Accounting, Finance, Sustainability, Governance & Fraud: Theory and Application

Kıymet Tunca Çalıyurt *Editor*

History of Accounting, Management, Business and Economics, Volume I

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Accounting, Finance, Sustainability, Governance & Fraud: Theory and Application

Series Editor

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Kıymet Tunca Çalıyurt
Editor

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https://4thtrakyaaccfinaud.trakya.edu.tr/

Our congress was started with the support of Prof. Dr. Oktay Güvemli, whom we lost right after the congress. We remember him with respect. He has told me that we should go on to organize this congress series and especially publish on the first years of the Turkish Republic. I would like to share conference scientific programme to disclosure each presenter's title, name and contribution.

1.BALKAN MUHASEBE VE YÖNETİM TARİHİ KONGRESİ

1ST BALKAN ACCOUNTING AND MANAGEMENT HISTORY CONGRESS

Balkan Kongre Merkezi Trakya Üniversitesi

Balkan Congress Hall, Trakya University

20 KASIM 2019 – NOVEMBER 20th, 2019

10.00 – 11.00

AÇILIŞ PROGRAMI – OPENING CEREMONY

Prof.Dr.Kıymet Çalıyurt, CPA, CFE, TÜRMOB Eğitimcisi – İşletme Bölüm Başkanı (Head of Business Administration Department)

Haluk Kaba – Edirne Serbest Muhasebeci Mali Müşavirler Odası Bşk.Yrd. (Vice President – Edirne Chamber of Certified Public Accountants)

Özay Öztürk – Edirne Ticaret Borsası Başkanı (Head of Edirne Commodity Exchange)

Recep Zıpkınkurt - Ticaret ve Sanayi Odası Yönetim Kurulu Başkanı (Head of Edirne Chamber of Commerce and Industry)

Prof.Dr. Ayhan Gençler – İktisadi ve İdari Bilimler Fakültesi Dekanı (Dean of Faculty of Business Sciences and Economics

Prof.Dr.Erhan Tabakoğlu – Rektör Trakya Üniversitesi (Rector of Trakya University)

11.00 - 11.30 KONFERANS FOTOĞRAFI (CONFERENCE PHOTO)

COFFEE BREAK (IKRAM ARASI)

11.30 – 12.15 KONFERANS KONUŞMASI (KEYNOTE SPEECH)

Prof.Dr.Oktay Güvemli

Muhasebe ve Finansmans Tarih Araştırmaları Vakfı Başkanı

President of the History Research Foundation for Accounting and Finance

"19.Yüzyılın İlk Yarısında Muhasebe Düşüncesindeki Gelişmeler"

"Developments in Accounting Thought in the First Half of the 19th Century"

12.15 – 13.00 KONFERANS KONUŞMASI (KEYNOTE SPEECH)

Prof.Dr. Ahmet Vecdi Can

Dekan, İşletme Fakültesi, Sakarya Üniversitesi, Turkiye

Dean, Business School, Sakarya University, Turkey

"Türkiye'de ve Dünya'da İşletme Programlarının AACSB Akreditasyon Tarihi ve Durum Değerlendirmesi"

"AACSB Accreditation History and Status Assessment of Business Administration Program in the World and Turkey"

13.00 – 13.45 ÖĞLEN YEMEĞİ (LUNCH)

13.45- 15.00

PANEL (20 KASIM 2019 - NOV 20, 2019)

"Maliye Okulu' nun Tarihi"
"The History of School of Fiscal Studies"
Başkan - *Chair*

Mali Müşavir Oral Levender, CPA
(Em. Edirne Defterdarı, ret. Head Treasury in Edirne City)

PANELISTS:

Bağımsız Denetçi SMMM Ahmet Kaya, Av. Mehmet Kaya, Prof Dr Ziyaettin Bildirici, Prof Dr Ahmet Ak , Dr Ahmet Kavak , Dr Yusuf Akça

15.30 - 17.00 PANEL (20 KASIM 2019 - NOV 20, 2019)

"Muhasebe ve Yönetim Tarihi" "History on Accounting and Management"

Başkan – *Chair* **Prof.Dr.Batuhan Güvemli, KGK Eğitimcisi, Trakya University**

Dr.Öğr.Üyesi Kemal Demir, Yönetim ve Organizasyon Ana Bilim Dalı, İşletme Bölümü, İktisadi ve İdari Bilimler Fakültesi, Yalova Üniversitesi

Assist.Prof.Dr. Kemal Demir, Management and Organization Division, Department of Business Administration, Faculty of Business Sciences and Economics, Yalova University

"Erken Cumhuriyet Dönemi İşletmecilik Uygulamaları: Türk Hava Yolları Örneği"
"Managerial Applications in the Early Period of Turkish Republic: Turkish Airlines Case

Dr.Öğr.Üyesi Baki Çakır, İktisat Tarihi Ana Bilim Dalı, İktisat Bölümü, Kırklareli Üniversitesi, Turkey

Assist.Prof.Dr. Baki Çakır, Division of Economy History, Economy Department, Kırklareli University Turkey

"Mukaataların[1] Mültezimlerinin[2] Muhasebe Süreci"

"Accounting process of rent income collection in Ottoman"

Prof.Dr.Tzvetelina Andreeva, University of National World and Economy, Sofia, Bulgaria

"Development of the life insurance sector in the Bulgarian economy"

"Bulgaristan' da hayat sigortası sektörünün gelişimi"

Snejana Basheva, Maria Markova, Kalina Kavaldzieva – University of National World and Economy

"History of accounting in Bulgaria"

Bulgaristan'da muhasebenin tarihi"

Snejana Basheva, Atanaska Filipova-Slancheva, Liliyana Kamburova, UNWE, Sofia

"Origin and Evolution of Audit Profession in Bulgaria"

"Lavdosh Ahmetaj, Kamila Karaj, Alexander University Durres, ALBANIA

Economic crisis and state elasticityulgaristan'da Muhasebe Tarihi" "History of accounting in Bulgaria"

I also would like to thank Editorial Director William Achauer and Editor Anushangi Weerakoon for their support and help all the time. As congress and book series editorial board, we would like to meet with our readers at Volume 2.

Prof. Dr. Kıymet Tunca Çalıyurt
Book Series Editor

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Editor and Contributors

About the Editor

Prof. Dr. Kıymet Tunca Çalıyurt, CPA, CFE, graduated from the Faculty of Business Administration at Marmara University, Istanbul, Turkey. Her Master and Ph.D. degrees are from Accounting and Finance Programme from the Social Graduate School, Marmara University. She has worked as an auditor in Horwath Auditing Company, a manager in McDonalds and a finance staff in Singapore Airlines. After vast experience in the private sector, she has started to work in academia. She is holding CFE and CPE titles. Her research interests are in accounting, auditing, fraud, social responsibility, corporate governance, finance and business ethics, environmental sustainability with a particular interest in aviation management, NGOs, women rights in business. She was a visiting researcher in John Molson School of Business in 2001 summer (International Centre for Aviation Management), Massachusetts University Amherst Business School in 2014 summer, 2018 summer (Accounting and Information System) and University of National World and Economy in 2019 summer (Faculty of Accounting). She is the founder of the International Group on Governance, Fraud, Ethics and Social Responsibility (IGonGFE&SR) and International Women and Business Group (IWBG) in 2009; both groups organize international annual conferences and published international book series. She is the book series editor in Springer which is indexed in Scopus, with the title *Accounting, Finance, Sustainability, Governance and Fraud: Theory and Application* and the book series editor in Routledge with the title *Women and Sustainable Business*. She is the founding chief-in-editor for the *Accounting Finance Auditing: An International Journal*. She is a regular speaker in Cambridge Economic Crime Symposium and a workshop organizer on the role of external auditor in fraud prevention. Some published books by Prof Çalıyurt are *Emerging Fraud* (with Sam Idowu), *Corporate Governance: An International Perspective* (with Sam Idowu), *Women and Sustainability in Business: A Global Perspective*, *Sustainability and Management: An International Perspective* (with Ulku Yuksel), *Regulations and Applications of Ethics in Business Practice* (with Dr. Jiang Bian), *Ethics and*

Sustainability in Accounting and Finance, Volume I. She is acting as member in editorial board *Journal of Financial Crime* in ESCI, *International Journal of Law and Management* in (ESCI), *Journal of Money Laundering Control* in ESCI and *International Journal of Climate Change Strategies and Management* in SSCI. She consults as a partner in Herme Consulting located in Trakya University Technopark on sustainability, auditing, accountability and academic quality.

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Part I
Introduction

Chapter 4
The Evolution of Institutional Environments in the Development of Accounting Regulations and Practices in Malaysia

Corina Joseph, Esmie Obrin Nichol, Mariam Rahmat, and Josephine Avelind Noyem

Abstract This paper presents several important institutional issues comprising economic and governmental pressures, the legal system category, cultural backgrounds and global pandemic crisis to offer understanding into Malaysia's accounting practices since 1957. The isomorphism conception under the institutional theory is used to provide a grasp of the position of institutional factors which explain the development of Malaysian accounting regulations and practices. An archival review is made on the websites of accounting professional bodies, journal articles, accounting reference books and other related documents from 1957 until present. This paper adds to offering an overall view of Malaysia's political, economic, and regulatory atmosphere and accounting and financial reporting framework. Utilizing the isomorphism conception, this review adds on to the worldwide accounting research literature by explaining institutional factors which explain the development of accounting regulations and practices in Malaysia. This whole-inclusive approach would help to understand the current practices and assist to steer the reformation of accounting regulatory in the future. This paper would be useful to academics, practitioners and higher authorities, who strive to improve accounting practices, disclosures and regulations.

Keywords Isomorphism · Accounting practice · Institutional environment

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4.1 Introduction

Since the historic independence from Britain in 1957, the accounting system in Malaysia has seen the progression from the dependency on the British accounting regulations and practices to the passing of the Companies Act 1965 and Accountants Act 1967, leading to the establishment of the Malaysian Institute of Accountants (MIA). Subsequently, amendments were made to the statutes and regulations, and the Financial Reporting Act 1997 established, to better regulate the accounting practices, as influenced by the domestic, global and regional developments.

There are numerous allusions in the literature to the idea that accounting is a product of the environment in which it operates (Tahat et al. 2018; Ali 2007; The Committee to Strengthen the Accountancy Profession [CSAP], 2014; Almujamed et al. 2017, Alon and Dwyer 2016; Phang and Mahzan 2013; Olamide and Temitope 2016). The interaction of institutional, environmental, economic and political factors, cultural background and the global pandemic crisis has been influential in the development of accounting practices and financial reporting framework. In Malaysia, the major post-independence evolution of accounting practices and regulations include the amendment of the Companies Act 1965 in 1985, the repeal of the Companies Act 1965 and the coming into force of the new Companies Act 2016, the activation of the MIA in 1987 and the enactment of the Financial Reporting Act 1997, leading to the establishment of the Financial Reporting Foundation (FRF) and Malaysian Accounting Standards Board (MASB). In this chapter, accounting regulations refer to the relevant authorities that govern the accounting practices. Meanwhile, accounting practices refer to the accounting profession, standards and conceptual framework which is explained in detail in subsequent sections. The institutional theory's isomorphism concept is used to describe the influence of institutional factors in the development of Malaysian accounting regulations and practices since its independence in 1957. The subsequent sections of this chapter will cover an overview of the accounting regulations of Malaysia; challenges in the accounting regulations of Malaysia; an overview of the accounting practices and financial reporting in Malaysia; institutional factors influencing the development of accounting regulations and practices and conclusion.

4.2 An Overview of the Accounting Regulations of Malaysia

As former British colonies, Malaysia, made up of the Federation of Malaya, Sabah and Sarawak, inherited the regulatory principles from the accounting profession in the United Kingdom (UK) (CSAP 2014). The Federation of Malaya gained independence in 1957, and was joined by the British colonies of Sabah, Sarawak and Singapore in 1963 to form the Federation of Malaysia. The post-independence year of 1958 saw the incorporation, under the Companies Ordinances (1940–1946), of a self-regulatory accountancy body, the Malayan Association of Certified Public

Accountants. With the formation of MIA in 1967, the MICPA regulatory role shifted to technical assistance for the Malaysian regulatory bodies, tasked with defining the country's business and financial landscape (MICPA n.d.).

(a) Involvement of Professional Accounting Bodies

The development of accounting standards in Malaysia were influenced by the Malaysian professional accounting bodies, namely the MIA and the MICPA. Prior to the formation of the MASB, accounting standards were developed by MIA and MICPA. As a result of the development of these standard-setting bodies, the standard of reporting has improved over time although it was then still largely based on the provisions of the original *Companies Act 1965* (Tong 2019). When the Financial Reporting Act was gazetted in March 1997, the two professional bodies stopped issuing accounting standards which signalled the move of the Malaysian accounting standard setting process from the private sector accountancy bodies to the public statutory body (Tong 2019).

(i) *Malaysia Association of Certified Public Accountants (MICPA)*

The accountancy profession and Malaysia's economic development have a formal relationship dating back to 1958 when the then Malayan Association of Certified Public Accountants (MACPA) was established as a self-regulatory accountancy body under the Companies Ordinance (1940–1946) (IFAC 2021a). In 1968, MACPA issued the first accounting guidance which dealt with a specimen company accounts. Subsequently, the association became Malaysian Association of Certified Public Accountants (MACPA) on 6 July 1964 and was finally renamed Malaysian Institute of Certified Public Accountants (MICPA) on 29 January 2002 (MICPA n.d.). It is a private sector accountancy body that regulates the practices of its members who carry the title of Certified Public Accountants (CPA).

In 1978, MICPA was admitted as a member of the International Accounting Standards Committee (IASC). The IASC was set-up in 1973 and was responsible for the setting of International Accounting Standards (IAS) and issuance of guidelines called Standing Interpretations Committee (SIC) (Arshad n.d.). The government's new economic policy (NEP) adopted in 1971 saw increased Bumiputra's[1] holdings in big corporations and reduced foreign ownership, which led to numerous corporate mergers and takeovers. MICPA was asked to intervene on behalf of the government which was concerned about the lack of reporting and accounting rules and guidance for companies. MICPA's single-handed role in setting standard lasted for a long time, until MIA joined in 1985 (Sood 2006).

(ii) *The Malaysian Institute of Accountants (MIA)*

Malaysia's accounting profession is governed by the Accountants Act 1967, which was enacted after the country's formation in 1963. Under this Act, MIA was founded

[1] The Bumiputras comprise the Malays, the Orang Asli of Peninsular Malaysia and various indigenous people of Sabah and Sarawak.

in 1967 as the national accountancy body that regulates, develops, supports and enhances the integrity, status and interests of the profession in Malaysia. Section 22 of the Act prescribes that a person who holds himself as an accountant without being an MIA member commits an offence. The existence of coercive isomorphism was evidenced by the introduction of the Act, which demonstrated the government's roles in regulating and controlling the accounting profession by allowing only properly competent individuals to the profession.

Despite being founded by a statute, MIA remained dormant and focussed primarily on the accountants' registration in Malaysia until 1987. However, in 1987, the operations of the MIA were raised to that of a national accountancy body and began to issue accounting standards (Tong 2019). Initially, all the standards previously developed by the MICPA were adopted by MIA. As a member of the Board of IASC and Public Sector Committee of IFAC, the MIA became actively involved in global standard setting (Sood 2006). After going through the necessary due process to ensure that the IASs adopted from the IASC are suited to the Malaysian environment, MIA began to release its own accounting standards (Sood 2006).

Even though adoption of IASs led to more comprehensive disclosure of corporate information, some local reporting requirements relating to specific local industries such as aquaculture and insurance were not met. Therefore, MICPA and MIA worked together and issued accounting standards known as the Malaysian Accounting Standards (MASs). Examples of these standards are MAS 1 *Earnings Per Share*, MAS 6 *Accounting for Goodwill* and MAS 8 *Accounting for Pre-Cropping Costs*. The process of the adoption of IASs and the development of MASs continued until 1997 when the MASB was established to take over the role of standard setting in Malaysia and as at 31 December 1996, 24 IASs, 8 MASs and 8 technical bulletins have been issued (Tong 2019, Arshad n.d.).

(b) Involvement of Relevant Authorities

The accountancy profession in Malaysia is also regulated by the Companies Commission of Malaysia (CCM) and the Audit Oversight Board (AOB) (IFAC 2021b). The CCM is a statutory body formed from a merger between the Registry of Companies (ROC) and the Registry of Business (ROB) in April 2002. However, unlike the direct regulatory role of MIA over the profession, empowered by the Accountants Act, 1967, the CCM regulates companies and businesses through its administration and enforcement of several legislations that include the Companies Commission of Malaysia Act 2001, Companies Act 2016, Interest Schemes Act 2016, Registration of Businesses Act 1956, Limited Liability Partnerships Act 2012, Trust Companies Act 1949 and Kootu Funds (Prohibition) Act 1971, and other subsidiary legislations. Hence CCM, through comprehensive enforcement and monitoring activities is the leading authority for the improvement of corporate governance.

The AOB, established under the Securities Commission Act Malaysia 1993, came into force on 1 April 2010 to oversee the accounting profession via an effective audit oversight framework to promote confidence in the quality and reliability of audited financial statements of public-interest entities and schedule funds in Malaysia (SC n.d.). Other regulatory bodies include the Central Bank of Malaysia (CBM), the

Securities Commission (SC) (Sood 2006), and the Malaysian Stock Exchange (Bursa Malaysia).

The regulators and professional bodies work closely together to promote and recognize excellence in corporate reporting. An example of how companies are encouraged to voluntarily disclose information that is useful and relevant to financial information users is the hosting of competitions for various disclosure awards (Tong 2019), such as the National Annual Corporate Report Awards (NACRA) jointly organized by Bursa Malaysia, MIA and MICPA.

(c) Malaysian Accounting Standards Board (MASB) and Financial Reporting Foundation (FRF)

Prior to 1997, the financial statements in Malaysia focussed merely on traditional stewardship accounting and reporting (Tong 2019). However, this reporting tendency began to change when the Malaysian government approved the Financial Reporting Act of 1997 (FRA 1997). Under the Act, the Financial Reporting Foundation (FRF) and Malaysian Accounting Standards Board (MASB) were established in 1997.

FRF, as a trustee body, is responsible to oversee the MASB's performance, financial and funding arrangements, and as an initial source of views for the MASB on proposed standards and pronouncements. The MASB, on the other hand, was given the mandate to issue accounting standards in Malaysia, taking over the responsibility from MICPA and MIA. According to Sood (2006), the shift in standard setting represented a change in attitudes of various Malaysian groups regarding standard setting. Findings by Sood (2006) indicated that there were mixed feelings among the interest groups. Some accountants insisted that the board should be within MIA's jurisdiction, while others questioned the board's competence to enforce the accounting standards. However, Sood (2006) found that generally all agreed that having an independent body to develop the accounting standards in Malaysia is a good idea. Members of MASB, appointed by the Minister of Finance, include a chairman, the accountant general, advisors from the SC, Companies Commission of Malaysia (CCM), MIA, and six other members with expertise in accountancy, law, business and finance, and FRA 1997 specifies that at least five of these members are members of MIA. Hence, other parties' participation and their multiple inputs put into the standard setting process together with a strong legal backup for standard enforcement would lead to the development of accounting standards that produce high-quality financial statements (Sood 2006).

The accounting regulatory framework of accounting was designed with goals of producing high-quality and reliable information to meet the needs of external users. In reality, it plays a critical role in ensuring that companies' financial statements are prepared in conformity with the rules and regulations. In Malaysia, Section 27 of the FRA 1997 requires all companies incorporated under the Companies Act to comply with the accounting standards issued and adopted by the MASB (Arshad n.d.)

Improvements in Malaysian companies' financial reporting attract more potential investors to the capital market (Sood 2006).

(d) Companies Act 1965 and its Amendment

Before Malaysia (then Malaya) achieved her independence on 31 August 1957, the Companies Ordinances (amendments) of 1940, 1946 and 1956 became the first documented financial reporting regulations and continued to play a prime role in regulating financial reporting after the independence of Malaysia (Tong 2019). Following Malaysia's independence, agriculture sector was the largest contributor of workforce during the First Five-year Plan (1956–1960). The second Five-Year Plan (1961–1965) focussed on rural development which includes investment for infrastructure and social services. In response to the growing sophistication of the economy, the Companies Act, 1965 was established (CSAP 2014) and the Companies Ordinances abolished (Tong 2019).

Ali (2007) reported that accounting in Malaysia appeared to have been energized following the economic recession in 1985–86, but before the Asian Financial Crisis in the third quarter of 1997, with major amendments to the Companies Act 1965, the activation of MIA and discussion about the establishment of MASB. The Companies Act was substantially revised in 1985 and became effective from 1 February 1986. The overall goal of the amendment was to entice foreigners to invest in the country, by emphasizing the need for individuals involved with companies to be more accountable to the minority shareholders, which include the foreigners (Ali 2007). Thus, the amended Companies Act contained more comprehensive disclosure requirements (Tong 2019). However, Ali (2007) found that revised Companies Act 1965 is superficial as

> the pressure for change coming from the economic recession was related directly to the emergence of a "modern" system of accounting – but not for its effective and appropriate administration in the Malaysian social environment. It created a perceived need for "structural" (as oppose to in-depth) changes to the accounting system. (Ali 2007, p. 140)

The original Companies Act 1965 was replaced with a new Companies Act 2016 in April 2016 after the Companies Bill 2015 was approved in Parliament. Under this new Act, companies must comply with the approved accounting standards issued by the MASB and thus eliminate the conflict between the old Act and the approved accounting standard. Also, the Ninth Schedule of the original Act has been taken out, which means that the new Companies Act no longer prescribes accounting treatments and disclosure requirements for financial reporting (Tong 2019).

4.3 Challenges in the Accounting Regulations of Malaysia

Issues raised in the World Bank's Report on Observance of Standards and Codes in Accounting and Auditing (ROSC AA) released in 2012 marked the start of possible landmark development in the regulatory framework of the profession, 55 years after independence. The MIA has been brought back into the limelight following the review of the regulatory framework and governance structure of MIA which revealed (1) perceived split identity of MIA hinders its effectiveness, (2) effectiveness of the MIA Council is in question, (3) MIA leadership in accountancy education lacks visibility, (4) distortion of the identity of accountants, (5) challenges in enforcing professional standards and rules, (6) the lack of technical competence to enhance accounting knowledge and practice, (7) rules for practicing accountants need to be modernized and (8) the need to strengthen funding for accountancy development (CSAP 2014).

As part of the country action plan to address issues raised in the ROSC AA, the Committee to Strengthen the Accountancy Profession in Malaysia (CSAP) was established, with members drawn from several regulators, including MIA. CSAP (2014) stated the challenges outlined in this report "signal the need for a total reset of the governance of the accountancy profession in Malaysia" (CSAP 2014, p. 40). Fifteen recommendations were put forward, the main thrust being "to revamp the governance structure of the accountancy profession, replacing the MIA with a new structure with better checks and balances…" (CSAP 2014, p. 40). This led to the first recommendation for "a new regulatory body (hereinafter referred to as 'NRB') be established in Malaysia" (CSAP 2014, p. 41).

The passing of MIA's regulatory powers to NRB, however, is "an uncomfortable idea for those who prefer the institute to stay as it is" (Oh 2017). Since then, MIA has been proactive, which included setting up of an internal CSAP taskforce that meets at least once a month (Lee 2018). In an interview with the then MIA's President, Salihin Abang, and Vice President, Dato' Narendra Kumar Jasani, the VP stated that 13 recommendations have either been adopted or in the process of being implemented, with two recommendations still pending, namely the competency framework for the local accountancy graduates and the regulatory framework. To this, the then President added "In the end, the MIA may still retain its regulatory functions. If you want to change the MIA's role, then you have to change the Accountants Act 1967. Under the Accountants Act 1967, we are the regulator of the accountancy profession in Malaysia… With this mandate, and the role enacted by parliament, we are the custodian taking care of the whole profession in Malaysia" (Lee 2018).

The sentiment to maintain MIA as the statutory regulatory of the profession was echoed by the then deputy finance minister, in his keynote address at the MIA International Accountants Conference in October 2018, when he said, "the government wanted to strengthen the MIA's powers and was looking into amending the act to further empower regulation and enforcement of the profession" (Oh 2019). To date, the new Accountants Act has not been passed. Following the CSAP report in 2016, the Securities Commission (SC) was assigned by the Minister of Finance to form an implementation committee (IC) to draft the amendments of the Accountants Act 1967. The MIA was one of the several stakeholders represented on the IC.

4.4 An Overview of the Accounting Practices and Financial Reporting in Malaysia

In the post-independence Malaysia, the strong influence of the accounting institutions and practices of the United Kingdom (UK) was evident as the development of accounting and accounting practices can be traced to the then MACPA, now MICPA. It would not be totally wrong to say that as the only *Malaysian*-grown p*rofessional accounting* body, the 20 local founding members (Ali 2001 as cited in Ali 2007) mainly comprised, if not all, accountants who have been trained under the tutelage of the British accountants.

Subsequently, financial reporting of Malaysian companies was statutorily obligated to comply with the minimum disclosure requirements laid out in Ninth Schedule of the Companies Act 1965. The Companies Act 1965 and the later Accountants Act 1967, were likewise both based on the laws and regulations developed in the United Kingdom (UK) (UKEssays 2018a, b).

The formal adoption of the UK-based accounting standards in 1979, began with the adoption of the International Accounting Standards (IAS), issued by the International Accounting Standards Committee (IASC), that was founded in 1973 and later replaced by the International Accounting Board (IASB) in 2001. Malaysia, in the form of MICPA joined as an associate member in 1975 and later joined by MIA from 1995 to 2000 (Wikipedia 2021a). The IASs, however, were inadequate as the accounting and reporting needs of specific industries such as aquaculture and insurance were not addressed, which led to the issuance of Malaysia's home-grown Malaysian Accounting Standards (MASs) in 1980s, jointly by MIA and MICPA (Arshad n.d.).

Following the statutory formation of MASB in 1997, Malaysian companies are to comply with MASB approved accounting standards, comprising the Malaysian Financial Reporting Standards (MFRS) and the Interpretations Committee's IC Interpretations, and the Malaysian Private Entities Reporting Standards (MPERS). Malaysian SMEs may opt to comply with either MFRS or MPERs. Technical pronouncements are also issued to complement the MASB approved accounting standards, in ensuring the financial statements present a true and fair view of an entity's financial position, performance and changes in financial position. Issues arising from existing and potential differing practices and the need for consistent application and implementation of MFRS for the benefit of capital markets led to the setting up of the MFRS Application and Implementation Committee (MAIC) by the MASB in January 2019.

(a) Convergence to IFRS

In Malaysia, the initiative to converge with IFRS in line with the global standard setting development, started when the MASB standards were rebranded to financial reporting standards (FRS) in 2005. The standards' numbering conformed to the IFRSs issued by the IASB except for some modifications (Arshad n.d.). In 2006, a batch of 21 financial reporting standards (FRSs) had been issued by the MASB which were adopted from the new IFRSs and IASs issued by the IASB. The FRS standards, also known as FRS framework, has been made compulsory for non-private entities to prepare and present their financial statements.

On 1 August 2008, MASB declared its intention to achieve full convergence of FRSs applicable in Malaysia with IFRSs issued by IASB by the year 2012 for all entities other than private entities, which means full compliance with IFRS both in terms of content and timing of implementation (Tong 2019). This is a reflection of Malaysia's commitment towards one global financial reporting language (Sidik and Rahim 2012).

In moving towards full convergence, the MASB issued a new Malaysian Financial Reporting Standards (MFRS) framework in November 2011, which is fully consistent with the IFRS framework. The accounting standards under the new framework was renamed to MFRS standards on 1 January 2012. Compliance with the MFRS framework became effective on 1 January 2012, for all entities other than private entities, except for those covered by MFRS 141 *Agriculture* and IC Interpretation 15 *Agreements for Construction of Real Estate* (IC 15), including its parent, significant investor and venture (Arshad n.d.).

The main purpose of the convergence is to close the gap between financial reporting standards (FRS) and the IFRS, making financial statements more transparent and comparable (UKEssays 2018a, b). In their study on the evolution of accounting standards in Nigeria, Olamide and Temitope (2016, p. 11) opined that the adoption of IFRS was "triggered by the nation's sense of belonging since IFRS has already been embraced by over 122 countries". Several other literatures concurred the adoption of or convergence with IFRS as necessary for the evolving accounting and reporting environment (Phang and Mahzan 2013; Sidik and Rahim 2012; Ocansey and Enahoro 2014; Phan et al. 2016; Alon and Dwyer 2016; Tahat et al. 2018).

Following the announcement of full convergence, several studies looked into the challenges faced by entities in terms of standards complexity, lack of technical expertise among preparers and auditors, under-developed local capital markets, insufficient guidance for first-time application of the IFRS, lack of practical knowledge on standards application, convergence cost and problematic fair value accounting (Larson and Street 2004; Jermakowicz and Gornik-Tomaszewski 2006; Phang and Mahzan 2013).

Full convergence of MFRSs in Malaysia with the IFRSs issued by IASB was achieved by the year 2012 which marked an advancement of reporting standards in Malaysia as it has brought financial reporting in Malaysia in tandem with other countries that have adopted the IFRSs and enhances the credibility and transparency of financial reporting in Malaysia (Tong 2019; Sidik and Rahim 2012). According to FRF and MASB Annual Report (2018), for annual periods beginning on or after 1 January 2018, all non-private entities in Malaysia are now required to use a single set of high quality, globally accepted accounting standards, namely the MFRS Framework.

(b) Development of the Malaysian Private Entities Reporting Standard (MPERS)

To alleviate the compliance burden that the complex IFRS imposed on private entities, MASB introduced the Private Entity Reporting Standards (PERS) in 2006. As a result, starting in 2006, there existed a two-tier financial reporting framework: the FRS framework and the Private Entity Reporting Standard (PERS) framework (Tong 2019). A private entity is "a company incorporated under Companies Act 2016 that is not required to prepare or lodge any financial statements under any law administered by the SC or the CBM; and is not a subsidiary or associate or, or jointly controlled by, an entity which is required to prepare or lodge any financial statements under any law administered by the SC or the CBM" (Tong 2019, p. 18).

In February 2006, private entities in Malaysia were exempted from complying with the MFRSs but can choose to apply the PERS framework. PERS is a set of accounting standards issued or adopted by the MASB for application by all private entities. However, owing to a huge gap between IFRSs used by non-private entities and the PERs by the private entities, the MASB issued Malaysian Private Entities Reporting Standard (MPERS) in February 2014, which is based on the IASB's International Financial Reporting Standard for small and medium-sized entities (IFRS for SMEs) with minor amendments and adaptations. MPERS is a self-contained standard with 35 sections (Tong 2019) that address all aspects of financial reporting by private entities.

With that, the private entities had the option of adopting voluntarily the MFRS framework used by public entities or making mandatory transition to the new MPERS framework by 1 January 2016 (Tong 2019). Thus, with the adoption of the new MPERS framework in 2016, the private entity reporting in Malaysia is brought at par with the current global reporting (Tong 2019).

The significant efforts made over the years to improve the quality of financial reporting in Malaysia has enhanced the credibility of financial statements, which contributes to the efficiency of financial and capital markets operation by allocating capital for the productive economic purposes while also promoting financial and capital markets confidence (CSAP 2014).

(c) Development of Conceptual Framework

Other than developing and issuing standards, the MASB also issued Conceptual Framework for Financial Reporting and this framework is based on the IASB's framework. The Conceptual Framework explains the goal and concepts for general purpose financial reporting. The framework goal is to help MASB develops MFRS standards (standards) that are based on consistent concepts; help preparers to develop consistent accounting policies when no standard applies to a particular transaction or other event, or when a standard allows for a choice of accounting policy and to help all parties to understand and interpret the standards (IFRS Foundation n.d.).

The original framework for the Preparation and Presentation of Financial Statements 2007 was issued by MASB, similar to the then IASB framework for the

Preparation and Presentation of Financial Statements. In November 2011, the original framework was replaced by the Conceptual Framework for Financial Reporting, for the preparation and presentation of financial statements in compliance with the Malaysian Financial Reporting Standards (MFRSs). Then in 2018, a revised Conceptual Framework for financial reporting was issued by MASB. It is identical to the revised IASB's Conceptual Framework for financial reporting. The 2018 Conceptual Framework is effective immediately for the MASB and its Interpretations Committee. The Conceptual Framework is not a standard, but when there is no MFRS standard applicable to a transaction, a reporting entity may refer to the Conceptual Framework to develop or select appropriate accounting policy for that transaction or event (Tong 2019).

(d) Accounting and Reporting of Shariah Compliant financial transactions

According to Mohammed et al. (2016), MASB was actively involved in the establishment of Islamic accounting standards in the early 2000s to ensure smooth reporting of Islamic Financial Institutions (IFIs). The debate on Islamic standard gave rise to two separate issues namely; (1) concerned with IFIs with regard to preparers' need for assistance in preparing their financial statements for transactions that differ from those of conventional banking system; (2) Muslim accountants were concerned whether the accounting treatment given in the IFRSs are consistent with Shariah's principles. Further research by Mohammed et al. (2019) revealed that there is a need for precise guidelines or standards for IFIs within the IFRS framework to reassure the public that they offer *Shariah* compliance products approved by Shariah Advisory Council, without the need for specific Islamic accounting standard.

The accounting standards approved by MASB applicable to Islamic transactions carried out by entities are also subjected to the Financial Reporting Act 1997. However, the International Financial Reporting Standards (IFRS) which were adopted by MASB may not have particularly addressed Islamic financial transactions in reaching their conclusions. As a consequence, the standing committee (FRF MASB 2020a) was tasked to advise the board on whether current or proposed approved accounting standards can be applied to Islamic financial transactions (FRF MASB 2020a).

The standing committee is made up of representatives from accounting profession, regulators academia as well as takaful and banking professions. The functions of the standing committee include: (1) identifying technical concerns pertaining to Islamic finance for review and discussion; (2) identifying different approaches to address the concerns by carrying out research and benchmarking; (3) providing clear recommendations to the board on the implementation of approved accounting standards to an Islamic finance transaction; (4) helping the board in the following areas:

- Preparing documents relevant to Islamic financial reporting for the board's approval.

- Bringing the Islamic financial reporting challenges and possible solution(s) to the IASB either directly or indirectly through the Asian-Oceanian Standard-setters Group (AOSSG) or any other body.
- Preparing documentations and recommendations on Islamic finance accounting issues for the Shariah Advisory Council of CBM or SC, when needed (FRF MASB, 2020a).

MASB, in 2001, issued MASB *i*-1 (later renamed FRS *i*-1), *Presentation of Financial Statements of Islamic Financial Institutions*. This was withdrawn as MASB ceased its policies of issuing Islamic accounting standards and is of the opinion that such standards are largely similar to the conventional standards in issue. On 15 September 2009, the MASB issued the statement of principles *i*-1 (SOP *i*-1) *Financial Reporting from an Islamic Perspective,* which confirmed that MASB approved accounting standards apply to Shariah compliant financial transactions and events, unless the Shariah prohibits it (FRF MASB 2020b).

In the extremely rare circumstances of a Shariah prohibition, the MASB requirement need not be complied with, and "MASB will undertake to issue alternative guidance". Also, if an Islamic accounting issue is not addressed in existing standards, guidance is provided in FRS 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, and SOP *i*-1 for management to exercise its judgement in developing and applying an accounting policy that ensures information provided to financial statement users is relevant and reliable (FRF MASB 2020c).

Complementary guidance that has been issued include the technical releases, as given in Table 4.1.

(e) COVID-19 Implications on Accounting and Reporting Practices

The detection of the novel Coronavirus disease (COVID-19) in Wuhan City, China in December 2019, followed by the announcement by the World Health Organization as a worldwide pandemic in March 2020, has brought about devastating economic and far-reaching social consequences (Wikipedia 2021c). To curb the spread of the pandemic, the Malaysian government initiated the movement control order (MCO), which took effect on 18 March 2020. The MCO includes a series of quarantine, closure of educational institutions, order to limit or suspend business operations, inter-state and international travel restrictions.

Table 4.1 MASB technical releases for Shariah compliant transactions (TR *i*)

Technical release	Title of TR *i*	Effective date
TR *i*-1	Accounting for zakat on business	1 July 2006
TR *i*-2	Ijarah	2006, and withdrawn
TR *i*-3	Presentation of financial statements of Islamic financial institutions	2009, and archived
TR *i*-4	Shariah compliant Sal contracts	2010, and archived

Source FRFMASB (2020d)

While the concern on people's health and safety is of paramount concern, and some businesses have even benefitted, the movement control restrictions (MCO) have its drawbacks. The MCO coupled with the lockdowns imposed by many countries, the cut in supply chain for goods from affected countries, the dilemma of financial institutions and borrowers alike arising from borrowers' inability to repay their loans have had severe impact on almost all businesses, either directly or indirectly (Grant Thornton 2020).

The Malaysian government has also put in place several measures to provide temporary reliefs to individuals and companies detrimentally affected socially and economically, one of which is the enforcement of the *Temporary Measures for Reducing the Impact of Coronavirus Disease 2019 (COVID-19) Act 2020* (in short, "COVID-19 Act") on 23 October 2020 (The Star 2020). The Act provides for amicable settlement of contractual obligations disputes without going through the legal process, restricts, albeit temporarily, debt recovery options and the enforcement of a contractual obligation against a defaulting party who demonstrates an incapacity to perform an obligation (Zain & Co. 2021).

As most business transactions are formalized through the creation of contracts, the mitigating effect of the COVID-19 Act is felt in several accounting areas, such as rent concession for a leased asset, revenue recognition, expected credit losses from inability to meet scheduled loan repayment, defined benefit obligations to employees. Such never-encountered-before contractual transactions ultimately pose challenges in accounting and reporting of financial performance of business entities, including the small medium enterprises (SMEs).

In Malaysia, the impact of COVID-19 first became an issue for financial reporting in the June quarter with MFRS134 *Interim Financial Reporting* requiring disclosure of "*the nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years*" (MASB Secretariat 2020). The high degree of uncertainty influences the expectations of financial statement users in predicting future financial performance and emphasizes the importance of using realistic estimates and judgement. Reassessment of assumptions and estimates is particularly crucial as the appropriateness of the measurement basis used in prior periods and disclosures is questionable. For example, the going concern basis in relation to MFRS 101 *Presentation of Financial Statements* cannot be applied when businesses are faced with impending cessation, the need to consider unpredictable factors in determining the estimates for impairment of assets due to anticipation of a weaker future demand for goods and services and the greater reliance on unobservable inputs due to the unavailability or decrease in market observable inputs for fair value measurement of an asset or liability.

To ensure the accounting profession remains agile and resilient in adapting to the complex and heightened uncertainty posed by the pandemic crisis, MIA has "developed a dedicated web page to provide essential resources, updates and guidance, including information from relevant authorities…" (MIA 2021). Other business regulatory bodies, such as the CBM, the stock exchange, the Companies Commission of Malaysia (CCM), the Inland Revenue Board (IRB), have also provided guidance and temporary relief measures to alleviate the hardship caused by the crisis. For example, CBM announced loan moratoriums for individuals, SMEs and corporations, and the CCM has allowed companies to apply for extension to lodge their financial statements with the Registrar of Companies.

Similarly, the accounting standards setter, MASB, various accountancy bodies such as MICPA, accounting firms such as Grant Thornton, PwC, KPMG have provided technical guidance and the latest relevant information to help entities with their financial reporting. On 5 June 2020, MASB amended MFRS 16 *Leases*, COVID-19 related rent concessions to help lessees more easily account for COVID-19 related rent concessions, such as rent holidays and temporary rent reductions or deferral of lease payments. On 6 April 2021, a subsequent amendment to MFRS 16 *Leases* on *Covid-19-Related Rent Concessions beyond 30 June 2021*, extends the practical expedient provided in 2020 for rent concessions due on or before 30 June 2022 (FAF MASB 2020e).

Malaysian account preparers are also guided by implementation documents and articles issued by MASB's international counterpart, the IASB. To date COVID-19 related guidance issued by MASB and IASB supporting implementation available for the accounting practitioners are as given in Table 4.2.

Table 4.2 MASB's COVID-19 related guidance

Date of issue	Title
MASB issued guidance	
25 March 2020	COVID-19: MFRS 9 *financial instruments*: expected credit loss considerations
9 June 2020	Q&A requirements in MFRS that Malaysian reporting entities may need to consider in respect of the impacts of COVID-19
20 October 2020	Recognition of revenue from sale of residential property upon enactment of the COVID-19 Bill 2020
IASB supporting implementation	
Education documents	
27 March 2020	IFRS 9 and COVID-19 accounting for expected credit losses applying IFRS 9 *financial instruments* in the light of current uncertainty resulting from the COVID-19 pandemic
10 April 2020	IFRS 16 and COVID-19 Accounting for COVID-19 related rent concessions applying IFRS 16 *Leases*
13 January 2021	Going concern—a focus on disclosure requirements in IFRS standards relevant for going concern assessments which may involve a greater degree of judgement than usual in the current stressed economic environment arising from the COVID-19 pandemic
Articles	
28 October 2020	Applying IFRS standards in 2020—impact of COVID-19

Source FRF MASB (2020f)

4.5 Institutional Factors Influencing the Development of Accounting Regulations and Practices

This chapter explains the institutional factors influencing the development of accounting regulations and practices using the institutional theory. The institutional theory has been used widely to explain the accounting practices (Carpenter and Feroz 2001). The conception under the institutional theory used in this chapter is isomorphism. Isomorphism is a practice that imposes one component to adapt to other components in the population that share out with related circumstances (DiMaggio and Powell 1983). The isomorphism mechanism is categorized into coercive, normative and mimetic. Coercive isomorphism is the most cited type of institutional force. Formal pressure is a regulatory practice in which supervisory body has the power to establish regulations, scrutinize compliance and impose penalties if appropriate. The formal pressures possibly come in the forms of enforcement, inducement and invitation (DiMaggio and Powell 1983). Mimetic isomorphism advocates the imitation of effective organizational practices that is socially accepted—being legitimate. The imitation of best practices normally occurs when there is an ambiguity in circumstances or the requirements to adhere to specific requirements. Meanwhile, the normative isomorphism is normally promoted by professional and occupational groups (Rahaman et al. 2004). This isomorphism normally promotes certain norms, values and beliefs that eventually are shared within and outside organizations.

In Malaysia, institutional isomorphism has a significant impact on the development of accounting regulations and practices. It is interesting to note that in preparing for the IFRS convergence in Jan 2012, the social legitimacy coercive, mimetic and normative influences are all at play (Phang and Mahzan 2013). Changes in the Malaysian accounting arena stemmed from the socio, economic and political influences (Ali 2007), and are consistent with, among other factors, the findings of extant literature.

In this chapter, it is noted that coercive pressures have significantly influenced the development of accounting regulations and practices in Malaysia since independence till present. The highest coercive influence comes from the internal stakeholders, namely the Malaysian firms from the various industries and including multinational organizations. However coercive influence from "other external stakeholders such as international investors, overseas business operations and overseas subsidiaries are relatively low" (Phang and Mahzan 2013, p.112). Also, just like other countries, such as Vietnam (Phan et al. 2016) and Kuwait (Almujamed et al. 2017), coercive forces also come from important international players such as the International Monetary Fund (IMF) and the World Bank (WB), who have been providing the necessary support for Malaysia's development initiatives. Malaysia is a member of the IMF soon after independence, on 7 March 1958 (International Monetary Fund n.d.). The WB's presence in Malaysia, through a finance hub set-up in Kuala Lumpur in 2016, and the sharing of expertise, is supporting Malaysia's development priorities and journey to developed nation status (The World Bank n.d.).

Governmental pressure was instrumental to the reactivation of MIA in 1987 (Ali 2007; Sood 2006). A proposal for merger with MICPA to form Malaysian Institute of Chartered Accountants (MICA) was rejected by the government in 1985, claiming that MIA was already there to regulate the accounting profession. As revealed in the MIA 1988 bounded document, the government urged MIA to be active due to the loss of trust in the profession among local and foreign firms, which was detrimental to the nation's aspirations to become an industrialized country (Ali 2007).

The directive by the government for MIA to be active also fell within the characteristics of the implementation processes of the new economic policy (NEP), which saw government's intervention through direct involvement in the socio-economic activities. The NEP was formulated in the aftermath of 13 May 1969 racial riots and started with the Second Malaysia Plan (1971–1975) until the Fifth Malaysia Plan (1986–1990), which sought to achieve national unity through socio-economic restructuring of the society and poverty eradication (Wikipedia 2021b).

The capital providers and other stakeholders' need for corporate information in making economic decisions has shaped the financial reporting environment in Malaysia. The provision of corporate information to these users has been initiated by the Ninth Schedule of the Companies Act 1965 which formally established the reporting requirement in the Malaysians' financial statements and remained relatively unchanged until 1985 (Arshad n.d.). It is the responsibility for the companies to ensure the accuracy and fairness of account according to the Act's requirement (Tong 2019).

The emergence and development of multinational concerns and the growth of international financial markets in the late 1980s and early 1990s gave significant changes in the financial reporting practices in Malaysia which showed more influential role by regulatory authorities such as CBM and SC. In line with the objectives for the set-up of SC in 1983, the SC's guidelines require public corporations to shift from the traditional stewardship reporting system to a full disclosure-based reporting (Tong 2019). Coercive forces from stakeholders, especially regulatory enforcement affect the readiness of Malaysian public listed companies to implement IFRS (Phang and Mahzan 2013). This is supported by findings from Scott (2008) that companies are forced to get ready themselves for IFRS convergence due to worry about non-compliance and attempt to elude penalties from supervisory bodies. This conforms to institutional isomorphic pressures according to Almujamed et al. (2017). The coercive isomorphism from the government has forced the disclosure of corporate information beyond the minimum statutory disclosure requirements and Malaysia began adopting the four IASs (IASs 1 to 4) in 1978 (Tong 2019).

In line with mimetic isomorphism, Malaysia is influenced by changes in the UK's legal, economic and political environments as a Commonwealth member (UKEssays 2018a, b). The country's status as former British colonies has a mimetic influence on the tendency to follow the style of UK accounting institutions and practices in the accounting field. This is especially true now that the MASB evaluates and updates the Malaysian accounting standards when the UK accounting standards changed (UKEssays 2018a, b), which is even more rational now that they have converged. A recent example is the publication of the Amendment to MFRS 16 *Leases* on *Covid-19-Related Rent Concessions* ***beyond 30 June*** 2021, which is "a word-for-word" IASB's Amendment to IFRS 16 *Leases* on *Covid-19-Related Rent Concessions beyond 30 June 2021*(FRF MASB 2020e).

Apart from complying with the requirement in the Ninth Schedule of the original *Companies Act* 1965, the items in specimen company accounts were significantly influenced by United Kingdom and Australia's accounting practices. (Tong 2019; Sood 2006). The rational for this influence can be related with normative isomorphism under institutional theory because its earlier members were trained or had professional qualifications from accountancy bodies in the United Kingdom or Australia. Therefore, these particular groups tend to adopt similar practices used in those countries.

Normative pressures come mainly from the accounting profession, through membership in the International Federation of Accountants (IFAC) (Phan et al. 2016; Almujamed et al. 2017). Malaysia is represented by MIA and MICPA, and as members, the profession is committed to "serve the public interest by enhancing the relevance, reputation, and value of the global accountancy profession" (IFAC n.d.). Also, cultural factors, mainly religion, morals and values pose normative influence on the accounting environment in Malaysia. In this multicultural and multiconnection society, the official religion is Islam. Examples of how the accounting environment is impacted is that Islamic culture "does not encourage borrowing as against western culture that is anchored on borrowing" (UKEssays 2018a, b). Hence, the adoption of a dual banking system, in which the Shariah compliant Islamic financial institutions operate alongside its conventional counterparts. These include the legal and cultural dimensions (Almujamed et al. 2017; Tahat et al. 2018) and the normative influence of the accounting profession (Alon and Dwyer 2016; Phan et al. 2016; Almujamed et al. 2017; Sidik and Rahim 2012).

4.6 Conclusion

Continual development in the accounting regulations and practices is critical to the nation-building process of any country. The accountancy profession is continually challenged by the evolving economic landscape from business-related influences such as globalization and digitization in delivering their expertise in economic and financial strategies to improve economic and industrial progress.

The current chapter adds to offering an overall grasp of Malaysia's political, economic, and governing ecosystem, and particularly emphasizes on bring to light its accounting and financial reporting framework. Moreover, this chapter fills the gap in global accounting study by applying institutional theory to explain institutional environments and connect them to the development of Malaysian accounting regulations and practices including IAS/IFRS. Finally, this chapter offers insightful development of accounting practices in responding to the global pandemic COVID-19.

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