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Malaysia urgently needs to liberalise certain existing rules and regulations if it wants local accountancy practices to flourish and compete globally on a level playing field. With input from Dr Paul Cheng, the writers explore the issue further.

are we ready?

Certain rules and regulations, particularly those relating to partnerships, are inhibiting the expansion of accountancy practices.

Dr Paul Cheng, who has run a very successful accountancy practice, Cheng & Co, Chartered Accountants together with his partners and management team in Malaysia for the past 16 years, personally knows two typical cases where partnership laws have stifled enterprise growth.

In one case, an ACCA member who had successfully obtained his audit and tax agent licenses wanted to set up his own practice but lacked the start-up capital of approximately RM100,000 needed to hire professionals in marketing, administration, human resources, etc. Without capital, one possible solution is to offer these professionals from other fields of expertise a partnership. However, under current rules and regulations, he cannot invite like-minded professionals who are not audit license holders to join his new partnership.

In the second case, a firm had trained an excellent tax manager who is a qualified ACCA and MIA member. The firm wanted to offer him a partnership to expand its tax services but the current rules only allow audit license holders to be admitted as partners. Since the tax manager holds a tax agent license but not an audit license - which he is not interested in obtaining, the rules preclude the firm from offering him a partnership. Eventually, the tax manager left the firm to found his own practice and now competes for the same pool of clients, to the chagrin of the firm which had invested heavily in his training.

In these cases, the rules have suppressed rather than stimulated the growth of the accountancy practices in question.

However, in other jurisdictions, more liberal regulations have enabled accountants and accountancy practices to flourish and add value to their services, sometimes even through diversification into wholly new or unrelated fields. For instance, Dr. Cheng has obtained approval from the Hong Kong Institute of Certified Public Accountants (HKICPA) to be admitted as a director of his accountancy practice in Hong Kong to spearhead business development, even though he is not a HKICPA member. This is a pertinent example of how regulators can facilitate the growth of the firm! Thanks to excellent support from Hong Kong, Cheng & Co has now set up offices in Shenzhen and Guangzhou, China to offer halal consultancy services for their clients in China. They are exporting Malaysian expertise in this field to overseas markets, and tremendously enhancing the economic value of the supply chain.

Can Malaysia take a leaf from Hong Kong's rulebook to relax the regulations that inhibit the growth of firms? Are we ready to match their advanced level of competitiveness in the global arena? We need to ask ourselves these critical questions if we aren't to be left behind.

Challenges to the Accountancy Public Practice

Over the past few years, new and more demanding regulations and standards have been introduced to strengthen the operations and risk management of accountancy practitioners, in areas such as meeting higher stakeholder expectations; increasing investment in marketing, ICT and human capital; adopting fair value accounting; complying with quality control benchmarks, and coping with globalisation. Indeed, the pace of globalisation is so rapid that Dr. Cheng kept reiterating the need to offer quality services to clients as well as the development of effective support systems to deliver these services.

Given these new developments, a partner's technical and financial expertise alone is no longer adequate if he or she is to run an efficient and effective accountancy practice. Instead, firms require sizeable financial resources. The catch? Fund-raising options are limited, since typical firms rely on partners' personal savings and the business's operating cash flow. Bank financing requires collateral. Where the partnership option is concerned, audit firms are further restricted because only accountants with valid audit licenses may be admitted as partners.

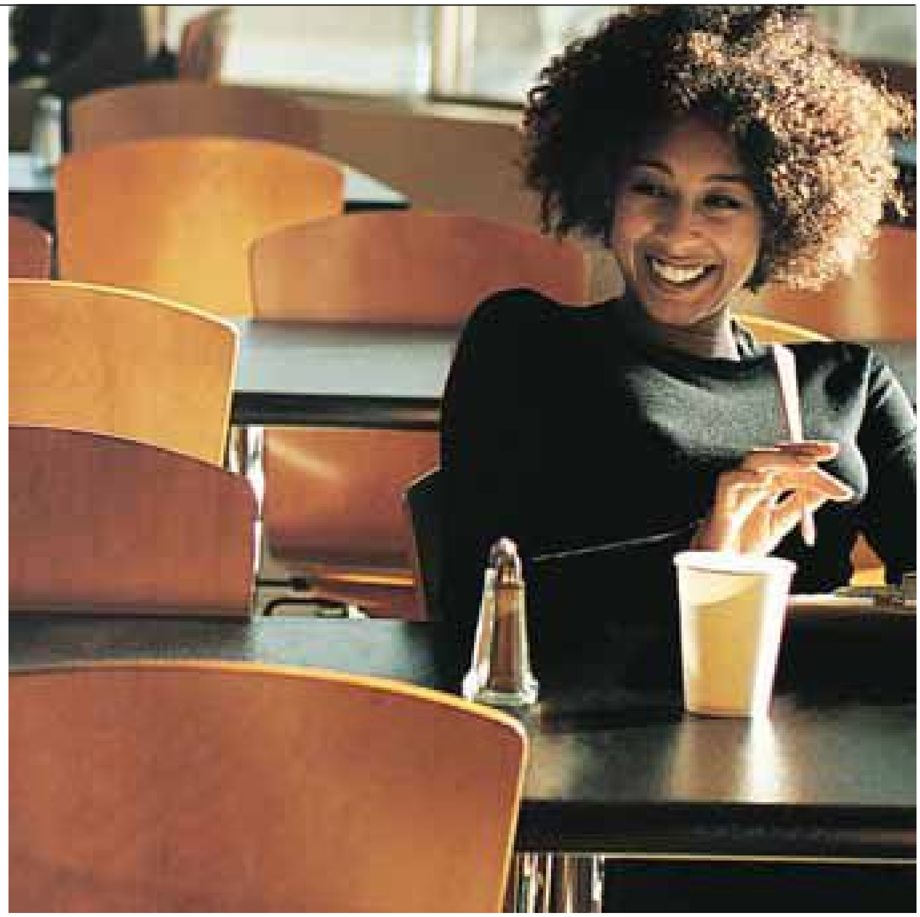
Given the status quo, how can an accountant expand his practice?

Flexible regulations could offer a solution. Specifically, regulations need to enable credible investors who may be non-accountants to invest in accountancy practices. Such investments can provide the much-needed capital to finance practice expansion. However, current legislation does not allow non–accountants to invest in audit firms in Malaysia.

Current Legislation and Rules

The current rules and regulations that govern the composition of partners in accounting firms are spelt out in the Companies Act 1965 and the Accountants Act 1967, Malaysian Institute of Accountants (Membership and Council) Rules 2001. Admittedly, these regulations are very relevant to ensure that all the partners of the practicing firms are members of relevant professional bodies, therefore making them subject to a stringent monitoring process as well as a strict code of ethics. However, given the current challenges and escalating public expectations, can these rules still facilitate partners in running an efficient, effective and reliable professional services firm?

New developments may augur well for accountancy partnerships. In a progressive move, MIA recently initiated amendments to the Accountants Act 1967 to allow the



incorporation of accounting firms, similar to that of tax services providers, pending approval from the relevant authority and Parliament. Some tax services providers now practice as incorporated entities or private limited companies.

However, are we ready to move yet another step forward to allow credible parties to become partners in the accountancy practice? What are the conditions we need to consider to implement such a move?

Going Forward

The time could be right for the accountancy profession to work together with other regulators to revisit these legislations and regulations, taking into consideration the impact of today's globalised environment.

An analysis of other industries, such as the airline and medical fields, could provide a valuable perspective. Do we require pilots to own the airline? Do we require medical practitioners to own the hospital? These industries can grow very fast because capital is injected by investors, and equity is not restricted to capital contributions from a limited pool of qualified professionals. The question then is: how can these firms manage stakeholders' expectations while serving public interests? After all, these industries carry a direct responsibility for the lives of their customers whom they transport and treat. Taking the cue from these two professions

Shouldn't the rules and regulations that govern our profession also be re-examined and revised to better reflect the volatile global conditions under which we operate and the competitive environment we face?

where conditions for ownership have been liberalised, should our profession spearhead a revolution for similar liberalisation? Or should the current scenario be continued, whereby practicing firms are expected to perform excellently and grow aggressively in a tightly controlled environment?

We are not advocating that investment by non-accountants should be a free-for-all. If the regulations are liberalised to allow investments by non-accountants, several measures could be considered to balance the public and profession's interests. Notably, only credible investors should be allowed to hold equity in the practice. The size of their equity interest should be capped to ensure no compromise or trade-off between professional independence and standards. The investors should not take part in the active management of the practice to ensure professional independence. Effective corporate governance practices should be introduced to provide adequate checks and balances and mitigate risks.

In other key areas of our industry, we are actively embracing change, be it in reforms of corporate governance due to financial turmoil or the adoption of fair value accounting to better measure financial value. Shouldn't the rules and regulations that govern our profession also be re-examined and revised to better reflect the volatile global conditions under which we operate and the competitive environment we face? Shouldn't legislation help rather than hinder the development of accountants and accountancy? Are we ready to drive these reforms that can help our businesses grow? ■

Chen Voon Hann is the Managing Partner of CAS & Associates and Wan Nor Azmina Binti Wan Daud, Semi Senior of CAS & Associates. The company is an independent member firm of CAS International, a network of accounting and consulting firms serving a wide range of clients. With more than 250 partners and professional staff from local and overseas firms, the network is supported by international committees, task forces and frequent meetings and seminars, which in turn lead to consistent high standards.