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SETTING THE FINANCIAL ACCOUNTING STANDARDS IN MALAYSIA:

THE MALAYSIAN ACCOUNTING STANDARDS BOARD (MASB)

AND THE ACCOUNTING PROFESSION

1997-1999

A thesis submitted in partial fulfilment

of the requirements for the Degree of

Master of Commerce and Management

at

Lincoln University

by

Suhaida Mohd Sood

Lincoln University

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Abstract of a thesis submitted in partial fulfilment of the requirements for the Degree of M.C.M.


by M.S. Suhaida

The Malaysian Accounting Standards Board was established in 1997 with objective of improving the quality of external financial reporting in Malaysia. Previously, two professional bodies, the Malaysian Institute of Accountants (MIA) (the accountants' national body) and the Malaysian Institute of Certified Public Accountants (MICPA) (a private institution) carried out the task of setting accounting standards in Malaysia.

This study investigate the standard setting arrangements in Malaysia and the roles of the accounting profession in the standard setting process, for the period between 1997-1999. Two research strategies were used to gather the data needed, documentary analysis and survey questionnaires.

The results show that the standard setting arrangements in Malaysia are similar to the arrangements in other developed countries, particularly USA. Similarities include a standard setting body with a parent organisation, a rigorous 'due process' that is followed before an accounting standard is issued, and the development of conceptual framework. There are also characteristics that are unique to MASB. The MASB is to a greater extent, strongly influenced by the government, through the Malaysian Finance Ministry. MASB's approved accounting standards are based on the International Accounting Standards (IASs), and customised to meet the unique Malaysian economic environment and needs. There is also emphasis on study on implementation of Islamic Financial Reporting in Malaysia.

The status of the MASB as an independent sole authority to set the accounting standards was accepted by the interest groups in Malaysia with mixed feelings. When the proposal to establish the Board was announced, there was quite strong opposition from some accountants. They argued that the Board should come under the jurisdiction of the national
professional body, the MIA. Other interest groups were more positive, but quite uncertain of the future body's capability to enforce the accounting standards. Nevertheless, views gathered after the formation of the Board were divided. Generally, all agreed to have an independent body to develop the accounting standards in Malaysia. They viewed that with various inputs put into the standard setting process, and a strong legal backup for the enforcement of the standards, the MASB has done a pretty good job. The MASB has also in its more than two years existence as a standard setting body, apart from reviewing extant and developing new accounting standards, managed to come up with proposal on Malaysian own conceptual framework and participate actively in international standard setting.

The professional bodies, MIA and MICPA and the accounting profession as a whole could be said to be important players in the standard setting process still even though the job is solely rest on the MASB shoulder. The accounting profession made up the majority members on the Malaysian Financial Reporting Foundation (FRF) and the MASB. They also involved in the Working Groups set up by the MASB to carry out the development of accounting standards, contributed actively for the comments on the discussion documents and exposure drafts issued by the MASB, and participated in standard setting at the international level. The MIA and MACPA also provide interpretations and guidelines on how to apply the approved accounting standards to the accountant members. The accounting profession is seen by various interest groups as the 'best man' still to do the standard setting job, along with other MASB's constituents.

Key word: Independent Standard Setting Body, Accounting Profession, Interest Groups, Malaysian Standard Setting Process, Accounting Standards Development
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CHAPTER 1

Introduction

1.1 Background

The accounting profession has always held control over accounting standard setting, as it is a role within the traditional boundaries of the discipline (Stoddart, 1999). However, as accounting regulation becomes more of a process with greater political, economical and social effects, other interested parties have identified opportunities to exert their influences in standard setting, and getting their desired outcomes. These parties could include governments, business groups, financial analysts, and other financial reports users. To an extent, the standard setting process is now being carried out outside the direct control of the professional bodies, through independent standard setting bodies that have been established in many countries.

These changes in who set the standards are widely observed in developed countries. For example, in New Zealand, even though the Institute of Chartered Accountants of New Zealand’s (ICANZ) Financial Reporting Standards Board (FRSB) still develops the accounting standards, the review and approval are done by a separate body, the Accounting Standard Review Board (ASRB). On the other hand, with the Financial Accounting Standards Board (FASB) in the US, the Accounting Standard Board (ASB) in the UK, and the Australian Accounting Standards Board (AASB) in Australia, the standard setters are completely independent from the professional bodies. External parties to these bodies could be involved in or influence the standard setting process.

Having noted that, this trend may well be different in developing or newly industrialised countries. Even though many studies have noticed that generally the developing countries’ accounting regulation systems have quite a large dependency on International Accounting Standards or are strongly influenced by the Western accounting system, those systems still retain and reflect each country’s unique local requirements. Whether the similarity and the differences could as well be attributed to the development of the accounting standards itself is a question this study tries to address. Who is/are responsible for setting the standards? How do accounting professionals in those countries play their role in the process?
In comparison to more developed countries, developing countries may have a similar or different composition of parties influencing the accounting development and regulation. The parties responsible for the financial reporting standards development may still be mainly accounting professionals, without much involvement from other individual or groups affected by the regulation. Otherwise the countries might also have a separate independent standard setting body to carry out the responsibility.

With better progress in economy and education under a politically stable government, one of the developing countries, Malaysia, has moved a step closer to the developed countries in one aspect, by establishing an independent accounting standard setting body.

1.1.1 Setting the Accounting Standards in Malaysia
Malaysia is one of the emerging capital markets among the developing countries (Saudaragan & G. Diga, 1997). Thus, as the country grows in its importance to investors, demands on information about the country would increase. As financial reporting is one of the main means to obtain information for the parties directly or indirectly involved in the capital market, an improvement in the reporting could promote the capital market more to potential investors. Internally, the Malaysian government is also concerned about the establishment of good reporting practices by companies in Malaysia especially among the listed companies on Bursa Malaysia (formerly known as Kuala Lumpur Stock Exchange (KLSE))\(^1\). One way of doing it is through well-developed and enforced accounting policies.

In Malaysia, on 1\(^{st}\) July 1997, an independent\(^2\) accounting standard setting body was established under the Financial Reporting Act 1997. Under the Act, the Malaysian Accounting Standard Board (MASB) has the authority to set financial reporting standards and statements of principles for financial reporting in Malaysia.

MASB takes over the accounting standard setting responsibility from the local accounting professional bodies, the Malaysian Institute of Certified Public Accountants (MICPA)\(^3\) and the Malaysian Institute of Accountants (MIA). Both bodies have been setting accounting

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\(^1\) Referred from The Star, 9th December, 1994
Utusan Malaysia, 24th December, 1996

\(^2\) Separately formed outside the accounting professional bodies. Throughout the essay, this definition is applied to the "independent body" phrase.
standards for their members for almost 30 years. The change has created a new composition of parties responsible for accounting standards development. The government and the business community are among the board members of the MASB. They become directly involved in the standard setting process, together with the accounting profession who are also members of the standard setting body. For the accounting professionals, the change has turned the previously mutually exclusive task for them to something that they have to share with others.

Studies in other countries have found that the accounting professionals' initial reactions to establishment of independent accounting standards bodies could be receptive or unreceptive. The accounting professionals in Malaysia were also in the same state of affairs. The MASB's establishment could well be seen as a good thing or a threat to the profession. This study envisages that the empirical findings from the research will enrich the understanding of financial accounting standards development in Malaysia.

1.2 Objectives of Study

The primary purpose of this dissertation is to study the institutional arrangements for accounting standard setting in Malaysia in the period of 1996-1999. The MASB is a significant subject for study. Whether or not the body faces similar issues as its counterparts in other countries like the FASB in the U.S and the AASB in Australia, is an interesting issue to research. The analysis of its structure, methods of setting the accounting standards and its achievements during the initial development period, could be very helpful in future development and improvement of the MASB and thus the accounting regulation in Malaysia.

The second objective of this study is to gather evidence of the accounting professions' influence on the standard setting body. In the light of the change in the standard setting environment in Malaysia, it would be useful to examine the impact of the MASB's establishment upon the methods and level of accounting profession's participation in the standard setting process. The reactions of the accounting profession towards the establishment of MASB would be examined in the study. There might be changes or not in the accounting profession, in particular the roles played by the MIA and the MICPA as

\[2\] Formerly known as Malaysian Association of Certified Public Accountant. It has changed to its current name on 29th January 2002.
they now have to “share” the task of setting the accounting standards with other interest groups.

1.3 Study Approach

In this research, the accounting profession and the standard setting body will be investigated using two different data-gathering techniques, document analysis and survey questionnaires, where the following research questions are explored:

1. What were the institutional arrangements in Malaysia by which accounting standards were established in the period of 1997-1999?

2. Did the interest groups support having a separate independent body to set the accounting standards?

3. How did the interest groups influence MASB’s activities in setting accounting standards?

4. Did accounting professionals have a strong influence on the MASB as compared to other interest groups?

1.4 Possible contributions

It is anticipated that this study will provide a guide for decisions and actions in several areas. It is hoped that the facts, description and analysis of MASB’s progress as the national standard setting authority for financial reporting in Malaysia could also be a good source of reference for further plans in the accounting regulation scene in Malaysia.

In addition, the thesis is hoped to empirically strengthen theories in previous literature on the roles of accountants in standards setting, with the focus on Malaysia. It draws together the available research, and enhances our current understanding of accounting profession in the standard setting process by providing empirical evidence and theoretical explanations.

The study could also be a base for future studies with a theoretical perspective, serving as evidence or findings to support theory development or hypotheses testing. This is specifically for further research in Malaysia and other developing countries (in Asia
particularly) since these countries share a lot of characteristics in terms of their accounting standards development. In most of these countries, International Accounting Standards (IAS) have influence on the local accounting policies (Woolley, 1998). Other countries’ accounting policy makers could also in many ways use the findings of this thesis if they are interested in developing their own accounting standards.

1.5 Study Outline

The thesis is divided into seven chapters. In Chapter 2 background on Malaysia’s accounting standard setting is given. A description on the standard setting scene in Malaysia before the establishment of MASB is given with focus on the roles played by two accounting professional bodies in Malaysia. A brief description on the standard setting body, the MASB is also outlined.

Chapter 3 reviews previous literature on standard setting bodies, and the role and participation of the accounting profession in standard setting process respectively. Several issues faced by the standard setting body are discussed. The accounting profession is identified as one of the interest groups that participates in the standard setting process, and the reasons for the participation are reviewed.

In Chapter 4 the research methodologies undertaken in this study are presented. The study is made up of both archival analysis and questionnaire survey of various accounting standards interest groups in Malaysia. Data sources and selection, along with the questionnaire survey procedures are also outlined.

Chapters 5 and 6 report the findings of the document analysis and the questionnaire survey. The research findings provide empirical support for the issues faced by the standard setting body and the theoretical explanations on the accounting profession’s participation in setting the accounting standards identified in previous chapter.

Finally, Chapter 7 details the implications of this study. It also reviews the thesis and its limitations, and provides some future research directions and concluding remarks.
CHAPTER 2

Background on Malaysia Accounting Standards Setting

In Chapter 2 background on Malaysia’s accounting standard setting is outlined. In Sections 2.1 to 2.4, a discussion on the standard setting scene in Malaysia before the MASB establishment is given with focus on the roles played by two accounting professional bodies in Malaysia. Section 2.5 and 2.6 identify several events that happened before the establishment of the MASB. Section 2.7 gives a brief account on the standard setting body, the MASB. The summary of the chapter is given in Section 2.8.

2.1 Prior to the MASB

Before the MASB’s establishment, the two Malaysian professional accounting bodies, namely the Malaysian Institute of Accountants (MIA) and the Malaysian Institute of Certified Public Accountants (MICPA) were responsible for the development of accounting standards. Initially, the MICPA took up the responsibility of setting the accounting standards. The MIA, which was established later, was not actively involved in any matters relating to accounting standards development and regulation up until 1987.

2.2 The MICPA

The MICPA, a private association for accountants in Malaysia, was established in 1958. It is a self-regulating professional body. It provides technical guidance and training as well as setting professional examinations. The driving force behind the MICPA is the chartered accountants (CAs) from the UK and Australia, and the big auditing firms (Susela, 1999a, p.361).

During the period 1958-1967, there was no legislation to regulate the accounting profession. Accountants in Malaysia at that time were mainly trained through various overseas bodies, and the remainder trained through local examinations and training
conducted by the MICPA. The Big Six\(^1\) (now Big Four) accountancy firms supported the MICPA and locals training in the Big Six were encouraged to sit the MICPA exams. However, the Association of Certified Chartered Accountants (ACCA) and the Australian Society of Accountants (ASA\(^2\)) members received little support from the Big Six firms, and found it more difficult to gain the MICPA's membership (Susela, 1999a). This membership issue became one of the reasons for the establishment of the MIA later in 1967. Nevertheless, the MICPA continued to dominate the development of the accounting profession until 1987.

The MICPA became active in the standard setting process in the early 1970s with their first two technical pronouncements, “Recommendations on the Presentation of the Accounts”, and “Audit Report and Qualifications”, issued in 1972 (MICPA website, 1999). During this period, there were many corporate mergers and takeovers in Malaysia mainly due to the New Economic Policy introduced by the government to increase the Bumiputras' holdings in big corporations and thus reduce foreign ownership. The government, concerned with the lack of reporting and accounting rules and guidance, requested the MICPA to act upon the matter.

The MICPA formed a technical committee to undertake this task and recommended the adoption of modified International Accounting Standards (IAS). Other organisations involved in the standard setting agenda were the Central Bank, the Capital Issues Committee that were part of the Finance Ministry, and the Kuala Lumpur Stock Exchange (KLSE). This happened in the period of 1970-1980, where standard setting was very much an *ad hoc* activity as basic infrastructure was put into place. After 1980, the focus was on issues that were unique to the Malaysian environment and for which there were no IASs, or where the IAS treatment was contrary to local legislation (Susela 1999). Eight Malaysian Accounting Standards (MAS) were developed covering the areas of accounting.

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\(^1\) Since 1989, mergers have reduced the number of major accountancy firms from eight to four. The number of the firms used is in accordance with the time when the study was done.

- Big 8 (1970s-1989)
- Big 6 (1989-1998)
- Big 4 (2002 - )

(http://en.wikipedia.org/wiki/Big_4_accountancy_firm)

\(^2\) Later known as the Australian Society of Certified Practising Accountants (ASCPA). As from April 2002, it changes its name to CPA Australia (Certified Practising Accountants Australia)

\(^3\) Bumiputras, literally translated as “princes of the soil”, refers to the Malays, who are considered indigenous to the country (Susela, 1999a).
for acquisitions and mergers, insurance business, property development activities, aquaculture and pre-cropping costs of plantation companies (MICPA, 1999). All the MICPA members were to comply with the IASs and MAS adopted and issued.

At international level, MICPA became a member of the International Accounting Standards Committee in 1975, and the International Federation of Accountants (IFAC) in 1977. These two events highlighted more of the MICPA value to the standard setting process in Malaysia. MICPA continued with its solo standard setting role for quite a significant period of time until the MIA started to get involved in 1985.

2.3 The MIA

In 1967, the Malaysian Institute of Accountants (MIA) was formed under the Accountants Act 1967 as the only statutory body to regulate the accounting profession in Malaysia. At that time, the number of accountants in Malaysia has increased rapidly. The accountants came from various backgrounds of overseas training and experiences. There were also locally trained accountants from MICPA. The government was also compelled to act upon the matter because the graduates of the Association of Certified Chartered Accountants (ACCA) and Australian Society of Accountants (ASA) complained about the difficulty to gain MICPA’s membership (Susela, 1999a). With the creation of the Accountant Act 1967 and the MIA, the government became involved in the regulation and control of the accounting profession and the assurance that only suitably qualified persons were admitted to the profession (Susela, 1999b).

Prior to 1985, MIA had been content with its statutory function of registering accountants practising in Malaysia, until after a proposal to merge MIA and MICPA was rejected by the government in 1985. In its Annual General Meeting in 1987, it was decided that MIA should be an active regulatory professional body (Susela, 1999a).

Every accountant in Malaysia is bound by the bye-laws on professional conduct and ethics of the MIA. This requires everyone to comply with the professional standards issued by the MIA. Most accountants are involved in the preparation of accounts and, as a result, the
Institute is able to monitor its members' compliance with the reporting requirements of the different reporting frameworks (ACCA Students' Newsletter, June 1998). Therefore it became easier for the MIA to monitor the conducts of accountants in Malaysia and the financial reporting practices when the MIA started to set the accounting standards.

For beginning, the MIA adopted all the standards previously developed by the MICPA but then MIA began to build up its resources for standard setting activities. The MIA also became active in standard setting at the international level, being a member of the Board of the International Accounting Standards Committee (IASC) and the Public Sector Committee of the International Federation of Accountants (IFAC).

Later, the MIA started to issue its own accounting standards and technical bulletins for accountants in Malaysia to use. The MIA has opted to adopt the standards promulgated by the IASC, after undergoing the necessary due process. This has helped ensures that the IASs adopted are tailored to suit the Malaysian environment. Where there are no applicable IASs, the MIA in conjunction with the MICPA, has issued locally developed accounting standards for the specific needs of the insurance, property development and aquaculture industries (Hai and Soon, 1997). The effort to develop local standards has long been pursued by MICPA. The joint work of both professional bodies nevertheless did make considerable contributions to the development of accounting standards, and it was a signal of progress in standard setting in Malaysia.

2.4 Working together

After the MIA's active involvement in the standard setting activities, both the MIA and the MICPA worked closely together on the development of accounting standards and providing feedback on financial reporting requirements to the regulatory bodies, such as Registrar of Companies, Bank Negara Malaysia (the Central Bank), and the CIC (later known as Securities Commission (SC) (Susela, 1999)).

A joint Common Working Technical Committee was formed in 1989 with the task of reviewing and developing accounting and auditing standards. One of the standards, the Goodwill Standard became Malaysian Accounting Standard 6, which required the amortisation of goodwill over 25 years. Even though MIA approved it in 1993, MICPA
deferred its approval of the standard. Later, several parties lobbied the government asking MIA to also defer the Goodwill Standard adoption (Susela, 1996), with the result that adoption of the standard was deferred until 1997.

The goodwill issue witnessed several changes to the accounting standard setting arrangement in Malaysia. Firstly, there was an increase in awareness that Malaysia needed accounting standards that suit its local environment. Secondly, the personal rivalry between the MIA and the MICPA had affected the standard setting process as the adoption of the Goodwill Standard was deferred. Thirdly, the goodwill issue also witnessed an increase in the business community's interest and participation in the standard setting process. Susela’s study (1996) notes the business community through several organisations that represent them, (for example, the Federation of Public Listed Companies (FPLC)) actively voiced their concerns in the standard setting process. For example, in 1993, the FPLC sent a memorandum to the MIA requesting the deferral of the Goodwill Standard.

Due to the disagreement over the adoption of the Goodwill Standard, the joint committee was dissolved in December 1992. Since then, both the MIA and the MICPA worked separately, with no significant addition contribution towards the accounting regulation in Malaysia.

2.5 Application of the accounting standards

As noted above, the accounting standards issued by the MIA and the MICPA are only binding upon the members of the profession. There were minimum statutory requirements for the preparers of financial reports to adhere to the standards. In 1986, the Ninth Schedule of the Companies Act 1965 was amended to incorporate almost all IASs disclosure requirements, after a discussion between the MIA and the Registrar of Companies (ROC) was held. Financial reporting regulation was embodied in the requirements of the Companies Act 1965, Bank Negara Malaysia, the Securities Commission (SC) and Kuala Lumpur Stock Exchange's (KLSE) listing requirements. As a minimum, reporting requirements were contained in Section 169 of the Companies Act 1965 and the financial disclosure requirements were shown in Schedule 9 of the Act.

KLSE is known as Bursa Malaysia in 2004.
However, other disclosure and accounting requirements, such as those contained in the accounting standards promulgated by the accounting profession were not mandatory. These did not have the force of law. Full compliance with accounting standards promulgated by the accounting profession thus depended on the willingness of the financial reports preparers.

In order to ensure an effective regulatory environment, all constituents of accounting regulation had to have ownership in the promulgated standards, and hence the involvement of the government was necessary to overcome the issue of enforcement. This resulted in the introduction of the Financial Reporting Act 1997 and the amendment to the Companies Act 1965 in 1998.

2.6 Events leading to the establishment of the MASB

Events that led to the establishment of the MASB took place as early as in year 1993, after the Goodwill conflict. Various parties affected by the accounting regulation realised that standard setting has become too important to be left with the accounting profession alone. In this section, we identify events and activities that lead to the establishment of a new separate independent standard setting body, the Malaysian Accounting Standards Board.

The proposal for establishing a new separate standard setting body was made known publicly in 1994. In several local newspapers on December 9th, 1994, the Domestic Trade and Consumer Affairs Minister at that time, Datuk Abu Hassan Omar, was quoted as saying that the government is considering an establishment of a national accounting standards review board to ensure conformity and consistency in the preparation of company annual reports. The objective of the board will be to consider existing and proposed accounting standards, and approve such standards as it sees fit. The approved standards will be backed by legislation, as they will be made mandatory in the Companies Act, 1965. In other words, the proposal was to establish a review board rather than a standard setting board.

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At that time, companies were not required by law to comply with any standards when preparing their accounts. However, if the board were in place, the company auditors would have a statutory duty to ensure that approved accounting standards were complied with and any non-compliance reported to the Registrar of Companies.

He also noted that the compliance with the international guidelines (accounting and auditing standards) had given more value to the financial reports prepared by companies in Malaysia with the result that these companies became more attractive to foreign investors. Nevertheless, there were problems with those guidelines and standards. Some companies did not comply with the standards promulgated by the accountants as it was not required by regulation (the Companies Act 1965). This might be due to the fact that some of the guidelines and standards were impractical or irrelevant in the context of Malaysian corporate environment. The inconsistencies in applying accounting standards to financial reporting could be detrimental to the economic growth of the country.

The concern about reflection of the nation’s economic health by the well-being of corporate entities was also high at that time, as Malaysian’s economic growth is mostly geared by the private sector. The corporate annual report played a very important role as an indicator of whether or not the country’s economy was in good health.

Therefore, it was hoped that by having accounting standards developed and approved by a body with wide representatives, acceptance and support from the preparers, investors and other members of the community who used financial reports as a basis for decision making, could be achieved.

Responses to the proposal to establish an accounting standards review board were mixed. Some saw it as a good thing, while others did not. The MIA and the MICPA went public about their views on the matter while others, the business community in particular, did not voice their opinion as openly as the two professional bodies.

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*This supposition is made based on existence of views published in newspapers gathered by the researcher. Any other published and/or unpublished opinions on the proposal that were not available to the researcher could change the assumption taken here. Therefore, the assumption needs to be taken with caution.*
The MICPA had a positive view on the proposal to set an independent standards setting board\(^7\). The private professional body, represented by its president at that time, Mr Oh Chong Peng\(^8\), maintained that the proposed standard setting body, being an independent board, must be governed by separate legislation where there is no need for any body or party to have the greatest say in any decision-making process. This issue also has to do with the current arrangement for standard setting in Malaysia, whether or not accountants have the sole right to determine the accounting standards in the country.

The MICPA president also brought up the issue that some of the IASs adopted are not suitable for the Malaysian situation. Any approved standard should be more in tune with the local environment. The new board, with representatives from diverse backgrounds will benefit the end users, that is (interest groups or those affected by the accounting standards) with various concerns.

Some accountants that were surveyed agreed that other end users, especially business groups, would have more opportunities to have their concerns and needs heard and considered by the standard setters under the proposed arrangement. Concerns that the establishment of such a board could mean that the companies could put pressure on auditors were also highlighted but were repudiated as it was said that it is a matter of lobbying, that is who will have the strongest say.

Industry sources mentioned that discussion on the establishment of a separate standard setting board was already in place way back in the middle of 1993, between the MIA, the MICPA and the Federation of Public Listed Companies (FLPC). The MIA was not keen on the idea. Nevertheless, the SC has submitted a paper on the matter to the Finance Ministry but no action was taken upon it until the Domestic Trade and Consumer Affair Minister brought it back into the limelight.

However, one industry source noted that the proposal was different from the initial paper submitted to the Finance Ministry. The paper forwarded by the SC asked for an establishment of an Accounting Standards Board and not a review board as mentioned by Datuk Abu Hassan Omar. She added that a review board would mean that MIA still has the

\(^7\) Published in Business Times, December 12th 1994. The article also gathered opinions from public accountants, industry sources.
authority while an accounting standards board has more technical strength as it can generate broader standards which should be agreed upon and implemented with the members' consensus, and not just by MIA.

After the proposal was made known to the public, the MIA did not hesitate to voice its position on the matter. In an interview with the Business Times⁹, the then MIA chairman, Datuk Hanifah Noordin, said that the proposed Malaysian Accounting Standards Board should come under the purview of the MIA, and not the ROC, the SC or any other body. The existing MIA's Accounting and Auditing Standards Committee could be turned into a board and the membership widened to include representatives from the ROC, the SC, and others who are keen to participate in setting the accounting standards.

The MIA considered that if the government was to establish an accounting standards board, it should be under the Accountants Act, which regulates the accounting profession. As MIA had already undertaken the task, accounting standards set by the body are binding on all accountants, and auditors. On the other hand, if the board were to be placed under the SC or the ROC, the standards would bind all public listed companies, or all companies for the latter.

In addition, the MIA also considered that the involvement of other parties in the standard setting would only produce more standards and rules, resulting in massive financial statements to be prepared by the accountants and auditors.

The MIA believed that it has done a good job in setting the accounting standards that benefit the investing public. International Accounting Standards (IASs) were used as a basis for standard setting in Malaysia, and where they are not appropriate, the MIA commissioned research to develop standards suitable for Malaysian environment. To start from scratch for every accounting standard would be a costly and technical resource-intensive exercise.

⁹ Mr Oh Chong Peng was a senior partner at Coopers and Lybrand. We have discussed briefly the standard setting roles played by the big auditing firms in Malaysia in the previous section.

⁹ The interview was published in the Business Times newspaper one week after the Domestic Trade and Consumer Affairs Minister has announced the proposal (in the newspapers on December 9, 1994); and after the comment by the MACPA president. The actual date of the newspaper could not be discerned.
The MIA also acknowledged that inevitably, some groups will be disadvantaged when any accounting standard is issued. The formation of an independent accounting standards board will not resolve this situation.

The MIA suggested another arrangement that the planned board be put under the trusteeship of the Malaysian Accountancy Research and Education Foundation (MAREF). MAREF is a trust for the promotion, encouragement, and advancement of accountancy research and education in Malaysia. It was set up in 1990 under the Accountants’ Act 1967, and became a corporate body under the Trustees (Incorporation) Act 1952 in 1993. The Trustees sponsors certain activities of the MIA and research projects relating to development of accountancy in Malaysia.

By having the proposed board under the trusteeship of MAREF, the board would operate under the Accountants’ Act, which governs all accountants as preparers and auditors. The MIA Chairman, Datuk Hanifah Nordin stated that this arrangement would provide an excellent framework for standard setting.

Commenting on the MICPA’s view of the proposal, Datuk Hanifah Nordin said that regardless of the proposed board’s independent status, the board could still be viewed by investors as being a place for the pursuance of vested interest of the members of the board. The vested interest could be that of the government, big corporations or the auditors of big corporations who normally have their clients’ interests considered favourably.

In early 1995, the Minister of Finance appointed a task force to look into the proposal. They proposed the establishment of the MASB instead of an accounting standards review board. A draft of the Financial Reporting Act that proposed the establishment of the Financial Reporting Foundation (FRF) and the MASB was debated at the Parliament in December 1996. Consequently, the Malaysian Accounting Standards Board (MASB) was established on 1st July 1997.

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10 The task force comprised the President of the MACPA at that time, Mr Oh Chong Peng, En. Ramly Ibrahim (MIA Council member and a senior partner of one of the then Big Six firms), Dato Azlan Hashim (FPLC), YM Raja Arshad (past President of MACPA, from a Big Six firm) and the Accountant General.
Chapter 2  Background on Malaysia Accounting Standard Setting

2.7 Post-MASB establishment: after the middle of 1997

The MASB is an independent standard setting body with representation from all relevant parties in the standard setting process in Malaysia, including preparers, users, regulators, academics and the accounting profession.

The move by the government to confer the standard setting responsibility to a party outside the domain of the accounting profession could be seen as an act of recognition of the interests of other parties in the accounting standards and the Malaysian financial reporting regulation in general. Quoting from the Budget 1996 speech delivered by the Minister of Finance at that time (former Deputy Prime Minister, Datuk Seri Anwar Ibrahim) that:

"... to achieve a financial reporting environment of international standards, it is in my view that financial reporting standards must be widely accepted and given the appropriate recognition within the wider financial and investment community. It is apparent that those outside the accounting profession generally regard accounting standards, particularly the adherence thereto the domain of accountants. As long as the setting of accounting standards continues to be within the accounting profession, this attitude will prevail and those outside the profession will not have the ownership of the standards and will regard compliance with accounting standards as not being their responsibility. Therefore, there needs to be a mechanism in place that would give "ownership" to all relevant parties involved in the financial reporting process."

Under the new Financial Reporting Act 1997, the MASB has authority to set financial reporting standards and issue statements of principles for financial reporting in Malaysia. The standards issued or adopted by the MASB are legally binding upon any published financial statements. An amendment to the Companies Act in 1998 has also made it a statutory requirement that the accounts of a company must be prepared in accordance with the approved accounting standards issued by the MASB, and the directors are responsible for ensuring such compliance.

Previously, the accounting standards issued by the professional bodies had no legal backing. The bodies could only take disciplinary action over the members and had no
jurisdiction over the companies who prepared financial reports that did not comply with the approved accounting standards (Susela, 1996). Now, failure to apply MASB standards will result in breach of the Financial Reporting Act and the amended Companies Act 1965\textsuperscript{11}.

Initially the MASB adopted 24 of the extant International Accounting Standards (IASs) and Malaysian Accounting Standards (MASs) issued prior to its establishment.

### 2.8 Summary

In this chapter, MICPA, the accountants' private professional body; and MIA, the national accountancy body have been identified as the standard setters in Malaysia prior to the establishment of the MASB. The MASB is an independent standard setting board, separated from the professional bodies. This change in who is responsible for the development of accounting standards in Malaysia marks a shift in the attitudes of various groups in Malaysia towards standard setting. Therefore, it is the purpose of this study to help pave the way to understand the shift, by studying the new standard setter, the MASB; and also the former setters, the MICPA and the MIA, in their role of setting the accounting standards for Malaysian financial reporting regulation.

\textsuperscript{11} The amendments gave legal authority to accounting standards.
CHAPTER 3

Literature Review

3.1 Introduction

Researchers have attempted both to model and understand the process of setting the accounting standards (Boczko, 1997; McLeay, et al., 1997; Mathews and Perera, 1996; Susela, 1996) and the participation of the interest groups in the process (Susela, 1999a; Van Lent, 1997; Gilfedder and Ohogartaigh, 1997; Tandy and Wilburn, 1992). Generally, the standard setting process was found to be a complex and political process, with economical, political and social influences and impacts. The standard setters, be them independent standard setting bodies, or part of the accounting professional bodies, have the responsibility to develop accounting standards that result in high quality, and needs accommodating, financial statements.

The standard setting process attracts many interest groups who want to exercise their power and influence on the process, with a goal of achieving the desired end results, accounting standards that fulfil their every need. The "competition" among the interest groups might be intense with the accounting profession trying to maintain their traditionally mutually exclusive standard setting task.

Accordingly the standard setting body is faced with issues emerged from this competition. The standard setting body has to be and be seen as a body that is well founded and competent to formulate accounting standards.

In the first half of the chapter, existing studies on several issues faced by standard setting bodies in selected countries; in particular the Financial Accounting Standards Board (FASB) in the U.S.A. are considered. Five issues were identified for discussion, namely institutional framework in Section 3.2, selection of members on the standard setting body in Section 3.3, independence of the standard setting body in Section 3.4, and accounting issuance in Section 3.5. Finally, Section 3.6 provides a summary of the discussions in the preceding sections.
The second half of the chapter reviews the accounting profession's participation in the standard setting process. The accounting profession is identified as one of the groups that are interested in the standard setting process. Approaches used by the interest groups to participate in the standard setting process are discussed in Section 3.7. The theories explaining the reasons behind and factors influencing the level of participation by the accounting profession in the standard setting process are discussed in Section 3.8 to Section 3.11. Section 3.12 has the discussion on studies done so far on the involvement of the accounting professional bodies in the standard setting process.

Finally, a summary on both the standard setting body and the accounting professionals' state of affairs in the standard setting area is given in Section 3.13.

The standard setting body

When discussing organisations that are responsible for setting accounting standards, a common reference would be the Financial Accounting Standards Board (FASB), a very established standard setting body in the U.S.A. As the FASB has been in existence for longer than other standard setting bodies in the world, extant literature mainly identifies with issues faced by the FASB. Other studies on standard setting bodies in other countries also discussed similar issues to those faced by the FASB (Ma, 1997; Van Lent, 1997; McLeay, et al., 1997; Mathews and Perera, 1996, and Rahman, 1992).

In this literature review, the issues for discussion are the institutional framework, membership of the standard setting body, independent status, issuance of accounting standards, and contributions to the development of international accounting. These five issues are not exhaustive but, nevertheless, they are among the main concerns of standard setters around the world.

3.2 Institutional framework

Most of the standard setting bodies in the world except for few notable exceptions like Japan and Germany, are located in the private sector. Example of countries with the standard setting body in the private sector are the U.S.A., the UK, Australia, New Zealand, and Malaysia. The International Accounting Standards Committee (IASC) which was
created through agreements between leading accounting associations in the world is also in the private sector.

A standard setting body in the private sector, while being separate from the government, could either be a division of an accounting professional body, or a separate independent body. The Financial Reporting Standards Board (FRSB) in New Zealand, and the Accounting Standards Board (ASB) in Canada are under the wing of the professional bodies, viz. the Institute of Chartered Accountants of New Zealand (ICANZ), and the Canadian Institute of Chartered Accountants (CICA) respectively. Examples of independent standard setting bodies are the FASB in the U.S.A. and the Accounting Standards Board (ASB) in the UK.

3.3 Membership of the standard setting body

A standard setting body is expected to represent the entire constituency as a whole and not be a representative of a specific constituent group. However, the selection of the voting members of the body may not be an easy task. There are questions of who should be selected and who should select them. The selected members should come from or represent the various groups that have legitimate interest in the standards (Ma, 1997). This could ensure that all the affected parties have their views considered in the standards setting process. However, like the requirements of the FASB, these members must have knowledge of accounting, finance, and business, and a concern for the public interest in matters of financial accounting and reporting. The selection process, therefore, should be done in such a way that ensures full representation.

Those responsible for selecting members of the standard setting body could also influence the selection process. In the U.S.A. and the UK, the “parent” organisations, the Financial Accounting Foundation (FAF) and the ASB respectively, are responsible for selecting the members. Membership of these “parent” organisations’ could either be nominees from sponsoring organisations and organisations that have interest in financial reporting, and government appointed members. The composition of the standard setting body’s members and the organisation that choose the former, might affect the accounting standards’ freedom from bias. Van Riper (1994) in his book on the FASB, notes that the members selected were sometimes being criticised on their backgrounds.
3.4 An Independent Standard Setting Body

In this section, a discussion on the reasons for having an independent standard setting body and the test for independence is presented.

Rahman (1992) lists reasons for the creation of independent regulatory agencies identified in accounting literature. They are:

- To serve the public interest through creation of more opportunity for interest group participation. This could be done by having more public hearings and talks and simplifying the procedures of making written submissions.
- To reduce the cost of extensive litigation, that is through having each separate body to set and enforce the standards.
- To limit the involvement of courts in the administration of social policy. In accounting regulation, approved accounting standards could be set by independent standard setters with statutory backing to guide the preparation of financial reports. Then the courts could follow the essence of the standards in deciding the cases regarding financial disclosure, for example on the issue of "true and fair" information.
- To have expertise from all sort of relevant background sitting on the board of the standard setting body. These arrangements are usually almost impossible to achieve if the body were a branch of a government agency, or a professional body.
- To have organisational and functional flexibility
- To allow for the possibility of application of legalistic and administrative approaches by the courts and the executive, when overlooking the context in which the regulation occurred.
- To detach from political control; i.e. to avoid control by the major political parties or a direct influence of their party policies
- To have an impartial and procedural due process
- To have a reasonable degree of confidentiality
- To cover the responsibilities of the federal and state, if they have the responsibilities for the formulation of approved accounting standards
• To allow for more opportunities to experiment and investigate all possibilities in the accounting standards development.

• To have a wider coverage of functions, among others include legislative, judicial and executive responsibilities that no branch is competent to do them alone.

• To balance or enhance the power of the legislative function of rule making and the executive function of rule enforcement

• To allow for the possibility of having to serve as a tribunal to safeguard the interests of the preparers (the regulated).

(Rahman, 1992, pp. 44-57)

Having noted the possible reasons for the establishment of an independent standard setting body, there is an issue of whether the established body is an independent body in true embodiment of the independence definition in accounting regulation scene. Rahman (1992) uses Fesler’s (1946) framework to test the independence of regulatory bodies. Such testing involved assessment of:

• Institutional safeguards of independence.

• Appointment, tenure and removal of members and that of the staff.

• Financial support.

• Basic authority.

• Political factors.

The issue for an independent standard setting body is to maintain and to be seen as maintaining, its independence, no matter how few “independent” features it has. A standard setting body may have a separate non-profit “parent” organisation to manage matters involving direct communications with the constituents, such as selection of members to the board and funding. In the U.S.A., the Financial Accounting Foundation (FAF) is responsible for selecting the members of the FASB and its Advisory Council, funding their activities, and for exercising general oversight. Accordingly, the standard setting body could minimise direct contact with its constituents and preferably reduce the risk of unwanted lobbying activities and power exertion from the outside parties.
The U.S.A. requires an additional independence requirement for the standard setting body. The FASB’s Board members serve full time and are required to sever all connections with the firms or institutions they served prior to joining FASB. In the UK, only the chairman and the technical directors of the ASB are full-time, while the remainder are part-time members, that is, they still hold their outside positions or jobs. These outside affiliations could become a means for the related organisations or companies to exert their influence directly on the decisions made by the standard setting body.

Another factor that might affect the independent status of a standard setting body is funding. Funding for the activities of the standard setting body could come from funds from the accounting bodies, companies, users of financial reports, and/or governments. The body itself could generate its own income from the sale of publications (for instance, the accounting standards pronouncements, and technical bulletins).

Issues arise on who should fund the standard setting body, and by how much. In New Zealand, the standard setting body, the FRSB, is funded by the ICANZ. There is also some contribution from the government through the Institute (Baskerville, 1997). Meanwhile, in the U.S.A., the FAF manages the funds for the standard setting body (FASB) activities. Voluntary contributions come from corporations, public accounting firms and professional associations.

One might argue that the party who contributes the most would have the control of the standard setting process. For example, more than half the funds contributed for the FASB’s operation are from the public accounting profession. This could result in inadequate attention being given to the interests of other groups. In my opinion, funding alone may not be a determinant of one’s domination over the standard setting body. Other factors like representation on the board, and level of participation in the process of accounting standards issuance could also be the influential.

The majority of the standard setting bodies in the world are located in the private sector, but that does not mean it is the ideal location. Members of a standard setting body should be the representatives of all the interest groups. Ideally, a standard setting body should accommodate a wide range of community interests without any group being dominant, be responsive to changing commercial conditions, and politically stable (Peirson, et al., 1990).
In addition to those, funding must be adequate so that quality accounting standards can be produced.

### 3.5 Accounting standards issuance

Beresford (1995) listed some of the ideal accounting standard setting characteristics, including sound due process, confidence of constituents that their views are given careful consideration, decision usefulness of the resulting information, neutrality of the standards, and reasonable balancing between costs and benefits.

Miller (1996) viewed that the operation of 'due process' and the access of all stakeholders to this process is integral to an open, neutral and independent accounting standard setting process. One means by which interested parties can lobby regarding a proposed accounting standard within ‘due process’ is to provide comments on exposure drafts. This type of lobbying could be seen as the “approved” method of lobbying if there is well-balanced participation from the various groups affected by the accounting standards issued. How 'due process' is structured and implemented is therefore crucial to ensure this desired equilibrium.

An example of due process used by the FASB is presented below, Reither’s (1997). Briefly, the diagram below depicts the process from the identification of issues up until after the issuance of an accounting standard.

![Diagram](image)

**Figure 3.1 FASB’s due process for accounting standard setting**
Only the FASB has its due process and all meetings open to the public. The ASB (UK) and IASC have several public hearings and consultations with a wide range of interest groups (Ma, 1997, p. 140). In contrast, meetings of the ASB (Canada), AASB, and FRSB are not open to public. In New Zealand, for example, the FRSB’s meetings are in private as independence is not a requirement to ensure confidentiality in terms of expressing opinions since there is lack of significant remuneration (therefore, the standard setters could not give up other employment/ interest) (Baskerville, 1997). However, anyone could submit standards to ASRB subject to certain requirements, among them prior consultation with the possible affected parties.

The standard setting bodies that have different levels of openness in the standard setting process, have certain characteristics that might contribute to the differences. The FASB, the ASB (UK), and the IASC are separate independent bodies, with adequate funding to run their activities. Whereas the ASB (Canada), the AASB, and the FRSB are under accounting professional bodies (except for the AASB, which is an independent body with government appointed members), and have part-time members. In addition to that, the differences might also be attributed to the standard setting bodies’ policy of setting the accounting standards. These factors in turn affect the degree of openness of the ‘due process’ and thus the opportunities for outside parties to get involved in the standard setting process.

Besides the issue of openness of the standard setting process, there are also matters such as the amount of research needed for the accounting standards, the existence or the lack of conceptual framework, implementation of the due process, and the enforcement of the accounting standards once issued. These issues while not being reviewed here, will be discussed in the analysis chapter later in the thesis.

However, to achieve an overall acceptance is not that easy. The process of accounting standards issuance could be described as both political because it is an educational effort involving in getting a new standard accepted, and not political because an accommodation is required to get a statement issued (FAF, 1977, p. 15, cited by Mathews and Perera, 1996).
3.6 Summary

In summary, standard setting bodies have to face and solve many issues, including the issues discussed above, to be able to generate accounting standards that would produce quality financial statements. As Ma (1997) puts it;

"... the existence of the standard setting body, is dependent on the acceptance of the standards by major, powerful constituent interest groups comprising generally the professional bodies, users, preparers and government regulatory bodies, that is all those affected by the standards and have legitimate interest in the standards. There is no easy way to reconcile this requirement with that of true and fair disclosure." (p.98)

It is a case by case situation. Every standard setting body in the world faces the same issues, but each might have different approaches dealing with them.

The accounting profession

The groups that are interested in the standard setting process are those who are affected by the standards and have a legitimate interest in the standards (Ma, 1997, p. 98). Generally they are categorised into the professional bodies, users, preparers, and government regulatory bodies (Ma, 1997). Miller and Redding (1989) identified three broad groups; namely the government regulators, financial statement users, and instructors of accounting (academia).

3.7 Lobbying on the accounting issues

Interest groups have a number of ways to provide input into the standard setting process, ranging from formal submissions to the standard setting body to being directly represented on the board itself. Many studies use the word “lobbying” to refer to interest groups’ participation in the standard setting process. Lobbying on accounting issues has been defined as the actions taken by interested parties to influence the rule-making body (Sutton, 1984 as quoted by Weetman, et al., 1996).
There are two forms of lobbying, formal and informal (Morris, 1986). Formal lobbying includes written submissions, position papers, questionnaire responses, and membership of the standard setting board. On the other hand, informal lobbying would cover luncheon discussions, telephone conversations, and other word-of-mouth communications. Unpublished letters are also considered as informal lobbying (McLeay, et al., 1997).

Lindahl (1987) notes that sometimes the lobbying activity is done implicitly, as lobbying can be most effective if done informally before public consideration of a matter begins in the standard setting process. For example, this is done in the form of subsidised information provision to the standard setting body.

Lindahl (1987) also suggests that lobbying could be done individually or collectively. The strength of the incentives could generate conditions to induce individual lobbying and therefore the individual is willing to bear the lobbying costs alone, regardless of whether the benefits of the outcome are shared with others. The simplest type of collective action would be a joint lobbying effort by auditing firms through private voluntary accounting profession organisations. For example, in the U.S.A., the large auditing firms lobby collectively through the national American Institute of Certified Public Accountants (AICPA).

Becker's (1983) theory on lobbying the standard setter, used by Klumpes (1998) in his study, makes the point that a single group cannot simply ‘dominate’ the political process, but must compete with others to attract political influence. Even if the group chose to lobby, a successful outcome is not guaranteed. The theory implies that competition among the interest groups determines the equilibrium structure of the costs and benefits for each group that are associated with accounting standards.

Lobbying could be an issue when there is unbalanced participation from the various constituents. The most active parties will prevail, and their interests would likely to be better served than the silent constituents. In this thesis, the terms “participation” and “lobbying” are used interchangeably.
3.8 Why the accounting profession participate in standard setting?

Professional logic argues that the accounting profession can and should set the standards. This is because accountants have the expertise and resources (Booth and Cocks, 1990). It is usual practice for an accounting professional body to have a division established to deal with accounting standards. For example, the American Institute of Certified Public Accountants (AICPA) has two committees, the AICPA Accounting Standards Executive Committee (AcSEC) and AICPA Industry committees (Hagood and Stephens, 1995). These two committees work closely with the standard setting body, the FASB.

In countries like Singapore and New Zealand, the professional body is the one who is responsible for setting the standards. For example, the Institute of Certified Public Accountants of Singapore (ICPAS), the only professional accounting body in Singapore, issue all the accounting standards, known as Statements of Accounting Standards (SAS) (Ng, 1998). In New Zealand, the FRSB is under the professional body’s (ICANZ) wing. ASRB acts solely as a reviewer for the accounting standards produced by the FRSB.

Accountants should set accounting standards because they have always held control over accounting standard setting as a part of the traditional boundaries of its discipline (Stoddart, 1999). Accounting standards could be seen as a mark of professionalism. Standards were developed when accountants wanted to prove they were a profession and not just a job. Then the accounting standards serve as benchmark, and ensure the quality of accounting information.

Wyatt (1989) mentioned in his article that involvement of the auditors in standard setting process is more of a concern about the uncertainties associated with any revision to the current mechanism than from a residual satisfaction with recent and current FASB standards. They become less directly involved due to changes in the environment, especially with more affected parties wanting to participate in the standard setting process.

As the profession was also responsible for the development of accounting standards while serving their clients, it is a difficult position to apply the standards professionally and to serve the clients’ needs in a very competitive environment within the accounting profession.
In the U.S.A., after the FASB had taken over the job of standard setting, some practitioners sought to find loopholes or shortcomings in the standards issued, in order to exploit them rather than seeking the objectives within the standards and attempting to achieve them. With this kind of behaviour, public interest may not be well served. In conclusion, Wyatt proposed that either the standard setting job should be given back to the professionals; or a lot of improvements have to be made to the FASB dealings with accounting issues and the interests groups as well.

Nonetheless, as standard setting becomes more of a process with greater political, economical and social effects, other interested parties have identified opportunities to exert their influences in setting the accounting standards, and getting the desired outcomes. In the U.S.A. for example, the business community is actively involved in the standard setting process. The accounting profession now has to share the control over the standard setting process with other parties. The sharing could either make the accounting profession the dominant party, an equal partner with the others, or lose the power to control and influence the standard setting process.

Many theories have been developed to identify factors influencing the level of the profession’s participation and influence in the standard setting process. In this chapter, three different main views will be discussed: ‘public choice’ theory of regulation, political lobbying, and corporatism/associatism. These are discussed in section 3.9, 3.10 and 3.11 respectively.

### 3.9 Public choice theory of regulation

With regard to the accounting profession as one of the interest groups, economic theories of regulation, the voting model of lobbying and positive accounting theory (PAT) theorise factors influencing the level of the accounting profession’s participation in the standard setting.

The ‘public choice’ theory of regulation (Gore, 1999; Craswell, 1995; Meier, et al, 1993), has pluralist theory as the underlying concept. Pluralism presents a view of the political process in which power is fragmented and diffused, although some individuals or groups have more power than others. The outcome of the political process is said to be dependent
on the relative strength of the interest groups involved (Van Lent, 1997). There would be bargaining processes among the groups to get the desired outcome.

Accounting standard setting is one of the venues where these bargaining processes take place. Chambers (1977) notes that, accounting standards are produced through a bargaining process and the standard setting programme is opportunistic and piecemeal (Rahman, 1992, p. 106). Accounting standards can be seen as products of a pluralistic political process in which regulations are set on the strength of the demands of the participating interest groups to fulfil the needs of the standard setters (the supplier) (Rahman, et al., 1994).

In public choice theory, all agents (the interest groups) are potential wealth suppliers, as well as demanders. Since agents are affected in their wealth by regulation, they have an interest in the regulatory process (Van Lent, 1997). If by acting individually is too costly, the possibly affected agents might combine their interests and undertake collective action. Organisation costs would be incurred instead, as anticipated by Olson (1965) (quoted in Van Lent, 1997). Then, the costs of employing a certain lobby instrument would have to be considered.

Therefore, in 'public choice' theory of regulation, the demand for a desired outcome from the standard setting process is a cost/benefit consideration. The costs would include among others, higher costs for preparing financial reports, and the failing ability to attract potential investors due to strict measurement requirements. Benefits come in various forms. For instance, the lobbying group could reduce the costs of preparing financial reports if certain proposed standards were not issued, or that the prepared reports would have disclosures that attract potential investors if certain proposed standards were to be approved and issued.

Lindahl (1987) considered the outcome of the standard setting process as a pure public good, whereby the benefits of a new standard or the benefits of overturning a proposed harmful standard are available to all, whether they contribute to the outcome or not. Therefore, to induce lobbying, certain criteria must be met. Utilising Olson’s (1965) theory of collective action and complementing Sutton’s (1984) work on lobbying behaviour, Lindahl (1987) discussed two main cost-benefit criteria that induce accounting firms in the
U.S.A. to involve themselves in the standard setting process. The criteria are the differential wealth effect, and the likelihood of successful lobbying. Other theories and findings under the “public choice” theory of regulation are discussed under these two criteria headings.

3.9.1 The differential wealth effect
The differential wealth effect means that the benefits from getting involved in the process should be more than the costs that the accounting profession has to incur. Three issues in which this cost/benefit consideration takes place are identified as; clients’ interest, safeguarding the profession, and audit risk.

Clients’ Interest
Lindahl (1987) argues that public accounting firms, being private partnerships, have less stake in what the standards are, but a stronger interest in the process by which standards are set. They are unlike public companies, which have separate stakeholders with the management having to report to them accordingly. The accounting firms’ interest in the form of the accounting standards is derived mainly from their clients’ own interest in the standards.

Their clients, namely the financial report preparers, would favour certain elements of the proposed standards over others. As long as there is substantial agreement among clients and the accounting firms themselves do not object to the standards on their merits, the firms can improve their client relations by supporting them.

In Watts and Zimmerman’s model, in large professionally managed companies, the power to hire and fire an auditor is delegated to the management, thus giving management the opportunity to influence auditor lobbying positions. Watts and Zimmerman (1982, 1986) argue that the auditor’s position on a proposed standard is positively related to the client-manager position. If the proposed standard resulted in an increase of reported income, it would also increase audit revenue. Differences of opinion on proposed accounting issue may lead to the replacement of auditors. The auditors would not want this to happen, as it would mean a source of income is lost. Therefore positions of both client-manager and auditors will be affected by a standard’s effect on wealth.
The modified model of auditor lobbying in Meier, et al. (1993) hypothesised auditor lobbying as a function of a client’s position on a proposed standard, auditor wealth effect variables (for instance an increase in revenue) and audit risk. The study was done in the U.S.A., on the auditors’ lobbying position with relationship to their banking, and saving and loan clients. The relationship is shown below:

\[
\text{Client-manager position} = f(\text{standard's effect on both firm value and management compensation}) \\
\text{Auditor's position} = f(\text{standard's effect on both the client's firm value and the available set of accounting/auditing procedures; the standard's potential for wealth transfer to the auditor})
\]

Puro (1984, 1985) pointed out that although audit firms did support their clients’ position on measurement issues when lobbying the FASB, they did not support their clients in disclosure matters (Van Lent, 1997, p.110). However, the findings of Van Lent’s (1997) study in the Netherlands did not corroborate Puro’s theory, as he found that the audit firms supported their clients’ positions on both disclosure and measurement issues. The study confirmed Watts and Zimmerman’s audit fee hypothesis, and pluralist notion that only big/large audit firms are involved in lobbying the standard setter.

Meier, Alam and Pearson (1993) confirmed that the auditor’s lobbying position on a proposed accounting standard is a function of both the client’s position on the standard and the effect of the proposed standard on audit risk and auditor’s wealth. Van Lent (1997) found that the auditors did adhere closely to the preferences of the companies to which they were affiliated (Van Lent, 1997, p.111).

*Safeguarding the profession*

The accounting profession’s interest in the standard setting process could be said to be in their best interest. They are concerned about the institutional arrangements by which standards are established (Lindahl, 1987). They want to either keep the arrangement as it is or change it as desired.
Lindahl (1987) specifically identifies the reasons behind the CPA partnerships lobbying activities in the U.S.A.. Firstly is to keep government's interventions to a minimal in the profession's activities. If the standard setting responsibility is delegated to the public sector, sooner or later, it is not impossible that the government will regulate and control the accounting and auditing services' prices. The accountancy firms in the U.S.A. did not want this possibility to happen, as they perceived the situation as losing control over their own profession (Lindahl, 1987).

Secondly, the accounting profession lobbies the standard setting process because they see it as part of conduct to maintain the profession "brand image" (Lindahl, 1987; Van Lent, 1997). In the U.S.A., the big accounting firms want to protect their standing as a member of the Big Eight (now Big Four)\(^1\). If they were to withdraw from the standard setting activities, they believed they would lose influence and power, or decline in size.

**Audit risk**

In addition to the above, Gore (1999) points out the accounting profession is concerned for an increase in the amount and quality of their audit work (due to changes in their liability to third parties other than their clients) would induce them to lobby the standard setting process. Accounting standards calling for additional disclosure would reduce audit risk, whereas standards, which advocate the use of non-traditional accounting procedures, would increase the risk.

The demand for auditing suggests the ability of preparers, creditors and others to shift the responsibility for reported financial data to the auditor. In the U.S.A. and UK, there are many lawsuits that highlighted audit failures, especially the ones rising out of take-overs based on (allegedly) faulty audited financial statements. Therefore any potential changes affecting the auditors' liability to others due to any proposed standard would drive them to lobbying the standard setting process.

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\(^1\) Since 1989, mergers have reduced the number of major accountancy firms from eight to four. Throughout this chapter, the number of those big firms changes according to the time when the referred studies were done.
- Big 8 (1970s-1989)
- Big 6 (1989-1998)
- Big 4 (2002 - )

([http://en.wikipedia.org/wiki/Big_4_accountancy_firm](http://en.wikipedia.org/wiki/Big_4_accountancy_firm))
3.9.2 Power to influence

Other factor that leads to lobbying activities by the accounting profession is the belief that they can influence the outcomes. The chance of affecting the outcomes depends on the confidence and capability of the lobbying party to assert their influences in the standard setting process. For example, the big four auditing firms are seen to have strong voices, and are usually represented on any committee, for example, the FASB.

Gore (1999) adds another factor to Sutton’s work that is the ability to identify obscure issues and to perceive their implications. This is possible for accounting firms that have a significant research capability to devote to analysing a conceptual framework and hence discovering such “hidden” effects (Gore, 1999).

Another argument put forward by the proponents of positive accounting theory to support the accounting profession’s participation in the standard setting process is the size of the accounting firms. Puro (1985) found that Big Eight accounting firms were more regular participants in the standard setting process than were either small/medium-sized audit firms, based on an analysis of responses to seven Exposure Drafts published by the FASB (Tandy and Wilburn, 1992). Van Lent (1997) also found the same evidence in Netherlands. Only the Big Six firms at that time played a part in the standard setting process (Van Lent, 1997, p.110). Puro argued that the small accounting firms do not participate because they believe either that they have no interests at stake in FASB deliberations, or that their interests will be presented by other audit firms (Tandy and Wilburn, 1992).

Gore (1999) suggests that research capability is determined by possession of staff with the necessary expertise and a sufficient wealth or fund to sustain their assignment to such a task. He hypothesises that as the Big Five accounting firms have this capability, they would be more likely to lobby compared to other smaller accounting firms. This is supported by Van Lent (1997) who concluded that as lobbying is costly, then lobby efforts are said to be dependent on the resources at an agent’s disposal.
Kelly (1985) (quoted in Lindahl, 1987) explains further on the link between firm conditions and observed lobbying behaviour. Below is her implied chain of events:

\[
\text{Firm characteristics} \rightarrow \text{economic damage} \rightarrow \text{decision to lobby}
\]

(high leverage) from proposed standard

However with accounting standards being public goods, there is the problem of the free-rider. If the amount of economic damage is not sufficient to motivate lobbying then firms may decide not to be involved, since they can still share the benefits of lobbying activities undertaken by other firms. Nevertheless, the model would apply to those "other firms" whose benefits from rejection of the standard would be greater. Therefore, even by recognising the free-rider problem the link between the economic damage and decision to lobby may still be valid (Meier, Alam and Pearson, 1993)

3.9.3 Limitations of the "public choice" theory of regulation

Booth and Cocks (1990) identified several limitations of the theories discussed above. The theories fail to acknowledge that the choice of appropriate accounting standards is a social one; it cannot be fully solved through empirical effects of competing models.

In addition to that, pluralism assumptions might not be consistent with the political process in the development of accounting standards (Walker and Robinson, 1993). Often the standard setting process involves complex and dynamic interactions between agencies, whereas pluralism does not explicitly address the intricacies of inter-organisational relationships.

The proponents of the "public choice" theory of regulation argue that there are empirical problems of examining the covert and latent conflicts, as lobbying success depends on secrecy. Therefore not all aspects in the standard setting process are apparent and available to researchers.

Nevertheless, the limitations of the above theories are of value to this discussion. Since standard setting operates within a political context, there is a need to consider the issues of power and conflict to fully analyse how standards are produced (Cooper and Sherer, 1984).
Even though positive accounting theory has a definition of power and conflict, its definition is restricted. Conflict is constructed through a pluralist conception of society and power is equal to the ability to bear transaction costs to achieve self-interest.

3.10 Power Play: A Political Lobbying Perspective

Hussien & Ketz, (1991) used political lobbying/political science theory to study the possibility of the big accounting firms’ domination of the standard setting body (FASB). In theory, the ability to dominate the standard setting body depends on whether the socio-political structure within which the body operates enables or constrains the big accounting firms and their clients’ potential to dominate the standard setting body (Hussien and Ketz, 1991). This means that the attributes of the standard setting body and its surroundings determine whether the accounting profession and other interest groups could exercise power and influence over the standard setting body within the social system.

The power can be used to limit the scope of actual decision making to ‘safe’ issues, resulting in the deterrence of new regulations. Thus, what ever there is, it comes from the overt influence attempts that there is a third dimension of power, latent conflict, in which power is used to shape people’s preferences so that no conflicts at all arise (Van Lent, 1997).

3.11 Mediator: Corporatism

Corporatism/associatism (Puxty, et al, 1987; and Susela, 1996) which is a product of critical accounting school of thought considers standard setting as an efficient way to align private interest groups with the state’s need to maintain social order and productive activity. The model shown on the next page is a modified version of Puxty, et al (1987) and Streek and Schmitter (1985) identifying the organising principles in accounting regulation.
Figure 3.2. Framework for understanding the accounting standard setting process

In the model, the accounting profession is seen as

... a central principle of 'concertation' or negotiation within and among a limited and fixed set of interest organisations that mutually recognise each others' status and entitlements, and are capable of reaching and implementing relatively stable compromises (pacts) in the pursuit of their interests.

(Susela, 1999b, p.20)

The accountants become the negotiator and consultant for the government, society and market groups. Accountants are the professional people in accounting matters and have the in-depth knowledge needed to be aware of, understand, and solve any matter brought to their attention by other interests groups. These advantages are then recognised by government by granting the accounting profession privileged access to the policy making process (Walker, 1987).
3.12 Discussion and conclusion

Sutton (1984) and Lindahl (1987) note that the success of lobbying is likely to depend on the unobservability of the lobbying agents' activities, therefore the analysis of only the comment letters is unlikely to be the most effective lobbying research method (Van Lent, 1997, p.89). Furthermore, lobbying is likely to be a multi-issue, multi-period process, as Amershi, et al (1982) study has found (Van Lent, 1997).

Accordingly, a research method that could incorporate all lobbying methods is desired. Walker and Robinson (1993) suggest the use of case studies to better understand the influence of different interest groups and the methods used to exercise their influences (pp.30-32). Examples of recent studies that use this approach are Van Lent (1997), Susela (1996), and Rahman (1992).

All the empirical findings of accounting profession's participation in standard setting reviewed here could be divided into two parts. The standard setting process could be dominated by the accounting profession (Susela, 1996; Walker, 1987) or not (Stoddart, 1999; Mc Leay, et al, 1997; Tandy and Wilburn, 1992; Hussien and Ketz, 1991). The studies concluded this is due to either the profession works together with the government (Stoddart, 1999), or the preparers and/or other interest groups dominate the standards setters (Tandy and Wilburn, 1992).

These findings however need to be taken with caution. The differences in findings could be attributed to different countries studied. Gore (1999) noted that most studies of accounting lobbying examined the formulation of financial reporting regulation in the Anglo-American world, especially in the U.S.A., UK, and Australia (Tandy and Wilburn, 1992, 1996; Meier, 1993; Gilfedder and O hOgartaigh, 1997; Gore, 1999; Walker, 1987; and Simms and Cullis, 1995). This is due to the researchers' background, and similarity of the reporting environment, such as the standard setters are in private sector, and the use of "due process" for the standard setting.

Other than the above studies, two studies reviewed were geographically based in Germany and Netherlands (McLeay, et al, 1997; and Van Lent, 1997). Still, both countries are considered as developed countries. Studies on accounting issues in developing countries
are many, but only one found to cover in some extent the lobbying issue, a research by Susela (1996). As developing countries may not necessarily have the same characteristics with the developed countries, to apply the findings in the latter to the former may not be a wise action. This lacking further instigates the need for the proposed research to be carried out.

Hence, with the identified intensity of and reasons behind the accounting professionals' lobbying efforts, there is still further possibility for new explanation or theories, in particular for the accounting profession in the developing countries. Could we see the lobbying act as a manifestation of the professionals' effort in maintaining their "professionalism"? This would fall back on issues such as accountants as the expert and keeper of the "special body of knowledge" and the guardian of the "public interests". The question is even more interesting to apply to countries that have a separate independent standard setting body from the professionals' organisations.

3.13 Summary
In this chapter, we have discussed the issues faced by standard setting bodies and the accounting profession as one of the lobbying group in the standard setting process. It has been found that a standard setting body could be facing with issues such as independence, and sound ‘due process’. The accounting profession lobby the standard setter if the are more benefits than costs to gain from the lobbying efforts. It is also a question of protecting the profession and maintaining the degree of professionalism.
CHAPTER 4

Research Design and Methodologies

4.1 Introduction

This chapter discusses the methods used to collect data and the procedures applied in analysing the data. At the beginning of the study, a preliminary research was done to collect relevant literature on standard setting and the involvement of the accounting profession. Research questions were then developed and research methods selected to gather the relevant data. Two approaches were used, namely document analysis and survey questionnaires. They were chosen as the most suitable strategies to access the kind of data needed for the study, and their feasibility. The data analysis is presented in a narrative form, which is suitable for analysis that is factual and descriptive.

The rest of this chapter is organised as follows. Firstly, the preliminary research for the literature review is outlined in section 4.2. This is followed by section 4.3 which discusses the research design. The research is divided into two phases, Phase I: the document analysis, and Phase II: the questionnaire survey. Both are outlined in section 4.4 and 4.5 respectively. Section 4.6 explains the methods for the data analysis. Section 4.7 examines the issues of practical implementation of the research methods and section 4.8 provides a summary of the chapter.

4.2 Description of preliminary research- the literature review

At the beginning of this study, a literature review was performed in order to establish who had done what, when and where the latest research studies were completed, what approaches involving research methodology, instrumentation, and statistical analyses were followed, and the outcomes of the studies.

The following key words were used to conduct the literature search: standard setting process, accounting standards, accounting profession, and lobbying in standard setting process. These were entered into the computer database of Lincoln University Library
Catalogue and other New Zealand universities, ABI/INFORM database, First Search databases, and a general search on the Internet. References used by recently published articles were also used in the search of primary articles for the literature review.

The findings of the literature review were as previously discussed in Chapter 3. In summary, it was noted that there is a need for a comprehensive study of the MASB as the new independent standard setting body and of the accounting profession's participation in the standard setting process in Malaysia. Based on that, research questions were developed and research methods selected.

### 4.3 Research Design

Revisiting the research questions, they are as follows:

1. What were the institutional arrangements in Malaysia by which accounting standards were established in the period of 1997-1999?

2. Did the interest groups support having a separate independent body to set the accounting standards?

3. How did the interest groups influence MASB's activities in setting accounting standards?

4. Did accounting professionals have a strong influence on the MASB as compared to other interest groups?

All counted, the two main objectives of this study are to find out what is the arrangement for setting the accounting standards in Malaysia between 1997-1999, and what is the situation for the accounting profession in that arrangement.

In order to get the information needed, qualitative research methodology is used to generate the required data. As the nature of the research questions is exploratory and descriptive, analysis of archival records (existing documents) and surveys were chosen as the research strategies. Both document analysis and surveys are appropriate for answering "who", "what", "where", "how many", and "how much" questions (Yin, 1994, p.5-6).
In addition to the consideration that the two approaches were thought to be appropriate for the research objectives, there are several other considerations for both and each of the chosen methods. Both methods are relatively low in cost, and geographically flexible (Denscombe, 1998). They are economically efficient as a considerable amount of data could be gathered for a relatively low cost. Documents could easily be obtained by post, and the mail/e-mail survey could reach widely dispersed samples. As the subjects of the research are in Malaysia, these two attributes are considered important for the efficiency of the research.

The document analysis method enables researchers to study past events and issues. In the present study, past information is needed particularly on events and issues relating to the establishment of the MASB. Secondly, this method is quick and usually has easy accessibility. With present technology, computers are used to access “soft” documents on the Internet, and the web sites of related organisations. Thirdly, document analysis could provide high quality information as the information exists without bias from the researcher’s requirements and needs. This, to an extent, could assure good internal validity (Miller, 1993, p.141).

A self-completed survey is easier to arrange compared to interviews and case studies. The survey questionnaire could simply be sent to the sample unannounced (Denscombe, 1998). The researcher does not have to seek preliminary consent to participate in the survey. Secondly, it permits more considered answers, as the respondents have time to complete the questionnaire. This is more appropriate in situations where the respondent has to check information before answering. Last but not least, the survey questionnaire strategy usually reports the findings in aggregate, and provides anonymity and confidentiality which could encourage people to respond (Miller, 1993).

In short, two types of research methodologies are used in the present study, namely documentary analysis and a survey questionnaire. The documentary method findings provide the basis for understanding the standard setting arrangements in Malaysia. It also helps to design the second stage of the research, the questionnaire survey. The questionnaire survey is apt for understanding how the interest groups perceived the current standard setting arrangements in Malaysia. The combination of both strategies would make
Chapter 4  
Research Design and Methodologies

a better description of the current situation the financial accounting standards setting scene in Malaysia.

4.4 Phase I: Document Analysis

Documentary research is secondary analysis, as the documents are not primarily developed for the study in which they are used. For the purpose of the present study, one form of documentary research was used, the descriptive-comparative research. This form of research utilises documents to describe events in question, and to facilitate comparisons over time. It is based on first level factual information, without manipulating or otherwise analysing the documents (Sarantakos, 1998, pp 274-276).

In terms of the present study, the document analysis allows the descriptions of the circumstances of financial accounting standards setting process in Malaysia between the period 1997-1999, and also the activities of two accounting professional bodies, the MIA and the MICPA. It also helps to base the next phase of the empirical study, viz. the questionnaire survey.

4.4.1 Data collection

Several types of document were identified for use in the study. The documents include newspaper clippings, annual reports, journal articles, and documents gathered from the Internet and through e-mail correspondence, relating to standard setting scene in Malaysia. These types of document were chosen based on their availability, accessibility and relevance to the researcher. The time frame is limited to between 1996 to 1999.

The Internet was the main source for the documentary research. Hours have been spent browsing and downloading materials from several websites. Among the useful websites are websites for the MASB, MIA, MICPA, Finance Ministry of Malaysia, the ACCA branch in Malaysia, and several local universities. The data is normally up-to-date and comprehensive.

Some of the documents were also acquired through post, sent by several related organisations. Annual reports for years ranging from 1996-1999 were collected from the MASB, and the two professional bodies, the MIA and the MICPA. Newspaper clippings
particularly on the events relating to the establishment of the MASB were also obtained from these three organisations. The Finance Ministry of Malaysia has provided a copy of the Financial Reporting Act 1997.

E-mail communication with personnel from the MASB, MIA, and MICPA has also provided additional data. Ambiguities of some of the issues were clarified by information gathered from these communications.

4.5 Phase II: Questionnaire Survey

By definition, a questionnaire survey is a method of data collection in which information is gathered through respondents providing answers to written questions. Data are offered by the respondents, with limited interference on the part of the researcher (Sarantakos, 1998, pp.223-224).

There is little published data available on the views of the interest groups, in particular the accounting profession, on the standard setting process in Malaysia and the MASB after its establishment. The purpose of the questionnaire survey is to gather views on the current arrangement for the standard setting process in Malaysia. Questionnaires were sent to groups and individuals that were deemed to have an interest in the standard setting process in Malaysia.

The next three sections discuss sample selection, questionnaire construction and the administration of the questionnaire survey.

4.5.1 Sample selection

A non-probability sample was considered appropriate for the study, as the nature of the questionnaire requires that the sample posses knowledge or be aware of the developments of financial accounting standards in Malaysia. A selective sampling method could ensure that the chosen sample meets the requirement. It was also the most practical choice available to the researcher.
The sample was derived from various groups that had an interest in the standard setting process in Malaysia as identified in Susela’s study (1997). The sample has been categorised according to the general classifications of interest groups found in many studies (for example Susela (1999), Ma (1997), Rahman (1992)). They are as follows:

**Regulatory bodies:**
1. Treasury
2. Registrar of Companies
3. Bank Negara Malaysia (the Central Bank)
4. Securities Commission
5. Kuala Lumpur Stock Exchange (now Bursa Malaysia)

**Profession:**
1. The “Big Five” public accounting firms
2. Small and medium sized public accounting firms

**Users:**
1. Investors
2. Financial analysts
3. Financial institutions

**Preparers:**
4. Listed corporations
5. Unlisted corporations

**Academics:**
Accounting lecturers (from selected local universities)

A total of 173 individuals were identified for the sample. They were chosen from lists of committee members, top executives/management, senior officers of the selected organisations, or accounting lecturers from several local universities.
The sample was contacted through two means, mail and e-mail. Whenever the selected respondents have both postal and e-mail addresses, the latter was used to contact them, as it is faster and more efficient than the former.

Three methods were used to gain full addresses of the respondents. First, the Internet was used to get e-mail addresses of some of the respondents. Some of the organisations’ websites, especially the regulator agencies and the universities, provided the e-mail addresses of their personnel.

Second, some of the e-mail and postal addresses of the organisations’ committee members, academicians and accountants were obtained through formal and informal e-mail correspondences with several people in Malaysia that were known to the researcher.

Third, the MICPA’s List of Members booklet was used to obtain the full postal addresses of most of the accountants. However, not all of the selected samples are members of MICPA. For those who are not members of the MICPA, they were contacted at the MIA’s registered main office in Kuala Lumpur.

The figure below shows the distribution among the groups.

<table>
<thead>
<tr>
<th></th>
<th>Initial</th>
<th>Final</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulatory bodies</td>
<td>36</td>
<td>36</td>
</tr>
<tr>
<td>Profession</td>
<td>90</td>
<td>80</td>
</tr>
<tr>
<td>Users</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Preparers (+ corporate accountants)</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Academics</td>
<td>33</td>
<td>30</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>173</td>
<td>160</td>
</tr>
</tbody>
</table>

Table 4.1. Composition of Selected Sample Group

Elimination was done after the letters and e-mails were sent out. They were eliminated due the letters sent out to them returned unopened, as they have moved to new addresses unknown to researcher.
4.5.2 Format of the questionnaire

The survey asks the respondent's views on several issues regarding the standard setting process, namely lobbying methods, interest groups, and the institutional arrangements of the standard setting body.

There were fourteen questions that the respondents were required to answer. For the benefits of the analysis of the survey later, the questionnaire is divided into five parts:

- Part I - General information about the survey
- Part II - The accounting standard setting process in Malaysia
- Part III - The interest groups in the standard setting scene in Malaysia
- Part IV - The Malaysian Accounting Standard Board (MASB)
- Part V - Background

A copy of the questionnaire is included as Appendix 1

A combination of closed response and open ended questions were used. The closed response format was used for questions that require the respondent to evaluate the issues identified. A 5 point Likert scale was used to measure the respondent's attitudes. Other closed ended questions used a format that required the respondent to choose between two or more given answers. The answers provided are directly comparable from respondent to respondent. The closed response format makes the questionnaire easier to answer, and easier to analyse.

The open ended questions were utilised to gather respondent's rationale or explanation of their attitudes towards issues or subjects in the questionnaire. This format gives the respondents freedom to answer the questions with their ideas and in their own words, instead of being restricted to given alternatives.

4.5.3 The questions

Part I gives a brief explanation on two terms used in the questionnaire, namely "the MASB" and "interest groups". A general instruction on how to answer the questionnaire was also outlined.
In Part II, three questions require the respondent to evaluate the methods used by various interest groups to provide their input into the standard setting process in Malaysia.

Part III aims to discover the respondent’s view on the degree of participation of the identified interest groups in the standard setting scene in Malaysia. There are also opinions seeking questions specifically on the roles of the accounting profession in the standard setting process.

Part IV asks questions that are designed to seek the respondent’s views on the establishment of an independent standard setting body, and the MASB in particular.

Finally, in Part V, a series of demographic questions are asked to help categorise the respondents.

4.6 Data analysis

For the documentary strategy, the data analysis is simple as no interpretation or manipulation of the documents' content was made. Data needed for the analysis was taken as it was reported. The findings become the major part of the descriptive section of the analysis.

Simple statistical analysis is run for the questionnaire survey findings. Among the analysis are frequencies and mean analysis. No detailed statistical analyses were made as the research is more interested in the content of the responses gathered from the survey, to answer the research questions.

The data analysis is presented in a combination of simple statistical reports and narration. This format is also used in studies such as those by Stoddart (1999), Van Lent (1997), McLeay, et al (1997) and Walker (1987). This format is suitable for analysis that is factual and descriptive as intended for this study.
4.7 Summary
Two research strategies were chosen to find out the current arrangement for financial accounting standards development in Malaysia and the role of accounting professionals in the process. In answering the research questions, document analysis and survey questionnaire were used, as they were the most effective methods under the conditions. The document analysis was intended to gather facts and descriptions of events and issues surrounding the standard setting process and the MASB, whereas the survey was to collect the various interest groups' views on the issues identified from the document analysis.
CHAPTER 5

Documentary Analysis: Results and Analysis

5.1 Introduction

The main purpose of the thesis is to find out about the party or parties who is/are responsible for setting the financial reporting standards in Malaysia. Officially in 1997, the MASB was established with the authority to set the standards. Previously, the two professional bodies in Malaysia, the MIA and the MICPA carried out the task. While studies on the standard setting process before the establishment of the MASB have been found in the literature (Susela, 1996, 1999; Hai and Soon, 1997), there are few comprehensive studies done since the MASB has been in place. Thus, the present study contributes to this gap in the accounting literature. Chapters 5 and 6 report the findings of the documentary analysis and the questionnaire survey respectively.

Section 5.2 describes the type of documentary analysis carried out and outlines the presentation method of the findings and discussion. Sections 5.3 through 5.7 report the findings of the documentary analysis. For most of the sections, there is a subsection for discussion. Several other sections share one discussion part. The research findings provide support for the issues faced by standard setting bodies and the theoretical explanations on the accounting profession participation in setting the accounting standards identified in the previous chapter on related literature. Finally, some concluding remarks are provided in Section 5.8.

5.2 Documentary Analysis

The documentary analysis has resulted in the gathering of information on the MASB and the two accounting professional bodies, the MIA and the MICPA. As the study is descriptive in nature, a particular arrangement is followed to achieve a logical order. The facts and information are presented with minimum changes to the initial wordings and presentation, so as not to disrupt or change the original reported information. The facts are then followed by discussions to answer the research questions of the study, which are:
1. What were the institutional arrangements in Malaysia by which accounting standards were established in the period of 1997-1999?

2. Did the interest groups support having a separate independent body to set the accounting standards?

3. How did the interest groups influence MASB's activities in setting accounting standards?

4. Did accounting professionals have a strong influence on the MASB as compared to other interest groups?

It is important to note here that research questions numbers (2), (3), and (4) would also be addressed in the questionnaire survey.

5.3 Institutional framework

This section outlines the standard setting framework in Malaysia. It identifies and introduces the bodies that are involved in the standard setting process after the establishment of the MASB.

Under the new Financial Reporting Act 1997\(^1\), two bodies were established, the Financial Reporting Foundation and Malaysian Accounting Standards Board.

Figures 5.1. Malaysian Accounting Standard Board's Organisational Structure

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\(^1\) From here on, the Financial Accounting Act 1997 is referred to as the Act.
The Malaysian Accounting Standards Board (MASB) is the operating arm of a three-part organisational structure represented in Exhibit 5-1. Under the Act, the MASB is simply referred to as a body by the name of the "Malaysian Accounting Standards Board". The Act does not specify whether the Board is a separate legal entity or not. The MASB commenced its activities on 1st July 1997.

The Financial Reporting Foundation (FRF) is the parent organisation. The Foundation is recognised as a separate legal entity\(^2\) under the Malaysian Financial Reporting Act 1997, Section 3. The Foundation has nineteen (19) members who are appointed by the Malaysian Minister of Finance. Seven (7) of the members are ex-officio representing the Malaysian broad spectrum of interest groups. The representatives are from:-

- The Treasury (the Finance Ministry of Malaysia);
- Bank Negara Malaysia (the Central Bank);
- Securities Commission (SC);
- Registrar of Companies (ROC);
- Kuala Lumpur Stock Exchange (KLSE);
- Malaysian Institute of Accountants (the Chairman); and
- The MASB (the chairman).

To maintain a link between the FRF and MASB, the chairman of the MASB is represented as an ex-officio member on the FRF. The other twelve members consist of:

- five principal officers\(^3\) of public listed companies;
- four public accountants with more than ten years of experience in an accounting firm;
- one advocate and solicitor with more than ten years of experience in a legal firm; and
- two other persons with relevant experience and background.

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\(^2\) The FRF's has perpetual succession and a common seal. It may sue and can be sued in its name, may enter into contracts and deal with properties.

\(^3\) Principal officers are individuals who are responsible for the conduct of the business and administration of the public listed company, including the non-executive chairman, according to the Act.
The Chairman of the Foundation is selected and appointed by the Minister. The FRF, as a trustee body, has responsibility for the oversight of the MASB's performance, and acts as an initial source of views for the MASB on proposed standards and pronouncements. The Foundation is also responsible for the financial arrangements of the MASB. It has no direct responsibility with regard to standard setting, as this responsibility rests solely with the MASB.

The advisors to the MASB, are to represent the Securities Commission, the Central Bank of Malaysia, and the Registrar of Companies. They are appointed by the Minister from amongst persons who possess knowledge and experience in the field of accountancy, law, business or finance. These advisors are not the same individuals as the ones on the Foundation. They have the right to attend meetings of the Board but do not have a right to vote.

5.4 The organisation of the MASB:

The MASB is the sole authority who has the power to set the accounting standards. In this section, an account on the organisation is given. The description covers the composition; appointment, tenure and removal; finance and funding; and scope of functions of the MASB.

5.4.1 Composition

The MASB is a part-time board. The members are permitted to hold outside jobs and affiliations while serving on the Board. The MASB is made up of eight members who are appointed by the Minister of Finance. At least five members should be members of Malaysian Institute of Accountants (MIA).

A list of MASB members for the period 1997-1999 is provided in Figure 5.2.
<table>
<thead>
<tr>
<th>Name</th>
<th>Affiliations (as until 1999)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raja Datuk Arshad (Chairman)</td>
<td>Executive Chairman, Price Waterhouse</td>
</tr>
<tr>
<td>Dato’ Mohamed Adnan Ali</td>
<td>Accountant- General of Malaysia</td>
</tr>
<tr>
<td>Encik Ahmad Mustapha Ghazali</td>
<td>Managing Partner, Kassim Chan &amp; Co./Deloitte Touche Tohmatsu</td>
</tr>
<tr>
<td>Encik Abdul Samad Alias</td>
<td>Deputy Country Managing Partner, Arthur Anderson</td>
</tr>
<tr>
<td>Tuan Syed Fahkri Barakbah</td>
<td>Group Finance Director, Sime Darby Bhd.</td>
</tr>
<tr>
<td>Dr. Neoh Soon Kean</td>
<td>Chairman and Chief Executive Officer, Dynaquest Sdn. Bhd.</td>
</tr>
<tr>
<td>Dr. R. Thillainathan</td>
<td>Director of Finance, Genting Bhd.</td>
</tr>
<tr>
<td>Dr. Nordin Hj. Zain</td>
<td>Head of Department of Accounting, Kuliyyah of Economics &amp; Management (Sciences), International Islamic University, Malaysia</td>
</tr>
</tbody>
</table>

Table 5.2. Members of the MASB for the period 1997 - 1999

From the table, we find that the Board comprises of the Chairman of the MASB (from an auditing firm), the Accountant General of Malaysia, two from auditing firms, three from big public companies, and one from the academic group.

The MASB membership can be said to be more or less dominated by those who are in accounting practice (at least four out of eight members). The Chairman is the executive chairman of PricewaterhouseCoopers in Malaysia, one of the Big Four auditing firms. Detailed account on the selection of members to the Board is presented in the next section.

5.4.2 Appointment, Tenure and Removal

The MASB's members were appointed by the Minister of Finance with specific criteria as outlined in the previous section. All appointed members must possess knowledge and experience in the field of accountancy, law, business or finance. At least five out of the
eight members of the Board must be members of the MIA⁴. This requirement should ensure that the appointed members have the necessary expertise and knowledge to carry out the functions of the Board.

Members of the Board could hold their appointments for a term not exceeding three years. The members could be re-appointed to the Board for one successive term only. However, being a member of the Board is not a full-time job. Board members are not entitled to any remuneration but may be paid such honorarium and travelling and subsistence allowances as the Minister may determine.

A person is disqualified from being appointed to or ceases to be a member of the MASB, if he or she:-

1. is of unsound mind or is otherwise incapable of performing his/her duties;
2. has been convicted and sentenced to imprisonment for a term of not less than one year;
3. has been convicted of an offence involving fraud, dishonesty, or moral turpitude; or
4. is bankrupt.

A member could resign his or her office at any time by written notice addressed to the Chairman, while the Chairman has to address the notice to the Minister. However, the Minister has the power to revoke the appointment of any of the MASB members without assigning any reason, if the Minister thinks it is expedient to do so. Any member ceases to hold his/her office upon his/her death. In addition, a member is deemed to have vacated his/her office upon his/her failure to attend three consecutive meetings of the Board without leave of the Chairman, and in case of the Chairman, the Minister's.

⁴ In Malaysia, the word "accountant" is protected. This is provided for under provisions of the Accountants Act 1967, which states that no one can hold himself out or practise as an accountant unless he is registered with the Malaysian Institute of Accountants (MIA). Sections 22 and 23 of the Act require a person residing in Malaysia to be registered with the MIA if he:–

- Practises or holds himself out as a public accountant, registered accountant, licensed accountant, auditor, tax consultant or tax advisor or any other term of like description;
- Adopts, uses or exhibits the above mentioned terms or any other term of like description; or
- Adopts, uses or exhibits the term "accountant" or any term of like description in such circumstances as to indicate or lead people to infer that he is a public accountant, registered accountant or licensed accountant or that he is qualified by any written law to practise the profession of or is in practice as a public accountant.
Other than the members of the MASB who are appointed by the Finance Minister, the FRF may employ any person to assist the Foundation and the Board in carrying out their functions. The Foundation may also employ a Technical Director whose functions and duties include assisting the Board in the day to day administration of the Board and in the performance of its functions under the Act. The FRF is responsible for paying out remuneration and allowances to, and setting the terms and conditions for, those employed.

5.4.3 Finance and Funding

Generally, the FRF is responsible for all financial arrangements for the Board. Specifically, under Section 4 of the Act, the FRF’s functions relating to financial arrangements for the MASB are:

a) to be responsible for the financing arrangements and operations of the MASB;
b) to approve the MASB budget;
c) to administer the fund established to finance the ongoing operations of FRF and MASB including management of funds not expended on operations during any period;
d) to appoint an auditor for the purpose of auditing the annual statement of accounts;
e) to forward the annual statement of accounts and audit report to the Minister of Finance, and report on the activities of the FRF and MASB at the end of each financial year.

The fund administered by the Foundation has an established source of income, the government itself. The government would provide the fund with the sum required from time to time. Any groups or person including industry groups and corporations may make contributions to the fund at any time.

Other sources of income include fees or other charges paid to the Foundation or the Board; for example, the sale of accounting standards publications. The Foundation could also make other financial arrangements, for instance borrowing money from financial institutions, in order to carry out the functions of the FRF and the MASB.
Initially, at the inception date in 1997\(^5\), the Foundation has received RM30 million capital grants from the government of Malaysia, Securities Commission and the Kuala Lumpur Stock Exchange (each RM10 million). Since the MASB’s establishment up until year 1999, no other interest groups or individuals have contributed to the fund.

The fund is used for paying any expenses for carrying into effect the provisions of the Financial Reporting Act 1997. In other words, the fund is used to pay for expenditure incurred or accepted by the Foundation and the Board in the performance of their functions or the exercise of its power under the Act. They include expenditure lawfully incurred by the Foundation or the Board including fees and costs, legal or otherwise, and the remuneration of and other allowed payments for the staff employed by the FRF.

5.4.4 Scope of functions of the MASB

Generally, the MASB is established under the Act with the primary responsibility of continually improving the quality of external financial reporting in Malaysia and to contribute directly to the international development of financial reporting (Foreword to MASB Standards, July 1998).

In accordance with Section 7 of the Act, the MASB, as a technically independent authority, has the power to:

a) issue new **accounting standards** and review, revise or adopt existing accounting standards as approved standards;

b) issue **statements of principles** for financial reporting;

c) sponsor or undertake development of possible accounting standards;

d) conduct public consultation as necessary to determine the contents of accounting concepts, principles and standards;

e) develop a **conceptual framework** for the purpose of evaluating proposed accounting standards;

f) make such changes to proposed accounting standards as considered necessary;

g) seek the view of the FRF in relation to new and existing standards, statement of principles, and changes to proposed standards;

h) determine scope and application of accounting standards; and

i) perform such other function as the Minister of Finance may prescribe.

\(^5\) The Foundation was established on 6 March 1997, almost four months prior to the MASB’s establishment.
The Board also has a set of policy objectives that guide its activities in meeting its mission to improve the quality of external financial reporting in Malaysia. The policy objectives are:

- to implement an efficient and effective structure and 'due process' for the development and promulgation of new or adopted approved accounting standards, a conceptual framework and other authoritative guidance;
- to pursue the development of approved accounting standards, a conceptual framework and other authoritative guidance that will assist in maintaining and improving the efficiency of the Malaysian capital markets as well as improve the accountability of reporting entities;
- to pursue a policy of internationalisation and harmonisation of Malaysian approved accounting standards and a conceptual framework through a process which leads to those standards and concepts of other national and international setters;
- to contribute, wherever possible, to the development of accounting standards internationally via participation in such organisations such as IASC; and
- to promote and support research in the area of financial reporting through institutions of higher learning in Malaysia or other research organisations and individuals.

(taken from the Financial Reporting Foundation (FRF) 1998 Annual Report)

The set of functions and policy objectives above become the guide for MASB to plan and carry out its programme.

5.4.5 Carrying out the functions

The MASB has meetings as often as it needs to carry out its functions. Six members of the Board shall form a quorum at all meetings of the Board. In the meetings, any question raised, would be determined by no less than six votes of the members present and voting. Any advisor to the Board who attends the meeting however does not have any voting right.

The Act also provides the Board with power to determine the conduct of its proceedings. Any person could attend the meetings on invitation, for the purpose of obtaining views on
any matter under discussion, but he or she does not have right to vote at the meeting or deliberation.

In carrying out its duties, MASB must have input from its constituents (the interest groups) as many and as diverse as possible. Furthermore, it is clearly specified in the Financial Reporting Act that among the Board’s functions is to conduct public consultation in the process of developing accounting concepts, principles and standards.

To do just that, the main source of views and advices for the MASB’s standard setting process is the Foundation itself. As mentioned in the previous section, the members of the foundation represent various interest groups that are affected by the MASB’s approved accounting standards. They could offer a rich source of opinion on accounting matters forwarded to them by the Board. At several stages of the ‘due process’ used by the MASB in reviewing extant and developing new accounting standards, the Board would consult the Foundation before proceeding to the next stage in the ‘due process’.

The public are also welcome to participate in the standard setting process at several stages of the ‘due process’. This takes place when the Board has issued discussion documents or exposure drafts for comments from the public. The process of consultation between the FRF and the MASB, and the extensive public due process employed by MASB for developing accounting standards, ensure that the widest of views will be obtained and considered before any accounting standard is approved. Further discussion on how the MASB carries out its ‘due process’ before issuing an approved accounting standard is presented in Section 5.5.

To disseminate its outputs, the MASB issues several types of documents to the public. Apart from the MASB Standards, there are the technical pronouncements which include the Statement of Principles, Urgent Issues Abstracts, and Technical Releases. The MASB also issues Exposure Drafts and Discussion documents for comments.

The MASB also needs to promote itself as the standard setting body in Malaysia and inform the public of its functions and activities through public media. MASB has its own News Releases. The News Releases are prepared and issued on its behalf by a public
relations consultancy firm, Ghazalie Rafeah Ali & Associates Sdn Bhd. These news releases are then distributed to the press.

In this section we have given details on the approaches taken by the MASB to carry out its functions and objectives. There is an emphasis on having as much input as possible from diverse groups that would be affected by the approved accounting standards. As mentioned several times in its releases, the MASB perceives that ‘ownership’ of the accounting standards is held by all relevant parties involved in the financial reporting process, so it is important so as to have accounting standards that are well accepted and reflect all needs and requirements.

Discussion

From the account on the organisational arrangements of the MASB, several similarities to its counterparts in developed countries, particularly the FASB in the US, could be identified. The MASB has a parent organisation, the FRF to advice on its standard setting functions and to oversee the funding of the Board. Likewise, the FASB which is well established long before the MASB, has the Financial Accounting Foundation to raise funds for the operation of the organisation and to appoint members to the FASB.

On the other hand, the Malaysian Finance Ministry has the power over the appointment and removal of the members, and determination of functions to be performed by both the FRF and the MASB other than those prescribed by the Financial Act 1997. The Ministry could also demand for provision of information on the activities of both the FRF and the MASB at any time required. In general, it can be deduced that the Board, and the Foundation are under the control of the Finance Ministry.

However, few characteristics of an independent organisation as identified in Fesler’s (1946) framework for testing independence of regulatory bodies that the MASB has are weakened by several factors. Firstly, with regards to the institutional safeguards of independence, MASB members still hold outside affiliations. There are possibilities that the members would bring in views and interests of the organisations they served outside the MASB. This could cause biases in the standard setting process and leave the other constituents of the MASB who do not have ‘representatives’ on the Board at a
disadvantaged position. The independence status could deteriorate and the worst case
could be that the MASB is just another mechanism for the strong interest groups to control
the financial reporting regulation in Malaysia.

The independence status of the MASB is further weakened by the arrangement in place for
the appointment, tenure and removal of members of the Board and the Foundation. All
members are appointed and could be removed by the government through the Finance
Minister, at any time it thinks expedient to do so.

Nevertheless, the FRF has the power to appoint staff and other individuals to work for the
MASB and the FRF. These include those in the working groups, who do most of the
standard setting tasks. Even though the final say is still with the Board, the control over the
appointment of the staff and other individuals shows a relative degree of self-governance
of the Board and the Foundation.

The MASB has the independence strength when it comes to financial support matters.
While the FRF controls the budget, it is specified in the Act that the FRF has no say in the
standard setting process except giving out advice and views on accounting matters. The
issue of who contributes the most to the fund for the operation of a standard setting body
should have the strongest say is also faced by the FASB in the US. For the MASB, no
other interest groups have contributed to the fund, except for the government, the
Securities Commission and the Kuala Lumpur Stock Exchange. These are the regulators,
who normally could be presumed to have the interests of the investors and public in
general at the foremost. Therefore, final decision-making is still in the hand of the Board
members.

The Board also could be said to be independent in terms of its basic authority. The MASB
operates under the auspices of the FRF, which is a legal separate entity under the law. The
non-existence of direct tie to any outside organisation ensures, to some extent that the
power held by the Board and the Foundation is real and effective. In terms of the political
factors, there is no special provision for a political party to be represented on the Board.
This confirms the stand that to be independent, an organisation is not to have any relation
or involvement with political parties in the country (Rahman, 1992).
In summary, the MASB has the institutional framework and organisational structure that recognise the Board as a separate standard setting body. The arrangements also recognise the various groups that have interest in the standard setting process. The objectives and policies of the MASB show that there is apparent emphasis on the development of accounting standards that meet the local needs while being in harmony with the international requirements.

5.5 The Standard Setting Process

The MASB initially adopted 24 of the extant International Accounting Standards (IASs) and Malaysian Accounting Standards (MASs) issued prior to the creation of the MASB by the Malaysian professional accountancy bodies. Adoption by the MASB gave these IASs and MASs the status of approved accounting standards until each of these standards is amended, rescinded or replaced by a new MASB Standard. The due process for adoption of extant accounting standards is provided in shown in Appendix 2.

MASB Standards are developed in accordance with the principles, objectives and concepts presented in the MASB's *A Proposed Framework for the Preparation and Presentation of Financial Statements*. In addition, MASB Standards are developed with reference to the work of other national standard setters such as Australia, Canada, New Zealand, the United Kingdom, the United States of America, and the International Accounting Standards Committee (IASC). As such, MASB Standards are broadly consistent with present international practice. The due process for the development of MASB Standards is provided in Appendix 3.

The MASB appoints a Working Group for every project of accounting standard development it undertakes. A Working Group is chaired by one of the Board member and comprises a project manager, representatives from industry associations, professional bodies, regulatory authorities such as the Registrar of Companies, Bank Negara Malaysia, the Securities Commission, the KLSE, practitioners and the MASB technical staff (Carlson and Ooi, 1999).
Chapter 5  

Documentary Analysis: Results and Analysis

The review process often starts with a preliminary discussion of the relevant International Accounting Standards (IASs) and the treatments/practices used in the major jurisdictions such as the UK, USA, Australia and Canada.

Following the deliberations of the working groups, which may extend over several meetings, a document in the form of a Discussion Paper, a Draft Statement of Principles (DSOP), an Exposure Draft (ED) or eventually a Standard is presented to the MASB. Following the Board's approval, the document is sent to the FRF for comment and eventually is issued by the MASB. DSOPs and EDs usually have an exposure period of three months. During this time, the MASB welcomes comments from interested parties on the draft documents it has issued.

After the compilation of the respondents' comments, the MASB Working Group would reconvene to examine any major issues raised by the exposure process. The MASB will then amend the document, where necessary, before issuing the final standard. The standard, once issued, has the force of law and must be complied with by reporting entities (Carlson and Ooi, 1999).

The MASB support the harmonisation of financial reporting standards. However, whilst the IASs provide a substantial body of standards upon which the MASB is able to build, the MASB will adopt a standard only after the completion of its own due process. This treatment would result in approved accounting standards that conform to the IASs and also befit the Malaysian context.

**Conceptual Framework**

The MASB also undertakes the task of developing a Malaysian conceptual framework that takes cognisance of the environment in which accounting operates. Any deviation from internationally accepted practices can only be allowed if the exception can be justified, in the best interests of the national economy. Therefore, the conceptual framework proposal attempts to address the accounting issues prevalent in a rapidly developing economy.

The framework provides a basis for reconciling any differences, which may arise between the existing rules and guidelines and accounting standards. It is similar in all material
aspects to the IASC’s Framework for the Preparation and Presentation of Financial Statements issued in 1989. It sets out the concepts that can lead to consistent financial accounting standards that underlie the preparation and presentation of financial statements for external users and prescribes the nature, functions, and limitations of financial statements.

The purpose of the conceptual framework is to:

- assist the MASB in the development of future accounting standards and the review for adoption of existing standards. Accounting standards would be more logical and internally consistent if developed from a coherent system of interrelated objectives and fundamentals;
- provide a basis for selecting between alternative accounting principles when developing new accounting standards and provide a basis for eliminating any alternative accounting treatment when reviewing existing accounting standards for adoption;
- enable a focus on the particular needs of the nation as a whole in the context of its specific stage of economic development;
- provide a basis for reconciling any differences between existing legislation, guidelines issued by regulatory authorities and existing and proposed accounting standards;
- assist preparers of financial statements in applying MASB approved accounting standards and in dealing topics that have yet to form the subject of a MASB standard;
- assist auditors in forming an opinion as to whether financial statements conform to MASB standards;
- assist users of financial reports in interpreting the information contained in financial statements prepared in conformity with MASB standards;
- provide transparency in standard setting because the concepts will guide the MASB in their decision making and also the basis for conclusions would be made explicit;
- facilitate the communication between the MASB and its constituents because the conceptual basis underlying proposed accounting standards would be more apparent when the MASB seeks comment on them; and
provide those who are interested in the work of MASB with information about its approach to the formulation of MASB accounting standards.

(taken from the Financial Reporting Foundation (FRF) 1998 Annual Report)

Discussion

The due process adopted by the MASB certainly has a degree of openness and thoroughness so that the approved accounting standards issued reflect the inputs from all affected parties, and are in line with the harmonisation effort at the international level. The conceptual framework project signifies the efforts to have a well-guided standard setting process, and better preparation of financial reports.

5.6 Application of the approved accounting standards

The MASB approved accounting standards have statutory backing for implementation. Under the present financial reporting framework, according to Section 27 of the Financial Reporting Act 1997, companies that are required to lodge their financial statements with the Registrar of Companies, Bank Negara Malaysia and Securities Commission, must prepare their financial statements in accordance with approved accounting standards issued by the MASB.

The requirement was given further legal backing when amendments to the Companies Act 1965 were made in 1998. According to Section 166A of the Companies Act 1965, approved accounting standards are to be applied in relation to any published accounts of commercial, industrial or business enterprises in Malaysia and of overseas subsidiaries and associated corporations where those accounts are to be incorporated in consolidated accounts in Malaysia. In addition, where there is a conflict between a provision of an MASB-approved accounting standard and a provision of the Ninth Schedule of the Companies Act, the accounting standard shall prevail (Carlson and Ooi, 1999).

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6 This is the principal Act for the regulation of companies in Malaysia. The Act regulates the pre-incorporation, incorporation, setting up, operations and duties of a company and its directors. It also encompasses the rights and obligations of its directors and shareholders vis-à-vis third parties. The Registrar of Companies under the Ministry of Domestic Trade and Consumer Affairs, is the body responsible for the registration and incorporation of companies.

7 The Ninth Schedule of the Companies Act 1965, lays out minimum requirements for accounts of a company to be prepared according to accounting standards whenever possible or required.
The enforcement is further tightened by another requirement in another additional provision to the Companies Act. Section 169 (15) requires company directors to state whether in their opinion the company accounts have been made in accordance with accounting standards. Similarly, section, 174 (2) requires auditors to state in their reports whether in their opinion the accounts of the company are properly drawn up (MASB News Release, October, 1998).

When a new accounting standard or a new technical pronouncement is issued by the MASB, the provisions in that standard or technical pronouncement should be applied to all material transactions irrespective of the date upon which they occurred. MASB Approved Accounting Standards and Other Technical Pronouncements need not be applied to immaterial items. The MASB may grant exemptions to selected enterprises from either the whole or nominated sections of a MASB pronouncement.

Discussion

Clearly the legislation has ensured that all relevant parties involved in the preparation, attestation and reporting duties in relation to the accounts of a company recognise their responsibilities in respect of compliance with approved accounting standards. However when by nature of business or some business activities, is deemed that by complying with all approved accounting standards, the accounts would not show the true and fair view, the Act does grant exception to those companies. This grant to the respected companies is given provided that they meet the requirements to be exempted from fully complying with all of the approved accounting standards outlined by the Act.

The Chairman of the MASB recognised the move as one of the efforts to ensure that companies provide quality and reliable financial statements, thereby promoting greater accountability and transparency. It is also in line with the objective of achieving good corporate governance. Lately, the demand for quality and reliable financial statements has become more urgent as Malaysia is moving towards a deepening capital market, the touchstone of which rests with the level and degree of transparency and reliability of financial statements of its reporting enterprises especially when these enterprises raise funds from the public (MASB News Release No. 5, 1999).
Summary

The MASB continues its mission to improve the quality of external financial reporting in Malaysia in 1999. This was done through its 'due process' and work programme for the conceptual framework development. In addition to that, the Board also continually forged its identity as an independent and creditable accounting standard setting body in Malaysia. Communication procedures were enhanced to promote its activities and outputs.

5.7 The Accounting Profession

In Chapter 2 we discussed the reactions of the accounting profession and other interest groups, particularly the business community, towards the proposal that has led to the establishment of the MASB. After the establishment, several changes to the roles and activities of the accounting profession have been identified.

On the local scene

In the first half of the year 1997, the MIA still continued with its standard setting activities. Its Accounting and Auditing Standards Committee was separated into two committees, the Accounting Standards Committee and the Auditing Practices Board. The Accounting Standards Committee reviewed all the new International Accounting Standards to determine their suitability for issue to the Institute's members after a proper exposure procedure has been completed. Several IASs have been adopted for the period commencing 1 January 1998. It is interesting to note that the adoption of the MAS 6 - Accounting for Goodwill was deferred for a further two years from 1 January 1997, with a plan to enforce it for accounting period commencing 1 January 1999.

After the establishment of the MASB, the Institute has made considerable changes to scope of its functions. The Institute acknowledged the need to work with the MASB during the Board's transitional period. Therefore, instead of issuing the approved accounting standards, the MIA has moved its focus to provide quality technical guidance and

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8 The data was derived from MIA Annual Report and Accounts 1997, 1998, 1999. The Annual Reports were each for year ended 30 June corresponding. Therefore, for year 1997, the report has not acknowledged the establishment of the MASB.
9 In this study, only the accounting standards development is discussed. The auditing standards development was not included in the analysis.
10 Up until now (year 2006), the standard has not been adopted.
publications addressing issues which have not been addressed by the MASB, guidance to accountants in terms of interpretations of the standards, education and training in contemporary issues in accounting at international level and to keep accountants abreast of developments in the accountancy profession.

The MIA also assisted several Malaysian regulatory bodies in their efforts to improve the application of approved accounting standards. Among others, the Institute has submitted comment to KLSE relating to the disclosure of financial information by public listed companies with unsatisfactory financial condition; and assisted the SC in conducting workshops/presentations on specific accounting standards and relevant disclosure requirements.

In year 1997, the Institute's Accounting Standards Committee merged with the Financial Statements Review Committee to form the Financial Reporting Board. Previously, the Financial Statements Review Committee was responsible for monitoring financial statements which are prepared by or are the responsibility of members with a view to ensuring that they comply with statutory and other requirements, accounting standards adopted by the Institute and generally accepted accounting standards and auditing standards and practice; and if the matters need further action, the committee could draw the attention of the member responsible (MIA Annual Report and Accounts, 1998, 1999).

The new Financial Reporting Board\textsuperscript{11}, in performing its responsibilities relating to accounting standards development, makes submissions and recommendations on corporate laws, method or legislation affecting financial reporting and related matters to the relevant authorities, including the MASB.

The Institute has issued an amended Preface to Approved Accounting Standards and a circular to members regarding the status of accounting standards issued by MIA, after the MASB has been in operation. The standards issued by the Institute act as guidelines of best practice on accounting for financial reporting purposes. These guidelines will cease to apply as and when the applicable standards are issued by MASB.

\textsuperscript{11} For details of the functions of the Financial Reporting Board, please see Appendix 4
At the international level

At the international level, the MIA has become more prominent and active in international standard setting. Several of the Institute’s committee members have been appointed to sit on the Board of the International Accounting Standards Committee (IASC), the IASC Steering Committees on Presentation of Financial Statements, Impairment of Assets and Intangibles. One of them was appointed to chair a Preparatory Committee on Developing Countries/Economies in Transition. This committee was set up by the IASC to look into special requirements of accounting in developing countries (MIA Annual Report and Accounts 1998). The Preparatory Committee was then changed to IASC Steering Committee on Developing Nations and Emerging Markets, with one of the MIA’s Council members as the Committee Chairman.

In addition, the MIA continues to participate actively in standard setting at international level, by submitting comments on Draft Statement of Principles (DSOP) and Exposure Drafts (EDs) issued by the IASC as one of the Committee’s efforts towards harmonisation of global financial reporting.

The Institute continues to work with the Accounting and Auditing Organisation of Islamic Financial Institutions (AAOIFI) in relation to Islamic accounting and auditing standards. The Institute, comprising mostly of academicians and practitioners, has formed a Working Group on Islamic Accounting, Finance and Insurance. The objectives of the Working Group include studying the applicability of Islamic standards in Malaysia and expanding the application of Islamic principles not only to Financial Institutions but also to the whole spectrum of commerce and industry. The Working Group also considers the applicability of AAOIFI standards in the Malaysian environment.

In 1999, under the auspices of the MIA’s Working Group, a research project with Arab-Malaysian Bank Berhad entitled ‘Survey and Analysis of Financial Reporting of Islamic Banks Worldwide’ was undertaken. The study identifies and compares the differences and similarities in the financial reporting of Islamic financial institutions worldwide, the influence of regulations and governing laws on financial reporting and also to what extent Islamic financial institutions have adhered to the standards issued by the AAOIFI and IASC. The Working Group also commented on documents issued by the AAOIFI.
All the above mentioned activities of the MIA during the early period of the MASB’s establishment indicate that the accountants’ professional body is “moving away” from its traditional job, setting the accounting standards. The MIA considered that if the government was to establish an accounting standards board, it should be under the Accountants Act which regulates the accounting profession. As MIA has already undertaken the task, accounting standards set by the body are binding on all accountants, panels of accountants and auditors. Having another organisation set for the said task is merely a redundancy.

In addition, the MIA was of the view that the involvement of other parties in the standard setting process would only produce more standards and rules, and thus massive financial statements and accounts to be reconciled by the accountants and auditors. Did the other professional accounting body in Malaysia, the MICPA, share this view?

MICPA

The MICPA has an Accounting and Auditing Technical Committee whose functions include among others, to undertake research in contemporary accounting issues and where appropriate, publish the research findings in the form of accounting research bulletins (ARB); to provide interpretations and guidance notes on MASB standards in the form of technical releases (TR); to liaise with international bodies of the accountancy profession on all matters of a technical nature, concerning or affecting accounting or auditing; and to establish and supervise working committees formed to produce recommendations on accounting guidelines and auditing standards and statements (MICPA’s website, 1999).

The Association, through the members of its Accounting and Auditing Technical Committee (AATC), has contributed unstintingly to the work of the MASB by serving on its various technical working groups. The MICPA also provides the collective views of members on the exposure drafts and discussion documents issued by the MASB for comment as part of its due process.

At the international level, the MICPA is also active in international standard setting. The Association is a member of IFAC and IASC and responds to discussion papers and exposure drafts of proposed standards issued by these organisations.
The MICPA also focuses on its education and training programmes and the CPA designation as a premier brand of business professional qualification. The MICPA has its own examination for qualification as a CPA.

**Discussion**

From the presentation on the activities of the MIA and MICPA above, both organisations have acknowledged that there is a new financial reporting framework in place. The Institute has stopped issuing financial accounting standard for local use. Instead, it publishes guidance for applying the approved accounting standards. Nevertheless, the continuing involvement of MIA and MICPA in the international standard setting has, in a way, ensured that their contributions to the local accounting standard development never cease. As noted in the discussion on the MASB standard setting process, the MASB continues to use the IASC as basis in the development of MASB Accounting Standards. The input from the MIA and the MICPA into the IAS standard setting process, indirectly goes into the MASB accounting standards.

The accounting profession has always controlled accounting standard setting as it is within the traditional boundaries of its discipline (Stoddart, 1999). However, as accounting regulation becomes more of a process with greater political, economical and social effects, other interested parties have identified opportunities to exert their influences in setting accounting standards, and getting the desired outcomes. These parties could include governments, business groups, financial analysts, and other financial reports users. To an extent, the standard setting process is now being carried out outside the direct control of the professional bodies, through independent standard setting bodies established in many countries.

Views that the profession has lost its 'right to regulate the profession', may not have much support as the accounting profession still continues to regulate members by providing interpretations and guidance on the standards issued by the MASB. Further, the participation of the accounting profession is all the more necessary and vital as the standard setting process now brings together all key players in an open playing field to raise accounting issues and problem of concern to the public as a whole. The accounting...
profession cannot be seen to fail its members by not actively providing input to this process (Susela, 1999b).

5.8 Summary

In Malaysia, on 1st July 1997, a new independent accounting standard setting body was established under the Financial Reporting Act 1997. Under the Act, the Malaysian Accounting Standard Board (MASB) has the authority to set financial reporting standards and statements of principles for financial reporting in Malaysia.

The new body takes over the standard setting responsibility from the local accounting professional bodies, the Malaysian Association of Public Accountants (MICPA) and the Malaysian Institute of Accountants (MIA). Both bodies have been setting accounting standards for their members for almost 30 years. The recent change has created a new composition of parties responsible for accounting standards development. The government and the business community are among the board members of the MASB. They become directly involved in the standard setting process, together with the accounting profession who are also members of the standard setting body. This change has turned the previously mutually exclusive task of the profession to a task that they have to share with or give others.

The MASB establishment could be seen as a step taken by the Malaysian government in acknowledging the importance of sound accounting policies in contributing towards the country's economic growth. This move could also implicitly indicate that the government recognises other parties affected by accounting regulation and includes them in setting the accounting standards.
CHAPTER 6
Survey Results and Analysis

6.1 Introduction
In Chapter 5, the findings of the documentary analysis were reported. It was found that the MASB has firmly established itself as the setter of accounting standards for financial reporting purposes in Malaysia, despite the controversies surrounding its establishment. At the time this study was being conducted, MASB has been in operation for more than two years. It has produced more than thirteen Standards. The Board was also carrying out several other projects including the development of Malaysian own conceptual framework and accounting concepts based on Syariah principles.

Various individuals, groups, and organisations are either involved in, or affected by MASB's activities. Therefore it is appropriate to find out their views on these developments through a survey. This chapter reports the empirical findings of the mail/ e-mail questionnaire survey done for this study.

Chapter 6 has several sections. Section 6.2 reports on the response rate and characteristics of the respondents. Sections 6.3 to 6.5 present the survey results according to the sequence of the related research questions. The findings are then followed with related discussions. Finally concluding remarks are provided in Section 6.6.

6.2 Response Rates and Characteristics of the Respondents
From 92\(^1\) questionnaires sent out to the selected sample in Malaysia, either by mail or e-mail, a total of 34 usable responses were received as shown in Table 6.1.

<table>
<thead>
<tr>
<th>Total of mail/e-mail sent</th>
<th>No. of usable replies</th>
<th>% of usable replies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>92</td>
<td>34</td>
</tr>
</tbody>
</table>

Table 6.1 Percentage of Response Rate

\(^1\) The final total of 92 sample was arrived at after eliminating several probable respondents. These eliminated respondents were those who could not be contacted at the addresses known to the researcher, and who got in touch with the researcher informing her of their refusal to participate in the survey.
Therefore, an effective response rate of approximately 37 percent was attained. Although a high response rate is desirable, the 37 percent usable response rate is considered acceptable for the present study. Studies with response rates as low as 15.7 percent have been justified and reported in accounting literature over the last three decades (Bean and Medewitz, 1987; Wallace and Mellor, 1998). For example a study by Sjoblom (1998) only reached 24 percent response rate, while Yunker (1983) collected only 14.5 percent responses from her survey population.

A number of respondents originally targeted for the survey declined to take part. Two regulatory bodies asked to be excluded on the basis that they wished to remain independent, since the questionnaire is of an opinion-seeking nature. These organisations, the Securities Commission (SC) and the Kuala Lumpur Stock Exchange (KLSE), are members of the FRF, the Foundation that oversees the MASB. In addition, the MIA, the national accounting body, also wished to be excluded, as it is also represented on the MASB. This has affected greatly on the response from the chosen samples.

The questionnaire did not explicitly state that the responses are dealt with as individual and personal views of the respondents, and would not necessarily reflect their organisations' views. Assumptions that the views given would reflect their organisations' positions or that they can be judged by the responses given, could have largely reduced the total possible responses for this study. This reason for not responding is identified in the accounting literature (Wallace and Mellor, 1988, p. 134).

Other individual respondents have wished to be excluded from the survey sample for several reasons such as not being involved at all in the standard setting process in Malaysia, or that accounting matters are not within their job descriptions. This reason applies to a sample selected at random from the identified organisations.

Secondly, for other non-respondents, the explanation could be due to the subject and nature of the questionnaire. To answer the questionnaire, the respondents must possess knowledge of the accounting standard setting arrangement in Malaysia. A lack of awareness or knowledge of the subject could deter potential respondents from participating in the survey. Even though careful consideration has been given during the sampling stage, it was not possible to be certain of the level of awareness and knowledge of the respondents on the issue of standard setting in Malaysia.
In addition to that, almost half of the questions in the survey have an open-ended format. In order to complete them, potential respondents have to spend more time and effort in answering the questions, compared to the closed response questions that require the respondents to choose from pre-given answers. The format of the questions might deter possible respondents from attempting to complete the questionnaire and send it back to researcher.

The third possible explanation is that at any point in time when the questionnaire has not yet arrived from a sample member, this might be because its return is delayed, or because the sample member did not receive or has lost or forgotten the questionnaire (Jolliffe, 1986, pp. 62-64). In this study, several returns were received after the researcher has prepared the analysis, therefore they were not included in the report of the findings.

With the responses received, analysis was done and selected data were used for the purpose of this study. Having justified the response rate, the respondents characteristics are discussed below.

The respondents come from various backgrounds. Table 6.2 below shows the distribution of the respondents according to interest groups identified earlier in Chapter 4 (Research Methodology).

<table>
<thead>
<tr>
<th>Interest Group</th>
<th>Usable Replies</th>
<th>% (count)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulatory bodies</td>
<td></td>
<td>17.6 (6)</td>
</tr>
<tr>
<td>Profession</td>
<td></td>
<td>29.4 (10)</td>
</tr>
<tr>
<td>Users</td>
<td></td>
<td>8.8 (3)</td>
</tr>
<tr>
<td>Preparers</td>
<td></td>
<td>11.4 (4)</td>
</tr>
<tr>
<td>Academics</td>
<td></td>
<td>32.4 (11)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>100 (34)</strong></td>
</tr>
</tbody>
</table>

Table 6.2 Distribution of Respondents

The responses mainly came from the academics and the accounting profession which is not surprising, given that the initial sample consisted largely of members of the accounting profession and academics. Other groups of respondents were relatively small, as their initial sample size was small too. The imbalances in the distribution of the various interest groups were inevitable as the sample was initially drawn from various lists that were available to the...
researcher. Further explanation on the selection of the sample was presented in Chapter 4 Research Methodology.

Survey non-response is widely recognised as a potential source of error that can reduce the accuracy of findings of any study (Survey Reports\(^2\), 1998). Many factors attribute to the non-response for the survey of this study, as discussed in details above. Among them are respondents were no longer at the addresses contacted, they have little knowledge on the subject of development of accounting standards, and they were unwilling to participate in the survey.

For this study, the non response can bias the findings as the respondents who do not participate in the survey hold substantially different views than those who did participate. The researcher acknowledges this problem and notes that any findings from the survey could not be generalised to represent all of the groups surveyed. The data from the respondents is nonetheless crucial, as it reflects the respondents' concerns on the importance of the study on the accounting standards development in Malaysia.

Looking at other characteristics of the respondents, 62 percent of the respondents are members of either the local or overseas accounting professional bodies, or both, with MACP A (10 respondents), and other overseas bodies (12). 16 of them are members of the MIA. The other professional bodies include MACP A, Australian Society of Certified Public Accountants (ASCPA), and Association of Certified Chartered Accountants (ACCA (UK)). This shows that most of the respondents are those who are well versed in the field of accounting.

Out of the 34 respondents, 22 are involved in the standard setting process in Malaysia. This represents 64.7 percent of the total respondents. The make up of this group will be discussed in section 6.5.

The next sections report the findings of the questionnaire relating to the research questions of this study, along with discussion on those findings.

6.3 Research Question 2: Did the interest groups support having a separate independent body to set the accounting standards?

Research question 2 aimed to find out about the perceptions of the various interest groups in Malaysia regarding the establishment of MASB. Item number 6 in the questionnaire asked for the respondent’s agreement with the establishment of MASB as a separate standard setting body in Malaysia. The Board would be independent of the national accountants’ body, the MIA, and the accountants’ private professional body, the MACPA. Respondents were asked to rate their level of agreement with the establishment of MASB using a five point Likert scale with “strongly agree” to “strongly disagree” scores.

Table 6.3 shows the level of agreement of the respondents when asked about the establishment of an independent standard setting body. It was found that the majority of academics (90.9%) agreed with the establishment of the MASB as an independent standard setting body. Only 9.1 percent of the respondents were undecided on the matter.

<table>
<thead>
<tr>
<th>Interest groups</th>
<th>Disagree</th>
<th>Undecided</th>
<th>Agree</th>
<th>Strongly agree</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Academics</td>
<td>0 (0)</td>
<td>9.1 (1)</td>
<td>27.3 (3)</td>
<td>63.6 (7)</td>
<td>100 (11)</td>
</tr>
<tr>
<td>Preparers</td>
<td>25 (1)</td>
<td>0 (0)</td>
<td>0 (0)</td>
<td>75 (3)</td>
<td>100 (4)</td>
</tr>
<tr>
<td>Professionals</td>
<td>11.1 (1)</td>
<td>22.2 (2)</td>
<td>33.3 (3)</td>
<td>33.3 (3)</td>
<td>100 (9)</td>
</tr>
<tr>
<td>Regulators</td>
<td>0 (0)</td>
<td>0 (0)</td>
<td>40 (2)</td>
<td>60 (3)</td>
<td>100 (5)</td>
</tr>
<tr>
<td>Users</td>
<td>0 (0)</td>
<td>0 (0)</td>
<td>0 (0)</td>
<td>100 (3)</td>
<td>100 (3)</td>
</tr>
<tr>
<td>% of total</td>
<td>6.3 (2)</td>
<td>9.4 (3)</td>
<td>25 (8)</td>
<td>59.4 (19)</td>
<td>100 (32)</td>
</tr>
</tbody>
</table>

*The percentages were calculated with 2 missing value excluded. None of the respondents answered the question with “Strongly Disagree” option.

Table 6.3 Level of Agreement for an Independent Standard Setting Body

The preparers group however has a wider gap in their level of agreement on the independent issue. It was found that 25 percent of the preparers disagreed on the matter, whereas the other 75 percent strongly agreed with the establishment of an independent standard setting body. The professionals have an interesting dispersion in their level of agreement on the same matter. Out of the nine professionals responded, 66.7 percent agreed with the establishment of the independent MASB, 22.2 percent were undecided and 11.1 percent disagreed.
The regulators and the users groups were found to be in favour of the arrangement to have the MASB as an independent standard setting body, separate from the two accountants’ bodies. 60 percent of the regulators group strongly agreed, while the balance of 40 percent agreed. The users group was 100 percent strongly agreed on the establishment of the MASB.

Analysis was also done to get the mean and dispersion of the level of agreement on the MASB establishment. The mean value was calculated based on the five point Likert scale ranging from 1 “Strongly disagree” to 5 “Strongly disagree”, as used for item 6 in the questionnaire.

Table 6.4 below presents with the analysis on the mean and dispersion of the level of agreement on the establishment of MASB as an independent standard setting body for each separate interest group. In total, a mean of 4.38 was achieved with a standard deviation of 0.91.

<table>
<thead>
<tr>
<th>Interest groups</th>
<th>Mean</th>
<th>Standard deviation</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Academics</td>
<td>4.55</td>
<td>0.69</td>
<td>11</td>
</tr>
<tr>
<td>Preparers</td>
<td>4.30</td>
<td>1.50</td>
<td>4</td>
</tr>
<tr>
<td>Professionals</td>
<td>3.90</td>
<td>1.05</td>
<td>9</td>
</tr>
<tr>
<td>Regulators</td>
<td>4.60</td>
<td>0.55</td>
<td>5</td>
</tr>
<tr>
<td>Users</td>
<td>5.00</td>
<td>0.0</td>
<td>3</td>
</tr>
</tbody>
</table>

Table 6.4 Means and Standard Deviations for the Level of Agreement for an Independent Standard Setting Body

The standard deviation (SD) values in Table 6.3, show that the respondents from users, regulators and academics groups have better consensus on the issue of MASB establishment, compared to the professionals and preparers groups (SD of 0.0, 0.55, 0.69, 1.05 and 1.50 respectively). The users unanimously agreed with the establishment of an independent standard setting body. On the other hand, the preparers group with the lowest mean value, 3.90, and the largest standard deviation of 1.5, could be seen to have most mixed opinions. The professionals group has the lowest level of agreement on the establishment of the MASB (mean value 3.90), indicating their lesser preference for an independent standard setting body.
Discussion

The research findings presented above clearly indicated that the respondents generally favoured the establishment of the MASB as an independent standard setting body in Malaysia, separate from the MIA and the MACPA. This finding is in accord with the views of the various interest groups reported in the media when the proposal to establish the MASB was made public. During the period of pre-MASB’s establishment, the interest groups in general supported the proposal to establish the body in question, with the exception of the MIA, who was rather cold on the idea.

This pattern was again identified in the survey, however with slighter changes to the degree of acceptance among the interest groups identified. The interest groups which were previously identified in Chapter II, the business community and the regulatory agencies again were found to perceive the establishment of the MASB as favourable. The professionals who have mixed agreement about the proposal to establish the MASB, was again found to be in the same situation. This trend shows that the professionals may still not convinced that there are positive outcomes from the installation of the MASB as the sole authorised body to set the accounting standards for Malaysian use.

Respondents were also asked to state their reasons, for their level of agreement for the establishment of MASB as an independent standard setting body. From the findings, reasons stated by the respondents are mostly similar to the reasons identified in the accounting literature. In this section, the discussion is divided into two parts; firstly on those who favour the establishment of an independent standard setting body, and secondly on those who do not.

In favour of the MASB’s establishment

Most of the respondents who agreed with the establishment of the MASB expressed the view that it is important to have a separate independent standard setting body, so as to have a more balanced participation from various interest groups in the standard setting process. In their views, input into the standard setting process from various interest groups affected by the application of accounting standards can ensure among others, the issuance of unbiased and

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3 In Chapter II, reported views on the proposal to establish the MASB were presented and briefly discussed.
4 In the questionnaire survey, the business community is referred to as the "Preparers", as they are the one who have to prepare and published financial statements according to the approved accounting standards in Malaysia.
high quality accounting standards, wider acceptance of the accounting standards by the affected groups, and stronger enforcement of the accounting standards.

Those reasoned for the issuance of unbiased and high quality accounting standards by a body with members from various interest groups pointed out that if it was only the accountants who do the job, the interests and needs of others might be overlooked. As one respondent wrote:

"Accountants like any professionals have their vested interest in their practices. Unless standards are set by an independent party, they will tend to influence the standards taking into account their own interests and might work towards the disadvantages of the general public..."

Respondent U-4<sup>5</sup>

This very same argument is also put forward by another respondent:

"...so that the interests of all user groups are protected. Accountants sometimes operate in a vacuum quite oblivious to changes in the external environment"

Respondent P-3

As noted in Chapter 2, the professionals were the ones who have diverse opinions on the establishment of the MASB. MICPA was positive about it, the MIA not, and the individual accountants have mixed opinions. The rift between the two professional bodies could be traced back to many occasions, including the development of Malaysian Accounting Standard on Goodwill (Susela, 1996). Aware that the rift between the professional bodies might jeopardise the development of accounting standards, one respondent wrote:

"... it seems that the MIA and the MACPA are still unable to resolve and agree on certain issues and at times they do not appear to be in good terms, which could be detrimental to the development of the profession. An independent body would be in a much better position to take on the job"

Respondent A-9

The respondents support assigning the standard setting job to a separate body from the professional bodies as they viewed that the professional bodies have many other tasks to

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<sup>5</sup>The respondents were coded for reference of the researcher without making known the specific identity of the respondents. The capital used represent the interest group to which the respondent belongs to; A: Academics; P: Preparers; AP: Professionals; R: Regulators; and U: Users.
perform, and might not be able to give the best attention and effort to standard setting. Quoting one of them:

"...professional bodies have a lot of interests to cater for... often got diverted by members' needs and interest"

Respondent R-4

Respondent A-2 sees having a body with the sole objective of setting standards with their own financing sources for standard setting activities as a good improvement from the previous arrangement. All the resources allocated will be made use only for the purpose of standard setting, and thus could guarantee high quality standards being issued.

In summary, the majority of the respondents who viewed that by having a separate independent standard setting body is better than having the accounting standards development being done by the professional bodies, based their opinions on the unpropitious situations that had happened in the past within the profession. The respondents realised that needs of other interest groups must be taken care off as well:

"...move away from acting as "self-interest"... to promoting the public and business community interest..."

Respondent P-1

All the above views were found to be in conformity with Rahman's (1992) notion that an independent body is needed to have expertise from various background gathered together. This is almost impossible to achieve if the body were a branch of a government agency, or a professional body (Rahman (1992).

Several of the respondents suggested that to maintain the usefulness and independence of the MASB, selection of members to the Board must be done carefully as to have all the expertise from related fields, and avoid political influence. As a result, conflicts of interest could be minimised, objectivity is introduced to the standard setting process and thus better acceptance of the issued accounting standards could be attained. As one of the respondents who strongly agreed on the matter wrote:

"In line with the purpose of financial statements to provide basis for economic decisions, it will become more important for accounting standards to attain widespread consensus to ensure complete and extensive implementation by
preparers of financial statements. It is therefore necessary for the involvement of not only the accounting profession but also other interest groups to ensure acceptance of the accounting standards.” (emphasis added by the researcher)

Respondent U-2

Similar views were also put forward by respondents A-1, AP-4, AP-6, R-2, U-3 and R-3. One of them wrote:

"The MASB has more legal bite and the ability to get more participation from the business and academicians compared to the MIA and the MACPA have so far! ... acceptance of the standards ... is better in that it cannot be said that MIA/MACPA set standards purely to generate more work/fees for their members..."

Respondent AP-6

While voluntary acceptance of the issued accounting standards is paramount, in Malaysia the force of law is used through the introduction of the Financial Reporting Act 1997 and the amendment to the Companies Act 1965 in 1998 to ensure adherence and application of the standards among the affected parties. Nevertheless, voluntary acceptance is still important as to avoid later conflict and unnecessary political play to get the desired outcomes that do not agree with the issued accounting standards.

In addition to that, the respondents also forwarded opinions that by having an independent standard setting body, the perception of the public of the accounting standards will be of good things for them, and their confidence in the authority of the standards will increase. One of the respondents stated that:

" this may be a good idea as it invites opinion and feedback independent of the accounting professional bodies. This also avoids the formulation of biased standards. Nevertheless the accounting professional bodies should be significantly represented in the standard setting body"

Respondent A-10
Not in favour with the MASB's establishment

Nevertheless, despite those positive views, there are also several views that do not favour the establishment of the MASB. In Chapter 2, several accounting professionals said that the proposed body would only be redundant with a committee under the MIA already doing the standard setting job. They thought it is best to leave the responsibility with the MIA, who is the expert in the field.

As in previous Chapter 5, the discussion has shown that the MASB has only several characteristics as an independent body, according to Fesler’s (1946) framework for testing independence regulatory bodies\(^6\). The Board is organisationally separated from the national accountants’ body, the MIA. Yet, the Finance Ministry has direct control over certain aspects of administration of the MASB, including the appointment of members to the Board.

Some of the interest groups in the study seemed to be unaware that the MASB is not a fully “independent” organisation. Recalling earlier in Chapter 2, some of the interest groups members were unhappy with the proposal to establish an independent standard setting body. These individuals opined that the standard setting task should come directly under the jurisdiction of the accountants’ national body, the MIA. Asked on the same question, the respondents of this questionnaire survey gave views similar to those views gathered before the establishment of MASB.

In the research findings, the respondents who did not agree with an independent standard setting body claimed that, it makes no difference whether a separate standard setting body existed or not. Leaving the job of setting the standards to the MIA should be adequate for the Malaysian needs for accounting regulation.

The issue for an independent standard setting body is to maintain and to be seen as maintaining its independence, no matter how few “independent” features it has. A standard setting body may have a separate non-profit “parent” organisation to manage matters involving direct communications with the constituents, such as selection of members to the board and funding. In the US, the Financial Accounting Foundation (FAF) is responsible for selecting the members of the FASB and its Advisory Council, funding their activities, and for exercising general oversight. Accordingly, the standard setting body could minimise direct contact with

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\(^6\) See Literature Review (Chapter 3) and Documentary Analysis Results (Chapter 5) chapters for further discussion on the framework.
its constituents and preferably reduce the risk of unwanted lobbying activities and power exertion from the outside parties.

As Ma (1997) puts it;

"... the existence of the standard setting body, is dependent on the acceptance of the standards by major, powerful constituent interest groups comprising generally the professional bodies, users, preparers and government regulatory bodies, that is all those affected by the standards and have legitimate interest in the standards. The is no easy way to reconcile this requirement with that of true and fair disclosure." (p.98)

The MASB project was carried out despite the controversies it triggered. Now that it has been in place for about two years, it is also relevant to find out the views of the same group of respondents on the role that MASB has played so far. This is discussed next in section 6.4.

6.4 Research Question 3: How did the interest groups influence MASB’s activities in setting accounting standards?

According to a MASB source, anybody could participate in MASB’s standard setting, considering that the particular standard is relevant to the person’s background (MASB@po.jaring.my, 2000).

From the 34 respondents, 21 of them acknowledged their participation in the standard setting process in Malaysia. Table 6.5 shows the distribution of the respondents according to their interest group.

<table>
<thead>
<tr>
<th>Interest groups</th>
<th>Yes Count</th>
<th>No Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Academics</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>Preparers</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Professionals</td>
<td>6</td>
<td>4</td>
</tr>
<tr>
<td>Regulators</td>
<td>6</td>
<td>0</td>
</tr>
<tr>
<td>Users</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>21 (61.8%)</strong></td>
<td><strong>13 (38.2%)</strong></td>
</tr>
</tbody>
</table>

Table 6.5 Participation in the Standard Setting Process
All of the 6 regulators responded participate in the process, while approximately half of the respondents from users, and academics group participated as well.

The respondents were asked to identify the methods they used to participate in the standard setting process. For item number 10 in the questionnaire, all of 8 identified methods of involvement in the standard setting, were used by the respondents. The table below shows the methods used, rearranged in descending frequency of their usage.

<table>
<thead>
<tr>
<th>Methods of involvement</th>
<th>Total frequency</th>
<th>Academic frequency</th>
<th>Preparers frequency</th>
<th>Professional frequency</th>
<th>Regulators frequency</th>
<th>Users frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Working committee/research group member</td>
<td>7</td>
<td>3</td>
<td>0</td>
<td>3</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>MASB's questionnaire responses</td>
<td>6</td>
<td>4</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Telephone conversation</td>
<td>6</td>
<td>3</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Formal submissions</td>
<td>5</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>Informal discussions</td>
<td>5</td>
<td>3</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>MASB member</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Consultation group member</td>
<td>2</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Unpublished letters</td>
<td>2</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
</tbody>
</table>

Table 6.6 The various methods used for involvement in the standard setting process

From Table 6.6, the most frequently used method by the respondents to participate in the development of accounting standards is by being a working committee member (7 times), followed by responding to MASB's questionnaire and telephone calls to relevant individuals (sharing the count of 6). The other methods, are formal submission and informal discussion (each 5 times), and by being member of MASB, consultation group and through unpublished letter (each chosen by the respondents 2 times).
In the questionnaire, blank spaces were also provided for the respondents to identify other methods used by them to be involved in the standard setting process. Consistent with findings in other studies, the respondents identified several other ways including by being a member of the two professional bodies' technical committee on accounting standards development, member of the Financial Reporting Foundation, and becoming one of the MASB advisor.

Discussion

There are many possible explanations for the respondents to use the methods identified above in their effort to participate in the development of accounting standards in Malaysia. The methods that they actually used might be influenced by the perception of the respondents on the effectiveness of the methods in bringing in their input into the standard setting process.

Item number 1 in the questionnaire asked the respondents to rate the level of effectiveness for a list of methods to channel one's contributions into the accounting standards development. The Likert scale measure was used, with 5 representing “Most effective” to 1 representing “Ineffective”. The findings were analysed to get the mean for each method identified, and are presented below in table 6.7.

<table>
<thead>
<tr>
<th>Methods of Involvement</th>
<th>Total Mean</th>
<th>Academics Mean</th>
<th>Preparers Mean</th>
<th>Professionals Mean</th>
<th>Regulators Mean</th>
<th>Users Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Membership of working com/ research group</td>
<td>4.41</td>
<td>4.45</td>
<td>4.25</td>
<td>4.40</td>
<td>4.50</td>
<td>4.33</td>
</tr>
<tr>
<td>Membership of the standard setting body</td>
<td>4.41</td>
<td>4.09</td>
<td>4.75</td>
<td>4.60</td>
<td>4.83</td>
<td>4.33</td>
</tr>
<tr>
<td>Membership of the consultation group</td>
<td>4.03</td>
<td>4.00</td>
<td>4.25</td>
<td>3.90</td>
<td>4.17</td>
<td>4.00</td>
</tr>
<tr>
<td>Formal written submissions</td>
<td>3.65</td>
<td>3.64</td>
<td>2.75</td>
<td>3.50</td>
<td>4.00</td>
<td>4.67</td>
</tr>
<tr>
<td>MASB's questionnaire responses</td>
<td>3.09</td>
<td>3.18</td>
<td>2.25</td>
<td>3.10</td>
<td>3.00</td>
<td>4.00</td>
</tr>
<tr>
<td>Informal discussions</td>
<td>2.74</td>
<td>2.73</td>
<td>2.25</td>
<td>3.00</td>
<td>2.50</td>
<td>3.00</td>
</tr>
<tr>
<td>Unpublished letters</td>
<td>2.61</td>
<td>2.50</td>
<td>2.00</td>
<td>2.50</td>
<td>2.83</td>
<td>3.67</td>
</tr>
<tr>
<td>Telephone conversation</td>
<td>2.21</td>
<td>2.27</td>
<td>1.50</td>
<td>2.40</td>
<td>2.33</td>
<td>2.00</td>
</tr>
</tbody>
</table>

*Mean is measured using a 5 point Likert scale where 1 = “Ineffective”, to 5 = “Most effective”.

Table 6.7 Rating for Methods of Involvement in Standard Setting Process
These findings clearly indicated that the respondents ranked membership of the working/research groups and the Board itself as the two most effective methods of participation, each with a mean of 4.41. Looking at each group’s means, the individual ranking for all the methods identified have very small discrepancies.

Other methods that respondents identified (not listed in the questionnaire item) as effective are,

- MASB’s seminar/workshop participation (by the users, preparers)
- Accounting seminar participation (by the users, academics)
- Focus group interviews (by the regulators)
- Publishing articles (users)

Lobbying on accounting issues has been defined as the actions taken by interested parties to influence the rule-making body (Sutton, 1984 as quoted by Weetman, et al., 1996). There are two forms of lobbying, formal and informal (Morris, 1986). Formal lobbying includes written submissions, position papers, questionnaire responses, and membership of the standard setting board. Informal lobbying covers luncheon discussions, telephone conversations, and other word-of-mouth communications. Unpublished letters are also considered as informal lobbying (McLeay, et al, 1997). Which methods will be used by the interest groups depends on their perception on the effectiveness of the methods and their experiences in the past using any of the methods.

In addition to the above, the items numbered 2a and 2b in the questionnaire required the respondents to identify the most effective way to have input into the standard setting process from the list given and state their reasons for choosing that particular method. The results are summarised below in Table 6.8.

<table>
<thead>
<tr>
<th>Most effective method</th>
<th>% (count)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Being member of the standard setting body</td>
<td>40.6 (13)</td>
</tr>
<tr>
<td>Being member of the working committee/research group</td>
<td>34.4 (11)</td>
</tr>
<tr>
<td>Writing formal submission to MASB</td>
<td>18.8 (6)</td>
</tr>
<tr>
<td>Participating in MASB’s seminar</td>
<td>6.3 (2)</td>
</tr>
<tr>
<td><strong>Total % (count)</strong></td>
<td>≈100 (32)</td>
</tr>
</tbody>
</table>

*The percentages were calculated with 2 missing value excluded

Table 6.8 Effective Method to Participate in the Standard Setting Process
Clearly from the table above that membership of the Board and the working groups ranked at the top compared to other methods of lobbying. Then the respondents were asked to state their reasons why one particular method is the most effective when compared to the others?

Firstly by becoming member of the standard setting body, one respondent simply wrote:

"They are the decision makers"

Respondent AP-9

This rings true when others have the same opinions. MASB doe have the final say. They wrote:

"MASB has all the views and responses from various parties at their disposal"

Respondent R-3

"Since they constitute the final endorsement of an accounting standard prior to it being gazetted, they would naturally have the most influence on outcome of the standard"

Respondent AP-5

As for being a member of the working committee or research group, different respondents stated that:

"The working group, it is a starting point for new or revised standards...hence early input of views is possible...also allows interest groups or individuals to hear the views of others...if a person's view has substance, he/she would be welcomed at this stage to submit a more detailed paper for review before the standard setting process becomes too advanced"

Respondent AP-6

"The research group consisting of technical personnel including academia and professionals prepare the basic draft after much discussion and research. In fact because of the quality of research and working drafts, very little has been suggested to depart from the original drafts."

Respondent A-7
"The working committee and research group are the groups that carry out the detailed work. Any person in that group would have direct input towards the standard setting process"

Respondent A-9

The group has organised ways of carrying out the task of developing accounting standards, starting from extensive research, followed by preparation of detailed working papers that would discussed thoroughly at working group level and the Board's level, which then resulted in the issuance of draft accounting standards. The process of discussion will go on at several levels, until an acceptable condition has been met before any standard is issued.

Furthermore, currently the MASB relies heavily on the job carried out by the working committee in the standard setting process. Referring to discussion in Chapter V, the due process adopted by the Board involves a lot of job carried out by such committees.

It is also seen by the respondents as the most effective method to participate in the standard setting process, as the composition of the working committee members could guarantee less negative response from the Board members and thus the issuance of high quality accounting standards. Linking to the findings for the research question on the establishment of an independent standard setting body, where the respondents viewed that the fair and well representation of various interest groups on the Board would ensure issuance of unbiased and high quality standards that lead to wider and better acceptance among the affected parties, the case is similar for the research group as well. This is acknowledged by one of the respondents, who wrote:

"Selection to the committee itself already ensures a good mix of accounting practitioners and academics who are well-informed on the area"

Respondent A-8

Writing formal submission to the MASB was seen as most effective by 18.8% of the respondents. They wrote:

"MASB will certainly respond positively to written submission"

Respondent AP-2
"... demonstrate commitment and clear-thinking "

Respondent A-7

"Ignoring the method of becoming member of the Board, formal writing is most effective because it is recorded, considered and then discussed at various levels until it reaches the Board"

Respondent R-2

"In my opinion, only by writing in one’s opinion, or ideas and submit them directly to the MASB, that the Board will consider or take into account the problems that are faced by the public"

Respondent AP-2

In addition to the above three methods, One respondent (U-4) suggested periodic public hearings with the MASB as the most effective means to have one’s input into the standard setting process. This method was not identified earlier in the questionnaire. The respondent argued this is most effective lobbying method as the MASB will definitely take note of the input received during this hearing as the hearings were normally done with such importance stressed that the participants come from various related backgrounds.

Interesting to note that one of the respondent (R-6) opined that none listed in the questionnaire would be the most effective way to participate and influence the accounting standards development. He claimed that:

"There is what is known as the "invisible hand" behind every accounting standard set. Certain individuals or groups have stronger influence in standard setting, and than any logic or professional opinion forwarded."

Respondent R-6

This argument is a specific issue similar to the argument forwarded in the accounting literature by Hussien & Ketz, (1991) on power play in the standard setting process. Power is exercised
by parties influential in the process, regardless of others who might be trying to put things in neutral position.

6.5 Research Question 4: Did accounting professionals have a strong influence on the MASB as compared to other interest groups?

Let’s start with one of the respondents’ answer to the issue:

“Who else work the most with accounting standards other than the accountants?”

Respondent AP-6

The accounting profession has always held control over accounting standard setting as it is a role within the traditional boundaries of the discipline (Stoddart, 1999).

Item number 5 asked the respondents to state their views on the roles that the accounting professionals play in the standard setting process. The opinions of the respondents could be generalised into four main ideas. They are (following the order of most frequently expressed):

1- has technical expertise and practical knowledge (53% of the respondents did wrote this)
2- betterment of the financial reporting practices (all mentioned)
3- has social responsibility towards the users of financial statements (all mentioned)
4- to protect the profession (even AP (2) admit this)

For the first argument that the professional has technical expertise and practical knowledge in relation to standard setting process, some of the comments given by the respondents include:

“...logically should be involved in standard setting process...the most knowledgeable in the field (other than academicians)...”

Respondent A-7

and

“To ensure that the accounting standards set are relevant to Malaysian context and are feasible and practical from the practitioners’ viewpoint.”

Respondent A-8
Whereas for the idea of betterment of the financial reporting practices, one of the respondents wrote:

"To make sure the relevant standards are proposed and adopted in order to promote transparency, good governance, and best practise."

Respondent A-1

In addition to that, the third point, i.e. accountants have social responsibility towards the users of financial statements, a respondent wrote:

"...should take a leading role... necessary as they are not only responsible for preparation of financial statements but also on the reporting on such statements. In this respect, the accounting profession has a heavy responsibility towards the financial statements users and the public at large."

Respondent A-10

Two respondents interestingly mentioned that accountants have to get the public to participate in the standard setting process. They wrote:

"By profession, they are the bodies said to be responsible for all matters relating to accounting standards and practise. They should initiate and encourage other related groups to participate in the development of accounting standards"

Respondent A-3

"Accounting standards like any other standard set by other professions form as a guide, regulation, rules and borders for accountants to practice. Though accounting standards affect the general public, only the accountants appreciate them and know how to interpret their impact on everyday life. Accountants must play their role to highlight issues in the standards to get the general public to participate in the debate and discussion before the accounting standards are implemented"

Respondent U-6
Despite all the idealistic opinions above, some of the comments given were more realistic. The accountants are supposed to be involved and have strong influence over other groups in the standard setting body, for their own benefits and protection for the profession. They wrote:

"As an impetus to reduce our professional risks, it is only appropriate that we involve ourselves in the standard setting process so as to develop stringent accounting standards."

Respondent AP-5

"Historically they have always been involved. Pragmatically they are the ones who must apply accounting standards and they understand standards the best. Professionally as a group they need to protect their interests."

Respondent AP-4

"To influence MASB and to ensure that the standards are what the accountants wanted them to be and not what they ought to be."

Respondent A-4

In general, disregarding the interest groups that each respondent belongs to, the respondents did agree on the fact that the accounting profession possesses the knowledge and expertise in the standard setting process. The task of developing the accounting standards is further enhanced through the involvement of other interest groups. The other interest groups identified in the questionnaire by the respondents are shown below in table 6.9 together with rating on their level of participation in the standard setting process.
In the eyes of the respondents, the accounting professionals have the highest level of participation in the development of accounting standards in Malaysia. However, there is the question of whether the current level of participation by the accounting professionals in the standard setting process in Malaysia is favourable to everybody or not.

Item number 4 in the questionnaire seeks the opinions of the respondents on the level of the accounting professionals’ involvement in the development of accounting standards in Malaysia, whether it should be increased, decreased, or not changed at all. Table 6.10 below presents the findings.

<table>
<thead>
<tr>
<th>Respondents</th>
<th>Increase % (count)</th>
<th>Decrease % (count)</th>
<th>No change % (count)</th>
<th>Total % (count)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Academics</td>
<td>72.7 (8)</td>
<td>18.2 (2)</td>
<td>9.1 (1)</td>
<td>100 (11)</td>
</tr>
<tr>
<td>Preparers</td>
<td>75.0 (3)</td>
<td>25.0 (1)</td>
<td>0 (0)</td>
<td>100 (4)</td>
</tr>
<tr>
<td>Professionals</td>
<td>80.0 (8)</td>
<td>0 (0)</td>
<td>20.0 (2)</td>
<td>100 (10)</td>
</tr>
<tr>
<td>Regulators</td>
<td>33.3 (2)</td>
<td>0 (0)</td>
<td>66.7 (4)</td>
<td>100 (6)</td>
</tr>
<tr>
<td>Users</td>
<td>66.7 (2)</td>
<td>0 (0)</td>
<td>33.3 (1)</td>
<td>100 (3)</td>
</tr>
<tr>
<td>% of total</td>
<td>67.6 (23)</td>
<td>8.8 (3)</td>
<td>23.5 (8)</td>
<td>≈100 (34)</td>
</tr>
</tbody>
</table>

Table 6.10 Desired Level of Accountants’ Involvement in Standard Setting Process in Malaysia
Sixty eight percent of the respondents agreed that there should be an increase in overall involvement by the accounting professionals in the standard setting process. They believe that as the professionals, accountants are the experts with exposure to various circumstances in their field of work. Three of the respondents said:

"Generally, accountants are the 'best' people to seek to 'cook the books'. Therefore, it is only appropriate to get their highest involvement as they know how to overcome loopholes through the accounting standards."

Respondent AP-5

"...they posses the technical ability to identify and address issues which are becoming complex with the growth and trend of capital markets and the business community."

Respondent U-2

"...members of the accounting profession receive feedback from clients and at the same time have to deal with technical people and government agencies. Based on the exposure and dealings with a wide spectrum of people, they are the best candidate to get involved in standard setting process."

Respondent AP-1

In fact, one respondent wrote that only the accounting professionals would take the trouble to be acquainted with and involved in the standard setting process. In his view:

"Accounting standards are such a boring subject and very technical. Only the professionals in the field who practice them know it well and are really bother about the accounting standards..."

Respondent U-4
Accordingly, several of the respondents opined that accountants must take a more active role in the standard setting process ex-ante (rather than post-ante), as the best time and opportunity for the accounting profession to influence the outcome is during the setting and development of any particular accounting standard. The current state of affairs in Malaysia however is not that desirable as identified by one of the respondent who wrote:

"... the present inclination is to challenge the standards after implementation but passive when standard setting was in progress!"

Respondent AP-6

More specifically, the size of representation of the accounting profession on the MASB relative to other interest groups would determine the level of influence the profession has in the standard setting process. In the questionnaire, the respondents were also asked in Item 7 to suggest how many out of the 8 members of MASB should be accountants. The summary is shown in Table 6.11 below.

<table>
<thead>
<tr>
<th>No. of accountants</th>
<th>Count (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>1 (3.33)</td>
</tr>
<tr>
<td>7</td>
<td>1 (3.33)</td>
</tr>
<tr>
<td>6</td>
<td>0 (0.0)</td>
</tr>
<tr>
<td>5</td>
<td>6 (20.0)</td>
</tr>
<tr>
<td>4</td>
<td>15 (50.0)</td>
</tr>
<tr>
<td>3</td>
<td>6 (20.0)</td>
</tr>
<tr>
<td>2</td>
<td>1 (3.33)</td>
</tr>
<tr>
<td>1</td>
<td>0 (0.0)</td>
</tr>
</tbody>
</table>
| **Total Usable Count (%)** | **30** (100)**

Table 6.11 Number of Accountants on the Malaysian Accounting Standards Board

From the table we could see that of the respondents (77%) wanted the Board to have more than or equal to 50% of its members comprising of accountants. Several of them made comments as follows:

"Half is a fair number. After all one is talking about setting ACCOUNTING standards."

Respondent P-3

4 out of the 34 respondents did not answer questionnaire item 7. The researcher being prudent did not interpret this as "no change" in the number of accountants on the Board of the MASB.
“Accountants are practitioners... they do keep abreast of the development of accounting standards (within the country and the IAS). As such, they are able to advise objectively on the deviations or variations from the accounting standards set in the developed countries.”

Respondent P-4

“...should be highly experienced accountants who can talk sense when evaluating accounting standards and findings of the working groups...”

Respondent AP-6

“Majority of the members should be accountants as standard setting is a highly technical process and requires an in-depth understanding of accounting matters. The non-accountants are expected to provide the balance in giving inputs to reflect the needs of users.”

Respondent U-2

Nevertheless, the respondents who viewed that the Board should have less than 50% of its members come from the accounting professionals do have their valid points as well. Many argued that the other members who come from different backgrounds will enhance the credibility of the standard setting process so that it becomes more acceptable process for everyone. Some of them were quoted to say:

“We need sufficient members to make sure that they can cope with the workload. At the same time we do not want them to control the Board or else it will become just like a body within the accounting profession.”

Respondent U-4

“Having 3 out of 8 members would ensure that accountants are substantially represented and they will have significant influence over the standard setting
process. Having 4 or more may not be a good idea as accountants sometimes do collectively act as "cluster". This will diminish the roles of non-accountants."

Respondent A-10

"No domination and accommodate wider opinion"

Ideally, a standard setting body should accommodate of a wide range of community interests without any group being dominant, be responsive to changing commercial conditions, and politically stable (Peirson, et al., 1990).

Discussion

Professional logic argues that the accounting profession can and should set the standards. This is because accountants have the needed expertise and resources (Booth and Cocks, 1990).

The accountant should set the accounting standards because they have always held the control over accounting standard setting as a part of the traditional boundaries of its discipline (Stoddart, 1999). Accounting standards could be seen as a mark of professionalism. Standards were developed when accountants wanted to prove they were a profession and not just a job. Then the accounting standards serve as benchmark for the accountants, and ensure the quality of accounting information.

The findings in this study are consistent with previous studies covered in Chapter 3. Watts and Zimmerman (1982, 1986), Meier, et al., (1993), Meier, Alam and Pearson (1993), Van Lent (1997), and Lindahl (1987) concluded that the accountants were involved in accounting standards setting because of the differential wealth effect, or in other words, the cost/benefit consideration.

Gore (1999) points out the accounting profession is concerned for an increase in amount and quality of their audit work (due to changes in their liability to others (the third parties) apart from their clients), induce them to lobby in the standard setting process.
Corporatism/associatism (Puxty, et al., 1987; and Susela, 1996) which is a product of critical accounting school of thought considers standard setting as an efficient way to align private interest groups with the state’s need to maintain social order and productive activity.

6.6 Summary of Findings

According to the finding of the survey, the establishment of MASB as independent standard setting body received mixed responses from the respondents. Majority of the respondents viewed that accountants are still the “best man” to carry out the standard setting task. However, they agreed that participation from other interest groups is important to a certain level.

Therefore the findings of the survey could further enhance the accounting literature on the subject matter. There is a prospect that the accountants and the independent standard setting body could work in side by side in ensuring that the accounting standards being produced are of high quality and could ensure good financial reporting practices among the reporting entities.
CHAPTER VII

Conclusions and Recommendations

7.1 Introduction
Section 7.2 summarises the findings of this study. This is followed by a discussion of the limitations underlying the study, as set out in section 7.3. The implications of this research are outlined in section 7.4, while section 7.5 presents some suggestions for future research. Finally, section 7.6 provides some concluding remarks to this chapter.

7.2 Overview of the Study
The objective of this study has been to examine the standard setting framework in Malaysia. The approach taken is to gather documents and information on the standard setter, the Malaysian Accounting Standards Board (MASB), and the two accountancy professional bodies in Malaysia, the MIA and MICPA. The documentary analysis results in the descriptive information on the MASB and the professional bodies, relating to the standard setting process in Malaysia. To substantiate the documentary analysis findings, and to find out the views of various interest groups in Malaysia on the standard setting arrangement, a survey was conducted targeted at those identified to have interest in the standard setting activities and outputs. This chapter presents an overall summary of the research thesis.

Until the research was done in year 1994, there has been relatively little research done to examine the standard setting process in Malaysia and the roles of the various interest groups in the process. Therefore, the purposes of this dissertation are to study the institutional arrangements for the standard setting in Malaysia, and to gather evidence of the accounting profession influence on the standard setting body in the period between 1997-1999.

The scope of this study was limited only to standard setting process in Malaysia. The study is exploratory and descriptive in nature, identifying and describing the subject matters. No causal relationships were explored. Four research questions were developed to meet the
objectives of the study. The questions were based on the findings of existing literature reviewed in this study.

Document analysis and survey research methods were used in this study to answer the research questions. They were chosen as both were the most suitable strategies to access the kind of data needed and were the feasible tools at the time of the research. Both documentary analysis and surveys are also appropriate for answering “who”, “what”, “where”, “how many”, “how much” questions (Yin, 1994, p.5-6). The documentary method findings provide the basis for understanding the standard setting arrangements in Malaysia. It also helps to design for the second stage of the research, the questionnaire survey. The questionnaire survey is apt for understanding how the interest groups perceived the current standard setting arrangements in Malaysia.

7.3 Empirical Findings

In this study, two research methods were used, documentary analysis and questionnaire survey to find the answers to four research questions. Revisiting the questions, they are;

1. What were the institutional arrangements in Malaysia by which accounting standards were established in the period of 1997-1999?

2. Did the interest groups support having a separate independent body to set the accounting standards?

3. How did the interest groups influence MASB's activities in setting accounting standards?

4. Did accounting professionals have a strong influence on the MASB as compared to other interest groups?

In sections below, the answers to the research questions above are summarised accordingly.
7.3.1 The Development of Accounting Standards in Malaysia

Among the objectives of this study is to find out about the standard setting arrangements in Malaysia. The results show that the standard setting arrangements in Malaysia have a lot of similarities to the arrangements in other developed countries, particularly in the US. The Malaysian Accounting Standards Board is a separate body from the national accountants' body, the Malaysian Institute of Accountants. Among the significant similarities to the overseas counterparts of MASB include having a parent organisation, rigorous 'due process' followed before issuing an accounting standard, and the development of conceptual framework.

MASB has a "parent" organisation, the Financial Reporting Foundation (FRF) which oversees the funding for activities of the Board, and becomes the primary source of views and opinions for standard setting process. The members of FRF were representatives from the all the related parties including the MIA, MACPA, regulatory agencies (Securities Commission, Registrar of Companies, KLSE), major companies, and academia.

As for the 'due process' used by the MASB, it is similar to the one used by the FASB in the United States. A systematic process for developing the accounting standards could ensure that the standards issued are of high quality and received-inputs from all of the interest groups in Malaysia. This is most noticeable in the composition of working groups appointed by the Board to work on any particular accounting issue until a standard is issued. The members of the group basically represent all the affected parties by the accounting standard in question. A fair representation of all affected could assure that the issued accounting standards have all parties' interests and needs taken into account.

Nevertheless, there are characteristics that are unique to MASB. The MASB is more under control of the government, through the Malaysian Finance Ministry. MASB's approved accounting standards are based on the International Accounting Standards (IASs), and customised to meet the unique Malaysian economic environment and needs. There is also emphasis on study to implement Islamic financial reporting in Malaysia.

7.3.2 MASB as the Sole Standard Setter in Malaysia

The facts, description and analysis on the MASB’s progress as the national standard setting authority for financial reporting in Malaysia presented in this study bring to the conclusion
that the issues faced by the national standard setting body, the MASB, were not that much different than the ones faced by its more established counterparts in other countries.

The status of the MASB as an independent sole authority to set the accounting standards was accepted by the interest groups in Malaysia with mixed feelings. When the proposal to establish the Board was announced, there was both support and opposition from the accountants. They argued that the Board should come under the jurisdiction of the national professional body, the MIA. Other interest groups were more positive, but quite uncertain of the future body capability to enforce the standards.

Nevertheless, there were several changes in the views gathered after the formation of the Board. Generally, the academics, preparers, accounting professionals, regulators and users group who responded to the survey support the establishment of an independent body for setting the accounting standards in Malaysia. They viewed that with various inputs put into the standard setting process and a strong legal backup for the enforcement of the standards, the MASB has done a pretty well job.

The MASB has also in its more than two years existence as a standard setting body, apart from reviewing extant and developing new accounting standards; managed to come up with proposal on Malaysian own conceptual framework and participate actively in international standard setting.

7.3.3 Participation in the Standard Setting Process in Malaysia

According to a MASB source, anybody could participate in MASB’s standard setting, considering that the particular standard is relevant to the person’s background (MASB@po.jaring.my, 2000).

The participants in the accounting standards development in Malaysia did and do use most of the formal and informal lobbying methods identified by Morris (1986). These include by becoming member of the standard setting body & the working groups, writing formal submission and responding to MASB’s questionnaire, and participating in seminar and discussion held by the Board. The methods chosen to participate in standard setting process may be affected by the perception of the lobbyists on the effectiveness of the lobbying
methods. Being a member of the standard setting body and the working group, and writing formal submissions to the MASB were found to be among the most effective methods that could be used to input one's opinion into the standard setting process.

Participation from other interest groups apart from the accounting professionals in Malaysia, is increasing. With the establishment of MASB as a body that is separate from the accounting professional bodies, the various interest groups have become more aware of the need to have their input into the development of accounting standards and acted upon it.

7.3.4 The Roles of the Professionals in Accounting Standards Development

The professional bodies, the MIA, the MICPA and the accounting profession as a whole could be said to still be the important players in the standard setting process even though the job solely rests on the shoulder of the MASB. The accounting professions form the majority of the members of the FRF and the MASB. They also involved in the Working Groups set up by the MASB to carry out the development of accounting standards, contributed actively for the comments on the discussion documents and exposure drafts issued by the MASB, and participated in standard setting at the international level. The MIA and MICPA also provide interpretations and guidelines on how to apply the approved accounting standards to the accountant members.

The accounting profession is seen by various interest groups as the 'best man' still to do the standard setting job, with the input from other MASB's constituents. Accountants are the individuals who have the expertise and knowledge in the field which is indispensable to ensure that the accounting standards development in smooth progress. In the pursuance of the profession's interests, having the standard setting task taken away from them may risk the profession's image as a whole. However various ways could be worked out to maintain the image and the importance of the profession in standard setting.

The significance of the accountants' contribution to the process is admitted by the other interest groups in Malaysia. The accountants are seen as having the expertise, being the keeper of good accounting practices, and the party who has to look after the interests of the public. These perceptions are needed to be maintained to protect the profession as a whole.
7.4 Limitations of the Study

The scope of this study was limited only to standard setting process in Malaysia. No actual comparison study was made. Thus, the results could not be directly compared to other studies in other countries, or generalisation be made without taking into considerations the nature and uniqueness of Malaysian environment.

The study is exploratory and descriptive in nature. Therefore, it is limited only to identify and describe the subject matters. No causal relationships were explored.

Given the research strategies chosen for this study, there were problems with the data collection stage. Certain documents were not available to the researches to peruse for the research. Responses from the questionnaire survey were also low. Thus, the data collected might not result in the most desired level of comprehensiveness of the analysis.

Nevertheless, there are still possibilities of better research methodologies and data collection method for the very present study. A case study approach could generate more comprehensive data for description and understanding of the standard setting body, the MASB. Further, interviews with the relevant interest groups could generate more detailed insights into the reactions towards the establishment of the MASB and the various changes in the standard setting environment in general.

7.5 Implications of the Study

The major purpose of this study is to provide information on the standard setting body in Malaysia and the roles played by the accounting profession in the development of accounting standards. Several implications can be drawn from the findings of this study with respects to various interest groups in financial accounting standards development, in particular the academic and standard setters.
7.5.1 Implications for Practice

A general recommendation from the findings and conclusions of this study suggests that the standard setter (MASB), and the interest groups, in particular the accounting professionals, need to pay close attention to working together progressively towards developing accounting standards that are of high quality and suit the Malaysian environment. The preponderance of evidence, found before and after the establishment of the MASB, showed that disagreement will only have negative impact on the accounting standards development, and participation of all related interest groups in standard setting could eliminate or reduce the conflicts and thus a better acceptance and application of the issued accounting standards. The recommendations, which follow, are addressed to the standard setter, the interest groups and the accounting professionals.

The standard setter, that is the MASB, should work closer and more openly with the interest groups, through various channels for participation in the standard setting process. The MASB could learn from the FASB’s experience in the U.S.A. and the ASB in the UK. The existing FRF and the working/research groups, which comprise the various parties from different backgrounds, are good applications of the “wider participation” principle, but the “openness” of the process still has room for improvement. One suggestion that could be of practical use is to have more public hearings or discussions at the various stages in the due process. A more opened standard setting process could help reduce later conflicts that could arise because some of the details in the accounting standards were not acceptable to certain interest groups. Then it will be too late to have changes made efficiently to the accounting standards.

In addition to that, to help improve the level of involvement by interest groups, the MASB could make use of the various lobbying methods identified in this study. Currently the MASB depends heavily on the use of formal formatted written submissions or comments on the draft accounting standards. Acknowledging the lobbying methods and then making use of them effectively under controlled conditions could avoid undesirable pursuance of political or individuals’ interests that might otherwise remain unnoticed. Nevertheless, the arrangements must not be too rigid as to promote the reverse effect, namely, lesser participation from the interest groups, due to difficulty in having their contributions put into the standard setting process. One suggestion is to make use more of the mass media to “advertise” and invite participation from the public, enlisting ways and procedures that
they could use to participate. It is easier for one to have options laid in front of one’s eyes to choose and use, than for one to think one’s way to get things done from scratch.

For the various interest groups in general, they should be more actively involved in the standard setting process, in order to have high quality, more acceptable and practical accounting standards. Ideally, one should strive to have the public interest as the foremost when lobbying the standard setter. Corporate governance could then be improved and the confidence of the public in the companies’ accountability would be strengthened and thus, the economy of the nation improved.

As for the accounting professionals, it is desirable for them to increase or at least maintain their active involvement in the accounting standards development. As common saying says “accountants are the keepers of the business language, i.e. accounting”. Professionally, they are the experts in the field, and it should be maintained that way.

The national accounting body, the MIA, should be aware that the public still relies on them and accountants in general, to represent them in the development of accounting standards. Assurance from the accountants will have an effect similar to the above mentioned neutral lobbying objectives. What the accountants could do is to improve their public image as the professionals in the field, as they are still as important as before and actively contribute to the standard setting process.

7.5.2 Implications for Theory and Research

The thesis has empirically strengthened several theories in previous literature on the roles of accountants in standards setting, with the focus on Malaysia. It draws together the available research, and enhances our current understanding of accounting profession in the standard setting process by providing empirical evidence and theoretical explanations.

The study could also be a base for future studies with a theoretical perspective, serving as evidence or findings to support theory development or hypotheses testing. This is specifically for further research in Malaysia and other developing countries (in Asia particularly) since these countries share a lot of characteristics in terms of their accounting standards development. In most of these countries, the International Accounting Standards
(IAS) do have influence on the local accounting policies (Woolley, 1998). Other countries’
accounting policy makers could also in many ways use this thesis if they are interested in
developing their own accounting standards.

Secondly, new research could consider studying causal relationship between the level of
acceptance of and the current arrangement for setting the accounting standards in
Malaysia.

7.6 Conclusions

This thesis has looked into the standard setting arrangements in Malaysia during 1997-
1999 period and the roles of the accounting profession in the development of accounting
standards. The Malaysian Accounting Standards Board (MASB) is the sole authority that
sets accounting standards for application by businesses in Malaysia. The MASB has a lot
of similarities to overseas counterparts, in particular the FASB in the U.S and AASB in
Australia, for instance in terms of its organisational structure, the ‘due process’, and
appointment of members to the Board. It also has the similarities to NZ in terms of legal
backing that the accounting standards have once they are approved. All of the standards
setting bodies mentioned above use conceptual framework as guidelines in the standard
setting process.

The various interest groups identified in the accounting standards development scene,
generally agreed with the establishment of MASB. The MASB in its younger years has
managed to gain credibility and public confidence as the sole standard setter for Malaysian
accounting standards.

After the establishment of MASB, the accounting professionals still play an important role
in the standard setting process. Even though the task is no longer the exclusive domain, the
accountants have to play an even greater role to get other interest groups to participate in
the standard setting process and as well as continuing to contribute their expertise when
needed.

In conclusion the establishment of MASB has benefited the country as a whole without any
detriment to the related parties. Nevertheless, to continue its positive contributions, co-
operation from all affected individuals and groups are needed. No one can survive without
the support of others and this is true for MASB and the accounting profession in Malaysia.
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Bibliography


Setting Financial Accounting Standards in Malaysia
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Lincoln
New Zealand
Appendices

Setting Financial Accounting Standards in Malaysia
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PO Box 84, Lincoln University, Canterbury, New Zealand
E-mail add: suods@kea.lincoln.ac.nz

Tuan/Puan,

Please allow me to introduce myself and explain the purpose of this email. My name is Suhaida Mohd Sood and I am a member of the academic staff at Universiti Tenaga Nasional Berhad (UNITEN). Currently, I am pursuing a Masters in accounting at Lincoln University, Canterbury, New Zealand.

My thesis is on “Setting Financial Accounting Standards in Malaysia: the Malaysian Accounting Standard Board (MASB) and the Accounting Profession”. It will examine the participation of the accounting profession in the standard setting process in Malaysia under the new arrangement, and the standard setting body itself, the MASB. This involves analysing the events before and after the MASB’s establishment, and assessing the opinions of relevant individuals and groups. Now, I am about to commence the empirical phase of my research which involves a questionnaire-based survey of persons who have been/are involved or interested in the standard setting process and the accounting profession in general.

My research on the standard setting process would not be complete if I did not include you as part of my study. Your assistance in completing this survey will be of great value in contributing your insights into the issues that I have identified in the questionnaire below.

You can be assured of complete confidentiality. Your responses will be reported in aggregate form along with other respondents. Each returned copy of the questionnaire will be given a code number and no personal names or addresses will be used when the data is analysed. If you are interested in receiving a copy of the summary of the results, please fill in your details in the space provided on the questionnaire.

Should you feel you need further clarification regarding the survey before you participate in the survey, or have any concerns regarding the questionnaire, please do not hesitate to contact me at the e-mail address above or telephone number 0064-21-255 6619.

Thank you in advance for your co-operation in filling out this questionnaire. I look forward to receiving your mail with the completed questionnaire before 28 December, 1999. Please contact me if you anticipate any difficulty in meeting the dateline.

Yours truly,

Suhaida Mohd Sood
Lincoln University
To the respondent:

If you would like to receive a copy of the summary report of this survey, please indicate either by post or e-mail. Please provide your name and address below, or enclose your business card.

By post ☐  By e-mail ☐

Name: ______________________________________________________

Address: ____________________________________________________

________________________________________________________________

________________________________________________________________

________________________________________________________________

e-mail address: _______________________________________________
PART I: General Information

1. Brief notes

The **MASB**

Under the new Financial Reporting Act 1997, the **Malaysian Accounting Standards Board** (MASB) has the authority to set financial reporting standards and statements of principles for financial reporting in Malaysia. Before the MASB's establishment, the two Malaysian professional accounting bodies, the Malaysian Institute of Accountants (MIA) and the Malaysian Certified Public Accountants (MACPA) were responsible for the development of accounting standards.

The different **interest groups**

In this survey, **interest groups** are groups of individuals or organisations that are affected by the accounting standards and have legitimate interest in the standards. These groups generally comprise the professional bodies, users, preparers and government regulatory bodies.

2. Most of the questions may be answered by circling the appropriate number, or ticking the appropriate box. Some may require written answers. Please feel free to write in additional comments wherever you consider necessary.
QUESTIONNAIRE:

Part II: The Accounting Standard Setting Process in Malaysia

(Please circle the appropriate number accordingly)

1. Listed below are a number of ways in which individuals or groups can have their input into the standard setting process in Malaysia. How would you assess the effectiveness of each of these methods?

<table>
<thead>
<tr>
<th>Method</th>
<th>Most effective</th>
<th>Very effective</th>
<th>Fairly effective</th>
<th>Not too effective</th>
<th>Ineffective</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Written submissions to MASB ..................................</td>
<td>5</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>b. Unpublished letters .............................................</td>
<td>5</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>c. Telephone conversations ..........................................</td>
<td>5</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>d. Questionnaire responses ...........................................</td>
<td>5</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>e. Membership of the working committee/research group ....................</td>
<td>5</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>f. Membership of the standard setting board ................................</td>
<td>5</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>g. Membership of the consultation group ..................................</td>
<td>5</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>h. Informal discussions ...............................................</td>
<td>5</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>i. Others: (please specify)</td>
<td>5</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>i. ______</td>
<td>5</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>ii. ______</td>
<td>5</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>iii. ______</td>
<td>5</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
</tbody>
</table>

2a. Which ONE of the methods from the list in Question 1 do you consider to be the most effective of all?

(Select ONE only from the list above)

Method:

2b. In your opinion, why is the method in question number 2a. the most effective way to have input in the standard setting process?
**Part III: The interest groups in the standard setting scene in Malaysia**

3. How would you assess the level of participation of the different interest groups in the standard setting process in Malaysia?

<table>
<thead>
<tr>
<th>Interest Groups</th>
<th>Very high</th>
<th>Very Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>The accounting profession</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>The government and its regulatory agencies</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>The business community</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>The financial institutions</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>The academics</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>The financial analysts and other users of financial statements</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Other groups (please name)</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>4</td>
</tr>
</tbody>
</table>

4. In your opinion, should the members of the accounting profession in Malaysia increase or decrease their involvement in the standard setting process?

- Increase
  - Why? ☐
  - Decrease ☐
  - No change ☐

5. In your own opinion, why does the accounting profession participate in the standard setting process?

____________________________________________________________________
____________________________________________________________________
____________________________________________________________________
6. Do you agree that there should be an independent standard setting body separate from the accounting professional bodies (the MIA and the MACPA) in Malaysia? (Please use the following scale)

<table>
<thead>
<tr>
<th>Strongly agree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>1</td>
<td></td>
</tr>
</tbody>
</table>

Why?

________________________________________

________________________________________

________________________________________

________________________________________

7. How many of the 8 members of the MASB, should be accountants? (Please tick ONE box only)

8........... [ ]  Why?

7........... [ ]

6........... [ ]

5........... [ ]

4........... [ ]

3........... [ ]

2........... [ ]

1........... [ ]

0........... [ ]

Continue on next page →
8. What groups other than accountants should be represented on the MASB?
   Please list the groups and the number of MASB members out of a total of 8 members who should represent that group.
   Please explain why the group should be represented.

<table>
<thead>
<tr>
<th>Group name</th>
<th>No. of MASB members</th>
<th>Why?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

9. How do you rate the performance of MASB in the last 2 years?

<table>
<thead>
<tr>
<th></th>
<th>Excellent</th>
<th>Good</th>
<th>Fair</th>
<th>Poor</th>
<th>Very Poor</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>5</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
</tbody>
</table>

Why?

_________________________________________________________________________
_________________________________________________________________________
_________________________________________________________________________
_________________________________________________________________________
_________________________________________________________________________
Part V: Background

10. Are you involved in the accounting standards development in Malaysia?
Yes ☐ No ☐

If yes, please state how you are involved in the process. *(You may tick more than 1 box)*

- By being a member of the Malaysian Accounting Standard Setting Board (MASB)
- By being a member of the working committee/research group
- By being a member of the consultation group
- By writing formal submissions to MASB
- By responding to questionnaire issued by MASB
- Through telephone conversations with appropriate individuals
- Through informal discussions
- Through unpublished letters

Others (please specify):


11. Your age? _____ years

12. Years of working experience? _____ years

13. Current occupation: ___________

14. Please list the accounting professional bodies you belong to. *(eg MIA, MACPA, ASCPA)*


This is the end of the questionnaire
Thank you for participating in this survey

PLEASE RETURN THE COMPLETED QUESTIONNAIRE NOW
USING THE SELF-ADDRESSED ENVELOPE PROVIDED
APPENDIX 2

DUE PROCESS FOR ADOPTION OF EXTANT ACCOUNTING STANDARDS

Review of IAS/MAS by Working Group

Consideration of Point Outline/draft ED by MASB

Submission of draft MASB ED to FRF for review (14-day period)

Refinement of draft MASB ED

Comments

MASB ED issued for comment

General distribution and media release

Collation, summary and analysis of comments by WG

Comments/Public Hearing

Consideration of proposed Standard by MASB

Submission of proposed MASB Standard to FRF for review (14-day period)

MASB Standard approved for publication

Source: Foreword to MASB Standards and Other Technical Pronouncements
APPENDIX 3

Due Process for Development of Accounting Standards

Identification and review of emerging issues - MASB initiates project

Fact finding - identification and discussion of issues by Working Group appointed by MASB. Discussion Paper is prepared if deemed necessary

Consideration of draft Discussion Paper by MASB

Submission of draft Discussion Paper to FRF for review (14-day period)

Refinement of draft Discussion Paper by MASB

Comments

Discussion Paper issued for comment

General distribution and media release

Analysis of comments and development of Draft Statement of Principles by WG

Consideration of DSOP by MASB

Submission of DSOP to FRF for review (14-day period)

Refinement of DSOP by MASB

Comments

DSOP issued for comment

General distribution and media release

Analysis of comments and development of draft Exposure Draft by WG

Comments

Same due process for consideration of MASB exposure Drafts is followed

MASB Standard approved for publication

Source: Foreword to MASB Standards
Appendices

APPENDIX 4
Functions of Financial Reporting Foundation (FRF)

FINANCIAL REPORTING FOUNDATION

The Financial Reporting Foundation (FRF) is established under the Financial Reporting Act 1997 (Act).

The FRF, together with the Malaysian Accounting Standard Board (MASB), make up the new framework for financial reporting in Malaysia. This new framework comprises an independent standard-setting structure with representation from all relevant parties in the standard-setting process, including preparers, users, regulators and the accountancy profession.

The FRF, as a trustee body, has responsibility for the oversight of the MASB's performance, financing and funding arrangements, and as an initial source of views for the MASB on proposed standards and pronouncements. It has no direct responsibility with respect to standard setting. This responsibility rests solely with the MASB.

The functions and powers of the FRF as provided under the Act are as follows:

(a) to provide its views to the MASB on any matter which the MASB seeks to undertake or implement with respect to the development and issue of accounting standards and a conceptual framework;

(b) to review the performance of the MASB;

(c) to be responsible for the financing arrangements and operations of the MASB;

(d) approve the MASB budget;

(e) engage or employ persons and determine the conditions of such appointments as are necessary to assist the FRF and MASB perform their functions under the Act, including the appointment of a Technical Director;

(f) administer the fund established to finance the ongoing operations of FRF and MASB including management of funds not expended on operations during any period;

(g) maintain proper accounts and prepare an annual statement of accounts of the FRF;

(h) appoint an auditor for the purpose of auditing the annual statement of accounts;

(i) forward the annual statement of accounts and audit report to the Minister of Finance, and report on the activities of the FRF and MASB at the end of each financial year;

(j) perform such other functions as the Minister of Finance may prescribe.

The FRF comprises nineteen (19) members who are appointed by the Minister of Finance. Seven (7) of the members are ex-officio representing the Ministry of Finance, the Central Bank, the Securities Commission, the Registrar of Companies, the Kuala Lumpur Stock Exchange, the Malaysian Institute of Accountants and the Malaysian Accounting Standards Board. The other twelve (12) members represent a broad spectrum of interest groups - principal officers of public listed companies, senior partners of public accounting firms and persons with other relevant experience and background.