External influences on the development and professionalisation of accounting in Malaysia, 1957-1969

Azham Md. Ali
Department of Accounting and Finance Faculty of Business and Economics
Universiti Pendidikan Sultan Idris, Perak, Malaysia

Lee Teck Heang
School of Business Monash University, Sunway Campus
Selangor Darul Ehsan Malaysia

Brian West
School of Business University of Ballarat, Australia

Abstract: The accounting history literature identifies a tendency for accounting in developing countries to be dominated by the style of accounting institutions and practices of western developed nations - particularly the USA and UK. This "importation" hypothesis is investigated and refined through a case study examination of the history of accounting in Malaysia during the formative years of 1957 to 1969. This era commences with the Malay States gaining independence from Britain and closes with the race riots which marked a turning point in the nation's history. The establishment of the Malaysian Association of Certified Public Accountants (MACPA) in 1958 and the passing of the Companies Act of 1965 and the Accountants Act of 1967 are identified as key events which perpetuated British colonial influence within the new nation. These circumstances add credence to the "importation" hypothesis and support a depiction of accounting and its institutional apparatus as regularising forces with a capacity to transcend political and social change within a nation state.

Keywords: accounting profession, professionalisation, Malaysia, colonialism
1. Introduction

The relative ease with which accounting technology and ideas can be transferred across national boundaries may result in some incongruence between a country's accounting development - in terms of both technical practices and institutional structures - and its socio-economic setting. That is, accounting change may proceed more swiftly than the rate of economic development and changes in government structures and social customs and practices. Accordingly, Briston (1978), Samuels and Oliga (1982), Briston and Al-Ashkar (1984), Hove (1986) and Belkaoui (1988) observe that - in spite of a broad and distinctive range of other differences - there is a tendency for accounting practices in developing nations to reflect those of Western developed countries, particularly the US and the UK.

In a seminal contribution which preceded the many empirical and country-specific studies which were to follow, Wilkinson (1965, p.12) offered two main explanations for how and why one country may come to adopt the accounting systems of another country. being "void" and "direct-investment" theories (see also Wallace, 1990, p.7). Under the former, a country lacking an organised regimen of accounting practice will imitate that of another country. Under the latter, foreign direct investors will impose the accounting requirements of their home countries upon their businesses in the recipient country (see also Seidler, 1969). Building upon and adding to these foundational precepts, colonial rule (Engleman, 1962; Seidler, 1967; Briston, 1978; Hove, 1982, 1986; Walton, 1986; Parker, 1989; Wallace, 1992; Chua and Poullaos, 1993, 1998, 2002; Annisette, 1999, 2000; Bakre, 2005, 2006; Sian, 2006, 2007; Dyball, Chua and Poullaos, 2006; Dyball, Poullaos and Chua, 2007), the influence of large international audit firms (Seidler, 1969; Briston, 1978), and a desire for recognition within the international community (Belkaoui, 1988) have been nominated as variables which have fostered the transference of accounting practices and institutional structures from developed to developing nations.

This broadly constituted "importation hypothesis" is used to analyse and explain accounting development in Malaysia following its break from colonial rule in 1957. The closing year of the study is 1969, when violent race riots in Kuala Lumpur marked the beginning of another new chapter in the nation's history. A number of important contextual factors are associated with this era. First, the area now known as Malaysia comprises former British colonies and, as with other such former colonies, has tended to remain bound to the accounting practices of the colonial-master. Second, numerous international audit firms were (and still are) operating in Malaysia. Third, the desire for international recognition and external legitimacy has been a strong and constant political influence within Malaysia, with a primary concern of the government - from the early days following independence through to the present - being to attract foreign investment and achieve developed nation status.
These circumstances would appear conducive to enabling the "importing" of accounting into Malaysia along the lines suggested by Wilkinson (1965). That is:

- the lack of an organised regimen of accounting practice capable of meeting the needs of an industrialising economy would lead to the imitation - both technically and institutionally - of accounting in developed nations, particularly Britain ("void theory"); and,
- the presence of foreign direct investors (mainly from Britain) would see the imposition within the recipient country of the accounting techniques which those investors were most familiar with ("direct-investment" theory).

As suggested above, the "importation" phenomenon may extend beyond just technical accounting practices and principles to include the institutional arrangements for accounting practice. As stated by the American Accounting Association's Committee on International Accounting Operations and Education (1978, p.72), "When there is no accounting profession, the [developing] country usually looks to its former colonial motherland for a model". The subsequent importation, however, may be either active or passive (Parker, 1989). For example, within Australia and Canada during the nineteenth century, professionalising accountants actively sought to form local associations. While these replicated the form of British organisations, they were independent of those organisations and sometimes in competition with them (Carnegie et al., 2003; Richardson, 1987). The relatively advanced political and economic conditions of these countries created both incentives and an approbative environment for accounting practitioners to take the initiative in forming autonomous occupational associations. In the case of less developed nations, however, occupational assembly has typically been a more passive process, being facilitated by government (as part of an economic development strategy) or driven by a foreign association seeking to extend its influence (see, for example, Anisette, 1999; 2000).

Passive importation characterised the accounting milieu within Malaysia during the early days after its independence from Britain. This forms the recurring theme of this paper and it is elaborated upon in the following sequence of sections: an outline of the socio-economic and political setting of Malaysia during the period between independence in August 1957 and the race riots of May 1969; an overview of the establishment of the Malaysian Association of Certified Public Accountants (MACPA) in 1958; a discussion of the various actions and influences of the Malaysian government in the area of accounting; and, an exposition of the events leading to the formation of the Malaysian Institute of Accountants (MIA) through the passing of the Accountants Act of 1967. Summarising and concluding comments are then provided in the final section.
1.1. The socio-economic and political setting: Malaysia 1957-1969

The independence from Britain gained by the Malay States in 1957 and the subsequent formation of Malaysia in 1963 - through which Sarawak, Sabah and Singapore also gained their independence from Britain - were followed by important changes within the nation's accounting arena. The MACPA was formed in 1958 and the Malaysian Parliament passed the Companies Act in 1965 and the Accountants Act in 1967, with the latter creating the MIA as a statutory accounting body. Independence from colonial rule appears to have been a key factor in precipitating these events, consistent with the general observation of Parker (1989) regarding professional formation in Britain's former colonies.

Independence in 1957 was achieved after a series of meetings among communal leaders, culminating in the "interracial bargains" which paved the way for these leaders to enter into peaceful negotiations with the British colonial rulers. The communal leaders represented the following organisations or their forerunners: the United Malays National Organisation (UMNO), the Malaysian Chinese Association (MCA) and the Malaysian Indian Congress (MIC). The social compact which emerged from negotiations between these groups became an integral part of the 1957 Constitution and remained intact when Malaysia was formed in 1963 (see Vreeland et al.,1976, p.231). Under this compact only Malays - the indigenous population, also known as Bumiputra - could become the supreme head or constitutional monarch of the nation. Malays were also accorded preferential consideration in the allocation of positions in the public services, in scholarships and education and in the issuance of business permits and licenses. In exchange, citizenship requirements for non-Malays were liberalised to allow them to play a greater role in the political life of the country than was previously the case. Non-Malays were also given an assurance of freedom to engage in business.

During the negotiations between national leaders and the British colonial rulers, the latter also extracted "promises" from the former as a prerequisite for the transfer of power (Limlingan, 1994, pp.95-96). The undertakings given included: adoption of a form of parliamentary democracy headed by a monarch; recognition of a multi-racial society, including the enfranchisement of the Chinese and Indians who were previously regarded as temporary residents of Malaya; and continuation of an economic policy of free enterprise which would preclude the nationalisation of British-owned companies. This peaceful transition to national freedom shaped much of what happened - or perhaps more pertinently, did not happen - in the new nation's economic, political and social spheres for much of the following decade. In particular, the peaceful manner in which independence was achieved ensured the maintenance of a close relationship between the new nation and Britain. There were no sudden or radical changes as a consequence of independence (Kennedy, 1993, p.293). On the contrary, much pro-British sentiment remained and political and intellectual leaders tended to follow the path of their British predecessors.
This pattern was evident in Malaysia's economy, which changed little under the immediate post-colonial government. In particular, the modern sector of the economy remained in the hands of foreign interests, with the rubber estates and tin mines being predominantly British owned (Vreeland et al., 1976, p.337). The public companies which operated in these industries were typically overseen by merchant agency houses established in Singapore (Kennedy, 1993, p.206; Junid, 1980, ch. 5). These provided integrated management services, commodity marketing, shipping arrangements, cargo insurance, and finance.1 In addition, large British trading firms which were active during the colonial era, such as Guthrie Corporation, Sime Darby, and Harrisons and Crosfield, continued to be active after independence. The Chinese and Indians, who were concentrated in urban areas, continued to control much of the remainder of the economy (Vreeland et al., 1976, pp.2-3). A large number of small to medium sized Chinese-owned businesses oversaw the distribution of goods within the country by acting as agents for import-export firms. These locally owned enterprises were nearly all sole proprietorships and partnerships (see Puthucheary, 1960, p.134; Ching, 1968; Jomo, 1986, pp.216-217). In contrast, the Malays remained focused on the subsistence cultivation of rice and other food crops, with a very small number of them expanding their activities to include the small-scale cultivation of export crops such as rubber and coffee.

In sum, the immediate post-independence government "tended to promote a continuation of the patterns and imbalances in industrial ownership and employment that the nation had inherited - and accepted - at the time of independence" (Vreeland et al., 1976, p.321). However, the mid 1960s saw the adoption of an aggressive strategy of diversified industrial development (Vreeland et al., 1976, p.299; Linderberg, 1973), under which the government encouraged British investors to support the domestic manufacture of goods that were previously imported (Wheelwright, 1965; Hirschman, 1983; Linderberg, 1973).

By the end of 1966 there were 143 firms holding "pioneer certificates" and undertaking the manufacture of various import substitution products. A number of these were associated with the merchant houses of Harrisons and Crosfield, which had diversified into heavy machinery, and Sime Darby, which was engaged in manufacturing paints (see Saham, 1980). The new manufacturing industries developed rapidly, becoming the fastest growing sector of the economy (Vreeland et al., 1976, p.331). Again, however, there was very little involvement from the Malay community (Milne, 1976, p.241; Jomo, 1986, p.234), with ethnic Chinese drawn from "major family and ownership groups" (Jomo, 1986, p.235) occupying the most important industrial positions. The nation's second prime minister, Tun Abdul Razak (cited in Pillai, 1984, p.1,048), lamented that British ownership and control of the economy remained "very dominant".2
Winds of change began to blow through Malaysia's political life in the late 1960s. In May 1969 the so-called "interracial bargains" among the nation's communal leaders, which were crucial in the Federation of Malaya gaining its independence, unravelled. For more than a decade the compromises embedded in these arrangements had been subject to criticism from both Malay and non-Malay sides. Some ethnic Chinese opposed the Malays being given pre-eminence in the political arena. Malay opposition came from those who believed that the nation belonged solely to the indigenous people and that non-Malays therefore had no right to encroach upon Malay society (see Vreeland et al., 1976, p.232). In May 1969 these differing viewpoints manifested in racial riots in Kuala Lumpur. Now known as the 13 May Tragedy, the open street fighting between Malays and ethnic Chinese resulted in an official death toll of 196 people, with hundreds more injured. Unofficial estimates of the death toll were as high as six or seven hundred. Many properties were looted and burned, and several days elapsed before order was restored by police and military units.

Among the significant outcomes precipitated by the 13 May Tragedy was the launch in 1971 of the New Economic Policy (NEP) which gave priority to eradicating poverty - regardless of race and geographical location. This policy also sought to reduce, within a two decade time frame, imbalances in income, employment and ownership of assets among the various races in the country. The government thereby abandoned the relatively laissez-faire approach to the economy that it had adopted previously (Vreeland et al., 1976, p.299). Instead, as stated in the Second Malaysian Plan (1971-75) which marked the first five years of the NEP, the government emphasised direct participation in the nation's economy "on behalf" of the Malay people.

Among other strategies, the NEP favoured the establishment by the federal and state governments of various organisational bodies which would function as proxies for indigenous private owners who would eventually take control of these organisations. The government also provided funds to certain bodies for the purpose of acquiring shareholdings in foreign-owned companies on behalf of the Bumiputra population. As a result, the government - or entities owned and controlled by the government - began to dominate a number of sectors, particularly plantations and financial institutions. Rubber and tin production, the traditional bedrock of the economy and dominated by foreign ownership and management for several decades, now shifted to Malaysian, or more specifically Bumiputra, control (Horii, 1991; Saruwatari, 1991). In a period of seven years, the state acquired ownership and control of almost all the large plantations: Sime Darby, Guthries, Boustead, Highland and Lowlands, Barlow, and Harrisons and Crosfield (Hui, 1988, p.24). Also, in 1976, the government acquired control of the largest tin-production site in the world. As a result of these initiatives, the corporate sector in the 1970s began to
be dominated by entities formed by the government in its attempt to fulfil the NEP goals and this pattern continued into the 1980s.

The real and enduring changes in Malaysia's social and economic spheres delivered by the NEP also impacted on the accounting arena. Industrialisation and the growing use of incorporated entities necessitated improved regulatory arrangements and related infrastructure, and the persistence of British influence in the post-colonial era dictated what form this would take. The MACPA was established in 1958 as an association of accounting practitioners, modelled on the Institute of Chartered Accountants of England and Wales (ICAEW). A Companies Act was promulgated in 1965 and this was also evidenced a strong British influence, with the section on company audits being based on the equivalent UK legislation. These developments, plus the passing of the Accountants Act in 1967 which created the MIA, reflected the prevailing economic environment which remained characterised by a British owned and controlled corporate sector.

Malaysia's emergence as an independent nation was not matched initially by independence in its economic development, and this pattern extended to the field of accounting. This theme is explored further in the following sections, commencing with an examination of the formation of the MACPA.

1.2. The formation of the MACPA
In 1936 a small group of local people who had obtained professional accounting qualifications in the UK formed a Malayan branch of the British-based Association of Chartered and Incorporated Accountants (ACIA). Within two decades, however, the mood favoured the creation of an independent organisation and on 26 July 1958 - less than one year after the independence of the Malay Federation - the Malayan (later Malaysian) Association of Certified Public Accountants (MACPA) was incorporated in Singapore under the Straits Settlement Companies Ordinance of 1940. The 20 local accountants who established the MACPA were formerly members of the ACIA or the Malayan branch of the Association of Certified and Corporate Accountants (ACCA) (CERPASS, 1967a, p.51).

The MACPA was established as a company limited by guarantee, with the objectives of advancing the status and development of the accounting profession in Malaysia and providing an opportunity for local aspiring professional accountants to be trained under local law and practice (The Malaysian Accountant, 1988a, p.16). The conduct of qualifying examinations was to be a core function of the MACPA. In February 1961 the MACPA registered its first cohort of students and commenced its articleship and examination system of training accountants (The Malaysian Accountant, 1988b, p.10).

The first MACPA "Intermediate" examination was held in December 1963, with "Final Part I and II" papers being sat for the first time in December 1965. Up
until 1969 the examination process was assisted by the Overseas Accountancy Examination Advisory Board (OAEAB) which had been established by the Joint Standing Committee of the Institutes of Chartered Accountants of Scotland, England and Wales, and Ireland (Enthoven, 1977, p.323; see also Johnson and Caygill, 1971, p.167). An MACPA president, Dr Nawawi Mat Awin, subsequently explained why assistance from the OAEAB was needed: "we wanted to be sure that right from the start our professional examinations were of the highest standards. That was of the utmost importance; we wanted to ensure that our professional qualifications would be recognised and respected by the government, the private sector and the community generally" (The Malaysian Accountant, 1980, p.45).

Under the articleship program, a student was required to sign a training contract for a period of three or four years with a member of the MACPA in public practice (Abu, 1986, p.4-5). During this period the student worked in the office of the MACPA member for a salary and received other allowances in the form of textbooks, paid study leave, and examination and tutorial course fees.

The MACPA was in many ways modelled upon the ICAEW, being a good example of those professional accounting bodies described by Parker (1989) as following the British institutions of professional accountancy. The 1980 MACPA President, Dr Nawawi Mat Awin, confirmed that this was the case: "Besides examinations, the founders of MACPA drew extensively on the experience of the English Institute [ICAEW] in establishing the foundations of the profession, particularly in professional education, standards and discipline" (The Malaysian Accountant, 1980, p.45). The extent of this reliance is confirmed by Megat Abdul Rahman, who was Vice-President of the MACPA in 1980: "The MACPA education structure was inevitably based on the English Institute of Chartered Accountants [ICAEW]" and "the 'articleship' system (now known as Stream I) is a direct copy of that of the English Institute" (Megat, 1980, p.2-3).

The pattern of emulation that was evident in a variety of Commonwealth countries can therefore also be discerned in Malaysia. However, behind this lay more than the mere convenience of imitation. The establishment of the MACPA with its ICAEW-modelled examination and training scheme fitted well with the investment environment then existing in the country, under which the British exerted significant control. However, it also aligned with the fact that Malaysia was now an independent nation and would no longer be relying almost exclusively on non-citizens - that is, British accountants - to provide audit services. The rapid development of a self-regulating local professional accounting body had been possible only after the achievement of independence. As explained generally by Parker, (1989, p.18) this was because "Under colonial rule development was sometimes slowed down by, for example, restricting public company audits to members of British bodies".
The MACPA was not, however, without challenges in achieving government and public recognition for its members. In the official journal of the MACPA Student Society, CERPASS (1967a, p.51), it was emphasised that the MACPA council were "anxious" to ensure that the MACPA examinations attained the standard needed for "wide recognition" - a factor that had underwritten the arrangement with the OAEAB. Government recognition was a particularly contentious issue: "Negotiations with the Malaysian Government for recognition of our examinations commenced as soon as examinations got under way. These negotiations were long and protracted but, in view of the importance of the matter, this was perhaps understandable" (CERPASS, 1967a, p.51). The government finally gave recognition in early 1967 after the MACPA produced its first six graduates.(CERPASS, 1967a, pp.51-52).6 This recognition took the form of acceptance of the MACPA qualification for appointments as an accountant in government service and as an approved company auditor under Section 8 of the Companies Act 1965 (CERPASS, 1967b, p.4). The then finance minister, Tun Tan Siew Sin, was instrumental in achieving recognition for MACPA graduates (CERPASS, 1967c, p.1).

The first three presidents of the MACPA were British in origin. They were R.D. Stewart (1958/59), W.M. Piercy (1959 to 1961) and H.R. Villiers (1961/62) (MACPA 1977 Annual Report, p.3). The next five presidents included four Chinese Malaysians and another Britain, Fred Weatherly, who was a permanent resident of Malaysia. The first Malay to become president of the MACPA, nearly a decade after formation, was Datuk Abdul Razak Yusof who led the organisation during the years 1967 to 1969.

The MACPA 1977 Annual Report (p.3) discloses that the first president, R.D. Stewart, was a partner of Turquand, Youngs & Co. He was credited, among other achievements, with "preparing the syllabus for the examinations, which was one of the main objectives of the Association". W.M. Piercy, the second president, was a member of the firm Evatt & Co. in Singapore. He was also credited with "pushing very hard" for the conduct of local examinations, with the assistance of the OAEAB in London (The MACPA 1977 Annual Report, p.3). The third MACPA president, H.R. Villiers, was also active in advancing recognition for the organisation and its members, and "made representation to the Malayan Government for recognition of the MACPA" (The MACPA 1977 Annual Report, p.3). A partner of Peat, Marwick, Mitchell & Co. in Kuala Lumpur, Villiers met government officials "on all matters pertaining to the Companies Ordinance even when he had stepped down as President" (The MACPA 1977 Annual Report, p.3).

Among the next few presidents, Y.C. Kang (1964/65) was noted to have taken part previously in the forming of an accountancy body "along the lines of the Singapore Society of Accountants" (The MACPA 1977 Annual Report, p.3). It
appears likely that the entity concerned was the statutory accounting body the MIA. The 1977 MACPA Annual Report (p.4) also noted that it was Jaafar Hussein who acted as a "mediator" when the MIA and MACPA met with intention of a "merger" - "an idea born in 1969", but that did not proceed.7

He later became the Central Bank Governor but was the MACPA president from 1969 to 1971 and also served a second term from 1973 to 1975. He was very much involved in the negotiations with the University of Malaya and government officials in regard to the recognition of the University's Post-Graduate Diploma in Accounting course.

While those associated directly with the accounting milieu appear to have interacted well in ensuring a path of steady progress, the government also embarked on a number of measures that had implications for the nascent locally organised accounting profession. This included the passing of the Companies Act in 1965, which signalled the preparedness of the government to be party to the development of the local accounting profession.

2. The Government in action
During the years immediately after independence, the government of Malaysia recognised that development of the accounting sector coincided with, and was necessary for, the national interest. Thus, in 1964, when all the large accounting practices in the country were owned and dominated by foreigners, Tun Razak, who was then the deputy prime minister (later the second prime minister), asked Datuk Muhammad and two Malay colleagues who were then holding top civil service posts to set up an audit firm. This was established as Hanafiah Raslan Mohamad (HRM), with the foundation principals promised that they could return to the civil service if the venture did not prove to be successful (Malaysian Business, 1988, p.13).8

The government also implemented other measures to help ensure that the new nation would have an adequate supply of local accountants and auditors. The finance minister of the time stated: "I would like to see within the next few years a rapid increase in the number of qualified accountants in Malaysia, accountants who will be second to none in their expertise .... In the rapidly expanding economy of Malaysia accountants will be a vital necessity and their services will be in ever growing demand" (CERPASS, 1966, p.1). Consistent with these views, the Rural and Industrial Development Authority (RID), which the government had established in 1958, set up a Training Centre for rural youth wishing to learn stenography and bookkeeping. In 1960 this RIDA Training Centre (which in 1965 was renamed the MARA College of Business and Professional Studies, and in 1967 the Institut Teknologi MARA) established a School of Accountancy, offering courses in bookkeeping as single unit subjects. From 1965 the School offered a
Diploma in Accountancy (DIA) for students who had completed the Cambridge Overseas School Certificate. The DIA programme offered by the Institut Teknologi MARA (ITM) was the first formal accounting study to be offered in the country (Gul, 1983, p.16).

The first issue of The Accounting Journal (1970/71, p.8), published by the University of Malaya Accounting Club, records that courses in accounting were first introduced in the Department of Economics at that institution in 1961. However, the curriculum at that time was designed mainly for students majoring in business administration. In 1966, the Division of Accounting was established with three staff members within the Faculty of Economics and Administration. The Division was established for the purpose of providing a more comprehensive program in accounting, and in its first academic year the Division had an intake of 21 students and delivered four courses (The Accounting Journal, 1971/72, p.6). Sixteen students graduated with Bachelor of Economics degrees with Accounting specialisations in 1969. The Division quickly developed to offer 11 courses - covering all major subject areas in the field of accounting - and had well over 100 students enrolled. Most of Division's graduates found employment in commerce and industry and in the public sector, with only a small proportion joining public accounting firms. In spite of their degree status, the graduates were not recognised by the MIA and MACPA. An Editorial published in The Accounting Journal of 1971/72 lamented that the University of Malaya, funded by the Malaysian government as an investment towards developing a qualified labour force, was not accorded appropriate recognition by the local professional accounting bodies.9

Besides playing the main role in the setting up of the audit firm HRM and supporting the higher institution which produced the first accounting graduates in the country, the government ensured the passing of the Companies Act by the Parliament in 1965 - just two years after the foundation of Malaysia. This Act was promulgated to consolidate company legislation which prevailed in the component states in 1963 (Chit, 1993, p.13). Previously, in the Federation of Malaya company law was governed by the Companies Ordinance 1946, whilst in the State of Singapore, it was governed by the Straits Settlements Ordinance 1940. In Sarawak the 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.

In the Parliamentary Debates (Vol II, No. 8, 9 August 1965, Col. 1558), the then Minister of Commerce and Industry, Dr. Lim Swee Aun, stated that the committee with responsibility for drafting 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 as well as reports presented in the UK by committees chaired by Lord Cohen and Lord Jenkin.10
Walton (1986) however argues that the Act as a whole drew mainly on two sources: the Victoria Companies Act of 1961 and the British Companies Act 1948. The former in turn was based upon the UK Companies Acts of 1908, 1929 and 1948, while the latter drew on the UK Companies Act 1929. In contrast, Woon (1993, p.1) claims that the Malaysian Companies Act was based on the Australian Uniform Companies legislation of 1960/61. However, similar to the argument put forth by Walton (1986, 1995), Woon indicates that very little of the Act was locally drafted - it was "legislation by xerox". 11 Woon (1993) claims that even the various subsequent amendments were based on sections from UK or Australian legislation.

With the objectives of protecting investors and attracting foreign investors into the country - so that "Malaysia can continue to develop into one of the great trading and industrial nations of this part of the world" (Parliamentary Debates, Vol II, no. 8, 9 Aug. 1965, Col. 1564) - the Companies Act 1965, which became effective on 15 April 1966, demanded companies make considerably more disclosures than was the case previously.

In what is probably the first, and certainly one of the earliest, writings on financial reporting in the country just after the Malay Federation gained its independence from Britain, Babiak (1964), an academic from Canada, criticised the low level of disclosure made by 25 (or over 70 per cent) of the locally incorporated (Singapore and Malaya) and "active" listed companies in the commercial and industrial sectors. 12 He pointed out two possible reasons for this occurrence: first, "the accounting profession has encouraged businessman to adopt 'conservatism' as a guiding principle in the preparation of financial statements" (1964, p.34); and, second, there was "an attitude of indifference among local managers to the needs of investors" (1964, p.35). Concerning the latter reason, he said that until recently the managers of these companies owned or controlled most of the shares themselves. He also said that the emergence of large number of "outsiders" as owners did not make much difference to the conduct of the companies, as the managers of the companies retained majority ownership. He concluded:

It is very likely that the majority shareholders have access to all the information they need while the minority are forced to suffer in ignorance. It would be most unfortunate if the public companies were allowed to enjoy the privileges without any effort on their part to meet their obligations to all their shareholders (Babiak, 1964, p.35, emphasis in original).

In line with the British Companies Act 1948, the Malaysian Act made it a requirement for companies to keep accounting records so as to allow true and fair financial statements to be prepared; it also followed the Victoria Companies Act of 1961 in requiring that record-keeping should be executed in such a way as to enable the records to be conveniently and properly audited. However, the Malaysian
legislation went beyond the audit requirements of the acts upon which it was based. As noted by Wood (CERPASS, June 1966, p.24), the auditor's duties of attesting to the truth and fairness of the balance sheet and profit and loss accounts were extended to encompass the directors' report.

Keung (CERPASS, 1967d, p.9) mentioned that the position of the company auditor underwent a significant change following the passing of the Act, and in particular enlarged the duties of auditors. Nonetheless, as in the earlier Companies Ordinance 1946, the academic and professional qualifications of the auditor were not specified. Under Section 8 of the Companies Act, a person had to apply to the finance minister to gain a license to become a company auditor. The granting of a license would be dependent upon the applicant being a Malaysian resident and able to satisfy the finance minister of his or her good character and competency to perform the duties of an auditor.

The Companies Act favoured with the nation's emergent business environment in which the shareholders of companies were largely foreigners. And with the government interested in diversifying the economy, the Companies Act appears to have been used as a "carrot" to attract foreigners to invest in the manufacturing sector. Caldwell (1977, pp.21-22, emphasis added) explains what most probably motivated the nation's leaders to pass a Companies Act embodying an annual audit requirement:

[The] many failures and disappointments for European investors in the Malay States ... had taught businessmen with local experience two painfully acquired lessons: first that modern political administration was essential if ambitious projects with long maturation periods were to have reasonable prospects of success; and second, that capital could only be risked in greater volume when appropriate infrastructure (roads, railways, ports, storage facilities and the like) had been provided, and when suitable land and company law, banking and credit facilities, and so on, had been made available.

This influence of foreign capital should not be underestimated. Both local and foreign capital were present in the Malay peninsula (Jomo, 1986, p.210) and were in competition to influence post-colonial economic development policy in favour of their respective interests. However, Jomo (1986, p.210) maintained that foreign capital "has generally been more successful in influencing government policies".

Efforts to attract foreign investment were also clearly evident in another important area of company operations: taxation. In its attempt to promote industrial investment, especially from foreign sources, the government was accused of providing excessive tax exemptions (Lim, 1973, p.261; Edwards, 1975, Section 5.2). Among limited companies in the manufacturing sector in 1971, the effective rate of direct taxation on profits was 67.6 percent for local companies and just 39.9
per cent for foreign companies. For all limited companies in 1971, the rates were 59.8 percent and 39.5 percent, respectively (Jomo, 1986. p.222). For the ten-year period from 1955 to 1964, the post-tax profitability of British manufacturing companies in the peninsula was substantially greater than that of British companies in the rest of the world (Lim, 1973, p.264).

These circumstances arose while the rates of reinvestment by foreign-owned companies were much less than that of local-owned companies. According to Hirschman (1971, pp.26 and 30), in 1968 Malaysian-owned manufacturing enterprises had a reinvestment rate of 26 percent, whereas it was just 13 and 12 percent for British and American enterprises respectively. Over the period 1967-72 the comparative reinvestment rates of local and foreign firms were 200 percent and 34 percent respectively (Peng, 1979, p.192; see also Linderberg, 1973).

In sum, the federal government with the assistance of certain sections of the private sector in the 1960s went to considerable lengths to attract foreign investors, who were mainly British. Accounting developments during this era, even though they occurred in what was now a free nation, still reflected an economy and corporate sector that were in the hands of the British, as had been the case prior to 1957. The next significant chapter in the evolution of accounting within Malaysia would attempt to change this situation, and involved the establishment of the MIA.

3. The Formation of the MIA

When the Malaysian Parliament passed the Accountants Act 1967 in September of 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 Malaysian Act was, however, "much briefer" and thus "less explicit" than the Singaporean Ordinance (Hai, 1970/71, p.27-28). The MIA's first annual report, issued in 1987, specifically noted (p.9) that the reason for the establishment of the MIA by the government was a perceived need to have a local body "to regulate and control the practice of the accountancy profession and to ensure that only suitably qualified persons are admitted to the profession".

In taking this action the government was aware that many individuals calling themselves accountants or who were practising public accounting in the years following independence had a variety of educational backgrounds and qualifications. The House of Representatives' Parliamentary Debates (Vol. IV, No. 12, Col. 2409 dated 25 August 1967) disclosed the following remark made by the then Assistant Minister of Finance, Dr Ng Kam Poh:

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

The minister then 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.

The ensuing debate made clear that the parliament had high hopes for the MIA. Tan Toh Hong, a member of parliament from Bukit Bintang, epitomised the optimistic mood in a long speech which detailed the essential functions played by accountants in the nation's economic development. He applauded the fact that "The long-felt need to register accountants and control the profession is at last being fulfilled", and made an optimistic prediction: "I am sure that when this Bill comes into operation, the standard and quality of accountants in Malaysia will always be safeguarded". He concluded his speech by stating: "With 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".

In debating the Accountants Bills of 1967, stress was given to the need for the MIA to establish a register of qualified accountants in several categories. Dr Ng Kam Poh commented on this matter: "Part V [of the Bills] requires the Institute, with the approval of the Minister of Finance, to appoint a Registrar who will maintain a register of accountants classified in their appropriate categories." Tan Toh Heng, the member of parliament quoted above and who was credited by the assistant minister of finance for "further clarifying" the Bills commented: "Those who are already in practice, whether qualified or not, could register themselves; those who are not in public practice but who work in commercial and other organisations can also register.”

Membership of the MIA was to be divided into three categories: public, registered and licensed. The public and registered members would hold a bachelor's degree or post-graduate diploma in accounting from local higher education institutions or accounting professional qualifications from local and overseas accounting bodies recognised by the MIA.18 Applicants for membership in the "public" category would also need to have three to five years relevant experience in public accounting firms. "Registered" accountants would need to have had the same duration of experience in commercial, industrial or public sector entities.19 The licensed accountants would not require accounting qualifications recognised by the MIA, but would be allowed to practise for either of the following two reasons: they
were already in operation as accountants, tax-consultants or tax advisers prior to the passing of the Accountants Act in 1967; or. the finance minister had granted them limited approval to act as a company auditor under Section 8(6) of the Companies Act 1965.

As one of its duties was to ensure only qualified people whose principal place of residence was Malaysia could act as public and registered accountants, Sections 22 and 23 of the Accountants Act made it illegal for persons not satisfying the specified criteria to hold themselves out as public, registered or licensed accountants, or to adopt, use or exhibit these or other accounting-related titles such as auditors, tax consultants and tax adviser. Any transgression may result in a fine of up to RM 1,000 or imprisonment for up to one year for a first offence, with any subsequent transgression attracting a maximum fine of RM 2,000 or imprisonment for up to two years.

The Accountants Act also states that the MIA Council is responsible for appointing investigation and disciplinary committees after each annual general meeting. The investigation committee has the duty to investigate any complaints made against any member, while the disciplinary committee dispenses disciplinary sanctions when the member has been shown to have breached any provision of the Accountants Act 1967, the Accountants Rule 1972 and, from the 1990 onward, the MIA's By-Laws on ethics. Alas, hardly any part of the Act except for the establishment of the MIA Council and the appointment of its heads was implemented in the first three years following the passing of the legislation. The MIA's 1967-1987 annual report (p.14) shows that D. Mortimer was elected as chairman of the MIA on 22 November, 1967. The following year on 31 May 1968 about one year prior to the occurrence of 13 May 1969 racial riots in Kuala Lumpur 'Dato' Shamsir Omar, who was the then Accountant-General, was appointed as president of the MIA. He went on to hold the post of Accountant-General for 21 years until July 1989 and also acted as the MIA president until 9 April 1987, when Haji Hanifah Noordin took over the post.21

Omar's leadership of the MIA coincided with the MIA lying low in the 1970s and much of the 1980s, with not even a single AGM conducted until September 1987. It would seem that under his leadership the MIA functioned primarily as "a registering body", although in substance this was delegated to the audit firm Price Waterhouse. In 1982, the MACPA took over this responsibility. The fact that the MIA laid low for nearly two decades after its formation had given the leaders of the MACPA much opportunity to behave as if the organisation was the national accounting body. Indeed, this was very much to be the main story of the accounting profession in the 1970s and later in much of the 1980s.
4. Discussion and conclusions

During the first decade after independence, Malaysia's economy continued to be characterised by the features of the pre-independence era. The corporate sector continued to be dominated by rubber estates and tin mines whose owners were European, and predominantly British. The newly established government appeared to be guided by a policy of continuing what had seemed to work in the past. This maintenance of the status quo was also evident in the accounting regulatory environment. The Companies Act of 1965 and the Accountants Act of 1967 were modelled on the equivalent UK legislation. An independent association of accounting practitioners - the MACPA - was formed in 1958, but this too was a manifestation of British influence, with the ICAEW serving as its prototype. In sum, the Anglo-Saxon accounting model persisted in the post-independence era under the influence of western investors in the economy.

The continued imposition of this "foreign" system of accounting has sometimes meant that the organisation and practices of the accounting profession, and particularly the regulations pertaining to audited financial statements, fail to reflect the real essence of the nation's business culture. This is characterised by small, family-owned and operated businesses. In their discussion of ways to improve the accounting infrastructure of developing countries, Wallace and Briston (1993, p.211) stress how inappropriate "imported" systems can be. They emphasise that in the UK and the US the major professional bodies - in their education, training and certification of members - are concerned primarily with corporate reporting to external users. This is a function that is typically not to the fore in developing countries which are not characterised by large numbers of public companies, an active stock market and widespread share ownership. Rather, the required emphasis in accounting practice is more diverse and embraces managerial accounting and public sector accounting.

It may be concluded that Malaysia represents a case of western accounting technology being imported into a country in spite of its inconsistency with the country's social, economic and political environments and relevant institutions. Briston (1978), Samuels and Oliga (1982), Briston and Al-Ashker (1984), Hove (1986) and Belkaoui (1988) have argued under the "cultural importation" hypothesis that the accounting and reporting practices of many developing countries reflect those of the western developed countries such as the US and the UK. However, it seems that the "imports" were of limited relevance for at least the two decades after their adoption. The Companies Act of 1965 and the Accountants Act 1967 appeared to signify that the economy was being set up to operate under a laissez-faire environment (with the assistance of the private sector shown by the formation of the MACPA in 1958). In reality, however, the UMNO-dominated government adopted a socialist agenda through the NEP as it pursued a more
equitable distribution of economic benefits among the members of Malaysian society.

In consequence, it is not surprising to find that the MIA was lying low during the two decades after its formation, with not even an AGM conducted until September 1987. The financial reporting sections of the Companies Act 1965, comprising areas such as "annual returns", "accounts" and "audit", required amendment in 1985 and 1986 (see Sum and Wishart, 1989). The actions taken by the government at this time - in reviving the MIA and amending the Companies Act 1965 - occurred when the NEP, at least unofficially, was coming to an end. This seems to have been prompted by the 1985-1986 economic recession, which until the East Asian economic turmoil of 1997 was the worst that the nation had experienced since independence.

The fact that the MIA laid low for nearly two decades after its establishment gave the leaders of the MACPA (who appeared to have been left to their own device by the authorities) the opportunity to behave as if their accounting association was the national accounting body. This was in spite of the fact that its membership comprised only a third of the nation's accountants. In contrast to the optimism exhibited by the government when it embarked on its regulatory reforms in the mid-1960s, the overall accounting situation in Malaysia remained unfavourable. There was a proliferation of unqualified accountants, mechanisms to investigate and discipline errant behaviour were under utilised and ineffectual, and there was significant a shortage of qualified accountants (see Azham, 1998).

By and large, in this paper, there is an attempt to relate accounting in Malaysia in the early days after independence and prior to the occurrence of the 1969 race riots with the dynamics of the wider socio-political and economic context of which it is an integral part. Accounting in this respect is not understood as merely a set of technical and neutral practices, but rather as an integral part of the socio-political structure and economic system of society. In Malaysia in the period between independence in 1957 and the occurrence of the May 1969, accounting in its various facets appeared to be an instrument for the continuing dominance of the few who were in power.

As is perhaps the case more generally, colonial influence over accounting development in Malaysia delivered mixed blessings. The "British system" was, perhaps, imported into the country prematurely and did not always adequately the particular needs of a nation still in an emerging phase of economic development. However, as the Malaysian economy has subsequently developed and modernised, the imported system has gradually assumed a higher level of relevance and appropriateness.
5. Endnotes

1. The influence of these agency houses over the nation's economy was enormous. At the time of independence, the estates managed by the agency houses occupied about 65 per cent of the entire cultivated land of the Malay Peninsular. The expansion of the rubber industry during the first half of the twentieth century was driven largely by the access these agency houses gave to the London capital market through the flotation of limited liability joint-stock companies (Jomo, 1986, p.183). The funds generated from share subscriptions by the British public and London finance companies added to the agency houses' own investments and the contributions of the original proprietors. With regard to tin mining operations, in 1965 three mining agencies - Anglo-Oriental (11), Osborne and Chappel (10) and Associated Mines (4) - controlled the operations of 25 of the 43 public tin-mining companies (Sumitro, 1968/69, p.171). Some of these agencies were subsidiaries of the British-based holding companies. Thus, just as in the rubber industry, tin production was characterised by a high degree of concentration of British ownership and management.

2. By the end of the 1960s about 60 per cent of the share capital of limited companies was still owned by the British. In the agriculture and fisheries industries British ownership was as high as 75 per cent; in mining and quarrying about 72 per cent; in commerce 63 per cent; and in manufacturing 59 per cent (Pillai, 1984).

3. For further details, see Bass (1973), Parker (1973), Chee (1971), Teik (1971) and the National Operations Council (1969).

4. The source for these observations was an interview conducted with one of the early presidents of the MACPA. The interview was conducted by the first-named author on 25 March 1997 at F. Weatherly & Co., 2nd Floor, Standard Chartered Bank Chambers, Lebuah Pantai, 10300 Pulau Pinang.

5. It appears that the ICAEW provided some further assistance in the early 1980s (MACPA Annual Reports, 1981, p.17 and 1982, p.17).

6. A further ten graduated later that year.

7. As Susela (1999) demonstrates, tension between the MACPA and the MIA has persisted.

8. By 1990, following its merger with Arthur Andersen & Co., HRM would become the biggest audit firm in the country in terms of revenue, personnel and geographical coverage (The Star, 1990).

9. In 1973, a Postgraduate Diploma in Accounting program was introduced with the aid of the Canadian Government through the provision of faculty from Canada (The Accounting Journal, 1977, p.1). This was designed to ensure that students who graduated with the Bachelor of Economics
(Accounting) and the Postgraduate Diploma would be acceptable to the MIA (Gul, 1983, p.14). The Postgraduate Diploma was recognised by the MIA on 15 June 1973, allowing its holders who also had three years' work experience in accounting to enter the government's accounting service. However, the MACPA failed to fully recognise the program and it was discontinued in 1980.

10. The 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.

11. Woon (1993) provides three explanations for this process: first, there was a dearth of legislative drafting talent; second, to avoid re-inventing of the wheel; and third, an intent to benefit from the experiences in other jurisdictions.

12. Thus, the survey excluded rubber, mining and financial companies (Babiak, 1966, p.54). Also, 22 commercial and industrial companies that appeared in the Malayan Stock Exchange Gazette dated 2 January 1963 were excluded for various reasons.

13. The passing of the Accountants Act 1967 ensured that being a member of the MIA would normally be a requirement for undertaking audits, although the Companies Act 1965 had not made that clear. As explained by Shing (1981, p.32), sub- section 1 of section 8 states that any person may apply to the finance minister although a prerequisite for approval to receive an audit license was membership of the MIA. This provision was supported by the then MACPA president, Abu Hassan Kendut (1986, p.4). Thus, the Companies Act needs to be read together with the Accountants Act in determining who may gain permission to act as a company auditor. Note also that the MIA president mentioned in 1987 that the power to issue audit and liquidator licenses had been delegated by the finance minister, in accordance with Section 8(7) of the Companies Act 1965, to a committee in the Finance Ministry (The Malaysian Accountant, Oct-Dec 1987, p.10).

14. A similar observation might be made with respect to creditors. Yan (1994, p.572) mentions that the nation's financial system in the 1960s was dominated by branches of British banks specialising in trade and export-related finance for foreign businesses (also see Lock, 1987).

15. Peng (1979, p.193) defines reinvestment as the ratio between net fixed investment and net profits.

16. This means that local companies had not only ploughed back all their profits for further productive activity, but also borrowed an equivalent amount to invest (Jomo, 1986, p.241).
17. See also Section 6 of the Act which notes the five functions of the MIA including the responsibility to regulate the practise of the profession of accountancy, to promote the interests of the profession of accountancy, to provide for the training, education and examination of persons practiseing or intending to practise the profession of accountancy, and to determine the qualifications of persons for admission as members.

18. The recognised accounting bodies (as listed in the Act) are the Chartered Institutes of Scotland, England and Wales; Ireland; Australia; Canada and India; the Societies of Accountants of Australia and New Zealand; the Association of Certified Accountants (UK); the Institute of Cost and Management Accountants (UK); and Malaysian Association of Certified Public Accountants (MACPA). The MACPA is the only local accounting body whose members were recognised under the Act. The Malaysian Society of Incorporated Accountants, also known as the Malaysian Society of Accountants (MSA), was excluded. However, at the time the MIA was formed in 1967 its members were issued with licenses under the Accountants Act and were thus licensed accountants.

19. Five years is the general rule. However, it will be shortened to four years for those with a High School Certificate and to three years for those having graduated with degrees or diploma from local higher education institutions.

20. With regard to a tax consultant or a tax adviser, however, the act has a provision allowing a person to practice and or hold him/herself out in such capacity when the authority to do so has been granted by any other law that is enforced within the country.

21. Omar was among the first few Bumiputra sent to Australia under the Colombo Plan to study accounting and qualified as chartered accountant in 1960 after five years with Price Waterhouse in Melbourne. Following his retirement in 1989 from the position of Accountant-General, he took over the business of the audit firm Baharom-Jasani (Giditek Deterprise Sdn. Bhd, n.d.).

22. Guidelines on foreign equity participation were liberalised in 1986 along with access to credit markets, foreign exchange controls and the ability of foreign firms to acquire lands. Almost all NEP requirements were waived for export-oriented manufacturing industries. There was a de-emphasis on the restructuring element of the NEP, leading to a more liberal treatment of private enterprise, especially direct foreign investment. Restrictions on restructuring the ownership of the share capital of companies were relaxed, and it was made easier for manufacturing companies to escaped the restrictions of the Industrial Coordination Act (ICA) (Zainal, 1994, p.597). It appears that these changes were motivated by the government's intention to attract foreign investors to the nation's manufacturing sector.
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