

Events of Importance in External Auditing in Malaysia, 1957-1997^a

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Abstract

The enlarged exogenous analytical framework supported by the conduct of qualitative case study method is used to investigate the role and contribution of external auditing in Malaysian society. The interpretive framework provides guidance in identifying significant historical events categorized into three groups: intrusive events, central response events and the rest of response events. Following the identification of these events, there is the analysis of available patterns of transformation decomposed into source, diffusion and reaction phases. The source phase giving significance to the influence brought about by the environmental attributes surrounding audit and other systems has the intrusive events coming into the picture. As for the diffusion phase, there is the presence of the central response events and the rest of response events to the exclusion of the intrusive events. Finally, when it concerns the reaction phase, there is the involvement of all three types of events: intrusive events, central response events and the rest of response events. The study provides understanding of the operational form of contemporary audit practice in Malaysia and the historical, social, economic and political determinants of that form.

Keywords: Enlarged exogenous analytical framework, historical events, Malaysia, auditing

1. Introduction

There exist more than a few questions regarding the financial statements audit in Malaysia. Among the more important ones include the following two: 1. During the economic recessions in the 1980s, when many businesses were forced to close down and cases of financial improprieties by directors and top management were disclosed, why was not even a single auditor brought to court? 2. Why Malaysia's accounting/auditing came to face with all kinds of problems (such as the presence of unregistered accountants, the disciplinary quagmire, the shortage of accountants/auditors and the lack of adequate disclosures by Malaysian companies) as if there is very little interest on the part of any party to see that all these and other problems are managed appropriately so that there would exist in the country a healthy, functioning accounting/auditing practice able to meet the demands of a nation (supposedly) "on the move"?

To answer these and other related questions, it is hereby proposed that there is a need for the application of the so called enlarged exogenous interpretive framework which was originally developed by Smith (1973, 1976) and applied in accounting research by McKinnon (1986) who traced the historical development of the Japanese corporate reporting regulation and its present operational form.

Smith's framework combines "exogenous premise" and "endogenous inputs" resulting in four interrelated components to be used as the basis for system analysis: environment, trans-systems activity, intra-system activity and intrusive events. It views "change" in a social system to involve three phases: source, diffusion and reaction.

^aThe work is based upon the 1998 PhD thesis by the author at the University of Manchester – with two important differences. First, the current work focuses solely on the interpretive approach to the negation of that known as the critical accounting. Such has never happened before for the numerous writing output related to the PhD thesis. In addition, the current work incorporates over 200 of the so called response events. The response events inclusion which appears in Appendix B in the form of a list is not part of the PhD thesis earlier due to the space constraints. Finally, note that in 1999 the PhD thesis was published in the form of a monograph (Azham, 1999) and later in 2007 in the form of an e book.

The components and terminology of the analytical framework are described below with their Malaysian "meanings".

2. Systems' Activities

Systems' activities are divided into two types: between and within systems. The trans-systems activity occurs when two or more neighbouring systems interact. This activity embodies environmental influence which is conveyed to the focus system through the interaction between neighbouring systems and focus system.

As for the intra-system activity, it takes place within the focus system. That is, the response events come about through interaction among the groups and individuals which comprise the structural elements of the focus system. The collective and individual responses of focus system components towards intrusive events are circumscribed by the interactions between the focus system and neighbouring systems. Therefore, the kinds of response events taking place within the focus system are influenced by the environment through the presence of the trans-systems activity which embodies this environmental influence.

Government, corporations and capital funds may form in the present study the neighbouring social systems for the audit process with the supposed interests in the output of that process: audited statements. Sterling (1974), Hopwood, Burcell and Clubb (1988) and Burchell, Clubb and Hopwood (1985) among others mention the significance of government and the state in accounting related matters. The stock market in particular, appears to have a direct impact on auditing. A weak stock market is found when the banking system is the major entity contributing funds to companies. Radebaugh and Gray (1993) note that when that is the case, the accounting practices will tend to be more conservative and disclosure will be limited. It however does not mean that when shareholders are a dominant source of corporate funds, the opposite would take place for accounting. This is due to some extent to the fact that the stock market may not be active: people or institutions rarely trade their shares.

Meek and Saudagran (1990, p. 150) propose that corporate's disclosure levels tend to be higher when there is a large number of capital providers, when their information needs are diverse, and/or when they have a remote relationship with the companies. However, disclosure levels are lower when companies rely on relatively few sources of capital with similar information needs and which maintain a close relationship. Under the latter situation, the capital providers have direct access to whatever accounting information is needed and extensive public disclosures are not necessary.

There are a number of identifiable groups impacted by the audit process. These are the constituencies or stakeholders forming the focus system. The selection of these constituencies comprising regulator, preparer, auditor and user of audited statements is guided by literature on audit function: American Accounting Association (1973, p. 7), Lee (1977, p. 103), *Statements of Financial Accounting Concepts* (1987, as found in Reynolds 1989, p. 31).

Regulators may be public, private or mixed entities. They include the Registrar of Companies, Malaysian Institute of Accountants, Malaysian Association of Certified Public Accountants, Ministry of Finance and Securities Commission. *Preparers* are company management who use capital. *Auditors* are the accounting firms of various sizes, some of which are affiliated with overseas accounting firms. *Users* include both agents and principals who supply capital. Principals may include potential, current, and past investors, creditors and employees of the company. Together these participants in the audit process are considered the interested parties in the issuance and usage of audited statements and the enforcement of related auditing standards and a code of ethics.

3. The Environment

The environment provides the spatial context within which all the activities between and within systems take place. It is the set of conditions which surrounds the focus system and all other systems within the nation and which is subject to only gradual change over time. In contrast to the various activities within the focus system and between systems, it does not generate events as data for change analysis.

It instead serves to constrain or facilitate change through its influence on the nature of interactivity between and within systems. In other words, it sets parameters as to the extent of interactions within and between systems. Indeed, what kind of environment is present is reflected by what is taking place between and within the social systems.

As mentioned earlier, the environmental influence is embodied in the interactions among the neighbouring systems and is conveyed to the focus system through neighbouring system interactivity with this system. This influence may be suppressed by the occurrence of certain intrusive events but would normally be apparent later on (McKinnon, 1986, Chapter Eight).

The environment for the present study is viewed to consist of a set of socio-economic relationships and political conditions that constrain or facilitate the audit process. This environment may be divided into three dimensions: socio-cultural, economic and political. The selection of elements to constitute the environment has relied on Smith (1976) as the broad guideline. Smith (1976) identifies three areas which he claims have the ability to impact a social process: socio-economic, political and cultural factors.^b Works by Choi and Mueller (1978), Radebaugh and Gray (1993) and Nobes (1992) have also been referred to.^c

In the context of Malaysia, three environmental factors seem to be of particular importance in understanding the Malaysian context and in interpreting developments in external audit and its neighbouring systems. These are the *different races*, the *industrialisation drive* and the *strong and pragmatic government* for the respective social, economic and political spheres constituting the environment surrounding audit and systems neighbouring. Details of each of these environmental factors appear in Appendix A.

4. Historical Events

Not all events are of interest. The historical events viewed as relevant under the framework are those associated with a turning point or which mark a transition from one pattern to a new or modified pattern in the system. These events are divided into those known as either intrusive or response events.^d

4.1 Response events

Response events may emerge as a result of the interactions within the elements of the system studied (intra-system activity) or between the focus system and the neighbouring systems (trans-systems activity). These events are proof of pattern transformations made possible with the occurrence of intrusive events.

In other words, response events provide the visible evidence of change and need to be identified before change can be analysed. In the context of external audit in Malaysia for the first four decades after independence in 1957, a total of 213 response events has been identified (see Appendix B).

Response events are the essence of the social relations dimension or implicit purpose of the social system. Several response events may constitute a particular change. A change consists of a series of response events normally clustered in time and space around what are known as central response events. These are the response events that point to the direction of the significant differences existing across different time periods and localities. They mark the historical development of the audit process.

^bNote that McKinnon (1986) in her study limits the environment to one: cultural. Her argument is that all other things like political and legal factors are more of systems in their own right, and similar to her focus system of corporate reporting regulation, are located within and subject to the cultural environment. McKinnon's stance above is not surprising, for even after so many decades of research there exists little consensus in the field of international accounting as to the environmental factors impacting upon nations' accounting practice and professions.

^cChoi and Mueller (1978) subjectively identify fifteen environmental circumstances which may influence financial accounting. These factors may be classified into three social, four political and eight economic (including business) variables. Radebaugh and Gray (1993) on the other hand identify four major environmental groups: educational, socio-cultural, legal and political and economic. Nobes (1992) discusses six factors causing differences in accounting across countries. These are the legal system (between the common law and codified Roman-Germanic law); types of business organisations and ownership patterns; sophistication of the stock exchanges; tax laws; accounting profession's power base; and finally other forms of influences such as enactment of new laws and military or colonial conquests. Besides these three works, there indeed exist numerous other works which have provided guidance in selecting the environmental factors for the present study such as Meek and Saudagaran (1990, pp. 150-154) and Adhikari and Tondkar (1992). As for discussions directed to the environmental and/or cultural impact upon accounting and related areas in specific nations, Flanigan, Tondkar and Coffman (1994), Hagigi and Williams (1993), Demirag (1993), AlHajjar and Volz (1991), Harston (1991), Hudack (1989), Bloom and Naciri (1989), Foo (1988), Aguiree and Hagigi (1987), Carmony (1987), Bursal (1984) and Radebaugh (1975) were referred to. And to understand the impact originated from the international environment, Sadao and Satoshi (1989) was referred. Note that Perera (1989, p. 141) and footnotes 1 and 2 of Pratt and Behr (1987) list down numerous works discussing various environmental factors impacting upon nations' accounting practice and professions.

^dNote that it is McKinnon (1986) and not Smith (1973, 1976) who suggests this division of events.

The determination of the critical events in this study is made through examination of various documents and interviews with various parties (see Appendix C). The central response events are as follows:

- The forming of Malaysian Association of Certified Public Accountants (MACPA) under the Companies Ordinance 1940 as a company limited by guarantee on 26 July 1958;
- The passing of Companies Act 1965;
- The passing of the Accountants' Act 1967 ensuring the formation of Malaysian Institute of Accountants (MIA);
- The starting of a series of merger talks between the MIA and MACPA in December 1972;
- The MACPA becoming a member of the International Accounting Standards Committee (IASC) in October 1975;
- The MACPA enforcing from January 1976 the new membership admission ruling;
- The rejection of the proposal for "merging" the MIA and the MACPA by the federal cabinet in June 1985;
- The MIA becoming activated with their first AGM in September 1987;
- The MIA's EGM in April 1988 exposing the rivalry between the MIA and MACPA; and,
- The Finance Minister during his 1996 budget speech in October 1995, announcing that his Ministry would set up the Financial Accounting Foundation (FAF) and the Malaysian Accounting Standards Board (MASB).

For details of each of these events, see Appendix D. It is notable that the identification of these critical events and their use as "insight stimulating examples" (Selltitz, Wrightsman & Cook, 1976) allow examination to be made as to "why" and "how" certain auditing events occurred, the answers to which provide details on the changing process of Malaysia's audit process. In short, this examination leads to the identification of intrusive events discussed next to provide the starting points from which the spatial and temporal analysis of change can proceed. The examination would also help in finding out the common elements such as environmental factors, and neighbouring systems underlying the series of changes which have transformed the system over time and which may be inferred to underlie future transformations of the system.

4.2 Intrusive events

Intrusive events are known as diffusions and take place in the source phase of a pattern of transformation though it can also occur during the reaction phase to either intensify or modify the transformation process.^e It is defined by Smith (1973) as including the following five types: migration, missionary activities, invasion including conquest and extermination, trade and technological exchange and the spread of ideas and institutions. McKinnon (1986, p. 47) adds economic depression and inflation to the list of intrusive events, arguing that in a processual study of change they should be viewed not as environmental conditions but as at the same level as war or technological advance or exchanges.

McKinnon (1986) summarises what makes an event intrusive as either it is generated through trans-systems activity or it appears from the international environment.^f Also it has the ability to disrupt the pre-existing pattern in the focus system and neighbouring systems.

With the identification of the central response events listed earlier, the path is cleared for the naming of the intrusive events. During the years 1957 to 1980 forming the first pattern of transformation, the intrusive events were

- Independence of the Malay Federation in 1957 and the forming of Malaysia in 1963;
- The 1969 racial riots; and
- The New Economic Policy (NEP).

^eNote also that since the span of the source and diffusion phase may overlap and the fact that intrusive events are frequently continuous in nature, the intrusive events may persist into and throughout the diffusion phase which comes just after the source phase of a pattern transformation.

^fIn Harrison and McKinnon (1986, p. 239), they however note that though the intrusive events "typically" originate from without the focus system, "they may have their origins within the system."

As for the subsequent period 1981 to 1997 constituting the second pattern of transformation, the intrusive events were

- The economic recessions of the 1980s; and
- Vision 2020.

Details for each of these intrusive events appear in Appendix E. Finally, it is perhaps worth pointing out that the impact of intrusive events on the focus system is frequently indirect (Harrison & McKinnon, 1986, p. 239). That is, the impact would occur often through disruption to other systems with which the focus system interacts. In a nutshell, the occurrence of intrusive events explains why the system undergoes change. These events however are not able to explain the system-specific response to their stimuli.

The explanation in this case should come from environmental influences. It appears that the intrusive events listed first for each of the pattern transformation above occurred during its source phase while the rest in its reactive phase.

5. *Patterns of Transformation*

A "change" within a social system such as external auditing is defined as the transformation (replacement or modification) of the pre-existing pattern in the system through the occurrence of a succession of historical events over time in the system.[§] That is, as mentioned earlier, the process of change or transformation is divided into three phases: a source phase where intrusive events play their part in activating the system towards transformation; a diffusion phase with its response events which accommodate and transfuse the intrusive events within the system; and a reaction phase which may comprise both intrusive and response events. The occurrence of both intrusive and response events in the reaction phase may be a direct result of what takes place earlier in the diffusion phase or as an intensification or moderation of intrusive events that take place in the source phase. Change is considered incomplete until all the necessary events in the reaction phase have taken place.

In sum, under the enlarged exogenous framework, systems change or transformation is the product of both intrusive events taking place in the source phase and the continuous trans-systems and intra-system activity taking place in the other two phases. Pattern transformations are visible in the response events accommodating change activating forces (intrusive events). And these response events come about through interactivity among constituencies of the audit system and as a result of interactions between the audit system and its neighbouring systems.

As far as Malaysia is concerned, the forty year period since independence in 1957 is comprised of two formal patterns of transformation of the audit process. With the occurrence of independence, the nation's audit process assumed its initial development comprising the establishment of the MACPA and MIA and the passing of the Companies Act 1965. This first pattern transformation which spanned a period of around 23 years and replaced the previous arrangements under the colonial administration was itself replaced by the following transformation which made possible through the occurrence of economic recessions in the 1980s.

A second pattern emerged whereupon subsequent to the "rejection" of the merger proposal in 1985, the MIA was made active in 1987 and significant amendment was made in 1985 to the Companies Act 1965.

Each pattern of transformation was affected in its later part by the occurrence of intrusive events: the first came in the form of May 13th Tragedy in 1969 and the launching of the NEP; the second, the laying out of Vision 2020 by the PM. The former intrusive events had seriously weakened the diffusive effects upon the audit and its neighboring systems of the earlier intrusive events of independence in 1957 and the formation of Malaysia in 1963. The latter intrusive event had however appeared to strengthen the diffusive effects of the economic recessions in the 1980s. The act of strengthening or weakening by the subsequent intrusive events upon those central response events taking place earlier in the diffusion stage could be seen in those central response events taking place in the rest of the reaction phases of the first and second transformation patterns. Also, both patterns of transformation saw the combined effects of the nation's specific social, economic and political attributes that come in the form of racial concern, industrialisation drive and strong and pragmatic government respectively, bringing in the distinctive audit experience in the first four decades of Malaysia after independence in 1957. See Table 1 below.

[§]See Smith (1976, pp. 16-18) who discusses how a study of change may be differentiated into three types.

Table 1: Malaysia’s Audit Transformation

Period/ Phases	Intrusive Events	Central Response Events
1957- 1980	Independence; Formation of Malaysia.	
Source		
Diffusion		The establishment of the MACPA in 1958; The passing of the Companies Act 1965; The passing of the Accountants Act 1967 ensuring the formation of the MIA.
Reaction	The 1969 Racial Riots; The NEP.	The merger talks between the MIA and the MACPA in 1972; The membership ruling for overseas professional accounting qualifications in 1976; The admission of MACPA as a member of the IASC in October 1975.
1981- 1997	The economic recessions of the 1980s.	
Source		
Diffusion		The 1985 Amendment to the Companies Act 1965; The Federal Cabinet's rejection of the "merger" proposal; The first MIA’s AGM in September 1987; The MIA's EGM in April 1988.
Reaction	Vision 2020.	The declaration of the government's intention to establish the MASB and the FAF.

6. Conclusions

The study of processual change of the audit system involves historical analysis of the system's pattern transformation comprising the source, diffusion and reactive phases. Pattern transformations are visible in the response events accommodating change activating forces (intrusive events). And these response events come about through interactivity among constituencies of the audit system and as a result of interactions between the audit system and its neighbouring systems. Both intrusive and response events are historically and situationally determinate, occurring at specific points in time and space and identifiable with individual pattern transformations of the audit system.

The enlarged exogenous framework demands that system's change which flows in three phases of source, diffusion and reaction and has four interrelated components (intrusive events, intra-system activity, trans-systems activity and the environment) need to be considered all at the same time in analysing that change.

The current work represents an initial attempt to understand how political, economic and social conditions and related institutions have impacted the functioning of audit in the context of Malaysia. In short, auditing is understood here to be interrelated with the dynamics of the wider sociopolitical and economic context of which it is an integral part. Auditing in this respect is not understood as "technical" - a neutral set of practices - but as an integral to the sociopolitical structure of society. In other words, this is similar to the very notion of accounting propagated by Burchell et al. (1985):^h accounting processes and institutions are not so much influenced by the wider social, economic and political environments as "inter-twined" with them, and accordingly, as proposed by Hopper and Powell (1985, p. 93), need to be studied together. Auditing here is also considered to be a mutable phenomenon, interacting with a dynamic, mutable context (Hopwood, 1987).

^hNote that these are the very people who lament the neglect by accounting researchers of the intermingling of the accounting and the social (Burchell et al., 1985, p. 382): "... 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."

As a malleable phenomenon with potential consequences, auditing should be interpreted as political in character and not as a (potentially) neutral device that is independent of human beings.

It is a man-made system that is based on socially constructed reality and shaped by its different socio-political and economic environment. It is constantly changing and evolving within its dynamic environment (Hopwood, 1983; Chua, 1986; Hines, 1988; Morgan, 1988; Dillard, 1991; and Samuels & Oliga, 1982 mention this for accounting). In short, it is postulated that the Malaysian audit process is changing within a set of contextual conditions which may be expected to affect its development.

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Appendix A

Environmental Factors

Social Environment: The Different Races

The multi-ethnic character of the Malaysian population has come into being over the course of the last 150 years. Broadly speaking, the ethnic groups fall into two main categories: those with cultural affinities indigenous to the region known as Bumiputra ("sons of the soil") and those labelled as immigrants whose cultural affinities lie outside (Abdullah & Mohamed-Yusoff, 1982). The Bumiputra is comprised of three broad groups: the aborigines, the Malay-related and the ethnic groups residing in Sarawak and Sabah. The Malay-related group forms a predominant ethnic group in the Malaysian Peninsular, a substantial minority in Sarawak and a smaller group in Sabah.

Malays in the east coast of the peninsula, Sarawak and Sabah had long been there before other Malays came to join them from Sumatra and other islands such as Sulawesi in the latter half of 19th century and early 20th century. For all practical purposes, other ethnic groups who settled in the country after 1850 are also regarded as Malays. These include the Javanese, Banjarese, Boyanese, Bugis and Minangkabau who all came from the Malay archipelago. The Constitution however 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".ⁱ The non-Malay Bumiputra residing in Sarawak has the Iban as its largest group while for Sabah, it is the Kadazan. They and over twenty other ethnic groups represent peoples of the same basic stock who came to the area during the time of Early Migration.

The immigrant population comprises mainly the Chinese from Southern China and Indians from Madras and Sri Lanka who were brought in by the British.^j The multi-ethnic character of the population ensures that there exists linguistic, cultural and religious diversity creating different world-views (Mohd. -Taib, 1985).

As of 1994, with a total population of around 20 million, 60 percent are Malay and other indigenous groups, while the Chinese accounted for 31 percent, Indians 8 percent and others 1 percent. The Malays are by constitutional definition Muslims while the majority of the Chinese are Buddhists or Taoists.

ⁱHowever, please check for greater detail the following: Syed (1981, 1965) and Tham (1983, Chapter One).

^jFor more on the subject of the Chinese Malaysian in particular, please see Strauch (1986), Laurence (1977), Ting (1976) and Frankie (1965).

As for the Indians where about 85 percent are Tamils, they are divided between Hindus, Buddhists and Muslims. The non-Malay indigenous groups make up more than 50 percent of Sarawak's population and about 66 percent of Sabah's. They are largely animists although nowadays a significant minority has turned to Islam and Christianity. The Chinese account for one-third of their populations.

Tensions among the various races have been serious in the past and they culminated in the racial clashes in May 1969 in Kuala Lumpur (See Tan, 1987; Viswanathan, 1983; von Vorys, 1975; and Chandrasekaran, 1974). More recently, however, these tensions have become less salient. This could be because the country until quite recently was enjoying rapid economic growth in which all races had a share. However, the issue of race is noted here as it appears from the various interviews and documented sources that it remains important even after nearly three decades since the racial riots in 1969.

It seems that, currently and for the foreseeable future, as long as there exist different races with different creeds staying in the country, the issue will never go away completely, although the actual extent to which the racial issue affects the manner in which things are done or occur would probably differ from what has taken place in the past.

Economic Environment: The Industrialisation Drive

The industrialisation drive appears to have begun as soon as the country gained its independence from the British in 1957 (Jomo and Edwards, 1993). Jomo (1986, p. 218) mentioned that with a few exceptions, the growth of local manufacturing was effectively discouraged by colonial protection of British manufactures. With the country's independence, the government intensified efforts on increasing manufacturing industries to ensure that foreign exchange could be saved. The government also embarked on the industrialisation drive to avoid the nation's economy being too dependent upon tin and rubber.

The 1955 World Bank report provided comprehensive recommendations which were followed by the newly-elected government for post-colonial economic development (Jomo, 1986, p. 221). Among them included the continuing emphasis on import-substitution industrial activity, the government's offering of various incentives and the need for the government to play the primary role of providing the infrastructure for such development. In addition, there should not be any state enterprises or economic nationalism.

The import substitution strategy of the 1960s was replaced by the government in the 1970s with an export-oriented, labour-intensive industrialisation program. This took place when it became evident that the domestic market was limited by the fact of the nation's small population and relatively low average income and that such strategy did not generate sufficient employment opportunities to absorb an ever growing work force. In addition, there was a tendency for industrial capital to prefer already developed areas. In short, the strategy produced disappointing results (Jomo, 1986, p. 222).

The re-direction to export-oriented industrialisation actually began with the slackening industrial growth rate in the late 1960s. The government, with the intention of accelerating the pace of industrialisation, diversifying the type and location of new industries and attracting greater foreign and local investments, introduced the Investments Incentives Act of 1968. The Act had also the objective of ensuring expansion in the export of manufacturing products, signalling the shift away from import-substitution towards export-oriented industrialisation.

The government aggressively promoted the export-oriented, labour-intensive industrialisation strategy through a program of incentives designed to attract foreign investment. Two main types of export-oriented industries were emphasised on: first, resource-based industries involving the increased processing of older (eg. rubber and tin) and newer (eg. palm oil, timber) primary commodities for export; and second, electronics, electrical appliances and related equipment. The latter industry was much induced not only by the incentives offered to the foreign private sector, but also by the then movement of multinational enterprises to relocate various parts of their production processes in secure locations abroad offering lower wage and other costs. It involved sources of capitals which were previously not involved in Malaysia. In comparing the two types of industry, the latter has resulted in far greater growth and employment generation.

^kAmong the excellent documented sources include Jesudason (1997), Abraham (1997), Ravenhill (1995), Brown (1994, Chapter Six), Norma (1994), Zakaria (1993), Rigg (1991, Chapter Six), Chandra (1989, 1984) and Aliran (1988b, Chapter One).

From the 1980s onward, the government has been pushing for the replacement of labour-intensive manufacturing with skill- and technology-intensive, high value added industries supported by local small- and medium-scale businesses. Until very recently, however, domestic enterprises played a lesser role in industrialisation compared to foreign private investors and the government. In particular, the foreign private sector has from the time of the colonial administration played a significant role in the manufacturing sector of the country (Anuwar & Wong, 1993; Anuwar & H. -Osman, 1987; Raja -Tan Sri -Mohar, 1979; Wheelwright, 1963).

Jesudason (1989) argued that the government's encouragement of foreign investment in especially the manufacturing sector was a strategy to by-pass Chinese capitalists in the Malaysian economy, while Malay interests were to be served by enlarging Malay holdings through public enterprises in the trading, urban property, mining and plantation sectors.

Others however mentioned that Malaysia had to rely on foreigners in its industrialisation process since the country was lacking in capital, entrepreneurial skills and technological capability to undertake high-risk industrial activities (Mohamed -Ariff & Tan, 1994, pp. 667-68). Furthermore, the FDI ensured overseas market access to the country.

The fact that foreigners are viewed to be crucial for Malaysia's industrialisation is a point voiced by numerous interviewees. In addition, they stress that in the 1990s foreigners should be attracted into the country not only because they are needed as in the past to play a significant role in the manufacturing sector, but also because their involvement is needed to promote greater expansion of the capital market as Malaysia hopes to become a regional centre of capital (See also Nor, 1994 and Abdul, 1994).

Political Environment: The Strong and Pragmatic Government

The presence of strong government lacking any apparent fear or respect of other parties in the country and believing in its own righteousness is signified by the following quotation from the recent writing of the present Prime Minister^l (Mahathir, 1995, p. 52): "There must be a limit to any kind of freedom. And there must be someone to determine when the limit has been reached and to take action to stop it. What better authority than an elected Government to determine and to enforce the limit."

Thus, in the country, there are laws which allow the government to detain suspects without judicial review or filing charges, such as the Internal Security Act (ISA) of 1960, the Emergency (Public Order and Prevention of Crime) Ordinance of 1969 and the Dangerous Drug Act of 1985. The government justifies the use of these laws to protect the peace and stability of the country and because of its concern over the long-standing racial tensions and endemic narcotics trafficking problems. Nevertheless, the government has also used these laws to detain persons when available evidence is insufficient to bring formal charges under the Criminal Code and more importantly to detain political opponents.^m

With regard to freedom of speech in particular, the Constitution itself provides that this freedom may be restricted in legislation "in the interest of security ... (or) public order." Thus, the Sedition Actⁿ amendments of 1971, which was passed after the racial riots in May 1969, prohibit public and legislative discussion of four issues: adoption of the Malay Language as the national language, special rights granted to Malays, the special position reserved for sultans and other members of royalty, and citizenship policies for non-Malays.

As for the press, its freedom is subject to the Printing Presses and Publications Act of 1984 whereby domestic and foreign publications must apply annually to the government for a permit.^o The Act was amended in 1987 to make the publication of "malicious news" a punishable offence, expand the government's power to ban or restrict publications and prohibit court challenges to suspension or revocation of publication permits. These government prerogatives appear to create an atmosphere which results in much self-censorship among the media organisations of issues the government might consider sensitive.

^lHereafter referred to as the PM.

^mCheck out among others Simon and Feraru (1995), Neher (1994, Chapter Six), Crouch (1992), Norma and Ahmad-Nordin (1990), Simon (1990), Chandra (1989 - Second Section; 1986), Johan (1987), Mauzy (1984) and Lim (1982) who provide extensive discussion of the meaning of strong state in Malaysia.

ⁿSedition Act was first enacted by the British in 1948 to fight the communists.

^oThe Act superseded the Printing Press Act of 1948 put forward by the British which was later strengthened by its 1971 amendments.

Press freedom appears to be limited too by the fact that leading political figures, or companies controlled by leading political figures in the ruling coalition, own all the major newspapers and all radio and television stations. For further discussion on this topic, please check Lent (1984).

In recent years, the political leaders in Malaysia have proclaimed that liberal democracy as practised in the western countries is incompatible with "Asian values".^P The PM writes (Mahathir, 1995, p. 43): "... Malaysia is as democratic as [it] can be.

Admittedly, it is not a slavish copy of the kind of liberal democracy that has developed in the West in recent years. Whereas the West worships individual and personal freedom as a fetish, Malaysia believes in the rights and freedom of the community and the people as a whole".

In other words, there is presumably the stress on the priority on the good of the group over that of a given individual. And on the human rights issue in particular, the PM in his speech in Tokyo mentions (PM Speech, 19 May 1995): "Asian human rights need not be a fair copy of Western human rights. The individual and the minority must be allowed their freedom but such freedom must not deprive the majority of their rights". Thus, human rights as interpreted by the West are rejected because it believes in the superiority of individual rights to the negation of the rights of the majority.

The values espoused and imbedded by the federal government are very much related to the bigger issue of the nation's culture that provides the underlying framework comprising social institutions and predispositions and beliefs. That is, it guides a person's perception of observed events and personal interactions and the selection of appropriate responses in social situations. Hofstede (1980) identified four basic dimensions along which any nation's culture can be scored: (a) individualism vs. collectivism, (b) power distance^Q, (c) masculinity vs. femininity^F and (d) uncertainty avoidance.^S Needless to say, one may expect that Malaysia like so many other Asian countries has at the very least the culture of collectivism and high power distance while it is the opposite for many western countries. In fact, this was what found by Hofstede (1980).

These values seem contrary to those of the West even though these Asian countries have adopted many of Western ideas on political and legal institutions and various technologies. None other than the PM himself has argued why this has taken place in the Malaysian context (PM Speech, 21 September 1992): "While we aspire to join the ranks of the world's industrialised nations by the year 2020, it is to be in the Malaysian mould. In essence this entails adopting Japanese, American and British management cultures and adapting them to suit the Malaysian value system".

Therefore, the adoption of other people's cultures appears to be made on the basis of the pragmatic belief. The PM mentions in his writing that being pragmatic is what the leaders in this country believe in (Mahathir, 1995). He has also stated that the Alliance Party and now the National Front have no specific ideology. He writes (Mahathir, 1995, p. 13): "At least they cannot be identified with Capitalism, Socialism or Communism The only word to describe the political philosophy of the Alliance/National Front is pragmatism. They are always prepared and willing to borrow the differing elements of the current ideologies which in their estimation can help them and the nation they rule".

Therefore, in the political field, there is not a liberal democracy as practised in the West. The PM writes (Mahathir, 1995, p. 46): "Malaysian democracy accords the freedom to choose representatives of the people, and by extension, the Government. But it is not a liberal democracy. Certainly, it does not hold itself bound to accept every new interpretation of democracy that comes out of the west". In other words, in the political field, it is strong government, mildly authoritarian that is being practised, which in the West is viewed as comprising a high level of restriction over personal, political and intellectual freedom. At the same time that it is autocratic in nature, the government continues to hold regular elections for the people to decide who should govern them. Also there are always opposition parties around with opposition members in the Parliament.

^PFor detailed discussions of the so-called "Asian values", please see Bilahari (1997) and Joseph (1997).

^QLow power distance subscribes to equal power distribution versus high power distance in hierarchical structures.

^FMasculinity means males expect an "in-charge" role while femininity means that roles are more fluid between males and females.

^SLow uncertainty avoidance means that people like to take risks, take individual initiative and enjoy conflict. Whereas high in uncertainty avoidance means that people do not like conflict and they pursue group harmony.

In the economic field, it is important to recognise that Malaysia has a mixed economy like many other developing countries^t where the rival philosophies of private- or free-enterprise economy and centrally controlled or planned economy coexist.

The PM writes (Mahathir, 1995, p. 20): "The Malaysian government is, therefore, right in being pragmatic. It is acceptance of the capitalist free-market system is not total. It is conditional: an adaptation of the system to suit local conditions. In the event it has worked rather well. Still, it continues to be flexible, modifying its practices as it goes along. The absence of rigid ideological tenets frees the Government to do what is practical and beneficial rather than what is ideologically proper. And this it does in the political, economic and social fields."

Thus, the facts are these: there is overwhelming government management of economy and society with the government owning or holding equity in many businesses that operated in the private sector. At the same time, Malaysia, for example, has (until quite recently due to the Asian financial turmoil beginning in the second half of 1997) no foreign exchange control; there are no limitations on profit remittance or repatriation of capital; and foreign companies are more than welcome.

Appendix B

Response Events*

- The RISDA Training Centre established by the government in 1958 (which was in 1965 renamed as the MARA College of Business and Professional Studies and in 1967 as the Institut Teknologi MARA) had organised Training Centre for rural youth in stenography and bookkeeping and later in the 1960 formed the School of Accountancy offering courses in bookkeeping as single unit subjects.
- The forming of Malaysian Association of Certified Public Accountants (MACPA) under the Companies Ordinance 1940 as a company limited by guarantee on 26 July 1958 by twenty local accountants who were former members of the Malayan branches of the Association of Chartered and Incorporated Accountants (ACIA) and the Association of Certified and Corporate Accountants (ACCA) - the first president was R.D. Stewart (1958/59), a partner of Turquand, Youngs & Co, and followed by W.M. Piercy (1959 to 1961), and H.R. Villiers (1961/62).
- The MACPA instituted the examination and articleship system of training accountants and registered its first batch of students in February 1961.
- The introduction of the courses in accounting in the Department of Economics, University of Malaya in 1961.
- The first MACPA examination at the Intermediate level (that is the first out of three levels) was held in December 1963.
- H. Babiak, an academic from Canada, lamented in 1964 of the very few disclosures made by 25 (or over 70 percent) of the locally incorporated (Singapore and Malaya) and 'active' public companies in the commercial and industrial sectors listed at the Malayan Stock Exchange and pointed out two possible reasons for such occurrence: that the accounting profession had encouraged businessman to adopt 'conservatism' as a guiding principle in the preparation of financial statements and that an attitude of indifference among local managers who owned or controlled most of the shares themselves to the needs of (minority) investors who were forced to suffer in ignorance.
- The late Tun Razak, who was then the Deputy Prime Minister (later the second Prime Minister), asked Datuk Muhammad and his two colleagues in 1964 who were then holding top civil service posts to set up a local audit firm - 'when all the large accountancy practices in the country were owned and dominated by foreigners' - with the promise that they would be taken back in if they failed to be successful.
- The then MACPA president, Y.C. Kang (1964/65), took part in the forming of the Malaysian Institute of Accountants (MIA).
- The MACPA's Final Examinations (I and II) were conducted for the first time in December 1965 with the assistance of the Overseas Accountancy Examination Advisory Board (OAEAB) which was established by the Chartered Accountants Joint Standing Committee of the Institutes of Chartered Accountants of Scotland, England and Wales and Ireland.
- The passing of Companies Act 1965 which became effective on 15 April 1966.
- 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 in 1965.

^tThe same could perhaps be said about the developed countries for in practice the economic system contains a varying degree of private and public sector involvement.

- The School of Accountancy of the Institut Teknologi MARA began offering the Diploma in Accountancy (DIA) 1965.
- The then Minister of Finance mentioned in June 1966 that he would like to see within the next few years a rapid increase in the number of qualified accountants in Malaysia to match the rapidly expanding economy.
- The establishment of the Division of Accounting with the Faculty of Economics and Administration (FEA) in 1966 and the intake of its first batch of 21 students.
- The passing of the Accountants Act 1967 - which resembled the Singapore Society of Accountants Ordinance that was passed in 1963 - ensuring the MIA to come into existence as a statutory body.
- The government in February 1967 recognised those with the CPA qualification from MACPA for appointment as accountants in government service and approved company auditors under the Section 8 of the Companies Act 1965.
- The first Malay - the late Datuk Abdul Razak Yusof - became president of the MACPA for the years 1967 to 1969 after nearly a decade of a line of presidents who were British and Chinese Malaysian.
- The then MACPA president, Abdul Razak Yusof, mentioned in December 1967 that some fears had been expressed that the newly established MIA by virtue of its statutory backing might clash with and even overshadow the MACPA - but said next that the MACPA members needed not to harbour such fears so long as they kept on doing their utmost to maintain and to go on raising the MACPA's 'high professional standard'.
- Dato' Shamsir Jasani, the then accountant-general, was appointed as the MIA president on 31 May 1968 and he went on to hold both posts until July 1989 - this much coincided with the MIA's acting as a mere registration body 'managed' by the audit firm Price Waterhouse until 1981 and followed by the MACPA secretariat from 1982 until just before activation in September 1987.
- MIA and MACPA leaders had come out with the intention of a 'merger' in 1969.
- The MACPA secretariat was transferred from Singapore to Kuala Lumpur in March 1970 and the body appointed for the first time a full time Registrar/Secretary.
- Goh Joon Hai, the then chairman of the Division of Accounting at the Universiti Malaya and later after MIA's activation in 1987 became MIA council member, mentioned in 1970 of the many serious limitations of the MACPA training and examination programmes manifested 'clearly' in the results so far in the form of the very few graduates (21) that the body had produced in the period between 1961 and 1970 and claimed that there was great similarity between the MIA's list of functions and that of the Singapore Society of Accountants with one glaring exception on the fact that the Malaysian Act had failed to recognise the need for the involvement of 'academics' from the higher institutions in its council unlike what was well noted in the Singaporean Society of Accountants Ordinance (and for that matter the Australian Society of Accountants, the New Zealand Society of Accountants and the Canadian Institute of Chartered Accountants).
- The MACPA examinations were conducted independent of OAEAB's assistance from December 1970.
- The Editorial of the inaugural issue of the journal of the University of Malaya Accounting Club for the period 1970/1 mentioned that appropriate steps needed to be undertaken immediately to increase the number of locally-trained accountant to cure the acute shortage of accountants in Malaysia.
- The Editorial dated 1971/72 to the journal of the University of Malaya Accounting Club, *The Accounting Journal*, lamented that the University of Malaya, into which the Malaysian government expended millions of ringgit yearly as an investment towards developing qualified labour force was not accorded appropriate recognition by the local professional accounting bodies the MIA and MACPA.
- The starting of a series of merger talks between the MIA and MACPA in December 1972.
- The MACPA issued its first technical statement in 1972.
- The first meeting between the MIA and MACPA leaders was held to consider a merger of the two bodies in February 1973.
- The MIA formed a liaison committee in February 1973 to study and pave the way for establishing dialogue with the MACPA with the objective of uniting the accountancy profession in Malaysia.
- The University of Malaya commenced in 1973 the post-graduate diploma in accounting allowing those graduated from the University with Bachelor of Economics (Accounting) who later earned the diploma to be eligible for full recognition as qualified accountants by the MIA giving them the entry qualification into the government's Accounting Service.
- The post-graduate diploma in accounting of Universiti Malaya was recognised by the MIA on 15 June 1973.

- Professor C.L. Mitchell from Canada in his study sponsored by the KLSE mentioned in 1974 that the participants of the stock market was comprised of a small group of sophisticated investors and advisors, a large number of investors motivated by gambling instinct, and a small group of entrepreneurs who had relied on informal interpersonal integrity and family connections to achieve success - as a result they placed little reliance upon financial statement data and there was minimal financial disclosure practised by the listed companies whose sole justification for the issuance of an annual report was the Companies Act and whose very act was supported by their accountants and auditors who believed there was no reason for them to propose change when no dissatisfaction had been voiced with the old ways.
- The Third Malaysian Plan, 1976-1980, disclosed that an additional 1,971 accountants were needed for its duration when the country at the end of 1975 had only 1,774 accountants.
- The MACPA added Stream 11 and Stream 111 to Stream I in June 1975 to ensure more Malaysians could become qualified accountants under what the MACPA leaders called the Development Scheme - however, *The Malaysian Accountant*, the MACPA's official journal, reported in July 1986 of the failure for the Stream I and II to gain acceptance among the Malaysians.
- MACPA began a system of practising certificates from August 1975 where 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 the practising certificates - 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.
- The MACPA admitted as a member of the International Accounting Standards Committee (IASC) in October 1975.
- The MACPA enforced from January 1976 the new membership admission ruling where applicants with recognised overseas professional accounting qualifications were required to sit for papers on Company Law and Taxation before they could become members of the MACPA - it led the MACPA to be accused of being elitist and acting like a close shop.
- The MACPA enforced in January 1976 new minimum entry standards for registration with the MACPA where now 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 are required compared to earlier when only the Malaysian Certificate of Education (MCE) with five credits, including English and Mathematics, were needed.
- 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' with scathing indictment on the neglecting state of Malaysia's accounting practice and mentioned clearly that the country then was having a great demand for accountants compared to that for doctors to the point that the former earned higher incomes compared to that of the latter - however 'little effective action has been taken to increase the supply' and he blamed the federal government's New Economic Policy (NEP) and its language policy as partly responsible in frustrating whatever minimum effort undertaken to bring down the shortage plus the fact that the statutory body the MIA was 'largely dormant' and that the privately registered society the MACPA which carried out an examining function had come out with only 80 graduates so far.
- The Accounting Division of the FEA introduced the four-year Bachelor of Accounting degree programme in the academic session 1976/77.
- Enthoven, who with Ford Foundation sponsorship had conducted the study of accounting practices in developing countries from 1973 to 1976, wrote in 1977 that the accounting profession in Malaysia suffered from a serious lack of educational and training facilities, that the MACPA's examinations were facing a high failure rate which needed checking into and that the role of MIA needed to be expanded to cover all aspects and fields of accounting requiring the setting up of a proper administrative and secretarial structure.
- The then vice-chancellor of the University of Malaya, Prof. Ungku Aziz, noted in 1977 that Malaysia needed very much a big number of accounting graduates who were professionally qualified for the shortage was clear not just in the private sector but also in the public sector.
- The MACPA embarked on adopting the IAS at the beginning of 1978.
- The 1978 MACPA annual report revealed that on working towards a single national accountancy body 'fresh hopes have now arise' with the then finance minister agreeing to meet the councils of the MACPA and MIA for a 'firm dialogue and decision'.
- Megat Abdul Rahman, the then vice-president of the MACPA, in a seminar in 1979 presented the proposal as what the merged body would look like - it envisaged the amendment or if necessary, the repeal of the Accountants Act of 1967 and the liquidation of the MACPA and the incorporation of a new body under an Act of Parliament named Malaysian Institute of Chartered Accountants (MICA).

- Dr. Nawawi Mat Awin, the then MACPA president, mentioned in 1979 that the MACPA was responsive to the changing needs of the nation and that the nation needed more qualified accountants - however the MACPA must not allow itself to be tempted to sacrifice quality just for the sake of quantity.
- An MACPA member named Terence Steven wrote a strongly worded letter to the Editor of *The Malaysian Accountant* in July 1980 regarding the unqualified accountants where he mentioned that he was 'alarmed' about the 'prevailing mess' experienced by the nation's accounting profession in the sense that 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 'accounting services' as the registered members and that accordingly it was high time for the MIA to make a concerted effort to rectify the situation so that - he claimed - the Accountants Act, 1967 was not a sham but an effectively enforced piece of legislations.
- Disclosure in 1980 by the then MACPA leader, Megat Abdul Rahman, of the important role played by foreign-trained accountants in the development of the accountancy profession in Malaysia which was made clear by the fact that the MACPA which had been conducting exams since 1963 had only been able to produce by then 134 accountants or merely 11.1 percent of the total members of the MACPA of 1,203.
- Megat Abdul Rahman, the then vice-president of the MACPA, mentioned in 1980 that there was an acute shortage of professionally qualified accountants in the country which apparently demanded from his viewpoint no changes in the MACPA's training and examination programmes but instead for the local institutes of higher learning to take in more students to major in accounting while shortening their four-year accounting degree programmes to three years.
- The Editorial Board of the official journal of the MACPA, *The Malaysian Accountant*, mentioned in 1980 that it was not easy to persuade clients to comply with IAS since IAS had no legal standing and at the same time, it was not mandatory to all accountants practising in this country and that small audit firms were having difficulty to get their clients which were the family-owned small businesses numbered to 50,000 where nearly 99 percent of them did not employ qualified accountants but which hired book-keepers who were ignorant of IAS to want to comply with the IAS - for these businessmen believed that to have their accounts prepared in accordance with the Companies Act were already good enough.
- Anthony Cooper mentioned in 1980 that problems occurred in implementing IAS by the MACPA as a result of the MACPA's cramming into three years what many countries had spread over six years, its lack of any guidelines in applying the rules and the fact that companies were not comfortable in providing full disclosures resulting with great diversity of accounting practices between industries and between companies in the same industry for both listed and unlisted companies and also a lot of non-compliance by companies.
- Awther Singh mentioned in 1980 of the then 'prevailing local circumstances' where the public accountants acted not just as auditors for the clients but also - against the law! - as their corporate secretaries and that corporate secretaries offered not just secretarial works but also others such as tax consultancy and record keeping to their clients due to the difficulty of detection and unsuccessful prosecution and perhaps also due to a feeling that 'public policy was being served' in the sense that there was the pressing need for such services required by the public at prices determined by market forces instead of a monopoly.
- The then auditor-general, Tan Sri Dato' Ahmad Noordin Zakaria, mentioned in 1981 that the shortage of financial personnel in government had affected the smooth running of its activities and that as a whole the skilled manpower requirements for implementing the national development plan had far exceeded the available supply of such manpower.
- The 1981 MACPA annual report disclosed that at the 1980 AGM a resolution was passed to allow the council to determine the impact of 'non-qualified persons' on the professional practice and that a decision was made to conduct a national survey to establish the extent of these people activities.
- The MACPA issued the 'Statement of Code of Ethics' to members on 26 July 1982 which was made effective on 1 September 1982.
- MACPA began to adopt the International Audit Guidelines (IAGs) from the year 1982.
- The MACPA was requested in 1982 by the MIA Council to provide secretarial and administrative facilities to the Institute for 'administrative convenience' and to facilitate the efforts of leaders of both bodies towards the formation of a single national body of accountants.
- Subimal Sen Gupta, an MACPA council member who later became its president, mentioned in 1982 that when some of the IAS adopted 'a sea of opposition' came about from not only company finance directors and accountants but also a lot of audit firms themselves who felt that the MACPA had gone too far.

- The MACPA 1982 annual report disclosed that a 'street by street survey' was carried out in major towns across Malaysia and list of names of 'possible unqualified accountants' who held out as 'public accountants' was established and that the committee in charge would prepare a detailed memorandum to be submitted to the 'relevant Government authorities' soon.
- A mandate was obtained from the MACPA members in October 1983 for the MACPA to form a single national body of accountants with the MIA.
- Gul exposed in his 1983 writing various problems in the nation's accounting practice and mentioned in his conclusion that accounting practice in the country in its present form was not conducive for the economic development of the country, that the lack of reliable up-to-date accounting information both for external as well internal purposes was a serious impediment to the nation's economic development efforts, that the present quality of accounting education, research and practice in Malaysia was relatively unsatisfactory and finally that various interested parties needed to come together to work on the expansion and revamping of the accounting education and training in the country - if not the use and practice of accounting as a modern measurement and reporting tool had been grossly underutilised in the economic development process of the nation.
- The then MACPA president in the 1984 MACPA annual report disclosed that from June 1984 examinations, the body began to provide candidates in the Foundation Examination the option to write the examination in either Malay or English languages and that the Professional Examination I would be conducted bilingual beginning with the November 1984 examinations and the Professional Examination II by the November 1986 examinations at the latest.
- The 1983 MACPA annual report disclosed that there was a close rapport between the association and a listed ten regulatory bodies.
- The 1984 MACPA annual report disclosed that recent developments in the business world had highlighted the importance of accountability and that since the public had a greater awareness and higher expectations of the profession, it was imperative that the MACPA and its members accepted the greater responsibilities expected of them.
- The proposal for the 'merging' of the MIA and the MACPA to result with MICA was rejected by the federal cabinet in June 1985.
- The 1985 MACPA annual report disclosed that a public affairs committee was formed immediately after the last AGM to take charge of the PR aspects of the association's activities to increase public awareness of the accountancy profession and to position the Association as the 'leader' in the profession.
- The 1985 MACPA annual report stated that the body's accounting and auditing standards committee was consulted on the implementation of the amendments to the Companies Act and the revision of its Schedules, the revision of the Listing Manual of the Kuala Lumpur Stock Exchange (KLSE), the implementation of various Central Bank guidelines and had discussions concerning the Capital Issues Committee (CIC) guidelines.
- The Companies Act which was substantially revised in 1985 became effective from 1 February 1986.
- The bachelors of accounting from Universiti Malaya and Universiti Kebangsaan Malaysia and advance diploma in accounting from MARA Institute of Technology were recognised by the MIA on 7 February 1986.
- The 'Joint Council' of the MIA and MACPA established 'Joint MIA/MACPA Working Committee' in April 1986 with the aim of working out a basis of co-operation between the two bodies towards achieving unification in the accountancy profession.
- The then MACPA president mentioned in October 1986 that the Council of the MACPA regretted the federal cabinet's rejection of the merger proposal and that it had strong view that there was no alternative to a 'Single National Body of Accountants in Malaysia' and thus sought the support of the ministry of finance in achieving this objective.
- The then deputy finance minister mentioned in 1986 that he was 'sorry' to learn that graduates from Stream II and Stream III were still few in number and pointed out that the MACPA as a 'leading' local professional body could do much toward alleviating the shortage of accountants in this country by 'trebling or even quadrupling' its present output of graduates from Streams II and III and therefore supplement and complement the government's efforts in creating more accountants for the country.
- Subimal Sen Gupta, besides mentioning in 1986 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, appealed to the finance ministry and MIA to take cognisance of the disciplinary actions taken by MACPA against its members by also taking appropriate action against them if they were also members of the MIA and holders of the audit license and that there should be a mechanism for taking action against those who were not members of MACPA.

- The then Central Bank's Governor mentioned in 1986 that he expected the MACPA's disciplinary committee to take action against members who had failed to highlight any contravention of the law while auditing the recent failed entities.
- With the amendments to the Companies Act 1965 which came into effect on 1 February 1987, the Registrar compared to the situation in the past when it had the choice of either to approve the extension of time or to take the responsible party to court had now been empowered to impose compound fines to as much as RM 30,000 and a maximum penalty of five years' imprisonment on those who failed to table their accounts at the company's AGM within six months of the end of their financial year leading to the situation that in July and August 1988, only 43 out of almost 6,000 applications for extensions of the presentation of accounts to shareholders at the AGM were approved and total fines beginning 1988 came to be millions of ringgit every year.
- The forming of MIA's eight committees in April 1987 which would operate in conjunction with the corresponding committees of the MACPA.
- The MIA adopted on 22 May 1987 19 IAS and 13 IAG issued by the MACPA to that date and had made it mandatory for members to observe them all.
- The adoption by the MIA council on 24 July 1987 of the MACPA's Statement of Professional Conduct and Ethics as its ethical code to be issued to members.
- The Central Bank in its country paper presented at the September 1987 Meeting of Directors of Supervision of South East Asian Central Bank (SEACEN) in Singapore stated that one problem that it was facing concerned the external auditors who had not shown the required degree of professional independence by remaining 'silent' on issues which have been a material effect on the accounts: provision figure for bad and doubtful accounts and disclosure.
- The then MACPA president in 1987 announced that arrangements had been finalised and put into effect for cooperation between the association and the MIA in order to work towards the forming of a 'Single National Body of Accountants'.
- The councils of the two bodies had issued a joint statement to the media a few weeks before the MIA's first AGM in September 1987 declaring that the two bodies firmly believed that a strong and united profession would be better able to serve the interests of its members and a mention was also made that since May 1987 the MIA and the MACPA had been operating through a common secretariat and were working jointly on a number of activities including research and development of accounting and auditing standards, conducting of professional development courses and seminars and provisions of advisory services to members.
- The MIA president mentioned in 1987 that the MIA must endeavour to restore the credibility the profession had lost in the eyes of the public due to the fact that several corporate failures such as the recent co-operative scandal might be attributed to apparent audit failures.
- The MIA members had their first annual general meeting in September 1987 where a number of new faces were elected in the MIA's fifteen-person council.
- The then finance minister Tun Daim Zainuddin mentioned in September 1987 that the various cases of fraud in the corporate and financial sectors in recent years had put a question mark as to what exactly the role of the external auditor considering the fact that no member of the public or any interested parties had sued auditors for being professionally negligent taking into account the various 'swindle' cases taking place.
- With the activation of the MIA in 1987, members of the MIA were required to observe approved accounting standards (IAS and MAS) and approved auditing standards (IAG and MAG) for accounting periods commencing as early as 1 January 1987.
- The then MACPA president mentioned in 1987 that a single standard-setting body similar to the Financial Accounting Standards Board (FASB) in the US 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 should be set up as an independent body with the sole authority to develop and issue approved accounting standards bounded on all persons responsible for the accounts.
- The MIA newsletter, *Berita MIA*, dated January 1988 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 unhappy with the move called off the joint committee arrangement with the Institute.
- A dialogue to discuss the proposed MIA examination was held at the MIA secretariat on 12 January 1988 and which was attended by representatives from the Public Services Department (PSD) and the eleven professional bodies and the three institutions of higher learning whose qualifications were recognised by the MIA.

- The then Inland-Revenue deputy director-general, Datuk Hassan Ibrahim, announced in January 1988 that the federal cabinet had decided to train in batches 1,000 unemployed graduates who held accounting and related qualifications to be tax accountants over the next 2 1/2 year period who then with the training completed and licenses granted under the Income Tax Act 1967 would be dispersed all over the country to serve individuals and 550,000 sole proprietorship and partnership businesses and co-operatives, which nevertheless were given the freedom in hiring them, in filing proper tax returns - a move which had caused much dissatisfaction among the MIA public accounting members and which resulted with numerous efforts on their part within the next two years to thwart the government effort culminating in late 1989 when the MIA southern branch came up with the petition for an EGM to discuss a number of resolutions that were confrontational in nature and that in turn had prompted the Editorial of the newspaper *Business Times* dated 4 January 1990 to say that a number of their demands were 'unbecoming of the profession'.
- The MIA president in February 1988 mentioned that the practice of MIA members colluding with unregistered accountants was rampant and later in January 1993 the MIA was reported to say that there were between 50 and 100 licensed accounting firms collaborated with the unregistered accountants who majority of them were corporate secretaries who were members of the Malaysian Institute of Corporate Secretaries and Administrators (MICSA).
- The MIA president mentioned in March 1988 that the MIA was discussing with other accounting bodies such as the Chartered Association of Certified Accountants (CACA) and MACPA and local universities to get the MIA to conduct its own examinations.
- The MIA disclosed in March 1988 - a few months after its first AGM - as of February 29, 1988, of the country's 6000 or so qualified accountants only 4453 had registered themselves with the MIA - the reminder who did not register were comprised of 600 members of the MACPA, 800 of the CACA and 200 accounting graduates from local universities.
- The rivalry between the MIA and MACPA came to public attention with the MIA's EGM in April 1988 when a few days before the EGM the MIA president went public with the news that a group of people consisting of 'officials of a smaller accounting body' were 'out to do mischief' at the EGM and that during the EGM the written media reported that some MACPA members objected to various proposals to amend the Accountant Rules 1972.
- The MIA went all out against the unregistered accountants who held themselves out as accountants by doing accounting work such as book-keeping, tax work, auditing and accountancy-related consultancies - with the supposed aim of ensuring the country's financial infrastructure was solid and which could attract foreign investment - from February 1988 with the filing of (92) police reports and at times the MIA senior staff members coming together with the police to raid the (19) establishments of the unqualified accountant but all came to an end in late 1988 when the MIA was directed by the finance ministry to form a body to regulate the activities of these accountants who later in 1991 however had among them those excluded from being members of this new accounting body and instead were given the opportunity to apply for licenses from the finance ministry to carry out specific types of works and have their activities regulated by the ministry.
- The then MACPA president in July 1988 mentioned that the MACPA would approach the government to amend legislation requiring all accounts to be prepared according to approved accounting standards and that it would initiate the formation of an accounting standards consultative committee made up of representations from MACPA, the MIA, universities and the relevant regulatory authorities to develop and issue accounting standards and auditing practices in Malaysia which were harmonious and acceptable to local business environment and where its pronouncement must be applied by all accountants and companies.
- In a letter dated 27 July 1988 and sent to the MIA president by the then deputy director-general of the Internal Revenue Department, the latter warned the MIA president to take the necessary action or else face the consequences to be taken by the department for the widespread cases of collusion between unqualified accountants and qualified accountants and of auditors who acted as tax accountants had not done their work properly and in some cases had in fact falsified their clients' accounts for the purpose of tax evasion.
- In a letter published in the newspaper *Utusan Malaysia* dated 21 July 1988 the MACPA, a private body, was accused by the writer, who claimed that he or she was member of both the MIA and the MACPA, of acting as an undeserving national body and that in the last three to four years, not even a single bumiputra had passed the MACPA final exam.
- The MIA's chairman of the Financial Statement Review Committee, Lee Hwa Beng, accused the MACPA in July 1988 for 'usurping the statutory powers of the MIA' in relation to the then MACPA president statement that MACPA would initiate the formation of an accounting standards consultative committee to develop and issue accounting standards and auditing guidelines in Malaysia.

- Tun Ismail Ali, the former Governor of the Central Bank and chairman of several public listed companies and that of the bumiputra trust agency Permodalan Nasional Berhad (PNB) which then had investments in 153 companies where 94 of them were quoted at the KLSE, mentioned in July 1988 that there had been too many cases of frauds and financial fiascos occurring in the country requiring the accounting profession to redeem its image by critically examining itself to determine what had gone wrong and what can be done in the future to prevent or minimise the recurrence of such unfortunate cases with the MIA and MACPA in particular needed to develop an effective mechanism to monitor and penalise auditors who had failed to comply with the auditing standards.
- The then deputy finance minister Loke Yuen Yow in July 1988 urged all accountants to support the MIA but also mentioned that no one accountancy body recognised under the Accountants Act of 1967 was superior or inferior to the other.
- A letter published in the *Utusan Malaysia* dated 1 August 1988 lamented the fact that the MACPA had only been able to produce 600 accountants over 30 year period signifying that the body was able in coming out with a mere 10 percent of the total number of accountants in the country to that date and that the MACPA had not committed itself to national aspirations though over time it acted as if it was a national body.
- The newspaper the *New Straits Times* reported 28 September 1988 that in line with the implementation of accepting only MIA registered members as tax accountants, the IRD would from next year request all businessmen submitting their returns to enclose balance sheets and profit and loss accounts and to state main business transactions and how the tax was computed plus the name of the person who prepared the accounts.
- In the *New Straits Times* dated 22 September 1988 it was disclosed by the then deputy director-general of the Inland Revenue Department that the IRD - after over two decades - would implement Section 82 (which made it mandatory for businessmen to maintain proper accounts and receipts to enable the IRD to ascertain taxes) and Section 114 (stipulated stiff penalties for those found to have evaded taxes) of the Income Tax Act 1967 by 1989 in a move to crack down on tax evasion.
- The newspaper *The Star* reported on 30 September 1988 that 'six reputable accounting firms' with bases in Kuala Lumpur had been warned by the Inland Revenue Department to be more careful when preparing audited accounts for limited companies for they had submitted accounts containing 'gross discrepancies'.
- The then deputy minister of finance mentioned in the Parliament in October 1988 that there was no need for merger between the MIA and MACPA for he claimed each had different functions and responsibilities.
- The MIA in October 1988 submitted a memorandum to the finance ministry requesting the government to look into the desirability and possible methods of limiting the accountant's personal liability for negligence claims.
- The MIA president mentioned in November 1988 that most of the unregistered public accountants numbered to 300 were from corporate secretarial and administrative firms but later in January 1991 he revised the figure to about 3,000.
- The opposing groups of members coming from the MACPA and the CACA were reported in the media in December 1988 to be in the contest to have their members to fill in the six seats in the MIA council.
- Ali Tan Sri Abdul Kadir, the then senior partner of Lim, Ali and Co, proposed in a seminar in 1988 for a 10-year strategy to be drawn up for the auditing profession in Malaysia with special emphasis on 'raising' auditing standards in the country.
- The 1989 empirical study by Tan, Zainal-Abidin and Chew on voluntary disclosure of selected items in listed Malaysian manufacturing and industrial companies' annual reports showed that the level of disclosure was very low where out of 25 items compiled in 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 leading them to say that all this took place due to the lack of requirement for adequate disclosure in the accounting standards and related legislation and making them concluded that the accounting profession in Malaysia was basically practising stewardship reporting where mere compliance with statutory disclosure requirements was the norm.
- The 1988 MACPA annual report disclosed that the MACPA had embarked on a plan of public relations activities with advice coming from a group of 'specialist consultants' to extend the body's position as 'the main matured body representing the profession'.
- Claiming that it was to increase the number of principals for training article students, the MACPA council from 1 January 1989 had implemented a new rule which reversed what it did earlier in mid-1970s: so now the MACPA had granted exemption to accountants who were members of recognised foreign professional accounting bodies from its Taxation II and Law II papers and instead they were required to attend an interview and must have at least five years working experience in Malaysia after being qualified as full members of those foreign accounting bodies.

- The former auditor general of Malaysia, Tan Sri Ahmad Noordin, mentioned in January 1989 that a lot of the big companies were controlled by prominent families and individuals which resulted with the auditors being intimidated by their influence although they might have already noticed signs of impending disaster – suggested thus the forming of an audit commission by the government to be administered by individuals appointed by the King who then would have the power to engage and terminate auditors for 'schedule companies', to review their audit works and to conduct 'special audits' of any of these companies if it considered necessary for public interest.
- Lee Siew Kuan, special assistant to the Central Bank Governor, disclosed in a seminar in March 1989 that the auditors of the 24 frozen Deposit Taking Cooperatives (DTCs) had failed to conduct proper audit.
- The prime minister in June 1989 in his parliamentary presentation of Mid-Term Review of the Fifth Malaysian Plan disclosed that the inequilibrium between bumiputra and non-bumiputra within a selected number of professional groups was quite clear for the ratio was 1:3 and that among the various groups - architect, accountant, engineer, dentist, doctor, veterinarian doctor, lawyer and surveyor - the accountant had the 'lowest' percentage of bumiputra at 11.5 percent or 514 out of 4,466 total accountants.
- The CIC on 24 July 1989 had asked the MIA and MACPA to develop a standard on goodwill to ensure 'consistent treatment on the amortisation of goodwill'.
- The then MACPA president mentioned in August 1989 that it was not true that the CPA firms' partners who were not Malays were being racists in not taking in bumiputra article students contributing to the problem of very few bumiputra CPAs around - instead he claimed that these students joined commercial sector which offered them better pay and that there was a problem in attracting Malay students from rural areas to join the articleship due to the fact that they normally did not have the basic qualifications needed to enter the training scheme.
- The prime minister mentioned in August 1989 about the local auditors' lacking independence from the boards of directors and managers and the possible role of bankers in appointing auditors.
- The magazine *Far Eastern Economic Review* dated 9 November 1989 presented under the table entitled 'Regional disclosure requirements' that among the nine selected economies of East Asia (Hong Kong, Indonesia, Japan, Philippines, Singapore, South Korea, Taiwan, Thailand and Malaysia), Malaysia was the only country which had the 'Yes' answer for every column with the headings 'Turnover', 'Consolidation', 'Changes in financial position', 'Director remuneration and interests' and 'Related party transactions'.
- The then MACPA public affairs committee chairman, Abdul Wahab Jaafar Sidek, mentioned in 1989 that the MACPA had been looking into the problem of increasing the number of bumiputra accountants for 'over 20 years'.
- The then finance minister, Tun Daim Zainuddin, suggested in 1989 that both the MIA and MACPA needed to try harder to attract bumiputra students to enter the profession since there were mere 9 percent bumiputra who were members of the MIA - the percentage was the lowest among all professions in the country compared to law, 18 percent, medicine 21 percent, engineering 23 percent and architecture 31 percent.
- The then finance minister in 1989 urged the MIA to take immediate action and to be stern in carrying out its regulatory duties over the auditors if it did not want to be 'laughed at' by the public - the government had received so many reports that they were licensed auditors in the country who had not adhered to auditing standards and code of ethics resulting with low quality company auditing and with certain banks and other creditors 'losing confidence in the independence of the auditors' and that they felt it would be better if they were the ones to appoint company auditors and not the shareholders or else the government should consider the need to have a second audit by the authorities such as the ROC whenever the audit reports raised doubt as to their credibility.
- The then finance minister mentioned in 1989 that some auditors were not playing their role as public watchdogs and in some cases were accessories to fraudulent practices and therefore the values of external audit were now very much questioned.
- The then MACPA president mentioned in 1989 that members of the MACPA were "a special breed immensely proud of their profession, highly responsible to the aspirations of others relying on them yet temperable in their judgement of people" and that "they are the true professionals whose thirty good years had passed that had seen them in the forefront of the profession" and would have "thirty more good years and beyond" for the same thing to happen.
- The MIA president in 1989 accused the government for neglecting the accounting profession and on being 'cold' and at times acted negatively to the various proposals by the MIA.
- The new Banking and Financial Institutions Act 1989 which replaced the Banking Act 1973 and the Finance Companies Act 1969 had made it a requirement for the external auditors to report directly to the central bank of excessive losses and contravention of any law which a financial institution needed to abide by.
- The MIA in 1989 submitted proposals on fraud prevention to the finance minister whereby it stopped short from mentioning what the MIA and its members acting as auditors could do to help curbing its proliferation for the proposals stressed instead on what roles that other parties could play in this field.

- MIA embarked upon a scheme with Majlis Amanah Rakyat (MARA) in 1989 where 40 bumiputra accounting graduates were taken up by accounting firms for three years in order to allow these graduates to be professionally qualified in public accounting field.
- The MIA president mentioned in 1989 that the MIA and MACPA had recently formed Common Working Technical Committee (CWTC) entrusted with the task of reviewing and studying IAS and IAG and developing local standards and guidelines on auditing and accounting.
- The 1989 MACPA annual report mentioned that the association participated actively in an advisory capacity to assist the authorities in revising existing regulations and in the development of new ones to enhance the financial integrity of the country.
- The MIA's 1989 annual report stated that the MIA was being approached and consulted on various matters affecting the profession and the economy of the country - although not to the extent that the MIA would like it to be.
- The MIA's 1989 annual report stated that due to a few black sheeps in the profession the government had taken and was intending to take steps which were not favourable to the profession.
- MIA had its profession's ethical code known as the By-laws (On Professional Conduct and Ethics) enforced on 2 April 1990 - after nearly three years of active existence and nearly 23 years after its formation.
- The then MACPA president mentioned in August 1990 that to solve the problem of shortage of qualified accountants especially among the bumiputra the MACPA was coming out with several steps including making visits to secondary schools to encourage students especially those who were bumiputra to join the accounting field - a few months earlier, in March 1990, he however blamed the government for the shortage in accountants in the country due to its efforts in giving more emphasis to other professions.
- The chairman of the MIA's ethics committee, Mr. Khoo Eng Choo, mentioned in 1990 that on the subject of auditor's independence, the committee was more concerned with the auditors of public listed companies rather than with auditors of family companies and that in situations where an auditor could prove to the committee and the council that he was unable to exercise any control over a particular member of his immediate family in respect of shareholdings, the committee and council would, in 'all' likelihood, not take any action against that particular member.
- The then finance minister mentioned in 1990 that due to the fact that some parties in the country were not happy as to what they believed to be the MIA's failure in taking sufficient disciplinary actions against its errant members the government might one day be forced to solve the problem to the point that the MIA's role would be affected.
- The then deputy finance minister in 1990 mentioned that the government was now in the process of amending the Accountants Act in order to come out with one that was responsive to the present need and which was sensitive to the development in the accounting profession in the region.
- The deputy accountant-general, Zainul Abidin Yahaya, revealed in 1990 that the expertise of accountants in government service were 'not' fully utilised even though the public sector was understaffed with qualified accountants.
- The MACPA 1990 annual report revealed that the council made members' expertise available to assist government in reviewing existing regulations and in the development of new ones
- The MIA on 30 January 1991 launched professional indemnity insurance scheme for its practising member.
- The *New Straits Times* reported in April 1991 that the MIA had disclosed that the nation was facing an acute shortage of auditors and tax consultants: though there were over 172,000 companies registered with the ROC, there were only about 600 approved company auditors and less than 1,000 approved tax consultants and agents.
- The then MACPA president mentioned in July 1991 that the MACPA would take a number of measures to encourage more bumiputeras to join the profession including having regular talks in schools, encouraging accounting firms to increase their recruitment of bumiputera school leavers and graduates, encouraging organisations to award scholarships to excellent bumiputera students and conducting the Foundation and Professional Examination I and II in English and Bahasa Malaysia to meet the increasing need of accountants to help the government in reaching the status of developed nation by the year 2020 - but a year later in July 1992 he mentioned that the association would 'not' comprise on quality in order to increase the number of accountants but would achieve this by making 'improvements' in teaching facilities.
- The finance minister Anwar Ibrahim mentioned in September 1991 that the government took it seriously that there were auditors who followed the instruction of the company directors or top management of the companies to ensure that the financial statements reflected misleading picture of the company affairs.
- The finance minister mentioned in 1991 that the country needed more accountants together with other professionals in order to achieve Vision 2020 and that the professional accountancy bodies in Malaysia needed to look into the production of more accountants who were trained to have the right values.

- The 1991 MACPA annual report stated that the council recognised that the existence of a strong body of accounting standards and practices for which compliance was made a mandatory requirement would improve the ability of members to adopt a firm professional stance in providing advice to their employers or in dealing with clients.
- The former president of the MACPA, Tan Sri Datuk Jaafar Hussein, who at the time of his speech was the Central Bank governor mentioned in July 1992 that in most cases current disclosure requirements may not be enough for investors to make a thorough financial analysis.
- When talking about the aim of the government to promote the services sector as a foreign exchange earner in the 1990s and beyond, the finance minister in 1992 noted that as the country's domestic manufacturing companies widen their operations to new markets the local public accountants would need to expand their operations overseas by having affiliations with foreign accounting firms starting with those in developing countries which were also Malaysia's neighbours.
- The then education minister, Dato' Amar Dr. Sulaiman Hj. Daud, mentioned in 1992 that the MACPA's effort in the last three decades in conducting training programmes to meet the nation's needs by ensuring a 'steady' supply of highly qualified locally trained accounting professionals was 'exemplary'.
- The MIA and MACPA came to a logger head in 1992 and went on well into 1994 involving the issue of the compulsory use of statutory designation 'PA' for public accountants or 'LA' for licensed accountants by MIA members in describing their audit firms - this very issue had pushed the MIA president to say in 1992 that 'some people' in referring to the MACPA must have felt that "... their eminence must be achieved through differentiation".
- The MIA council amended its ethical code in 1992 to require its members to go for continuing professional development (CPD).
- The MIA president in 1992 urged the Registrar of Companies (ROC) to 'reconsider' the status of the MACPA - so that there would be no conflicts in the implementation of the Companies Act and the Accountants Act 1967 - as one of 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.
- The finance minister in 1992 urged the local professional bodies to expand their training facilities for not only that the government was 'very concerned' that in the last five years, the increase every year of qualified accountants was around 5 percent but also that the significant expenditure incurred by government and parents to finance overseas education represented a big loss to the nation in terms of balance of trade.
- The deputy education minister mentioned in 1992 that Malaysia presently had 3 accountants per 10,000 of population compared with that of Australia, Britain and Singapore which had 16, 29 and 19, respectively and that the education ministry was increasing the intake of students into accounting programmes at local universities and private institutions and encouraging twinning programmes between domestic and foreign higher institutions as part of the efforts to increase the number of accountants in the country.
- Datuk Abu Hassan Omar, the then Domestic Trade and Consumer Affairs, mentioned in 1992 that auditors were still avoiding their responsibilities under the law to report any breach or non-compliance of the Companies Act 1965 to the Registrar of Companies.
- The then MACPA president expressed disappointment in the 1992 MACPA annual report that the CWTC was discontinued towards the end of the year.
- The 1992 MACPA annual report said that during the year greater emphasis had been placed on liaison with government and its various agencies where key contacts were identified and a series of luncheon meetings were held with senior government officials and heads of the regulatory agencies.
- The MIA 1992 annual report mentioned that the members of the accounting profession were not seen to be united and this had weakened the profession especially when it wanted to make a stand on issues affecting the profession.
- The MIA president in February 1993 said that with effect from the last quarter of last year, the CWTC comprising MIA and MACPA members was disbanded and its functions were now taken over by the MIA's Accounting and Auditing Standards Committee (AASC).
- The MIA council issued a standard on goodwill accounting in April 1993 which to be made mandatory for all members to observe in respect of financial statements covering accounting periods starting on or after 1 January 1994 wherein the purchased goodwill was to be treated as fixed asset in the balance sheet and amortised through the income statement up to the maximum period of 25 years.
- Dr. Barjoyai Bardai mentioned in July 1993 that very little information was disclosed in companies' annual reports with the companies giving excuse of safeguarding 'trade secret' and claimed that many local financial analysts argued that external auditors were the least productive bunch of people in an economy such as Malaysia since they did not create any added value to the economy and that companies underwent audit due to the fact that it was required by the Companies Act 1965.

- The media reported in July 1993 that a total of 67,000 companies were hauled-up by the Domestic Trade and Consumer Affairs Ministry for failing to submit their annual accounts to the ROC and to present their audited accounts to members during their AGMs as required by the Companies Act 1965.
- The president of the FPLC in September 1993 came out to the media proposing that the implementation of the accounting standard for goodwill accounting for 1 January 1994 be postponed to five years later with the amortisation extended to 40 years.
- The FPLC in December 1993 appealed to both the MIA and finance ministry for the deferment of the accounting standard for goodwill.
- The MIA president stressed December 1993 that the adoption of goodwill accounting standard would enhance the credibility of Malaysian investments on the international capital market and that the principle adopted in that accounting standard was in line with that of developed countries such as the US, Australia, France, Japan, Canada and Malaysia's neighbour Singapore.
- One of the contestant for the MIA council seats election in December 1993 was an MACPA long running council member who was deputy country managing partner of Arthur Andersen & Co and who came out in the open attacking the MIA leaders by saying that the problems with the MIA included the need to put to right the imbalance in the representation across accounting bodies in the MIA council, that there was a need for better coordination of national accounting standard between the MIA and MACPA, that closer cooperation was needed between the MIA and the business sector and finally on goodwill accounting standard in particular, he mentioned that it had caused concern to the profession and business sector for some companies would get into trouble due to the requirement for them to write off their goodwill over a period of 25 years - he proposed for the MIA to postpone the adoption of the standard for the profession was around 'to serve' commerce and industry and warned the MIA leaders of what could befall them and also the rest of the accounting profession if there was no unity in the profession in the form of the accounting self-regulatory mode be 'taken away' by the authorities.
- On the run down of the MIA's AGM, in December 1993 both CACA and MACPA had lobbied intensely for the six contested seats where members of the MIA were personally approached to secure their vote and that proxy votes were collected from those unable to attend.
- The much opposed MIA new ruling on audit fees was enforced on 1 April 1993 but was turned at the end into a mere guideline on 1 September 1994.
- MACPA in 1993 openly disagreed with the MIA in regard to the MIA ruling in Malaysian Accounting Standard No. 6 (MAS 6) on goodwill accounting.
- The deputy minister of education mentioned in 1993 that based on the figure of 6,000 accountants in 1992, Malaysia needed ten times more accountants so that it would be able to achieve the developed economy status such as that possessed by UK and that to be able to reach the economic status of that of Singapore, he claimed that Malaysia needed six times more accountants than it had now.
- Tony Seah, an MIA council member, mentioned in 1993 that the MIA faced with the lack of support from the government and questioned what the MIA should do to get the government departments and the government to listen to the MIA and to have the MIA to be consulted.
- The chairman of the SC in 1993 stressed that not only that the auditor should improve his or her work but also that the auditor should do more while conducting the company audit so that there would emerge greater value added to the auditors' review of company accounts - also questioned whether the accountancy profession should continue with its self-regulatory mode for there was 'doubt' in his part as to the efficacy of the self-regulatory function played by the accounting bodies.
- The MIA president mentioned in 1993 that the MIA regulatory role had been undermined by the lack of cooperation and understanding from certain government departments and agencies and that although the MIA was conferred by Parliament to represent all accountants in the country, it did not receive due recognition as national body of accountants as evident in dialogues, representations and meetings when recognition had been persistently accorded to the MIA's component body although the MIA should be viewed as the 'sole' medium for communication and discussion for the accounting profession.
- The then MACPA president mentioned in 1993 that the apparent disunity between the MIA and MACPA would only serve to tarnish the image of the entire profession.
- The finance minister made a suggestion in August 1994 to the MIA to lead the way in uniting the MACPA and the MIA to form a strong and united organisation that would better serve the interests of the profession and contribute effectively to the nation's well being.

- The then MACPA president in October 1994 mentioned that the MIA 'standards' were not very high and that their membership requirements were easier than MACPA's.
- The minister of Domestic Trade and Consumer Affairs in December 1994 mentioned that the government was studying a proposal for the establishment of a 'Malaysian Accounting Standards Review Board' (MASRB) with the basic aim of recognising and ensuring companies' compliance with accounting standards set by the MIA since the state of financial reporting in the country - notwithstanding the efforts by the MIA in accounting standard-setting and ensuring compliance by its members - marked by 'many' instances of Malaysian companies' failure to comply with the IAS adopted by the MIA due to the fact that they were not required to do so by law and that the standards and guidelines were impractical or irrelevant in the context of the Malaysian corporate environment.
- The executive chairman of the Price Waterhouse who was then the MACPA president in 1994 hinted publicly on the closeness of the relationship between the MACPA and the finance minister by saying that both the finance minister and wife had always been very attentive and supportive of the activities of the MACPA.
- The then minister of Domestic Trade and Consumer Affairs, Dato' Haji Abu Hassan Haji Omar, stressing that shareholders were a necessary part of a capitalist system and had the right to expect the same level of information proffered by their companies to other parties mentioned in 1994 that companies should not practice 'double standards' in distributing their annual reports where in impressing financial institutions, creditors, fund managers and prominent businessmen the laid-out, coloured copies of their annual reports containing much information were produced and distributed while in respect to the minority shareholders they were served poor quality black and white copies of the annual reports containing only the bare minimum disclosure stipulated by the law.
- In 1994 the finance minister mentioned that it was a high time to consider the establishment of an Accounting Standards Board backed by a body which could ensure stronger arrangements for securing compliance and which had the financial resources to produce high accounting and reporting standards supported by preparers, auditors and users alike by their quality as the nation's financial and capital market becoming more sophisticated and as the country striving to be world class competitors.
- The 1994 MACPA annual report stated that the maintenance of close relation with the government through formal and informal forums was a 'priority' of the council and that the association had gained increasing recognition for its technical expertise by the government sector as shown by the fact that many of the body's senior council members appointed to responsible positions in committees formed by government and the regulatory authorities and that the association had frequently been invited to contribute its views in the formulation or revision of government regulations and guidelines pertaining to promotion of trade and investment, harmonisation of the financial reporting practices of the various industries, and enhancing corporate accountability.
- The MACPA 1994 annual report mentioned that an MOU between the MIA and the MACPA on integrating the two bodies was signed on 14 November 1994.
- The MIA 1994 annual report mentioned that due to historical and other factors the profession was not as united as it should be.
- The MIA council in the memorandum on audit fees sent to the finance minister in 1994 mentioned that the practice of cutting corner by audit firms in the country was widespread, that cheating of the IRD through understatement of income was rampant and that an audit tended to be viewed as 'a statutory nuisance' and that some considered that 'there is no value to an audit'
- The MIA president in September 1995 mentioned that the proposed integration of the MIA and MACPA which was supposed to be finalised in August 1995 had run into problems due to differences in opinions between the two bodies and specifically on the MACPA's objection of the MIA's move to have collaborative exams with local as well as overseas professional accounting bodies to streamline the training of accountants leading towards more local content in the exams of the foreign bodies and greater professional outlook for those of the local universities - the MACPA wanted its exams to be the 'only' that the MIA should adopt.
- The MIA's examination scheme that was officially launched on 29 September 1995 and which it had said since 1987 that it would embark upon in a short while after its activation in 1987 and which was at the end really a combined effort of both the MIA and CACA had been criticised for not providing a real alternative or an actual additional avenue for locals wishing to qualify as accountants because the same CACA examinations had been conducted in Malaysia for years.
- The MIA president said in October 1995 that the ultimate goal of the MIA in accounting training was to set up an 'academy of accounting education' where the MIA would collaborate with various accounting bodies to strengthen the local content in their programmes leading towards making Malaysia a regional education centre.

- During his 1996 budget speech in October 1995, the finance minister announced that the ministry would set up the Financial Reporting Foundation (FAF) and the Malaysian Accounting Standards Board (MASB) as part of the government's continuing strategy to develop the capital market and 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 the investors required protection from the government.
- The disclosure in 1995 by the then MACPA president that over the last three and half decades about 6,000 students had enrolled under the various schemes to pursue the CPA qualification and that of the 4,000 odd that had been through the system, 'unfortunately' only about 1,700 had made it through the examinations.
- The deputy minister of education commended the MACPA in 1995 for having contributed 'extensively' to the advancement of accountancy education in Malaysia, for setting and maintaining 'high' standards of professional education and examination in accountancy 'which is comparable to that of the more advanced countries' and for putting initiative in the development and promulgation of accounting and reporting standards in Malaysia.
- The Central Bank Governor in his lecture in 1995 on 'globalisation' mentioned what appeared to be a weakness on the part of the IASC and in turn the accounting professional bodies in Malaysia which were dependent on the IASC for many of their accounting standards in regard to the fact that despite the economic reality these days where the financial instruments had undergone revolutionary changes, there had been no IAS on the subject until recently, when the IASC issued IAS 32 in June 1995 and that the IASC had yet to issue an accounting standard on the recognition and measurement of the assets and liabilities arising from dealings in financial instruments.
- An MIA council member, Dato' Dr. Lau Ban Tin, mentioned in 1995 of the 'failures' of the local accounting bodies in expanding the needed number of qualified accountants and lamented the fact that the MIA since 1987 had been making public announcement - one after another - that it was going to conduct its own examinations and that now at the end there were unconfirmed news that MIA would be 'hijacking' its own examination to CACA giving the latter a 'virtual' monopoly to conduct the national accountancy examination.
- In 1995 prior to his FAF chairman appointment, he who was a former council member of the MACPA with the Institute of Chartered Accountants of England and Wales (ICAEW) qualification and chairman of five public listed companies played down the importance of financial reporting in the country by saying that the investing public was quite content to value a Malaysian Second Board company which might not have any special license, technology or brand name, at twenty times book proving the case that they did not care about audit reports and accounting standards, that the mythical shareholder actually knew the severe limitations and relevance that accounts prepared on lines of historical conventions had as instruments of shareholder information or protection and that the very notion of statutory audits as encapsulated in company legislation in Malaysia and other jurisdictions were lost cause propositions needing the profession to find the 'great moment' to finally own up and tell government and legislators and regulators that the notion of external audits for investor protection was over-rated, overly expensive and quite futile.
- The then minister of Domestic Trade and Consumer Affairs mentioned in 1995 that many companies still considered that the annual report was done just to satisfy statutory requirements and, hence, submit a report with minimal disclosure.
- The education minister mentioned in 1995 that Malaysia aimed to produce more than 50,000 qualified accountants by the year 2020 in order to help in ensuring the country making it up as an industrialised nation by that year.
- The MIA's 1995 annual report mentioned that on 5 August 1995 an EGM was held whereby MIA members adopted a resolution directing the council to make representation to the relevant authorities on the strong objection of the members over the setting of accounting standard setting body outside the jurisdiction of the MIA.
- The MIA's 1995 annual report disclosed that changes on CPD were introduced in November 1994 and made effective from 1 January 1995 ensuring that what took place in the past where the MIA secretariat was the entity responsible for CPD record-keeping was replaced with members themselves made responsible to do the record-keeping individually.
- The MIA's 1995 annual report revealed that the MIA had devoted much time and effort to persuade the relevant authorities that the establishment of an 'independent' accounting standard board was not in the interests of the general public and the nation and that the accounting standards setting process must remain with accountants and that the MIA had enhanced its due process which included holding a public hearing on accounting standards to obtain feedback and comments from the public on the standard before the council made a decision to issue the standard to members as a Malaysian accounting standard.
- Public hearing had been conducted for the first time by the MIA in 1995 as disclosed in the MIA's 1995 annual report.

- The 1995 MACPA annual report mentioned that the most important challenge for the profession was the reform of the organisational and regulatory structure of the profession so that it was better placed to serve the members, the community and the nation and that the council had already undertaken some initiatives towards this objective which would come to fruition in the coming years.
- The 1995 annual report of the Securities Commission (SC) mentioned the SC's initiative to set up a Malaysian Accounting Standards Board (MASB) that became a government objective expressly stated in the 1995 Budget Statement.
- The MACPA president said in July 1996 that the MACPA 'wanted' to resume talks with the MIA over their proposed merger which then got a positive response a few days later from the MIA president who claimed that the MIA had always been conscious of the compelling need for the unification of the two bodies to bring in so many good things to the country's accounting profession.
- The Editorial to the magazine *Malaysian Business* dated 1 August 1996 mentioned that it was a real shame for a profession troubled by many issues such as the low quality audit resulted from fee undercutting act of audit firms and unqualified accountants, that the accountancy profession in the country was divided, that the authorities must make it clear that they recognised only one national accountancy body, that the MIA had failed to impress others that it was in fact a national accounting body as seen in its failure in coming out with own examination and finally that the question of a union or merger between the MIA and MACPA did not really rise for the MACPA's role, like that of the other accountancy bodies such as the CACA and Institute of Certified Management Accountants (ICMA), was to complement the MIA while serving the interests of its own members.
- The finance minister mentioned in October 1996 that for the country to strive for 'disclosure-based regulation' of its capital markets with greater emphasis on high standards and levels of disclosure leading towards 'a financial reporting environment of international standards', the accounting standards needed to be 'independent' of any particular interest group while still ensuring the active participation of each relevant parties in the process and that they 'must' be accepted not just by the accounting profession but also by the business community through the 'ownership' of the standards by those outside the accounting profession.
- The finance minister mentioned in October 1996 that the FAF and MASB would be supplemented by appropriate compliance and enforcement mechanisms of the SC, ROC and Central Bank.
- With the urging that appeared to come from the SC, Sir Bryan Carsberg, the secretary-general of the IASC, was reported by the media to say in October 1996 that the proposed formation of the MASB indicated the need for standards to have a wider, public ownership beyond the narrower interest of the accounting profession - in accord with the 'worldwide trend' in standards setting as seen in the practice of the United States and the United Kingdom.
- The deputy secretary-general to the ministry of education mentioned in 1996 that the MACPA had been the 'driving force' in developing the accountancy profession in Malaysia and that over the past 38 years, the progress attained in the nation's accountancy field had been due to a large extent to MACPA's perseverance and diligence.
- The then MACPA president mentioned in 1996 that the body's very examination and training system which the members were so proud of, and which had produced nearly 2,000 highly qualified and professionally trained, made-in-Malaysia CPAs were the cause of the breakdown in the proposals for integration.
- The 1996 empirical study by Tan and Chew 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 found a high level of non-disclosure: about 79 percent of the total value of all charges or credits between turnover or profit before tax of Malaysian companies were not revealed leading them to conclude that it was because of the limited disclosure requirements of Malaysia's approved accounting standards and that of companies' sticking very closely to the disclosure requirements of the 9th Schedule and promulgated accounting standards.
- The Financial Reporting Act 1997 which was passed by the Parliament at the end of 1996 gave much say to the finance minister over the practice of financial reporting in the country and contained statement that the accounting standards issued by the MASB who was comprised of eight members and three advisors from Securities Commission, Central Bank and Registrar of Companies were compulsory for any published accounts of a business entity in Malaysia and its overseas subsidiary or associated companies whose accounts formed the consolidated accounts in Malaysia.
- The *Business Times* disclosed on 21 February 1997 that a total of 67 complaints were received in 1996 from the public who were in doubt as to the validity of various company accounts.
- The ROC began in February 1997 a nationwide operation involving ten ROC accountants that would only complete at the end of the year and entailing the ROC team 'calling on' 1,074 ROC-registered audit firms with whom 1,493 licensed auditors were attached to.

- *Utusan Malaysia* reported on 8 July 1997 that there were auditors who falsify the accounts of companies which aimed to be listed at the KLSE and that there were cases where accounts sent to the ROC were different to those which were laid out at the AGMs.
- The finance minister announced in July 1997 that both the FAF and MASB which would put Malaysia 'on the right track' as the country strived towards a disclosure-based regulation system for its capital markets and thus achieve a financial reporting environment of international standards to commence operations on 1 July 1997 with Tan Sri Wan Azmi Wan Hamzah, chairman of 'five' KLSE listed companies 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 a former MACPA council member, while the latter who was one of the governors of the SC and managing partner of the Price Waterhouse Malaysia was a former MACPA president.

*For those historical events underlined there have the details provided in Appendix 4. Such details for these so called central response events include the various documented sources used and interviews taken place. For the rest of the response events, such information is not provided. To mention them here in Appendix 2 or elsewhere in the work may distract the attention of readers on what is more important in regard to these events. It could also mean that their inclusion may lead to many more pages needed for their listing. At any rate, interested readers are welcomed to browse the bibliography which appears at the end of Azham (1999) for details on various documented sources that were looked into for the study.

Appendix C

Research Strategy

The qualitative case study method is chosen as the research strategy since the aim is to have a deep understanding on the impact of the environment and other factors on the audit process. Patton (1990, p. 54) mentions that case studies are particularly useful when the need is to understand a subject of interest in "great depth" and in context. Yin (1994) has also mentioned several other pertinent points in his introductory chapter. All of them are concerned with the question of when it is appropriate to use a case study as the research strategy: first, when the "how" and "why" questions are the research questions being posed; second, when there are "many more variables of interest than data points" as a result of including the context of the subject as part of the study; third, when the research relies on multiple sources of evidence; and finally when the efforts in data collection and analysis are being guided by some theoretical framework (see also Miles & Huberman, 1994; Ryan, Scapens & Theobald, 1992; Patton, 1990; and Scapens, 1990).

Scapens (1990) delineates the six steps to be followed in executing case studies. The first step involves reviewing existing theory (or theories) considered relevant to the research questions explored. Thus, the review of neo-classical and political economic theories is made and results with the selection of the political economic approach based upon the basic, non-systematic understanding of Malaysia's accounting/auditing practice. This is followed by theory-laden data collection efforts described below. Next is the implementation of triangulation exercises to ensure the validity of data collected. With all sorts of data gathered and tested for their validity, the fourth step concerns the identification of themes emerging from these data to form the basis of some theoretical explanation of the problem researched. A further refinement of the earlier formed theory (or theories) to develop more generalised theories followed. In this very important step, instead of rejecting or accepting a theory that is chosen at the beginning, it entails the iteration of theory with empirical evidence signifying the essence of a case study method. The final step is the reporting of the case work completed with the aim to make it all understandable and plausible to readers.

In this study, the case study approach involves the collection of qualitative data. This may be explained by the fact that the chosen enlarged exogenous interpretive framework leads to the view of audit as a social system that is open to its environment and has the qualities of *complexity* and *dynamism*. A social system is a functionally differentiated group, composed of interactive entities. The process of auditing interacts with many social systems involving varying degrees of influence. Complexity lies in the multiple interactions which occur within the audit system and between the audit system and other relevant systems and in the continuous interactions of various social systems with their environment. As for the dynamism of the systems, it is reflected in the different patterns of interactions occurring over the different time periods.

Given complexity and dynamism providing the essence and reality of the subject under study, quantitative data collection is considered inappropriate due to its cross-sectional nature which entails the simplification of the system to a number of abstract variables which would give only a superficial version of the system. In other words, if the quantitative data collection is still used, it will divert attention from the essential basic or operational form of the system. One will end up getting to know merely the system's structural form and have little or no understanding of the flows of events and continuous interactions among the relevant constituencies.^a

The qualitative data comes in the form of "words", "phrases", "sentences" and "narrations." Blumer (1978) describes "words" and similar data as being capable of providing the "rich", "full" and "real" story, rather than the thin abstraction produced by "numbers." Indeed, these are the data considered appropriate in explaining social aspects which cannot be quantified in a universal manner (Ryan et al., 1992). For the present study these data were gathered from primary and secondary source materials and from semi-structured, open-ended interviews of selected participants. Merino (1988, p. 188) stresses the significance of gathering data through these various ways. She also stresses the importance of the interviews in particular as follows (1988, p. 188): "If historians are to provide valid explanations, then we must examine all available evidence, including the testimony of participant sources, to substantiate posited motives and causes" (see also Collins & Bloom, 1991 and Hammond & Sikka, 1996). During the interviews, limited participant observation was also done to some extent.^a

In the accounting field, numerous scholars argue that qualitative research methods provide rich descriptions of the social world, particularly the meanings attached to actions in the language of actors. In short, they argue that qualitative methods help in understanding how accounting meanings are socially generated and sustained. To mention just a few, these scholars include Humphrey and Scapens (1996), Ryan et al. (1992), Ansari and Bell (1991), Scapens (1990), Covalski and Dirsmith (1990), Smith, Whipp and Willmott (1988), Kaplan (1983, 1984, 1986), Hopper and Powell (1985) and Hopwood (1983).

To recapitulate, for a retrospective investigation of the audit process, viewed as a complex and dynamic system shaped by historical events and environmental factors, quantitative evidence collection and statistical data analysis are deemed inappropriate. This is due to their tendency to require abstraction to a degree which hinders the emergence of the very essence of the phenomenon that this research focuses on. Instead, qualitative data collection was used to capture the essence of the system.

Data Collection

Specifically, the collection of primary and secondary source materials yielding excerpts, quotations or entire passages and the in-depth interviews asking open-ended questions to allow participants to describe matters freely on their own terms resulting in direct quotations, formed the basic sources of raw data.^a Thus, what people said was a major source of qualitative inquiry, whether what they said was obtained verbally through an interview or in written form through a document analysis.

During the interviews, limited participant observation was also executed to some extent.^a All these approaches towards data collection were intended to put into practice the concept of triangulation to reduce systematic bias in research work (see Patton, 1990, p. 470; Miles & Huberman, 1994, p. 266). Neuman (1991, pp. 329-30) however has interestingly suggested that triangulation is not only to increase the "sophisticated rigor" of the data collection and analysis, but also to help disclose the "richness" of social settings for a qualitative inquiry. He mentions that quantitative researchers would consider the inconsistent picture derived from data on the same social event collected by different methods, different researchers or at different times as "bias" or "error". This he says would not be the case for the qualitative researcher. He writes (p. 330): "But for a qualitative researcher such differences are anticipated and are a valuable source of information about social life. They are themselves an aspect of social life to be analysed" (see also Kvale, 1996, Chapter 12).

Documentary Analysis

All the documents referred to lend insight into the perspectives, assumptions, concerns and activities of those who produced them. The primary written materials accessed and analysed in this study comprised mainly the annual reports of the accounting bodies of the MIA and the MACPA and government documents such as the numerous Malaysian Plans and the text of speeches of the nation's Prime Ministers. The secondary written sources relied on to provide data on Malaysia's auditing are few and far between. There were conference materials at the ASEAN level where materials on Malaysia's auditing are discussed and a few others at national level.

Books on Malaysia's auditing practice/profession are not available except that by Gul (1983) which gives more coverage on accounting education in the country in the early 1980s. Works by Enthoven in the 1970s were also utilized (Enthoven, 1973, 1977), as were recent materials published in the nation's accounting journals, business magazines and popular newspapers. Needless to say, the last three mentioned sources provide a considerably greater volume of materials than the others mentioned. Also, numerous PhD's theses were referred to deepen understanding on various aspects of the study.

When it comes to the subject of the nation's social, economic and political environments and in particular the respective matters of race, industrialisation and the strong and pragmatic state, numerous secondary written sources were accessed including various authoritative sources published over the years in and outside of the country. The same was done in investigating development in the nation's history and in systems of relevance to audit: corporations, government and capital funds. The individual sources are too numerous to be listed here. Those which were referred to extensively are specifically noted within the text or in the footnotes.

Much of these materials were collected during the field work which took place in the first six months of 1997.

However, the rest, especially in the area of accounting/auditing in Malaysia, was collected long before the field work began. Indeed, for just over a decade since January 1987, the researcher who views himself as a keen observer of the practice of auditing in the country and to some extent in other parts of the world has in fact gone on collecting all sorts of written materials considered relevant to gain answers to some troubling questions on what actually is taking place in Malaysia's audit arena. This has helped in the writing of a few articles and papers and the compilation of these materials into a book published locally (see Azham, 1994). The understanding throughout is that audit is just too important to be left only in the hands of the auditors.

And when it comes to the subject of Malaysia's corporate and financial systems which seem only quite recently to have caught the interest of writers and journalists to expose their true nature due to East Asia's "financial turmoil", recent writing in a number of publications including the *Far Eastern Economic Review*, *The Economist*, *Fortune*, *Business Week*, *Time* magazine and *Newsweek* and newspapers *The Sunday Times*, *The Guardian* and *The Observer* have been gathered.

It must be recognised that much of the documentary materials provide mere description of what has taken place over the years with little critical or analytical comment. Thus, to borrow phrases made famous by Argyris and Schon (1974), more of "espoused theories" are discovered from these works than really the "theories-in-use" in the nation's audit practice and corporate world.^a The "espoused theory" is what people say they do; it is the official version of how an organisation such as an MIA or an activity such as audit operates. The "theory-in-use" is what really happens. Patton (1990, p. 107) mentions that interviewing decision makers and analysing official documents reveal the "espoused theory." Interviewing parties other than decision makers reveals "theory-in-use."

It is on this basis that the relevant *recent* writing in journals and newspapers is considered of value. This is also why the in-depth interviews described next are considered crucial in this study and that great effort was indeed invested during each interview session - which took place just a few months before Malaysia was caught in the East Asia's "financial turmoil" - for the discovery of "theories-in-use."

In-depth Interviews

The interviews took place within a period of six months (from February to July 1997) involving a sample of 31 individuals out of around 150 people and institutions invited to participate.^a Each person interviewed may be considered a member or a former member of the following four categories related to audited statements: auditor, regulator, user and preparer. A number of auditors from both big six audit firms and non-big six firms were interviewed, including those who were actively involved as audit regulators for the very fact that they are members of the disciplinary or investigative committees of either the MIA or the MACPA. In addition, a regulator from the Office of the Registrar of Companies was interviewed. As for the audit users, they included those from a research centre and a merchant bank and a newspaper columnist. The audit preparers interviewed came from both public and private companies including prominent personalities from the business community. It is notable that among those interviewed, four were former presidents of the MACPA, one a former president of the Malaysian Chapter of the CACA and another two at the time of the interview were presidents of international accounting bodies.

Method of Selecting Interviewees

A purposive sampling approach has been used rather than a simple random selection to locate interviewees. When the desired elements of the sampled population do not equally and universally exist in all units of the target population, when inclusion of exceptional and special units in the sampled population is essential for the completeness of the research, or when the universe includes a relatively small number of sampling units, a simple random selection may miss the more important elements and is therefore rejected (Foroughi, 1981, p. 222). Another manner of looking at this approach is that it signifies that the conduct of interviews is not to prove or refute a hypothesis. Also, there is no intention at all to say that the views of the 31 individuals who were finally interviewed represent any other group of people or institutions. Instead, the whole aim is to attain information-rich interviews which will illuminate the questions under study.

After much effort invested by the researcher, both the accounting bodies, the MACPA and the MIA, gave assistance in identifying some of the people to be contacted. The specific kind of sampling strategy as executed here is what is termed by Goetz and Lecompte (1984) as "reputational case selection" where instances are chosen on the recommendation of experts. Though these accounting bodies' assistance is very much appreciated, the majority of the people and institutions contacted were short listed from the examination of the various reading materials mentioned earlier.

The selected personalities and institutions were expected to clarify and substantiate the various issues examined by the study on the basis of their direct involvement with external auditing. In general, the interviewees were chosen for their first hand or direct knowledge. In particular, they were the leaders of the MACPA and MIA, officers from regulatory bodies such as the Registrar of Companies, the Treasury, the Central Bank and the KLSE, other individuals from various chambers of commerce and professionals such as auditors and accountants, bankers, investment analysts and companies' directors. A number of these people may be holding more than one post due to their involvement across organisations. This very fact makes their participation invaluable as they could describe the various matters that they have had to encounter in their various roles.

A number of individuals who from the various reading materials could be identified as having opinions on and interest in external auditing as practised in Malaysia were also included. They are those defined by Selltiz et al. (1976, pp. 99-100) as nonindigenous participants and objective observers. For a number of these personalities, their interests in external audit would be known through the statements that they or other members of the organisations which they were associated with had made through the media, papers presented in conferences, books or article written on the subjects or related subjects, etc. This group would include academicians, media personnel and officers from consumer associations.

Interview Schedules

Prior to the field work, an outline of five areas for discussion were drawn up. These areas were: the audit function, audit quality, the future of auditing, external influences on auditing and the role of professional accounting/auditing bodies. From these five areas of interest, some specific questions forming the "seeding points" for a wide-ranging conversation were then developed.

Conduct of Interviews

The interview schedule used during interviews was actually put to use with a considerable degree of flexibility. That is, if an interviewee showed great interest in an issue and wished to develop it further, he or she was encouraged to do so. If on the other hand, he or she was not comfortable to say much or to claim to have little knowledge of the issue forwarded, the question was thus dropped. This led to the possibility that more information would be collected from some people than from others. Patton (1990, p. 286) mentions that for basic research such as the present one where the aim is to understand the holistic overview of a group of people, it is not necessary to collect the same information from each person.

The open-ended quality of the questions asked was to enable interviewees to express their own understanding in their own words. The interviewer never supplied and predetermined the phrases or categories that must be used by respondents to express themselves. The focus was on learning interviewees' viewpoints by recording their terminology and judgements and capturing the complexities of individual perceptions and experiences.

As Patton (1990, p. 278) notes succinctly, the purpose thus is to allow the interviewer to enter into the participants' perspective using the assumption that the perspective of others is meaningful, knowable and able to be made explicit.^a

The majority of the interviews took from one and a half to two hours to complete. Also, the majority were recorded on tapes though in most of these cases sections of the interviews were left untaped for the interviewees had asked for that to be the case.^a Except in one case where the latter half of the interview was conducted at one of his residences, the majority of the interviews were conducted in either the interviewees' offices or the organisations' conference rooms. In three cases, the interviews were conducted with two interviewees each. In two cases, the interviews were conducted in two separate sessions.

During the interviews, little note-taking was undertaken to ensure full concentration on the matters being discussed. But within the next twelve hours after most interviews, a summary and reflection of what had taken place was prepared by talking to the tape recorder. Full-length summaries interspersed with quotes where necessary were prepared for each interview later on. The objective everytime was to retain as much as possible the essence of the original data of "auditing in action". Nevertheless, it is readily admitted that one concern with this type of data gathering is the loss of data through taping and producing a summary.

Note that at the beginning of the sessions (and also in the letters inviting participation) interviewees were told that they should feel free to describe matters on their own terms, that confidentiality would be assured for any or every section of the interviews and that the sessions did not have to be recorded if they preferred. In cases where they gave permission to tape the sessions, they were given the opportunity at any point to ask the researcher to stop the taping.

Appendix D

Central Response Events

- *The forming of MACPA under the Companies Ordinance 1940 as a company limited by guarantee on 26 July 1958*

In less than one year after the independence of the Malay Federation, on 26 July 1958, twenty local accountants who were formerly members of Association of Chartered and Incorporated Accountants (ACIA) and 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 (MACPA) in Singapore under the Straits Settlement Companies Ordinance 1940 (*CERPASS*, December 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-September 1988, p. 16). MACPA was modelled upon the ICAEW. 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). 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).^{u,v} The first three presidents of MACPA were British in origin (MACPA 1977 Annual Report, p. 3). The next five included four Chinese Malaysian and another British who has a permanent resident status. The first Malay to become president of the MACPA was the late Datuk Abdul Razak Yusof for the years 1967 to 1969.

^uSee Johnson and Caygill (1971, p. 167) for more.

^vSome sort of assistance by the ICAEW appears to have also taken place in the early 1980s. See the MACPA 1981 (p. 17) and the 1982 (p. 17) Annual Reports.

- ***The passing of Companies Act 1965***

Khoo (1993, p. 13) writes that the Malaysian Act which was passed by Parliament and became effective on 15 April 1966 was promulgated to bring together company legislations which prevailed in the component states in 1963: in the Federation of Malaya, company law was governed by the Companies Ordinance 1946; in the State of Singapore, it was governed by the Straits Settlements Ordinance 1940; and the Sarawak Companies Ordinance was similar to the North Borneo Companies Ordinance, which was based on Hong Kong companies legislation which in turn was modelled from the English Companies Act of 1929. Walter (1993, p. 1) in contrast to Walton (1986) who mentions that the Act as a whole drew mainly on the Victoria Companies Act of 1961 and the British Companies Act 1948 notes that the Malaysian Companies Act was based on the Australian Uniform Companies legislation of 1960/61.

But similar to the argument put forth by Walton (1995), he mentions that very little of the Act that was locally drafted - it was a "legislation by xerox" for three reasons: first, there was a dearth of legislative drafting talent; second, to avoid re-inventing of the wheel; and third, the understanding of letting others first make the mistake and then learning from their experience. Even after it was passed, he claims that the various amendments had incorporated sections from UK or Australian legislations. In the *Parliamentary Debates* (Vol II, no. 8, 9 August 1965, Col. 1558), it was stated by the then Minister of Commerce and Industry, Dr. Lim Swee Aun, that the committee^W with the responsibility to draft the Companies Bill had considered not only the present legislation in force in the UK, Australia, India and New Zealand but also the draft code prepared for Ghana by Professor Gower and the reports presented in the UK by the committees chaired by Lord Cohen and Lord Jenkin. He (Col. 1564) also said the following: "... a measure such as this is essential in Malaysia to continue to develop into one of the great trading and industrial nations of this part of the world." The *Parliamentary Debates* also show specifically that the Companies Act 1965 had two objectives: to protect investors and to attract *foreign investors* into the country. Therefore the Act demanded companies to disclose more than ever before. Also note that Ng Wing Keung (*CERPASS*, December 1967, p. 9) wrote that the position of the company auditor had undertaken a drastic change since the passing of the Act. Now he or she had to do a lot of things. Before, he had little to do.

- ***The passing of the Accountants' Act 1967 ensuring the formation of MIA***

When the Malaysian Parliament passed the Accountants Act 1967 in September that year, the MIA came to existence as a statutory body. 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 (Goh, 1970/71, pp. 27-28). The House of Representatives' *Parliamentary Debates* (Vol. IV, No. 12, Col. 2409 dated 25 August 1967) had disclosed the reason behind the establishment of the MIA by the government through 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 high hopes were placed by other Parliamentarians 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." And 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."

^WThe Draft Companies Bill was prepared by a committee whose chairman came from the Ministry of Commerce and Industry and with the assistance of John Finemore, a Colombo Plan draftsman from Australia.

And 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."

The Act states among others that the MIA council is responsible for appointing investigation and disciplinary committees after each annual general meeting. Alas, hardly any part of the Act except for the establishment of the MIA council and the appointment of its heads that took place in the remainder of the decade. The MIA 1967-1987 Annual Report (p. 14) showed that the 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.^x 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. For the next two decades following the appointment of the Accountant-General as the MIA's president, not even an AGM was conducted. 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 starting of a series of merger talks between the MIA and MACPA in December 1972***

The MIA 1967-87 Annual Report (p. 14) noted that the MIA and the MACPA began their merger discussions on 7 December 1972.^y 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." There was apparently a series of merger talks with the MACPA through subsequent years. Megat Abdul Rahman, the then vice-president of the MACPA, presented in 1979 in a seminar what the merged body would look like (Megat-Abdul-Rahman, 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). The proposed Act would only incorporate major clauses with detail clauses on administration, education, examination, etc. would be filled out by members and the council through the Act's Bye-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 from Megat Abdul Rahman presentation 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 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.

- ***The MACPA becoming a member of the International Accounting Standards Committee (IASC) in October 1975***

In October 1975, the MACPA was admitted as a member of the IASC.^z Membership of IASC requires subsequent adoption of the IAS.^{aa}

^xHe was among the first few Bumiputra sent to Australia under the Colombo Plan to do accounting (Business Times, 17 August 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 August 1989). In 1991, it was reported (The Star, 10 July 1991) that Shamsir Jasani & Co, the seventh largest accounting firm in the country, had 130 staff and was backed by Grant Thornton International.

^yNote 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 are found in many other cases during interviews and also from various documented sources chosen to be analysed.

^zThe IASC was formed in 1972 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 consists of representatives from professional accounting bodies from North America (3), Europe (4), Japan and Australia.

^{aa}In June 1972, prior to the adoption of IAS, MACPA had issued Statement No. 1. Within the few years after Statement No. 1, the MACPA issued three more statements. All these statements were based on ICAEW statements (Megat-Abdul-Rahman, 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

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 (Cooper, 1980; Megat-Abdul-Rahman, 1980, p. 5). In addition, 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). To mention just a few, 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". And 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. As for 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.

• ***The MACPA enforcing from January 1976 the new membership admission ruling***

This particular act of the MACPA - enforced as of 1 January 1976 - 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. This ruling had been responsible in turning people away from the association, and the MACPA accused of being elitist and acting like a closed shop (*The Star*, 23 August 1988). One interviewee who himself could be considered a leader of the MACPA said: "The people are not given any attention by the MACPA. Instead, the MACPA is more like a closed shop. They want to protect their interest and therefore they make their standards more stringently." This very action of the MACPA had also ensured that it was not getting as many new members as before (MACPA 1978 Annual Report, p. 15). 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 August 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. This change of policy, seemed to have been made for the good of the nation (MACPA 1989 Annual Report, p. 29). 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 has experienced a significant drop in student intake in recent years (MACPA 1994 Annual Report, p. 32 and the MACPA 1995 Annual Report, p. 34.) and problems in ensuring that some of its old members continued to want to be members (interviews). The MACPA 1995 Annual Report (p. 21) also proposed revising membership subscriptions and students annual fees in 1996 in order to enable the association to achieve a break even position.

• ***The 1985 Amendment to the Companies Act 1965***

In 1985, the Companies Act was substantially revised (Helinna & Wishart, 1989). Extensive changes are made to the existing Ninth Schedule to incorporate those elements that are regarded as best accounting standards and practices leading towards a much higher disclosure level than previously. For example, companies now are required to prepare a funds statement (statement of changes in financial position) together with the income statements and balance sheets that the auditors have to report on. Also, the amendment increases the range of persons excluded from acting as auditor. It appears that the purpose of this provision is to catch auditors operating as company secretaries (Phenix, 1986, p. 12).

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). Enthoven (1977) came out with the following as to why Malaysian accounting would mainly follow a British approach in form and substance: "British investment has been responsible largely for bringing British accounting thought to Malaysia. In the absence of local accounting principles (financial statement in the past were meant primarily for British readers), it was only logical for accountants to apply the British accounting principles with which they were familiar and which were acceptable to British readers. Over the years, the accounting principles as applied in the United Kingdom came to be accepted in Malaysia almost in their entirety."

In addition, the term of an audit license is reduced from three to two years and the procedure of granting licenses overhauled to make it a more effective method of monitoring and policing standards of auditing. Finally, an auditor is required to report to the ROC if he or she were to find that there has been a breach or non-observance of any provisions of the Act. Failure to report could result in a requirement for the auditor to justify in a court of law his or her opinion that the breaches have been otherwise adequately dealt with by either a comment about such matter in his or her audit report or bringing the matter to the attention of the company directors. The fulfillment of either of these two approaches ensures that the reporting duty of an auditor to the Registrar is a limited one. Nevertheless, the significance of this requirement is that Malaysian auditors are now provided with a channel to report non-observance of the Act. Previously, the auditor could only use the audit report and by the time the report is presented to the members of the company, the damage caused by the transgressions might well have been irreparable. Section 174(8) of the Act also makes it clear that the auditor making the report would be protected by the law. \

With or without qualified privilege, a number of Malaysian auditors interviewed claimed that the auditor's reporting duty to the Company Registrar was not practical due to the possibility that his or her act of not reporting would be discovered was rather minimal and the fact that the auditors "at the end of the day were also businessmen." It was also found that the MIA president himself was not that happy with this reporting requirement when he was discussing irregularities and illegal acts perpetrated by those inside the companies (Hanifah, 1990, p. 10). Finally, while the 1985 amendment to the Companies Act 1965 has increased the auditor's statutory responsibilities in certain respect, it is uncertain as to what extent that amended Companies Act has in fact been put to use. That is, in the sense that auditors who show their failure to follow, for example, the reporting duty to an external party have in fact been taken to task through criminal charges of fraud/conspiracy. To the present time there has been no news of such action by the government though there are remarks made showing the dissatisfaction of the concerned political executive over the failure of the auditors to abide by the additional reporting requirement (*The Malaysian Accountant*, December 1992, p. 12).

- ***The rejection of the proposal for "merging" the MIA and the MACPA by the federal cabinet in June 1985***

The plan for the integration of MIA and the MACPA would require the incorporation of a new body, MICA, under an Act of Parliament. This proposal was rejected by the federal cabinet on 17 June 1985 (*Business Times*, 12 October 1988). The reason given was that there was no need for MICA for there was already in the country an accounting body entrusted with all the needed task to spearhead the accounting profession in the form of the MIA (MIA 1967-87 Annual Report, p. 11). The federal cabinet's rejection appeared strange when the Prime Minister heading the cabinet was reported to have said in 1979 - at that time he was still the Deputy Prime Minister holding the post of Acting Prime Minister - that it did not make sense to have a multiplicity of bodies in the profession, particularly in a small nation like Malaysia (Abu-Hassan, 1986, p. 12). Similar remarks attributed to him were also noted in *The Malaysian Accountant* Editorial (July 1981, p. 5) and in a letter published in the same issue of *The Malaysian Accountant* (p. 4) where the following was mentioned as coming from him: "The Government wants to see the development of a Malaysian accountancy profession with the capacity to serve the increasing needs of the nation to the highest internationally comparable professional standards and to effectively regulate the activities of its members for the maintenance of such standards. A strong unified profession will be better able to achieve this and look after the interests of its members."

The interviews conducted in the first half of 1997 found that there was no "outright" rejection by the government. 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. It was the accounting bodies' insistence that all matters follow their wishes that resulted in the so-called "merger" failing. What happened was that the merger deal of 1985 did not go through for a number of reasons including those that were racial in content: first, there was no agreement between the government and the leaders of both MIA and MACPA on the subject of giving recognition to at least one accounting body (whose members were majority Malays) in the supposedly new merged body; and second, these parties did not agree on the matter of turning local accounting graduates (majority Malays) to qualified accountants automatically. Related to the first reason, a few interviewees recalled that the accounting body involved was the Institute of Cooperative Auditors (ICA) whose members came about through "political appointments." Four federal cabinet Ministers were in fact involved in their appointments as auditors.

Thus, the MIA and MACPA leaders were also fearful that politicians through ICA and their other sponsored bodies would later interfere with the operations of the new merged body MICA - if it were formed. One interviewee however did not stress this "fearful" factor that resulted with no merger taking place. Instead, he mentioned that the leaders of the accounting bodies were trying to avoid the case of having too many public accountants around working as company auditors which could lead to stiff competition in the audit market!

- ***The MIA becoming activated with their first AGM in September 1987***

In September 1987, the MIA members had their first AGM where a number of Chinese Malaysians from the CACA (MC) were elected to sit in the MIA's fifteen-person council. The crucial part played by the government and the reasons in having the MIA activated is never disguised (*The Malaysian Accountant*, Oct-Dec 1987, p. 9; MIA 1988 Bounded Documents,^{bb} pp. 5-6). A number of interviewees including those closely associated with the MIA however mentioned that the MIA was activated in 1987 primarily because the MIA members wanted that to be the case and very little because of government pressure. In other words, many members of the profession suggested that the motivation for the MIA to become active was really from the accountants at the ground level and not the then Finance Minister or other parties in the government. Several interviewees identified these accountants to be local members of Australian accounting bodies, while others claimed that they were accounting graduates from local higher institutions.

The reason the MIA was revived was described in the interview by a person who could be considered to be closely associated with the MACPA rather than the MIA, although not a leader of the MACPA: "There was the dissatisfaction among the MIA members against the MACPA which acted like 'a closed shop'. The MACPA focuses on its members who are CPAs and others graduated from overseas. But in the late 1970s and early 1980s, more and more accountants in the country came from local higher institutions. These people were not given any attention by the MACPA. The leaders of MACPA wanted to protect their interest and therefore they made their standards more stringently. The MACPA was accordingly viewed to be more 'closed shop' kind of body than anything else for that matter. So, these people who could not get into the MACPA lobbied for the MIA to be made active." Another interviewee who could be considered one of the leaders of the MACPA mentioned that local accountants mainly in the form of ACCA and ASA fellows and who were not members of the MACPA were jealous of the MACPA members who controlled the market for public accounting in the country. This jealousy he claimed brought them to push for the activation of the MIA. Many interviewees have also mentioned that the real reason behind the activation of the MIA was nothing more than to have the MIA increase the number of Bumiputra accountants.

A few others also pointed out that the MIA was activated because the government wanted it to deal appropriately with the unregistered accountants proliferating in an economy that was then about to take off. These two reasons concurred with those found from written sources. Somehow no one suggested that the MIA's activation had anything to do with the role of external auditors in dealing with white-collar crime. The interviews had also uncovered various other reasons for the MIA to be revived which may be grouped under the heading "embarrassingly personal" in nature rather than had much to do with the national interests! These reasons included the MIA was used as a platform by one or two personalities as stepping stones for "better things in life" and that it was a vindictive act by certain personalities over their unhappiness with the MACPA leaders. From the viewpoint of those people interviewed who identified these "personal" reasons, there was little belief that national interests in the form of increasing the number of Bumiputra accountants, wiping out unregistered accountants, etc. were really the reasons behind the move to activate the MIA.

- ***The MIA's EGM in April 1988 exposing the rivalry between the MIA and MACPA***

In April 1988, a few days before the EGM, 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 April 1988). In many of the newspapers reports, the MACPA was not identified, though in the *Utusan Malaysia* (30 April 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.

^{bb}A set of untitled bounded documents in 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

And 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 meetings was held at the MACPA building to arrange the collection of these proxies. A number of MACPA council members have also attended these meetings." And during the EGM, Yap Leng Kuen (*The Star*, 23 August 1988) wrote that some MACPA members objected to various proposals to amend the Accountant Rules 1972. A few months after this episode, in July 1988, another one took place which concerned the various proposals put forward 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 episode was followed by a number of others in the coming years.

• ***The then Finance Minister during his 1996 budget speech in October 1995, announcing that his Ministry would set up the FAF and the MASB***

It was in 1994 that the then Finance Minister had first argued on the need to have high quality accounting standards in preparing the financial statements and to ensure companies' directors complied with the standards. He also said that it was "unreasonable" and "unrealistic" to depend on the accountants for high quality financial reporting since this was the responsibility of companies' directors (*The Malaysian Accountant*, June 1994, p. 14). The following year, in October 1995, in the midst of stiff opposition from the MIA over the idea of MASB, he mentioned that for the country to strive for "disclosure-based regulation" of its capital markets^{CC} 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 October 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 October 1996). He stressed that a mechanism was needed that allowed the involvement of all relevant parties in the financial reporting process. Just a few days later, during his 1996 budget speech, he announced that his ministry would set up the Financial Reporting Foundation (FAF) and the Malaysian Accounting Standards Board (MASB) as part of the government's continuing strategy to develop the capital market (*NST*, 28 October 1995). But by establishing the MASB, the Finance Ministry has effectively taken from the MIA its accounting standard-setting responsibility. And from various interviews, it was found - unsurprisingly perhaps - that the MACPA appears to have played a significant role in ensuring the creation of the MASB.

^{CC}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.

Appendix E

Intrusive Events

- ***Independence of the Malay Federation in 1957 and the forming of Malaysia in 1963***

Before the advent of the 20th century, the British who in various political forms were in control of the Malay Peninsular, Sarawak and Sabah, had to face those who were against its annexation or policies. The prolonged resistance in Sarawak and Sabah and the occasional local revolts against the British in the peninsula had resulted in a not insignificant loss of lives. But by the beginning of the 20th century the British administration was able to achieve peace and security. This peace, however, was not very long lasting. The desire for independence in the Malay Peninsular emerged in the 1930s with rising unemployment and poverty associated with the Great Depression. The seeds for political change and activism swelled during and after WWII, encouraged by the Japanese example in showing that Asians could emerge victorious over the western powers. The success of the Japanese was a defeat for British prestige and a boost to Asian nationalism. In particular, in Malay Peninsular and Sarawak and Sabah, the feeling amongst the people was that the British domination was not inevitable. The British who returned after the war hastily formed, in April 1946, the Malayan Union comprising the Malay States and the two Straits Settlements of Malacca and Penang, while Singapore was turned into a separate crown colony.

The Malayan Union meant a reduction in the power of the Malay rulers, through the transfer of the political power to a central government in Kuala Lumpur, and equal political and citizenship rights to non-Malays as long as they were born in the Malay Peninsular or had met certain residence requirements. The latter was viewed as a threat by Malays to what they believed should be their preeminent status as the "sons of the soil" (Vreeland, Dana, Hurwitz, Just, Moeller & Shinn, 1976, p. 208). To them, citizenship should be based on familiarity with Malay culture, particularly the language, and on undivided loyalty toward the Malay nation. The Malays protested vehemently with strikes, demonstrations and boycotts. UMNO, a coalition of different Malay organisations, formed just a month before the establishment of the Malayan Union, was able to force the British to replace the Malayan Union, seen as a perpetuation of colonial rule, with the Federation of Malaya in February 1948. The British high commissioner appointed by the crown ruled as the representative of the crown *and* the Malay rulers.

Thus, an effective centralised government was retained. However, the Federation provided special guarantees of Malay rights, including the position of the sultans. In addition, legal requirements for citizenship were considerably tightened. The independence for the Malay Federation in 1957 came through after a series of meetings among the communal leaders that culminated with their "interracial bargains" (which later became an integral part of the 1957 Constitution and which remained intact when Malaysia was formed in 1963) and the peaceful negotiations between these leaders and the British colonial rulers. There were no sensational moves or radical changes as a result of the independence (Kennedy, 1993, p. 293). In fact, there was the apparent willingness to follow the footsteps of the British in all sorts of ways perhaps induced very much by the followings noted by Limlingan (1994, pp. 95-96) to be the "promises" extracted by the British from the nation's leaders as the prerequisite for the former's willingness to transfer power: adoption of at least the form of a parliamentary democracy headed by a monarch; recognition of a multi-racial society which meant the enfranchisement of the Chinese and Indians who earlier were considered as temporary residents of Malaya; and continuance of an economic policy of free enterprise which meant the non-nationalisation of British-owned companies (see also Gullick, 1981). Related to the second "promise" above, the British in particular were reluctant to release the peninsula until it was clear to them that the three main races - Malay, Chinese and Indian - were united in wanting the independence. Therefore, during the transition to independence, the three races formed a coalition, known as the Alliance Party, of their respective communal political parties: UMNO, MCA and MIC.^a Also, to gain independence in 1957, the communal groups represented by the leaders of UMNO, MCA and MIC opted for "interracial bargains" to convince the British that they could live in peace together so as not to repeat the problems and violence associated with the independence and partition of India in 1948.

^aThe Alliance was first formed in 1952 between UMNO and MCA to fight in the KL Municipal election in 1952. The Alliance was later joined by the MIC for the 1955 first Malay Peninsular-wide election to the Federal Legislative Council.

The "interracial bargains" had the three political parties holding out compromises or a social compact which later became an integral part of the 1957 Constitution and which remained intact when Malaysia was formed in 1963. The compromises were based on the assumptions that the political preeminence of the Malays and the economic dominance of the non-Malays would remain undisturbed but that in due course the Malays would be encouraged to venture into the modern economic sphere, as would the Chinese and other non-Malays into the political domain (Vreeland et al., 1976, p. 231). The compromises however were not without their critics from the extremists of Malay and non-Malay sides. Following the social compact, the written Constitution that was formed for the nation's independence from Britain in 1957 provided that only a Malay could become the supreme head or Constitutional monarch of the nation and that Malays were accorded preferential consideration in the allocation of positions in the public services, in scholarships and educational facilities and in the issuance of business permits and licenses. In exchange, citizenship qualifications for non-Malays were liberalised to allow them to play a full part in the political life in the country.

The non-Malays were also assured the freedom to engage in business. The "interracial bargains" among the nation's political leaders and the peaceful negotiations between them and the British ensured the status quo in the nation's economy was maintained. On 16 September 1963, the British colonies of Singapore, Sarawak and Sabah joined the Federation of Malaya to form Malaysia. With the forming of Malaysia, Singapore, Sarawak and Sabah gained their independence from the British. Brunei chose to remain a British protectorate until 1988 when it became independent. Singapore however withdrew from Malaysia on 9 August 1965 and became an independent republic. When the Federation of Malaysia was formed on 16 September 1963 creating another intrusive event, there was hardly any change made to the Constitution and other manners of doing things. The drive in imitating the British especially in the economic field with free-enterprise business activities was strengthened further with the agreement among the forming territories that there would be the establishment of a "common market" soon after the formation of Malaysia. In the end, the common market went nowhere by 1965, and Singapore seceded from Malaysia as a result of disagreement between the Federal government leaders in Kuala Lumpur and the state leaders in Singapore on a number of issues.

• *The 1969 racial riots*

Following the release of these 1969 general election results where the Chinese-dominated opposition registered impressive gains at the polls, the Chinese celebrated their victory by taunting the Malays on Malay areas of Kuala Lumpur. The Malays in turn organised counterdemonstrations which moved into Chinese quarters. With insults exchanged, the Malays and the Chinese fought on the streets of Kuala Lumpur resulting in 196 people dead and hundreds more injured. A lot of properties were also looted and burned down (See Bass, 1973; Parker, 1973; and National Operations Council, 1969). As perhaps to be expected, the release of the 1969 general election results was not the sole reason for the riots to take place. There exists what seems to be other more deep-seated reasons. There is general concurrence that the root of the tragedy was planted by the British colonial administration who between 1800 and 1941 brought in millions of Chinese and Indians from their countries to the Malay Peninsula, Sarawak and Sabah to work in various fields. By the time of independence in 1957, there were more non-Malays than Malays in the Malay Peninsula in the population of 6.3 million (Kennedy, 1993, p. 222).

A pluralistic society was developing that had most Malays in villages, Chinese in town and Indians in plantations. The British who utilised the "divide and rule" tactic had ensured that the various ethnic groups generally lived in their own neighbourhoods, followed different occupations, practised their own religions, spoke their own languages, operated their own schools and later formed their own political organisations. The Chinese through their control over retail trade became prosperous, urban middle class. The Malays, being farmers or owning rubber small-holdings, stayed poor and miserable in the villages. The Indians meanwhile were very much left to the mercy of the British rubber plantation owners. Some of these Indians however stayed in towns, working as labourers, clerks and merchants. So, the peoples were separated not just by race and the things they did or where they lived but more crucially by wealth. That is, related to that very last item of wealth separating the peoples, the rich and poor in Malaysia before and after independence were separated by ethnic origins with the former viewed as immigrants while the latter, indigenous to the region. Thus, Malaysia had all the ingredients for social conflict and violence.

For the excellent discussion of the relationship between race and class in Malaysia, see Brennan (1985), Hung (1984), Syed (1984) and Yoshiyuki (1972). Note also that while the historical root of the racial clash was planted by the British, there were also more recent causes. Jomo (1986, p. 252) notes that during the few years preceding the racial riots, unemployment was increasing and problem of peasant landlessness continuing. The Malays had difficulty in finding jobs and blamed the Chinese who were viewed as discriminatory in their hiring practice and seen (wrongly) as dominating the economy. The Malays were also unhappy with the UMNO-led Alliance government which they viewed to have failed to give sufficient attention to their needs especially in regard to their lack of participation in the modern urban sector of the economy (See Lim, 1988). Malay discontent was compounded by Chinese (and Indian) resentment over what they saw as the government advancing the interests of Malays over other races - e.g. by provision of "special privileges" and ethnic employment quotas (Jomo, 1986, p. 252).

Therefore, for both Malays and non-Malays, their dissatisfactions were focused on issues that were basically ethnic in character. It is not the intention here to deny the efforts by the government then to improve the economic well being of the majority of the people. The facts however showed that these efforts were hardly sufficient. For example, from the Second Malayan Plan (1961-1965) to the First Malaysian Plan (1966-1970), large provision was made for increased land development, modernisation of farming techniques and establishment of marketing and credit institutions. However, much of these efforts appeared to have failed to improve the income earned by the rural poor. Jomo (1986, p. 252) notes that despite the government's avowed commitment to "rural development", the "nature" of these programmes and other aspects of government policy concerning the Malay peasants had appeared unable to reverse "impoverishment, class and income differentiation" that took place during the colonial period since they "favoured those among the peasantry in a position to accumulate". The same thing is mentioned by Vreeland et al. (1976, p. 311): "... beneficiaries of the land development program have not always been those in greatest need". As a result, though an estimated 535,000 families engaged in agriculture fell into poverty category in 1970, by 1974, only 42,500 families had gone into resettlement and thus improved their income significantly. It should not be surprising then that the 1970 census showed that the top 10 percent of all households accounted for nearly 40 percent of all income received, whereas the bottom 40 percent accounted for only about 12 percent (Vreeland et al., 1976, p. 148).

Also, when income distribution data from the 1957-58 period were compared to those of the 1970, there was a sharp increase in inequality and a substantial lowering of the proportion of total income earned by the poorest 40 percent of all households who were mainly from the rural areas (Vreeland et al., 1976, p. 148). In reality, therefore, a sizeable proportion of rural population who were Bumiputra by the end of 1960s was still landless, in debt and subsisting outside the mainstream of the economy. With all these in the background, the 1969 racial riots took place immediately after the release of the 1969 general election results where the Chinese-dominated opposition registered impressive gains at the polls resulting in their control over Penang state assemblies and the inability of the Alliance Party to form a government in another two states. The Alliance won the general election but with less than two-thirds of the seats in the parliament. (The MCA of the Alliance had failed to gain much support from the Chinese residing in urban areas, while Malays in rural areas, unhappy with UMNO, did not vote for the UMNO-led Alliance as before.) The non-Malay opposition parties were elated and celebrated their victory by taunting the Malays on Malay areas of Kuala Lumpur. The Malays in turn organised counterdemonstrations which moved into Chinese quarters.

To make matter worse, the Alliance on May 13 faced the consequence of not being able to form a government since the MCA, interpreting the election results as a rejection by the Chinese community of the party, announced its withdrawal from the government. With insults exchanged on the streets, rioting ensued. The Malays and the Chinese fought on the streets of Kuala Lumpur resulting in 196 people dead and hundreds more injured. The unofficial estimate of the total dead however was as high as six or seven hundreds. A lot of properties were also looted and burned down. Order was only restored after a few days by police and military units. The government instituted the Emergency (Public Order and Prevention of Crime) Ordinance. The Parliament was suspended and a National Operations Council (NOC) was created, composed of nine members, headed by the Deputy Prime Minister, and given full power to restore order.

Military rule was imposed and the NOC effectively functioned as a de facto government for nearly two years. (For further details on the May 13th Tragedy, please see Bass, 1973; Parker, 1973; Stephen, 1971; Goh, 1971 and National Operations Council, 1969.) Normal parliamentary government was restored only in February 1971. A constitutional amendment passed in March 1971 empowered Parliament to enact laws prohibiting not only public discussion but also discussion on the floor of Parliament and state legislatures of any matter, right, status, position, privilege, sovereignty or prerogative established or protected by a number of constitutional articles concerning ethnic policy. These articles included the special privileges of the Malays, the use of Malay as the national language and the citizenship of the local Chinese. The Sedition Act passed at the same time made violators criminally liable. Also, the Prime Minister Tunku Abdul Rahman who was responsible for gaining independence for the country in 1957 and the forming of Malaysia in 1963 stepped down after Parliament was reconvened and was replaced by his Deputy Tun Abdul Razak. Indeed in the political field, variety of changes had taken place to make sure that the riots would not recur. And in the socio-economic field, the NEP was initiated in 1971 which gave primacy to fair distribution of economic benefits among members of society.

• ***The New Economic Policy (NEP)***

In 1971, the government adopted a New Economic Policy (NEP) which gave priority to 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 (1970-90) issued in 1973 which was concerned with the broad objectives of promoting national unity and creating a modern socioeconomic environment that would provide opportunities for the advancement of all Malaysians. In order to avoid the apparent mistake made in the earlier time after independence, the OPP1 and NEP were designed to ensure that the government would be able to influence the pattern of economic growth in directions that would bring about a more equitable sharing of the benefits of growth and development among all Malaysians. The government targets included that within the span of two decades, the incidence of poverty in the peninsula should be reduced from 49.3 percent to 16.7 percent and that the ownership of share capital in the corporate sector should be restructured such that the share of Malays and other Bumiputra (54 percent of the population in 1970) would increase from 2.4 percent to at least 30 percent while that of other Malaysians, from 34.3 percent to 40 percent by 1990. Foreign holdings were targeted to fall from about 63.4 percent to 30 percent.^b

Thus, Malaysians were to account for 70 percent of total share capital within the corporate sector. In trying to meet these objectives the government implemented a number of strategies (See Limlingan, 1994; Kenzo, 1991; Keiko, 1991; Zainal-Aznam, 1991; Jesudason, 1989; Mohd-Fauzi, 1988; Bowie, 1988; and Gale, 1981). In trying to meet these objectives the government had implemented a number of strategies. Lands were distributed to the poor Malays and Malay children were given all sorts of opportunity to study to the highest level. Because of the high level of poverty in agriculture sector, the government intervened over the marketing of agricultural products. This was a rather simple example of the side-stepping of the free-enterprise culture upheld by the first Prime Minister Tunku. Various strategies were implemented such as stabilising prices through minimum prices and the establishment of state-controlled commodity purchasing centres and cooperative societies. Thus, the government reduced the role of (Chinese) middlemen who were viewed to have placed the Malay farmers at a financial disadvantage resulting with fluctuating rural incomes (Vreeland et al., 1976, p. 356).

The government also reduced cases of farm families having to pay exorbitant interest rates for money borrowed from moneylenders^c and middlemen by providing credit and commercial training facilities. Thus the role of middlemen served by the Chinese between the big British trading firms and the indigenous population, collecting smallholder produce and distributing imported goods was reduced remarkably in importance from the early 1970s.

^bNote that the volume of shares held by foreign interests was however projected to be about five times more in 1990 than in 1970 (Vreeland et al., 1976, p. 295).

^cPure moneylenders such as the Indian chettiar advanced credit on which their profit accrued in the form of interest. Shopkeepers, many of whom were Chinese, also extended credit (with in many cases very high interest rates) for the peasants' consumption and in a lot of cases also supplied production credit and bought produce from the peasants. See Jomo (1986, pp. 42-3, 47) for more.

With the Second Malaysian Plan (1971-75) marking the first five years of the NEP, the government emphasised direct participation in the nation's economy "on behalf" of the Malay people. This involved the establishment by the federal and state governments of various organisational bodies which participated as proxies for indigenous private owners who would eventually take these bodies over. In the meantime, these organisations were in one way or another in a trusteeship position for the Malay community and other indigenous groups as a whole. Among them were several new public enterprises - notably the National Corporation of Malaysia (Perbadanan Nasional - PERNAS), the State Economic Development Corporations and the Urban Development Authority (UDA) - established with the exclusive aim of bringing about a better balance of ethnic groups in commerce and industry.^d

Indeed, the numerous public enterprises were specifically established to develop and manage a number of highly strategic industries for what appeared to be, from the government's viewpoint, the fastest and most efficient way to foster growth in a variety of key areas. The government in the 1970s not only concentrated on expanding Malay participation in the economy, it also pursued an ownership and employment restructuring program enforced on both non-indigenous domestic and foreign owned firms (Zainal-Aznam, 1991; Jesudason, 1989; Toh & Wong, 1989; Fong, 1989; Means, 1986; Paul & Kenzo, 1986; Redha, 1985; Toh, 1982). Thus, laws were passed. To mention just two, the Petroleum Development (Amendment) Act and the Industrial Coordination Act^e passed in 1975 had the goal of greater government control over industries in order to fulfil the NEP objectives (See Bowie, 1988). The large and powerful merchant agency houses such as Guthrie and Sime Darby now had to employ more Malays to fill the quota, restructure their capital to meet the Malay equity requirements and enter into joint ventures with entities established by the government (Vreeland et al., 1976, p. 338). The government also tried to ensure that industries moved away from already developed areas (the west coast of Peninsular Malaysia) with the aim of raising rural and small town living standards.

• *The economic recessions of the 1980s*

Malaysia experienced two economic recessions within a period of six years in 1980s. The first took place in 1981-82 when the rest of the world also experienced recession.^f The 1981-82 worldwide recession hurt the Malaysian economy by depressing the prices of Malaysia's traditional commodity exports resulting in slackened growth and reduced investment. Following the Keynesian strategy known as the "Big Push", the government attempted to stimulate the economy and speeded up the growth of industry by increased spending on a number of heavy industry projects (Lin, 1994, p. 314). The heavy industries were developed through a series of joint ventures between the public sector and foreign technology and investment. HICOM, established by the government in 1978, went all out in the early 1980s to spearhead the process of heavy or full-fledged industrialisation (Mohd.-Saufi, 1986). Thus, public investment grew by 41.5 percent in 1981 and 20.7 percent in 1982 (Zainal-Aznam, 1994, p. 596). The effort to stimulate the economy however did not bear much fruit when later the economic slowdown in the industrialised countries impacted on the then fragile Malaysian economy. The terms of trade (the prices of the country's exports compared to those of imports) which had recovered in 1983-84 declined by about 7 percent in 1985 and 4 percent the following year (Ismail, 1994, p. 621). Thus, another recession took place in 1985-1986. Until the financial turmoil that began in mid-1997 and engulfed much of East Asia including Malaysia, the 1985-86 recession was the worst that the nation had experienced since independence.

^dThere are four categories of public enterprises: government enterprises (staffed and run by government officials), government-invested enterprises (with at least 50 percent government ownership), subsidiaries of government-invested enterprises (usually having direct government funding) and other government-backed enterprises. Thus, public enterprises include public corporations established by either the federal or the state governments, as well as government-owned companies and subsidiaries of either of the foregoing. See Ismail & H.-Osman (1991, Chapter IV) and Jaginder (1975).

^eThe Industrial Coordination Act was passed in 1975 giving the Minister of Trade and Industry enormous discretionary power over the manufacturing sector. This took place since manufacturing investments became subject to licenses whereby the issuance and renewal of licenses were made to depend upon a number of conditions. The licensing was backed by the work of two high level committees: the CIC set up in 1968 to supervise the capital market and which influenced the prices of shares offered to Malays; and the FIC set up in 1974 to monitor foreign investments and if needed to place pressure on them to restructure their capital (Edwards, 1994, p. 690).

^fSee Zainal-Aznam (1994, p. 596) of what the rest of the world was experiencing then.

This recession was marked with negative real GDP growth of one percent and a fall in nominal GNP of a combined 12 percent in 1985 and 1986. There was a 20 percent decline in Malaysia's terms of trade, which cost the country US\$3 billion annually in commodity earnings. Per capita GNP declined from RM 4,581 in 1985 to RM 4,094 in 1986, a decline of 15 percent and regressing to the per capita income level in 1982 (Zainal-Aznam, 1994, p. 596). Government revenue declined for the first time in 1986 as a result of a large drop in tax revenue, while operating expenditure increased as a result of the sharp increase in debt service payments and civil servants' salary (Ismail, 1994, pp. 622-623). The construction and property sectors of the economy collapsed. Property values fell by between 30 percent and 80 percent (Kuala Lumpur Stock Exchange & Malaysian Strategic Consultancy Sdn. Bhd., 1992, p. 161). Rentals plunged as low as RM 1.50 psf for prime locations in the city centre from up to RM 4 psf in 1983. The country was in a severe recession marked by reduction in national income, government revenues, consumer spending and investment. And for one more time, the country experienced the twin-deficits problem: in 1985, the budget deficit was 6 percent of GNP and the balance of payment deficit, 2.1 percent. The economy started to recover during the second half of the 1986 with improved commodity prices (Ismail, 1994, p. 623). In economic terms, following the recessions, 1981-1982 and 1985-1986, Malaysia experienced immense economic growth from 1987 to 1997.

- ***Vision 2020***

The Prime Minister in February 1991 unveiled the government's long-term plan called Vision 2020 (Mahathir, 1991). In order to ensure the goal of becoming fully developed country by the year 2020 is achievable, various policies are implemented by the government including the continuation of those which were started in 1980s such as privatisation, capital market reforms and reliance on the private sector for economic growth. In addition, an Accelerated Industrialisation Drive is being implemented to diversify the narrow manufacturing base, strengthened indigenous technology and develop small and medium-scale industries and inter-industry linkages, with continued inflows of FDI and export-led growth. On FDI in particular, the PM states that "[t]he government will continue to place great emphasis on foreign investment as foreign investors are expected to bring in new technologies, new processes, vital linkages and access to international markets" (PM Speech, 21 September 1992). The role played by the manufacturing sector is emphasised in the Vision 2020 paper (See also O'Connor, 1993). Growth of seven percent per annum from 1991 to the year 2020 was expected to be led primarily by rapid expansion of the manufacturing sector (together with modern services sector). Malaysia's exports would continue to shift towards manufactured products so that by 2020 these would constitute 95 percent of exports compared with 60.4 percent in 1991 (Ali-Abul-Hassan, 1991, p. 262).

Vision 2020 is supported in the short term by two instruments of national planning: the Second Outline Perspective Plan (OPP2) which covers a ten-year period beginning 1990 and ending in the year 2000 and the five-year development plans (See Mohd.-Sheriff, 1991). The latter are comprised of the Six (1990-95) and Seven (1996-2000) Malaysian Plans. The OPP2 embodied the National Development Policy (NDP) introduced with the end of OPP1, itself premised on the NEP. The NDP taking off from NEP is expected to ensure that through the continuing application of the philosophy of growth with equity, by the year 2020, there would be almost a complete eradication of poverty and a distribution of wealth to closely reflect the population structure. Specifically, the NDP emphasises attacking hardcore poverty^g, Human Resource Development (HRD)^h, rapid development of the Bumiputra Commercial and Industrial Community (BCIC)ⁱ, and a greater involvement of the

^gOverall incidence of poverty is targeted to 7.2 percent by the year 2000, a drop from 17.1 percent in 1990. The hard-core poverty was to be brought down to around 1 percent by the year 2000.

^hIt means simply that the NDP is placing renewed emphasis on the old NEP's programs for education and training of Bumiputra but relying less on ethically based quotas and job reservations for certain racial groups. The strict race-based social engineering quota is relaxed and the private sector is instead encouraged, rather than forced, to promote social equality.

ⁱIt needs to be implemented since compared to the ethnic makeup of the population, Bumiputra by 1990 remain underrepresented in manufacturing and commerce but over represented in agriculture and the public sector. However, under the NDP in contrast to that of the NEP, no timetable is set for achieving the NEP's original goal of 30 percent bumiputra ownership of corporate wealth. For an excellent discussion of the outcome of NEP, see Kamal and Zainal-Aznam (1989).