

Editors' Page

in this issue:

Tips on Audit Express - Improving Audit Efficiency	P.1
Breaking News – Guidance on the Role of Reporting Accountant in a Due Diligence Working Group	P.3
Technical News Update	P.6
Reviewing Disclosure Requirements – FRS 138 Intangible Assets	P.8
Experts' Corner – The Impact of the Revised FRS3 & FRS127 & Investment Property (Part I)	P.10
System on Quality Control for Audit Practitioners – Monitoring	P.18
AXP Updates	P.22

AXP focus on 2-T's – **T**echnological development and **T**echnical updates!

We have successfully organised our first two **AXP CPD Seminars 2011** in our AXP Training Centre, i.e., deferred tax and basic consolidation. These seminars have not only attracted public practitioners but also commercial accountants including participants from conglomerates. If you have missed these two AXP CPD Seminars, we still have three more seminars to be held at Klang Valley, Kuching and Kota Kinabalu from October 2011 to December 2011, covering several 'hot topics', ie, financial instruments, IFRS for SMEs (*similar to ED 72 FRS for SMEs in Malaysia*), and practical application of ISQC 1 and Clarified ISAs. For complete programme details, please download the full brochure(s) from www.myAXP.com. Mark your calendar today for these forthcoming AXP CPD Seminars to earn your CPD points as well as to keep abreast of the technical updates and topics.

In **Tips on using Audit Express**, we highlight how our core product, **Audit Express**, helps to improve the efficiency and effectiveness in performing audit engagements. In this issue, we highlight some of the useful functions in **Audit Express** that assist users to more efficiently organise and co-ordinate working papers.

In **Breaking News**, we illustrate the newly issued **RPG 10 Guidance on the Role of Reporting Accountant in a Due Diligence Working Group**. **RPG 10** provides guidance for

Reporting Accountants participating in Due Diligence Working Groups established in connection with submissions to the Securities Commission ('SC'), Circular to Shareholders or other offering documents such as Prospectuses.

Look into our **Technical News Update** to focus your attention on those aspects which affect you, your practice and your clients immediately and those which involve longer-term convergence issues.

In **Reviewing Disclosure Requirements**, we review the frequently-omitted disclosure requirements for intangible assets!

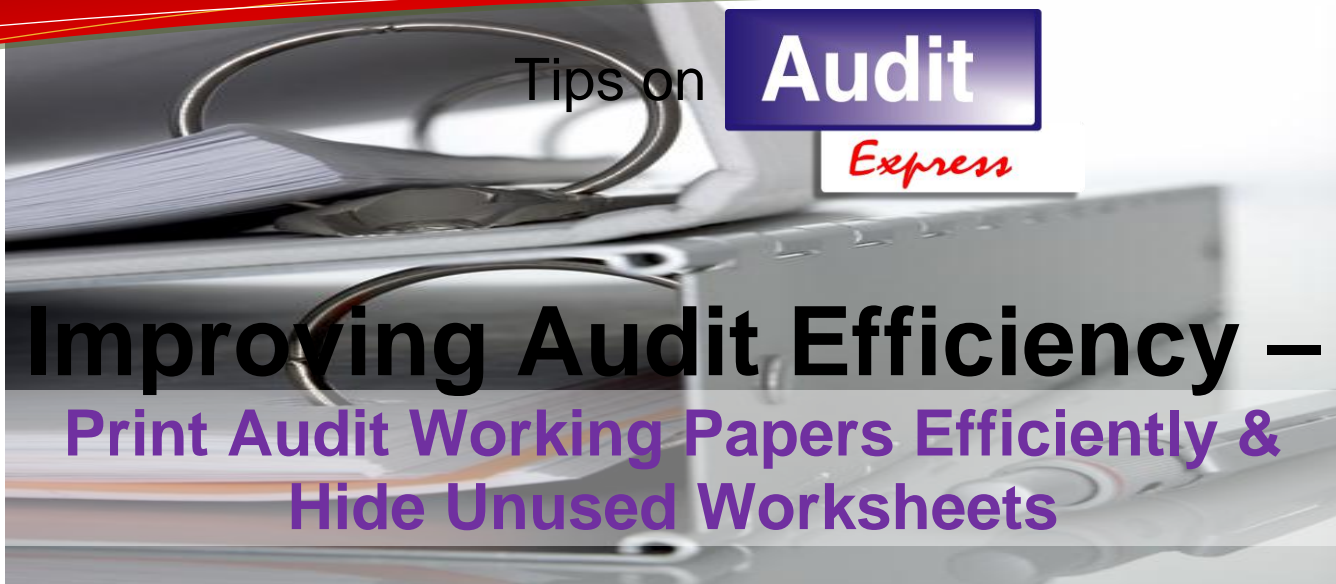
In **Experts' Corner**, we have started 2 new topics. Firstly, the impact of the revised **FRS 3** and **FRS 127** which are effective from 1 July 2010 and, secondly, an overview of **FRS 140 Investment Property**.

In the seventh topic of the **System of Quality Control for Audit Practitioners** series, we shall examine the requirements of the sixth element of **ISQC 1** on the policies and procedures for monitoring. We have also developed practical tools to assist audit practitioners in complying with all aspects of **ISQC 1**.

AXP Updates highlights the milestones achieved by AXP during the past four months. We have also highlighted the top scorers from our **Audit Express** Workshop and Certification programme, attended by students from colleges and universities. You may wish to consider recruiting them once they have graduated.

We will continuously revise the contents of our e-Newsletter to better suit your needs, thus, we welcome your feedback or suggestions on **AXP e-Newsletter**. Happy reading!

Editorial Team



Introduction

Efficiency is important in all stages of the audit, from planning, audit field work and final reporting.

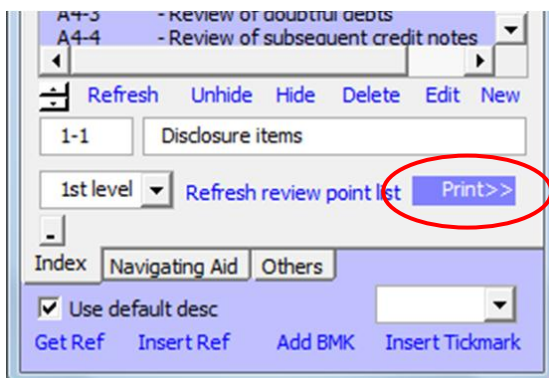
When it comes to audit efficiency, sometimes less is more. Many audit firms have found that it is possible to slash the amount of time involved while still meeting the professional standards. They have discovered that by working smarter, they can maintain and even improve the quality of their work while cutting back on the hours invested in audit engagements and hence enhancing profit. One way of achieving this is by applying appropriate technical aids.

Audit Express provides several useful functions such as **efficient printing of completed audit work papers** (to cut down on unnecessary printing) and **hides unused sheets** ('hides' working papers which are not necessary in the context of the current audit).

How to print audit work papers in an efficient manner? Nobody wants to waste time nor paper nor ink printing unnecessary documents, nor to print a whole document when only certain parts are relevant!

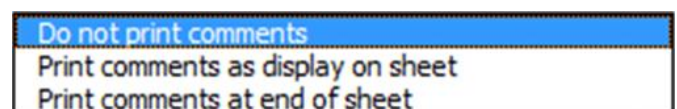
For example, in our last issue we considered the work of a reviewer and any comments raised as a result of the review. Some users may prefer to print out an entire working paper, complete with the comments from the reviewer, for easy reference. However, some may prefer to simply print the reviewers' comments. **Audit Express** provides such a facility.

1 Firstly, locate the 'print' function at the lower panel of the command centre as shown below:



2 Change the view to print mode by clicking **Print>>**.

3 You may print one or more sub-lead documents with the following options:



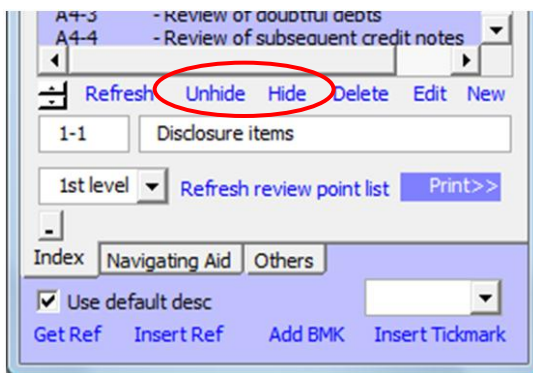
**Tips on Audit Express – Improving Audit Efficiency –
Print Audit Working Papers Efficiently & Hide Unused Worksheets**

- 4 Adjust the print area accordingly.
- 5 Click the schedules that you wish to print or click **Select** to select all.
- 6 Click **Print** to print via default printers.

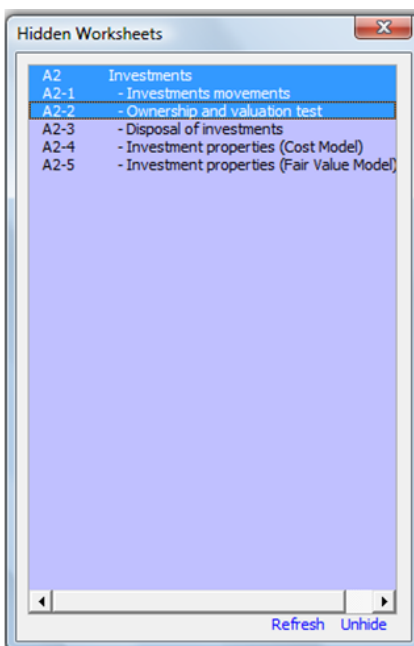
How to hide unused worksheets

By default, AXP’s sub-lead schedules consist of various audit working paper templates. However, for smaller engagements, not all the worksheets may be required, and users can hide unnecessary sheets using the ‘**hide unused sheets**’ function. Once ‘hidden’, the auditor can focus attention on those working sheets required to undertake the particular audit and not waste time viewing or sorting through unnecessary working papers.

- 1 Firstly, locate the ‘hide/ unhide’ function at the lower panel of the command centre as shown below:



- 2 Select **Hide** to hide unused worksheets.
- 3 Click the selected sheet (s) to hide them. All hidden sheets are listed in the ‘**Hidden Worksheets**’ panel shown below:



- 4 To view and/ or unhide the hidden sheets, simply click **Unhide** .

For more details on how you can utilise **Audit Express** to quickly, efficiently and effectively perform the audit engagements, kindly contact our Customer Service at support@myexp.com.

Breaking News

Guidance on the Role of Reporting Accountant in a Due Diligence Working Group

Introduction

In Malaysia, approved company auditors may be appointed as Reporting Accountant ('RA') to participate in the Due Diligence Working Groups ('DDWG') established in connection with submissions to the Securities Commission ('SC'), Circulars to Shareholders or other offering documents such as Prospectuses, to provide comfort in respect of the reliability of certain financial information in such documents.

In the past, these engagements have been largely dominated by 'Big 4' Firms. However, there is a trend that the role of RA is also provided by smaller Firms. Whilst the scope of a RA is stated in the securities laws, there is nevertheless a lack of practical standards or guidance for RA's when they are appointed to perform such roles. Thus, it depends on the Firms to perform necessary procedures to fulfil their responsibilities as RA.

In August 2011, the Malaysian Institute of Accountants ('MIA') and the Malaysian Institute of Certified Public Accountants ('MICPA') jointly published **Recommended Practice Guide 10 – Guidance on the Role of Reporting Accountant in a Due Diligence Working Group ('RPG 10')** to provide guidance to the RA.

High level overview of RPG 10

RPG 10 is principally divided into the following key sections:

- ❖ Objective of Due Diligence
- ❖ Comfort Letter
- ❖ Due Diligence Planning Memorandum ('DDPM')
- ❖ DDWG Meetings and Verification Notes
- ❖ Expressions in Comfort Letters
- ❖ Effective Date

In addition, **RPG 10** also provides illustrative Letter of Engagement and Comfort Letter. In this Article, we will analyse the following parts of **RPG 10**:

Breaking News – Guidance on the Role of Reporting Accountant in a Due Diligence Working Group

Issuance of Comfort Letter by the RA

Before the issuance of a Comfort Letter, the RA would have to bear in mind four underlying principles. These four principles are illustrated in **RPG 10**.

The RA is reminded to give comfort on financial information **only when** it has been:

- ❖ obtained from the issuer’s accounting records that are subject to the issuer’s internal controls, policies and procedures.
- ❖ derived directly from such accounting records by analysis or computation;
- ❖ the subject of a separate assurance engagement performed in accordance with appropriate auditing or assurance standards.

Although a sample Comfort Letter has been provided in **RPG 10**, the detailed contents will vary according to the nature of the information in the submission and other documents and the procedures agreed on by the issuer and the RA. Furthermore, the RA should apply the principles in **ISRS 4400** when carrying out an engagement under **RPG 10**. Thus, the RA reports the procedures carried out and the findings obtained, but does not provide either positive or negative assurance.

The RA is reminded to obtain suitable written representations, in accordance with the requirements of the Assurance Framework, from appropriate officers responsible for the information before the issuance of a Comfort Letter.

It is not the RA’s responsibility to check calculations that have no relevance to the role of RA, for instance, calculations of extraction rates of agricultural produce or harvests. The RA does not assume such responsibility merely because the RA has access to the company records.



Verification on the DDPM

RPG 10 provides that the RA should not sign the DDPM, since the RA’s engagement should be conducted on the basis of the RA’s engagement letter (*which has already been signed*), which in turn is the basis of appointment of the RA as a member of a DDWG.

Nevertheless, the RA is part of the DDWG and therefore the RA should be ‘covered’ in the DDPM. **RPG 10** suggests the RA to include excerpt (concerning the scope of the RA’s work from the RA’s engagement letter) as an appendix to the DDPM, and, on the DDPM itself, initial or affix the RA’s identification together with a cross reference to the scope set out in the appendix to the DDPM.

Breaking News – Guidance on the Role of Reporting Accountant in a Due Diligence Working Group**DDWG Meetings**

In DDWG meetings, the RA's comments should be in relation to matters properly relating to the RA's engagement, but not to comment on information subject to other expertise and disciplines. The RA should only attend DDWG meetings directly relevant to the RA's scope of engagement and should refrain from commenting on subject matter outside the RA's area of expertise.

Depends on the nature of the engagements, the RA's level of assurance may be a positive, a negative or limited form. If there is no requirement to provide assurance, and when no assurance is intended, the RA may be able to report only on the basis of the factual results or procedures, which may be an agreed-upon procedures or compilation procedures.

In view of the requirements set out in professional standards, the RA does not sign 'verification notes' or 'minutes of verification meetings' in the form normally set out for the whole DDWG through minutes and verification notes. Thus, the RA should report on the work performed in a separate Comfort Letter or other assurance or services report that meets the requirements. On the other hand, 'verification notes' or 'minutes of verification meetings' may be stamped for identification where members of the DDWG would otherwise affix their signatures, and cross referenced to the Comfort Letter, which may be appended to the notes or minutes.

Moving Forward

With the increasing corporate exercises undertaken by listed issuers, it is necessary for the professional bodies to establish a framework and principles for such engagements to ensure that their members conduct services based on the said principles. The issuance of the Guide is timely in view of the contemporary issues encountered by the profession.

Malaysia adopted International Standards of Auditing many years ago, and is currently moving towards full convergence with International Financial Reporting Standards. Additionally, the MIA is now undertaking projects to provide guidance on the Investment Reporting Standards. It is an encouraging move for the MIA to further assist its members to undertake 'special' engagements which currently lack standards and guidelines but may be subject to high engagement risk.





Technical News Update

In response to comments and views received, we have divided our Technical News Update into 3 sections. Section 1 is of particular interest to SMEs and SMPs. Section 2 focuses on FRS and convergence with IFRS. Section 3 includes other technical news and updates.



Section 1 – Special Interests for SMEs and SMPs

Technical News from Malaysian Institute of Accountants ('MIA')

On **10 August 2011**, the MIA has issued two Recommended Practice Guides ('RPG'), as follows:

- ✓ **RPG 8** *Illustrative Letter of Engagement – Statutory Audit for Single Entity and Group*
- ✓ **RPG 10** *Guidance on the Role of Reporting Accountant in A Due Diligence Working Group*

If your Firms are engaged to perform the role of Reporting Accountants ('RA') for your clients in Due Diligence Working Groups established in connection with submissions to the Securities Commission, Circular to Shareholders and offering documents such as Prospectuses, **RPG 10** provides guidance on the manner in which the RA expresses the terms of participation and reports on the RA's work, and specifically also addresses the issuance of comfort letters. **RPG 10** is effective for engagements where the engagement letter is dated on or after **1 September 2011**. Turn to **Breaking News** for details.

The MIA has also issued a new **FRSIC Consensus 16** *Distribution Equalisation in Unit Trust Funds* on **10 August 2011**.

For more information, please visit <http://www.mia.org.my/new/highlights.asp>.



Section 2 – Development of FRS and Convergence with IFRS

Technical News from the International Accounting Standards Board ('IASB')

From **1 July 2011** to **31 August 2011**, the IASB and the IFRS Interpretations Committees have published the following:

- ✓ IASB and FASB announce intention to re-expose leasing proposals.
- ✓ IASB launched a public consultation to seek broad public input on the strategic direction and overall balance of its future work programme.
- ✓ IFRS Taxonomy updated for fair value measurement and disclosure of interests in other entities.
- ✓ IASB proposes adjustment to effective date of **IFRS 9**.
- ✓ IFRS Taxonomy updated for financial statement presentation and employee benefits.
- ✓ IASB proposes to exempt investment entities from consolidation requirements.

For more information on the above technical news, please visit www.ifrs.org/Home.htm.



Section 3 – Other Technical News and Updates

Technical News from the Investor Resources section of the IASB

On **5 August 2011**, Mr. Ian Mackintosh, Vice-chair of the IASB, wrote an article 'The IASB needs input from investors and others on which projects it should undertake next'. Mr. Mackintosh highlighted that, after its first ten years of existence with incredible success, the IASB is at a turning point!! All major economies are coming on board.

To guide the IASB towards the best way to move into the next decade, the IASB want to know what users require from the financial statements from a practical point of view and what works for users and what does not.

If you are interested to find out more and provide your feedback on this article, please visit the following web page:

<http://www.ifrs.org/Investor+resources/2011+perspectives/August+2011+perspectives/agenda+consultation.htm>

Note: the above URL is provided with the consent and agreement of IASB's Investor Liaison unit.

Reviewing Disclosure Requirements

As a value-added service, AXP provides a complimentary service to assist in reviewing annual financial statements audited by our clients during the implementation and customisation stage of **Audit Express**. Any recommendations for improvements in disclosure requirements will be issued for their considerations.

In this section, we shall highlight common disclosure “faults” which have been observed during our review, and hope that it will help our client practitioners to better understand the disclosure requirements of prevailing reporting standards.

In this issue, we shall focus on **FRS 138 Intangible Assets**

<u>FRS Reference</u>	<u>Observations</u>	<u>Recommendations or sample disclosures</u>
138.56, 138.57	The accounting policy does not disclose how an intangible asset shall be recognised in both the research phase and development phase.	<p>Example:</p> <p>138.54 <i>ii) Internally Generated Intangible Assets</i> Costs associated with internally generated intangible assets arising from research activities are recognised in profit or loss in the financial year in which the expenditure is incurred.</p> <p>138.57 An internally generated intangible asset arising from development activities is recognised only when all of the following conditions are demonstrated:</p> <ul style="list-style-type: none"> - the technical feasibility of completing the intangible asset so that it will be available for use or sale. - the intention to complete the intangible asset and thereafter use it or sell it. - the ability to either use or sell the intangible asset. - how the intangible asset will generate probable future economic benefits. - the availability of adequate technical, financial and other resources to complete the development and thereafter to use or sell the intangible asset. <p>For details, please refer to AXP’s FRS Model Financial Statements For FRS 2010 on page 31 to 32.</p>

Reviewing Disclosure Requirements

<u>FRS Reference</u>	<u>Observations</u>	<u>Recommendations or sample disclosures</u>
138.118(a), (b)	The accounting policy does not disclose whether the useful lives of the intangible assets are indefinite or finite. If the intangible assets are finite, the useful lives or amortisation rates used and the amortisation methods used are not disclosed.	<p>Example:</p> <p>138.75 138.118(a), (b) After initial recognition, internally generated intangible assets are stated at cost less any accumulated amortisation and accumulated impairment losses. Internally generated software development costs are amortised on a straight-line basis over their estimated useful lives of 10 years. The amortisation period and method are reviewed at least at the end of each reporting period.</p> <p>For details, please refer to AXP’s FRS Model Financial Statements For FRS 2010 on page 32.</p>
138.122(a)	The carrying amounts of the intangible assets together with the reasons supporting the assessment of indefinite useful lives are omitted.	<p>Example:</p> <p>138.122 (a) The carrying amounts of the Group’s other intangible assets which are assessed to have indefinite useful life due to the trademark registration in Country X being indefinite and hence no amortisation is charged are RM200,000 (2009: RM200,000).</p>
138.122(b)	Description and the related carrying amounts and remaining amortisation period of any individual intangible asset that is material to the entity’s financial statements are not disclosed.	<p>138.122(b) The carrying amounts of the Group’s patents and trademarks to protect the computer software developed by the Group in Malaysia, Singapore, United States, United Kingdom and Japan are RM349,805,000 (2009: RM326,057,000) at the end of the reporting period. The average remaining amortisation period of these patents and trademarks is 8 years.</p>
138.122(c)	<p>The following disclosures for intangible assets acquired by way of government grant and initially recognised at fair value are omitted:</p> <ul style="list-style-type: none"> (i) the fair value initially recognised for these assets; (ii) their carrying amounts; and (iii) whether they are measured after recognition under cost model or revaluation model. 	<p>138.122(c) In 2009, the Group acquired the patent by way of a government grant in Hong Kong SAR. This intangible</p> <p>For details, please refer to the Notes to the Financial Statements in AXP’s FRS Model Financial Statements For FRS 2010 on page 58.</p>



About Experts' Corner

Our Technical Adviser, Mr. Keith Farmer, will review and illustrate recognition and measurement issues of prevailing accounting standards in an interesting manner.

New Topic!

**The Impact of the Revised
FRS3: Business Combinations
(revised 1/10 – with effect from 1/7/10)
& FRS127: Separate and Consolidated
Financial Statements
(amended 1/10 – with effect from 1/7/10)**

This is an opportune moment to consider the **revised/ amended** standards (see above) relating to the preparation of **consolidated** financial statements, given their effective application dates!!

In one sense, many of the procedures we formerly applied under the 'old' standards continue to be applied. Indeed, other than replacing the term '**minority interest**' [MI] with '**non-controlling interest**' [NCI] **and possibly** revising the basis of the calculations of **consolidated goodwill** and the **NCI**, *most of the procedures are unchanged in the context of 'simple' consolidations.*

However, when we come to consider **changes** in the group structure such as step-acquisitions **after** control has been acquired or step-disposals **without** losing control, the underlying principle changes considerably, **and hence so too do the consolidated financial statements [CFS]!!**

In this, our first article, we shall take an 'overview' of some of the 'major' changes. Later, by means of examples, we demonstrate their impact.

TERMINOLOGY

Primary Financial Statements: As we know, FRS 101 (effective from 1/1/10) has changed the titles of the primary financial statements of both a single and a group entity. This is in line with 'international harmonisation' principles, although in practice the standard states people can continue to use the 'old' terminology! Perhaps the most important change here is the replacement of an '**income statement**' [I/S] with a '**statement of comprehensive income**' [SCI].

An **SCI** comprises **2** sections: at the 'top', a 'traditional' **I/S**, starting with 'revenue' and ending with the 'profit or loss for the period' [**P/L**]. In the context of the **CFS**, this is then '**attributed**' to both the '**NCI** (*formerly 'MI'*) and the '**owners of the parent**' [**OOP**] (*formerly the 'equity holders of the parent'*). This section is, as before, part of the double-entry bookkeeping system and the amounts attributable to the **NCI** and the **OOP** will cause both the **NCI** and group retained earnings [**GRE**] to increase (*or fall in the case of a loss!!*) accordingly. Remember that as a 'general rule' **all** income/ gains/ expenditure/ losses will be 'reported' through the **P/L**, and hence are 'transparent' to readers. Unfortunately, however, there are '**exceptions**' to the 'general rule'!! Certain standards 'require' or 'permit' certain 'gains' or 'losses' (**not** 'income' and 'expenditure' !!) to be accounted for **directly** to reserve accounts – **and this is not transparent!!**

Hence, at the bottom we have '**other comprehensive income**' [**OCI**], ie. **DISCLOSURE** of these 'gains'/ 'losses' which are accounted for **directly** to reserve accounts. Once again, this is then '**attributed**' to both the '**NCI**' and the **OOP** and will cause both the **NCI** (*if applicable*) and **other** group reserves to increase (*or fall*) accordingly.

The aggregate total of the **P/L** and the **OCI** is referred to as the '**total comprehensive income**' [**TCI**], and this figure, together with its analysis (as above) will be shown as **one line** in the '**statement of changes in equity**' [**SOCE**] in accordance with the '**shared characteristics**' principle.

Non-Controlling Interest: Formerly referred to as the **MI**, FRS 127[A'10] has changed this to **NCI**.

To form a group requires the ability of one entity to '**control**' another entity. This, in turn, (*in simple terms*) requires the ability to determine board policy through being able to pass '**ordinary**' resolutions, ie. **a simple majority of the votes**. As a general rule, one equity share gets one vote, and therefore requires the '**parent**' [**P**] to own (*or control*) **a simple majority of the equity shares** of the '**subsidiary**' [**S**]. Hence, in simple terms, **P** is the '**majority**' shareholder in '**S**' whereas the 'other' shareholders are the '**minority**' shareholders in '**S**'.

However, life is not always that simple!! It might be the case that an entity has (*say*) **two** different classes of **equity** shareholders, some who **do** get a vote, **and some who don't!!** If so, '**P**' might hold a **majority** of the voting equity shares (and hence able to control '**S**') but only a few or none of the **non**-voting equity shares. Hence, '**P**' might hold a **minority** of the **total** equity shares (*but still able to control 'S'*), whereas the 'other' equity shareholders in '**S**' actually own a **majority** of the **total** equity shares (*but do not control 'S'*)!!

Hence the change in title!! '**P**' is the '**controlling interest**' whereas the 'other' shareholders in '**S**' are the '**non-controlling interest**' [**NCI**].

Acquisition method: In the past, two 'terms' had been used interchangeably: the '**purchase method**' and the '**acquisition method**' to describe the 'method' of preparing **CFS** that we traditionally apply (ie. to show the position **as if 'P'** had actually **bought** the underlying net assets of '**S**'). Interestingly, the **IASB** had, in the past, used the term '**purchase method**' whereas Malaysia had used the term '**acquisition method**'.

In 2005, when Malaysia 'adopted' the **original** IFRS 3[04], **it changed the term to 'purchase' method to be compliant with the IFRS.....but not for long!!!**

The *revised* IFRS 3 (*revised in 2008*) then changed the term to 'acquisition' method, *so when Malaysia adopted the revised IFRS 3 as FRS 3[R'10], it changed back again!!* So, as far as Malaysia is concerned, now back to the *original* term – the 'acquisition' method!!

Tutorial note: IFRS for SME's (a 'simplified' version of IFRS's!!) still uses the term 'purchase' method!!!!

So why did the IASB change the terminology? Fact is, *most* business combinations take place by means of one entity 'purchasing' a controlling interest in another entity, but, as usual, *this is not always the case!!* For example, an entity (call it 'P') owns 40% of the equity shares in another entity (call it 'S'), and hence on the face of it does *not* control and there is *no* group. Now assume 'S' were to *buy back* sufficient shares from its 'other' shareholders, such that 'P' now holds a *majority* of the reduced share capital !! 'P' now *controls* 'S', and a group *now* exists – but this did not result from 'P' *purchasing* any more shares in 'S' !! *Hence, the change in title!!*

METHODOLOGY

In general terms, there are two fundamentally different approaches which can be taken when applying the 'acquisition' method of consolidation: the 'parent entity method' and the 'group entity method'.

The 'parent entity method': This approach focuses on P's interest in the group, with 'outside' shareholders of 'S' referred to as 'non-controlling interest' [NCI]. On consolidation, whilst the 'NCI' is recognised, it is recognised only on the basis of their share of the identifiable underlying net assets of 'S' at the reporting date, without any attribution of goodwill. [TN: goodwill is not an 'identifiable' asset recognised by 'S'!]

The 'group entity method': This approach focuses on 'ownership' interests in the group. 'P' holds a 'controlling' interest, whereas the remaining shareholders of 'S' hold a 'non-controlling' interest. One of the 'key' implications of this is that on consolidation, the 'NCI' is recognised on the basis of their share of the identifiable underlying net assets of 'S' at the reporting date, plus an attribution of goodwill.

In the past – in fact ever since consolidated F/S have been prepared – Standards have always applied the 'parent entity method'. Goodwill was recognised only to the extent of the amount 'purchased' by 'P' as a result of acquiring a controlling interest in 'S'. *Goodwill was never 'attributed' to the NCI.*

However times change, the 'focus' changes, *and Standards change*: the *revised* Standards (*effectively*) applies the 'group entity method'. This means that (*in theory at least!*) the 'FULL' amount of group goodwill is recognised. Whilst this does NOT affect 'P', it means that the 'NCI' is stated on the basis of their share of the identifiable underlying net assets of 'S' at the reporting date plus their share of the group goodwill.

You will note that I said '*in theory at least*' above. What does this mean? Remember that the Standard was revised *jointly* with the American Standard setters [FASB] with the aim of achieving International harmonisation in the preparation of CFS.

The *exposure draft* which preceded the *revised* Standard required the NCI to be measured on a so called 'fair value' basis (*ie. inclusive of attributable goodwill*). However, whilst the *revised* American Standard requires NCI to be measured at 'FV', the *revised* International Standard does NOT. Unfortunately, the members of the IASB could not achieve a 'consensus' view, and hence the *only* basis on which the *revised* Standard could be published was by allowing a CHOICE. FRS 3[R'10] states that on a

'case-by-case' basis, a parent can **CHOOSE** whether to measure the NCI on a 'FV' basis or simply on the basis of their proportionate share of the **identifiable** underlying net assets ['SNA'] of 'S'.

MEASUREMENT OF CONSOLIDATED GOODWILL

Following on from the above point, the question arises: how do we **measure** consolidated goodwill? The simple fact is that goodwill is the **only asset** which is measured by means of a 'difference' (ie. it is a '**residual**' figure). Hence the 'focus' has changed and the **revised** Standard measures goodwill in the following way:

Cost to 'P' of acquiring control of 'S' + the NCI ('FV' or 'SNA' based) at the 'acquisition date' [AD].	} -	100% of the FV of the identifiable net assets of 'S' at the 'acquisition date' [AD].	= Group consolidated goodwill
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Tutorial notes:

- 1) Whilst the 'focus' has changed the good news is that we can simply 'modify' the 'traditional' schedules to calculate the relevant group figures, and hence the only **major** change in calculation relates to NCI **IE** it is based on 'FV'.
- 2) You will note – I hope – that I keep emphasising '**identifiable**'. It is important to understand that the NCI can be based on either:
 - a) 'FV' of the '**identifiable**' net assets of 'S' only. (Referred to as 'share of net assets' [SNA] basis.)
 - b) 'FV' of the '**identifiable**' net assets of 'S', **plus attributable goodwill**. (Referred to as 'fair value' [FV] basis).

Please do not 'mix up' the reference to 'FV'!!

ACQUISITION COSTS

These costs can be categorised as either '**directly attributable**' costs (such as professional fees paid to accountants, legal advisers, valuers and other consultants to effect the combination) or '**general costs**' (such as the costs of maintaining an (*in house*) acquisitions department, and **any** other costs that were **not** '**directly attributed**' to the **particular** combination being accounted for.

'**Directly attributable costs**' were **required** to be '**capitalised**' as part of the 'cost' of the investment in 'S'. Conversely '**general costs**' were **required** to be '**expensed**'.

FRS 3[R'10]: **Requires ALL (yes.....ALL) costs shall be expensed.** This is simply because they do **not** meet the definition of an 'asset'!!

In our next article we shall review the new requirements in respect of step-acquisitions (**after control has been acquired**) and step-disposals (**without losing control**). Both of these areas are accounted for very differently as a result of the new standards.

Experts' Corner

New Topic!

Investment Property (Part I)

This is the first part of a series of articles concerning the accounting treatment of **Investment Property [IP]**. In this article we shall start to consider the requirements of FRS 140: 'Investment Property' [IP]. You may remember we said previously that FRS 116, FRS 138 and FRS 140 are all 'similarly' structured, so a lot of what we have said in previous articles dealing with FRS's 116 & 138 still applies!! However, you should note that FRS 140 does **not** deal with '**depreciation**'/ '**amortisation**', quite simply because if an entity chooses to apply the '**cost model**' in respect of an investment property, **it applies the 'cost model' rules outlined under FRS 116 !!** Hence, this standard deals with only **three** basic areas: '**recognition**', '**measurement**' and '**disclosures**', out of which we shall consider the first two.

FRS 140 was based on IAS 40 [R'03] and superseded that part of FRS 125₂₀₀₄ 'Accounting for Investments' which dealt with investment property. Its application date was in respect of annual periods beginning on or after 1st January 2006.

Before we start to consider the '**recognition**' and '**measurement**' principles, there are 3 aspects we need to consider. In some respects, this is 'jumping the gun' a little, but I think it is important to consider these aspects first!!

FIRST ASPECT

This one is quite easy!!

'Property' is an asset an entity might acquire for a number of different reasons, and, depending upon the **reason** for its acquisition, this determines **which** accounting standard to apply when accounting for it. In most instances, property is acquired for **'use in the business'**, ie. to house the various activities undertaken by an entity to produce goods and services (eg. production/ manufacturing centres, warehouse centres, distribution centres, administration centres etc.) and hence satisfies the definition of 'Property, Plant & Equipment' and is accounted for under **FRS 116**. Property might also be acquired **'for subsequent re-sale in the ordinary course of business'**. If so, then it represents 'inventory' and is accounted for in accordance with **FRS 102 'Inventories'**.

However, property might also be acquired as a form of **'investment'**, and therefore subject to the same basic risks as any other form of investment, ie. generating, *hopefully*, some form of return (in this case, in the form of rental income) and, *hopefully*, an increase in its value (in this case, in the form of appreciation in the value of the property). Basically, if this is the reason behind **why** the property was purchased (or being constructed), then it represents an **'investment property'**. Given that its nature, risks, rewards and cash flows are 'different' to other 'property' interests, it clearly needs its own 'rules' to reflect that fact, hence **FRS 140 'Investment Property'**.

Conversely, at a later point in time, an entity might **change its intentions** in respect of the **future** use of 'property' which it **already** owns. If so, then we shall cease to apply the standard under which it is currently accounted for (eg. 'Property, Plant & Equipment') and in the future account for it in accordance with the standard which reflects the changed intentions (eg. 'Investment Property' or 'Inventories').

Clearly you can see that **'intentions'** are very important when it comes to determining which standard should be applied!!

SECOND ASPECT

This one relates to the problem of acquiring property interests under lease agreements – which can be very long – eg. 999 years, where the intention of the lessee was to treat the leased asset as an investment property. An exception was introduced in 2003 (IAS 40)/ 2007 (FRS 140).

Sometimes, rather than acquiring legal title and hence direct ownership to property, an entity might acquire property under a lease agreement. In accordance with FRS 117, a lessee is required to **'split'** a property interest held under a **lease agreement** into **two** components and account for each applying the general principle of identifying **which party** has the major/ significant **risks/ rewards** associated with ownership:

'LAND' – since land usually has an **'indefinite'** life, **unless** the **legal title** to the land passes to the lessee at the **end** of the lease, this component **HAS** to be classified as an **'operating lease' QL, irrespective of the length of the lease agreement.**

'BUILDINGS' – since buildings usually have a **'finite'** life, the terms of the lease agreement will need to be considered carefully to determine whether (*or not*) the major/ significant risks/ rewards associated with the buildings have been transferred to the lessee or remain with the lessor. If the conclusion is that they **have** been transferred to the lessee, then an **'asset' MUST** be recognised by the lessee with a corresponding obligation (*ie. accounted for as a 'finance lease' [FL] under FRS 117*). If **not**, then the buildings element will **also** have to be treated as an **QL** and the rentals **expensed**.

So why should this cause a problem? Remember we said that *'intentions'* are important in determining which standard to apply.

Where the property interest was acquired with the *intention* of using it to produce goods/ services, *or* for use in administration, **it does not cause a problem**. It will be accounted for in the same way as *any other* leased asset by applying the requirements of FRS 117.

However, where it was acquired with the *intention* of treating it as an **'investment property'** (ie. to benefit from rental income and capital appreciation) then it **MIGHT!!** The simple fact is that unless the **WHOLE** lease is **'capitalised'** upon **initial** recognition, it would **NOT** subsequently be possible to treat it as an **'investment property'**.

If **both** components of the lease (ie. both the **land** and the **buildings** components) were classified as a **finance** lease, then **both** would be capitalised anyway, and **no problem** would arise. However, if the **land** component (*or both!!*) were to be classified as an **operating** lease, **IT WOULD !**, since rentals in respect of the land element would have to be **expensed** rather than **capitalised**.

Consider the following scenario. An entity acquired a property interest on a 999 year lease under the terms of which legal title to the land did **not** pass across to the lessee at the end of the lease term. The lessee's intention behind entering the lease agreement was to treat the property interest as an investment property and hence benefit from rental income and capital appreciation. Given that the land element of the lease had to be accounted for as an **'operating'** lease, **this was not possible**. For an interest in land and buildings to be classified as an **'investment property'**, it **MUST** be **initially** recognised (*at the date of acquisition*) as an **'asset'**.

Now let's consider the **commercial reality** of the agreement. **Commercially** the entire property has been 'bought' (*and the premium paid to enter the lease would reflect this fact!!*), and many commentators argued that such leases should be treated **as an 'investment property'**.

The IASB agreed with their argument, and deliberated upon how to resolve this problem. There were only **two** ways:

- either the **land** element would **have** to be classified as a **FL** (*which would contravene the general principle of the accounting treatment reflecting the substance of the transaction. Hence the IASB rejected this approach*), or,
- an **'exception'** had to be introduced such that an **QL** lease could be **accounted for as if it were a FL**.

The IASB choose to take the **second** approach under the amendments to both IAS 17 and IAS 40 in 2003 (Malaysia FRS 117 and FRS140 issued 2005) and introduced exceptions into both IAS 17/ FRS 117 and IAS 40/ FRS 140:

- FRS 117[R'05] states that it (*ie. IAS 17*) shall **NOT** be applied in respect of the **'MEASUREMENT'** basis for a property **'interest'** held by lessee's which is accounted for as an **'investment property'** under FRS 140 (*this will enable the lessee to 'capitalise' what is actually an QL*).
- Para 6 of FRS 140[R'05] states that – **as an 'exception' to the general rule – a property interest.....held by a lessee (part of which should be classified as an QL) MAY be classified and accounted for as an 'investment property' (ie. the QL may be accounted for as a FL), if, and only if, the property would otherwise meet the definition of an investment property and the lessee uses the 'FV model' [FVM] for the property interest recognised.**

Hence when a property interest (*part or all of which is*) held under an OL is classified and accounted for as an 'investment property', FRS 140 overrides FRS 117 by requiring that the WHOLE lease is accounted for as if it were a FL.

If so, then:

- There is **no need** to 'split' the rentals.
- The OL in respect of the **land** component – which would normally be **expensed** over the lease term – **may be 'classified'** and accounted for (*in the normal way*) as a FL (ie. recognise the whole lease as an asset and a corresponding obligation based on the lower of the present value of the minimum lease payments or the **fair value** [= 'cost']).
- Once the property interest has been '**capitalised**' it can then be classified as an '**investment property**'.
- The '**investment property**' **MUST** be accounted for in accordance with the '**fair value model**' [**FVM**] under FRS 140: 'Investment Property' with any gain or loss on revaluation recognised annually through P/L.

You should also note that:

1) This 'exception' is **OPTIONAL** (ie. it does not **have to be applied**) **and** is available on a **property-by-property basis** (ie. it does **not** have to be applied in respect of **all** long leasehold interests in respect of land & buildings).....**BUT**.....

2) If it **is** applied, then **ALL** investment properties **must** apply the '**FVM**'. (*In other words, the 'CM' could not be used for any investment property, legally owned or otherwise!! This is in line with the general requirement that a lessee chooses either the 'CM' or the 'FVM' for all IP's*)

3) If, at a later date, circumstances change and the lessee's property interest is **no longer** classified as an investment property (*eg. the lessee occupies the property or grants a sub-lease which is classified as a FL*), **the lessee shall continue to account for the lease as a FL**.

THIRD ASPECT

The standard was amended again in 2008 (IAS)/ 2009 (FRS)

Under the original FRS 140, property '**in the course of construction**' could **not** be classified as an '**investment property**' even if that was the **intention** once the construction was completed. It was held (on a cost accumulation basis) under **FRS 116** until it was 'capable of operating as intended by management', and **then** transferred to '**investment property**'. The amendment has removed this requirement. If the initial intention is classify it as an investment property, **it can be accounted for under FRS 140 (and apply the same 'rules' as other investment properties) during the construction period**.

This is probably a lot to digest in one go!! However, as I said at the start, the 'rules' for '**measurement**' and '**recognition**' are very similar to FRS's 116 & 138 anyway, and we shall consider these in our next article. Right now, I think it's more important to distinguish between what **is** and what **is not** an '**investment property**'!!

In this series of *System of Quality Control for Audit Practitioners*, we shall illustrate the steps that audit practitioners can take to ensure compliance with ISQC 1.

System of Quality Control for Audit Practitioners

– Monitoring

Introduction

We have looked at five fundamental elements in our previous issues and finally, we shall review the last element of ISQC 1 – **Monitoring** in this issue.

ISQC 1 requires a Firm to establish a monitoring process designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate and operating effectively.

Monitoring Program

The program should be monitored in order to assist the Firm to obtain reasonable assurance that its policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively. In order to ensure an impartial and objective assessment, those involved in the engagement team or serving the engagement quality control review ('EQCR') function should not be eligible to act as a monitor on the same file.

It is suggested that the compliance monitoring be designed to provide an objective assessment of:

- adherence to professional standards and applicable regulatory and legal requirements;
- appropriateness of the engagement reports;
- determination of whether appropriate and sufficient consultation has been taken place on difficult or contentious issues;
- determination of whether there is sufficient and appropriate documentation applicable to the work performed; and,
- assessment of whether the Firm's quality control policies and procedures have been appropriately applied.

Inspection Procedures

Monitoring the Firm's quality control system is an on-going or periodic process. In either case, the selection of individual engagements for inspection is performed on a cyclical basis, for example, with the inspection cycle spanning not more than three years.

Documentation of inspections may include:

- an evaluation of adherence to professional standards and applicable regulatory and legal requirements;
- the results from evaluating all elements of the quality control system;
- an evaluation of whether the Firm has appropriately applied quality control policies and procedures;
- an evaluation of whether the engagement report is appropriate in the circumstances;
- identification of any deficiencies, their effect, and a decision on whether further action is necessary, describing this action in detail; and,
- a summary of results and conclusions reached (provided to the Firm), with recommendations for corrective actions or changes needed.

Report on the Results of Monitoring

The Firm shall communicate to all engagement partners and other appropriate staff, including the Firm's chief executive officer or, if appropriate, managing board of partners, information on the results of the monitoring process at least annually, including a detailed description of the monitoring process and its conclusions on the Firm's overall compliance and effectiveness.

The report should, at a minimum, include:

- a description of the monitoring procedures performed;
- the conclusions drawn from the monitoring procedures; and,
- where relevant, a description of systemic, repetitive or other significant deficiencies and of the actions recommended to resolve these deficiencies.

Additional consideration may be included, such as:

- common deficiencies or areas in need of improvement;
- a detailed review of issues indicating a need to revise or update the quality control system or related guidance;
- an overview of the existing quality control systems and policies; and,
- an overview of the periodic assessment process, including the nature, timing, and extent of the work performed and the interviews conducted.

Evaluating, Communicating, and Remediating Deficiencies

The Firm shall communicate to relevant engagement partners and other appropriate personnel deficiencies noted as a result of the monitoring process and recommendations for appropriate remedial action.

It should consider whether these deficiencies indicate structural flaws in the quality control system or demonstrate non-compliance by a particular partner or staff member.

If deficiencies are determined to be systemic or repetitive, prompt corrective action will be necessary. In most cases, deficiencies related to independence and conflict of interest will require immediate corrective action.

Non-compliance with the Firm's quality control system is a serious matter, particularly if a partner or staff member has wilfully refused to comply with the Firm's policies. Disciplinary action should be taken against those who fail to comply with the policies and procedures of the Firm.

Complaints and Allegations

Complaints and allegations are serious matter, particularly those concerning failure to exercise duty of care, violation of privacy and confidentiality, conflict of interest by partners or staff toward each other or clients.

It is advised that the Firm considers all of the functions that are required in order to deal with complaints and allegations, for example:

- maintaining all complaint and allegation policies;
- receiving all reports that relate to complaints and allegations;
- providing guidance and consultation on complaint and allegation matters to those who serve in a supervisory capacity;
- providing documentation on these matters, including receipt of the complaint, findings of the investigation, and final outcome;
- conducting or providing supervision for all investigations;
- reporting out to the complainant; and,
- conducting or providing supervision for all investigations.

How does AXP help its clients to comply with this requirement?

AXP has developed several tools to assist our clients in applying the requirements of both **ISQC 1** and Clarified ISAs in establishing the policies and procedures for Monitoring. The following are extracts from relevant compliance checklists:

Excerpt I – ISQC 1 Compliance Checklist on ‘Monitoring’

ISQC 1 COMPLIANCE CHECKLIST ON Monitoring

OVERALL OBJECTIVES AND NOTES TO COMPLETING THESE CHECKLISTS:

Please read these sections in ISQC 1 Compliance Checklist before completing this checklist.

OBJECTIVES OF THIS ELEMENT:

To ascertain whether the Firm establishes policies and procedures designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively.

COMPLIANCE CHECKLISTS:

No.	Procedures and Checklists	X-Ref	Yes	No	N/A
1	<i>Monitoring the Quality Control Policies and Procedures¹</i>		<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1.1	Do the policies and procedures include the following monitoring process?		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1.1.1	Does the Firm include an ongoing consideration and evaluation of the system of quality control, including inspection of at least one completed engagement for each engagement partner on a cyclical		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>


Moving Forward


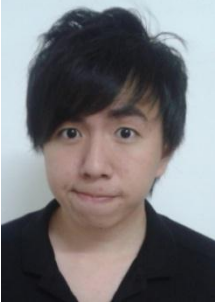


Quality control policies and procedures are a key part of the Firm’s internal control system. The decision either to contract with an independent party or set up an internal monitoring system, and its terms of reference, will vary from Firm to Firm. It will also depend upon the Firm’s resource levels at the time of the inspection and its ability to conduct the program effectively.

In the case of smaller firms, external professionals may serve in the capacity of monitor provided they are suitably qualified, or the Firm may opt to contract with another Firm with whom they have an alliance.




AXP UPDATES

Milestones achieved, and events participated and sponsored by AXP, since 1st May 2011, are as follows:

<u>Date</u>	<u>Events / Milestones</u>	<u>Organisers / Details</u>
16/8/2011	<p>AXP CPD Seminar – Deferred tax</p> 	<p>The first AXP CPD seminar kicked-off on 16th August 2011.</p> <p>This was the first in a planned series of seminars on deferred tax. The aim was to focus on basic principles, establish some rules and demonstrate how to calculate deferred tax assets and liabilities arising from temporary differences. With this understanding, delegates possess a basic framework which can easily be extended to handle more complicated aspect at a later stage.</p> <p>Some of the comments from the delegates are as follows:</p> <p><i>‘The speaker has delivered the seminar in a very clear and simple manner that enables everybody to understand.’</i></p> <p><i>‘The speaker is very clear and the course material concise and easy to understand. Deferred tax made easy!’</i></p> <p>Based on the feedback forms collected from delegates, 100% responded that they would recommend this seminar to others.</p>

<u>Date</u>	<u>Events / Milestones</u>	<u>Organisers / Details</u>																
<p>5/8 & 6/8/2011</p>	<p>Audit Express Workshop & certification – TAR College</p>  <p>Yong Hoi Yan</p>  <p>Ng Same Chia</p>  <p>Mok Wen Liu</p>	<p>The workshop and certification was attended by Advanced Diploma –Year 2 students.</p> <p>The top 3 Grade A scorers of Audit Express Certification are:</p> <ol style="list-style-type: none"> 1. Yong Hoi Yan (97 marks) 2. Ng Same Chia (92 marks) & 3. Mok Wen Liu (92 marks) <p>The name of other students who also obtained Grade A are:</p> <table border="0"> <tr> <td>Chan Ai Li</td> <td>Chin Sze Meng</td> </tr> <tr> <td>Chua Shih Yin</td> <td>Hep Kim Wai</td> </tr> <tr> <td>Irene Goh Mei Yen</td> <td>Juanne Haw Woan Chen</td> </tr> <tr> <td>Lee Kar Mun</td> <td>Liew Choi Kuan</td> </tr> <tr> <td>Lim See Ling</td> <td>Ling Qiao Lian</td> </tr> <tr> <td>Ng Xin Roong</td> <td>Ooi Yee Mong</td> </tr> <tr> <td>Tan Ke Xin</td> <td>Tan Yok Kin</td> </tr> <tr> <td>Yap Hui Kien</td> <td></td> </tr> </table> <p>AXP clients may contact us if you wish to recruit the above students; we shall contact the students on your behalf.</p>	Chan Ai Li	Chin Sze Meng	Chua Shih Yin	Hep Kim Wai	Irene Goh Mei Yen	Juanne Haw Woan Chen	Lee Kar Mun	Liew Choi Kuan	Lim See Ling	Ling Qiao Lian	Ng Xin Roong	Ooi Yee Mong	Tan Ke Xin	Tan Yok Kin	Yap Hui Kien	
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Ng Xin Roong	Ooi Yee Mong																	
Tan Ke Xin	Tan Yok Kin																	
Yap Hui Kien																		
<p>2/8/2011</p>	<p>AXP signed MoU with UTAR</p>  <p>From left: Eric Chia and Ken Lai, directors of AXP, UTAR President Ir. Professor Academician Dato' Dr. Chuah Hean Teik and Dr. Ong Seng Fook, Dean of the Faculty of Accountancy and Management.</p>	<p>A Memorandum of Understanding (MoU) between AXP and Universiti Tunku Abdul Rahman (UTAR) was signed on 2nd August 2011 at the UTAR campus in Petaling Jaya.</p> <p>The objective of the MoU is to pursue an holistic approach in the teaching of auditing and to enhance industry-academia collaboration in the field of auditing.</p>																

<u>Date</u>	<u>Events / Milestones</u>	<u>Organisers / Details</u>
26/7/2011	Public Accountants Conference (PAC) 2011, held at Raffles City Convention Centre, Singapore.	Organised by the Accounting and Corporate Regulatory Authority (ACRA), Singapore , AXP is a sponsor of PAC 2011.
22/7/2011	Incorporation of AXP Solutions Limited in Hong Kong!	In line with our expansion plan, AXP Solutions Limited was incorporated in Hong Kong .
19/7 & 20/7/2011	<p>National Tax Conference (NTC) 2011</p> 	<p>This annual event was jointly organised by the LHDN Malaysia and Chartered Tax Institute of Malaysia.</p> <p>AXP is proud to be one of the main sponsors and took the opportunity to organise a lucky draw event to thank all AXP clients for their continuous support and all other NTC delegates for visiting AXP booth. We hope to see you again during the next NTC in 2012!</p>
18/7/2011	AXP signed MoU with Ngee Ann Polytechnic, Singapore.	<p>A Memorandum of Understanding (MoU) between AXP and Ngee Ann Polytechnic, Singapore was signed on 18th July 2011.</p> <p>The objective of the MoU is to pursue an holistic approach in the teaching of auditing and to enhance industry-academia collaboration in the field of auditing.</p>
24/6/2011	<p>Audit Express Workshop & Certification – Kasturi School of Accountancy (KSA), Kuala Lumpur.</p> 	<p>This was our first Audit Express Workshop & Certification conducted in a private college in Kuala Lumpur. It was the initiative of KSA to offer our workshop to all their interested students.</p>

<u>Date</u>	<u>Events / Milestones</u>	<u>Organisers / Details</u>
17/6 – 20/6/2011	<p>AXP Annual Remaking Trip – Medan, Indonesia</p> 	<p>Our 2011 annual remaking trip was held at Medan, Indonesia. The theme of our trip this year is 'CHANGE'. Most of us had enjoyed various group activities organised to emphasise on this theme. Besides, our meeting has also successfully instilled our corporate culture 'C.R.E.A.T.E'.</p> <p>Some of us also took the chance to enjoy the hotel facilities such as massage, gym and jacuzzi. Last but not least, we also visited the stunning Lake Toba, the largest lake in South East Asia.</p> <p>Many thanks to the organisers for their hard work in making it an unforgettable and invigorating annual event.</p>
1/6/2011	<p>Launching of Model Financial Statements for PERS in Bahasa Malaysia version.</p> 	<p>We wish to announce that we have prepared Model Financial Statements for PERS in Bahasa Malaysia based on the English version we published in 2009.</p> <p>It is now available for free download from our web-page or upon your request by e-mail to support@myaxp.com.</p>
30/5/2011	<p>Awarded with ACCA approved employer status.</p> 	<p>We were awarded Two (2) ACCA Approved Employer status as follows:</p> <ul style="list-style-type: none"> a) the Professional Developing stream & b) the trainee development stream – Gold level.

For more information on the above events, kindly visit AXP's web-page: www.myAXP.com

Editorial Team

Technical Adviser : Keith Farmer FCA, B.A.

Editors : Ivan Er C.A.(M), FCCA, B.Com / Eric Chia C.A.(M), C.A.(NZ), B.Com(Hons) / Kua Le Ting C.A.(M), FCCA

Art Director : Eric Chia C.A.(M), C.A.(NZ), B.Com(Hons)

Research Assistant : Vicky Chuar B.Com

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Publisher

AXP Technical Support Unit

AXP Solutions Sdn. Bhd.

A-3-05, SME Technopreneur Centre 2 Cyberjaya

2260, Jalan Usahawan 1, 63000 Cyberjaya, Selangor, Malaysia

t: 603.8318.8297 f: 603.8318.9297

83A, Jalan Emas Satu, Taman Sri Skudai

81300 Johor Bahru, Johor, Malaysia

t: 607.557.5722 f: 607.557.7697

Malaysia Help Line - 1300.882.297

Contributions & Comments

AXP e-Newsletter welcomes your contributions on contemporary issues encountered by the profession. We also wish to hear from you on how this e-Newsletter can be improved for more timely and useful information.

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