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Real Estate Sector

Tax Stimulus for Competitive Edge

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Accountants: Managers of Value

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Forging New Business Paths

Adding value and coping well with the latest issues in the business world is key to getting ahead in the competitive business world.

As Malaysians, we have good reason to celebrate 48 years of nationhood as we have a lot of things to be thankful for. Political stability, economic well-being and racial harmony form the bedrock of our nation.

In the past 48 years, we have had our share of misfortune. However we kept our resolve and resilience. It is through crises that we discovered new strengths. We did not realise what we were capable of doing. We knew how to adopt and adapt, and in the end we survived.

The experience has taught us a lesson in nation-building. It is innate strength and savvy that will see us through as a nation in the globalised world. They say time and tide waits for no man. We do not want to be left behind.

However, no journey into the future is complete without a glimpse into the past, because that is how we can gauge how quickly change happens. Change creeps up on all of us until one day we notice that our roles have completely evolved. And the question is - have we managed to adapt?

Forty-eight years ago accountants really were number-crunchers; today our role is more akin to analysts and, to coin a phrase, advisers and our responsibilities have moved further than finance, into general management, human resources and information technology. Technology may have downsized our traditional role but there is more pressure on us to deliver value-added knowledge services. In this respect, *Accountants Today* decided to feature an interesting topic on Real Estate Investment Trusts (REITs).

Not so long ago, real estate was seen primarily as a local investment. The reasons for the reluctance to look beyond national frontiers were the usual ones cited in connection with investments in foreign markets. These included a lack of knowledge of the local markets, complex tax issues, linguistic barriers, differences in accounting standards and political hurdles. In the meantime these barriers to entry between real estate markets have been gradually dismantled, thanks mainly to two trends. First, a number of real estate specialists with global reach and global platforms are currently establishing themselves in the market. These global players are able to set up local knowledge centres in all major markets. The second trend that is boosting global real estate investments is the expansion and enlargement of the listed sector. Above all, the successful rise of REITs has significantly enhanced the market's transparency and liquidity. These real estate investment trusts are tax-privileged at the corporate level and distribute the bulk of their earnings in dividends, a feature which is being increasingly appreciated by institutional investors in particular.

So find out more about REITs and its relevancy to our profession in this issue. Happy Reading and Happy 48th Birthday Malaysia! AT

Editor
Accountants Today

Membership Subscription Payment

Dear MIA members,

There has never been a more opportune moment to renew your Membership and Practising Certificate, as well as making your kind contributions to MAREF. For the first time ever, members of the Institute can make these payments using all major credit cards via Maybank2u internet banking facilities **(www.maybank2u.com.my)**. Members may also use the internet banking facilities provided by RHB Bank **(www.rhbbank.com.my)**. However for RHB Bank, payment through credit card is only made available to RHB Credit Cardholders. Alternatively, you may also make your payment over the counter or at any Maybank ATMs. However, when using this method, members are required to provide the Institute with the transaction slip/banking record BY THE NEXT WORKING DAY. Failure to meet this requirement will cause delay in updating members' records. For further enquiries, please contact the MIA Finance Department at 03-2279 9200 or e-mail at ***finance@mia.org.my***

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.

MALAYSIAN INSTITUTE OF ACCOUNTANTS APPOINTS

New President and Vice-President

Abdul Rahim Abdul Hamid

Nik Mohd Hasyudeen Yusoff

The Malaysian Institute of Accountants (MIA) is pleased to announce that Abdul Rahim Abdul Hamid has been elected as President of the Malaysian Institute of Accountants (MIA). He takes over the helm from Datuk Dr. Abdul Samad Haji Alias who retired following the completion of his term as President of the Institute. Abdul Rahim is no newcomer to the profession. Previously, he held the position of Vice-President of the Institute, having been elected in January 2004. He is known to be very committed to the development of the accountancy profession in this country and has been an active member of MIA for all these years. Having been in the industry for more than three decades, he has extensive experience in public practice. He started his career at Coopers & Lybrand in 1971 and retired as the Deputy Executive Chairman of PricewaterhouseCoopers on 30 June 2004. He is currently a member of the Malaysian Institute of Certified Public Accountants (MICPA) and a Fellow Member of the Association of Chartered Certified Accountants (ACCA).

In the corporate arena, Abdul Rahim sits on the board of Mimos Berhad and its subsidiaries. He is also a director of Pelangi Berhad. In the education arena, Abdul Rahim has been an Adjunct Professor in Accountancy at Universiti Teknologi MARA (UiTM) since 2002.

Also elected was Nik Mohd Hasyudeen Yusoff who assumes the Vice-President's position. Nik, a member of CPA Australia, has been extensively involved in contributing towards the development of the public practice segment of the profession, especially in areas concerning globalisation and liberalisation strategies for local accounting firms. He is presently the Executive Chairman of Khairuddin, Hasyudeen & Razi.

Both distinguished members of the profession will serve their respective terms of office for a period of two years. Abdul Rahim and Nik will work closely in leading the Institute in all its endeavours concerning the development of the accountancy profession in Malaysia.

The Institute is indebted to Datuk Dr. Abdul Samad Haji Alias for his enormous contributions towards the Institute and the profession. The Institute would like to express its deepest gratitude and appreciation for his unwavering efforts in elevating the status of the Institute and that of accountants in Malaysia. AT

WORLD news

Newly-Qualified Drive Recruitment Market

A snapshot of the City of London market by recruitment firm Morgan McKinley shows that the number of jobs becoming available from January to June increased by nearly 50 per cent on the same period last year, reports *AccountancyAge.com*.

Junior staff, including newly-qualified accountants and middle managers, were in particular demand as firms sought to increase their headcount to cope with more business.

The trend may be replicated across the rest of the UK with the large firms also reporting a very competitive market around newly-qualified.The report, available online, quoted Keith Dugdale, KPMG's director of recruitment as saying that demand was 'huge' but supply was scarce.

But he added that the 'heat had gone out of the market' in the previous three months and it had started to become much easier to recruit staff. He credited in part activity by the Big Four, which have launched major international recruitment drives this year. "The Big Four have brought new talent into the UK domestic market and this could have taken the heat out of it. We have just finished a recruitment drive in Singapore and Malaysia," he told the accounting magazine.

> "The Big Four have brought new talent into the UK domestic market and this could have taken the heat out of it. We have just finished a recruitment drive in Singapore and Malaysia."
>
> **Keith Dugdale, Director of Recruitment, KPMG**

Morgan McKinley reported a slight decrease in the number of new jobs on the market in June. The increased buoyancy in the employment market is also leading to upward pressure on salaries, with average wages across the sector expected to rise eight per cent.

In a separate report, *AccountancyAge.com* talks about how the need for accountants in mid-sized companies has helped recruitment specialists Michael Page deliver 'outstanding' interim results. Profits at Michael Page, the report says, have surged as a result of the increased burden of compliance, particularly IFRS, in medium-sized companies.

The strong growth in accountancy jobs helped the company's interim results show gross profits up 27.6 per cent to £128.2m and operating profits up by 78.8 per cent to £30.6m. With the need for accountants still high, analysts predict Michael Page is set to deliver profits for the full year in excess of £62m. AT

AccountancyAge.com

Daewoo Founder Admits to Accounting Fraud Charges

Daewoo Group founder Kim Woo-choong, indicted on charges of fraud and foreign currency law violations, admitted to most of the charges as he testified before the Seoul Central District Court, early last August.

The 69-year-old businessman returned to Korea in June after nearly six years of evading the law following the group's bankruptcy, reports *The Korea Times*. He was arrested upon his return to the country.

During the court hearing, according to the report, prosecutors cross-examined Kim over suspicion that he directed the manipulation of accounting figures of 27 trillion won (US$21 billion) and obtained 5.7 trillion won in bank loans through falsified company documents. He was also accused of remitting US$15.7 billion in foreign currency abroad without permission from the authorities.

On the charge of accounting fraud, Kim confessed that it was done by his instruction and he will take responsibility for that, according to the newspaper's report.

But, *The Korea Times* reports, he added that his group had no choice but to doctor the accounts because it feared it could not obtain bank loans easily following the 1997 Asian financial crisis if it accurately reported its financial statements.

When asked about the British Finance Centre (BFC), which was considered Kim's secret financial operation, Kim claimed that it was an official organisation to manage financial resources abroad more efficiently.

Reports suggest suspicions that Kim used some of the 25 trillion won diverted to the BFC to bribe politicians and other influential figures in a desperate effort to bail out his troubled conglomerate in 1999.

Daewoo Group was no small fry in the Korean world of business. At one time, it was the nation's second largest conglomerate. It collapsed in July 1999 under the weight of US$80-billion in debts and was subsequently placed under a government-led restructuring programme. AT

The Korea Times

Asean Starts 4th Round Of Services Negotiations

The Association of South East Asian Nations (Asean) is in the process of negotiating mutual recognition arrangements which currently focus on engineering, accountancy, architecture, surveying and nursing services.

On this, International Trade and Industry Minister, Datuk Seri Rafidah Aziz recently said: "Developments in the region would certainly continue to provide new opportunities for businesses, including those in the professional services sector."

The 10-member grouping, last month, had started the fourth round of negotiations on the services sector with expectations of achieving a "wider and deeper level" of commitment on all aspects of supply, reports *Bernama*.

Rafidah said Asean would accelerate the integration of four services sectors, namely travel,

tourism, healthcare and e-Asian, by 2010.

"The other services sectors, including professional services, are targeted for liberalisation by 2020 although consideration is being given to advance the timeline to 2015 with flexibility for sensitive sectors," she said before opening the CPA Australia 9th Asian Regional Conference, last month.

Rafidah said Asean also recognised that the services sector accounted for over 40 per cent of the gross domestic product (GDP) of its member countries and could be developed into a new engine of growth for the regional economy.

"Therefore, there is now greater political will to move faster the pace of liberalisation," she added.

What was important was for the services providers themselves to be fully apprised of the new developments and the opportunities and strategies to benefit from them, she added.

"Currently, the process of globalisation dictates that the services sector be progressively liberalised, in tandem with liberalisation of markets in goods, with increasing trend towards cross-border business ventures," Rafidah said.

She said other initiatives such as subscribing to mutual recognition arrangements would also accelerate harmonisation of standards of performance and facilitate such cross-border ventures.

Today, such liberalisation of the services sector is undertaken in the context of World Trade Organisation (WTO) services negotiations, and in negotiations leading to the establishment of the Free Trade Area (FTA), reports Bernama. AT

Accountancy-tied firms slump in French revenues survey

French international Gide Loyrette Nouel has leapfrogged accountancy-tied firm Ernst & Young Societé d'Avocats (E&Y, formerly EY Law) to become France's second-biggest firm by revenues, reports *TheLawyer.com*.

Gide's French turnover rose from 116.1m euros in 2003 to 125.6m euros for the calendar year 2004, according to research released by French legal magazine Juristes Associés.

E&Y's income dropped by a massive 35 per cent to 114m, pushing it into third place.

The online reports says Fidal remains France's biggest law firm, employing 1,372 fee-earners and making 250m euros in 2004. The former KLegal member is the only one of the "Big Four" accountancy firms to have survived the French crackdown on services to audit clients.

Both Landwell & Associés and Taj (previously Deloitte) slipped down the table with turnover slumps.

However other firms performed well, particularly CMS Bureau Francis Lefebvre, where turnover rose 10 per cent to hit 108.5m euros.

Clifford Chance's Paris office closed the gap on Freshfields Bruckhaus Deringer, making 89m euros compared to Freshfields' 89.1m.

French independents remain the most successful in terms of revenue per fee-earner.

Darrois Villey Maillot & Brochier's 34 lawyers each brought in over 1m euros, with Bredin Prat's 52 fee-earners not far behind on 900,000 euros each. AT

Excessive salaries of Big Four leaders

Four out of five of the UK's finance directors believe that senior partners at the Big Four firms are overpaid, after it was disclosed last week that Deloitte chief executive John Connolly takes home a pay package of £3.6m, reports *AccountancyAge.com*.

The Accountancy Age/Reed Finance Big Question found that 84 per cent of the 261 finance directors polled believed that Big Four senior partners were paid too much. Julian Groves, Finance Director of Herts College, said partners were earning 'silly money' and questioned whether they were 'really earning it'.

Another respondent said big egos were one of the main reasons for excessive pay packages. "The problem we have in this country with highly paid executives is that, ultimately, their main drive, in most cases, is personal ego and how much they are paid is part of this," the report quotes the financial directors. "Fat cat salaries have become excessive over the past decade."

Elizabeth Liberda-Moreni, Finance Director of National Animal Welfare, said the lucrative pay packages of senior partners could 'attract budding new accountants into the profession', but warned that this may create unrealistic expectations among newcomers.

"The problem is that the public, in general, and newcomers to the profession may assume these unrealistic salaries are generally accepted as the norm in the accountancy profession," Liberda-Moreni said.

Only eight per cent of finance directors, suggests the report, believed partner salaries were justified, with the remainder neutral on the issue. AT

China Construction Bank beefs up internal auditing

China Construction Bank (CCB), which plans to sell shares in Hong Kong before the end of this year, has taken a raft of measures to beef up internal auditing.

Asia Pulse reports that Yu Yongshun, general manager of the bank's Audit Department, said that since March this year, the CCB has begun to adopt a 'vertical management' model for internal auditing.

This means auditors at the bank's local branches report auditing results directly to the headquarters, he said.

Earlier, the reports were first submitted to the presidents of the local branches. Auditors are now supervised, and their salaries set, by the headquarters. Also, 10 per cent of the auditors will exchange posts every year to ensure that they can work independently.

"These measures will increase the independence of internal auditing," he said.

During the first half of this year, auditors made 9,200 proposals of which more than 6,100 have been implemented, Yu said.

Economists, according to the *Asia Pulse* report, note that the bank's increased emphasis on internal auditing suggests it is trying to improve its management before foreign competitors enter the Chinese market without restrictions before the end of next year.

The bank has already taken a series of measures including allowing in foreign strategic investors to increase its competitiveness, one economist said.

On 17 June, the bank signed an agreement with Bank of America to sell a nine per cent stake for US$3 billion to the US bank. Bank of America will also have the option to buy additional shares to increase its ownership in CCB to 19.9 per cent. As part of the strategic programme, Bank of America will provide about 50 personnel to advise CCB in areas such as corporate governance, risk management and retail banking.

On 1 July, CCB reached a similar agreement with Singapore-headquartered Temasek Holdings (Private) Limited on a strategic partnership, according to the report.

Under the agreement, Temasek will invest US$1 billion in CCB through its wholly-owned subsidiary Asia Financial Holdings Pte Ltd (AFH), and will purchase shares from China SAFE Investments Ltd the largest shareholder of CCB. AFH will also assist CCB in improving corporate governance.

CCB, which was given a US$22.5-billion capital injection by the State in late 2003, is a pilot project in the country's banking reform.

Last September, the bank was split into two, China Construction Bank Corporation and China Jianyin Investment Limited.

The former, the listing vehicle, continues to operate the banking business while the latter will handle the non-banking business.

By the end of last year, the bank's non-performing loans dropped to 3.92 per cent, while its capital adequacy ratio increased to 11.29 per cent. Profits rose 34 per cent last year to 50.2 billion yuan (US$6.2 billion) as new lending increased 11.5 per cent to 229.6 billion yuan (US$28.3 billion). (XIC) AT

Tax partners in Australia could face heavy fines

The Australian government has published a draft law designed to stop tax practitioners from promoting schemes to evade taxes, says *Accountancy Magazine.com*

Draft legislation includes provisions where practitioners could be fined up to A$550,000 (£234,000). The promoter may be held liable on three counts: civil penalty, statutory injunction and voluntary undertaking.

Mal Brough, assistant treasury minister, says that legitimate tax planning is not his intended target.

In the meantime, the Australian Crime Commission (ACC) and the Australian Tax Office (ATO) are already investigating around 500 high-profile individuals for tax evasion, among them some celebrities. AT

Create expertise to enhance demand for accountancy

Among the main drivers of the service sector's strong performance in recent years is the growing importance of globalisation for many services, including accountancy, writes S Gopalakrishnan, a partner at PricewaterhouseCoopers

In an article featured in India's *Financial Express*, the author suggested that part of the growing globalisation of services is increased international sourcing.

In terms of the current General Agreement on Trade in Services (GATS) negotiations, a whole range of regulatory issues have sprung up. These need to be carefully looked at and satisfactory arrangements and agreements made, before developing countries enter into making new commitments, especially with reference to the accountancy sector.

> "What is required today is unshackling the profession from the stringent restrictions in terms of numbers of audit, partners or trainees, marketing, services restrictions, etc. at the same time ensuring adherence to global best practices of the profession."
>
> **S Gopalakrishnan, partner, PricewaterhouseCoopers**

Accountancy, including audit and related services in India, suggests the author, is currently characterised by these features:

- Developed countries are increasingly faced with an ageing population, which is creating a shortage of accountancy/auditing professionals. This has a consequential effect in increasing the costs of these services.
- In contrast, developing nations have increasingly knowledgeable and young professionals, who can cater to this growing global demand, thereby contributing substantial savings to enterprises in developed countries by higher productivity and efficiency.
- Increased use of IT for rendering services 'wherever the client is', obviates the necessity of the presence of personnel to be at the location. This has led to creation of a 'virtual country' that does not require movement of natural persons.
- Exposure to changing demands and requirements of MNCs in divergent industries in India creates multi-faceted trained expertise.
- Complex requirements of compliance with regulations, rather than traditional bookkeeping, have resulted in the need for development of high standard professionals.
- The growing convergence of Indian accounting/auditing standards with international accounting/auditing standards and regulations of capital markets.

"What is required today is unshackling the profession from the stringent restrictions in terms of numbers of audit, partners or trainees, marketing, services restrictions, etc. at the same time ensuring adherence to global best practices of the profession," he writes.

The accountancy regulatory bodies, Gopalakrishnan argues, must focus mainly on aligning education and training with rapidly changing skill requirements, regulating the professional behaviour of erring members, attracting more talent, catering to the growing demands of practice both, domestic/outside and convergence of international accounting and auditing standards with domestic norms, etc.

"In these circumstances, negotiations in the accountancy sector for India should not concentrate on mere protection to the sector. The offers should take into consideration aspects that will enhance provision of services by the sector. The efforts of the nation should be on creating expertise to which benefits would automatically flow, by virtue of the global economies increasing the demand for these services," he says. AT

Accountants: Managers of Value

In our new role, we will not only shoulder the responsibility of providing the organisation with meaningful, accurate and timely financial information for the organisation, we will also have to be part of the team that aids the management in making well-informed decisions as well as maintaining good governance.

To discharge this role effectively, there is a need for additional skill-sets — not just possessing knowledge of finance and figures alone. Accountants today must have skills such as good professional judgement, project management, and communication. They must also have leadership qualities which include strategic thinking and planning with broad cross-functional perspectives. And most importantly, they must possess the innate sense of integrity which is fundamental in instilling confidence and trust amongst the stakeholders.

The National Accountants' Conference (NAC 2005) theme this year: *"Accountants: Managers of Value"* is relevant and reflects the desired image of the profession. The primary objective of the conference focuses on the value partnership that accountants offer to organisations. In addition, the conference will also further serve as a platform to arm them with best practices and help them harness the knowledge and skills to become a strategic business partner in the corporate environment.

The programme developed for the NAC will show you the changes occuring at every level of your work and business environment. The content for NAC will influence members to change their mindsets to be *Managers of Value*. No one will walk away from the conference without an understanding of how to make real improvements to each level of their professional life.

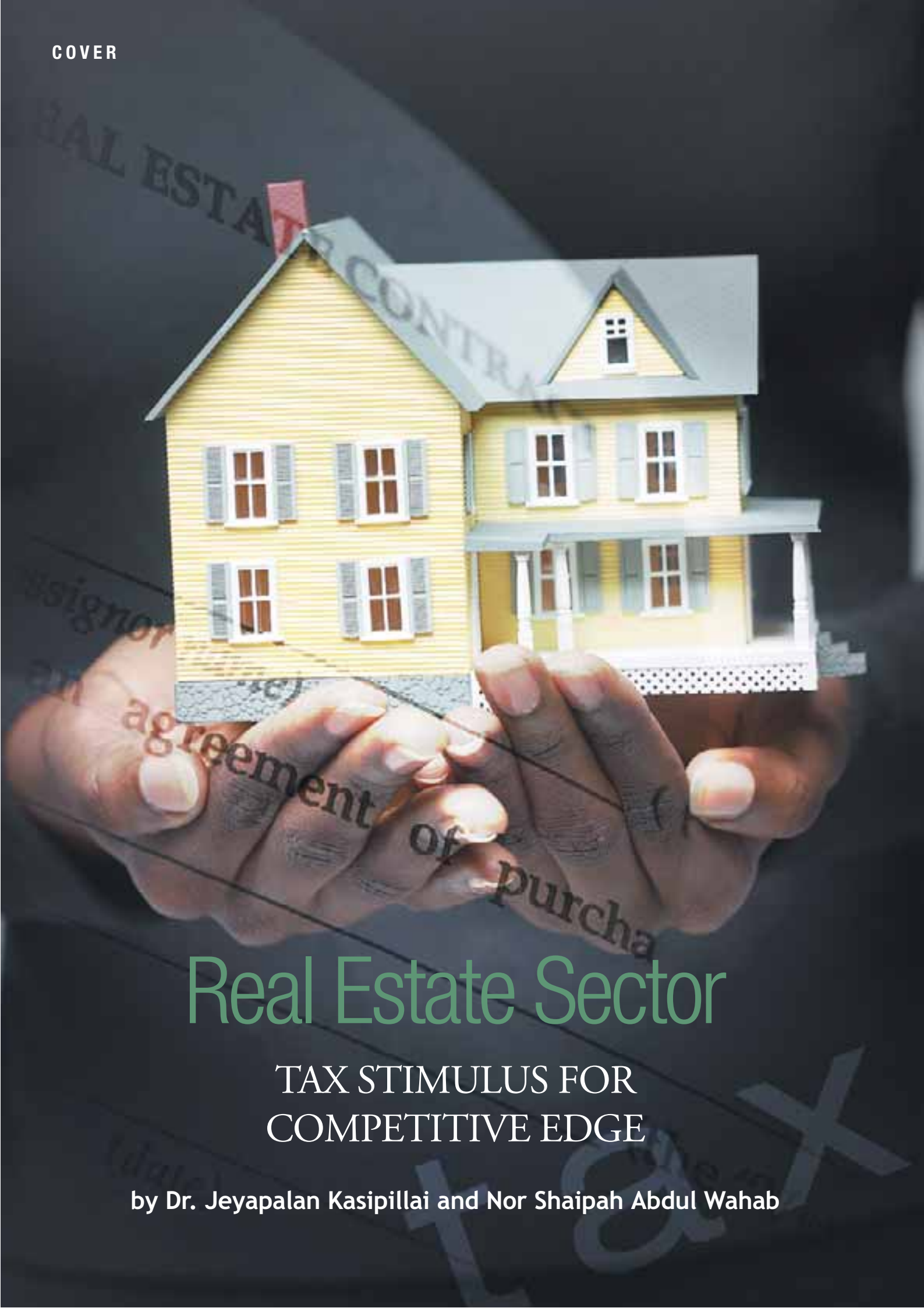
NAC 2005, is for people who understand the needs of the real world, whether commerce and industry, public practice, public sector or in the world of academics. It is a conference for anyone who wants to understand what is happening around them and what they can do to not only stay relevant but also to become *Managers of Value*.

NAC 2005 Fact File

Date:	22-23 November 2005
Venue:	Putra World Trade Centre, Kuala Lumpur
Registration Fee:	RM1,000 (member) and RM1,200 (Non-member)
Early Bird discount:	Register for NAC 2005 by 30 September and save RM100

Members of professional and scheduled bodies:
To refer to respective professional and scheduled bodies.

Registration and inquiries:
The NAC 2005 Conference team at 03-2279 9200 ext 335/333/143 or e-mail: nac2005@mia.org.my AT



Real Estate Sector

TAX STIMULUS FOR COMPETITIVE EDGE

by Dr. Jeyapalan Kasipillai and Nor Shaipah Abdul Wahab

Background

The Government has introduced new fiscal measures to stimulate the growth of real estate investment trusts (REITs) in Malaysia. A REIT is a vehicle that mobilises funds from unit holders comprising individuals and companies for investments in real estate. By providing generous tax incentives, the liquidity of the real estate sector will increase thereby boosting its contribution to the national economy. Malaysia has recorded spectacular growth of 4.9 and 6.5 per cent in the real estate sector for the years 2003 and 2004 (National Product and Expenditure Accounts 2003/2004). With the country abandoning its seven-year currency peg to the dollar for a managed float, the splendid growth is expected to rise further in 2005. A flexible currency regime is good for the real estate segment as it creates a clearer investment atmosphere for both local and foreign investors.

Real Estate Investments Trusts (REITs) and Property Trust Funds (PTFs) were first created five decades ago in the US. Although REITs only made their debut in Singapore three years ago, it already accounts for two to three per cent of Singapore's stock market capitalisation today. In Australia, it has reached nearly nine per cent (*The Star*, 2005). These investment trusts would of course be able to contribute significantly to Bursa Malaysia's market capitalisation once this new asset class bodes well with the investing community. They are particularly popular now as REITs and PTFs in developing countries have financially outperformed other economic sectors in recent years. In this article REITS are meant to include Property Trust Funds.

Guidelines

The Guidelines on REITs issued by the Securities Commission on 3 January 2005 interpret them as investment vehicles that invest or propose to invest at least 50 per cent of their total assets in real estate. An investment in real estate may be by way of direct ownership or a shareholding in a single purpose company whose principal assets comprise of real estate. The guidelines set out the rules that are to be adhered to by the REITs in order to protect the interests of the investing public and facilitate their orderly development. These REITs must be approved by the Securities Commission in order for them to be eligible for the favourable treatment including tax treatment. Failure to comply with the rules and regulations may result in the delay or cancellation of the approval.

"A REIT is a vehicle that mobilises funds from unit holders comprising individuals and companies for investments in real estate. By providing generous tax incentives, the liquidity of the real estate sector will increase thereby boosting its contribution to the national economy."

Recent Budget Announcement

In the 2005 Budget, the Government announced new tax incentives to promote the growth of REITs and Property Trust Funds (PTFs) in Malaysia. Prior to the announcement, a PTF was taxed as a unit trust but with special deductions in the form of capital allowance deductions (see Section 63A ITA) and a deduction for specified permitted expenses (Section 63B ITA). These two sections (63A and 63B) do not apply to a REIT. The amendments to the ITA on the tax incentives for REIT are covered in the Finance Act 2004 (Act 639).

In recent months, several public-listed companies such as AXIS-REIT, Landmarks Bhd, Naim Cendera Holdings Bhd, Sunway City Bhd and YTL Corporation Bhd launched their real estate investment trust funds and are seeking listing of their REITs on the Bursa Malaysia. There are indications to suggest the REITs, once listed, will receive good response from institutional investors due to their attractive yields.

Tax Treatment of the REIT/PTF

The new amendment to the taxation of a REIT is a 'tax flow through' treatment whereby the REIT will not have to pay any tax on distributed income but instead the unit holder will be subject to tax on the distribution from REIT (Kasipillai J., 2005). This new incentive leaves the REIT in a relatively better position with more income for distribution to unit holders. This makes the REIT more attractive as an investment option as compared to other unit trusts, which invest mainly in equities.

■ Distribution to unit holders

The new Section 61A ITA exempts the REIT from the payment of tax on the amount distributed to the unit holders in the basis period for a year of assessment. The balance of the total income that is not distributed will be taxed at 28 per cent on the REIT. This means the REIT effectively pays less tax when it distributes its income.

"With the country abandoning its seven-year currency peg to the dollar for a managed float, the splendid growth is expected to rise further in 2005. A flexible currency regime is good for the real estate segment as it creates a clearer investment atmosphere for both local and foreign investors."

In June 2005, the executive director of AXIS-REIT, Stewart LaBrooy, announced that the company expects to distribute at least 95 per cent of the company's taxable income every year to its shareholders (The Star, 2005). The company floated the first real estate investment trust on the main board of Bursa Malaysia. He was quoted to have mentioned the following: *"We were looking within the range of 90 per cent to 100 per cent dividend payout for investors*

to feel comfortable. There is no point for us to keep the money as it will be taxed and shareholders also want dividends."

■ Prior to year of assessment 2005

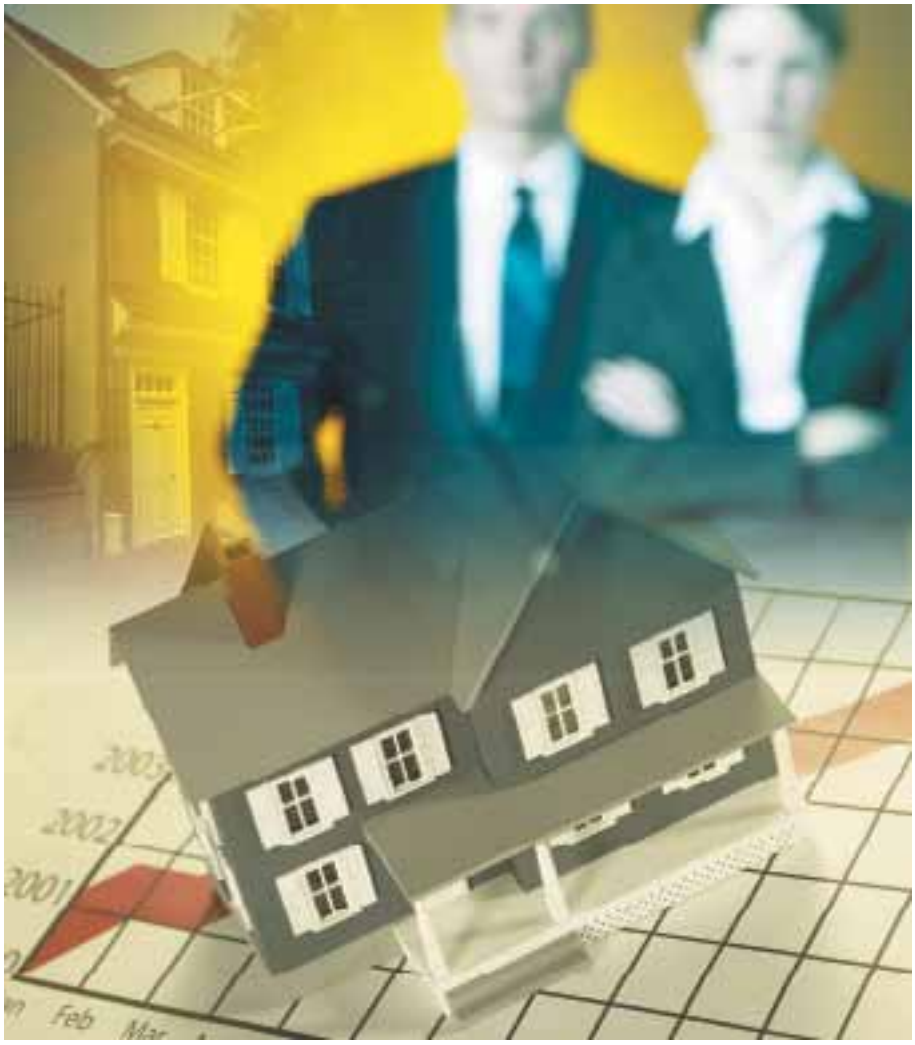
When a REIT receives dividend income, the tax credit from tax at source is given to the REIT. Capital gains and certain interest income will continue to be exempt at the unit holder level. Prior to year of assessment 2005, rental income received by a REIT was treated either as a business or non-business source based on Section 4(a) or 4(d) of the Income Tax Act 1967. Section 4(a) relates to income in respect of gains or profits from a business while Section 4(d) is income in respect of rents, royalties or premiums. The former is regarded as 'active income' eligible for capital allowances while the latter is regarded as 'passive income' and hence not eligible for capital allowance deductions.

■ From year of assessment 2005

The new Section 63C ITA provides that income of a REIT from the letting of real property will be treated as a business source and hence taxable under Section 4(a) and not 4(d) ITA. This new section is also effective from year of assessment 2005.

As mentioned earlier, rental income from letting of real property of a REIT receives special treatment from year of assessment 2005. There will be limitations imposed under the new treatment. Normally, Section 43(2) ITA allows unutilised business losses to be carried forward to the following year or years. Such losses can be offset from other business profits. However, with regard to the new provisions that are applicable to REITs, any excess deductions allowed in arriving at the adjusted income and any unabsorbed allowances under Schedule 3 ITA would be disregarded. Losses from letting of properties cannot be deducted against income from other sources of the REIT in the same basis period. Neither can the rental losses and unabsorbed capital allowances be carried forward to the following year of assessment and used to offset against that year's rental income.

Income from all properties of the REIT will be aggregated and treated as a single source of income. Expenses wholly and exclusively incurred in the production of income will be deductible against the rental income under subsection 33(1) ITA. The remuneration of REIT managers will now be deductible since the rental income is treated as a business source but the trustee's fee will not be allowed as it does not come within the ambit of subsection 33(1) ITA.



■ Real property gains tax exemption

In the case of a taxpayer who disposes of a property to a REIT and makes a chargeable gain, the gain is exempted from real property gains tax with effect from 13 September 2003.

■ Stamp duty exemption

The stamp duty on such transactions was also exempted from 13 September 2003. Real Estate Investment Trusts were eligible for these exemptions prior to year of assessment 2005 and will continue to be exempted hereafter.

Tax Treatment of Unit Holders

If the undistributed profits is eventually distributed to the unit holders any tax paid earlier by the REIT will be available as a tax credit under Section 110 of the Income Tax Act 1967 in the year of assessment the income is brought to tax.

Individual holders who are resident in Malaysia will be taxed at their respective scale rates on the income distributed. The scale rates vary from zero to 28 per cent but the unit holders will be eligible for set-offs under Section 110 ITA. Corporate unit holders receiving income distributed by REITs will be taxed at 28 per cent.

Non-resident unit holders who are receiving income distributed by REITs will be taxed at 28 per cent. With reference to Section 109D ITA, REITs have to deduct the withholding tax upon distributing the income to non-resident unit holders. The

tax deducted shall be remitted to IRB within one month after distributing such income to non-resident unit holders. If the withholding tax is not complied with, the tax arising will be increased by an amount equal to 10 per cent and will become a debt due to the Government of Malaysia.

An illustration on the income tax computation of a real estate investment trust is given in the Table.

Concluding remarks

REITs offer a good business-restructuring alternative to property developers who face funding constraints. They are stimuli that could boost the real estate sector by way of increasing the competitive edge as compared to the other major financial sectors. The relaxation of the tax treatment on the income distributed by REITs or PTFs would provide a great opportunity for the REITs or PTFs to increase the market capitalisation. In Singapore, tax incentives for unit holders have proven to be very effective for the REIT's rapid growth.

The amendment of tax provision on the distribution of total income by the REITs encourages the investor to invest more in this industry. Hence, the exemption of the distribution of the total income in the hand of the REITs would indirectly increase its share of market capitalisation. In future, it is anticipated that the tax incentives could be an effective means to ensure the growth of REITs. AT

"REITs offer a good business-restructuring alternative to property developers who face funding constraints. They are stimuli that could boost the real estate sector by way of increasing the competitive edge as compared to the other major financial sectors."

Table Income Tax Computation of a Real Estate Investment Trust

ABC REIT receives the following income: rental, interest and dividends, for the following two years, namely 2005 and 2006.

Income	Year 2005 (RM)	Year 2006 (RM)
Rental	15,000	13,000
Interest	6,000	3,000
Dividend (gross)	7,200	1,200

The company distributes RM22,560 and RM20,000 of the total income to the unit holders in 2005 and 2006 respectively.

ABC REIT — Computation of Income Tax Payable

The computation of the tax payable at the REIT level would appear as follows:

Details	Notes	2005 (RM)	2006 (RM)
Section 4(a) Business income (rental)		15,000	13,000
Section 4(c) Interest		6,000	3,000
Dividend (gross)		7,200	1,200
Total income		28,200	17,200
Less: Distribution	1	(22,560)	(17,200)
Chargeable income		5,640	Nil
Tax payable (28%)		1,579.20	Nil
Section 110 set-off	2	2,016.00	336
Tax refund		**436.80**	**336**

The distribution by the REIT comprises of:

Details	Notes	2005 (RM)	2006 (RM)
Income not subject to tax		22,560	17,200
Income subject to tax	3	Nil	2,800
Total distribution		**22,560**	**20,000**

Computation of income tax by unit holders

The computation of the tax payable at the unit holder level is as follows:

Details	Notes	2005 (RM)	2006 (RM)
Distribution from REIT:			
■ Not subject to tax at REIT level		22,560	17,200
■ Subject to tax at REIT level		Nil	2,800
Section 110 set-off	4	Nil	784

Notes:

1. The exemption on the distribution of the total income in year 2006 is limited to the total income of that year (i.e. RM17,200).
2. Dividend income forms part of the total income of the REIT in both years. The REIT is, therefore, eligible for Section 110 set-off.
3. In year 2006, the total distribution by REIT is RM20,000 and it includes RM17,200 exempt income of that year. The remainder RM2,800 (RM20,000 – RM17,200) is from the taxable income in 2005.
4. The IRB Guidelines stipulate that the undistributed income of a REIT for any year of assessment, which is subsequently distributed to the unit holders, will be taxed on the unit holders in the year of assessment that the income is distributed. Moreover, the guidelines specify that Section 110 set-off for the tax suffered by the REIT would be eligible for unit holders.

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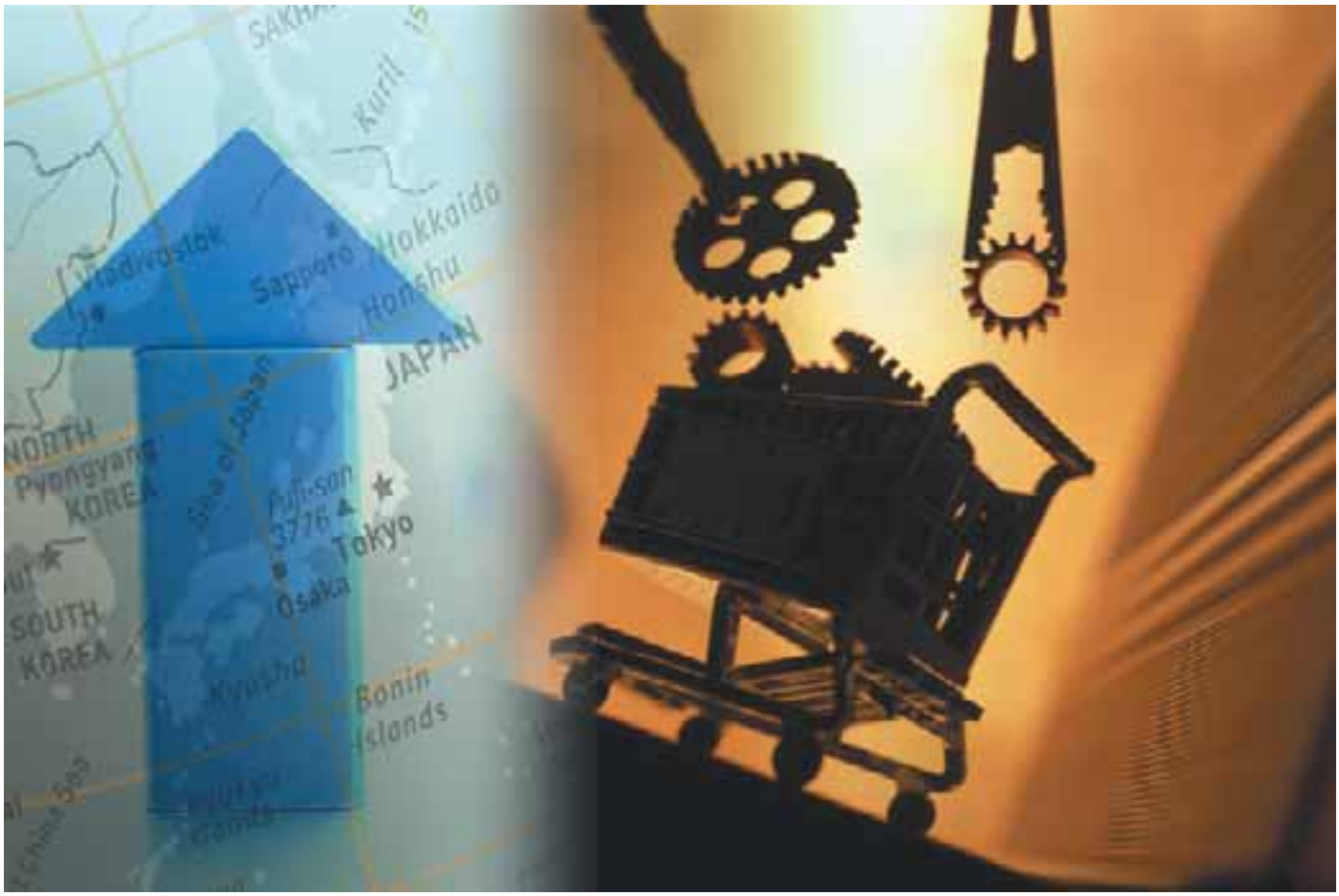
Total Factor Productivity Growth

A MATTER OF PERSPIRATION AND INSPIRATION

by Saravanan Ramasamy

To date, the concept, measurement and interpretation of total factor productivity growth (TFPG) remains highly discussed but poorly understood. In this issue, Accountants Today attempts to provide an overview of TFPG, a review of issues surrounding it and the impact of R&D expenditures in enhancing productivity.



"The newly industrialising countries of Asia, like the Soviet Union of the 1950s, have achieved rapid growth in large part through an astonishing mobilization of resources."

Paul Krugman (1994)

"We find some evidence that R&D expenditures had a positive impact on TFPG. Thus, our results shed some light on the controversy raised by Krugman. In particular, they weaken the argument that growth in Korea and Taiwan is just the result of input accumulation, and is therefore in danger of quickly petering out."

Nirvikar Singh and Hung Trieu (1996)

The statements above highlights the controversy about the sources of East Asian growth in the early 1990s. Usually, when people talk about productivity, they really mean labour productivity — the amount that a worker can produce within a specified period of time, such as an hour or a year. Over the long run, labour productivity and economic growth are virtually synonymous. But how do nations raise their labour productivity and have the Asians done it the "right" way? This is where the controversy arises.

Based on empirical work, academicians have been long debating on the *"myth of the Asian miracle"*. Paul Krugman, based on work by Boston University's Alwyn Young, argued that the Asian Tigers' growth rates could be accounted for almost entirely by growth in inputs of physical and human capital, and thus rumours of a mysterious unexplained Asian 'residual' were false. The topic got a more intense discussion from Young's study entitled *"A Tale of Two Cities"*, which compared the economic growth of Hong Kong and Singapore. What he found was that Singapore had mobilised far more resources than Hong Kong mainly in the form of extremely high rates of investment, yet had grown no faster, suggesting that those resources had not been used very efficiently. Measuring TFPG rather than growth, he declared, brings Asian performance down *"from the heights of Olympus to the plains of Thesally"*.

At the same time, proponents of TFPG put forward an argument that TFPG should be thought of as reflecting technological progress, which in turn is a linchpin of economic growth. Chang-Tai Hsieh of University of California, Berkeley, claimed that if rapid growth comes solely from capital accumulation, a large fall in the return to capital or a large rise in capital's share or a combination of both must be witnessed. Calculating growth in this way, Hsieh found no significant changes in the return to capital or capital's share in the countries during the period of Young's investigation. One way to make a worker more productive is to give him better equipment. Investment, which creates the capital equipment with which the worker is equipped, is surely a major force of economic growth. However, one should not jump to the conclusion that rising labour productivity is simply a matter of giving labour more capital to work with. It should also be the result of improved technology. In other words, Hsieh's argument is that growth achieved by the Asian tigers is not only a matter of perspiration but also as a result of inspiration.

Since the concept of TFPG and what it measures has been hotly debated, various definitions of TFPG have emerged. TFPG, in the most fundamental definition, is the residual that measures *"everything and anything"* that is not accounted for by input growth. Based on this fundamental definition, TFPG is set up as follows:

TFPG = Output Growth - Input Growth

TFPG refers to the additional output generated through enhancement in efficiency arising from advancements in worker education, skills and expertise, acquisition of efficient management techniques and know-how, improvements in the organisation, gains from specialisation, introduction of new technology and innovation and enhancement and greater use of IT. Various researches have proved that TFPG estimates for Asian countries are not merely residuals, but rather that TFPG is capturing technological progress, which is often attributed to R&D investment expenditures.

The technical progress is seen as the contributing qualitative input to TFPG. A good study would be that of Nirvikar Singh and Hung Trieu (1996) where they econometrically investigated the effects of disaggregated R&D investment expenditures on productivity growth for Japan, South Korea and Taiwan at the national level. Their study revealed that certain types of R&D are important for explaining TFPG (refer to table). In other words, TFPG estimates for these countries are not merely a measure of our ignorance but rather can be well explained by R&D expenditures.

Summary Growth of Real Output, TFPG, and Disaggregated R&D Expenditures
Growth Rates of Japan, South Korea, and Taiwan

Country	Year	Growth of real output	Proportion of % growth accounted by			% growth of disaggregated R&D expenditures		
			Capital	Labour	TFPG	Basic Research	Applied Research	Experimental development
Japan	1965-91	5.45	29.99	16.86	53.15	4.56	6.95	9.69
South Korea	1965-90	8.78	48.98	23.50	27.52	n/a	n/a	n/a
	1982-90	9.43	31.62	22.00	46.38	21.72	21.11	19.25
Taiwan	1963-91	8.69	25.52	27.17	47.31	n/a	n/a	n/a
	1978-90	7.43	32.97	25.03	42.00	22.18	20.26	16.44

Source: Singh, Nirvikar, and Hung Trieu, (1996) The Role of R&D in Explaining Total Factor Productivity Growth in Japan, South Korea, and Taiwan, Department of Economics, University of California,

TFPG is the result of productivity improvement efforts of the nation as a whole. Without the continuing growth of TFP, a country will not be able to progress forward. While this article briefly discussed the importance of R&D expenditures for explaining TFPG, Part II of this article on page 20 titled "Does R&D Investment Contibute to Productivity?" focusses on the importance of R&D spending in enhancing productivity. AT

DOES R&D Investment CONTRIBUTE TO Productivity?

by Saravanan Ramasamy

"You can see the computer age everywhere these days, except in the productivity statistics."
— Robert Solow, Nobel laureate in economics —

It is generally presumed that R&D expenditure will bring about economic wealth creation, productivity returns and competitiveness. However, this presumption has yet to be consistently proven as studies undertaken in this area have not shown positive indication that R&D expenditure contributes significantly to productivity, leaving researchers in productivity to be dogged by the Solow Paradox — "*we see computers everywhere except in the productivity figures*".

The so-called *"productivity paradox"* can be partially attributed to the fact that the benefits accrued from the use of R&D expenditure such as increased quality, output variety, customer service, speed and responsiveness are the aspects of output that are poorly accounted for in the productivity statistics. On the other hand, on the input side, the level of R&D investment tends to be over-accrued though not all expenditures can be directly attributed to R&D purposes. To prove that R&D investment does contribute to productivity increase, many researchers have undertaken rigorous studies to untangle the *"productivity paradox"*. One of the areas of focus is the measurement of total factor productivity growth (TFPG). As a result, various researches have proven that TFPG estimates are not merely residuals, but rather that TFPG is capturing technological progress, which is often attributed to R&D expenditure, especially in the case of Asian countries.

With the increasing evidence of the link between R&D spending and TFPG, many countries have begun to incorporate R&D spending into their national agenda. In the case of Malaysia, this is evident in the Outline Perspective Plan 3 (OPP3), 2001-2010. Para. 3.10 which states the following: "*to achieve sustainable rapid growth, productivity will be improved with the emphasis on increasing the contribution of TFP to output. … Improvements in technology and organisation of the production process are expected to drive TFPG. The increased use of computers and ICT as well as the enhanced capabilities of the Internet, in addition to investment spill-over effects, will contribute significantly to improvements in TFP*".

The table shows the upward growth projections of TFPG with the respective OPP periods. In OPP1, TFPG accounted for 13 per cent of the overall GDP growth. In OPP2, the TFPG figure almost doubled to 25.5 per cent . In OPP3, the projected rate is 42.5 per cent, which according to policy makers needs to be met if Malaysia is to achieve Vision 2020.

"to achieve sustainable rapid growth, productivity will be improved with the emphasis on increasing the contribution of TFP to output. … Improvements in technology and organisation of the production process are expected to drive TFPG. The increased use of computers and ICT as well as the enhanced capabilities of the Internet, in addition to investment spill-over effects, will contribute significantly to improvements in TFP."

The OPP3 focuses on some key strategic thrusts to achieve sustainable growth. The main contribution to TFPG is expected to come from the R&D investments, especially IT related investments. To a great extent, Malaysia's competitive position will be determined by the speed with which we increase the knowledge content of our activities as well as strengthen our capability to develop indigenous technology and create new products. We will need to adopt modern production systems and technology to raise our productivity. Today, the forces of globalisation, liberalisation and information and communications technology (ICT) have fundamentally changed the rules and nature of global trade, resource flows and competition. Clearly, countries that are able to rise to the challenge will grow in success and prosperity, while those failing to do so will be marginalised and will languish in the backwaters of development.

It will not be sufficient to only rely on TFPG indicators to monitor contributions from IT as the country focuses on transforming the current production-based economy toward the more knowledge-based economy. Although TFPG will be the main indicator of growth, other supporting indicators will make the measure of ICT contribution in this more comprehensive, both for policy planning and implementation. In the recent 2005 A.T. Kearney/Foreign Policy Globalisation Index, Malaysia was placed 27th in the overall IT adoption and expansion out of 62 countries covered. In technological connectivity, Malaysia was placed 21st in Internet users, 37th in Internet hosts, and 35th in secure servers in the same study.

While it may be true that *"a journey of a thousand miles starts with a single step"*, it is essential for Malaysians to realise that it is not sufficient to only take baby steps when the country should, at this stage, be making a quantum leap in inculcating R&D activities, adopting IT and expand indigenous innovations. Malaysia will require more IT savvy workers and more usage of ICT applications in businesses. While the importation of technology is clearly present in Malaysian businesses, somehow, these gains are being dissipated. Malaysia maybe good at using the technology to mobilise resources but there's a sheer lack of using the resource effectively by expanding indigenous growth. This is essential in ensuring that Malaysia's economic growth is not only driven by perspiration but also by inspiration. AT

Contributions to Factors of Production

Period	Labour (%)	Capital (%)	TFPG (%)	GDPG (%)
OPP1 (1971-1990)	36.1	50.9	13.0	100
OPP2 (1991-2000)	24.3	50.2	25.5	100
OPP3 (2001-2010)	20.9	36.6	42.5	100

Source: Outline Perspective Plan (OPP3)

GET A BETTER VIEW OF BUSINESS WITH Activity-Based Costing

See how this accounting tool can improve efficiency across the business

by Richard Barrett

Insurance, banking, retail and finance are all highly competitive and price sensitive. Customers expect value, which puts pressure on providers to cut costs. Companies have responded to this in a number of ways, including outsourcing call centres to other countries, launching no-frills or internet-only products, or introducing shared services.

Having talked to several financial service providers, very few re-forecast every month and when they do get round to it, it usually takes at least a fortnight. It is always a shock to find that major business decisions are based on information that is often more than six months old.

To forecast more frequently and make insightful business decisions, managers need data about the cost of activities that contribute to products and an insight into what drives those activities.

ALG Software's Enterprise Performance Optimisation (EPO) survey found that only 22 per cent of managers know which products and customers are profitable at any point in time, while a quarter openly admit to making key decisions intuitively.

But when senior executives make a decision to outsource their call centre operation, for example, on what information are they basing their decisions? When a marketing manager is launching a new advertising campaign, does he or she know what effect that will have on the call centre and how much it will cost? When call centre managers are asked to cut costs by X%, how

do they know what each activity or process costs the company and what is driving those costs?

Not part of business culture

In our survey, only 18 per cent of companies polled said that unit costs of key business processes are routinely measured and initiatives put in place to improve them. Unless this becomes part of a business culture, it is pretty difficult to make those hard decisions with any sort of insight. The problem is compounded by the fact that companies often have multiple product lines and business units, making it difficult to get a clear picture of business performance.

For many people performance measurement information is probably held on an Excel spreadsheet. Chances are the information is historic. And there will be tens, possibly hundreds, of people in the company all running independent spreadsheets.

What does this mean?

There are two critical issues for companies to address. First, how to achieve a step change in costs from the customer interface to the back-office functions. Second, how to accelerate the introduction of new and profitable products in response to changing market demands. While these two goals may at first seem unrelated, they do in fact share a common foundation. Both require a better insight into costs, the streamlining of processes, and a focus on the key operational drivers of financial performance.

One method that provides insurance companies with this visibility is Activity-Based Costing (ABC). And if you think ABC is just for accountants, think again. Implemented properly ABC information can provide valuable insights right across the business.

ABC in practice

Fortis Health, the Milwaukee, Wisconsin-based health insurance provider, is one example of an insurance company that is using ABC to measure and optimise business performance. Previously, none of Fortis's performance management data was integrated — there were 3,000 spreadsheets and maintaining the integrity of the data across multiple systems was a constant problem.

Using ABC methodology as an integral part of its planning and budgeting system, in the first few days of every month Fortis can now generate a rolling re-forecast that spans operational staffing and financial budgeting and looks ahead 60 months. As a result, keeping operational resources aligned with revenues is much easier. Starting with new business sales, managers across the company simply re-forecast the key non-financial driver data every month and everything else, including the line item costs and the group profit and loss account, flows from that.

Total visibility

But for Fortis, ABC is more than an accounting and finance tool: the company uses it to stay in touch with what is going on in the business. Previously, if the underwriting department looked to be overstaffed with a high unit cost, it would have to explain itself. This is no longer the case. Senior management has total visibility into the operation and can see that the underwriting team grew in preparation for the new business volumes forecast by the sales department, which subsequently failed to deliver. As a result, it is likely to be the sales department that is in the spotlight.

Using ABC, the unit rates for each of the three main business processes (acquisition, customer service and claim settlement) are calculated for both the past month and far into the future, forcing managers to continually focus on reducing the cost to serve. Using ABC focuses managers on the operational activities and drivers of cost resulting in more dynamic planning and budgeting that provides greater insight into future performance. Business managers no longer come to finance to find out how much they have left to spend in their budget, but to seek help in modelling what changes they need to make to their processes to keep costs down. And those 3,000 spreadsheets have all gone, too.

Research from Accenture shows that ABC can commonly make cost savings of between three and five per cent but exponents will tell you the real savings are made by what it actually tells you and the better decisions taken as a result.

However, ABC is hardly a new concept and has in the past been criticised for being overly complex. According to industry analyst Gartner Group, "There is renewed interest in Activity-Based Costing. Although many enterprises dismissed ABC in the 1980s and 1990s as too complicated, many see themselves as needing it now to support better planning and to support profitability analysis."

Within an organisation, there are different types of decisions that may benefit from the insight that ABC can provide and they require differing levels of detail:

- At the higher levels of an organisation, the board and senior executives might want to answer strategic issues, such as which products and markets to focus on;
- Further down the organisation, managers will be looking for support to make decisions about things such as pricing and discount negotiations with intermediaries;
- At the operational level, managers in production and administration areas will be looking to eliminate activities that do not add value and identify opportunities that will improve the efficiency of processes and reduce costs.

Sharing information over the web

Although ABC has been around for a while, web technologies now enable business-critical information to be shared across multiple locations, helping managers understand more about their business.

ABC systems can now utilise "web books" that enable contributors to enter non-system driver data and time splits via the internet, with work manager tools used to schedule and enable repetitive data collection routines. Because of web-based technology, managers have on-demand access to cost and profitability data that they can manipulate. They can also run "what if?" scenarios on demand, helping them to make more informed business decisions. AT

Richard Barrett is the Vice-President of Marketing, ALG Software, UK. This article is contributed by CIMA and it first appeared in Insight, CIMA's on-line newsletter for accountants in business. Insight is accessible at *www.cimaglobal.com/insight*

HOW LARGE CORPORATIONS USE Data-Mining TO CREATE VALUE

by Thomas G. Calderon Ph.D, John J. Cheh Ph.D and Il-Woon Kim Ph.D

Most companies have deployed data marts and data warehouses, but about 35 per cent say they do not use data-mining. In this article, we review the data-mining process, with a report on a survey of practices among Fortune 500 companies and an example of a data-mining task.

Recent literature describes several cases where managers are tapping into their corporate databases and transforming their raw data into knowledge that provides significant business intelligence and competitive advantage.This process,which companies such as Johnson & Johnson, GE Capital, Fingerhut, Procter & Gamble,and Harrah 's Casino have used very effectively to create competitive intelligence,is known as data-mining.[1] The data-mining process allows a company to harness data generated from normal business processes to create knowledge for solving business problems.One study reports that the payoff from an effective data-mining project can be as high as $24 million in certain companies.[2] Despite the potential of data-mining,management accountants are not very familiar with its concepts, and it is seldom among the repertoire of tools used to create value for their employers.

We will briefly review the data-mining process, report on a survey of data-mining practices among Fortune 500 companies,and provide an example of a data-mining task. Included are insights into:

1. the functional areas within Fortune 500 companies that use data-mining techniques;
2. the reasons companies give for not using data-mining;
3. the types of data-mining software companies use;
4. the data-mining techniques companies use;
5. the data sources companies use for data-mining; and
6. the types of business applications for which companies use data-mining.

We also offer an example that shows how management accountants can use a data-mining technique to create highly intuitive guidelines to evaluate the financial health of a business. We conclude with a set of recommendations for financial professionals who want to use data-mining to create business intelligence and value for their employers.

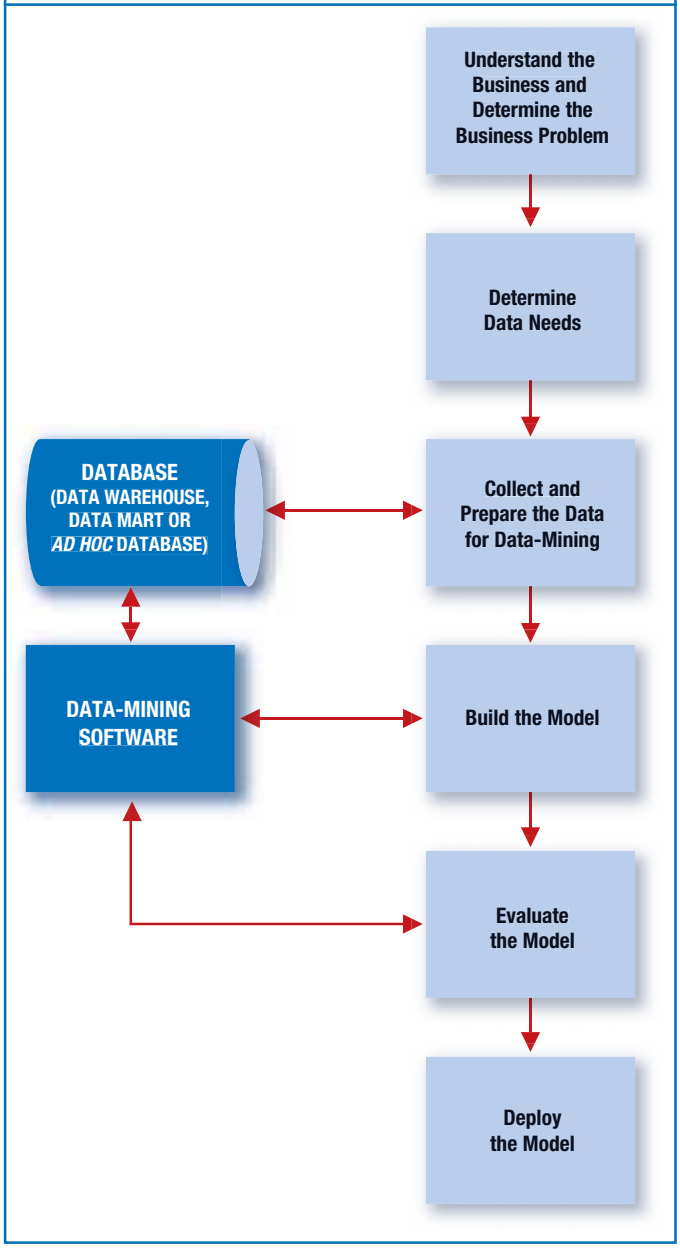
The Data-Mining Process

Whether a project is simple or complex, effective data-mining originates with a need for business intelligence and culminates with the creation of such intelligence. Figure 1 shows an overview of the data-mining process.

In practice,the goal of data-mining is often modest. A successful data miner looks for a solution to a well-defined business problem, and data-mining provides necessary business intelligence to solve it. After defining the problem,the data miner determines the type and scope of the data needed. Data may come from normal operational activities such as sales and marketing, procurement and logistics, production and accounting. Data may also come from external, non-routine sources such as government statistical sources, surveys, and commercial databases. Usually, the data miner must pool the data into a single usable data repository and then build the necessary data-mining databases from scratch or prepare the data from existing business databases.

Management accountants may store data for data-mining in either informal or formal data repositories. Informal data repositories include the *ad hoc* data files they keep to facilitate their projects. These data files typically enable a very restricted function and are maintained by a single person in an end-user-oriented application such as Microsoft Ac-

Figure 1 Overview of Data-Mining Process



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cess or Excel. Formal repositories include data warehouses and data marts that managers intend to use as part of the organisation's documented knowledge base. A data warehouse is a systematic repository of large volumes of data that serves as a knowledge base for a company's business decisions. Unlike operational databases that support ongoing business transactions, a data warehouse includes integrated data for customers, vendors, products, events and transactions that span several years. Data in a data warehouse may be in summary or detailed form and can come from a variety of operational sources across the organisation. Sometimes an enterprise may acquire and store data for a more specialised purpose. Experts refer to this smaller, more focused data repository as a data mart. The common thread running through all those data sources is that data miners use them to create business intelligence that support management decisions.

Because the data may be scattered in different locations,exist in different formats, or stored in various languages, the data miner must prepare the data for mining. Known as preprocessing, this data preparation activity is often a major task that can take several months to complete, depending on the size of the project. Once this phase is complete, the data miner is ready to build the model that the organization will use to provide intelligence for solving a business problem.

Model building is typically a computer-intensive activity that requires both an understanding of the business problem and the data-mining methodology for building the model. The goal of data-mining is to identify hidden patterns in a data set that a management accountant may use to solve a business problem. The individual can mine a data set in search of those hidden patterns and produce vital intelligence for creating a competitive advantage.

Management accountants may use several competing data-mining software packages as tools in the mining process. Experts often classify these tools on a continuum in terms of their level of sophistication, ranging from low-end data-mining tools to high-end. More sophisticated data-mining products provide multiple methods and algorithms to enable complex data-mining tasks. They include wizards and editors for data preparation and incorporate scalability and automation to handle complex projects. Low-end tools provide easy-to-use capability to query, summarise, classify and categorise data, but they do not provide either a high degree of functionality or sophisticated pattern-recognition methodologies.

Table 1 Respondent Information

PANEL A: CURRENT PROFESSIONAL POSITION

Professional Position	Frequency	Per cent
Vice-Chairman/ Senior VP/Exec VP	5	12%
Vice-President	8	19%
Chief Financial Officer	9	21%
Chief Information Officer	4	10%
Director	7	17%
Manager	3	7%
Others*	6	14%
Total	42	100%

* These include business analysts, architects, comptrollers, data administrators, deputy CFOs, and ex-directors.

PANEL B: FUNCTIONAL AREA

Functional Area	Frequency	Per cent
Accounting	14	24%
Finance	25	42%
Information Systems	11	19%
Marketing	3	5%
Purchasing	1	2%
Engineering	0	0%
Others	5	8%
Total	59	100%

Financial professionals can use data-mining tools in conjunction with very simple or highly complex database systems. In the simplest cases,they may use a pivot table with data in an MS Excel file. In the most complex cases, a data miner might interface with an enterprise-scale database management system, such as Oracle or DB2, and a high-end data-mining tool, such as Clementine, Enterprise Minder, CART or Oracle Darwin.

Once someone builds a data-mining model, it is necessary to evaluate and validate that model to assess the likelihood that it will work. Validation involves testing the performance of a data-mining model on data that were not used in building the model. Data miners must do this type of assessment because the accuracy found during the model-building phase applies only to the data used to build the model. There are many models and algorithms that data miners commonly use, such as artificial neural networks, automatic clustering detection, decision trees, link analysis, market-basket analysis, memory-based reasoning (MBR), multivariate adaptive regression splines (MARS), rule induction, logistic regression, discriminant analysis, generalised addictive models (GAM), boosting and genetic algorithms. Each model and algorithm can produce different results. Because the fundamental goal of a data-mining project is to build a model that can classify or predict an activity or event accurately (such as fraud, bankruptcy, product failure and warranty claim), the best model is the one that is likely to perform best in the field. Model validation tries to determine that a model will continue to predict or classify with a high degree of accuracy when the data miner uses new, previously unseen data to test the model.

Data-Mining Practices

We mailed a two-page survey to CFOs of all Fortune 500 companies. The instrument contained 12 questions, which we subdivided into two major sections:

1. general information about respondent and company and
2. technical information about data-mining.

In the general information section, we asked respondents to identify the functional area in which they worked, the size of their company, and why their company

may or may not use data-mining. In the technical information section, we asked what data-mining tools and data-mining technique(s) their companies used, and we also requested additional information about their data-mining and data-warehousing activities.

We pretested the survey instrument among accounting professors at a midwestern university and pilot-tested it at a large corporation, which we do not include among the respondents. We made several refinements to the instrument as a result of the pretest and pilot.

We mailed the survey initially in fall 2000 and then followed this first mailing with two follow-up requests addressed to persons who did not respond. The response rate was 8.6 per cent (43 of the Fortune 500 companies). Because of the low response rate, non-response bias is a distinct possibility in this study. It is very likely that more non-user entities than user entities were among the non-respondents.

Nonetheless,our survey provides insight into the use of data-mining among large corporations.

Who Uses Data-Mining

Table 1 shows that individuals holding several different titles responded. Most came from accounting and finance, and some also came from information systems, marketing and purchasing. The various functional areas represented in Table 1 suggest that organisations do not restrict data-mining to the domain of either accounting or information systems.All functional areas with a need for business intelligence apply data-mining techniques. This broad-based use of data-mining is logical because proponents claim that effective data-mining can produce net benefits ranging between $20 million and $24 million. Given this high potential payoff, it seems intuitive that use of data-mining will cut across functional lines in business and industry.

Sixty-five per cent of the companies that responded to the survey are using data-mining. Though this percentage is relatively high,we expect that many more companies will use data-mining as the tools become easier and more transparent and as company personnel become more aware of the product and process differentiation opportunities that data-mining and knowledge management can facilitate.

What Reasons do companies give for not using Data-mining?

Among companies that do not use data-mining, a relatively large percentage (36 per cent) say the reason is because they have more pressing business problems (see Table 2). This is intriguing because companies use data-mining when managers have pressing questions that can be answered through deep analysis of their own data and related information. Thus, there are additional issues that impede the use of data-mining in large corporations. Resource constraints seem to be a major factor because even among Fortune 500 companies there are factors that might constrain managements ability to deploy resources for it. As we investigated this issue further, we observed that smaller companies tended not to use data- mining because they considered it less urgent than more pressing business problems they faced.

Cost is another factor that limits the use of data-mining. Training, hardware, software, time needed to build and interpret models, and consulting are among the main drivers of data-mining cost. Thus, it is not surprising that several survey respondents view data-mining as an expensive activity with uncertain benefits. Many (18 per cent) do not consider it to be cost effective. This contrasts sharply with previous surveys that suggest the value added from data-mining projects can be as high as $24 million.

Lack of top-management support and concerns about the relevance of data-mining are some of the other factors that limit its use in large entities. It is possible that many managers are not aware of the benefits of data-mining relative to its perceived cost.

What Data-Mining Software do Companies Use?

Companies report that they use a wide variety of data-mining software. Oracle 's Darwin,

Table 2 Company Information in General

PANEL A: ANNUAL SALES COMPARISON

Description	Number of Companies	Average Annual Sales ($ million)
Companies that reported sales	41	$13,740
Companies that use data-mining*	28	$11,839
Companies that did not use data-mining	15	$17,835
Companies that did not use data-mining due to pressing business needs	8	$10,688
Companies that did not use data-mining because it was not viewed as being cost efficient	4	$10,000

* The average usage period for companies that use data-mining was found to be 4.7 years.

PANEL B: PERCENTAGE OF USERS BY INDUSTRY

Information and Communications Technology	24%
Energy and Public Utilities	16%
Financial Services and Insurance	40%
Healthcare and Pharmaceuticals	4%
Manufacturing	4%
Retail	8%
Service	4%

PANEL C: REASONS FOR NOT EMPLOYING DATA-MINING

Reasons	Number of times mentioned*	Per cent of times mentioned
Faced with more pressing business problems	8	36%
Not viewed as cost effective	4	18%
Lack of familiarity	2	9%
Lack of skilled personnel	2	9%
Lack of top-management support	1	5%
Not viewed as relevant for our kind of business	1	5%
Lack of funding	1	5%
Others	3	14%
Total frequency	22	100%

*A single company may have multiple reasons.

SAS's Enterprise Miner and IBM's Intelligent Miner are the dominant players, with SPSS's Clementine being used by a smaller number of companies. We observed two user clusters — those entities that use Business Miner, Darwin and Intelligent Miner (cluster 1) and entities that use Enterprise Miner, MineSet and Clementine (cluster 2). Companies in cluster 1 reported median sales of $4.2 billion,while companies in cluster 2 reported median sales of $9.65 billion. This led us to conclude that, in general, larger companies tend to use a combination of Enterprise Miner, MineSet and Clementine, while smaller ones use a combination of Business Miner, Darwin and Intelligent Miner. Most companies use at least two data-mining software tools. This might indicate that the type of business intelligence that Fortune 500 companies are trying to obtain from their knowledge bases cannot be culled by using a single data-mining tool or that no single tool is sufficient to satisfy the diverse user groups that exist in many large corporations. Whatever the underlying reasons,it is evident that large companies use multiple data-mining tools to extract knowledge from their databases.

What specific Data-Mining techniques do companies use?

When asked about the types of data-mining techniques used, respondents indicated that they most often use decision trees and regression modeling, followed by clustering and discriminant analysis (see Table 3,Panel B). The popularity of regression modeling may stem from its ease of use and general familiarity. Unlike many other modeling and analysis tools, regression models are often intuitive, and managers can relate to the uncomplicated equations and statistical output that regression (particularly,linear regression) analysis produces.

Management accountants often use regression analysis to develop cost estimation equations and to identify appropriate cost drivers. This type of information is valuable in activity-based costing and in cost estimation in general. Regression modeling is a logical process that accountants can readily relate to through either heuristics or theory. In contrast to decision trees and clustering techniques, which enable identification of hidden patterns existing in a database, regression modeling assumes the patterns exist based on an existing hypothesis or theory. For example, when estimating costs, management accountants often make implicit or explicit assumptions about the factors that drive cost, and their cost estimation equations confirm and quantify their beliefs.

Table 3 Technical Aspects of Data-Mining

PANEL A: USE OF DATA-MINING SOFTWARE

Data-Mining Software	Number of times mentioned*	Per cent of times mentioned
Darwin	10	20%
Intelligent Miner	12	24%
Enterprise Miner	9	18%
Business Miner	5	10%
Clementine	3	6%
MineSet	3	6%
KnowledgeStudio	1	2%
Scenario	1	2%
DataCruncher	0	0%
Others	5	10%
Total frequency	49	100%

*A single company may use multiple data-mining software.

PANEL B: USE OF DATA-MINING TECHNIQUES

Data-Mining Technique	Number of times mentioned*	Per cent of times mentioned
Decision trees	16	23%
Regression modelling	16	23%
Clustering	13	19%
Discriminant analysis	9	13%
Neural networks	7	10%
Genetic algorithms	2	3%
Bayesian belief networks	1	1%
Fuzzy logic	1	1%
Others	4	6%
Total frequency	69	100%

*A single company may use multiple techniques.

PANEL C: USE OF DATA MARTS AND DATA WAREHOUSES

	Number of Respondents	Per cent of users
Data Marts	28	86%
Data Warehouses	28	86%

What data sources do companies use for Data-Mining?

Table 3, Panel C shows that the majority of respondents (86 per cent) use data marts and data warehouses. Given this high percentage, it seems plausible that companies that use data-mining do so at many levels and across several departments. It is also evident that users of data-mining use data marts to create business intelligence for specific processes and departments within their organisations. On the other hand, given that about 35 per cent of respondents say they do not use data-mining, it seems that many companies with data warehouses or data marts did not engage in formal data-mining activities at the time of the survey. A possible explanation is that many companies with data warehouses and data marts are among those who do not consider data-mining cost effective.

For what business applications do companies use Data-Mining?

When asked about the types of business applications for which they use data-mining, corporations said they most often use data-mining for financial management and for customer and sales management (see Table 4). Trend analysis (7.5 per cent), direct marketing (6 per cent), database marketing (7.5 per cent), customer retention (6.5 per cent), customer relationship management (6 per cent), customer acquisition (4 per cent), cross-selling (4.5 per cent) and sales analysis (8 per cent) account for 50 per cent of the use.

Table 4 also provides insight into the types of tools corporations use for different business

applications. Overall, the table shows that CFOs use cluster 1 software (Business Miner, Darwin and Intelligent Miner) primarily for activity-based costing, cost-benefit analysis,and credit analysis. They use cluster 2 software (Enterprise Miner, MineSet and Clementine) for most of the other business applications, including trend analysis, customer retention and product/market analysis.

Using Cart as a Data-Mining Tool

While the preceding discussion provides insight into data-mining practices among large corporations, it does not offer the specifics on what a data-mining task might look like. We will fill that void by using a financial risk assessment task to illustrate the data-mining process.

Management accountants who need to assess the financial risk of a business entity can choose from several different data-mining tools. One such tool is Classification and Regression Trees (CART), a data-mining technique developed by researchers at Stanford University. We chose this technique because management accountants can use it to construct intuitive decision rules to predict, among other things, the likelihood that a business entity will fail.This type of analysis — with the decision rules it produces — is useful in assessing the financial health and overall business risk of trading partners, corporate affiliates, investment partners and takeover targets.

Consistent with the data-mining methodology outlined in Figure 1, we define the business problem as predicting the likelihood that an entity will fail within one year from the date of our analysis. We believe that five financial ratios, originally used by Edward Altman for bankruptcy prediction, might be useful in making this assessment. These ratios are working capital to total assets (WCAPAT), retained earnings to total assets (REAT), earnings before interest and taxes to total assets (EBITAT), market value of equity to total debt (MKVALFLT) and sales to total assets (SALESAT). We obtained data for the analysis from a Standard & Poor's research data warehouse called Research Insight. This data repository contains 20 years of financial data for all US companies with publicly traded securities. It also contains similar data for many non-US companies.

We used the relevant financial data for companies in three major stock exchanges (NYSE, AMEX and NASDAQ) for fiscal years 1992 to 1996. We assumed that there were hidden patterns in the data set that our data-mining analysis would identify and exploit as the basis for distinguishing between entities that will go bankrupt within one year and entities that will survive.

We used CART as the enabling tool to extract the hidden patterns embedded in the data and to develop an accurate decision tree. With CART, a user must first build the model. Our model is simple. It states that the five financial ratios identified previously will correctly distinguish between bankrupt and non-bankrupt entities. Figure 2 shows the model specifications as represented in CART. The target variable (or variable we are attempting to predict) is bankruptcy. The variables we use to predict bankruptcy are the five ratios mentioned above: WCAPAT, REAT, EBITAT, MKVALFLT and SALESAT.

In CART, as well as other data-mining tools, the data miner usually builds the model in two phases. In phase one, we built the model by using a data sample referred to as the learning sample. In phase two, we tested the model to ensure that it would work on new data. Testing the model requires a different data set (known as the testing sample) from the learning sample. Both learning and testing samples must contain cases of failed as well as surviving companies. Our learning and testing samples contained 12,794 and 4,659 cases, respectively. Each sample contained cases

Table 4 **Frequency of Application Use**

Data-Mining Application	User Frequency of Application +	Frequency Percentage	Use Cluster 1*	Use Cluster 2*
Sales analysis	16	8.00%	22%	78%
Database marketing	15	7.50%	30%	70%
Trend analysis	15	7.50%	0%	100%
Customer retention	13	6.50%	14%	86%
Customer relationship management	12	6.00%	23%	77%
Direct marketing	12	6.00%	20%	80%
Financial analysis	11	5.50%	34%	66%
Cross-selling	9	4.50%	43%	57%
Fraud detection	9	4.50%	17%	84%
Portfolio management	9	4.50%	43%	57%
Product/market analysis	9	4.50%	0%	100%
Customer acquisition	8	4.00%	25%	75%
Activity-based costing	7	3.50%	75%	25%
Forecasting in financial markets	7	3.50%	25%	75%
Product mix	7	3.50%	0%	100%
Risk management	6	3.00%	40%	60%
Variance analysis	6	3.00%	25%	75%
Cost-benefit analysis	5	2.50%	100%	0%
Credit analysis	5	2.50%	67%	33%
Process control	1	0.50%	0%	100%
Survey analysis	1	0.50%	0%	100%
Theory of constraints	1	0.50%	0%	100%
Others	16	8.00%	0%	100%
Total Frequency	200	100.00%		

\+ A single company may use data-mining for multiple business applications.

* Cluster 1 and Cluster 2 refer to clusters of software tools used for the business applications listed in the table. Cluster 1 data-mining tools include Business Miner, Darwin and Intelligent Miner. Cluster 2 data-mining tools include Enterprise Miner, MineSet and Clementine. For example, the table shows that companies that use data-mining for sales analysis, database marketing, and trend analysis primarily use software tools in Cluster 1.

of bankrupt and non-bankrupt companies that span the period 1992 to 1996, with data from 1992 to 1995 being used as the learning sample and data from 1996 being used as the testing sample.

Results generated by CART include prediction success of the model and logical rules in the form of a decision tree that a management accountant can use to predict an entity's financial risk. Data miners judge a model's prediction success by examining the rate at which it incorrectly classifies entities that went bankrupt (referred to as type 2 error rates) as well as the rate at which it misclassifies entities that did not go bankrupt (referred to as type 1 error rates). We examine type 1 and type 2 error rates for both the learning sample and the testing sample. Type 1 and type 2 error rates for the learning sample provide useful information for building the model. On the other hand, error rates for the testing sample tell how well the model is likely to predict bankruptcy when a manager uses it for assessing financial risk in real-world cases.

Figure 2 **Building the Financial Risk Model in CART**

LEGEND

WCAPAT	=	working capital/total assets
REAT	=	retained earnings/total assets
EBITAT	=	earnings before interest & taxes/total assets
MKVALFLT	=	fiscal year-end market value/total liabilities
SALESAT	=	sales/total assets
Bankrupt	=	1 if a company was bankrupt and 0 if the company was not.

The variable box shows all variables used in the data-mining task.

The target variable is Bankrupt. This is the variable we are predicting.

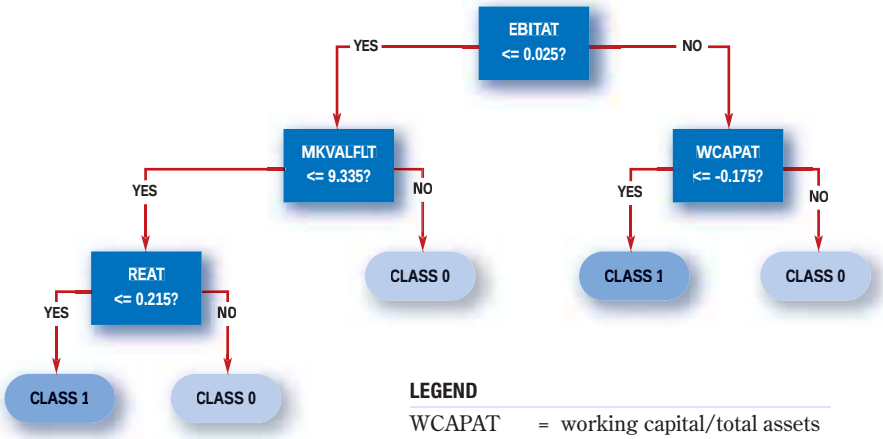
The variables we use to predict bankruptcy are MKVALFLT, EBITAT, REAT, WCAPAT, and SALESAT.

Logical rules and prediction success

Figure 3 shows the logical rules we obtained for predicting bankruptcy based on the data used to illustrate the data-mining process. The rules indicate that the ratio of earnings before interest and taxes to total assets (EBITAT) is the first variable to examine when predicting bankruptcy. If EBITAT is less than or equal to 2.5 per cent, then we examine the ratio of fiscal year-end market value to total liabilities (MKVALFLT). If EBITAT is less than or equal to 2.5 per cent and MKVALFLT is greater than 9.335, then the company is unlikely to go bankrupt within the next 12 months.If EBITAT is less than or equal to 2.5 per cent and the value of MKVALFLT is less than or equal to 9.335, then we examine retained earnings to total assets (REAT). The threshold REAT is 21.5 per cent. If REAT is less than or equal to 21.5 per cent, then the company is likely to go bankrupt within the next 12 months. Companies that exceed this threshold are unlikely to go bankrupt. Finally, companies with EBITAT greater that 2.5 per cent are likely to go bankrupt within the next 12 months only if their ratio of working capital to total assets is 17.5 per cent or less.

Table 5, Panel B (based on the testing sample) shows that the decision tree in Figure 3 is relatively accurate. Although Panels A and B present the same type of information,Panel B is more relevant because it is based on data not used in building the model and, therefore, gives an idea of how well the model might work in the field.Based on Panel B, the type 1 error rate is a little under 22 per cent,and the type 2 error rate is less than 5 per cent.This means that a prediction that a

Figure 3 **Decision Tree for Predicting Bankruptcy**



LEGEND

WCAPAT	=	working capital/total assets
REAT	=	retained earnings/total assets
EBITAT	=	earnings before interest & taxes/total assets
MKVALFLT	=	fiscal year-end market value/total liabilities
SALESAT	=	sales/total assets

CLASS 1: Bankrupt Companies

CLASS 0: Active Companies

This decision tree is based on data from 1992-1995 predicting bankruptcy in 1996.

company will not go bankrupt within 12 months is accurate 78 per cent of the time, while a prediction that a company will go bankrupt within 12 months is accurate about 95 per cent of the time. These predictions are highly accurate when judged against the observation that a fair coin toss would produce a type 1 error rate of 50 per cent and a type 2 error rate of 50 per cent.

Table 5, Panel C shows that although we used five variables to predict bankruptcy, only four were important in distinguishing bankrupt from non-bankrupt companies (fiscal year-end market value/total liabilities; earnings before interest and taxes/total assets; retained earnings/total assets; working capital/total assets). The fifth variable (sales/total assets) is not useful in distinguishing between bankrupt and other companies when we consider the other four variables.

Table 5 Data-Mining Results

PANEL A: MISCLASSIFICATION FOR LEARNING SAMPLE

Class	Number of Cases	Number of Misclassified Cases	Per cent Error
Bankrupt	78	12	15.38 (Type 2)
Non-bankrupt	12,716	2,588	20.35 (Type 1)

PANEL B: MISCLASSIFICATION FOR THE TESTING SAMPLE

Class	Number of Cases	Number of Misclassified Cases	Per cent Error
Bankrupt	23	1	4.35 (Type 2)
Non-bankrupt	4,636	1,008	21.74 (Type 1)

PANEL C: VARIABLE IMPORTANCE SCORES

Variable	Score*
Fiscal year-end market value/total liabilities	100.00
Earnings before interest & taxes/total assets	89.51
Retained earnings/total assets	87.61
Working capital/total assets	82.43
Sales/total assets	0.00

* This is an indicator of the importance of a variable. Scores range from zero to 100. The higher the score, the more important a variable is in distinguishing between bankrupt and non-bankrupt companies.

Complicated, but Useful

We have provided an overview of the data-mining process and presented the results of a survey of data-mining practices. We have examined which companies use data-mining, why they use or do not use it, the software they use, the specific techniques and data sources they use, and the business applications for which managers use data-mining. Our survey found that many companies use data-mining and that clustering, decision trees, and regression modeling are the most popular data-mining techniques among the companies surveyed.

The data-mining exercise shows how a management accountant might use a data-mining tool to create intuitive business rules for assessing a company 's financial risk. Management accountants who want to use data-mining must be aware that there are many competing methodologies and that most successful data-mining projects use a multistep process that begins with understanding the business problem. While other steps in the process are vital, it is this first step that determines whether a data-mining model might offer the deliverables that can add value to a company.

Management accountants who want to use data-mining as a tool for creating competitive business intelligence should be aware of several important guidelines. First, they should begin the process with a modest goal. A successful data miner looks for a solution to a well-defined business problem. Second, the management accountant should ensure that data are in a suitable format for data-mining. Although a company may have a data warehouse or data mart,the data are seldom in a suitable format for data-mining. Preparing the data is frequently a time-consuming but highly necessary activity. Third, it is mandatory to create both a learning sample (used directly in building the model) and a testing sample (used to evaluate the model) for data-mining. The learning sample size should be as large as possible but must not be smaller than 10 times the number of variables used to predict an event or activity.

Fourth, the management accountant must have some basic knowledge of the model-building process. Very few data-mining tools allow an absolute novice to build an effective model. Model building typically is a computer-intensive activity that requires both an understanding of the business problem and the data-mining methodology for building the model. Management accountants should start with a low-end tool that provides an easy-to-use visual interface. Some good tools for beginners include those available as add-ons to familiar electronic spreadsheets and tools that use highly intuitive graphical user interfaces. The management accountant should begin by using techniques that are more familiar and easier to interpret and use, such as clustering, regression models and decision trees.

Fifth, after building a data-mining model, management accountants must evaluate and validate it to assess the likelihood that it will work in practice. They should base their final assessment of the efficacy of a model on type 1 and type 2 errors for the testing sample. Finally, because there are competing techniques, a management accountant should attempt to compare the effectiveness of different techniques and select the one that produces the most accurate results. AT

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DYNAMICS OF OUTsourcing

by Nancy Yeoh

What is Outsourcing?

Historically, outsourcing started off with 'low-value', low technology and high volume services such as photocopying requirements, messenger services and janitorial services. Then it went on to include services like finance and administration, human resource (HR) management, purchasing and procurement and logistics.

Today outsourcing can cover virtually all types of business processes; from HR management, tax compliance to product design, marketing, to core IT and industry processes!

Given the right mix, one can elect to outsource the entire enterprise. Indeed, there are some new businesses which are based exclusively on Internet sales with outsourced support.

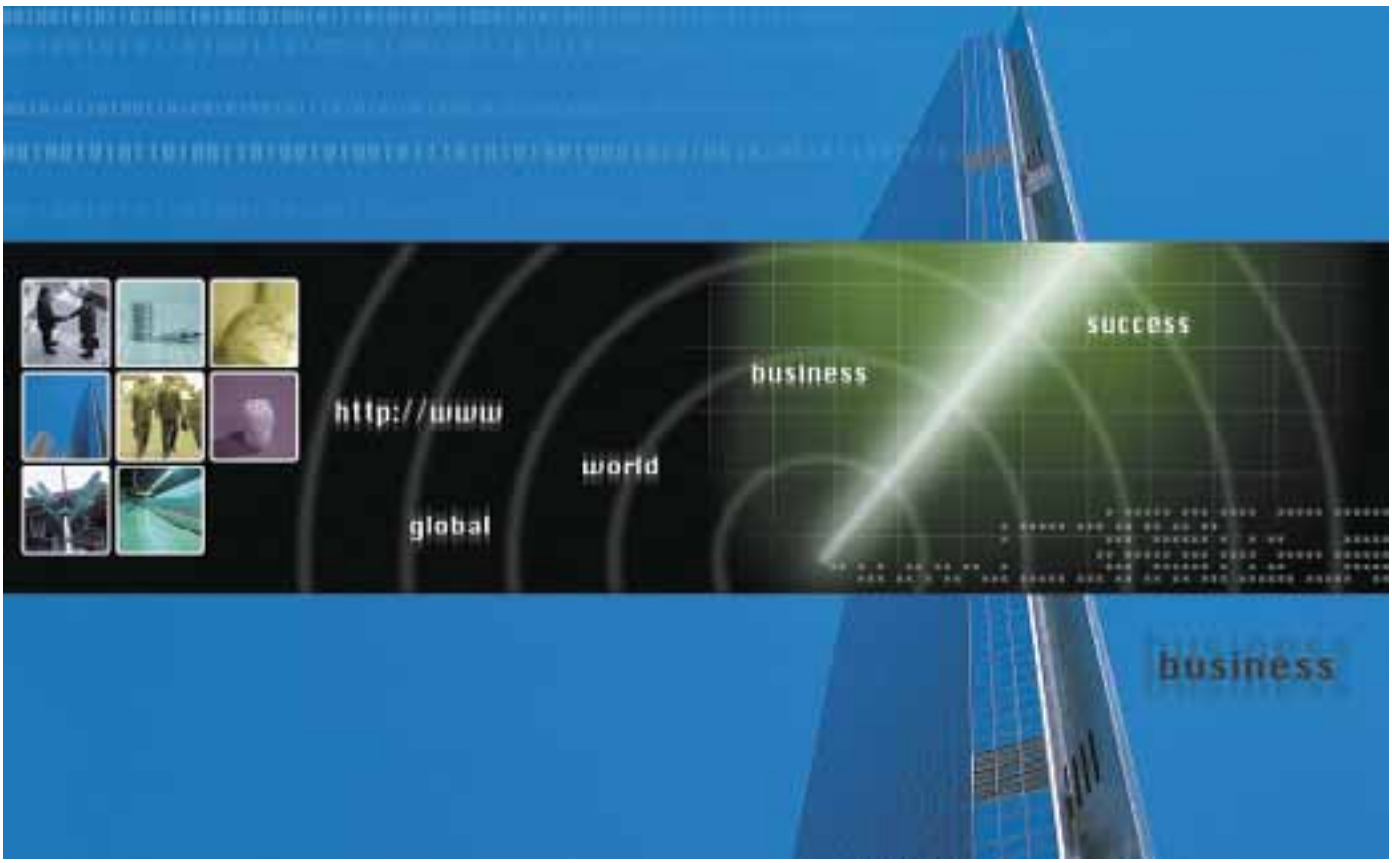
So what is Outsourcing? — Outsourcing is nothing but the process of transferring the day-to-day tasks for the operating business process of an enterprise to an external service provider.

When to Outsource and When not to Outsource?

Outsourcing is suitable for many different situations. Organisations seeking to increase their share pricing and earnings generated from their assets may decide to opt for outsourcing. Outsourcing allows capital to be freed from the constraints of price-earning ratios and promote management focus on essential determinants of the shareholder value. "We'll do what we do best, outsource the rest".

Outsourcing may be also the tool of choice for obtaining rapid access to scalable production or to new technologies, a 'partnership' with a recognised leader for transitional and long-term technology planning and marginal cost pricing for business processes requiring heavy capital investment.

In cases of organisations which have been merged or acquired, the divested companies will need operational support. Outsourcing will span the gap and provide the new management with the necessary 'breathing space' to focus on the core business. Hence, outsourcing can expedite integration of merged organisations with incompatible technical infrastructures.



How much to Outsource?

The dilemma faced by the organisations' decision-makers would be how much to outsource. They might like the idea of transferring the mundane jobs to the service provider so that they can focus on the more important 'high level' jobs.

On the other hand, they might not like the idea of transferring control over how the mundane jobs are to be carried out. Some may even feel threatened by the transfer of their jobs to another company which has a different culture, business strategy and management style.

This is a dilemma which has to be solved by the individual decision-maker of the organisation. However, as a rule of thumb, many of the advocates of outsourcing have recommended that an organisation should never outsource the following:

Core business competencies. These should never be delegated, transferred or compromised by blind dependence on a third party. Competitive advantage flows from the superior skill, acumen or execution of the organisation's mission.

Knowledge-based functions dependent on proprietary company information. Transferring the organisation's intellectual property to a third party service provider is like shooting oneself in the foot. In a knowledge-based global economy, competitive advantage depends on the organisations control and protection of its trade secrets and its ability to build upon skill and experience.

Business functions that are highly volatile or unpredictable in scope or risk structure. The key to deriving business benefits of outsourced services lies in the service provider's capacity to deliver predictable service. Predictability of quality and capacity to perform depends on repeatability. Thus, if the customer's service requirements are highly volatile as to scope or risk structure, the function should not be outsourced.

Critical Business Functions that are subject to unacceptable levels of political risk. Even domestic outsourcing operations may involve foreign subcontractors whose right to deliver services or right to receive payments, could be severely impaired for political reasons. Embargoes, quotas, political restraints, inconvertibility, nationalisation, expropriation and similar risks may suggest that special measures need to be adopted to mitigate any political risk. Experienced outsourcing attorneys can provide advice on risk mitigation and management.

Bad Timing for Outsourcing

Outsourcing may be the best option available but timing will also determine the success or failure of the outsourced services. There are situations when outsourcing would be inappropriate for the moment and these would include the following:

- During the period prior to a shift in senior management. Outsourcing is a process that should not be initiated when the incumbent management will not be present to ensure satisfactory implementation. Proper outsourcing strategies require substantial time, and cost substantial resources, for planning and implementation. Every member of the board of directors, and every senior officer, has a fiduciary duty to manage the company assets. The "new" manager's hands will be tied by long-term commitments in an outsourcing agreement.
- During a major restructuring occurring without an outsourcing orientation. Typically, in a weak economy, enterprises may restructure internal operations to reduce costs, eliminate hierarchies, reshuffle teams, divest unprofitable operations, consolidate, recapitalise, transfer to new locations and other strategic initiatives. In a strong economy, enterprises may launch new initiatives for growth with similar short-term destabilising effects on "business as usual." Where such restructurings are in progress without an outsourcing orientation, the stability needed for analysis, structuring, negotiation and transition towards out-sourcing will be lacking. Under such conditions, any major outsourcing transaction could pose high risks through complications, distractions to senior executives and possible excessive haste.
- Conversely, outsourcing should normally be considered a useful management tool in the tool kit of CEO's and CFO's engaged in any restructuring where there is sufficient focus, stability of operations and time to effectively obtain the desired benefits.

Benefits of Outsourcing

Outsourcing is known to solve many issues faced by organisations. Some of the other hidden business benefits of outsourcing are as follows:

1. Renewed focus on core business
2. Mitigation of risks by reliance on an expert
3. Improved customer satisfaction through improved processes not previously part of the organisation's culture or experience
4. Ability to reward staff with career opportunities in a speciality organisation dedicated to the staff skills as a revenue generator, rather than to the general company where the staff is considered an overhead expense
5. Project enhancement
6. Service improvements
7. Skills upgrade
8. Skills retention
9. Skills access
10. Technology infusion
11. Cost accounting and overall visibility of accounting and performance in a business process
12. Cost reduction
13. Management of volatility in costs through financial engineering
14. Asset conversion
15. Avoidance of capital investment

Most of the players in Business Process Outsourcing in the past included multinationals such as Accenture, EDS, HP, CSA-MSC, Unisys and Innovation Associates. However, today we find the local System Integrators swimming upstream into this Business Process Outsourcing. Local System Integrators are expected to take a more aggressive role in this area of business, thus leading to a paradigm shift in IT Service Providers. AT

Article contributed by Nancy Yeoh, General Manager of Formis Software Dynamics Sdn Bhd (FSD).

PRACTICAL TAX ISSUES ON Business Receipts

by Tan Hooi Beng

For a receipt to be subject to Malaysian income tax, it must be revenue in nature. Furthermore, Malaysia adopts a modified territorial scope of taxation where only income derived from or accrued in Malaysia is subject to tax. Foreign income remitted to Malaysia is free of Malaysian income tax, save for the cases where the recipients are resident companies undertaking the business of air and sea transport, banking and insurance. It is also imperative to distinguish between business income and passive income (non-business) given the differences in tax treatment. Of note, more advantages would be derived if an income were to be assessed as a business source. Generally, it would be more advantageous if an income is assessed as a business source where it would be entitled for a wider scope of deduction, the claim of capital allowance and tax losses utilisation. Apart from these, the timing of taxability for a business receipt is equally important, as this would impact the taxpayer's cash flow.

Timing of taxability — Received versus received

Once an item has been ascertained to be a Malaysian sourced business income, the next task is to determine when should the same be brought to tax. To address this, Section 24(1) of the Malaysian Income Tax Act, 1967 (MITA) is relevant and it reads as follows:

Where in the relevant period a debt owing to the relevant person arises in respect of:

(a) any stock in trade sold (or parted with on requisition or compulsory acquisition or in a similar manner in or before the relevant period in the course of carrying on a business;

(b) any services rendered at any time in the course of carrying on a business; or

(c) the use or enjoyment of any property dealt with any time in the course of carrying on a business.

the amount of the debt shall be treated as gross income of the relevant period

Reading the above, clearly, the accrual concept applies to business income insofar as the timing of taxability is concerned. It does not matter whether the taxpayer has received the consideration for the goods supplied, services rendered or property rented. The taxpayer would be subject to tax on the amount of debt arising from any of the abovementioned transactions.

Thus, the meaning of debt and the determination as to when it arises is crucial. Debt is neither defined in the MITA nor the Companies Act 1965. Nevertheless, Section 23(a) of the MITA refers debt to be in a liquidated sum. From the legal perspective, a debt is liquidated when it is certain what is due and how much is due. There is no strict rule in defining a debt as the definition depends very much on the type of transaction in question. Generally, based on the ordinary technical meaning, debt could be defined as something recoverable by an action for debt and must be ascertained or capable of being ascertained. Hence, a debt could be viewed as an obligation for the payment or money or money's worth.

Whether a debt has arisen or not would depend on the facts of each case. The answers to the following question may assist in the determination:

- Is the deal or transaction entered into for an ascertained sum of money?
- Has the taxpayer's customer or client committed a positive act to bring the debt into existence and if so, is the said act indicating the customer of client's intention to be bound by the act or transaction?
- Is the act (or omission) that results in the liability of debts for the taxpayer's customers?

Generally, a debt would arise when the following takes place:

- Goods have been delivered to customers.
- Services have been performed.
- Properties have been used or enjoyed.

Also, the invoice or bill issued by a taxpayer to his client is also an important factor in ascertaining the debt creation. In a normal commercial transaction, the terms and conditions of a contract would usually include the timing of payment and the responsibility of the supplier and recipient.

To a certain extent, Section 24(1) of the MITA is in line with the generally acceptable accounting practice in Malaysia. Under the MASB 9 (Revenue), revenue is recognised in the Profit & Loss Accounts when it is probable that future economic benefits would flow to the enterprise and can be measured reliably. Usually, the timing of revenue recognition could be based on the agreement between the supplier and customers. As mentioned above, revenue is usually recognised at the point when goods are delivered or when services are provided. However, under the prevailing accounting practice, where there are uncertainties regarding the ultimate collection, the inflows of future economic benefits may not be probable. As a result, a postponement of the revenue recognition may be required until the said uncertainties are removed. This is where the difference between the accounting rule and tax law arises. For income tax purposes, the fact that the customer or supplier may face difficulties regarding the collection will not change the timing of taxability. In this regard, the tax rules are more stringent in subjecting an item to income tax, *vis-à-vis* the accounting rules in recognising income.

Example 1

THB Tax Advisers Sdn Bhd (THB) has rendered tax services to ABC Bhd (ABC) on 1 December 2004. In the letter of engagement, ABC was obliged to make the fee payment of RM5,000 once the services were rendered and the issuance of invoice. In this regard, THB has issued an invoice of RM5,000 to ABC on 1 December 2004. ABC has settled the invoice on 2 January 2005. Assuming that THB's tax basis period for Year of Assessment (YA) 2004 was from 1 January 2004 to 31 December 2004, when would the income of RM5,000 be brought to income tax?

Based on MASB 9 and on the premise that the future economic benefit inflow to THB was certain, the service income would be booked in THB's Profit & Loss for the financial year ended 31 December 2004. Likewise, based on Section 24(1) of the MITA, the service income would be subject to tax in YA 2004 despite the fact that the payment was only received in YA 2005. The debt has arisen on 1 December 2004 itself where the services and invoice were rendered and billed respectively.

Example 2

The facts are similar to those in Example 1 save that great uncertainties exist concerning the debt collection due to some serious financial difficulties faced by ABC.

Under this scenario, MASB 9 may require the recognition of service income of RM5,000 to be deferred until the uncertainties are resolved. This accounting rule does not alter the tax treatment, which is solely based on the accrual basis in accordance with Section 24(1). As such, a tax adjustment is needed in THB's tax computation with a view to bringing the service income of RM5,000 to tax in YA2004.

Based on the writer's experience, certain professional practices, adopt the cash basis for accounting purposes. In this respect,

income is only recognised when it is received. In light of the onerous self-assessment regime, it is noteworthy that the onus lies with the taxpayer in submitting an accurate tax return based on the prevailing income tax law. In this regard, Section 24(1) clearly requires accrual basis to be adopted for income tax purposes. One may argue that cash basis should be allowed, especially for small businesses, as it simplifies accounting administration and provides equity. In Australia, a regime called Simplified Tax System (STS) has been introduced to certain taxpayers deriving annual turnover below certain threshold where cash basis for income tax purposes is permitted. Perhaps, the newly formed Tax Review Panel should take this into account when forming a proposal to simplify Malaysian tax regime.

Whilst Examples 1 and 2 may appear to be straightforward, consider the following situations:

Example 3

The facts are similar to those in Example 1 save that the invoice was only billed to ABC on 2 January 2005. In this instance, when would the service income be brought to income tax? YA 2004 or YA 2005?

One must ask these:

- When does the debt in relation to the tax services arise?
- Is the debt created upon the completion of the tax services, i.e. on 1 December 2004?
- Or, does the debt only arise upon the issuance of invoice by THB to ABC demanding payment?

Purely from the practical accounting point of view, the income may only be recognised when the invoice is billed. Normally, the recording and bookkeeping of accounting packages would only record the sales transaction if an invoice exists. Nonetheless, careful consideration must be given to determine under which YA would the service income fall. In doing so, it is crucial to scrutinise the agreement entered into between the taxpayer and his customer with a view to ascertaining as to when the debt arises. With effective planning and proper structuring of an agreement, income tax may be deferred for the taxpayer. This would certainly ease the cash flow position.

Advance receipt

On closer analysis, one would note that the issue of advance receipt differs from the foregoing issue as the former pertains to the advanced receipt for certain services that are yet to be rendered or goods to be supplied whilst the later deals with services or goods that have been rendered or provided respectively.

Presently, there is no specific provision in the MITA to govern the timing of taxability for advance receipt. As always, principles established in certain case laws would shed some light in resolving this issue. Where there are no unconditional rights to the receipt of the income, the recipient taxpayer would be subject to income tax in the YA where the consideration is received. To be taxable, the taxpayer must have derived the income and must be able to "bring home" the income (income could be physically received or be set-off against any dues to the customers). No conditions should exist on the income and that simply means that the taxpayer is free to deal with the money received without having the need to consider whether the money ought to be refunded to the customer.

Hence where monies are received in advance, it may not necessarily be income for that period in which the advance is received until the conditions attached are fulfilled by the taxpayer. This principle is in tandem with the decision in the case of *Arthur Murray (NSW) Pty Ltd v FC of T [(1965) 114 CLR 314]*, whereby advance payments were not regarded as income until the payments become unconditional.

From a practical perspective, the issue of conditional or unconditional could be resolved by examining the contract entered into between the taxpayer and his customer. Generally, most of the conditions to receipt would only be removed when the services are rendered or the goods are supplied. Indeed, an agreement could be effectively structured with a view to achieving tax efficiency for the supplier and recipient after taking into account the tax profiles of each party e.g. unabsorbed business losses, capital allowances as well as the prevailing and future tax rates.

One of the tax efficiency ideas that have been successfully used abroad is the structuring of advance payment as loan from the customer to the taxpayer. In this instance, the income derived from the provision of services in future years would be set-off against the revenue. In this regard, an agreement clearly stating that the advance is a loan must exist. Apart from that, arm's length interest may need to be charged accordingly and any money-lending licensing requirement must be considered. Needless to say, before embarking on any tax planning, the anti-avoidance provision, namely the Section 140 of the MITA must be duly considered. Equally crucial is the existence of commercial reasoning in drawing up the supply agreement.

Anticipatory receipt

Generally, revenue expenditure is only tax deductible if it is incurred. Likewise, an income can only be taxed if it is realised and earned. Anticipated income does not fall within the ambit of income tax and this is clearly supported by the decision in the case of *JP Hall & Co vs. IRC (12TC 382)*. In the case of *Williangle vs. International Commercial Bank Ltd (1978) STC 75*, it was held that accrued discounts on bills of exchange, which mature only after the balance sheet date, were not taxable until the maturity date.

Conclusion

What is taxable and what is not is important in running a business particularly amidst the strict and onerous self-assessment regime. Apart from this, knowing when to tax income is also vital as the tax rate for each YA may not be the same. Also, the tax attributes such as the tax losses, capital allowances, the quantum of passive income etc would somewhat differ from year to year and these could impact the calculation of final tax payable. Where possible and commercially viable, tax on income should be deferred, if not eliminated all together. Needless to say, all these must be done within the tax and legal framework. AT

Tan Hooi Beng is a director at Niche & Milestones. The above views are his own.

Leases AND Investment Property

Financial Reporting Standards (FRSs) have undergone significant improvements to reflect the changing business environment and to enhance comparability of financial statements across borders. As of 31 July 2005, the Malaysian Accounting Standards Board (MASB) has approved 12 FRSs as part of its plans to issue at least 21 standards by the end of 2005.

Accounting for leased properties will change with the revisions to FRS 117 *Leases* and the introduction of FRS 140 *Investment Property*. In this fourth article[1] on MASB's planned standards for 2005, we will look at aspects of those two standards that are most likely to bring changes to the financial statements.

FRS 117 Leases

MASB 10 *Leases* was issued in January 2000. In January 2005, it was re-numbered FRS 117_{2004}. This standard was recently revised to improve certain definitions, eliminate alternative treatment for initial direct costs, and provide additional guidance on the treatment of leases of land and buildings.

FRS 117 was approved by the Board in August 2005. It is identical to IAS 17 (revised). The following discussion focuses on the new provisions introduced in the revised standard.

Leases of land and buildings

The standard deals with leases of land and building in greater depth. Unlike the previous standard, FRS 117 considers a lease of land and buildings as two separate elements for purposes of lease classification. It is possible that in a lease of land and building, the land is classified under an operating lease, while the building on that land is classified under a finance lease.

The minimum lease payment is allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests at the inception of the lease. If the lease payment cannot be allocated reliably, then both land and building are classified as finance leases, unless it is clear that both are operating leases, in which case both elements are classified as operating leases.

In a lease of land, if title is not expected to pass to the lessee by the end of the lease term, that lease will be considered an operating lease. Payment to acquire the leasehold will be deemed prepaid lease payments, and are amortised over the lease term. The rationale underlying this concept is that land has an indefinite economic life, and therefore, regardless of the duration of the leasehold, the substantial risks and rewards incidental to ownership of the land normally does not transfer to the lessee.

However, if such a property interest is classified as an investment property according to FRS 140 *Investment Property*, such interest will be accounted for as if it is a finance lease.

If the lessee's interest in both the land and buildings is classified as an investment property under the *Investment Property* standard, and the fair value model is adopted, then a separate measurement is not required. This is further discussed in the next section. *(Compare paragraph 14 of FRS 117_{2004} with paragraphs 14-19 and BC4-BC14 of FRS 117)*

Inception of the lease and commencement of the lease term

FRS 117_{2004} did not differentiate between commencement (when the lease begins) and inception (when the agreement is entered into), implicitly assuming they were simultaneous. The proposed FRS 117 now specifies that recognition takes place at

1 The previous articles appeared in the June to August issues of *Accountants Today*.

commencement, based on values measured at inception. *(Compare paragraphs 4, 15 of FRS 117$_{2004}$ and paragraphs 4, 20 and BC16-BC17 of FRS 117)*

Initial direct costs

Initial direct costs are those costs incurred in negotiating a lease, such as commissions, brokers' fees, and legal fees. In FRS 117$_{2004}$, initial direct costs could either be charged as an expense as incurred or allocated over the lease term. FRS 117 eliminates the first alternative. Initial direct costs can now only be added to the carrying amount of the leased asset and recognised over the lease term on the same basis as the lease income.

However the costs of negotiating and arranging a lease incurred by manufacturer and dealer lessors are excluded from the definition of initial direct costs. They are recognised as an expense when the selling profit is recognised. *(Compare paragraph 40 of FRS 117$_{2004}$ with paragraphs 38, 42 and BC18-BC21 of FRS 117)*

Applicability of FRS 117 to Islamic Leases

The Board deliberated at length as to whether FRS 117 should be applicable to Islamic leases. In view of public response and the on-going review of MASB ED on *Ijarah*, the Board decided that Islamic leases would fall within the ambit of FRS 117 *Leases* until a pronouncement on Islamic leases is issued. *(Paragraph 4 of FRS 117$_{2004}$ deleted from FRS 117)*

Transitional Provisions of FRS 117

This standard requires an entity to apply the new provisions in this standard retrospectively for all leases if such entity had previously applied similar treatment under FRS 117$_{2004}$.

However, for an entity that had not applied the provisions of FRS 117$_{2004}$ retrospectively, such an entity is required to apply the new provision for all leases entered into since the date it first applied FRS 117$_{2004}$.

The other transitional provision of this standard requires an entity, that previously had classified a lease of land and the amount of lease rental as property under FRS 116 *Property, Plant and Equipment*, to reclassify the unamortised carrying amount as prepaid lease payment upon adoption of this standard. *(See paragraphs 67-68 of FRS 117)*

FRS 140 Investment Property

MASB issued an exposure draft MASB ED 31 *Investment Property* in 2001. Shortly after, IASB announced that it would be revising IAS 40, on which ED 31 was based. Accordingly, MASB decided to re-issue ED 31 based on IASB's revision. In November 2004, MASB issued ED 31 (revised) which was based on IAS 40 (revised 2003). The Board approved FRS 140 *Investment Property* in June 2005.

Until recently, investment property was subject to MASB Approved Accounting Standard IAS 25 *Accounting for Investments.* FRS 140 supersedes that part of IAS 25 that deals with investment property. One of the main impacts is the change in the measurement basis.

Main features of FRS 140

FRS 140 provides a definition and examples of investment property to differentiate it from owner-occupied property. The distinguishing feature of investment property is that it is held to earn rentals or for capital appreciation or both. In contrast, owner-occupied property is held for use in the production or supply of goods or services or for administrative uses.

Under IAS 25, an entity holding an investment property either (a) treated it in accordance with IAS 16 (i.e. the equivalent of FRS 116); or (b) accounted for it as a long term investment carried at either cost or revalued amount.

Under FRS 140, an investment property is measured initially at its cost. After recognition, an entity can choose to apply either the fair value model or the cost model to its investment properties.

IAS 40 clarifies that the fair value model differs from the revaluation model. Under the revaluation model, increases in carrying amount above a cost-based measure are recognised as revaluation surplus. However, under the fair value model, all changes in fair value are recognised in profit or loss. *(Compare paragraphs 23, 28, 32 of IAS 25 with paragraphs IN14, 5-15, 16, 20, 30, 33-35, 56 of FRS 140)*

Property interest may be classified as investment property

As mentioned earlier, property interest held by a lessee under an operating lease may be accounted for as an investment property. Under FRS 140, an entity may opt to account for property interest as investment property if the definition of investment property is met, and the property interest is measured using the fair value model. In such a case, the initial cost of the property interest shall be accounted for as if it was a finance lease.

FRS 140 clarifies that if a property interest is to be classified as investment property, the item to be measured at fair value is that of the interest rather than that of the underlying property.

These provisions are included because in some jurisdictions, interests in property are commonly or exclusively held under long term operating leases. These leases differ little from other investment property, but by virtue of paragraph 14 of FRS 117 the operating lease classification would have prevented the holder of such a property from re-measuring its interest in the property to fair value and recognising any change in fair value in profit and loss. *(See paragraphs 6, 25-26, 34, BC4-BC10, BC13-BC14 of FRS 140)*

Transitional Provisions of FRS 140

Under the fair value model, an entity shall report the effect of adopting FRS 140 as an adjustment to the opening balance of retained earnings for the period in which the election is first made.

Under the cost model, an entity shall apply FRS 108 *Accounting Policies, Changes in Accounting Estimates and Errors* to any change in accounting policies when it first applied FRS 140. *(See paragraphs 80 and 83 of FRS 140)* AT

For more information, please contact Dr. Nordin Mohd Zain, Executive Director or e-mail *nordin@masb.org.my*.

Disclaimer: The views expressed in this article represent the views of the staff of the Malaysian Accounting Standards Board. They do not, in any way, represent the official views of the Malaysian Accounting Standards Board.
This article is intended for general education purposes only. It is not an exhaustive discussion of changes to the standards. Readers are advised to refer to the standards to fully understand all the changes made.

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.

Parker Randall (AF: 1565)

Chartered Accountants

Parker Randall Malaysia, an independent member firm of Parker Randall International, is seeking the following:

- **PURCHASE** — To purchase any practices within the industry.
- **AFFILIATION** — To seek affiliation with like-minded firms sharing the global vision of growth within Malaysia & the Asia Pacific region.
- **RECRUITMENT** — New talents for all job positions to scale new heights with Parker Randall Malaysia.
- **BRANCHES** — Seeking qualified members to manage offices.

Interested, please email: *parkerrandall@raymond-liew.com* or contact Tel: 603-7665 1738 Fax: 603-7665 1739 *www.raymond-liew.com*

Fast Track — PRO Finance facility for Practising Members

Bumiputra Commerce Bank Berhad (BCB) has launched its *Fast Track* loan facility for small and medium-sized enterprises (SMEs) in the wholesale, retail, light manufacturing and services sectors. To date, BCB has approved more than RM120 million under this facility from the initial target of RM100 million.

As part of its initiatives to assist members, MIA has embarked on a working collaboration with BCB through BCB's *Fast Track — PRO Finance* facility, to assist member firms on their working capital and business expansion requirements.

The *Fast Track — PRO Finance* facility is accessible to all accountants who are members in public practice. For the record, the new loan package is also available to other professional practitioners such as architects, surveyors, engineers, pharmacists, doctors, dentists and veterinarians. There are now over 61,000 registered members in eight professional bodies in Malaysia of which some 21,000 have their own practices and only about 1,500 are enjoying loan facilities from BCB.

The *Fast Track — PRO Finance* facility encompasses working capital loans of up to RM100,000 for **small and medium-sized practices** that have been in operation for at least **two years**. It provides borrowers with the flexibility of a 100 per cent term loan, or a 50:50 combination of an overdraft and term loan. The interest rate for loans of up to RM50,000 is base lending rate (BLR) + 1.5% per annum, while for higher loans of RM50,000 up to RM100,000, it is BLR + 1.75%. The package does not require tangible collateral as it is guaranteed by the Credit Guarantee Corporation (CGC) (for eligible professionals). BCB has also re-engineered the loan evaluation process to enable the approval process to be completed within seven working days (*terms and conditions apply*).

The *Fast Track — PRO Finance* facility is available at all of BCB's 33 Retail Business Centres nationwide. To find the nearest Centre or to know more about the facility, kindly contact BCB's representative: Abdul Shukor bin Ismail , Tel: **(03) 2693 1722 ext. 6475**, Handphone: **(019) 286 4543**, e-mail: *abdulshukor@mailsvr.bcb.com.my* or visit *www.bcb.com.my* or call: **1-300 880 900**. AT

Members' Voluntary Winding-up

The Insolvency Practice Committee of the Institute recently discussed the provisions in the Companies Act, 1965 relating to members' voluntary winding-up and when, under such circumstances, a liquidator is deemed to cease to act.

As members are aware, guidance on the suggested steps, procedures and duties of a liquidator in a members' voluntary winding-up are set out in detail in Insolvency Guidance Note 5 (IGN 5) issued by the Institute.

The Committee discovered that there may be some confusion as to when a liquidator ceases to act in a members' voluntary winding-up as the Companies Act, 1965 does not specifically state when he/she does so. It was also pointed out that some liquidators take the view that they cease to act upon holding the final meeting of the company and upon filing the necessary return to the Registrar of Companies (Form 69). As a result, it was highlighted to the Committee that some liquidators erroneously file Form 69 together with Form 75 (Liquidator's Account of Receipts and Payments and Statement of the Position of the Winding-Up), when the latter (apart from the periodical requirements of filing the same) is required to be filed within one month after the liquidator ceases to act.

In every voluntary winding-up, the company is dissolved three months after the lodging of Form 69, see Section 272(5) of the Companies Act, 1965. As such, a liquidator in a members' voluntary winding-up cannot be said to have ceased to act upon filing of Form 69, as the company itself is not dissolved. The liquidator would still be required to play a role up to the point that the company is dissolved, as the duty of a liquidator in any voluntary winding-up is to bring about the dissolution of the company. Insolvency Guidance Note 5 (IGN 5) lists out some of the functions that the liquidator must perform after holding the final meeting.

In the case of a members' voluntary winding-up, the winding-up will end when the company is dissolved. It follows therefore that a liquidator would cease to act upon the dissolution of the company and not prior to that. AT

Zest for Life

We are pleased to inform our members of a motivational talk to be organised at the MIA premises on **Friday, 14 October 2005.** Details are as follows:

Venue: Training Room
MIA Resource Centre
16-18, Jalan Tun Sambanthan 3
Brickfields, 50470 Kuala Lumpur
Time: 5.30 p.m. to 8 p.m.
(*Registration*: 5.30 p.m. to 6 p.m.)
Admission: Free
No. of CPE hours: 2

This programme has been designed to gently take you by the hand on a journey of self-discovery from childhood to the present moment and beyond, to a fabulous future. *ZEST FOR LIFE Breakthrough* workshops present a great opportunity to revise dreams and ambitions, unlock your potential, and inspire you to live the life you are dreaming of. Many of us work hard to provide a greater quality of life for ourselves and our families, yet the price we pay physically, mentally, emotionally and spiritually often make us feel at a loss.

In this insightful, life changing and entertaining programme, you will have the opportunity to discover what is missing and what is truly important in your life: learn how to build and manage wealth: let go of the fear and guilt that may be standing in the way of your real purpose and bring life to your personal relationships. Learn the tools and techniques on how to power ahead. The Zest for Life lights up eyes, hearts open up and people get inspired with a sense of discovery and renew their vow to fight for betterment in life.

Kong Voon Sin has an interesting life journey, handling critical life challenges at a very young age to managing complicated corporate environment at a later age. Today, he specialises in Situational Leadership II, a world class programme in association with The Ken Blanchard Group (One Minute Manger author) of Companies. Although he qualified as a Chartered Accountant in 1975, he spent more time handling issues and managing complicated human relationships and taking the businesses to new levels of success. His last corporate employment was the Group GM of three public-listed companies. He received The Tun Hussein Onn Renewal Award 2004 from MIM. He is a life member of the Malaysian Institute of Directors. He was involved in several organisations such as the Rotary Club for 25 years, Healing Chi Association of Malaysia, Alzheimer's Disease Foundation of Malaysia and the Malaysian Hypertension Club. He received his PhD in Entrepreneurship recently.

Zest for Life is about self-transformation, self-leadership and life's driving force.

Members who are interested in attending should register with Tarana or Shuhairah by calling 03-2279 9200 ext. 226 and 323 respectively. As seats are limited, attendance will be strictly on registration basis, first come first serve only. AT

Update on Anti-Money Laundering — Next Implementation Date Deferred

As members are aware, with effect from 30 September 2004, all accountants and company secretaries who provide specified services are reporting institutions for the purpose of the Anti-Money Laundering Act 2001 (AMLA) and are required to report suspicious transactions to the Financial Intelligence Unit (FIU) of Bank Negara.

Subsequent to a recent survey conducted by the Institute on the readiness of member firms to comply with the next stage of implementation of the Part IV of the AMLA obligations targeted for 30 September 2005, the Institute met with the FIU and urged the FIU to defer this next stage to a later date. This was because at present, most member firms are not adequately prepared and lack the resources to comply with the requirements under Part IV of the AMLA.

The Institute is pleased to inform members that the FIU of Bank Negara has consented to defer the implementation of the next stage under Part IV of the AMLA to the **second half of 2006**. This will give member firms additional time to train and educate their staff, introduce policies and procedures to comply with the key elements of the anti-money laundering framework and enable the Institute to ascertain other ways in which assistance can be given to affected members and member firms.

Members and member firms are however reminded that this grace period of an additional year does not absolve members from their duty to report suspicious transactions that they come across, given that this requirement has already been invoked with effect from 30 September 2004. AT

Professional Indemnity Insurance

The Malaysian Institute of Accountants has appointed Marsh Insurance Brokers (Malaysia) Sdn Bhd as its recommended broker and consultant for the Professional Indemnity Insurance Scheme, with effect from 1 July 2005.

Who is Marsh

Marsh Insurance Brokers (Malaysia) Sdn Bhd is a majority owned joint venture company between Zulayang Sdn Bhd and Marsh Inc., Hong Kong. Incorporated in 1982 and operating from Kuala Lumpur and a branch office in Penang, we focus primarily in providing risk and insurance services.

The single most significant asset of Marsh Malaysia is our team of qualified, experienced, resourceful, innovative and creative professionals.

The team has a proven leadership in generating new ideas that set industry standards. With the commitment of our global partners, we have the capabilities and resources to respond to our clients' requirements for increasingly sophisticated advise on all forms of risk and insurance transactions.

Our global reach provides our clients with a consistent standard of unsurpassed quality in more than 110 countries. In addition our commitment to technology has placed us with a sophisticated network and information systems that in turn provide our client with unparalleled global communications and information access.

The Need For Professional Indemnity Insurance

All members of the Malaysian Institute of Accountants (MIA) who are in public practice, are required to ensure that they each carry and maintain a policy of Professional Indemnity Insurance. By-Law B-10 of MIA's By-Laws (On Professional Conduct and Ethics) specifically requires every MIA member in public practice to obtain a policy of Professional Indemnity Insurance with a minimum coverage of RM100,000 for each firm through which that member practices. Compliance with this requirement is mandatory within three months from commencement of public practice. Proof of compliance is also required for every annual renewal of the Practising Certificate.

The MIA requires members in public practice to carry Professional Indemnity Insurance at a level sufficiently adequate to cover possible claims arising from the performance of professional services. Professional Indemnity Insurance provides clients with reasonable reassurance when dealing with members in public practice. This sense of reassurance stems as much as from the confidence in the level of Professional Indemnity Insurance as with the maintenance of professional integrity and competence.

Coverage

1. Coverage applies to civil liability occurring in Malaysia and any legal proceedings in a Malaysian court and to any proceedings in Malaysia for the enforcement of any award or judgment secured in any foreign jurisdiction except for US/Canada.
2. Retrospective coverage is up to six years from the date of inception of the policy or from the date the policy incepts for first time buyers.
3. Defense costs shall be payable in addition to the limit of indemnity up to and not exceeding 20 per cent and in the aggregate of the limit of indemnity.
4. Limit of liability for pro bono services is RM250,000.
5. Loss of Documents Extension.
6. Libel & Slander Extension.
7. Insolvency Work Extension.
8. Contractors Extension.
9. 30 days automatic cover for newly created or acquired entity or subsidiary extension.
10. Estate & Legal Representatives Extension.
11. Intellectual Property Extension.
12. Run Off cover Insured Entity or Subsidiary Extension.

What is the Professional Indemnity Insurance Scheme

The Scheme consists of:

1. An individual policy issued to each firm with the terms of coverage approved by the Malaysian Institute of Accountants (MIA) and with Ace Synergy Insurance Berhad underwriting the scheme.
2. Insurance will be provided to all members/practices who are allowed to practice by the MIA. Members/practices having claims experience in the last three years will be subjected to further underwriting review.
3. The Scheme provides cover from the minimum mandatory Limit of Indemnity of RM100,000 for a 1-member/partner practice moving each tier until RM500,000. From RM500,000 it moves up by RM250,000 each tier until RM1,000,000. Thereafter each following tier moves up by RM500,000 until RM5,000,000.
4. The number of partners in a firm determines the mandatory limit of indemnity.
5. Minimum premium of RM350 to be applied.
6. Deductibles will be determined based on the gross fee band that is closest to the last financial year gross fee as will be declared in the proposal form.

Frequently Asked Questions

1. *What is my Mandatory Limit of Indemnity?*
   The Mandatory Limit of Indemnity as determined by the MIA is RM100,000 per partner per practice/firm.
2. *How do Insurers calculate my premiums?*
   The premium charged for each member/practice is determined by the limit of indemnity (number of partners i.e. RM100,000 per partner) and the corresponding gross fee.
3. *What is my Excess?*
   The excess is the amount a firm has to pay in the event defence costs or a claim becomes payable.
4. *Do I get a refund if any partner leaves at any time during the insurance year?*
   There are no refunds during a policy year as the insurance is on a claims made basis.
5. *Is there any premium to be paid for a partner who comes aboard after the inception date?*
   Yes.
6. *Are consultants covered under the policy?*
   Yes and only for work performed whilst contracted solely for the Insured.
7. *How can I contact Marsh Insurance Brokers (Malaysia) Sdn Bhd?*
   The office is located at 19th Floor, West Block, Wisma Selangor Dredging, 142-C, Jalan Ampang, 50450 Kuala Lumpur.

For More Information

Please contact Marsh representatives:

- Ramesh Sivanathan 03-2161 3455 ext. 119
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Build your Pyramid of Passive Wealth

by Rajen Devadason

Dr. Thomas Fuller was a multi-talented British physician who lived in the 17th and 18th centuries. Although he was also a preacher and scholar, he's remembered today as the author of the oddly named *Gnomologia: Adagies and Proverbs*. It was an intriguing compilation of proverbs that saw light of day in 1732, two years before Fuller died.

The book contained pithy observations on subjects as diverse as education, health, power and money. On that last subject, Fuller wrote, "Money is the sinew of love as well as war."

While an astute remark, it isn't my favourite Fullerism. This is: "Make thy Model before thou buildest, and go not too far in it without due Preparation."

To me, that sounds like a perfect description of proper financial planning. It also reminds me of an article I once wrote for my free electronic magazine *GET BETTER* (which you're welcome to sign up for at no cost at *www.RajenDevadason.com*) that outlines a model of laying a foundation for a stable stream of passive income.

After writing that piece for my e-zine, I kept turning my model over and over again in my mind. Since then, I've incorporated a system into my corporate training programme, "Building Your Financial Fortress", which has helped many people manage money better.

What never ceases to amaze me is that with so much more advanced material taught in my multi-day workshops, participants are drawn to the uncomplicated ideas I talk about that revolve around construct-

ing a conservative savings and investment system aimed at generating larger and larger streams of passive income.

"Make thy Model before thou buildest, and go not too far in it without due Preparation."

I now know that's because the ideas are easily understood and quickly applied. As you might have guessed, they rest within a framework Thomas Fuller would have approved of: *A Model that helps build wealth through careful Preparation.*

In my classes, I've come to refer to this powerful model as 'Rajen's ESSS (Egyptian Strategic Savings System)'. As soon as you read the word 'Egyptian', what comes to mind? Here's a clue: If you've watched that old Charlton Heston movie *The Ten Commandments*, you should remember some scary scenes near the beginning.

They involved Hebrew slaves being forced to do hazardous work as they toiled to build the pyramids. Even if you've never seen the movie, you should be able to close your eyes and envision a standard ancient pyramid. Think of its geometric structure.

Now hold that thought as I take a short detour from geometry to geography — specifically my personal geography! I live in Seremban, and as most of you know, we in Seremban have had to deal with water rationing for some time now.

As I write this, I'm grateful the worst seems to be over, but nonetheless on the days when no water flows through our mains, I'm extra careful while shaving. Instead of letting the water gush over my shaving blade, I turn off the faucet before lifting the blade to my face. On normal days, I prefer to let the water run during facial hair-removing strokes.

Throughout our economic lifespans, don't we act the same? During our productive years, when we work for a living, money comes in on a regular basis. That's much like having running water in abundant supply gush through the huge waterways outside, entering our homes and offices through the pipes, and then flowing out upon demand from our taps.

"Your key to growing your savings consistently is to make each percentage increment small enough to slip under the radar of your Spendaholic Self to meet the goals of your Self-Disciplined Persona!"

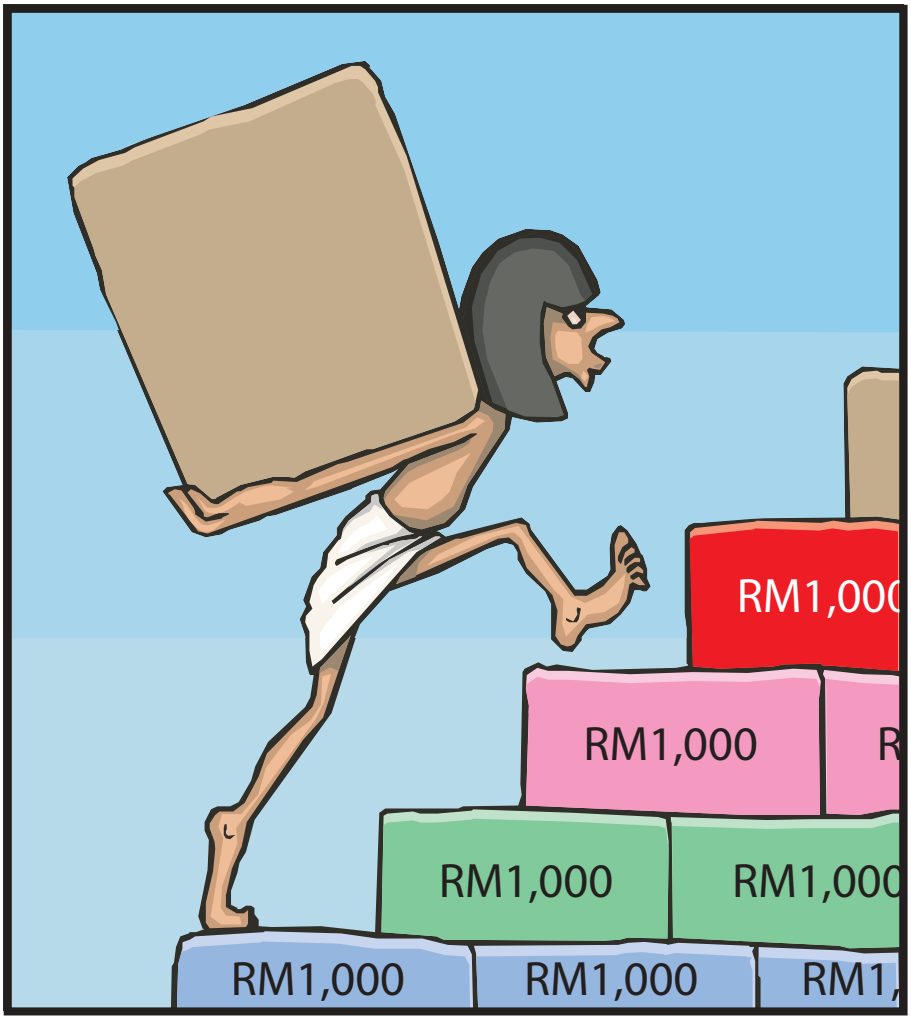
But ask this question to any retiree you know who never figured out a way to create a steady flow of passive income, either through a government pension or a personal portfolio: *How do you feel each time money is withdrawn from a bank account that can no longer be replenished by the active income of a salary?*

If you probe, you'll find that many such older people feel the same way about their dwindling cash reserves as I feel about using water from the reserve tank above my ceiling when it isn't being replenished by running water from the mains.

If you're fortunate enough to be reading this at a time when you have at least 12 more years before entering full blown retirement, I hope you will heed my advice to immediately start 'laying a pipeline' for your own personal supply of liquid (pun intended!) funds.

If you've ever used water drawn from a well, you'll agree that while it is useful to have such a supply, it is far more convenient to have the water merrily surge out of your taps … as and when you need it!

Well, in the realm of financial planning, there are many ways for you to ensure that happens. This is one such way that requires disciplined conscious effort to follow a six-step blueprint based on the stable shape of a pyramid:



Use your initial savings to begin setting aside at least three months' and perhaps as much as 12 months' worth of expenses in your personal reserve account or emergency buffer account.

Step 1: Decide To Begin Saving Money

If you can't save 10 per cent of your net income now, relax! Begin with perhaps just one per cent. So, if for argument's sake you earn RM4,000 a month net, after taxes, EPF and SOCSO, ask yourself if you can get by with spending 99 per cent, meaning RM3,960 and saving one per cent or RM40? Of course, you can!

Step 2: Don't Stop

Become fanatical in ratcheting up that percentage by at least one percentage point every three months. If you do that steadily, then after a little over a dozen years, you will be at the magical 50 per cent savings rate. Now, you may grumble that 12 years is a long time, and you'd be right. But odds are you will live a lot longer than 12 more years. Wouldn't you rather reach that ripe age with wealth than without it? (I'll assume you said yes to that question and are still reading…)

Because money saved acts as a magnet to money earned, it is possible that over that dozen-year period, your net income will have ballooned to perhaps two or threefold what it is now!

I've seen that happen too often to stop believing it is possible for many Malaysians.

Your key to growing your savings consistently is to make each percentage increment small enough to slip under the radar of your Spendaholic Self to meet the goals of your Self-Disciplined Persona!

Step 3: Build Your Emergency Buffer

Use your initial savings to begin setting aside at least three months' and perhaps as much as 12 months' worth of expenses in your personal reserve account or emergency buffer account. Additional guidelines are available here: *www. rajendevadason.com/RD/freearticles03.asp*

Just remember your buffer is not part of your pyramid. Instead, it should be viewed as a solid granite slab of security upon which your pyramidal structure of passive income can safely rest.

Step 4: Think Ancient Egyptian

By this I mean think in terms of building a stable pyramid of wealth. As I've said, the foundation that underpins the pyramid, but which is not a part of it, should be your emergency buffer.

Once that 'granite slab' is in place, you should work on constructing — from the ground up — a four-storey structure based on this simple blueprint:

Tier 1: Comprising savings in bank accounts and money market funds. This is distinct from your emergency buffer fund.

Tier 2: Is filled with either high-grade bonds or bond funds.

Tier 3: Is made up of a layer of dependable investments such as equity-based unit trust funds or real estate investment trusts (REITs).

Tier 4: The topmost (proper) level should be filled with dividend-yielding direct stocks or rent-generating real estate.

Step 5: Excessive Risk Is Optional

If you feel so inclined, you could add a small 'attic' to your pyramid in the form of a microscopic portion of speculative instruments — such as derivatives like options and warrants — that you are willing to suffer total losses on in the hope of perhaps occasionally making it big! (Personally, I don't think it is necessary to have that attic.)

Step 6: Cascade Your Cash

Whenever you succeed in squeezing out money, in the form of interest, coupons, dividends, distributions and rent, from layers 2, 3 and 4, make sure you cascade that money down to your savings layer. As you do so, the savings base of Tier 1 will balloon.

Regularly aim to maintain a fixed ratio in the relative sums you commit toward each layer of your pyramid of wealth. My favourite set of ratios is: 40 per cent in Tier 1, 30 per cent in Tier 2, 20 per cent in Tier 3 and 10 per cent in Tier 4. A mere RM10,000 can fully form your initially small pyramid; alternatively RM100 will get you started with a savings account in Tier 1!

As Tier 1 thickens first from your growing percentage of savings channelled from your active income and then from cash cascading from the higher levels, you should monitor your numbers to intelligently and gradually shunt that money back up the various layers. As you do so, you'll find your pyramid will grow taller without ever compromising stability.

Don't be fooled by the simplicity of this plan. If you stick to this blueprint for at least a dozen years, you stand a high chance of succeeding in constructing your personal money gusher to meet your retirement needs in comfort … and possibly even some style! AT

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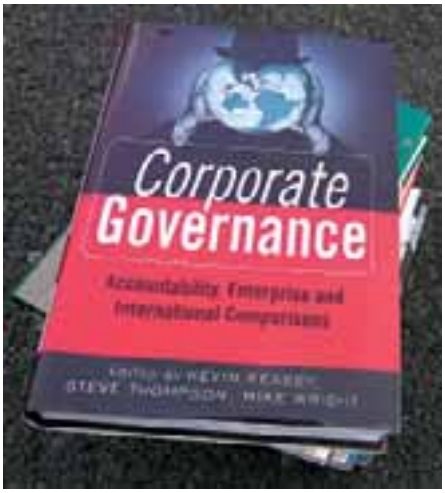
Corporate Governance:
Accountability, Enterprise and International Comparisons

Author: Kevin Keasey, Steve Thompson and Mike Wright

Publisher: John Wiley & Sons

Pages: 464



One can debate the extent of its exercise, but corporate governance has certainly been in the news. Mega corporate blow-ups in the US have certainly given an impetus to push to the fore the issue.

The energy has spawned debates. In fact, the term corporate governance carry different interpretations, its analysis also involves diverse disciplines and approaches.

Corporate Governance: Accountability, Enterprise and International Comparisons attempts to assist in the quest to understand better the issues at hand.

The book aims to bring together scholars from a variety of backgrounds, particularly accounting and finance, economics and management, to present a series of overviews of recent research on issues within corporate governance and on governance developments within particular countries and institutional regimes.

The collection of essays begins with a definition of corporate governance. Then, the book examines the financial structures impacting corporate governance. It then looks at the institutional shareholders and corporate governance in the UK.

In the next chapter, the book examines the roles of the boards of directors and the role of non-executive directors.

This is followed by a discussion on executive pay. Here, they include an empirical analysis and the evolution of executive pay. Next, you'll get a feel of issues related to compensation committees and executive compensation, with evidence from publicly traded UK firms.

The discussions go on to topics like the role of venture capitalists. Readers will also be able to pick up examples concerning corporate governance practices in Germany and those affecting the banking industry in Japan.

This book is no easy read. But if you are trying to dig deeper into corporate governance, this may just be one of your new companions in the weeks ahead. AT

Customer Relationship Management
Getting it Right!

Author: Judith W. Kincaid

Publisher: Prentice Hall

Pages: 480

Talk about customer relationship management (CRM) and some will begin imagining sophisticated softwares.

Indeed, the term 'CRM' can conjure a limited meaning for people who are not CRM managers. For example, you would be forgiven if you thought that it is some expensive software requiring teams of sweatshop IT developers. Some might focus on the 360-degree customer view or lifetime value.

Although these are valid and important components, CRM managers know better. They deal with the bigger picture, including company structure, politics, top-down support, inter-departmental understanding and cooperation, and funding.

Customer Relationship Management: Getting It Right! covers these topics. It begins with a chapter entitled CRM: Is It Right for Your Company? Here, you get a take on CRM and e-CRM.

In the next chapter, the author deliberates on the proper CRM planning. You'll take home some pointers on avoiding common blunders and developing your CRM strategy.

The author gives all company participants the opportunity to see their own problems in perspective. There are numerous organisation charts in the book that serve to illustrate the relative positions of key people or processes.

This book belongs on the bookshelves of CRM managers and business executives who need to solve real-world CRM issues. There is a good deal of practical advice, direction and structure that will get your project rolling in the right direction. AT

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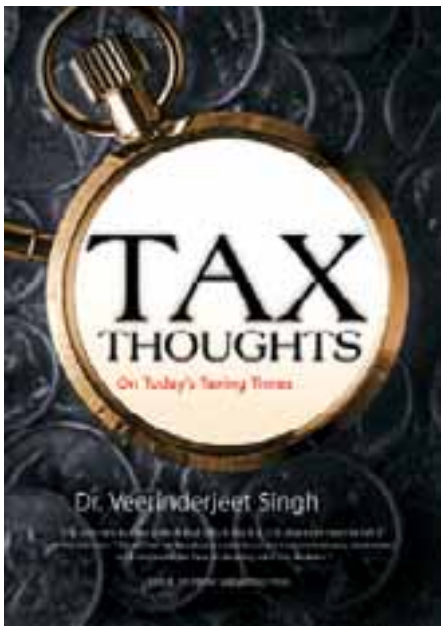
Tax Thoughts —
On Today's Taxing Times

Author: Dr. Veerinderjeet Singh

Publisher: Digibook Sdn Bhd (Dbook)

Pages: 189 Price: RM39.90



"It is very rare to read a book that tells it like it is. It is also even rarer to tell it with humour. The author writes about current issues that individuals, businesses and corporations face in dealing with tax matters." *Foreword — Datuk Dr. Abdul Samad Haji Alias.*

This book is an expression of the views of one person who has been involved in the field of taxation for over 25 years in various capacities — student, tax administrator, practitioner, academician and tax observer.

It is not a technical write up on the tax system. It is not a tax research book. It is a collection of articles and papers on current issues and developments that affect all of us in one way or another. It is a journey through a maze and attempts to tell you like it is.

It looks at self-assessment, the tax administration structure, what motivates compliance with the law, tax agents, GST, and the Tax Review Panel — it looks at whether our tax system needs a tune-up or a major overhaul!

It takes a simple look at current issues, tax administration and tax reforms. It points out the issues and problems and makes suggestions. It paints a picture of the taxing times that we live in. It provides some thoughts and recipes. It aims to provide food for thought - all in a nutshell - for today's TAXING TIMES.

This book is a compilation of various articles that the author has written and contributed, in particular to the TAXING TIMES column in the New Straits Times. The compilation brings together articles on current tax issues, tax administration and tax reform measures being adopted in Malaysia.

"It is about time that we analyse issues affecting the Malaysian tax system and offer suggestions for improvement...this book is a great effort and is a marvellous compilation of topical issues affecting the Malaysian tax system … it is timely, compelling and makes for easy reading … I have no doubt that this book will attract a wide readership and be a best seller." *Tan Sri Lim Leong Seng,Former Director-General, Inland Revenue Department, Malaysia.* AT

Palace of Justice

Putrajaya

10 YEARS AND STILL GROWING

Just slightly more than a decade ago, it was like any other palm oil estate. Then one fine day, back in 1995, Prang Besar Oil Palm Estate began experiencing changes not common in most other estates. In place of the palm oil trees, the nation's new administrative capital began taking shape.

Putrajaya, easily Malaysia's largest property project, is today moving into its second phase of development.

A quick excursion to Putrajaya, located about 40km south of Kuala Lumpur, tells the story of amazing growth as the nation's administrative centre. One will be impressed with the cleverly designed bridges and unique touches to the buildings.

The Prime Minister's Office is simply majestic. So is the Palace of Justice, where the highest judges of the land preside. The nation's highest court strikes an impressive pose with its five storey high granite clad perimeter colonnades. But that's just to name two. The list goes on.

The beginning

Carving out a spanking new administrative capital for a fast-growing nation like Malaysia is no easy task. Of course, with enough funding, anyone can build a town. But putting together a plan that will speak loud and clear of what this nation is all about is another thing altogether.

The entity entrusted with the responsibility of getting Putrajaya into shape was Putrajaya Holdings Sdn Bhd (PJH).

Incorporated in 1995, PJH completed phase one of the awesome task in 2000. Phase two, which began this year, saw the major property developer beginning to work on the commercial components of Putrajaya. With phase two kicking in, people will begin seeing the bigger picture of Putrajaya which sits on a magnificent 4,931 hectare spread.

Its masterplan is designed along an axial tangent which runs from the northeast to the southeast, taking full advantage of the natural surroundings. Its undulating terrain treats visitors and residents to commanding vistas of the environment.

For those conscious of the environment, they will be glad to learn that about 40% of Putrajaya is designated as "Green Areas" to house parks, gardens, open spaces and the jewel in the crown, the Putrajaya Lake and Wetlands. Five confluences meet at the north forming a main waterway flowing across the city area.

Situated within the Multimedia Super Corridor (MSC), the development of Putrajaya certainly marks a new chapter in the history of modern city planning in Malaysia. It is set to be a model garden city with a sophisticated information network base on multimedia technologies.

Termed as Malaysia's first *Intelligent Garden City*, Putrajaya will become a vital development catalyst due to the role it will assume as a model city - as the nerve centre of the nation and an ideal place to live, work, conduct business and engage in sports and recreational activities.

Beyond administration

But this fast-expanding capital is not simply about the Government. Putrajaya promises a comfortable and quality lifestyle for its residents.

Lush greenery, botanical gardens and parks are spread across landscapes enhanced by large bodies of water and wetlands. Residential areas are supported by both commercial hubs and public amenities, planned and integrated for an ideal "live-work" environment.

Overall, the concept is simple. Putrajaya is a city within a luscious garden, hinging on a balance of an ideal living and working environment. Architecturally, Putrajaya aims to be an indigenous city with a modern look. Planned to minute detail, the city aspires to enhance the goal of the nation in nurturing a caring and progressive society. Ten years on, the goal is certainly taking shape. Putrajaya keeps growing.

Administrative Building

Palace of Justice

The complex consists of a five-storey administration building and a two-storey annex building occupying some 71,913 square metres of floor area. The internal space will house six Courts of Appeal and two Federal Courts and 20 Judges' Chambers. The main feature of this complex is the five storey high granite clad perimeter colonnades with distinctive mosaic clad domes. The usage of granite carvings is very extensive in the construction of this complex and all were obtained locally. Except for some minimal foreign imports for the fabrics on the furnishing, this magnificent edifice of Putrajaya can claim itself to be a total product of local talent and resource.

In the same class with the Prime Minister's Office, Putra Mosque and Putra Bridge, the Judiciary Complex will form part of Putrajaya's prominent and distinctive landmarks. When completed, locals and tourists alike can visit this complex to appreciate its magnificent architecture.

Putra Bridge at night

Putrajaya International Convention Center

HOW TO RAISE YOUR COMPANY'S Innovation Quotient

by Yew Kam Keong

Many people confuse creativity with innovation. Creativity is the ability to bring forth new ideas. Innovation is the transformation of selected ideas into improved processes, marketable goods and services. It is the conversion of ideas into profits that is the essence of innovation. Creativity or the power of idea creation is simply the starting point. This brings us to the key point — it is innovation, not creativity that ultimately matters.

What is Innovation Quotient?

There are many creative companies with high CQ (Creativity Quotient), the measurement of the average number of ideas generated per employee. The problem is that many of these high CQ companies suffer from low IQ (Innovation Quotient). IQ is the measurement of the percentage of people whose ideas were implemented successfully and that have brought tangible benefits to the organisation. The challenge therefore is how to create the conceptual conveyor belt that transports chosen ideas to implementation that ultimately leads to business innovation for profits.

Any Company Can Raise Its IQ

Any company can raise its IQ. What then is standing in the way of companies that fail to innovate?

In many cases, it is their tried-and-true formula that brought them past successes that becomes their greatest enemy of innovation. This is because businesses with a winning formula are understandably hesitant to change. Over time, every business model and every strategy goes stale. Indeed, the life span of successful business strategies has been rapidly declining in this era of fast technological changes and intensive competition. Recognising and acknowledging this fact is the first step towards raising your corporate IQ.

Another major obstacle to innovation is the lack of Creative Leadership. Jack Welch, former chairman of G.E who has proven his credentials as a Creative Leader has this to say: "*Today's hierarchical structure, giving the CEO control over strategy, organisation and information creates an organisation with its face toward the CEO and its ass toward the customer.*"

A truly creative leader sets an example for openness and imagination and assessment of ideas from any quarters regardless of rank, file and age or source, whether internal or external. A creative leader creates the conditions where human ingenuity can flourish.

Principles of Innovation

According to Margaret J. Wheatley, a creativity consultant and a professor of management, innovation means relying on everyone's creativity based on her belief that organisations are living systems rather than machines. She outlines six principles on the human dimension for innovation.

1 Meaningful Engagement

If we want people to be innovative, we must discover what is important to them, and we must engage them in meaningful issues. The simplest way to discover what's meaningful is to notice what people talk about and where they spend their energy. Put ideas, proposals, and issues on the table as experiments to see what's meaningful to people rather than as recommendations for what *should* be meaningful to them. No two people see the world exactly the same way.

2 Encourage Diversity

By encouraging diversity in an organisation, innovative solutions are being created all the time since different people do things differently. There is a high probability that the innovation that the company needs is already being practiced somewhere in that system. Failure to encourage unique and diverse ways of doing things will destroy your company's capacity to innovate.

3 Involve anyone who is interested

Involve anyone who is going to be affected by change to contribute ideas to bring about a better organisation. Those who are not invited may rebel or worse still sabotage the entire process.

Most people are smart. They can figure ways to get around company's policies which they dislike. Some even create their own networks and system. Fighting them may be futile. By engaging them, your company can harvest the invisible intelligence that exists throughout your organisation.

4 Unity in Diversity

The cacophony of diverse opinions frequently shares a common purpose. This common purpose is what binds the people together. As people discover something whose importance they share, they will want to work together, no matter what their differences are initially.

5 People Will Always Surprise Us

Listening to colleagues - their diverse interpretations, their stories, what they find meaningful in their work - always transforms relationships. The act of listening to each other always brings people closer together. It is important not to attach any label to anyone. Some people may not be likeable or behave in a way that could be considered odd. However, by listening intently, they could surprise you with their talents. It is only by working together that all of you will be able to achieve the common dream.

6 Rely on Human Goodness

People want to help. People want to contribute. Everyone wants to feel creative and hopeful again. As leaders, as neighbours, as colleagues, it is time to turn to one another, to engage in the intentional search for human goodness.

> "Today's hierarchical structure, giving the CEO control over strategy, organisation and information creates an organisation with its face toward the CEO and its ass toward the customer."
>
> **Jack Welch, former chairman of G.E**

Conclusion

Innovation comes as much from the heart as from the head. In fact a passion for creativity must come first before any innovation can happen. Creative leaders must involve all their people and tap into their creative energies that take into account the human dimension of encouraging diversity, sharing a sense of purpose and recognising that each person is a talented unique individual. When people are part of a cause and not just a cog in the wheel, your corporate IQ will automatically zoom beyond your competitors' reach. AT

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Selling Growth Change

by Shiv Prasad

Don't let pride get in your way: Bridge knowledge gaps. Dare to know what you don't know! One of the biggest growth barriers that business owner's face has nothing to do with weak sales, sloppy strategic planning or lacklustre personnel. It's a psychological hurdle: knowing what you don't know.

The chief function of any business manager is to create the right atmosphere for a supportive environment; the right business equation that involves the integration of intellectual and cultural capital as the new frontier of competitive advantage. There is no specific limit to the acquisition of knowledge and experience. Wisdom only follows thereafter. Change in itself, is no guarantee of efficiency. Corporate changes should only be made in a sensible and timely manner. Strategies without core competencies, are like change without progress.

The ability to recognise holes in your knowledge — and find ways to plug them — propels your business. Otherwise, you might see yourself as a jack-of-all-trades and repeatedly take on duties for which you're unqualified. Making decisions, when you lack understanding or familiarity with the issues can lead to disastrous results.

It sounds simple: Admit your weaknesses and address them. Yet when events unfold at breakneck speed, chief executives of young companies may feel that they lack the luxury of time to sit back, assess the situation, recognise their knowledge gaps and fill them.

Overcome the obstacles: What makes it so hard for founders to confront what they don't know? For starters, they grow so accustomed to improvising that they assume they'll learn whatever they need to know by doing. They assume part of running a growing business is rendering judgements without having all the answers.

Have you fallen into this trap? See if the following statements sound familiar:

- I'll never have all the information I'd ideally like to have, so I need to do my best with what I know.
- I don't have anyone critiquing my performance every day. There's no one around telling me, "You don't know enough about this. Learn more before you plunge in."
- Launching a business is a leap of faith. I'm busy drumming up excitement in our future. Obsessing over what I don't know isn't going to help us grow.

What's more, business owners cherish their independence. They may reject unsolicited input from others, especially if outsiders try to tell them what to do or how to do it. And unless entrepreneurs schedule periodic meetings with a mentor or advisory board, they may operate in a vacuum and lose perspective of their own strengths and weaknesses.

Self-confidence is a prerequisite for building a business. But too much confidence can convince you that you know what you're doing when you really don't, causing you to stray far from your field of expertise.

Another obstacle is the temptation to assume you can muddle through on your own. Telling yourself, "I can get by for now" or "I can figure this out myself," prompts you to accept your limitations without attempting to patch up knowledge holes.

Even if you accept your knowledge gaps, you might not want to dwell on them because it makes you uneasy. Feelings ranging from misguided pride to flaring anxiety can lead you to forge onward rather than take the time to confront unknowns.

Quiz your employees

To help identify your knowledge gaps, tap into your employees' expertise to become more familiar with the inner workings of your business. Begin by asking workers, "What do you need to know to do your job?" Sit with them at their desks and ask them about:

- The processes they've adopted.
- The systems they use.
- The knowledge they draw upon.

Then compare what they know to your understanding of what they need to know. You may find that employees' jobs have evolved in new and surprising ways. Expect to come away from this exercise thinking, "I need to find out more about … "

Also ask employees, "When it comes to working in this company, what do you wish you knew more about?" This question encourages them to share their knowledge gaps, which you can help fill. By exchanging insights and information about company operations, you'll gain a stronger sense of how you can educate yourself and your staff to appreciate both the nuts and bolts of your business and the big-picture issues it faces.

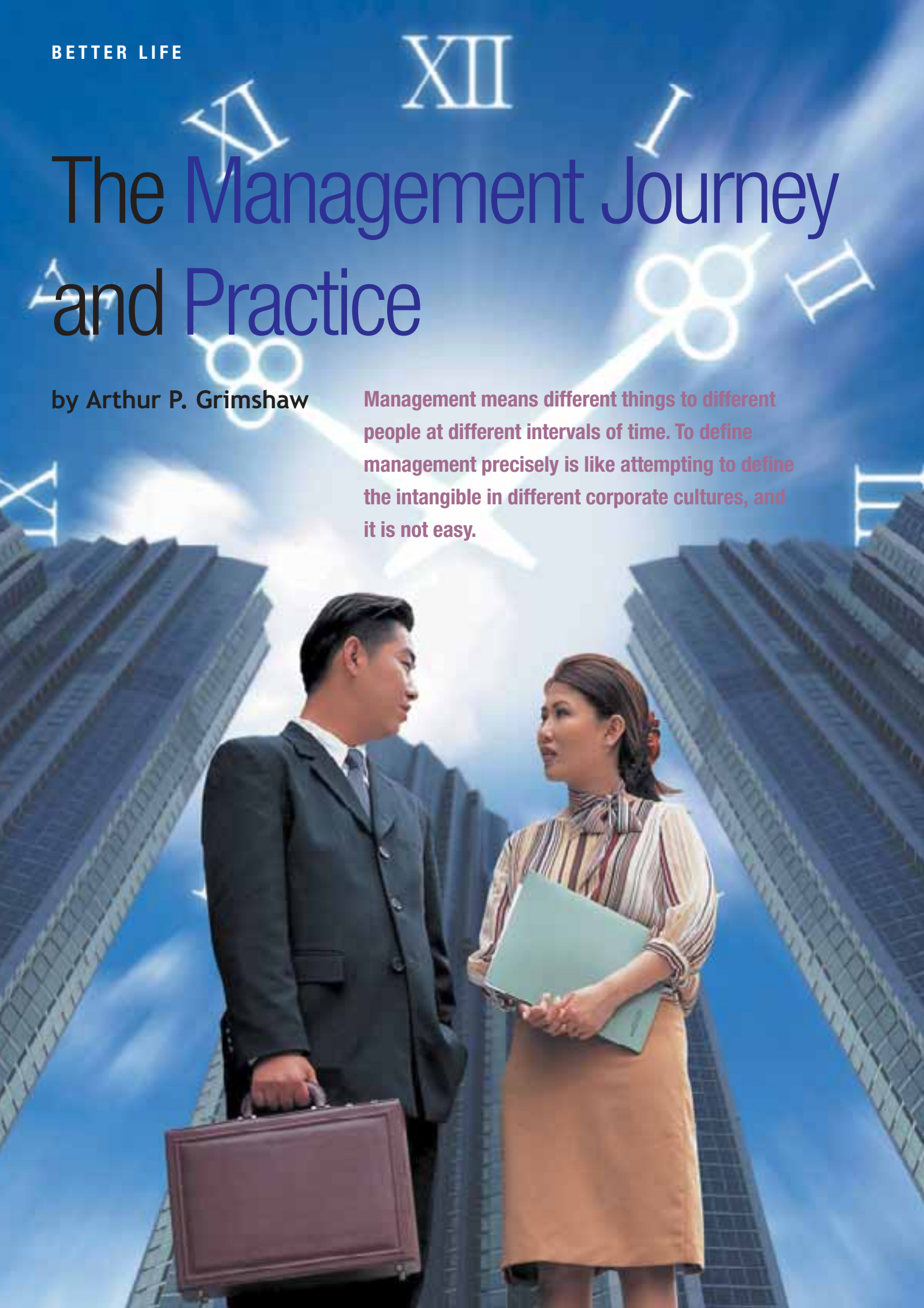
Finally, ask both your peers and employees point blank: "Tell me what I don't know." Kick off every staff meeting by going around the room and asking participants to volunteer something they've recently learned about the business.

By showing you're constantly hungry for knowledge, you create an open culture that facilitates the free exchange of ideas. And the best part of all is that you'll maintain a high degree of self-awareness: You'll act on what you know — and take steps to find out what you don't. AT

The Management Journey and Practice

by Arthur P. Grimshaw

Management means different things to different people at different intervals of time. To define management precisely is like attempting to define the intangible in different corporate cultures, and it is not easy.



Every company formulates its own management. And it is this script that determines its future in the final analysis. In certain bureaucracies, you will notice nothing is negotiable. If you are a newly appointed CEO of such an organisation, your first task is to ensure that your executives are not brain-dead after years of bureaucratic pressure and autocratic rule.

The best thing about the future is that it comes only one day at a time and the future is never absolute. So the ability to change for the better requires the right frame of mind and strong willpower. These insights might help you in this management journey, and in the very least will make it a powerful and meaningful experience.

"The best thing about the future is that it comes only one day at a time and the future is never absolute. So the ability to change for the better requires the right frame of mind and strong willpower."

Be a Survivor

A survivor is the individual who keeps his mouth shut, ears and eyes wide open, and develops a mind full of strategies. Change and flexibility are vital attributes too. There can be no significant organisational change without first ensuring a commensurate corporate culture. As a survivor you would need to modify your personal script strategically as time moves on.

Apprentice at Strategic Levels

There is much to know and a lot to discover about managerial skills, attributes and strategies in the first five years in management — one can still be considered an apprentice. A study of corporate cultures is an important feature … how personalities and management styles play a vital role in corporate policies, politics and profits.

Reinventing, even redefining oneself several times over will continue as part and parcel of strategic management of oneself. Learning early on how to anticipate and solve problems in advance is a useful aspect of survival in management. As a young executive no management job is ever permanent and every salaried boss, sooner or later, has an expiry date as well.

On completion of the first five years of apprenticeship, the next five years is critical in middle management positions and learning curves. There will be more drama and more lessons to be learnt. Again you will find yourself as an apprentice in certain positions, until you have mastered the art of managing people at work. You may have had a number of moves in job positions or even in employment and this would have given you a better understanding of how people in various corporate cultures function, think and decide. These are key elements in management — decision-making, vision, strategy, and time management.

Elect to work in a positive environment, where policies are enlightening, where the work climate is motivating and where the systems and procedures are not bureaucratic, negative or time-consuming in nature.

You should learn at this early stage, how to formulate a Business Plan, devise Vision and Mission statements, and other strategies connected with this plan. This will teach you to comprehend an in-depth understanding and a good overview of management in practice.

Managing the Experience

Balancing one's objectives with time becomes the central focus once you have arrived as a top manager. More physical, mental and emotional energy are utilised as age becomes a factor. If you wish to remain functional you need to be just as good in theory as in practice. Management training and psychology will help you cope with societal problems in the workplace.

Clearly you have to understand your own corporate culture, policies, objectives, management styles and apply more than the usual spark of common sense. Also you have to constantly update yourself with industry practices to be competitive and add value to the organisational process.

Any idiot can make a simple task look complicated … but it takes an expert to make a complex job look so simple! Keep a lookout for workaholics in your organisation — many of them live and work in a different time zone; promote only the employee whose "out-tray is always full and in-tray fairly empty" because that individual is the achiever.

Never turn your department into a classroom but apply all those skills you have picked up along the way on your management journey to overcome obstacles in a planned, thoughtful, orderly manner.

In the final analysis, regardless of your desire to be a generalist or specialist manager, break the habit of worry — be positive, develop political savvy as a protection, do smart work and maintain a healthy measure of emotional intelligence.

"Remember your state of mind will have a ripple effect on your subordinates in your organisation. Put into practice the best techniques you learned early in apprenticeship and combine these with fresh ideas to motivate your people."

Remember your state of mind will have a ripple effect on your subordinates in your organisation. Put into practice the best techniques you learned early in apprenticeship and combine these with fresh ideas to motivate your people. This is imparting managerial experience. Management need not be bereft of strategic common sense. Management need not be perceived as an unpleasant activity that is best carried out by unpleasant people! AT

A Night of Appreciation

Datuk Dr. Abdul Samad highlighting his many positive experiences as President of the Institute

MIA Registrar, Mohammad Abdullah, praised the effective leadership of Datuk Dr. Abdul Samad

"The profession has benefited in many ways as a result of your commitment. Your time and efforts have left a positive mark in the development of the accountancy profession in the country,"

Datuk Dr. Abdul Samad Haji Alias, MIA President

During the Institute's Inaugural President's Dinner on 9 August 2005, the Institute honoured its leaders and captains who have contributed untiringly towards the development and the advancement of the profession as well as the Institute.

"The evening was a wonderful way to thank these fine individuals for their commitment to our profession," said MIA's Registrar, Mohammad Abdullah.

Close to 100 people attended the President's Dinner, which was also held to honour Datuk Dr. Abdul Samad for his dedication and his tireless efforts in elevating the status of the Institute and the profession.

In his speech Datuk Dr. Abdul Samad highlighted his many positive experiences as President of the Institute. He thanked the retiring Council Members for their distinguished service and tireless efforts. The new Council Members were also welcomed on board.

Datuk Dr. Abdul Samad thanked the Institute's Council Members for their continuing support and the people who chaired various committees for the fine job they had done.

"The profession has benefited in many ways as a result of your commitment. Your time and efforts have left a positive mark in the development of the accountancy profession in the country," he said. Datuk Dr. Abdul Samad acknowledged that the Institute had been able to successfully rise above the many challenges it

The cake-cutting ceremony … (L-R) Datuk Dr. Abdul Samad, Abdul Rahim and Mohammad Abdullah

Datuk Dr. Abdul Samad shares a light moment with some of the invited guests

Having a great time … Datuk Dr. Abdul Samad, Mohd Nor Ahmad and Abdul Rahim

Leaders and captains of the Institute who attended the President's Dinner

had faced because of the team effort.

While enjoying their dinner, guests were entertained by the performance of the talented dancers from the Performing Arts and Cultural Club, Kolej Universiti Teknologi dan Pengurusan Malaysia (KUTPM).

To mark the Inaugural President's Dinner, Datuk Dr. Abdul Samad, the Registrar, Mohammad Abdullah and Abdul Rahim were invited on stage for a cake-cutting ceremony.

The Registrar praised the effective and visionary leadership of Datuk Dr. Abdul Samad. "Being the vanguard of the local accountancy profession, the Institute has always pushed for the profession's progress. You have been instrumental in helping the Malaysian accountancy profession become more recognised in this country as well as in the international arena," Mohammad said. AT

"Being the vanguard of the local accountancy profession, the Institute has always pushed for the profession's progress. You have been instrumental in helping the Malaysian accountancy profession become more recognised in this country as well as in the international arena."

Mohammad Abdullah, MIA Registrar

One for the album … Ho Foong Moi, Sudirman Masduki, Prof. Madya Dr. Nafsiah Mohamed, Prof. Madya Dr. Noorhayati Mansor, Mohd Nor Ahmad, Datuk Dr. Abdul Samad, Tuan Haji Muztaza Mohamad, Abdul Rahim Abdul Hamid and Mohammad Abdullah

Guests were entertained by dancers from KUTPM's Performing Arts and Cultural Club

Financial assistance from BCB's *Fast Track* — *Pro Finance* for member firms

As part of its initiative to assist members, on 26 July 2005, the Institute entered into an agreement with Bumiputra-Commerce Bank Berhad (BCB) to make available the *Fast Track — PRO Finance* facility, an extension of the *Fast Track* loan to member firms seeking to expand their working capital and business requirements.

Initially, BCB launched its *Fast Track* loan facility for Small and Medium-sized Enterprises (SMEs) in the wholesale, retail, light manufacturing and services sectors. *Fast Track — PRO Finance* however is specifically targeted at professional practitioners such as architects, surveyors, engineers, pharmacists, doctors, dentists and veterinarians.

The *Fast Track — PRO Finance* facility encompasses working capital loans of up to RM100,000 for small and medium-sized practices that have been in operation for at least two years. It provides borrowers with the flexibility of a 100 per cent term loan, or a 50:50 combination of an overdraft and term loan. The interest rate for loans of up to RM50,000 is base lending rate (BLR) + 1.5% per annum, while for higher loans of RM50,000 up to RM100,000, it is BLR + 1.75%. The package does not require tangible collateral as it is guaranteed by the Credit Guarantee Corporation (CGC) (for eligible professionals). BCB has also re-engineered the loan evaluation process to enable the approval process to be completed within seven working days (*terms and conditions apply*).

For more information on *Fast Track — PRO Finance*, please refer to page 40 of this month's issue of *Accountants Today*. AT

MIA President, Datuk Dr. Abdul Samad Hj. Alias exchanging documents with BCB's Executive Vice-President for business banking, Abu Bakar Buyong (right). Looking on are CIMB Group Chief Executive, Datuk Nazir Razak (second from left) and CGC's Assistant General Manager, Shazwan Mohan Abdullah

Accountancy Forum — Kota Kinabalu, Sabah

Addressing the school counsellors... The state education department's, Educational Services Management sector head, Bali Yusof delivering his speech

Accountancy offers wide opportunities ... Abdul Rahim Abdul Hamid sharing his thoughts on the accountancy profession with the audience

Hard work... Sabah Branch secretariat contributed to the forum's success

Fielding questions from the counsellors (seated left to right) Azmi Ahmad representing CPA Australia, Baharuddin Ahmad (MIA), Kevin How (moderator), Chin Chee Kee (ACCA) and Wan Haslan Wan Hassan (CIMA)

Togetherness ... Among the officers from the professional accountancy bodies who participated in the Accountancy Forum

Accountancy Forum — Kuching, Sarawak

David Tiang (Branch Chairman) introducing himself to Lucas Taisim (Ministry of Education)

A section of the participants

(L-R) Panel of speakers ... Alexander Chin, Iruthanaya Das, Si Kiang Seng (moderator), Dr. Edward Lim and Allan Tay

MIA's Forum on Accountancy Goes to East Malaysia

More than 150 school career counsellors and accounting teachers from various secondary schools and other learning institutions in Sabah turned up for the 'Forum on the Accountancy Profession' which was held on 9 July 2005 at the Auditorium Perpustakaan, Universiti Malaysia Sabah.

The Sarawak leg of the forum meanwhile managed to attract approximately 100 counsellors and school teachers who attended the session which was held at the Dewan Asajaya in Kuching on 23 July 2005.

The events were organised by the Institute, in collaboration with other professional accounting bodies such as The Association of Chartered Certified Accountants (ACCA), The Chartered Institute of Management Accountants (CIMA) and CPA Australia.

Officiated by the Sabah State Educational Services Management sector head, Bali Yusof, in Sabah and the Institute's then Vice-President, Abdul Rahim Abdul Hamid in Sarawak, the forum was aimed at disseminating career guidance information on the accountancy profession to ensure that students would have access to accurate and relevant information on the career options available, should they choose accountancy as their preferred career. AT

A cross section of school counsellors and MIA Sabah Branch committee members during the accountancy forum

SARAWAK BRANCH

Accounting — the Other Side

Teo Kin Mia at the podium

The MIA Sarawak Branch was invited by UiTM recently to promote the accountancy profession among their accounting undergraduates in the Kota Samarahan campus. The programme was organised by the University's accounting faculty in conjunction with the visit by its Adjunct Professor, YBhg Datuk Khalid Ahmad who is also a MIA Council Member. The talk was aimed at exposing the other side of accounting to the university students. More than 150 students attended the talk at the newly completed auditorium. Various topics were presented including 'Pathways to become an Accountant' by the Branch Manager, 'Liquidators' by Teo Kin Mia (Branch Committee), 'Receivership' by Haji Wan Idris Wan Ibrahim (Branch Committee), 'Company Secretaries' by David Tiang (Branch Chairman) and 'Management Consultants' by Yeo Tek Ling (MIA Council Member). AT

UiTM organisers with MIA representatives … (front L-R) Yussri Sawani (UiTM), Datuk Khalid Ahmad, Yeo Ah Tee (MIA) Assoc. Prof. Dr. Hajjah Fatimah Bujang (UiTM), Yeo Tek Ling (MIA) Tamoi Jango (UiTM) (back L-R) Lucy Read (MIA), Haji Wan Idris Wan Ibrahim (MIA), Teo Kin Mia (MIA), David Tiang (MIA), Assoc. Prof. Hj Shafi Mohamad (UiTM) Nero Madi (UiTM)

SARAWAK BRANCH ANNUAL DINNER

A Night to Remember

A night to remember — 'men in sarongs and entertaining political comedy', that was the theme of the Sarawak Branch's annual dinner for 2005. Although the evening clashed with a city day parade and road closures, the 440 members and guests were on time as MIA Sarawak Branch is known to run its functions like clockwork and the dinner ended as indicated on the programme.

Council Member, Y Bhg Dato' Nordin Baharuddin who represented the Institute's President read out the President's speech. The dinner was graced by Deputy Chief Minister (1) YB Tan Sri Datuk Amar Dr. George Chan Hong Nam who is also the Minister of Modernisation of Agriculture and Minister of Industrial Development of Sarawak. AT

YBhg Dato' Nordin Baharuddin leading in the guest of honour with Si Kiang Seng (Branch Vice-Chairman), David Tiang (Branch Chairman) and Yeo Ah Tee (Dinner Organising Chairman) behind

Thank you to YB Tan Sri Datuk Amar Dr. George Chan Hong Nam by David Tiang (L) and Yeo Ah Tee (R)

Group photograph after the dinner … YBhg Dato' Nordin Baharuddin (centre) with MIA Sarawak Branch Committee and Dinner Organising Committee

MIA Merdeka!

Association of Chartered Certified Accountants ▼

Realities and challenges of being a Public Practitioner

The guests and ACCA members during the seminar

Globalisation and liberalisation have generated more opportunities as well as threats for public practitioners and being able to handle the dynamics that such changes will bring, will enable one to remain relevant in the profession. Realising the importance of public practitioners managing future challenges, ACCA recently organised a one-day Leadership Seminar for Practitioners on *The Realities and Challenges of being a Public Practitioner.*

Assoc. Prof. John Zinkin, management consultant and business strategist told some 20 ACCA members who are mostly partners of small and medium practices, that the challenges facing practitioners is how to remain relevant in the face of the changes taking place as a result of globalisation and liberalisation.

Accountants for instance must tackle their current activities such as auditing, tax, accounting, management consulting, company secretarial work and mergers & acquisitions to name just a few. Looking ahead however, they will need to look into such areas as corporate governance, corporate social responsibility, costing, capital budgeting and CEO counselling. "Business as usual isn't going to work so practitioners must learn to cope with change and become a part of the value creation team for the corporation concerned," Zinkin stresses.

Yet how does one become a partner in the value creation aspect of things? Zinkin says to become partners in value creation, public practitioners need to understand what the CEO must do to set the tone and direction of the organisation, to create the right kind of environment for success, manage the dynamics of change and get the balance right.

"I felt that Zinkin's session contents were very relevant, useful and interesting. He elaborated on the topic very well and provided a good comparison and contrast," commented Johnny Ong FCCA, Finance Director Asia Operations, Dell Asia Pacific.

As for Ng Kien Keong FCCA, Head of Finance and Administration, Schering-Plough, he felt that the session was very interesting as participants of various backgrounds shared experiences and they were able to tap into Zinkin's experience, knowledge and expertise in finance and general management. AT

Promoting transparency: ACCA-DOE Roadshow

Jeniffer Lopez, ACCA Technical Services Manager presenting a token of appreciation to Rusli Che Husin, Director, Department of Environment, Terengganu

In an effort to educate and broaden the knowledge of local companies on environmental and social reporting, ACCA and the DOE (Department of Environment) again collaborated to organise nationwide roadshows entitled *Environmental Reporting Initiatives* in the month of July 2005.

The roadshows aimed to impart the concepts and application of environmental and social reporting and targeted companies from various industries and backgrounds. It also presented the companies with a forum to share their experiences in environmental and social reporting.

The roadshows were held at four locations this year; Kota Kinabalu (4 July), Kemaman, Terengganu (7 July), Shah Alam (12 July) and Ipoh (25 July). A total of 132 participants from various organisations attended the seminars. The programmes were segmented into three sessions. The first session by the Judges of the ACCA MESRA (Malaysia Environmental and Social Reporting Awards), presented by Dato' Kok Wee Kiat, focussed on the current state of environmental and social reporting. The second session was on 'sharing experience and best practices from winners of ACCA MESRA' and the last session was on how to start environmental and social reporting.

Shell Malaysia, British American Tobacco Malaysia Berhad and Dynacraft Industries Sdn Bhd supported this initiative. AT

ACCA MESRA (Malaysia Environmental and Social Reporting Awards) 2005 are now open for participation. The closing date is 30 November 2005. For further details on the awards please contact Zaiti Ali at *zaiti.ali@my.accaglobal.com*. For further information on ACCA and Sustainability please visit *www.accaglobal.com/sustainability*

The IMAG Golf Tournament is back!

4th Inter Malaysian Accounting Group (IMAG) Golf Tournament 2005
2 October 2005
Bangi Golf Resort, Bandar Baru Bangi

This year, ACCA takes great pride in hosting the 4th IMAG Golf Tournament and welcomes members to take part in it. The IMAG Golf Tournament aims to strengthen fellowship and create a networking platform among members of the accountancy profession. The IMAG Golf Tournament is open to all members of MIA and recognised professional accounting bodies.

The closing date is 20 September 2005. For registration and further information please contact Helmy Mohtar at *helmy.mohtar@my.accaglobal.com* or Venny Tay at *venny.tay@my.accaglobal.com* or call 03 2713 5051. AT

Chartered Institute of Management Accountants ▼

CIMA Elects New President

The membership of CIMA has elected an Englishman, an Irishman and a Scotsman as President, Deputy President and Vice-President at its Annual General Meeting, held at the Café Royal, London, on 11 June 2005.

Ian Christison MSc, FCMA, FCCA, FMAAT, based in Leicester, UK, was elected President. Christison's career has spanned several senior management roles within heavy engineering and chemical industries in Chesterfield and Sheffield and included senior roles in education and consultancy in Leicester. His expertise lies in developing management accounting and computerised business systems. He completed his MSc in Computing to ensure he remained at the forefront of his profession, before delivering undergraduate and postgraduate courses with the current Leicester Business School, De Montfort University. During this time he undertook consultancy for the Alliance & Leicester Building Society among others.

Ian Christison said, "CIMA's unique business perspective is pivotal to our position as a world leader in the qualification and support of professional accountants in business. We are forward looking business managers with firm roots in finance. This sole focus of business, coupled with our practical experience requirements, enables us to develop Chartered Management Accountants with an unrivalled depth of both accounting and management skills. In turn, this ensures that CIMA members continue to remain the number one choice for employers in business, in both the private and public sectors."

"Our members are driving some of the world's most successful organisations. We have unquestioned strength in existing territories but I am particularly excited about developments we are making into new and emerging markets," he added. "Our success demonstrates the significant opportunities that membership of CIMA brings. It is vital to have a professional badge so that employers and the general public can be reassured of the highest level of professional ethics and conduct this professional membership requires."

The other honorary officers elected at the CIMA AGM were Irishman, John Coghlan FCMA, who was elected Deputy President. Mr. Coghlan was previously Country Chief Executive, Smurfit UK and formerly President of the CIMA Republic of Ireland Division. Scotsman, Gordon Grant FCMA was elected Vice-President. Mr. Grant is currently Chief Executive of Petrodata Ltd in Aberdeen and the Principal of NXFD. He was Chairman of the Student Development Committee. AT

Ian Christison, New President of CIMA

CPD Solutions for CIMA Members

Following the CIMA UK Annual General Meeting in June, where members voted in favour of a new CPD scheme from January 2006, CIMA is developing a wide selection of resources to support members in their professional development. This range of products is called 'CPD Solutions'.

As part of the CPD Solutions range, a suite of four online resources have been created to meet members' individual needs.

Three of the four online products were recently launched at the end of June. They are available in an online format and can be easily accessed 24 hours a day from wherever members may be.

The three newly-launched resources are:

- **CIMA Inform** — a compliance and financial management resource, designed to keep you up to date with changing business legislation and regulations. Users can receive alerts on up-to-the-minute news stories and search archives. More than 100 checklists, procedures and model documents can also be downloaded for everyday use. What's more, news stories can also be delivered straight to your desktop via Insight, the CIMA e-mail newsletter.
- **Business Source Corporate** — the CIMA e-journal resource allows members access to an extensive database of over 3,000 business and academic journals as well as news articles, company profiles and country reports. Research is added daily to the database and ensures that users have access to the latest tools and techniques and can apply these at work. The resource also includes an archive of articles and journal extracts going back eighty years.
- **Harvard ManageMentor PLUS** — Providing access to over 35 management topics, this powerful online tool helps users with their personal development at both operational and strategic levels. Members accessing the service will be able to select modules, according to their development needs. They will find practical advice, tips and tools from experts, practitioners and business leaders. With test questions, checklists, worksheets and links to further reading, users can feel confident in their development.

CPD Solutions can be accessed via My CIMA or by going directly to *www.cimacpdsolutions.com*. Members need their Contact ID and password, which can be created online, to use the products. AT

"CIMA is developing a wide selection of resources to support members in their professional development. This range of products is called 'CPD Solutions'."

IFAC

New IAASB Standard Assists Auditors in Reviewing Interim Financial Information

The International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) released a new International Standard on Review Engagements (ISRE) to assist auditors in carrying out their professional responsibilities when reviewing the interim financial information of an audit client.

ISRE 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity, outlines the general principles of a review of interim financial information, provides guidance on the inquiries, analytical and other review procedures to be performed by the auditor, and prescribes the content of the review report. In addition, an appendix to the standard includes examples of an engagement letter, management representation letter, analytical procedures the auditor may consider when performing the review, and illustrative review reports.

> "This ISRE will enhance consistency and quality in auditor performance and reporting. It is specifically designed for reviews of interim financial information undertaken by the auditors of the annual financial statements."
>
> **John Kellas, Chairman, IAASB**

John Kellas, Chairman of the IAASB, explains: "This ISRE will enhance consistency and quality in auditor performance and reporting. It is specifically designed for reviews of interim financial information undertaken by the auditors of the annual financial statements. It therefore meets a need in those jurisdictions that use International Standards on Auditing and require or permit companies (usually listed) to issue interim financial information that has been subject to a review by the auditors." AT

The standard is effective for periods beginning on or after 15 December 2006. Earlier adoption is permissible. The standard may be downloaded at no charge from the IFAC website by going to *www.ifac.org/Store*.

IFAC Board Approves Initiatives to Strengthen Financial Reporting, Assist Developing Nations and SMEs

At its meeting recently in New York City, the Board of the International Federation of Accountants (IFAC) agreed to initiate a global study on how to enhance the quality of the financial reporting supply chain, approved a guidance document on environmental management accounting (EMA), developed jointly with the United Nations, and expressed its full support for moving ahead on initiatives to support developing nations and convergence to international standards.

Enhancing Financial Reporting

Within the coming months, an independent chair will be appointed to lead a new IFAC global initiative on enhancing the quality of the financial reporting supply chain and will be charged with considering such issues as corporate management and governance, regulatory developments, auditor independence and rotation, and the expectations around the auditor's responsibility for the detection of fraud.

"To enhance the credibility of financial reporting, action is necessary at all points along the information supply chain that delivers financial reporting to the market," states IFAC President, Graham Ward. "This project will identify investor expectations and needs and include practical suggestions for enhancements that the global accountancy profession can provide by direct action and those where it will need to engage with others to create change."

> "This project will identify investor expectations and needs and include practical suggestions for enhancements that the global accountancy profession can provide by direct action and those where it will need to engage with others to create change."
>
> **Graham Ward, IFAC President**

Environmental Management Accounting

Recognising that environmental issues are of increasing concern to countries and that there is no conventional accounting practice to assist in the management of environmental issues, IFAC, together with the Division of Sustainable Development of the United Nations Department of Economic and Social Affairs, the US Environmental Protection Agency and the UK Environment Agency, participated in the development of the new International Guidance Document on Environmental Accounting. The document, approved for release by the IFAC Board, defines EMA, defines its uses and benefits, and includes examples of EMA applications for internal management and external reporting initiatives. It will be posted on the IFAC website (*www.ifac.org*) within a month.

New Guidance for SMEs

Recognising the unique reporting needs of small and medium enterprises (SMEs), the Board directed the Small and Medium Permanent Task Force to move ahead on the development of guidance materials on International Standards on Auditing (ISAs) for use in SME audit engagements.

Other Initiatives

Other actions taken by the Board included the following:

- Endorsement of the work of the Developing Nations Permanent Task Force, including outreach to countries where the profession is not yet established and the preparation of a tool kit to assist these countries in developing a credible and high quality profession;
- Approval of the ongoing development of electronic resource centres for professional accountants in business and small and medium practices; and
- Recognition and support for the implementation of Part 2 of the IFAC Member Body Compliance Programme, which will provide a picture of the stage of incorporation of standards issued by IFAC and the International Accounting Standards Board into the national standards used by member bodies. AT

Management Accounting Issues Addressed in New IFAC Publication of Award-Winning Articles

The International Federation of Accountants' (IFAC) Professional Accountants in Business (PAIB) Committee has released its *Articles of Merit: 2005*, a collection of award-winning international articles on topics such as risk management, corporate social responsibility, and performance measurement for sustainability. This year's Articles of Merit includes 10 previously published articles that were selected by the PAIB Committee as part of its annual Articles of Merit Award Programme for Distinguished Contribution to Management Accounting.

The winning article for 2005 is *Corporate Social Responsibility: Why Business Should Act Responsibly and Be Accountable* by Carol Adams and Ambika Zutshi, first published in CPA Australia's Australian Accounting Review. The article examines the pressure for organisations to report on corporate social responsibility, discusses problems with many current reporting practices, and identifies benefits from corporate social responsibility and reporting.

Other articles of outstanding merit were first published in Journals of the American Institute of Certified Public Accountants, Chartered Institute of Management Accountants (UK), CMA Canada, CPA Australia, Institute of Chartered Accountants in England and Wales, and Koninklijk Nederlands Instituut van Register accountants (Netherlands). AT

Articles of Merit: 2005 may be downloaded from the IFAC online bookstore by going to *www.ifac.org/store*.

IFAC Issues New Guidance on Environmental Management Accounting

Recognising the increasing importance of environmental issues and the difficulty of managing these issues, the International Federation of Accountants (IFAC) has issued new guidance on environmental management accounting (EMA). The document, commissioned by IFAC and supported by the Division for Sustainable Development of the United Nations Department of Economic and Social Affairs (DSD/UNDESA), was written by Deborah Savage of the Environmental Management Accounting Research and Information Center and Christine Jasch of the Austrian Institute for Environmental Management & Economics.

Although the guidance is aimed primarily at professional accountants within organizations, it will also be of interest to professional accountants and auditors who are becoming more involved in tracking or verifying environment-related information in financial and other reports.

"Our goal in issuing this document is to reduce confusion on this important topic and to provide a framework and set of definitions that is comprehensive, yet as consistent as possible with other existing environmental accounting frameworks with which EMA must coexist," says IFAC President, Graham Ward. "We believe this document will achieve this goal."

Tarcisio Alvarez-Rivero of UNDESA observes: "We are delighted to have been involved in developing this international guidance. We are pleased to see that it is already being applied in various countries and hope it will become accepted global best practice in the months ahead." AT

The International Guidance Document on Environmental Management Accounting may be downloaded free-of-charge from IFAC's online bookstore by going to www.ifac.org/store. Print copies are available for US $25.00 plus shipping and may also be ordered through the online bookstore or by calling +1 (212) 286-9344.

Non-Audit Firms

FROM 1-31 JULY 2005

New Registration

NON-AUDIT FIRM	NF NO
JOHOR DARUL TAKZIM	
Thomas Wong & Co. 50 Jalan Paya C Sri-Lalang 86000 Kluang Tel: 012-720 7887	**0679**
Y. T. Chang & Co. 6-02 Jalan Permas 9/3 Bandar Baru Permas Jaya 81750 Masai Tel: 07-386 2384 Fax: 07-388 8384 e-mail: ytchang_99@accamail.com	**0673**
NEGERI SEMBILAN DARUL KHUSUS	
Isma Yap & Co. No. 17-1, Jalan Dato' Ab. Rahman 70000 Seremban Tel: 06-763 3376 Fax: 06-763 6371 e-mail: p1servicessb@yahoo.com	**0676**
PERAK DARUL RIDZUAN	
Hiong Sing & Co 9B Jalan Che Tak 30300 Ipoh Tel: 05-241 1973 Fax: 05-241 3946 e-mail: jckh007@yahoo.co.uk	**0674**
Kians & Associates 6A, Lorong Taman Ipoh 1 Taman Ipoh Selatan 31400 Ipoh e-mail: kianswong@yahoo.com	**0677**
PULAU PINANG	
Hui & Associates 146-C, Jalan Raja Uda Pusat Perniagaan Raja Uda 12300 Butterworth Tel: 04-332 3696 Fax: 04-333 3696 e-mail: clayling@tm.net.my	**0687**
SARAWAK	
Aris & Co. 2nd Floor Lot 244 Jalan Haji Taha 93400 Kuching Tel: 082-241 489 Fax: 082-241 489 e-mail: arisnasrolosman@operamail.com	**0684**
SELANGOR DARUL EHSAN	
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Operation Ceased

NON-AUDIT FIRM **NF NO**

SABAH

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WILAYAH PERSEKUTUAN

L. H. Soo & Co. **0551**
No. 53, Jalan Teratai 1/2J
Taman Bukit Permai 2, Cheras
56100 Kuala Lumpur
Tel: 03-4280 9282 Fax: 03-4280 9280
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Name Change

NON-AUDIT FIRM **NF NO**

SABAH

H M Wong & Associates **0668**
(Previously known as
Hon Mun Management Services)
83, Jalan Camar
Kepong Baru
52100 Kuala Lumpur
Tel: 012-280 1163 Fax: 03-6273 6475
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Audit Firms

FROM 1-31 JULY 2005

New Registration

AUDIT FIRM **AF NO**

PERAK DARUL RIDZUAN

T.H. Yew & Ng **001802**
No. 21, Jalan Chew Boon Juan
(Off Jalan Kampar)
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e-mail: thyew88@tm.net.my

PULAU PINANG

Soon & Partners **1596**
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10400 Penang
Tel: 04-229 7162 Fax: 04-227 1692
e-mail: soongw@tm.net.my

SELANGOR DARUL EHSAN

YT Lim & Co **1601**
65C, Jalan SS25/2
Taman Bukit Emas
47301 Petaling Jaya
Tel: 012-238 2095
e-mail: billy@ylc.com.my

WILAYAH PERSEKUTUAN

Jeffrey & Co **1599**
Suite A, No 15-1, Jalan 3/27D
Seksyen 6, Wangsa Maju
53300 Kuala Lumpur
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e-mail: jeffrey@jeffreyco.com.my

Manick, Huan & Co. **1341**
7A, 7th Floor, Pearl Court 61
Jalan Thamby Abdullah, Brickfields
50470 Kuala Lumpur

Operation Ceased

AUDIT FIRM **AF NO**

SABAH

S K Hiew, Lee, Chin & Co. **1437**
2nd Floor, Lot 1, Block F
Ruang Singgah Mata 3, Asia City
88000 Kota Kinabalu
Tel: 088-260 000 Fax: 088-269 000
e-mail: skhiew@tm.net.my

Name Change

AUDIT FIRM **AF NO**

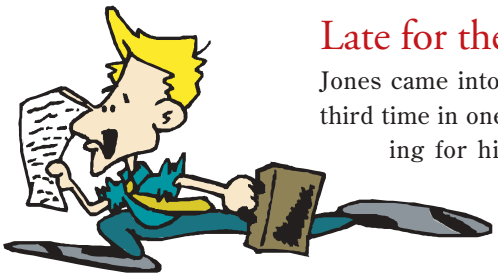
JOHOR DARUL TAKZIM

SC Lim, Ng & Co. **0681**
(Previously known as S C Lim & Co.)
8 (2nd & 3rd Floor), Jalan Pesta 1/1
Tmn Tun Dr. Ismail 1, Jln Bakri
84000 Muar
Tel: 06-952 5968 Fax: 06-952 7328
e-mail: admin@scln.com.my

WILAYAH PERSEKUTUAN

HLB Ler Lum **0276**
(Previously known as Ler Lum & Co.)
2nd & 3rd Floor Bangunan Yeoh
No. 35 & 37 Jalan Kamunting
50300 Kuala Lumpur
Tel: 03-2691 5737 Fax: 03-2691 3227
e-mail: lerlum@myjaring.net

… Counting on Humour



Late for the Third Time

Jones came into the office an hour late for the third time in one week and found the boss waiting for him. *"What's the story this time, Jones?"* he asked sarcastically. *"Let's hear a good excuse for a change."*

Jones sighed, *"Everything went wrong this morning, Boss. My wife decided to drive me to the station. She got ready in ten minutes, but then the drawbridge got stuck. Rather than let you down, I swam across the river (look, my suit's still damp), ran out to the airport, got a ride on Mr. Thompson's helicopter, landed on top of Radio City Music Hall, and was carried here piggyback by one of the Rockettes."*

"You'll have to do better than that, Jones," said the boss, obviously disappointed. *"No woman can get ready in ten minutes."*

Human Resource Lingo …

- **Competitive salary**
  We remain competitive by paying less than our competitors.
- **Join our fast-paced company**
  We have no time to train you.
- **Casual work atmosphere**
  We don't pay enough to expect that you'll dress up.
- **Must be deadline-orientated**
  You'll be 6 months behind schedule on your first day.
- **Some overtime required**
  Some time each night and some time each weekend.
- **Duties will vary**
  Anyone in the office can boss you around.
- **Must have an eye for detail**
  We have no quality control.
- **Career-minded**
  Female applicants must be childless (and remain that way).
- **Apply in person**
  If you're old, fat or ugly you'll be told the position has been filled.
- **No phone calls please**
  We've filled the job; our call for resumes is just a legal formality.
- **Seeking candidates with a wide variety of experience**
  You'll need it to replace three people who just left.
- **Problem-solving skills a must**
  You're walking into a company in perpetual chaos.
- **Requires team leadership skills**
  You'll have the responsibilities of a manager, without the pay or respect.
- **Good communication skills**
  Management communicates, you listen, figure out what they want and do it.

New CEO

The newly rich CEO splurged on a Rolls Royce Silver Shadow and couldn't wait to show it off. So after a meeting with the director of the company, he offered him a ride home. *"Whaddya think?"* he couldn't resist asking his passenger after a mile or two. *"Pretty snappy, eh? I bet you've never ridden in one of these before."*

"Actually I have," the director replied graciously, *"but this is my first time in the front seat."*

New Office

Having just moved into his new office, a pompous, new CEO was sitting at his desk when his assistant knocked on the door. Conscious of his new position, the CEO quickly picked up the phone, told the asistant to enter, then said into the phone, *"Yes, sir, I'll be seeing him this afternoon and I'll pass along your message. In the meantime, thank you for your good wishes, sir."* Feeling as though he had sufficiently impressed the young assistant, he asked, *"What do you want?"*

"Nothing important, sir," the assistant replied, *"… I'm just here to hook up your telephone."*

Committee Rules

- Never arrive on time, or you will be stamped a beginner.
- Don't say anything until the meeting is half over; this stamps you as being wise.
- Be as vague as possible; this prevents irritating the others.
- When in doubt, suggest that a sub-committee be appointed.
- Be the first to move for adjournment; this will make you popular — it's what everyone is waiting for.

Interview

An applicant was being interviewed for admission to a prominent business school.

"Tell me," inquired the interviewer, *"where do you expect to be ten years from now?"*

"Well, let's see," replied the student.

"It's Wednesday afternoon. I guess I'll be on the golf course by now." AT