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# In this issue





# IFAC Issues Proposed International Guidance to Help Accountants Improve Internal Control

THE Professional Accountants in Business (PAIB) Committee of the International Federation of Accountants (IFAC) has issued proposed International Good Practice Guidance, Evaluating and Improving Internal Control in Organizations for public comment. The aim of this guidance is to establish a benchmark for good practice in maintaining effective internal control in response to risk, and help professional accountants in business and their organizations create a cycle of continuous improvement for their internal control systems.

"Strong internal control is both one of the best defenses against business failure, and an important driver of business performance. It mitigates risk and adds sustainable value," said Roger Tabor, chair of the PAIB Committee. "We looked at the sort of things that can go wrong with the way organizations apply internal controls, and drew out principles that professional accountants in business can apply to support their organizations in avoiding these problems."

With this proposed publication, the PAIB Committee aims to provide principles-based guidance that focuses on the role of professional accountants in business and how they can support their organizations in evaluating and improving internal control as an integrated part of the organization's governance, risk management, and internal control systems.This proposed guidance can be implemented regardless of the existing internal control frameworks or standards used, as it deals with those internal control issues that are often unsuccessful because of poor implementation and design.

Professional accountants, their organizations, and other interested parties are encouraged to respond to the proposed guidance to help improve its applicability to professional accountants in organizations of all sizes.

How to Comment

The PAIB Committee invites all stakeholders to comment. To access the exposure draft and submit a comment, visit the PAIB Committee section of the IFAC website at www.ifac.org/paib. Comments on the exposure draft are requested by February 29, 2012.

About the PAIB Committee

The PAIB Committee serves IFAC member bodies and professional accountants worldwide who work in commerce, industry, financial services, education, and the public and the not-for-profit sectors. Its aim is to promote and contribute to the value of professional accountants in business by increasing awareness of the important roles professional accountants play, supporting member bodies in enhancing the competence of their members, and facilitating the communication and sharing of good practices and ideas.

About IFAC

IFAC is the global organization for the accountancy profession dedicated to serving the public interest by strengthening the profession and contributing to the development of strong international economies. IFAC is comprised of 167 members and associates in 127 countries and jurisdictions, representing approximately 2.5 million accountants in public practice, education, government service, industry, and commerce.

IFAC NEWS

# Sovereign Debt Crisis Demands Financial Management Reform by Governments

The International Federation of Accountants (IFAC), the global organization for the accountancy profession with members and associates in 125 countries, applauds Europe's focus on resolving the current financial crisis. However, IFAC warns that—in addition to addressing the symptoms—the underlying causes must also be addressed, by reforming governments' substandard financial management practices.

The situation in Greece is only the tip of the iceberg. Substandard accounting, auditing, and financial management led eventually to financial reporting fraud by the Greek Government, and ultimately triggered a market reaction that revealed much more widespread financial fragility in the European public sector, evidenced by the need for bail-outs and increased debt servicing costs. In Germany, the government recently disclosed an accounting error equivalent to 2.6% of GDP. To put the size of that error in context, the cost of Japan's earthquake and tsunami in early 2011 was equivalent to approximately 5% of GDP. That this error was not obvious to Germany's Ministry of Finance is indicative of the general state of government financial management. A similar, though smaller, error reported in the Irish Government's financial statements this week corroborates this negative assessment of the state of public sector financial management.

Fiscal mismanagement in the public sector is not isolated to Europe; it is a global problem. At the core, it stems from political shortsightedness and the inadequate systems that governments use to manage public finances, in particular the use of cash-based accounts in a highly complex financial world.

"The fact that most governments in the developed world pretend they can manage and control their finances using only cash information tells us that something is seriously wrong," said Ian Ball, IFAC chief executive officer. "The cash-based information commonly used for budgeting and accounting is both simplistic and anachronistic, and doesn't come close to accurately describing the complexity of their financial positions. It is a virtual guarantee of financial mismanagement."

"If we asked a typical household to prepare a balance sheet they would include all of their assets and liabilities—including their house and car, loans, mortgages, etc.—not just their cash. If governments ran their health systems without using available modern medical information and technology, they would be held negligent. Yet, in essence, this is what governments do in their financial management. It is easier for them to operate this way, but it is potentially fatal to economic growth and financial stability," added Göran Tidström, IFAC president.

As early as 2007, IFAC stated that it "is concerned that the standards and regulations governing sovereign issuers are not of sufficient quality to protect investors and ensure the stability of capital markets." In 2011, the consequences of poor financial management in the public sector are all too apparent. Consistent with its recent submission to the G-20, IFAC calls for urgent research and action to address this critical, but neglected, component of the international financial system.

IFAC recommends that work should be conducted or commissioned by the Financial Stability Board (FSB), to consider the nature of institutional changes that are needed in public sector financial management to facilitate greater transparency and accountability and to protect the public and investors in government bonds. IFAC believes the FSB should examine reformed fiscal arrangements which include:

- Audited financial statements within six months of year end;
- Budgeting, appropriations, and reporting on the accrual basis;
- Full transparency in fiscal positions ahead of general elections, ensuring that voting is fully informed;
- Independent, audited projections of fiscal position to accompany budgets; and
- Limitations on deficit spending, or at least full transparency around the reasons for deficit spending and explanations of how, over an economic cycle, fiscal balance will be restored.

In calling for financial management reform in governments, IFAC stands willing to assist the FSB or other relevant authorities in bringing about such change.

## About IFAC

IFAC is the global organization for the accountancy profession dedicated to serving the public interest by strengthening the profession and contributing to the development of strong international economies. IFAC is comprised of 164 members and associates in 125 countries and jurisdictions, representing approximately 2.5 million accountants in public practice, education, government service, industry, and commerce.

# TAX CHANGES

Produced by Deepa Kapadia & Earnest & Young

**The following provides a summary of tax changes announced in the 2012 National Budget.**

Please note that at the time the article was sent for publication, the changes announced in the Budget had not been decreed. Accordingly this summary is based on the Budget announcements and further clarifications provided by Fiji Revenue and Customs Authority (FRCA).

<table>
<tr><th>Policy</th><th>Description</th><th>Comments</th></tr>
<tr><td>Corporate tax rate</td><td>Reduced from 28% to 20%</td><td>Effective for 2012 income years and onwards.<br><br>For income tax purposes years ended up to 30 June 2012 are considered 2011 income years.</td></tr>
<tr><td>Company advance tax payments</td><td>Effective 2012, advance tax payment of tax by companies will be increased from 33% to 90% by the end of the current fiscal year as follows:<br><br>
<table>
<tr><th>Due date</th><th>Proportion %</th></tr>
<tr><td>Last day of the 6th month</td><td>30</td></tr>
<tr><td>Last day of the 9th month</td><td>30</td></tr>
<tr><td>Last day of the 12th month</td><td>30</td></tr>
<tr><td>Last day of the second month the following year</td><td>10</td></tr>
</table>
</td><td>It will apply only to companies whose 'year-end' for tax purposes is 2012.<br><br>Companies whose fiscal year for tax purpose is 2011 will still apply the current company advance payment mode.<br><br>Effectively the rescheduled advance tax payments will apply to companies with years ending on or after 1 July 2012.<br><br>FRCA has advised that insufficient advance payment penalties will only apply at the end of the 12th month of the fiscal year end and the second month after the fiscal year end.</td></tr>
<tr><td>Individual tax rates</td><td>Income tax threshold increased from $15,000 to $15,600.<br><br>The marginal income tax rate lowered.<br><br>A Social Responsibility Levy will be applied on full chargeable income, starting at 23% for income tax $270,001 to $300,000; the levy rate will increase by 1% for every income tax band thereafter.<br><br>Refer table below for more details.</td><td>The above takes the effective tax rate up to 49%.<br><br>As a result of the levy being imposed on full chargeable income, an individual earning $270,000 will have the same net disposable income as an individual earning $392,725.45.</td></tr>
</table>

<table>
<tr><th>Policy</th><th>Description</th><th>Comments</th></tr>
<tr><td>Fringe benefits tax (FBT)</td><td>A new FBT regime will be introduced at a rate of 20% in 2012.<br><br>Employers will be responsible for paying and remitting to FRCA the relevant amount.<br><br>Employers must register for FBT and lodge quarterly returns and pay FBT within one month after the end of each quarter.</td><td>Benefits will no longer form part of the employees' emoluments and accordingly will not be subject to tax on fringe benefits. The employer will now pay tax on fringe benefits.<br><br>The amount of FBT payable will be calculated on a grossed up basis as follows:<br><br>$\frac{A}{(1-r)} \times 20\%$<br><br>Where: A is the value of the fringe benefit<br>R is the rate of the FBT (ie. 20%)<br><br>The value (A) will remain the same as that stipulated in Practice Statement No. 30 except for Paragraph 7 of Practice Statement No. 30 which is being amended to read –<br><br>
<table>
<tr><th>Motor vehicle car capacity</th><th>Estimated taxable value per annum</th></tr>
<tr><td>(i) Under 1800 c.c.</td><td>$2,624</td></tr>
<tr><td>(ii)1800c.c. and ← 2000 c.c.</td><td>$3,110</td></tr>
<tr><td>(iii) 2000c.c. and above</td><td>$3,832</td></tr>
<tr><td>(iv) Irrespective of the engine capacity, where the cost of the motor vehicle is over $100,000</td><td>$3,832 per annum plus 10% of the excess of the cost over $100,000.</td></tr>
</table>
<br>FRCA has advised that FBT will not be allowed as a deducted to the employer.</td></tr>
<tr><td>Companies listed on SPSE</td><td>The 40% local equity requirement for foreign incorporated companies listed on the South Pacific Stock Exchange will be removed.</td><td></td></tr>
<tr><td>Accelerated depreciation</td><td>Accelerated depreciation now extended to 2014.</td><td></td></tr>
<tr><td>40% investment allowance</td><td>A 40% Investment Allowance (excluding cost of labour) for extension and renovation expenses will be introduced with a minimum qualifying capital expenditure of $50,000. This will only be available to existing businesses in Vanua Levu.</td><td></td></tr>
</table>

| | | |
|---|---|---|
| Removal of housing interest allowance | The $400 interest allowance on housing normally deductible under the PAYE tax computation will be removed. | |
| Deduction for FNPF employer contributions | Only 50% of the contributions made will be available as a deduction. | |
| Carry forward of tax losses | Carry forward of tax losses will be reduced to 4 years | |
| Transfer pricing | Transfer pricing regulations to be introduced in 2012 | |
| Buying and selling of shares for properties in Fiji | A foreign company which owns land or assets in Fiji cannot transfer ownership of the subject land or assets by way of sale of shares unless sale of those shares are approved by FRCA. | |
| New Income Tax Decree | Will come into effect on 1 January 2013. | |
| PAYE as a final tax | PAYE as a final tax to be effective from 2013. | |
| All taxable allowances (except FNPF) will be removed in line with the reduced tax rates in 2012. | | |
| Presumptive tax | Will be introduced in 2013. | |

### Tax rates - individuals

| Chargeable Income $ | Tax Payable $ | Levy |
|---|---|---|
| 0-15,600 | Nil | |
| 15,601 – 22,000 | 7% of excess over $15,600 | |
| 22,001 – 50,000 | $448 + 18% of excess over $22,000 | |
| 50,001 – 270,000 | $5,488 + 20% of excess over $50,000 | |
| 270,001 – 300,000 | $49,488 + 20% of excess over $270,000 | 23% |
| 300,001 – 350,000 | $55,487 + 20% of excess over $300,000 | 24% |
| 350,001 – 400,000 | $65,487 + 20% of excess over $350,000 | 25% |
| 400,001 – 450,000 | $75,487 + 20% of excess over $400,000 | 26% |
| 450,001 – 500,000 | $85,487 + 20% of excess over $450,000 | 27% |
| 500,001 – 1,000,000 | $95,487 + 20% of excess over $500,000 | 28% |
| 1,000,001 + | $195,486 + 20% of excess over $1,000,000 | 29% |

### Service Turnover Tax (STT)

| Policy | Description | Comments |
|---|---|---|
| Hotel turnover tax (HTT) to be renamed STT | The new STT will also apply to other tourism related services:<br>• Rental car operators;<br>• In-bound tour operators;<br>• Events management operators;<br>• Recreation, entertainment and cinema operators;<br>• Bars and night-clubs;<br>• Bistros, coffee shops and restaurants with annual gross turnover of $1.5 million and above;<br>• All water sports, underwater activities, skydiving, hot air balloon rides, river safaris, aircraft charter or hire, including helicopter with annual gross turnover in excess of $300,000; and<br>• Home stay operators. | STT will apply to the VEP price.<br><br>Service providers are required to register for STT purposes.<br><br>Relevant forms are available on FRCA's website. |

### VAT

| Policy | Description | Comments |
|---|---|---|
| Registration threshold | Registration threshold will increase from $50,000 to $100,000. | |
| Small and mirco enterprises | Small and micro enterprises with annual gross turnover of $300,000 and below will be required to lodge an annual VAT return only. | |
| VAT dwelling house | Reinstate repealed section 70(2) of the VAT Decree to effect the re-introduction of VAT dwelling house claims. The expenditure threshold is $120,000 and limited only to construction of first time residential housing; excludes renovations. | |
| VAT refunds | Expedite payment of VAT refunds within 3 months | |

### Reforms

| Policy | Description | Comments |
|---|---|---|
| Self assessment | Will be introduced in 2013 | |
| Tax penalties | To be increased in 2012. | |
| Gold card system | An incentive system will be introduced for best and compliant taxpayers. | |

## Other New Measures

| Policy | Description | Comments |
|---|---|---|
| Telecommuni-cations levy | A 1% levy will be imposed on all voice call charges. This includes:<br>• Landline phone bills or land line top up cards;<br>• Mobile phone post pay bills; and<br>• Mobile phone top up cards or prepay bills.<br><br>The levy will be collected by service providers and remitted to FRCA on a monthly basis. | All telecommunication service providers are required to charge their customers the Telecommunications Levy at the rate of 1% on all local and international voice call charges. This is to be charged on the VAT exclusive amount.<br><br>Any person operating in the telecommunications industry must register for Telecommunications Levy purposes.<br><br>The telecommunications service provider shall on or before 15 days after the last day of each month, lodge a return in the approved form and pay the levy due.<br><br>Relevant forms are available on FRCA's website. |
| Credit card levy | A 2% levy will be imposed<br><br>The Reserve Bank of Fiji will draw up guidelines for financial institutions for smooth administration of the tax.<br><br>The levy will be collected by the financial institutions and remitted to FRCA on a monthly basis. | With effect from 1 January 2012 all banks are required to:<br><br>(i) Register with FRCA for Credit Card Levy purpose;<br>(ii) Charge its customers a Credit Card Levy at the rate of 2% on any monthly credit card outstanding balance exclusive of interest and other bank charges; and<br>(iii) Lodge a return in the approved form and pay the levy on or before 15 days after the last day of the each month.<br><br>Relevant forms are available on FRCA's website. |
| **Policy** | **Description** | **Comments** |
| Third party insurance levy | 20% levy will be imposed on premiums and remitted by insurance companies on a monthly basis | The third party insurance levy shall be charged at the rate of 20% of the total third party insurance premium collected.<br><br>This is to be effective from 1 January 2012.<br><br>All insurance companies shall be required to register for Third Party Insurance Levy purpose.<br><br>The person liable for the levy shall be the insurance company.<br><br>The insurance company shall on or before 20 days after the last day of each month, lodge a return in the approved form and pay the levy due. |
| Luxury car levy (new and used) | A new customs levy of $7,500 will be imposed on luxury cars of a cylinder capacity exceeding 2,500cc but not exceeding 3,000cc, upon point of sale. This excludes single and twin cabs.<br><br>A new customs levy of $20,000 will be imposed on luxury cars of a cylinder capacity exceeding 3,000cc upon point of sale. | |

SUN INSURANCE

# ACCOUNTING
# at home in developing economies:
## Current practices and implications for the accounting profession

Dr. Acklesh Prasad, Mr. Glen Finau, and Mr. Jale Samuwai, School of Accounting and Finance, The University of the South Pacific

### Introduction

We determine the extent of accounting at home in developing economies in this research. We then consider the role of the accounting profession may have in promoting accounting values at home. A language of business, accounting today plays a fundamental support role within the business community to evaluate the impact past decisions, and foresees directions for future initiatives. Sound accounting practices are fundamental to ensure symmetrical information dissemination across various stakeholders. Accounting literature has sought to investigate a number of questions that attempt to improve the practice of accounting in the corporate world. Equally, we must obtain adequate understanding of how we use accounting in our everyday life, and how accounting could assist the people most affected by the effects of accounting scandals, economic conditions, and corporate collapses.

The definition of accounting suggests that the importance of accounting extends to every aspect of life. One of the most importance aspects is the home or household. The household is the most basic social unit in an economy and has been conceptualized as the driving force of the economy (Boulding 1972). Together with consumption, the household is also a site of production. As a site of production, systems of accounting and accountability emerge and are developed in the household. It is important to understand these systems to determine if they are adequately supporting the decision-making needs of the members of the household and tailor solutions to assist the household. The current economic climate means that accounting is most useful at homes. Households are the most affected by economic disruptions. The effects of economic shocks are even more pronounced for households in developing countries because they do not get the necessary government stimulus and support.

### Accounting At Home – An Overview

Accounting at home relates to the use of accounting calculations such as budgeting and financial planning in a domestic household setting (Walker and Llewellyn, 2000). The household is a basic social unit and its existence and proper maintenance is vital for any economy. Households not only mediate the economic relations of the outside world but also construct internal social hierarchies (Froud et al. 2000). Societies have systems of accounting and accountability for the production and consumption of resources. These systems are divergent across countries and time (Walker and Llewellyn, 2000). The systems diversity ranges from recalling records from memory to more sophisticated systems that employ software packages.

Recognition of the wider cultural and interpretative context of both accounting and the accountant is important (Hopwood 1994). The lay conceptions and discussions of accounting, require more attention since these shape the practices and processes of daily life that infuse and shape the operation and claims of accounting (Hopwood 1994). The increasing commoditisation of household output has created an environment no longer seen as that of consumption but that of production as well. Systems of accounting and accountability emerge in such environment, and there is need to expand our understanding of this environment. This requires important consideration on accounting at home, and requires the use of interdisciplinary perspectives (Llewellyn and Walker, 2000). The study of accounting at home could assist accounting scholars in furthering their understanding of both accounting and culture and what part these calculative technologies may play in cultural shifts and transformations (Jeacle, 2009).

There has been a number investigations of accounting at home, for example in Japan (Komori and Humphrey 2000), Germany (Piorkowsky 2000), and New Zealand (Northcott and Doolin 2000), But, (Walker and Llewellyn 2000) assert that accounting in developed and developing countries are likely to manifest significant differences given the underlying diversities in economic, cultural, legal and social institutions. This means investigating the accounting practices of developing countries will add new understanding to the dimensions of accounting practices in various societies.

Accounting at home studies have focused on communities with a shared heritage. Their focus has been on how community has been preserved and has remained relatively unchanged despite external influences and how communities' resistance to change actually triggers structural transformations of governance and accountability structures. Other themes relate to household accounting and gender such as the role of women in household accounting practices. (Komori 2007) identified that household accounting practices was not only a mechanism of subjugation but also of empowerment. Household accounting practices empowered women as consumers and help build their feminine identity.

There is an important need to shift focus and understand the current accounting at home practices in developing economies. This understanding will provide important directions for promoting accounting at home practices for sustainable livelihood of families in developing economies.  This understanding also has a number of implications for the accounting profession, Governments and Non-Governmental Organizations (NGO's). The majority of households in developing countries have limited access to wealth and their already grim position makes it even more difficult for them to improve their economic standing. While some do, the majority, unfortunately, are caught in a cycle of poverty, which they and their future generations are unable to escape. Part of the reason for this continual cycle of poverty is that households in these countries are unable to accumulate enough wealth to invest in capital assets which either could be used to earn income for the individuals or be resold in the future for a capital gain.

There are many reasons for why individuals may not be able to save, and one is the lack of a proper system of accounting and accountability for income earned by the family members. The lack of accounting systems means that family members do not account for the income they earn and the lack of a system of accountability could mean the income earned from outside and income redistributed within the household would be subject to misuse. Misuse relates to the use of household income for purposes other than intended and used in means that do not improve the living standard of the household nor contribute to household wealth. While this misuse is endemic even for affluent households, the relative impact of the misuse of $1 for poor households is much greater than for a rich household. Therefore, an understanding of household systems of accounting and accountability would be more beneficial to households in developing countries.

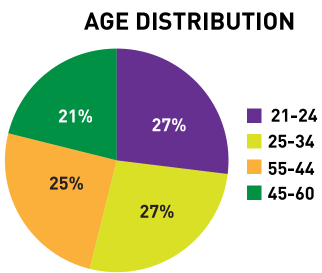
## The Research Approach

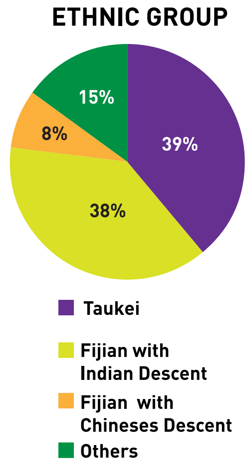
We surveyed 130 households using a fully validated and tested research instrument. Questions in the research instrument focused on prudent financial management and budgeting practices. We also captured basic family/individual demographics information with this instrument. A copy of this research instrument could be obtained from the authors. We then evaluated the non-statistical relationships between various financial management practices and the standings of families.

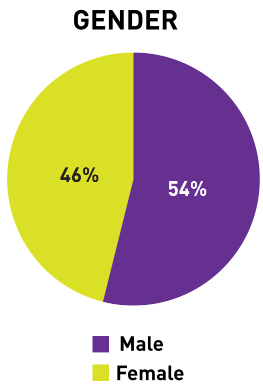
## Our Findings

### Demographics

Demographic details of the respondents surveyed are presented in the graphs below:




The age of respondents is fairly distributed with the majority of respondents falling within the 21-34 categories. This category represented 54% of the sample while respondents from the age category 35 – 60 represented 46%. In terms of ethnicity, iTaukei respondents represented the largest ethnic group in our sample with 39%. Fijians with Indian descent was the second largest ethnic group comprising 38% of our sample. The majority of our respondents were male with 54% representation with female respondents representing 46%. Single respondents represented 62% of the sample, while married respondents represented 38%.

The majority of respondents lived in households which comprised 3-5 people. These respondents accounted for 46% of the sample. Respondents with households comprising 6-8 was the second largest, accounting for 31% of the sample. Respondents from large households (9-10) represented 15% of the sample while respondents from small households (1-2) represented the smallest group with only 8% representation.

## Analysis of Survey Responses

The survey instrument administered had a list of 50 questions. These 50 questions broadly relate to 6 aspects of household accounting. These aspects are Cash Management, Budget Preparation, Record Keeping, Financial Planning, Financial Education, and Household Accountability. We analyzed the survey responses based on these 6 areas. The summary of results is presented in figure 6 below:

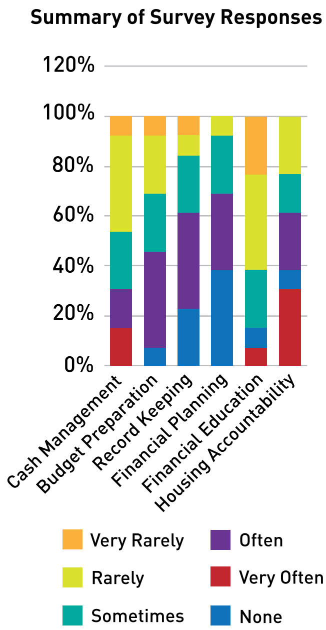



**Figure 6 Summary of Survey Responses**

## Cash Management

This relates to household management of cash on a daily basis. If households were able to save money, make payments on cash and did not borrow to meet daily needs then these households were managing their cash properly. From our survey we found that most households were not able to save money and constantly borrowed to meet daily expenditure requirements.

## Budget Preparation

The responses revealed that a significant proportion of households were preparing their own budgets. 38% of respondents stated that they prepared budgets often, 8% stated that budget were prepared very often while 23% stated that budgets were prepared sometimes.

## Record Keeping

This aspect relates to households keeping records of receipts for expenses incurred, bank statements, credit card statements, bills, etc. Questions were also posed whether households performed checks to ensure they were charged correct prices and if they took action if they found otherwise. Our survey results revealed that households (62%) are maintaining source documents, conducting checks and also taking necessary action for incorrect charges on a regular basis.

## Financial Planning

This aspect relates to long-term financial planning by households for expenses such as children's education, overseas holiday, capital investments and also preparing for retirement. The survey revealed that most households (69%) were taking active steps towards long-term financial planning.

## Financial Education

This aspect relates to households undertaking forms of financial education such as attending financial literacy seminars, keeping up to date with financial news and seeking advice on financial matters. Our survey finds that most households (62%) are not educating themselves on financial matters. The issue could not only be with relation to households but the lack of financial education opportunities available in Fiji.

## Household Accountability

This last aspect relates to internal household accountability for the usage of household income by family members. Our survey reveals that household accountability is not common in Fiji. Survey responses indicated that most Fijian households do not require accountability from family members for expenditure. This aspect could be culturally engrained within the Fijian community.

## Accounting at Home Habits and Financial Security

Our analysis of the relationship of the various factors showed that families that prepare regular budgets, keep a tab on their expenses, plan their purchases, manage their savings are able to meet their credit obligations on a timely basis. These households are also able to move up from recurring commitment (e.g. renting a house) to fixed commitments (e.g. purchasing a house, or cash purchases of white goods). Families that engage in the above prudent financial management practices also avoid themselves from borrowing obligations. Households that engage in prudent accounting at home practices are confident in managing their retirement. The data indicates that these households prefer to self-manage their superannuation (obtain a lump sum FNPF), and also have some form of insurance protection. Families that do not practice the basic financial management planning continue to entangle in the vicious cycle of poverty. These households are unable commit to feasible buying options (e.g. bulk and cash purchases) and tend to consolidate their debts or credit obligations.

## Implications for the Accounting Profession

The accounting profession must accept a wider set of responsibilities. One of the important components of this wider responsibility, perhaps, is the need to educate accounting to the wider community in a non-formal arena. The importance of non-formal education (NFE) is rife today, and the state of accounting in the society profession demands the profession to channel sound home-oriented accounting knowledge through NFE. There is an important need for the profession to establish the association between the financial health of the household and its implications on the economic welfare of the corporate sector. The eventual health of the corporate sector, in many ways, originates from the financial health of the households. The profession has a critical need to align its moral and social responsibilities to foster the viability of this important channel.

This initiative would not pose challenges to the accounting profession. The professional has established a sound mechanism to up-skill its members with various meets. There is a pressing need to replicate this effort with the wider community. The proliferation of IT-based communication technologies provides an important impetus to the proposed initiative. Mobile devices can act as the initial platform to share financial management knowledge to the community. The digital face – the websites – would act as an ideal portal of community knowledge on sound financial management. The profession has the capacity to take a rotary approach to widen its net of social responsibilities. The established learning institutions (school, vocational settings, and tertiary) are the ideal setting to take this important initiative in a non-formal setting.

## Conclusion

Accounting at home is a critical element in promoting a vibrant economy in any environment. The households of the developing markets are especially vulnerable amid turbulent economic environments. This is because the national social security structures of these economies are weak to aid in absorbing the shocks of these environments. Our study reveals that the understanding on the importance of sound accounting at home in our society is limited. The roles of the accounting profession in promoting this understanding could act as an important catalyst to encourage households to exercise restraint and discipline with their daily financial commitments. This effort is especially pertinent in an environment where economic pressures put a strain on the value of the dollar, or where national initiatives that put more dollars in the pocket. A proactive stance of the accounting profession to address this situation is an important necessity to demonstrate households on ways to leverage the available opportunity, or to ready themselves for a potential challenge.

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# Corporate Governance
## at Fiji National Provident Fund

Dharmendra Naidu and Arvind Patel

### Introduction

Fiji National Provident Fund (FNPF) has recently made major reforms to its governance structures and pension schemes. Many of these changes were long overdue and necessary for the survival of the FNPF. The FNPF is a Fiji Government legislated pension scheme and the Fiji Government determines its governance structure. The extant literature discusses corporate governance as internal and external governance structures. Internal governance structure consists of ownership structures, board mechanisms and auditing. External governance structure comprises of institutional ownership, securities market regulation, market control and competition, creditor monitoring and protection and legal protection.
Pension Funds in small Pacific Island Countries are by the very nature of size, small, thus facing problems of viability. This is the reason for the existence of only one pension fund in most of the Pacific Island Countries and why governments need to take charge of managing pension funds. However, one major problem of only one pension is the lack of competition and low market control over corporate governance.

The recent attempt to stream line governance structures and pension schemes are for the benefit of the future generations and greatly supports the low and middle class wage earners. The reforms are very timely and on-going.

The FNPF has many corporate governance structures in place, including a board, audit and risk committee, external auditors, internal audit and a corporate governance unit.

### Internal Corporate Governance

The governance structure is most crucial for the performance of any organisation and FNPF is no exception. FNPF was established by parliamentary act and is managed by a board of directors. The composition and appointment of the board of directors is part of the FNPF Act (FNPF 2006). The Minister of Finance appoints all six directors, two employer, two employee and two Government representatives, and the chairman of the Board. The chairman has been a Government nominee for the last seven years. The current chairman comes from the private sector which indicates that the current government is willing to appoint neutral board members. The recent reforms have been directed to changing the board composition. These details are not yet available but the general impression of the current board composition is not positive. There are only six board members, not enough for a broad representation and the chairmanship is appointed by the government. For a greater level of independence in board representation, the number of members needs to be increased and the chairman should be appointed by the board members. An option to get a few board members to be appointed by the members of the FNPF at an annual meeting would also greatly increase transparency.

### Board Committees

The many responsibilities of the Board are divided into board committees which are formed to engage in each specific task. For instance, audit and risk committee is formed for the purpose of monitoring the financial reporting process (Laux and Laux 2007). At the beginning of the financial year, 2006, the Fund adopted the Reserve Bank's Policy Statement No. 1 which included "the formulation and approval of Board policies and procedures, formation of Board Committees and their Charters and the appointment of six Board Committees (FNPF 2006). The committees formed are Nominations, Investment, Audit and Compliance, Risk and Strategy, Human Resources, and Information and Communications Technology committee. Each committee has approximately three members and meetings vary from one to seven in a financial year. Later the Board committees were condensed into four committees by combining Audit and Compliance and Risk and Strategy into one committee and discontinuing the Nominations committee (FNPF 2011).

The nominations committee was "established to assist the Board in developing processes for the evaluation of the performance of the Board, Chairman and individual Directors, Board Committees, as well as the appointment of the CEO, the selection of the Board Committees and FNPF nominees for Boards of the subsidiaries of FNPF" (FNPF 2006). The functions of the nomination committee are now consolidated with other committees thus reducing some element of independence in several nomination processes. Moreover, the human resources committee advises the Board on "human resources issues including the remuneration and incentive package policies of Senior Executives who report" to general managers and CEO (FNPF 2006). Several corporate governance guidelines highlight the importance of a separate and independent compensation committee which is responsible for setting the higher managements' remuneration.

## Auditing the FNPF

Auditing, both internal and external, is also a very crucial corporate governance mechanism. Internal audit function provides an assurance and consulting service to improve the effectiveness of risk management, control and governance processes (Institute of Internal Auditors 2011). It also facilitates the effective operation and functioning of the audit committee (Goodwin 2003). The Fund has an internal audit team and is committed to implementing its recommendations. Approximately 68 percent of the audit recommendations have been implemented and the remaining 32 percent were in the process of being implemented in 2011 (FNPF 2011).

External audit performed by large audit firms (Big 4) is considered to be more effective and of higher quality than smaller audit firms (Kim et al. 2003). Larger audit firms have more resources, expertise and greater incentive to protect their reputation (Krishnan 2003). The Fund has been audited by KPMG from 2005 to 2009 and PWC since 2010. A qualified audit report was issued for 2007 and 2008 financial years. However, the perception of the public in the audit of FNPF is not positive. This was clearly echoed by our Prime Minister in the recent Fiji Institute of Accountants Congress in 2010, where he stated that "the then FNPF board and management continued to misrepresent its books to the people, didn't the auditors rather than simply draw it to the attention of their clients have at the very least a moral obligation to disclose such matters to the media, public officials and the public? After all FNPF represents our largest domestic holder of our national savings and our future" (Baselala 2010).

One of the most long standing issues in external audit has been the supply of non-audit services to audit client companies. There has been a view that external auditors are in fact captured by the client company when external auditors earn significant amounts through supply of non audit services, thus impairing the perception of auditor independence. Suggestions have been made many times to amend laws to disallow accounting firms from providing both auditing and consulting services to clients they audit. Proposals by Securities and Exchange Commission in the US had been unsuccessful in the Republican-controlled anti-regulatory Congress until the Enron debacle. This provided accounting firms like Arthur Anderson a green light to engage in an array of wide-ranging conflicts of interests, which led to the demise of the accounting firm.

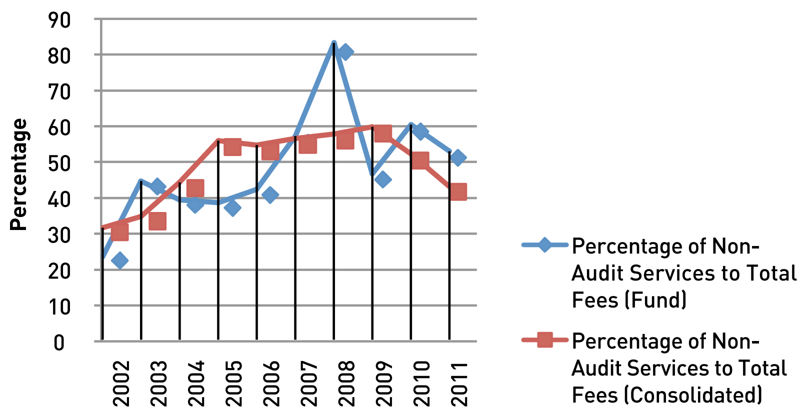
The FNPF's annual accounts indicate that external auditors earn significant income by supplying non-audit services. Table 1 and Figure 1 present the amounts earned by FNPF's external auditors.

**Table 1: Value of Audit and Non-audit services provided by FNPF's External Auditors**

| YEAR | 2002 $000 | 2003 $000 | 2004 $000 | 2005 $000 | 2006 $000 | 2007 $000 | 2008 $000 | 2009 $000 | 2010 $000 | 2011 $000 |
|---|---|---|---|---|---|---|---|---|---|---|
| Audit Services (Fund) | 24 | 25 | 26 | 27 | 29 | 29 | 32 | 34 | 95 | 78 |
| Non-Audit Services (Fund) | 7 | 19 | 16 | 16 | 20 | 36 | 134 | 28 | 134 | 82 |
| Total Fees | 31 | 44 | 42 | 43 | 49 | 65 | 166 | 62 | 229 | 160 |
| **Percentage of Non-Audit Services to Total Fees (Fund)** | **23** | **43** | **38** | **37** | **41** | **55** | **81** | **45** | **59** | **51** |
| Audit Services (Consolidated) | 89 | 115 | 139 | 149 | 262 | 218 | 227 | 263 | 318 | 305 |
| Non-Audit Services (Consolidated) | 39 | 58 | 104 | 176 | 295 | 264 | 289 | 362 | 324 | 218 |
| Total Fees (Consolidated) | 128 | 173 | 243 | 325 | 557 | 482 | 516 | 625 | 642 | 523 |
| **Percentage of Non-Audit Services to Total Fees (Consolidated)** | **30** | **34** | **43** | **54** | **53** | **55** | **56** | **58** | **50** | **42** |

**(Source: FNPF Annual Accounts)**

**Figure 1: Percentage of Non-Audit service fees to total fees**




The large non-audit service to total audit fee ratio raises concerns for auditor independence. In the absence of any financial regulation in Fiji for the provision of non-audit services by audit firms, the FNPF audit committee should sanction a limited amount of work that can be conducted by the FNPF external auditors. The general international guidelines indicate an aggregate amount of less than 5% of the total amount of revenues to the audit firm during a fiscal year. The International Federation of Accountants makes special reference in its code of professional conduct to situations where auditors will need to evaluate the circumstances under which non-audit related work should be accepted (International Federation of Accountants 2005). The Fiji Accountant's code of professional conduct clearly states that auditors should not engage in any non-audit related services where independence is likely to be impaired. There is however, no regulation in place that dictates to what extent and how external auditors in the Small South Pacific Islands should provide non-audit services.

Table 1 indicates that non-audit services provided by the FNPF external auditors are far in excess of what is internationally considered acceptable. This situation has the possibility of impairing the objectivity and independence of the FNPF external auditors.

It is apparent that overall governance climate and the financial regulatory environment within which the FNPF operate are less than optimal. Urgent radical reforms in financial regulations are needed to safeguard the hard-earned monies of the employees before we face financial scandals like Enron. While large countries like the US have been able to sustain the economic impact of the demise of entities such as Enron, for a Small Pacific Island Country, a disaster at FNPF would mean economic death.

## External Corporate Governance at FNPF

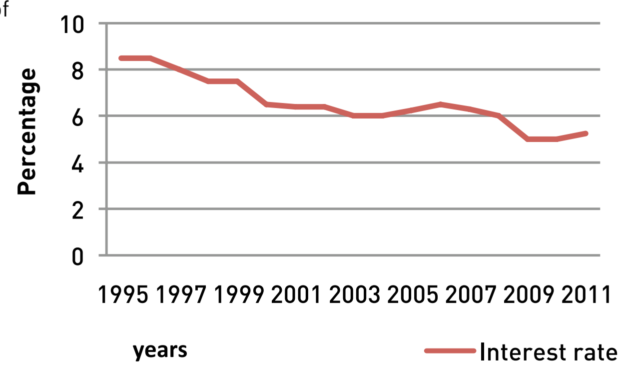
The institutional ownership, securities market regulation, market control and competition, creditor monitoring and protection and legal protection provide the strength of external governance. FNPF is not listed on any stock exchange and thus no securities market regulation is applicable. Also, FNPF is the only pension fund in Fiji implying no competition and market control to ensure that market forces would lead to efficient and effective governance practices. Moreover, FNPF is able to accumulate significant amount of funds from the contributions which is compulsory. It does not rely on major borrowings. Hence, creditor monitoring is also irrelevant. Hence, the only corporate governance mechanisms available to FNPF are the board and the external auditors. Some suggestions have been made for improvement of these mechanisms.

Second, the Reserve Bank of Fiji (RBF) provides a supervisory monitoring of the Fund. "Meetings were held to facilitate the Fund's compliance with the requirements of Reserve Bank of Fiji under the Prudential Supervision Policy Statements" (FNPF 2011). In 2008, the RBF conducted an on-site examination "which focused on the assessment of the effectiveness of the Fund's oversight functions in mitigating the inherent risks for investments, assets and liability management, contributions and benefit payments" (FNPF 2008). From three on-site examinations, RBF made 147 recommendations from which over 70% have been implemented. "The recommendations included corporate governance issues, investments, operations and oversight functions" (FNPF 2008).

## Conclusion

Figure 2 provides the interest rate credited for the last one and half decade. The gradual decline in interest rates indicates that the members are slowly experiencing a decline in their pension wealth. The decline in earnings can be attributed to many factors including poor management and unrealistic pension schemes. The recent reforms at FNPF to address its corporate governance mechanisms and pension schemes are a very positive development and must continue for the survivability of FNPF. While some members of FNPF may feel that their pension contract with FNPF is not being honoured, they must consider the livelihood of future generations, including their own. In the wake of the global financial crisis, many countries are facing similar predicaments and self sacrifice is needed. This is the message of the current administration in the current FNPF reforms.

**Figure 2: Interest Rate accrued to Members for the last one and half decade.**

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# Pension Reform Fact Sheet

Provided by FNPF

The new FNPF Act will become effective on March 1, 2012 and FNPF will introduce a number of changes that will give all our members the opportunity to take control of their pension and build an even better retirement for themselves, their children and their children's children.

## The Key Changes

The new FNPF Decree will become effective on 1 March, 2012, with a transitional decree to cover the period from the current Act to the new decree.

A new age-based, actuarially sound pension rate will be implemented on 1 March, 2012 for all our members.

Current pensioners will be given the option to receive a refund of the initial amount they had converted to pension and take it as a lump sum, or choose one of FNPF's new pension options - Life Pension or Term Annuity.

If a Life Pension is chosen by one of FNPF's current pensioners, they will also have access to a top-up option that ensures that they are supported in retirement.

## How a refund works

David Sigavou converted $5,000 for his pension at a rate of 25 per cent when he retired in 1985. Sigavou will be refunded $5,000. His neighbor Rajend Lal converted $15,000 at a rate of 15 per cent in 2006, FNPF will refund Lal $15,000.

## The new FNPF options

Upon receiving their refund, current pensioners will be able to choose one, or a combination of the following options:

| OPTION | HOW IT WORKS | BENEFITS |
|---|---|---|
| Lump Sum | • The pensioner receives his/her pensionable amount in one sum, from March 1, 2012 | • Able to choose how this money is used. |
| Life Pension | • Regular monthly payment until death | • All pension payments are tax free |
| | • Two Types:<br>• Sole Pension - stops upon the death of the pensioner and/or<br>• Joint Pension - payment continues after the death of the pensioner to the spouse of the pensioner at the start date (NOT a subsequent spouse) | |
| | • Top-up applies | |
| | • 5 year guarantee | |
| Term Annuity | • This is a regular monthly payment for a fixed term of 5, 10 or 15 years | • Flexibility |
| | • Different rates for each term | • All payments are tax free |
| | • Payments guaranteed for the end of the fixed term.<br>• Nominee can apply to have remaining installments exchanged for a lump sum, at a rate set by FNPF after taking actuarial advice. | |

The new Life Pension rates

As you would see from these rates, the later one decides to take a Life pension, the higher the rates. Rates are outlined in the tables below:

| AGE | SINGLE | JOINT | AGE | SINGLE | JOINT | AGE | SINGLE | JOINT |
|---|---|---|---|---|---|---|---|---|
| 55 | 8.7% | 7.5% | 60 | 9.6% | 8.0% | 65 | 10.8% | 8.8% |
| 56 | 8.9% | 7.6% | 61 | 9.8% | 8.1% | 66 | 11.1% | 9.0% |
| 57 | 9.0% | 7.7% | 62 | 10.0% | 8.3% | 67 | 11.4% | 9.2% |
| 58 | 9.2% | 7.8% | 63 | 10.3% | 8.4% | 68 | 11.7% | 9.4% |
| 59 | 9.4% | 7.9% | 64 | 10.5% | 8.6% | 69 | 12.1% | 9.7% |

*Rates up to age 100 are also available*

## How a Life Pension works

John Saike turns 55 and will retire on 23 March, 2012. His initial pension amount is $30,000. Based on the above, John's pension rate will be 8.7%. Therefore, he will receive $2,610 per year ($217.50 per month). The Fund will guarantee this pension for the first five years, meaning that if John passes away in that period, the Fund will pay out the remaining installments to his nominee.

## The Term Annuity rates

For a Term Annuity, the lesser time one decides to stay with the FNPF, the higher the rates. Below are sample rates; actual rates depend on market conditions. Rates for 1st March 2012 will be calculated and announced mid-February 2012.

| Term | Rate |
|---|---|
| 5 yrs | 21% |
| 10 yrs | 12% |
| 15 yrs | 9% |

## How a Term Annuity works

John Saike turns 55 and had retired in 2000. His initial pensionable amount was $30,000 and come 1st March 2012 decides to convert this full amount to a 10 year

## Term Annuity.

Based on the above (which are likely to change), John's pension rate will be 12%. Therefore, he will receive $3,600 per year for 10 years only ($300 per month). The Fund will guarantee this pension for the duration of the Term, meaning that should John pass away 4 years into the 10 year term, the Fund will pay out the remaining installments to his nominee.

## How will the top-up work?

The top-up will be applied to those who convert their full lump sum refund to a Life Pension. The categories are as follows:
Category 1: Pensioners who receive a monthly pension of below $100 will be brought up to receive $100 a month under the new rates. Some of these pensioners currently receive as low as $5 a month.
Category 2: Pensioners whose income is between $100 to $300 per month will have their pension income protected and will continue to receive the same amount as they are currently.
Category 3: Those who receive over $300 per month will be offered the best of two options – that is to choose a new pension of $300 per month or a top-up of 25 per cent of their refund capped at $10,000 to be applied on the purchase of new life pension.

## How will a Top-up work

**Category 1**

Pensioner A had $6,000 in his FNPF account converted to pension when he retired in 2007 at the 16% conversion rate. He is currently 60 years old and receiving $80.00 per month. He now wishes to apply his full lump sum refund to purchase a new Life Pension.

Step 1: Sole Pension
Step 2: Age 60; Rate: 9.6%
Step 3: Calculation is based on the new pension rate as at
1st March, 2012. Calculation is as follows:
- 9.6% of $6,000 = $576.00 per annum
- Payable at $48.00 per month
- A top-up of $52.00 will bring Pensioner A's new monthly pension income to $100.

**Category 2**

Pensioner B had $21,000 in his FNPF account converted to Sole Pension when he retired in 2007 at the 16% conversion rate. He is currently 59 years old and receiving $280 monthly pension. He wishes to apply the full amount of the refund to purchase a new Life Pension.

Step 1: Sole Pension
Step 2: Age 59; Rate 9.4%
Step 3: Calculation is based on the new pension rate as at
1st March, 2012. Calculation as follows:
- 9.4% of $21,000 = $1,974 per annum
- Payable at $164.50 per month
- A top-up of $115.50 will bring Pensioner B's monthly pension income to $280 (his current monthly pension).

**Category 3**

Pensioner C, who is 80 years old, had $19,200 in his FNPF account converted to pension when he retired in 1989 at the 25% conversion rate. He is currently receiving a $400 monthly pension. He wishes to apply the full amount of the refund to purchase a new Life Pension.

Step 1: Sole Pension
Step 2: Age 80; Rate 16.9%
Step 3: Calculation is based on the new pension rate as at
1st March, 2012. Calculation as follows:
- 16.9% of $19,200 = $3,244.80 per annum
- Payable at $270.40 per month

There are two options for Top-up benefit

Option 1:
- A top-up of $29.60 will bring Pensioner C's monthly pension income to $300 per month

Option 2:
- Top-up = 25% of PA ($19,200) capped at $10,000 = $4,800
- Annual Pension = $4,200 per annum

Monthly Pension = $350 per month

Rates applied to the Top-up are actuarially-tested, but unlike the new pension rate does not include the 5 year guarantee (i.e. the Top-up portion of your monthly pension is not guaranteed).

Pension Options to choose from
(i) Sole Life Pension
(ii) Joint Life Pension
(iii) Part Sole Life Pension, Part Joint Life Pension
(iv) Part Lump Sum, Part Sole Life Pension
(v) Part Lump Sum, Part Joint Life Pension
(vi) Part Lump Sum, Part Sole Life Pension, Part Joint Life Pension
(vii) Full Lump Sum
(viii) Term Annuity for 5 years, 10 years or 15 years
(ix) Part Lump Sum, Part Term Annuity
(x) Part Life, Part Term Annuity
(xi) Part Lump Sum, Part Life Pension, Part Term Annuity

Other combinations of Life Pension, Term Annuity and Lump Sum are also available.

# Pension Reform Fact Sheet FAQs

### Why has the Fund introduced changes to the pension scheme?

Changes to the scheme have been absolutely necessary to ensure that the Fund remains sustainable in the long-term; and our current and future pensioners and members have the pension they deserve in retirement.

In its current form, the contributions from pensioners on their retirement, as well as the interest gained from investments, was far less than what we were then giving out to our pensioners each month. This is why we had to change. The new scheme is fair for everyone and the best thing for Fiji as a nation.

### What are the key reforms?

The new FNPF Decree will become effective on 1 March, 2012, with a transitional decree to facilitate the transition from the current Act to the new decree.

A new age-based, actuarially sound pension rate will be implemented on 1 March, 2012.

Current pensioners will be given the option to take a lump sum refund of the principal amount they had converted to pension, or to choose one of FNPF's new pension options - Life Pension or Term Annuity.

If a Life Pension is chosen by one of FNPF's current pensioners, they will also have access to a top-up option that ensures additional support in retirement.

### What is the difference between a Life Pension and Term Annuity?

A Life pension is a regular monthly payment paid out to the pensioner until he/she dies.

It can be a single or joint pension. Different rates are applied for single and joint.

A Term Annuity is a regular monthly payment for a fixed term of 5, 10 or 15 years. Different rates apply for different terms.

Current pensioners who convert their full lump sum return to a Life Pension will also receive a top-up.

### How will the top-up work?

The top-up will be applied to those who choose to apply all their refund for a life pension under the following situations:

**Group A:** Pensioners who receive a monthly pension of below $100 will be brought up to receive $100 a month under the new rates. Some of these pensioners currently receive as low as $5 a month.

**Group B**: Pensioners whose income is between $100 to $300 per month will have their pension income protected and will continue to receive the same amount as they do currently.

**Group C:** Those who receive over $300 per month will be offered the best of two options – that is to choose a new pension of $300 per month or a top-up of 25 per cent of their refund capped at $10,000 to be applied on the purchase new life pension.

### Why have the rates reduced for the Life Pension?

Changes to the scheme have been absolutely necessary to ensure that the Fund remains sustainable in the long-term; and our current and future pensioners and members have the pension they deserve in retirement. For many years, FNPF has been providing pension on an unsustainable basis.

### How long do I have to make my decision?

Our current pensioners must speak to a Pension Counselor and make their decision by February 29, 2012.

### Will the new FNPF option I choose become effective immediately?

No. All new options will come into effect on March 1, 2012. All pensions will remain the same until the changeover date.

### What happens if I am due to become a Pensioner in the transition period?

Any member that becomes a pensioner during the transition period will be part of the current scheme. They will then also receive a lump sum payment when the new pension scheme becomes effective on March 1, 2012. This lump sum will be the initial amount the member converted to pension, minus the pension that has already been received since they became a pensioner. This group will not be eligible for the top-up.

For example, if David Sigavou became a pensioner on January 1, 2012 with $50,000, he will receive his monthly pension at the rate of 15%. On March 1 2012, David will be provided with a lump sum that is $50,000 minus the payments he has received since January 1, 2012.

### As a pensioner, what do I have to do?

All pensioners around the country will need to see a personal FNPF Pension Counselor, to verify their account and access their refund. These Counselors will be available at any FNPF Agency or Branch. When you go to visit a Counselor, please bring the following documents:

- FNPF Pension Identification Card or FNPF Membership Card. In the absence of an FNPF ID, a passport or drivers license
- Birth Certificate
- Marriage Certificate (female pensioners who changed their names after marriage)
- Death Certificate (only for pensioners who qualified for the scheme after the death of their spouse through a joint pension option.
- Pension Counselors will also be able to help them decide how best to structure their pension.

# Simple as ABC?

## An examination of Activity Based Costing (ABC) implementation in Fiji.

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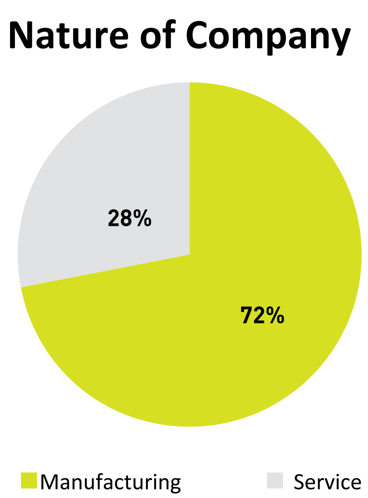
### Introduction

We review the level of Activity Based Costing (ABC) in Fiji in this article. This exercise is important in furthering our understanding of the use of ABC in Fiji.
ABC is a popular costing system and strategic tool for organizations in developed countries (Chenhall and Langfield-Smith 1998). However, little is known about the benefits and challenges of implementing ABC in developing countries. Such an understanding could stimulate discussion on the development or modification of ABC to suit developing country circumstances. The article also has a practical objective in informing and education organizations in Fiji regarding the benefits and challenges of ABC implementation in Fiji and also provides practical suggestions for improving and easing the implementation of ABC.
Activity Based Costing (ABC) is a costing system that provides more accurate costs for entities that have a diverse range of products or services (Turney 1996). ABC achieves this by assigning overhead costs in a detailed manner than conventional costing systems. By utilizing a more accurate costing system such as ABC, companies will be able to make better strategic decisions on product pricing, product continuation and product mix (Anderson et al. 2002).
Despite the benefits of ABC, conventional costing systems are still widely used (Cotton et al. 2003). The main reason for this is that implementing ABC is an expensive exercise (Clarke et al. 1999). ABC requires in-depth discussion and analysis of costs to identify activities in the manufacture of the product or delivery of the service. The identification of activities is not conducted only amongst the accountants and management but consultation is also conducted with all employees involved in the production process. This process involves the collection of significant volumes of cost data. This data would then need to be categorized by activity and then allocated to each product or service based on an activity driver. Since companies use the conventional costing systems and so using ABC would require accountants to be trained or for consultants to be engaged to assist in the implementation process.
Implementation of ABC thus can be a complex process that would require significant resources such as time, money and expertise. Thus, organisations perceive that the benefits of ABC do not outweigh the costs.
ABC is not for every entity. The choice of a costing system for an entity is determined by a number of factors such as nature of the entity, level of industry competition, product diversity, to name a few (Anderson et al. 2002). Overall, the choice of costing system depends on the level of information managers require to make decisions. For managers who require detailed cost information, ABC is better than conventional costing systems because ABC provides more detailed information on the consumption of overhead by each product or service.

### The Study Approach

Data collected for this article was conducted through a phone survey. The authors called companies and requested to speak to the management accountant. The authors then asked the management accountant if he/she would be willing to participate in the survey and assured him/her complete anonymity. The authors called 112 companies, of which 66 agreed to be interviewed but 16 companies requested more time to prepare or to seek further approval. Due to time limitations, the authors decided to conduct the survey only with the remaining 50 companies.
As the survey and interviews were conducted by telephone, interviews could not be recorded; however, the authors took notes and recorded important quotes for later analysis.
Entities selected for the telephone interview are medium to large entities with a diversified product and service range. These companies are those as stated by the literature that would benefit the most from ABC (Abernethy et al. 2001).
Questions asked to the management accountant related to whether or not they had implemented ABC in their entity. If entities had implemented ABC then questions will be posed regarding the reasons for adopting ABC and the benefits realized. If entities had not implemented ABC, then questions will be asked relating to why ABC was not implemented.
From the 50 companies surveyed 72% were in the manufacturing industry and 28% were in the service industry. This data is presented in figure 1 below:

Figure 1: Nature of Company



### ABC Implementation Rates

From the 50 companies surveyed, 46 (92%) companies employed conventional costing systems. Only 2 (4%) companies employed “Full ABC”, 1 (2%) company had a unique system which integrated ABC and conventional accounting systems and 1 (2%) company was in the process of transitioning to ABC.

We define full ABC to differentiate it from the hybrid costing system employed by one company from our sample. The development of different costing systems is normal in companies as management accounting systems will evolve based on the nature of the entity and its products or services. The company that we have classified as “Partial ABC” did not actually know that their costing systems had elements of ABC. The company had identified activities and created cost pools but instead of allocating costs to their services by activity drivers, the company had allocated based on only one volume-based driver. The costing system was like ABC in that activities were identified and costs pooled to these activities but was like conventional costing systems in that there was only one drive based on volume. As such we classified this company as “Partial ABC.”

The two companies that employ ABC had similar reasons for using ABC. The reasons were that the two companies had international shareholdings and their overseas branches used ABC. The systems used in the Fiji branch are based on the overseas branch’s system.

When asked whether they perceived benefits from ABC, one of the accountants stated the following:

“Using ABC allows us to better measure the costs of producing one product. We use a lot of machines in our production process and thus our overheads are significant. Under traditional costing systems, some of our products would have been underpriced while others would have been overpriced. ABC provides a better reflection of resource consumption in the production process and assists senior management in making more informed decisions.”

Despite, the benefits perceived by these two companies, the results presented in figure 2 below show that an overwhelming majority of companies in Fiji employ conventional accounting systems.

**Figure 2: Level of ABC**

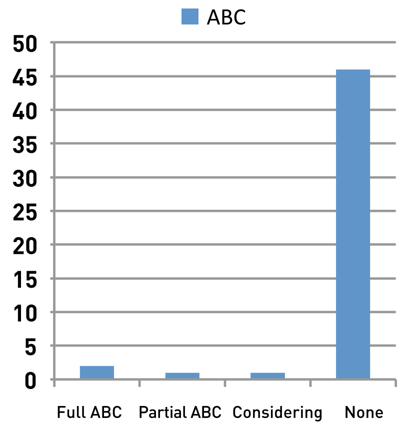



Figure 2: Level of ABC

### Reasons for non-adoption

Companies that did not employ ABC were then asked as to the reason for not employing ABC. The four major responses and their frequencies are presented in figure 3 below:

**Figure 3 Reasons for non-adoption**

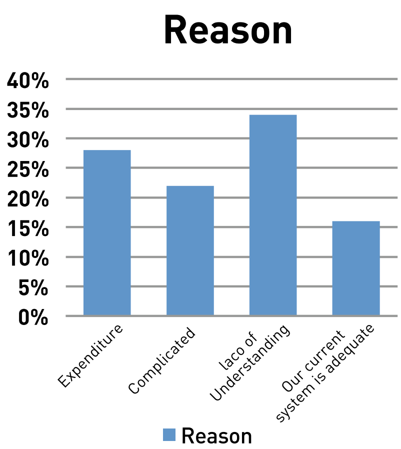



Figure 3 Reasons for non-adoption

The major reason was a lack of understanding of ABC and its potential benefits. One respondent stated:

“The last time I heard of ABC was during my studies. I have even forgotten what it means or how it works.”

Others had not even heard of ABC. The lack of knowledge and understanding, accounts for 34% of companies that have not adopted ABC.

The second major reason relates to cost. 28% of companies stated implementing ABC would require too much time and money. One respondent stated:

“Bringing ABC would be too costly. We have to collect too much data and analyze it. This would take up too much time and might distract workers from their core functions. I then have to verify whether the data collected is accurate as well. This will take too much time for me. Also cost of producing goods keeps on changing, by the time, I have collected all my cost data, the cost of fuel, electricity, etc have increased and all the data I have collected is useless.”

Other reasons included complexity of ABC which accounted for 22% and the remaining 16% had a “if it’s not broken then don’t fix it” approach. This 16% perceived their current costing systems to be working adequately and did not believe that a change in costing system was required.

### Suggestions for Companies

From the analysis, we find that companies are still reluctant to adopt ABC even though it could have the potential to provide more meaningful data for informed decision making. By analyzing the responses from companies who have not adopted ABC, we provide the following suggestions for companies who may be contemplating on using ABC in some form:

1.) One of Strategic Decision Making Tool
ABC does not need to replace a company’s cost management system. For most companies, ABC is a supplement to their current costing system. ABC is a strategic tool, which can be used once a year or when there are significant changes in the cost of materials, labour or overhead used in the production process. While it may be costly even to implement infrequently, the cost should be viewed as an asset as it could lead to more informed decisions which could translate to improved profitability in the long run.

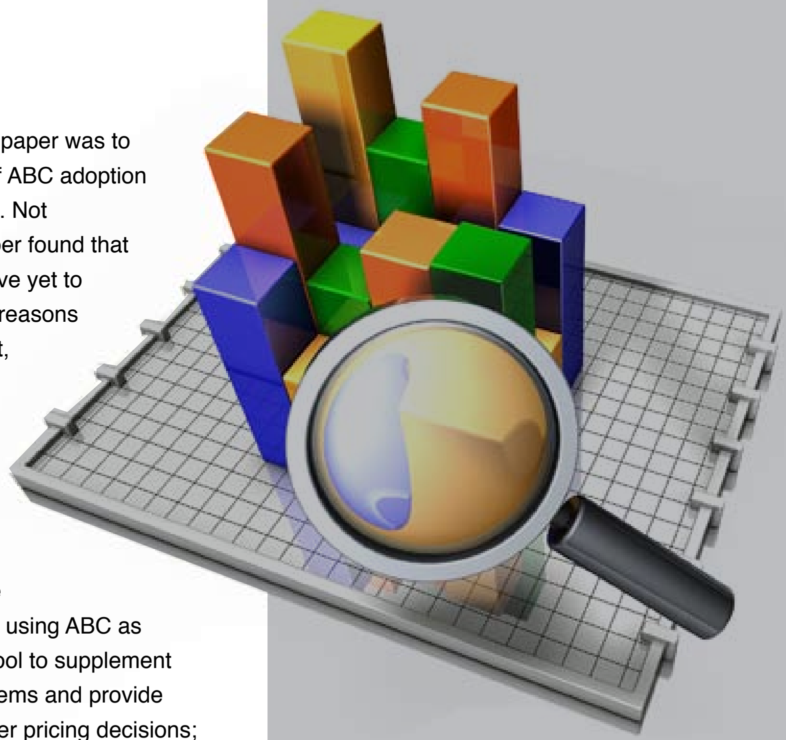
2.) Continual Education of Management Accountants

Innovation is crucial in ensuring the long-term success of an organization. Accountants are increasingly being involved in key strategic decisions of the organizations. This is especially so in Fiji, where most senior management comprises of staff who have accounting and finance backgrounds. Accountants need to keep updated with latest accounting standards, regulations and also tools which can improve company performance. ABC is one such tool. Accountants need to keep informed about the available tools such as ABC through taking professional development courses or attending workshops organized by the Fiji Institute of Accountants or tertiary and training institutions. Companies also need to support accountants in continued professional development as these would provide benefits to their organization.

3.) Investment in Specialized Accounting Software
Our analysis shows that a major deterrence to ABC adoption by Fijian companies is the significant amount of data collection and data analysis that needs to take place. This might have been the case 15 years ago when ABC was first introduced but not today. Technology has significantly improved in the last 15 years and there is an abundance of off-the-shelf software designed to automate and simplify the onerous task of collecting cost data for ABC purposes. Making the right IT investments would significantly reduce the burden and ease the transition and use of ABC as a strategic tool and an on-going costing system.

## Conclusion

The purpose of this paper was to examine the level of ABC adoption by companies in Fiji. Not surprisingly, the paper found that most companies have yet to embrace ABC. The reasons largely relate to cost, complexity and unfamiliarity. The paper offers three suggestions to companies that may address these issues. These suggestions include using ABC as a one off strategic tool to supplement current costing systems and provide ad-hoc data for better pricing decisions; continual education of management accountants to foster and promote innovation; and the use of specialized accounting software for ABC data collection and analysis.
These suggestions not only relate to ABC but can also be applied to other costing systems such as target costing. While conventional costing systems still prevail in most companies in Fiji, the highly competitive global market requires companies to continually be innovative and strategic if they wish to sustain their competitive advantage. Accountants have an important role to play in achieving this objective. This paper argues that the use of strategic tools such as ABC could provide significant benefits to companies in Fiji through better and more informed decisions.



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# How to Build Your Business Advisory Practice

## Introduction

In the future, SMPs may no longer be able to rely solely on traditional accountancy-based services as their main source of revenue and growth, as demand for these services declines. In many countries, fewer small- and medium-sized entities (SMEs)—the typical clients of SMPs—are being audited, as thresholds are introduced or increased and governments move toward self-assessment of tax to reduce compliance costs for SMEs. In addition, technology is commoditizing many of the day-to-day compliance services traditionally supplied by SMPs, reducing the need for a professional accountant and driving down price.

The good news is SMEs are increasingly demanding a broader range of professional services, in particular, value-added business advisory services, which SMPs are well positioned to provide. As small businesses themselves, SMPs share similar aspirations, concerns, and attributes with their clients and are in an ideal position to become trusted advisors.

## Why SMEs Look to SMPs for Business Advice

SMPs should leverage the following unique qualities when building their practices.

**Competency:** SMEs often lack a full range of managerial expertise in-house and outsource some managerial functions, such as CFO, to SMPs that have the required technical competencies and expertise.

**Integrity and Trust:** As members of a regulated profession with codes of ethics, accountants enjoy "institutional" trust. Their provision of compliance services wins them "competence" trust. This is a time-proven formula. Unfortunately, there can also be a reluctance to utilize advisory services until the expert has already provided a specific demonstration of their competency.

**Responsiveness/proximity:** SMEs rate highly SMPs' responsiveness to their demands. The proximity of SMPs to their SME clients is also important as many owner-managers appreciate personal attention from their advisers and value ease of access.

## A Full Menu of Business Advisory Services

SMEs are demanding the following services, which SMPs can provide. These services can help ensure the efficiency, transparency, and sustainability of SMEs, improving their financial performance and boosting client satisfaction (and possibly demand!):

- Business development: strategic business planning, budgets and projections, sustainable business practice, virtual CFO, etc.
- Corporate advisory: business structuring, valuations, litigation support, forensic accounting, treasury, debt/equity funding, equipment finance, due diligence and business buy/sell, etc.
- Wealth creation and preservation: financial position evaluation, investment strategy development, asset allocation, estate/succession planning, pension planning, etc.
- Tax consulting: tax advice and/or representation on tax matters to revenue authorities, etc.
- Management accounting: budgeting, management reporting, cost accounting, benchmarking, product/customer profitability analysis, etc.

## Things to Consider When Building a Business Advisory Practice

The following considerations can help SMPs succeed when building or laying the groundwork for a business advisory practice.

1. Modify your mission statement, vision, and plan: When expanding or changing the direction of your practice, set out a clear vision for the future and a roadmap for how to get there. You should also revisit your mission statement and adjust it as needed to reflect your practice's modified or expanded service offerings, such as "We are dedicated to adding and sustaining value for families and their businesses."
2. Educate and train your people: Providing high-quality business advisory services demands a different skills base than that to provide traditional accountancy-based services. You can develop the capacity for business advisory by expanding both the technical and soft skills of existing staff. Some accountants can make the transition to business adviser through experience and self development, while others may need training or coaching.
3. Focus on a specific industry sector or specialization: Few SMPs will be able to gain and maintain the knowledge and skills necessary to be competent in all areas of business advisory. Therefore, SMPs should consider carving out a niche and participating in a referral network of SMPs that can provide the other services. A common model is to focus on a specific industry sector, such as hospitality, or to

ADVERT

develop a specialization, such as sustainable business practices, in order to differentiate your practice from the competition.

4. Develop relationships with other firms: Referral networks offer many potential advantages, such as helping your practice increase its client base. Participating in a network is an effective way to satisfy the increasing breadth of demands from SME clients and can help demonstrate to new clients that you have the capability of a larger practice. Referral networks can extend beyond accountancy to areas such as legal, HR, and IT.
5. Promote the practice to existing and new clients: Promoting and marketing your practice, and the value of your services, will be crucial to success. There are a number of reasons why SMEs choose SMPs to provide business advisory services (see above). SMPs should leverage these qualities by promoting them to potential clients, who are often unaware that their professional accountant can provide these services. As accountants often have little or no expertise or experience in promotion or marketing, you may want to hire a marketing consultant or train an existing employee to do this. Your marketing expert can help you determine if you need to change the way your services are marketed and help you explore new channels, such as social media.
6. Change your business model: Business advisory services may require a different business model from that of traditional accountancy-based services. For example, business advisory services may be better suited to a business model based on selling intellectual capital rather than time. This lends itself to value pricing. To supplement this, you might wish to emulate the airline industry model, which divides their client base into premium and economy and offers a different value proposition to each—for the premium clients, a high-end service, at a correspondingly high price, and for the economy clients, a basic "no frills" service that frees up time to devote to the premium clients.
7. Embrace technology: Advances in technology present a significant opportunity for SMPs to operate more efficiently, reduce costs, and offer additional value-added services. Cloud computing, for example, allows SMPs to more actively engage with their SME clients on a day-to-day basis and offer services such as virtual CFO cost effectively.

## Putting Ideas into Action

To help you build a business advisory practice, we encourage you to download the IFAC Guide to Practice Management for Use by Small- and Medium-Sized Practices (PM Guide). This free guide comprises eight stand-alone modules on topics ranging from planning and building your firm to managing people and client relationships. It features case studies, checklists and forms, and an office procedures manual.

## Additional Resources for SMPs

The following resources (all free of charge) are accessible via IFAC's International Center for SMPs: www.ifac.org/SMP:

- Publications
  - PM Guide User Guide
  - The Role of SMPs in Providing Business Support to SMEs.
- Presentations and videos from 2011 IFAC SMP Forum in Istanbul, Turkey, especially Session 3, SMPs Evolving to Better Serve SMEs
- Quarterly SMP eNews
- Relevant Links (especially the categories "business advisory" and "practice management")

For translations of these and other resources, visit IFAC's Translations Database.

Article written by Stuart Black, Member, IFAC SMP Committee (see bio) and Paul Thompson, Deputy Director, SME and SMP Affairs, IFAC

# Cloud Computing – The Buzz Word

An Executive Briefing by Avinesh Krishna, Sales Manager –Infrastructure Solutions, Datec Fiji Limited

## CLOUD COMPUTING – WHAT IS IT?

For those of you new to technology jargons and have been wondering what does Cloud Computing really mean, let's firstly start by establishing what the word "cloud" means in this context.

Cloud is a metaphor for the Internet. It is quite common these days to draw network diagrams that portray the Internet as a cloud hence the use of the word in this instance.

So why didn't they just call it "Internet Computing"? Well that's because cloud computing goes beyond just using the Internet, as we do for, say, websites. The Internet is the carrier but there is a whole set of other technologies involved that are critical in a cloud computing environment.

Getting a commonly agreed definition of cloud computing is still quite difficult. There are many opinions on this, some of them driven by vendors' own view of the world. Whilst they all generally refer to the same thing we thought we should try and agree on one of these for the purposes of this guide.

The Gartner definition which defines cloud computing as "A style of computing where massively scalable IT-enabled capabilities are delivered 'as a service' to external customers using Internet technologies."

The three key words in this definition are scalable, service and Internet. Cloud computing is about how an application is deployed and delivered over the Internet and which is scalable on demand.

Cloud computing is not something that an end-user buys. In fact, end-users should be unaware to, and shouldn't care, whether an application is delivered using cloud computing.

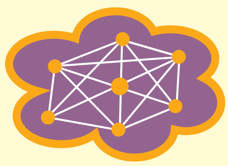
Cloud computing is a deployment model for applications that is used by organisations in order to reduce infrastructure costs and/or address capacity/scalability concerns. Effectively these organisations are saying that they don't want to own the assets or to operate the system in their own Data Centre's. This shift is due to the economics of using the cloud versus the physical data center, Economics have produced many market transitions throughout history.

Farming, for example, was once practiced by many independent, self-employed farmers who worked the land they owned. If they produced an excess, they sold the excess. Over time, economies of scale enabled by new technologies made the small-farm model less efficient and productive than large farms, which could produce larger quantities of food less expensively. As prices dropped, demand grew and so did large-farm productivity, reducing margins further and making small farms even less feasible. Many small farms consolidated into larger farms, and small farmers went to work for agricultural corporations. Technology was the facilitator, but economics drove the change.

The same pattern can be seen across many other scenarios: the Industrial Revolution, electricity generation, telecom, and so forth. As the service or product becomes commoditized and margins decrease, industry consolidation occurs.

### Did you know?

**The term cloud is used as a metaphor for the Internet, based on how the Internet is depicted in computer network diagrams. It is a simplification of the complex infrastructure it conceals.**



## CLOUD COMPUTE MODELS- Public, Private or Hybrid?

Now you have known and understood cloud compute definition, next is as business executives deciding on which model is the key. In a typical cloud computing scenario organisations run their applications from a Data Centre provided by a third-party – the cloud provider. The provider is responsible for providing the infrastructure, servers, storage and networking necessary to ensure the availability and scalability of the applications. This is what most people mean when they refer to cloud computing i.e. a public cloud.

Second choice is a private cloud, a proprietary computing design, owned or leased by a single organisation, which provides hosted services behind a firewall to "customers" within the organisation. There is, however, a larger body of opinion suggesting that private clouds will be the route chosen by many large enterprises and that there will be substantial investment in this area. The main reason for large enterprise is they have multiple sites and they can have a primary and secondary site and with use of technology it will offers Built-in Disaster Recovery & Back-up Sites and you don't have to outsource to a third-party to keep your critical data? Also the great things will be, if there is a disaster in site A than all users will be directed to site B in seconds and business continues as usual. So how great can be your Private Cloud environments? You can just imagine..

Third choice is a hybrid cloud with composition of private and public clouds, it is an environment in which an organization provides and manages some resources in-house and has others provided externally. For example, an organization might use a public cloud service, such as

Amazon Simple Storage Service (Amazon S3) for archived data but continue to maintain in-house storage for operational customer data. Ideally, the hybrid approach allows a business to take advantage of the scalability and cost-effectiveness that a public cloud computing environment offers without exposing mission-critical applications and data to third-party vulnerabilities. This type of hybrid cloud is also referred to as hybrid IT.

While we will certainly see a huge growth in private clouds we need to be careful that this is not just some re-badging of what is there already. Calling the services offered by the internal Data Centre a "private cloud" without changing management processes, organisation/ culture and the relationship with business customers is not going to hack it. If your data centre can't provision new environments, engage with ICT companies on the best solution approach towards cloud but remember on your critical business applications.

Today there are very few companies that have the internal knowledge and the resources to create and effectively manage true cloud computing infrastructures. This will change as the market for cloud services matures and as new products emerge to help with rolling out private cloud-related services within the enterprise data centre.

There will also be the adoption of hybrid cloud environments where organisations will combine the advantages of a public cloud with an internal private cloud. Some applications, or parts of applications, could run in the public cloud while others remain behind the corporate firewall. Regardless of which route you end up following (private, public or hybrid) your expectations of what you should be getting for your money remain the same.

There is a huge amount of hype surrounding cloud computing but despite this more and more C-level executives and IT decision makers agree that it is a real technology option. It has moved from innovative technology to a commercially viable alternative to running applications in-house.

Vendor organisations such as Amazon, Google, Microsoft and Salesforce.com have invested many millions in setting up cloud computing platforms that they can offer out to 3rd parties. They clearly see a big future for clouds computing as organisation are taking advantages of the cloud environment and again it's about taking simple steps to cloud either Public, Private or Hybrid and saving $$$!

Of course, no technology comes without a set of advantages and disadvantages so please look forward to the next issue for advantages and disadvantage of cloud computing.

## Types of clouds:

**Private cloud**

- IT activities or 'unctions are provided "as a service' over an Intranet
- Within the enterprise
- Behind an organ zaban'a firewall

**Public cloud**

- IT activities or tUncbons are provided "as a service' over tne Internet

**Hybrid cloud**

- Internal and external sehitie delivery, methods are integrated
- Activities or functions are based on security requirements, criticality architecture and other established policies

# Yoga AT WORK

Nicci Burnett
Yoga Instructor & Director of My Fitness

Are your employees tired, unfit and stressed out? Yoga might be a good solution.

Whether your employees sit behind a computer or work in production, they all place enormous amounts of strain on their mind and body. Repetitive stress, repetitive strain, mental burnout, neck pain, back pain, and general physical and mental discomfort often lead to stress for employees and in turn amounts to less productivity for employers.

By providing yoga classes during lunch hour, employees can help to reduce their risk of stress, stress related illness like obesity and high blood pressure, and repetitive strain injuries. Healthier employees produce higher quality work, make better decisions and pay more attention to detail.

But before any company embarks on a wellness program there are pro's and con's to weigh up. Let's take a look at what yoga can bring to your workplace.

1. **Healthy & Happier Employees (Pro)**
   Healthier & Happier employees ultimately save the company money. They generally take less sick days and have fewer injuries on the job. Healthy employees are also more productive due to sleeping better and having more energy. These benefits can be achieved through other types of exercise, however yoga offers a more low-key and holistic approach to exercise that may appeal to employees who don't want a high energy workout in the middle of their workday.

2. **De-stress (Pro)**
Yoga can help you de-stress by training your attention, stretching out tight and sore bodies and teaching you to breathe deeply. It links your breath to the movements in your body, teaching you to become focused on what you are doing at that very second, not about the deadline you have later that afternoon. By only focusing on what you are doing in class for an hour, you give your mind much needed 'time out'.

3. **Convenience (Pro)**
Often, the first thing to go in a busy schedule is exercise. However, being less active can actually make meeting demands and deadlines even more difficult. Having yoga in the workplace offers a convenient way for employees to balance work, home and personal life plus fit a workout in, without having to leave the premises.

4. **Building teams (Pro)**
Providing yoga classes allows employees to meet and interact on neutral ground. Having a common interest, such as yoga, which is challenging while also being fun, can spark a friendship or increase respect amongst work peers.

5. **Space (possible Con)**
It doesn't take much space or equipment to do yoga; most poses can be done within the confines of a yoga mat, with a little bit of space in between mats. Ideally, the space should have a bare, flat surface and should be somewhat isolated from regular office activity.

5. **Cultural hurdles - A biggie in Fiji! (possible Con)**
First and foremost yoga is not a religion or a religious act. It is a way to stretch and strengthen your body and mind – leading you to a deeper clearer understanding of yourself.
Secondly some employees may be embarrassed to do the poses in front of other people. A good instructor will ease all participants into the poses, giving all ability levels options from easy to hard. Ask the instructor to focus purely on the physical poses of yoga – all poses can be adapted to suit each individual.

6. **Cost (possible Con)**
Paying the instructor is usually the biggest cost associated with implementing any workplace fitness program. Instructors may charge anywhere from $30 to $100 or more per session. Employees will also need a yoga mat and may require accessories like blocks and straps for some poses; however your instructor may supply these.

Any exercise program is hugely beneficial to the workplace – but in my opinion nothing ticks all the boxes like Yoga.
Healthy & happy employees = a positive & productive workplace.

Who uses yoga in the workplace?
You might be surprised at how many large corporations use yoga at work; Apple, IBM, Microsoft, Exxon, Intel, Motorola, Nike & Pepsico just to name a few.

References
Beth Rifkin – Livestrong.com
Rana Kennedy – Wellness.com

# NEW MEMBERSHIP

## NEW MEMBERS WELCOMED

The Institute is pleased to welcome the following persons, who have been admitted to membership, in various different categories in the months of January 2012:

### CHARTERED ACCOUNTANT

| | |
|---|---|
| Shashi Dutt | Shashi Dutt & Associates |
| Pankaj Singh | Ministry of Finance |

### PROVISIONAL MEMBERS

| | |
|---|---|
| Shaneel Sachin Dutt | PricewaterhouseCoopers |
| Apenisa Waqa Korodrau | Office of the Auditor General |
| Artika Ashni Kumar | Secretariat of the Pacific Community |
| Ashneel Kumar | Digicel (Fiji) Ltd |
| Mehul Lal | PricewaterhouseCoopers |
| Shiu Nandan | Vodafone Fiji Ltd |
| Ana Kulutea Vakalua Narovu | Cook Island Audit Office |
| Sheetal Shivangani Raju | PricewaterhouseCoopers |

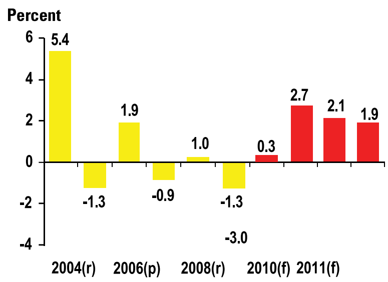
### AFFILIATE MEMBERS

| | |
|---|---|
| Sanjay Prem Chand | N.Mudaliar & Co |
| Vinesh Lal | Mechanical Services Ltd |
| Jashneel Prasad | Unemployed |
| Rosalia Fatiaki Vitale | Ministry of Education |

# Fiji: Economic Update

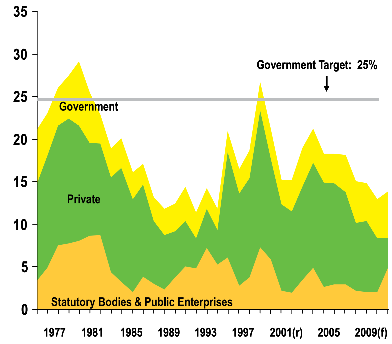
SEPTEMBER 2011

## Economic Growth



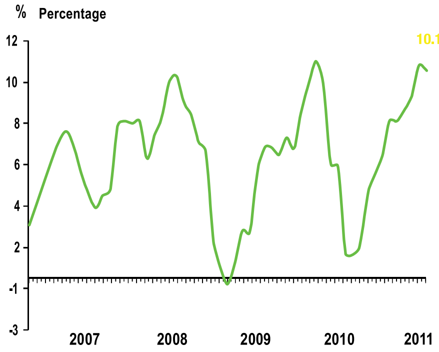

Reserve Bank of Fiji Sources: Fiji Islands Bureau of Statistics & Macroeconomic Committee

## Investment



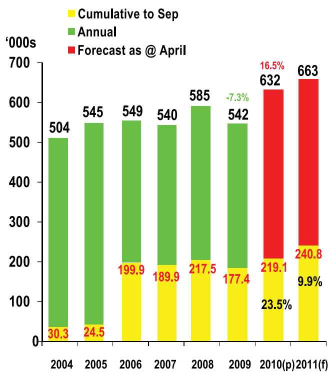

Reserve Bank of Fiji Source: FIBOS

## Inflation



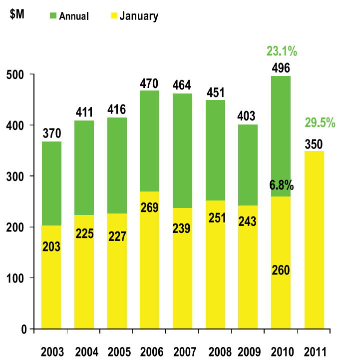

Reserve Bank of Fiji Sources: Fiji Islands Bureau of Statistics

## Visitor Arrivals



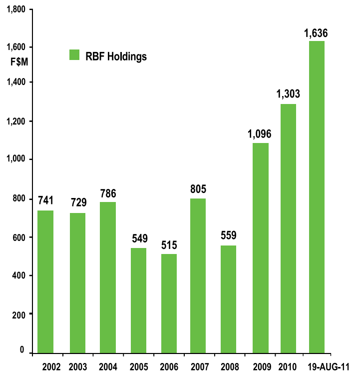

Reserve Bank of Fiji Source: Fiji Island Bureau of Statistics and Macroeconomic Committee

## VAT Collection



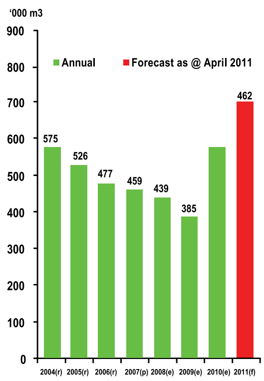

Reserve Bank of Fiji Source: Fiji Sugar Corporation and Macroeconomic Committee

## Foreign Exchange Reserves



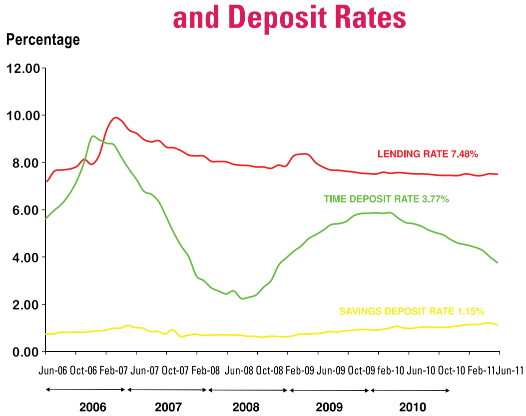

Reserve Bank of Fiji

## Forestry

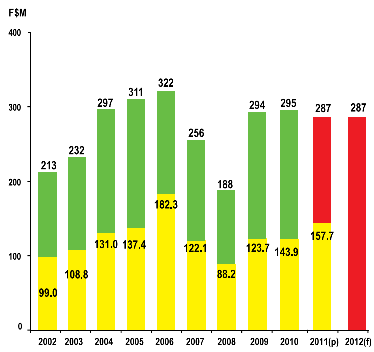



Reserve Bank of Fiji Sources: Fiji Islands Bureau of Statistics & Macroeconomic Committee

## Outstanding Bank Lending and Deposit Rates

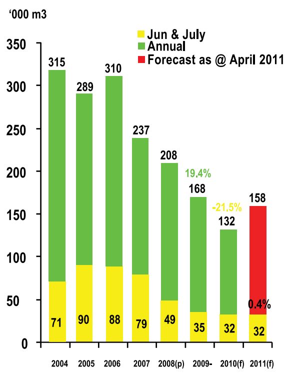



## Personal Remittances



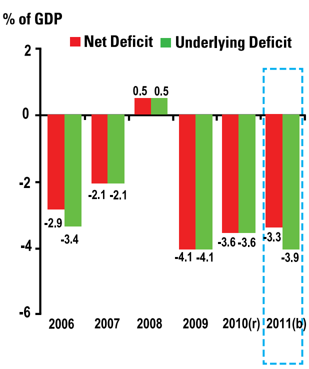

Reserve Bank of Fiji Source: FIBOS and Macroeconomic Committee

## Sugar Production



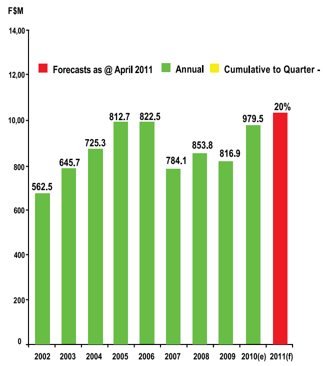

Reserve Bank of Fiji Source: Fiji Sugar Corporation and Macroeconomic Committee

## Government Balance



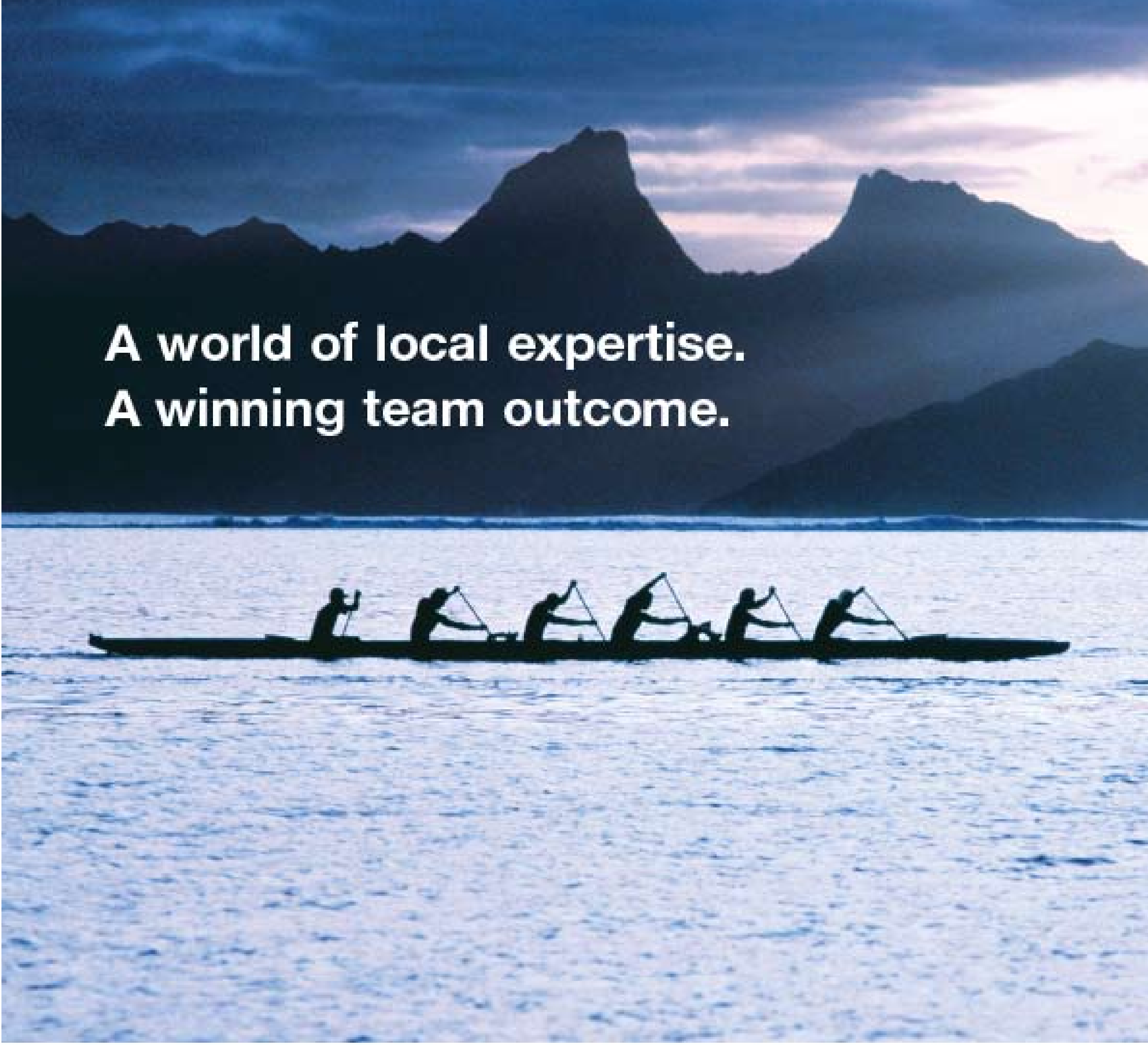

Reserve Bank of Fiji Sources: Ministry of Finance & 2011 Budget Estimates

## Tourism Receipts




Reserve Bank of Fiji Sources: Fiji Islands Bureau of Statistics

*For more information refer to: www.fia.org.fj*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