Accounting In Malaysia
In The Post-New Economic Policy (NEP) Era

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Abstract

Following the economic recession in 1985-86 but prior to the Asian Financial Crisis in the third quarter 1997, accounting in Malaysia appeared to have been energised with major amendments of the Companies Act 1965, activation of the statutory accounting body Malaysian Institute of Accountants (MIA) and talks over the setting up the Malaysian Accounting Standards Board (MASB). This study attempts to find out the reality of these changes and the reasons behind this reality. By applying the political economic approach to accounting (Cooper & Sherer, 1984) and with data obtained from primary and secondary source documentation and in-depth interviews, it is found that superficial accounting changes had taken place: Companies Act amendment on additional auditor reporting duty was lacking in enforcement, the revived MIA acted inadequately as accounting regulator; and, the MASB was established with no enforcement capability. These changes were consistent with and stemmed from Malaysia's social, economic and political attributes which were supported by the elite class.

Keywords: accounting, Malaysia, post-NEP era, elite, environmental attributes

Introduction

A year after the Malay Federation gained its independence from Britain in 1957, twenty local accountants set up the Malayan (later Malaysian) Association of Certified Public Accountants (MACPA) (see Azham, 2001a). Not long after the Federation of Malaysia was created in 1963 comprising the Malay Federation and the British colonies of Sarawak, Sabah and Singapore, the Parliament passed Companies Act 1965 and the Accountants Act 1967. The passing of the Accountants Act 1967 has led to the establishment of the Malaysian Institute of Accountants (MIA) with the responsibility (as stated in Section 6 of the Accountants Act) to regulate the practice and promote the interests of the profession.
Unfortunately, the MIA was hardly active in the next two decades of its existence (see Azham, 2001b). This time period coincided to a large extent with the implementation of the nation’s New Economic Policy (NEP) by the government. With the MACPA whose power is limited to only a fraction of the total number of accountants in the country was at centrestage, there emerged various problems in the nation’s accounting arena. These included the proliferation of unqualified accountants, the nonexistence at the national level of a common code of ethics binding "all" accountants and related machinery to investigate and discipline errant behaviour, the shortage of qualified accountants and the minimal disclosures in corporate annual reports.

Later in the 1980s, amendments were made to the Companies Act 1965 in 1985 and the MIA activated in 1987. After several years of polemic, in 1997, the government had set up the Malaysian Accounting Standards Board (MASB) to overtake the MIA’s authority over the setting of accounting standards in the country. This paper attempts to detail out the changes taking place and their reality that emerged in the ten-year period after the (unofficial) end of the NEP in the mid-1980s to the beginning of Asian Financial Crisis in the third quarter of 1997. Just as important, this paper attempts to determine the factors that led to the problematic state of accounting during the period.

For that matter, the theory of political economy of accounting (Cooper & Sherer, 1984) is applied. It is a view of accounting embedded in interests and conflicts and points towards the need to supplement the marginalistic analysis of competitive markets with political and social concepts in order to gain deep understanding of the functioning of accounting in Malaysian society. Thus, the theory looks at the accounting function within the broader structural and institutional environment in which it operates.

For data collection, the case study research method is utilised (see Yin, 1994; Miles & Huberman, 1994; Ryan et al., 1992; Patton, 1990; and Scapens, 1990). Qualitative data which come in the form of "words", "phrases", "sentences" and "narrations" are gathered from primary and secondary source materials and from in-depth interviews of selected participants taking place in first half of 1997 (see the list in Appendix 1). To avoid the so-called the "elite bias" (talking only to high-status interviewees), numerous informal talks with a number of people who were at the peripheries of the subject under study were also conducted. Insights from the informal talks and answers coming from a list of open-ended questions sent out to the former finance minister, Tun Daim Zainuddin, are added up to those coming from the documents and interviews.

In the accounting field, numerous scholars argue that qualitative research methods provide rich descriptions of the social world, particularly the meanings attached to actions in the language of actors. In short, they argue that qualitative methods help in understanding how accounting meanings are socially generated and sustained. These scholars include Humphrey & Scapens (1992), Ryan et al. (1992), Ansari & Bell (1991), Scapens (1990), Covaleski & Dirsmit (1990), Smith et al. (1988),

1 He earlier had agreed to be interviewed. But due to some timing problems, this interview had at the end failed to take place.

The remainder of this paper is comprised of five sections. The first delineates the theoretical framework. The second discusses the three main changes taking place in the post-NEP era in the nation's accounting arena. The third pinpoints the myriad of problems and uncertainties in the accounting arena. By applying the theory of political economy of accounting, the following forth section is an attempt to explain the reasons behind the less than healthy state of accounting. The paper ends with a section on conclusions.

The Theoretical Framework

The conceptual or theoretical framework is the political economy of accounting introduced by Tinker (1980) and refined by Cooper & Sherer (1984). Tinker (1980) introduces a classical political economic approach to financial reporting. He proposes that the social relations of production work together with the economic forces of production as two related dimensions of capital shaping the social and economic life of a nation. In recognising the presence of social relations, it would make it less cumbersome to understand the economic forces of production that are operating at any particular time period and in any society. Tinker (1984) explains that such relations are reflected through a set of institutional forms and arrangements that are constructed to interact with economic relations (i.e. the type of economy). Accordingly, in order to understand what is going on in the economic sphere, which may include the accounting function, there is a need to identify the related socio-economic and institutional environment. Interpretation of a nation's specific economic features will be less adequate if insufficient attention is given to the surrounding social and political processes.

Thus, Cooper & Sherer (1984) have pointed out that a political economy of accounting is useful for understanding how the accounting process interacts with its social, economic and political environments. They write (p. 208):

... the objectives of and for accounting are fundamentally contested, arises out of recognition that any accounting contains a representation of a specific social and political context. Not only is accounting policy essentially political in that it derives from the political struggle in society as a whole but also the outcomes of accounting policy are essentially political in that they operate for the benefit of some groups in society and to the detriment of others.

This leads to the assumption that there exists no basic harmony of interests in society where power is widely diffused and which results with the unproblematic view of the social value of accounting reports. Instead, accounting practice is viewed as favouring specific dominant interests in society and disadvantaging others. Dye (1986) argues that a cohesive "power elite" exercise authority over a variety of institutions. This elite is comprised of a small group of dominant, authoritative individuals or entities. The elite functions through, among other things, interlocking directorships, interlocking institutional experiences and similar social backgrounds. However, instead of a single power elite, Dye
(1986) says that a society may have different groups of individuals or entities that exercise power in its various sectors. Thus, leadership or authority is dispersed. More importantly perhaps it is not unusual for the elites to be in conflict with each other. In relation to accounting, both views of elitist domination and pluralist anarchy signify the contested value of the accounting reports and practices. In other words, accounting reports are hardly impartial and objective, nor is the accountant in the position of a disinterested and innocuous historian.

Besides the presence of power-play in society, Cooper & Sherer (1984) say that another important variable affecting the value of financial accounting reports is the specific historical and institutional environment comprising the social and political structures and cultural values of the society that provide the context for the delivering of the accounting reports. In short, historical specificity is crucial in coming out with a fair assessment of the social value of the accounting function.

All in all, the application of a political economy approach leads to the recognition of the presence of both apparent and hidden purposes underlying accounting process taking place in a specific locale and time period. The apparent, structural purpose reflects the proclaimed needs of a society. It provides the "right" functionalist kind of impression. The more hidden underlying purpose associated with social relations on the other hand ensures the maintenance of the status quo. In short, it protects the underlying power arrangement. As a result, there is a difference in what the elite say and do (and perhaps also what is in their mind) in the matter of accounting. This is as stated by Argyris & Schon (1974): "Espoused theories" are what people say they do and the "theory-in-use" is what really happens. In getting a clear understanding of an accounting process a greater focus on social relations purpose is needed, for it is assumed that in any locality and a specific time period the social relation goal is always successful in modifying the structural purpose.

In the next section, the three most important changes taking place in Malaysia's accounting arena during the post-NEP era are described. Two took place at the beginning of the era and the third one just before Malaysia began to suffer from the quagmire of the Asian Financial Crisis 1997-98. These changes provide the appearance that at long last a new accounting era had emerged, befitting the so-called transfer of responsibility from government to private sector as the nation's engine of the economy.

**Accounting Transformations**

The first accounting development of interest took place with the amendments made to the Companies Act 1965 in 1985. This is followed by the activation of the statutory accounting body MIA with its first AGM in September 1987. Ten years later, the government with the passing of the Financial Reporting Act of 1997 set up the MASB to overtake the MIA's authority over the setting of accounting standards in the country.

**The 1985 Amendment to the Companies Act 1965.** With the power to regulate company law is vested in the Federal Legislature under the Malaysian Federal Constitution, the Companies Act 1965, which became effective on 15
April, 1966, brings together company legislations which prevailed in the component states in 1963 when Malaysia was created (Azham, 2001a). At the beginning, as shown in the Parliamentary Debates (Vol II, no. 8, 9 Aug. 1965, Col. 1558), the Companies Act 1965 had two objectives: to protect investors and to attract “foreign investors” into the country. Later, after two decades have passed, in 1985, the Companies Act was substantially revised (Helinna & Wishart, 1989). The revised Act became effective from 1 February 1986. As mentioned by a number of interviewees, the 1985 amendment as a whole was intended to attract foreigners to invest in the country, through placing greater emphasis on the need for those associated with companies to be more accountable to the minority shareholders, who would include the foreigners.

Thus, in the revised Companies Act, extensive changes are made to the existing Ninth Schedule to incorporate those elements that are regarded as best accounting standards and practices leading towards a much higher disclosure level than previously. For example, companies now are required to prepare funds statement (statement of changes in financial position) together with the income statements and balance sheets that the auditors have to report on. Also, the 1985 amendment requires for the first time all public accounting firms and the individual partners of such firms to register with the Registrar of Companies (ROC). Each partner is allocated a number that must be cited in all audit reports. In addition, the term of an audit license is reduced from three to two years and the procedure of granting licenses overhauled to make it a more effective method of monitoring and policing standards of auditing.

Finally, an auditor is required to report to the ROC if he or she were to find that there has been a breach or non-observance of any provisions of the Act. The onus is on the auditor to justify why he has not reported a breach of the Act to the Registrar. This seems to be a major break with the tradition in Malaysian Company Law based as it is on the British system, although it is contained in the corresponding sections of the Australian and Singaporean Acts. Failure to report could result in a requirement for the auditor to justify in a court of law his or her opinion that the breaches have been otherwise adequately dealt with by either one of these two approaches: by a comment about such matter in his or her audit report or by bringing the matter to the attention of the company directors. The fulfilment of either of these two approaches ensures that the reporting duty of an auditor to the Registrar is a limited one.

The Activation of the MIA in 1987. When the Malaysian Parliament passed the Accountants Act 1967 in September that year, the MIA came to existence as a statutory body (Azham, 2001a). Sec-

\[Walton (1986)\] says that the Malaysian Act drew mainly on two sources: the Victoria Companies Act of 1961 and the British Companies Act of 1948. The former in turn was based upon UK Companies Act 1908, 1929 and 1948, while the latter on UK Companies Act 1929. However, in the Parliamentary Debates (Vol. II, no. 8, 9 Aug. 1965, Col. 1558), it was stated by the then minister of commerce and industry, Dr. Lim Swee Aun, that the committee with the responsibility to draft the Companies Bill (whose chairman came from the ministry of commerce and industry and with the assistance of John Finemore, a Colombo Plan draftsman from Australia) had considered not only the present legislation in force in the UK, Australia, India and New Zealand, but also the draft code prepared for Ghana by Professor Gower and the reports presented in the UK by the committees chaired by Lord Cohen and Lord Jenkin.
tion 6 of the Act provides a list of the various functions of the MIA. The MIA is in short supposed to be the body to promote and regulate the accounting profession in the country. Unfortunately, hardly any part of the Act except for the establishment of the MIA council and the appointment of its heads had taken place in the remainder of the decade. And it may safely be said that nothing substantial had actually taken place in the following decade of 1970s except for the passing of Accountants' Rules in 1972 which, however, were not enforced due to the nonexistence of the statutory investigative and disciplinary committees which could only be formed after an AGM.

Being inactive did not however stop the leaders of the MIA to conduct a series of discussion with those from the MACPA to have the two bodies “merged” to form Malaysian Institute of Chartered Accountants (MICA) (Azham, 2001b). But, on 17 June 1985, the federal cabinet rejected the establishment of MICA (Business Times, 12 Oct. 1988). The reason given was that there was no need for MICA for there was already in the country an accounting body entrusted with all the needed task to spearhead the accounting profession in the form of the MIA (MIA 1967-87 Annual Report, p. 11). Two years later, what should have taken placed two decades earlier finally occurred: MIA had its first AGM in September 1987. It appears that the government was instrumental in having the MIA activated. Said the MIA president on the day before the MIA's inaugural AGM (The Malaysian Accountant, Oct-Dec 1987, p. 9): "The ball has now been tossed into my hands as the new President of MIA and my brief has been to activate the MIA into a full professional body representing all accountants in the country." See also Akauntan Nasional (Aug. 1992, p. 25).

The exact reasons for the MIA to be activated were revealed on pages 5-6 of a set of untitled bounded documents found in the MIA library which was stamped on its first page as "Confidential" and dated 1 October 1988 and which appears to have been forwarded to the then finance minister by the MIA council to gain his approval for the various amendments suggested for the Accountants Act 1967 (from hereon it is known as the "MIA 1988 Bounded Document"). Firstly, this document stated that the MIA was "directed" by the government to be active (after the federal cabinet rejected the MACPA proposal for the merger of the MACPA with the MIA) because of the state of the then accounting profession reflected in various financial scandals which resulted with a loss of confidence in the profession among the general public and "foreign businessmen" who were considered crucial for Malaysia to become an industrialised country. Next, it stated that the govern-

\[\text{But from interviews, it was found that there would have been a merger if only those from the MIA and the MACPA were to agree with the terms set by the government. What happened was that the government would have agreed for the "merger" to take place if the new merged body MICA would have in its schedule list of recognised accounting bodies a number of government sponsored accounting bodies and qualifications (where majority of the people involved happened to be bumiputras – see next footnote). The inclusion of these bodies and qualifications would ensure that those involved could be taken in as public accountants and in turn would have them permitted to audit companies. But those leaders of the MIA and MACPA would have none of this. Their reluctance to agree to the terms set by the government led the latter to decide that there was no need for unification. Thus, there was no "outright" rejection by the government and that it was not due to the presence of the MIA that MICA could not come into reality.}\]
The MIA 1988 Bounded Document had also mentioned some other reasons for the MIA to be active. This concerned the need to increase the number of indigenous accountants and the use of the Malay language in the accounting profession. The report stated that the government was "horrified" and "saddened" to discover that up to 1984, there were less than five percent of the total qualified accountants in the country who were "bumiputra."

The Setting up of the MASB in mid-1997. For the two decades when the MIA lay low, the MACPA spearheaded the efforts of introducing accounting standards for local consumption (Azham, 2001b). Thus, it was as early as June 1972 that the MACPA issued Statement No. 1. Within the few years after Statement No. 1, the MACPA issued three more statements. Later in October 1975, the MACPA was admitted as a member of the International Accounting Standards Committee (IASC). Following its membership of the IASC, the MACPA in 1978 adopted the International Accounting Standards (IAS) 1 to 4 (The Malaysian Accountant, July 1986, p. 11). Nevertheless, it appears that in implementing the IAS, the MACPA faced with a lot of non-compliance by companies leading to much diversity in accounting practices between industries and between companies in the same industry for both listed and unlisted companies (Cooper, 1980; Megat, 1980, p. 5). Worse problems appeared to have emerged when it concerned small businesses (The Malaysian Accountant, 1980, pp. 45-46).

Later in late 1980s, it appeared that nothing much had changed when it concerned companies’ compliance with the IAS which were now adopted by the recently activated MIA. In 1989, Lee Hwa Beng, the MIA's chairman of the Financial Statements Review Committee (FSRC) mentioned that the review made recently on the accounts of 187 companies (selected on the basis of stratified sampling) had shown that "a large number of companies" did not comply with the Generally Accepted Accounting Principles (GAAP) (NST, 20 May 1989). Several years later Tay (1994) who conducted a study on financial in-

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4The word "bumiputra" in direct translation in English is "sons of the soil". The word denotes those with cultural affinities indigenous to the region as opposed to those known as immigrants who originated from outside the Malay archipelago. Thus, bumiputra is comprised of three broad groups: the aborigines, the Malay-related and the ethnic groups residing in Sarawak and Sabah. Note however that the Constitution defines a Malay on a cultural instead of racial terms. That is, a Malay is "a person who professes the Muslim religion, habitually speaks the Malay language, [and] conforms to Malay custom." See Syed (1965, 1985) and Chee (1983, Chapter One).
formation disclosure and accounting measurement methods of 30 smaller and larger KLSE-listed companies mentioned the same thing. Tay (1994) specifically stated that one possible problem faced by users of the financial statements was the failure of companies to comply with legal and professional requirements. Finally, just before Malaysia was caught up in the 1997-98 Asian Financial Crisis, the vernacular newspaper Utusan Malaysia (8 July 1997) in its front page story reported that a number of companies was found to have filed in accounts with the ROC which were different to those which were laid out at the AGMs. And there were still other cases where accounts filed with the ROC were quite confusing in content while those sent to the Securities Commission (SC) and the finance ministry were showing the very best of financial conditions.

With all this in the background, it is not surprising to find that as early as 1987, Oh Chong Peng, who was a senior partner of Coopers and Lybrand and later MACPA president, had raised the idea of the need for a separate committee to review companies' compliance with accounting standards issued by a body which he labelled as the "Malaysian FASB" (Peng, 1987, p. 12):

The next step should then be to ensure compliance with accounting standards. To do this, the FSR [Financial Statement Review Committee] must be given more authority. One way is for the FSR to be set up along the lines of the FASB, possibly as an off shoot of the FASB. The new independent FSR's main task will be to review all accounts but on a random basis with special emphasis to the public with the authority to call for information on a very private and confidential basis.

He pointed out that review of accounts would act as an "impetus" for companies to comply with accounting standards. He also said (p. 13):

When set up, the new independent FSR should also be given the power to impose penalties in the form of fines and in the event of severe or recurrent failure to comply with accounting standards, the FSR should also have the authority to recommend to the various Registrars to disqualify directors from holding office and to the licensing boards to remove or suspend audit licenses and to the accountancy associations for disciplinary proceedings.

Unfortunately, no one seemed to pay any attention to this suggestion of his which was made just before the MIA had its inaugural AGM. In fact, one could say from available evidence that in the later part of its active life, those at the helm of the MIA were rather satisfied with the quality of financial reporting in the country. For example, in 1993, the MIA's chairman of public practice committee (PPC) disagreed with a remark made by "an accountant" at a conference that Malaysia's corporate reporting was weak (Business Times, 17 Dec. 1993).

6The SC was established in 1993 (Mohd.-Ariff, 1993; Mohd.-Salleh, 1993). The SC is given the task of promoting the modernisation and ensuring orderly development of the capital market in Malaysia. It regulates the issue of securities, designation of futures contracts and takeovers and mergers of companies. It is also responsible for supervising and monitoring the activities of any exchange, clearing house and central depository.

NST stands for the nation's vernacular newspaper New Straits Times.
1993). This "accountant" mentioned the IASC's 1993 survey that identified Malaysia as one of the countries lacking sufficient amount of disclosure. This survey placed Malaysia together with countries such as Japan, Hong Kong and Singapore for having less comprehensive disclosures compared to countries such as UK, France and US. The MIA's PPC chairman mentioned that such remark could be damaging to the country in the effect that it would have on "foreign investors". He also appeared to think that to be in such category with Singapore and Hong Kong was not so bad. Questions may be raised too as to the efficacy of the work conducted by the MIA (and for that matter the MACPA too) in reviewing financial statements. The MIA's Financial Statements Review Committee (FSRC) appeared to have only published results of its review works for the years 1989 (Akauntan Nasional, June 1989) and 1994 (Akauntan Nasional, Apr. 1994). The MACPA's FSRC has not seemed to publish any over the years. (See also Tay, 1994, pp. 242-243 in this matter of the FSRCs of the accounting bodies.)

In the middle of all this mess, in 1994, the then finance minister came out to argue on the need to have high quality accounting standards in preparing the financial statements and to ensure companies' directors complied with the standards. He also said that it was "unreasonable" and "unrealistic" to depend on the accountants for high quality financial reporting since this was the responsibility of companies' directors (The Malaysian Accountant, June 1994, p. 14). Next he mentioned (pp. 14-15):

As our financial and capital market become more sophisticated and as we strive to be world class competitors, we need to provide for tighter and more timely standards which can earn the support of preparers, auditors and users alike by their quality. I believe the time has come for us to consider the establishment of an Accounting Standards Board backed by a body which can ensure stronger arrangements for securing compliance and which has the financial resources.

The following year in October, during his 1996 budget speech, he announced that his ministry would set up the Financial Accounting Foundation (FAF) and the Malaysian Accounting Standards Board (MASB) as part of the government's continuing strategy to develop the capital market (NST, 28 Oct. 1995). He also said that the establishment of MASB to formulate accounting standards and identify related areas of regulation and "enforcement" would ensure a high level of financial reporting and disclosure in the corporate sector. He pointed out that with the maturity of the capital market and the further introduction of sophisticated financial instruments, the level of "monitoring" needed upgrading and investors required protection by the government.

A year later, in the midst of stiff opposition from the MIA over the idea of MASB because the latter’s existence would ensure that the task in setting accounting standards would be effectively pulled out from the former7 he mentioned

7 During an interview, an MIA council member mentioned that the MIA had made a presentation at the finance ministry to lobby against the setting up of the MASB - to no avail. In the presentation, the MIA "begged" the ministry to say what was wrong with the MIA in its accounting standard-setting efforts. The MIA also argued that it was the best party to handle account-
that for the country to strive for "disclosure-based regulation" of its capital markets with greater emphasis on high standards and levels of disclosure leading towards "a financial reporting environment of international standard", the financial reporting standards "must" be accepted by the business community ranging standard-setting since it did not have any vested interest in whatever way a standard came up to be. The MIA in short would be the independent party suited for such a task and not the MASB which would be comprised to some extent with parties from the listed companies, etc. who might do things to their benefits but which could damage the country somehow. Besides interviews, several documented sources provide evidence on the MIA’s opposition over the idea of MASB. Two examples: in 1995, the NST (11 Sept. 1995) quoted the MIA president saying: "In the interest of the public and the country as a whole, we do not agree that the proposed MASB should be independent of the accounting profession and the institute". He proposed that instead of forming the MASB, it would be better to have the MIA's Accounting and Auditing Standards Committee to be upgraded as a Board with that of a review board was also set up to form an Accounting Standards Advisory Board (ASAB). The ASAB he said would greatly enhance the consultative process in accounting standards setting which many claimed was lacking at present. The second example is the Editorial to the MIA's official journal Akauntan Nasional (January 1996). Here, it was mentioned that the MIA was recently elected to the Board of IASC; thus, it signified that "Malaysia is held in high esteem internationally". Next, it said that at the local level the MIA did not get similar treatment. It also said: "A public announcement on the formation of the independent accounting standards board was made while the Institute strongly believes that the accounting standards setting process should remain with accountants ... The Institute is indeed facing an issue which affects the very core of the accountancy profession ..."

The apparent exception took place in two occasions: one in 1992 when the MIA president was reported to say that the MIA had found from its recent investigation involving 40 accountants that there were auditors who had failed to issue proper audit report (NST, 12 Apr. 1992). And another in 1993 under the headline "MIA Warning to Errant Members" (NST, 28 Jan. 1993). But on closer inspection, the story involved members of MIA who colluded with unqualified accountants. Thus, this story was nothing new. It is because on this subject of collusion between members and those people unregistered, the MIA over the years was fond of issuing numerous statements to the media making one warning after another that stern action would be taken against its members with really no news whether actions had in fact been taken. See The Malay Mail (4 Feb. 1988; 26 Feb. 1992) and NST (17 Sept. 1988; 31 Jan. 1991). and not just by the accounting profession (NST, 8 Oct. 1996). He argued that in many countries the accounting profession together with the preparers, users and regulators had recognised that high quality accounting standards would emerge with the active participation of the relevant parties and that the process being made "independent" of any particular interest group including the accounting profession (Business Times, 8 Oct. 1996). He stressed that a mechanism was needed that allowed the involvement of all relevant parties in the financial reporting process. It is notable that all these arguments were supported about a week later by Sir Bryan Carsberg, the secretary-general of the IASC (NST, 16 Oct. 1996). Apparently, the SC, which was directly responsible in the establishment of the MASB (Securities Commission 1995 Annual Report, p. 3), arranged for Sir Bryan Carsberg to issue a set of statements to the local newspapers.

Later in late 1996, the Parliament passed the Financial Reporting Act 1997. The Act states that the MASB would have eight members comprising the chairman, Accountant-General and six others with experience in financial reporting and in one or more of the following areas: accounting, law, business and finance. Five out of these eight members shall also be members of the MIA. The Board is assigned three advisors coming from three regulatory authorities: SC, Central Bank and ROC. The functions of the MASB as listed in the Act are extensive and include the issuance of accounting standards, reviewing pre-existing accounting standards to be issued as approved accounting standards and the development of a "conceptual framework". The MASB is also required to
seek the FAF views for a number of its functions. Also, as mentioned in the Act, this FAF is comprised of 18 individuals including a chairperson appointed by the finance minister. Six out of these 18 individuals are the following people or their representatives: secretary general of the Treasury, Central Bank Governor, Securities Commission chairman, Companies Registrar, KLSE executive chairman and MIA president. Another nine come from public listed companies (4), accounting firms (4), law firm (1). While the MASB has variety of functions, the FAF only has the following four functions: to provide its views to the Board; to review the Board's performance; to manage the Board's financial affairs; and to perform any other function as the finance minister may authorise and which is published in the Government Gazette.

About six months after the passing of the Financial Reporting Act 1997 and just before the country began to experience the impact of the Asian Financial Crisis, the NST (11 July 1997) reported that both the FAF and MASB commenced operations on 1 July 1997. It also said that the finance minister had appointed Tan Sri Wan Azmi Wan Hamzah, chairman of five KLSE listed companies, as the chairman of FAF and Raja Datuk Arshad Raja Tun Uda, the executive chairman of Price Waterhouse, as the chairman of the MASB.

As said earlier, the three new developments in the accounting arena – Companies Act’s amendments, MIA’s revival and the setting up of the MASB – appear to herald a new era for the nation’s accounting arena. The reality could not be more further from the truth. This is described next.

Debilitating Outcomes of Accounting Transformations

During the period of ten years or so prior to the Asian Financial Crisis 1997-98, the nation’s accounting arena appeared to have made progress with amendments made to the Companies Act 1965, the activation of the MIA and establishment of the MASB. But appearance can be deceiving as proven by the reality on the ground. This can be seen in particular in the lack of enforcement of the Companies Act’s amendments on auditor’s ROC reporting duty, MIA’s failure on being strong regulator and MASB created without the enforcement capability.

The 1985 Amendments to the Companies Act 1965.

In requiring the auditors to report to the ROC in certain cases where there have been breaches or non-observance of any provisions of the Act is surely an excellent idea – on paper. Previously, the auditor could only use the audit report and by the time the report is presented to the members of the company, the damage caused by the transgressions might well have been irreparable. However, in practice, it does not look like a doable – even when the law has made it clear that auditor who has failed to make such report was liable to spend two years in jail and/or pay RM 30,000. As claimed by an auditor in an interview, it was not practical for auditors to report to the ROC when certain situations arose because the auditors "at the end of the day were also businessmen." In most cases, he said, the auditors, who were very much aware that their positions as auditors were dependent on the support of the companies’ directors, would be more inclined to support the directors rather
than take a stand and report matters to
the ROC.

Thus, it is perhaps not surprising to find
that the minister of domestic trade and
consumer affairs had noted to the ac-
countants audience in a seminar that half
a decade after the amendments were
passed, the ROC had only received
“two” reports from the auditors (NST, 29
Jan. 1991). This he said had taken place
when his ministry had found numerous
instances of companies failing to comply
with statutory and KLSE requirements
as well as approved accounting stan-
dards in their annual reports (The Malay-
sian Accountant, Feb. 1991, p. 21). The
following year, he mentioned (NST, 17
Dec. 1992): “Auditors are still avoiding
their responsibilities under the law to
report any breach or non-compliance of
the Companies Act 1965 to the Registrar
of Companies." He claimed that if one
were to consider only the number of re-
ports made by the auditor, one would get
the wrong impression that Malaysian
companies were law abiding even
though the reality showed otherwise. He
revealed that the RM 7 million fines col-
lected in the first 10 months of 1992 sig-
alled that far too many companies had
committed various offences under the
Act. He also mentioned that in 1991, the
ROC collected RM 8 million fines from
7,148 companies. He next stated (The Malay-
sian Accountant, Dec. 1992, p. 12): "It is therefore apparent that not all
auditors are performing their duties in
accordance with law." He warned the
auditors that "appropriate action" would
be taken against those who did not carry
out their duties conscientiously (NST, 17
Dec. 1992). But with no news reported
on such action, it may be deduced that
the auditors concerned need not take the
warning seriously. This was in fact
found in several interviews with audi-
tors.

The Activation of the MIA in 1987.
As noted earlier, based upon docu-
mented sources, it is clear that the MIA
was made to be active by the govern-
ment for primarily two reasons: to in-
crease the number of indigenous ac-
countants and to clean up the accounting
profession from “undesirable elements”.
From those interviewed, a good support
was found for the former; however, very
little was mentioned about the latter. The
interviews had also uncovered many
other reasons including personal ones
among those who were said to have ac-
tively sought for the MIA to be revived.
These reasons included the MIA was
used as a platform by one or two personal-
ities as stepping stones for “better
things in life” and that it was a vindic-
tive act by certain personalities over
their unhappiness with the MACPA
leaders. From the viewpoint of those
people interviewed who identified these
“personal” reasons, there was little belief
that national interests in the form of in-
creasing the number of bumiputra ac-
countants, wiping out unregistered ac-
countants, etc. were really the reasons
behind the move to activate the MIA. A
number of them also claimed that that
the motivation for the MIA to become
active was really from the accountants at
the ground level and not the then finance
minister or other parties in the govern-
ment. With such confusion on MIA’s
activation, perhaps it was not surprising
to find that an active MIA had failed to
deliver on both cases of raising the num-
ber of bumiputra accountants and
emerging as a strong accounting regula-
tor. The latter is discussed next.

Accounting Regulator. The fact that
since the early 1980s white-collar crime in its various forms has proliferated in the country is well known (see Koon, 1994). Related to this, there were revelations made by certain parties in the country as to the apparent ill health of the local audit practice. See Central Bank (1987, p. 6), Malaysian Business (16 Aug. 1988, p. 16) and Choo (1991, p. 23). From interviews, it was found that numerous parties including a few auditors themselves considered that although the last ten years had seen the nation’s audit to have actually improved, there was still much room for improvement. Two interviewees who were closely connected with the MIA had in fact stressed that year after year it was found that the financial statements selected for reviews uncovered "serious" disregard of the approved accounting standards and the relevant laws. With all this in the background, it is not surprising to find that certain parties in the country had publicly aired their dissatisfaction on the conduct of members of the accounting profession and their representative bodies. They also made it clear that they would like to see changes taking place in the accounting profession. See remarks made by for example the former Governor of the Central Bank and the chairman of the bumiputra trust agency, Permodalan Nasional Berhad (PNB)\(^9\) and several listed companies Tun Ismail Ali (The Malaysian Accountant, July-Sept 1988, p. 18) and those by the then finance minister Tun Daim Zainuddin in 1989 (Akauntan Nasional, Sept. 1989, pp. 21-23) and 1990 (Akauntan Nasional: Aug. 1990, p. 26 and Oct. 1990, pp. 20-21)

\(^9\)The PNB in 1988 had investments in 153 companies where 94 of them were quoted at the KLSE (The Malaysian Accountant, July-Sept. 1988, p. 20).

\(^{10}\)It was found as Appendix 8 in the "MIA 1988 Bounded Document".

Finally, it is notable that the Inland Revenue Department (IRD) had in 1988 voiced its dissatisfaction with the quality of work of the nation's public accountants and the apparent weaknesses of the MIA in fulfilling its regulatory role. A letter sent to the MIA president by the then deputy director-general of the IRD dated 27 July 1988\(^{10}\) showed that the IRD was not happy with the work executed by the MIA members who were working as tax accountants. The deputy director-general specifically mentioned collusion between unqualified accountants and qualified accountants and that the IRD had also found cases where MIA members who acted as tax accountants had not done their work properly and in some cases had in fact "falsified" their clients' accounts for the purpose of tax evasion. He also pointed out that the MIA president needed to focus on the fact that some auditors had failed to conduct their audit work in accordance with auditing standards. He stressed that the MIA president needed to ensure that these problems were dealt with or else he would not just disclose these matters to the public but would also put in place "measures" to stop their proliferation. Two months after the letter was written, The Star (30 Sept. 1988) reported that "six reputable accounting firms" with bases in Kuala Lumpur were warned by the IRD to be more careful when preparing audited accounts for limited companies. The then deputy director-general of the IRD was reported to say that submitted accounts had contained "gross discrepancies". He also said that the department would not be lenient in the coming year (1989) with audit firms found responsible for any discrepancies in audited accounts. The IRD he pointed out...
would take accountants to court for abetting taxpayers to submit incomplete audited accounts.

While it is clear that the MIA needed to do a lot to improve the quality of accounting practice in the country, in just one word, the MIA's apparent response to the proliferation of white-collar crime in the country is inadequate. This is especially the case in the latter few years compared to its first two or three years after its activation in 1987.

The MIA's Actions and Inactions. On the night before the MIA's first AGM in 1987, the MIA president mentioned what he continued to repeat over the next three years:° The MIA aimed to be a strong regulatory body (*The Malaysian Accountant*, Oct-Dec 1987, p. 10). He stressed that after the inaugural AGM when MIA was then able to form its investigation and disciplinary committees, the council would have to make "a determined effort" to clean up the image of the profession. The MIA president even mentioned that to ensure a more effective policing by the MIA in the future there would be joint investigation and disciplinary body comprising representatives from the Treasury, Registrar of Companies and Registrar of Cooperatives. He had also volunteered to have the MIA to take over the "policing" task over the auditors handled by "a monitoring committee" in the finance ministry that was recently formed and comprised of representatives from various bodies including the MIA.®

With this apparent early desire to be a strong regulator, a few months after the MIA first AGM, *The Malay Mail* (13 Jan. 1988) reported that following complaints against 15 accountants lodged by companies, fellow accountants and government departments, the MIA was going all out to clean up the act of errant accountants. The MIA president was reported to have said that 15 accountants were under investigation for alleged malpractice and criminal breach of trust. He also said that the accountants faced being de-registered while prosecution in court awaits those who had violated the Accountants Act 1967. In the later part of 1988 and in early 1989, there were a number of reports in the *NST* on what the MIA leaders would do to errant members. The headlines of the news reports said all: "MIA May Expel Members Who Break the Rules" (21 June 1988); "MIA Warns Members of Stern Action" (15 July 1988); "MIA May Expel Those Abetting Fraud" (17 Oct. 1988); "MIA to Haul Up Accountants Not Following Rules" (28 Feb. 1989). Also on 14 July 1988, in the *Business Times* and *The Star* the following headlines appeared respectively: "Warning from the MIA" and "MIA to Get Rid of Black Sheep". In the former, the MIA president was reported of saying that the MIA would not condone members who "... persistently refuse to comply with

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° See the MIA 1988 Annual Report (p. 6), 1989 Annual Report (p. 7) and Hanifah (1990, p. 15).

® Information are hard to come by on this committee. The only available information found came in the form of a few lines appeared in *Akauntan Nasional* (Dec. 1990, p. 24).

12 The apparent exception took place in two occasions: one in 1992 when the MIA president was reported to say that the MIA had found from its recent investigation involving 40 accountants that there were auditors who had failed to issue proper audit report (*NST*, 12 Apr. 1992). And another in 1993 under the headline "MIA Warning to Errant Members" (*NST*, 28 Jan. 1993). But on closer inspection, the story involved members of MIA who colluded with unqualified accountants. Thus, this story was nothing new. It is because on this subject of collusion between members and those people unregistered, the MIA over the years was fond of issuing numerous statements to the media making one warning after another that stern action would be
the statutory requirements, accounting and auditing standards adopted by the Institute."

But after the MIA's code of ethics was made effective in April 1990, hardly anything like those stated above had come out from the MIA. When reference is made to the MIA Annual Reports over the years, it is found that since its first AGM in September 1987 until the AGM in 1996, the MIA's disciplinary committees had only taken disciplinary actions against members for the years 1987/88, 1991 and 1992. In other words, in the later years after its activation, it appears that the MIA has not found it "fit" to discipline any members where complaints were filed against. For the years 1987/88, 1991 and 1992, the MIA disciplined four members each year for a total of 12 members in its first ten years of active life. Since 1993 to the AGM in 1996, it had failed to take any disciplinary actions against members although the MIA Annual Reports showed that "every year" since 1987 (except for the years 1989 and 1990 when not much details were disclosed in the MIA Annual Reports on the works done by its investigative and disciplinary commit-

With the documented sources showing that the MIA's recent performance in regulating its members had left much to be desired, it should not be surprising to hear from an interviewee (who could be considered to have close connection with the MACPA) that the MIA had acted indifferent to the various complaints that he filed with the body. He said: "I have filed numerous complaints to the MIA on the unethical activities of their members. What did I get? I did not see or hear any actions taken. I did not even get a reply to all those letters that I sent to them! MIA is really hopeless in disciplining its members." All this illustrate what Friedland (1989, p. 74) says to be "the tremendous reluctance" across accounting professional bodies in the Far East to prosecute their members.

As if the MIA's failure to be effective regulator through enforcing existing rules and regulations was not bad enough, the MIA had made it worse by failing to implement "new" ideas that its leaders themselves claimed in so many instances as crucial in order to strengthen the nation's audit practice. One of the ideas was concerned with the practice of quality review of the audit firms. See the MIA 1992 Annual Report (p. 7); Mingguan Malaysia (12 Apr. 1992); Akauntan Nasional (May 1992, p. 26; Nov/Dec. 1992, p. 31; June 1993, p. 22); NST (28 July 1992); and, finally the MIA 1993 Annual Report (p. 15). Another area is concerned with its vari-

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13 The excuse for no disciplinary actions taken in 1989 was this as appeared in the MIA 1989 Annual Report (p. 13): Dato' Shamsir Omar who was sitting in the disciplinary committee left the council and thus the committee too due to his retirement from his position as the then Accountant-General. As for the year 1990, the excuse as found in the MIA 1990 Annual Report (p. 13) was this: shortage of manpower "especially" with the resignation of the Institute's legal officer.

14 The MIA in contrast to that of the MACPA did not divulge the types of disciplinary action taken against the members in its annual reports. Why it did not find it fit to clearly spell what these actions were appears to be one of those questions whose answers are everyone's guesses.

15 The excuse for no disciplinary actions taken in 1989 was this as appeared in the MIA 1989 Annual Report (p. 13): Dato' Shamsir Omar who was sitting in the disciplinary committee left the council and thus the committee too due to his retirement from his position as the then Accountant-General. As for the year 1990, the excuse as found in the MIA 1990 Annual Report (p. 13) was this: shortage of manpower "especially" with the resignation of the Institute's legal officer.
ous proposals in 1992 related to the subject of the auditor's independence which the MIA president claimed "ought" to be implemented with a few other measures to strengthen the profession (see Akuntan Nasional - Conference Times, 15 July 1992, p. 1; Business Times, 15 July 1992).

It is also perhaps important to note that in at least one case the MIA had appeared to go weak upon its earlier fine effort. This is concerned with the Continuing Professional Development (CPD) that was made effective from 1 March 1992 (Akuntan Nasional, March 1992, p. 22). See the Akuntan Nasional (Nov. 1990, p. 20), NST (6 Nov. 1990) and Akuntan Nasional (Nov/Dec 1992, pp. 30-31) where the MIA president stressed why the MIA needed to have the CPD made compulsory. But the MIA 1995 Annual Report (p. 26) disclosed that "changes" that were introduced in November 1994 and made effective from 1 January, 1995 had ensured that what took place in the past, where the MIA secretariat was the entity responsible for CPD record-keeping, was replaced with members themselves made responsible to do the record-keeping individually. There is no more need now for each member to submit an annual CPD report in a prescribed form. Instead, members would be selected at random and asked to produce evidence of compliance.

From interviews conducted with a number of the MIA council members, they were those who readily admitted that the MIA was not fit to regulate its members because in "Malaysian context" members were bound to fail in regulating other members. They had however failed to give details as what was meant by “Malaysian context”. Thus, it is everybody’s guesses as what exactly they referred to. Numerous other reasons were also gathered as to why the MIA had not acted effectively as a regulator including the need for the MIA to protect its members from outsiders and the difficulty faced by the MIA in searching for the evidence of wrong doings. From two documented sources other possible reasons were also found. The first source was the paper presented by the MIA president in 1990 where he mentioned the financial constraint faced by the MIA in bringing errant members to task (Hanifah, 1990, p. 16). The second source was the MIA 1994 Annual Report (pp. 6-7) where it was stressed that each member of the MIA needed to stress on self-discipline.

Finally, it may also be inferred that the MIA had been lenient in the later years after its activation due to the fact that with Tun Daim Zainuddin leaving the finance minister post in March 1991 there had been since then little pressure coming from the finance ministry for the MIA to show that it could regulate itself well. The person who replaced him who was also holding the post deputy prime minister had not been critical at the performance of the MIA as a regulator. It seems that since he took over from Tun Daim Zainuddin, only once - in the very year when he got hold of the post - that he acted critical of the audit executed by local auditors. At the 7th National Accountants Conference, he mentioned that the government viewed the lack of credibility of the auditors as a serious matter since there were among them those who had followed the instruction of the company directors or top management of the companies to ensure that the financial statements reflected misleading picture
of the company affairs (Utusan Malaysia, 19 Sept. 1991).

Later on he seems to have a high regard in Malaysia’s (particularly big?) audit firms as shown in the speech he made at the MACPA’s 36th Annual Dinner (The Malaysian Accountant, June 1994, p. 14): “The accounting fraternity in Malaysia has come a long way since the early days of independence … Since then, the industry and the country in general has grown … Indeed, local accounting firms have gained international recognition for their high standards of professionalism and expertise, standards that are amongst the best in the region.” This stance of his contradicted that taken a year earlier by the then chairman of a body that came under the minister’s jurisdiction: the Securities Commission (SC). In a hard-hitting lecture on Malaysia’s corporate governance, he commented on problems in the audit profession that needed correction. First, he mentioned that he was uncertain whether the nation’s accounting bodies should be self-regulatory in nature (The Malaysian Accountant, Oct/Dec 1993, p. 15). Next, he pointed out that auditors in the country had much room for improvement. He said that “[t]here have been a number of weaknesses in the performance of the audit function which I do not propose to dwell at length here.”

As if the MIA’s failure to be an effective regulator was not bad enough for the nation, the MIA right after its activation seemed to be spending much of its resources for activities which at the end did not seem to have quite benefit anyone. One was concerned with its function as “accounting promoter”, and the other was its rivalry with the MACPA. Accounting Promoter. If as “accounting regulator” the MIA had not shown much promise, the opposite appears to be the case in the promotional field. Indeed, the MIA had shown over the years the tendency to give great interest to promote the interest of its members in a number of ways. Unfortunately, in just about every single case, the MIA provided the picture that it was living in a world separate from the rest of the Malaysian society! For example, in just over a year after it was revived, in October 1988, the MIA submitted a memorandum to the finance minister requesting the government to look into the desirability and possible methods of limiting the accountant’s personal liability for negligence claims. The government had not bothered to respond to this MIA’s proposal. As if the government's indifference was not embarrassing enough and notwithstanding the apparent positive state experienced by local auditors (where during the first four decades after independence there had only been one single case where Malaysian auditors were brought to court – in 1965; see Azham, 2001b), the MIA had launched in 1991 a professional indemnity insurance scheme for its practising member (Akauntan Nasional, July 1992, p. 6). Not surprisingly, the MIA had failed to get good response from them. After nine months, only 10 percent of the some 800-member firms had signed up (NST, 30 Sept. 1991). Thus, the MIA president said that the MIA council would have to consider making it mandatory for all member firms to be covered by the scheme (NST, 19 Oct. 1991).

Also, the MIA had started early in 1988 a fight against the unqualified/unregistered accountants. From February to November 1988, the MIA
resorted to the lodgment of police reports and at times the MIA senior staff members would join the police to raid the premises of these unqualified accountants. The MIA also hired lawyers to bring the matter to court. By the end of 1988, MIA had lodged 92 police reports and the police had raided 19 firms (NST, 5 Nov. 1988). The approach taken by the MIA received a certain level of condemnation from various parties. For example, see the Editorial to the Business Times (5 March 1988). The crackdown ended when Malaysian Institute of Corporate Secretaries and Administrators (MICSA) representing the unregistered accountants sent a letter of appeal to the then finance minister (NST, 5 Nov. 1988). Later in 1992, the MIA launched the Malaysian Association of Accounting Technicians (MAAT) to house most of these accountants - a move that with hindsight did not need the MIA to initiate such a crackdown in the first place. That was precisely what the MIA president claimed in 1989 (Akauntan Nasional, Sept. 1989, p. 24).

Finally, the MIA in promoting the accounting profession had proposed institutionalising its minimum audit fees schedule (see MIA Council, 1994). The new ruling that governed all MIA practising members was supposed to be effective from 1 January 1992 (Akauntan Nasional, Feb. 1992, p. 19), but it was later moved to 1 April 1993 (Akauntan Nasional, May 1993, p. 16). At the end it was turned into a mere "guideline" as of 1 September 1994. This was because as soon as the minimum fee schedule was implemented, the uproar began. The MIA came to face with severe opposition from parties such as the Perak Chinese Chamber of Commerce (NST, 17 Feb. 1993), the Federation of Malaysian Manufacturers (FMM) (NST, 18 Feb. 1994) and the Associated Chinese Chamber of Commerce and Industry Malaysia (ACCCIM) (NST, 11 Feb. 1994). As a result, in August 1994, the MIA president announced that body would drop its minimum scale of audit fees effective 1 September 1994 and instead maintain it as a guide for its practising members (NST, 2 Aug. 1994).

Accounting Rivalling. In the interviews conducted with both the MACPA and MIA leaders, many voiced their unhappiness with each other quite forcefully, including many revelations by one party of the faults of the other and the use of critical labels to describe the other. From interviews, it seems the rivalry had some deep-seated reasons involving among others the issue of race (Malay-controlled MACPA versus Chinese-controlled MIA), MACPA’s closed-shop policy over the years, big versus small audit firms and chartered accountants versus certified accountants. On the other hand, from documents inspected, it appeared that the rivalry might be nothing more than competing attempts by two interested parties which wanted to be the sole leader in the nation’s accounting arena. Yap Leng Kuen (The Star, 23 Aug. 1988) argued that the MACPA when incorporated in 1958 had appeared to consider itself as the de facto leader of the accounting profession in the country. The proof that that was the case may be found in several documented sources penned by those who were leaders of the MACPA (see Nawawi, 1979, p. 5; Abu-Hassan, 1986, p. 3). Also, check out the following revealing remark coming from the MACPA 1985 Annual Report (pp. 13-16): "A Public Affairs Committee was formed immediately after the last AGM
to take charge of the PR aspects of the Association's activities. The Committee has developed a scheme, to be launched in stages, to increase public awareness of the accountancy profession and to position the Association as the leader in the profession." (Emphasis added.) But now after thirty long years with the MIA revival in 1987 as the statutory body to oversee the development in the profession, the MACPA leaders had suddenly found their association placed in a secondary role. This was a fact that the association leaders resented very much and which they would do their best to put aside. The “MIA 1988 Bounded Document” (pp. 44-46) provided a vivid picture of the MIA-MACPA rivalry. Early on it said that the MIA's problem with the MACPA was the result of dissatisfaction among a section of MACPA candidates who were defeated in their attempt to sit at the MIA council at the first MIA's AGM in September 1987.\textsuperscript{16} It also said that their defeat had resulted in them using all the power and influences to obstruct the MIA council from fulfilling the objectives of the MIA as stated in the Accountants Act 1967. Next, it pointed out that this group had suggested to the government to return the MIA back to its position before the activation as the registration body. In another publication, Berita MIA (January 1988, p. 12), the MIA disclosed that following the MIA’s inaugural AGM, the MIA council set up their own secretariat which previously was shared with that of the MACPA. When the MACPA council was informed that that was the case, the MACPA president and his fellow council members became “quite upset” and had two days later called off the joint committee arrangement that the MACPA had with the MIA.\textsuperscript{17} It was a few months later - in April 1988 – that the general public first came to know about the problems between the leaders of the accounting bodies. The MIA president went to the media mentioning that a group of people consisting of "officials of a smaller accounting body" were "out to do mischief" (NST, 22 Apr. 1988). He also said that these mischief makers "... are quite big. They have vested interests because they feel they are not represented in the council." These people he claimed were collecting proxies to vote against the MIA proposed changes to be tabled at an EGM. A few days later he said that the "rival accounting group" did not want to see the MIA playing a greater role (The Malay Mail, 25 Apr. 1988). In many of the newspapers reports, the MACPA was not identified, though in the Utusan Malaysia (30 Apr. 1988) it was reported.

\textsuperscript{16} In total, nine CACA members compared to four from the MACPA were elected to sit in the MIA's fifteen-person council (Business Times, 21 Sept. 1987). CACA was able to win many seats not just because it had a large group of members but also because its members were better organised for the election than those of other MIA's recognised accounting bodies whose members also aimed to have "majority control" in the MIA council (Business Times, 21 Sept. 1987). In 1988, the CACA had more members (1,800) and students (about 6,000) in Malaysia than in any other country - except for Hong Kong (Business Times, 2 March 1988). Internationally, the association had then 30,000 members with over 10,000 were based outside the UK and more than 70,000 students. In 1995, the CACA in Malaysia had 12,000 registered students and about 2,000 members (Business Times, 22 May 1995).

\textsuperscript{17} It was a few months prior to the MIA’s inaugural AGM that both the MIA and the MACPA agreed to have the cooperation between the two bodies enhanced through the joint cooperation of most of the committees of the two bodies (see The Malaysian Accountant, July 1987, p. 3). For more on what transpired related to the topic of the disband of the joint committee arrangement, see the letter sent by the MIA president dated 5 October, 1987 and the reply by the then MACPA president, Subimal Sen Gupta dated 30 October, 1987 that are placed as Appendices 1 and 2, respectively, in the "MIA 1988 Bounded Document".
that the culprits came from a professional accounting body which had been successful in influencing several large accounting firms to support their actions. In the "MIA 1988 Bounded Document" (pp. 41-42), it was stated specifically that the body was the MACPA. Looking at what transpired during the EGM, there was no doubt that it was those from the MACPA who were the “trouble makers”. As noted Yap Leng Kuen (The Star, 23 Aug. 1988), some MACPA members objected to various proposals to amend the Accountant Rules 1972. Four MACPA members consistently asked for polls, despite a clear cut majority by a show of hands and the fact that they knew they would be defeated every time.

This April 1988 EGM rivalry episode led to other distressing episodes of rivalry18 and what appeared at the end to have resulted with the establishment of the MASB in mid-1997 to great disappointment on the part of the MIA but much satisfaction for those leading the MACPA. While documents analysed have failed to provide clear cut evidence of the MACPA’s direct involvement in the setting up of the MASB,19 the interviews conducted with a number of leaders of the MIA provide the evidence that that was indeed the case. Their explana-

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18 Two more episodes took place in 1988. The one in July concerned the various proposals by the then MACPA president to the MIA including the forming of an “accounting standards consultative committee” to develop and issue accounting standards and auditing guidelines (NST, 23 July 1988). A council member of the MIA had in response accused the MACPA of "usurping the statutory powers of the MIA". See also The Malaysian Accountant (July-Sept 1988, p. 15), NST (26 July 1988) and (27 July 1988). Another one took place at the end of 1988 (NST, 8 and 17 Dec. 1988). This and the one taking place at the end of 1993 (NST, 9 and 18 Dec. 1993; The Star, 8 and 15 Dec. 1993) concerned the opposing groups of members coming from the MACPA and the CACA who strove to have their colleagues to fill the six seats in the MIA council. In the case of the 1988 election, both parties had mentioned to the media that they aimed to control the MIA council because that would give them a better opportunity to look after their interests (The Star, 16 Nov. and 8 Dec. 1988). For the 1993 election, the rivalry appeared to be more serious where members of the MIA were personally approached to secure their vote and proxy votes were collected from those unable to attend (NST, 18 Dec. 1993). Sarcastic remarks were also thrown by one to the other in the written media. See the NST (9 Dec. 1993, 15 Dec. 1993) and The Star (8 Dec. 1993, 15 Dec. 1993). Besides these episodes, one more took place in 1992 with the involvement of a third party the ROC. It concerned Companies Amendment Act 1992 where its Section 132A had included the MACPA together with the MIA and Malaysian Association of the Institute Chartered Secretaries and Administrators (MAICSA) as the three bodies whose members were recognised to be among those who were automatically qualified to act as companies' secretaries and who thus needed not to be given licenses by the ROC (Business Times, 11 Feb. 1993). See also Business Times (13 Feb. 1992). Also in 1992, another episode of rivalry began which only came to an end in 1994. This rivalry revolved upon the use of statutory designations. See Akauntan Nasional (Feb. 1992, p. 20), (Aug. 1992, p. 26) and The Malaysian Accountant (Feb. 1992, p. 15). From an interview with two MIA council members, they mentioned that it was only due to the involvement of the finance ministry in this episode that stopped the two accounting bodies from having their differences settled by the court.

19 However, there certainly exist a number of “indirect” written evidence that that is the case. See remarks stated in the MACPA 1995 Annual Report (p. 38) and those uttered in a speech by the then MACPA president in the following year (The Malaysian Accountant, June/ Aug 1996, p. 17). The latter was very clear on the support given towards the government’s move in setting up MASB. Also note that there exist at least two documented sources which were published in the previous decade showing the picture that the MACPA leaders were for years had hoped for such a body to emerge: Gupta (1987) and Peng (1987, p. 12). Finally, it was in 1988 when the then MACPA president gave a press briefing on the formation of an “accounting standards consultative committee” which had caused much consternation in the MIA council (NST, 23 July 1988). Discussion earlier as one of MIA-MACPA rivalry episodes, the then MACPA president without discussing the matter beforehand with the MIA leaders stated that the MACPA would initiate the formation of such entity to develop and issue accounting standards and auditing practices in Malaysia. The committee would have representations from the MACPA, the MIA, the universities and the relevant regulatory authorities. All in all, it is difficult to believe that the MACPA was on the side-
tions were in fact substantiated by those coming from two leaders of the MACPA. One of these two had even gone on record to say that the MACPA saw the MASB as a 'counterweight' to the MIA. He had also pointed out: “With the MASB, the MACPA has very cleverly cut the MIA's power by half!”

Further evidence, albeit indirect, of the MACPA’s involvement came in the form of those appointed as the heads of MASB and FAF. For the MASB, the person mentioned earlier was also a former president of the MASB; while for the FAF, this person was also a former member of the MACPA’s council. It is worth noting that all the big six audit firms which were influential in MACPA were represented in either FAF or MASB or both: one in both the MASB and FAF through Raja Datuk Arshad, another four in FAF and the last one in MASB. As for the MIA, it was only the president represented in the MASB!

The Setting up of the MASB in mid-1997. The renowned lawyer G. Sri Ram gave the following appalling picture of a segment of the Malaysian corporate sector (Ram, 1985, p. 1):

[These public companies were] ... run like a family business with none to question and none to answer ... Even family companies, seeking to reap huge profits, turn public. Shares are listed in the stock exchange. Yet some of these organisations find great difficulty in abandoning the concept of unquestioned management. Many directors consequently do not familiarise themselves with basic company law. They flout, sometimes quite arrogantly, established principles of corporate law. They shun the advice of professionals. They forget that they are no longer running a family company, that they are answerable to the law ...

Ten years after he made this remark, the situation had yet to improve. That is, although since 1994, the number of new companies registered yearly in the country was roughly 40,000 (NST, 23 Apr. 1997) to lead to a total of more than 404,000 companies by the third quarter of 1996 (Business Times, 18 Sept. 1996) and that the number of companies listed at the KLSE had also grown by over 200 during the same time period, between January and August 1996, a total of over 30,000 fines valued at nearly RM 8 million were issued to errant companies by the ROC (Business Times, 18 Sept. 1996). About 70 percent of this amount was due to failure or delay in the tabling of their accounts at AGMs and sending in their annual returns and other documents to the ROC. This appears to be the basic story year after year ever since 1988 when the ROC started to be strict in imposing fines on companies (The Sunday Mail, 21 Aug. 1988). Thus, it is not an exaggeration to say that many Malaysian companies have found little hesitation to flout the law.

Unfortunately, that is not their only crime, for they are also famous for being reluctant to disclose much. See the re-

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20 Thus, for example, in 1988 total fines of nearly RM 5.5 million were collected. In 1989, it was over RM 4 million - a reduction in amount compared to the previous year due to the temporary lowering of the compound rate (Shaari, 1990, p. 13). Two years later, in 1991, the ROC collected RM 8 million from 7,148 companies (The Malaysian Accountant, Dec. 1992, p. 12). The following year, in 1992, the ROC collected RM 7.39 million in penalties from 24,241 convicted companies (NST, 19 Feb. 1993). Finally, in 1993, it was reported that a total of 67,000 companies
marks made by Dr. Barjoyai Bardai in his newspaper column (Berita Minggu, 25 July 1993) and those in 1995 by the then minister of domestic trade and consumer (The Malaysian Accountant, Dec. 1995, p. 17). See also the interesting speech made by Tan Sri Datuk Jaafar Hussein when he was the Central Bank Governor where he mentioned the lack of disclosures “and” the reasons for such phenomenon (Jaafar, 1992). Besides these anecdotal accounts, an empirical study by Tong et al. (1989) and another by Tong and Ann (1996), both on voluntary disclosures, found a high level of non-disclosure by samples of companies listed at the KLSE. As if the tendencies to flout the law and the reluctance to provide sufficient disclosures are not bad enough, Malaysian companies are not averse in treating their minority shareholders with a certain level of indifference or even contempt. This was vividly described by the then minister of domestic trade and consumer affairs in mid-1990s (The Malaysian Accountant, Feb. 1995, p. 13):

... companies should not practice double standards in distributing their annual reports. Although it is appreciated that a company would want to impress financial institutions, creditors, fund managers and prominent businessmen by issuing them well laid-out, coloured copies of their annual reports, [minority] shareholders should not be given second-class treatment and be merely served poor quality black and white copies of the annual reports minus valuable information. In some cases, copies of annual reports sent to shareholders contain only the bare minimum disclosure stipulated by the law ...

With all this in the background, it may be deduced that nothing much may thus be expected from corporate bigwigs and their auditors in ensuring that companies’ financial reports abide to the requirement of full disclosure. And yet the Financial Reporting Act 1997 Act (which has made it clear that MASB accounting standards are compulsory for any published accounts of a business entity in Malaysia and its overseas subsidiary or associated companies whose accounts form the consolidated accounts in Malaysia) does not make any direct statement on the enforcement activity of the MASB or other related bodies.

This is unexpected considering that early on in 1994, when the then finance minister first raised the subject of an “independent” body to develop accounting standards, he mentioned that “…the time has come for us to consider the establishment of an Accounting Standards Board backed by a body which can ensure stronger arrangements for securing compliance …” (The Malaysian Accountant, June 1994, pp. 14-15). In the following year, during the 1996 Budget Speech he used the terms "enforcement" and "monitoring" when talking about the MASB (NST, 28 Oct. 1995). But just before the Parliament passed the bill on the establishment of the MASB, he could only say that the FRF and MASB would be supplemented by appropriate compliance and enforcement mechanisms of the ROC, Central Bank and SC (Business Times, 8 Oct. 1996). Unfortunately, he did not go into detail how
these bodies would go about ensuring corporate compliance. With the ROC having little expertise in accounting and auditing, nothing much has been heard on the Central Bank’s enforcement activity and the fact that to date the SC has hardly shown any interest in companies' financial reporting, it is uncertain as to how far these regulators will be effective in their enforcement activities.

Therefore, it may not be an exaggeration to say that with or without the MASB, the future state of financial reporting - assuming little intervention from the “Asian Financial Crisis” - would continue much as it was when the MACPA (with its limited power) and later the MIA controlled regulation of practice. It could not be expected to be that much different from its past even though the Act has ensured that the finance minister retains considerable authority over the practice of financial reporting in the country: Section 15 notes that the minister's directions to the Foundation and the Board in regard to their respective functions and authorities need to be "listened" to and that both the FAF and MASB will have to report their activities to him when they are required to do so "from time to time". Also, its final section, Section 29, notes that "[t]he Minister may make such regulations as may be expedient or necessary for carrying out or giving effect to the provisions of this Act."

In fact, such provisions could very well make things worse for the fact that persons who hold the finance minister post may be biased in their decisions for the good of businesses which they are involved either directly or indirectly through their associates. In the country, politicians and their political parties which form the governing party are known to be heavily involved in businesses. In other words, what could very well be an instrument for the good of the country as a whole, the MASB may turn out to be an instrument beneficial for only a certain segment of the population.

Already it was disheartening to find that many of those who were influential in the MACPA had got seats in the MASB and/or its parent body the FAF – to the exclusion of many other parties who constituted the accounting sector in the country. For at least one of them, his appointment was a source of surprise for the fact that (about a year prior to his appointment) he in a speech had degraded the need for accounting standards and the function supposedly played out by the external auditors in the country (The Malaysian Accountant, Oct/Dec 1996, p. 20). This person who was appointed as the chairman of FAF had said the following when giving his view over the controversial issue of reporting for goodwill (pp. 21-22):

While the professions labours intensely over issues of how to standardise the writing down of goodwill and such other items of extreme accounting delicacy, the investing public is quite content to value a Malay-
sian Second Board company [at the KLSE] which may not have any special license, technology or brand name, at twenty times book. Reminds you of that time when whole communities of European clergy closeted themselves and debated intensely over the sex of Angels while that continent labours under the Dark Ages. What does it all mean? I suspect it may mean that the investor, that mythical shareholder that all auditors address their reports to, doesn't give two hoots about audit reports and accounting standards. That the mythical shareholder actually knows the severe limitations and relevance that accounts prepared on lines of historical conventions have as instruments of shareholder information or protection. And that very notion of statutory audits as encapsulated in company legislation in Malaysia and other jurisdictions are lost cause propositions.

This damaging opinion coming from a personality who was considered as one of the leaders of the Malaysian accounting profession was reinforced as follows (p. 22):

Perhaps the profession should find the great moment to finally own up and tell government and legislators and regulators that the notion of external audits for investor protection is over-rated, overly expensive and quite futile. And if indeed shareholder protection is the objective, that it would be cheaper to bring back the iron-maiden and other such delicate forms of medieval persuasions than to rely on our audit side.

Changes taking place in the accounting arena in the post-NEP era had not seen to lead to successful outcomes. In regard to the Companies Act’s 1985 amendments, this concerned the expansion of the auditor’s reporting responsibility. As for the revived MIA, one of the areas which it was supposed to work on and which it had failed to show any significant results was its regulatory responsibility. Finally, when it concerned the MASB, the focus is on its lack of power in enforcing the accounting standards issued. By applying the political economy of accounting theory, the following section attempts to explain the reasons for the phenomenon of “the triumph of hope over experience” of these accounting changes.

Discussion

Following the occurrence of racial violence in May 1969 in Kuala Lumpur, the government launched the New Economic Policy (NEP) in 1971 with the purported aimed of fair distribution of economic benefits among members of society. This had in turn led the government to emphasise its “direct” participation in the nation's economy "on behalf" of the Malays and other bumiputras (Azham, 2001b). As a result, from early 1970s onward, there was the strong presence of the government in the corporate sector. As for the Chinese, by late 1970s the ownership structure of their businesses had begun to evolve from majority sole proprietorships and partnerships to corporations – in an attempt to compete with the government companies.

The strong presence of the government and the increasing involvement of local Chinese in the corporate sector appeared to signify that those who owned, man-
aged and funded the corporations in the country came from two separate groups of people – each group had its own shared goals that were not only economic but also social and political. There was perhaps a mass base of individual investors and the financial support from banks in each case. However, these people and those banks to a very large extent possessed the same social, economic and political aspirations as those managing the companies. The enterprises were registered as companies but in actuality they were unlike those known as companies in the western sense of the word "company" with conflicting interests of different parties. Nonetheless, in the 1970s as also before, Malaysia's industrial growth was heavily dependent on foreign capital. As a result, in the manufacturing sector in particular, foreigners invested substantially in accord with the government's encouragement and the various incentives offered.

With such to be the case, perhaps it could be expected that to a large extent the nation’s accounting landscape then was transformed into a no-man’s land (Azham, 2001b). The Companies Act 1965 and Accountants Act 1967 that earlier were aimed to facilitate the emergence of free enterprise economy were mainly left unapplied until two decades later. The government acted as if accounting and accountants of being little relevant leading to the statutory accounting body MIA lying low while the privately established MACPA catering to the needs of foreign investors was allowed to be active in quite a taxing manner. In short, the nation’s accounting then was very much in a quagmire.

Later, in the second half of 1980s, change finally began to take place in the nation’s economy and in turn in the accounting sector. What seemed to have pushed for changes to take place was the occurrence of two economic recessions taking place in the first six years of the 1980s (see Ismail, 1994; Yan, 1994; Zaínal-Aznam, 1994; and Mohd.-Saufi, 1986). The first recession was mild and took place in 1981-82 when the rest of the world also experienced recession. The second recession that occurred in 1985-86 was the worse that the nation had experienced to that date.

The recessions had apparently shocked the government and jolted it into introducing a number of new policy measures. For example, the Fifth Malaysian Plan (1986-1990) emphasised public sector consolidation, rationalisation and completion of ongoing projects. It renounced new major public sector initiatives and instead placed greater emphasis on the private sector, calling for the privatisation of a number of government-held companies. Significantly, at the wake of the 1985-86 economic recession, the government had intensified its efforts to attract foreign investors to the country's manufacturing sector. Guidelines on foreign equity participation were liberalised in 1986 along with access to credit markets, foreign exchange controls and the ability of foreign firms to acquire lands. Thus, the NEP had to some extent come to an end around this time and not in 1990 as planned in the early 1970s.

Meanwhile, various new developments also took place during this period in the

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24It appears that these efforts had produced the desirable outcomes! While the net inflow of FDI into Malaysia averaged RM 200-RM 300 million annually from the 1960s to the early 1970s and hovered around RM 1 billion annually during the period 1974-79 before rising to a record level of RM 3.3 billion in 1982, since 1987 the amount of FDI has shot up tremen-
manner the securities were traded and the parties involved in the trading. A number of these developments were initiated by the then finance minister and others by the KLSE itself. Not surprisingly, by late 1980, the Malaysian stock market had grown by leaps and bound. Besides new developments taking place in the securities market, changes had also finally taken place in the business regulatory arena in regard to two government agencies: the Registrar of Companies (ROC) and the Inland Revenue Department (IRD).

It was within this national context that two new developments took place in the accounting arena: the amendments made to the Companies Act 1965 in 1985 and
the activation of the statutory accounting body MIA with its very first AGM in September 1987. And after several years of polemic, the government made the move to set up the MASB in mid-1997. This action took place at a time when the sophistication of the stock market had appeared not just in terms of greater amount of money invested or the number of people involved, but also in the legal infrastructure.\(^{29}\)

Unfortunately, the implementation of the amended Companies Act on external auditor’s ROC reporting duty had left much to be desired for. At the most, the authorities were only capable of giving warnings to the auditors to get their acts together. As for the MASB, its responsibility to issue accounting standards was not equipped with the right mechanism to ensure companies’ conformance.

\(^{29}\) In regard to the former, for example, in 1993, the daily trading averaged of the KLSE numbered to 800 million shares compared to around 3 million shares two decades earlier (NST, 21 May 1993). At the end of 1993, the market value of the KLSE rose to RM 620 billion - an increase of 152 percent from the RM 246 billion recorded at the end of the previous year (NST, 14 May 1994). In 1993 too, the total volume and turnover rose to 108 billion units valued at RM 387 billion, which exceeded the combined volume and turnover for the past 20 years. In 1994, the International Finance Corporation, an affiliate of the World Bank, posted in the Internet that the KLSE’s market capitalisation as at November 1993 was US$175 billions - the second biggest after Hong Kong among 22 emerging markets capitalisation. As for the legal infrastructure of the KLSE, it was in 1993 too that the KLSE listing requirements was amended to stipulate that companies seeking listing must establish an audit committee. Existing listed companies had to set-up such a committee by 1 August 1994 (Akauntan Nasional, Nov/Dec. 1993, p. 26). It was later extended to 1 October 1994 (NST, 2 Sept. 1994). The following year, the penalties for any breach of the KLSE listing requirements, which included non-disclosure of corporate information, were upgraded from public reprimands and suspension of trading to fines of up to RM 100,000 (NST, 30 Sept. 1994). Finally, as mentioned earlier, it was in 1993 also that the Securities Commission (SC) was established.

The failure of the authorities to do what was appropriate in the two cases involving Companies Act 1965 and the MASB was however paled in comparison to their half-hearted conduct in ensuring the MIA was fulfilling its function as a regulatory body. That is, while the actions of MIA in the regulatory field were below expectations, the accountants and their representative body the MIA were largely left undisturbed. In most cases, there were merely told to do better or at best were given warnings by authorities to improve. It was as if the appeals and warnings were sufficient to force the accountants and the MIA to get their act together. In short, there was much rhetoric but nothing else. The half-hearted reaction to the MIA’s self-regulatory failure in particular and the quagmire in the profession in general may be found in speeches delivered by for example the then deputy finance minister Loke Yuen Yow in July 1988 (which may be found as Appendix 12 in the "MIA 1988 Bounded Document") and later in 1990 (Akauntan Nasional, Oct. 1990, p. 21) and also in the speech by the then finance minister himself in September 1989 (Akauntan Nasional, Sept. 1989, pp. 21-23).

In understanding the failure on the part of the power-to-be to enforce auditor’s ROC reporting duty under the 1985 amendments of the Companies Act, to ensure MIA played the role of strong regulator and finally later in 1997 to have the MASB equipped with the power to enforce its accounting standards, the theory of political economy of accounting appears handy. Specifically, the accounting transformation lacking substance may be explained by the fact that the accounting system existed in an environment where the economy was to
a large extent in the hands of the few who were also deeply involved in the nation’s politics.

**Elite in Malaysia.** As a whole, the significant power held by the elite in the nation’s economy, in particular the corporate sector, is not that hard to decipher. During the NEP era, in a study by Ling (1977) of the top 98 manufacturing companies in Malaysia in 1974-75, it is found that “one” percent of the over 100,000 shareholders accounted for almost 80 percent of the shares held, worth a total of about RM 1.2 billion (see also Ling, 1982). Also, Hui (1981) in his study of share ownership of one hundred largest companies in Malaysia, 1974-76, reveals that it was highly concentrated in the hands of a few institutions. The share ownership of these institutions was in turn concentrated in the hands of a few individuals and families through interlocking directorates. He concludes that the Berle and Means (1931) thesis of management control rather than ownership control could not be applied to Malaysia without strong corrective and empirical analysis.

A decade later, the situation remained the same. Chandra (1989, p. 84) notes that in 1983 a large proportion of the top 797 stock-owners were Chinese and one percent of them accounted for 32.23 percent of the value of shares whereas the bottom 50 percent accounted for only 1.92 percent (see also Hui, 1983 and Mehmet, 1986, Chapter Five). In the late 1980s, after many facets of the NEP were amended, a study done by the KLSE also found similar results: 87.5 percent of the paid up capital of 225 Malaysian incorporated companies as at 31 December, 1987 was held by 8.1 percent of shareholders who held more than 10,000 shares each (Kuala Lumpur Stock Exchange, 1988, p. 22). Based on the same data, Salleh (1989, p. 4) stated that on average, 75 percent of the equity of each company were normally held by the 20 largest shareholders.

In the 1990s, no study had apparently been conducted to find out the extent of the elite’s share ownership. Nonetheless, it is well noted that the local corporate scene is filled with individuals or companies owning at least 51 percent of the shares of the so-called public companies - including those listed at the KLSE. The *NST* (30 May 1994) reported that more than two-thirds of the 335 companies on the main board and all of the 92 on the second board were controlled either by one or a few shareholders with more than 51 percent of the shares. This domination is not illegal since the KLSE listing rules require no more than a public float of 25 percent of the total shares issued. Therefore, the listed companies still remain as private companies (Salleh, 1989). They are public and listed only in names. Many of the listed companies were labelled by chairman of the Malaysian Institute of Economic Research (MIER), Datuk Dr. Kamal Salih, as “private-owned public company” (*NST*, 21 August 1991). Most shares were still held by insiders - family members, friends, clan members and others known personally to the companies' founders. It appeared that business entities favoured so much the 51 percent share or majority control because the founders of the family-owned companies (who converted their companies to public limited companies) were afraid that they would lose personal control over their companies without the majority share (PM Speech, 27 May 1994).
That this was the case when it concerned the listed companies should not perhaps be surprising at all. For after all, the government appears to have led the way here. That is, when the NEP had come to its unofficial end in mid-1980s and where a significant proportion of the economy had been transferred - under the privatisation exercise - from the government to the private sector needing what was proclaimed to be a strong accounting profession, the reality was that much of the private sector was still in the hands of those associated closely with the government sector (see Gomez, 1997; Jomo, 1995). This section of the private sector may even be considered as an "extension" of the government sector whose reigning politicians and political parties had in fact been for many years deeply involved in the business sector (see Gomez, 1994, 1990; Leigh, 1992; Leong, 1988, Chapter Six; and Gale, 1985). There was merely a superficial rearrangement of ownership (Craig, 1988). As for the so-called privatised entities of the former government-held companies that were listed at the KLSE, the percentage of their shares offered for sale had not reached above thirty percent of the total shares: MAS, 30 percent; MISC, 17 percent; STM, 23.9 percent; and TNB, 22.8 percent. Therefore, through partial divestment of equity of government-owned entities, the government was still, at least in the case of those companies above, their major shareholder.

All in all, in the Malaysian context, it may be surmised that those who should be able to make a difference in the accounting arena had failed to do the necessary because it was not within their interest to have a fully enforced Companies Act, a strong and respected MIA and a well-equipped MASB. In fact, it might very well hurt their interests if there were to exist strong and respected accounting function in the country able to play the required role in confronting cases of corruption, nepotism and patron-clientelism that had been present in the country for many decades but particularly in the few years prior to the onset of the Asian Financial Crisis.

In particular, for the MIA to be troubled by the MACPA in one rivalry episode after another was a welcome sight for these parties. Not surprisingly, they had hardly made any serious move to improve the situation. The fact that the authorities appeared to stay on the sideline on this issue of MIA-MACPA rivalry was duly noted by a journalist for the business magazine *Malaysian Business*. Pauline Almeida, commenting that people were questioning the government's stance on the problems that arose between the leaders of the two accounting bodies, wrote (*Malaysian Business*, 16 Aug. 1988, p. 19):

As yet, there have been no official statements that openly indicate the taking of sides. That the Government would like to see unity has been made clear both a year ago by finance minister ... and more recently by deputy finance minister. But the situation is still shrouded in speculation. Loke's [deputy finance minister] careful words that no one accountancy body recognised by the Accountants Act is 'superior or inferior to the other' sheds little light.

Nearly a decade later, Editorial of the same journal mentioned under the heading "A Profession Divided" the rivalry problems of the MIA-MACPA and
made suggestion as to the role that the "authorities" should play in this matter (Malaysian Business, 1 Aug. 1996). The Editorial began with the remark that "[it is] a real shame that the accountancy profession in the country is divided" and ended with the following: "The authorities on their part, must make it clear they recognise only one national accountancy body. There can be no compromise on this."

That the MIA was to be weak was perhaps the intention all along by some parties. This came by not only through having the MIA to face the MACPA on its own in one episode of rivalry after another, but also when it concerned the idea of getting the MIA to play an important role over national issues. In the MIA 1989 Annual Report (p. 7), it was stated: "The Institute is being approached and consulted on various matters affecting the profession and the economy of the country, albeit not to the extent the Institute would like it to be." Later, in 1993, Tony Seah, an MIA council member and a chartered accountant mentioned that one of the problems faced by the nation's accounting profession was the lack of support from the government (Seah, 1993, p. 7). It appeared that the MIA had been left out in the promulgation and implementation of government policies which affected the nation's accountants and the public. In the same year, the MIA president was also quoted to say (NST, 5 May 1993): "Our regulatory role has been undermined by the lack of cooperation and understanding from certain Government departments and agencies." In that news report he also said that although the MIA was appointed by Parliament to represent all accountants in the country, it did not receive due recognition as the national body of accountants. This he said was especially evident in dialogues, representations and meetings when recognition had been persistently accorded to the MIA's component body (MACPA of course!\(^{30}\)). He said that the MIA should be viewed as the "sole" medium for communication and discussion for the accounting profession. He urged the government departments and agencies to recognise MIA's position as the national accounting body.

As perhaps to be expected, the debilitating state of accounting involving the Companies Act, MIA and MASB seemed to mirror that in the public sector. From the then deputy accountant-general (Akauntan Nasional, Jan. 1990, p. 19), he noted that the government operation had been indifferent towards accounting as a tool for effectiveness and efficiency. From Tan Sri Ahmad Noordin, the following was his remark on what took place over value for money

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\(^{30}\) This is not surprising, for there existed over the years close bond between the MACPA and various government departments and agencies. In the MACPA 1983 Annual Report (p. 24) this was mentioned by the president: "I am happy to say that our Association continues to have close rapport with Bank Negara [Central Bank] of Malaysia, Ministry of Finance, Registrar of Companies, Director General of Inland Revenue, Director General of Insurance, Association of Banks and Finance Companies, Kuala Lumpur Stock Exchange, Auditor-General, Accountant-General, and Department of Cooperatives in matters where the Association could make meaningful contributions. On behalf of our members and Council I would like to express the Association's deep appreciation to these authorities for the confidence they have shown in us." Similar remarks may also be found in numerous other MACPA Annual Reports (see for example the MACPA 1985 Annual Report, p. 18; the MACPA 1989 Annual Report, p. 29; and the MACPA 1990 Annual Report, pp. 22-24.). In the first half of 1990s with the stepping down of Tun Daim Zainuddin as the finance minister, it appears that the MACPA had been working harder to establish a much closer relationship with the government (see the MACPA 1992 Annual Report, p. 24; MACPA 1994 Annual Report, p. 19, p. 25).
audits in government operations when he was holding the post of auditor-general (Ahmad-Noordin, 1986, p. 47):

We have accordingly amended or rather we had the Audit Act amended to ensure that the Auditor-General has the necessary power within the law to carry out this value for money audit as I mentioned just now. What seem to be the constraint when I was there was that as value for money or performance audit penetrates into the activities of governments, there is a natural tendency for the authorities having the power to approve the staff for the Audit Office to make it difficult for the Audit Office to get the necessary skills and manpower to carry out this work.

It is a fact that for accounting to reach its potential requires transparency in conduct, and a situation in which those making decisions can be held accountable. All these requirements did not fit the Malaysian environment as succinctly described in mid-1997 by the Editorial to the NST (7 June 1997):

At the pace of its economic growth, Malaysia too will feel the vice of corruption sooner or later. Like others before it, this country will also try to look the other way, and do as much as it can to avoid rocking the economic boat. Like their Asian peers, politicians will trust to the moral superiority of a few good men to keep the others in line. And there is always the argument against washing dirty linen in public, the stubborn loyalty of politicians to their compatriots, and an equally obstinate belief that corruption is confined to an in-discreet minority. In politics, hard choices require courage and often pose uncertain risks - which is why politicians will try to postpone them until their hands are forced. The instinct of self-preservation will usually urge politicians to control the damage done by disclosures of corruption, rather than attempt to root it out. (Emphasis added.)

With the presence of a total of six nauseating reasons (in italic), as disclosed by the Editorial, there was no question as to why corruption in the country could be considered to have gone unhampered, and as disclosed by the Anti-Corruption Agency (ACA), it had been on the rise over the last 20 years and stiffer punishment was needed (New Sunday Times, 8 June 1997). Thus, it appears that what happened in the accounting arena in the years following the 1985-86 economic recession, was deliberate and intended to deflect attention from creating a "culture of accountability" or full public disclosure, because interested parties do not want to face the unnecessary "complication" of explaining themselves to anyone in their pursuit of gaining economic ascendancy – just like what apparently took place earlier during the NEP era.

A well-known accounting scholar Belkaoui (1974, as reported by Samuels and Piper, 1985, p. 141) has said that a class elite in many developing countries is interested in maintaining secrecy. Thus, the financial reporting system is purposely made to be weak so that it is easy for this elite to maintain secrecy for their own gain. Notwithstanding their rhetoric, it may safely be said that they have little interest in seeing changes in the status quo. As Rohwer (1995, p. 281) in
his acclaimed work on the rising of East Asian nations has also succinctly noted, "... elites do not normally reform themselves or do things to threaten their own position". On the state of accounting standards applied in these countries in particular, he states (p. 292): "For the most part, regulation and disclosure standards are not at rich-world levels; even when they look good on paper, the standards are not enforced with the same zeal that they are in the West." That the elites are around leads to the picture that they would make it certain for accounting to operate in congruence with their expectations and objectives. And if changes were to take place, they would be mobilised in the pursuit of their vested interests. Armstrong (1985, 1987), Hopper et al. (1987), Lehman and Tinker (1987), Loft (1986), Miller and O'Leary (1987) have all stressed this very point.

Conclusions

The period of ten years or so following the 1985-86 economic recession saw the establishment of the MASB and major amendments made to the Companies Act 1965. However, the former was devoid of enforcement power for its accounting standards, while the latter over company auditor's reporting duty to ROC is perhaps nothing more than "scoff law", for it was not enforced by the authorities. Their presence had certainly not assisted by a revived MIA that had failed to show much teeth in the accounting regulatory field and which had busied itself with promotional activities and rivalry with the MACPA. In the face of accounting function failing to arrive to its potential, those with the power to make a difference had however acted indifferently.

All in all, the pressure for change coming from the economic recession was related directly to the emergence of a "modern" system of accounting – but not for its effective and appropriate administration in the Malaysian social environment. It created a perceived need for "structural" (as oppose to in-depth) changes to the accounting system. Therefore, the changes that took place in the accounting arena have appeared to fail to bring it any closer to its potential in the nation's economy. Accounting in Malaysia was less than desirable in the years following the 1985-86 economic recession – just like what happened prior to it when the NEP was in full swing.

The debilitating state of accounting during the post-NEP era seems to have been intended all along by a class elite in the society. It may also be deduced that to this party the presence of appropriate accounting practices and strong and respectful accounting bodies may be a hindrance to their continuing efforts to stay fully in power and thus able to amass wealth uninterrupted.

Thus, it may be concluded that as long as very little actually changes in the manner that political and economic power are distributed among members of Malaysian society, the so-called change from a predominantly command-economic system in the 1970s to a more capital-market economic system in the late 1980s and beyond would not really make much difference in the manner that accounting is practised and developed in the country. In short, based upon what had taken place in the period of ten years following the 1985-86 economic reces-
sion, on the face of the distinctive social, economic and political attributes supported by those elites in the government, corporate, financial and accounting sectors, the occurrence of intrusive event shall not be able to make a big difference to the pre-existing arrangement in accounting which emerged in the early 1970s with the launching of the NEP.

The so-called changes occurring in the accounting system would be mere ephemeral than real, structural rather than in-depth. The fundamental character of accounting in Malaysian society would still be intact. It provides the image of corporate governance for the consumption of foreigners, but in actual effect is hardly to provide more reliable financial reports. It is a mere tool among so many others to entice those from overseas to invest in the country. By mid-1997, many of the structural or explicit elements of the accounting function were similar to those found in other nations. On the other hand, the inner perspective to say the least was much more complicated - and in turns perplexing. It may thus be understood that basically accounting in Malaysia is a form of cultural importation that has little relevance. As a result, there is superficial imitation of western developed countries' practices. This leads to the perception that accounting does not matter much in Malaysia - whether or not it is around and how effective is its functioning would not matter much to many parties.

At the onset of the Asian Financial Crisis in 1997, accounting in Malaysia was fraught with the uncertainty of a nation that was looking to the future with much hope and expectations but whose ties with the past were still very strong. Accounting like the country itself was at a crossroads. While it is not the purpose of a study that applies the format of a case study to arrive at generalised statements, the work does suggest that comparative studies looking at the "overt" structural forms of accounting practice across nations in an attempt to identify similarities and dissimilarities do not provide a valid picture of accounting in action. Rather, only on the basis of detailed knowledge of the accounting process is it possible to come out with a set of reliable clustering of accounting practices from around the world. A similar conclusion applies to the success of standardisation efforts in accounting at the international level, as long as these efforts are based on superficial enquiry into the operation of accounting in practice.

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The Fifth Malaysian Plan (1986-1990)


Professional and Popular Journals and Newspapers

Akauntan Nasional
Berita Minggu
Business Times
Far Eastern Economic Review
Malaysian Business
Mingguan Malaysia
New Straits Times
New Sunday Times  The Sunday Mail
The Malaysian Accountant  Utusan Malaysia
The Star
## Appendix 1
### List of Participants

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<tr>
<th>No.</th>
<th>Name</th>
<th>Post</th>
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<tr>
<td>1.</td>
<td>Tan Sri Datuk Haji Ahmad Noordin</td>
<td>Former Auditor-General</td>
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<td>2.</td>
<td>Ali Tan Sri Abdul Kadir</td>
<td>Managing Partner of Ernst &amp; Young and Vice-President of the MACPA</td>
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<td>3.</td>
<td>Puan Armi Zainuddin</td>
<td>Director of Co-operative College of Malaysia</td>
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<td>4.</td>
<td>Dr. Barjoyai Badai</td>
<td>Former accounting professor, tax specialist, top company executive, newspaper columnist</td>
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<td>5.</td>
<td>Cheah Foo Seong</td>
<td>Technical Director of MACSA</td>
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<td>6.</td>
<td>John Dixon</td>
<td>Partner of an audit firm</td>
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<td>7.</td>
<td>Ching Neng Shyan</td>
<td>Partner of an audit firm</td>
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<td>8.</td>
<td>Fred Weatherly</td>
<td>Partner of an audit firm and former MACPA president</td>
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<td>9.</td>
<td>Abu Hassan Kendut</td>
<td>Managing Partner of Coopers &amp; Lybrand Malaysia and former MACPA president</td>
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<td>10.</td>
<td>Venki Sankar</td>
<td>Partner of an audit firm and a member of the MACPA</td>
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<tr>
<td>11.</td>
<td>Ismail Abu Bakar</td>
<td>Deputy Director of South East Asian Central Bank Research and Training Centre (SEACEN) Kuala Lumpur</td>
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<tr>
<td>12.</td>
<td>Tan Sri Dato’ Dr. Jaafar Hussein</td>
<td>Previously Central Bank Governor, Managing Partner of Price Waterhouse Malaysia, MACPA president and presently Chairman of Malaysia Mining Corporation Bhd.</td>
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<tr>
<td>13.</td>
<td>Peter Jenkins</td>
<td>Executive Director of Malaysian International Chamber of Commerce and Industry (MICCI)</td>
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<tr>
<td>14.</td>
<td>Johari Low Han Hing</td>
<td>Director of a number of companies including a few listed ones and a former auditor</td>
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<tr>
<td>15.</td>
<td>Tuan Haji Ahmad Kamal</td>
<td>Senior Partner of HRM and a long time council member of MACPA</td>
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<tr>
<td>16.</td>
<td>Lee Leok Soon</td>
<td>Director of Operation of the MIA</td>
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<td>17.</td>
<td>Josephine Edward</td>
<td>Technical Manager of the MIA</td>
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<tr>
<td>18.</td>
<td>Tay Beng Wah</td>
<td>Former President of the Malaysian branch of the CACA and MIA council member</td>
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<tr>
<td>19.</td>
<td>Soon Kwai Choi</td>
<td>MIA Vice-President and President of Confederation of Asia-Pacific Accountants (CAPA)</td>
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<td>20.</td>
<td>Oh Chong Peng</td>
<td>Senior Partner of Coopers &amp; Lybrand Malaysia and former MACPA president</td>
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<td>21.</td>
<td>Neoh Chin Wah</td>
<td>Partner of an audit firm and MIA council member</td>
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<td>22.</td>
<td>Dato’ C. Rajandram</td>
<td>CEO of Rating Agency Malaysia (RAM)</td>
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<td>23.</td>
<td>Ramli Ali</td>
<td>Registrar of Companies</td>
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<td>24.</td>
<td>Dr. Md. Razali Mohd. Abdullah</td>
<td>Executive Chairman of a group of companies</td>
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<td>25.</td>
<td>Abdul Samad Alias</td>
<td>Deputy Country Managing Partner of Arthur Andersen and MACPA council member</td>
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<tr>
<td>26.</td>
<td>Dr. Shireen Mardziah</td>
<td>Manager for Corporate Services of Arab-Malaysian Merchant Bank</td>
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<tr>
<td>27.</td>
<td>Tony Seah</td>
<td>Partner of an audit firm and MIA council member</td>
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<td>28.</td>
<td>Haji Abd. Rahman Mohamad</td>
<td>Deputy Auditor-General</td>
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<td>29.</td>
<td>Yeoh Kee Pan</td>
<td>Partner of IBDO and MACPA council member</td>
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<td>30.</td>
<td>Yip Jian Lee</td>
<td>Executive Director of the Institute of Bankers Malaysia</td>
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<tr>
<td>31.</td>
<td>Yue Sau Him</td>
<td>General Manager – Management Audit at Multi-Purpose Holding Berhad and MIA council member and president of the ASEAN Federation of Accountants (AFA)</td>
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