

# Phantasmagoric Accounting in Malaysia: A Case Study of ‘The Triumph of Hope over Experience’?

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## Abstract

With the aim of detailing issues and problems that confronted accounting in Malaysia during the forty year period beginning from independence in 1957 and ending just before the onset of the Asian Financial Crisis 1997-98 and where the data came in the form of published and unpublished documents and interview findings, the study has found that there were confusion over the identity of the accounting bodies the Malaysian Institute of Accountants and the Malaysian Association of Certified Public Accountants, accountants shortage, the presence of bogus accountants, disciplinary quagmire and accounting standards confusion. To explain the goings-on, the view of accounting as a social practice imbedded in a socio-historical context is taken up. This leads to the conclusion that the elite group had played quite an important role in shaping accounting in Malaysia to be nothing more than the repeated case of ‘the triumph of hope over experience’. Their (mis)conduct is apparent in regard to the MIA being inactive for two decades, the brouhaha surrounding goodwill accounting standards and the formation of the Malaysian Accounting Standards Board.

**Keywords:** Accounting, Malaysia, history, social context, elite group

## 1. Introduction

The Asian Financial Crisis 1997-98 that began in the summer of 1997 was the period when many Asian countries suffered severe setbacks in their economies and where development stagnated or retreated. Countries with economic growth forecasts of 8 percent in early 1997 had found themselves with zero or even negative growth by the first quarter of 1998. The Indonesian economy had, for example, contracted by 13.2 percent in that year. Among its various causes, the most often cited are opaque financial systems, misguided structural changes, authoritarian governments, poor bureaucracies, heavy reliance on foreign direct investments, weak democratic institutions, manipulated judicial systems and a KKN (*Korupsi, Kronisme, Nepotisme*) political and economic culture (Embong and Rudolph, 2000). It has also been argued that the accounting profession, including its standards, policies and levels of information disclosure, had played a role in the genesis of the crisis (Lambert and Lambert, 2003).

Rahman (1999) provides such evidence with his examination of the 1997 financial statements of selected corporation and banks in five East Asian countries (Indonesia, South Korea, Malaysia, Philippines and Thailand) affected by the crisis where he found that most of these entities did not follow international accounting standards (IAS). It is also notable that during the crisis, the World Bank had questioned the quality of audits by Big 5 auditors operating in Asia. Many East Asian corporations, having received clean audit reports from Big 5 auditors, subsequently demonstrated that those opinions may not have been appropriate (*Accountancy*, 1998, 122: 6-7, 10). Nonetheless, as reported by the *New York Times* (as found in the *New Straits Times*,<sup>1</sup> 1 Nov. 1998), the study conducted by the United Nations Conference on Trade and Development (for release in December 1998) on financial statements of the largest companies and banks in South Korea, Thailand, Indonesia, Malaysia and Philippines shows that poor accounting did not directly cause the Asian Financial Crisis. But it did say that the Asian companies' financial difficulties would have been detected sooner, and the crisis would have been less severe, if the accounting methods used had been stronger.

This paper is an attempt towards the detailing out of those which may be considered wrong or at best inappropriate in the accounting arena of Malaysia during the time period which begins when the Malay Federation gained its independence from Britain in August 1957 and ends with the onset of the Asian Financial Crisis in July 1997. To be more exact, the four-decade historical study probes not just on corporate accounting disclosure or audit quality mentioned earlier but also on the various other areas constituting the accounting arena. Invariably, the issues covered are related to the (non)performance of the nation's two most important accounting bodies: The Malaysian Association of Certified Public Accountants (MACPA) and the Malaysian Institute of Accountants (MIA). This probing of accounting malfunction in the widest scale possible which has never been conducted by anyone before may assist in understanding the very complicated nature of accounting development taking place in one of the (supposedly) more progressive country in the developing world. It is a story which in some of its facets is perhaps to be found in so many other places in the world of recent past.

The research is based on data coming in the form of a variety of published and unpublished materials as well as in-depth interviews with 31 individuals who include leaders of the Malaysia's accounting profession. Collection of documentary evidence and interview data

has the purpose of reconstructing the chronology of events over time leading towards explanation building. In short, during data collection stage, the focus was on establishing the why and how of historical events and every effort was made so that the picture derived is as clear as possible.

The rest of the paper is divided into three sections. The first gives the background of the accounting bodies the Malaysian Institute of Accountants (MIA) and the Malaysian Association of Certified Public Accountants (MACPA) including their missions as found in various documents. The second section details out their debilitating realities. The discussion in this section comes in five sub-sections: identity confusion, accountants shortage, unqualified/unregistered accountants, disciplinary quagmire and standards confusion. The third and last section is the discussion and conclusion. Though there is no attempt in this last section to give full explanation for such a devastating accounting experience, hints to such understanding involving the elite group are forwarded to some extent.

## **2. The Hope and Aspirations**

It was in 1936 when a few local people who earlier went to UK to gain professional accounting qualifications formed the Malayan branch of the Association of Chartered and Incorporated Accountants (ACIA). In less than a year after the independence of the Malay Federation, on 26 July 1958, these accountants and those from the Malayan branch of the Association of Certified and Corporate Accountants (ACCA) came together and incorporated the Malayan (later Malaysian) Association of Certified Public Accountants in Singapore under the Straits Settlement Companies Ordinance 1940 (*CERPASS*, Dec. 1967, p. 51). The MACPA was set up as a company limited by guarantee with the objective of advancing the status and development of the accounting profession in Malaysia and to provide the opportunity to those aspiring to qualify as an accountant to be trained under local law and practice (*The Malaysian Accountant*, July-Sept. 1988, p. 16). With the latter as one of its objectives, the MACPA in February 1961 instituted the examination and articleship system of training accountants and registered its first batch of students (*The Malaysian Accountant*, July-Sept 1988, p. 10).<sup>2</sup>

MACPA whose first three presidents were British in origin was modeled upon the Institute of Chartered Accountants of England and Wales (ICAEW). Dr. Nawawi Mat Awin, the 1980 MACPA president, said (*The Malaysian Accountant*, Jan. 1981, p. 45): "Besides examinations, the founders of MACPA drew extensively on the experience of the English Institute in establishing the foundations of the profession, particularly in professional education, standards and discipline." The very fact that the MACPA was modeling in particular its examination and training scheme upon that of the ICAEW was noted by Megat Abdul Rahman, the then vice-president of the MACPA, also in 1980. He stated that "[i]n Malaysia, the 'articleship' system (now known as Stream I) is a direct copy of that of the English Institute" (Megat, 1980, p. 3). He also reveals (p. 2) that "[t]he MACPA education structure was inevitably based on the English Institute of Chartered Accountants (ICAEW)."

After the MACPA's secretariat had moved from Singapore to Kuala Lumpur in March 1970, the following years saw the association playing the role of an active accounting body. *The Malaysian Accountant* (July-Sept. 1988, pp. 10-11) revealed the various activities of the MACPA during the 1970s. These included those which could be grouped under the area of professional training and examinations and others which were concerned with corporate

financial reporting. In these two important areas, the MACPA had a tough time in providing the kind of leadership that it aspired to in the nation's accounting landscape. One of the reasons was concerned with the fact that the MACPA membership - even in the best of time - would only have at most one third of the nation's accountant population. Nonetheless, the little that it did was apparently good enough to have its leaders in the 1970s and later in the first half of 1980s to muster a series of 'merger' discussion with the leaders of the MIA.

MIA had earlier in the 1960s come to existence as a statutory body when the Malaysian Parliament passed the Accountants Act 1967. The Act resembled the Singapore Society of Accountants Ordinance 1963 which in turn was based upon the New Zealand Society of Accountants Act, the main difference being that the Malaysian Act was "much briefer" and thus "less explicit" than the Singaporean Ordinance (Hai, 1970/71, pp. 27-28). Section 6 of the Act notes five functions of the MIA including the responsibility to regulate the practice of the profession of accountancy, to promote the interests of the profession of accountancy, to provide for the training, education and examination of persons practising or intending to practise the profession of accountancy and finally to determine the qualifications of persons for admission as members.

It appeared that the government was aware that such a body was essential since a lot of individuals calling themselves accountants or practising public accounting in the years following independence had a variety of educational backgrounds and qualifications. The House of Representatives' *Parliamentary Debates* (Vol. IV, No. 12, Col. 2409 dated 25 Aug. 1967) had disclosed the following remark made by the then Assistant Minister of Finance, Dr. Ng Kam Poh:

The position of the accountancy profession in Malaysia at present is not entirely satisfactory in that although many accountants are members of long established and reputable associations and have within the last few years between them formed the Malaysian Association of Certified Public Accountants for the purpose of maintaining adequate standards of competence and ethics in this country, there are many who wish to be considered as accountants but who belong to accountancy associations imposing lower standards or whose members could be considered under qualified except for a measure of practical experience.

Next he stated that the objective of the Bill was to make provision for the adequate control of the accounting profession as a whole, and this control was to be entrusted to the MIA to be established under the Bill. In the ensuing debate, it appears that other Parliamentarians had placed high hopes on the MIA. For example, an MP from Bukit Bintang, Tan Toh Hong, prior to his giving a rather long speech of the essential functions played by accountants in the nation's economic development, mentioned the following: "The long-felt need to register accountants and control the profession is at last being fulfilled." In the middle of that speech he mentioned "... Sir, this Bill is timely, and I am sure that when this Bill comes into operation, the standard and quality of accountants in Malaysia will always be safeguarded." He ended his speech by saying "[w]ith the passing of this Bill, I am sure, that our society will continue to be assured of better services from well-qualified and trained accountants."

It appeared too that in debating the Accountants Bills, 1967, stress was given on the need for the MIA to establish a register of qualified accountants in several categories. Dr. Ng Kam Poh stated this matter in the following manner: "Part V [of the Bills] requires the Institute,

with the approval of the Minister of Finance, to appoint a Registrar who will maintain a register of accountants classified in their appropriate categories." The MP noted earlier who was credited by the Assistant Minister of Finance for "further clarifying" the Bills mentioned the following: "[t]hose who are already in practice, whether qualified or not, could register themselves; those who are not in public practice but who work in commercial and other organisations can also register." To be more exact, the membership was divided into three categories: public, registered and licensed.<sup>3</sup>

As one of its duties was to ensure only qualified people whose principal place of residence was Malaysia could act as public and registered accountants, MIA through the Accountants Act had made it illegal under Sections 22 and 23 for anybody to hold him/herself out as a public, registered or licensed accountant or adopt, use or exhibit these titles or others such as auditors, tax consultants and tax adviser.<sup>4</sup> Any transgression would mean the person was liable for a fine maximum RM 1000 or imprisonment for up to one year for the first offence and with subsequent transgression he or she was liable for a fine maximum RM 2000 or imprisonment of two years.

The Act had also stated that the MIA council was responsible for appointing investigation and disciplinary committees after each annual general meeting. The investigation committee had the duty to investigate any complaints made against any member while the disciplinary committee dispenses disciplinary actions when the member had been proved to act against any part of the Accountants Act 1967, the Accountants Rule 1972 and later from the 1990 onward, the MIA's By-Laws on ethics. Alas, these statutory committees which could only be formed right after an AGM had failed to come into existence for the next two decades of the MIA's existence. This was due to the fact that the MIA which took over the role of a mere registering body had only begun to conduct an AGM in 1987.

In September 1987, two years after the federal cabinet had rejected the MIA-MACPA merger proposal, the MIA conducted its first AGM. Apparently, the federal government was instrumental in having the MIA activated. As stated 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." In another news report early the following year, he had said clearly that the Malaysian government had "directed" the MIA to be active so that the MIA could assist the government and other parties in maintaining healthy economic growth in the country then (*Berita Harian*, 13 Jan. 1988). A few years later, in 1991, MIA booklet entitled "Who is an Accountant?" which was distributed to schools and institutions of higher learning stated (p. 17) that "[t]he government, concerned about the state of the profession as well as the problem of unqualified accountants, directed that the MIA be activated so that it could play the role of the national accountancy as envisaged under the Accountants Act." The following year, the MIA president said (*Akauntan Nasional*, Aug. 1992, p. 25):

25 years ago our wise leaders enacted an Act of Parliament which gives birth to the MIA dedicated to the ideal of unity for all accountants in the country. This ideal became an elusive dream through 20 years of dormancy of the MIA. 20 years after the birth of the MIA, our leaders reaffirmed their commitment to this ideal by waking MIA from its long slumber since its birth in 1967.

Finally, in his written reply to questions sent to him, the former Finance Minister, Tun Daim Zainuddin, mentioned simply the following on the question "Who initiated the activation of the MIA?": "The Government of Malaysia." The exact reasons for the MIA to be activated were revealed in a bind set of documents found at the MIA library, 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 will be referred to as the "MIA 1988 Bounded Document"). It was first stated (pp. 5-6) that when the then federal cabinet rejected the MACPA proposal for the merger of the MACPA with the MIA, the MIA was "directed" by the government to be active. Next, the document stated that the government did so 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. This document also stated that the government would like the MIA to be activated due to the proliferation of unqualified accountants who had caused the government to incur millions of ringgit of losses as a result of their falsification of their clients' accounts. It said that the government was hoping that with the MIA activated, efforts would be directed towards increasing the number of Bumiputra<sup>5</sup> 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.

On the night before the inaugural AGM of the MIA in 1987, the then Finance Minister had also mentioned what appeared to be the goals set by the government for the MIA to achieve (*The Malaysian Accountant*, Oct-Dec. 1987, p. 8): "As the Minister responsible for implementing the Accountants Act it is my hope that members of the Institute will make MIA an effective professional body responsible for looking after the professional standards, education and training and supervising over the professional conduct of members." He continued saying that cases of fraud in the corporate and financial sectors in the country had raised questions on the function played by the auditors. He pointed out that the auditors owed professional duty to the investing public to point out any illegal activity in the company and come out with appropriate audit reports. He stressed the following picture of what the government envisaged for the accounting profession: "As for the government, it would like to see an accountancy profession that is capable of providing professional work of the highest standard in serving the various needs of the sophisticated business community and to earn the trust and respect of society."

### **3. The Dejection**

MACPA and MIA came into existence with the right goals. The same may be said for the MIA on its activation. However, in the process of having these goals translated into actions, the nation can safely be said to have seen more of the failures than the successes. The discussion of these failures comes in five sections. It begins with that on confusion which abound among the Malaysian public and accounting actors themselves of the real identities of the two accounting bodies. It ends on the subject of accounting standards confusion.

#### *3.1 Identity Confusion*

The MIA 1967-1987 Annual Report (p. 14) showed that the first head of the MIA named as its chairman was D. Mortimer who was "elected" on 22 November 1967. The following year

on 31 May 1968 Dato' Shamsir Omar who was the then Accountant-General was appointed as the president of the MIA.<sup>6</sup> He who went on to hold the post of Accountant-General for 21 years until July 1989 had also acted as the MIA president until 9 April 1987 when Haji Hanifah Noordin took over the post. For the next two decades following the appointment of the Accountant-General as the MIA's president, not even a single AGM had taken place. The MIA under his leadership presumably took over the role of "registering body". But even this was delegated to the audit firm Price Waterhouse. In 1982, the MACPA took over this responsibility.

The registering role of the MIA in the first two decades of its existence was well articulated by the MIA president, Haji Hanifah Noordin, just before the first MIA annual general meeting in 1987. In the newspaper *Business Times* (10 Sept. 1987), he was reported to say that "... the earlier members of the [MIA] council not be entirely blamed for the inactive state of the MIA because in the earlier years it was felt that it should only be involved in its limited role of registering accountants in the country." The MIA's first annual report issued in 1987 had also made it clear on this registering role. But more important perhaps, in the same passage, the rationale was made clear. Thus, in the MIA 1967-87 Annual Report, it was stated that the MIA

... has confined itself to playing the regulatory role to complement the functions of the MACPA, which has, since its incorporation in 1958, been actively involved in promulgating and developing standards of accounting practice, training of students and conduct of professional accountancy examination. It was the intention of the Council then not to undertake a parallel line of activities as that of the MACPA to avoid duplication of efforts and resources and confusion as to which set of standards that members of the profession should follow.

The "official" story that the MIA was not active in order to avoid confusion and duplication of efforts was also noted by the MIA president himself in the MIA's *Berita MIA* (Jan. 88, p. 1). But later in the run up to the MIA's council seats election in 1993 where those coming from the MACPA and CACA had competed intensely, newspaper *The Star* (8 Dec. 1993) reported that a colleague of the MIA president who was an MIA council member had said that the MACPA's main aim in winning the seats was to re-assert its former controlling position in the MIA. He was also quoted to say the following: "The MACPA was controlling the MIA council from 1967 to 1987 until Datuk Hanifah Noordin [the MIA president] and a group (of us) managed to activate the council in 1987 and gave it independence." It is notable that this very point had actually been raised a year earlier by Shaik Osman Majid in his column in the *NST* (3 Feb. 1992).

At any rate, even if the accountants then might have been stopped from getting confused of which standards to follow by having solely the MACPA to be active, the Malaysian public was still left in the dark about who their accountants were. This was portrayed in the following quotation derived from a paper presented by the then MACPA president, Dr. Nawawi Mat Awin, more than ten years after the MIA was formed (Nawawi, 1979, p. 10):

... in Canada there is no public confusion as to who accountants are. In Malaysia, we cannot be sure when press reports speak of an "accountant", whether he is a member of the MACPA or of the MIA, or of some other body or even if he is qualified at all. But the usual thing is to point a finger at the MACPA whenever there are any reports of alleged

wrongdoing by an accountant ... there have been well-publicised cases where the "dramatist personae" are not our members at all but public presumption is that they are. Our writ does not extend to them and yet our reputation is affected in the public mind.

In the same seminar, the then MACPA vice-president Megat Abdul Rahman had also pointed out that in the country there was a case of a divided accounting profession creating confusion in the public mind. That was, in the sense that there were two bodies of accountants - MIA and MACPA - whose members were not exactly the same. He said (Megat, 1979, p. 9): "To delineate as to who is associated with which accounting group or body is an amazing task, for, a large number of members in MACPA are also members of MIA. There are accountants registered with MIA who are not members of MACPA." He went on saying the following which hinted at the very sad state of the accounting profession then:

Neglect and reluctance to do away with the divided profession would only result in creating greater confusion in the public mind and in making it more and more difficult to achieve the objectives of meeting more sophisticated public demand on the services of accountants. A divided profession such as in Malaysia serves to hinder the development of the profession. It deprives the profession from the ability to speak with one voice and to command the respect and recognition a true profession deserves.

With the MIA taking a low profile and the MACPA assumed over the role of a national accounting body, it is not surprising to find that the MIA was confused as being just another accounting professional body in the country. This could be discerned in the remark coming from Megat Abdul Rahman about how the then accounting profession was regulated (Megat, 1979, p. 9):

... the accountancy profession in Malaysia has been regulated in a rather unique way. Unlike other profession in the country, accountants here belong to two main bodies. One is the MACPA (Malaysian Association of Certified Public Accountants) and the other MIA (Malaysian Institute of Accountants). To delineate as to who is associated with which accounting group or body is an amazing task, for, a large number of members in MACPA are also members of MIA. There are accountants registered with MIA who are not members of MACPA.

With such remark, it is also perhaps safe to conclude that the MIA had failed to execute the registering function successfully. In other words, there were those fully qualified to register with the MIA who had failed to do so. Thus, just a few months after MIA was activated in 1987, it was found that as of 29 February 1988, of the country's 6000 or so qualified accountants only 4453 had registered themselves with the MIA (*NST*, 20 March 1988). The reminder who did not register was comprised of 600 members of the MACPA, 800 of the CACA and 200 accounting graduates from local universities.

It is interesting to find that while the MIA was lying low, its leaders had still gone on to conduct a series of merger discussion with those from the MACPA. The MIA 1967-87 Annual Report (p. 14) noted that the MIA and the MACPA began their merger discussions on 7 Dec. 1972. In February 1973, the MIA 1967-87 Annual Report (p. 14) disclosed that the MIA formed a liaison committee "... to study and pave the way for establishing dialogue with the MACPA with the objective of uniting the accountancy profession in Malaysia." Megat Abdul Rahman, the then vice-president of the MACPA, presented in 1979 in a



seminar what the merged body would look like (Megat, 1979, pp. 14-20). The proposal developed by a committee of the MACPA headed by its then president, Dr. Nawawi Mat Awin, envisaged the amendment or if necessary, the repeal of the Accountants Act of 1967 and the liquidation of the MACPA, which was a company limited by guarantee, and the incorporation of a new body under an Act of Parliament. This new body was to be named Malaysian Institute of Chartered Accountants (MICA).<sup>8</sup> See also the MACPA Annual reports for the years 1981 (p. 20), 1982 (p. 21), 1983 (p. 23) and 1984 (p. 22) which disclosed the various efforts taken by the MACPA to ensure that the "merger" would eventually take place.

Alas, the merger proposal was rejected by the federal cabinet on 17 June 1985 (*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 Annual Report, 1967-87, p. 11).<sup>9</sup> The MACPA council was however adamant that the nation needed to have a unified body. In 1986, the then MACPA president mentioned (*The Malaysian Accountant*, Oct. 1986, p. 4):

The MACPA also regrets that the proposals for the merger with the MIA have not met with the approval of the cabinet. After several years working towards this objective, the Council of the MACPA is of the firm view that there is no alternative to a Single National Body of Accountants in Malaysia and seeks the support of the Ministry of Finance in achieving this objective.

Such support did not arrive; instead, the cabinet had directed the MIA to be activated and to play the role of the national accounting body as envisaged by the Accountants Act 1967. This was mentioned above. The first episode of disagreement between leaders of the MIA and the MACPA emerged soon after the MIA became active with its first AGM in September 1987. That is, it took place with the MIA's EGM in April 1988. This April 1988 EGM had led to other episodes of disagreement and what appeared at the end to have resulted with the formation of the Malaysian Accounting Standards Board (MASB) in 1997. These episodes of disagreement provide a further spectre of confusion on the part of leaders of the MIA and the MACPA over their functions in the nation's accounting arena.

### 3.1.1 The Disagreement

A few months after the first AGM in September 1987, the MIA's newsletter the *Berita MIA* (January 1988, p. 12) had noted that two days after the MIA council informed the MACPA councils that they were setting up their own secretariat, the MACPA president and his fellow council members who were quite upset with the move called off the joint committee arrangement with the MIA.<sup>10</sup> This was followed by another event taking place a few days before the April 1988 EGM when 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). In the *NST* (22 Apr. 1988), he was also reported to say that these mischief makers "... are quite big. They have vested interests because they feel they are not represented in the council." These people he said were collecting proxies to vote against the MIA proposed changes to be tabled at the 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 that the MIA told the newspaper that the parties which lobbied MIA members by conducting meetings to gain these members' support

for their stance 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", it was stated specifically that the body was the MACPA (pp. 41-42) (Translated):

Prior to the day of the EGM, a number of MACPA members came together to collect proxies in order to defeat the resolutions. MIA has got proof which shows that a number of meeting was held at the MACPA building to arrange the collection of these proxies. A number of MACPA council members have also attended these meetings.

Needless to say, the then MACPA president when asked by reporters denied that it was the party referred to by the MIA president (*The Star*, 27 Apr. 1988). Nonetheless, during the EGM, Yap Leng Kuen (*The Star*, 23 Aug. 1988) wrote that some MACPA members objected to various proposals to amend the Accountant Rules 1972. He stated that 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.

A few months after this episode, in July 1988, the MIA's chairman of the FSRC, Lee Hwa Beng, accused the MACPA of "usurping the statutory powers of the MIA" in response to the various proposals by the then MACPA president including the forming of an "accounting standards consultative committee" to develop and issue accounting standards and auditing guidelines (*NST*, 23 July 1988). This remark pushed Abdul Wahab Jaafar Sidek of the MACPA to mention three days later the following (*The Malaysian Accountant*, July-Sept 1988, p. 15): "... the MACPA does not intend, as well does not need, to usurp the powers of any organisation ... the MACPA has, over the last 30 years, proven itself beyond any reasonable doubt." The next day, the MIA president was reported in the *NST* (27 July 1988) to have said that the MIA rejected the MACPA proposal. He also asked the MACPA "to confine its activities to its members". He said that only the MIA had the statutory power to set the country's accounting and auditing standards. He also pointed out that the MACPA "... had to allow the MIA to take over the centre stage which was occupied by the MACPA during the MIA's dormancy."

Later in December 1988, the disagreement between the CACA-controlled MIA council and the big-six controlled MACPA council came to public attention again – but this time the opposing groups were vying to have their members fill the six seats in the MIA council (*NST*, 8 and 17 Dec. 1988). 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).

Next, in 1992, the disagreement continued with the involvement of a third party, the Registrar of Companies (ROC). What happened was that Section 132A of the Companies Act 1965, as a result of the Companies Amendment Act 1992, included the MACPA together with the MIA and MAICSA as the 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). Thus, the MIA president urged the ROC to "reconsider" the status of the MACPA to avoid "conflicts" in the implementation of the Companies Act and the Accountants Act 1967 (*Business Times*, 11 Feb. 1993). He claimed that by gazetting the MACPA the ROC had incurred "grave consequences" for the MIA since it undermined MIA's ability to carry out its functions as the

only national body enshrined by the Accountants Act to unify and regulate the accountancy profession. The then Company Registrar, Zainon Ali, in response to all these remarks mentioned that the ROC had the right to decide whether any party was "fit and proper" to act as a company secretary and that it was "improper" for any party to question the ROC's decision (*Business Times*, 13 Feb. 1992). As for the MACPA, its president in the MACPA 1992 Annual Report (p. 25) publicly acknowledged the MACPA council's satisfaction of the recognition bestowed upon their accounting body by the ROC.

Also in 1992, another episode of disagreement began which only came to an end in 1994. From an interview with two MIA council members, it was only through the involvement of the Finance Ministry that stopped the two accounting bodies from having their differences settled by the court. The issue revolved upon the use of statutory designation of either "PA" for public accountants or "LA" for licensed accountants by MIA members in describing their firms. There was an additional provision under the By-Laws - in cases where members in public practice needed to sign any reports or other documents - where a member could have other designatory letters indicating membership to other recognised accounting bodies or accounting degrees after his or her name as long as the statutory designation letters were used in precedence to the other designatory letters (*Akauntan Nasional*, Feb. 1992, p. 20).

This additional provision appears for some reasons not to have come to the knowledge of the MACPA leaders. They claimed that MACPA members should not be denied the right to use the CPA designation that they had earned through hard work (*The Malaysian Accountant*, Feb. 1992, p. 15). The MACPA official journal, *The Malaysian Accountant* (Feb. 1992, p. 15), also stated: "The amendment to MIA's By-law 6, if implemented, will effectively prevent members from using the designation 'Certified Public Accountant' after their names, to describe their firms or to describe themselves when signing any reports or other documents in their professional capacity. The implications for members, registered students and the Association's position as a professional body are, therefore, significant." Subsequent to all this, in a speech that was littered with remarks to embarrass the MACPA in front of leaders of accounting profession from many parts of the world and where among the audience were the country's then King and Queen, the MIA president mentioned that "some people" must have felt that "... their eminence must be achieved through differentiation" (*Akauntan Nasional*, Aug. 1992, p. 26).

Finally in December 1993, in the run up to the MIA's council seats election, both CACA and MACPA lobbied intensely for the six contested seats 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). Among those who contested were six public and registered accountants said by an MIA council member to be backed by the MACPA for the latter was out to "take over" the MIA (*NST*, 9 Dec. 1993). The same MIA council member was also reported to say that the MACPA's main aim in doing so was "... to re-assert its former controlling position in the MIA ..." (*The Star*, 8 Dec. 1993). In the same news report, the MIA president was reported to say that the group of six accountants was backed by some of the big six audit firms in the country. He accused the six "reformers" as using certain issues to tarnish the image of the then MIA council.

At any rate, these "reformers" in perhaps referring to the control of the CACA and in particular auditors from accounting firms of small and medium sizes over the MIA council mentioned that "... there was a need for the MIA council to be more fairly represented by all

recognised accounting organisations, institutions and professionals in the country" (*NST*, 11 Dec. 1993). They also mentioned that a number of actions of the MIA leaders had brought public disrepute to the nation's accounting profession. They said: "We are in opposition to and disappointed with the performance of the current council in creating, promoting and implementing new professional standards and guidelines. We have noted premature and immature announcements being made, recalled and cancelled, situation which cause confusion and animosity among members as well as embarrassment to the institutions." One of these six who happened to be one of the participants of the study had mentioned that some of the actions of the MIA leaders had got the nation's accountants to look "dumb".

In response to these and other related remarks, the MIA vice-president, Soon Kwai Choy, was reported to say in *The Star* (15 Dec. 1993) that the MACPA "... should accept its subordinate role within the Malaysian Institute of Accountants". He also claimed that the MACPA could not live with the fact that a new era had emerged in the nation's accounting profession when the then MIA leadership was elected by the members to lead the body. He was also quoted to say: "We are elected as MIA members first and foremost. We do not subscribe to sectoral, parochial and elitist policies of certain people who are using MACPA for their own vested interests." He also claimed that "[t]he influential minority is using some of the big firms to champion their cause."

It was not long after this particular brouhaha between the MIA and the MACPA leaders that the then Finance Minister announced the need to have high quality accounting standards in preparing the financial statements and to ensure companies' directors complied with the standards (*The Malaysian Accountant*, June 1994, p. 14). 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. 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.

With this remark, the nation came to see for the next few years the beginning of the various steps embarked upon by the government in its efforts of taking over the function of accounting standard-setting from the MIA. With this remark too, it shows that the government had chosen the side of the MACPA to support in its leaders' rivalry with those from the MIA even though its activities over the years were in some aspects had not been so very supportive of the government. Though there is no direct documentary evidence around showing such support was around, the interviews conducted with leaders of the two accounting bodies show that the MACPA had played quite an important role in the establishment of the MASB. See the section on discussion and conclusion. Proof that those close to the MACPA were instrumental in the process of forming the MASB came also in the form of those closely associated or influential with the MACPA were later given the seats in the newly established MASB and its parent body the Financial Reporting Foundation (FRF).

As reported by the *NST* (11 July 1997), the Finance Minister had appointed Tan Sri Wan Azmi Wan Hamzah, chairman of five KLSE listed companies and ICAEW qualified, as the chairman of FRF and Raja Datuk Arshad Raja Tun Uda, the executive chairman of Price Waterhouse, as the chairman of the MASB. The former was an ex-council member of the MACPA, while the latter was also one of the nine governing "members" of the Securities Commission (SC) and a former president of the MACPA. Another news report listed all the members of the FRF though only four out of eight members of MASB that were listed (*Business Times*, 9 July 1997). It appeared that all the big six audit firms were represented with one in both the MASB and FRF through Raja Datuk Arshad, another four in FRF and the last one in MASB.<sup>11</sup>

The public display of the disagreement between the leaders of the two bodies which continued for the first few years of MIA's active life had gained much publicity in 1988. Thus, in the newspaper *The Star* (23 Aug. 1988), Yap Leng Kuen had noted that the rivalry appears inevitable since both parties wanted to be seen in the limelight. She also said that the MACPA when incorporated in 1958 had appeared to consider itself as the *de facto* leader of the accounting profession in the country. From another publication, as spelt out by Pauline Almeida (*Malaysian Business*, 16 Aug. 1988, p. 17), what happened in the accounting arena surprised non-accountants. She wrote: "It thoroughly bewilders the public but the press loves the spectacle." She went on to quote the remarks made by a senior partner in a big audit firm: "We used to be a gentlemanly lot' ... 'We preferred to crunch the numbers quietly and leave the talking to the lawyers. Now the profession has degenerated into politics - with a couple of jokers wondering how to outplay each other."

### 3.1.2 Reasons for the Identity Confusion

Perhaps it was inevitable that the general public who might have little knowledge about accounting and accountants to be quite confused on the differences between the MIA and the MACPA. But is it logical to have confusion abound for the accountants and their professional bodies themselves? It seems that leaders of the MACPA had felt all along and so very strongly too that the MACPA was the *de facto* leader of the nation's accounting profession. Prior to the MIA's activation, the then MACPA president, Dr. Nawawi Mat Awin mentioned (Nawawi, 1979, p. 5): "At 21, the MACPA is a truly comprehensive, truly national body of accountants. Recognised nationally and internationally, its activities cover a wide range ..." Several years later in the MACPA 1985 Annual Report (pp. 13-16), the following was also mentioned: "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's 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 like to ignore. This also led to the prolong identity confusion even after the MIA had become active.

In 1988, the then MACPA president was quoted in the *NST* (26 July 1988) to say the following: "We have provided 30 years of excellent service, and we will continue to do so ... Like all other professional bodies, we have a role to fulfil. We have to ensure that professional standards set are maintained. We will continue to provide a forum for continued

education and training." On the very next day in response to this remark, the MIA president was reported to say that the time had come for the MIA to take over the centre stage (*NST*, 27 July 1988). He said that "... while the MIA was very thankful and appreciative of the role the MACPA played in the past, the time had come for the MIA to play a major role in the profession in Malaysia." In the *Malaysian Business* (16 Aug. 1988, p. 20), the MIA president was quoted to say: "I am telling them (MACPA) in no uncertain terms that we now are the boss. No more the big brother-small brother relationship ... In fact, MIA is now the landlord, MACPA the squatter."

In an interview with one of the MIA council members, he noted similar things mentioned above by the MIA president and which appears to be the crux of the continuing problem between the MIA and the MACPA. He claimed that the MIA was never against MACPA. He pointed out that "problems" arose when one MACPA president after another wanted the MACPA to play a bigger role which was only suitable for the MIA as the national accounting body to play. He also mentioned that the MIA did not actually care whether the MACPA was revamped or not; what the MIA would like to see was for the MACPA to stop "projecting" to the world that it was "the other" national accounting body. As far as the MIA was concerned, the MACPA could still be around as one of the "[Accountants Act 1967] schedule bodies" whose members' qualification was recognised by the MIA. He pointed out that among the accounting bodies recognised by the MIA, the MACPA was in fact the smallest in terms of membership. Thus, he stressed that the MACPA leaders should stop promoting the association as another national accounting body next to the MIA. This he said was not true in the past and certainly not true presently due, amongst other things, to a limited number of qualified accountants in the country being members of the MACPA.

With the MIA and the MACPA in loggerheads and earlier with the MIA in deep slumber, questions may rightfully be asked on what the government was doing about them. In regard to the latter, it appears that the government was not bothered by it at all. This can be inferred from the respond coming from the MIA president to a hard hitting speech against various regulatory weaknesses in the MIA by the then Finance Minister (*Akauntan Nasional*, Sept. 1989, p. 22). He said that over the years, the accounting profession in the country had developed on its own with very little aid from the government. Describing accounting as a "neglected child", he pointed out that the training of local accountants had principally been self-funded by the profession itself unlike certain professions such as medicine and the law which had the government providing substantial funds not only for training and education but also for research activities.

When it concerns the series of disagreement between the leaders of MIA and MACPA, the fact that little efforts appear to be coming from the government in dealing with the issue was very clearly noted in the two issues of the journal *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, had written (*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, the Editorial to the business journal *Malaysian Business* (1 Aug. 1996) under the heading "A Profession Divided" referred again to the problems between the MIA and the MACPA and made suggestion as to the role that the "authorities" should play in this matter. The Editorial began with the remark that "[i]t 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." In between, it pointed out that the MACPA was viewed to have not known its "place" in the "overall scheme" of the nation's accounting profession, while the MIA was considered to have failed to impress others that it was in fact a national accounting body.

It is notable that when the government did actually go public in mentioning about the MIA and the MACPA in "the same breath", there seems to be little realisation of the need to make things clear. Thus, at the time when the rivalry between MIA-MACPA was reported widely in the media, the then Deputy Minister of Finance mentioned in the Parliament to a question by an MP on the subject of merger between the MIA and MACPA that the government had decided on 17 June 1985 - the date when the merger was rejected - that the MIA should continue to oversee the MACPA and other professional accounting bodies (*The Star*, 12 Oct. 1988; *Business Times*, 12 Oct. 1988). Both bodies he claimed had different functions and responsibilities. He also said that through the Accountants Act 1967, the MIA was set up to monitor, regulate and coordinate the accounting profession for the purpose of safeguarding public interest and ensuring high professional standards. Thus, as long as the MIA acted as a supervisory and coordinating body and did not compete with subordinate organisations, there would be no need for the MIA to merge with any other organisations.<sup>12</sup>

### 3.2 Accountants Shortage

It seems the country was facing a shortage of accountants not too long after gaining the independence. The Editorial of *The Accounting Journal* (1970/1, p. 7) mentioned that the nation then was facing an acute shortage of accountants and that it was regrettable that to that date only slightly more than twenty persons had qualified as accountants from the MACPA. Also, the then vice-chancellor of the University of Malaya had noted (*The Accounting Journal*, 1977, p. iii) (Translated): "Our country needed very much a big number of accounting graduates who are professionally qualified. The shortage is clear not just in the private sector but also in the public sector." Next, the Committee on International Accounting Operations and Education (1976-78) of the American Accounting Association (AAA) issued a report entitled "Accounting Education and the Third World" where the issue of shortage of accountants was discussed. Prof. C.L. Mitchell who was assigned by the committee to conduct the assessment on Malaysia wrote that the country was having a great demand for accountants compared to that for doctors to the point that the former earned higher incomes compared to the latter. He pointed out that "... little effective action has been taken to increase the supply" (p. 39). He blamed the New Economic Policy (NEP)<sup>13</sup> and the government's language policy as partly responsible in frustrating whatever minimum effort being undertaken to reduce the shortage.

In 1981, the then Auditor-General, Tan Sri Dato' Ahmad Noordin Zakaria, mentioned that the shortage of financial personnel in government had affected the smooth running of its activities (Ahmad, 1981, p. 25). He also disclosed that an additional of 1,971 accountants was needed for the duration of the Third Malaysian Plan, 1976-1980. At the end of 1975 there were only 1,774 accountants, and he noted that a study done by the MACPA stated that the country would have fewer than 2,000 accountants by the end of 1979.

The government could not have been perhaps faulted for such shortage. During the years immediately after independence, the government had embarked on a few steps to ensure that the new nation would get its adequate supply of local accountants.<sup>14</sup> This was in tandem with the remark coming from the Finance Minister (*CERPASS*, June 1966, p. 1): "As a Minister of Finance, I would like to see within the next few years a rapid increase in the number of qualified accountants in Malaysia, accountants who will be second to none in their expertise ... In the rapidly expanding economy of Malaysia accountants will be a vital necessity and their services will be in ever growing demand." But the support which could perhaps be expected to come from the MIA and the MACPA had failed to arrive. When it concerns the former, Enthoven (1977, p. 321), who had conducted studies of accounting practices in developing countries from 1973 to 1976, mentioned that the accounting profession in Malaysia suffered from a serious lack of educational and training facilities. He also wrote the following under the heading "Ways and means to improve accounting in Malaysia" (p. 328): "The role of MIA, possibly as the overall parent entity, may well have to be expanded to cover all aspects and fields of accounting. To this extent, a proper administrative and secretarial structure should be set up ..." Some years later, Gul (1983, p. 50) had also noted that the MIA which had been acting as a registering body might need to play a more important role in the training of accountants in areas such as financial accounting, management accounting and government accounting. He mentioned that the "dismal performance" by the MIA to contribute to the nation's development process was a source of great concern to academics and practitioners.

With the MIA not fulfilling its duties of setting up an examination and training programme in the country, the MACPA which could very well be the last hope for the nation in dealing with the problem of accountants shortage had instead come out with various measures to make it more difficult for interested parties to become members. The various measures taken up by the MACPA in the 1970s in limiting entry to those interested to become CPAs and which did not match with the need of a growing economy then came in different forms. The parties affected include school leavers, accounting graduates and those with overseas accounting professional qualifications.

When it concerns the school leavers, it was concerned with the enforcement of new minimum entry standards for students registration with the MACPA from 1976 onward. If earlier it was the Malaysian Certificate of Education (MCE) with five credits, including English and Mathematics, now it was at least two passes at Principal level in the Higher School Certificate (HSC) plus credits in English and Mathematics and a pass in Malay Language at the MCE level (Megat, 1980, p. 2).

Also, from August 1975, the MACPA began a system of practising certificates. That is, its members who would like to practice public accounting now needed to attain the relevant public accounting experience for between one to two years under the supervision of MACPA practising members before they could get an MACPA practising certificate. Megat (1980, p.



6) wrote that the period of approved experience varied from 12 months for members qualifying under Stream I to 24 months for those qualifying under Streams II and III and for those admitted by virtue of being members of foreign bodies.

When it concerns the local accounting graduates, the MACPA was reluctant to provide full exemption from its exams. The MACPA required these students to sit on some papers before they could ever hope to become MACPA qualified. The act of giving limited recognition to local accounting graduates ensured that not many of them were able to turn out as CPAs after studying at the universities (Megat, 1979, p. 4). Gul (1983, pp. 21-30) who disagreed with the MACPA policy on giving limited recognition to local accounting graduates explained that based upon his analysis of the accounting degree programmes offered by the University of Malaya, Universiti Kebangsaan Malaysia and ITM, they had more than adequate coverage for complete MACPA recognition. He expressed his disagreement with the MACPA by saying that while the MIA provided full recognition of the accountancy course in various institutions the MACPA had been "tardy" (Gul, 1983, p. 49).<sup>15</sup>

Indeed, the MACPA's limited recognition of the local accounting graduates was much regretted from very early on by the authorities. See the Editorial *The Accounting Journal* (1971/72, p. 7) and the remark made in another issue of the journal (1977, p. v). Also Prof. Beedle from Canada in his speech on 27 October 1974 pointed out that the MACPA's reluctance to give total exemption to the University of Malaya graduates was not what was expected and hoped for by the authorities such as the former Ministers of Education and Finance (*The Accounting Journal*, 1974/75).<sup>16</sup> He also said:

The MACPA has said, (perhaps with some reluctance - maybe with trepidation, rather like the virgin spinster who fears rape by the over-eager suitor, but certainly not with the ardent response of the young lover) - "Yes, we will grant the University some additional privileges - some additional recognition - but do not expect us to indulge in an all-embracing betrothal - a fulsome consummation of marriage."

When a long time council member of the MACPA was questioned in the interview as to why the MACPA was reluctant to recognise fully local accounting graduates as qualified accountants, he mentioned what was also pointed out by another two of the MACPA leaders interviewed. That is, the MACPA could not put aside its requirements for articleship, exams, etc. because the body believed strongly that accounting/auditing was not so much a knowledge-based activity but rather a skill-based one. The CPA tag could only be attached to names of those who were experts in the accounting/auditing field. In short to gain that tag it was not through being educated in universities but through doing practical things in accounting firms. He also mentioned that the MACPA was firm in its belief NOT to provide automatic recognition to accounting graduates for the very act of giving automatic recognition would be a "dilution of the standard of the profession", which in turn could bring down the quality of auditing. He claimed that if the MACPA was to grant recognition indiscriminately it would increase the cost of auditing, which could ultimately bring adverse consequences for the nation's economy. He denied that the MACPA was trying to be an elite body.

If the MACPA conduct in giving limited recognition to local graduates was hard to fathom, its new membership admission ruling which affected foreign-trained accountants was so much more unfathomable. This was because the nation for quite sometime had been very

dependent on this type of accountants for much of its supply of qualified accountants. This is explained in the next section. It is notable that with this ruling, the rivalry between leaders of MIA and MACPA following the MIA's activation in 1987 was made certain. It is not that difficult to fathom the sequence of events. As noted by the MIA president (Hanifah, 1990, p. 2), many accountants who were members of CACA and CIMA did not apply for admission to be members of the MACPA "because of certain entry requirements". Later when the government gave a nod for the activation of the MIA they were among the people who pushed their way to helm the MIA at the expense of the MACPA people. They were the "new forces" versus that of the "old boys" from the big audit firms who were in control of the "elitist" MACPA (*Malaysian Business*, 16 Aug. 1988, p. 18). Subsequently, it was these very people who were conducting the public spats with the leaders of the MACPA. At the end, as mentioned above, their disagreement had led to the government forming the MASB in 1997 to take over the accounting standard-setting role from the MIA.

### 3.2.1 The New Admission Ruling

As of 1 January 1976, the MACPA introduced a requirement for foreign trained accountants to sit the qualifying exam, comprising two papers on Malaysian Taxation and Company Law, before they could become members of the MACPA. The very act of putting what appears to be unnecessary obstacles to become members of the MACPA was especially confusing if one were to consider the remark coming from none other than one of the leaders of the MACPA itself. Megat (1980, p. 2) mentioned: "The role played by foreign-trained accountants in the development of the accountancy profession in Malaysia cannot be overstressed." He had also disclosed that the MACPA which had been conducting exams since 1963 was only able to produce 134 accountants or merely 11.1 percent of the total members of the MACPA of 1,203. Three foreign bodies had actually more members in the MACPA than what the MACPA could produce on its own. These were the Australian Society of Accountants (ASA), ICAEW and Institute of Chartered Accountants of Australia (ICAA), which had, respectively, 381, 366 and 176 members in the MACPA, accounting together for 76.7 percent of the total number of MACPA members of 1,203.

The requirement that those with overseas accounting qualifications had to pass two papers on taxation and company law before they could become members ensured that the MACPA was not getting as many new members as before. Thus, it was found in the MACPA 1978 Annual Report (p.15) that "[s]ince 1976 when admission to membership of overseas qualified accountants is by way of passing Company Law and Taxation II papers, admission to the Association has been substantially reduced". That said, the annual report went on to state the following: "While this will no doubt affect the number in the membership, Council feels that passing the two papers is necessary in order to ensure that applicants have a working knowledge of company law and taxation in Malaysia."

However, later in 1989, the MACPA reversed its 1976 membership admission ruling. From 1 January 1989, the MACPA grants exemption to accountants who are members of certain recognised professional accounting bodies from its Taxation II and Law II papers (*Business Times*, 5 Aug. 1989). The members of these bodies are however required to attend an interview and must have at least five years working experience in Malaysia after being qualified as full members of the foreign accounting bodies.

With this change of policy, the then MACPA president in the MACPA 1989 Annual Report (p. 29) mentioned that the aim for this change of policy was to increase the number of principals for training article students to cater for the growing number of school leavers and graduates seeking the CPA qualification. He also said that such a move would "... complement the efforts of the Government in the training of qualified accountants." And just before the new ruling was implemented, in *The Star* (22 Dec. 1988), the then MACPA president was reported to say that the move would not only alleviate unemployment but also increase the output of qualified accountants to serve businesses. Apparently the MACPA leader had thought that it was only in late 1980s that such a policy was needed even though prior to 1989 the country was already much preoccupied with the problem of the shortage of accountants. In another newspaper, the *NST* (22 Dec. 1988), the then MACPA president said that the move should not be viewed as a "relaxation in standards" of the MACPA. A month after the ruling was reversed, he was also quoted to say in the *Business Times* (22 Feb. 1989) that the policy reversal "... will correct the anomaly in a situation where accountants from other bodies have to sit for examinations to become a member of MACPA even though they have extensive experience and hold positions of seniority in companies and the profession."

In interview, an MACPA leader said the following on this hypocritical policy reversal: "It is not logical to have these qualified people excluded as members of the MACPA when they are quite good in what they are doing. Their passing of the MACPA exams is unnecessary to show how good they really are." Another leader of the MACPA in commenting upon this change of rule and the justification provided by his colleagues mentioned that his colleagues at the MACPA seemed to have one justification after another to fit their changeable policies! Also, it is notable that two of the MIA council members mentioned in interview that this change of mind of the leaders of the MACPA was because of nothing more than that they needed the fund that would come from members' subscription. The documented sources showed that the MACPA had experienced a significant drop in students intake in recent years. (See the MACPA 1994 Annual Report, p. 32 and the MACPA 1995 Annual Report, p. 34.) The MACPA 1995 Annual Report (p. 21) had also proposed revising membership subscriptions and students annual fees in 1996 in order to enable the association to achieve a break even position. The MACPA was also having some problems in attracting not just new members but also in ensuring that some of its old members continued to want to be members. From an interview with an MACPA member, it was found that some friends of his who were members of the MACPA had stopped being its members in recent time due to their unhappiness of having to pay membership fees to both the MACPA and MIA. There was no escape for the MIA membership fees, but they certainly had a choice with that of the MACPA.

All in all, as stated Gul (1983, p. 13), the efforts of the MACPA in the training of accountants were not appropriate for a fast developing country that needed an increasing number of accountants in both the private and public sectors. Gul had also noted that for the Third Malaysian Plan (1976-1980) an increase of 111 percent on accountants was needed compared to that of doctors 38 percent, and lawyers 35 percent. Gul (p. 20) next claimed that the responsibility of educating accountant for the country's need had now fallen on the shoulders of the universities and colleges.

It is interesting to find that though the MACPA had actually failed to do what was necessary in expanding the number of qualified accountants in the country, its leaders had clouded over this very fact by coming out with self-aggrandisement remarks regarding the CPA

qualification. This can be discerned from the various remarks coming from its leaders from the first half of 1980s onward. For example, in 1986, the then MACPA president said the following (*The Malaysian Accountant*, Oct. 1986, p. 3):

Since the establishment of the MACPA in 1958, one of its main activities has been the conduct of examinations and training of accountants locally. The MACPA is proud to have produced accountants whose high standard of training and professionalism enable them to hold more than their own among accountants qualified overseas. I am happy to report that many employers in commerce and industry in Malaysia in fact place the CPA qualification at a premium over other qualifications in accountancy.

Also note the following which was found in the MACPA 1995 Annual Report (p.19): "It cannot be overstated that for the CPA qualification to maintain its status as a premier brand, its distinctive feature of combining the highest standards of professional education and practical training with technical excellence must be continuously fostered." Also, in 1995, the then MACPA president stated the following (*The Malaysian Accountant*, Apr-June 1995, p. 10): "... I believe we will continue to produce CPA's of the calibre and quality which the Malaysian public has grown to respect and to expect ... Our training programme is on par with those of accountancy bodies in the developed countries."

As if all this conceited remarks were not bad enough considering their dismal record in helping the country to achieve sufficient supply of accountants, the MACPA leaders had actually received plaudits from parties who should have known better. Note for example the following remarks made by the Deputy Education Minister in 1995 (*The Malaysian Accountant*, Apr/June 1995, p. 13):

I would like to take this opportunity to commend the Malaysian Association of Certified Public Accountants (MACPA) for having contributed extensively to the advancement of accountancy education in Malaysia ... MACPA has set and maintained high standards of professional education and examination in accountancy, which is comparable to that of the more advanced countries ... MACPA's outstanding contributions and total commitment to professional education and overall development of the accountancy profession are most exemplary of private sector participation in national economic development. My congratulations are extended for a job well done. Finally, I would like to extend my congratulations on your 37 years of excellent services and contributions ...

Similar exaggerated remarks may also be found from speeches delivered by the then Education Minister in 1992 (*The Malaysian Accountant*, Oct. 1992, p. 13) and 1995 (*The Malaysian Accountant*, Dec. 1995, pp. 12-13), in 1996 by the deputy secretary-general of the Education Ministry (*The Malaysian Accountant*, Oct/Dec. 1996, p. 25) and finally from the Minister of Entrepreneur Development also in 1996 (*The Malaysian Accountant*, June/Aug 1996, p. 18).

### 3.2.2 Government's and MIA's Late Reaction

Although the MACPA's restrictive conduct in the field of accounting training was an opened book, it was only in the second half of 1980s when the government began to make the appropriate move. In 1986, the then Deputy Minister of Finance had the following to say (*The Malaysian Accountant*, Oct. 1986, p. 3): "[T]he MACPA as a leading local professional

body can do much toward alleviating the shortage of accountants in this country by producing more graduates ... I therefore call upon the MACPA to play its role as a dynamic professional body to treble or even quadruple its present output of graduates ..." Later in 1991, the newly appointed Finance Minister mentioned that the country needed more professionals in order to achieve Vision 2020 (*Akauntan Nasional*, Sept/Oct 1991, p. 23). He also said: "... one key group of professionals which the country does not have sufficient of is accountants. It is therefore important for the professional accountancy bodies in Malaysia to not only look into the production of more accountants but the right kind with the appropriate training and experience as well as the right values." The following year, he mentioned that in the last five years, the increase every year of qualified accountants was around 5 percent with the consequence that in the year 2020 the number of accountants would be approximately 20,000 only (*The Malaysian Accountant*, June 1992, p. 18). This figure he said was far short of the number required to realise Vision 2020. Thus, the government he said was "very concerned". He claimed that considerable foreign exchange used to fund Malaysians studying accounting overseas could be saved and at the same time, the number of professionals required to meet the needs under Vision 2020 could be increased if the local professional bodies could expand their professional facilities for pursuing their courses.

After its activation, the MIA itself appears to be very much aware of the shortage problem. In the *NST* (12 Apr. 1991) the following was reported: "A Malaysian Institute of Accountants (MIA) document says the shortage of auditors and tax consultants is very acute. While there are over 172,000 companies registered with the Registrar of Companies, there are only about 600 approved company auditors. There are less than 1,000 approved tax consultants and agents." In the same report, the MIA vice-president was quoted to say: "The Malaysian ratio of one accountant per 3,000 persons is easily one of the lowest in the ASEAN and Pacific region." In the following year, the MIA was noted to say that the recent government actions in creating new legislation and introducing stricter interpretations of existing law had made it necessary for members in public practice to improve efficiency and productivity (ASEAN Accounting Research Unit, 1992, p. 75). Next it stated that this was "... a major challenge to the light of the acute shortage of experienced audit professionals."

Unfortunately, the MIA in an apparent effort towards solving this problem of inadequate number of qualified accountants had only begun to offer the professional examination in 1996 (*NST*, 11 Nov. 1996) even though it had said right after its activation in 1987 that it would embark upon such a programme in a short while (MIA 1967-87 Annual Report, p. 12). To be more exact, the MIA first made the announcement in early 1988 that its examinations would take place early next year (*NST*, 13 Jan. 1988). This later was moved to the end of 1989 (*NST*, 20 Aug. 1988). Next it was reported that the exams would take place by the middle of 1990 (*NST*, 19 Dec. 1988) and in another report (*NST*, 18 March 1989) in August 1990. In 1992, the MIA president declared that the first sitting of the examinations would take place in December 1993 (*Akauntan Nasional - Conference Times*, 15 July 1992, p. 1). Finally, it was stated that the examinations would be set up in 1994 (*NST*, 28 Jan. 1993).

When the examination was finally set up in 1995, it turned out that it did not actually provide a real alternative or an actual additional avenue for locals wishing to qualify as accountants because it was a combined effort of both the MIA and the CACA (*Akauntan Nasional*, Oct. 1995, p. 4). The collaborative exam structure was exactly the same as the UK based qualification which had been offered in the country for decades. The difference between the

two examinations was that students now had the option of sitting for the UK or Malaysian law variant papers.

While the MIA was forever providing quite a bad record in reducing the problem of accountants shortage in the country, the MACPA finally appears to know what exactly to be done in dealing with the issue. Roughly a year prior to the onset of the Asian Financial Crisis, 1997-98, and at a time when the country was at the peak of its economic growth, it was none other than the then MACPA president himself who mentioned the following (*The Malaysian Accountant*, Oct-Dec 1996, p. 19): "What is worrying is that we are already feeling the shortage of accountants and as a stop-gap measure, our Government should consider the importation of accountants from countries such as India and Philippines."

### 3.3 Unqualified/Unregistered Accountants

The problem created by the bogus accountants was acknowledged at the time of passing of the Accountants Act 1967. Senator Dato' Athi Nahappan in debating The Accountants Bill, 1967 in the Senate (*Parliamentary Debates*, Vol. IV, No. 5, Col. 887, 29 Aug. 1967) mentioned:

... there has been a certain amount of inadequacy felt, because quite a number of people are called not qualified accountants but they call themselves income tax consultants, income tax practitioners, etc. and as our tax keep increasing, they have found that this was a lucrative profession and many of them have been preparing income tax accounts and submitting them - I do not know whether to the satisfaction of the Income Tax Department or not. Sir, what I have come to know is that many of those accountants are not sufficiently qualified and have not been able to furnish proper accounts and as a result of that even the tax payers who had to pay fees to these people were unnecessarily put into trouble and expenses. Now this Bill will help to tidy up the inadequacies and see that only people, who are recognised and with proper qualifications, or with proper experience, would be allowed to practice.

Thus, the 1967 Accountants Act had stated that only those with recognised qualifications may practice or call themselves accountants. But with the MIA not fulfilling its policing role, unregistered accountants had the opportunity to appear and grow with the then expanding economy in the 1970s and early 1980s. This is as stated in the MIA 1988 Annual Report (p. 13): "[t]he problem of unqualified accountants, both in practice and in commerce and industry, had proliferated to serious proportions during the period of inactivity of the Institute."

As for the MACPA, its 1981, 1982 and 1984 Annual Reports mentioned the various efforts that the body had conducted in confronting the issue of unregistered accountants. The 1984 MACPA Annual Report for example mentioned that the MACPA had sent a memorandum to the Accountant-General who was the MIA president. Next it stated (p. 22): "We now await his action against persons identified in our memorandum as violating the provisions of the Accountants Act 1967." In the journal *The Malaysian Accountant* (July 1980, p. 24), an MACPA member whose name is Terence Steven had written a strongly worded letter to the Editor regarding unqualified accountants. He mentioned that he was "alarmed" about the "prevailing mess" experienced by the nation's accounting profession. He claimed that the unregistered people had made it known to the public in their "stationery letterheads",

"business cards" and "signboards" and "often in bold vernacular languages" that they could offer the same "accounting services" as the registered members. He stressed that it was high time for the MIA and other regulatory authorities to make a concerted effort to rectify the situation so that the Accountants Act, 1967 was not a "sham" but an effectively enforced piece of legislations. He wrote: "It is hoped that my comments will bring justice to all truly qualified accountants."

All this had however come to no avail,, for the MIA continue to be in the doldrums until 1987. Accordingly, with the MIA failing to act in accordance with the Accountants Act, unqualified accountants holding either unrecognised qualifications, part qualifications or no qualification at all proliferated. A few months after its activation in 1987, the MIA president disclosed that a study completed in 1981 (by a body which appeared to be the MACPA) had found that there were 200 to 300 people who were not qualified accountants who were active as public accountants, auditors and tax advisers in the country (*Berita Harian*, 13 Jan. 1988). The number of unqualified accountants was changed later on in 1988 to 3,000 with those they employed totalling to 15,000 (*NST*, 5 Nov. 1988). Most of the unqualified public accountants were also now identified to have come from corporate secretarial and administrative firms (*The Star*, 5 Nov. 1988). The MIA pointed out too that the unqualified accountants acting as auditors would collaborate with the qualified auditors in the sense that the latter would be paid a token fee (normally a 30 percent cut) for certifying and endorsing financial statements that had presumably been audited earlier by the unqualified auditors (*NST*, 20 March 1988). Finally, in the MIA 1988 Annual Report, the following was stated (p. 14): "The unqualified accountants would not have been able to function if not for some of our errant members who are prepared to sign the accounts prepared by them without any question at all." In 1993, the MIA estimated that there were between 50 and 100 licensed accounting firms collaborating with unqualified accountants (*NST*, 28 Jan. 1993).

With all this in the background, in 1988, the MIA began its war against the unqualified/unregistered accountants. From February to November 1988, the MIA resorted to the lodgement 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, the Editorial to the *Business Times* (5 March 1988) had noted the following: "Until MIA comes out with its own examinations to allow these unregistered accountants to gain local recognition too, it is argued that such a tough stance may not be entirely fair." The crackdown ended when MICSA representing the unregistered accountants sent a letter of appeal to the then Finance Minister for a review of the actions taken by the MIA and another government entity (*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. He said (*Akauntan Nasional*, Sept. 1989, p. 24): "... with the benefit of hindsight and the number of bogus accountants involved - which is estimated at some 3,000 - the Institute should have formed the proposed Malaysian Institute of Accounting Technicians (MAAT) first."

### 3.4 Disciplinary Quagmire

In 1979, the then MACPA president, Dr. Nawawi Mat Awin, in lobbying for the merger of the MIA and MACPA, had mentioned the following (Nawawi, 1979, p. 10): "Not only does a lack of a single national body create problems of confusion amongst the public, worse - very real problems of control and discipline exist as a result." This was made very clear some years later by another president of the MACPA.

It all perhaps began on 26 July 1982 when the MACPA issued the "Statement of Code of Ethics" to members and which was made effective in September the same year. Having the ethical code however did not seem to amount to much when the whole audit regulatory infrastructure was chaotic in nature. This could perhaps be seen from the remark made by the then MACPA president, Subimal Sen Gupta, in 1986 where he earlier mentioned that the MACPA as a "private body" could only be strict with its members who did not comply with the body's ethical code and that the body had no control over those who were not its members but who deserved to be disciplined. Next he said (*The Malaysian Accountant*, Oct. 1986, p. 4):

The MACPA has no control over the issue of the audit license to individuals which qualifies them to act as Approved Company Auditors. This license is issued by the Ministry of Finance by reference to the Malaysian Institute of Accountants (MIA). I therefore appeal to both these bodies to take cognisance of the disciplinary actions taken by MACPA against its members by taking appropriate action against them if they are also members of the MIA and holders of the audit license. More importantly perhaps there should be a mechanism for taking action against those who are not members of MACPA. The MACPA will be pleased to assist in this respect.

Note also what was revealed in the letter published in 1988 in the *NST*. In the letter written by a person who signed him/herself as "Disgusted", he/she described the mess in the then audit practice (*NST*, 6 Aug. 1988): "In the past any attempt [by MACPA] at disciplinary control over errant members resulted in those members discontinuing their membership with the MACPA and continuing to practice as public accountants as they are allowed to do under the Accountants Act 1967."

From an interview conducted with two MIA council members and a newspaper report (*The Malay Mail*, 13 Jan. 1988), it was found that the investigation and disciplinary committees of the MIA were not formed until September 1987 after its first AGM. In *The Malay Mail* (13 Jan. 1988): "The recently activated institute has formed investigation and disciplinary committees in September to regulate the profession - after 20 years of existence." Also, the MIA president himself mentioned in a seminar (Hanifah, 1990, p. 17): "There was no enforcement of the Accountants Act 1967 in its twenty years of dormancy."

Therefore, in the areas of professional ethics and their enforcement the Malaysian accounting profession, up to the late 1980s when the MIA was activated, appeared to be in a state of chaos. Though the MACPA had since 1982 its own code, while other qualified accountants who were also members of overseas accounting professional bodies would be bounded by these bodies' codes of ethics (*Business Times*, 13 March 1990),<sup>17</sup> there was no ethical code to which the local accounting graduates who were members of the MIA or those who qualified through overseas accounting bodies but who ceased to be members of these bodies once they were registered with the MIA were subject. As for those who were subject to more than one



set of ethical codes it could also be the case that their codes could be in conflict with each other (Peng, 1987, p. 17).

Once the MIA became active in 1987, some may not be faulted for hoping that much of the chaos in the area of professional ethics would now be of a distant memory. Alas, that was not the case. 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:<sup>18</sup> The MIA aimed to be a strong regulatory body. Specifically on that night in 1987, he said (*The Malaysian Accountant*, Oct-Dec 1987, p. 10):

Speaking of image, the Institute must endeavour to restore the credibility the profession has lost in the eyes of the public. Several corporate failures such as the recent co-operative scandal can be attributed to apparent audit failures. These must be pursued and investigated by the Institute to discipline those members who have been negligent and to clear the names of those who were not. Only the MIA can do this as it has been endowed with such disciplinary powers encompassing the whole profession under the Act.

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 had 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.<sup>19</sup>

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 1988 and 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 the statutory requirements, accounting and auditing standards adopted by the Institute". But later 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.<sup>20</sup> And if a check were to be made of the MIA Annual Reports over the years, one would discover 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 latter years after its activation, it

appears that the MIA had not found it "fit" to discipline any members where complaints were filed against.

For the years 1987/88, 1991 and 1992, four members were disciplined by the MIA 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 committees<sup>21</sup>) the total number of cases investigated, under review or pending have in fact reached 25 (1996), 30 (1995), 25 (1994), "more than ten" (1993), 29 (1992), 28 (1991), 39 (1990) and 23 (1987/88).

It is notable that besides showing discouraging signs towards being an effective accounting regulator, the MIA in the first half of 1990s had also appeared to have failed to implement the very ideas that its leaders themselves claimed needed to be put into action in order to strengthen the nation's audit practice. One of these ideas is concerned with the practice of **quality review** of the audit firms. 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) had the MIA leaders given glowing details of the need for a quality review programme. Interviews with a number of the MIA council members had produced conflicting stories why the MIA had failed to implement it.

Another area that the MIA had failed to put into action is concerned with its various 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 (*Akauntan Nasional - Conference Times*, 15 July 1992, p. 1; *Business Times*, 15 July 1992).

Also, in at least one case the MIA recently 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 (*Akauntan Nasional*, March 1992, p. 22). See the *Akauntan Nasional* (Nov. 1990, p. 20), *NST* (6 Nov. 1990) and *Akauntan Nasional* (Nov/Dec 1992, pp. 30-31) where the MIA president stressed why the MIA needed to have the CPD made compulsory. But in the MIA 1995 Annual Report (p. 26), there was disclosure on "changes" that were introduced in November 1994 and made effective from 1 January 1995. So, if in the past the MIA secretariat was the entity responsible for CPD record-keeping, now the members themselves need to be responsible for their record-keeping. Also, there was no more need 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.

It is notable that all this which should be able to provide the picture of MIA failing to come to its potential in being a strong regulator may be interestingly contrasted with its efforts in being a successful accounting promoter. Three examples of accounting promotion are described next.

#### 3.4.1 The Accounting Promoter

First, as an accounting promoter, 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,<sup>22</sup> the MIA had also on 30 January 1991 launched a **professional indemnity insurance scheme** for its practising member (*Akauntan Nasional*, July 1992, p. 6). But the MIA "failed" to get good response from its practising members. 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).

Finally, the MIA in promoting the accounting profession had also 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 Perak Chinese Chamber of Commerce president suggested that the MIA deferred its proposal to implement its minimum audit fees schedule on 1 April 1993 (*NST*, 17 Feb. 1993). He claimed that the MIA minimum audit fees were too high and unfair and would be a burden for small and medium businesses. He stressed that the government should amend the Accountants Act of 1967 to prevent such exploitation of small businesses by MIA. The following year, the FMM issued a statement urging the MIA to review the audit fees schedule (*NST*, 18 Feb. 1994). The final showdown took place on 19 January 1994 when the Associated Chinese Chamber of Commerce and Industry Malaysia (ACCCIM), Federation of Malaysian Manufacturers (FMM) and MIA plus a few other interested parties met the Domestic Trade and Consumer Affairs Ministry officials including the Ministry's secretary-general to discuss the new fee structure (*NST*, 11 Feb. 1994). A few months after this meeting, the MIA president announced that MIA 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).

From several documented sources, it seems that the government was not happy with the MIA in its early years after activation and had in fact initiated some actions but never brought those to fulfilment. The government's 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 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 the speech by the then Finance Minister himself in September 1989 (*Akauntan Nasional*, Sept. 1989, pp. 21-23). Overall, what could perhaps be concluded is the following: as in the period prior to the MIA's activation, accounting in Malaysia had continued to be pretty much neglected by the authorities.

When the necessary action was finally taking place, it appeared to come under the category "too little, too late". About six months prior to the onset of the Asian Financial Crisis, the *Business Times* (21 Feb. 1997) reported that a total of 67 complaints were received by the ROC in 1996 from the public, particularly from investors who were in doubt as to the validity of various company accounts and that the ROC itself in 1996 had made 300 queries

regarding discrepancies in company accounts. It also said that the ROC had now begun a nationwide operation involving ten ROC accountants that would only complete at the end of the year. The operation entailed the ROC team "calling on" 1,074 ROC-registered audit firms with whom 1,493 licensed auditors were attached. It also said that auditors found guilty by the ROC would have to pay compound fines or be charged in court and possibly even have their licenses revoked.

In the interview with a person connected with companies' registration, it was found that the investigation had never been done before by the ROC. It entailed the ROC officers going out to check upon the audit working papers of the audit firms. He said the investigation was a result of "quite a number of complaints" that he received from various parties including shareholders on the "correctness of accounts" and "quality of auditing". He revealed that the investigations had uncovered that some of these complaints were found to be valid. Furthermore, he said that it had been found that the MIA "had not carried out the task of regulating its members to the ROC's satisfaction". He pointed out that in the past, the ROC and the government as a whole had left it to the professional bodies to do the regulating of members by themselves. They had hoped the professional bodies would be doing a good job in self-regulation. Besides until perhaps recently the ROC did not have enough personnel. He said that the available officers of the ROC were also needed to concentrate on matters which had greater priority than auditing. But recently he said due to the various complaints from various parties the ROC was forced to act accordingly.

Perhaps as to be expected, the audit firms were not happy with such operation by the ROC. Thus, not long after the ROC had started to embark on the nationwide inspection of the audit work, the Domestic Trade and Consumer Affairs Minister came out to say that there were five cases of auditors obstructing the ROC officers in conducting their inspection which to that date numbered to 123 audit firms (*NST*, 8 July 1997). He also mentioned that the southern branch of the MIA had sent out circulars asking its members not to co-operate with the ROC should their firms be called for inspection. So, he reminded the auditors to co-operate with the ROC or face legal action.

### *3.5 Accounting Standards Confusion*

In 1974 a study sponsored by the KLSE concluded that the participants of the market comprised those who placed little reliance upon financial statement data, which explained the minimal financial disclosure practised by the listed companies (Mitchell, 1974, p. 1). Some blame for this situation was placed on the MACPA which was seen as the country's "auditor's association" (p. 6). Mitchell wrote that some "observers" considered that the auditor's association held a biased and restricted view of disclosure problems. Thus, in referring to the MACPA's Statement No. 1 issued in June 1972, he mentioned (p. 6) that it "... represents the initial step of the long march of progress." Within the few years after Statement No. 1, the MACPA issued three more statements. All these statements were based on ICAEW statements (Megat, 1980, p. 4). In addition, local accountants as a whole also applied standards set by overseas bodies, mainly the Statement of Standard Accounting Practice (SSAPs) from UK and the Australian Accounting Standards. Phenix (1986) noted that the UK's standards were popular compared to for example those of the Australian Accounting Research Foundation (AARF).

In October 1975, the MACPA was admitted as a member of the IASC.<sup>23</sup> Membership of IASC requires subsequent adoption of the IAS. Following membership of the IASC, the MACPA by the late 1970s embarked on introduction of the IAS. The IAS 1 to 4 were adopted at the beginning of 1978 (*The Malaysian Accountant*, July 1986, p. 11). Nevertheless, it appears that in the early years of the implementation of the IAS, there were many problems. Some of these problems were the results of the MACPA's haste in their introduction and its lack of any guidelines in applying the rules (Cooper, 1980, p. 1). The MACPA crammed into 3 years what many countries had spread over six years in applying the first ten IAS. It was also claimed that companies were not comfortable providing greater disclosures. As a result, there was a lot of non-compliance by companies and a great diversity of accounting practices between industries and between companies in the same industry in these early years for both listed and unlisted companies (Cooper, 1980; Megat, 1980, p. 5).

It is notable that the Editorial to *The Malaysian Accountant* (1980, pp. 45-46) mentioned that small audit firms were having difficulty getting their clients who were small businesses, and particularly the family-owned businesses, to comply with the IAS. The owners/managers of these businesses believed that to have their accounts prepared in accordance with the Companies Act was sufficient. The Editorial further stated that, as nearly 99 percent of the 50,000 small businesses then employed book-keepers who were ignorant of IAS instead of qualified accountants, there was little expectation that the IAS issued by the MACPA were in fact being implemented. Finally, the Editorial laid out various practices inconsistent with IAS 1 to 8 (pp. 46-49).<sup>24</sup>

When reference is made to the MACPA Annual Reports for the years 1982 (p. 20), 1983 (p. 22), 1984 (p. 21), it is clear that the MACPA president then who was Megat Abdul Rahman was having difficulty in promoting IAS compliance from the MACPA members, themselves. So it is not surprising too to find that in 1982, Subimal Sen Gupta, an MACPA council member who later became its president, mentioned that some of the standards adopted by the MACPA had met with a "sea of opposition" not just from businesses, company finance directors and accountants, but also from a lot of auditors themselves who felt that the MACPA was going too far (*Report on the 3rd ASEAN Federation Accountants Conference*, 8-11 September, 1982, p. 122). He claimed that the view of these parties was that certain requirements were sensitive for disclosures like turnover, inter-company transactions and so on.

He stated that the coming merger between the MACPA and MIA would create a "new body" and any standards set by the new body would have the backing of statue. Standards would have "more authority" leading towards "very, very few non-compliance in the future". Five years later in 1987 when the merger had already failed to take place, Gupta, then the MACPA president claimed that now that the MIA had adopted all the IAS, companies no longer had the opportunity to choose between accountants and auditors who were expected to comply with the IAS and those who were not (*The Malaysian Accountant*, July 1987, p. 3). Next he said: "With this distinction removed, I, therefore, urge all accountants in this country, particularly the members of the MACPA to comply with all standards of the Association, both in technical and ethical fields ..."

As if the confusion arising from the implementation of the IAS was not bad enough, the MACPA in the late 1980s had also slowed in its adoption of new accounting standards. Chang (1988, p. 138) mentioned in his PhD thesis that the MACPA at the time of his writing

had adopted IAS 1-14, 16-18, 21 and 23 and rejected IAS 15. As for the IAS 19, 20, 22 and 24-26, they were still under consideration. Indeed, a case in point on MACPA's lackadaisical conduct may be seen in the case of standard for goodwill accounting.

### 3.5.1 Accounting for Goodwill

On 1 January 1985, the IASC made effective the IAS 22 on Business Combination. Subsequently in the MACPA 1986 Annual Report (p. 20), it was mentioned that the body's accounting and auditing standards committee had in the "pipeline" several "Malaysian Accounting Standards" including accounting for goodwill. This was followed with remarks in the MACPA 1987 Annual Report (p.25) and the article in *The Malaysian Accountant* (Jan-Mar 1988, p. 28) stating that both the MACPA and the MIA had issued a discussion paper on "Accounting for Goodwill" for comments by members, firms, companies listed on the KLSE, relevant regulatory agencies and other interested organisations. The latter also disclosed that the discussion paper was issued on 1 July 1987 and that the recommendations made in the paper were very similar to those in IAS 22..

In the MACPA 1988 Annual Report (p.25), it was stated that the comments that the body received had indicated a clear support for the discussion paper's recommendation. However, there was divided opinion regarding the basis of write-off and significant disagreement arose on the period of amortisation. It went on to say that "[i]n view of the currently diverse practices and divided opinion expressed on the subject, the Committee is seeking information from overseas accounting bodies on the latest developments in this area before formulating a Malaysian Accounting Standard on goodwill". In 1991, the then MACPA president mentioned in the *CPA Newslines* (May 1991, p. 2) that based upon the feedback that the MIA and MACPA received<sup>25</sup> from various parties in 1987, they decided to defer the issuance of a standard until world opinion had become clearer. Instead, world opinion became less clear. He wrote that there appeared to be no prospect of reconciliation between the proponents of the various approaches to goodwill accounting.

In early 1990, the Capital Issues Committee (whose functions together with those of a few other governmental bodies were taken over by the SC in 1993) in the annual review of its guidelines required the relevant professional bodies to develop an accounting standard to ensure "consistent treatment on the amortisation of goodwill" (*The Star*, 15 Dec. 1993).<sup>26</sup> Since there was then no approved accounting standard on goodwill applied in the country, the MIA-MACPA Common Working Technical Committee (CWTC) which was still in existence during that time went to work to come up with one.<sup>27</sup>

Thus, a second discussion paper was issued in 1991 to various parties as had been done a few years earlier. In September 1992, MIA released to all its members an exposure draft of MAS 6 which expired in mid-December 1992. Later in April 1993, it issued MAS 6 and issued a statement saying that the standard was made mandatory for all members to observe in respect of financial statements covering accounting periods starting on or after 1 January 1994. As for the MACPA, in the MACPA 1992 Annual Report (p.24), the then MACPA president mentioned that the release of an exposure draft MAS 6 had resulted in "a number of replies". He also said the following which interestingly seems to have been the case a few years earlier: "... the views presented were diverse and there was no obvious consensus of opinion on the matter. In view of this and the pending release of the revised International Accounting Standard on Business Combinations, the Council has decided to extend the exposure period

for the standard to the end of 1993 to enable further review work to be undertaken." In an interview, it was mentioned that the MACPA lobbied strongly against the passing of MAS 6 because there were "various flaws" in the standard. When the MIA did not bother to listen and had a circular sent out to members to adopt it by a certain date, there arose "an awkward situation" because soon after the MACPA was telling its members who were also (by law) MIA members not to adopt the standard yet! Thus, the MIA and the MACPA had gone on divergent paths on the accounting of goodwill and which at the end had led to the formation of the MASB by the government. (See discussion in the last section of the paper.)

In the meantime, with no goodwill accounting standard around, the worse which could be expected coming from the Malaysian companies had actually taken place. A survey by Tong (1992) of all the 1990 annual reports of the KLSE listed companies had found that companies with large goodwill had a tendency to choose methods that had minimal impact on profit or reserves. The three main alternative methods were utilized plus "[s]ome small pockets of accounting abuses, in the form of polluted purchase and the treatment of goodwill amortisation as an extraordinary items ..." (p.10). A few years later, in the *NST* (13 Dec. 1993), Ang Kok Heng had also revealed that the amount of goodwill in the accounts of 225 listed companies amounted to RM 4.28 billion with 3 listed companies had in their books around half a billion ringgit goodwill, another two around a quarter of a million ringgit and still another four for over one hundred million. Most of them he disclosed did not amortise their goodwill.

What took place on the subject of goodwill accounting standard should lend credence to the remark made by Gul (1983) that inadequate accounting standards had contributed towards there being insufficient financial disclosures for the Kuala Lumpur Stock Exchange (KLSE) to function properly and accordingly to gain the confidence of potential investors. Roughly a decade later similar views were put forward by none other than the former president of the MACPA, Tan Sri Datuk Jaafar Hussein who at the time of his speech in 1992 was the Central Bank Governor. After stating that Malaysian companies were traditionally not accustomed to making adequate disclosures, partly because most of them were controlled by prominent families and individuals, he next said that in most cases, in practice, current disclosure requirements would not be enough for investors to make a thorough financial analysis and prudent investment decisions (Jaafar, 1992).

A search through several documented sources has found further evidence to support this view by Gul (1983) and Jaafar (1992) that Malaysia did not have adequate accounting standards. For example, the journalist Pauline Almeida had written (*Malaysian Business*, 16 Aug. 1988, p. 17):

MACPA has an on-going standards setting process that consults the main user groups. 'The trend over the years has been towards greater disclosure', says MACPA president Larry Seow. But not enough, say the banker. 'The laws on disclosure in Malaysia lag behind that of the UK and US', says a banker with a foreign bank. This means that banks have to try and get behind the figure. There should be mandatory disclosures on areas such as the company's sales and most importantly, inter-company dealings', he says ...

Several years later, the Central Bank Governor in a lecture on "globalisation" argued that reliance on the market for much of the governing of the financial sector demanded improved transparency and greater disclosure in the financial statements of the financial institutions

(*The Malaysian Accountant*, Oct. 1995, p. 19). He also referred to weaknesses on the part of the IASC, on which the accounting professional bodies in Malaysia were dependent for many of their standards. He noted for example that despite the fact that financial instruments had undergone revolutionary changes, there had been no IAS on the subject until recently, and that the IASC had yet to issue another accounting standard on the recognition and measurement of the assets and liabilities arising from dealings in financial instruments.

That Malaysia did not have adequate accounting standards was contrary to the position held by some leading MACPA figures who emphasise the efforts made to ensure high financial reporting standards. In 1993, the then MACPA president mentioned (*The Malaysian Accountant*, June 1993, p. 11):

... the Association has developed a set of accounting and auditing standards that are in harmony with those promulgated by the international body of accountants and comparable with those of the industrialised and developed nations ... The efforts have not gone unheeded. They have gained for the profession a high reputation and stature not only in Malaysia but also in the international front. Malaysia is now recognised as having one of the highest standard of financial reporting in the Asean region.

The following year in the MACPA 1994 Annual Report (p. 26), after stating that the MACPA has been actively involved in developing accounting, auditing and reporting standards for Malaysia, the following was stated: "... the Association can proudly lay claim to having made significant contribution in putting in place a strong structure of accounting and reporting standards in the country which are consistent with international practice and regarded as one of the highest quality in the region." Finally in 1996, the then MACPA president proclaimed the following (*The Malaysian Accountant*, June/Aug 1996, p. 17): "... I am proud to say that the Association, together with its members, has made tremendous contributions in putting in place a structure of accounting and reporting standards which puts Malaysia on par with the most developed nations."

Perhaps whether or not there was around adequate standards of accounting may not be really the important question to ask. This is because the more important question is whether the Malaysian companies had complied with those standards which were around.

### 3.5.2 Standard of Financial Reporting

Many Malaysian companies are famous for being reluctant to disclose much. The following newspaper headlines say all: "Act Responsibly, KLSE Firms Told" (*NST*, 3 Oct. 1990); "Accounts Review Finds Weaknesses" (*NST*, 21 Dec. 1991); "Need for More Voluntary Disclosures" (*NST*, 9 Aug. 1993); "Don't Withhold Info, Companies Warned" (*NST*, 20 Aug. 1993); "Annual Report Should Provide More Details" (*The Star*, 27 Sept. 1993); and "67,000 Companies Fail to Submit Annual Reports" (*NST*, 2 Jan. 1994). In addition, Dr. Barjoiyi Bardai had mentioned in his newspaper column that very little information was disclosed in companies' annual reports with the companies using the excuse of safeguarding "trade secret" (*Berita Minggu*, 25 July 1993). Those that were in fact disclosed were of limited usefulness. Later in 1995, the then Minister of Domestic Trade and Consumer Affairs mentioned that "[m]any companies still think that the Annual Report is done just to satisfy statutory requirements and, hence, submit a report with minimal disclosure" (*The Malaysian Accountant*, Dec. 1995, p. 17).



Besides these anecdotal accounts, an empirical study by Tong et al. (1989) on voluntary disclosure of selected items in listed Malaysian manufacturing and industrial companies' annual reports showed that the level of disclosure was very low. Out of 25 items compiled on several scales of importance, only 12 were disclosed or commented upon and out of these 12, only one item was disclosed by more than 56 percent of the companies and three items by more than 40 percent of them. These and other similar findings were attributed to the lack of requirement for adequate disclosure in the accounting standards and related legislation. They concluded that the accounting profession in Malaysia was basically practising stewardship reporting where mere compliance with statutory disclosure requirements was the norm.

Nearly a decade later, Tong and Ann (1996) did research on voluntary disclosure in the income statements of 120 KLSE main board listed companies (as of December 1993) selected on the basis of stratified random sampling technique. They found a high level of non-disclosure: about 79 percent of the total value of all charges or credits between turnover and profit before tax of Malaysian companies were not revealed. They concluded this was because of the limited disclosure requirements of Malaysia's approved accounting standards and of companies' sticking very closely to the disclosure requirements of the 9th Schedule and promulgated accounting standards.

It is notable that though there exist more than a few evidence on the lacking in corporate disclosure, 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). This "accountant" mentioned the IASC's 1993 survey which identified Malaysia as one of the countries lacking sufficient amount of disclosure. This survey placed Malaysia together with Japan, Hong Kong and Singapore for having less comprehensive disclosures compared to countries such as US, UK and France. 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 the same category with Singapore and Hong Kong was not so bad.

With all this in the background, questions may be raised on the efficacy of the work conducted by the MIA (and for that matter the MACPA too) in reviewing financial statements. Indeed some of these questions were in fact raised during data collection resulting with much conflicting data uncovered from both interviews and documented sources. At any rate, the MIA's 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 had 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.

Finally, though the government had later in 1997 formed the MASB, there would not be much hope for the raising of the quality of corporate financial reporting in the country. This may be construed from the fact that little clarification had been made by the authorities in the area of enforcement of the accounting standards. It appears that the main concern of those involved in forming the MASB is high quality financial reporting (accounting) standards which ultimately are really a matter of argument.

### 3.5.3 Malaysian Accounting Standards Board (MASB)

It appeared that right after the Finance Minister made the fateful announcement in 1994 of the need to form an Accounting Standards Board (see above), the MIA leaders had strived to ensure that the MIA would not be by-passed in the field of accounting standard-setting. See the section on discussion and conclusion. That did not stop the government from going ahead with its plan. Thus, the following year, the Finance Minister had announced during his 1996 budget speech that his ministry would set up the Financial Reporting Foundation (FRF) 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.

Later in 1996, in the midst of stiff opposition from the MIA over the idea of MASB, the Finance Minister mentioned that for the country to strive for "disclosure-based regulation" of its capital markets<sup>28</sup> 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 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.

The Financial Reporting Act 1997 was implemented in the middle of the year when both FRF and MASB commenced operations on 1 July 1997 (*NST*, 11 July 1997). The functions of the MASB as listed in the 1977 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". As for the MASB's parent body the FRF, it 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.

The 1997 Act states that the accounting standards issued by the MASB 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. The Act appears to ensure that the Finance Minister retains considerable authority over the practice of financial reporting in the country. For example, 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 FRF and MASB will have to report their activities to him when they are required to do so "from time to time". In its final section, Section 29, it 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". It is also notable that Section 19 says funds for the activities of the FRF and MASB shall come from among others

the Parliament and "... any person including industry groups and corporations". There is nothing however in the Act on the very important issue of accounting standards enforcement.

Thus, the possibility that the MASB may well turn out to be an expensive exercise in futility is shown by the fact that the Financial Reporting Act 1997 does not delineate the manner that companies' audited statements would be inspected to see that they have in fact complied with the approved rules. The remarks made by the Finance Minister in this area of enforcement prior to the passing of the 1997 Act were ambiguous. The Finance Minister in his 1996 Budget Speech in the Parliament did say that the MASB besides formulating accounting standards would work in the area of identifying the related areas of regulation and "enforcement" (*NST*, 28 Oct. 1995). He also said that the level of "monitoring" needed upgrading and investors required protection by the government. But a year later he went on to mention that the FRF and MASB would (merely) be supplemented by appropriate compliance and enforcement mechanisms of the SC, ROC and Central Bank (*Business Times*, 8 Oct. 1996). He had however failed to detail out how they would conduct the enforcement activity.

With the ROC having little expertise in accounting and auditing, nothing much had been heard on the Central Bank's enforcement activity<sup>29</sup> and the fact that the SC had hardly shown any interest in companies' financial reporting,<sup>30</sup> it is uncertain as to how far these regulators would be effective in their enforcement activities. Overall, there was a threat that with or without the MASB, the future state of financial reporting - assuming little intervention from the Asian Financial Crisis 1997-98 - would continue much as it was when the MACPA and later the MIA controlled regulation of practice.

Additional uncertainty about the rigour of future regulation and enforcement comes from the appointment as the first chairman of the FRF of someone who, about a year before his appointment, 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 described above as a former council member of the MACPA, ICAEW qualified and chairman of five public listed companies 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 Malaysian 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 shareholders 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.

What could perhaps be much more reprehensible than all this is the fact that the MACPA which was influential in the creation of MASB (see the section on discussion and conclusion) had among its leaders one who had years earlier expressed concerns about policing compliance with standards, a matter which as noted above had somehow not fully addressed by MASB. Oh Chong Peng, a former president of the MACPA, had emphasised the importance of having 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). As he says it:

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. Next, he 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.

#### **4. Discussion and Conclusion**

During the time period that began with the gaining of independence in 1957 and which ended forty years later with the onset of the Asian Financial Crisis 1997-98 in mid-1997, accounting in Malaysia was experiencing a myriad of problems. In short, it existed in a disgraceful state: There was utter confusion on the functions of the MIA versus the MACPA. After the MIA's activation in 1987, this had led to the various public displays of disagreement between leaders of the two accounting bodies and finally the formation of the MASB by the government. There was also the continuing problem of accountants shortage which to a good extent was contributed by the fact the MIA had continued to falter in coming out with its own examination and the MACPA had the habit of making it difficult for just about everybody from becoming CPAs. This supply problem had to some extent satiated by the presence of unqualified/unregistered accountants. Nonetheless, these so-called bogus accountants had brought forward other problems for their clients and the nation. During the forty year period too, there was a continuing disciplinary problem for the nation's accountants. The same may be said in regard to the nation's financial reporting standards and standard of financial reporting. Thus, it seems that accounting in Malaysia had not really

improved over time. Even the MIA's activation after having laying low for two decades had not seemed to make much difference for the nation's accounting landscape. All this brings out the picture that the inspiring sounding words in various documents stating out the roles, responsibilities, aims, etc. for the MIA and MACPA were never real. This proved that there was time and again a triumph of hope over experience in the development of accounting in Malaysia.

Lehman (1985, Chapter 3) outlines two views on the manner in which knowledge of accounting is enhanced: the first views accounting with what Lehman (p. 59) calls "illusory concepts" such as "value free", "objective" and "fact"; the second considers the field as social practice imbedded in a socio-historical context. The former which is basically neo-classical conception of economic activity appears to have had greater influence upon the beliefs, values and vocabulary of many generations of economists, politicians, policy makers, students and academics. In regard to most accounting research, Ahmed (1992, p. 163) notes that traditional microeconomic thought has influenced accounting to the point that it virtually ignores the purposive nature of human conduct and behaviour and hence the meaning and context of actions including the production and processing of knowledge (see also Baker and Bettner, 1997). Ahmed further claims that by accepting the objective and abstract form of knowledge and viewing accounting as merely a technical and natural service activity, accounting researchers have isolated the domain of accounting thought and inquiry from many issues of wider social and organisational significance. In other words, though its rhetoric and ideology may match the power of logic and mathematics, the conception of social reality by mainstream accounting is debatable.

With these limiting features related to the first view towards the enhancement of accounting knowledge, it is thus proposed that the second or alternative path would be more appropriate in this study. Specifically, this path concerns the interrelation of accounting function with its environment viewed in an historical and social manner. This is in the very manner stated by Burchell et al. (1985, p. 382) who lament the neglect by accounting researchers of the intermingling of the accounting and the social: "... little is known of how the technical practices of accounting are tethered to the social, of how wider social forces can impinge upon and change accounting, and of how accounting itself functions in the realm of the social, influencing as well as merely reacting to it."

A similar view on contextual importance is raised by Puxty et al. (1987) who lament the lack of emphasis on social context in studying accounting. Puxty et al. (1987, p. 273) argue that a concern with the social context is important if accountants are to understand their position and roles in society and if the significance of accountancy is to be assessed. They point out that the roles of accountancy in regulating economic and social activities in society and the manner in which the institutions of accountancy are themselves regulated are intertwined. They further claim appropriately that the institutions and processes of accounting in different nation-states cannot be understood independently of the historical and political-economic contexts of their emergence and development. Others who have made the same claim include Tinker (1980), Cooper and Sherer (1984), Armstrong (1985, 1987), Burchell et al. (1985), Hopwood (1985), Berry et al. (1985), Miller and O'Leary (1987), Loft (1986), Hoskin and Macve (1986) and Lehman and Tinker (1987). By contextualising accounting in its various aspects, they show accounting to be socially and historically specific.

In looking for the influential factor or factors in the accounting surrounding leading to whatever state the accounting is in, Belkaoui (1974, as reported by Samuels and Piper, 1985, p. 141) has mentioned that a class elite in many developing countries are 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. Also, Rohwer (1995, p. 281) in his acclaimed work on the rising of East Asian nations has noted that "... 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 thus stated (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 forced with the same zeal that they are in the West."

In the case of Malaysia, it seems the one important environmental factor leading towards severe debilitation of the accounting experience had involved the powerful elite group comprising of those in the political and economic circles. Though members of this group were very much in the position to make a difference in the accounting arena, they would rather see that accounting and the accountants plus their representative body the MIA stay in a debilitating state. This is because it was in their interest for such accounting experience to take place. This is as noted by Cooper and Sherer (1984, p. 208): "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." Thus, the identity confusion, accountants shortage, disciplinary quagmire, etc. had profited this group. At the end however the nation suffered when the mess they created in the accounting arena had contributed to the severe loss suffered by so many during the Asian Financial Crisis.

The elite functioning leading towards weaknesses in the accounting landscape should be quite evident in three cases: inactive MIA, goodwill accounting standard and the formation of the MASB.

#### *4.1 Inactive MIA*

From both the documented sources and interviews, a variety of answers had been suggested as to why the MIA was largely inactive for two decades. The "official" story mentioned earlier is that the MIA was not active in order to avoid confusion and duplication of efforts. As for the "unofficial" stories, several lead to the picture that there was a sinister game played by the elites.

One of these stories is narrated by several interviewees. They mentioned that from the 1970s to the early 1980s, numerous people had in fact tried very hard to get the MIA to be active. Thus, a former leader of the Malaysian Chapter of the CACA, who together with another person were appointed by the then Minister of Finance in the mid-1980s to sit at the MIA council prior to its activation in 1987, mentioned that in the 1970s and the early 1980s, he wrote a lot of letters to the MIA and "everybody" including the Accountant-General to ask "Why the MIA was dormant?" He also sent out one petition after another but nobody bothered to respond. He said that he and his friends did everything possible except bringing the people concerned to court!<sup>31</sup> In his opinion and a few others interviewed, the MIA was inactive for two decades because the authorities did not care to see the MIA to be active - not because the members (as claimed by some interviewees) were not trying hard enough or that

they upheld the view that associating with foreign-based body compared to a local body was more glamorous.

A member of the MIA council also mentioned that around the middle of 1980s, he and a few other parties were lobbying quite heavily for the MIA to be activated, particularly because they saw that a few MIA council members who died in office did not have others to take over the council seats that they left behind. He said that those who were appointed to sit at the MIA council for the first time in 1967 continued to be there "year in and year out" until they died in office! Also, another member of the MIA council mentioned that the MIA members in the 1970s and early 1980s had filed requisitions to MIA's registrar - Tan Sri Dato' Jaafar Hussein - for the MIA to organise an AGM. But the Tan Sri (who some years earlier was a president of the MACPA and the top person for the firm Price Waterhouse and who later on held the post of Governor of the Central Bank) did not bother to act. He said that the accountants from the southern state of Johor were very vocal in this matter.

Finally, a number of interviewees had also noted that the blame for the MIA to be dormant for two decades could be squarely placed at the door of the leaders of the MACPA who came from the big audit firms. They claimed that then Big Eight audit firms wanted to monopolise the audit market in the country. An active MIA with its own examination and members bigger in number compared to the MACPA (which was and still is in the hands of the big audit firms) could ultimately mean that there would be more competition for these big audit firms. So, these firms were alleged to have acted to ensure that the MIA would end up acting as a mere registering body for two decades.

It appears that one of the political moves made by these parties was concerned with the government (unwritten) objectives of having the MIA around: to have more Bumiputra recognised as qualified accountants; to produce accountants in a manner different to the articleship as implemented by the MACPA; and to be a body to look after the interest of accountants in the commercial and industrial sectors which appeared to have been neglected by the MACPA which focused on public accountants. But it seems that the MACPA leaders felt that it could also encompass these roles plus numerous others. This had left the MIA to play the role of merely a registering body while the MACPA was more and more behaving like the national accounting body. Thus, for example, in 1975 the MACPA introduced the Development Scheme with the Stream II and Stream III. The former concentrated on articleship in industries, commerce or government offices. As for Stream III where in July 1978 the MARA Institute of Technology whose students were all Malays was chosen by the MACPA as the first institution in producing CPAs through formal study, the MACPA had shown that it was now getting serious in producing more Bumiputra accountants too. Thus at the end, as claimed by these interviewees, there appeared to be no good reasons left for the government to want the MIA to be active.<sup>32</sup>

#### *4.2 Goodwill Accounting Standard*

In the mid-1980s, as described above, the MACPA had failed to adopt IAS 22 on Business Combination. In fact, it was only later when the MASB was around that finally a standard on goodwill accounting was adopted in the country. Therefore, Malaysian companies for very many years had the freedom to account for goodwill as they preferred leading to a differing profit measurement in the income statements which in turn affected earnings per share figures and thus share prices. The fact that diverse goodwill accounting remained in existence

had also ensured that there was scope for creative accounting and deliberate manipulation of figures as corporate management was permitted to write off goodwill whenever it felt like so doing.

As has been described above too, the MIA did make an attempt in the early 1990s to have a standard issued. But at the end its attempt came to naught. In fact, the issue of the MIA's goodwill accounting standard had meant to be the end of the MIA as the sole accounting standard-setting body in the country. Various interviewees had mentioned that the MACPA leaders had used the goodwill accounting issue to their advantage. That is, the controversial issue of goodwill accounting was used by the MACPA leaders to out manoeuvre the MIA by ensuring that the MASB would be formed so that the MIA's power as a national accounting body was reduced to a very large extent. An interviewee mentioned: "The establishment of the MASB was an embarrassment to the MIA. And the excuse to create the MASB is the controversy over the accounting standard passed by the MIA on goodwill accounting."

This rather tragic experience for the MIA began with its press release in March 1993 where the MIA noted that following the release to all its members an exposure draft in September 1992 it had decided to develop the Malaysian Accounting Standard (MAS) 6 for application on or after 1 January 1994 in order to ensure consistency in the treatment of goodwill and improve comparability of financial information (*Business Times*, 30 March 1993). The standard recommended that purchased goodwill be treated as a fixed asset in the balance sheet and amortised through the income statement up to the maximum period of 25 years. In the press release, the MIA also pointed out that companies that previously carried goodwill as a permanent item should restate the current and prior periods for the change in accounting policy in accordance with IAS 8.

About six months after this press release, the president of the Federation of Public Listed Companies (FPLC), a member of one of the country's royal families which had been quite active in business for many years, issued a statement proposing that the implementation of the standard for 1 January be put off to five years later with the amortisation extended to 40 years (*Business Times*, 30 Sept. 1993). He claimed that if the standard were to go ahead with its proposed date of implementation, it would bring adverse effects to merger and acquisition exercises of companies and big losses to businesses. He also pointed out that although the MIA's exposure draft on goodwill had been distributed earlier many listed companies were still unaware of the implications of the standard. He further questioned why the amortisation period was for a maximum of 25 years and not 40 years as that adopted by the US. He mentioned too that the FPLC had contacted both the Treasury and SC and written to the MIA.

In response to this, the MIA president in December 1993 pointed out that the standard was an important step for the profession and the development of the country (*Business Times*, 8 Dec. 1993). He also said that it was in 1985 that the IASC issued the related IAS on goodwill accounting which somehow was not adopted in the country and that the issue had been deliberated in the country for five years. On another occasion, the MIA president pointed out that the adoption of MAS 6 would enhance the credibility of Malaysian investments on the international capital market (*The Star*, 15 Dec. 1993). He stated: "Inconsistent treatment of goodwill compared to the world's capital markets can lead to Malaysian investments being looked upon with a higher attached risk to deal with 'potential overvaluations of net worth.'" He also revealed that the principle adopted in the MAS 6 was in line with that of developed



countries such as the US, Australia, France, Japan, Canada and Malaysia's neighbour Singapore. He further mentioned: "The adoption of different methods of accounting for goodwill within a country can lead to consequences of incorrect capital allocations as some companies are perceived to be better performers than others due to the different approaches to accounting for an often significant item, goodwill."

As if the MIA did not have its hands full already, the MACPA in the form of its long running council member, who was the deputy country managing partner of Arthur Andersen & Co, came out in the open to attack the MIA leaders with his "sales pitch" as one of the new candidates for the MIA council election in December 1993 (*The Star*, 14 Dec. 1993). He said many damaging things about the MIA leaders which to some extent gave further evidence of the close ties between the MACPA leaders or the big audit firms in particular and the big businesses in the country. On MAS 6 in particular, he first mentioned that it had caused concern to the profession and business sector. Next, he said: "Some companies will get into trouble because they have to write off their goodwill over a period of 25 years." So he proposed that the MIA postpone the adoption of the standard - as the MACPA had done twice already in the last so many years. He was quoted to say: "The MIA should pause for a while on accounting for goodwill and wait until there is some sort of comparison with the rest of the world. Only then should we adopt the standard ... The profession is here to serve commerce and industry so we cannot afford to have a less than cohesive co-operation with the sector." He also seemed to give warning to the MIA leaders of what could befall them and also the rest of the accounting profession if there was no unity in the profession. The following was what he said: "It is important to unite to regulate ourselves or else the authorities may one day decide to regulate for us." This particular remark appeared to give hints that he among perhaps a few in the inner circle of the MACPA knew what was in the pipeline for the profession coming from the Finance Ministry, later to emerge in the form of the MASB.

Just two weeks before MAS 6 was to be implemented, *The Star* (14 Dec. 1993) reported that the FPLC had asked the MIA to postpone its implementation, failing which it would take the issue to the Finance Minister. From an interviewee it was found that the Finance Minister had subsequently issued a statement to companies not to follow the MAS 6. A year later, the *Business Times* (15 Dec. 1994) reported that MAS 6 was now "widely accepted by the industry". But the following year, the *NST* (24 March 1995) reported that MAS would be operative for the accounting periods commencing on or after 1 January 1997. The MIA president was reported as saying that the move was made after the MIA evaluated the feedback from those directly and indirectly affected by MAS 6. But this effort by the MIA had apparently come to no avail: by 1 January, 1997, the Financial Reporting Act of 1997 was already passed by the Parliament ensuring the coming up of the MASB to snatch away the responsibility to set accounting standards for the nation from the MIA.

#### 4.3 Formation of the MASB

It appeared that right after the Finance Minister made the fateful announcement in 1994 of the need to form an Accounting Standards Board, the MIA leaders had strived to ensure that the MIA would not be by-passed in the field of accounting standard-setting. Thus, about six months after the Finance Minister's 1994 speech, the idea of Malaysian Accounting Standards Review Board (MASRB) was announced by the then Minister of Domestic Trade and Consumer Affairs (*The Malaysian Accountant*, Feb. 1995, pp. 13-14). The MIA seemed

to have played a role in getting the then Minister to come out with this announcement. This may be concluded by the fact that the MASRB appeared to gain the support from the MIA president unlike what later occurred in the case of the MASB and FAF. Thus, when the then MACPA vice-president mentioned that there was a need for the MASRB to be "not unduly influenced by any single group" (*Business Times*, 12 Dec. 1994), the MIA president responded by saying the following (*Business Times*, 19 Dec. 1994):

Any board formed under any other legislation, however independent it is dressed up to be, can only be viewed by investors - foreign and domestic alike - with suspicion as it would champion the vested interest of the members concerned. The vested interest can be that of the Government, big corporations or the auditors of big corporations who normally have their clients' at heart.

At the end, the MASRB idea was scrapped. From the interview conducted with two MIA council members, it was found that the Finance Minister had instructed the Ministry of Internal Trade and Consumer Affairs to stay away from this field since the former would do all that was necessary. MIA was however adamant in its opposition to the idea of a separate body for the nation's accounting standards.

From several documented sources, it appears that the MIA in trying to have the Finance Ministry to abandon the idea of the MASB had also initiated changes in the manner that its accounting standards were set out. In the MIA's 1994 annual report (p. 8), it was revealed that public hearings and fora had now been decided to be put into place. The annual report also noted that copies of the standard would from now on be sent to interested parties such as FPLC, FMM and SC in order to ensure that prior to the adoption of the standard by the MIA any issues raised could be dealt with. In the following year annual report, it was disclosed that a public hearing was conducted (for the first time) in 1995 and that the MIA had organised public discussion on the issues of "financial management and accounting" and "professional conduct and ethics" (MIA 1995 annual report, pp. 12, 18, 20).<sup>33</sup>

Also, 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. He also said that the ASAB would be comprised of the following: Accountant-General, ROC, chairman of SC, governor of Central Bank, chairman of the Federation of Public Listed Companies (FPLC), chairman of the National Chamber of Commerce and others which the authorities believed should be included. In the same news report, it was mentioned that the MIA had convened an EGM in Aug. 1995 to discuss the issue of the MASB. And early the following year, the MIA members apparently passed a resolution at its AGM demanding their leadership make representations to the government to oppose the proposal (*Accountancy*, Nov. 1996).

In January 1996, the Editorial to the MIA's official journal, *Akauntan Nasional*, spelt out the MIA's view in regard to the MASB. After saying that recently the MIA was elected to the Board of IASC which in its opinion meant that "Malaysia is held in high esteem

internationally", it went on to say that at the local level the MIA did not get similar treatment. It further said the following: "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 ..."

Interviews conducted with those closely associated with the MIA uncovered their opposition to the idea of the MASB. One of the MIA council members mentioned that the MIA had made a presentation to the Ministry of Finance to lobby against its formation - 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 accounting 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.

Another member of the MIA council had also mentioned in an interview that Malaysia appeared to be the only country where the government went on to set up an accounting standard-setting body though there already existed an accounting body formed through Parliamentary Act to do the task. He said that from a study conducted by the MIA, it was found that only New Zealand came close to what Malaysia was now having with the MASB. However, he stressed that the body in New Zealand was to "review" financial statements and not to set accounting standards. He also said that accounting standard boards were formed only by countries like the US, the UK, and Australia where there were multiple accounting bodies operating which did not agree among themselves regarding the standards to be adopted. Because of the MASB, he feared the MIA position as one of the board members of the IASC "would be undermined". He said that if the IASC were to find out that the MIA was not any more the accounting standard-setting body in Malaysia, it would probably mean that the MIA would be asked to leave the board. It was something which he dreaded.

Finally, with the creation of the MASB, several MIA council members stressed in several interviews that the government was incorrect in taking away the accounting standard setting responsibility from the MIA. Now it appeared to one of them that the MASB was under the influence of big companies to the point that it would endanger the public interest.

Perhaps as expected, not even a single documentary source has been found stating "directly" that the MACPA was involved behind the scene in the government's formation of the MASB. Also as perhaps expected nowhere was it acknowledged that the MASB, regardless of what the Finance Minister mentioned in his speeches in 1994, 1995 and 1996 as the rationale for its formation, was in reality an "instrument" by the big six audit firms to reestablish their dominance in accounting standard-setting following the MIA having taken over the MACPA role as the body to represent the nation's accountants.

Officially the position was as appeared in the Securities Commission's 1995 Annual Report (p. 3) where the chairman of the SC noted: "I wish to express our sincere appreciation to the Minister of Finance and officials at his Ministry for their support in effecting this change. With their support, too, the SC's initiative to set up a Malaysian Accounting Standards Board (MASB) became a Government objective expressly stated in the 1995 Budget Statement."

Also officially it was pointed out that the FRF and MASB were established to reflect "... the move instituted by the SC towards a disclosure-based regulatory system, and that financial reporting has become a 'public-interest' activity" (*NST*, 29 July 1997). Still officially too the then MACPA president could only state publicly in 1996 the following (*The Malaysian Accountant*, June/Aug 1996, p. 17):

... the Minister of Finance has announced the establishment of a Malaysian Accounting Standards Board to formulate accounting standards and to identify areas of regulation and enforcement. The Association supports this development as it will ensure greater compliance with accounting standards by all parties who are responsible for the preparation of and reporting on company accounts. That will lead towards greater transparency to financial reporting.

Though in some written sources those in the above were formally stated as justifying creation of MASB, from various other documented sources it could be safely concluded that the MACPA leaders were bound to be extensively involved behind the scenes to get the MASB formed. This is because as early as 1987, the then MACPA president mentioned the problem of monitoring standards which he said could be reduced if the profession were to gain support from the government (Gupta, 1987). He had also said in the same paper presentation the following (Gupta, 1987, p. 8): "A single standard-setting body similar to the Financial Accounting Standards Board (FASB) in the US may be set up as an independent body with the sole authority to develop and issue approved accounting standards for Malaysia which will be binding on all persons responsible for the accounts." He suggested that the board should be made up of representatives from the profession, the relevant government authorities, the stock exchange, educational institutions and other professional bodies whose work were affected by accounting standards. Also in 1987, Oh Chong Peng who later became the MACPA president made similar remarks when talking about the limitations faced by the MACPA's FSRC in its work of monitoring the compliance with approved accounting standards by preparers and auditors (Peng, 1987, p. 12).

Next, in 1988, the then MACPA president gave a press briefing on the formation of such body which caused consternation in the MIA council (*NST*, 23 July 1988) as described in the body of the text under the heading "Disagreement". The then MACPA president without discussing the matter beforehand with the MIA leaders stated that the MACPA would initiate the formation of an "accounting standards consultative committee" to develop and issue accounting standards and auditing practices in Malaysia. The committee would have representations from MACPA, the MIA, universities and the relevant regulatory authorities. Finally, later in the 1990s, in the MACPA 1995 annual report (p. 38), the president had mentioned what appeared to be the MACPA's disguised involvement in the formation of the MASB. It stated:

In reflecting the major issues facing the profession, I believe the most important challenge is the reform of the organisational and regulatory structure of the profession so that it is better placed to serve the members, the community and the nation. *Your council has already undertaken some initiatives towards this objective*, and I am hopeful that these will come to fruition in the years ahead. (Emphasis added.)

While there exist no document around providing concrete evidence on the MACPA's involvement in the formation of the MASB, a number of the MIA council members

interviewed had pointed out without any reservation that the MACPA was forcefully behind the idea of MASB because the MACPA leaders had realised that with the MIA taking over the accounting standard-setting function which was earlier played by the MACPA, there was nothing more in this area for the MACPA to do.

One of the MIA council members described the exact role played by the MACPA in the establishment of the MASB. He said that before the 1996 budget speech by the Finance Minister where he announced the establishment of the MASB, the Finance Minister had already formed a task force to advise him on the MASB. This task force was comprised of five individuals who included two former presidents of the MACPA and three others who he claimed to be biased towards the MACPA. The head of the task force was one of these two former presidents of the MACPA. The MIA was not represented. This was because Mr. Ramli Ibrahim of the KPMG Peat Marwick, the then head of the MIA accounting and auditing standards committee and who was one of the other three sitting in the task force, had from early on declared that he was in the task force in his own capacity. In other words, he did not represent the MIA. He had also declared from very early on that he supported the idea of MASB.

While several MIA leaders mentioned in interviews of the MACPA's involvement in the formation of the MASB, a mere two of the MACPA leaders elaborated on the role played by the association. One of these two mentioned that several MACPA leaders went to the Finance Minister some time before the MASB came into existence in 1997 to talk about forming the MASB-like body which they argued was working wonderfully in the US and the UK. He claimed that the MACPA leaders' made that move because they resented the MIA's action in recent time which needed the big six audit firms to do the nitty-gritty work of accounting standards-setting while ensuring that leadership of the profession was in the hands of the audit partners from the smaller sized audit firms. He also claimed that the MACPA was very interested in having the MASB formed because "[t]he MACPA saw the MASB as a 'counterweight' to the MIA". He pointed out: "With the MASB, the MACPA has very cleverly cut the MIA's power by half!" He claimed that the MIA itself due to several episodes in accounting and auditing standards-setting had inadvertently helped the MACPA in getting the idea of the MASB through to the Finance Minister. These blunders he argued were not exactly unexpected of the MIA since the MIA did not have the "right people" in the area of accounting and auditing standard-setting. He claimed that majority of those sitting in the MIA's accounting standard-setting committee were from small audit firms which had limited interaction with big businesses.

Another leader of the MACPA had also claimed that the big six was very influential in having the MASB established. He also mentioned: "With the MASB, we have the presence of the very much needed non-accountants in accounting standard-setting. In addition, it is now the government which is in control and not some renegade accountants running amok in setting accounting standards in the country." He claimed that the government did not have much confidence in the accounting standard-setting effort of the MIA, and referred to three recent cases where the MIA's standards (two of them) and statement (one) were withdrawn due to some parties' criticism after they had already been enforced by the MIA. The two standards were related to goodwill accounting and to the expanding of auditor's responsibility for items appearing in a company's annual report. As for the accounting statement, it concerned certain items to be disclosed in consolidated income statements.

All in all, the development surrounding the MIA being inactive for two decades, the goodwill accounting standards and the formation of the MASB provide the picture of members of the elite group in Malaysia which include a small but powerful section of the nation's auditors had been quite helpful to each other – even to the point of doing the unthinkable such as ensuring the MIA lying low, delaying the implementation of accounting standard for goodwill and forming the MASB to usurp the MIA's standard-setting responsibility. Perhaps there is very little to be surprised about since that appears to be one of the dominant features of elite if one were to refer to the various writing of for example G. William Domhoff and C. Wright Mills on power elite in the United States.

It may safely be said that accounting debilitation in Malaysia in the four-decade period prior to the onset of Asian Financial Crisis 1997-98 was the outcome of the fact that a very small section of the society held so much power in the political and economic sector leading to a situation where they had little interest in seeing changes in the status quo. Accordingly, as long as very little actually changes in the manner that political and economic power are distributed among members of Malaysian society, it may be predicted that nothing much may be expected from the nation's accountants in the years following the financial crisis. This prediction is consistent with the success that the elite has tasted over the years in getting things done their way. Check out the followings on corruption and public sector audit:

First, the leader of Aliran, the NGO for "freedom, justice and solidarity" in Malaysia, Chandra Muzaffar mentioned the following when he tried to explain the reluctance of national leaders to act on those responsible for corrupt activities (Chandra, 1989, p. 99):<sup>34</sup> "To expose their misdemeanours would be to expose the New Economic Policy's not so subtly concealed agenda of creating Malay capitalists, whatever the costs and the consequences. Ethics have to be set aside for the time being - so it has been argued in certain official circles - to facilitate the rapid growth of a Malay capitalist class."

Next, on the eve of the Asian Financial Crisis, the Editorial to the *NST* (7 June 1997) provides a much better picture as to why the corrupts in Malaysia had no reason to turn a new leaf:

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 indiscreet 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.)

There were six reasons (in italics) disclosed by the Editorial as to why corruption could be considered to have gone unhampered, and as disclosed by the Anti-Corruption Agency, corruption had been on the rise over the last 20 years and stiffer punishment was needed (*New Sunday Times*, 8 June 1997).

Finally, the former auditor-general, Tan Sri Ahmad Noordin, mentioned the following when he was discussing value for money audits in government operations at a seminar (Ahmad, 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.

In conclusion, remark such as the following made by the MIA Council in its audit fee memorandum sent to the Finance Minister may continue to be heard from time to time (MIA Council, 1994, p. 28):

The Council is committed to building a united, strong and respected profession in line with Government's aspiration to make Malaysia a developed country and Kuala Lumpur a world class financial centre. A world class financial centre requires a world class accountancy profession and it is this vision that the Council is in the midst of pursuing.

But the truth is that such statement would be nothing more than a sleeky expression of hope that is lacking in substance. Accounting in Malaysia shall continue to be the case of the triumph of hope over experience. In short there would be phantasmagoric accounting in action.

Seeing how useful it is in explaining the experience of accounting in Malaysia by relating it to the (mis)conducts of elite coming from both inside *and* outside the accounting arena, for further study, there is a need for a conceptual work on elite functioning in developing countries. Perhaps the emerging theory may be called an elite theory of accounting malfunction (ETAM)? Since there exist extremely few studies on the activity of the elite over accounting (Bakre, 2004a, b),<sup>1</sup> it may also be a good idea for further work in this area. This is especially true in the context of developing countries where the presence of a small powerful elite group has always been the case. In the case of Malaysia in recent time in particular, Gomez and Jomo (1997), Jesudason (1997) and Heng (1992) have identified who they are. With the advent of globalisation, both theory and empirics over elite and accounting malfunctioning may however need to take into account the presence of elite coming from the international arena and other countries *and* their collaboration with the local elites. In European context, Fligstein (1998, p. 331) mentions the following: “The European Union would seem to be an emerging polity that so far has protected the rights of national economic elites while attempting to harmonize different accounting practices. This might result in more transparency in accounting, but it is unlikely to result in a convergence of firms across countries in terms of property rights and governance structures.”

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<sup>1</sup>From here onward, it is written as *NST*.

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<sup>2</sup>The first MACPA examination - "Intermediate" - was held in December 1963 and the other two - "Final Part I and II" - in December 1965. All took place with the assistance of the Overseas Accountancy Examination Advisory Board (OAEAB) established by the Chartered Accountants Joint Standing Committee of the Institutes of Chartered Accountants of Scotland, England and Wales and Ireland. This support by the OAEAB was extended until 1969 (Enthoven, 1977, p. 323). In 1980, the then MACPA president Dr. Nawawi Mat Awini described why the MACPA needed assistance from OAEAB (*The Malaysian Accountant*, Jan. 1981, p. 45): "We consider that help [from OAEAB] important because we wanted to be sure that right from the start our professional examinations were of the highest standards. That was of the utmost important; we wanted to ensure that our professional qualifications would be recognised and respected by the government, the private sector and the community generally." Also see Johnson and Caygill (1971, p. 167) for more. It is notable that some sort of assistance coming from the ICAEW appears to have also taken place in the early 1980s. See the MACPA 1981 (p. 17) and the 1982 Annual Reports (p. 17).

<sup>3</sup>The public and registered members were those with accounting bachelor or post graduate diploma degrees from local higher institutions or accounting professional qualifications from MIA's recognised local and overseas accounting bodies. To become a member, he or she also needed to have three to five years relevant experience in public accounting firms for public accountants and in commerce/industry/public sector entity for registered accountants. Five years were the rule. But it was shortened to four years for those with High School Certificate and to three years for those graduating with degrees or diploma from local higher institutions. The recognised accounting bodies (as listed in the Act) were the Chartered Institutes of Scotland, England and Wales, Ireland, Australia, Canada and India; the Societies of Accountants of Australia and New Zealand; the Association of Certified Accountants (UK); the Institute of Cost and Management Accountants (UK); and Malaysian Association of Certified Public Accountants (MACPA). As for the licensed accountants, they did not have MIA recognised accounting qualifications but were allowed to practice for any of the following two reasons: they were already in operation as accountants, tax-consultants or tax advisers prior to the passing of the Accountants Act in 1967; or the Finance Minister had granted them limited approval to act as company auditor under Section 8(6) of the Companies Act 1965.

<sup>4</sup>However, with regard to a tax consultant or a tax adviser, the Act had a provision allowing him or her to practice or hold him/herself out as one when he or she had the authority to do so as granted by any other law that was enforced within the country.

<sup>5</sup>The 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 (1981, 1965) and Chee (1983, Chapter One).

<sup>6</sup>He was among the first few Bumiputra sent to Australia under the Colombo Plan to do accounting (*Business Times*, 17 Aug. 1989). He qualified as chartered accountant in 1960 after five years with Price Waterhouse in Melbourne. Upon his retirement in 1989, he took over the business of the audit firm Baharom-Jasani (*Business Times*, 17 Aug. 1989). In 1991, *The Star* (10 July 1991) reported that Shamsir Jasani & Co, the seventh largest accounting firm in the country, had 130 staff and was backed by Grant Thornton International.

<sup>7</sup>Note however that the MACPA appeared to say that the merger discussion only began sometime during 1976. See the MACPA 1976 Annual Report (p. 8). Perhaps the discrepancy in date when the merger talks actually began should not surprise anyone. The discrepancy on accounts of for example what have taken place or who were involved were found in many other cases during interviews and also from various documented sources chosen to be analysed.

<sup>8</sup>Note that the proposed new Act had only incorporated major clauses with detail clauses on administration, education, examination, etc. would be filled out by members and the council through the Act's By-Laws and Council Regulation. This appeared to be a way for the MACPA leaders to ensure that the MICA would ultimately turn out as MACPA itself. Indeed, except for the name MICA, it appears that the new body had much of the old MACPA and hardly anything that originated from the MIA. For example, there was now the need for a member to have a practising certificate issued by the new body before he or she could practice auditing. Also, in common with MACPA rules but certainly not with those of MIA, members of foreign accounting bodies would only be accepted as full members if they had already met certain examinations and practical experience requirements.

<sup>9</sup>It is interesting to note that findings from interviews show that there was no "outright" rejection from the government side. A number of interviewees indicated that it was the accounting bodies themselves that did *not* want unification - in the form that the government would like. In other words, the federal cabinet was actually



ready to accept the merger in a quid-pro-quo kind of arrangement. 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 whose members were majority Malays. The inclusion of these bodies would ensure that their members could be taken in as public accountants and in turn would have them permitted to audit companies. As one leader of the MACPA puts it: "To have these people to come in as full-fledged members is just unthinkable! Regardless of the fact that powerful government Ministers are behind them." It could not be ascertained however from the various interviews how many accounting bodies exactly were involved and what they were. A few interviewees however recalled only one body: the Institute of Cooperative Auditors (ICA) sponsored by the Agriculture Ministry. In addition, several interviewees mentioned that the government's "rejection" of the merger proposal was because MICA, the new merged body, would not give automatic recognition to local accounting graduates - who were majority Malays - after their three years of earning the relevant practical experience. In other words, the MICA would follow the approach taken by the MACPA.

<sup>10</sup>For more on what transpired please 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".

<sup>11</sup>In the Act, it is stated 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 FRF comprises 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).

<sup>12</sup>The then MACPA president responded to all these remarks by saying the next day that there should exist segregation of duties between the MACPA and the MIA in the arena of accounting practice/profession in the country (*The Star*, 13 Oct. 1988). He also said that the MIA and MACPA were not currently working for merger but that did not mean that the two bodies could not hope for "unification" through close co-operation. He pointed out that there should not be any duplication of resources or the case where "... one party tried to impose a 'one-voice' system in the profession".

<sup>13</sup>The NEP was adopted by the government in 1971 and had the goals of eradicating poverty - regardless of race and irrespective of geographical location - and reducing imbalances in income, employment and ownership of assets among the various races in the country. The policy was incorporated within the First Outline Perspective Plan (OPP1)(1970-90) issued by the government in 1973.

<sup>14</sup>Thus, the RIDA (Rural and Industrial Development Authority) Training Centre (which later in 1967 was renamed the Institut Teknologi MARA) in 1960 had established the School of Accountancy offering courses in bookkeeping as single unit subjects. In 1965, the school offered the Diploma in Accountancy (DIA) for students who had completed the Cambridge Overseas School Certificate. Also, the University of Malaya, then the only university in the country, had already sixteen students graduated with a Bachelor of Economics with Accounting specialisation in 1969 (*The Accounting Journal*, 1970/71, p. 8). Later in 1966, the Division of Accounting was established in the Faculty of Economics and Administration. By the early 1970s, a total of 127 students had graduated and many had found employment in commerce and industry and in the public sector while only a small proportion went into the public accounting firms students (*The Accounting Journal*, 1971/72, p. 6).

<sup>15</sup>Actually, in the beginning, both the MIA and the MACPA had failed to recognise the accounting graduates from those institutions established by the government. In fact, the accounting graduates from those institutions established by the government had failed to be recognised by both the MIA and the MACPA. However, in 1973, a post-graduate diploma in accounting programme was introduced with the aid of the Canadian Government through the provision of faculty from Canada (*The Accounting Journal*, 1977, p. 1) to ensure that students graduated with the Bachelor of Economics (Accounting) and in possession of the post-graduate Diploma be acceptable to the MIA (Gul, 1983, p. 14). The post-graduate diploma was recognised by the MIA on 15 June 1973 allowing its holders with a three-year experience in accounting to enter the government's accounting service. The MACPA however had failed to fully recognise the programme that was discontinued in 1980. Thus, Editorial to *The Accounting Journal* (1971/72) had clearly stated that the University of Malaya, into which the Malaysian government expended millions of ringgit yearly as an investment towards developing a qualified labour force, was not accorded appropriate recognition by the local professional accounting bodies, the MIA and the MACPA.

<sup>16</sup>The page number is not stated because the journal for this 1974/75 issue had failed to print numbers on its pages.

<sup>17</sup>This was confirmed by one of the interviewees.

<sup>18</sup>See the MIA 1988 Annual Report (p. 6), 1989 Annual Report (p. 7) and Hanifah (1990, p. 15).

<sup>19</sup>For just a little bit more information on this committee, see *Akauntan Nasional* (Dec. 1990, p. 24).

<sup>20</sup>The apparent exceptions took place in two cases: 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); 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 very 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 in fact actions had been taken. See *The Malay Mail* (4 Feb. 1988; 26 Feb. 1992) and *NST* (17 Sept. 1988; 31 Jan. 1991).

<sup>21</sup>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.

<sup>22</sup>For forty years after independence in 1957, there has only been one case where an auditor was brought to court in the country. It took place in the first half of 1960s. That is, just before the Companies Act 1965 was enforced, in 1965, the audit firm Peat, Marwick, Mitchell & Co. located in Kuala Lumpur was sued by plaintiffs who were shareholders of a company - Kiwi Dry Cleaners Ltd. - at the High Court of Malaya (Civil Suit No. 324 of 1965 Kuala Lumpur). See (1967) 1 MLJ 87. (MLJ stands for *Malayan Law Journal*.)

<sup>23</sup>The IASC was formed in 1973 with London as its headquarters to develop and encourage the adoption of international accounting standards that concern the form and content of disclosure in financial statements. The IASC came about through an agreement made by professional accountancy bodies from Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom and Ireland and the United States of America. Since 1983, IASC's members have included all the professional accountancy bodies that are members of the international Federation of Accountants (IFAC).

<sup>24</sup>To mention just three cases, in the Preface to the IAS it was stated that the duty to prepare accounts rested with directors. However, the Editorial pointed out it was the auditors who were delegated the task. When it came to IAS 1 related to the selection of accounting policies, the Editorial said that "[a]ccounting policies may be changed at the clients' whims and fancies to suit their own ends". As for IAS 2 related to stock records, it said that most small firms did not keep stock records and if they did keep such records, they were in quite simple form. Finally, in relation to IAS 3 on consolidated financial statements, it revealed that with equity accounting, problems arose when management of the associated companies did not oblige by supplying the requested information.

<sup>25</sup>Note that there were two different figures published to show how many responses were actually received by the two bodies. *The Malaysian Accountant* (Jan-Mar 1988, p. 28) mentioned the figure 53 replies, while the *Akauntan Nasional* (June 1991, p. 20) mentioned 80 responses. It is hard to explain how something like the number of responses could be so different. But this was indeed the case.

<sup>26</sup>On another occasion, the MIA president disclosed not the early 1990 but it was on 24 July 1989 that the CIC had asked the MIA and MACPA to develop a standard on goodwill (*The Star*, 15 Dec. 1993).

<sup>27</sup>Depending on which source is referred to, the CWTC comprising MIA and MACPA members was formed in either March 1989 (MIA 1989 Annual Report, p. 9) or April 1989 (MACPA 1989 Annual Report, p. 27). With effect from the last quarter of 1992, the CWTC was disbanded and its functions were now taken over by the MIA's Accounting and Auditing Standards Committee (AASC) (*Business Times*, 11 Feb. 1993). The then MACPA president was very disappointed that that happened (1992 MACPA Annual Report, pp. 19, 24) possibly because it had placed hope that the collaboration would end up in the "... formation of an accounting standards board entrusted with the authority to set standards of accounting for the entire community" (MACPA 1989 Annual Report, p. 27).

<sup>28</sup>The disclosure-based regulation came about with the 1995 amendment to the Securities Commission Act of 1993 where now it replaces that of the merit-based. For more please see the Securities Commission 1995 Annual Report, pp. 85-90.

<sup>29</sup>Exception perhaps may be found in the small publication made available to the public in 1987! See Central Bank (1987).

<sup>30</sup>In recent time – several years after the onset of the Asian Financial Crisis 1997-98 – and at long last, the SC has finally started to show its teeth over the listed companies' financial reports.

<sup>31</sup>From the reading of the Accountants Act 1967 it appeared that the MIA council then was acting against the Accountants Act. The Second Schedule of the Accountants Act 1967 mentions the following in its Paragraph 8,

Part 2 under the heading "General Meeting": "The Council shall hold a general meeting of the Institute within six weeks of the receipt of a written request to do so, specifying the objects of the meeting signed by not less than twenty-five members entitled to vote."

<sup>32</sup>Note however that *The Malaysian Accountant* (July 1981, p. 6) reported the remarks made by none other than then MACPA president himself of the "failure" of Streams II and III.

<sup>33</sup>With such recently established moves, in *The Accountant* (Dec. 1996, p. 7), the MIA executive director, in attacking the formation of the MASB, was reported to say that the current system operated by the MIA had in fact ensured that all relevant parties - users, regulators, preparers and auditors - were consulted before any accounting standards were issued and that the MIA held the necessary public hearings and fora.

<sup>34</sup>Note that Chandra Muzaffar and Aliran appear to be well versed in this subject matter. Check for example Aliran (1981a, Chapter Three), Aliran (1981b), Aliran (1988, Chapter Four) and Chandra (1989, pp. 47-56). For more on the same subject, please check also the following: The speeches made by Lim Kit Siang on 25 October 1977, 27 October 1975 and 14 July 1971 which appear in Siang (1978); the section entitled "On a Clean, Efficient and Democratic Government" in Siang (1986); and finally Schlossstein (1991, Chapter Four).

<sup>35</sup>It is notable that both Perera (1975) and Scott (1970) have referred to the elites in Ceylon and developing countries, respectively. Unfortunately, they have failed to give details on the interrelationship between these elites and the accounting goings-on. In the case of Perera (1975), it is merely discussed in one single paragraph (pp. 87-88), whereas for Scott (1970), in two pages (pp. 13-14) out of nearly a hundred and seventy pages of work.



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