although giving to charity, he adds, is not wrong. CSR is also "not about public relations but more about protecting and investing in one's future," he says. Plantation company Golden Hope's Sabri Ahmad adds it is about being a balanced company and caring for the environment. ACCA's Tay Kay Luan stressed that CSR is an obligation by the firms to use their resources in a sustainable manner to benefit not just themselves but society at large. Meanwhile, Zarir J. Cama of HSBC views CSR as a new opportunity to develop sustainable quality finance development that will add value to the business.

James Blakelock from BAT Malaysia reckons it is all about how one makes one's money, closely echoing John Zinkin's view that "CSR is how you make your money and philanthropy is what you do with that money when you've made it." While it may seem ironic that BAT, which manufactures cigarettes, is big on the CSR scene in Malaysia, Blakelock candidly admits that the issue of tobacco and CSR raises skepticism but eliminates this with the rationale that BAT makes and sells a risky but legal product in a responsible manner.

"CSR very much drives the behaviour of the company. We have instilled and embedded reliable behaviour based on three main principles — responsible product stewardship, reducing unhealthy practices and creating benefits. We also have a Code of Conduct that drives and embed CSR within BAT itself," Blakelock shares.

And what about ACCA's involvement in CSR itself? What you may ask, do accountants have to do with the issue of sustainability? Tay Kay Luan is quick to point out that ACCA has over the last 15 years been at the forefront of the CSR movement, which originated from London when ACCA saw the need while educating the public and the industry on the need to build a more sustainable future.

"This is done via education, by incorporating the issues of ethics, transparency and accountability. ACCA also conducts research on key issues in the region that affects competitiveness. The surveys are conducted on the level of the awareness of the environment while ACCA awards companies that report on their CSR experiences. We also provide training and invite established practitioners to share their knowledge as part of ACCA's drive to push the CSR momentum," he says.

On whether the CEO should be involved in the CSR programme, Zinkin says CSR contributes to accountability and if the CEO heads it, it leads to accountability. Both Sabri and Zarir concur with Zinkin's stand. "It's got to be led from the top; otherwise it will not be sustainable. The CSR programme must be focused for it to be a catalyst for growth and progress in the community", Zarir says.

Asked how CSR was implemented in their organisations and its contribution to greater transparency and accountability, Blakelock says BAT's process began five years ago in London where he was tapped to set up the CSR unit and today there are 50 companies doing social reporting. BAT adopts a dialogue-based approach and every BAT office has a CSR committee to evaluate its programmes.

HSBC Malaysia's CSR programme was developed at its London office led by the top leadership some four to five years ago, says Zarir. He stressed the importance of getting an outsider to push the CSR agenda to add a touch of credibility. "We hired Francis Sullivan, the former director of the World

"… many Malaysian companies still equate CSR with philanthropy or giving to charity."

John Zinkin, Management and CSR guru

"CSR is no longer about giving super-sized cheques although giving to charity … is not wrong. CSR is also not about public relations but more about protecting and investing in one's future."

Dato' Johan Raslan, PwC

"CSR is an obligation by the firms to use their resources in a sustainable manner to benefit not just themselves but society at large."

Tay Kay Luan, ACCA

Wildlife Fund to chart the bank's CSR path and today the bank aligns itself to the guidelines laid down by the Equator Principles."

There were of course concerns over the entry of an outsider and the costs of carrying out CSR programmes but HSBC deemed CSR vital enough to adopt it! He cites the case of when HSBC Malaysia accepted the challenge to be part of the Roundtable on Sustainable Palm Oil (RSPO), which tracks the sector's progress in producing, procuring and utilising sustainable palm oil.

"We joined that as a bank, as a responsible stakeholder. It was a crucial time back in 2004 at a time when CSR was still new and there were concerns because it was going to cost us around 150,000 euros but I am happy to say we went ahead anyway." Meanwhile, its *HSBC in the Community* programme has some 1,700 staff volunteering their time, while HSBC also sends some of its Malaysian staff to participate in the bank's global projects around the world.

DiGi Telecommunications, a relative 'baby' among the Malaysian CSR giants, set up a dedicated CSR unit to drive the message both internally and externally. It started on the external front two years ago when its CSR programme evolved from a series of one-day cultural workshops known as the DiGi Yellow Mobile banner morphing into a three-month programme known as the DiGi Amazing Malaysian project.

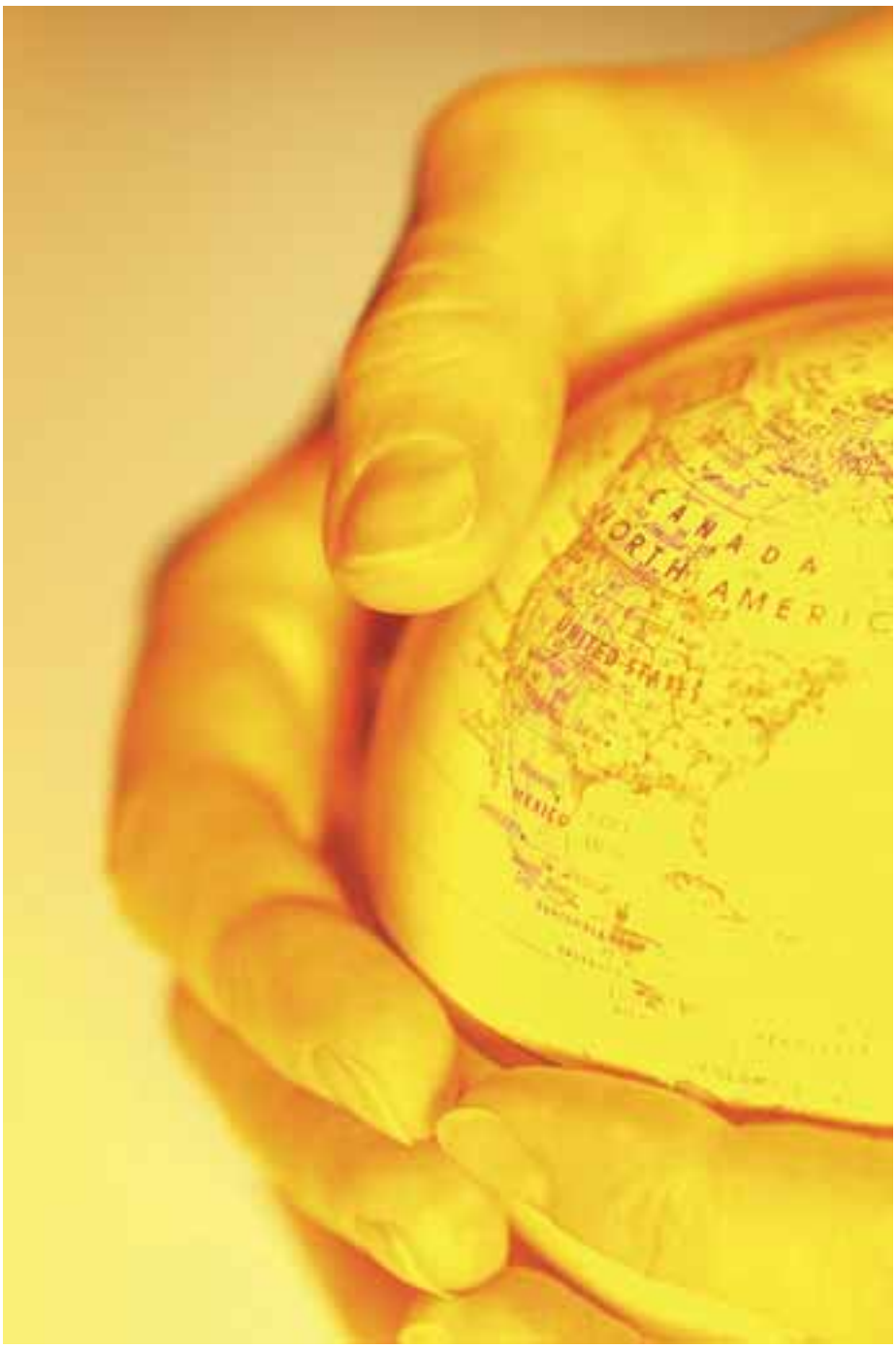
This expanded programme focuses on preserving the national heritage of Malaysia, encompassing the environmental, cultural and societal heritage issues for the benefit of future generations. "We implemented five projects a year and each division in DiGi has been asked to adopt one programme each. DiGi's CSR is still at infancy stage but we're getting there," Alizakri says.

Internally, DiGi is heading for a paperless environment and introducing improvements in its business processes within its newly established headquarters building. Alizakri adds that the telco implemented a policy where everyone gets to enjoy the same benefits in terms of medical, office space and car park as an example. DiGi discarded the cubicle concept, opting for an open office concept and did away with desks choosing to introduce lockers instead, while medical benefits are the same for the CEO as it is for the lowliest employee. "The reasoning is that illness is no respecter of hierarchy, so why differentiate in terms of medical treatment," Alizakri says.

Plantation group Golden Hope's CSR initiatives are wrapped around the 3Ps — people, planet and profit. "People and planet come first, but profit is also important because if there is no money, one cannot spend any to better society" Sabri says. He adds GH's efforts began 10 years ago as part of the company's efforts to manage the eco-system and to give back to the community. "We invested in a cricket facility that cost RM16 million to enable the youths to spend more time on sports. We also assisted with the development of the longbow sports training facility costing RM6 million at Bayan Lepas and we are working to preserve a very old 28,000 acre land at Carey Island to help showcase and promote the Mah Meri Orang Asli mu-

"People and planet come first, but profit is also important because if there is no money, one cannot spend any to better society."

Sabri Ahmad, Golden Hope Plantations



seum within the plantation lands itself.

PwC despite not having a product, still embarked on a CSR programme to develop its human capital base and help them discover their potential. Johan says almost apologetically that accounting can be boring and an insular kind of profession, so what PwC needs to do is to get its people to think out of the box and move out of their comfort zones. "We have a human development programme where we send young partners to a global project that involves taking on a consulting engagement. There, they literally have to use their professional knowledge to offer free consultation to NGOs and those who cannot afford to pay. In the course of doing that, they become better people, better professionals. By coming out of the PwC cocoon, they are able to gain from this invaluable bit of experience in the real world," Johan says.

So what are the challenges Malaysian companies face when pushing their CSR agenda?

BAT says its biggest challenge is to help the sceptical public understand BAT's dilemma. "Should companies that produce risky products be involved in CSR? Should BAT exercise a higher degree of responsibility or just ignore the issue? The key to overcoming this hurdle is to engage in frequent dialogues with the stakeholders, but overcoming this dilemma will remain its biggest challenge to-date," he admits.

Golden Hope's Sabri says understanding the consequences of not adhering to CSR requirements and developing a constructive mindset are the two major challenges he faces, while DiGi's Alizakri feels that creating a CSR-centric work culture and ensuring the sustainability factor of its community outreach programmes will remain DiGi's key challenges.

Getting the banking staff to understand their obligations under the CSR agenda is much more complex says Zarir of HSBC. It is especially aggravating for HSBC, which views CSR from the angle of opportunity rather than costs. With the greater emphasis on CSR, banks can now tap into a new area of financing including offering CSR-friendly commodity financing for sectors such as forestry where yields rose by 40 per cent for CSR savvy companies.

"Banks are increasingly coming under enormous scrutiny and the challenge is how one develops a practice of, say, lending to the palm oil sector based on the issue of sustainability alone. How does one convey this obligation to the staff, it's certainly not easy and Malaysia still has a log way to go here," he laments.

companies ceasing to do business with those that don't do things right," he says.

Zinkin himself trots out interesting statistics. A survey conducted showed that 19 believe there are no benefits, five think there are benefits while the rest don't regard CSR as a product at all. He suggests

"Should companies that produce risky products be involved in CSR? Should BAT exercise a higher degree of responsibility or just ignore the issue? The key to overcoming this hurdle is to engage in frequent dialogues with the stakeholders, but overcoming this dilemma will remain its biggest challenge to-date."

James Blakelock, BAT Malaysia

Measuring return on investment (ROI) is yet another hurdle and the general consensus is that one cannot really measure CSR in a tangible manner but at the end of the day, it makes good business sense for an organisation to do it.

DiGi's Alizakri finds it hard to quantify returns because they're so intangible. "The high morale generated is one of the benefits because people like to work with a company that's doing all the right things. DiGi is lucky to have a board that doesn't believe in pressuring for ROI but it knows the intangible benefits are there."

ACCA's Tay affirms this, saying it is not

companies view the acronym CSR as **C**apital Stock Renewal where companies use fewer resources to achieve better productivity and returns.

Blakelock himself says ROI is extremely difficult to quantify. "To create a mathematic model to measure ROI is too complex. To me and BAT, it just makes good business sense. I guess you could look at some hard measures, some expectations such as a decline in litigation for instance, but essentially it's just something that makes good sense."

That CSR makes good business sense is a given for the other participants as well. Golden Hope's Sabri cites how CSR helps differenti-

"While one cannot measure the ROI of CSR, it just makes good business sense for an organisation to do it. At the end of the day, business organisations must not forget that companies are here for business and as such CSR still makes good business sense."

Zarir J. Cama, HSBC

as simple as measuring in terms of financial standards since CSR is more like an intangible asset. "It boils down to what we know as 'goodwill' but what about the cost of not doing CSR? What happens then?" He stresses that CSR should be viewed more as a best practice that augurs well for the sustainability of companies.

Zarir of HSBC says, in the long run, CSR-centric companies will attract good talent, and younger Malaysians will shun a company that abhors CSR principles. "As we go further down line, we will see more and more

ate his company from others. "European customers want to trace the production route from the farm to the refinery. CSR-embedded processes makes this possible, " he says.

Zarir of HSBC concludes with this thought. "While one cannot measure the ROI of CSR, it just makes good business sense for an organisation to do it. At the end of the day, business organisations must not forget that companies are here for business and as such CSR still makes good business sense." Hopefully more Malaysian companies will see the truth of this as well. AT

Risk and Uncertainty

IT'S MORE THAN JUST MATHEMATICAL MODELLING

by Saravanan Ramasamy

The "risk versus uncertainty" debate has been long running amongst economists and is far from being resolved at present.

By and large, 'risk' refers to situations where the decision-maker can assign mathematical probabilities to the randomness that he is faced with. On the other hand, 'uncertainty' refers to situations when this randomness cannot be expressed in terms of specific mathematical probabilities. As John Maynard Keynes expressed it: *"By uncertain knowledge, let me explain, I do not mean merely to distinguish what is known for certain from what is only probable. The game of roulette is not subject, in this sense, to uncertainty. The sense in which I am using the term is that in which the prospect of a European war is uncertain, or the price of copper and the rate of interest twenty years hence. About these matters there is no scientific basis on which to form any calculable probability whatever. We simply do not know."* (J.M. Keynes, 1937)

Nonetheless, many economists dispute this distinction, arguing that risk and uncertainty is the same thing. For instance, they argue that in uncertainty, the problem is that the agent does not assign probabilities, and not that he actually cannot. Going in the other direction, some economists argue that there are actually no probabilities out there to be 'known' because probabilities are really only 'beliefs'. In other words, probabilities are merely subjectively assigned expressions of beliefs and have no necessary connection to

the true randomness of the world.

The contention above leaves us with the question of whether risk and uncertainty (if they can be distinguished) can be accurately measured mathematically? In the same vein, this opens the door for us to explore the role of emotions and cognitive errors that can affect our decision-making process. To begin with, the theoretical foundations for nearly all the risk management tools we use today were developed during the later half of the 17th century and the first part of the 18th century. This is the time when economists were pre-occupied with the assignment of mathematical probabilities to all "risky and uncertain" situations to derive a mathematical model on which decisions are based on.

A brief overview of the development is presented below:

Theory of probability (1654) — Blaise Pascal and Pierre de Fermat answered the question of how should two players divide the stakes in a game of chance if they stop before the game is finished and one player is ahead of the other. Pascal and de Fermat suggested that the two players divide the stakes on the basis of the respective probability that each would win the game and showed how to calculate that probability. With this, people started to evaluate risks using a systematic method instead of reverting to tradition and superstition.

Statistical sampling and statistical significance (1662) — John Graunt showed how to draw larger conclusions based on a sample of statistics, a concept known as "statistical sampling". Using this approach, Graunt estimated the population of London.

Normal distribution and standard deviation (1733) — Abraham de Moivre derived the pattern that a series of variables distribute themselves around an average. This was what was known as normal distribution. From this, he went on to develop standard deviation, which is the amount of variation around the average.

Utility theory (1738) — Daniel Bernoulli introduced the idea of utility. When someone makes a decision involving risk, he or she considers the value of the outcome as well as calculations of probability. Two centuries later, Jon Von Neumann and Oskar Morgenstern applied utility theory to business and investing and outlined how we should make decisions when we know the probabilities of some events.

Regression to the mean (1885) — Francis Galton introduced the term "regression to the mean" when he found that the average height of children born of parents of a given height tended to move or "regress" towards the average height in the population as a whole. In other words, the height of the children of unusually tall and unusually short parents tends to move toward the average height of the population. Galton's 1885 statistical analysis relating child's to parent's height resulted in what he termed a "regression to the mean" and eventually the term "regression" came to be applied to the type of analysis he used

Portfolio Theory (1952) — Harry Markowitz presented the concept of diversification and demonstrated how, through diversification, risks can be reduced (not eliminated), without changing the expected portfolio return.

> "By uncertain knowledge, let me explain, I do not mean merely to distinguish what is known for certain from what is only probable. The game of roulette is not subject, in this sense, to uncertainty. The sense in which I am using the term is that in which the prospect of a European war is uncertain, or the price of copper and the rate of interest twenty years hence. About these matters there is no scientific basis on which to form any calculable probability whatever. We simply do not know."
>
> **John Maynard Keynes**

The preoccupation with measuring risks and uncertainty using mathematical models is still prevalent until today. In tandem with the above-mentioned models, risk assessment models of the 19th and 20th century such as Value at Risk (VAR), New Basel Capital Accord, Sarbanes-Oxley fundamentally requires vast amount of data to adequately run risk simulations. The complexity on data collection, transformation and algorithms tends to divert the emphasis from the use and interpretation of the generated output. Furthermore, these models assume that individuals and groups are rational in assessing and understanding risks. In an ideal risk management environment, the following basic assumptions must hold:

- Complete risk data is available and searchable
- Algorithms produces unbiased decisions
- Decision makers fully understand risk/reward results produced and make rational decisions based on these outputs

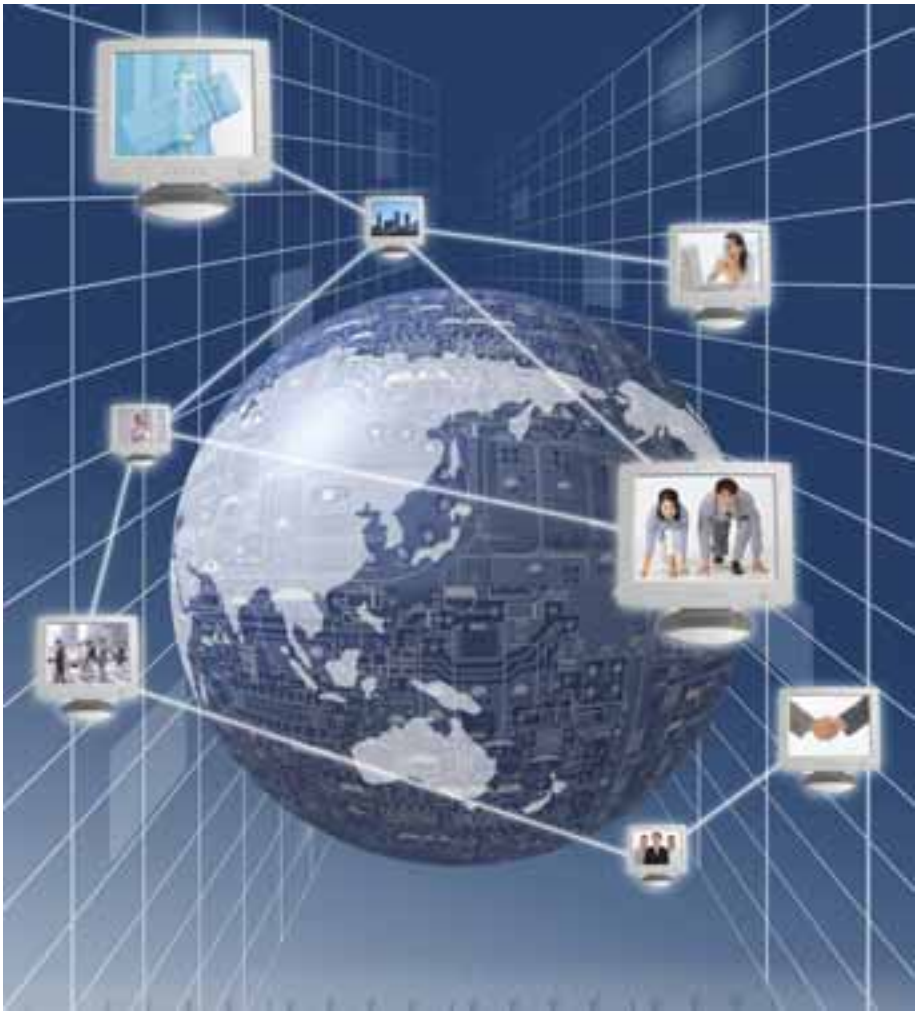
In reality, the situation is somewhat different. Decision-makers rarely have the time, resources or capabilities to collect complete information due to disparate applications and processes. Very often, decision-makers revert to their emotions and social cognitive in their decision-making process. Behavioural finance, behavioural economics or behavioural risk, whatever the term we use to describe this phenomenon, are closely related fields which apply scientific research on human and social cognitive and emotional biases to better understand economic decisions and how they affect market prices, returns and the allocation of resources. The fields are primarily concerned with the rationality, or lack thereof, of economic agents. Behavioural models typically integrate insights from psychology with neo-classical economic theory. Incorporation of behavioural elements introduces a new approach in identifying and more so managing risks. AT

Note: It's beyond the scope of this article to discuss behavioural factors in managing risk. In the September, 2004 issue of *Accountants Today*, the writer had discussed the concept of behavioural finance at length in the article entitled *Investment Decision Making — It is often the heart rather than the head that rules?* (pages 38 & 39). The writer can be contacted at *sr_vanan@yahoo.co.uk*.

HOW TO MANAGE Performance in Shared Services

by Richard Plasek

Robust performance management in shared services can deliver flexibility, increase service quality and reduce costs for the whole organisation. But it hasn't always been that way. The way we measure and manage performance is continually evolving. In the 1970s, traditional planning and budgeting approaches caused difficulties. This gave rise to the multi-dimensional performance measurement frameworks in use today such as the quality frameworks (Baldridge and EFQM) and balanced scorecards.



Broad-based financial performance management is now seen as a fundamental part of a business, bringing managers information from across the organisation. However, best practice examples have shown that the true drivers of performance and early signals of change are non-financial.

Stakeholders' increasing demands for visibility, integration and alignment to strategy have led to a change in performance management. For example, although the balanced scorecard has been well-adopted, it is often seen as just a reporting tool. Kaplan and Norton envisaged it aiding the implementation of strategic change.

In the 1990s, shared services pioneers recognised that consolidating transactional activities can reduce costs. Companies established processing centres where one team performed transactional activities for multiple divisions or countries. Financial processes such as accounts payable/receivable and travel and expenses were the first to benefit from economies of scale.

The scope of shared services has since expanded and now includes processes such as order to cash or financial report-

ing. The shared services concept has also been adopted by other functions, including IT and HR. Processes such as compensation and benefits are standardised across business units and are provided by one internal supplier.

Modern shared services are no longer seen as being based on the lowest transactional cost. Rather, they optimise resources available within the services and business units they serve. This integration forces performance management to create flexible frameworks that adapt to an organisation's needs.

"Performance management must be transparent and established as a separate activity that can measure strategy implementation across all processes. We put performance management in a leading role to optimise resources, drive value and preserve flexibility to measure moving targets. What you measure gets done."

D. Chakraborti, Programme Director British American Tobacco

Changing performance measurements

Performance management of shared services has gone from cost focus — measuring throughput and processing speed using technology, economies of scale and lower labour rates — to quality focus. Internal customers want cheap processing and higher quality services. Qualitative or soft performance measures, such as response to queries, error rates and customer satisfaction, are used alongside the traditional volumetrics.

There is also an emerging focus on integration in the shared service environment. Leading players are adopting measures that immediately track efficiency, quality and customer satisfaction. This includes tracking leading indicators such as staff satisfaction, skill levels or people management. Integration creates a challenge because managers need a single set of measures and an integrated, consistent picture across all customers. This can be difficult to achieve but it is necessary to reduce costs even further through enhancing standardisation or reducing exceptions.

Once an integrated approach is established in shared services, performance management can move towards optimisation. Optimisation focuses on combining flexible staffing with multi-skilling in order to gain maximum value. Performance management's role is in exploiting technology, ensuring flexibility and linking innovation to new skill development.

Danger of complexity

The addition of soft measures in the drive for quality can cause problems. The new sets of measures are often difficult to implement, too frequently tracked and customers find them hard to understand. Many organisations just give up when performance management becomes a complex issue with too many indicators.

Traditional performance management is rarely fully integrated, so it can't measure the things that make an organisation successful. Modern shared services try to add value and provide more flexibility to the business. Up-to-date performance management should therefore measure innovation and reward creativity and added value. It should link an individual's objectives to the corporate objectives.

How companies close the gap

In leading companies, performance management is a recognised process alongside mainstream transactional processing such as accounts payable or staff compensation. The British American Tobacco programme director for shared services, D. Chakraborti said, "Performance management must be transparent and established as a separate activity that can measure strategy implementation across all processes. We put performance management in a leading role to optimise resources, drive value and preserve flexibility to measure moving targets. What you measure gets done."

There are seven elements of good performance management in shared services:

- charging
- service level agreements
- service desk
- key performance indicators (KPIs)
- balanced scorecard
- continuous improvement and
- personal development.

If implemented fully they can help companies to improve their competitiveness. Performance management's vision should be to achieve a collaborative and value-generating organisation by using the seven elements in a coherent way. KPIs can strategically align resources and optimise efforts across the business.

Integration and optimisation phase

No company would think of working with an external supplier without defined and measurable performance targets. Similarly, it shouldn't work with an internal supplier of services without setting up robust performance management mechanisms.

This phase ensures that shared services behave professionally, independently and as integrated partners making the best use of resources. A good performance measurement framework is a distinguishing trait of the progressive shared services organisation.

Increased transparency and control by measurable and comparable KPIs/balanced scorecards provide:

- early exposure of optimisation opportunities
- improvement in quality of service and
- customer satisfaction.

This will ensure that shared services deliver value through good, fast tactical decisions, better organisation behaviour, greater span of control and clear definition of roles and responsibilities.

Better management of information and aligning individual actions and behaviour to business strategies will enhance strategic abilities. Growth targets, expense reduction or re-engineering initiatives in other functions should be linked to shared services' strategy. This will stop integrated shared services being seen simply as a management overhead. A highly skilled workforce will be capable of assuming different roles within the business, making shared services a better place to work. AT

Richard Plasek is a consultant for Capgemini. This article is contributed by CIMA and it first appeared in *Insight,* CIMA's online newsletter which is accessible at *www.cimaglobal.com/insight.*

Brand AND Product PLACEMENT

by Hermawan Kartajaya








Have you already seen the new film *Cellular*? Those of you who have are sure to remember the final scene. When the main characters are in a warehouse, the good guy, Ryan, manages to save the policeman's life and defeats the bad guy 'armed' only with a Nokia 6600 cell phone.

By calling the bad guy's cell phone, Ryan manages to divert his attention, so the policeman is able to shoot first before being shot by the bad guy. So, once again the goodies defeat the baddies.

That is just a glimpse of how clever companies can be at placing their products in a film. We often see this placement of brands or products in films or other forms of creative media.

People are undoubtedly becoming more and more bored with the ad offerings in or on conventional media, such as newspapers, magazines, television and so forth. So, companies are consequently competing to create new media for communications with their customers.

Did you see the film *Lucky Star*, featuring Benicio Del Toro? You may have once seen the trailer but I'm willing to bet you never saw the film itself. How come? Because the film doesn't really exist. Only its trailer does. And that was specifically produced by Mercedes as an ad for their cars. The trailer shows their 500 SL convertible and was deliberately spiced up with the phrase "coming soon, see press for details" at the end. Consequently, lots of people were caught waiting for this "film that was to come," even though it didn't actually exist.

Then there are unique media such as the subway movies made by Submedia for products that include Coca-Cola, American Express and the Discovery Channel. These movies are produced by placing a line-up of slightly changing still pictures on subway tunnel walls. So, when a train passes, moving at a certain speed, its passengers will see the still pictures as if they were watching a movie.

In their book, *There's No Business That's Not Show Business* Bernd Schmitt, David Rogers, and Karen Vrotsos call the new creative media "new invented media," including fake movie trailers and the subway movies just mentioned.


Hermawan Kartajaya

But it is very difficult to come up with one of these. That's why many companies try a different approach, reinventing existing media to become more interesting.

"People are undoubtedly becoming more and more bored with the ad offerings in or on conventional media, such as newspapers, magazines, television, and so forth. So, companies are consequently competing to create new media for communications with their customers."

Are you familiar with the novel *The Bvlgari Connection*? Leading Italian jewellery maker Bvlgari paid Fay Weldon well to write it. In doing this, the company had reinvented the novel as a medium for promotion.

Another very interesting example is the placement of brands and products in television programmes, as with Coca-Cola in *American Idol*. Look carefully at the programme's jury table. You are sure to find a glass of Coca-Cola in front of each jury member.

Then take the example of Madonna singing her rap song with the lyric, "I drive my Mini Cooper and I'm feeling super-dooper." This is an example of a brand (Mini Cooper) placement in a song. Look, too, at how many racing games present Ferrari as the top car in their games.

So, you can then clearly see that a reinvented old media is definitely a more attractive choice than inventing a new one. And, even though there are many choices remaining for the media to be re-invented, cinema is still the best. How come? Because movies have storylines that can flexibly serve to visually influence their audiences.

I consider there are three levels of brand and product placement in cinemas. First, the setting placement level, limited to putting the brand or product in a movie setting. With this, the brand or product appears only briefly in the movie. One example is the appearance of Starbucks in *The Terminal*.

Second, character placement level, where the placement of a brand or product is such that it supports the lead character. An example of this is the Aston Martin or BMW cars that support the James Bond character in those films.

Third is the plot placement level, with the brand or product's placement occurring throughout the whole film. Here the brand or product can form part of the film's storyline itself.

Cellular, mentioned earlier, is an example of this third level of brand and product placement. Just observe how its storyline is built around a cell phone. Its story of a kidnapping involves cell phone calls throughout the film.

"The higher the placement level, the more your brand and product will make an impression on your customer. So this will then make it easier for you to connect with them."

Then again, take the example of *Cast Away* and see how FedEx and Wilson form part of that film's storyline. And what about *Where the Heart Is,* which tells the story of a young woman who gives birth in a Wal-Mart store? Wal-Mart helps to build up the film's storyline.

The higher the placement level, the more your brand and product will make an impression on your customer. So this will then make it easier for you to connect with them. AT

Hermawan Kartajaya is President of the World Marketing Association (WMA), and the Founder and President of MarkPlus&Co, a strategy-consulting firm in Asia. Author of three books with Philip Kotler, he was named by the Chartered Institute of Marketing UK as one of the "50 Gurus Who Have Shaped the Future of Marketing".

Capital Adequacy and Risk Management Requirements

IN ISLAMIC FINANCIAL INSTITUTIONS PART 2

by Dr. John Lee

The robust growth of the Islamic financial industry in past years has led to much debate over regulatory issues. Corporate scandals have highlighted the importance of sound corporate governance and risk management procedures, and the Islamic finance world is not beyond scrutiny. To ensure effective risk management, conventional banks strive to abide by the Basel Committee frameworks, in existence since the late 1980s. However, these frameworks are inadequate to guide the management of risks in Islamic financial institutions, whose workings and risk profiles differ from conventional financial institutions.

The establishment of the Islamic Financial Services Board (IFSB) has aided in filling the vacuum of regulatory guidance that hinders the effective functioning of Islamic financial institutions. The IFSB acts as an international standard-setting body of the regulatory and supervisory agencies that have a vested interest in ensuring the soundness and stability of the Islamic financial services industry.

The plugging of regulatory gaps has begun with IFSB's recent publication of a set of standards for capital adequacy[1] and guidelines for risk management[2] — tailored specifically to the unique products offered by Islamic financial institutions. These new standards, based on the original Basel frameworks set by the Bank of International Settlements, illustrate that the broad principles of risk management can be maintained across both Islamic and conventional banking sectors.

In this article, the IFSB standards will be considered. This article seeks firstly to consider the capital adequacy standards, and how these standards differ from the Basel frameworks, and secondly, the article will examine the IFSB's risk management requirements on Islamic financial institutions.

Capital Adequacy Standards

The maintenance of adequate capital for the risk assumed by financial institutions underpins the First Pillar of the Basel Capital Accord II (Basel II). There is no reason why these tenets should not be applied to Islamic financial institutions, which like conventional financial institutions, face credit, market and operational risks. However, it is clear that the basis for the calculation of capital adequacy requirements will be different for Islamic financial institutions; the IFSB's capital adequacy standards draft expands and tailors the Basel II guidelines as necessary to serve the risk traits of Islamic financial institutions.

Credit Risk

The possibility of counterparties not fulfilling predetermined obligations is as distinct a risk to Islamic financial institutions as to conventional financial institutions. An Islamic financial institution, like a conventional financial institution, deals similarly with counterparties who at the outset of a contract, have agreed to meet stipulated terms. However, as with a conventional financial institution, there is the prospect that these counterparties will not meet these terms.

In an Islamic financial institution, credit risk exposures result from:

- Accounts receivable in *Murabaha* contracts;
- Accounts receivable and counterparty risk in *Istisna* contracts;
- Counterparty risk in *Salam* contracts; and
- Lease payments receivable in *Ijarah* contracts.

The IFSB recommends that the capital adequacy for these credit risk exposures should be accounted for using the Basel II Credit Risk Standardised Approach. Thus, risk weights are assigned according to the various credit risk exposures encountered. In the assignment of these risk weights, the following factors must be considered:

- External credit assessment (by eligible external credit assessment institutions) of the counterparty or obligor;
- Any credit risk mitigation techniques used by the Islamic financial institution;
- Nature of the contract's underlying asset; and
- Specific provisions made for the portions of receivables not yet paid.

Islamic financial institutions are also exposed to credit risk in *Musharaka* and *Mudaraba* contracts, in which assets (not for trading) are held for investment returns from financing in the medium to long-term. These assets are risk-weighted according to the Basel II method for equity exposures in the banking book.

Market Risk

The IFSB abides by the definition of market risk outlined in the Basel framework: the risk of losses in on and off-balance sheet positions arising from market prices. Conventional financial institutions are exposed to these risks from the positions they hold in financial instruments. These positions are held, amongst other objectives, intentionally to secure a short-term profit from price or interest rate variations or to hedge against other elements of the trading book[3].

However, Islamic financial institutions are forbidden from earning returns from speculative transactions and contracts connected to the incidence or non-incidence of future events, like hedging or other de-

1 Islamic Financial Services Board, *Capital Adequacy Standard for Institutions (Other than Insurance Institutions) Offering Only Islamic Financial Services*, December 2005.

2 Islamic Financial Services Board, *Guiding Principles of Risk Management for Institutions (Other than Insurance Institutions) Offering Only Islamic Financial Services*, December 2005.

3 *Amendment to the Capital Accord to Incorporate Market Risks*, Basel Committee on Banking Supervision, January 1996.

rivatives, are disallowed.[4] But Islamic financial institutions are exposed to market risk in a unique manner. *The Shariah* principles, to which these institutions adhere, include the notions of materiality in transactions and the sharing of risk and rewards. As a result, Islamic financial institutions carry out many asset-based transactions in which they take ownership of physical assets as co-investors.[5] This setting exposes them to market risk — as the asset price may fluctuate.

In an Islamic financial institution, market risk exposures result from:

- Equity position risk in the trading book and market risk on *Sukuk* trading positions;
- Risk derived from foreign exchange; and
- Risk derived from holding commodities and inventory (including items held for future sale or leasing contracts).

The IFSB deals with the *Sukuk* position risks in a similar manner to the Basel framework, i.e. by using specific risk and general market risk capital charges to calculate adequate capital.

Foreign exchange risk in the IFSB framework encompasses the holding of positions in gold and silver, unlike the Basel framework, which treats silver as a commodity. The overall foreign exchange risk position is calculated using the Basel method: firstly by measuring the exposure in a single currency position and secondly by measuring risks inherent in an Islamic financial institution's portfolio mix of long and short positions in different currencies, gold and silver. However, the IFSB has altered the measurement to allow for the fact that *Shariah* law does not permit conventional forward contracts and other speculative transactions.

The Basel framework outlines a methodology for calculating minimum capital requirements for commodities and the IFSB has chosen to allow the use of either the Basel maturity ladder approach or the simplified approach. On the other hand, it disallows Islamic financial institutions from using internal models, which the Basel framework allowed, for the time being. The simplified approach is also used to calculate a capital charge for inventory risk — a risk unique to Islamic financing, and encountered when Islamic financial institutions enter contracts like *Musharaka* in which they hold the assets.

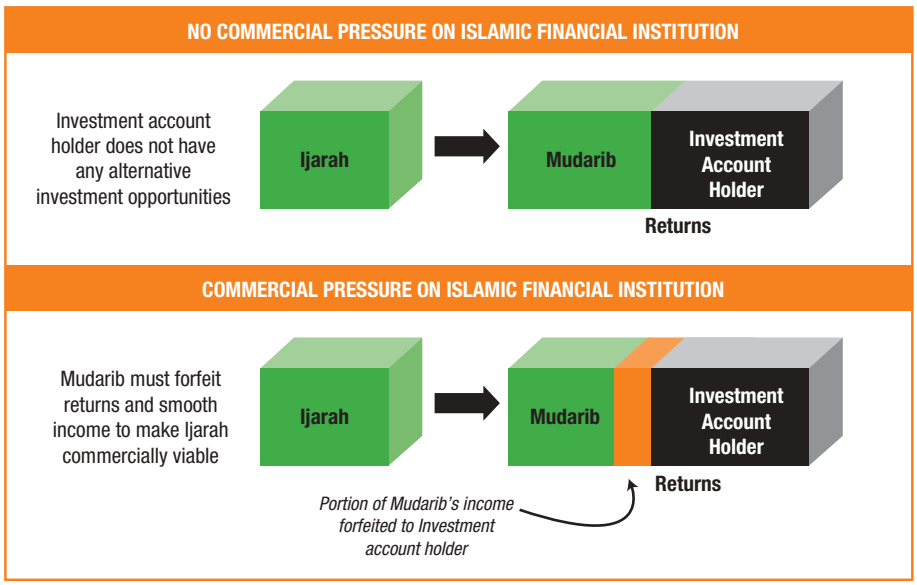
Operational Risk

Islamic financial institutions face a distinct operational risk over and above that which Basel II has defined. The potential of losses due to non-compliance with *Shariah* law is a key operational risk for Islamic financial institutions. For example, when engaged in *Musharaka* and *Mudaraba* contracts, the Islamic financial institution must invest capital in *Shariah*-compliant business activities (those that are not *haram*, which excludes, amongst others: gambling, alcohol and pornography). The reputational damage resulting from non-conformance may lead to major losses, and may even cause catastrophic impact on the financial institution.

Further, when an investment account holder enters a contract with an Islamic financial institution, the latter has a fiduciary obligation to the former to ensure that its funds are properly invested, like that of an asset manager to its investors. The Islamic financial institution is exposed to this direct fiduciary risk — as it is liable for the negligence, misconduct or breach of the mandate it has to invest the account holder's capital — that is only indirect for conventional financial institutions.

The capital adequacy for these two types of risk exposure are dealt with by the IFSB via the Basel II Basic Indicator Approach for operational risk, which sets a fixed percentage of average annual gross income over the previous three years. The IFSB set this percentage at 15 per cent due to a lack of statistical data with regard to losses as a consequence of *Shariah* non-compliance and breach of, the fiduciary risk. It allows for local supervisory authorities to adjust this percentage upwards for particular institutions if required. It also provides local supervisory authorities the flexibility to adopt the Basel II Standardised Approach for operational risk, as long as they have defined lines of businesses for Islamic financial institutions.

Figure 1 Income Smoothing and Displaced Commercial Risk



Displaced Commercial Risk

The notion of displaced commercial risk is peculiar to Islamic financial institutions. In certain situations, the Islamic financial institution will be commercially compelled to increase the rate of return to its investment account holders to persuade them to keep their funds in the financial institution. Thus it will give up some portion of its share of profits as *Mudarib*; the rate of return to the client is 'smoothed' at the expense of profits normally ascribed to the Islamic financial institutions' shareholders, as illustrated in Figure 1.

Usually, this displaced commercial risk

4 Comford, Andrew, *Capital of Alternative Financial Institutions and Basel II Credit Cooperatives and Islamic Banks*, Third International Meeting: Ethics, Finance and Responsibility, Geneva, October 2004.

5 Hassan, Dr. Sabir Mohamed, *Issues in the Regulation of Islamic Banking (The Case of Sudan)*, Research and Studies Series, Bank of Sudan, October 2004.

is a result of rate of return risk. This occurs when funds are placed in assets like *Murabaha* or *Ijarah,* with a longer term of maturity and the rate of return is no longer competitive with alternative investments. Although in theory, Islamic financial institutions are not obligated to carry out such income smoothing — they may find that due to supervisory authority or commercial pressure, they are virtually forced to do so.

The IFSB indicates that an additional capital charge should be imposed on Islamic financial institutions that practice income smoothing. This involves including a certain percentage of assets financed by profit-sharing investment accounts in the denominator of the Capital Adequacy Ratio. Also suggested is the establishment of prudential reserve accounts to ameliorate any adverse affect of income smoothing on shareholders.

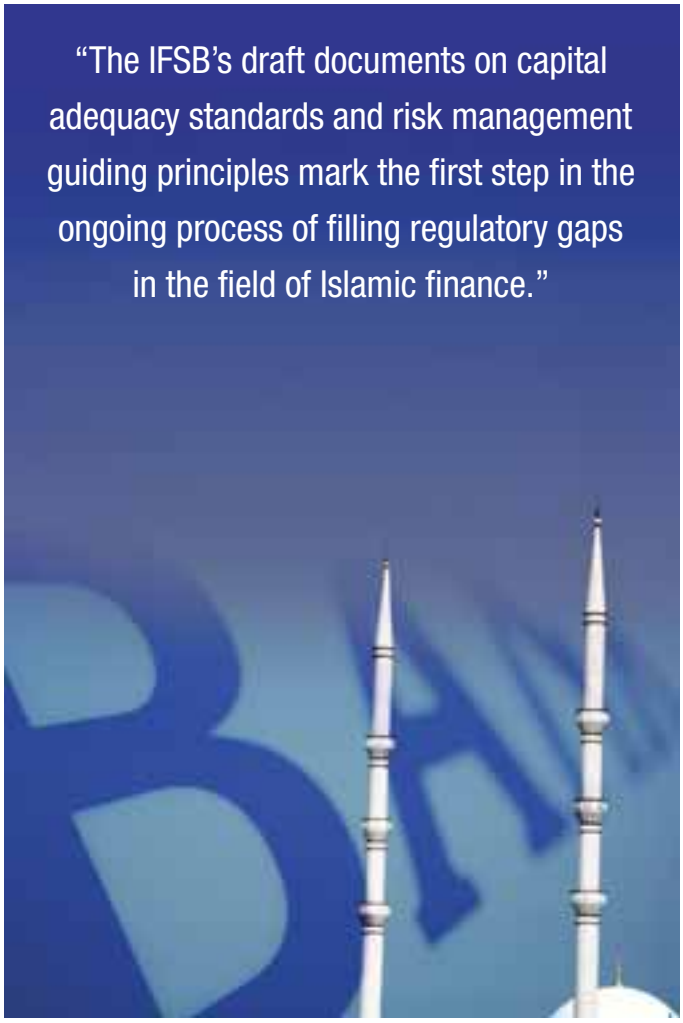
Risk Management Guidelines

Along with the proposed capital adequacy framework, the IFSB has concurrently issued a document marking out best practice for Islamic financial institutions' risk management. The IFSB incorporates risk management principles from the conventional financial institutions' sphere that are *Shariah*-compliant. Where risk management must diverge from these already established practices, the IFSB has recommended new guidelines adequate for *Shariah*-compliancy.

The risk management guidelines recommended by IFSB encompass credit, market and operational risk management guidelines, as dealt with in the capital adequacy standards above, and also liquidity, equity investment, and rate of return risk management guidelines. Each type of these risks exhibits itself in a manner unique to the Islamic financial environment and so the IFSB has derived specific guidelines to address the specificities of these risks in Islamic finance.

For example, equity investment risk usually arises from an Islamic financial institution's investments through *Mudaraba* and *Musharaka* instruments where the financial institution enters the contract as a partner. One of the risk principles the IFSB defines in this case is the need for Islamic financial institutions to establish how they will exit these investment activities. Specifically, effective risk management will describe the conditions which will necessitate an exit and alternative exit routes. Such a risk management policy would not be required in a conventional financial institution, in which this kind of partnership arrangement does not exist.

The importance of a holistic approach to risk management is highlighted by the IFSB. This is particularly important in the context of Islamic finance as reputational risk is arguably a greater factor in the performance of an Islamic financial institution than in a conventional financial institution. A vital segment of reputational risk exposure originates from the possibility of *Shariah* non-compliance. Conformance to *Shariah* law is the raison d'etre of Islamic financial institutions, and so any transgression of the laws of God will mean a total loss of credibility.



Conclusion

Risks are inherent in the operations of both Islamic and conventional financial institutions. Although the risk exposures of a conventional financial institution are dissimilar to those of Islamic financial institution, the main principles of risk management still apply. The IFSB's draft documents on capital adequacy standards and risk management guiding principles mark the first step in the ongoing process of filling regulatory gaps in the field of Islamic finance.

These seminal documents expand upon the Basel frameworks where they are insufficient to cater for Islamic financial institutions. More importantly, however, they demonstrate that the broad maxims behind the Basel frameworks are appropriate for the Islamic financial industry. This applicability though is subject to these principles being customised and fine-tuned to the specificities of Islamic finance.

This commonality between the Islamic and conventional finance spheres presents a stumbling block for those who believe that the Islamic financial institution is an exotic beast from the 'Middle East'.

These standards and guidelines drafted by the IFSB may mark the beginning of the further integration of Islamic finance into the wider conventional financial sphere. AT

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TOWARDS AN Electronic Filing System

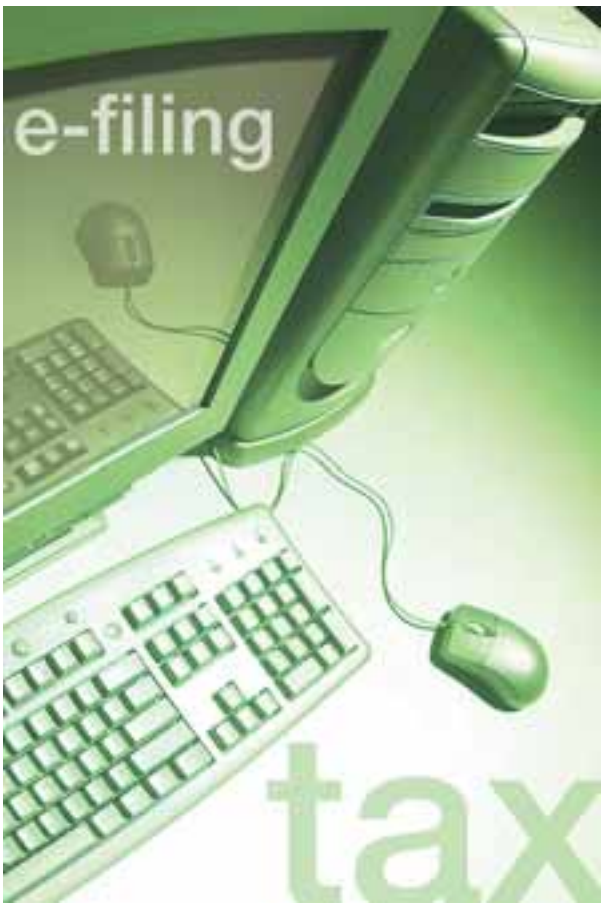
TAX PRACTITIONERS' RESPONSE AND COMPLIANCE CONSIDERATIONS

by Dr. Lai Ming Ling

On 17 May 2004, the Inland Revenue Board (IRB) launched the electronic tax filing system (e-filing) on corporate taxpayers. Most recently, on 10 February 2006, the IRB offered e-filing as an option to individual taxpayers to file income tax return forms online. E-filing offers the tax authorities, taxpayers and the tax practitioners a number of benefits over filing paper returns, nonetheless, the inherent weaknesses and insecurity of the e-filing system has thwarted the benefits.

The move to embrace an e-filing system globally is neither hassle-free nor well-accepted by all tax parties. Tax users' resistance and under-utilisation of the e-filing technology remain the greatest concern and these two issues still plague the tax agencies that have embraced the e-filing system. Notably, the barriers in adopting an e-filing system include — firstly, a continued preference by taxpayers to paper filing, secondly, there is a lack of awareness of e-filing, resulting in the misconception of what e-filing is all about. There are also issues regarding cost of compliance and concern about security of tax data sent online (ETAAC, 2002).

In the tax compliance setting, studies found that the tax practitioners are an important network for communicating tax agency enforcement priorities to taxpayers. However, tax practitioners, as a group, traditionally do not see the conversion to e-filing offering



that much of a benefit to them for their investment in the software and hardware needed to comply. Consequentially, the lack of demand by clients, plus the lack of perceived benefits, the high cost of compliance, misconception of the e-filing system and perceived insecurity of the e-filing system impeded the US tax practitioners from expending the resources to get involved.

Despite the fact that the e-filing system is an inevitable progression in the Malaysian tax environment, little is known about Malaysian tax practitioners' responses and reactions towards the e-filing system. Hence, this study has emerged to fill up a knowledge gap.

Organisational Support

The study shows that a substantial majority of the respondents indicated that their organisations had the provision of Internet access (91.7 per cent) and had automated

the accounting services (89.6 per cent). However, only 12 per cent of the respondents indicated that their organisations had specialised tax preparation software. Notably, the results indicate that the usage of specialised tax preparation software appears to be lacking in Malaysian tax firms, as compared to our overseas counterparts in the UK and Australia. The results also suggest that about 88 per cent of the tax firms had not used any tax preparation software at the workplaces.

These findings reflect the reality in the current tax practices in Malaysia. It was found that only the Big Four and some medium-sized accounting firms used in-house tailor-made tax software for tax preparation purposes.

Nine key findings on other issues that may discourage the use of the e-filing system are:

1. **Systems Reliability and Stability:** Some of the respondents expressed the view that they were concerned about the technological problems, particularly the reliability and stability of the e-filing system.
2. **Data Security, Privacy, Integrity and Confidentiality:** The respondents were worried that the e-filing system might be susceptible to theft and malicious use.
3. **Technology Readiness and Competency of the Tax Staff:** The respondents were also wary about the ICT skills, expertise, experience and technological competency of the tax staff in delivering electronic tax services.
4. **Time and Speed of Electronic Processes:** They were concerned that too much time was needed to learn and train their staff to use the technology.
5. **Proof of Receipt or Confirmation of Receipt:** The survey results affirmed that the fear of non-acknowledgement of receipt would discourage tax practitioners from filing tax returns electronically.
6. **Total Cost of Compliance:** The survey found that the respondents were concerned about the cost-benefit trade-off in embracing electronic filing. In particular, some were apprehensive about the need to accommodate various versions of the software to match the tax agency's hardware and software configurations, as well as the need for skilled staff to support the download, tax preparation and filing processes.
7. **Psychic Costs:** Tax compliance costs include psychic costs, often known as the hassle factor. These psychic costs comprise such things as worrying about getting tax matters wrong (calculating income, underpaying tax, etc), the difficulties in resolving unintentional errors and the possibility of not being able to obtain the certainty required for peace of mind when filing online.
8. **Readiness of Tax Firms:** The respondents were concerned that their firms lacked the manpower and knowledge to embrace the e-filing technology effectively.
9. **Taxpayer (and Tax Agent) Authentication Issues:** A few of the respondents indicated that they were concerned over taxpayer (and tax agent) authentication issues.

Implications and Recommendations

The survey findings provide some implications to the tax practitioners and the tax authorities. First, the findings provide the insight that insufficient organisational support (in terms of provision of computer resources with Internet access) and low usage of specialised tax software in tax firms would impede tax practitioners from using the e-filing system.

Overall, the findings strongly suggest that there is a need to inculcate the use of e-mail and Internet technology as much as possible in tax practice, as prior computing experience might play an important role in facilitating and promoting the utilisation of the e-filing system. The tax practitioners need to be willing to invest in computer technology, tax preparation software, e-tax applications, as well as to send their staff for training to better equip their staff.

Second, the findings support the insight that the IRB should acknowledge that concerns over system reliability and stability, insecurity, integrity and confidentiality of tax information filed online constitute tremendous barriers to adoption. In a tax setting, the responsibility to ensure system reliability; and to use measures such as message confirmation, PKI, firewall, and encryption lies generally with the tax authorities.

Third, the findings highlight that the IRB ought to get some tax practitioners to participate in the development and installation of the e-filing system, besides conducting extensive user-acceptance tests. The tax authorities should avoid developing the e-filing system solely from the administrator's point of view; they should consider the 'intended tax users' point of view as well.

Fourth, the e-filing system requires skilful staff to operate and maintain it, hence, there is a practical need for the tax authorities to develop and train their manpower with good ICT skills, and to introduce electronic tax communication (such as e-mail, e-tax enquiry) externally as early as possible. Pragmatically, the IRB should not launch electronic filing of tax returns far too soon without extensive user training.

Fifth, the findings indicate that electronic tax transactions can generate much anxiety and concern in the mind of the tax practitioners. Hence, there is a practical need for the IRB to encourage voluntary compliance through knowledge.

Sixth, the electronic income tax filing forms, such as personal and companies income tax return forms, might need to be simplified in order to save tax preparation time and cost, as well as to speed up the e-filing process.

Finally, the findings indicate that tax practitioners were concerned about the cost of compliance and speed of the electronic filing, therefore, the tax authorities and their trading partners need to make sure that the e-filing process is both cost and time saving.

Conclusion

The pursuit of an e-filing system represents an awesome challenge to the tax authorities and society at large. The greatest challenge faced by tax authorities is how to persuade intended tax users (particularly the tax practitioners group) to use the new tax technology. AT

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ISQC 1

OR INTERNATIONAL STANDARDS ON QUALITY CONTROL 1

By Janise Lee Guat Hoe

Quality control for firms that perform audits and reviews of historical financial information, and other assurance and related service engagements

The approval of ISQC 1 by the Council of MIA in July 2005 signifies another milestone in the profession's efforts to constantly improve the quality and reputation of the practitioners and reflects the intention and capability of the profession to move towards self- regulation. The concept of quality itself has now grown from the conventional approach of focusing on quality within an engagement to the entire quality management of a public practice.

The purpose of this ISQC is to establish basic principles and essential procedures and to provide guidance regarding a firm's responsibilities for its systems of quality control for audits and reviews of historical financial information, and for other assurance and related service engagements.

What is Required

Every firm is required to establish a system of quality control on a firm-wide basis consisting of a set of policies and the necessary procedures to implement and monitor these policies. The system should be able to provide reasonable assurance that:

- firms and its personnel comply with professional standards and regulatory and legal requirements, and
- reports issued by the firm or engagement partners are appropriate in the circumstances.

Elements of a System of Quality Control

In designing the system of quality control, the Standard mandates policies and procedures addressing each of the following elements:

- Leadership Responsibilities for Quality within the Firm.
- Ethical Requirements.
- Acceptance and Continuance of Client Relationships and Specific Engagements.
- Human Resources.
- Engagement Performance.
- Monitoring.

ISQC applies to all firms, regardless of size. The quality control policies and procedures are to be documented and communicated to the firm's partners and staff.

The nature of policies and procedures may vary depending on various factors such as size and operating characteristics of a firm, and whether it is part of a network. The firm should also recognise the importance of feedback on its quality control system from its personnel.

Leadership Responsibilities for Quality Within the Firm

Policies and procedures are designed to promote an internal culture based on the recognition that quality is essential in performing engagements. The Managing Partner or equivalent or, if appro-

priate, the firm's managing board of partners, should assume the ultimate responsibility for a firm's system of quality control. Leadership by example and the correct tone set at the top are essential to emphasise, inculcate and influence an internal culture of quality control.

Clear, consistent and frequent actions and messages on quality control from all levels of management are vital to promote a quality-oriented internal culture. Such actions and messages are to be incorporated in the firm's internal documentation and appraisal procedures and, communicated by training, seminars, meetings, formal or informal dialogues, mission statements, newsletters, or briefing memoranda. These types of actions and messages will encourage a culture that recognises and awards high-quality work.

The leadership should assign the operational responsibility for the firm's quality control system to a person or persons who have sufficient and appropriate experience and ability, and the necessary authority to assume that responsibility.

Ethical Requirements

Policies and procedures must be established to provide reasonable assurance that the firm and its personnel comply with relevant ethical requirements. The relevant ethical requirements, in compliance with this Standard are the By-Laws of MIA and other practice guides where applicable.

Members should take note that Part A and B of the IFAC Code of Ethics will be included as part of MIA's By-Laws come 1 July 2006.

Particular attention must be given to independence requirements to ensure all relevant threats are identified and independence breaches are promptly addressed with appropriate safeguards so that the reports issued by the firm are of high quality and appropriate in the circumstances. Such requirements include a written confirmation of compliance with independence policies and procedures from all personnel in the firm, at least once annually.

Acceptance and Continuance of Client Relationships and Specific Engagements

Policies and procedures established for the acceptance and continuance of client relationships and specific engagements will provide reasonable assurance that a firm will only undertake or continue relationships and engagements where it:

- has considered the integrity of the client and does not have information that would lead it to conclude that the client lacks integrity;
- is competent to perform the engagement and has the capabilities, time and resources to do so; and
- can comply with the ethical requirements.

Where issues have been identified, and the firm decides to accept or continue the client relationship or a special engagement, it should be clearly documented how the issue was resolved.

Policies and procedures on withdrawal from an engagement and client relationships should also be established.

Human Resources

The appropriate capacity and competency of the partner and staff involved in an engagement is important to ensure that the engagements are in accordance with professional standards and regulatory requirements. To achieve this, firms are required to establish policies and procedures that are able to provide reasonable assurance that it has sufficient personnel with the necessary capabilities, competence, and commitment to ethical principles necessary to perform its engagements.

Such policies and procedures should address personnel issues like recruitment, performance evaluation, capabilities, competence, career development, promotion, compensation and the estimation of personnel needs.

Engagement Performance

Firms should ensure that audit procedures conducted enable sufficient and appropriate audit evidence to be collected in the performance of an engagement. As such, proper policies and procedures should be in place to ensure that engagements are performed in accordance with professional standards and regulatory and legal requirements, and partners issue reports that are appropriate in the circumstances.

A set of standard policies and procedures such as a written or electronic manual can help ensure consistency in the quality of engagement performance.

Engagement performances policies and procedures should also be in place in regards to the following:

- Appropriate consultation takes place on difficult or contentious matters
- When dealing with differences of opinion within the engagement team; for example differences of opinion between the engagement partner and quality control reviewer.
- Engagement Quality Control Review

Monitoring

Continuous evaluation and feedback is critical for establishment and maintenance of a relevant and effective system of quality control. The Standard requires firms to design policies and procedures to provide reasonable assurance that the system of quality control is constantly relevant, adequate, operating effectively and complied with in practice. Ongoing consideration and evaluation of the system is recommended.

Documentation

The firm should establish policies and procedures requiring appropriate documentation to provide evidence of the operation of each of the elements of its system of quality control.

Factors to consider when determining the form and content of documentation include the following:

- Size of the firm and the number of offices
- Degree of authority both personnel and offices have,
- Nature and complexity of the firm's practice and organisation.

Implementation

Systems of Quality Control in compliance with ISQC 1 are required to be established by **1 July 2006**.

It can indeed be a big challenge to fully implement the requirements of ISQC 1 especially for small and medium-sized practices (SMP). However, the Standard does provide some guidance for compliance for smaller sized firms. AT

SPECIAL NOTICE

This space could be yours for RM200.00*

MIA members and the Institute's member firms may use this column to place general notices such as:

■ Moving (Change of Address) ■ Change of Firm's Name or Logo ■ Recruitment ■ Seeking Strategic Alliance OR Seeking Assistance Among Member Firms ■ Transfer of Technology/ Expertise/Know-How ■ General Announcements ■ Locating MIA Member(s)/Member Firms.

To place your notice or advertisment, please contact Hani of the Development and Promotion Department at +603-2279 9200 (ext. 324 or 146) or Fax: +603-2274 1783

*** TERMS AND CONDITIONS APPLY**

* Terms and conditions.

- Whilst every endeavour is made to publish suitable member firms' or members' advertisement in this special notice column on the requested month, it cannot be guaranteed.
- This advertising space is reserved for MIA member firms and MIA members. To be eligible to advertise in this special section, member firms or members must indicate their firm's or membership number. If the advertisement submission is incomplete or does not meet the submission requirements, the advertisement will be deemed invalid and excluded from the special column.
- The special advertisement assessment task force reserves the right to review, to hold over, to reject or to edit any advertisement(s) without prior notice to the advertiser and to publish the said advertisement(s).
- The Institute and the magazine shall not be responsible or liable for any claims, loss or damage whatsoever, resulting from or in connection with this advertisement.
- With immediate effect, these new terms and conditions supersede the earlier advertisement notice.
- The deadline for submission of notices or advertisements are on the 15th of each month.

Public Ruling (PR) No. 3/2006: Property Development & Construction Contracts

Please be informed that the *PR No. 3/2006: Property Development & Construction Contracts* was issued on 13 March 2006 by the Inland Revenue Board (IRB). The said public ruling can be downloaded from the IRB's website at *www.hasil.org.my* under the heading of 'Law & Regulations-Rulings'. AT

Al-Fatihah

Our Deepest Sympathy and Heartfelt Condolences

to

the bereaved family and relatives of

Allahyarham Tun Abdul Ghafar Baba

on his demise on

23 April 2006 (24 Rabiulawal 1427)

Semoga Allah S.W.T mencucuri rahmat ke atas rohnya. Amin.

From the President, Council Members, Members, Management & Staff of the

Malaysian Institute of Accountants

MASB issues Accounting for Zakat and Ijarah

The Malaysian Accounting Standards Board (MASB) has issued two pronouncements to deal with accounting for *Zakat* and *Ijarah*. The pronouncements are in the form of technical releases (TR), and are entitled TR *i*-1 *Accounting for Zakat on Business* and TR *i*-2 *Ijarah*.

Dr. Nordin Mohd Zain, Executive Director of MASB, said that these are the first two in a series of guidance on the application of MASB approved accounting standards to Islamic financial transactions.

He added that the technical releases are accounting guidance for those involved in Islamic products and provide explanation on how to apply MASB accounting standards to Islamic financial transactions which entities may find helpful.

On *Accounting for Zakat on Business*, Dr Nordin said that it only deals with financial reporting issues related to *zakat* – namely that *zakat* is an expense of the entity. The calculation of the basis for *zakat* and matters outside the purview of the MASB are referred to various authoritative bodies.

Ijarah is the long-awaited culmination of a five-year project. The technical release on *Ijarah* is based largely on feedback to an earlier draft released to the public in July 2004. Dr. Nordin said that the final product is much more comprehensive than the earlier draft and owes a lot to the constructive comments provided by the public.

The technical release on *Ijarah* was written on the premise that an asset under Islamic leasing is split between the underlying asset which belongs to the lesser, and the right to use which belongs to the lessee.

Copies of TR *i*-1 *Accounting for Zakat on Business* and TR *i*-2 *Ijarah* can be purchased from the office of the MASB or downloaded from the MASB's website. AT

Capital Market Graduate Training Scheme

The Securities Commission (SC) will be launching the above scheme for the sixth time with the similar objective of building a bigger pool of graduates who are skilled in capital market matters. The 12-month training scheme will comprise a 1-month full-time formal training to be conducted by the SC at its premises, followed by 11 months of internship/attachment with the industry. In this regard, the relevant institutions and the industry practitioners are requested to assist in the implementation of this programme.

As the scheme involves on-the-job training, the SC has invited our Institute's members to participate in this scheme by taking in graduates into their firms/companies for industrial attachment. The main players are stockbroking companies, merchant banks and **accounting firms**. Even though the 1-month training provided by the SC is in the area of capital market, the training in audit and non-audit firms with principally audit and tax exposure is deemed acceptable under the scheme.

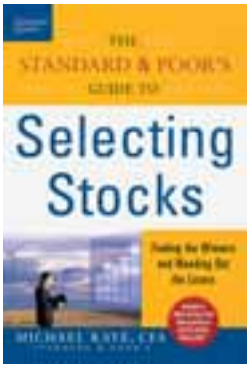
Following are the principal terms and conditions for interested participants:

- The 12-month training will commence in July 2006, unless the SC advises otherwise.
- The trainee receives a monthly allowance of RM700 to be paid by the firm or company to which they are attached **including the 1-month training at SC**. Firms/companies can pay more than the RM700 per month to attract the graduates to stay beyond one year if they wish to do so.
- As they are trainees and not employees, EPF is not deductible on the allowance.
- The notice for termination of training would be 1 week from either party.
- Other terms and conditions in the appointment letter would be at the discretion of the participating firm/company.
- All graduates who have successfully completed the 1-year training will receive a certificate from the SC.

If you are interested in participating in this scheme, please indicate to us in writing via fax to Tarana G. Ramchand at 03-2273 1016, e-mail at *practice@mia.org.my* or call for further information at 03-2279 9200 Ext 226) **by 21 May 2006** on the number of graduates that you require and their specific disciplines.

Members working in public-listed companies who are interested in taking in these graduates are also encouraged to participate in this scheme subject to the SC's discretion.

We look forward to your support for this government-initiated project under the Ministry of Finance. AT



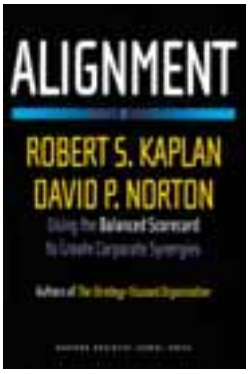
The Standard & Poor's Guide to Selecting Stocks

by Michael Kaye

Hardcover : 224 pages
Publisher : McGraw-Hill; 1st ed. (26 October 2005)
Language : English
ISBN : 007145084X
Price : USD24.95/RM99.80

The Standard & Poor's Guide to Selecting Stocks shows you step-by-step ways to discover good investment candidates in a time-saving and inexpensive way. Compiled by veteran Standard & Poor's analyst, Michael Kaye, this valuable inside look features:

- Insight into allowing investors to compare one investment to another.
- Giving direction on when to buy or sell.
- Real-world examples of Standard & Poor's unique blend of qualitative (analyst-driven) and quantitative (model-driven) approaches in action. AT

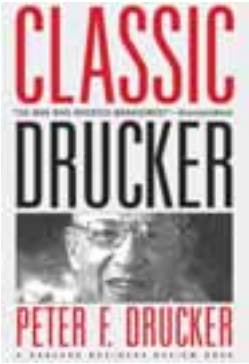


Alignment: Using the Balanced Scorecard to Create Corporate Synergies

by Robert S. Kaplan & David P. Norton

Hardcover : 302 pages
Publisher : Harvard Business School Press (30 April 2006)
Language : English
ISBN : 1591396905
Price : USD35.00/RM140.00

Based on extensive field research in organisations worldwide, Alignment shows how companies can build an enterprise-level Strategy Map and Balanced Scorecard that clearly articulate the "enterprise value proposition": how the enterprise creates value above that achieved by individual business units operating alone. The book provides case studies, actionable frameworks, and sample scorecards that shows how to align business and support units, boards of directors, and external partners with the corporate strategy and create a governance process that will ensure that alignment is sustained. AT



Classic Drucker: Wisdom from Peter Drucker from the Pages of Harvard Business Review

by Peter Ferdinand Drucker

Hardcover : 240 pages
Publisher : Harvard Business School Press; 1st ed. (1 March 2006)
Language : English
ISBN : 1422101681
Price : USD24.95/RM99.80

One of this century's most highly regarded students of management, Peter F. Drucker sought out, identified, and examined the most important issues confronting managers, from corporate strategy to management style to social change. Through his unique perspective, this volume gives us the rare opportunity to trace the evolution of the great shifts in our workplaces, and to understand more clearly the role of managers. This book gathers together Drucker's articles from *Harvard Business Review* and frames them with a thoughtful introduction from the Review's editor, Thomas A. Stewart. AT

Bigger Isn't Always Better: The New Mindset for Real Business Growth

by Robert M. Tomasko

Hardcover : 262 pages
Publisher : AMACOM (30 January 2006)
Language : English
ISBN : 0814408664
Price : USD24.95/RM99.80

When it comes to business growth, bigger is not always better. The key to achieving growth is to change the way we think about it. Genuine growth has more to do with reaching maximum potential than reaching maximum size. Based on ten years of research and dozens of personal interviews by the author, *Bigger Isn't Always Better* identifies seven key habits of mind that lead to real growth, and shows, through many examples, how they have been applied successfully. AT

Billionaire In Training (Instant Success)

by Bradley J. Sugars

Paperback : 192 pages
Publisher : McGraw-Hill; 1st ed. (19 December 2005)
Language : English
ISBN : 0071466614
Price : USD16.95/RM67.80

If there's one thing self-made millionaire Brad Sugars knows, it's that getting rich is a lot simpler than most people realise. In *Billionaire in Training* he puts you on the fast track to wealth creation through buying, building, and selling businesses and doing it at a faster pace than you ever thought possible. Discover how to:

- Climb the 5 Levels of Entrepreneurs.
- Buy promising businesses, increase their value, and sell them for top dollar.
- Transform your innovative ideas into a successful business empire.
- Set up businesses that run themselves and provide you with the capital to expand your investments. AT

MIA members can enjoy a 10% discount on any purchase for the above 5 books, for further details please contact the Development & Promotions Department at 03-2279 9200 ext. 324 or 136.

MIA Creates Awareness on Internal Audit through Essay Writing Competition for IHLs

The Malaysian Institute of Accountants (MIA) hosted the winners of its Internal Audit essay writing competition in a prize-giving ceremony held on 8 April 2006 at Cititel Hotel, Mid Valley, Kuala Lumpur.

Congratulations … MIA President, Abdul Rahim Abdul Hamid, presenting the mock cheque to the winner

Ooi Beng Teong of Universiti Tunku Abdul Rahman (UTAR) was adjudged to have written the best essay and received the first prize. Raihan Sahrom of the International Islamic University Malaysia (IIUM) bagged the second prize while Nurliza Othman, also from IIUM, got third placing. The consolation prize winners were Fakhrul Faiz Zaidi (IIUM), Wah Li Lian (UTAR), Mardhiyah Rahim (IIUM), Khong Heng Kit (UTAR) and Yap Ngee Teng (UTAR). A total of three main and five consolation prizes were up for grabs with the top three being cash prizes of RM1,500, RM1,250 and RM1,000. Consolation winners received RM250 each. All winners also received one-year free subscriptions to the Institute's monthly magazine *Accountants Today*.

In selecting the winners, the following criteria were taken into consideration by the judges, i.e. descriptive statements, critical analysis, presentation, referencing, grammar and language. All essays were marked by five judges from four local institutions.

For the 2005 competition, MIA chose the theme: *"Role of Independent Directors in an Audit Committee within a Globalised Environment"*. It was opened to all accounting students at bachelors, masters and professional levels from the Institutions of Higher Learning (IHLs), private colleges and student members of professional accountancy bodies. The competition was launched in July 2005 and received encouraging response with participation from nine institutions.

This is the third competition since its inception in 1999, and is an effort at creating awareness among students from institutions of higher learning on the area of internal audit and specifically on current issues in the context of globalisation.

Driven by the encouraging response and support received from the IHLs, the Institute hopes to hold the essay writing competition on a more frequent basis and hopes that the competition will be an avenue to promote good corporate governance amongst students of IHLs. AT

One for the album… The winners take a photograph with Abdul Rahim

WINNERS' LIST

1st Prize

RM1,500 plus one year free subscription of the *Accountants Today* and *MASA handbook*

Ooi Beng Teong, Universiti Tunku Abdul Rahman

2nd Prize

RM1,250 plus one year free subscription of the *Accountants Today* and *MASA handbook*

Raihan bt Sahrom, Universiti Islam Antarabangsa Malaysia

3rd Prize

RM1,000 plus one year free subscription of the *Accountants Today* and *MASA handbook*

Nurliza bt Othman, Universiti Islam Antarabangsa Malaysia

5 Consolation Prizes

RM250 plus one year free subscription of the *Accountants Today* and *MASA handbook* each.

Fakhrul Faiz b. Zaidi, Universiti Islam Antarabangsa Malaysia

Wah Li Lian, Universiti Tunku Abdul Rahman

Mardhiyah bt Rahim, Universiti Islam Antarabangsa Malaysia

Khong Heng Kit, Universiti Tunku Abdul Rahman

Yap Ngee Teng, Universiti Tunku Abdul Rahman

Financial Planning for Business Success

Top-class companies across the globe tend to enlist techniques such as Strategic Planning, Benchmarking, Early Financial Warning Systems, and Operating Leverage to gain competitive advantage. These are elements of financial planning which is one of the most crucial factors in determining corporate success.

Towards this end, the Institute organised the *Effective Financial Planning, Control Techniques and Practices* course at the Hilton Hotel, Petaling Jaya. The two-day programme saw the participation of 35 participants who were interested to gain insights into the financial planning aspect of business. The course, delivered by the managing director-cum-principal training consultant of Applied Intellect Management Training Sdn Bhd, Lee Fok Chong, led participants through the essentials of financial planning and the budgeting process.

The course was also held in Johor Bahru's Mutiara Hotel from 13-14 April 2006 and will subsequently be held in Penang at the Evergreen Laurel Hotel from 9-10 May 2006, at Kota Kinabalu's Shangri-La Tanjung Aru Resort from 15-16 May 2006 and at Hilton Hotel, Kuching from 18-19 May 2006. AT

Lee imparting financial planning tips to participants

Participants listening intently

Enhancing Knowledge on Reporting Responsibility

Lee has the participants' attention

The Institute organised a series of One-Day Intensive Course for Auditors titled *Auditors' Report* at various locations nationwide. The course emphasised the Framework for Auditing and Related Services (ISA 120) and the various levels of assurance provided by the Auditor's Report on Financial Statements (ISA 700) and the responsibility of Auditors to report on opening balances and comparatives and the effects of events after the Balance Sheet Date on Financial Statements (FRS 110) and Auditors Report (ISA 160).

Delivered by Janise Lee who has more than 20 years of experience in auditing, the course was held at six different locations, namely Kuala Lumpur, Petaling Jaya, Johor Bahru, Penang, Kota Kinabalu, and Kuching. AT

Participants noting points delivered by Lee

JOHOR BRANCH Connecting with the Johor IRB

One for the album (front row from left) … Director of IRB Johor Bahru Branch, Noor Izzah Mansor, MIA Johor Branch Chairman, Roland Choong, Director of IRB Johor State, Dr. Siti Mariam Che Ayub and Director of Investigation & Intelligence Centre, Mr. D. Vethamuthu David, with the rest of the Johor Branch Committee Members after the courtesy visit

The Johor Branch Chairman and the Committee Members made a courtesy visit to Dr. Siti Mariam Che Ayub, Director of IRB Johor State, Noor Izzah Mansor, Director IRB of Johor Bahru Branch and D. Vethamuthu David, Director of Investigation & Intelligence Centre.

The visit was to forge greater ties between the two bodies as both leaders were newly-appointed.

Many issues were discussed including the extension period for repayment, tax agent license, clearance for liquidation cases and e-filing. AT

Forging greater ties … MIA Johor Branch Chairman, Roland Choong presenting a memento to Director of IRB Johor State, Dr. Siti Mariam

Khor Boon Hong speaking to some of the students at SMJK Jit Sin

Students at SMJK Jit Sin listening attentively to the presentation by Khor

PENANG BRANCH
Promoting the Institute and the Profession

Upon the invitation of Polytechnic Seberang Perai, Penang Branch Committee Members, Assoc. Prof. Dr. Hasnah Haji Haron and Lee Then Thoong presented a talk on 8 March 2006 to some 250 Diploma and Certificate in Accounting students and lecturers.

Dr. Hasnah commenced the talk with an introduction of the history of the accountancy profession in Malaysia. She then briefed them on the responsibilities generally expected of an accountant. With the changes in accounting, auditing and the education standards, she also discussed the challenges that accountants are facing today. Then Thoong went on to speak on **Key Financial Reporting Changes** relating to Financial Reporting Standards (FRS). The Q&A session closed with the two speakers sharing their experiences as an accountant in academia and public practice respectively.

Earlier in the month, another committee member Khor Boon Hong presented a career talk to some 600 Form 3 students at SMJK Jit Sin in Bukit Mertajam. AT

SARAWAK BRANCH

Sarawak Branch promotes accountancy profession

The months of March and April saw Sarawak Branch's active participation in accountancy education related activities in Kuching. David Tiang Kung Seng, Branch Chairman, and members of the Sarawak Branch Committee called on Cik Rabiah Johari, the newly appointed Director of Education Sarawak, as a follow-up on last year's Accountancy Forum.

The new Director was very receptive to the Sarawak Branch's proposal to present a talk on MIA to school counsellors in Sibu and Miri and to contribute activities to youth camps organised by her ministry.

During the Branch's annual members' dialogues in chapters, Tiang with the Committee Members of the Sibu Chapter paid a courtesy call on the Principal of Methodist Pilley Institute, the only IHL offering a Diploma in Accounting and ACCA in Sibu.

In Kuching, the Branch Manager was one of the judges for the final of the Inter-School Accounting Quiz organised by CBS Business School for Form 5 Prinsip Akaun students. Then in Miri, the Branch Manager was one of the speakers at the Curtin Sarawak Fair on 15 April 2006, which was officiated by YB Datuk Patinggi Tan Sri Dr. George Chan Hong Nam, Deputy Chief Minister of Sarawak. AT

Presentation of memento to Director of Education Sarawak (L-R) Samsudin B. Hj Drahman (MOE), Ms Lucy Read, Dayang Rostylawati, David Tiang, Cik Rabiah Johari (Director of Education Sarawak), Si Kiang Seng, Ellen Manium (MOE) and Lucas Caisim (MOE)

Group photo at Sibu Methodist Pilley Institute … (L-R back) Ting Ley King, Peter Lau, Philip Tong, Loh Wei Boon, Ting Wee Huong (L-R front) Ling Ming Leh, Julia Wong Principal of MPI, David Tiang and Hj Wan Idris Wan Ibrahim

Joseph Lim and Fung of CBS Business School with the winner and runner-up teams from Chung Hua Middle School No. 1 and No. 4, together with representatives from MIA and ACCA

After the Professional Organisation Talk by MIA in Curtin University of Technology, Sarawak Campus, YB Datuk Patinggi Tan Sri Dr. George Chan Hong Nam presents a souvenier to Ms Read while Professor Dr. John Evans looks on

FORGET THE GLOBAL ECONOMY, Focus on your own!

by Rajen Devadason

Have you noticed how almost every conversation you have about the global economy — be it at a cocktail party, in a boardroom or over a *teh tarik* — centres on one of these four issues: America's worsening twin deficits, the rise of India, the dominance of China, and our gravity-defying oil prices?

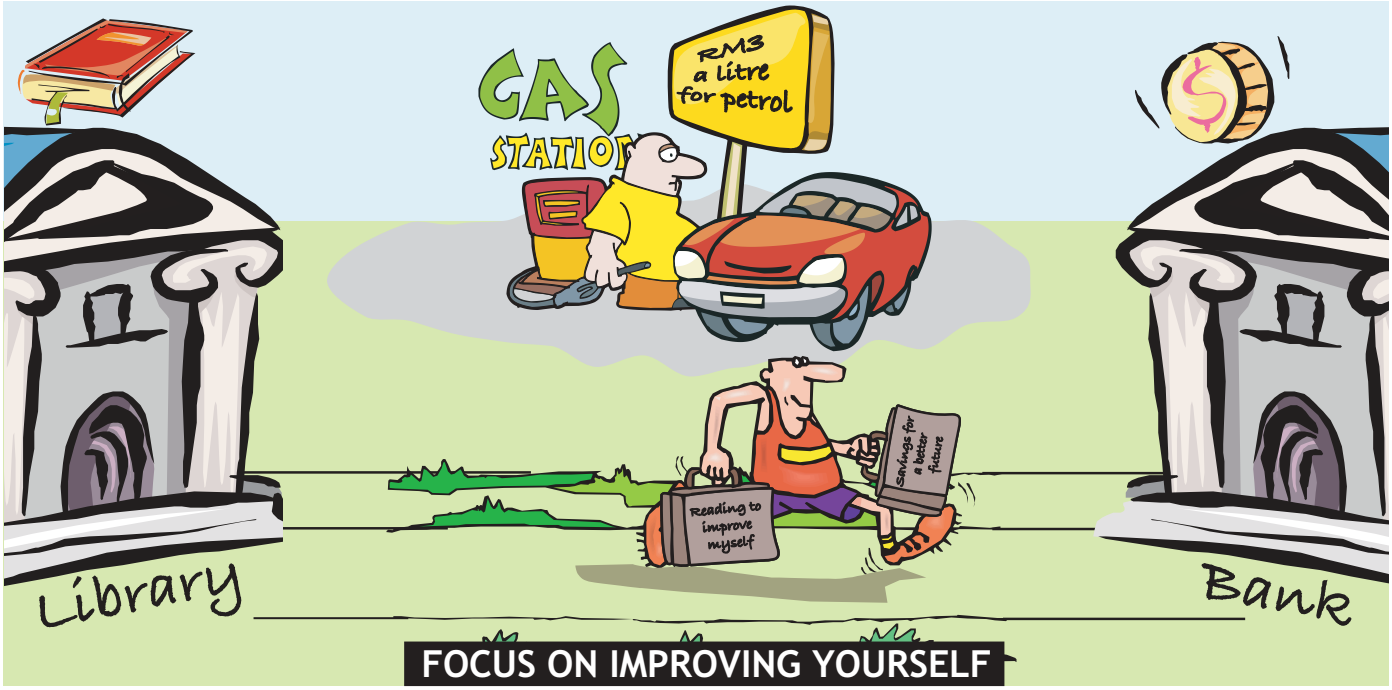
Each of those adds credence to the ubiquitous doomsayers' predictions that our future here in Malaysia is not rosy! After all, it isn't difficult to develop logical arguments for each of those issues, which lead to the conclusion that for regular Malaysians, ominous storm clouds are gathering on our horizon. Think about it:

Issue one — if America's twin deficits — budget and trade — continue to balloon out of control, it seems inevitable that the day will dawn when the most powerful nation on Earth bankrupts itself. That can't be good news for the rest of the world that uses the greenback as the *de facto* global currency and for the major trading nations, including Malaysia, which look to America to buy a major chunk of their goods and services.

Issues two and three — with first China and then India growing at breakneck speeds of about 10 per cent and seven per cent a year, respectively, why would foreign investors give a peripheral (dare I say potentially marginalised?) Asian nation like Malaysia more than a cursory glance?

Issue four — the higher oil prices go, the greater the strain on global businesses that need to make profits to stay afloat. It used to be if a national economy began to grow too fast and thus started to overheat, the standard prescription was to slow down the velocity of money by raising interest rates. The control mechanism would work in reverse, as well. So, if an economy grew sluggish, printing more money and dropping interest rates would work wonders. This is pretty much common knowledge now, and is in line with what well-respected economist, Paul Krugman wrote in his book *The Accidental Theorist*: "It is possible for economies to suffer from an overall inadequacy of demand — recessions do happen. However, such slumps are essentially monetary — they come about because people try in the aggregate to hold more cash than there actually is in circulation. (That insight is the essence of Keynesian economics.) And they can usually be cured by issuing more money — full stop, end of story."

On the basis of such understanding, central bankers around the world extracted great comfort knowing they could adjust interest



rates, within reason, and therefore navigate their respective economies through the treacherous shoals of global uncertainty.

But with the significant jump in oil prices in recent times, we now have a second factor which affects global growth but that's not susceptible to ready control by governments and their central banks — we can't 'print' more barrels of oil; once we run out of hydrocarbons, that's pretty much it — electric vans and solar cars, here we come!

All told, things look nasty

So, what are Malaysians supposed to do in light of such gloomy prognostications? Sigh, I don't have all the answers; if you have any useful suggestions, please share them at my blog, which you can access online at: *http://snipurl.com/CoolBlog*

I will monitor the comments left there and highlight the best ones in future issues of *Accountants Today*. But while I wait for your useful feedback on this matter, let me share four suggestions that should help you mitigate the adverse effects of those four negative issues. My suggestions are:

1. Focus not on your circle of concern, but rather on your circle of influence;
2. Learn from the lessons of history, particularly those from the 1930s and from 1997-1998;
3. Clean up your net worth statement; and
4. Strengthen your cash flow statement.

Focus not on your circle of concern, but rather on your circle of influence

This phenomenal idea comes from Stephen Covey's elaboration of his first of *The 7 Habits of Highly Effective People*, which is a book many own and talk about but relatively few have read cover-to-cover! I urge you to buy your own copy, read it completely, and then reread it at annual intervals. Until you get around to doing so, please note the first Covey habit is 'Be Proactive'.

Within the context of our discussion, your personal circle of concern could encompass all four of the negative issues we've been exploring. We can worry all we want, but there isn't anything we can do about them. Of course, our circle of concern also contains within its large circumference many things we can do something about. Those particular items fall within the fence of a smaller circle of influence, which for most people is completely contained within their larger circle of concern.

It is important to understand that our circle of influence contains within it all the aspects of our lives we have direct, personal control over. Just a few of those aspects would be our level of personal effectiveness, our position of competitiveness in the job market, our stores of personal knowledge, wisdom and acumen, and so on.

It is true that we expect our world to continue to become a more and more difficult place to live in because of the four issues mentioned, and many others not touched on. Nonetheless, imagine how far ahead of most other people we will get in life if we were to focus on improving those areas we have direct control over, instead of squandering irreplaceable mental energy worrying about things we cannot change.

Learn from the lessons of history, particularly those from the 1930s and from 1997-1998

The Great Depression hit the world in the 1930s. And then, of course, less than a decade ago, the Asian Meltdown of 1997-1998 hurt every economy in Asia to some extent. During both those periods, many people suffered financial reversals. Strangely, though, a few people grew financially better off because they had prepared themselves to deal with periods of tight money and falling asset prices. While most others were selling valuable assets for whatever meagre amounts of cash that buyers appeared able to raise, the true winners were out there actively bottom trawling. They were able to pick up choice assets because they were relatively cash-rich at a time of widespread cash shortages.

Clean up your net worth statement

If you were a company, I would be urging you to scrub clean your balance sheet. Since you're a living, breathing human being, I am, instead, suggesting you focus on cleaning up your net worth statement. This means paying off your liabilities and strengthening the quality of your assets.

The first liabilities that should be eliminated are either your most expensive or the smallest consumption-based debts you've assumed to purchase depreciating assets. In contrast, the types of assets you want to load up on are those that either appreciate or that pump healthy streams of cash into your life.

Strengthen your cash flow statement

There are two parts to your cash flow statement: cash in and cash out.

To increase your cash inflow, work on enhancing your value in the marketplace so your salary or business income rises faster than your personal inflation rate does. Also, focus on buying cash-generating assets like investments, and businesses which you don't need to operate directly so you literally and effectively earn money in your sleep. Bottomline: Grow both your active and passive income streams.

To reduce your cash outlays, invest time figuring out what you spend your money on. To be certain, you need to meticulously monitor and measure your monetary outlays.

In the process of doing so, don't make the mistake of thinking you shouldn't spend any money at all. In addition to being unrealistic, it is unhealthy! The Certified Financial Planner Board of Standards definition at *www.cfp.net* states, "Financial planning is the process of meeting your life goals through the proper management of your finances."

Part of 'the proper management of your finances' includes spending money appropriately so the quality of your life goes up.

Having said all that, most of us will find entrenched and fossilised expense items in our planned budgets or actual cashflow statements that don't enhance the quality of our daily existence. Those are the line items that need to be tagged and sliced off with the vigour of a chainsaw-wielding lumberjack!

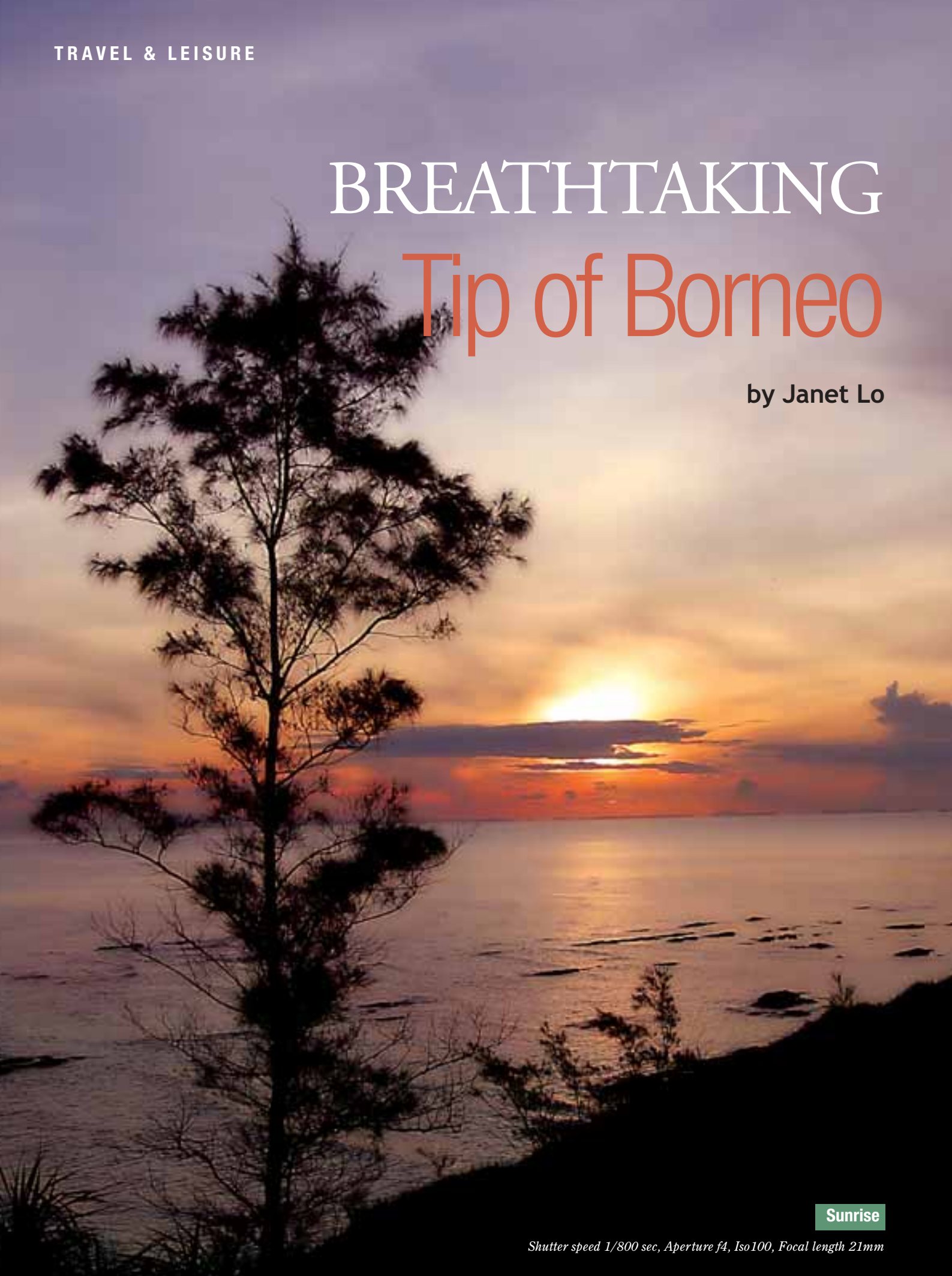
Frankly, there's so much we can do to improve our lot on Earth, despite the gathering storm clouds that we readily recognise. The ultimate solution is to continually elevate our ability to act proactively in every area of life, and to teach our kids to do the same.

In thinking through these issues, I think it is eminently useful to recognise the truth of this saying of unknown origin: "To have national prosperity we need to spend, but to have individual prosperity we must save." AT

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

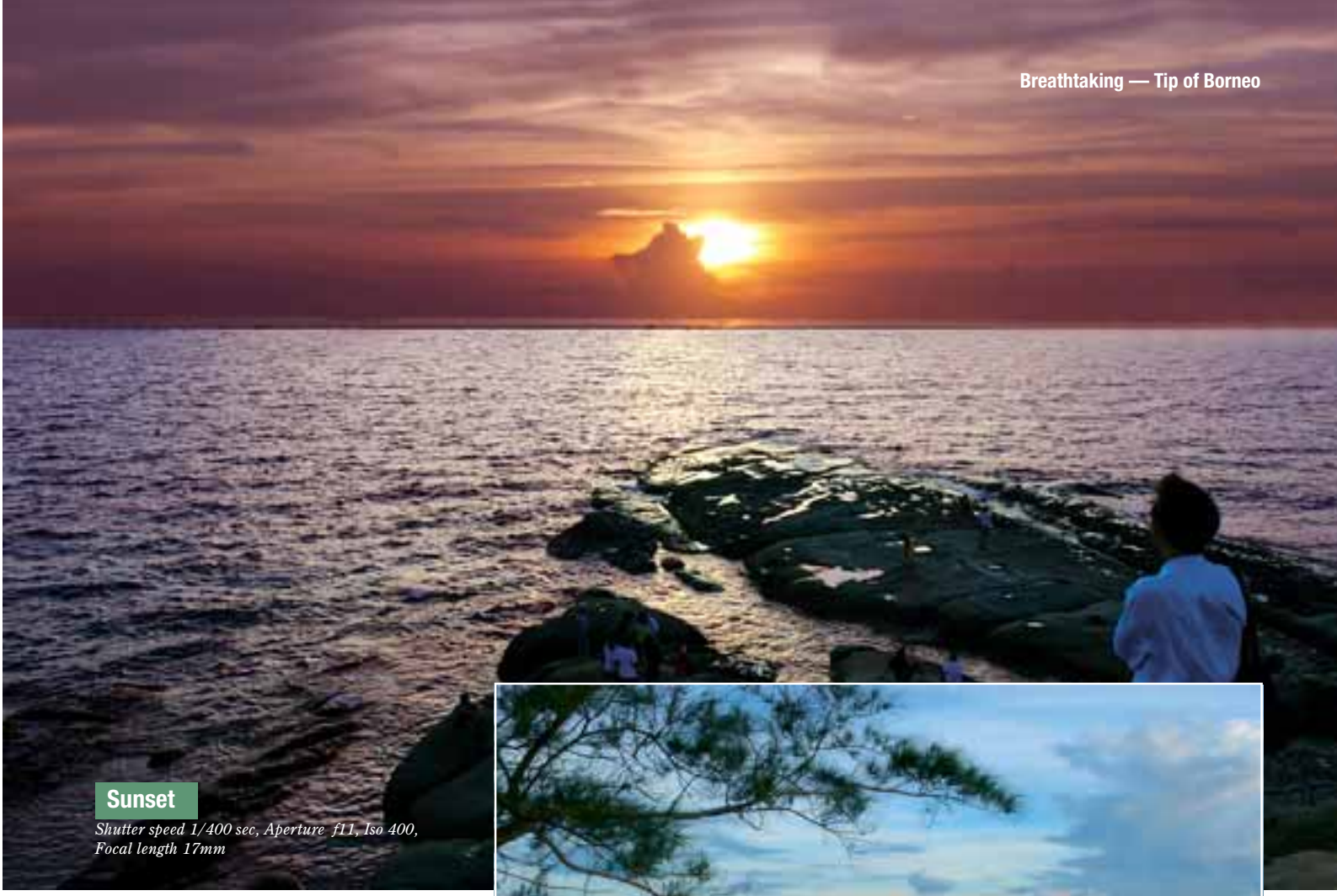
BREATHTAKING Tip of Borneo

by Janet Lo



Sunrise

Shutter speed 1/800 sec, Aperture f4, Iso100, Focal length 21mm



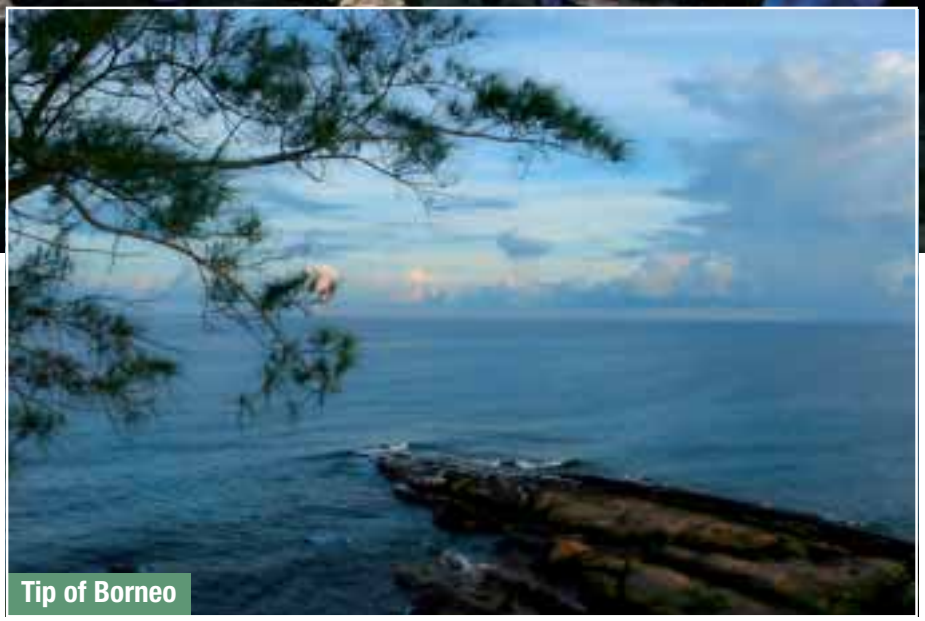
Sunset

Shutter speed 1/400 sec, Aperture f11, Iso 400, Focal length 17mm

The newest tourist destination in Sabah is Tanjung Simpan Mengayau or the Tip of Borneo. It is the northern most part of Borneo, where the South China Sea meets the Sulu Sea. It is amazing that one can view the sunrise as well as the sunset here. It is about 40 minutes drive from the first capital of Sabah — Kudat. It was a breathtaking sight standing on the cliff looking down at the splashing waves. Kudat is accessible from Kota Kinabalu by road. The road is good and it takes three hours.

We stayed at the new Marina Resort at Kudat. We also visited the Rungus tribe and their longhouse. The Rungus ladies are experts in making beadwork ornaments like rings, bracelets and necklaces. Homestay is available at kampong Bavanggazo for tourists to experience first hand the life and culture of the Rungus people.

There are plenty of opportunities to take both landscape and portraits of the Rungus tribe. We used wide angled lens and 70-200mm zoom lens during the shooting. AT



Tip of Borneo

Shutter speed 1/50 sec, Aperture f11, Iso 100, Focal length 22mm

Rungus Lady

Shutter speed 1/100 sec, Aperture f4, Iso 400, Focal length 24mm

Building a Top Active Team

by Davis Sharp

In our work with teams, either facilitating meetings or conducting workshops, we present a definition of what a top active team looks like. Then we hold a discussion about how well this team measures up, and what they can do to more closely meet the definition. One way of helping an unproductive team is to give them a goal to aspire to. This approach has sparked many fruitful team discussions, and has helped groups get back on track.

When a team is eventually operating effectively you will see:

1. *A cooperative, supportive atmosphere* where people feel free to offer their ideas and efforts.
2. *Everyone involved in a meaningful way,* making the best use of each person's abilities.
3. *Leadership shifting among the group* to whomever has the expertise on a particular point
4. *A democratic atmosphere* where everyone's ideas are sought and utilised where possible.
5. *A clear system for problem-solving* which is understood by all.
6. *Decisions made by consensus.* Everyone has had their input and listened to the ideas and reactions of others. All members of the group feel they can support the decision of the group even though they might do it somewhat differently if the decision were theirs alone.
7. *Healthy conflict* that sparks the group to more creative thinking and solutions. Conflicts are confronted and worked through, not stifled or buried.
8. *Open lines of communication* where members actively listen to each other, respond constructively and give feedback in a positive way. Only one person at a time is talking, so valuable information is not missed.
9. *Excited, energetic people,* enjoying what they are working on and enthusiastic about working together.

The other leading aspect in building an effective team is education or skills training. Who says dull material has to be dull? If you're dealing with material labelled dry or boring, ask yourself: "Why is it boring? Is it the content? Is it the way it is presented? Is it both?" The answers to these two questions can help you identify the problems you have to solve to make your training motivating.

Here are some ideas to make even the most dull topic motivating to your trainees.

- Help people see the relevance of the material: show them how it relates to their real world.
- Help trainees see a personal payoff: relate training to their concerns and construct it to solve their immediate problems.
- Have trainees develop their own case studies and simulations, so they can apply the content to real world stuff.
- Use 'expert' input from someone they respect.
- Use interactivity as much as possible: paired discussions, small group and team initiatives, anything that gets them up and moving.
- Change delivery methods often; don't lecture for more than 10-15 minutes at a time. Mix in other techniques frequently — keep changing the pace.
- Use real-life stories and examples to make points. Use demonstrations (trainees or yourself) to dramatise key points and make them memorable.
- Become an interesting presenter: lots of voice inflection, pauses, facial expressions and enthusiasm. Move your arms and whole body: exhibit energy.
- Stop often to solicit trainees' concerns and questions. Invite them to challenge points you've made to generate discussion about "will it work?"

Keep things moving!! And training must be fast-paced, interactive, and even fun. AT

CIMA

Robin Vaughan

"CIMA's position as the authoritative voice of professional accountants in business has enabled it to play an important role in maintaining confidence in the accountancy profession."
Robin Vaughan

Chartered Institute of Management Accountants ▼

CIMA announces new Director of Professional Standards

CIMA has announced a key appointment to its senior management team. Robin Vaughan joined CIMA on 24 April 2006 as Director of Professional Standards. He was previously the Chief Executive and Registrar of the Architects Registration Board (ARB), UK.

Charles Tilley, Chief Executive of CIMA, said, "Today, ethics and continuing professional development could not be more important for professionals and their professional bodies. I am therefore delighted that we will be able to draw on Robin's wealth of expertise and experience to drive forward and champion CIMA's work in this area."

Robin Vaughan said, "CIMA's position as the authoritative voice of professional accountants in business has enabled it to play an important role in maintaining confidence in the accountancy profession. The recently launched Code of Ethics and revised CPD policy, coupled with its open and transparent disciplinary process, are evidence of its leading and innovative approach to professional standards. I relish the opportunity of joining this highly respected organisation to contribute to the delivery of its overall strategic ambitions."

As Director of Professional Standards, Robin Vaughan will be the executive lead on the regulation of CIMA members. He will also be responsible for the management of the relationship with the independent regulatory framework for the profession and the direction of the development and maintenance of professional standards of management accountants. He will also be heavily involved in the development of mandatory CPD policy and its implementation.

Since 2000, Robin has been Chief Executive of the Architects Registration Board where he successfully delivered the 1997 Architects' Act, ensuring the architectural profession is regulated in the public interest with appropriate educational, practice and disciplinary standards. Prior to his tenure at ARB, Robin was Secretary to the Board of Chartered Accountants in Business at the Institute of Chartered Accountants in England and Wales (ICAEW) and from 1972 to 1990 enjoyed a career at the bar of England and Wales, at its Council of Legal Education, rising to Registrar. He is currently a board member of the Quality Assurance Agency.

Robin Vaughan replaces Peter Douglas, who has been appointed Chief Executive of Regent's College and the European Business School, London. AT

"CIMA Learning is a challenging, output driven brand designed to deliver market leading education for our students. We have placed our key emphasis on the student at the heart of the education process. We looked at what really matters to them and their employers when choosing a tuition provider and, not surprisingly, we identified that exam results and targeted learning support were top of the list."
Robert Jelly, Director of Education, CIMA

CIMA launches two new initiatives

CIMA has launched groundbreaking revisions to its qualification, which will appeal to both financial, and increasingly, non-financial staff.

CIMA's revised Certificate in Business Accounting qualification is designed to develop the fundamental skills and techniques necessary for success in a rapidly changing business environment, with modules ranging from business economics and financial accounting through to ethics, corporate governance and business law.

Speaking at a recent conference in London, Robert Jelly, Director of Education, said, "The Certificate's flexibility as both a stand alone qualification for non-financial managers and an entry level route to the professional Chartered Management Accountant qualification will ensure its relevance to employers and students alike."

He added, "The driving forces behind the changes have been the rapidly changing business and regulatory environments and CIMA's focus on ensuring employers are increasingly attracted to CIMA's qualifications framework, both for financial and increasingly non-financial staff."

The revised qualification was developed following extensive consultation with a working group of CIMA members, employers and tuition providers and meets the criteria set out by developments in the International Federation of Accountants (IFAC) arena. The new Certificate syllabus assessments will be available from 2 October 2006.

Students will be awarded the CIMA Certificate in Business Accounting on successful completion of five examination subjects. As with the previous qualification, assessment continues to be based upon five modules, which have been renamed and renumbered as follows:

Paper C01 Fundamentals of Management Accounting
Paper C02 Fundamentals of Financial Accounting
Paper C03 Fundamentals of Business Mathematics
Paper C04 Fundamentals of Business Economics
Paper C05 Fundamentals of Ethics, Corporate Governance and Business Law

CIMA Learning is the new global accreditation programme for tuition providers and replaces the Learning Through Partnership scheme. The CIMA Learning scheme is available for organisations who offer the very best in CIMA tuition. They must meet the challenges of the programme, which is output driven and focuses on the criteria that really matter to students and their employers. Tuition providers who meet the six steps within the CIMA Learning

matrix will be awarded CIMA Learning Quality Partner status.

Robert Jelly said, "CIMA Learning is a challenging, output driven brand designed to deliver market leading education for our students. We have placed our key emphasis on the student at the heart of the education process. We looked at what really matters to them and their employers when choosing a tuition provider and, not surprisingly, we identified that exam results and targeted learning support were top of the list."

For more details on the CIMA Certificate in Business Accounting see *www.cimaglobal.com/certificate* and for further information on the CIMA Learning scheme for colleges go to *www.cimaglobal.com/cimalearning2.* AT

Sri Lankan Prime Minister opens CIMA's dynamic new learning environment

On 4 April 2006, the Chartered Institute of Management Accountants (CIMA) opened its cutting edge new building and facilities at its Sri Lankan headquarters in Colombo. The ribbon was cut and the plaque unveiled by the Prime Minister of Sri Lanka, the Hon. Rathnasiri Wickramanayake in the presence of Ian Christison, President, CIMA and Lalith Fonseka, President, CIMA Sri Lanka Division.

Hundreds of guests gathered for the opening ceremony and the evening's cocktail party with representatives from several government ministries and the business community, as well as CIMA members and students. The opening ceremony included drummers, dancers, boiling of milk, lighting of the traditional oil lamp and addresses by the Prime Minister and CIMA Presidents.

The new building hosts a new Student Services Centre, an improved Information Resource Centre with access to journals, online resources and a large study area, an auditorium holding over 150 people, an upgraded Computer-Based Assessment centre, a networking lounge for CIMA members and staff and new and improved administrative facilities for the Divisional staff.

Lalith Fonseka, President, CIMA Sri Lanka Division, said: "The attendance of our Chief Guest and all our other VIPs demonstrates the long term support and recognition we have enjoyed over the years from the Government and other leading institutions for our contribution to national development. In the same way, the enhanced services and facilities that this building provides shows CIMA Sri Lanka's commitment to providing the best support for its members and students."

Rathnasiri Wickramanayake opens the facility

Ian Christison, CIMA President, added: "This new building represents a tremendous development for CIMA's members, students and staff in Sri Lanka and shows our significant commitment to the country. CIMA, together with Sri Lankan colleagues, has been actively promoting excellence in business in Sri Lanka through quality management and business leadership since 1965. The economic development of this beautiful nation in recent years is testament to the contribution of our members throughout all sectors and we have great confidence this growth will continue and we will be a part of that. With almost 15,000 members and students in Sri Lanka, this is exactly why CIMA remains the premier management accountancy professional body in this country." AT

"This new building represents a tremendous development for CIMA's members, students and staff in Sri Lanka and shows our significant commitment to the country."
Ian Christison

CPA Australia ▼

CPA Australia appoints new President

Australia' largest accounting body, CPA Australia is pleased to announce the appointment of Paul Meiklejohn FCPA as its new President from 1 April 2006.

Meiklejohn has had over 30 years experience working in the public and private sectors in senior financial management, accounting, corporate governance, business analysis, advisory and assurance services roles.

He is currently Director of the AABS Audit Division for Ernst & Young in Canberra and a Director on the Board of Professions Australia. He was formerly with the Commonwealth Department of Finance and Administration, within the Financial Management Group, where he had oversight of Government cash management and consolidated financial reporting.

Outgoing President, Mark Coughlin said that Paul's expertise in financial management in the public sector, business performance measurement and improvement, and corporate governance would be a great asset in addressing the challenges that face the profession.

One of Meiklejohn's priorities is to maintain the

Paul Meiklejohn

high professional standards and ethics expected of the profession. "I aim to ensure the public can continue to rely on a CPA for the quality and integrity of their advice," he said.

"I also want to pursue other areas of benefit to people such as financial literacy. I am sure there is much we can do as a profession to help more people manage their money."

Meiklejohn was elected CPA Australia's Vice-President and appointed Chair of the Board Governance Committee in 2003. He was elected Deputy President last year and Chairs the Board Finance and Planning Commitee. AT

A Didgeridoo Experience at a Technical Seminar Anyone?

From left: CPA Australia's Member Relations Manager, Lim Chor Ghee, Margaret Chin, Professor Sivalingam, CPA Australia Malaysia Division Director, Audrey Danasamy and Lim Chee Hian

Yes, the dreamlike vibrations of the Australian aboriginal wind instrument, Didgeridoo, reverberated the lecture theatre at Monash University Malaysia recently where CPA Australia's 3rd Annual Undergraduate Technical Seminar was held. The four-man team of ABO Nation huffed and puffed their didgeridoos to an appreciative audience of over 170 CPA Passport members comprising undergraduates who are pursuing an accounting major in local universities, university colleges and colleges. The participants included students from Monash University, Nilai International College, Multimedia University, Sunway College, Help University College, Metropolitan College, Taylors' Business School, Universiti Malaya and Universiti Teknologi MARA.

The Seminar was part of a series of activities planned for CPA Passport members by CPA Australia aimed at developing technical skills in addition to leadership and organisational skills which are crucial for attaining success in an accounting and finance career. Present at the seminar were Professor Sivalingam, Chair of Monash University's School of Business and Margaret Chin, President of CPA Australia Malaysia Division.

In staying current and relevant to present demands in the industry, the theme 'Contemporary Landscapes in Accounting' was chosen to cover topics such as the expectations of the Big 4 firms in terms of human resources, the need for accountants to be IT savvy, the skill sets required to succeed as an accountant as well as a lively interactive session on career prospects. Speakers included the principal and partner of KPMG Malaysia, Lim Chee Hian, Eugene Lee, the senior manager of MISC and Lim Chin Ee, head of ERP, First Mobile Group.

"Graduates should not think too highly of themselves when they leave university as they are among many," said Margaret. This attitude, she said, is a major contributor to the career downfall of graduates.

One of the highlights of the seminar was the interactive session with students on their strengths and weaknesses. The students had a lot of fun identifying their respective personalities and matching it against a suitable vocation. AT

Landmark agreement for CPA Australia members working in the US

"We have over 7,700 CPA Australia members in Malaysia and many of them operate in the global marketplace."
Margaret Chin, President, CPA Australia Malaysia Division

CPA Australia has become the first Australian accounting body to gain recognition for its qualification within the US without a requirement for its members to take additional study.

A new mutual recognition agreement (MRA) means that CPA Australia members with a three-year undergraduate degree can now obtain licences to work in the US.

CPA Australia's Malaysia Division President, Margaret Chin said, "The agreement shows the high regard held by US professional bodies for the CPA Australia designation, its rigorous education program and the professional standards to which our members have to adhere."

"We have over 7,700 CPA Australia members in Malaysia and many of them operate in the global marketplace. The MRA will enable more of our members to work in the US and gain valuable experience to further their careers."

The MRA is with the United States International Qualifications Appraisal Board (US IQAB) representing the National Association of State Boards of Accountancy (NASBA) and the American Institute of Certified Public Accountants (AICPA). Thirty-nine US states including California, New York and Texas recognise the CPA Australia qualification. AT

Institute of Chartered Accountants in England and Wales ▼

A qualification made for Corporate Finance

Experience route — extension of deadline for Malaysian Domiciled person only

The Corporate Finance Qualification is made for corporate finance. Jointly developed by the ICAEW, the Securities and Investment Institute (SII), and the Canadian Institute of Chartered Accountants (CICA), the Corporate Finance Qualification is opened to all aspiring, established and ambitious corporate finance professionals, with no barriers to entry.

Professionals — who have backgrounds ranging from investment banking to professional service firms — will be awarded the *Corporate Finance Qualification* after completing the course. They will then be entitled to use the letters 'CF' after their name.

A benchmark for success

The new qualification is part of a range of new professional business qualifications that will offer its members significantly enhanced continuing professional development.

It is advisory focused; giving candidates the practical skills and knowledge they need to operate within the corporate finance market.

It is poised to become a benchmark for success in the industry and is designed to help raise professional and ethical standards in corporate finance.

The Institute's Corporate Finance Faculty has already awarded the CF qualification to some of London's highest profile and most successful financiers.

Chris Ward — one of the first recipients of the award and Chairman of the ICAEW Corporate Finance Faculty and Head of Corporate Finance Advisory, Deloitte (UK) — emphasised how necessary it had been to introduce the qualification.

"Corporate finance is a profession of growing influence and increasing global significance," he said. "The CF qualification is designed to set the standard internationally for transaction based skills development and is extremely relevant for anyone wishing to pursue a career in corporate finance."

Experience route — extension of deadline for Malaysian Domiciled person only

For a limited period, senior corporate finance professionals will have the opportunity to have their achievements recognised through the **'Experience Route'**. Individuals demonstrating at least six to eight years' relevant experience at a senior level are now invited to apply for the CF designation. The award is not limited to members of the ICAEW, SII or CICA.

While the deadline for application via the **Experience Route** has closed in the UK, Malaysian domiciled candidates have been given the opportunity to apply for the CF designation based on a special extension given by the Institute. Interested Malaysian domiciled professionals who meet the range of experience-based criteria have until **31 July 2006** to apply. Further, applicants (Malaysian domiciled only) keen on taking advantage of the special early bird discount should apply by **31 May 2006**.

For further information on the CF qualification via the Experience Route (for Malaysian domiciled person), please e-mail *elaine.hong@icaew.co.uk* or call +6 03 2094 6340

For further information on the new CF qualification, please visit our website *www.cfqualification.com* or for specific query, please call our advisers on +44 (0) 1908 248 293. AT

IFAC

IFAC's Public Sector Accounting Standards Board Issues New Paper on U.S. Transition to Accrual Accounting

To provide greater transparency and information in their financial reports, an increasing number of governments and other public sector entities are moving to adopt the accrual basis of accounting. The International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) has released an information paper on the experiences of the US in its transition to accrual accounting, entitled *The Road to Accrual Accounting in the United States of America*.

"Adoption of accrual-based accounting by public sector entities increases the accountability and transparency of their financial reports and provides better information for planning and management purposes. This paper provides valuable insights for jurisdictions currently in the process of migration from the cash basis to the accrual basis or those considering adoption of the accrual basis," says IPSASB Chairman, Philippe Adhémar.

The challenges for entities moving to the accrual basis include both development and implementation issues. They also include the establishment of appropriate institutional arrangements and mechanisms to promote, manage and assist in the transition. The IPSASB paper notes the development of administrative arrangements for formal standards-setting at the local, state and federal government levels in the US and highlights key factors shaping the standards-setting structure. It also provides input on the US federal government reporting model.

The paper was prepared by David Bean, Director of Research and Technical Activities at the Governmental Accounting Standards Board (GASB) and technical advisor to the US member on the IPSASB, and staff at the GASB. AT

The Road to Accrual Accounting in the United States of America can be downloaded free-of-charge from the IFAC online bookstore at *www.ifac.org/store*.

IAASB Proposes New Requirements for the Audit of Group Financial Statements

Proposals designed to enhance the quality of audits of group financial statements were released recently by the International Auditing and Assurance Standards Board (IAASB). The IAASB recently approved, and is now issuing, a re-exposure draft (ED) of the proposed International Standard on Auditing (ISA) 600 (Revised and Redrafted), *The Audit of Group Financial Statements*. The ED is drafted in the new style designed to enhance the clarity of IAASB pronouncements.

Following earlier consultations, the IAASB has modified the proposals and reissued the ED. The primary issues revolve around the extent to which the group auditor needs to be involved in the audits of components that are audited by other auditors, whether these auditors are independent of the group auditor (unrelated) or belong to the group auditor's national or international firm or network of firms (related auditors). The IAASB is, therefore, seeking reaction on the following two specific matters:

Previous proposals distinguished between the work that the group auditor needed to do, depending upon whether other auditors were related or not. While this may be a relevant factor, the strength of relationships varies, and the IAASB considers that the distinction is not of itself a sufficient basis for determining the group auditor's work. The IAASB has, therefore, proposed eliminating the distinction in the proposed ISA; this has given rise to substantial changes to some of the proposed requirements. Respondents are asked to indicate whether they are in agreement with the proposal and the effect that it has on the procedures that the group auditor performs in relation to the work of other auditors.

The proposed ISA is drafted on the basis that a group auditor takes sole responsibility for the audit opinion on the group financial statements. This requires that the group auditor obtain sufficient appropriate audit evidence on which to base such an opinion. Because current group audit practices vary, the IAASB considered it necessary to be reasonably specific about the steps to be taken, and the work effort required, by the group auditor to acquire such evidence when other auditors are involved. Respondents are asked whether this approach is justified.

In addition, respondents are invited to comment on the application of the clarity drafting conventions.

> "Our proposals respond to public expectations for continuous improvement in auditing standards. In particular, a number of regulatory bodies and studies supported the need for this project. The IAASB has shown itself to be prepared to tackle such major audit areas. The project has not been an easy one, but we are confident that the proposed standard will enhance current practice and promote consistency worldwide."
>
> **John Kellas, Chairman, IAASB**

John Kellas, Chairman of the IAASB, explains: "Our proposals respond to public expectations for continuous improvement in auditing standards. In particular, a number of regulatory bodies and studies supported the need for this project. The IAASB has shown itself to be prepared to tackle such major audit areas. The project has not been an easy one, but we are confident that the proposed standard will enhance current practice and promote consistency worldwide."

In developing the requirements and guidance, the IAASB considered regulatory and standard-setting developments around the world, the interests of small entities, and the expectations of various stakeholders. AT

Comments on the ED are requested by 31 July 2006. The ED may be viewed by going to *www.ifac.org/EDs*. Comments may be submitted by email to *EDComments@ifac.org*. They can also be faxed to the attention of the IAASB Technical Director at +1-212-286-9570 or mailed to the IAASB Technical Director at 545 Fifth Avenue, 14th Floor, New York, NY 10017, USA. All comments will be considered a matter of public record and will ultimately be posted on the International Federation of Accountants' (IFAC's) website.

VACANCIES

We are an established firm of Chartered Accountants affiliated with Parker Randall International, a worldwide network of independent accounting firms with members throughout the world.

In line with our organisation's expansion plan, we are seeking qualified candidates for the following positions:

ASSISTANT TAX MANAGER

- Member of MIA
- At least two years experience in tax compliance and consulting services in a profesional environment
- Good interpersonal and writing skills

AUDIT MANAGER/AUDIT SENIOR

- Member of MIA
- At least two years relevant experience

AUDIT ASSISTANT/ ACCOUNTS ASSISTANT

- Diploma in Accountancy or equivalent
- Candidates pursuing professional qualifications will have an added advantage

Interested candidates are invited to submit their full resume to:

The Director, Parker Randall Tan (AF 1838)
Suite A, Level 3D, Wisma Fook Loi
38 Gaya Street, 88000 Kota Kinabalu
Tel: (088) 250 757 Fax: (088) 260 757
e-mail: kltan@parkerrandall.com

Only shortlisted candidates will be notified

List of New Books Available in the MIA Resource Centre

ACCOUNTING

Financial Instruments: Reporting and Accounting: A User's Guide through the Official Text of IAS 32, IAS 39 and IFRS 7, London: IASCF Publications Dept., 2005.

Call No.: 657.0218 INT

Accounting Standards 2005/2006, Surrey: Wolters Kluwer (UK) Ltd., 2005.

Call No.: 657.0218 ACC

Applying GAAP 2005/2006, David Chopping, Surrey: Wolters Kluwer (UK) Ltd., 2005.

Call No.: 657.0218 INT

International Public Sector Accounting Standards Board: Exposure Draft 29: Revenue from Non-Exchange Transactions (Including Taxes and Transfers), New York: International Federation of Accountants, January 2006.

Call No.: 657.0218 INT

Basis for Conclusions on ED 8: Operating Segments, London: International Accounting Standards Board, January 2006.

Call No.: 657.0218 INT

Draft Implementation Guidance ED 8: Operating Segments, London: International Accounting Standards Board, January 2006.

Call No.: 657.0218 INT

Exposure Draft 8: Operating Segments, London: International Accounting Standards Board, January 2006.

Call No.: 657.0218 INT

Exposure Draft: Amendments to IFRS 2 Share-based Payment: Vesting Conditions and Cancellations, London: International Accounting Standards Board, February 2006.

Call No.: 657.0218 INT

Exposure Draft; Amendments to IAS 1 Presentation of Financial Statements: A Revised Presentation, London: International Accounting Standards Board, March 2006.

Call No.: 657.0218 INT

Issues in Islamic Accounting, Bala Shanmugam, Vignesen Perumal & Alfieya Hanuum Ridzwa, Serdang: Universiti Putra Malaysia, 2005.

Call No.: 657.088297 BAL

Islamic Corporate Reporting: Between the Desirable and the Desired, Maliah Sulaiman, Gombak: International Islamic University Malaysia, 2005.
Call No.: 657.088297MAL

AUDITING

Auditing Practices Board: Standards and Guidance for Auditors 2006, Surrey: The Auditing Practices Board, 2006.
Call No.: 657.45 AUD

Practice Note 14: The Audit of Registered Social Landlords in the United Kingdom, Surrey: The Auditing Practices Board, March 2006.
Call No.: 657.45 AUD

Auditing & Reporting 2005/2006, Surrey: Wolters Kluwer (UK) Ltd., 2005.
Call No.: 657.450218 AUD

Implementing GAAS 2005/2006, Peter Chidgey & Sarah Nendick, Surrey, Wolters Kluwer (UK) Ltd., 2005.
Call No.: 657.450218 CHI

ECONOMY

Malaysia's Trade Performance 2005, Kuala Lumpur: Malaysia External Trade Development Corporation, 2005.
Call No.: 382.09595 MAL

Ninth Malaysia Plan 2006-2010, Putrajaya: Economic Planning Unit, Prime Minister's Department, Malaysia, 2006.
Call No.: 330.9595 MAL

GENERAL

Zest for Life: A Lifelong Journey of Love and Fulfillment, Kong Voon Sin, Kuala Lumpur: Kong Voon Sin, 2006.
Call No.: 305 KON

TAXATION

Panduan Percukaian Individu = Tax Guide for Individual. – 4th ed., Kuala Lumpur: Lembaga Hasil Dalam Negeri Malaysia, 2006.
Call No.: 332.24209595 PAN

- Book loans are available for MIA members only.
- Each member can borrow up to 2 books at a time for a duration of two weeks.
- Members are requested to fill in the Book Loan Membership Form and will be issued a Loan Card.
- Loan Cards are not transferable.
- Members are required to pay a deposit of RM100 for the Book Loan Service, which is refundable only after one year from the date of registration and upon request for termination of the service.

Non-Audit Firms

FROM 1-31 MARCH 2006

New Registration

NON-AUDIT FIRM	NF NO.
JOHOR DARUL TAKZIM	
HJ Lim & Co 46, 1st Flr, Jln Pesta 1/2 Tmn Tun Dr Ismail 1, Muar 84150, Parit Jawa Tel: 017-776 9222	**0768**
KEDAH DARUL AMAN	
KY Tan & Co No. 8, 1st Flr, Jln Kenari Merdu 2 Taman Kenari Merdu 08000 Sungai Petani Tel: 04-424 8115 Fax: 04-424 8115 E-mail: tankaryaw@yahoo.com	**0771**
PERAK DARUL RIDZUAN	
S.T. Li & Co. 63-B, (Tingkat 2) Jln Seenivasagam 30450 Ipoh Tel: 05-254 4633 Fax: 05-254 4633 e-mail: s_tatt@yahoo.com	**0772**
TK Lau & Co 25 Persiaran Buntong Jaya 9 Taman Buntong Jaya 30100 Ipoh Tel: 05-526 7489 e-mail: lautongkhuan@hotmail.com	**0774**
SELANGOR DARUL EHSAN	
Mani & Associates B-04-13A, 4th Flr, Blk B, Sek. 1 South City, Serdang Perdana Selatan 43300 Seri Kembangan Tel: 03-8941 2227 Fax: 03-8941 2227 e-mail: mani1073@yahoo.com.sg	**0773**
Saidi & Co No.17, Jln Jambu Susu 4/3C Seksyen 4, 40000 Shah Alam Tel: 03-5511 1887 Fax: 03-5511 1887 e-mail: madsaidi@tm.net.my	**0770**
WILAYAH PERSEKUTUAN	
DC Ting & Co. No. 25, Jln Bukit Maluri 5 Tmn Bukit Maluri, Kepong 52100 Kuala Lumpur Tel: 03-6275 0903 Fax: 03-6275 5903	**0767**
Syarikat Wong Soon Cheong 57-A, Changkat Tambi Dollah Pudu 55100 Kuala Lumpur Tel: 03-2141 8870 Fax: 03-2141 8292	**0775**
WILAYAH PERSEKUTUAN	
Thurai & Associates No 22-3-3 Jalan 13/48A Sentul Raya Boulevard, Off Jalan Sentul 51000 Kuala Lumpur Tel: 03-4045 1197 Fax: 03-4045 1201 e-mail: thurai_one@yahoo.com	**0769**

Audit Firms

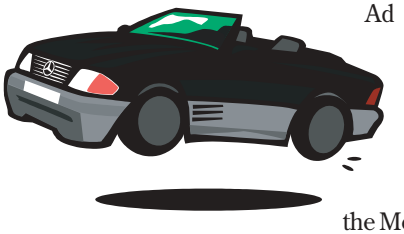
FROM 1-31 MARCH 2006

New Registration

AUDIT FIRM	AF NO.
PULAU PINANG	
Parker Randall Loh 2nd Floor, 309-J, Perak Road 10150 Penang Tel: 04-281 4628 Fax: 04-282 0200 e-mail: loh@parkerrandall.com	**001841**
SABAH	
Parker Randall Tan 9-2, 2nd Flr, Blk B, Damai Commercial Ctr, Phase IV, Jln Damai 88300 Kota Kinabalu Tel: 088-258 440 Fax: 088-245 346 e-mail: kltan@parkerrandall.com	**001838**
SELANGOR DARUL EHSAN	
Nek & Associates No. 28A, Jalan Tapah Off Jalan Goh Hock Huat 41400 Klang Tel: 03-3344 3101 Fax: 03-3344 3103 e-mail: engkian@nekcorp.com	**001843**
Parker Randall Chew Wisma Chew & Co., No. 39, Grd Flr Jln Kenari 17C, Bdr Puchong Jaya 47100 Puchong Tel: 03-8076 3063 Fax: 03-8073 1232 www.parkerrandall.com	**001842**
WILAYAH PERSEKUTUAN	
Alvin Lim & Associates Suite D24 2nd Flr, Plaza Pekeliling No. 2, Jln Tun Razak 50400 Kuala Lumpur Tel: 03-4042 7843 Fax: 03-2775 2130 e-mail: chongyiklim@hotmail.com	**001839**
GTC Associates Suite A, F-3-10, Plaza Damas, No. 60 Jln Seri Hartamas 1, Seri Hartamas 50480 Kuala Lumpur Tel: 03-7987 7233 Fax: 03-7987 7288 e-mail: gabriel.teo@twinleaders.com	**001835**

… Counting on Humour

The Mercedes



Ad announced, *"$500 Mercedes! New!"* The man thought that it was very unusual to sell a Mercedes for $500, and he thought it might be a joke, but he said to himself, *"It's worth a shot."*

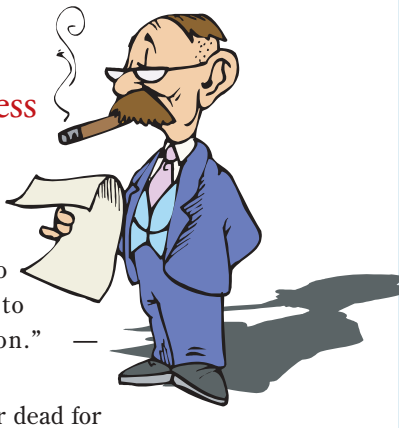
So he went to see the lady who was selling the Mercedes and she led him into the garage. Sure enough, there was an almost brand new Mercedes. *"Wow!"* the man said, *"Can I take it for a test drive?"* *"Sure,"* answered the lady. Unlike what he expected, the man found that the car ran perfectly. When he got back to the lady's house, he asked her, *"Why are you selling this great Mercedes for only $500?"*

Lady replied, *"My husband just ran off with his secretary, and he told me, 'You can have the house and the furniture, just sell my Mercedes and send me the money.'"*

Dilbert's 22 Rules of Order

1. I can only please one person per day. Today is not your day. Tomorrow is not looking good either.
2. I love deadlines. I especially like the whooshing sound they make as they go flying by.
3. Tell me what you need, and I'll tell you how to get along without it.
4. Accept that some days you are the pigeon and some days the statue.
5. I don't have an attitude problem, you have a perception problem.
6. Last night I lay in bed looking up at the stars in the sky, and I thought to myself, where the heck is the ceiling?
7. My reality cheque has bounced.
8. On the keyboard of life, always keep one finger on the escape key.
9. I don't suffer from stress. I am a carrier.
10. You are slower than a herd of turtles stampeding through peanut butter.
11. Everybody is somebody else's weirdo.
12. Never argue with an idiot. They drag you down to their level, then beat you with experience.
13. A pat on the back is only a few centimeters from a kick in the butt.
14. Don't be irreplaceable — if you can't be replaced, you can't be promoted.
15. After any salary raise, you will have less money at the end of the month than you did before.
16. The more crap you put up with, the more crap you are going to get.
17. You can go anywhere you want if you look serious and carry a clipboard.
18. People who go to conferences are the ones who shouldn't.
19. If it wasn't for the last minute, nothing would get done.
20. When you don't know what to do, walk fast and look worried.
21. Following the rules will not get the job done.
22. When confronted by a difficult problem, you can solve it more easily by reducing it to the question, "How would the Lone Ranger handle this?"

Funny Business Quotes



"A criminal is a person with predatory instincts who has no sufficient capital to form a corporation." — *Howard Scott*

"I'm spending a year dead for tax reasons." —*Douglas Adams*

"I always arrive late at the office, but I make up for it by leaving early." — *Charles Lam*

"In Italy for 30 years under the Borgias they had warfare, terror, murder and bloodshed but they produced Michelangelo, Leonardo da Vinci and the Renaissance. In Switzerland, they had brotherly love; they had 500 years of democracy and peace and what did they produce? The cuckoo clock." — *Orson Welles*

"Only one thing is impossible for God: To find any sense in any copyright law on the planet." — *Mark Twain*

"The definition of a consultant: Someone who borrows, your watch, tells you the time and then charges you for the privilege." — *Letter In The Times Newspaper*

"In the business world, an executive knows something about everything, a technician knows everything about something and the switchboard operator knows everything." — *Harold Coffin*

"The first rule of business is: Do other men for they would do you." — *Charles Dickens*

"Few great men would have got past personnel." — *Paul Goodman*

"When I asked my accountant if anything could get me out of this mess I am in now, he thought for a long time and said, 'Yes, death would help'." — *Robert Morley* AT