COMPLIANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) IN DEVELOPING COUNTRIES: THE CASE OF MALAYSIA

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A thesis submitted in fulfilment of the requirements for the degree of Doctor of Philosophy

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September 2011

Acknowledgement

All praise to the Al-Mighty God for giving me the strength, guidance and blessings that have helped me completing this thesis.

My heartfelt gratitude goes to my principal supervisor Professor Lisa Evans and to my second supervisor Professor Ian Fraser. Their constructive comments, continuous encouragement, motivation and support are greatly appreciated. Undeniably their prompt feedback and insightful comments on earlier drafts have certainly contributed to the achievement of this thesis.

I am also indebted to Dr. Ioannis Tsalavoutas for his advice on IFRS and guidance in econometric analysis. I would also like to thank Mike Smith for his help in verifying the research instrument and examining companies for the pilot study conducted as part of this thesis. My appreciation also goes to Professor Alan Goodacre, Professor Chris Veld and Dr. Khaled Hussainey for their comments and suggestions at the early stage of this study.

I would also like to express my appreciation for the financial support received from the Government of Malaysia, the University of Malaya, the Division of Accounting and Finance of University of Stirling and the Institute of Chartered Accountant of Scotland (ICAS).

My sincere thanks are also due to the faculties and participants who had provided me with invaluable comments and suggestions during my presentations at the 2011 British Accounting and Finance Association (BAFA) conference and doctoral colloquium at Aston Business School in Birmingham, 2011 Scottish BAFA conference at the University of Edinburgh, 2011 European Accounting Association (EAA) conference in

Rome, 2009 British Accounting Association (BAA) conference and doctoral colloquium at Dundee University, and 2008 Scottish doctoral colloquium (ScotDoc) at the University of Glasgow. Eminent among them are Professor Christine Helliar, Professor Christopher Nobes, Professor Clare Roberts, Professor David Alexander, Professor Mike Jones, Professor Pauline Weetman, and Professor Vivien Beattie. Appreciation is also extended to ICAS for giving me the opportunity to present my research proposal at the ICAS research programme workshop in February 2008 and also for the seed corn grant awarded in 2009.

I would like to extend my appreciation to my friends Noor Adwa Sulaiman and Zamzulaila Zakaria for always sharing their notes, thoughts and their stories on the ups and downs of a PhD process. I do acknowledge the contribution of many others who have helped making my life easier throughout this period of study: all my friends and colleagues in the UK and Malaysia, the administrative staff of Accounting & Finance Division of Stirling University and also the interviewees who had participated in my research; Thank You! I wish I could include every name here.

Last but not least, my special gratitude goes to persons who always close to my heart: my parents, my brothers and sisters, my nieces and nephews and my best friend, Marizah Minhat, who have always supported me during the long process of working on this thesis. To Marizah Minhat, how grateful I am for your camaraderie and for sharing the difficult and happy moments during my PhD endeavour at Stirling!

Abstract

This thesis focuses on compliance with IFRS disclosure requirements in Malaysia. There are four objectives that this study attempts to achieve, namely: (1) to ascertain whether present regulatory enforcement is effective in curbing non-compliance with IFRS in Malaysia; (2) to determine whether corporate ownership structure, culture and corporate governance attributes have a significant influence on the extent of compliance with IFRS disclosure requirements; (3) to identify the factors of (non-) compliance with IFRS from the perceptions of preparers and auditors; and (4) to explore the reasons why an unqualified audit report was issued despite non-compliance with IFRS disclosure requirements. This study employs a mixed methods approach to achieve the stated objectives, where annual reports of 225 Malaysian listed companies are examined and interviews with regulators, preparers and auditors are conducted. The following findings are documented in this study.

Although compliance with accounting standards is mandated by law, this study demonstrates that no Malaysian company has fully complied with IFRS disclosure requirements. Similarly, the companies examined still receive unqualified audit reports despite significant non-compliance with IFRS disclosure requirements. This study argues that merely mandating compliance with accounting standards by law does not result in full compliance with accounting standards if sufficient or stringent enforcement is not in place. The Malaysian economy is dominated by family-owned companies and government-owned companies; however, this study finds that there was not enough evidence to support the influence of these ownership types on the extent of compliance with mandatory disclosure requirements.

Despite the importance of corporate governance mechanisms in enhancing financial reporting quality, this study finds that only board meeting, audit committee size and audit committee expertise are significantly associated with the extent of compliance with IFRS disclosure requirements. However, the association direction for audit committee expertise is puzzling, because the negative coefficient suggests that mandatory disclosure decreases with the presence of audit committee experts. This study also provides evidence that culture (ethnicity) has a significant influence on the extent of compliance with IFRS disclosure requirements.

This study also contributes to the extant literature by documenting the factors of (non-) compliance with IFRS from the perceptions of preparers and auditors. These factors are the attitude of top management, problems with accounting standards, lack of enforcement, passive investors, materiality, accountants' attitude, undeveloped capital markets and political excuse. These (non-)compliance factors in fact cannot be revealed by statistical analysis. This study finds that materiality and true and fair view are the two reasons suggested by interviewees that can explain why unqualified audit opinion was expressed despite non-compliance with IFRS. Nevertheless, this study argues that materiality and true and fair view override might also be used (or misused) as an excuse by auditors for not qualifying audit reports in the case of significant non-compliance with IFRS disclosure requirements, given the subjective and vague concept of both materiality and true and fair view.

TABLE OF CONTENTS

Acknowledgement ... i
Abstract ... iii
Abbreviations ... xii

CHAPTER 1: INTRODUCTION ... 1

1.1 Background and Motivation of the Study ... 1
1.2 Summary of Research Objectives and Research Methods ... 6
1.3 Contribution of the Study ... 8
1.4 Structure of the Thesis ... 10

CHAPTER 2: LITERATURE REVIEW ... 13

2.1 Introduction ... 13
2.2 Corporate Disclosure: Voluntary and Mandatory ... 13
2.3 Prior Empirical Studies on Mandatory Disclosure ... 15
2.3.1 Factors that Influence the Extent of Mandatory Disclosure ... 17
2.3.2 Methods Used to Examine Compliance with Mandatory Disclosure Requirements ... 32
2.3.3 Prior Mandatory Disclosure Studies on Malaysia ... 35
2.4 Audit Opinion and Auditor Independence ... 38
2.4.1 Auditor Independence ... 38
2.4.2 Summary of Audit Opinion and Auditor Independence ... 47
2.5 Summary and Conclusion ... 47

CHAPTER 3: THEORETICAL FRAMEWORK ... 50

3.1 Introduction ... 50
3.2 Economic Incentive Theories ... 51
3.2.1 Agency Theory ... 51
3.2.2 Political Cost Theory ... 53
3.2.3 Signalling Theory ... 54
3.2.4 Information Cost Theory ... 54
3.2.5 Capital Need Theory ... 56
3.3 System Oriented Theories ... 57
3.3.1 Political Economy Theory ... 57
3.3.2 Stakeholder Theory ... 59
3.3.3 Legitimacy Theory ... 60
3.3.4 Institutional Theory ... 63
3.4 Cultural Theory ... 66
3.4.1 Hofstede-Gray Cultural Framework ... 69
3.4.2 Criticism of Hofstede's Cultural Values ... 71
3.4.3 The Applicability of Hofstede's Cultural Values to the Present Study ... 72

3.5 Evaluation of Theories 72
3.6 Summary 77

CHAPTER 4: THE MALAYSIAN ENVIRONMENT 78

4.1 Introduction 78
4.2 Attributes of Malaysian Environment 79
4.2.1 Overview of Malaysian Economy 79
4.2.2 Legal System 79
4.2.3 Capital Market Development 80
4.2.4 Corporate Ownership and Finance System 82
4.2.5 Political System 83
4.2.6 Culture 87
4.3 Financial Reporting Regulatory Framework 94
4.3.1 Overview of Malaysia's Financial Reporting 94
4.3.2 Provisions of Compliance with Accounting Standards 96
4.3.3 The Malaysian Accounting Standards Board (MASB) 97
4.3.4 Enforcement of Accounting Standards in Malaysia 97
4.3.5 Professional Accountancy Bodies 102
4.3.6 Audit Regulation 105
4.3.7 Malaysian Code on Corporate Governance 107
4.4 Summary and Conclusions 108

CHAPTER 5: RESEARCH OBJECTIVES AND METHODS 111

5.1 Introduction 111
5.2 Research Objectives 111
5.3 Research Paradigm 115
5.4 Research Method Part 1: Source- Annual Reports 118
5.4.1 Sample Selection of Public Listed Companies 118
5.4.2 Development of Disclosure Checklist 123
5.4.3 Validity and Reliability of Disclosure Checklist 125
5.4.4 The Scoring Methods 126
5.4.5 Statistical Analysis 132
5.5 Research Method Part 2: Interview 137
5.5.1 Sample Selection of Interviewees 138
5.5.2 Semi-structured Interviews 142
5.5.3 Ethical Issues 143
5.5.4 Analysis of Interview Data 143
5.5.5 Validity and Reliability Issues in Interviews 146
5.6 Summary 147

CHAPTER 6: HYPOTHESES DEVELOPMENT 148
6.1 Introduction 148
6.2 Ownership Structure 148
6.2.1 Ownership Concentration 148
6.2.2 Family-owned Companies 150
6.2.3 State-owned Companies 152
6.3 Corporate Governance Mechanisms 154
6.3.1 Independent Non-Executive Directors on the Board 154
6.3.2 Duality 156
6.3.3 Size of the Board 157
6.3.4 Board Meeting 158
6.3.5 Audit Committee Independence 159
6.3.6 Audit Committee Size 160
6.3.7 Audit Committee Meeting 161
6.3.8 Audit Committee Expertise 162
6.4 Culture 163
6.5 Control Variables: Company-Specific Characteristics 167
6.5.1 Size of Company 167
6.5.2 Audit Firm 168
6.5.3 Profitability 169
6.5.4 Leverage 170
6.5.5 Liquidity 171
6.5.6 Company Age 171
6.5.7 International Operation 172
6.5.8 Industry 173
6.6 Summary 174

CHAPTER 7: COMPLIANCE WITH IFRS IN MALAYSIA AND REGULATORY ENFORCEMENT 177
7.1 Introduction 177
7.2 The Extent of Compliance with IFRS Disclosure Requirements in Malaysia 177
7.2.1 Compliance with Disclosure Requirements of Each Standard 181
7.2.3 Conclusion 185
7.3 Perceptions of Regulators Regarding Compliance with IFRS in Malaysia 188
7.4 Summary and Conclusion 194

CHAPTER 8: DETERMINANTS OF COMPLIANCE WITH IFRS OF MALAYSIAN PUBLIC LISTED COMPANIES - REGRESSION RESULTS... 198

8.1 Introduction 198
8.2 Descriptive Analysis 199
8.3 Univariate Analysis 201
8.4 Multivariate Analysis 210
8.5 Multiple Regression Results 217
8.5.1 Ownership Structure 218
8.5.2 Corporate Governance Mechanisms 220
8.5.3 Culture 225
8.5.4 Control Variables 228
8.5.5 Summary of the Findings 232
8.6 Other Robustness Tests 234
8.7 Summary and Conclusion 235

CHAPTER 9: FACTORS OF (NON-) COMPLIANCE WITH IFRS - FINDINGS FROM INTERVIEWS 239

9.1 Introduction 239
9.2 Perceptions Regarding Convergence to IFRS in Malaysia 240
9.3 Factors That Contribute to (Non-) Compliance with IFRS Based on The Perceptions of Preparers And Auditors. 243
9.3.1 Top Management Attitudes 243
9.3.2 Problems with the Accounting Standards 246
9.3.3 Enforcement 249
9.3.4 Materiality 251
9.3.5 Passive Investors 253
9.3.6 Accountants' Attitude 255
9.3.7 Undeveloped Capital Market 257
9.3.8 Political Excuse 257
9.4 Perceptions of Preparers and Auditors Regarding Factors Influencing Mandatory Disclosure that were Included in Statistical Models (Regression Results vs. Interview Results) 258
9.4.1 Corporate Ownership 259
9.4.2 Corporate Governance Mechanisms 261
9.4.3 Culture 266
9.4.4 Control Variables 267
9.5 Reasons Why Certain Accounting Standards were Less Complied with By Malaysian Listed Companies. 269
9.6 Summary and Conclusion 271

CHAPTER 10: AUDIT REPORTING AND (NON-) QUALIFIED OPINIONS - PERCEPTIONS OF AUDITORS 277
10.1 Introduction............ 277
10.2 Perceptions of Auditors Regarding the Unqualified Audit Report With Respect To Non-Compliance with IFRS Disclosure Requirements 278
10.3 Perceptions of Preparers and Regulators Regarding Unqualified Opinion With Regard To Non-Compliance with IFRS. 288
10.4 Summary and Conclusion............ 290

CHAPTER 11: CONCLUDING REMARKS 298
11.1 Introduction............ 298
11.2 Summary of Research Objectives, Motivations, Methods and Findings..... 298
11.2.1 Summary of Chapter 7............ 298
11.2.2 Summary of Chapter 8............ 302
11.2.3 Summary of Chapter 9............ 306
11.2.4 Summary of Chapter 10............ 309
11.3 Research Contribution 312
11.3.1 Contribution to the Literature 312
11.3.2 Contribution to the Theory 316
11.3.3 Contributions to Practice 318
11.4 Limitations of the Study 320
11.6 Suggestions for Future Research 322

REFERENCES 324
APPENDICES............ 362

LIST OF FIGURES AND TABLES

Figure 1.1 A Portrait of the Study 12

Table 2.1 Prior Mandatory Disclosure Studies that Examined Corporate Ownership Structure 18
Table 3.1 Operationalising of Theories into Explanatory Variables 74
Table 4.1 Cultural Attributes of Malays and Malaysian Chinese 92
Table 4.2 List of Convicted Cases Relating to Fraud or Misleading Financial Statements 100
Table 5.1 The Differences of Four Research Paradigms (Worldviews) 117
Table 5.2 Distribution of Sampled Companies 123
Table 6.1 Secrecy Cultural Values vs. Bumiputras and Malaysian Chinese Cultural Values at the National Level 164
Table 6.2 Summary of Independent Variables Measurement 175
Table 6.3 Summary of Control Variables Measurement 176
Table 7.1 Frequency and Distribution of Compliance Scores (N=225) 180
Table 7.2 Frequency and Distribution of Compliance Scores for Each Standard 181
Table 7.3 Range of Compliance Scores for Each Standard 183
Table 8.1 Descriptive Statistics of Variables 201
Table 8.2 List of the Hypotheses Tested in the Study 203
Table 8.3 Univariate Results - Association between Independent Variables and Compliance Scores. 204
Table 8.4 Results of Differences in Compliance Scores for Categorical Independent Variables (Independent T-test) 207
Table 8.5 Results of Differences in Compliance Scores for Categorical Independent Variables (ANOVA) 208
Table 8.6 Difference in Compliance Scores between Bumiputra- and Chinese-controlled Companies (Independent T-test) 209
Table 8.7 Pearson Correlation among Independent Variables 213
Table 8.7 Pearson Correlation among Independent Variables (Cont') 214
Table 8.8 Regression Results (PC Method) 215
Table 8.9 Regression Results (Cooke's Method) 216
Table 8.10 Summary of Regression Results 233
Table 9.1 Frequency of (Non-) Compliance Factors Cited By Interviewees 276

LIST OF APPENDICES

Appendix A-1 Summary of Prior Studies on Compliance with National Mandatory Disclosure ... 362
Appendix A-2 Summary of Prior Studies on Compliance with IFRS Mandatory Disclosure ... 366
Appendix B-1 Hofstede's Cultural Dimensions ... 369
Appendix B-2 Association of Gray's Accounting Values and Hofstede's Societal Values ... 370
Appendix B-3 Matrix of Relationship of Accounting Values with Societal Values ... 371
Appendix C List of Sampled Companies (N=225) ... 372
Appendix D Results of Pilot Study ... 375
Appendix E List of Interviewees (Preparers) ... 376
Appendix F List of Interviewees (Auditors) ... 377
Appendix G Disclosure Checklist ... 378
Appendix H Interview Guide ... 400
Appendix I Frequent Non-Disclosure Items in the Financial Statements ... 402
Appendix J Regression Results (Log Of Odds Ratio) ... 404

Abbreviations

AOB	Audit Oversight Board
CCM	Companies Commission of Malaysia
CPE	Continuing Professional Education
FC	Financial Controller
FDI	Foreign Direct Investment
FRRP	Financial Reporting Review Panel, United Kingdom
FRS	Financial Reporting Standards
FRSC	Financial Reporting and Surveillance Compliance
FRSIC	Financial Reporting Standards Implementation Committee
FSRC	Financial Statements Review Committee
GDP	Gross Domestic Product
GLC	Government Link Companies
GLIC	Government Link Investment Companies
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
IFAC	International Federation of Accountants
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IRB	Inland Revenue Board
ISA	International Standards on Auditing
MASB	Malaysian Accounting Standards Board
MCCG	Malaysian Code on Corporate Governance
MIA	Malaysian Institute Accountants
MICG	Malaysian Institute of Corporate Governance
MICPA	Malaysian Institute of Certified Public Accountants
NAS	Non-Audit Service
NEP	New Economic Policy
PC	Partial Compliance
PCAOB	Public Company Accounting Oversight Board
PERS	Private Entity Reporting Standards
PIE	Public Interest Entity
POB	Professional Oversight Board
SC	Securities Commission
TFV	True and Fair View

CHAPTER 1: INTRODUCTION

1.1 Background and Motivation of the Study

It has been noted that "[t]he adoption of the International Financial Reporting Standards (IFRS) by public firms around the world is one of the most significant financial accounting and reporting changes in accounting history" (Alali and Cao, 2010, p.79). IFRS are the principle-based standards issued by the International Accounting Standards Board (IASB). Prior to 2001, the IASB was known as the International Accounting Standards Committee (IASC), where the accounting standards issued by the IASC between 1973 and 2000 were recognised as International Accounting Standards (IAS) (Ball, 2006).

With the transformation of the IASC into the IASB, the 'harmonisation' mission pursued by the IASC since 1973 was also shifted to a 'convergence' mission under the IASB (Pacter, 2005)[1]. The harmonisation process is defined by Tay and Parker (1990, p.73) as a "movement away from total diversity of practices", whereas convergence is defined as "the process of narrowing differences between IFRS and the accounting standards of countries that retain their own standards" (Ball, 2006, p.9). The IASB believes that convergence can be a means to achieve its ultimate objective, i.e. to achieve the full adoption of IFRS.[2] It was reported that since 2001, almost 120 countries have required or permitted the use of IFRS.[3]

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[1]Nevertheless, the IAS that were issued by the IASC continue to be recognised under the IASB (Ball, 2006).
[2]Source: http://www.ifrs.org/News/Features/Adopt+adapt+converge.htm Accessed date: 24/8/2011.
[3] Source: "Who we are and what we do". Accessed via: http://www.ifrs.org. Accessed date: 24/8/2011.

In Malaysia, efforts towards convergence had begun in 2005 when the MASB standards were renamed FRS, and the numbering of the standards corresponded to those of IFRS; for example, FRS1 refers to IFRS1, FRS2 refers to IFRS2 and FRS101 refers to IAS1 (MIA, 2005). Since 2006 the FRS have been made identical to IFRS on a per standard basis (MASB, 2007). In 2008, Malaysia declared its intention to achieve full convergence with IFRS by 1 January 2012 (MASB, 2008). The Malaysian Accounting Standard Board (MASB) refers to full convergence as full compliance with IFRS, where the Malaysian accounting standards, which are known as Financial Reporting Standards (FRS), will be made identical to IFRS both in content (verbatim) and timing of implementation.[4] For convenience, both IAS that were issued by the IASC and FRS issued by the MASB are referred to as IFRS in this thesis.

IFRS offer more benefits to various stakeholders (e.g. regulators, investors) in terms of increased comparability and transparency of financial statements and enhanced quality of financial reporting (Rezaee et al., 2010). Ball (2006) also argues that IFRS allow small investors to compete better with professional investors because information will become less costly and less risky for small investors. Barth et al. (2008) also demonstrate that companies that adopted IFRS have exhibited less earnings managements, more timely loss recognition and more value relevance than companies that did not adopt IFRS. Similarly, they also found that companies adopting IFRS have shown an improvement between the pre- and post-adoption periods.

Despite these advantages, several scholars argue that worldwide comparability is difficult to achieve even after adopting the IFRS, because the differences in

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[4] Source: www.masb.org.my/faq 12/12/2008

environmental factors influence corporate disclosure practices (e.g. Leuz, 2010; Zeff, 2007; Ball, 2006; Nobes, 2006). Similarly, the adoption of IFRS is also not unproblematic. Studies on convergence with IFRS have documented various problems in adopting and complying with IFRS in developed and developing countries, such as the complexity of the standards, lack of IFRS knowledge among employees and auditors, burdensome and costly (e.g. Jermakowicz and Tomaszewski, 2006; Larson and Street, 2004).

Studies that measure companies' degree of compliance also conclude that the level of conformity with IFRS is problematic (e.g. Street and Gray, 2001; Street and Bryant, 2000; Ali et al., 2004). The International Federation of Accountants (IFAC)[5] has also criticised auditors for asserting that financial statements comply with IFRS even when the accounting policies and notes indicate otherwise (Street and Gray, 2001). Consistent with this criticism, Glaum and Street (2003) and Cairns (2001) also documented that no company received a qualified audit opinion despite non-compliance with IFRS. Although IFRS are standards of high quality, limited compliance with the standards may limit their effectiveness (Barth et al., 2008; Hope, 2003). Therefore compliance with IFRS is also as important as the standards themselves (Hodgdon et al., 2008).

The above findings not only indicate that study of compliance with IFRS is important to standard-setters, regulators and investors (Ali, 2005), but they also motivate the researcher to investigate the compliance issue in the Malaysian context. The gaps identified in Chapter 2 further suggest how the present study can contribute to both

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[5] IFAC (International Federation of Accountants) is the global organisation for the accountancy profession, whose objective is to protect the public interest by encouraging high quality practices by the world's accountants. Source: www.ifac.org. 05/08/2009.

academic research and practice. The identified gaps include: (1) the impact of corporate ownership, corporate governance and culture on mandatory disclosure are under-researched in mandatory disclosure literature; (2) factors of non-compliance with IFRS from preparers' and auditors' perspectives have never been explored in mandatory disclosure literature; (3) the reasons why an unqualified audit reports was issued despite non-compliance with IFRS remain questionable in the literature; and (4) study of mandatory disclosure requirements with a focus on Malaysia is still scarce in the literature. Malaysia is also of interest in this study for several reasons.

First, common law countries are considered to have high quality financial reporting (Nobes, 2006). However, Malaysian financial reporting has been criticised as being of low quality although Malaysia is a common law country (Ball et al., 2003). Similarly, although the corporate governance mechanisms and legal enforcements are well specified in the Companies Act 1965 and Securities Industries Act 1973, prior studies argued that they are ineffective (e.g. Tam and Tan, 2007; Liew, 2007). Therefore, investigating the extent of compliance with IFRS of Malaysian listed companies may provide some evidence that confirms or refutes the above arguments.

Second, compliance with the accounting standards is mandated by law, and enforcement has been entrusted to the Securities Commission (SC) and the Companies Commission of Malaysia (CCM). Therefore, the findings of this study may also reveal whether this regulatory framework is effective in ensuring full compliance with IFRS in Malaysia.

Third, the Malaysian economy has been controlled by two dominant ethnic groups, namely Malays (or Bumiputra) and Chinese, whereby these two ethnic groups have maintained their ethnic identity and practice their own cultural values and religious

beliefs (Freedman, 2001; Sendut, 1991). Further, it has been said that the government's policy, which favours certain ethnic groups, has also influenced corporate practices in Malaysia (Haniffa and Cooke, 2005). Therefore, Malaysia provides the ideal setting to study the impact of culture on financial reporting quality[6].

Fourth, Malaysia is also viewed as one of the fastest growing economies in South East Asia (Amran and Susela, 2008). Its open economy system has been claimed as one of the most successful in the world (Gomez and Jomo, 1999). Since 1998 Malaysia has liberalised foreign ownership to attract more foreign direct investment (FDI) (SC, 2003). The Malaysian stock exchange (Bursa) is also considered one of the biggest palm oil futures trading hubs in the world.[7] Therefore, a study about compliance with IFRS in Malaysia should also be of interest to foreign investors.

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[6] The attributes of the Malaysian environment are discussed in detail in Chapter 4.
[7] Source: http://www.dailymarkets.com/economy/2010. Accessed date: 27/11/2010.

1.2 Summary of Research Objectives and Research Methods

This study outlines four research objectives, which are stated as follows.

1. To ascertain whether present regulatory enforcement is effective in curbing non-compliance with IFRS disclosure requirements in Malaysia.
2. To determine whether culture, ownership structure and corporate governance mechanisms have a significant impact on the extent of compliance with IFRS disclosure requirements in Malaysia.
3. To identify factors of (non-)compliance from the perspectives of preparers and auditors in Malaysia.
4. To explore the reasons why an unqualified audit report was issued despite non-compliance with IFRS disclosure requirements, from the perceptions of auditors.

This study is based on a pragmatism paradigm, where a mixed methods approach; a combination of quantitative and qualitative methods, was used to achieve the stated objectives.

- To achieve the first research objective, the following research questions (RQ) are formulated.

    a) *What is the extent of compliance with IFRS disclosure requirements by public listed companies in Malaysia?*
    b) *How do the enforcement agencies perceive and monitor compliance with IFRS in Malaysia?*

To answer RQ (a), the financial statements of 225 Malaysian listed companies are checked against a self-developed checklist that contains 295 disclosure items. To answer

RQ (b), interviews with regulators are conducted. The data from financial statements and interviews are analysed descriptively.

- To achieve the second research objective, the following research questions are formulated.

    a) *Is there any significant association between corporate ownership structure and the extent of compliance with IFRS disclosure requirements?*
    b) *Is there any significant association between corporate governance attributes and the extent of compliance with IFRS disclosure requirements?*
    c) *Is there any significant association between culture and the extent of compliance with IFRS disclosure requirements?*
    d) *Is there any significant difference in compliance scores between Bumiputra-controlled and Chinese-controlled companies?*

To answer the above research questions, the explanatory variables are extracted from the companies' annual reports and both univariate and multivariate (ordinary least square regression) analyses are employed in data analysis.

- To achieve the third research objective, the following research questions are formulated.

    a) *How do preparers and auditors view the convergence with IFRS?*
    b) *What are the problems faced by preparers and auditors in fully complying with IFRS disclosure requirements?*
    c) *Which accounting standards are problematic to comply with for preparers, and why do they face such a problem?*

To answer the above research questions, interviews with preparers and auditors are conducted. The interview data are transcribed verbatim and analysed manually and also using the NVIVO software.

- To achieve the fourth research objective, the following research questions are addressed to auditors:

  a) *Does non-compliance with IFRS disclosure requirements warrant a qualified opinion?*
  b) *In what circumstances was a qualified audit opinion issued?*

Apart from auditors, preparers and regulators are also interviewed to gauge their opinions about unqualified audit opinion with respect to non-compliance with IFRS disclosure requirements. The interview data are also transcribed verbatim and analysed manually and also using the NVIVO software.

1.3 Contribution of the Study

This study is significant and timely for Malaysia, as full convergence with IFRS is a goal for 2012. This study highlights to what extent the listed companies comply with IFRS, and the problems of complying with IFRS in Malaysia. The findings might be of interest and useful to standard-setters, regulators, professional accounting bodies and investors at local and international levels, as well as standard-setters and regulators of other countries with similar profiles to Malaysia in dealing with the factors that hamper compliance with IFRS. The present study not only contributes to the practices, but also contributes to the extant literature in the following aspects.

This study extends mandatory disclosure literature by examining compliance with IFRS in a developing country, with Malaysia as a focus of the study. Although the literature on compliance with mandatory disclosure is growing, studies on Malaysia are still scarce. Further, unlike prior Malaysian studies, the present study uses a large sample size, examines more than one accounting standards and employs two disclosure index methods (i.e. Partial Compliance method and dichotomous/Cooke's method).

This study extends the literature on mandatory disclosure, ownership structure, corporate governance and culture by providing evidence of the impact of culture, corporate ownership structures and corporate governance mechanisms on compliance with IFRS disclosure requirements in a developing country.

This study also adds to the mandatory disclosure literature by documenting factors of non-compliance with IFRS from the perspectives of preparers and auditors, using the interview method. To the researcher's knowledge, this is the first study that attempts to explore the reasons for non-compliance with IFRS from a qualitative perspective. Although Tai et al. (1990) also examined non-compliance factors by interviewing auditors and preparers, they studied national accounting standards, i.e. Statements of Standards Accounting Practice (SSAP) issued by the Hong Kong Society of Accountants (HKSA).

This study also contributes to both mandatory disclosure and auditing literature by examining why unqualified audit reports are issued despite non-compliance with IFRS. To the researcher's best knowledge, this is the first study of its type investigating this issue.

The contribution of this study is further elaborated in Chapter 11.

1.4 Structure of the Thesis

This thesis is organised into eleven chapters, where the issues discussed in each chapter are described as follows.

Chapter Two reviews the literature on compliance with mandatory disclosure and highlights the gaps in the existing literature. Literature on audit opinion and auditor independence is also reviewed to inform and guide examination of the fourth research objective of the study.

Chapter Three provides the theoretical framework of the study, where relevant disclosure theories are discussed to explain the motives and the extent of corporate disclosure practices.

Chapter Four discusses the attributes of the Malaysian environment in order to understand factors that might influence Malaysian corporate disclosure practices. In this chapter the unique characteristics of Malaysia are highlighted; these include the legal systems, capital market, corporate ownership structures and cultures.

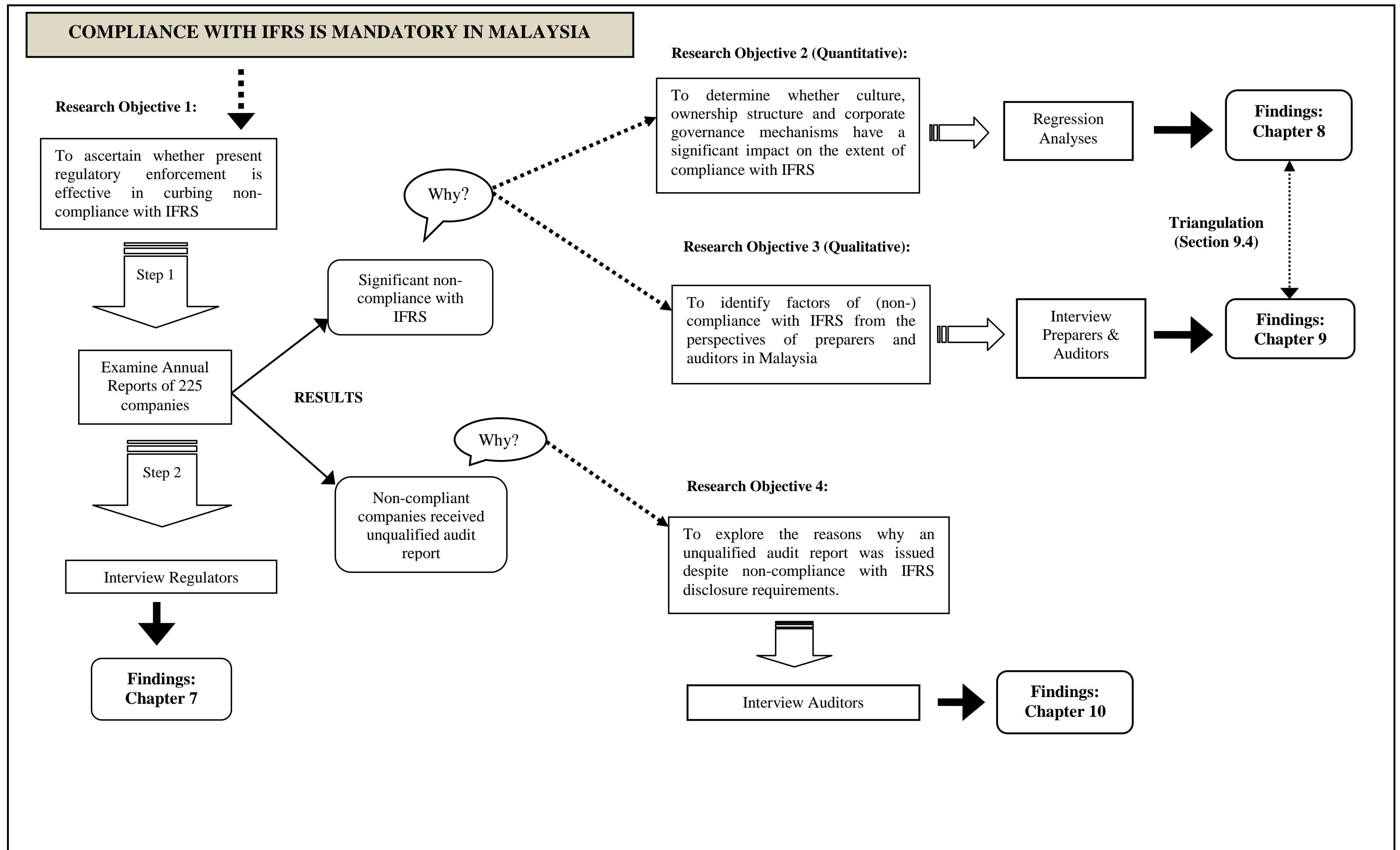
Chapter Five discusses the research objectives of the study, the research paradigm and the research methods employed to achieve the stated objectives. Validity and reliability of the research instruments and ethical issues in interviews are also addressed in this chapter.

Chapter Six discusses the hypotheses developed to achieve the research objectives for the quantitative part, i.e. pertaining to the second research objective of this study.

Chapters Seven, Eight, Nine and Ten respectively provide the answers to the first, second, third and fourth research objectives of the study.

Chapter Eleven provides concluding remarks of the thesis. In this chapter the key findings of each research objective are summarised, contributions of the study are elaborated, the limitations of the study are highlighted and avenues of future research are discussed.

Figure 1.1: A Portrait of the Study



CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

This chapter reviews prior studies on compliance with mandatory disclosure to identify gaps in the existing literature that the present study aims to fill. The review also helps in identifying the appropriate research design and in formulating the research hypotheses that will be used in the present study. Apart from compliance with mandatory disclosure studies, this chapter also reviews studies on audit opinion and auditor independence to guide the present study's exploration of why a clean audit opinion is expressed despite non-compliance with IFRS.

This chapter is organised into several sections. Section 2.2 describes the differences between mandatory and voluntary disclosures. Section 2.3 discusses prior empirical studies on mandatory disclosures and identifies gaps in two main areas, namely factors that influence the extent of mandatory disclosure in Section 2.3.1 and methods used to examine compliance with mandatory disclosure in Section 2.3.2. The differences between the present study and prior mandatory disclosure studies in the context of Malaysia are discussed in Section 2.3.3. Section 2.4 discusses studies on audit opinion and auditor independence. Finally, Section 2.5 summarises and concludes the chapter by highlighting the gaps in the mandatory disclosure literature and how the present study can contribute to the literature.

2.2 Corporate Disclosure: Voluntary and Mandatory

The primary objective of corporate disclosure is to help users in their decision making process (Beaver, 1978). Cooke (1992, p.231) defines corporate disclosure as "consisting

of both voluntary and mandatory items of information provided in the financial statements, notes to the accounts, management's analysis of operations for the current and forthcoming year and any supplementary information". Thus, generally studies on corporate disclosure can be categorised into three categories: (1) studies on voluntary disclosure (e.g. Cooke, 1989a; 1991); (2) studies on mandatory disclosure (e.g. Craig and Diga, 1998; Owusu-Ansah, 1998); and (3) studies on comprehensive/overall disclosure, which combines both mandatory disclosure and voluntary disclosure information (e.g. Zarzeski, 1996; Archambault and Archambault, 2003).

Mandatory disclosure is described as the presentation of the minimum amount of information required by laws, the stock exchange and the accounting standards setting body, which companies are obliged to follow if applicable to them (Owusu-Ansah, 1998; Wallace and Naser, 1995). Voluntary disclosure, on the other hand, is described by Meek et al. (1995, p.555) as "disclosure in excess of requirements, representing of free choices on the part of company managements to provide accounting and other information deemed relevant to the decision needs of users of their annual reports". Put simply, any information disclosed in excess of mandatory disclosure is called voluntary disclosure (Hassan et al., 2006).

While a considerable body of research has been undertaken to investigate the underlying motives of corporate disclosure, Kent and Stewart (2008), Hossain and Hammami (2009) and Akhtaruddin (2005) argue that many prior studies focus on voluntary disclosure rather than mandatory disclosure, which suggests studies on mandatory disclosure are still scarce. This indicates that the present study can contribute to the limited literature on mandatory disclosure by examining the extent of compliance with IFRS in Malaysia. Al-Shammari et al. (2008) also note that mandatory disclosure is worth studying because it

not only adds to the scarce literature but also provides useful insights about the extent of compliance and the effectiveness of independent auditors and enforcement bodies in the countries studied.

The assumption that all companies will comply with all mandatory requirements may not necessarily be true because there are incentives for non-compliance shaped by the institutional environment, such as an inadequate regulatory framework, ineffective enforcement mechanisms or a shortage of qualified accountants (Yeoh, 2005; Al-Razeen and Karbhari, 2004; Ahmed and Nicholls, 1994). This is evident from prior empirical studies conducted in developed and developing countries that show significant non-compliance with mandatory disclosure in many aspects, where the extent of compliance was explained by a number of factors (e.g. Ali et al., 2004; Glaum and Street, 2003; Owusu-Ansah, 1998; Street and Gray, 2001; Tai et al., 1990).

2.3 Prior Empirical Studies on Mandatory Disclosure

From a review of prior literature, studies on mandatory disclosure can be sub-grouped into two areas. First, studies that concentrate on compliance with mandatory national requirements, such as compliance with requirements by the stock exchange, companies act and national accounting standards (e.g. Wallace and Naser, 1995; Craig and Diga, 1998; Ali et al., 2004; Akhtaruddin, 2005). And second, studies that focus on compliance with IFRS disclosure requirements, such as those by Street et al. (1999), Street and Bryant (2000), Al-Shammari et al. (2008) and Hodgon et al. (2009). The reviewed studies are summarised in two separate tables (studies on compliance with mandatory national requirements and studies on compliance with IFRS) that are attached in

Appendix A-1 and A-2. These studies are presented in chronological order according to their year of publication.

Generally, the studies reviewed show that the extent of compliance with mandatory disclosure requirements can be explained by specific corporate characteristics (Cooke, 1989a; 1992), corporate governance mechanisms (e.g. Al-Akra et al., 2010), familiarity with accounting rules (e.g. Abd-Elsalam and Weetman, 2003), culture (e.g. Wallace and Naser, 1995) and enforcement regulation (e.g. Al-Shammari et al., 2008). However, the findings are mixed even when they use data from the same country. For example, Cooke (1992) found that firm size was a significant variable in explaining the extent of mandatory disclosure in Japan, but Ahmed and Nicholls (1994) found that firm size was not significant in Bangladesh. Tai et al. (1990) and Wallace and Naser (1995) examined the extent of mandatory disclosure in Hong Kong; the audit firm size factor was significant in Wallace and Naser (1995) but not significant in Tai et al. (1990).

According to Wallace et al. (1994), these mixed results happen due to several factors: first, different sample sizes used; second, the type and number of company characteristics examined; third, the number of disclosure items (index) used; fourth, different statistical methodologies used to analyse the data; and fifth, different settings, such as different countries and time periods. Therefore, the results of prior studies must be interpreted with caution, and making generalisations about the studies is difficult.

The following sections discuss the gaps that have been identified from a review of these mandatory disclosure studies. Specifically, the review revealed that the present study can contribute to the extant literature in two areas: first, in terms of factors that influence the

extent of mandatory disclosure; and second, in the methods used to investigate compliance with mandatory disclosure.

2.3.1 Factors that Influence the Extent of Mandatory Disclosure

2.3.1.1 Corporate Ownership Structure

A review of prior mandatory disclosure studies showed that none of studies in developed countries examined the impact of ownership structure on the extent of mandatory disclosure. Given the fact that ownership structures in developing countries are highly concentrated and the majority of firms are either owned by family or the government, the ownership variable can be considered an important factor that may influence the extent of mandatory disclosure practices. The ownership structure therefore has been examined in several studies on developing countries. The studies and the proxy they used to measure the ownership structure are presented in Table 2.1 below.

Table 2.1: Prior Mandatory Disclosure Studies that Examined Corporate Ownership Structure

No	Author/s	Country	Measurement of Ownership Structure
1	Wallace and Naser (1995)	Hong Kong[8]	Proportion of shares held by outsiders (total equity minus the percentage of shares owned by directors and dominant shareholders).
2	Craig and Diga (1998)	ASEAN countries	Foreign ownership (dummy 1 if company is foreign-owned; 0 if locally-owned).
3	Owusu-Ansah (1998)	Zimbabwe	Insider ownership (proportion of shares owned directly and/or indirectly by relatives of management or board members).
4	Al-Htaybat (2005)	Jordan	Government ownership and foreign ownership (dummy 1 if company has 10% or more government/foreign ownership; 0 otherwise).
5	Peng et al. (2008)	China	Government ownership and institutional ownership (proportion of shares held by government and institutional investors).
6	Al-Shammari et al. (2008)	GCC countries	Institutional ownership (proportion of shares held by institutional investors).
7	Al-Akra (2010)	Jordan	Government ownership, individual ownership, institutional ownership and foreign ownership (proportion of shares held by government, individual, institutional and foreign investors).

Nevertheless, of seven studies that examine the influence of ownership structure, only Craig and Diga (1998) and Owusu-Ansah (1998) found that the ownership variable has a significant influence on the extent of mandatory disclosure in ASEAN countries and Zimbabwe, respectively. Craig and Diga (1998) documented that foreign-owned companies was significant and negatively related with mandatory disclosure, suggesting that foreign-owned in ASEAN countries provide less mandatory disclosure than locally-owned companies. Owusu-Ansah (1998) documented that insider ownership was significant and positively related with mandatory disclosure, suggesting that companies with predominant insider ownership tend to provide more mandatory disclosure in their annual reports. These mixed findings imply that it is still an empirical question of

[8] Hong Kong is categorised as a developed country after 1997 (Source: Wikipedia.com)

whether ownership structure has a significant impact on the extent of compliance with mandatory disclosure in developing countries. In summary, this review revealed that the impact of ownership structure is still under-researched in mandatory disclosure literature, in particular the impact of concentration ownership concentration and family ownership[9] on the extent of mandatory disclosure. As such, the present study attempts to fill this gap by examining the impact of ownership structures (i.e. ownership concentration, family ownership and government ownership) on the extent of compliance with IFRS disclosure requirements in Malaysia.

2.3.1.2 Corporate Governance Mechanisms

The review also showed that only a few studies examined the association between the extent of mandatory disclosure and corporate governance mechanisms (i.e. board of directors' characteristics and audit committee's characteristics). These studies are: Al-Akra et al. (2010), Kent and Stewart (2008), Basset et al. (2007) and Forker (1992).

Al-Akra et al. (2010) examined the influence of several corporate governance mechanisms on the extent of compliance with IFRS of 80 companies in Jordan for two years, i.e. in 1996 and 2004. Specifically, three corporate governance attributes were examined, namely proportion of non-executive directors, existence of audit committee and board size. They found that the extent of compliance with IFRS was significantly related to the existence of an audit committee and the size of the board of directors in 2004 only. Although the proportion of non-executive directors was significant in 1996, it

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[9] However, it is acknowledged that the impact of ownership concentration and family ownership have been examined in many studies on voluntary disclosure (e.g. Haniffa and Cooke, 2002; Ho and Wong, 2001a; Hossain et al., 1994)

was in a negative direction. They suggest that this negative association could be due to the lack of independence of non-executive directors in Jordan.

Kent and Stewart (2008) examined the influence of corporate governance factors on the extent of AASB1047 disclosure of 965 Australian public listed companies in 2004. Unlike prior disclosure studies that only consider some corporate governance attributes, they examined almost all characteristics of boards of directors and audit committees. They found that higher disclosure of AASB1047 was significantly associated with frequent board meetings, large board size, frequent audit committee meetings and small audit committee size. No significant association exists for the dual position of board chairman/CEO and the proportion of non-executive directors on the board and on the audit committee. Unexpectedly, they found that audit committee expertise was significant and negatively associated with the extent of disclosure although a robustness check was performed.

Basset et al. (2007) examined the impact of corporate governance on AASB1028 employee stock option disclosures (ESO) of 283 Australian listed companies in 2003. They found that only role duality was significant and negatively associated with mandatory disclosures of ESO. Other corporate governance characteristics, such as audit committee independence, board size and proportion of non-executive directors on the board, were not associated with ESO mandatory disclosures.

Forker (1992) examined the impact of audit committee, non-executive directors and dominant personality (role duality) on the disclosure quality of stock options of 182 UK firms for the year 1987/88. He found that dominant personality was negatively significant with disclosure quality, audit committee existence was positively related

although not significant and there was no association for proportion of non-executive directors on the board.

At least two conclusions can be drawn from the above studies. First, the influence of corporate governance mechanisms on the extent of mandatory disclosure is still under-researched both in developed and developing countries. Second, prior studies (except Kent and Stewart, 2008) have not considered comprehensive characteristics of boards of directors and audit committees. It has been suggested that the role of corporate governance is best examined comprehensively, i.e. by examining the role of more than one corporate governance mechanism (e.g. Donelly and Mulcahy, 2008; Gul and Leung, 2004). Thus it can be inferred that the effectiveness of corporate governance mechanisms in monitoring the quality of disclosure has not been fully evaluated by prior studies. In view of this, the present study attempts to fill these gaps by examining the influence of corporate governance mechanisms (i.e. including characteristics of both board of directors and audit committee) on the extent of compliance with IFRS disclosure requirements in Malaysia.

2.3.1.3 Culture

Although it is acknowledged in the literature that culture influences corporate disclosure practices (e.g. Hope, 2003), a review revealed that only Wallace and Naser (1998) attempted to examine the impact of culture on the extent of mandatory disclosure. This indicates that the impact of culture on mandatory disclosure is still under-researched in the mandatory disclosure literature.

Nevertheless, it is important to note that the impact of culture on financial disclosure was examined by several studies on voluntary disclosure (e.g. Haniffa and Cooke, 2002;

Ghazali, 2004) and overall disclosure (e.g. Zarzeski, 1996; Jaggi and Low, 2000; Archambault and Archambault, 2003). A review of these studies (although they are not exclusively related to mandatory disclosure) are also presented in this section to inform the present study about the methods they use, their findings, and other issues about culture and financial disclosure.

Specifically, Wallace and Naser (1995) examined whether the relationship between mandatory disclosure and corporate characteristics was driven by the underlying culture of companies' management. Using a sample of 80 Hong Kong listed companies in 1991, they separated the data into two groups; the first group was led by Chinese and the second group was led by non-Chinese. They classified a company as led by Chinese if both its chairperson or chief executive and its dominant shareholder(s) is/are Chinese; otherwise, the company was classified as non-Chinese. They found that corporate characteristics of office registration, profitability, liquidity and leverage were significantly related to mandatory disclosure in the companies led by Chinese. However, there was no significant association between all corporate characteristics and the extent of mandatory disclosure in companies led by non-Chinese. Therefore, they suggested that there are differences in the comprehensiveness of mandatory disclosure between Chinese-led and non-Chinese-led companies; this indicates that culture has an impact on mandatory disclosure practices. However, they did not examine which of these two kinds of companies were less transparent or more secretive (providing less disclosure), as proposed by the Hofstede-Gray cultural framework. The Hofstede-Gray cultural framework refers to the work of Hofstede (1980) and Gray (1988). Basically, the Hofstede-Gray cultural framework posits inter alia that transparency and secrecy of corporate disclosure is related to the cultural dimensions of high uncertainty avoidance,

large power distance, low individualism and low masculinity (the Hofstede-Gray cultural framework is discussed in detail in Chapter 3).

Zarzeki (1996) examined whether there was a relationship between accounting disclosure and both market forces and culture of 256 companies' annual reports from seven countries: France, Germany, Hong Kong, Japan, Norway, the UK and the US. Specifically, she used Hofstede-Gray's secrecy framework to examine the impact of culture on corporate disclosure of her sampled companies. Her results showed that both culture and market forces are related to the companies' extent of accounting disclosure practices of companies. She found that companies from countries that are higher in individualism and masculinity and lower in uncertainty avoidance were less secretive in disclosure practices.

Jaggi and Low (2000) examined whether cultural values had an impact on financial disclosure of 401 companies from six countries: Canada, the UK, the US, France, Germany and Japan, where the latter three countries belong to code law countries. They found that none of Hofstede's (1984) cultural values, namely individualism, power distance, uncertainty avoidance and masculinity, were significant for the common law countries. While all these cultural values were significant for the code law countries, only individualism was significant with the expected direction. Similarly, when they ran the test without segregating the sample into common law and code law countries (full sample), only individualism was significant and consistent with Gray's (1988) hypothesis. Therefore, they argued that cultural values have no significant impact on financial disclosure in common law countries, and have mixed results for code law countries. However, their findings have been contested by Hope (2003), because the

sample countries they used have almost identical financial reporting practices to each other, which did not allow for much variation in cultural values.

Archambault and Archambault (2003) examined various determinants (including culture) that influenced the financial disclosure of 1000 industrial companies from 41 countries. They used Hofstede's cultural values, education and religion as measures of a country's culture. Overall, they found that cultural values are significantly related with financial disclosure, but marginally significant for religion. They also found that coefficient on Islam was significant but in the opposite direction (positive), which contradicted their hypothesis.

Haniffa and Cooke (2002) examined the influence of culture on the extent of voluntary disclosure of 165 Malaysian listed companies' annual reports in the year ending 1995. Several hypotheses were developed to test the relationship of cultural characteristics and voluntary disclosure, including the association between the extent of disclosure and (1) ethnicity (i.e. Malays) of managing director, finance director and chairperson; (2) proportion of Malay directors; (3) proportion of shares held by Malay shareholders and (4) educational background of the financial controller. They found that only proportion of Malay directors on the board was significant at the 5% level,[10] but in the opposite direction (positive) of their hypothesis. They suggested that there are other intervening factors, like government policy and religion (Islam), which could influence the finding.

Ghazali (2004) also examined the influence of culture on the extent of voluntary disclosure of 87 Malaysian listed companies' annual reports for the year 2001. A proportion of Malay directors on the board was used as a proxy of culture in her study.

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[10] This variable is only significant in the reduced regression model.

However, she found that the cultural variable has no significant impact on the extent of voluntary disclosure.

The above studies show (except Wallace and Naser, 1995) that Hofstede-Gray's cultural framework has been used to examine the impact of culture on the extent of corporate disclosure. However, the findings of these studies are mixed or inconclusive. This implies that it is still an empirical question of whether culture has a significant impact on financial disclosure (Hope, 2003). The present study is alsodifferent from the above studies in several aspects.

First, the above studies did not specifically focus on mandatory disclosure, except Wallace and Naser (1995), but Wallace and Naser (1995) did not test the secrecy hypothesis as proposed by Hofstede-Gray's cultural framework.

Second, although the prior studies used the Hofstede-Gray framework, they did not examine the impact of culture on a single country, with the exception of Haniffa and Cooke (2002) and Ghazali (2004).

Third, the present study is also different from Haniffa and Cooke (2002) and Ghazali (2004) in terms of type of disclosure and the cultural proxy used. This is because in the present study, the impact of culture is examined by segregating the companies into two dominant ethnic groups: companies controlled by Bumiputra and companies controlled by Malaysian Chinese. Segregating the sample companies according to these two distinctive characteristics enables the present study to further examine whether there is any difference in the level of compliance with IFRS between these two types of companies. The method and selection process of Bumiputra- and Chinese-controlled companies are discussed in detail in Chapter 5.

Based on the above arguments, the researcher believes that the present study can contribute to the extant literature on culture and financial disclosure by examining whether culture has an influence on the extent of compliance with IFRS in Malaysia.

2.3.1.4 Problematic Accounting Standards and Unqualified Audit Opinion

Prior studies also documented that there are a number of problematic accounting standards (IFRS) to comply with. Street et al. (1999) examined to what extent 49 major companies from 12 countries that claimed to comply with IFRS in their 1996 annual reports actually complied with the standards. They found that there was significant non-compliance with IFRS in many aspects. The main areas of non-compliance were observed in IAS2-Inventory, IAS8-Net Profit or Loss for the Period, IAS9-Research and Development Costs, IAS16- Property, Plant and Equipment, IAS18-Revenue, IAS19-Retirement Benefit Costs, IAS21-The Effect of Changes in Foreign Exchange Rates), IAS29- Hyper Inflationary Economies, IAS22-Business Combination and IAS23-Borrowing Costs.

Street and Bryant (2000) later extended the work of Street et al. (1999) by examining the annual reports of 82 companies from 17 countries for the year 1998. Similar with Street et al. (1999), they also observed a degree of non-compliance with respect to IFRS, though the companies claimed that they had complied with IFRS. They observed compliance with several IFRS was also problematic, they are: IAS8-Net Profit or Loss for the Period, IAS14-Segment Reporting, IAS17-Leases, IAS19- Employee Benefit, IAS23-Borrowing Cost, IAS29-Financial Reporting in Hyperinflationary Economies and IAS31-Joint Ventures.

Street and Gray (2002) also assessed the extent of compliance with IFRS of those companies claiming to comply with IFRS in their annual reports for the year 1998, but with a larger sample size, i.e. 279 companies from 32 countries. They also observed that the extent of compliance with each standard varied, and none of the companies achieved 100% compliance.

However, it is important to highlight that the above studies were conducted before the revision to IAS1-Presentation of Financial Statements became effective (Street and Gray, 2002). The revision IAS1 (1997), which became effective on 1 July 1998 asserts that "financial statements shall not be described as complying with IFRSs unless they comply with all the requirements of IFRSs" (IAS 1.16). Thus, before this regulation took place, it was not surprising for companies to simply claim that they complied with IFRS although they in fact did not fully comply with IFRS requirements.

The effect of the IAS1 revision was examined by Cairns (2001) in his survey in 2000. Cairns (2001) assessed a sample of 165 companies that used IFRS in their 1999-2000 financial statements. He observed that several companies still claimed that their financial statements complied with IFRS, although their accounting policies did not comply with IFRS. He revealed that 29% of surveyed companies followed 'implied IFRS lite', where companies claimed to have used IFRS but in fact had not complied fully with IFRS. He identified severalproblematic accounting standards, including IAS12-Income Taxes, IAS14-Segment Reporting and IAS35- Discontinuing Operations. He also observed that some auditors issued unqualified audit reports for companies that did not comply with IFRS.

Glaum and Street (2003) examined the extent of compliance with both IASs and US GAAP for companies listed on the Germany New Market. They used a sample of 100 companies that applied IFRS and 100 companies that applied US GAAP for the year 2000. They found that the extent of compliance for companies that applied US GAAP was significantly higher than companies that applied IFRS (86.6% versus 80.9%). They also found that compliance with IFRS was problematic with regard to disclosures associated to pensions, leasing, financial instruments, earnings per share, research and development, and provisions and contingencies. Similar with Cairns (2001), they also observed that none of the audit reports were qualified with respect to non-compliance with IFRS or US GAAP disclosure requirements. They acknowledged that 'materiality' could be a reason for unqualified audit reports, but they argued it should not be the case when there was significant non-compliance. As Glaum and Street (2003, p.93) argued, "...there can be no serious doubt that, at least in the extreme cases where New Market firms reported less than 60% or even 50% of the required disclosure items, qualifications should have applied."

Several inferences can be made from this review. First, although the IAS1 (revision) clearly prohibited companies from declaring compliance with IFRS if they did not fully comply with IFRS, prior studies found that there are companies that still claimed they complied with IFRSs when they did not. This implies that it is important to examine to what extent the companies complied with IFRS rather than relying on what was stated in their annual reports. Second, although several problematic accounting standards were documented by prior studies, none of these studies explored the reasons why these standards were problematic from preparers' perspectives. Thus, the present study attempts to fill this gap by examining which accounting standards are problematic in

Malaysia, and also explores the reasons for non-compliance with these standards from preparers' perspectives.

Third, while the prior studies highlight that a clean audit report was issued despite non-compliance with IFRS, to the researcher's knowledge, so far no study has attempted to investigate the issue. Thus, the present study attempts to fill this gap by exploring the reasons why an unqualified audit report was issued despite non-compliance with IFRS. In this case, interviews with both preparers and auditors will be conducted because the research shows that there is a negotiation between auditor and client management relating to audit reports (e.g. Gibbins et al., 2001).

2.3.1.5 Other Factors that Influence the Extent of Compliance

Prior studies on developing countries also highlight familiarity with accounting rules and the enforcement of accounting standards among the factors that may influence the extent of compliance with IFRS. These studies are discussed below.

Abdelsalam and Weetman (2003) highlighted two aspects of familiarity with IFRSs, first regarding the contents of IFRSs and second in terms of availability of IFRSs in the country's language. They demonstrate that both aspects are important in explaining the extent of compliance with IFRSs in developing countries, apart from other explanations provided in positive accounting theory. Using a sample of annual reports of 72 Egyptian companies for the period 1995-1996, they show that the extent of compliance with familiar aspects of IFRS disclosure requirements was significantly higher than the extent of compliance with unfamiliar aspects of IFRSs. They also found that the extent of compliance with IFRS was lower if the regulations were not available in an official Arabic translation.

Owusu-Ansah (1998) and Al-Htaybat (2005) also argued that familiarity could be a factor that influences the extent of compliance with mandatory disclosure. Both studies use listing age as a proxy for familiarity in their studies; however Al-Htaybat (2005) did not find any significant association between listing age and the extent of mandatory disclosure compliance in Jordan. Owusu-Ansah (1998), on the other hand, found that listing age is statistically significant in a sample of 49 public listed Zimbabwean companies. He argued that this positive impact with the extent of mandatory disclosure compliance could be explained from the 'principles of learning curve' perspective, where newly listed companies perhaps need more time to get used to the demand of being public companies, as compared to old and established listed companies.

Ali et al. (2004) investigated the extent of compliance with disclosure requirements prescribed by 14 national accounting standards in three major countries in South Asia: India, Pakistan and Bangladesh. Using the annual reports of 1998, their sample consists of 118 companies from Bangladesh, 219 companies from India and 229 companies from Pakistan. They found that the average compliance extent for the whole sample was 80%, whereas the average compliance extent in Pakistan, India and Bangladesh was 81%, 79% and 78%, respectively. They suggested that the higher extent of disclosure compliance for standards relating to depreciation, inventories and property, plant and equipment can be associated with 'familiarity' with those disclosure requirements, because those requirements were embedded in the Companies Act within each country.

Ahmed and Nicholls (1994) assessed the extent of compliance of 63 companies listed on the Dhaka Stock Exchange using the annual reports for the fiscal year 1987-1988. A disclosure checklist containing 93 items was self-constructed, based on the statutory requirements of the Companies Act 1913 and the Securities Exchange Rules 1987. They

found that the extent of compliance was low: only four companies scored more than 90% and none of the sampled companies fully complied with the mandatory disclosure requirements. Later, Akhtaruddin (2005) examined the extent of mandatory disclosure of companies listed on the Dhaka Stock Exchange based on disclosure requirements stipulated by the Companies Act 1994, stock exchange and approved accounting standards. He used a sample of 94 companies' 1999 annual reports. He also found that the extent of compliance by Bangladeshi companies was low, whereby on average the companies disclosed 43.53% of the mandatory disclosure items.

Both studies above Ahmed and Nicholls (1994) and Akhtaruddin (2005) argued that the low level of compliance with mandatory disclosure requirements in Bangladesh was due to a lack of enforcement of accounting standards.

2.3.1.6 The Relevance of the Compliance Factors in the Malaysian Context

In Malaysia, there are two controversial views regarding compliance with IFRS by Malaysian companies. On the one hand, it has been argued that Malaysian companies should have no problem complying with IFRS on the basis that they are already familiar with IFRS (Ravendran, 2006). This is because the accounting standards have been based on IFRS since 1978. On the other hand, compliance with IFRS has been argued to be a challenge for Malaysian companies because IFRS are based on fair value accounting and require more transparency in disclosure, which is different from what had been practiced under the historical cost accounting regime (ibid). Furthermore, prior to convergence with IFRS, the Malaysian accounting standards cannot be said to have been 100% identical to IFRS because there were amendments made to some of the standards to suit the Malaysian environment, like including more illustrations and explanations (MIA,

2005). Therefore, it can also be argued that Malaysian companies may not have been familiar with the IFRS requirements.

These controversial arguments therefore motivate the present study to provide evidence of whether compliance with IFRS is a problem in Malaysia by examining to what extent Malaysian companies comply with IFRS disclosure requirements. Moreover, compliance with accounting standards in Malaysia is mandated by law, and the enforcement of accounting standards was entrusted to three regulatory bodies, namely the Securities Commission, the Companies Commission of Malaysia and the Central Bank (this is discussed in detail in Chapter 4). Thus, examining to what extent Malaysian companies comply with IFRS will also reveal the effectiveness of the existing enforcement mechanism to curb non-compliance with IFRS in Malaysia. The findings of this study may also help the relevant authorities to improve the mechanisms used to monitor compliance with accounting standards, and accordingly will improve the quality of financial reporting. As Rahman (2000) argued, without any empirical evidence on compliance with accounting standards, the parties involved in the enforcement chain might be interested in maintaining the status quo.

2.3.2 Methods Used to Examine Compliance with Mandatory Disclosure Requirements

2.3.2.1 Measuring the Level of Compliance

The majority of the studies reviewed used a self-constructed index to measure the extent of compliance with mandatory disclosure. The majority of studies also used only one method, i.e. the dichotomous method to measure compliance with IFRS. However, Tsalavoutas et al. (2010) argued that the findings reported by these studies were

potentially misleading or biased because the researchers only relied on one method to measure the level of compliance. They demonstrated that the two methods used to measure compliance with IFRS in Greece, i.e. (1) the dichotomous method, which they referred to as Cooke's method, and (2) the Partial Compliance method (PC method), produce significantly different compliance scores.[11] Therefore, the present study also attempts to use both the PC and Cooke's methods to measure compliance with IFRS disclosure requirements in order to avoid reporting biased or misleading results. These two methods are discussed at length in Section 5.4.4.

2.3.2.2 Qualitative-based study

Almost all the studies reviewed only explain the reasons for non-compliance from a quantitative perspective; that is, based on the association between the extent of compliance and several independent variables, except Tai et al. (1990), who also conducted interviews to further explore the reasons for non-compliance with mandatory disclosure.

Tai et al. (1990) reviewed 76 financial statements of Hong Kong listed companies for the financial year ending 1987 to identify the significant areas of non-compliance with the Companies Ordinance, the Securities Ordinance and the SSAP. A checklist provided by big eight CPA firms was used in their study to measure the extent of compliance. They observed that the overall compliance rate was 78%, and a high non-compliance rate, i.e. 49%, was found for depreciation of fixed assets. They found that company size was

[11] Basically, both dichotomous and PC methods use a similar score procedure, where an item is given a score of 1 if it is disclosed, 0 if it is not disclosed and 'not applicable' (NA) if the item is not relevant to the company. However, under the dichotomous method each disclosure item will receive equal weighting, whereas under the PC method the equal weighting is given on each standard (Street and Gray, 2002).

significantly associated with the extent of compliance, but no relationship was noted for business type and size of audit firm. They further interviewed five company executives (financial controllers or accounts managers) and seven audit managers to identify the causes of non-compliance. The findings from the interviews showed that the causes for non-compliance were: (1) difficulties in interpreting the disclosure requirements and auditing guidelines; (2) a lack of awareness of general accounting concepts and the requirements of the Companies Ordinance; (3) a lack of staff proficiency; (4) management's intention to 'improve' the appearance of the companies' financial position and results of operation; and (5) a lack of resources to keep abreast with the changes in disclosure requirements. They also found that the threat of a qualified audit report was not an effective measure for managers to comply with the accounting standards because many of them were prepared to accept qualified audit reports.

Their interview findings demonstrated that there are other important factors that influence the extent of compliance with mandatory disclosure, which cannot be gathered through a quantitative study. As Adams (2002) argued, not all the factors of corporate reporting practices can be captured by quantitative study, and sometimes findings from interviews can go beyond what the existing theories expect. Adams (2002) also suggested that internal organisational factors, such as views and attitudes of key personnel of a company, have influenced corporate reporting practices.

In view of this, the present study also attempts to complement the quantitative findings with qualitative findings by conducting interviews to identify the reasons for non-compliance with IFRSs from preparers' and auditors' perspectives.

2.3.3 Prior Mandatory Disclosure Studies on Malaysia

The review also revealed that there are a growing number of studies that focus on compliance with mandatory disclosure in developing countries (see reviewed studies in Appendix A-1 and A-2). Nevertheless, studies that specifically focus on mandatory disclosure in the context of Malaysia are still scarce. In particular, only three studies examined the extent of mandatory disclosure in Malaysia, i.e. Abdul Rahman (1998), Low and Mat Zain (2001) and Laili (2009).[12] These three studies are discussed below as guidance for the present study and to find out in which area the present study can improve upon or extend in the Malaysian context.

Abdul Rahman (1998) examined the extent of both mandatory disclosure and voluntary disclosure in the annual reports of 54 public listed companies in Malaysia for three different years: 1974, 1984 and 1994. The selection of mandatory items was based on the disclosure required by the Companies Act 1965, the regulation of the stock exchange and the national accounting standards issued by the local professional accounting bodies. He found that the compliance level improved from 49.4% in 1974 to 77.4% in 1984 and 99% in 1994. He also found that only leverage and liquidity were significant at 5% level, whereas other variables, like number of shareholders, liquidity, financial year end, corporate image and industry, were weakly associated with mandatory disclosure.

Low and Mat Zain (2001) examined the extent of compliance with IAS14-Segment Reporting from 1995-1999 using a sample of 108 public listed companies. They

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[12] It is important to highlight that Craig and Diga (1998) and Tower et al. (1999) also included Malaysian companies in their sample, but their findings can be questioned since a small sample size was used in their study, whereby 30 Malaysian companies and the 10 largest Malaysian companies were selected, respectively. Furthermore, they examined the extent of compliance in multiple countries, where these countries collectively represented one region (e.g. ASEAN or Asia Pacific Region), thus the determinants of compliance are not specifically related to a single country.

observed that the extent of compliance improved from 65% in 1994 to 77.5% in 1999. They also found that firm size and proportion of assets in place were significantly related with the extent of compliance, whereas leverage and earnings volatility were insignificant. However, several weaknesses were identified in their study. First, their findings on the association between the compliance scores and the independent variables were based on univariate analysis only, thus the findings of their study can be considered insufficiently robust because the effects of multiple variables were not considered in the regression analysis. Second, only four explanatory variables were tested in their study, thus limiting justification in explaining the extent of compliance with IAS14 in Malaysia.

Laili (2009) provided interesting evidence regarding the adoption of new IFRS standards in Malaysia when she found significant non-compliance with FRS136- Impairment of Assets. She examined how Malaysian companies deal with goodwill as required by FRS136 when the standard became effective on 1 January 2006. Her study covered 249 Malaysian listed companies for the period 2006-2007. She observed significant non-compliance with FRS136 in 2006 and 2007, at rates of 54.6% and 49.4%, respectively. She suggested that the high non-compliance rate with FRS136 was because of a lack of experience of both preparers and auditors in the first year of adopting the standard. However, her study is descriptive in nature and she did not test any explanatory variables that might help explain the poor compliance rate with FRS136 in Malaysia.

2.3.3.1 The Gaps Identified in the Prior Malaysian Studies

There are several gaps identified from the above discussion of prior Malaysian studies, which the present study can improve or fill and extend the body of knowledge.

First, the present study attempts to overcome the weaknesses identified in prior studies by investigating the extent of compliance with IFRS disclosure requirements using a larger sample size and including more explanatory variables. Importantly, the present study attempts to examine the impact of culture and ownership structures on the extent of mandatory disclosure. These two are distinctive characteristics of Malaysia but have been ignored by prior mandatory disclosure studies on Malaysia. Additionally, the impact of corporate governance mechanisms, which was ignored in prior Malaysian studies, will also be examined in the present study.

Second, unlike Low and Mat Zain (2001) and Laili (2009), who examined the extent of compliance for one accounting standard, the present study attempts to investigate the extent of compliance for twelve accounting standards. The selection of these standards is based on several criteria and this is discussed in detail Chapter 5.

Third, the present study employs two methods (i.e. Cooke's and the PC method) to measure the extent of compliance with IFRS disclosure requirements, to avoid reporting biased or misleading results. These two methods are discussed in detail in Section 5.4.4.

Fourth, the prior Malaysian studies used a sample of annual reports from before or during the 1990s, except Laili (2008). It is important to highlight that several corporate governance reforms took place after the Asian financial crisis of 1997/98; for instance, accounting standards in Malaysia are mandated by law, whereby compliance with accounting standards is emphasised in the Companies Act 1965 (amendment 1998) and the Financial Reporting Act 1997 (see Chapter 4 for details). Furthermore, Malaysian public listed companies are required to comply with IFRS as of 1 January 2006, and Malaysia also aims to achieve full convergence with IFRS by January 2012. Therefore,

the present study is needed and timely to bring new evidence regarding the extent of compliance with IFRS in Malaysia, and the findings might be of interest to various stakeholders, like standard-setters, regulators and investors.

Overall, the gaps highlighted above indicate that the present study can make a new contribution to the existing literature in the context of Malaysia.

2.4 Audit Opinion and Auditor Independence

This section discusses the factors that may influence auditors in expressing their audit opinion. The discussion in this section may provide some background knowledge of the issue that the present study attempts to investigate, i.e. why unqualified audit reports are issued despite non-compliance with IFRS, which remains unexplored in the mandatory disclosure literature (see Section 2.3.1.4).

2.4.1 Auditor Independence

DeAngelo (1981b, p.186) defined audit quality as "the market-assessed joint probability that a given auditor will both (a) discover a breach in the client's accounting systems and (b) report the breach". She further explained that the chances of an auditor discovering a breach depend on the auditor's technical capabilities,[13] whereas the chances of an auditor reporting the breach depend on auditor independence. This suggests, the auditors' decision in expressing an appropriate audit opinion is related to auditor independence.

Although auditors are expected to maintain professional independence during the audit engagement, a number of studies have questioned the independence of auditors in

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[13] An auditor's technical capabilities may include auditor experience, education, professionalism, audit firm structure, audit firm resources and workload (Deis and Giroux, 1992).

expressing their audit opinion. For example, Siddique and Podder (2002) examined the effectiveness of financial audit of 14 banks in Bangladesh and found that clean audit reports were issued although the banks had overstated their profits.[14] Sikka (2009) also highlights that several big companies (e.g. Lehman Brothers, Bear Sterns) collapsed within a short period although they had received clean (unqualified) audit reports. Similar also are the studies of Glaum and Street (2003) and Cairns (2001), where the authors questioned why clean audit reports were issued despite significant non-compliance with IFRS in the financial statements (see Section 2.3.1.4).

The audit literature has identified several threats to auditor independence, such as high audit fees, non-audit service (NAS) and audit tenure; these threats are briefly discussed below.

(a) High audit fees

According to DeAngelo (1981b), auditors may have incentive to compromise their audit quality (independence) with higher audit fees received in order to retain the client, and accordingly they will act favourably towards the clients' wishes. Thus it is less likely for auditors to issue an unfavourable audit opinion to these clients because doing so will only increase their chance of losing the clients (Chan and Walter, 1996). However, the findings of prior studies regarding the influence of high audit fees on auditor independence are mixed. While Gul et al. (2003) found that there was a positive association between discretionary accruals and audit fees of Australian listed companies, Hope and Langli (2010) demonstrated that there was no evidence that auditors compromised their independence to issue modified audit opinions when they received

[14] Of seven banks that had overstated their profits, three banks were given unqualified reports with modified wording and the rest had clean audit reports.

large audit fees, despite low litigation risk in Norway. Similarly, Defond et al. (2002) also found that there was no association between audit fees and the tendency of auditors to issue a going concern opinion of US financially distressed companies.

(b) Non-audit service fees (NAS)

The argument of NAS fees is similar to the audit fee dependence arguments above, in that with NAS fees auditors become more financially dependent on their clients and accordingly are more likely to acquiesce with clients (Defond et al., 2002). Kornish and Levine (2004) and Firth (2002) also argued that managerial discretion over NAS fees may influence auditors to issue unqualified audit opinions when in fact qualified opinions are more appropriate. Nevertheless, the findings of empirical studies that examine an association between NAS fees and the type of audit opinion are also mixed.

While Geiger and Rama (2003), DeFond et al. (2002) and Lennox (1999b) found no significant association between NAS and audit opinions, Basioudis et al. (2008), Firth (2002), Sharma and Sidhu (2001) and Wines (1994) proved that the association exists, which led them to conclude that the provision of NAS may impair or may be perceived to impair auditor independence. Using a sample of 643 financially distressed companies in the UK for the financial reporting year 2003, Basioudis et al. (2008) found that companies with high NAS fees were less likely to receive a going concern modified audit opinion. Firth (2002) also examined UK companies, but his sample included all quoted non-financial companies in 1996. He found that there was a negative and statistically significant relationship between NAS fees and qualified audit reports, which led him to suggest that high NAS fees are associated with clean audit reports.

Sharma and Sidhu (2001) and Wines (1994) investigated this association in Australian companies. Based on a sample of 100 publicly listed companies, Wines (1994) noted that the auditors were less likely to qualify their audit opinion when they received high NAS fees from the clients. Sharma and Sidhu (2001) examined the tendency of auditors to issue a going concern opinion on a sample of 49 bankrupt public companies. Their findings are consistent with the hypothesis that auditors are less likely issued a going concern audit qualification when the NAS fees increase.

(c) Audit Tenure

It is argued that audit tenure may impair auditor independence because long auditor tenure can foster a close relationship between client and auditor; such a relationship will gradually influence the auditor to acquiesce or align with the wishes of the client (Knechel and Vanstraelen, 2007; Geiger and Raghunandan, 2002). However, an alternative view suggests that auditor independence increases with longer audit tenure because auditor expertise and client-specific knowledge will grow during the audit engagement periods, enabling the auditor to become less dependent on managerial estimation (Ghosh and Moon, 2005). Consistent with these mixed arguments, the results regarding the association between auditor tenure and audit opinions are also mixed. For example, Carey and Simnet (2006), in their study of 1021 Australian companies in 1995, found that auditors with long auditor tenure had a lower tendency to issue going concern modified opinions for distressed companies, which is consistent with their argument that long auditor tenure may impair auditor independence. Geiger and Raghunandan (2002) examine the association between auditor tenure and audit reporting for 117 bankrupt companies in the US during 1996-98. However, they do not find evidence that long auditor tenures are associated with audit reporting failures.

2.4.1.1 Materiality

Materiality is an important issue because it involves an auditor's decision of whether an item should be disclosed or adjusted in the financial statements, and accordingly affects the audit opinion (Nelson et al., 2005). Although materiality is not explicitly described in the literature as a threat to auditor independence, it provides auditors with incentives to opportunistically compromise audit quality or audit independence in order to retain clients. This is shown by evidence provided by prior materiality studies that will be discussed later in this section.

According to the concept of materiality, disclosure or formal adjustment error is not required if the item is immaterial and does not affect users' decision making (EY, 2010; Acito et al., 2009; Wright and Wright, 1997). Using this concept, Icerman and Hillison (1991) argued that if an item was not disclosed in the financial statements, it can be assumed that it was an immaterial item. Since the concept of materiality is also closely related to the characteristics of relevance, the management may also have the tendency not to disclose information if they perceive users have no interest in such information (i.e. it is irrelevant to the specific user needs) (EY, 2010).

Despite the importance of materiality in auditor's reporting decisions, there is no clear guideline for determining materiality (EY, 2010; Acito et al., 2009). The accounting and auditing standards only provide general guidelines on how to determine materiality; thus, much of the decisions regarding materiality depend on the professional judgement of auditors and preparers, where both quantitative and qualitative factors[15] must be

[15] Quantitative factors normally are based on 5% of net income (rule of thumb), whereas examples of qualitative factors that must be considered are regulatory requirements, whether it involves unlawful transactions and whether it affects loan covenants or other contracts (Acito et al., 2009).

considered (Acito et al., 2009). Therefore, whether an item is material or not in a particular context is perhaps a highly subjective decision (Alexander and Nobes, 2007).

The guideline on materiality can be referred to the definition provided under IAS1 and IAS8, which states:

> Omissions or misstatements of items are material if they could individually or collectively influence the economic decisions that users make on the basis of financial statements. Materiality depends on the nature of the omission or misstatements judged in the surrounding circumstances. The size or nature of the items, or a combination of both, could be the determining factor.

A similar guideline to the auditor in determining materiality for the audit is also given by ISA 320.[16] Since materiality depends on the auditor's judgement, it is not surprising that Iskandar and Iselin (1999) found that the magnitude of disclosure materiality threshold varies among auditors; it ranges between 2.7% and 20%. Libby et al. (2004) also found that auditors apply a lower materiality threshold for recognised amounts than disclosed amounts, and accordingly are more likely to request correction of misstatements in recognised amounts than in disclosed amounts. This implies that auditors perceive recognised misstatements as more material than disclosed misstatements.

While the above studies demonstrate that materiality is elusive and subjective, and depends on personal judgment, several researchers argue that the vagueness in determining materiality provides an opportunity for both companies' management and auditors to misuse the materiality concept to achieve their financial reporting objectives, such as meeting earnings forecasts (e.g. Acito et al., 2009; Wright and Wright, 1997).

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[16] ISA 320 "Materiality in planning and performing an audit" deals with the auditor's responsibility to apply the concept of materiality in planning and performing an audit of financial statements.

Concern regarding this issue had been raised in a speech by the Securities and Exchange Chairman Arthur Levitt; it was quoted by Messiar et al., (2005, p.153) as follows:

> "…some companies misuse the concept of materiality. They intentionally record errors within a defined percentage ceiling. They then try to excuse that fib by arguing the effect on the bottom line is too small to matter. If that's the case, why do we work so hard to create these errors? Maybe because the effect can matter, especially if it picks up the last penny of the consensus estimate. When either management or the outside auditors are questioned about these clear violations of GAAP, they answer sheepishly… *"It doesn't matter. It's immaterial."* In markets where missing an earnings projection by a penny can result in a lost of millions of dollars in market capitalization. I have a hard time accepting that some of these so-called non-events simply don't matter."

In line with this argument, several studies provide evidence that auditors were less likely to adjust detected errors or earnings management manipulations before the publication of financial statements, although the errors exceeded the materiality threshold (e.g. Houghton and Fogarty, 1991; Wright and Wright, 1997; Braun, 2001; Nelson et al., 2005). Several studies also reported that auditors often used a reason of immateriality as an excuse for not incorporating potential misstatements (e.g. Weinstein, 2007; Elder and Allen, 1998).

Libby and Kinney (2000) also found that auditors were less likely to ask for correction of misstatements that could cause earnings to fall below analysts' forecast, even though they were objectively measured. Weinstein (2007) also highlights that in the case of Waste Management Corporation (WS), the auditors simply reconsidered the materiality limit when their proposed adjusting entries were rejected by the WS management, and accordingly an unqualified audit report was issued to the company.

Braun (2001) examined in what situations auditors agreed to waive proposed adjusting entries that exceed materiality by conducting experiments with 155 audit partners and managers of one big six audit firm. She found that auditors were more likely to waive the proposed adjusting entries when they knew that the litigation risks from doing so were low. Specifically, the auditors were more willing to waive the adjustment entries in the following cases: (1) when the client was financially healthy and the possible exposure to bankruptcy was slim; (2) when dealing with a subjective reporting issue that involved estimations and was not precisely addressed in the professional standards; and (3) when the proposed adjusting entries increased income in aggregate. She also noted that auditors were likely to waive several immaterial proposed adjusting entries that aggregated to material level than a single material adjustment entry.

The above studies not only show that the concept of materiality was abused by companies' management and their auditors, but it also indicates that the fee dependency theory applies, where auditors may trade-off their professional independence in order to retain their clients. Furthermore, these studies also demonstrate that the assumption that companies did not disclose certain items in financial statements because the items were considered immaterial by the auditors may not necessarily be true.

2.4.1.2 Institutional Factors

Auditing literature argues that the ability of auditors to remain independent depends on institutional factors of a country, such as the existence of effective enforcement, culture and competitiveness of the audit market. According to Deis and Giroux (1992), auditors are more likely to resist client pressure if mechanisms to monitor auditors are in place, such as the existence of professional bodies that strongly enforce professional standards,

vigorous enforcement mechanisms and the possibility to detect poor audit quality. Francis (2004) also suggests that legal liability and punishment for negligence and misconduct may provide incentives for auditors to maintain professional attitudes.

Several studies also demonstrated that the ability of auditors to maintain audit independence (which is reflected through their audit judgement) is influenced by their cultural background (e.g. Lin and Fraser, 2008; Patel et al., 2002; Chan et al., 2003). Two cultural dimensions, namely power distance and individualism, have been argued as important cultural dimensions that influence audit judgement or auditor decision making (Yamamura et al., 1996; Patel et al., 2002; Lin and Fraser, 2008). These two cultural dimensions are discussed in detail in Chapter 3.

Patel et al. (2002) found that Australian auditors (small power distance and high individualism) are less likely to resolve audit conflicts by acceding to clients compared to Indian and Malaysian Chinese auditors, who belong to large power distance and low individualism groups. However, when they compared between Indian and Malaysian Chinese auditors, Malaysian Chinese are more likely to accede to clients than Indian auditors; they suggested this could be attributed to the stronger influence of Confucianism on Malaysian Chinese auditors.

Lin and Fraser (2008) also found that Chinese and UK auditors perceive the factors that could influence their ability to withstand client pressure on significant disagreement over a material financial reporting issue differently. For Chinese auditors (higher power distance and lower individualism), the provision of non-audit service and competition for audit clients are significant factors that may influence them to accede to clients' wishes, whereas UK auditors (lower power distance and higher individualism) perceive that

clients are in a favourable position when the issue has not been clearly addressed by accounting standards and when auditor tenure is more than five years.

2.4.2 Summary of Audit Opinion and Auditor Independence

In summary, the discussion above suggests that the auditor's ability to issue an appropriate audit opinion is closely related to auditor independence. Although auditors must maintain professional independence, the literature shows that auditor independence can be threatened by several factors: fee dependency (e.g. audit fees, non-audit service fees), auditor tenure, ambiguity of materiality guidelines, competitiveness in the audit market, culture and a lack of enforcement. Therefore it is possible that these factors may also explain why an unqualified audit report was issued despite non-compliance with IFRS disclosure requirements.

2.5 Summary and Conclusion

This chapter has reviewed prior studies on mandatory disclosure and also studies on auditor independence and audit opinion. Several gaps were identified from the review of prior studies and these have been discussed in Sections 2.3.1, 2.3.2 and 2.3.3. In summary, gaps were identified in the following aspects.

First, the impact of ownership structures, corporate governance mechanisms and culture on compliance with mandatory disclosure is under-researched in the context of mandatory disclosure literature. Although there are a growing number of studies on mandatory disclosure studies in developing countries, studies that focus on a Malaysian context are scarce (see Section 2.3.3). Therefore, the present study attempts to fill these

gaps by examining the impact of these variables on the extent of compliance with IFRS in Malaysia.

Second, unlike the majority of mandatory disclosure studies, which use only one method (i.e. dichotomous or Cooke's method) to measure the extent of compliance (see Section 2.3.2.1), the present study employs two methods, i.e. the PC method and Cooke's method, to avoid reporting misleading or biased results regarding the extent of compliance with IFRS (Tsalavoutas, 2009).

Third, factors of non-compliance from preparers' and auditors' perspectives have never been explored in mandatory disclosure study, except by Tai et al. (1990), but their study was based on a Hong Kong context. Further, Tai et al. (1990) focused on national accounting standards rather than international accounting standards (IFRS). Additionally, no prior study has attempted to explore the reasons why certain accounting standards are problematic to comply with from preparers' and auditors' perspectives. Thus, the present study attempts to fill these gaps by conducting interviews with preparers and auditors to identify factors that contribute to non-compliance with IFRS disclosure requirements in Malaysia and to understand why preparers find certain standards problematic to comply with.

Fourth, a questionable finding regarding why unqualified audit reports were issued despite non-compliance with IFRS has never been explored in any study so far. Thus, the present study attempts to investigate the issue by conducting interviews with auditors. Preparers' and regulators' views were also sought to further understand the issue.

The gaps highlighted above indicate that the present study can contribute to extant literature on mandatory disclosure, corporate governance, culture and audit opinion. The

next chapter discusses a theoretical framework used in the present study, where several disclosure theories that can explain the motives for (non-) compliance with mandatory disclosure are described.

CHAPTER 3: THEORETICAL FRAMEWORK

3.1 Introduction

This chapter discusses disclosure theories that will be used as a theoretical framework in the present study. Many prior studies have focused on agency theory, political cost theory, signalling theory, capital need theory and information theory to explain corporate disclosure practices the motives and the extent of corporate disclosure practices (e.g. Cooke, 1992; Inchausti, 1997; Abdel Salam, 1999; Al-Shiab, 2003). A combination of several theories is normally used in disclosure studies because a single theory alone cannot adequately explain corporate behaviour towards disclosure. As Hope (2003, p.220) highlighted, "disclosure is inherently a complex phenomenon, and a single theory can only give a partial explanation". Furthermore, a joint consideration of several theories to explain particular phenomena will provide richer insights into understanding corporate disclosure practices, and thus the theories should be viewed as complementary rather than competing (Deegan, 2006; Carpenter and Feroz, 1992).

Nevertheless, economic incentive theories like agency theory, signalling theory and capital need theory have been criticised in the literature as emphasising economic and finance perspectives and neglecting cognitive, social and other factors (e.g. Elbannan and McKinley, 2006). Agency theory is also criticised because it only considers the relationships between managers (agents), owners (principals) and debt holders, and ignores stakeholders (Deegan, 2006). Therefore, the present study considers system oriented theories, namely political economy theory, stakeholder theory, legitimacy theory and institutional theory, to explain mandatory disclosure practices. These system

oriented theories cover a broader perspective of disclosure incentives, including political, economy, social and cognitive factors.

According to Deegan and Unerman (2006), political economy theory, stakeholder theory, legitimacy theory and institutional theory are classified as system oriented theories because the organisation is viewed as part of a wider social contract system that interacts with all the elements of this society in which it operates. This social contract demands the organisations to act in a socially responsible manner (O'Donovan, 2002). These theories are normally used in corporate social reporting and environmental studies to explain why companies practice such corporate disclosure (e.g. O'Donovan, 2002; Gutherie and Parker, 1990). Nevertheless, these theories could also be relevant in a mandatory disclosure context, in that companies can be assumed to fulfil societal expectations if they fully comply with mandatory disclosure requirements.

This chapter is organised into five main sections. Section 3.2 describes economic incentive theories, including agency theory, political cost theory, signalling theory, information cost theory and capital need theory. Section 3.3 explains system oriented theories, including political economy theory, stakeholder theory, legitimacy theory and institutional theory. Section 3.4 explains cultural theory, Section 3.5 evaluates the discussed theories and Section 3.6 summarises the chapter.

3.2 Economic Incentive Theories

3.2.1 Agency Theory

The theory is related to the relationship between the owner(s) of firms (principal) and the managers of firms (agent), whereby the principal delegates the responsibility to manage

the firms to the agent (Jensen and Meckling, 1976). The main tenet of this theory is that individuals are assumed to be self interested and opportunistic (Watts and Zimmerman, 1986, 1990). Therefore, the agents will not necessarily act in the best interest of their principal, which leads to the agency conflict or agency problem (ibid). Managers, for instance, would make decisions that benefit themselves, such as to acquire perquisites or pay excessive compensation, or make adverse decisions that will harm the firms (Healy and Palepu, 2001). In this situation, managers may have an incentive to hide certain information from the shareholders, or disclose less to the public for their personal benefit.

Therefore, several monitoring strategies have been introduced to mitigate this problem and ensure the interests of managers are aligned with owners, such as through rewarding packages, employing external and internal auditors and board of directors (Subramaniam, 2006). Auditors not only help to reduce information asymmetry between managers and owners, but also reduce the misreporting of accounting information, and accordingly add credibility to the financial reports of a company (Hope et al., 2008). The role of external auditors in corporate disclosure is discussed again in Chapter 6. The existence of these monitoring mechanisms may also motivate managers to provide more information in the annual reports to demonstrate that they are acting in the best interests of firms (Deegan and Unerman, 2006; Craswell and Taylor, 1992).

While the above descriptions of agency theory illustrate the relationship between the owner (principal) and the manager (agent) which arises under the separation of ownership and management, Ali et al. (2007) point out another agency relationship, i.e. between controlling and non-controlling shareholders, which they refer to as Type II agency problem, while the former is referred to as Type I agency problem. According to

Ali et al. (2007), family firms may suffer severe Type II agency problems rather than Type I agency problem because: (1) family firm's boards of directors tend to be less independent due to domination by family members; and (2) family firms have incentive to hide unfavourable information or manipulate accounting earnings for the benefit of family members. Family firms may have less severe Type I agency problem because their ability to directly monitor the managers and their better knowledge of the firm's business activity enables them to detect any manipulation of earnings or financial information (ibid). Several corporate characteristics have been used in disclosure studies to proxy agency theory, such as size of company, leverage, liquidity, ownership structure, corporate governance mechanisms and profitability.

3.2.2 Political Cost Theory

This theory argues that politically sensitive firms (particularly larger firms and firms with large profits) are subject to high political costs (Watts and Zimmerman, 1990). According to this theory, politicians have the power to intervene in companies' wealth redistribution, for example through taxes and regulations (ibid). Therefore, politically sensitive firms may have incentive to choose accounting methods that will reduce or lower their earnings in order to avoid adverse political intervention (ibid). Studies in corporate disclosure normally use firm size and profitability variables as a proxy for political cost. Nevertheless, there are mixed arguments regarding the impact of political costs on the extent of corporate disclosure. While some studies (e.g. Inchausti, 1997) argue that politically sensitive firms will provide more information to avoid political cost exposure, Wallace et al. (1994) and Wallace and Naser (1995) argued that companies may choose to limit corporate disclosure to avoid such exposure. Therefore, it is difficult

to predict in which direction political cost would affect the level of corporate disclosure (Tsalavoutas, 2009).

3.2.3 Signalling Theory

Signalling problem arises due to information asymmetry, whereby one party has more information than another (Akelof, 1970; Watts and Zimmerman, 1986). According to Akelof (1970), information asymmetry between firms and investors may lead to the problem of adverse selection. He describes the absence of disclosure causes companies to be known as 'lemons' in the capital market, a situation where no information (or silence) is assumed to be bad information. Therefore, companies are motivated to disclose both bad news and good news to avoid adverse interpretation by the market (Deegan and Unerman, 2006). Consistent with this argument, Skinner (1994) demonstrated that companies with good performance disclosed good news to distinguish themselves from companies who performed poorly, whereas poorly performing companies still disclosed bad news in a timely fashion, because the failure to do so would affect their reputation.

Apart from leverage, liquidity and profitability indicators, Inchausti (1997, p.56) argued that industry variables can also be a proxy for signalling theory because "if a firm does not adopt the same corporate strategy as others from the same industry, it could be interpreted by the market as a signal of bad news".

3.2.4 Information Cost Theory

Disclosure literature suggests that companies may gain some economic benefits from making more disclosures, such as enhancing cross border listing, improving stock

liquidity in the capital market, reducing cost of capital and increasing comparability (Jermakowicz and Gornik-Tomaszewski, 2006; Healy and Palepu, 2001). Nevertheless, the cost and benefit considerations would influence whether or not companies disclose information or comply with mandatory disclosure (Cooke, 1992; Tsalavoutas, 2009). Several theories that relate to information cost theory are discussed below.

(a) Compliance Cost Theory

In a mandatory disclosure context, companies are likely not to comply with mandatory disclosure requirements if the net compliance costs are higher than those of non-compliance (Abayo et al., 1993; Hassan et al., 2006). From the companies' point of view, compliance costs not only include physical preparation costs (e.g. cost of obtaining external valuation, fair value measurement, training, changing new information systems and audit costs) and dissemination costs, but also involve cognitive efforts and devoting preparers' time to understanding the requirements and implications of the applicable standards (Schipper, 2010). Preparers are likely to resist complying with the accounting standards if they view the compliance process as burdensome to them (Elbannan and McKinley, 2006).

Non-compliance costs, on the other hand, include market pressures and administrative penalties from the stock exchange, such as monetary penalties and delisting consequence (Hassan et al., 2006). Hassan et al. (2006) also argued that compliance costs could be higher than non-compliance costs if there is a lack of knowledge of IFRS among preparers and auditors, unavailability of implementation guidelines on IFRS and a lack of enforcement of compliance with IFRS.

(b) Proprietary Cost Theory

Apart from the direct information costs noted above, companies may also suffer from the impact of indirect costs such as disclosure of proprietary information (Tsalavoutas, 2009). According to Tsalavoutas (2009), compliance with accounting standards may result in disclosing proprietary information because companies are obliged to disclose all required information, whether good or bad. Since disclosure of proprietary information can potentially damage an organisation's position, companies may have an incentive for not disclosing such information although they have to bear a higher cost of capital (Healy and Palepu, 2001).

(c) Litigation Cost Theory

The above arguments show that companies are highly likely not to comply with all IFRS disclosure requirements if they involve high compliance costs and/or disclosure of proprietary information. Nevertheless, the alternative argument suggests that companies may comply with all mandatory disclosure requirements to avoid litigation cost (Tsalavoutas, 2009). According to litigation cost theory, companies have incentives to disclose bad news early and provide more information in order to avoid shareholder litigation (Skinner, 1994; Healy and Palepu, 2001). Normally, company size is used in corporate disclosure studies to proxy compliance cost and proprietary information theories (e.g. Wallace and Naser, 1995).

3.2.5 Capital Need Theory

According to this theory, companies will supply additional information when there is a need for external financing in order to reduce their cost of capital (Choi, 1973; Firth, 1980). Consistent with this theory, Firth (1980) demonstrated that listed companies

provide greater disclosure in their annual reports compared to non-listed companies. Additionally, he found that new issue companies had greater disclosure than companies in the control group. Mueller et al. (1987) also argued that companies competing for funds would face a competitive disadvantage if they fail to supply sufficient information to the capital market because investors may choose to invest in companies with better disclosure or more transparent information. Based on this argument, it can be argued that companies that need to raise funds from the capital market will provide extensive mandatory disclosure requirements to attract more potential investors. Listing status or listing age is normally used in disclosure literature as a proxy for capital need theory.

3.3 System Oriented Theories

3.3.1 Political Economy Theory

According to Deegan and Unerman (2006), political economy theory considers the inter-relation of social, political and economy issues within a society. Two streams of political economy theory have been discussed in disclosure literature: classical political economy theory and bourgeois political economy theory.

Classical political economy theory is mainly concerned with structural conflicts, sectional interest, inequality, class struggle and the role of the state (Gray et al., 1996; Cooper and Sherer, 1984). Cooper and Sherer (1984, p.218) argued that "accounting should recognize power and conflict in society and consequently should focus on the distribution of income, wealth and power in society". For classical political economy theory, the objective of accounting reports is to serve the specific interests of a certain group of people (e.g. the elite or those in a powerful position), and disclosure is a means to maintain their favoured or dominant position (ibid).

In contrast, bourgeois political economy theory ignores the structural conflicts or inequality issues raised by classical political economy theory (Gray et al., 1996). Bourgeois political economy theory perceives the world as 'pluralistic', which assumes the "power is widely diffused and that society is composed of individuals whose preferences are to predominate in social choices and with no individual able to consistently influence that society" (Cooper and Sherer, 1984, p.218). Williams (1999) argued that organisations must interact with various parties within the system in which they operate in order to preserve their own self interests. In other words, the organisation needs to consider society's expectations in order to survive (ibid).

In bourgeois political economy theory, the government plays a role to protect individuals' rights and to promote the public interest (Clark, 1998). Since government intervention in the system may jeopardise the organisation's self interest, Williams (1999) argued that the organisation may choose to provide social activities disclosure to demonstrate that they meet society's expectations and accordingly will avoid from the government intervention.

While bourgeois political economy theory suggests that the role of the government is to protect public interest, the classical perspective argues that the government actually does not act in the interest of the public but in the interest of those who possess power and wealth, although it might look like the government acts in the interests of the public or of a disadvantaged group (Gray et al., 1996).

From the arguments above, it seems that a classical political economy theory perspective is applicable to explaining the extent of mandatory disclosure in Malaysia because the prevalence of government intervention in the economy, political connection or cronyism

and the government's favouritism toward Bumiputras indicates that there is structural conflict and inequality in Malaysian societies (see Chapter 4 for details). The bourgeois political economy, on the other hand, overlaps with stakeholder theory and legitimacy theory (Deegan, 2004); these theories are discussed in the following sections.

3.3.2 Stakeholder Theory

According to Freeman (1984, p.46), a stakeholder is "a person or group that can affect or is affected by the achievement of the organisation's objectives". Thus, stakeholders may include many parties, such as managers, shareholders, employees, customers, suppliers, media, communities and the general public (Alam, 2006).

There are two branches of stakeholder theory: ethical and managerial branches. The ethical branch of stakeholder theory concerns the rights of stakeholders, where all stakeholders must be treated fairly by an organisation, even if they do not directly impact the survival of the organisation or they choose not to use information provided by the company (O'Dwyer, 2002). This is consistent with the normative accountability approach, which requires organisations to be accountable for their activities and provide information to all groups of stakeholders (Alam, 2006). Nevertheless, it is acknowledged that most researchers use the managerial branch of stakeholder theory as a theoretical framework (Islam and Deegan, 2008).

The managerial branch of stakeholder theory concerns the impact of stakeholders' power on the survival of an organisation (Deegan and Unerman, 2006). Therefore, various groups of stakeholders may be treated differently by the organisation depending on the 'power' they have (Smith et al., 2005). According to Ullman (1985) stakeholder power is the degree of stakeholder's control over the resources required by the organisation. The

more critical the stakeholder's resources to the organisation, the greater the chance that particular stakeholder demands will be addressed (Ullman, 1985; Smith et al., 2005). This is also stressed by Roberts (1992, p.598):

> "A major role of corporate management is to assess the importance of meeting stakeholder demands in order to achieve the strategic objectives of the firm. As the level of stakeholder power increases the importance of meeting stakeholder demands increases, also".

In other words, organisations may have an incentive to attend to the requests of stakeholders if the stakeholders are deemed important to the organisation. Alam (2006, p.214) also highlighted that "in reality the most powerful stakeholder who have control over resources get more priority compared to other stakeholders". Gray et al. (1996, p. 46) also noted that information

> "...is a major element that can be employed by the organisation to manage (or manipulate) the stakeholders in order to gain their support and approval, or to distract their opposition and disapproval".

Based on the arguments above, it can be inferred that, companies provide information only to the powerful stakeholders, and therefore they may comply with mandatory disclosure requirements to show that they conform to the requests of powerful stakeholders (from managerial branch perspective). Powerful stakeholders may request more disclosure to enable them to monitor the companies (e.g. creditors) or to demonstrate that the companies are accountable to society (e.g. government).

3.3.3 Legitimacy Theory

Legitimacy is based on the perceptions of societies, and is conferred by a society on an organisation (Deegan and Unerman, 2006). Thus, the theory is concerned with the expectation of societies, whereby the failure to conform to societies' expectation would

impact on the survival of an organisation (ibid). A definition of legitimacy is given by Lindblom (1994, p.2, cited in Deegan and Unerman, 2006) as

> "...a condition or status which exists when an entity's value system is congruent with the value system of the larger social system of which the entity is a part. When a disparity, actual or potential, exists between the two value systems, there is a threat to the entity's legitimacy".

Hence, to gain or retain legitimacy status, corporations must act within the bounds and norms of what society perceives as socially acceptable behaviour (O'Donovan, 2002; Islam and Deegan, 2008). However, bounds and norms are not fixed, because societies' attitudes and perceptions may change (Deegan, 2006). Thus, legitimacy is said to be dependent upon time and place (ibid). What is perceived as legitimate by societies in one time or place may be not perceived as legitimate at another time or place. Similarly, what is perceived as appropriate business practice in one society might not be acceptable in another society (Deegan and Unerman, 2006). Thus, to retain legitimacy or survive, organisations need to respond to the environment in which they operate (O'Donovan, 2002; Islam and Deegan, 2008).

However, conforming to the respective environment is not enough; such conforming must be communicated to societies (Suchman, 1995). This is because the process of legitimation will be problematic if the society is unaware of the organisation's achievement or activities, even if the organisation is not deviating from society's expectations (O'Donovan, 2002). Therefore, disclosure in annual reports has been used as a legitimation tactic by organisations, first to communicate about the organisation's activities, and second, to influence the perceptions of societies that the organisation is operating in a legitimate way (Islam and Deegan, 2008).

Once conferred, legitimacy must be managed. Neu et al. (1998) argued that the extent and nature of disclosure in annual reports is largely influenced by an organisation's 'relevant public'[17]. Thus, to successfully manage legitimacy, the organisation must identify important 'manageable' issues or events and identify the 'relevant public' who are able to confer or withdraw legitimacy on the corporation in relation to those issues or events (O'Donovan, 2002; Oliver, 1991). According to Neu et al. (1998), if there is a conflict between two 'relevant publics', organisations often choose to meet the demand of the more important 'relevant public' and to dismiss the demand of the less important 'relevant public'. This argument implies the existence of differential powers of stakeholders in society (ibid), which also overlaps with stakeholder theory as described above.

From the legitimacy theory perspective, the actual conduct of the organisation is not really important, because legitimacy is shaped by what society knows or perceives about the organisation's conduct (Deegan and Unerman, 2006). As Suchman (1995, p.547) argued:

> "An organisation may diverge dramatically from societal norms yet retain legitimacy because the divergence goes unnoticed. Legitimacy is socially constructed in that it reflects a congruence between the behaviours of the legitimated entity and the shared (or assumed shared) beliefs of some social group; thus legitimacy is dependent on a collective audience, yet independent of particular observers".

Similarly, the issue of whether what has been reported is true or not is not emphasised in the legitimacy literature, as noted by Neu et al. (1998, p.280):

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[17] Neu et al. (1998) identified financial stakeholders (shareholders and creditors) and regulators as the most important 'relevant publics', and environmentalists as a secondary public.

> "Impression management in the current study refers to attempts to shape the impressions of relevant public through the provision of environmental disclosures, but it says nothing about the 'truth' or falsity' of these disclosures".

Based on the argument above, legitimacy theory may be relevant to the mandatory disclosure context. In seeking or maintaining legitimacy status, companies will have an incentive to fully comply with mandatory disclosure requirements. However, according to the theory, companies may also deviate from public expectation (i.e. in cases of non-compliance) while still maintaining legitimacy status, if the public is unaware of such deviation practices or if the company has manipulated the public's perceptions towards the company, such as by engaging with big four international audit firms to signal that its financial reporting is of high quality.

3.3.4 Institutional Theory

There are three branches of institutional theory identified in the literature, namely old institutional economics, new institutional economics and new institutional sociology (Hussain and Hoque, 2002). However, the new institutional sociology perspective is a focus of the present study because of its "broader, multi dimensional approach for focusing on issues of external (macro) and internal (micro) organisational context" (ibid, p.164).

According to Dillard et al. (2004), institutional theory is not only concerned with the interaction of organisations with their institutional environment, but also with the impacts of social expectations on the organisations, and how those expectations are incorporated into organisational practices and structures. An institution is defined as "an established order comprising rule-bounded and standardised social practices", while

institutionalisation is the "process whereby the practices expected in various social settings are developed and learned" (ibid, p. 508). Oliver (1991) argued that an organisation's responses toward its institutional environment depend on the institutional pressures that are exerted on the organisation. Thus, institutions may include laws, regulatory structures, professions, interest groups and public opinion (ibid).

From an institutional theory perspective, an organisation adopts or adapts to institutional expectations, norms and rules in order to survive and/or gain legitimacy status (Rahman et al., 2010; Dillard et al., 2004). These processes (adoption and adaptation) will influence the positions, policies, programmes and procedures of organisations (Rahman et al., 2010). The adaptation of institutional practices by an organisation is referred to by DiMaggio and Powell (1983) as 'isomorphism' (Dillard et al., 2004). According to DiMaggio and Powell (1983), institutional isomorphism can be divided into three categories, namely mimetic isomorphism, normative isomorphism and coercive isomorphism. Mimetic isomorphism is a process whereby an organisation imitates the internal structures and procedures adopted by a more successful or legitimate organisation. Normative isomorphism refers to a process whereby the organisation adopts the structures and procedures advocated by particular dominant professions, professional bodies or consultants. Coercive isomorphism happens due to external factors, such as regulation, government policy and supplier relations, which exert force on an organisation to accept specific internal structures and procedures. In sum, institutional theory demonstrates how institutional forces at macro level can influence intra-organisational practices or organisation behaviour at micro level (Moll et al., 2006).

Similar with the arguments in legitimacy theory, institutional theory also acknowledges that an organisation does not necessarily comply with or follow the expectations of

public (Moll et al., 2006; Oliver, 1991). A situation in which formal organisational structure or practice is detached from actual organisational practice is referred to by Meyer and Rowan (1977) as ‘decoupling’. According to Deegan and Unerman (2006), organisations can still retain their legitimacy status while decoupling the actual organisational practices from the institutional expectations by constructing a good image through corporate reports. Oliver (1991) also argues that organisations can engage in manipulation strategies or concealment tactics to disguise nonconformity from institutional expectations, like window dressing, ritualism, ceremonial pretence or symbolic acceptance of institutional norms, rules or requirements.

Based on the above discussion, it can be argued that organisations will comply with IFRS disclosure requirements if strong enforcement to comply with the accounting standards exists (i.e. coercive isomorphism), or if the organisations try to imitate the disclosure practices of other successful organisations (i.e. mimetic isomorphism). But it can also be argued that organisations may decouple from institutional expectations while still maintaining legitimacy status by declaring in their annual reports that the preparation of their financial statements are in accordance with IFRS, even if in reality they did not fully comply with IFRS disclosure requirements. Engagement with the big four audit firms and a clean audit opinion may support the organisation’s legitimacy status even if the organisation in fact does not fully comply with all mandatory disclosure requirements.

Elbannan and McKinley (2006) also explained that, from a cognitive perspective, organisations may resist new accounting standards because they have already institutionalised their favourable (old) accounting standards or accounting methods, and are quite reluctant to change their established norms because this is viewed as

burdensome. Thus, it can also be argued that organisations may not comply with all IFRS disclosure requirements because they are quite hesitant to change their entrenched beliefs about old accounting standards.

A number of studies also show that institutional environments in a national setting have influenced financial reporting in a country (e.g. Hussain and Hoque, 2002; Ball et al., 2003; Ali and Hwang, 2000). Hussain and Hoque (2002), for example, demonstrated that several institutional factors have influenced Japanese banks to implement a particular performance measurement system with the most significant external force is economic constraint, followed by the central bank's regulatory control, accounting standards/financial legislation, management's strategic focus, bank size, competition and organisational tendency to copy best practices from others.

The above arguments show that institutional factors play a significant role in corporate disclosure practices; thus, it is highly likely that institutional theory could also be relevant to explaining mandatory corporate disclosure practice in the context of Malaysia.

3.4 Cultural Theory

The influence of culture on accounting practices is widely acknowledged in the literature (e.g. Radebaugh and Gray, 2002; Perera, 1994). According to Haniffa and Cooke (2002, p.318), "cultural factors are important because the traditions of a nation are instilled in its people and might help explain why things are as they are". Archambault and Archambault (2003, p.177) also noted that "[c]ulture influences how people perceive situations and organise institutions".

There are many definitions of culture (see Hofstede, 2001; Harrison, 1993), but the most cited definition in accounting literature is from Hofstede (1980, p.25), who stated that culture is “the collective of programming of the mind which distinguishes the members of one human group from another”. The definition implies that culture does not refer to the values held at an individual level but refers to values at the collective level, such as in societies, professions or organisations (Gray, 1988). This also includes the values of ethnic groups (Hofstede, 2001).

Values are the root of a culture, and are defined by Hofstede (2001, p.1) as “a broad tendency to prefer certain states of affairs over others”. Values have also been defined by other researchers as norms, attitudes, beliefs and preferences (Pratt and Beaulieu, 1992). Perera (1994, p.270) pointed out that “values are the primary determinants of human behaviour”, which determine the attitudes of good and bad, right and wrong, rational and irrational, permitted and forbidden and so on. In other words, cultural values shape the behaviour of a particular society; they govern the way individuals think, interact with others, perceive their responsibilities and carry out their duties (Yamamura et al., 1996; Jaggi, 1975).

Hofstede (1980)[18] identified four cultural dimensions of societal values which he considered to be reflective of the cultural orientation of a country, namely (1) large versus small power distance, (2) strong versus weak uncertainty avoidance, (3) individualism versus collectivism, and (4) masculinity versus femininity. Each country was given a score for each cultural dimension. A fifth cultural dimension, of long term

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[18] Hofstede’s (1980) work on culture was based on a survey conducted between 1967 and 1973 of employees in IBM subsidiaries in 40 countries. Later, the study was extended to include 50 countries and three regions, and extended again to include 74 countries and regional cultural values scores in Hofstede (2001).

versus short term orientation, was introduced later by Hofstede and Bond (1988).[19] Hofstede's four cultural dimensions (1984) are briefly described below; the details of these dimensions are provided in Appendix B-1.

1) **Power Distance**

   This dimension concerns the acceptance of unequal power and how people within a society or country handle inequality issues. Societies that can accept hierarchies and unequal power distribution are characterised as large power distance societies, whereas in small power distance societies, inequalities between people are minimised and hierarchies only exist for administrative convenience (Doupnik and Tsakumis, 2004).

2) **Individualism vs. Collectivism**

   This dimension refers to people's self concept of "I" or "We", i.e. whether the main focus is on individual interest (high individualism) or group interest (low individualism or collectivism) (Hofstede, 1984).

3) **Masculinity vs. Femininity**

   This dimension distinguishes the roles of people in society based on traditional gender roles; masculinity is associated with competition and achieving material success, whereas femininity relates to caring, nurturing and values of human relationships (Doupnik and Tsakumis, 2004).

4) **Uncertainty Avoidance**

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[19] The Chinese Value Survey was conducted in 1985 and covered 23 countries around the world; this fifth dimension is labeled Confucian Dynamism because it relates to the teaching of Confucius.

This dimension refers to the extent to which ambiguous situations are tolerated, where a society with high uncertainty avoidance is described as relying on principles or codes of belief and being intolerant of deviations of behaviour and opinions that differ from their own, whereas a low uncertainty avoidance society is described as more flexible and tolerant (Hofstede, 1984).

With regard to the fifth societal value, i.e. long term versus short term orientation, Hofstede (1991a, pp.165-166) described long term orientation values as “persistence (perseverance), ordering relationships by status and observing this order, thrift and having sense of shame”, and short term orientation as “personal steadiness and stability, protecting your ‘face’, respect for tradition and reciprocation for greetings, favours and gifts”.

3.4.1 Hofstede-Gray Cultural Framework

Gray (1988) linked Hofstede’s societal values with four accounting subculture values, namely professionalism, uniformity, conservatism and secrecy, in attempting to develop a theoretical framework that could be used to analyse the impact of culture upon accounting systems. These accounting values are expected to influence certain accounting practices, namely the authority of accounting systems (Statutory Control), their force of application (Flexibility), the measurement practices used (Optimism) and the extent of information disclosed (Transparency). The above accounting values were described by Gray (1988, p.8) as follows:

Professionalism versus Statutory Control
"A preference for the exercise of individual professional judgement and the maintenance of professional self-regulation as opposed to compliance with prescriptive legal requirements and statutory control".

Uniformity versus Flexibility
"A preference for the enforcement of uniform accounting practices between companies and for the consistent use of such practices over time as opposed to flexibility in accordance with the perceived circumstances of individual companies".

Conservatism versus Optimism
"A preference for a cautious approach to measurement so as to cope with the uncertainty of future events as opposed to a more optimistic, laissez-faire, risk taking approach".

Secrecy versus Transparency
"A preference for confidentiality and their restriction of disclosure of information about the business only to those who are closely involved with its management and financing as opposed to a more transparent, open and publicly accountable approach".

It is important to highlight that Gray (1988) did not discuss the fifth dimension of societal values (i.e. short term and long term orientation). This fifth dimension was discussed by Gray in Radebaugh and Gray (2002). The association of Gray's accounting values and Hofstede's societal values and a direction (either positive or negative) of this association are shown in Appendices B-2 and B-3. Although accounting values of secrecy and conservatism are closely related, Gray (1988) suggested that secrecy is relevant to the disclosure dimension, whereas conservatism is relevant to the measurement dimension. According to the Hofstede-Gray cultural framework, countries or societies with high uncertainty avoidance, large power distance, low individualism (collectivism), low masculinity (femininity) and long term oriented societal values are related to secrecy or less transparency in corporate disclosure (Radebaugh and Gray, 2002).

3.4.2 Criticism of Hofstede's Cultural Values

Although the Hofstede-Gray model has been tested and used by many studies to examine the impact of culture on financial reporting, the applicability of Hofstede's cultural values to the current environment has been criticised in the literature (e.g. Papadaki, 2005; Baskerville, 2003). The criticism of Hofstede's cultural values is based on several facts. First, the exclusive use of IBM employees as a sample in Hofstede's cultural study raised the question of whether the sample adequately represented the nation's cultural values (Papadaki, 2005; Lim, 1998). Second, the IBM data are outdated, since they were collected more than 30 years ago (Tsakumis et al., 2007; Papadaki, 2005). Third, the four or five cultural dimensions used by Hofstede have been criticised as being unable to fully describe all the societies' issues; thus, they are insufficient to describe the culture (Papadaki, 2005). Fourth, a nation cannot be considered to have a single culture because there could be more than one culture or ethnicity in a nation (Basekrville, 2003; Lim, 1998). This criticism is very obvious in the context of Malaysia, because Hofstede's (1991, 2001) cultural values on Malaysia did not differentiate the cultural values of the three main ethnic groups in Malaysia; instead, the data were aggregated as one sample (Haniffa and Cooke, 2002; Lim, 1998).

Hofstede (2001) scored Malaysian cultural values very high on power distance, quite low on individualism and uncertainty avoidance, and average on masculinity. To proxy nation as culture is not appropriate in heterogeneous countries like Malaysia because each ethnic group in Malaysia still maintains their own unique identity and cultures (Lim, 1998). The cultural values of the main ethnic groups in Malaysia are discussed in detail in Chapter 4.

3.4.3 The Applicability of Hofstede's Cultural Values to the Present Study

Despite this criticism, Mir et al. (2009) argued that many accounting studies have used Hofstede's cultural values, which indicate that Hofstede's cultural framework is well accepted among researchers. In the context of Malaysia, the Hofstede cultural dimensions have also been used by several researchers (e.g. Haniffa and Cooke, 2002; Lim, 1998), but some modifications were made to distinguish the cultural values of Malays and Malaysian Chinese. Malays and Malaysian Chinese are two dominant ethnic groups that shape the Malaysian business environment, and these two groups have different cultural values (this is discussed in detail in Section 4.2.6). Therefore, it is expected that these two ethnic groups would respond differently to the extent of mandatory disclosure practices in Malaysia. The present study also attempts to use the Hofstede-Gray cultural framework to examine the impact of culture on the extent of compliance with IFRS disclosure requirements in Malaysia; this is further discussed in Chapter 4.

3.5 Evaluation of Theories

While the preceding sections describe how the disclosure theories are relevant in explaining the motives for (non-)compliance with mandatory disclosure, this section evaluates these theories by showing how the theories can be operationalised or linked to the explanatory variables used in the regression analysis. The relevance of the disclosure theories in explaining the explanatory factors used in the present study is summarised in Table 3.1 below. The explanatory variables that the present study attempts to investigate are corporate ownership structure, corporate governance and culture, all of which have been identified in Chapter 2 as under-researched in mandatory disclosure literature.

Besides these three factors, other corporate attributes that have been used in prior mandatory disclosure studies are also tested in the present study as control variables; these include audit firm size, company size, profitability, leverage, liquidity, listing age, international operation and industry.

Table 3.1: Operationalising of Theories into Explanatory Variables

No.	Theory	Basis of (non-)disclosure	Explanatory Variables
1	**Agency Theory**	Deals with the incentives of disclosure arising between managers and owners (shareholders), and between controlling shareholders and non-controlling shareholders, and the mechanisms employed to reduce agency costs	Ownership Concentration; Family Ownership; Government Ownership
			Corporate Governance Mechanisms (board of directors; audit committee)
			Audit Firm Size; Company Size; Profitability; Leverage; Liquidity
2	**Political Cost Theory**	Politically sensitive companies may choose to provide more or less disclosure to reduce political costs	International Operation; Industry; Company Size
3	**Signalling Theory**	Companies provide more disclosure to signal their performance or credibility to serve the liabilities	Audit Firm Size; International Operation; Company Size;
			Profitability; Leverage; Liquidity
4	**Information Cost Theory**	Companies may provide more or less disclosure depending on compliance costs and proprietary costs	Company Size; Listing Age (Compliance Cost)
			Industry; Listing Age (Proprietary Cost)
5	**Capital Need Theory**	Companies provide more information to reduce their cost of capital or to get cheaper financing	Listing Age
6	**Political Economy Theory**	Companies may protect the interests of specific groups (e.g. political connections or cronies) in corporate disclosure	Government Ownership
7	**Stakeholder Theory**	Companies may conform to the demands of powerful stakeholders in corporate disclosure	Government Ownership; Leverage
8	**Legitimacy Theory**	Companies provide more information to conform to societies' expectations.	Government Ownership; Bumiputra-controlled companies;
			Company Size; Listing Age
9	**Cultural Theory**	Culture (e.g. religion and ethnicity) influence corporate disclosure practices	Bumiputra-controlled companies; Chinese-controlled companies

Lambert (2001) argues that agency theory is an important theoretical framework in accounting research because it can address conflict of interest issues, incentive problems and mechanisms used to monitor such problems. In the present study, therefore, agency theory is used to explain the motives or incentives for disclosure relating to corporate ownership structures (ownership concentration, family ownership and government

ownership), corporate governance mechanisms used to reduce agency costs, and other corporate attributes, such as company size, audit firm size, profitability, leverage and liquidity. As shown in Table 3.1, agency theory may be regarded as a 'dominant' theory that can explain most of the explanatory variables used in the regression analysis.

Table 3.1 also shows that some explanatory variables are used as a proxy for several disclosure theories. For example, company size can be a proxy for agency theory, signalling theory, information cost theory, political cost theory and legitimacy theory. Similarly, government ownership is also a proxy for agency theory, political economy theory, stakeholder theory and legitimacy theory. Although several theories can be applied to the same variables, the motive for disclosure from each theoretical perspective is different (Ghazali, 2004). For example, from the agency theory perspective, the motive for disclosure by large companies is to reduce agency costs, but from a legitimacy theory perspective, the motive for large companies for providing extensive disclosure is to gain or maintain legitimacy status. Similarly, the motive for non-disclosure for government ownership from an agency theory perspective is to protect the economic interest of controlling shareholders over non-controlling shareholders; however, a political economy theory perspective explains that the government may have incentives to protect the economic interest of its political allies.

Although legitimacy theory, stakeholder theory and institutional theory are argued to overlap, the motives or target audiences of disclosure could also be different. For example, from a stakeholder theory perspective, the motives for disclosure are to conform to powerful stakeholders' expectations, but from a legitimacy theory perspective, the motive for disclosure is to conform to society's expectation in general, in which the scope of stakeholders is much wider (Deegan, 2004).

Similarly, while legitimacy theory and institutional theory overlap in terms of maintaining legitimacy status (see Section 3.3.4), there also exists a slight difference between these two theories. This is because institutional theory not only considers society's expectation but also considers broader institutional forces that may influence organisational disclosure practices, such as economic development and regulatory factors. Therefore, as argued by Islam and Deegan (2008) and Deegan (2004), system oriented theories must be treated as complementary. A joint consideration of these theories enables empirical studies to provide alternative and richer explanations of particular corporate activities.

Although institutional theory is also discussed in the preceding section as relevant to explain the motives for compliance or non-compliance with mandatory disclosure requirements, it seems that the theory cannot be applied convincingly in the regression analysis because of the unavailability of quantifiable data (e.g. regulatory enforcement). Furthermore, institutional theory is argued to be more suitable in studies using qualitative methods because it focuses on understanding accounting practices (Moll et al., 2006). Since the present study also uses interviews with preparers and auditors to understand why companies did not comply with mandatory disclosure requirements, institutional theory may relevant in explaining the factors highlighted by the interviews.

3.6 Summary

This chapter has discussed several disclosure theories that can be used to explain the motives for (non-)compliance with mandatory disclosure practices. Although agency theory is often argued to be the dominant theoretical framework in accounting research, its limitations (e.g. neglecting other stakeholders, political and societal effects) limit the interpretation of findings. In view of this, the present study uses a combination of theories to explain and understand mandatory disclosure practice; these include economic incentive theories, system oriented theories and cultural theory. These theories not only provide a basis when formulating the hypotheses in Chapter 6, but also help in interpreting the findings of the study.

The next chapter discusses the back ground of Malaysia; these include inter alia the legal systems, capital market, corporate ownership structures and cultures.

CHAPTER 4: THE MALAYSIAN ENVIRONMENT

4.1 Introduction

It is well documented in the accounting literature that environmental or institutional factors influence accounting systems around the world (e.g. Habib, 2007; Adhikari and Tondkar, 1992). As Perera (1989, p.141) notes, "accounting is a product of its environment, and a particular environment is unique to its time and locality".

Therefore the purpose of this chapter is to discuss the attributes of the Malaysian environment in order to understand factors that may influence Malaysian corporate disclosure practices. Additionally, knowledge of the Malaysian environment can provide insights into the applicability of disclosure theories (as discussed in Chapter 3) in explaining the extent of mandatory disclosure by public listed companies in Malaysia.

The remainder of this chapter is organised into three main sections as follows: Section 4.2 discusses the attributes of the Malaysian environment, including an overview of Malaysia's economy, legal system, finance system, capital market development, corporate ownership, political system and culture. Section 4.3 discusses the financial reporting regulatory framework, including the enforcement of accounting standards, audit regulations and the Malaysian Code on Corporate Governance (MCCG) in Sections 4.3.5, 4.3.6 and 4.3.7, respectively. Finally, Section 4.4 summarises and concludes the chapter.

4.2 Attributes of Malaysian Environment

4.2.1 Overview of Malaysian Economy

Malaysia is a developing country with diverse ethnicities, cultures, religions and languages. In 2008, the total population of Malaysia was 27.9 million; its main ethnic groups consisted of Bumiputra[20] (66.4%), Chinese (25%) and Indian (7.5%) (EPU, 2009). Its real gross domestic product (GDP) has grown by an average of 6.5% per annum (Malaysia, 2006). The services sector was the major contributor (58%) to the GDP growth during the Ninth Malaysia Plan (2006-2010) and it is expected to grow by 6.8% per annum (Malaysia, 2010).

The manufacturing sector, which used to be the leading sector in Malaysia in the 1990s,[21] contributed 31.8% of the GDP growth under the Ninth Malaysia Plan. The sector was adversely affected in 2008 by the global recession and it is estimated that it will only grow by 1.3% per annum (Malaysia, 2010). Nevertheless, the manufacturing sector (consumer products and industrial products) is the largest corporate sector in Malaysia, accounting for 44% of the market, followed by the trading/service sector, which accounts for 21% of the market (SC, 2008).

4.2.2 Legal System

Malaysia is categorised as a common law country, basically because it was under British colonialism (Ball et al., 2003; La Porta et al., 1998). Malaysia was under British rule for

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[20] Bumiputra means 'sons of soil', which includes Malays and other indigenous people in Malaysia. However, in academic studies (e.g. Haniffa and Cooke, 2002; Yatim et al., 2006). Bumiputra always refers to Malays because the Malays are the majority and the dominant ethnic group in the Bumiputra cluster.

[21] Before the 1990s the Malaysian economy largely depended on agriculture and commodities (Gomez and Jomo, 1997; Norhisham and Aziz, 2005).

over 80 years before it gained independence in 1957. Therefore, many aspects of Malaysia's structure, including social, political and economic systems, have been influenced by British colonisation (Siwar and Hassan, 2002). Malaysian taxation and accounting systems are also based on the British system (Roubi and Richardson, 1998). The Companies Act 1965, which specifies the corporate law in Malaysia, is also based on the British Companies Act 1948 and the Victoria Companies Act 1961 (Ali et al., 2006).

Common law countries are characterised as market or shareholder oriented countries, where information asymmetry is resolved through public disclosure; in contrast, code law countries are government or stakeholder oriented countries, and information asymmetry is resolved through private channels (Ball et al., 2003). Common law countries are often described as better than code law countries in terms of investor protection, judicial systems and quality of accounting and auditing practices (Jermakowicz and Gornik-Tomaszewski, 2006; La Porta et al., 1998).

Thus, as a common law country, one would expect that Malaysia has high quality financial reporting or more transparent corporate disclosure. Nevertheless, as argued before, the incentives of preparers and auditors have been influenced by many factors. Thus it is also important to consider other institutional factors that may influence preparers' and auditors' incentives towards corporate disclosure in Malaysia.

4.2.3 Capital Market Development

It was argued that the supply and demand of accounting information depends on the nature of the capital market (Soderstrom and Sun, 2007). Firms in well developed capital

markets have greater incentives to provide more information to the public because they rely on equity capital markets to raise their funds (ibid).

In Malaysia, a responsibility to regulate and develop the capital market and to protect investors is authorised to the Securities Commission (SC),[22] whereas dealing with the public trading of shares or securities business in Malaysia is authorised to the Bursa Malaysia Berhad.[23] The capital market in Malaysia is described as less developed, immature, having low liquidity, thin trading, a lack of transparency and disclosure, and an ineffective regulatory framework (Tam and Tan, 2007; Zhuang et al., 2000). It was argued that the underdevelopment of the Malaysian capital market is due to its high ownership concentration, the government's policy and an ineffective regulatory framework which discourages investors from financing firms (Suto, 2003; Zhuang et al., 2000). Given these characteristics, Tam and Tan (2007) argue that the Malaysian capital market fails to act as an effective market mechanism in punishing poorly performing companies. Although the rights of investors are well prescribed in the Companies Act 1965 and the Securities Industry Act 1973,[24] it was argued that the law appears to be adequate on paper only because enforcement has been ineffective (Zhuang et al., 2000). This argument in fact contradicts the characteristics of common law countries where the rights of investors are supposed to be well protected.

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[22] The SC is a statutory body that was established in 1993 under the Securities Commission Act 1993. Source: www.sc.com.my 12/12/2008

[23] Bursa Malaysia was established in 1976 under the Companies Act 1965 as a public company limited by guarantee. It was formerly known as the Kuala Lumpur Stock Exchange (KLSE) before it changed its name to Bursa Malaysia on 14 April 2004 (source: www.bursamalaysia.com.my)

[24] For example, the Companies Act 1965 prescribes the right of minority shareholders to participate and vote in company meetings whereby the 'one share one vote rule' prohibits multiple voting and non-voting ordinary shares (World Bank, 2000). The Securities Industry Act 1973 (amendment in 1983) also provides more protection to investors, such as curbing excessive speculation and insider trading, and prohibiting artificial trading (Liew, 2007).

4.2.4 Corporate Ownership and Finance System

There are three prevalent characteristics of the Malaysian corporate ownership structure that are well documented in the literature. First, corporate ownership is highly concentrated by a single large shareholder (e.g. Zhuang et al., 2000). Second, family-owned companies and state-owned companies are prevalence in corporate sectors (e.g. Tam and Tan, 2007). Third, corporate control can be distinguished along two main ethnic groups, namely Chinese- or Bumiputra-controlled companies (e.g. Che Ahmad et al., 2006). Bumiputras (Malays) have political power, while the Chinese control the economy of the country (Norhashim and Aziz, 2005; Horii, 1991). Thus these two ethnic groups have played a significant role in shaping Malaysia's socio-economic and political environment. These two ethnic groups are discussed further in Sections 4.2.5.1 and 4.2.6.

A survey by Claessens et al. (2000)[25] showed that 67.2% of Malaysian firms in 1996 were family controlled and 85% of them were managed by owner managers or managers who were related to the controlling family; and 13.4% were state-controlled companies. They found that pyramid and cross-holding ownership are common among Malaysian companies, whereby 39.3% and 14.9% of the companies had pyramid and cross-ownership structures, respectively. They also reported that a quarter of the corporate sector in Malaysia is controlled by the largest ten families.

Although Claessens et al. (2000) argued that the concentration of ownership will be diluted with the growth of the economy, Tam and Tan (2007) contended this is not the case in Malaysia. Based on the 150 top listed companies for the year 2000/2001, Tam

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[25] Claessens et al. (2000) examined the separation of ownership and control in nine East Asian countries. Included in the sample were 238 Malaysian listed companies.

and Tan (2007) showed that average ownership concentration in Malaysia was 43.44%, and the concentration of shareholding is highest in state-owned companies.

Given the dominance of family-owned companies in the market, the financing system in Malaysia is characterised by being heavily reliant on debt financing, especially bank loans (Ball et al., 2003; Suto, 2003). It has been said that family companies choose to rely on bank loans rather than external equity funds in order to maintain their ownership control, since the additional issuance of equity will dilute their control of the companies (Zhuang et al., 2000). The dominance of family and state ownership in the Malaysian economy and the importance of banks as capital suppliers in fact resemble the characteristics of code law countries, and contrasts with common law countries' characteristics. High ownership concentration also implies that Type II agency problems might be relevant in the Malaysian context, where agency conflicts arise between controlling and non-controlling shareholders (see Chapter 3). Given these characteristics, it can be argued that corporate disclosures in Malaysia are less transparent although it is a common law country (see Section 4.2.2).

4.2.5 Political System

Accounting literature argues that the extent of political involvement in the economy has a significant impact on financial reporting quality (Bushman and Piotroski, 2006). For example, firms in countries with high government intervention in the economy may have an incentive to hide high profits or limit financial disclosures in order to avoid government expropriation of firms' wealth (Soderstrom and Sun, 2007).

In Malaysia, government intervention in the economy can be seen from the policies implemented by the government and the prevalence of state ownership. Thus it is

important to understand how these policies and government interventions may affect corporate disclosure practices in Malaysia; these are explained in the following sub-sections.

4.2.5.1 New Economic Policy (NEP) and Bumiputra

It is argued that the Malaysian corporate structure and the way business activities are conducted in Malaysia have been significantly influenced by the New Economic Policy (NEP) (Tam and Tan, 2007; Gomez and Jomo, 1999). The NEP has entrenched the intervention of the government in the corporate sector and given rise to state-owned firms and political patronage. The NEP has transformed the country from a *laissez-faire* economy to an interventionist state economy (Gomez, 1999).

As mentioned earlier, Chinese and Indians are among the main ethnic groups in Malaysia, but they are not the local people. They were brought massively from China and India by the British to develop the Malaysian economy, which depended on rubber and tin at the time. They were offered citizenship when Malaysia achieved independence from the British in 1957 (Mutalib, 1990). Since independence, Malaysia has been governed by the Barisan Nasional (National Front), an alliance party representing three main ethnic groups: the United Malay National Organisation (UMNO), the Malayan Indian Congress (MIC) and the Malayan Chinese Organisation (MCA).

It is claimed that the British segregation policy in identifying the three main ethnic groups along economic sectors has resulted in economic disparity among these groups (Ismail, 2000). This is because under the British administration, Malays resided in rural areas involved in agriculture, Indians in the rubber estates and Chinese in urban areas dominant in business; this socio-economic structure remains even after independence

(ibid). Because of the imbalance in socio-economic conditions and much of the economic control being in the hands of the Chinese, the Chinese have been perceived as a political threat to Malays (Freedman, 2001). As a consequence, there was a racial riot between Malays and Chinese in 1969, which led to the implementation of the New Economic Policy (NEP) in 1971 (ibid).

The NEP was introduced by the government with the objectives to eradicate poverty, regardless of ethnicity, and to balance socio-economic conditions among races by restructuring and eliminating racial identification from economic functions (Ismail, 2000). The NEP also aimed to increase Bumiputra equity ownership from 2.4% in 1970 to 30% by 1990 (Norhashim and Aziz, 2005; Gomez, 1999). However, the government believed that the target seemed impossible to achieve by 1990 without assistance from itself, given the lack of exposure and expertise among the Bumiputra entrepreneurs during that time (Jesudason, 1990). Therefore, the government has used state enterprises to accumulate assets on behalf of or for the sake of Bumiputras (Horii, 1991). The government also established state-owned banks to provide loans to Bumiputra entrepreneurs (Jesudason, 1990). The dominance of the UMNO in the alliance party (Barisan Nasional) gave the Malay party powers to pursue policies in favour of Bumiputras (Gomez, 1999).

The NEP, however, failed to achieve the target of 30% Bumiputra equity ownership even after the NEP era (Tam and Tan, 2007).[26] Therefore, the government has committed to pursue the NEP's agenda through its successor policies, i.e. the National Development Policy (1991-2000) and the National Vision Policy (2001-2010) (Malaysia, 2006).

[26] The failure was partly due to the attitude of Bumiputra shareholders, who remain passive in management and try to get quick profits (Gomez, 1999).

Although the NEP managed to bring some improvements in terms of poverty and socio-economic disparity among the races, it was heavily criticised as the policy discriminated against other races by granting more access to Bumiputras in terms of contracts, capital, import permits, scholarship, job allocation and distribution of shares (Norhashim and Aziz, 2005).

4.2.5.2 Government Link Companies (GLCs)

As mentioned earlier, state-owned companies emerged as part of the NEP agenda to upgrade the economic status of Bumiputra. State-owned companies were expanded after the government took over some of the public listed companies following the Asian Financial Crisis in 1997-98 (Nik Ahmad, 2008). The state-owned companies that have a primary commercial objective to the country are known as the government link companies (GLCs). GLCs are defined by Khazanah Nasional Berhad[27] as "companies that have primary commercial objective and in which the Malaysian government has a direct controlling stake". Controlling stake refers to the percentage of equity owned by the government and the government's ability to appoint members of the board of directors and senior management, and make major decisions (e.g. contract awards, strategy, restructuring and financing, acquisitions and divestments) for the GLCs either directly or through government linked investment companies (GLICs)[28]. There are three categories of GLCs: (1) companies that are controlled by the respective state governments and state level agencies; (2) companies that are controlled by the government through its GLICs; and (3) subsidiaries and affiliate companies of GLCs.

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[27] Khazanah Nasional is the investment holding arm of the government of Malaysia. One of its board members is the Prime Minister of Malaysia. (Source: www.khazanah.com.my/faq, date 12/12/2008).

[28] There are seven GLICs, namely Employee Provident Fund (EPF), Khazanah, Lembaga Tabung Angkatan Tentera (LTAT), Lembaga Tabung Haji (LTH), Permodalan Nasional Berhad (PNB), Menteri Kewangan Diperbadankan (MKD) and Kumpulan Wang Persaraan (KWAP).

GLCs play a prominent role in shaping the Malaysian economy (GLCT, 2007). GLCs are involved in key strategic sectors, such as electricity, telecommunications, postal, airlines, transportation and banking and financial services. As of 30 November 2007, the market capitalisation of the 47 top GLCs was RM 361 billion, which accounted for approximately 41% of the total market capitalisation of the Bursa Malaysia (GLCT, 2007). Although the GLCs are listed on the Bursa Malaysia, they are still dependent on the government in terms of market protection and financial support (Amran and Susela, 2008).

In May 2004, the government launched the GLC Transformation (GLCT) Programme as an effort to improve the performance of all the GLCs; the programme is monitored by the Putrajaya Committee on GLC High Performance (PCG)[29]. It was reported that the aggregate earnings of the top 20 GLCs in 2008 was 53% higher than before the GLCT Programme (GLCT, 2009). The top 20 GLCs have also outperformed the Kuala Lumpur Composite Index (KLCI) in terms of total shareholder returns by 4.8% per annum since the implementation of the GLCT Programme. This positive achievement indicates that the GLCT Programme has successfully improved the performance of GLCs.

4.2.6 Culture

4.2.6.1 Overview of Malaysian Culture

As mentioned in Section 4.2.1, Malaysia is a multiracial country that consists of three main ethnic groups, namely Bumiputra (majority Malay), Chinese and Indian, where the Chinese and Indian groups came from China and India during the British administration.

[29] A series of reforms has been introduced in stages which include, among others, the key performance index (KPI) for the senior management and company, performance contracts, board composition reform and GLC leadership change. Source: www.pcg.org.my 12/12/2009

According to Freedman (2001), the Chinese in Malaysia maintain their own Chinese identity and culture and are less acculturated compared to Chinese people in neighbouring countries like Thailand and the Philippines. Further, Chinese and Indians in Malaysia are allowed to maintain their own cultures and traditions; this privilege was stipulated in the Federal of Constitution of 1957 (ibid).

The national language in Malaysia is the Malay language, but English is widely used in business and spoken by Malaysians in urban areas (Mokhlis, 2006). Thus, English is known as a second language in Malaysia (Abdullah and Heng, 2003). Other languages spoken in Malaysia are Chinese languages (e.g. Mandarin, Cantonese), Indian languages and other indigenous languages (e.g. Kadazan and Iban in East Malaysia). Islam is the official religion in Malaysia. The policies of the government have been directed in coherence with the Islamic perspective (Ghosh and Abdad, 1998). Nevertheless, other religions are also widely practiced. The Malays[30] are Muslims, the Chinese are a mixture of Confucianists, Taoists, Buddhists and Christians, and the Indians can be Muslims, Hindus or Christians (Storz, 1999). According to Sendut (1991), religion and moral values are the basis for the cultural identity of various ethnic groups in Malaysia. Though there is more than one belief system in Chinese society, it is believed that Confucianism suffices to demonstrate the core values of the Chinese in Malaysia (Patel et al., 2002; Fan, 2000). Confucianism has largely shaped Chinese interpersonal behaviour and their cultural tradition (Hwang et al., 2009; Fan, 2000).

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[30] The Federal Constitution 1957 defines Malay as Muslim, a Malay speaker and a follower of Malay custom (Freedman, 2001).

4.2.6.2 Cultural Attributes of Malays and Malaysian Chinese

As discussed in Chapter 3, Hofstede's cultural dimensions have been used by many studies to reflect the cultural orientation of a country. However, in the context of Malaysia these were modified to differentiate the cultural values of the main ethnic groups in Malaysia. This section describes the cultural values of Malays (Bumiputras) and Malaysian Chinese as proposed by Lim (1998). The cultural values of these two main ethnic groups are of interest to this present study because of their significant influence in socio-economic activities and political policy in Malaysia (see Section 4.2.5).

Cultural attributes of Malays and Malaysian Chinese as proposed by Lim (1998) were based on the synthesis of several studies that examined the cultural attributes of these two major ethnic groups in Malaysia.[31] Lim (1998) integrates the cultural attributes of Malays and Malaysian Chinese as suggested by these studies with Hofstede's (1984) cultural dimensions. Lim (1998) also claimed that his framework was consistent with the majority of works that he cited in his study. Based on these arguments, Lim's model is used in the present study to describe the cultural attributes of the Malays and Chinese in Malaysia.

According to Lim (1998), although Malays and Malaysian Chinese have some similarities in their cultural attributes, there exist considerable fundamental differences

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[31] Lim (1998) referred to studies by Tamam et al. (1996), Abdullah (1992), Sendut et al. (1990), Ismail (1988) and Ng et al. (1982). The approaches and respondents used by these studies to examine cultural values vary; Sendut et al. (1990) used personal experience and observations and included more coverage of Malaysians, Abdullah's (1992) study was based on observations obtained from managers at management training workshops, Ismail (1988) and Tamam et al. (1996) used a survey approach of Malaysian managers, and both Rahman (1988) and Ng et al. (1982) used a survey of school children and university students, respectively.

between Malays and Malaysian Chinese, which justify their separation into different classifications in research. Lim (1998) proposed that both Malays and Malaysian Chinese share similarities in power distance and collectivism but are fundamentally different in the other three cultural dimensions. The cultural dimensions[32] and cultural attributes of Malays and Malaysian Chinese are described by Lim (1998) as below.

Power Distance – Lim (1998) argued that both Malays and Malaysian Chinese have large power distance because these two groups accept and respect the hierarchical order in societies, although they are different in terms of direction and strength. In Malay society, the hierarchical order of power can be seen from the village headman, the territorial chief and then the Sultan (King), whereas Malaysian Chinese show their respect to the family patriarch, owner and manager of the family business. Although both Malays and Malaysian Chinese possess large power distance values, Ng et al. (1982) demonstrated that Malays have stronger power distance values than the Malaysian Chinese in terms of submission to a hierarchical society and country (Lim, 1998).

Individualism vs. Collectivism – Lim (1998) proposed that Malays and Malaysian Chinese both possess collectivism cultural values, but they differ in content and orientation. Collectivism cultural values of Malays can be seen from their close-knit community in the village, which encourages strong community spirit to help friends, relatives and neighbours, whereas collectivism values in Malaysian Chinese can be observed from mutual cooperation and responsibility within their groups or guilds of the same clan.

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[32] A detailed description of Hofstede's cultural dimensions was discussed earlier in Section 3.8.

Masculinity vs. Femininity – Lim (1998) proposed that Malays are more feminine (relationship oriented) and Malaysian Chinese are more masculine (career success oriented). This is because Malays are described as preferring to get along with others, concerned with dignity and social issues, and disliking violence and materialism. Malaysian Chinese, on the other hand, are described as having a strong motivation to accumulate wealth and achieve high recognition and status.

Uncertainty Avoidance – Lim (1998) argued that this dimension is related to Malaysian Chinese and Malays' religions. Malays are inflexible in uncertainty situations because their religion (Islam) relates to man's belief in absolute truth, thus contributing to high uncertainty avoidance. In contrast, Malaysian Chinese possess low uncertainty avoidance because they can accept the simultaneous practice of religions and teachings (e.g. Confucianism, Buddhism and Taoism) in their life, which implies that they are flexible in uncertainty situations and are also prepared to take risks.

Short or Long Term Orientation (Confucian Dynamism) – Lim (1998) argued that the Malaysian Chinese are more likely to be long term oriented, while Malays are short term oriented. The Chinese are described as having a dynamic, future-oriented mentality, including characteristics such as persistence and thrift, whereas Malays lean towards the past and present, for instance through respect for tradition and face, and fulfilment of social obligations like gift reciprocation.

Lim's model of the attributes of Malays and Malaysian Chinese is summarised in Table 4.1.

Table 4.1: Cultural Attributes of Malays and Malaysian Chinese

Cultural Attributes	Malays	Malaysian Chinese
Power Distance	**High** Stronger societal values, emphasising submission to a hierarchical society	**High** Owe allegiance to family patriarch, owner, manager of family business
Collectivism	**Quite high** Sense of responsibility to help friends, relatives and neighbours through links that are not necessarily business related	**Quite high** Associations and guilds linked with the business community to provide mutual support and assistance
Masculinity	**Low** Less assertive, more relationship oriented	**High** More assertive, success oriented and materialistic
Uncertainty Avoidance	**High** Feel more comfortable in stable situations	**Low** Adapt well to risks and uncertain circumstances
Short/Long Term Orientation	**Short** Respect for tradition and social obligations	**Long** Perseverance and thrift

Source: Adapted from Lim (1998)

Apart from the arguments put forth by Lim (1998) above, collectivism values in Malays' societies have also been influenced by Islamic values. For example, the importance of *shura* (consultations) and accountability to *ummah* (society) in Islam inculcates a sense of responsibility towards society, thus contributing to collectivism values in Malay society (Sulaiman and Willet, 2003; Baydoun and Willet, 2000). Furthermore, the concept of zakat (tax) in Islam, which provides a mechanism for the rich to help the poor, also promotes collectivism values in Malay societies (Abdul Rahman and Mohamed Ali, 2006). As for the Chinese, the importance of *guanxi* or social networking in Chinese society contributes to their collectivism value (Fan, 2000). *Guanxi* prescribes

implicit mutual obligation, assurance, trust and understanding among members, whereby the failure to meet their *guanxi* responsibilities will result in damaged prestige, loss of face and loss of trust by other members of society (Hwang et al., 2009).

Although the Malaysian Chinese exhibit collectivism values, Haniffa (1999) argued that they can be more individualistic at a national level because they are not local people that would work for the glory of the country. This means that collectivism values of Malaysian Chinese are restricted to the Chinese society, family or *guanxi* networking. Furthermore, discrimination by the government through NEP (refer to Section 4.2.5.1) would also contribute to individualism values in Malaysian Chinese society at a national level. Similarly, although the Malaysian Chinese respect to hierarchical order, Abdullah and Lim (2001) and Haniffa (1999) argued that their practice of hierarchy is less compared to the Malays. This is because the Malaysian Chinese emphasise diligence and thriftiness whereas the Malays main concern are status and respect for elders. Therefore it can be suggested that at the national level, the Malaysian Chinese are more individualistic and possessing lower power distance values than the Malays.

The above arguments show that, although Malays and Malaysian Chinese have similarities in the cultural dimensions of power distance and collectivism, they are still different in terms of content, direction and strength, and totally different in the other three cultural dimensions. This implies that the Hofstede-Gray cultural framework is applicable to examine the influence of culture on the extent of compliance with IFRS disclosure requirements by Malaysian public listed companies. The Hofstede-Gray cultural framework in the Malaysian context is discussed again in the hypotheses development chapter (Chapter 6).

4.3 Financial Reporting Regulatory Framework

4.3.1 Overview of Malaysia's Financial Reporting

Public listed companies in Malaysia are subject to various guidelines and requirements imposed by the government. For instance, they need to comply with the approved accounting standards, Companies Act 1965, Securities Commission's guidelines, Bursa's listing requirement and Income Tax Act 1967 (Tan, 2000). Before the establishment of the Malaysian Accounting Standards Board (MASB) in 1997, the issuance of accounting standards rested with the two local accounting professional bodies, namely the Malaysian Institute of Certified Public Accountants (MICPA) and the Malaysian Institute of Accountants (MIA) (Susela, 1999). Malaysia started adopting International Accounting Standards (IAS) in 1978 when the MICPA was admitted as a member of the International Accounting Standards Committee (IASC) in the same year (Tan, 2000). The MICPA and MIA continued to adopt IAS and issued Malaysian Accounting Standards (MAS) until the establishment of the MASB (ibid). Although the MICPA and MIA were responsible for the issuance of accounting standards in Malaysia, they did not have any authority to enforce compliance with the accounting standards. Moreover, before 1998, the requirement to comply with accounting standards was not stipulated in the Companies Act 1965. Therefore, it was noted that the level of compliance with accounting standards during this period was very low because there was no regulatory enforcement (Muhamad Sori and Kabhari, 2005).

Malaysia had its first formal financial reporting framework when the Financial Reporting Act 1997 (FRA 1997) was passed in July 1997 (Susela, 1999). Two bodies were established under the FRA 1997, namely the Financial Reporting Foundation (FRF) and

the Malaysian Accounting Standards Board (MASB). The function of the FRF is basically to act as an oversight body of operations, activities and performance of the MASB, whereas the main function of the MASB is to issue legally binding accounting standards.[33] The accounting standards issued by the MASB are recognised as approved accounting standards.[34] The adoption of the MASB standards was effective for financial periods commencing on or after 1 July 1999 (Tan, 2000). Under this reporting framework, the accounting standards are mandated by law and the enforcement of the standards were entrusted to the three regulatory agencies, namely the Securities Commission (SC), the Central Bank of Malaysia (Bank Negara) and the Companies Commission of Malaysia (CCM). The enforcement of compliance with accounting standards was clearly given under the FRA 1997, as follows:

> "Financial statements are required to be prepared or lodged under the law administered by the Securities Commission, the Central Bank or the Registrar of Companies. Such financial statements shall be deemed not to have complied with the requirement of such laws unless they have been prepared and kept in accordance with approved accounting standards." (Para, 26D)

Accordingly, the Companies Act 1965 was also amended in September 1998, requiring all companies incorporated in Malaysia to comply with the approved accounting standards. It is claimed that Malaysia's statutory framework for accounting standard-setting and compliance was the first in Asia (SC, 2003).

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[33] Source: www.masb.org.my 12/12/2008

[34] The approved accounting standards are defined in the FRA 1997 as accounting standards which are issued or adopted by the MASB.

4.3.2 Provisions of Compliance with Accounting Standards

The Companies Act 1965 (CA 1965) stipulated reporting requirements, rules and regulations for accounting and financial reporting in Malaysia (Tan, 2000). All companies incorporated in Malaysia are required to comply with the Ninth Schedule of the CA 1965, which specifies that financial statements should consist of a profit and loss account, a balance sheet, a statement of source and application of funds, and the notes to the accounts. A new section, i.e. 166A, was introduced with the amendment of CA 1965 in 1998 to deal with the compliance with the approved accounting standards.

The CA 1965 requires directors to ensure that their company's accounts are prepared in accordance with the approved accounting standards.[35] Although compliance with accounting standards is emphasised, the Act also provides relief for directors not complying with the accounting standards if they believe that compliance would not give a 'true and fair view' of the results of the business and the state of affairs of the company or group.[36] This is commonly referred to as 'true and fair view override of approved accounting standards' (Tan, 2000). In this case, the directors are required by the Act[37] to disclose by way of a note the following information: (1) the reasons for non-compliance with approved accounting standards; and (2) the particulars of the quantified effect on the accounts or consolidated accounts if the relevant approved accounting standards had been complied with.

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[35] Subsection 166A (3) of CA 1965
[36] Subsection 166A (4) of CA 1965
[37] Subsection 166A (5) of CA 1965

4.3.3 The Malaysian Accounting Standards Board (MASB)

As mentioned earlier, the MASB was established under the FRA 1997 as an independent authority with the main objectives of developing and issuing accounting standards in Malaysia. Nevertheless, the power to enforce compliance with the standards has not been conferred upon the MASB. Effective 1 January 2006, a two-tier financial reporting framework was introduced for Malaysian companies.

The two-tier financial reporting framework consists of two different sets of approved accounting standards, namely Financial Reporting Standards (FRS) and Private Entity Reporting Standards (PERS). FRS are applicable for companies other than private entity companies, such as public listed companies, their subsidiaries or associates, whereas PERS apply to private entities.[38] This is because the MASB believes that compliance with IFRS might be a burden to small and medium private entities (MASB, 2006). Nevertheless, private entities have been given an option by the MASB either to comply entirely with FRS or PERS (ibid).

4.3.4 Enforcement of Accounting Standards in Malaysia

As mentioned earlier, compliance with Malaysia's approved accounting standards is mandated by law and the enforcement of the standards is within the jurisdiction of each of the three regulatory bodies specified under FRA 1997, namely the Securities Commission (SC), the Companies Commission of Malaysia (CCM) and Central Bank of Malaysia.

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[38] Private entities are defined as private companies incorporated under the Companies Act 1965 that are not required to prepare or lodge any financial statements under any law administered by the Securities Commission or Central Bank, and they are not a subsidiary or associate of or jointly controlled by public listed companies. (www.masb.org.my 12/12/2008).

(a) Securities Commission (SC)

The monitoring of compliance with the approved accounting standards is undertaken by the SC through the formation of the Financial Reporting and Compliance Surveillance Department (FRSC) in 1998 (SC, 2001). The findings of the FRSC are published on the SC website with the objective to educate and create awareness among public listed companies to comply with the approved accounting standards (SC, 2001).[39] Under the Securities Industry (Compliance with Approved Accounting Standards) Regulation 1999 of the Securities Industry Act (SIA) 1983, which took effect on 18 June 1999, the SC has been given broad powers to direct the company, its director or chief executive to take the necessary rectifying actions, or to make the necessary announcements with regard to the non-compliance or rectification required. The Director or Chief Executive Officer of companies can also be fined up to RM 1 million or given up to five years' imprisonment, or both, if committing such offence (Abdul Kadir, 2002).

A review of the convicted cases published by the SC from 2002 to 2009 showed that only five cases were convicted of a breach of accounting standards, where the companies were reprimanded and directed to rectify and reissue the respective financial statements. The companies were also required to make an announcement to the Bursa Malaysia with respect to the rectification and reissuance of financial statements. From the published cases, neither the directors nor auditors were penalised because of non-compliance with accounting standards. It is found that the directors and/or CEOs were only penalised in cases of fraud or false financial statements, i.e. specifically related to false revenue in

[39] Facts of convicted cases, name of companies and directors involved in the cases were also disclosed on the SC webpage.

financial statements, where they were convicted under section 122B (a) of SIA (1993). The statistics of convicted cases is shown in Table 4.2.

The formation of the FRSC department by the SC in fact mirrors the role of the Financial Reporting Review Panel (FRRP) in the UK. While it was argued that the FRRP has made a significant impact on the quality of financial reporting and auditor independence in the UK (Jupe, 1999; Fearnley et al., 2002), the impact of the FRSC on financial reporting quality in Malaysia has never been examined. Moreover, few convicted cases with respect to non-compliance with FRS, as mentioned above, may either imply the level of compliance with FRS in Malaysia is high, or that monitoring of compliance with FRS is not prioritised by the SC, which also means that there was lack of enforcement of compliance with accounting standards. This implies that the present study is important to provide evidence of whether the FRSC or SC has played a role in curbing non-compliance with IFRS in Malaysia.

Table 4.2: List of Convicted Cases Relating to Fraud or Misleading Financial Statements

Year	Company	Facts of Convicted Cases	Actions Taken
2009	Polymate Holdings Bhd	Fictitious sales of RM227.7 million in 2003 financial statements.	Managing Director was compounded RM300,000.
2009	MEMS Technology Bhd	Financial statements for FYE 2007 and 2008 did not comply with FRS118-Revenue; later it was discovered that there were fictitious sales of RM30.17 million in the financial statements.	To rectify and reissue financial statements FYE2007 and 2008 and, later in 2010, the director and CFO of the company were compounded RM300,000 each for fictitious sales.
2008	United-U Li Corp. Bhd	Inflated profit before tax in 2004 Financial Statements.	External auditor (engagement partner) was charged and released on bail of RM100,000, and his international passport was surrendered to the court; the Managing Director of the company was compounded RM200,000.
2008	Welli Multi Corporation Bhd	Fictitious revenue figures in 2005 and 2006 financial statements.	CEO was charged RM100,000 for authorising the financial statements; two executive directors were compounded RM400,000 each and the company was delisted in 2009.
2007	Nasioncom Holdings Bhd	Fictitious revenue amounting to RM143.1 million in 2005 financial statements.	The company was reprimanded and made to rectify and reissue 2005 financial statements. Two directors were charged.
2007	GP Ocean	Submitted misleading information in Listing Proposal with respect to overstated revenue of RM322.8 million.	Four directors were charged with an offence. The court granted a bail of RM500,000, each with one surety. The CEO was later compounded RM700,000.
2007	Talam Corp. Bhd	Misleading information relating to reclassification of RM90 million debtor in 2006 and 2007 financial statements - the company is considered as breaching FRS101-Presentation of Financial Statements	The company was made to rectify and reissue 2006 and 2007 financial statements.
2007	Transmile Bhd	Fictitious revenue of RM300 million in 2006 financial statements.	Two directors were compounded of RM500,000 each.
2007	Megan Media Holdings Bhd	Fictitious revenue amounting to RM1.81 billion in 2006 financial statements.	The Financial Controller was compounded RM350,000 and two executive directors were charged for criminal offences.
2007	Chin Foh Bhd	Fictitious turnover and profits in 2000 financial statements.	The Managing Director was compounded RM1 million and the Executive Director was compounded RM300,000.
2006	Hospitech Resourced Bhd	False sales in 2002 financial statements.	The Managing Director was compounded RM500,000.

2005	Oilcorp Bhd	Breach of FRS108 and FRS133 in 2004 financial statements.	The company was reprimanded and made to rectify and reissue the financial statements.
2005	Goh Ban Huat Bhd	Breach of FRS127-Consolidated Financial Statements and Investment in subsidiaries in 2004 quarterly financial report.	The company was reprimanded and made to rectify and reissue the financial statements.
2005	Aktif Lifestyle Corp. Bhd	Breach of FRS122-Business combination in 2004 financial statements.	The company was reprimanded and made to rectify and reissue the financial statements.
2003	Pilecon Engineering Bhd	Providing misleading information relating to the warrants.	The executive chairman was compounded RM1 million.
2003	Chase Perdana Bhd	Providing false information to the SC (i.e. the executive chairman claimed he did not hold any shares in the company).	The executive chairman was compounded RM1 million.
2002	Sinmah Resources Bhd	Provided false and misleading information on the prospectus.	The director was compounded RM150,000.

Notes:
Grey colour - convicted cases for non-compliance with accounting standards.
Source: www.sc.com.my; Accessed date: 12/12/2010

(b) Companies Commission of Malaysia (CCM)

The CCM is a statutory body responsible for regulating all companies incorporated under the Companies Act 1965. The CCM emerged from a merger between the Registrar of Companies (ROC) and the Registrar of Business (ROB) on 16 April 2002.[40] The monitoring of compliance with the approved accounting standards was assigned to the Corporate Account Monitoring Section of the CCM. If companies do not comply with the approved accounting standards, they are considered to have violated the Companies Act 1965. Therefore, the directors of companies that fail to comply with such requirements will be charged a penalty and/or imprisoned for five years or a fine of RM 30,000.[41]

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[40] Source: www.ssm.com.my 12/12/2008
[41] Section 171 of Companies Act 1965

4.3.5 Professional Accountancy Bodies

There are two local professional accountancy bodies in Malaysia, namely the Malaysian Institute of Certified Public Accountants (MICPA) and the Malaysian Institute of Accountants (MIA). Though the enforcement of accounting standards is not legally entrusted to these two accountancy bodies, they have the power to enforce their members to comply with the approved accounting standards. The following sections describe the background of these two local accountancy bodies and the mechanisms they use to monitor their members' compliance with the approved accounting standards.

4.3.5.1 Malaysian Institute of Certified Public Accountants (MICPA)

The Malaysian Institute of Certified Public Accountants (MICPA)[42] is the earliest accounting professional body in Malaysia before the formation of the MIA. It was established in 1958 under the Companies Ordinance Act 1940-1946 to promote the status and interest of the accountancy profession in Malaysia. To become a member of the MICPA, a person must have at least three years' working experience in the accounting field and have passed the professional examination conducted by the MICPA.

The MICPA formed the Financial Statement Review Committee (FSRC) to conduct regular reviews of financial statements prepared by its members to ensure that their members comply with the accounting standards (MICPA, 2003). In the review process, financial statements are selected randomly by the committee or based on reference by a person to the committee. Disciplinary action against the member will be taken in cases of

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[42] Formerly known as the Malayan Association of Certified Public Accountants and became the Malaysian Association of Certified Public Accountants (MACPA) in July 1964. The name was changed to the Malaysian Institute of Certified Public Accountants (MICPA) in January 2002. Source: www.micpa.com.my 12/12/2008

severe non-compliance (ibid). MICPA members are required to complete at least 120 hours of relevant Continuing Professional Development (CPD) activity in each three-year period, of which 60 hours must be verifiable.[43]

4.3.5.2 Malaysian Institute of Accountants (MIA)

The Malaysian Institute of Accountants (MIA) was established under the Accountants Act 1967 as a statutory body to regulate and develop the accountancy profession in Malaysia.[44] In Malaysia, the word 'accountant' is protected under the Accountants Act 1967 (section 22 and 23), where the Act strictly prohibits non-members of the MIA from referring to themselves or using the designation of 'accountant'. Therefore, employers in Malaysia are encouraged to employ only MIA members for the post of accountant (MIA, 2008). There are three routes to becoming a member of the MIA: (1) local accounting graduates from recognised institutions[45] are required to satisfactorily complete three years' working experience in the accounting field before they can be accepted as a member; (2) direct membership into the MIA is granted for those who possess such overseas professional qualifications such as ACCA, CIMA, ICAEW and ICAS; and (3) for those who are not eligible by either route specified above, must pass a Qualifying Examination conducted by the MIA and have at least three years' working experience in the accounting field before they can be admitted as a member.

The MIA also imposed a mandatory requirement for all its members to obtain a minimum number of Continuing Professional Education (CPE) each year so that the

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[43]MICPA's CPD programme is aligned with the IFAC guidelines. Source: www.micpa.org.com.my/micpamember 16/12/2008

[44] Source: www.mia.org.my 16/12/2008

[45] Recognised institutions are local tertiary institutions recognised by the MIA where the list of these institutions is specified in Part I of the First Schedule of the Accountants Act 1967.

members will keep up-to-date with the latest developments and changes affecting the accountancy profession. To align themselves with the International Federation of Accountants (IFAC) guidelines, MIA members are required to complete at least 60 CPE credit hours of structured and verifiable learning and 60 CPE credit hours of unstructured learning for each CPE cycle of three consecutive calendar years.[46]

Similar with the MICPA, the MIA has also formed the Financial Statement Review Committee (FSRC) to monitor the quality of financial statements that are prepared by the members of the MIA.[47] The review process is also based on random sampling and cases that were referred by the Investigation Committee of the MIA, the Securities Commission, the Bursa Malaysia and the Central Bank of Malaysia. Beginning in 2007 the MIA stressed that cases referred by the regulators will be prioritised for review (MIA, 2007). The common findings of non-compliance with statutory requirements and the approved of accounting standards from the review are published on the MIA's webpage and also in the MIA's magazine 'Accountants Today'. Although common mistakes have been disclosed in the report, the names of companies, directors and auditors convicted of non-compliance with accounting standards are not disclosed by the MIA.

In 2007 the MIA introduced three types of penalty tariffs to deal with non-compliance with the approved accounting standards (MIA, 2007). The first category applies to minimal non-compliance issues (e.g. housekeeping issues), where the minimum action will be taken against the members, such as requiring them to tidy up their financial statements. The second category applies if there are substantial instances of non-

[46] Source: www.mia.org.mia/new/education_continuing 16/12/2008
[47] Source: www.mia.org.mia 16/12/2008

compliance with disclosure requirements of the approved accounting standards. Several actions can be taken against members in this category: (1) members are required to take the necessary corrective action; (2) members are given a warning letter; and/or (3) the company's financial statements are placed under surveillance by the FRSC for up to two consecutive years. The third category involves major non-compliance with the requirements of the approved accounting standards. Under this category, members would be referred to the Investigation Committee of MIA or other regulatory bodies for appropriate action or giving a warning letter or reprimanded. The company's financial statements could be put under surveillance by the FSRC for up to four consecutive years.

To encourage better compliance with FRSs, the MIA also established the Financial Reporting Standards Implementation Committee (FRSIC) in January 2007 to assist preparers and auditors in the implementation of IFRS (MIA, 2008).

4.3.6 Audit Regulation

All accounting professionals in Malaysia, including auditors, are under the regulation of the Accountants Act 1967. The qualifications, roles and duties of auditors are specified under the Companies Act (CA) 1965. The CA 1965 specifies that to become a company auditor (licensed auditor), a person must have adequate experience in audit work and must be approved by the Ministry of Finance.[48] It is important to note that only a member of MIA with 'chartered accountant' and has attended the 'Public Practice Programme' organised by the MIA can apply for an audit licence from the Department

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[48] Section 8 of the CA 1965

of Accountants General Malaysia.[49] Auditors are required to follow the Malaysian Approved Standards on Auditing (MASA) issued by the MIA, which are in all material respects similar to the international standards issued by the International Federation of Accountants (IFAC).[50] They must also abide by the MIA's rules of professional conduct and ethics, namely the MIA By-Laws (on Professional Conduct and Ethics). The CA 1965[51] and the Capital Markets and Services Act 2007[52] also impose mandatory duties to auditors to report to the Companies Commission of Malaysia (CCM) and the Securities Commission (SC) if they discover a serious offence, such as a breach of laws or rules that adversely affect the financial position of the company during the course of an audit.

To enhance the audit quality and to assist the SC in overseeing auditors, the Audit Oversight Board (AOB) was established under the Securities Commission Amendment Act 2010 which became effective on 1 April 2010.[53] Among the functions of the AOB are to register auditors of public interest entities (PIE),[54] to conduct inspections and monitor programmes of registered auditors, to assess the degree of compliance with auditing and ethical standards and to conduct inquiries and impose appropriate actions against registered auditors who fail to comply with the standards. The AOB mirrors the

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[49] Source: Department of Accountants General Malaysia 'What are the requirements to be a Company Auditor'. Available: www.anm.gov.my 16/12/2010

[50] MASA is based on the International Standards Quality Control, International Standards on Auditing, International Auditing Practice Statements, International Standards on Review Engagements, International Standards on Assurance Engagements and International Standards on Related Services of the International Auditing and Assurance Standards Board published by the IFAC. Source: www.mia.org.mia/handbook/guide 15/12/2009

[51] Section 174 (8A) of the CA 1965 (Amendment Act 2007)- effective 15 August 2007

[52] Section 320 and 321 of the Capital Markets and Services Act 2007 (whistle blowing)

[53] Audit Oversight Board. Source: www.sc.com.my/faq 16/12/2010

[54] PIEs include all public listed companies in Malaysia, licensed banking institutions, licensed insurance companies, registered takaful operators, licensed Islamic banks, prescribed development financial institutions and holders of a Capital Market and Services License who carry on the business of dealing in securities, trading in futures contracts and fund management.

regulations in other developed countries, like the Public Company Accounting Oversight Board (PCAOB) in the US and the Professional Oversight Board (POB) in the UK.

There is no regulation for mandatory audit firm rotation in Malaysia. However, audit firms are required by the MIA to rotate the audit engagement partner every five years, which became effective on 1 July 2004.[55] In Malaysia, the International Standards on Auditing 700 (ISA 700) issued by the International Federation of Accountants (IFAC),[56] have been used as guidance for the issuance of an auditor's report.

4.3.7 Malaysian Code on Corporate Governance

In Malaysia, corporate governance practices had already been in place since 1987 when public listed companies began to be required to appoint independent directors to their boards and to establish an audit committee in 1993 (Ngee, 2007). However, the Asian Financial Crisis 1997/98 prompted reforms in corporate governance in Malaysia as it is believed that the crisis was partly due to the weakness of corporate governance in the country (Zhuang et al., 2000; Claessens et al., 1999b). Therefore, in March 1998 the government established a High Level Finance Committee on Corporate Governance (HLFC) to identify the weaknesses in the existing governance and to set the best practices for good governance (Liew, 2007; Abdullah, 2004). At the same time, the government also formed the Malaysian Institute of Corporate Governance (MICG) to deal with corporate governance issues in Malaysia and to promote awareness of corporate governance principles to all corporate participants and investors (Liew, 2007).

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[55] The requirement of the engagement partner rotation is specified in the MIA By-Laws. Available from: www.mia.org.mia/handbook/bylaws 16/12/2010.
[56] ISA 700 is downloadable from the MIA website: www.mia.org.my. 21/12/2009

The Malaysian Code on Corporate Governance (MCCG) was introduced in March 2000 following the recommendations report issued by the High Level Finance Committee (Muhamad Sori and Karbhari, 2005). The MCCG was developed based on the UK's Cadbury Code and Hampel report (Mat Zain and Subramanian, 2007). The Bursa's Listing Requirement requires public listed companies with financial years ending 30 June 2001 and onwards to declare the extent to which they had complied with the MCCG and to explain the rationale for any departure from the MCCG's best practices (Liew, 2007).

4.4 Summary and Conclusions

This chapter has provided some background of the Malaysian environment and the financial reporting regulatory framework in the country. This will help in understanding the corporate disclosure practices and the applicability of disclosure theories in the Malaysian context, and accordingly will assist in the development of hypotheses in Chapter 6. This chapter also highlighted the contentious issues that motivate the present study's investigation, and why the present study is important to carry out. The issues discussed in this chapter can be summed up as follows:

First, as a common law country, Malaysia is supposed to have a high quality of financial reporting, similar to other common law countries, like the UK and the US. All the financial reporting rules and regulations and investors' protections are clearly prescribed in the Acts. Malaysian accounting and auditing standards are based on international standards. The accounting profession in Malaysia is also regulated based on the IFAC's requirements. Compliance with accounting standards has been mandated by laws, and the enforcement of accounting standards is entrusted to the SC, the CCM and the Central

Bank. Additionally, the local accounting bodies (MIA and MICPA) have monitored compliance with accounting standards through their committee review (FSRC). Given these well defined laws and regulatory framework, it could be expected that the level of transparency or compliance with IFRS disclosure requirements is high in Malaysia.

Nevertheless, Malaysian financial reporting has been criticised as being of low quality because of other Malaysian institutional structures resemble code law countries, such as the dominance of family ownership, state ownership, the insider financial system (Ball et al., 2003). Furthermore, prior studies (e.g. Tam and Tan, 2007; Liew, 2007; Zhuang et al., 2000; La Porta et al., 1998) also highlight that the corporate governance mechanisms and the enforcement of laws are ineffective in Malaysia although they are well specified in the Companies Act 1965, Bursa Listing Requirements and Securities Industry Act 1973. These contentious arguments therefore have motivated the present study to examine the quality of financial reporting in Malaysia by examining the extent of compliance with IFRS disclosure requirements by public listed companies in Malaysia. The above arguments also imply that institutional theory (see chapter 3) is relevant to explain the extent of compliance with IFRS disclosure requirements in Malaysia.

Second, highly concentrated ownership in the hands of families and the government are prevalent in Malaysia. Although concentration of ownership alleviates the agency problem between managers and owners, it contributes to the second type of agency problem (Type II), i.e. the conflict between controlling shareholders and non-controlling shareholders. Therefore, it is likely that controlling shareholders may pursue their own interests at the expense of non-controlling shareholders by hiding certain information in annual reports. Moreover, banks, as the main capital providers for family firms, can easily access private information, thereby reducing the incentives for family firms to

provide more information in their annual reports. In this case, the agency theory (Type II) as discussed in Chapter 3 might be relevant to explain the extent of corporate disclosure in family firms.

Similarly, the Type II agency problem is more relevant than the Type I agency problem for state-owned companies because the management of companies has been closely monitored by the government and the government can easily access inside information. Nevertheless, it is less clear whether state-owned companies will disclose more or less information in their annual reports because of the involvement of political agendas, the government's economic interest and its accountability to the public (see Section 4.2.5). Thus, apart from the agency theory, political economy theory, stakeholder theory and legitimacy theory might also be relevant to explain corporate disclosure practice by state-owned companies in Malaysia.

Third, the Chinese and Bumiputras (Malays) are two dominant ethnic groups that control the Malaysian economy. Since these two ethnic groups have different societal values, it is expected that the level of compliance with IFRS is different between Chinese- and Bumiputra-controlled companies. Thus, Hofstede-Gray's cultural theory could be relevant to explain the extent of corporate disclosure by these two groups of companies.

The next chapter discusses the research objectives and research methods of this study.

CHAPTER 5: RESEARCH OBJECTIVES AND METHODS

5.1 Introduction

This chapter discusses the research objectives of this study and the research methods used to achieve the stated objectives. It begins with Section 5.2, which outlines the research objectives, followed with the research paradigm adopted in the study in Section 5.3. Section 5.4 explains the research method for the quantitative part of study, which includes the selection of sampled companies, the development of the disclosure checklist, the validity and reliability tests for the disclosure checklist and the statistical analysis that was conducted. Section 5.5 discusses the interview method, which includes the selection of interviewees, the types of interviews employed, analysis of interview data and issues relating to ethical issues and validity and reliability in the interview. Finally, Section 5.6 summarises the chapter.

5.2 Research Objectives

As mentioned in Chapter 4, compliance with accounting standards in Malaysia is mandated by law, and the task of monitoring has been assigned to the SC and CCM. Additionally, the MIA, as a regulatory body for the accounting profession in Malaysia, has also implemented self-regulatory enforcement to ensure that MIA members comply with IFRS. Further, the Bursa Listing Requirements also require all public listed companies to adopt good corporate governance practices that were also prescribed in the Malaysian Code of Corporate Governance (MCCG). Despite this well-prescribed regulatory framework, prior studies (e.g. Liew, 2007) argued that regulation enforcement in Malaysia is ineffective. This contentious argument therefore has motivated the present

study to examine the effectiveness of present regulatory framework in the context of mandatory disclosure. The first research objective of this study is stated as follows.

(1) To ascertain whether present regulatory enforcement is effective in curbing non-compliance with IFRS disclosure requirements in Malaysia.

To achieve this objective, the following research questions need to be answered.

a) *What is the extent of compliance with IFRS disclosure requirements by public listed companies in Malaysia?*
b) *How do the enforcement agencies perceive and monitor compliance with IFRS in Malaysia?*

To answer research question (a), annual reports of public listed companies are examined against a self-developed disclosure checklist, whereas for research question (b), interviews with regulatory agencies are conducted. These methods are discussed at length in Sections 5.4 and 5.5 in this chapter.

The second research objective of this study was derived from the gaps identified in mandatory disclosure literature (see Chapter 2), where it was found that the impact of culture, ownership structure and corporate governance mechanisms on the extent of mandatory disclosure are still under-researched both in mandatory disclosure literature and in the context of Malaysia. Therefore, the second research objective is stated as follows.

(2) To determine whether culture, ownership structure and corporate governance mechanisms have a significant impact on the extent of compliance with IFRS disclosure requirements in Malaysia.

The research questions for this objective are formulated as follows:

a) *Is there any significant association between corporate ownership structures and the extent of compliance with IFRS disclosure requirements?*
b) *Is there any significant association between corporate governance attributes and the extent of compliance with IFRS disclosure requirements?*
c) *Is there any significant association between culture and the extent of compliance with IFRS disclosure requirements?*
d) *Is there any significant difference in compliance scores between Bumiputra-controlled and Chinese-controlled companies?*

To answer these research questions, both univariate and multivariate regression analyses were used. These regression analyses are discussed in detail in Section 5.4.5. Explanatory variables used in the analyses are extracted from the annual reports of 225 Malaysian listed companies.

Chapter 2 has also identified that factors of non-compliance from the perspectives of preparers and auditors have never been explored in mandatory disclosure study, except by Tai et al. (1990), who studied this in Hong Kong companies.

Therefore, the third research objective is to fill this gap, and it is stated as follows.

(3) To identify factors of (non-) compliance with IFRS from the perspectives of preparers and auditors in Malaysia.

The following research questions were addressed to achieve this objective.

(a) How do preparers and auditors view the convergence with IFRS?

(b) *What are the problems faced by preparers and auditors to fully comply with IFRS disclosure requirements?*

(c) *Which accounting standards are problematic for preparers to comply with, and why do they face such a problem?*

To answer these research questions, semi-structured interviews with preparers and auditors were conducted, and interview data were analysed manually and using NVIVO software; these are discussed at length in Section 5.5.4.

Another gap highlighted in the literature review (see Chapter 2) was the issuance of unqualified audit reports despite non-compliance with IFRS disclosure requirements. Therefore, it is the objective of the present study to explore the issue, and the research objective is stated as follows.

(4) To explore the reasons why unqualified audit reports were issued despite non-compliance with IFRS disclosure requirements.

To achieve this objective, interviews with auditors were conducted and the following research questions were addressed:

a) *Does non-compliance with IFRS disclosure requirements warrant a qualified opinion?*

b) *In what circumstances were qualified audit opinions issued?*

Apart from auditors, preparers and regulators were also interviewed, where their views regarding the qualification of audit reports were sought to further understand the issue in the context of Malaysia. The interview data were also analysed manually and using NVIVO software.

The research paradigm employed in this study is discussed next.

5.3 Research Paradigm

Understanding the philosophical assumptions, or research paradigm, is important because it guides researchers to identify which research design is appropriate to achieve the research objectives (Easterby-Smith et al., 1994). Creswell and Plano Clark (2007) identified four research paradigms commonly adopted by researchers: (1) postpositivism; (2) constructivism; (3) advocacy and participatory; and (4) pragmatism. These four research paradigms can be briefly described as follows: (1) postpositivism is related to a quantitative approach and normally involves empirical observation or testing of theories; (2) constructivism is related to a qualitative approach and normally involves understanding phenomenon or generating theories; (3) advocacy and participatory is also related to a qualitative approach but its main concerns are political factors and the better social world; and (4) pragmatism is related to mixed methods research, which combines both quantitative and qualitative approaches to address research problems. Unlike other paradigms, pragmatism puts more emphasis on the importance of research problems than the philosophical worldview that underlies the world; thus it allows multiple methods to address research problems (Creswell and Plano Clark, 2007). The differences and implications for practices of these four research paradigms are summarised in Table 5.1.

This study adopts the pragmatism paradigm, where mixed methods research is used to achieve the research objectives outlined in Section 5.2. Mixed methods research was chosen because it can provide a more complete picture or better understanding of research problems than any single approach (ibid). As argued by Creswell and Plano Clark (2007, p.9), “one type of evidence may not tell the complete story”, as each

quantitative and qualitative method has its own strengths and weaknesses; thus the combination of methods can be regarded as complementary. Furthermore, a combination of two research methods, which is described by Arksey and Knight (2007) and Jick (1979) as a 'triangulation technique', can enhance confidence in the results.

This study involves a two-phase mixed methods design; it begins with the collection and analysis of quantitative data and is followed by a qualitative approach (interview). This sequential research approach is employed because it will assist the researcher to gather views of participants in terms of the interpretation of quantitative findings.

Table 5.1: The Differences of Four Research Paradigms (Worldviews)

Worldview Element	Postpositivism	Constructivism	Advocacy and Participatory	Pragmatism
Ontology (What is the nature of reality?)	Singular reality (e.g. researchers reject or fail to reject hypotheses)	Multiple realities (e.g. researchers provide quotes to illustrate different perspectives)	Political reality (e.g. findings are negotiated with participants)	Singular and multiple realities (e.g. researchers test hypotheses and provide multiple perspectives)
Epistemology (What is the relationship between the researcher and that being researched?)	Distance and impartiality (e.g. researchers objectively collect data on instruments)	Closeness (e.g. researchers visit participants at their sites to collect data)	Collaboration (e.g. researchers actively involve participants as collaborators)	Practicality (e.g. researchers collect data by "what works" to address research questions)
Axiology (What is the role of values?)	Unbiased (e.g. researchers use checks to eliminate bias)	Biased (e.g. researchers actively talk about their biases and interpretations)	Biased and negotiated (e.g. researchers negotiate with participants about interpretations)	Multiple stances (e.g. researchers include both biased and unbiased perspectives)
Methodology (What is the process of research?)	Deductive (e.g. researchers test an a priori theory)	Inductive (e.g. researchers start with participants' views and build up to patterns, theories and generalisations)	Participatory (e.g. researchers involve participants in all stages of the research and engage in cyclical reviews of results	Combining (e.g. researchers collect both quantitative and qualitative data and mix them)
Rhetoric (What is the language of research?)	Formal style (e.g. researchers use agreed-on definitions of variables)	Informal style (e.g. researchers write in a literary, informal style)	Advocacy and change (e.g. researchers use language that will help bring about change and advocate for participants)	Formal and informal (e.g. researchers may employ both formal and informal styles of writing)

Source: Adapted from Creswell and Plano Clark (2007, p.24)

5.4 Research Method Part 1: Source- Annual Reports

5.4.1 Sample Selection of Public Listed Companies

As of 31 December 2008, 977 companies were listed on the Bursa Malaysia, with a total market capitalisation of RM 664 billion[57] and consisting of 634 companies listed on the Main board,[58] 221 listed on the Second board and 122 on the Mesdaq market (EPU, 2009). 41 companies from the finance industry were excluded from the sample selection process as they are subject to different regulations and are under the supervision of the Central Bank of Malaysia. This study uses a sample of 225 public listed companies, which was derived from the Main board of the Bursa Malaysia.

A stratified sampling method is used in the sample selection process so that the sample is more representative rather than concentrating on large sized companies. Total assets is used as a surrogate measure for company size, where a company is categorised as large if total assets (x) are equal to or above RM 1 billion ($x \geq$ RM 1 billion), medium sized if total assets are between RM 200,000 and RM 1 billion (RM 200,000 $< x <$ RM 1 billion), and small if total assets are below or equal to RM 200,000[59]. Based on these criteria, stratification by asset size was first established where the total companies belong to the large, medium and small size companies were 214, 146 and 90 respectively[60]. Afterwards, 50% of the total companies from each category were randomly selected. The final sample consists of 107 large sized companies, 73 medium sized companies and 45

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[57] Equal to GBP 132.8 billion at the exchange rate of GBP 1 = RM 4.9989 as of 31 December 2008. (source: www.bnm.gov.my)

[58] Effective 3 August 2009, the Main board was renamed the Main market, the Second board was merged into the Main market and the Mesdaq market was renamed the ACE market.

[59] A stratified sampling by asset size (total assets) was used by several studies such as Blankley et al. (2000), Sevin et al. (2007) and Low and Mat Zain (2001).

[60] After excluding 41 companies from financial industry, the total companies on the Main Board with 2008 annual reports on Bursa's website as of 30 May 2009 was 450.

small companies. The companies' annual reports for the year 2008 were obtained from the Bursa Malaysia website at www.bursamalaysia.com.

This study chooses to examine the annual reports of 2008, which is two years after the IFRS implementation, for two reasons. First, prior research (e.g. Al-Shammari et al., 2008; Laili, 2008; Abdelsalam and Weetman, 2007) indicates that full compliance with IFRS was not expected in the first year of IFRS adoption because of a lack of readiness or familiarity with the standards among preparers, and the first year was also considered a learning period. Second, penalties for non-compliance normally were not fully applied during the transition period, for the reasons mentioned above (Abdelsalam and Weetman, 2007). These arguments imply that non-compliance with IFRS perhaps was normal during the first year of IFRS implementation, because of factors like a lack of familiarity, a learning period stage and lenient enforcement by regulators. In light of this, the researcher believes that examining the annual reports two years after IFRS implementation will help the present study to justify the effectiveness of the enforcement regulation in Malaysia and also clearly distinguish the main barrier to compliance with IFRS.

5.4.1.1 Classification of Ownership Type

Data about the companies' ownership structure are primarily drawn from the companies' annual reports, which can be obtained under the top 30 largest shareholders section in the annual reports. All public listed companies are required by the Bursa to disclose the following information in the annual reports: (1) the identity of a substantial shareholder

holding of at least 5% of equity shares;[61] and (2) any family relationship with any director and/or major shareholder(s) of the company.[62] Family members are defined by the Companies Act 1965 as including the spouse, parent, child, brother or sister, or spouse of such child, brother or sister.[63]

In order to classify companies into either individual/family companies, government- or foreign-owned companies, the ultimate owners of listed companies must be identified first (Tam and Tan, 2007; Claessons et al., 2000; La Porta et al., 1999). This study used 20% of equity shares as a threshold to determine the ultimate controlling shareholder (ultimate owner) of companies; this approach is used by La Porta et al. (1999),[64] where a shareholder who owned directly and indirectly 20% or more equity shares of the company was considered the ultimate owner of the company. If more than one shareholder meets this criteria (owned 20% or more), the controlling shareholder status or ultimate owner is assigned to the shareholder with the largest equity shares. If a company does not have an ultimate owner or controlling shareholder based on the 20% threshold, the company is categorised as a widely-held company. For family-owned companies, all equity shares owned by family members are collectively counted to determine whether they reach the 20% threshold.[65]

However, it is problematic to identify the ultimate owners of companies when nominee or private companies were used to gain ownership, because information on the ultimate

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[61] Bursa Listing Requirements paragraph 9.19 (25)
[62] Bursa Listing Requirements paragraph 9.25.
[63] Section 122A of Companies Act 1965
[64] La Porta et al. (1999) define ownership as the amount of equity shares held directly and indirectly by an ultimate owner of a firm. According to La Porta et al. (1999), a 20% threshold is enough to have effective control of the firm, and is better than a 10% threshold, as the latter holds if there is a considerable diffusion of ownership.
[65] A 20% cut-off point was also used by Jaggi et al. (2009) to identify family-controlled firms in HK.

owner or controlling shareholder of nominee or private companies is not disclosed in the annual reports. Claessons et al. (2000) and Tam and Tan (2007) also reported the same problem in identifying the ultimate owners when considering nominee or private companies. Therefore, to identify the ultimate owners of these nominee or private companies, further trace information was carried out, either through local newspapers, business magazines, professional journals, the internet or local search through the Companies Commission of Malaysia.

One example of these cases in the present study is identifying the ultimate owner of MMC Corporation Berhad (MMC). This is because the MMC's annual report only disclosed that the major shareholder was 'Seaport Terminal Sdn Bhd', a private limited company that owned 51.76% shares of the MMC Corporation Berhad. This raises the question of whether Seaport Terminal Sdn Bhd is owned by an individual/family or the government. This is because in Malaysia it is common for the government and individuals to use a nominee company to acquire equity shares of public listed companies (Gomez, 1999). Thus, a local search through business magazines and newspapers was carried out, and the findings showed that Seaport Terminal Sdn Bhd is owned by Tan Sri Syed Mokhtar. Since Tan Sri Syed Mokhtar owned more than 20% of shares through the Seaport Terminal Sdn Bhd and he was the largest shareholder of the MMC, ultimate ownership of the MMC was awarded to him, and accordingly the MMC is classified as a family-owned company.[66] The list of companies selected for analysis and their ownership types are presented in Appendix C.

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[66]Individual and family-owned companies are categorised as one category (family-owned) because the companies have similar organisational structure, operating strategies and policies compared to other ownership types (Tam and Tan, 2007).

5.4.1.2 Classification of Companies by Ethnic Groups

Apart from ownership types, this study also identifies which ethnic groups controlled the companies. This study classifies ethnic-controlled companies into three types; Bumiputra-controlled companies, Chinese-controlled companies and others, if a company is not controlled by the Bumiputra or Chinese.

In this study, Bumiputra-controlled is defined as a company that is owned and controlled by Bumiputra, where the ultimate owner or controlling shareholder is Bumiputra, the board of directors is predominantly Bumiputra, with a chairman who is Bumiputra, and the Managing Director (MD) or Chief Executive Officer (CEO) is Bumiputra. A Chinese-controlled company is a company where the ultimate owner or controlling shareholder is Chinese, the board of directors is predominantly Chinese and the MD or CEO is Chinese. Others are those companies that do not meet the above definition of either Bumiputra- or Chinese-controlled companies.

Table 5.2 presents a distribution of sampled companies according to types of ownership, ethnic groups and types of industries. Based on the ownership definition in Section 5.4.1.1, the ownership types of sampled companies can be classified into four categories: (1) family-owned companies; (2) government-owned companies; (3) foreign-owned companies; and (4) widely-held companies. It is found that family-owned companies is the major type of ownership, representing 62.7% of the sampled companies, followed by government-owned companies (23.6%), foreign-owned companies (9.3%) and widely-held companies (4.4%). For ethnic groups, 51.1% of sampled companies were controlled by Chinese and 34.7% were controlled by Bumiputra. With regard to industry types, the manufacturing industry (consumer and industrial products) represents the largest number

of companies in the sample, with 42.7%. This is followed by the trading/services industry, which constitutes 25.8% of the sampled companies.

Table 5.2: Distribution of Sampled Companies

Variable	Number	%
Ownership Type		
Family-owned companies	141	62.7
Government-owned companies	53	23.6
Foreign-owned companies	21	9.3
Widely-held companies	10	4.4
Total	**225**	**100.0**
Ethnicity Control		
Bumiputra-controlled companies	78	34.7
Chinese-controlled companies	115	51.1
Others	32	14.2
Total	**225**	**100.0**
Industry		
Consumer products	44	19.6
Industrial products	52	23.1
Trading/services	58	25.8
Construction	12	5.3
Property	23	10.2
Plantation	19	8.4
Hotel	2	0.9
Technology	8	3.6
Infrastructure Public Company	7	3.1
Total	**225**	**100.0**

5.4.2 Development of Disclosure Checklist

In this study, a self-constructed disclosure checklist was developed to measure the level of compliance with IFRS disclosure requirements.[67] This is similar to the approach adopted by prior mandatory disclosure studies (e.g. Tsalavoutas, 2009; Ali et al., 2004; Al-Shiab, 2003; Owusu-Ansah, 1998). The index items were derived from the disclosure

[67]A disclosure checklist prepared by Tsalavoutas (2009) was also consulted to ensure the disclosure items are identical to IFRS.

requirements prescribed under the 12 accounting standards: (1) FRS2-Share Based Payment, (2) FRS3-Business Combination, (3) FRS5-Non-current assets held for sale and Discontinued Operations, (4) FRS101-Presentation of Financial Statements, (5) FRS114-Segment Reporting, (6) FRS116-Property, Plant and Equipment, (7) FRS117-Leases, (8) FRS119-Employee Benefits, (9) FRS132-Financial Instruments: Disclosure and Presentation, (10) FRS136-Impairment of Assets, (11) FRS138-Intangible Assets and FRS140-Investment Property.[68] These 12 accounting standards were chosen based on the following criteria:

a) The standards were enacted in 2006 and 100% identical to IFRS; and
b) The standards are expected to have a major impact on Malaysian corporations because of their significant changes in recognition and measurement and new disclosure requirements (Deloitte, 2006). These include eight accounting standards, i.e. FRS2, FRS3, FRS5, FRS117, FRS132, FRS136, FRS138 and FRS140. The other four accounting standards (FRS101, FRS114, FRS116 and FRS119) were included in the analysis because non-compliance with these standards was observed by the MIA Financial Statements Review Committee in its past reviews (MIA, 2007).

In constructing the disclosure checklist, it is acknowledged that several standards require the same disclosure items to be disclosed. Thus, to avoid duplication in the checklist, the approach suggested by Tsalavoutas (2009) was followed, i.e. to include the items under the standard that mainly dealt with the issue. For example, the disclosure of items that relate to the presentation of property, plant and equipment are required under FRS116 (Property, Plant and Equipment) and FRS101 (Presentation of Financial Statements);

[68] FRS139 (Financial Instruments: Recognition and Measurement) was not included in this study because it was effective on 1 January 2010.

thus, to avoid duplication in the disclosure checklist the items were only included under FRS116.

5.4.3 Validity and Reliability of Disclosure Checklist

Validity and reliability are two important issues that must be addressed in the quantitative method. According to Sekaran (2003, p.206), "content validity ensures that the instrument adequately measures the concept of interest and a panel of judges can attest the content of validity of the instrument". In other words, the research instrument (disclosure checklist) is valid if it can measure what it claims to measure (Field, 2009). Similar with the approach used by prior studies (e.g. Tsalavoutas, 2009; Al-Shiab, 2003), the initially constructed disclosure checklist of this present study was reviewed by two supervisors[69] to ensure its validity in measuring compliance with IFRS disclosure requirements. Any ambiguity raised was referred to another independent person who has in depth experience of IFRS.[70] After taking into account all suggestions and comments from these three referees, the final disclosure checklist contains 295 items.[71] The number of disclosure items varies considerably, from 69 items in FRS101 to 12 items in FRS2 and FRS5. The disclosure checklist of this study is attached in Appendix G.

The reliability of the research instrument refers to the "extent to which it is without bias (error free) and hence ensures consistent measurement across time and across the various items in the instrument" (Sekaran, 2003, p.203). In other words, the research instrument "can be considered reliable if the results can be replicated by another researcher"

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[69] Both supervisors are professors of accounting and chartered accountants.
[70] He is a senior financial accounting and reporting analyst with more than 12 years' experience.
[71] The initial disclosure checklist consisted of 316 items. Basically, the comments and suggestions were related to duplication and disaggregation of disclosure items.

(Marston and Shrives, 1991, p.197). Thus, to ensure the reliability of the disclosure checklist, a pilot study was carried out whereby the researcher and another independent person with IFRS knowledge examined and scored the financial statements of 12 companies.[72] The compliance scores results from the researcher and the independent person were then compared and analysed. The results showed that there was substantial agreement between the scores, which indicated minimal subjectivity in the scoring process. Correlation analysis also showed that the two scores were highly correlated, which indicates that there was no significant bias between the scorers (r = 0.8987, p = 0.001); thus, the disclosure checklist used in this study can be considered reliable.[73] The compliance scores of the researcher and the independent scorer are attached in Appendix D.

5.4.4 The Scoring Methods

There are two approaches normally used in prior studies to score disclosure items, namely weighted and unweighted disclosure indexes. In a weighted disclosure index, weights are assigned to disclosure items based on the perceptions of users, for example weighting (value) is given "from 1= of no importance at all to 7= utmost importance" (Chow and Wong-Boren, 1987, p. 535). This approach however, has been criticised for non-consensus within a user group because different users may view different items as important and accordingly different weights may be given by different users (Marston and Shrives, 1991). Another criticism of this approach is a tendency of the researcher to

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[72] These 12 companies were randomly selected from the Bursa Malaysia, and they were not included in the final sampled companies.
[73] A similar approach was used by Owusu-Ansah (1998) and Yeoh (2005) to test the reliability of the scoring instrument.

only consider the information needs of a particular user group (e.g. financial analysts) and ignore other users of annual reports (ibid).

In line with the majority of prior studies examining compliance with mandatory disclosures (e.g. Al-Akra et al. (2010), Al-Shammari et al. (2008), Abd-Elsalam and Weetman (2007), Glaum and Street (2003), Street and Gray (2002)),this study also employed unweighted disclosure index to score the disclosure checklist. Under this approach all disclosure items are assumed to be equally important to all users of annual reports (Cooke, 1989a). Owusu-Ansah (1998) also notes that the unweighted index may provide more independent analysis because no particular user group's perceptions are involved. The most common unweighted disclosure index used in prior studies is the 'dichotomous' method (Cooke's method),[74] where an item is scored one if disclosed, zero if not disclosed, or not applicable (NA) if the item is not relevant to the company (e.g. Yeoh, 2005; Glaum and Street, 2003; Cooke, 1992). Under this method, a company will not be penalised for not disclosing items that are not relevant to it (Owusu-Ansah, 1998; Cooke, 1992). However, the scoring process involves the subjective judgement of the researcher (Marston and Shrives, 1991). Thus it is likely that a company will be penalised for non-disclosure of an item which, in fact, is not applicable to the company (Owusu-Ansah, 1998). To mitigate this problem, the present study follows the practice of prior research, where the entire annual report is read at least twice to understand the nature and complexity of each company's operation before any decision is made on whether an item is applicable (e.g. Ali et al., 2004; Owusu-Ansah, 1998; Cooke, 1989a).

[74] Tsalavoutas et al. (2010) and Aljifri (2008) refer to this method as 'Cooke's method', while Al-Shiab (2003) and Cooke (1992, 1989a) refer to the method as 'modified dichotomous'. In the present study, it is referred to as Cooke's method.

The dichotomous disclosure index is computed as the ratio of the total items disclosed to the maximum possible number of items applicable to the company, which can be stated in the formula below.[75]

$$CS_j = \frac{T = \sum_{i=1}^{m} d_i}{M = \sum_{i=1}^{n} d_i}$$

Where CS_j is the total compliance score for each company, and $0 \leq CS_j \leq 1$; T is the total number of items disclosed (d_i) by company j, and $m \leq n$; and M is the maximum number of applicable items that the company j is expected to disclose, i.e. $n \leq 295$.

Because Cooke's method gives equal weight to each item, a standard that has more disclosure items may appear to be more important than a standard with fewer disclosure items (Tsalavoutas et al., 2010; Al-Shiab, 2003). Several studies therefore, instead or in addition, use the 'Partial Compliance (PC) unweighted approach' to measure the extent of compliance with IFRS (e.g. Al-Shiab, 2003; Street and Gray, 2001; Tsalavoutas, 2011). This method gives each standard equal weighting. Al-Shiab (2003, p.223) notes that the PC method therefore "avoids the problem of unintentionally giving more weight to a standard with a large number of items in the index". The scoring procedure of the PC method is the same as in Cooke's method, i.e. one, zero or NA (not applicable) for disclosure, non-disclosure or non-applicable items, respectively. The formula of the PC method was stated by Tsalavoutas et al. (2010) as follows:

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[75] This formula is stated by Tsalavoutas et al. (2010) and Cooke (1992).

$$PC_{\mathrm{j}} = \frac{\sum_{i=1} X_{\mathrm{i}}}{R_{\mathrm{j}}}$$

Where PC_j is the total compliance score for each company, and $0 \leq PC_j \leq 1$; X_i is the level of compliance with each standard; and R_j is total number of applicable standards for each company *j.*

The above formula clearly shows that the PC method is different from Cooke's method in the computation of total compliance scores. Under the PC method, the ratio is computed by adding the extent of compliance for each standard and then this sum is divided by the total number of standards applicable to each company. This of course implies that, in contrast with Cooke's method, each item does not carry an equal weight. To further illustrate the difference in computation of compliance scores between the PC and Cooke's methods, the following examples are reproduced from Tsalavoutas et al. (2010, p. 216).

> "Let us assume that three standards are applicable to Company X and that Standard A requires three items to be disclosed, Standard B requires five items to be disclosed and Standard C requires nine items to be disclosed. Company X discloses one item required by Standard A, two items required by Standard B and seven items by Standard C. The compliance score as calculated by means of the dichotomous approach would be C_x= (10/17) =0.59, i.e. 59 per cent. The score according to the PC unweighted method, on the other hand, would be PC_x = [(1/3+2/5+7/9)/3]=0.50, i.e. 50 per cent. The example illustrates that, with "dichotomous" approach, the low compliance with Standards A and B is obscured by the high compliance with Standard C and, arguably, the compliance score identified may be misleading (depending on the objective of the study) as it is affected by compliance with only one standard. On the other hand, let us assume that company X discloses all three items required by Standard A, four out of the five items required by Standard B and three out of the nine items required by Standard C. Under the dichotomous approach, the compliance score would again be C_x= (10/17) = 0.59, i.e. 59 per cent. However, the score according to the PC unweighted method would be PC_x= [(3/3+4/5+3/9)/3]=0.74, i.e. 74 per cent. This example illustrates that the PC method measures compliance (albeit not complete compliance) with the Standards under examination."

Tsalavoutas et al. (2010) and Tsalavoutas (2011) have also provided empirical evidence that the compliance scores computed under the PC and Cooke's methods are statistically different and that the significant associations between the compliance scores and a number of independent variables (corporate characteristics) between these two methods may also different. This happens because the two methods result in different relative compliance scores i.e. ranking order (Tsalavoutas et al., 2010). In Tsalavoutas' (2011) paper, for example, which is based on Greek data, Cooke's method produces significantly higher scores than the PC method; the mean compliance scores produced by his study were 83% and 79%, respectively. Further, the association between corporate characteristics and the extent of compliance with mandatory disclosure under these two methods produced different results; Tsalavoutas (2011) found that industry type was significantly associated with the extent of compliance with IFRS under the PC method, but no significant association was found under Cooke's method with this result similar after several robustness tests.

Street and Gray (2002)[76] also used both Cooke's dichotomous method and the PC method in their study and their results showed different significant associations between compliance scores and independent variables under the two methods. For example, industry type and country of domicile (China and Switzerland) were significantly associated under the PC method but not under Cooke's method. They also reported that the means for compliance under Cooke's method and the PC method were 74% and 72%, respectively.

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[76] Unlike Tsalavoutas et al. (2010) and Tsalavoutas (2011), Street and Gray (2001) did not highlight the difference between these two methods and did not test the significance of the differences in compliance scores produced by these methods.

5.4.4.1 Similarities and Differences between the Two Methods

While both methods capture disclosure levels, their similarities and differences are also important and not mutually exclusive. These have been discussed by Tsalavoutas et al. (2010), and are outlined below.

- The PC method produces less misleading results when the number of disclosure items required by different standards varies considerably; for example IAS 1 consists of 72 required disclosure items, IAS 2 and IAS 18 respectively consist of 8 and 3 required disclosure items. This is because the PC method treats each standard equally and thus there is no bias between standards with larger and smaller number of disclosure items.
- Cooke's method on the other hand does not treat each standard equally and it produces higher compliance scores than does the PC method; thus it may lead to a misleading perception on the extent of compliance with the disclosure requirements of accounting standards. Cooke's method may be more appropriate if the research objective is to examine compliance with each disclosure items (regardless of their grouping in accounting standards) or to examine the extent of voluntary disclosure where the 'researcher exercises judgement on what should be included in the disclosure checklist and accordingly each item should be considered independently' (Tsalavoutas, 2010, p.223).
- The PC method measures compliance with each standard's mandatory disclosure requirements separately; this enables the researcher to identify (i) non-compliance clusters of particular standards and to explore correlation of such clusters with explanatory variables, and (ii) standards that are not applicable to specific companies.

By contrast, Cooke's method can only identify specific non-applicable disclosure items.

Both methods also share similar limitations. The scoring process for both methods involves the subjective judgement of the researcher; i.e. whether to decide a disclosure item is not complied with by, or not applicable to specific companies. As mentioned earlier, this problem may be mitigated by a thorough reading of annual reports before any decision is made. Similarly, the researcher's judgement is also involved in how to treat partial compliance with disclosure requirements in the case of multiple information elements (e.g. IAS 1 paragraph 76 (a) has several sub-paragraphs (from (i) to (vii)); therefore the researcher has to decide whether partial compliance of the paragraph constitutes compliance or non-compliance.

Given these advantages and disadvantages, Tsalavoutas et al. (2010) suggest that applying both methods simultaneously results in more informative and robust research findings. Based on this argument and the empirical findings of Street and Gray (2001) and Tsalavoutas (2011), the present study uses both Cooke's method and the PC method to measure compliance scores; first, to avoid biased or misleading reporting of the level of compliance with mandatory disclosure, and second, to provide robust findings on determinants of (non-) compliance. Therefore, as with Tsalavoutas (2011), the present study considers findings as valid only where the determinants of (non-) compliance are significant under both methods.

5.4.5 Statistical Analysis

There are two statistical techniques available to test the research hypotheses, i.e. parametric and non-parametric tests. Between these two tests, parametric is more

powerful because non-parametric testing may be incapable of detecting the differences or relationships that exist between the variables (Pallant, 2001). However, to use the parametric test the data must be normally distributed (Field, 2009). Therefore, several approaches were undertaken by this study to assess the normal distribution of data, including inspection of the histogram, the normal Q-Q plots graphs and the Kolmogorov-Smirnov and Shapiro-Wilk tests. The results of these tests showed that the data are not normally distributed; hence, transformation is undertaken to normalise the data so that parametric testing can be used.[77]

Rank and normal scores are the common approaches used by prior studies to transform the data.[78] While both approaches are useful in dealing with non-linear and monotonic relationships between dependent and independent variables, Cooke (1998) suggested that a normal scores approach is better than the rank for several reasons. First, the rank procedure is essentially a non-parametric test because it is based on a distribution-free assumption, where the data are replaced into ordinal rather than interval. Therefore, the significance and powers of the F and t-tests from the rank regression are not meaningful. Conversely, the significance and powers of the F and t-test under the normal scores are meaningful, because the transformed data are still interval values (normal scores). Second, in the normal scores approach, errors are normally distributed with the normal distribution of a dependent variable, but this normality errors are not achieved by the rank regression approach.

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[77] However, an alternative argument is that the central limit theorem can be invoked if the sample size is large (more than 40), to justify using parametric testing, although the data are not normally distributed (Field, 2009; Elliot and Woodward, 2007; Cooke, 1998).

[78] In the rank procedure the observations (n) are placed in order and ranked from the smallest to the largest, whereas in the normal scores procedure the normal distribution is divided by the number of observations plus one segment, with the assumption that each segment has equal probability [r/(n+1)]; otherwise, the normal scores can be derived using the SPSS (Cooke, 1998).

Based on the above arguments, the normal scores approach is used to transform both dependent and independent variables in this study.[79] A similar approach was also adopted by prior disclosure studies, such as Mangena and Pike (2005), Ghazali and Weetman (2006), Camfferman and Cooke (2002), Haniffa and Cooke (2002) and Al-Akra et al. (2010).

5.4.5.1 Univariate Analysis and Multivariate Analysis

Similar with prior disclosure studies, two types of analysis were performed to examine the association between the dependent and independent variables, i.e. univariate and multivariate analyses. This is because it might be misleading to rely on the findings of univariate analysis alone, since univariate analysis does not control the impact of other explanatory factors (Owusu-Ansah and Yeoh, 2005), and thus the results are likely to be overstated (Patton and Zelenka, 1997; Hossain et al., 1994). Univariate analysis also cannot inform which explanatory variables (in a set of variables) can better explain a particular outcome and whether a particular predictor still holds after other control variables are simultaneously examined (Pallant, 2001). However, such limitations of univariate analysis can be overcome with multivariate analysis, where a set of independent variables are simultaneously entered into a regression analysis.

In this study, a Pearson product moment correlation is used in the univariate analysis and the multiple ordinary least square (OLS) regression is used in the multivariate analysis. Apart from these analyses, independent sample t-tests were also conducted for categorical independent variables to examine whether there is a statistically significant

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[79] Apart from the normal scores approach, regression analysis was also conducted using untransformed data and the log odds ratio of dependent variable because "multiple approaches are helpful to ensure the results are robust across methods" (Cooke, 1989, p.209).

difference in the mean compliance scores between the two groups, whereas ANOVA testing was conducted to examine the differences for more than two groups.

5.4.5.2 Multicollinearity and Heteroscedasticity Issues

One of the assumptions that should be met under multiple regressions is to ensure that no perfect multicollinearity exists between independent variables (Field, 2009). This is because the existence of serious multicollinearity in the regression models may inflate standards errors for the coefficients of explanatory variables (Gujarati, 2003; Wallace et al., 1994). Similar with prior studies (e.g. Owusu-Ansah and Yeoh, 2005), the correlation matrix (Pearson product moment correlation) and the Variance Inflation Factor (VIF) were used in this study to inspect the existence of multicollinearity. The extent to which the correlation between variables is considered as perfect or harmful multicollinearity varies. While Gujarati (2003, p.359) suggested that, as a rule of thumb, serious multicollinearity exists when the correlation coefficient exceeds 0.8, Tabachnick and Fidell (1996, p.86) suggested a stricter cut-off point of 0.7. As for the VIF test, Gujarati (2003, p.362) suggests that a rule of thumb for serious multicollinearity is if the VIF exceeds 10. The issue of multicollinearity in this study is discussed again in Chapter 8.

Another important assumption of multiple regression analysis is homocedasticity of variances, which means the residuals at each level of the independent variable(s) must have the same variances; when these variances are significantly different or unequal it is called heteroscedasticity (Field, 2009). This is because the t and F test could be highly misleading in the presence of heteroscedasticity (Gujarati, 2003). Thus, to check for heteroscedasticity, the Breusch-Pagan/Cook-Weisberg test and White's general heteroscedasticity test in STATA were employed, and the heteroscedasticity was

remedied using the heteroscedasticity-consistent covariance matrix estimator (Gujarati, 2003). According to Gujarati (2003, p.390), heteroscedasticity can also arise when there are outliers. Therefore, in this study the outliers are defined and excluded by using the standardised residual (Elliot and Woodward, 2007).

5.5 Research Method Part 2: Interview

Patton (2002, p.340-341) highlights that some of the objectives of interviews are "...to find out from them (people) those things we cannot directly observe...to allow us to enter into the other person's perspective...to find out what is in and on someone else's mind, to gather their stories". Further, interview is considered an appropriate method when "the subject matter is highly confidential or commercially sensitive and the interviewee may be reluctant to be truthful about this issue other than confidentially in a one-to-one situation" (Easterby-Smith et al., 1994, p.74). Mandatory disclosures can be regarded as a sensitive issue, as non-compliance implies that the company has breached the regulations and the respondents would perhaps be quite hesitant to talk openly about the issues unless trust was developed.

Therefore, an interview is considered the best method to achieve the research objectives of this study, specifically pertaining to the following research objectives: (1) to determine whether the present regulatory enforcement is effective in curbing non-compliance with IFRS in Malaysia, where the regulatory bodies have been interviewed on how they perceive and monitor compliance with IFRS; (2) to identify factors of non-compliance from preparers' and auditors' perspectives; and (3) to explore the reasons why unqualified audit reports were issued despite non-compliance with IFRS disclosure requirements.

As mentioned in Section 5.3, the interviews were undertaken upon completion of quantitative analysis in order to enable the present study to seek explanations or views from preparers and auditors regarding the quantitative findings.

5.5.1 Sample Selection of Interviewees

5.5.1.1 Preparers

The Malaysian Companies Act 1965 clearly specifies that responsibility for preparation of financial statements in accordance with the approved accounting standards lies with a company director, which was interpreted under the Act to include the chief executive director, the chief operating officer, the chief financial controller or any other person primarily responsible for the operations or financial management of a company, by whatever name called.[80] Thus, in this study the preparers are selected from those who assume the position as a chief in accounting and finance department, and they are either chief financial officers (CFO) or financial controllers (FC).

The preparers are selected from the sampled companies used in part 1 (Section 5.4). Since cost and time are the main constraints preventing contacting all preparers from these 225 companies, two criteria have been set in the sample selection process. First, since the interviews were conducted between January and April 2010, the companies with financial years ending in January, February, March or April were removed from the selection process. This is because the researcher believes that preparers might be reluctant to participate in an interview because of their tight schedule to meet the financial statements deadline. Second, only companies located in the Klang Valley area were selected, because it is accessible and within the researcher's budget. After the screening process it is found that 102 companies met the above criteria.

[80] Section 132(6) of Companies Act 1965

In order to know the right person (preparer) to be interviewed, the researcher contacted the human resources department of each company. This is because not all companies disclosed their CFO or FC in the annual reports; and even if the information was there, it was possible that the CFOs or FCs had been replaced by another person. After introducing herself and the objectives of the study, the researcher asked the human resource officer who is the CFO or FC of the company and the procedures to be followed to interview this person. Some companies had no objection to the researcher's request, where the human resource officer straight away provided a direct contact number for the preparer and asked the researcher to personally speak with the preparer regarding the interview. Nevertheless, some companies refused to entertain the researcher's request because they said it was not the policy of the company to entertain academic surveys or interviews. Certain GLCs (government link companies) requested that the researcher send a formal letter together with a brief proposal of the study before an approval of interview could be granted by the Managing Director. Thus, several follow-up efforts were made to these GLCs, seeking approval.

After obtaining the contact numbers of preparers from the human resources departments, the preparers were first contacted by personal phone calls and then by a formal letter through email, explaining the objectives of the study.[81] Using this approach, the researcher could personally persuade the potential respondents to participate in the interview, and they were assured that all information conveyed would be treated as strictly confidential, where their names and the organisations they represented would be

[81]Based on previous experience, it is difficult to get a reply from respondents when the intention of interview was communicated through a formal letter via email or post. However, sending a letter after preliminary phone calls may increase the credibility of the researcher and will also assist in future cooperation (Easterby-Smith, 1994).

kept confidential in the study. Moreover, this approach can save time, as respondents' decisions regarding being interviewed were known immediately. The researcher spent 12 days making calls to all targeted respondents, and several of them asked the researcher to call them again two weeks later to reconfirm whether they are available for interview, due to their tight schedule.

Finally, 23 preparers agreed to be interviewed, and in one company (Company M), both the financial controller and group accountant were involved in the interview session because the financial controller claimed he maybe could not answer certain questions related to IFRS. While almost all companies were represented by their FC or CFO, four companies (Company A, E, F and V) were represented by the Group Accountant because the FC or CFO was not available for interview.[82] Nevertheless, these four Group Accountants claimed that they were responsible for the preparation of financial statements for the company. Of the 23 preparers, two were interviewed via telephone because they refused to have a face-to-face interview. Compared with face-to-face interviews, interviews via telephone did not generate much understanding regarding non-compliance issues because the interviewees chose not to answer most of the questions. The researcher suspects that the preparers perhaps did not feel comfortable answering questions relating to compliance with mandatory requirements over the telephone, as personal rapport and trust could not be developed. The list of preparers is presented in Appendix E.

[82] Three FCs asked their Group Accountants to represent them for the interview, while another Group Accountant willingly replaced her CFO, who was on medical leave on the interview date.

5.5.1.2 Auditors

A sample of auditors was selected from those who assumed the position of Audit Partner or Audit Manager, because their vast experience in auditing and in discussions with client will assist the study in understanding the mandatory corporate disclosure practices of Malaysian companies. Initially, several phone calls were made to the Managing Audit Partners and to the human resources departments of audit firms to get their approval and ask them to arrange an interview session with audit partners or audit managers. However, they claimed that their audit partners and audit managers could not participate in interview sessions due to the tight working schedule during the interview period. Therefore, the researcher decided to make use of personal contacts and networking to contact potential auditors. Afterwards, a snowballing technique was used to identify the next respondents. Finally, 11 auditors, including audit partners and audit managers from big four and medium sized audit firms, agreed to participate in an interview session. The list of auditors is presented in Appendix F.

5.5.1.3 Regulators

The regulators were approached through the Corporate Communication Department (CCD) of each agency, where a phone call was first made, followed by a formal letter through email explaining the objectives of the study. The officer from the CCD then arranged for interviews with representatives from the relevant department. Three regulatory agencies were involved in this study, i.e. the Securities Commission (SC), the Companies Commission of Malaysia (CCM) and the Malaysian Institute of Accountants (MIA). The SC was represented by two managers from the Financial Reporting Surveillance and Compliance Department, the CCM was represented by two managers

from the Corporate Account and Monitoring Section and the MIA was represented by a manager and a member of the Financial Statements Review Committee.

5.5.2 Semi-structured Interviews

A semi-structured interview was used in this study because an interview guide can be used to ensure that all important topics are covered during the interview session and that the same basic questions are pursued with each interviewee (Patton, 2002). Although the questions in the interview guide seem fixed, the interviewer is still free to follow up ideas, probe responses and ask for further elaboration during the interview session (Arksey and Knight, 2007). Similarly, the interviewees are also able to speak freely and express themselves without specific restrictions (Farneti and Gutherie, 2009).

As suggested by Patton (2002), the questions used in the interview guide are open-ended questions, to allow interviewees to express their views in their own words. The interview guide was pilot tested with two accountants, two lecturers and one auditor to ensure the clarity and appropriateness of the questions in the interview guide. Any poorly framed question was highlighted during the pilot study, and it was reframed and revised afterwards. The interview guide is attached in Appendix H. Interviews with all respondents were conducted in English, between January 2010 and April 2010, and each session lasted between 30 and 90 minutes. Another follow-up interview with preparers was conducted via telephone in October 2010. The researcher spent two days doing follow-up interviews; however, only eight preparers managed to be interviewed in the follow-up interviews (this is discussed again in Chapter 10).

5.5.3 Ethical Issues

Ethical issues are a main concern in interview research (Kvale and Brinkmann, 2009). The following ethical protocols have been employed in this study to ensure that the research was conducted ethically. First, approval from the Department of Accounting and Finance Research Ethics Committee (DAFREC) of the University of Stirling was obtained before embarking on the interviews. Second, interviewees were informed of the objectives and procedures of the study, which included their right not to answer specific questions, the anonymity and confidentiality of interviewees and organisations they represent, how the information would be used and quoted in the study, and the plan to publish the findings in a thesis and journals. Arksey and Knight (2007) also note that confidentiality assurance may influence respondents to be more frank in responding to questions. Third, to guarantee anonymity and confidentiality of interviewees, their name and the organisation they represent are not disclosed in this study. Instead, they were assigned a number and letter; for example, the preparer from family-owned company A was assigned PF1, where P refers to preparer and F refers to family; thus preparer from state-owned company will be assigned PG where G refers to government. Similarly, to auditors, whereby AB1 refers to auditor from big four audit firm and AM7 refers to auditor from medium size firm.

5.5.4 Analysis of Interview Data

Some interviews were digitally recorded after consent from the interviewees was obtained. Note-taking was also employed as a precautionary step, in case the recorder

failed during the interview session. However, some interviewees[83] refused to be recorded; only note-taking was used in these cases. To ensure concentration during the interview, shorthand and keywords were used in the note-taking process. Immediately after the interview, the researcher reread the notes and expanded them.

The first stage of data analysis involves familiarisation with the data, where all the digitally recorded interviews were carefully listened to and transcribed verbatim to a word processor. This was followed by a second listening to ensure correspondence between the recorded and transcribed data. All the written notes were also reread in this stage. Although interviews were conducted in English, several respondents answered questions in the Malay language because they felt more comfortable expressing their views in the national language. In this case, the Malay interview transcripts were first translated into English by the researcher and later translated back into the Malay language by another colleague who is familiar with both Malay and English languages. This procedure ensured that the original meaning of the data was preserved during the translation process (Daud, 2007). It was found that the colleague's translation produced similar meanings to the original Malay interview transcripts.

Afterwards, the transcribed data were examined for emerging keywords and phrases that related to the main research questions. The researcher used the open coding approach[84] in the coding process, where the codes were derived from the actual terms or words used by the interviewees. This approach allows the researcher to explore the data in depth and brings new insights to the study (Rubin and Rubin, 2005). At this stage, the coding

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[83] These were representatives from the regulatory agencies and five preparers.
[84] Open coding refers to the technique of 'coding as it occurs', where the data are allowed to 'speak for themselves' rather than depending on a list of themes suggested by existing literature (Rubin and Rubin, 2005; Welsh, 2002).

process was done manually, where the codes were written in the margins of the transcripts and distinguished using different colours. Afterwards, the identified codes were sorted and classified into relevant categories and themes, and they were arranged in a table format to simplify the process of frequency counting.

NVIVO (a qualitative data analysis software package) was also used in this study to ensure that all the important themes were highlighted and properly coded. The following steps were followed for NVIVO analysis. First, the English transcribed data in Microsoft Words were entered into NVIVO software programme. Second, the codes were created at free nodes based on keywords, phrases and sentences that related to the research questions. At free nodes, the codes were refined and adjusted several times to suit the appropriateness of the sentences. Third, the codes were examined to find the interrelated nodes, and were organised by tree nodes where their hierarchy of relationship can be seen clearly. At this stage, the nodes were also refined several times where some nodes were removed if redundant, altered, and reorganised until the themes were consolidated. After this stage, the data are ready to be analysed. For example, if the researcher wants to analyse how many participants expressed their views about the problems with accounting standards, the researcher will go to the tree nodes under the heading 'Problems with Accounting Standards' where the data layout consists of a combination of paraphrases, sentences and direct quotations from participants, and also how many participants belong to this category.

NVIVO has advantages over the manual system because it enables the researcher to analyse the data in a more systematic way, and facilitates in management and interrogation of data; thus, it enhances the validity of results (Welsh, 2002). In other words, NVIVO is used as robustness checked in data analysis of this study.

5.5.5 Validity and Reliability Issues in Interviews

It has been argued that the concepts of validity and reliability as applied in positivistic studies are inappropriate in qualitative field research, like interviews, because of their different paradigms[85] (Ahrens and Chapman, 2006; McKinnon, 1988). Moreover, validity and reliability issues in qualitative field research are hardly distinguished (Ahrens and Chapmen, 2006).

Nonetheless, validity and reliability issues are still relevant in qualitative field research, but they must be addressed differently from positivistic studies (McKinnon, 1988). From a qualitative perspective, validity and reliability issues can be addressed if the researchers can demonstrate "that what they do is fit for their research purpose" (Arksey and Knight, 2007, p.55). In other words, the researcher needs to provide details on how the qualitative study was conducted, to enable others to evaluate the validity and reliability of the findings (McKinnon, 1988).

Thus, to address validity and reliability issues in interviews, the following approaches, as suggested by McKinnon (1988), were employed in this study. First, managing the interpersonal behaviour of the researcher, where the researcher should be seen as non-threatening, confident, respectful of the interviewee, trustworthy and genuinely interested in the subject. Second, the researcher took notes during the interview process, not only to serve as supporting documentation, but also because it can minimise bias in the interpretation of results. Third, the researcher probed the questions in the interview so

[85] Unlike positivistic studies, objective reality and replications of the findings in qualitative research cannot be expected (Ahrens and Chapman, 2006). Refer Table 5.1 for the differences between positivistic and qualitative paradigms.

that the issues could be clearly clarified, thus avoiding the researcher making her own speculations about the results.

Arksey and Knight (2007) also argue that validity and bias in interview findings can be addressed by using the triangulation approach, where data can be collected from diverse sources or groups of people. In this study, the validity and bias of the findings has been addressed through a triangulation approach because, in addition to examining the annual reports, perceptions of different groups of people (preparers, auditors and regulators) were also sought regarding compliance with IFRS in Malaysia.

5.6 Summary

This chapter has discussed the research objectives, research paradigm and research methods employed by this study. This study adopts a pragmatism paradigm, where a mixed methods approach (i.e. quantitative and qualitative) was used to achieve the research objectives of this study. For the quantitative method, a self-disclosure checklist was developed, where Cooke's method and the PC method were used to measure compliance scores. Both univariate and multivariate analyses were conducted to test the hypotheses developed in this study. Multicollinearity and heteroscedasticity issues were also addressed in this chapter. For the qualitative method, semi-structured interviews were conducted and the data were analysed manually and using NVIVO software. The validity and reliability of both quantitative and qualitative data were also addressed in this study (see Sections 5.4.3 and 5.5.5). Further, the ethical issues related to interview research were also addressed. The next chapter discusses the development of the hypotheses used to answer the second research objective of this study.

CHAPTER 6: HYPOTHESES DEVELOPMENT

6.1 Introduction

This chapter discusses the research hypotheses developed to address the third research objective of the study, i.e. to determine whether culture, ownership structures and corporate governance mechanisms have a significant impact on the extent of compliance with IFRS disclosure requirements in Malaysia. In this study, the hypotheses are stated in their alternative form. The research hypotheses are discussed into several main sections. Section 6.2 discusses the hypotheses of ownership structure, which include ownership concentration, family ownership and government ownership. Section 6.3 discusses the hypotheses of corporate governance mechanisms, which include attributes of boards of directors and attributes of audit committees. Section 6.4 discusses the hypotheses of cultural attributes, followed by a discussion of control variables in Section 6.5. Finally, Section 6.6 summarises the chapter.

6.2 Ownership Structure

Corporate ownership structure in Malaysia is characterised as highly concentrated and dominated by family ownership and state ownership (see Chapter 4). Three types of ownership structure are examined in this study, i.e. ownership concentration, family ownership and government ownership.

6.2.1 Ownership Concentration

The literature argues that firms with dispersed ownership have greater disclosure because of the incentive to reduce agency costs (Ho and Wong, 2001a; Owusu-Ansah, 1998).

Nevertheless, the Type II agency cost[86] could be severe in firms with high ownership concentration; this would lead less disclosure to the public for the following reasons. First, controlling shareholders can easily access all the information they need because they are actively involved in management, either by owner-management or by appointing someone they know to be in the top management or board of directors (Pucheta-Martínez and Fuentes, 2007). Second, when the management is so entrenched in the insiders' hands, the controlling shareholders may have incentive to pursue their personal interest, and accordingly will act against the interest of minority shareholders (Ho and Wong, 2001a), thus resulting in less disclosure in the annual reports in order to hide problems or expropriation of wealth by the management (Soderstrom and Sun, 2007).

Nevertheless, prior studies have shown mixed results regarding the impact of ownership concentration on corporate disclosure. Haniffa and Cooke (2002) found a significant positive association between ownership concentration and voluntary disclosure, whereas Hossain et al. (1994) found a negative association. Al-Shammari et al. (2008) and Ghazali and Weetman (2006), on the other hand, did not find any association between ownership concentration and mandatory disclosure and voluntary disclosure, respectively.

Due to these mixed findings, this study does not predict any direction for the relation between ownership concentration and the extent of mandatory disclosure. This study

[86] Type II agency problem refers to the problems arise between controlling and non-controlling shareholders. Type I agency problem refers to the problems arise between manager and shareholders (see Chapter 3 for the details of agency theory).

uses the percentage of shares held by the largest shareholders as a measure of ownership concentration. Thus the hypothesis is:

H1: The extent of compliance with IFRS disclosure requirements is significantly associated with ownership concentration.

6.2.2 Family-owned Companies

Family firms are characterised as having highly concentrated ownership, normally managed by family members, with top management positions either assumed by family members or someone whom close to family members, and having long-term horizons, where the business will be passed on to multiple generations (Chen et al., 2008; Anderson and Reeb, 2003). The role of the board of directors in family firms is also described as less effective because of its relationship with family shareholders (Chen and Jaggi, 2000), and it is viewed as a mechanism to support the interests of family shareholders (Ho and Wong, 2001b). Chen and Jaggi (2000) have also demonstrated that the independent non-executive directors on the boards of family firms in Hong Kong have less influence on the comprehensiveness of financial disclosure compared to non-family firms. Therefore the Type II agency cost is relevant to explain disclosure practices in family firms.

Given these distinctive characteristics, there are two competing views offered to explain the financial reporting quality of family firms. First, family firms may disclose less information to the public because significant control of the management by family members will give them better access to inside information (Chen et al., 2008). Second, less disclosure is probably related to the incentive to hide expropriation of wealth from non-controlling shareholders (Wang, 2006).

Alternatively, it can be argued that family firms may have incentive to provide more information to the public to gain benefits of disclosure, such as reduction in the costs of capital (Chen et al., 2008). Concern about the reputation of the firms because of the intention to pass the business on to succeeding generations is also a motivating factor for greater disclosure by family firms (Anderson and Reeb, 2003); this is in line with signalling theory.

Prior studies have shown mixed results regarding the family ownership effect on corporate disclosure. Ghazali and Weetman (2006), Haniffa and Cooke (2002) and Ho and Wong (2001a) found a significant negative association between family ownership and the extent of voluntary disclosure, which suggests family-owned companies have traditionally disclosed less voluntary information. However, Chen et al. (2008) demonstrated that family firms are more likely to provide bad earnings warnings, which imply they are concerned about their reputation and litigation costs. Similarly, Ali et al. (2007) also found that family firms are more likely to provide management earnings forecasts than non-family firms, leading the authors to suggest that family firms are less opportunistic.

Despite these mixed findings, this study expects that Type II agency cost is more relevant to explain corporate disclosure practices of family firms because the majority of family firms are managed by family members, and two prior studies in the context of Malaysia (Ghazali and Weetman, 2006; Haniffa and Cooke, 2002) also found a significant and negative association between family ownership and the extent of voluntary disclosures of Malaysian public listed companies. This study uses a dummy variable of one if the ultimate owner or major shareholder of the firms is family (if

individual/family is a significant shareholder with 20% ownership or more[87]) and zero otherwise. The hypothesis is:

H2: The extent of compliance with IFRS disclosure requirements is significant and negatively associated with family ownership.

6.2.3 State-owned Companies

In state-owned companies or government link companies (GLCs), the government has the authority to appoint the CEO and members of the board of directors (see Chapter 4). Therefore, GLCs likely have less severe agency conflicts (Type I agency problem) because the appointed managers will ensure the decisions of the companies are aligned with government interests. However, there are two competing views with regard to the financial reporting quality of state-owned companies. From the political economy perspective, it is argued that state-owned companies may suppress certain information from the public for the benefit of their political connections or cronies (Gul, 2006; Bushman et al., 2004). Ghazali and Weetman (2006) also add that state-owned companies may have less incentive to provide extensive disclosure because they can get cheaper financing from local banks; thus there is no pressure to attract investors.

In contrast, Eng and Mak (2003) suggest that state-owned companies may disclose more information because they have greater incentive to communicate with other shareholders, as the interest of the nation is the main concern of the government. Luo et al. (2006, p.506) also argue that state-owned companies may disclose more information "to reflect the state's commitment to initiate financial market reform".

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[87] The methods to determine the ultimate owner or controlling shareholder of a company were discussed in detail in Chapter 5.

Prior studies have shown mixed results regarding the influence of government ownership on corporate disclosure. Wang et al. (2008) and Eng and Mak (2003) found a significant positive association between government ownership and the extent of voluntary disclosure in China and Singapore, respectively. In Malaysia, a significant positive association between government ownership and the extent of voluntary disclosure was demonstrated by Amran and Susela (2008), but no association was reported by Ghazali and Weetman (2006).

Since the association of the government with political connections and cronyism is well documented in the literature (e.g. Johnson and Mitton, 2003; Gomez and Jomo, 1999), it could be argued that GLCs provide less mandatory disclosure in order to protect their political connections or cronies. Alternatively, it could also be argued that GLCs will disclose more mandatory information because they need to show their accountability to the public and maintain their good reputation in the country (consistent with stakeholder theory and legitimacy theory). This is because GLCs play a significant role in the Malaysian economy, and they are always in the public eye and monitored by opponent political parties. Furthermore, since 2004 the government has committed to improve the performance and reputation of GLCs through the GLC Transformation Programme (see Chapter 4) whereby one should also expect that GLCs are more transparent in corporate disclosure.

Given these mixed arguments, this study does not predict any direction of whether state-owned companies provide more or less mandatory disclosure in their annual reports. This study uses a dummy variable of one if a company is government-owned (where the government is a significant shareholder with 20% ownership or more), and zero otherwise, as a proxy of government ownership. The hypothesis is:

H3: The extent of compliance with IFRS disclosure requirements is significantly associated with government ownership.

6.3 Corporate Governance Mechanisms

According to agency theory, corporate governance mechanisms can alleviate conflicts between management and shareholders (Xie et al., 2003). Corporate governance mechanisms are a set of controls specially designed to protect the interests of investors and to ensure that a corporation is managed efficiently (Donelly and Mulcahy, 2008). The board of directors and audit committee have been identified as important elements in corporate governance process that are responsible for safeguarding the quality of financial reporting in the organisation (Mangena and Pike, 2005). Nevertheless, the effectiveness of the board of directors and audit committee in discharging their responsibilities is a function of several factors, such as the number of members on the board and audit committee, the frequency of annual meetings, the duality position of the chairman, and the proportion of independent non-executive directors on the board and audit committee (Kent and Stewart, 2008; Puncheta-Martínez and Fuentes, 2007). In view of this, the characteristics of the board of directors and audit committee are taken into consideration in examining the effect of corporate governance mechanisms on compliance with IFRS disclosure requirements.

6.3.1 Independent Non-Executive Directors on the Board

The Bursa Malaysia describes an independent director as a "director who is independent of management and free from any business or other relationship which could interfere with the exercise of independent judgement", where he/she is not an executive director or major shareholder of the company or someone related to any executive director,

officer or major shareholder of the company.[88] The Bursa also imposes that at least one third of directors on the boards of public listed companies be independent directors.[89]

From agency theory perspective, companies with a high proportion of independent non-executive (external) directors have less managerial opportunism and are more effective in monitoring management; thus greater financial disclosure is expected from these companies (e.g. Donnelly and Mulcahy, 2008; Basset et al., 2007). According to Fama and Jensen (1983), external directors may be concerned about their reputation as experts in decision control, and thus are not likely to collude with internal managers to expropriate a firm's wealth.

However, the empirical findings on the influence of independent non-executive directors on corporate disclosure are mixed. Several studies found a significant positive association between the extent of voluntary disclosure and the proportion of independent non-executive directors, such as Donnelly and Mulcahy (2008) in Ireland, Cheng and Courtenay (2006) in Singapore, Gul and Leung (2004) in Hong Kong and Adams and Hossain (1998) in New Zealand. However, Al-Akra et al. (2010) and Eng and Mak (2003) found that the proportion of independent non-executive directors was significant and negatively associated with the extent of mandatory disclosure in Jordan and the extent of voluntary disclosure in Singapore, respectively. Several studies also reported no association between the proportion of independent non-executive directors and the extent of mandatory disclosure, such as Kent and Stewart (2007), Mangena and Pike (2005), Basset et al. (2007) and Forker (1992), or the extent of voluntary disclosure, such as Ghazali and Weetman (2006) and Ho and Wong (2001a).

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[88] Bursa Listing Requirements, Practice Note 13, paragraph 1.1.
[89] Bursa Listing Requirements, Rule 15.02.

Despite these mixed findings, this study expects that the proportion of independent non-executive directors will contribute positively to the extent of mandatory disclosure. This is because the government has emphasised that Malaysian companies must adopt the best corporate governance practices. Thus this study expects that the independent non-executive directors will discharge their responsibilities diligently and accordingly enhance the mandatory disclosure. This study measures the independence of board members by the ratio of the number of independent non-executive directors on the board over the total number of board members. The hypothesis is:

> *H4: The extent of compliance with IFRS disclosure requirements is significant and positively associated with the proportion of independent non-executive directors on the board.*

6.3.2 Duality

From agency theory perspective, board independence can be weakened if there is duality of the roles of CEO and chairperson of the board of directors, consequently reducing the quality of disclosure (Basset et al., 2007; Forker, 1992). This is because a person with role duality may have incentive to abuse their power when he/she can control the board (Donnelly and Mulcahy, 2008). Thus it is likely for a combined CEO/chairperson to hide unfavourable information from the public or other shareholders (Ho and Wong, 2001a).

Nevertheless, prior studies have shown mixed results regarding the duality issue. Basset et al. (2007) and Gul and Leung (2004) found that the extent of corporate disclosure is significant and negatively associated with CEO duality in Australia and Hong Kong, respectively. Similarly, Forker (1992) also demonstrated that CEO duality was significant and negatively associated with the quality of share-option disclosure in the

UK. Several studies also found no association between the extent of disclosure and CEO duality, such as Donnelly and Mulcahy (2008) in Ireland, Kent and Stewart (2008) in Australia, Ghazali and Weetman (2006) and Haniffa and Cooke (2002) in Malaysia, and Ho and Wong (2001a) in Hong Kong.

In Malaysia it was recommended by the Malaysian Code on Corporate Governance to separate the roles of board chair and CEO to enhance the effectiveness of governing functions of the board. Therefore, based on agency theory arguments, this study expects less compliance with mandatory disclosure when the CEO is also the chairman of the board. This study measures duality by using a dummy variable of one if the CEO is also the chairman of the board, and zero otherwise. The hypothesis is:

> *H5: The extent of compliance with IFRS disclosure requirements is significant and negatively associated with role duality.*

6.3.3 Size of the Board

Although the board of directors is an important mechanism in corporate governance, no rule has mentioned how many members should be appointed to the board to ensure the effectiveness of its governance system. There are mixed arguments regarding a large and small size of the board to effectively monitor the agency costs in firms. While a large board could be ineffective due to poor communication and inefficient decision making, a small board may result in insufficient expertise to discharge its governance responsibilities (Basset et al., 2007). Alternatively, it has been suggested that a large board can effectively curb the CEO's power to act on his own interests because getting consensus from a large board is rather more difficult than from a small board (Singh and Harianto, 1989). Similarly, a small sized board was also argued as being more effective

because it can reduce the possibility of free riding among directors, thereby increasing the accountability of individual directors; thus, timely strategic decisions can be made (Abdul Rahman, 2009). The above arguments show that there is no clear-cut relationship between board size and the effectiveness of corporate governance.

Prior studies have shown mixed results regarding the influence of board size on corporate disclosure practices. While Al-Akra et al. (2010) and Kent and Stewart (2008) found a significant positive relationship between board size and the extent of mandatory disclosure, Basset et al. (2007), Donelly and Mulcahy (2008) and Cheng and Courtenay (2006) found no association between board size and the extent of voluntary disclosure.

Since the optimum size for a board of directors is unclear, the study does not predict any direction for the relation between board size and the extent of mandatory disclosure. A total number of board members is used as a proxy for board size in this study. The hypothesis is:

> *H6: The extent of compliance with IFRS disclosure requirements is significantly associated with board size.*

6.3.4 Board Meeting

The Malaysian Code on Corporate Governance (2000) also does not give any definite rule on how many times board meetings should be held in each financial year. However, agency theory predicts that frequent board meetings imply that the board is effectively performing their corporate governance duties (Kent and Stewart, 2008). Frequent board meeting can facilitate information sharing among board members (Laksmana, 2008) and the members can also perform their intended capacity (Xie et al., 2003).

Prior studies have shown a significant positive association between frequency of board meeting and the quality of financial reporting. Kent and Stewart (2008) found that there was a significant positive association between the frequency of board meetings and the extent of mandatory disclosure of Australian public listed companies. Xie et al., (2003) documented that frequent board meeting was associated with lower level of earnings management. Vafeas (1999) also demonstrated that board that meets frequently during the financial crisis was associated with improvement in financial performance.

Based on these findings, this study expects that the level of compliance with mandatory disclosure increases with the frequency of board meetings. This study uses a number of meetings held per year as a proxy for board meeting. The hypothesis is:

> *H7: The extent of compliance with IFRS disclosure requirements is significant and positively associated with the frequency of board meetings.*

6.3.5 Audit Committee Independence

From agency theory perspective, the independence of the audit committee is enhanced if the majority of its members are independent non-executive directors (Pucheta-Martínez and Fuentas, 2007). Audit committee independence can ensure the independence of external auditors and accordingly increase the audit quality (Favere-Marchesi, 2000). Furthermore, independent directors are more responsive to investors; thus, they are more likely to enforce compliance with mandatory disclosure requirements in the financial statements (Mangena and Pike, 2005). However, Kent and Stewart (2008) and Pucheta-Martínez and Fuentas (2007) did not find any association between audit committee independence and quality of corporate disclosure.

In Malaysia, the Bursa Listing Requirements clearly prescribe that an audit committee should be composed of at least three non-executive directors, whereby the majority are independent and the chairman of the audit committee should be an independent non-executive director. Consistent with the agency theory perspective, this study expects that the extent of compliance with mandatory disclosure will increase with the proportion of independent non-executive directors on the audit committee. The hypothesis is:

> *H8: The extent of compliance with IFRS disclosure requirements is significant and positively associated with the proportion of independent non-executive directors on the audit committee.*

6.3.6 Audit Committee Size

Similar with the board size arguments, there is no definite guideline on the optimum size of an audit committee. Large audit committees may have more expertise and will enjoy greater authority in decision making, but can be less effective if they become too large, because of coordination and process problems (Kent and Stewart, 2008; Pucheta-Martínez and Fuentas, 2007). Prior studies also found mixed results regarding audit committee size. Kent and Stewart (2008) found a significant negative association between audit committee size and the extent of mandatory disclosure, whereas Pucheta-Martínez and Fuentas (2007) found a significant positive association between audit committee size and the likelihood of receiving qualified audit reports. Mangena and Pike (2005), on the other hand, did not find any relationship between the level of interim disclosure and audit committee size. Based on these arguments, this study does not give any direction regarding the relationship between audit committee size and the extent of mandatory disclosure. The hypothesis is:

H9: The extent of compliance with IFRS disclosure requirements is significantly associated with audit committee size.

6.3.7 Audit Committee Meeting

According to agency theory, audit committees that meet frequently are more likely to perform their duties effectively, thus increasing the chances of resolving any financial reporting problems (Pucheta-Martínez and Fuentas, 2007). Consequently, the likelihood of material errors and non-compliance with mandatory rules in financial statements is lower (ibid). Prior studies also found mixed results regarding the impact of audit committee meeting on the quality of disclosure. Kent and Stewart (2008) found that the extent of mandatory disclosure is positively related to the frequency of audit committee meetings. Xie et al. (2003) documented a significant negative association between the frequency of audit committee meeting and discreationary current accruals, suggesting that the level of discreationary accruals is reduced when the meeting is held ferquently. However, Pucheta-Martínez and Fuentas (2007) found no association between the number of audit committee meetings held and the likelihood of receiving qualified audit reports,

Based on agency theory perspective, this study expects that the level of compliance will increase if the audit committee meets frequently. The hypothesis is:

H10: The extent of compliance with IFRS disclosure requirements is significant and positively associated with the frequency of audit committee meetings.

6.3.8 Audit Committee Expertise

From agency theory perspective, the effectiveness or competence of an audit committee can be enhanced if the audit committee members are selected from those who have accounting or financial management expertise (Kent and Stewart, 2008; Pucheta-Martínez and Fuentas, 2007). This is because committee members with accounting or financial expertise have the ability to read and understand financial statements; thus, they are in a better position than other members to understand the auditor's judgments and advise the management on financial reporting issues (Mangena and Pike, 2005).

Nevertheless, prior studies have shown mixed results regarding the effect of audit committee expertise and disclosure. Kent and Stewart (2008) found a negative association between audit committee expertise and the extent of mandatory disclosure, whereas Mangena and Pike (2005) found a positive relationship between audit committee expertise and the extent of interim disclosure.

This study expects that audit committee members with accounting or finance expertise can discharge their duties diligently because they are more familiar with the accounting standards requirements and thus can detect any discrepancies, errors or non-compliance in financial statements. In Malaysia, effective 1 October, 2007, the revised code of corporate governance also requires that all audit committee members should be able to read, analyse and interpret financial statements, and at least one member should be a member of a professional accounting body. This study uses the ratio of the number of audit committee members with an accounting or finance background over the total number of audit committee members as a proxy of audit committee expertise. It is hypothesised that:

H11: The extent of compliance with IFRS disclosure requirements is significant and positively associated with the proportion of audit committee experts on the audit committee.

6.4 Culture

According to Lim (1998), Bumiputras (Malays) possess cultural values of high uncertainty avoidance, high power distance, collectivism, femininity and short-term oriented, whereas Malaysian Chinese are described as possessing low uncertainty avoidance, high power distance, collectivism, masculinity and long-term oriented cultural values (see Section 4.2.6.2). As mentioned in Section 3.8, the Hofstede-Gray cultural framework proposes that countries or societies with high uncertainty avoidance, high power distance, low individualism (collectivism), low masculinity (femininity) and long-term oriented societal values are related to secrecy or less transparency in corporate disclosure (Radebaugh and Gray, 2002). Therefore, based on this framework, it can be argued that Bumiputras (Malays) are secretive in corporate disclosure because the Bumiputras possess almost all the secrecy cultural values mentioned above, i.e. high in uncertainty avoidance and power distance, and low in individualism and masculinity.

While Lim (1998) described the Malaysian Chinese as possessing low individualism (collectivism), Haniffa (1999) argued that the Malaysian Chinese could be more individualistic at a national level because they are not local people that will work for the glory of the country. Further, the government's policies, like the NEP, that favour Bumiputras and discriminate against other races, could also contribute to the high individualism of the Malaysian Chinese. Similarly, it has been argued that the strength of power distance values of the Malaysian Chinese is also less compared to the Bumiputras

(see Section 4.2.6.2). Therefore, at the national level, the Malaysian Chinese can be described as possessing of low uncertainty avoidance, high individualism, masculinity, low power distance and long-term orientation cultural values. This suggests that the Malaysian Chinese possess more cultural values that relate to transparency in corporate disclosure. The relationship between the secrecy cultural values and the cultural attributes of Bumiputras and the Malaysian Chinese at the national level can be summarised in Table 6.1.

Table 6.1: Secrecy Cultural Values vs. Bumiputras and Malaysian Chinese Cultural Values at the National Level

Secrecy values	High Uncertainty Avoidance	High Power Distance	Low Individualism	Femininity	Long-term orientation
Bumiputras	√	√	√	√	
Chinese					√

Note: √ = consistent with secrecy values

Based on the above arguments, it can be expected that the extent of compliance with mandatory disclosure between Bumiputra-controlled companies and Chinese-controlled companies will be different. Further, it can be argued that Bumiputra-controlled companies provide less mandatory disclosure (i.e. they are secretive) whereas Chinese-controlled companies provide more mandatory disclosure (i.e. they are transparent).

Nevertheless, it could be also argued that Bumiputras (Malays)[90] are more transparent in corporate disclosure because, as Muslims, they must follow Islamic business ethics, which emphasise transparency and full disclosure (Ghazali, 2004; Haniffa, 1999). Islam also emphasises that an individual has an obligation to society (Baydoun and Willet,

[90] In Malaysia, Malays are considered as Muslims (see Chapter 4 for details).

2000). Therefore, a Muslim is responsible for informing the society about the effect of his business operations, even if such disclosure will adversely affect his business (Napier, 2007).

Another reason that may influence Bumiputra-controlled companies to disclose more information in their annual reports is related to the legitimacy theory. Political patronage by the government has created a negative perception about the entrepreneurship abilities of the Bumiputra. Therefore, Bumiputra-controlled companies tend to legitimise their status and show their credibility in managing their businesses in Malaysia by providing greater disclosure (Haniffa and Cooke, 2005; Ghazali, 2004).

Similarly, Chinese-controlled companies may also have incentive to be less transparent to avoid government intervention or expropriation of their companies' wealth. This is because the government's policy to redistribute wealth equally among ethnic groups in Malaysia could be perceived as unfair for the Chinese (see Chapter 4 for details). This implies that, from the political cost theory perspective, the Malaysian Chinese could be less transparent in corporate disclosure.

Two prior studies that examined the effect of culture on the extent of voluntary disclosure in Malaysia have shown inconclusive results. Haniffa and Cooke (2002) found that there was a positive association between the extent of voluntary disclosure and the proportion of Malay directors on the board. However, Ghazali (2004) found that the cultural variable (Malay directors) was only significant at the univariate analysis level and not significant in the multivariate analysis. The findings by Haniffa and Cooke (2002) indicate that Malays are transparent in corporate disclosure, which contradicts Hofstede-Gray's hypotheses.

Based on the above arguments, this study does not predict any direction on the association between Bumiputra-controlled companies and the extent of mandatory disclosure in annual reports, and the association between Chinese-controlled companies and the extent of mandatory disclosure. However, since Bumiputras and Chinese have different cultural values, this study expects that the extent of compliance with IFRS disclosure requirements is different between Bumiputra-controlled companies and Chinese-controlled companies. This study uses a dummy variable of one if a company is controlled by the Bumiputra (ultimate owner is a Bumiputra, Bumiputra directors predominate the board and the CEO is Bumiputra) and zero otherwise; a second dummy variable of one is used if a company is controlled by the Chinese (ultimate owner is Chinese, Chinese directors predominate the board and the CEO is Chinese) and zero otherwise. This study develops three hypotheses to test the impact of culture:

H12: The extent of compliance with IFRS disclosure requirements is significantly different between Bumiputra-controlled companies and Chinese-controlled companies.

H13: The extent of compliance with IFRS disclosure requirements is significantly associated with Bumiputra-controlled companies.

H14: The extent of compliance with IFRS disclosure requirements is significantly associated with Chinese-controlled companies.

6.5 Control Variables: Company-Specific Characteristics

Several company-specific characteristics that have been suggested by prior research as having an impact on corporate disclosure practices are included as control variables in this study. A similar approach was also adopted by prior studies, such as Kent and Stewart (2008), Basset et al. (2007) and Mangena and Pike (2005). These control variables are: size of company, audit firm, profitability, leverage, liquidity, company age, international operation and industry type.

6.5.1 Size of Company

The accounting literature suggests that company size is an important variable in determining the extent of corporate disclosure (e.g. Ahmed and Courtis, 1999). Company size can also be a proxy for several theories, such as political cost theory, proprietary cost theory, compliance cost theory and signalling theory. Owusu-Ansah (1998) argues that large companies are highly likely to disclose more information or comply with mandatory disclosure requirements compared to smaller firms because of several factors. First, information production and dissemination costs of large companies could be lower than for smaller companies because of their economies of scale and their greater resources. This also suggests that large companies may have lower compliance costs than smaller companies (compliance cost theory). Second, competitive disadvantage (proprietary cost theory) is more severe for smaller companies if they disclose more information to the public than for large and established companies. Third, large companies are highly likely to seek external funds from the capital market (capital need theory); thus greater disclosure is needed to increase investors' confidence and make financing easier and cheaper.

Additionally, large companies are more visible and exposed to high political costs, thus they may have incentive to disclose more information to reduce such costs (Watts and Zimmerman, 1986). The majority of studies also found that size is positive and significantly related to the extent of disclosure, such as Raffournier (1995), Akhtaruddin (2005), Wallace and Naser (1995) and Cooke (1991).

According to Cooke (1991, p.176) company size can be measured in "a number of different ways and there is no overriding theoretical reason to select one rather than another". This study uses total assets and total sales as a proxy for company size, similar to the measurements used by Cooke (1989a, 1991) and Raffournier (1995). Consistent with prior studies, this study expects that the extent of compliance with IFRS disclosure requirements is significant and positively associated with company size.

6.5.2 Audit Firm

Credibility of financial disclosure is always associated with audit quality (Bushman et al., 2004). Companies employed external auditors in order to reduce the agency costs arise from the information asymmetry between managers and shareholders. It is argued that the big four audit firms can better act as monitoring mechanism and satisfies the need for better quality financial reporting than non-big four firms for several reasons. First, big four audit firms have wider expertise and experience; thus they are more competent and can give better advice regarding the application of IFRS to their clients (Palmer, 2008). Second, big four audit firms have greater incentive to maintain independence from their clients because they need to maintain their good reputation (Wang et al., 2008).

Owusu-Ansah (1998) also argued that it is unlikely for large audit firms to compromise their audit quality; they have many clients, which make them insensitive to client pressure. For large audit firms, the economic effect from the loss of a client is minimal compared to smaller audit firms (ibid). Additionally, it is argued that companies have incentive to engage with the big four audit firms to signal to the market that their financial disclosures are of high quality (Mangena and Pike, 2005); this is also in line with signalling theory.

Most studies have shown a positive relationship between the extent of disclosure and the quality of external auditors, including Palmer (2008), Owusu-Ansah and Yeoh (2005) and Ali et al. (2004). Consistent with prior studies, this study expects that the extent of compliance with IFRS disclosure requirements is significant and positively associated with audit quality. This study uses a dummy variable of one if an external auditor is from a big four audit firm and zero otherwise, as a proxy of audit quality.

6.5.3 Profitability

From agency theory perspective, managers of profitable companies have more incentive to provide more information to support their continued position and remuneration scheme (Owusu-Ansah, 1998). Guerreiro et al. (2008) argued that profitable companies have more incentive to comply with IFRS to signal that their financial information is reliable (signalling theory). Several studies also found a positive association between profitability and the extent of disclosure, such as Wang et al. (2008), Akhtaruddin (2005), and Owusu-Ansah and Yeoh (2005). However, there are also studies that found a negative association between profitability and the extent of disclosure, such as Palmer (2008) and Aljifri and Hussainey (2007).

Consistent with the arguments of agency theory and signalling theory above, this study expects the extent of compliance with IFRS disclosure requirements is significant and positively associated with profitability of companies. Return on equity (ROE) and return on assets (ROA) are used as a measure of profitability in this study.

6.5.4 Leverage

According to agency theory, highly leveraged companies have higher agency costs, thus they have greater incentive to provide extensive disclosure to reduce such costs and to assure creditors that their interests are protected (Al-Shammari et al., 2008). From stakeholder theory, it is argued that highly leverage companies provide greater disclosure to please their important stakeholders (creditors) (Roberts, 1992). However, Guerrera et al. (2008) argue that companies that rely on equity financing need to attract more investors, thus they have incentive to disclose more information or comply with IFRS than companies with higher debt financing. Moreover, companies with higher debt financing have close relationships with banks, thus reducing their incentive to provide extensive disclosure (ibid).

Prior studies also have shown mixed results regarding the association of leverage and the extent of disclosure. For example, Al-Shammari et al. (2008), Craig and Diga (1998) and Palmer (2008) found a significant positive association between leverage and the extent of disclosure. While Eng and Mak (2003) reported a negative association between the extent of disclosure and leverage, Ho and Wong (2001a) and Ali et al. (2004) found no significant association. Since the arguments about leverage are mixed, this study does not predict any direction for the association between the extent of compliance with IFRS

disclosure requirements and leverage. Similar with Palmer (2008), debt to equity ratio and debt to total assets are used as measures for leverage in this study.

6.5.5 Liquidity

Wallace and Naser (1995) argued that highly liquid companies have incentive to disclose more information to show their ability to meet short-term financial obligations without having to liquidate their other assets. This is consistent with agency theory and stakeholder theory arguments. Alternatively, Al-Akra et al. (2010) argued that less liquid companies are more likely to comply with IFRS to justify their weak financial position (consistent with signalling theory). Prior studies also found mixed results regarding the association of liquidity and the extent of disclosure. Al-Akra et al. (2010) and Wallace et al. (1994) found a significant negative association with liquidity, while Owusu-Ansah and Yeoh (2005) and Abdelsalam and Weetman (2007) found a positive association. Given these mixed arguments, this study does not predict any direction for the association between the extent of compliance with IFRS disclosure requirements and liquidity. Liquidity is measured by a ratio of current assets over current liabilities.

6.5.6 Company Age

Owusu-Ansah (1998) argued that older companies are more likely to disclose extensive information compared to younger companies because the competitive disadvantage for older companies is not as severe as for younger companies (consistent with proprietary costs theory). From compliance cost theory perspective, producing and disseminating costs, are likely to be higher and burdensome for younger companies than for older companies (ibid). Akhtaruddin (2005) also pointed out that older companies are more likely to provide more information than younger companies in order to increase their

reputation in the capital market (signalling theory and legitimacy theory). However, Haniffa and Cooke (2002) asserted that newly listed companies have been perceived as riskier than long established companies, thus they may have incentive to disclose more information in their annual reports to increase investors' confidence to invest in the companies (capital need theory). Hossain and Hammami (2009), Al-Shammari et al. (2008) and Owusu-Ansah (1998) found a significant positive association between the extent of disclosure and company age, whereas Akhtaruddin (2005), Al-Htaybat (2005) and Haniffa and Cooke (2002) found no association.

In Malaysia, all listed companies are required to comply with IFRS in the preparation of financial statements. Thus this study expects that the extent of compliance with IFRS is significant and positively associated with older listed companies because these companies have been exposed to IFRS longer than newly listed companies. In this aspect, older listed companies should be more familiar with IFRS; thus have lower compliance cost and proprietary cost. The older listed companies are also likely to to maintain their legitimacy status (legitimacy theory) by complying with all mandatory disclosure requirements. This study uses the number of years listed on the Malaysian Stock Exchange (Bursa) as a measure for company age.

6.5.7 International Operation

There are at least three incentives that influence companies with international operation to have better disclosure or compliance with IFRS. First, they need to establish their credibility to enhance their relationship with foreign stakeholders, such as customers, suppliers and governments, and this could be achieved if they comply with IFRS (Guerreiro et al., 2008). This argument is in line with legitimacy theory. Second, they

probably have more experience in managing information (Haniffa and Cooke, 2002), thus their compliance cost could be lower than companies that operate locally. Third, their political costs could be higher because their performance and consequences of operations will be monitored by international agencies and host countries (Meek et al., 1995), thus they would provide more mandatory disclosure to reduce such costs.

Guerreiro et al. (2008) demonstrated that Portuguese listed companies with international operation are better prepared to adopt IFRS than companies without international operation. Al-Shammari et al. (2008), Kent and Stewart (2008) and Soewarso et al. (2007) found that companies with international operation provide more mandatory disclosures.

Based on the arguements above, this study expects that the extent of compliance with IFRS disclosure requirements is significant and positively associated with companies with international operation. This study uses a dummy variable of one if a company has subsidiary or associate companies abroad, and zero if a company does not have any overseas subsidiary or associate companies.

6.5.8 Industry

Prior research argues that disclosure differs across industries (e.g. Aljifri and Hussainey, 2007; Akhtaruddin, 2005; Cooke, 1989) because of several factors. First, certain industries are possibly more highly regulated than others, perhaps because of their significant contribution to the country's economy (Owusu-Ansah, 1998); this is in line with political cost theory that posits important industries are highly visible and expose to public scrutiny. Second, companies that produce consumer products are highly likely to comply with all mandatory disclosures in order to enhance their public image (signalling

theory and legitimacy theory); thus disclosure practices also differ depending on the type of product that the companies produce (ibid). Meek et al. (1995) argued that proprietary costs are different across industries; thus companies in certain industries are more sensitive to disclosing information to the public than companies in other industries. In line with these arguments, prior studies also documented that there is a significant association between industry type and the extent of corporate disclosure. For example, Cooke (1989) demonstrated that the Swedish trading industry has less voluntary disclosure than other industries. Haniffa and Cooke (2002) documented that the consumer product sector has less voluntary disclosure than other industries in Malaysia.

Therefore, this study expects that the extent of compliance with IFRS disclosure requirements is also associated with industry type. Two major industries are examined in this study: the manufacturing industry (consisting of consumer and industrial products) and the trading/services industry. A dummy variable (1, 0) will be used to represent these two types of industry.

6.6 Summary

This chapter has discussed a number of hypotheses that were developed to answer the second research objective of this study. The research hypotheses were formulated based on the relevant theoretical frameworks, prior empirical findings and factors relevant to the Malaysian context. Specifically, three important factors are examined in terms of their impact on the extent of compliance with IFRS disclosure requirements, namely ownership structures, corporate governance mechanisms and culture. Additionally, several company-specific characteristics that are included as control variables in the regression models have also been discussed in this chapter.

A summary of measurement variables and their predicted sign as hypothesised in this study is presented in Tables 6.2 and 6.3 below. Information on independent and control variables was extracted from the annual reports, except for information on ownership structure, where various sources were sought to identify the ultimate owners of companies (see Chapter 5 for details).

Table 6.2: Summary of Independent Variables Measurement

Independent Variable	Label	Measurement	Predicted Sign
(a) Ownership Structure			
Ownership concentration	Owncon	Proportion of shares owned by major/large shareholder	?
Family-owned companies	Family	Dummy value (1 = if a major shareholder of a company is individual/family; 0 = otherwise)	(-)
State-owned companies	State	Dummy value (1 = if a major shareholder of a company is the government)	?
(b) Culture			
Bumiputra-controlled	Bumi	Dummy value (1 = if a company is controlled by Bumiputra; 0 = otherwise)	?
Chinese-controlled	Chinese	Dummy value (1 = if a company is controlled by Chinese; 0 = otherwise)	?
(c) Board of Directors			
Board Size	BODsize	Number of members on the board of directors	?
Board Meeting	BODmeet	Number of board meetings held during the financial year	(+)
Board Independence	BODInde	Proportion of independent non-executive directors on the board of directors	(+)
Duality	Duality	Dummy value (1 = Chairman of the board of directors is also CEO; 0 = otherwise)	(-)
(d) Audit Committee			
Audit Committee Size	ACsize	Number of audit committee members	?
Audit Committee Meeting	ACmeet	Number of audit committee meetings held during the financial year	(+)
Audit Committee Independence	ACInde	Proportion of independent non-executive directors on the audit committee	(+)
Audit Committee Expert	ACexpert	Proportion of audit committee with an accounting and/or finance background	(+)

Notes:
(+) = positive association; (-) = negative association; (?) = no predicted direction

Table 6.3: Summary of Control Variables Measurement

Control Variable	Label	Measurement	Predicted Sign
Size of Company	Size	Total assets; total sales	(+)
Size of Audit Firm	Auditor	Dummy value (1 = Big 4 Audit Firms; 0 = otherwise)	(+)
Profitability	Profit	ROE = Net Income/Equity; ROA = Net Income/Total Assets	(+)
Leverage	Lev	DTE = Total liabilities/Equity; DTA = Total liabilities/ Total Assets	?
Liquidity	Liquidity	Current assets/current liabilities	?
Company Age	ListAge	Number of years listed on the Stock Exchange (Bursa) up to 31 December 2008	(+)
International Operation	IntOp	Dummy value (1 = If a company has a subsidiary located abroad; 0 = otherwise)	(+)
Industry Type :			
Manufacturing	MFG	Dummy value (1 = manufacturing industry; 0 = otherwise)	?
Trading/ services	TRADING	Dummy value (1 = trading/services industry; 0 = otherwise)	?

Notes:
(+) = positive association; (-) = negative association; (?) = no predicted direction

CHAPTER 7: COMPLIANCE WITH IFRS IN MALAYSIA AND REGULATORY ENFORCEMENT

7.1 Introduction

This chapter addresses the first research objective of this study, which is to ascertain whether present regulatory enforcement is effective in curbing non-compliance with IFRS disclosure requirements in Malaysia. The following research questions have been formulated to achieve this research objective:

a) *What is the extent of compliance with IFRS disclosure requirements of Malaysian listed companies?*

b) *How do the enforcement agencies perceive and monitor compliance with IFRS in Malaysia?*

The findings for these two research questions are discussed in sections 7.2 and 7.3 respectively. Section 7.4 summarizes and concludes the chapter.

7.2 The Extent of Compliance with IFRS Disclosure Requirements in Malaysia

As stated in Chapter 5, a disclosure checklist was used to examine the extent of compliance with IFRS disclosure requirements and the compliance scores were measured using two methods, i.e. PC method and Cooke's method[91]. These two methods were employed to avoid the misleading finding which might have resulted if only one method was used (Tsalavoutas et al., 2010).

[91] See Chapter 5 for the details of the PC and Cooke's methods.

The findings of this research question are presented in Table 7.1 which shows that the level of compliance with IFRS disclosure requirements of Malaysian listed companies was 84.2% and 88.2% for the PC and Cooke's methods respectively. In this study, Cooke's method produced a higher average compliance score than the PC method. Similarly the minimum and maximum compliance scores using Cooke's method were also higher than the PC method, i.e. 65.2% vs. 53.4% and 98% vs. 97.8% respectively. Employing Cooke's method, 48% of companies examined had compliance scores at 90% and above, whereas using the PC method only 23% companies had compliance scores at 90% and above.

Overall, the findings demonstrated that Cooke's method reported higher compliance scores than the PC method. Two tests, the 'paired sample t-test' and the 'Wilcoxon test'[92], were further conducted to examine whether the compliance scores using these two methods were significantly different. It was found that the results of both tests were significant at 1%, confirming that these two methods produce significantly different compliance scores. The tests were also rerun after excluding the FRS101 (equivalent to IAS1), results also confirming that the PC and Cooke's methods produce significant differences in compliance scores[93].

Nevertheless, irrespective of the methods used, the findings showed that none of the Malaysian listed companies had fully complied with IFRS disclosure requirements, although compliance with accounting standards is mandated by law. It was observed that

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[92] Paired sample t-test and Wilcoxon test are respectively parametric and non-parametric tests used to compare two related samples.
[93] The test without inclusion of FRS101 (IAS1) was conducted because it was argued that the difference between the PC method and Cooke's method could be attributed to higher compliance in FRS101 (Tsalavoutas et al., 2010).

the standard deviations of compliance scores were 0.07 (PC method) and 0.05 (Cooke's method), indicating that variability in the mandatory disclosure practices of Malaysian companies was quite extensive. The average compliance scores reported by these two methods were also below 90%, suggesting that Malaysian listed companies do not provide high levels of mandatory disclosure. Similar with prior studies (e.g. Glaum and Street, 2003; Cairns, 2001), the present study also found that none of the examined companies received qualified audit opinion with respect to non-compliance with IFRS disclosure requirements, although their materiality issue is beyond doubt (e.g. when the average compliance scores below 60%). The present study also examined the level of compliance with each accounting standard where the results according to each standard are discussed in the next section.

Table 7.1: Frequency and Distribution of Compliance Scores (N=225)

	PC method		Cooke's method	
Mean	0.842		0.882	
Median	0.845		0.891	
Minimum	0.534		0.652	
Maximum	0.978		0.980	
Standard Deviation (SD)	0.074		0.053	
Skewness	-0.946		-1.058	
Kurtosis	1.423		1.407	
Kolmogorov-Smirnov	0.001		0.000	
Shapiro-Wilk	0.000		0.000	
Paired sample t-test	*-16.441****			
Wilcoxon test	*-12.132****			
Compliance Score Ranges	***N***	***%***	***N***	***%***
90% - 100%	52	23.1	108	48.0
80% - 89.9%	126	56.0	100	44.5
70% - 79.9%	38	16.9	16	7.1
60% - 69.9%	7	3.1	1	0.4
50% - 59.9%	2	0.9	0	0.0
< 50%	0	0.0	0	0.0
Total	225	100.0	225	100.0

Notes:
*** = the difference between the two methods is significant at the 0.001 level.

7.2.1 Compliance with Disclosure Requirements of Each Standard

Each accounting standard was examined to ascertain to what extent the Malaysian listed companies complied with each standard, thus identifying which accounting standards are the most problematic for the Malaysian listed companies to comply with. The findings are presented in Table 7.2 in descending order of the average compliance scores.

Table 7.2: Frequency and Distribution of Compliance Scores for Each Standard

Standard	N	Mean	Median	Min	Max	SD
FRS101-Presentation of Financial Statements	225	0.955	0.968	0.865	1.000	0.031
FRS 5 – Non-current Assets Held for Sale and Discontinued Operations	74	0.943	1.000	0.333	1.000	0.133
FRS116- Property, Plant and Equipment	225	0.927	1.000	0.455	1.000	0.107
FRS114 – Segment Reporting	182	0.926	1.000	0.000	1.000	0.168
FRS132- Financial Instrument Disclosure	223	0.890	0.909	0.300	1.000	0.117
FRS2 – Share Based Payment	92	0.827	0.875	0.000	1.000	0.168
FRS138 – Intangible Assets	89	0.789	0.833	0.286	1.000	0.224
FRS140- Investment Property	115	0.778	0.833	0.400	1.000	0.127
FR 3- Business Combination	72	0.771	0.800	0.125	1.000	0.181
FRS119- Employee Benefit	225	0.757	0.800	0.000	1.000	0.263
FRS117- Leases	187	0.735	0.750	0.000	1.000	0.234
FRS136 – Impairment of Assets	155	0.717	0.778	0.000	1.000	0.214

Notes:
N = number of companies for which each standard was relevant; SD= standard deviation

As demonstrated in Table 7.2, the extent of compliance varied among the standards. The highest compliance score was FRS101, i.e. 96%, followed by FRS5 and FRS116 which scored 94% and 93% respectively. Several standards had compliance scores below 80%, i.e. FRS136, FRS117, FRS119, FRS3, FRS140 and FRS138. The lowest compliance score was FRS136-Impairment of Assets (71.7%; sd. 21.4%), followed by FRS 117-

Leases (73.5%; sd. 23.4%) and FRS 119-Employee Benefit (75.7%; sd. 26.3%). Standard deviations (sd.) of these accounting standards were also high, suggesting that there is considerable variation in compliance scores for these standards.

It is also observed that the minimum compliance score for FRS136, FRS117 and FRS119 was zero, which indicates that there were companies that did not provide any of the information required by these standards. The zero minimum compliance score was also observed in the FRS114 and FRS2. Further investigation revealed that there were few companies that had zero compliance scores for these standards: six companies regarding FRS119, four regarding FRS117, one regarding FRS136, three regarding FRS114 and two regarding FRS2. A further analysis presented in Table 7.3 below showed that a considerable number of companies had compliance scores below 70% for FRS119, FRS117 and FRS136, i.e. 84 companies, 74 companies and 60 companies respectively. These findings suggest that compliance with IFRS is problematic in Malaysia and the majority of Malaysian companies have difficulty in complying with the FRS119, FRS117 and FRS136.

Table 7.3: Range of Compliance Scores for Each Standard

Standard	%	≥ 90%		80 – 89.9%		70- 79.9%		60- 69.9%		50- 59.9%		< 50%	
	N	n	%	n	%	n	%	n	%	n	%	n	%
FRS101	225	214	*95.1*	11	*4.9*	-	-	-	-	-	-	-	-
FRS5	74	60	*81.1*	4	*5.4*	-	-	9	*12.2*	-	-	1	*1.4*
FRS116	225	159	*70.7*	32	*14.2*	25	*11.1*	7	*3.1*	1	*0.4*	1	*0.4*
FRS114	182	141	*77.5*	25	*13.7*	9	*4.9*	-	-	1	*0.5*	6	*3.3*
FRS132	223	124	*55.6*	59	*26.5*	27	*12.1*	9	*4.0*	3	*1.3*	1	*0.4*
FRS2	92	30	*32.6*	29	*31.5*	24	*26.1*	5	*5.4*	1	*1.1*	3	*3.3*
FRS138	89	32	*36.0*	31	*34.8*	2	*2.2*	4	*4.5*	6	*6.7*	14	*15.8*
FRS140	115	18	*15.7*	58	*50.4*	16	*13.9*	15	*13.0*	3	*2.6*	5	*4.3*
FRS3	72	27	*37.5*	16	*22.2*	11	*9.7*	7	*9.7*	7	*9.7*	4	*5.6*
FRS119	225	103	*45.8*	11	*4.9*	25	*5.3*	**12**	*5.3*	**53**	*23.6*	**21**	*9.4*
FRS117	187	50	*26.7*	22	*11.8*	51	*16.1*	**30**	*16.0*	**11**	*5.9*	**23**	*12.3*
FRS136	155	26	*16.8*	50	*32.3*	19	*18.1*	**28**	*18.1*	**10**	*6.5*	**22**	*14.2*

Notes:
N= number of companies for which each standard was relevant

Item-by-item analysis revealed that there were several parts of the standards that received less compliance from the majority of companies. For example, for FRS136-Impairment of Assets, the majority of companies did not comply with the requirements specified in paragraph 130, i.e. those relating to the events that led to the recognition or reversal of the impairment loss, where the recoverable amount was used (either fair value less costs to sell or value in use) and the basis used to determine the recoverable amount. The details of paragraphs of the standards that received less compliance from the majority of companies are provided in Appendix I.

It has been argued that lack of compliance with the FRS136 was due to less familiarity with its requirements because the standard was new when it was first introduced in January, 2006 (Laili, 2008). This might be an acceptable explanation in the first year of adoption, but its relevance is in doubt when the lack of compliance with the standard was still observed in the financial statements for the year ending 2008, because the preparers supposedly had been well prepared or had become more familiar with the FRS136 requirements in subsequent years.

Furthermore, less familiarity with the standards is not relevant when attempting to explain the low compliance scores for FRS117 and FRS119. This is because the disclosure requirements of these two standards are similar to the previous Malaysian accounting standards (i.e. MASB17-Leases and MASB19-Employee Benefits). Preparers should therefore have no problem in understanding and familiarizing with its disclosure requirements if they are already embedded in prior accounting standards. In order to understand why the majority of Malaysian companies find it problematic to comply with these standards, interviews with preparers and auditors were also conducted, the findings from which are discussed in Chapter 9. Although the explanation for lack of compliance with these standards is unclear, it seems reasonable to conclude that one of the reasons is the ineffective regulatory enforcement in curbing non-compliance with IFRS in Malaysia[94].

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[94] This study also acknowledges that there are other factors that might influence non-compliance with IFRS. Therefore, besides regression analysis, interviews with preparers and auditors were also conducted to gain some insights into the factors that contribute to non-compliance with the standards. The findings of the regression analysis and interviews are discussed in Chapters 8 and 9 respectively.

As stated earlier, several accounting standards had compliance scores above 90%. The highest compliance score (96%) and the lowest standard deviation (0.03) for FRS101 imply that the majority of companies have complied with almost all its disclosure requirements. This may be explained in two ways: first, FRS101 is easy to comply with by the majority of companies because the standard deals with the basic disclosure requirements (e.g. name and description of entities, the key items to be included in the financial statements) and second, complying with this standard does not lead to high proprietary costs (Tsalavoutas, 2009). Higher compliance scores for FRS5, FRS116 and FRS114 in this study could be attributable to its straightforward requirements (FRS5) and the familiarity with its disclosure requirements (FRS116 and FRS114), because similar requirements were imposed in the previous Malaysian accounting standards (i.e. MASB16 and MASB14).

7.2.3 Conclusion

Several inferences can be made from the findings in Sections 7.2 and 7.2.1 above. First, the evidence of significant non-compliance with IFRS disclosure requirements of Malaysian listed companies not only indicates that that there was a lack of transparency in Malaysian financial reporting but also suggests that present regulatory enforcement is ineffective in curbing non-compliance with IFRS. Further, the companies still received unqualified audit reports despite significant non-compliance with IFRS implies that the auditors have less incentive to maintain high audit quality in Malaysia[95]. As Al-Shammari et al. (2008, p.425) note that "[n]on-compliance reflected some ineffectiveness in the functions of external auditors and enforcement bodies."

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[95] This study also investigates why unqualified audit opinions were issued despite non-compliance with IFRS disclosure requirements and the findings are discussed in Chapter 10.

Second, the findings also support the arguments made in prior studies (e.g. Zhuang et al., 2000; Tam and Tan, 2007) that, although the regulations in Malaysia appear to be well written in the laws, they are ineffective in terms of enforcement. As Al-Akra et al. (2010) note, if stringent enforcement mechanisms are not in place, the companies might treat mandatory disclosure in the same way as voluntary disclosure.

Third, the findings also show that the adoption of high quality accounting standards (IFRS) does not necessarily lead to high quality financial reporting or to an increase in transparency if enforcement is not in place. This is also consistent with the arguments posited by Ball et al. (2003) and Leuz (2010).

Fourth, from the methodological point of view, the findings also support arguments put forward by Tsalavoutas et al. (2010) that different methods produce different compliance scores, which can lead to a different perception about the level of compliance in a country if only one method were used. As shown in this study, Cooke's method produces higher compliance scores than the PC method. It therefore justifies the contention of this study that using two methods can avoid reporting a biased or misleading result.

Fifth, from a theoretical perspective, the findings are consistent with the institutional theory arguments (see section 3.7.4) that, the actual (*de facto)* reporting practices of companies may deviate (or decouple) from the society's expectation[96] while at the same time retain their legitimacy status. This is achieved by declaring that the preparation of financial statements is in accordance with the MASB approved accounting standards. The companies' legitimacy status was further reinforced with the unqualified audit

[96] The society may expect the companies to fully comply with IFRS because compliance is mandated in Malaysian law.

reports by auditors although the companies in fact did not fully comply with IFRS disclosure requirements. More worryingly, unqualified audit reports were also issued despite significant non-compliance with IFRS disclosure requirements. This indicates that the decoupling activities of companies go unnoticed within society if there has simply been a reliance on the declaration made in the financial statements and the audit reports issued by auditors.

Additionally, some poor reporting practices were also observed during the review of financial statements. It was found that several companies disclosed in their notes to the financial statements certain information that is irrelevant to the circumstances of the companies. For example, the companies reported the accounting policy that they used for segment reporting and investment property; however, after detailed reading and examination of their annual reports, it was found that this disclosed information was irrelevant to those companies. In this case it is highly likely that the companies simply reproduced the template[97] disclosures prepared by their auditors in order to comply with IFRS. In the first place, the usage of template disclosure is intended to assist the preparers in complying with IFRS. However, it becomes harmful if the preparers merely comply by ticking boxes instead of taking the initiative to fully comprehend the requirements of IFRS. As Palmer (2008) argues, this boilerplate practice not only affects the quality of financial reporting but the information disclosed also misleads the users of financial statements. This is also one of the important areas that must be of concern to regulators, auditors and policy makers in order to improve the quality of financial reporting.

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[97] Palmer (2008) refers the disclosure template prepared by auditors as ‘boilerplate’.

7.3 Perceptions of Regulators Regarding Compliance with IFRS in Malaysia

Although non-compliance with mandatory disclosure indicates the ineffectiveness of enforcement mechanisms, a more valid conclusion might be drawn if it can be supported by other evidence[98] especially when enforcement with accounting standards is comprehensively covered in regulations (e.g. Companies Act, regulators' annual reports and webpage). This section therefore provides the answer to the second research question: *How do the Malaysian regulators perceive and monitor compliance with IFRS in Malaysia?*

In view of this, interviews with the respective officers of the Securities Commission (SC), the Companies' Commission of Malaysia (CCM) and the Malaysian Institute of Accountants (MIA) were also conducted to gauge their perceptions about compliance with IFRS in Malaysia and to ascertain how they monitor compliance. However, it is important to note that, at the request of interviewees, their actual words are not quoted.

(a) How do the regulators perceive compliance with IFRS in Malaysia?

Generally, all the representatives from the regulatory bodies did not view compliance with IFRS as presenting a major problem in Malaysia. They also believed that the level of compliance with IFRS in Malaysia was high, and cited several reasons to support their opinions, although there is no statistical evidence to support their belief.

Firstly, they argued that the previous Malaysian accounting standards (i.e. MASB standards) had been based on the IAS since 1978, thus they believed that the Malaysian

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[98] Arksey and Knight (2007) refer to the various approaches used to reinforce the findings as a triangulation technique.

listed companies were familiar with IFRS and supposedly did not face major difficulties in coping with the IFRS requirements compared with countries that were adopting the IFRS for the first time. Although they acknowledged that the FRS139-Financial Instruments: Recognition and Measurement (equivalent to IAS39) was quite complicated, they argued that the standard would have a major impact only on financial institutions rather than on all industries in Malaysia. Even if the FRS139 may also have been applied to companies that had used the financial instruments, they commented that these companies were supposedly well prepared because the companies had four years to prepare since the first time it was proposed in January 2006[99].

Secondly, they believed that Malaysian listed companies would comply with the IFRS because this was mandated in law, and companies would be penalised if they did not comply with the approved accounting standards. The representatives from the SC also argued that there were cases where the public listed companies were penalised for not complying with the accounting standards, and these cases being published on the SC webpage[100]. Although the published cases showed that only a few companies have been convicted for non-compliance with accounting standards (specifically, one case in 2009 and four in 2005), they believed that this could be a lesson to other listed companies because the actions taken by the SC would tarnish the company's reputation. Nevertheless, the SC representatives claimed that they could not disclose further information about these non-compliance cases other than that published on the webpage or in public circulars, since such information was considered confidential.

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[99] Compliance with FRS139 was effective only from 1 January 2010.
[100] Companies were directed to rectify and reissue the financial statements and then to make announcement to the Bursa Malaysia regarding the rectification (see Sections 4.3.4 for details).

The MIA representatives also claimed that non-compliant companies were penalised, giving examples of seven cases handled by the MIA in 2007 and one case in 2009, all relating to non-compliance with IFRS. In these cases, warning letters were issued to the preparers and auditors, and the companies' financial statements were put under MIA surveillance for two consecutive years. As with the SC, the MIA representatives also stated that they could not share further information about these non-compliance cases. The reason why these companies did not comply with IFRS therefore remains unknown to the public.

(b) How do the regulators monitor compliance with IFRS in Malaysia?

Having sought the regulators' views regarding compliance with IFRS in Malaysia, the researcher also challenged them with the findings of this study, presented in Section 7.2, i.e. that there was a significant non-compliance with IFRS disclosure requirements and that none of the companies received a qualified audit report despite significant non-compliance. On this question, the regulators referred to the constraints in manpower and budgeting that they faced in monitoring compliance with IFRS. They argued that it was impossible for them to monitor all the public listed companies in Malaysia and therefore it is highly likely their investigation overlooked companies with poor compliance level[101]. The responses from each regulator agency are described below.

The SC representatives argued that they could not review all the financial statements of listed companies with only twenty staff employed in the Financial Reporting and Compliance Surveillance Department (FRSC). Instead, monitoring of compliance with

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[101] The responses regarding unqualified audit reports are discussed in Chapter 10.

IFRS was based on referral, i.e. when the cases were referred by the MIA or Bursa or by public complaints. Furthermore, not all accounting standards were subject to review by the FRSC; only selective accounting standards were checked for compliance and priority was given to the revenue accounting standard because they believed that companies might have a tendency to manipulate the accounting revenue or be involved in fraud. The SC representatives also claimed that they could not penalize the auditors in non-compliance cases because this was not covered under the current SC's regulations. In this case, the convicted auditors would be referred to MIA for disciplinary action. However, they believed that the situation might change when the Audit Oversight Board (AOB) came into effect on 1 April 2010 because the AOB was under the auspices of the SC, and that endowed the SC with more authority to oversee the auditors[102]. According to the SC representatives, since 2002 the SC had adopted proactive approaches in monitoring compliance with accounting standards. Among the approaches adopted by the SC to encourage compliance with accounting standards are through discussions and dialogues conducted with the listed companies. Given the constraints in resources, they believed that these proactive approaches were more appealing than punitive action in handling non-compliance with accounting standards in Malaysia.

The MIA representatives also asserted that since 2007 the Financial Statements Review Committee (FSRC) had given priority to those cases referred by the SC, CCM and Bursa Malaysia. They also highlighted that the MIA had limited authority to enforce compliance with accounting standards to all preparers because it could only enforce MIA members; they could not penalize preparers who were not members of MIA, in which

[102] At the time of the interviews, the AOB has yet to become effective. Refer to Section 4.3.6 for details of AOB

case it would be referred to the SC. Similar with the SC, the MIA's representatives also believed that an educational approach was more appealing than punitive action in handling non-compliance with accounting standards. According to the MIA representatives, the MIA did not disclose the names of companies, preparers and auditors convicted of non-compliance because this would contradict their main objectives, which were to educate their members (i.e. preparers and auditors) and to create awareness regarding compliance issues. One of the MIA representatives was also of the opinion that it would be unfair to members if their names were disclosed if the objective was only to educate or create awareness about the issue.

The CCM representatives, on the other hand, could not make further comment on the question because they claimed that they had so far never handled any non-compliance with accounting standards. They also explained that their main focus was on compliance with the Companies Act 1965 (i.e. regarding the timely submission of financial statements) rather than on compliance with the accounting standards. Furthermore, the CCM was concerned with private enterprises rather than public listed companies. Several inferences can be made from the above interview findings.

First, while both the SC and CCM have been entrusted by laws to monitor compliance with accounting standards in Malaysia, the interviews reveal that only the SC has monitored compliance with accounting standards, whereas the CCM has focused solely on compliance with the Companies Act 1965, i.e. in terms of timely submission of financial statements of private enterprises.

Second, although it was claimed that compliance with accounting standards has been monitored by the SC, their proactive approaches can be considered as lenient. The interviews also reveal that monitoring of compliance has been based on referrals and that not all accounting standards are given the same priority and are subject to review by the SC. Therefore, it is not surprising when only a few convicted cases with respect to non-compliance with IFRS were reported from 2002 to 2009. This suggests that that enforcement of compliance with accounting standards or IFRSs is quite lax in Malaysia.

Third, although the MIA has also conducted a regular review of financial statements of public listed companies, enforcement of compliance by MIA is restricted to their members only. Furthermore, the approach taken by MIA in not disclosing the names of members convicted for non-compliance cases casts doubt on whether it can effectively promote compliance with accounting standards. It is highly likely this approach provides less incentive for preparers to comply and for auditors to maintain their independence, knowing that the consequences of non-compliance remain invisible from the public.

Finally, the interviews reveal that all the regulators do not perceive compliance with IFRS to be a major problem in Malaysia because it is believed that Malaysian companies are already familiar with IFRS and also that compliance is mandated in law. While the interviews indicate that the constraint in resources has limited the regulators' capabilities in monitoring compliance with accounting standards, it is also possible that their positive perceptions regarding this issue also contribute to the lenient approach adopted by the regulators in monitoring compliance. As stated by Gibbins et al. (1990) this is because the way in which people perceive a certain issue would also influence their conduct on that issue.

In summary, the findings of the interviews suggest that, although a set of mechanisms is in place to ensure compliance with the approved accounting standards, the activities of enforcement agencies are lax and insufficient. It has been argued that in the lenient regulatory environment, companies are unlikely to comply with IFRS if they perceive that the consequences of non-compliance are not serious (Tay and Parker, 1990). These interview findings therefore support the conclusion made in section 7.2 above that the enforcement mechanisms in Malaysia are ineffective in curbing non-compliance with IFRS.

7.4 Summary and Conclusion

This chapter has answered the first research objective of the thesis, which is to ascertain whether present regulatory enforcement is effective in curbing non-compliance with IFRS in Malaysia.

The findings show that the level of compliance with IFRS in Malaysia was 84.2% or 88.2% (depending on the methods used) and that none of the sampled companies had fully complied with IFRS disclosure requirements. Analysis of compliance scores for each standard also demonstrate that the average compliance score for six accounting standards was below 80% and that there were companies that did not provide any of the disclosure items required by some standards - this is shown by a zero minimum compliance score. This study has also documented that it was problematic for the majority of Malaysian companies to comply with several accounting standards, i.e. FRS136-Impairment of Assets, FRS117-Leases and FRS119-Employee Benefit. More worryingly, none of the companies examined had received a qualified audit opinion, despite significant non-compliance with IFRS disclosure requirements (e.g. when the

average compliance scores below 60%). The findings not only show that compliance with IFRS is problematic in Malaysia, but also indicate that regulatory enforcement is ineffective in ensuring full compliance with IFRS. The conclusion drawn from these findings is also supported by the findings from interviews with regulators.

Overall, the findings of interviews suggest that activities of enforcement agencies are lax and insufficient to ensure that companies fully comply with IFRS. This is because the proactive approaches in monitoring compliance, such as discussions and dialogues with preparers, can be considered as lenient. Further, monitoring is based on referral cases and not all accounting standards are subject to review by the SC. Although the FRSC of the SC mirror the FRRP in the UK, it is less likely the FRSC can make a significant impact in disciplining the preparers and auditors in Malaysia. Similarly, the role of MIA in disciplining their members is also arguable since all the convicted and penalized cases have remained secret from the public.

While it may be argued that many factors might influence compliance or non-compliance with accounting standards, this study has at least demonstrated that, although regulations are mandated in laws, they are not necessarily effective in curbing non-compliance with accounting standards if proper enforcement has not been implemented. Further, it has been demonstrated that mere adoption of IFRS does not necessarily mean that the financial reporting is of high quality or that the financial report is transparent. This study also provides evidence that different methods in measuring compliance scores can result in different findings or diverse perceptions on the level of compliance with IFRS within a country. It therefore justifies the use of two methods to alleviate reporting biased or misleading findings.

The findings of this study might provide insights for regulators and policy makers to improve the level of compliance with IFRS in Malaysia. As Hope (2003, p.238) argues "if nobody takes action when rules are breached, the rules remain requirements only on paper." The level of compliance with IFRS disclosure requirements documented in this study suggests that there is not enough transparency in corporate disclosure of Malaysian companies and that this would affect the perceptions of foreign investors to invest in the Malaysian market. The problematic accounting standards identified may also help regulators to focus on monitoring compliance with these standards.

The limitations of this study are also acknowledged. First, the analysis is based on twelve accounting standards and the analysis of annual reports in 2008 only; thus the findings could be more interesting and broader if all the IFRSs are examined and if more than one accounting year were covered. Second, as argued by Tsalavoutas et al. (2010) and Al-Akra et al. (2010), mandatory disclosure studies involve subjective judgement on measuring compliance scores; this will obstruct replication and direct comparison with the findings of other studies. Further, prior studies also examined different sets of IFRS, covering different periods and different institutional frameworks, which also prevents direct comparison (Al-Shammari et al., 2008).

Thirdly, the findings from interviews with regulators are also limited by yielding only general information because of confidential issues that cannot be raised by the regulators. Findings could be more valid and of greater interest if the researcher could access and use internal information from the SC and MIA files, such as their working papers and correspondence.

While this chapter deals with the first research objective, the next chapter addresses the second research objective of this study, which considers the factors of compliance or non-compliance with IFRS from the quantitative perspective (i.e. regression analysis).

CHAPTER 8: DETERMINANTS OF COMPLIANCE WITH IFRS OF MALAYSIAN PUBLIC LISTED COMPANIES - REGRESSION RESULTS

8.1 Introduction

This chapter addresses the second research objective of the study which is to determine whether culture, ownership structure and corporate governance mechanisms have a significant impact on the extent of compliance with IFRS disclosure requirements in Malaysia. The research questions for this objective are formulated as follows:

a) *Is there any significant association between corporate ownership structures and the extent of compliance with IFRS disclosure requirements?*
b) *Is there any significant association between corporate governance attributes and the extent of compliance with IFRS disclosure requirements?*
c) *Is there any significant association between culture and the extent of compliance with IFRS disclosure requirements?*
d) *Is there any significant difference in compliance scores between Bumiputra-controlled and Chinese-controlled companies?*

Consistent with prior disclosure studies, several control variables were also included in the regression models for testing the main hypotheses. This chapter is organised into several sections. The next section provides a descriptive analysis of the independent variables. This is followed by a discussion of the univariate analysis and multivariate analysis in Sections 8.3 and 8.4, respectively. Section 8.5 discusses the multiple regression results and robustness tests in Section 8.6. Finally, Section 8.7 concludes and summarises the chapter.

8.2 Descriptive Analysis

As discussed in Section 5.4.4, this study employed two methods to measure compliance scores. Therefore, two dependent variables were used in the analysis, i.e. the PC compliance scores and Cooke's compliance scores. The independent variables used are categorised into four main groups: ownership structure, cultures, corporate governance and control variables. The descriptive statistics of these variables are provided in Table 8.1.

As shown in Table 8.1, the mean compliance score for Cooke's method is higher than the PC method, i.e. 0.882 and 0.842, respectively. The difference in compliance scores between these two methods has been discussed earlier in Chapter 7. With regard to ownership structure, this study found that family-owned companies represent the largest ownership type in the sample, i.e. 62.7%, followed by state-owned companies, at 23.6%. This is consistent with the prior research findings that the Malaysian economy is dominated by family firms (e.g. Tam and Tan, 2007). The mean ownership concentration by a single largest shareholder was 49%, and the highest ownership concentration, i.e. 87.2%, was found among the state-owned companies. It was also found that the majority of sampled companies are controlled by the Chinese (51.1%), followed by the Bumiputra (34.7%); the balance (14.2%) are controlled by other races (e.g. Indian) or companies that do not meet the criteria for either Chinese- or Bumiputra-controlled companies.

Although all the sampled companies have established corporate governance mechanisms (e.g. board of directors, audit committee), the practices of governance among these companies vary considerably (as shown by the higher standard deviation of these variables). For example, the range of board size and audit committee size vary, from 4 to

14 and from 3 to 9, respectively. These features perhaps are acceptable in the absence of specific guidelines regarding the minimum and maximum number of members on boards and audit committees. However, the minimum ratio of 0.20 for board independence (BODInde) indicates that there are companies that did not meet the Bursa Listing Requirements, which specify that at least one third of the board must consist of independent non-executive directors.[103] Furthermore, the minimum of zero audit committee meetings indicates that there are companies that did not hold any audit committee meetings during the year, and the minimum of zero audit committee experts (ACexpert) also indicates that there are companies that did not appoint any audit committee members with an accounting or finance background.[104] It was found that 26 companies (11.6%) have a CEO with a dual position, and all these 26 companies are family-owned companies. These corporate governance characteristics may suggest that the quality of governance varies among the sampled companies.

Table 8.1 also shows that none of the continuous variables are normally distributed, as measured by the skewness and kurtosis.[105] This is also supported by the significant results of Kolmogorov-Sminov and Shapiro-Wilk tests.[106] Therefore, both dependent and independent variables were transformed using normal scores to normalise the data distribution so that the parametric test can be used (see Chapter 5 for a detailed discussion of data transformation).

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[103] A further investigation reveals that 34 companies did not comply with this requirement, of which five were state-owned companies, 28 were family companies and one was a foreign company.

[104] Specifically, three companies did not hold an audit committee meeting during the year, and two companies did not have audit committee members with an accounting or finance background.

[105] The values of skewness and kurtosis above or below 0 indicate that there is a deviation from normal (Field, 2009). Gujarati (2003, p.253) suggests that data are normally distributed when the skewness and kurtosis values are 0 and 3, respectively.

[106] In this study, the Kolmogorov-Sminov and Shapiro-Wilk tests results of all continuous variables (untransformed data) were 0.000 (significant) suggesting the data are not normally distributed (Elliot and Woodward, 2007).

Table 8.1: Descriptive Statistics of Variables

Variables	Mean	Median	S.D.	Min	Max	Skew.	Kurt.
Dependent:							
CS-PC	0.842	0.845	0.074	0.534	0.978	-0.946	1.423
CS-Cooke	0.882	0.891	0.053	0.652	0.980	-1.058	1.407
Independent:							
Owncon	0.4898	0.5025	0.1515	0.2110	0.8720	0.2140	-0.5450
BODInde	0.430	0.420	0.109	0.20	0.778	0.672	0.256
BODsize	8.140	8	2.080	4	14	0.355	-0.151
BODmeet	6	5	2.225	2	16	1.657	3.849
ACexpert	0.370	0.330	0.171	0	1.000	1.804	3.574
ACInde	0.820	0.750	0.172	0.250	1.000	-0.341	-0.606
ACsize	3.52	3	0.851	3	9	2.754	11.471
ACmeet	5	5	1.684	0	17	2.128	12.726
Assets (RM million)	3,456.59	903.10	7,347.75	8.68	56,518.10	4.11	19.63
Sales (RM million)	1,935.3	526.6	4,039.3	13.8	34,044.7	4.53	25.99
ROA	0.060	0.070	0.228	-2.956	0.746	-10.332	138.617
ROE	0.140	0.140	0.298	-1.226	2.727	2.512	30.052
DTE	1.060	0.710	1.816	-1.947	22.267	7.905	85.693
DTA	0.430	0.390	0.421	0.001	5.092	6.969	70.355
Listing Age	14.29	14.00	7.87	1	48	0.59	0.91
Liquidity	2.730	1.660	3.603	0.022	31.507	4.461	26.181

Categorical:

Ownership Type	***No. (%)***	***Audit Firm***	***No (%)***	***Duality***	***No. (%)***
Family	141 (62.7%)	Big Four	162 (72%)	Yes	26 (11.6%)
State	53 (23.6%)	Non-Big Four	63 (28%)	No	199 (88.4%)
Foreign	21 (9.3%)	*Total*	*225 (100%)*	*Total*	*225 (100%)*
Widely	10 (4.4%)				
Total	*225 (100%)*				
Culture	***No. (%)***	***Industry***	***No. (%)***	***Int.Op.***	***No. (%)***
Bumi	78 (34.7%)	Manufacturing	96 (42.7%)	Yes	144 (64%)
Chinese	115 (51.1%)	Trading/services	58 (25.8%)	No	81 (36%)
Others	32 (14.2%)	Other industries	71 (68.5%)	*Total*	*225 (100%)*
Total	*225 (100%)*	*Total*	*225 (100%)*		

Notes: Definitions and measurement of these variables are provided in Chapter 6 (see Table 6.2 and 6.3).

8.3 Univariate Analysis

A Pearson product moment correlation (parametric test) was used to measure the association between the transformed dependent variables (compliance scores), the

transformed continuous independent variables and the dichotomous categorical independent variables. The hypotheses to test these variables have been discussed in Chapter 6 and are listed in Table 8.2. The results of the association between the dependent and independent variables are presented in Table 8.3. The results for untransformed data and the log of the odds ratio[107] are also provided for comparison purposes.

[107] Log of the odds ratio is also used in disclosure studies (e.g. Al-Shammari et al., 2008; Ahmed and Nicholls, 1994); the transformation is computed using the formula Y = log (p/1-p) where p is the compliance score. However, Cooke (1998) notes that this method is not always able to correct for kurtosis and skewness (Tsalavoutas, 2009).

Table 8.2: List of the Hypotheses Tested in the Study

Ownership Structures:
H1: The extent of compliance with IFRS disclosure requirements is significantly associated with ownership concentration.
H2: The extent of compliance with IFRS disclosure requirements is significant and negatively associated with family ownership.
H3: The extent of compliance with IFRS disclosure requirements is significantly associated with government ownership.
Corporate Governance Mechanisms:
H4: The extent of compliance with IFRS disclosure requirements is significant and positively associated with the proportion of independent non-executive directors on the board.
H5: The extent of compliance with IFRS disclosure requirements is significant and negatively associated with role duality.
H6: The extent of compliance with IFRS disclosure requirements is significantly associated with board size.
H7: The extent of compliance with IFRS disclosure requirements is significant and positively associated with the frequency of board meetings.
H8: The extent of compliance with IFRS disclosure requirements is significant and positively associated with the proportion of independent non-executive directors on the audit committee.
H9: The extent of compliance with IFRS disclosure requirements is significantly associated with the audit committee size.
H10: The extent of compliance with IFRS disclosure requirements is significant and positively associated with the frequency of audit committee meetings.
H11: The extent of compliance with IFRS disclosure requirements is significant and positively associated with the proportion of audit committee expertise.
Culture:
H12: The extent of compliance with IFRS disclosure requirements is significantly different between Bumiputra-controlled companies and Chinese-controlled companies.
H13: The extent of compliance with IFRS disclosure requirements is significantly associated with Bumiputra-controlled companies.
H14: The extent of compliance with IFRS disclosure requirements is significantly associated with Chinese-controlled companies.

Table 8.3: Univariate Results - Association between Independent Variables and Compliance Scores.

Transformation technique	***Normal Scores***		***Untransformed***		***Log of Odds Ratio***	
Parametric/ Non-Parametric Test	Pearson		Spearman[@]		Pearson	
Method	**PC**	**Cooke**	**PC**	**Cooke**	**PC**	**Cooke**
Ownership structures						
OwnCon	0.007	-0.002	0.002	-0.01	0.02	-0.003
Family	-0.061	0.017	-0.077	0.006	-0.067	0.012
State	0.041	0.008	0.065	0.023	0.036	0.006
Culture						
Bumi	0.099	0.07	0.12	0.076	0.095	0.069
Chinese	-0.135**	-0.062	-0.146**	-0.078	-0.140**	-0.066
Corporate Governance mechanisms						
Bodsize	0.072	0.033	0.026	-0.024	0.064	0.028
Bodmeet	0.151**	0.124*	0.154**	0.121*	0.152**	0.127*
BodInde	-0.035	-0.03	-0.03	-0.024	-0.049	-0.03
Duality	0.045	0.028	0.034	0.011	0.037	0.028
ACsize	-0.088	-0.169**	-0.076	-0.158**	-0.103	-0.192***
ACmeet	0.043	0.037	0.039	0.034	0.005	0.001
ACInde	0.109	0.123*	0.102	0.11	0.049	0.043
ACexpert	-0.053	0.016	-0.048	0.032	-0.074	0.014
Control variables						
Sales (Size)	0.014	-0.013	0.014	-0.042	0.003	-0.046
Assets (Size)	0.054	0.022	0.05	-0.004	0.028	-0.007
Auditor	0.082	0.114*	0.082	0.106	0.075	0.113*
ROE (Profitability)	0.083	0.046	0.083	0.05	0.037	0.037
ROA (Profitability)	0.064	0.025	0.06	0.021	0.12	0.097
DTE (Leverage)	-0.015	-0.005	0.002	0.009	-0.029	-0.028
DTA (Leverage)	-0.031	-0.033	-0.014	-0.012	-0.017	-0.026
Liquidity	-0.016	0.011	-0.021	0.015	-0.007	0.023
Listing Age	0.034	-0.067	0.006	-0.091	0.054	-0.072
International operation (IntOp)	0.005	-0.027	0.026	-0.022	-0.01	-0.039
Trading/services	0.021	0.008	0.034	0.009	0.019	0.006
Manufacturing	-0.102	-0.111**	-0.105	-0.133**	-0.091	-0.108

Notes:
*, **, *** correlation is significant at the 0.10, 0.05 and 0.01 levels, respectively.
@ - Spearman is a non-parametric test

As discussed in Chapters 5 and 7, the PC method and Cooke's method might produce different results. This is also shown in Table 8.3, where the strength of associations and the sign of coefficients also differ between these two methods. For example, ownership concentration is found in a positive direction for the PC method, but in a negative direction for Cooke's method. Similar results were also found for the untransformed data and log of the odds ratio. Therefore, similar with the approach taken by Tsalavoutas (2011), this study also claims that the findings are robust and valid if the results are supported by both methods used to measure the compliance scores.

As shown in Table 8.3, none of the corporate ownership variables are significantly correlated with both the PC and Cooke's compliance scores. This indicates that the extent of compliance with IFRS disclosure requirements in Malaysia is not related with ownership concentration, family ownership and government ownership. Based on these univariate tests, Hypotheses 1, 2 and 3 can be rejected. With regard to culture, only Chinese-controlled companies are significantly correlated (at 5% level) with compliance scores for the PC method. The negative direction of the association implies that the Chinese companies are less compliant with IFRS disclosure requirements. This finding contradicts Hofstede-Gray's cultural framework (see section 6.4), which suggests the Malaysian Chinese are more transparent in corporate disclosure (this is discussed again in the multivariate analysis results). Although a negative direction is also observed for Cooke's method, the association is insignificant. Since the finding is supported by one method only, this study rejects Hypothesis 14, which states that there is a significant association between the extent of compliance with IFRS and Chinese-controlled companies.

With regard to corporate governance variables, it is found that board meetings are significantly correlated with both the PC and Cooke's compliance scores, at 5% and 10% levels, respectively. Therefore, the finding supports Hypothesis 7, which suggests that compliance with IFRS disclosure requirements increases with the frequency of board meetings. It was observed that audit committee size (ACsize) was significantly correlated with compliance scores, at 5% level for Cooke's method. The negative direction of ACsize implies that mandatory disclosure increases with the smaller size of audit committees. Audit committee independence (ACInde) was found to be marginally significant (at 10% level) under the normal scores for the PC method only. The positive direction of ACInde implies that compliance with IFRS disclosure requirements increases with the proportion of independent non-executive directors on the audit committee. Nevertheless, Hypotheses 9 (ACsize) and 8 (ACInde) are rejected because the results are supported by one method only.

Other corporate governance variables (i.e. board size, board independence, duality, audit committee expertise and audit committee meeting) were found not to be significantly related with compliance scores measured by both methods. Therefore, Hypotheses 4, 5, 6, 10 and 11 are not supported in this analysis.

In terms of control variables used, only auditor and manufacturing industry are significantly correlated (at 10% level) with Cooke's compliance scores. However, the findings are not robust because they were significant using one method only. Therefore, it is concluded that none of the control variables are significantly related to the extent of compliance with IFRS disclosure requirements in the univariate analysis.

Additionally, the independent t-test and one-way ANOVA are also employed to examine whether there is a significant difference in compliance scores for the categorical independent variables. Tables 8.4 and 8.5 provide the results of the independent t-test and one-way ANOVA, respectively.

Table 8.4: Results of Differences in Compliance Scores for Categorical Independent Variables (Independent T-test)

Variable	No.	PC method				Cooke's method			
		Mean	SD	t-value	Sig	Mean	SD	t-value	Sig
Duality									
Yes	26	0.853	0.058	0.781	0.436	0.888	0.041	0.669	0.504
No	199	0.841	0.076			0.881	0.053		
Auditor									
Big four	162	0.847	0.066	1.558	0.123	0.886	0.047	1.910	0.118
Non-big four	63	0.828	0.092			0.869	0.064		
International Operation									
Yes	144	0.844	0.071	0.433	0.665	0.881	0.051	-0.182	0.855
No	81	0.839	0.800			0.882	0.055		

As shown in Table 8.4, there is no significant difference in compliance scores between companies audited by the big four audit firms and non-big four, companies with and without CEO duality position and companies with and without international operation. Similarly, Table 8.5 also shows that there is no significant difference in compliance scores among different categories of ownership, cultural variables and industry types.

Table 8.5: Results of Differences in Compliance Scores for Categorical Independent Variables (ANOVA)

Variable	No	PC method						Cooke's method					
		Mean	SD	Min	Max	F	Sig	Mean	SD	Min	Max	F	Sig
Ownership													
State	53	0.849	0.073	0.647	0.940	0.422	0.737	0.882	0.053	0.733	0.960	0.410	0.746
Family	141	0.839	0.073	0.534	0.963			0.883	0.048	0.716	0.972		
Foreign	21	0.838	0.091	0.592	0.978			0.863	0.077	0.652	0.980		
Widely-held	10	0.861	0.070	0.721	0.940			0.894	0.047	0.780	0.944		
	225												
Culture													
Bumiputra	78	0.851	0.075	0.606	0.962	2.246	0.108	0.885	0.055	0.716	0.972	0.590	0.555
Chinese	115	0.834	0.071	0.534	0.963			0.880	0.046	0.743	0.957		
Other races	32	0.850	0.082	0.592	0.978			0.876	0.069	0.652	0.980		
	225												
Industry													
MFG	96	0.832	0.079	0.534	0.978	1.047	0.353	0.874	0.058	0.652	0.980	1.696	0.186
TS	58	0.845	0.074	0.647	0.957			0.884	0.047	0.740	0.960		
Other sectors	71	0.853	0.066	0.606	0.962			0.882	0.046	0.716	0.972		
	225												

To test Hypothesis 12, another separate independent t-test was further conducted to examine whether there is a significant difference in compliance scores between the two ethnic groups (Bumiputra and Chinese). In this test, only Bumiputra- and Chinese-controlled companies were included; other groups were excluded in the analysis. The results are presented in Table 8.6, which shows a marginally significant difference (at 10% level) of compliance scores between Bumiputra- and Chinese-owned companies for the PC method but no significant difference for Cooke's method.[108] Since the finding is not robust, Hypothesis 12 is rejected, which means the extent of compliance with IFRS

[108] The non-parametric Mann Whitney test was conducted on the raw (untransformed) data, and the results are also consistent with the t-test results.

disclosure requirements between Bumiputra- and Chinese-controlled companies is not significantly different.

Table 8.6: Difference in Compliance Scores between Bumiputra- and Chinese-controlled Companies (Independent T-test)

Variable	No.	PC method				Cooke's method			
		Mean	SD	t-value	Sig	Mean	SD	t-value	Sig
Culture									
Bumiputra	78	0.851	0.075	1.899	0.059	0.885	0.055	1.145	0.254
Chinese	115	0.834	0.071			0.880	0.046		
Total	193								

In summary, the findings of univariate analysis showed that only board meeting (BODmeet) is consistently significant for both the PC and Cooke's methods, and thus this study supports the hypothesis that there is a significant and positive association between the frequency of board meetings and the extent of compliance with IFRS disclosure requirements. The findings of the independent t-test and one-way ANOVA also showed that there is no significant difference in compliance scores for categorical variables.

Nevertheless, the findings of univarite analysis are doubtful because univariate analysis does not reflect the joint effect or interaction among independent variables (Owusu-Ansah and Yeoh, 2005). Therefore, multivariate analysis is conducted to provide more reliable findings, since the test considers the interaction effects among independent variables.

8.4 Multivariate Analysis

A multiple ordinary least squares (OLS) regression was used to test the association between the dependent variable (compliance scores) and the independent variables employed in the study. The Pearson correlation test was first conducted to screen the presence of significant multicollinearity among the independent variables, and the results are presented in Table 8.7.

As shown in Table 8.7, several combinations of independent variables have correlation coefficients higher than 0.7 (see Section 5.4.5.2 for a detailed discussion of multicollinearity). These combinations include state and family (-0.719), Bumi and Chinese (-0.745) and several control variables (i.e. sales and assets; ROA and ROE; DTA and DTE), which are above 0.8. Highly significant correlations between Bumi and State (0.652) and Chinese and Family (0.642) are also observed. The high correlation between Bumi and State can be expected in a Malaysian context because the majority of state-owned companies are controlled by Bumiputra, whereas the high correlation between Chinese and Family is because the majority of family-owned companies in Malaysia are controlled or owned by the Chinese. Therefore, the combinations of these variables are also considered as presenting a potential multicollinearity problem although their correlation coefficients are below 0.7.[109]

To accommodate the highly correlated variables and the potential multicollinearity problem, these variables are alternately included in the regression models, where six regression models are developed for this purpose. In the first model, all independent

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[109] Gujarati (2003, p. 359) also notes that multicollinearity can still exist although the simple correlations are comparatively low.

variables are included except for Family and Bumi variables because Family is highly correlated with Chinese whereas Bumi is highly correlated with State. In the second model, Family and Bumi are included in the regression equation together with other independent variables, while State and Chinese are excluded. The State, Family, Bumi and Chinese variables are also tested alternately in the regression model, and the equations are represented in Models 3, 4, 5 and 6, respectively.

These six models are shown in the regression equation below and the results are presented in Table 8.8 (PC method) and Table 8.9 (Cooke's method). To avoid the multicollinearity problem for the control variables of size (assets and sales), profitability (ROA and ROE) and leverage (DTA and DTE), the regression models were run using different combinations of these three proxies, and only combinations that produced the highest adjusted R^2 were used as proxies for size, profitability and leverage.[110] The maximum and mean of the Variance Inflation Factor (VIF) for each regression model are also reported in Tables 8.8 and 8.9.[111]

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[110] This is similar with the approach taken by prior studies (e.g. Palmer, 2008; Haniffa, 1999; Wallace and Naser, 1995). It is found that the combination of assets, ROE and DTE produced the highest adjusted R^2 in this study. Therefore, they were used as proxies for size, profitability and leverage in this study.

[111] VIF is another means to determine the multicollinearity problem, and it is considered a problem when VIF exceeds 10 (Gujarati, 2003).

Model 1:

$$CS_j = \beta_0 + \beta_1 State + \beta_2 Chinese + \beta_3 Owncon + \beta_4 BODInde + \beta_5 BODsize + \beta_6 BODmeet + \beta_7 ACexpert + \beta_8 ACInde + \beta_9 ACsize + \beta_{10} ACmeet + \beta_{11} Duality + \beta_{12} Auditor + \beta_{13} IntOp + \beta_{14} ListAge + \beta_{15} Size + \beta_{16} Profitability + \beta_{17} Leverage + \beta_{18} Liquid + \beta_{19} Industry + \varepsilon_j$$

Model 2:

$$CS_j = \beta_0 + \beta_1 Family + \beta_2 Bumi + \beta_3 Owncon + \beta_4 BODInde + \beta_5 BODsize + \beta_6 BODmeet + \beta_7 ACexpert + \beta_8 ACInde + \beta_9 ACsize + \beta_{10} ACmeet + \beta_{11} Duality + \beta_{12} Auditor + \beta_{13} IntOp + \beta_{14} ListAge + \beta_{15} Size + \beta_{16} Profitability + \beta_{17} Leverage + \beta_{18} Liquid + \beta_{19} Industry + \varepsilon_j$$

Models 3, 4, 5 and 6:

$$CS_j = \beta_0 + \beta_1 X_i + \beta_2 Owncon + \beta_3 BODInde + \beta_4 BODsize + \beta_5 BODmeet + \beta_6 ACexpert + \beta_7 ACInde + \beta_8 ACsize + \beta_9 ACmeet + \beta_{10} Duality + \beta_{11} Auditor + \beta_{12} IntOp + \beta_{13} ListAge + \beta_{14} Size + \beta_{15} Profitability + \beta_{16} Leverage + \beta_{17} Liquid + \beta_{18} Industry + \varepsilon_j$$

Where:

- CS_j = compliance score computed under the PC method or Cooke's method.
- X_i = State/Family/Bumi/Chinese (alternately tested in the model)
- β = the constant
- ε_j = the error term

Table 8.7: Pearson Correlation among Independent Variables

	State	Family	Bumi	Chinese	BODInde	BODsize	BODmeet	ACexpert	ACInde	ACsize	ACmeet
State	1										
Family	-.719**	1									
Bumi	.652**	-.403**	1								
Chinese	-.463**	.642**	-.745**	1							
BODInde	0.025	-0.01	.143*	-.143*	1						
BODsize	.202**	-.161*	0.055	-0.009	-.280**	1					
BODmeet	.287**	-.136*	.305**	-.199**	0.043	0.126	1				
Acexpert	-0.038	0.029	-0.038	0.01	-0.013	-.162*	0.058	1			
ACInde	-.149*	.179**	-0.064	0.12	.359**	.135*	0.021	0.116	1		
Acsize	.158*	-.214**	0.069	-0.104	0.05	.406**	.155*	-.482**	-.200**	1	
Acmeet	0.052	0.067	.185**	-0.09	.174**	-0.008	.508**	0.063	0.084	-0.008	1
Duality	-.201**	.164*	-.205**	.187**	0.007	-.152*	0.051	0.112	-0.015	-0.034	-0.034
IntOp	-.151*	.225**	-0.115	.156*	0.052	0.064	0.113	-0.06	0.125	0.101	0.047
ListAge	0.089	-.204**	-0.023	-0.076	0.036	0.104	-0.023	-.191**	-0.109	.302**	-0.083
Assets	.208**	-.134*	.165*	-.193**	0.073	.367**	.318**	-.218**	0.103	.286**	.150*
Sales	.156*	-.174**	0.089	-.167*	0.052	.369**	.244**	-.131*	0.099	.292**	0.106
ROA	-0.002	-0.066	-0.067	0.026	0.014	0.12	-.132*	-0.006	0.009	0.066	-0.058
DTA	0.012	-0.028	0.07	-0.107	0.077	0.049	0.107	-0.041	0.005	0.101	0.069
Liquidity	-0.013	0.042	-0.094	.159*	-0.022	0.051	-0.122	-0.022	-0.006	0.001	-0.028
ROE	-0.02	-0.081	-0.045	-0.021	0.057	0.087	-.148*	0.009	0.02	0.067	-0.086
DTE	-0.074	0.074	0.018	-0.034	0.05	0.118	0.096	-0.032	0.043	0.074	0.092
TS	.224**	-0.112	.275**	-.237**	0.058	0.004	.149*	.135*	-0.002	-0.097	0.124
MFG	-0.246**	0.108	-0.307**	0.215**	-0.055	-0.098	-0.155*	0.076	-0.003	0.002	-0.113

**. Correlation is significant at the 0.01 level (2-tailed). * Correlation is significant at the 0.05 level (2-tailed).

Table 8.7: Pearson Correlation among Independent Variables (Cont')

	Auditor	Duality	IntOp	ListAge	Assets	Sales	ROA	DTA	Liquidity	ROE	DTE	TS	MFG
Auditor	1												
Duality	-0.115	1											
IntOp	-0.035	-0.019	1										
ListAge	.139*	-0.087	0.105	1									
Assets	.260**	-0.036	.259**	.282**	1								
Sales	.256**	-0.038	.276**	.270**	.833**	1							
ROA	0.004	-0.017	0.054	0.09	0.101	.218**	1						
DTA	0.048	0.009	0.017	-0.11	.220**	.242**	-.222**	1					
Liquidity	-0.025	-0.005	-0.117	0.067	-0.114	-0.098	.224**	-.563**	1				
ROE	0.034	0.01	0.054	0.059	0.094	.218**	.863**	0.071	0.018	1			
DTE	0.055	-0.03	0.025	-.132*	.384**	.374**	-0.11	.830**	-.422**	0.026	1		
TS	.164*	-0.022	0.082	-0.024	.200**	.207**	0.076	0	0.001	0.057	0.027	1	
MFG	-0.062	0.025	-0.027	0.075	-0.311**	-0.106	-0.082	-0.059	0.034	-0.053	-0.097	-0.508**	1

**. Correlation is significant at the 0.01 level (2-tailed). * Correlation is significant at the 0.05 level (2-tailed).

Table 8.8: Regression Results (PC Method)

	Predicted Sign	Model 1		Model 2		Model 3		Model 4		Model 5		Model 6	
		Coef	*t-stat*	*Coef*	*t-stat*	*Coef*	*t-stat*	*Coef*	*t-stat*	*Coef*	*t-stat*	*Coef*	*t-stat*
Constant		0.14	0.58	-0.07	-0.28	-0.09	-0.38	0.18	0.07	-0.18	-0.76	0.18	0.76
State	?	0.03	0.18			0.25	1.56						
Family	-			-0.13	-0.90			-0.25*	-1.77				
Bumi	**?**			**0.39*****	**2.65**					**0.39*****	**2.77**		
Chinese	**?**	**-0.41*****	**-2.88**									**-0.41*****	**-3.13**
Owncon	?	-0.16	-0.42	-0.18	-0.49	-0.34	-0.90	-0.17	-0.45	-0.26	-0.68	-0.17	-0.45
BODInde	+	-0.04	-0.48	-0.03	-0.43	-0.03	-0.33	-0.03	-0.41	-0.02	-0.27	-0.02	-0.23
BODsize	?	0.13	1.59	0.07	0.93	0.11	1.34	0.14*	1.77	0.10	1.26	0.13*	1.66
BODmeet	+	**0.23*****	**2.87**	**0.24*****	**3.00**	**0.23*****	**2.82**	**0.22*****	**2.69**	**0.23*****	**2.85**	**0.26*****	**3.34**
Duality	-	0.39**	1.98	0.37*	1.96	0.33*	1.83	0.35*	1.91	0.38**	2.03	0.36*	1.94
ACexpert	+	**-0.21*****	**-3.01**	**-0.19*****	**-2.64**	**-0.16****	**-2.27**	**-0.19*****	**-2.70**	**-0.18****	**-2.48**	**-0.21*****	**-3.09**
ACInde	+	0.12	1.49	0.12	1.57	0.11	1.33	0.09	1.13	0.11	1.41	0.11	1.40
ACsize	**?**	**-0.31*****	**-3.00**	**-0.33*****	**-2.96**	**-0.30*****	**-2.70**	**-0.32*****	**-2.94**	**-0.33*****	**-2.94**	**-0.30*****	**-2.89**
ACmeet	+	-0.08	-1.11	-0.08	-1.19	-0.12	-1.65	-0.09	-1.19	-0.10	-1.47	-0.08	-1.18
Auditor	+	0.17	1.17	0.17	1.14	0.27	1.28	0.21	1.45	0.23	1.58	0.15	1.02
IntOp	+	0.17	1.23	0.18	1.27	0.13	0.90	0.19	1.36	0.15	1.08	0.22	1.63
ListingAge	+	0.12	1.65	0.11	1.51	0.07	0.98	0.09	1.32	0.09	1.29	0.09	1.38
Size	+	-0.18*	-1.96	-0.19**	-2.06	-0.12	-1.32	-0.17*	-1.79	-0.14	-1.50	-0.22**	-2.30
Profit	+	**0.11***	**1.66**	**0.14****	**2.17**	**0.12***	**1.89**	**0.10***	**1.71**	**0.13****	**2.14**	**0.12***	**1.96**
Leverage	?	0.10	1.27	0.08	0.97	0.07	0.84	0.09	1.17	0.09	1.05	0.07	0.80
Liquidity	?	0.09	1.23	0.02	0.29	0.03	0.40	0.05	0.67	0.06	0.77	0.06	0.75
TS	?	-0.14	-0.95	-0.19	-1.22	-0.10	-0.69	-0.06	-0.42	-0.16	-1.01	-0.18	-1.15
MFG	?	-0.21	-1.48	-0.26*	-1.87	-0.24*	-1.75	-0.23	-1.63	-0.23	-1.61	-0.28**	-2.03
Adj. R^2		0.0969		0.1167		0.0835		0.0800		0.1050		0.1165	
F value		2.80***		2.90***		2.10***		2.28***		2.62***		3.18***	
N		215		213		213		213		215		213	
Max VIF		**2.40**		**2.35**		**2.41**		**2.38**		**2.35**		**2.39**	
Mean VIF		1.56		1.56		1.57		1.53		1.54		1.53	

* significant at the 0.10 level; ** significant at the 0.05 level; *** significant at the 0.01 level

Table 8.9: Regression Results (Cooke's Method)

	Predicted Sign	Model 1		Model 2		Model 3		Model 4		Model 5		Model 6	
		Coef	*t-stat*	*Coef*	*t-stat*	*Coef*	*t-stat*	*Coef*	*t-stat*	*Coef*	*t-stat*	*Coef*	*t-stat*
Constant		0.18	0.70	-0.12	-0.47	-0.03	-0.10	-0.01	-0.04	-0.07	-0.29	0.13	0.53
State	?	0.07	0.37			0.15	0.85						
Family	-			0.13	0.90			0.02	0.13				
Bumi	?			0.29*	1.84					0.22	1.54		
Chinese	**?**	**-0.29****	**-2.01**									**-0.25***	**-1.87**
Owncon	?	-0.08	-0.20	-0.23	-0.57	-0.26	-0.66	-0.20	-0.51	-0.29	-0.73	-0.11	-0.28
BODInde	+	-0.04	-0.46	-0.01	-0.08	0.02	0.26	0.03	0.38	0.01	0.12	-0.03	-0.30
BODsize	?	0.08	0.94	0.04	0.51	0.05	0.59	0.07	0.75	0.05	0.61	0.08	0.90
BODmeet	+	**0.21****	**2.31**	**0.22****	**2.46**	**0.20****	**2.32**	**0.22****	**2.43**	**0.19****	**2.18**	**0.21****	**2.37**
Duality	-	0.18	0.89	0.17	0.86	0.19	0.95	0.14	0.75	0.21	1.09	0.17	0.94
ACexpert	+	-0.13*	-1.87	-0.10	-1.39	-0.11	-1.41	-0.11	-1.48	-0.10	-1.45	-0.12*	-1.76
ACInde	+	0.13	1.52	0.11	1.31	0.12	1.36	0.10	1.21	0.122	1.46	0.12	1.45
ACsize	**?**	**-0.36*****	**-3.36**	**-0.35*****	**-3.13**	**-0.36*****	**-3.22**	**-0.36*****	**-3.19**	**-0.36*****	**-3.20**	**-0.36*****	**-3.38**
ACmeet	+	-0.07	-1.04	-0.10	-1.42	-0.09	-1.20	-0.10	-1.38	-0.10	-1.50	-0.08	-1.13
Auditor	+	0.22	1.47	0.27*	1.83	0.29**	2.02	0.29*	1.96	0.29*	1.96	0.22	1.45
IntOp	+	0.08	0.57	0.04	0.30	0.08	0.58	0.05	0.35	0.09	0.65	0.11	0.81
ListingAge	+	0.02	0.22	-0.01	-0.14	-0.01	-0.09	-0.01	-0.09	-0.003	-0.04	-0.01	-0.12
Size	+	-0.12	-1.22	-0.09	-0.96	-0.10	-1.12	-0.09	-1.00	-0.10	-1.05	-0.12	-1.25
Profit	+	0.09	1.26	0.13*	1.78	0.10	1.64	0.10	1.48	0.11	1.57	0.11	1.57
Leverage	?	0.05	0.61	0.04	0.44	0.06	0.73	0.04	0.47	0.05	0.64	0.05	0.57
Liquidity	?	0.10	1.33	0.07	0.89	0.06	0.89	0.06	0.70	0.07	0.87	0.09	1.21
TS	?	-0.27*	-1.71	-0.28*	-1.74	-0.22	-1.29	-0.21	-1.32	-0.24	-1.55	-0.28*	-1.77
MFG	?	-0.23	-1.54	-0.27*	-1.82	-0.26*	-1.69	-0.28*	-0.04	-0.24*	-166	-0.25*	-1.68
Adj. R^2		0.0565		0.0788		0.0657		0.0624		0.0733		0.0683	
F value		2.08***		1.88**		1.80**		1.74**		1.86**		2.23***	
N		217		218		217		217		217		216	
Max VIF		**2.43**		**2.38**		**2.38**		**2.38**		**2.37**		**2.42**	
Mean VIF		1.57		1.56		1.55		1.54		1.53		1,53	

* significant at the 0.10 level; ** significant at the 0.05 level; *** significant at the 0.01 level

8.5 Multiple Regression Results

As shown in Tables 8.8 and 8.9, the F value for all models is significant at the 0.01 level, and the adjusted R^2 indicates that the independent variables used in the study can explain about 10% (PC method) or about 7% (Cooke's method) of the variation in companies' level of compliance with mandatory disclosure. Although the explanatory powers in all models are relatively small, this is comparable to other mandatory disclosure studies (e.g. Al-Akra et al., 2010; Basset et al., 2007; Chen and Jaggi, 2000).[112] The highest VIF reported in Tables 8.8 and 8.9 are 2.43 and 2.41, respectively, which is still below 5. Thus it can be concluded that multicollinearity is not a concern in all the regression models.[113]

The results reported in Tables 8.8 and Table 8.9 are based on the observations after excluding the outliers using the standardised residual measure;[114] thus, the number of observations reported here varies from 213 to 216 depending on the methods and regression models used in the study.[115] All the regression models were also tested for heteroscedasticity using the Breusch-Pagan and White's General tests, and it was found that heteroscedasticity was not a problem. In sum, this study has performed necessary tests to ensure that it does not violate the underlying assumptions of the OLS regression

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[112] The adjusted R^2 and F values reported by these studies: Al-Akra et al. (2010) [6.3%, 1.29 for 80 Jordanian sampled companies in 1996 and 14.7%, 1.68 in 2004]; Bassett et al. (2007) [5% for 283 Australian companies in 2003]; Chen and Jaggi (2000) [9%, 2.214 for 87 Hong Kong companies in 1994].
[113] Hair et al. (2003) suggest that 5 is the maximum VIF value before multicollinearity becomes a factor (cited in Palmer, 2008, p.865).
[114] Outliers were also measured using the Cook Distance (Pallant, 2001), and the results are largely similar to the main findings. The difference is the Cook Distance is a more conservative approach which results in more outliers being removed from the analysis (Thanks to Dr. Tsalavoutas for highlighting this matter).
[115] Elliot and Woodward (2007) suggest that a standardised residual larger than 2 or 3 in absolute value may indicate an outlier, and the presence of an outlier would likely violate the homocedasticity assumption. Therefore, the results without outliers were discussed in this study as they are considered more robust compared to the results with outliers.

analysis. The findings of the regression analysis are discussed in the following sections by category of variables.

8.5.1 Ownership Structure

8.5.1.1 Ownership Concentration

As shown in Tables 8.8 and 8.9, the association between ownership concentration and the extent of mandatory disclosure is not significant in all models for both the PC and Cooke's methods. Therefore, Hypothesis 1 is not supported (refer to Table 8.2 for the list of the developed hypotheses). The finding is similar to Al-Shammari et al. (2008), who also found no significant association between the proportion of insider ownership and the extent of mandatory disclosure in GCC countries. Although this study found that ownership concentration was not significant, it was observed that the coefficient was negative, implying that companies with high ownership concentration disclose less mandatory disclosure.

8.5.1.2 Family-owned Companies

In this study, the direction sign for family-owned companies is difficult to conclude because of the inconsistent signs between the PC method (negative sign) and Cooke's method (positive sign). As discussed in Section 8.3, these different signs are attributed to the different methods used to compute the compliance scores.[116] A marginally significant (at 10% level) and negative association was observed in Model 4 for the PC method, but the variable was not significant and had a positive sign for Cooke's method. Since the

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[116] Archambault and Archambault (2003) also observed that the signs and significance of several explanatory variables changed with the model specification.

finding is not robust between the two methods, Hypothesis 2 is not supported in this study.

Although a negative and significant association between family firms and the extent of voluntary disclosure in Malaysia was documented in the literature (e.g. Haniffa and Cooke, 2002; Ghazali and Weetman, 2006), such evidence was not supported in this study. This is perhaps due to the different context and methods used in the studies. Both Haniffa and Cooke (2002) and Ghazali and Weetman (2006) studied voluntary disclosure, and the proportion of family members on the board was used as a proxy for family firms, whereas in the present study the proxy for family firms is based on the cut-off point of 20 percent shareholdings by family members. Furthermore, the present study claims the finding is only valid when the result is significant in both the PC and Cooke's methods.

8.5.1.3 State-owned Companies

It was observed that the state variable was not significant in all models for both the PC and Cooke's methods. Therefore, Hypothesis 3 is not supported. This is consistent with Ghazali and Weetman (2006) who also reported non-significant association between government ownership and the extent of voluntary disclosure.

Nevertheless, the positive sign observed implies that state-owned companies disclose more mandatory disclosure in their annual reports. This may suggest that the GLC Transformation Programme implemented by the government has brought a positive change in corporate disclosure transparency among state-owned companies (GLCs).[117]

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[117] See Section 4.2.5.2 for a detailed discussion of the GLC Transformation Programme.

The non-significance of the variable, however, indicates that more efforts need to be made by the government to increase mandatory disclosure by state-owned companies.

8.5.2 Corporate Governance Mechanisms

8.5.2.1 Board Independence

A non-significant and negative relationship was observed between board independence and the extent of compliance with IFRS for both the PC and Cooke's methods. Therefore, Hypothesis 4 is not supported. This non-significant and negative coefficient result is consistent with prior mandatory disclosure studies (Al-Akra et al., 2010; Kent and Stewart, 2007; Mangena and Pike, 2005; Forker, 1992).

However, a negative association contradicts the good corporate governance hypothesis that expects the independent non-executive directors to play a role in enhancing corporate disclosure transparency. Al-Akra et al. (2010) suggest that negative association indicates that non-executive directors are inactive in monitoring management. A possible explanation for this negative association could be attributable to a lack of independence of independent non-executive directors on the board to ensure compliance with mandatory disclosure, since the controlling shareholders have a right to appoint board members.[118] In this case the independent non-executive directors may not exercise their independent judgement if the disclosure would affect the beneficial owner or controlling shareholder.

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[118] This was highlighted in the interviews (refer to Section 9.4.2.1).

8.5.2.2 Duality

It was found that duality was significant (at 5% and 10% levels) and positively related to the extent of mandatory disclosure in all models for the PC method. Although a positive sign was also observed for Cooke's method (Table 8.9), the variable was not significant; thus it is concluded that the result is not robust. Furthermore, the positive sign is in contrast with the predicted result. Therefore, the finding does not support Hypothesis 5, which expects a negative and significant association between duality and the extent of mandatory disclosure. The non-significant and positive association is inconsistent with Basset et al. (2007) and Forker (1992), who documented a significant and negative association between dominant personality and the extent of mandatory disclosure.

The positive coefficient however, implies that companies with dual positions disclose more mandatory disclosure. In this study, CEOs with dual positions were found in the family firms where the dominant CEO was also a family member. Therefore, this positive sign may suggest that the agency problem between owner and management is less severe in family firms. This is because the dominant CEO in a family firm can effectively manage the company through direct monitoring and thus has less incentive to manipulate the earnings for management compensation purposes (Ali et al., 2007). Furthermore, dominant CEOs from family firms are personally attached to the companies and are more committed to improving the companies' performance (Lehman and Weigand, 2000). Therefore, they tend to provide more disclosure in the annual reports to highlight their companies' performance in the market.

8.5.2.3 Size of the Board

It was observed that board size was only significant at 10% level in Models 4 and 6 for the PC method, and the variable was not significant in all models for Cooke's method. Therefore, Hypothesis 6 is not supported. The finding is inconsistent with Al-Akra et al. (2010) and Kent and Stewart (2008), who found a positive and significant association between board size and the extent of mandatory disclosure in Jordan and Australia, respectively. However, the positive coefficient implies that compliance with IFRS increases with the number of board members. This is in line with the argument that suggests that large boards can effectively curb the misuse of the CEO's power because of the increased difficulty of getting consensus in larger boards than in smaller boards (Singh and Harianto, 1989).

8.5.2.4 Board Meeting

It was found that board meeting frequency was consistently significant (at 1% and 5% levels, depending on the methods and models used) for both the PC and Cooke's methods. Therefore, the findings support Hypothesis 7, which expects a positive and significant association between the extent of compliance with IFRS and the frequency of board meetings. The findings suggest that the board of directors has effectively performed their governance duties when meetings are frequently held. The finding is consistent with Kent and Stewart (2008), who also found a significant and positive association between the frequency of board meetings and the extent of mandatory disclosure in Australia.

8.5.2.5 Audit Committee Independence

It was found that audit committee independence was not significant in all models for both the PC and Cooke's methods. Therefore, Hypothesis 8 is not supported in this study. This non-significant finding suggests that the appointment of independent non-executive directors to the audit committee has less of an effect in enhancing the extent of mandatory disclosure. As discussed in Section 8.5.2.1, lack of independence could be a possible reason for ineffectiveness of independent non-executive directors to fully discharge their governance duties, given the personal bonding between the appointed directors and controlling shareholders. The finding is also consistent with Kent and Stewart (2008), who also documented a non-significant association.

8.5.2.6 Audit Committee Size

It was found that the association between audit committee size and the extent of compliance with IFRS was significantly negative at 1% level in all models for both the PC and Cooke's methods. Therefore, Hypothesis 9, which expects a significant association between the extent of compliance with IFRS and audit committee size, is supported in this study. The finding is consistent with Kent and Stewart (2008), who also found a negative and significant association between audit committee size and the extent of mandatory disclosure. The negative sign implies that a smaller audit committee size is more effective in enhancing the extent of mandatory disclosure due to minimal problems in monitoring decision making. Also, in small audit committees the directors are more accountable in discharging their duties (Abdul Rahman, 2009).

8.5.2.7 Audit Committee Meeting

It was observed that the association between audit committee meeting and the extent of compliance with IFRS was not significant in all models for both the PC and Cooke's methods. Furthermore, the negative relationship contradicts the predicted sign. Therefore, Hypothesis 10 is not supported. This is inconsistent with Kent and Stewart (2008), who documented a positive and significant association between the extent of mandatory disclosure and the frequency of audit committee meetings. This negative relationship is also puzzling because it can be interpreted as either greater mandatory disclosure being associated with fewer audit committee meetings, or less mandatory disclosure being associated with frequent audit committee meetings.

A possible explanation for this negative association could be partly attributable to ineffectiveness of audit committee members in enhancing the mandatory disclosure despite frequent meetings being held during the year. This is because the audit committee members may not have up-to-date knowledge about IFRS even though they are professional accountants.[119]

8.5.2.8 Audit Committee Expertise

It was observed that audit committee expertise was significantly related at 1% and 5% levels for the PC method, and marginal significance (at 10% level) was observed in Models 1 and 6 for Cooke's method. Although both methods reported significant results, the negative association contradicts the predicted direction. Therefore, Hypothesis 11, which expects a significant and positive association between audit committee expertise

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[119] This was highlighted in the interviews with preparers (see Section 9.4.2.8 for details).

and the extent of compliance with IFRS, is not supported in this study. This is consistent with Kent and Stewart (2008), who also found an unexpected negative relationship for audit committee expertise in Australia. They suggest that the negative relationship could be due to the fact that audit committees with less expertise tend to rely more on external auditors.

In this study, a possible explanation for the negative relationship is greater reliance on external auditors even in the presence of audit committee experts. This is because of a lack of knowledge of IFRS (same explanation as in Section 8.5.2.7 above). Thus, the presence of audit committee experts does not guarantee compliance increase. Another possible reason for this negative association is that audit committees with more expertise are likely to limit the mandatory disclosure because they know the loopholes in the law that can be used to avoid mandatory disclosure.[120] This possible reason may also explain a negative association between audit committee meeting (section 8.5.2.7), i.e. frequent audit committee meetings, with audit committee expertise, the chance to avoid complying with IFRS is also higher.

8.5.3 Culture

Three hypotheses were developed to examine the influence of culture on the extent of compliance with IFRS disclosure requirements. Hypothesis 12 examines whether there is any significant difference in the extent of compliance with IFRS between Chinese- and Bumiputra-controlled companies. This hypothesis has been answered in the univariate analysis (Section 8.3), where it is concluded that there is no significant difference between Bumiputra- and Chinese-controlled companies. This section provides the

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[120] This was suggested by two interviewees (see Section 9.4.2.8).

answers for the other two hypotheses, i.e. Hypotheses 13 and 14, which examine whether a significant association exists between the extent of compliance with IFRS and Bumiputra- and Chinese-controlled companies, respectively.

It was found that the Bumi variable was positive and significant at 1% and 10% levels for the PC method and Cooke's method, respectively. Therefore, the results support Hypothesis 13, which suggests that there is a significant association between the extent of compliance with IFRS and Bumiputra-controlled companies. A positive coefficient suggests that Bumiputra-controlled companies disclose more mandatory disclosure. This is in contrast with the Hofstede-Gray cultural model, which suggests Bumiputras are more secretive in disclosure.[121] However, the finding is consistent with Haniffa and Cooke (2002), who documented a positive and significant association between the proportion of Bumiputra directors and the extent of voluntary disclosure in Malaysia. There are two possible explanations for this significant positive association.

First, it could be attributable to the Islamic religion, which emphasises that Muslims (Bumiputras) should practice corporate transparency in business transactions (Ghazali, 2004). Second, from the legitimacy theory perspective, Bumiputra-controlled companies may provide more mandatory disclosure to legitimise their credibility in managing businesses in Malaysia (Haniffa and Cooke, 2005). This is because Bumiputras are negatively viewed as being incapable of managing corporations due to favouritism and patronage by the government (see Section 4.2.5.1).

With regard to the Chinese variable, it is found that the variable was consistently negative and significant at 1% and 5% levels for both the PC and Cooke's methods,

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[121] Refer to Section 6.4 for details.

respectively. Therefore, the findings support Hypothesis 14, which expects that there is a significant association between the Chinese-controlled companies and the extent of compliance with IFRS. The negative coefficient for the Chinese variable indicates that Chinese-controlled companies provide less mandatory disclosure in their annual reports. This finding also contradicts the Hofstede-Gray model, which suggests that the Chinese are transparent in corporate disclosure. Nevertheless, this negative relationship can be explained from the political cost theory perspective, which suggests the Chinese tend to disclose less information in order to avoid government intervention. This is because the Malaysian government's policy to redistribute wealth equally among ethnic groups could be perceived as unfair for the Chinese (see Section 4.2.5 for details about the government's policy).

Overall, this study provides evidence that culture has a significant influence on the extent of mandatory disclosure in Malaysia. However, similar with Haniffa and Cooke (2002) and Archambault and Archambault (2003),[122] this study also found the results contradict the Hofstede-Gray cultural hypotheses. A possible explanation of the inconsistent findings with the Hofstede-Gray hypotheses could be partly attributable to Malaysian institutional factors, like the government's policy and the perceptions of society, which have influenced corporate disclosure practices by ethnic groups.

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[122] Archambault and Archambault (2003) found that the religion (Islam) is significantly positive with the disclosure, which contradicts their hypothesis.

8.5.4 Control Variables

8.5.4.1 Company Size

It was found that company size was negative and significant (at 5% and 10% levels) in the models for the PC method only. Although a negative direction was also observed for Cooke's method, the variable was insignificant. Therefore, the findings are not robust enough to support the hypothesis. Furthermore, the negative association contradicts the predicted positive. Therefore, it is concluded that company size is not significantly associated with the extent of compliance with IFRS. Prior studies that also documented a non-significant association between the extent of mandatory disclosure and company size include Ahmed and Nicholls (1994), Patton and Zelenka (1997) and Palmer (2008). This negative association is in line with the political cost theory, which argues that larger companies are more politically sensitive than smaller companies, thus they tend to disclose less information to the public in order to avoid the threat of political action (Wallace et al., 1994; Wallace and Naser, 1995). This is because extensive disclosure would expose companies to more scrutiny from the public and the government (Vlachos, 2001).

8.5.4.2 Audit Firm Size

It was found that audit firm size was statistically significant (at 5% and 10% levels) for Cooke's method but was insignificant for the PC method. Since the result is supported by one method only, it is concluded that audit firm size is not significantly related with the extent of compliance with IFRS in Malaysia. A non-significant association between audit firm size and the extent of mandatory disclosure was also documented by prior

mandatory disclosure studies, such as Tai et al. (1990), Wallace et al. (1994) and Owusu-Ansah (1998).

8.5.4.3 Profitability

It was found that profitability was positive and statistically significant at 5% and 10% levels for the PC method, and only significant at 10% level in Model 2 for Cooke's method. Although the significance was marginal for Cooke's method, the result at least provides some support for the hypothesis that there is a positive and significant association between profitability and the extent of compliance with IFRS. The finding is consistent with prior mandatory disclosure studies (e.g. Al-Akra et al., 2010; Ali et al., 2004; Owusu-Ansah, 1998) that also reported a significant and positive association. The predicted positive sign is consistent with the signalling theory, which argues that profitable companies tend to comply more with IFRS to signal that their financial information is reliable (Guerreiro et al., 2008). From agency theory perspective, the positive sign indicates that managers of profitable companies provide more mandatory disclosure to support their continued position (Owusu-Ansah, 1998).

8.5.4.4 Leverage

It was found that leverage was not significant for both the PC and Cooke's methods. Therefore, there is no evidence to support the hypothesis that leverage is significantly related with the extent of compliance with IFRS. The non-significant finding was also reported by Ali et al. (2004) and Abdul Rahman (1998).

8.5.4.5 Liquidity

Similar with leverage, the study did not find any evidence to support the hypothesis that there is a significant association between liquidity and the extent of compliance with IFRS. A similar finding was also documented by Owusu-Ansah (1998) and Abdul Rahman (1998).

8.5.4.6 Listing Age

It was found that the listing age was not significant for both the PC and Cooke's methods. Therefore, it is concluded that listing age is not significantly related with the extent of compliance with IFRS in Malaysia. The non-significant association was also documented in prior disclosure studies (e.g. Akhtaruddin, 2005; Al-Htaybat, 2005; Haniffa and Cooke, 2002).

8.5.4.7 International Operation

It was found that international operation was not significant for both the PC and Cooke's methods. Therefore, it is concluded that international operation is not significant and positively related with the extent of compliance with IFRS in Malaysia. The finding is also consistent with Haniffa and Cooke (2002) and Craig and Diga (1998), who documented a non-significant association between international operation activities and the extent of voluntary and mandatory disclosures, respectively.

8.5.4.8 Industry

It was observed that the manufacturing industry was negative and significant at 5% and 10% levels for the PC method and Cooke's method. As for the trading/service industry, a

marginal significance was observed for Cooke's method but this was insignificant for the PC method. Therefore, only the result of the manufacturing industry is considered robust in this study.

The findings provide some evidence to support the hypothesis that the extent of compliance with IFRS is significantly associated with industry type. The negative coefficients found for both manufacturing and trading/services industries suggest that companies in these industries disclose less mandatory disclosure than companies in other industries in Malaysia. In this study, it appears that the manufacturing industry discloses less than the trading/services industry. This is consistent with Ghazali (2004), who also reported that manufacturing companies in Malaysia provide less voluntary disclosure in their annual reports.

A negative association for these industries is consistent with the proprietary cost theory, which argues that high competition in the industries may discourage companies from providing comprehensive disclosure. Another possible reason could also be explained from the political cost theory perspective. Since the manufacturing industry has been an important industry in Malaysia since the 1990s, the companies within the industry are more visible and exposed to high political cost. The companies therefore may have incentive to limit comprehensive disclosure to reduce the possibility of political action (Wallace et al., 1994).

8.5.5 Summary of the Findings

The findings discussed above can be summarised in Table 8.10 below. It is important to highlight that the conclusions drawn are based on the robust findings, where the findings are supported by both the PC and Cooke's methods. The conclusions might be different if this study relied on one method only.

While only board meeting was found to be significant in the univariate analysis, several variables were found to be significant in the multivariate analysis. This is because the interaction among independent variables was taken into account in the multivariate analysis, which provides more reasonable findings than the univariate analysis (Tsalavoutas, 2009; Owusu-Ansah and Yeoh, 2005).

Overall, this study suggests that culture (Bumiputra and Chinese), board meeting, audit committee expertise, audit committee size, profit and manufacturing industry have significant influence on the extent of compliance with IFRS in Malaysia. To ascertain the robustness of the findings, several tests are performed; this is discussed in the next section.

Table 8.10: Summary of Regression Results

	Predicted Sign	Univariate		Multivariate		Applicable Theories
			Sign		Sign	
State	?	ns	+	ns	+	Legitimacy theory
Family	-	ns	+/-	ns	+/-	Agency theory, Legitimacy theory, Information cost theory
Bumi	**?**	**ns**	+	√	+	**Culture theory, Legitimacy theory**
Chinese	**?**	**ns**	**-**	√	**-**	**Culture theory, Political cost theory**
Owncon	?	ns	+/-	ns	-	Agency theory
BODInde	+	ns	-	ns	-	Agency theory
BODsize	?	ns	+	ns	+	Agency theory
BODmeet	+	√	+	√	+	**Agency theory**
Duality	-	ns	+	ns	+	Agency theory
ACexpert	+	**ns**	**-**	√	**-**	**Agency theory**
ACInde	+	ns	+	ns	+	Agency theory
ACsize	**?**	**ns**	**-**	√	**-**	**Agency theory**
ACmeet	+	ns	+	ns	-	Agency theory
Auditor	+	ns	+	ns	+	Agency theory
IntOp	+	ns	-	ns	+	Signalling theory, Political cost theory
ListAge	+	ns	+/-	ns	+/-	Information cost theory, Legitimacy theory
Size	+	ns	-	ns	-	Political cost theory
Profit	+	**ns**	+	√	+	**Agency theory, Signalling theory**
Leverage	?	ns	-	ns	+	Agency theory
Liquidity	?	ns	+/-	ns	+	Signalling theory
TS	?	ns	+	ns	-	Proprietary cost theory
MFG	**?**	**ns**	**-**	√	**-**	**Proprietary cost theory, Political cost theory**

Notes:
? = no prediction is made; ns = not significant; √ = significant; +/- = inconclusive findings

8.6 Other Robustness Tests

Although the Pearson correlations among corporate governance variables are below the cut-off point of 0.7 (refer to Table 8.5) and their VIF value in each regression model is below 3, this study also undertakes steps to ensure the findings of corporate governance variables are robust against the multicollinearity effect. Therefore, each regression model was rerun with the alternate combination of board independence, board size and board meeting with audit committee independence, audit committee size and audit committee meeting. It was found that the results (untabulated) also yield the same conclusion as the primary findings, except that profitability was found to be significant for the PC method only. The corporate governance variables, i.e. board meeting, audit committee size and audit committee expertise, remain statistically significant for both the PC and Cooke's methods. Therefore, it is concluded that the main findings of corporate governance are robust against the multicollinearity effect.

This study also performed the regression models using the transformation of dependent variables to the log of the odds ratio. The results of the log of the odds ratio also support the primary findings regarding the significant influence of Chinese, board meeting, audit committee expertise, audit committee size, profitability and manufacturing industry. Although the significant influence of Bumiputra was not supported in the log of the odds ratio, it can be concluded that almost all the main findings are also robust in another transformation technique. The results are shown in Appendix J.

8.7 Summary and Conclusion

This chapter has discussed the results relating to the second research objective of the study, which is to determine whether culture, ownership structure and corporate governance mechanisms have a significant impact on the extent of compliance with IFRS disclosure requirements in Malaysia. In this study both dependent and independent variables were transformed into normal scores to meet the requirement of normal data distribution for parametric tests. Univariate and multivariate analyses were conducted to examine the relationship between the extent of compliance and a number of explanatory variables, including ownership structure, culture, corporate governance variables and several control variables.

Two dependent variables were used in this study, i.e. compliance scores computed under the PC method and Cooke's method. Although it is not the objective of the study to investigate the difference between the PC and Cooke's methods, the results showed that the strength of the relationship and the coefficient signs might also be different between the two methods. Therefore, this study supports the arguments made by Tsalavoutas et al. (2010) that these two methods may give different significant regression results. Similar with the approach taken by Tsalavoutas (2011), the findings are considered robust and valid if they are supported by both the PC and Cooke's methods. If a significant result was found in one method only (either the PC method or Cooke's method), this study considers the result is not robust and there is not enough evidence to support the tested hypothesis.

This study found that none of the ownership structure variables (state-owned companies, family-owned companies and ownership concentration) were significantly related with

the extent of compliance with IFRS in Malaysia. However, both cultural variables, Bumiputra and Chinese, were statistically significant, where the results were supported by both the PC and Cooke's methods. This shows that culture has a significant influence on the extent of compliance with IFRS in Malaysia. Nevertheless, the coefficient signs contradict Hofstede-Gray's cultural framework, which suggests that Bumiputras are secretive in corporate disclosure, while the Chinese are transparent. These contradictory findings suggest that religion and institutional factors like government policy and society's perceptions could also influence the corporate disclosure practice of ethnic groups in Malaysia. Perhaps Bumiputras disclosed more mandatory disclosure because Islam emphasises transparency and full disclosure in business operations (Napier, 2007). Alternatively, from a legitimacy perspective, Bumiputras may provide more mandatory disclosure to show their credibility in managing businesses in Malaysia (Haniffa and Cooke, 2005). The Chinese, on the other hand, perhaps disclose less mandatory disclosure in order to avoid government intervention in the companies' wealth, since the government's policy to redistribute wealth equally among ethnic groups in Malaysia could be perceived as unfair to the Chinese. This is consistent with political cost theory.

With regard to the corporate governance mechanisms, it is found that board meeting, audit committee expertise and audit committee size were statistically significant. The results showed that compliance with IFRS increases with the frequency of board meetings, and smaller audit committees are more effective in monitoring compliance with IFRS. Unexpectedly, audit committee expertise was found to be negatively significant with the extent of compliance. This finding suggests that audit committee experts were ineffective in ensuring that firms comply with IFRS, which means more reliance on external auditors. Alternatively, it may suggest that audit committee experts

have misused their knowledge to manipulate the financial reporting, leading to less compliance with IFRS.

With regard to the control variables used, this study found that only profitability and manufacturing industry were consistently significant in both the PC and Cooke's methods. The findings suggest that profitable companies disclose more mandatory disclosure, which is consistent with the signalling theory, and companies in the manufacturing industry disclose less mandatory disclosure than companies in other industries in Malaysia, which is in line with the proprietary cost theory and political cost theory.

The main findings and conclusions drawn in this study are also robust in several regression models and another transformation technique. In summary, this study documented that culture, board meeting, audit committee expertise, audit committee size, profitability and industry have a significant influence on the extent of mandatory disclosure requirements in Malaysia. In fact, these findings have important implications for regulators, policy-makers and others who are concerned with corporate governance in monitoring the quality of financial reporting. Further, this study provides timely findings about the compliance with IFRS, given Malaysia's commitment to achieve full convergence with IFRS by 2012. Although this study has followed the necessary steps and procedures suggested by other disclosure studies to ensure reliability and validity of the results, several caveats also apply in this study.

First, the low explanatory powers (10% for the PC method and 7% for Cooke's method) of this study suggest that a large amount of variation in compliance scores has not been captured by the regression models, although several control variables were included in

the models. This indicates that there are other important factors that are omitted from the models; either they are not easily quantifiable or not readily available (Ghazali, 2004). Therefore, interviews with persons involved in the preparation of financial statements (preparers and auditors) are also conducted in this study to explore additional factors that might explain the extent of compliance (or non-compliance) with IFRS in Malaysia. Second, the findings of this study are based on cross-sectional analysis and a sample of 225 companies. The findings could be more interesting if the study used a larger sample size and longitudinal analysis.

While this chapter discussed the factors of compliance or non-compliance from a quantitative perspective, the next chapter discusses the factors of compliance or non-compliance from a qualitative perspective (interview findings).

CHAPTER 9: FACTORS OF (NON-) COMPLIANCE WITH IFRS - FINDINGS FROM INTERVIEWS

9.1 Introduction

This chapter addresses the third research objective of this study, namely, to identify factors of (non-) compliance with IFRS from perspectives of preparers and auditors. To achieve this research objective, semi-structured interviews with preparers and auditors were conducted. The issue of mandatory disclosure is quite sensitive because, unlike voluntary disclosure (which can be discussed openly), non-compliance with mandatory disclosure means a breach of the law and would signal something adverse about the company. Therefore, preparers were not asked direct questions such as why the companies did not comply with IFRS. Instead the preparers were asked how they viewed the convergence with IFRS; whether they did face a problem in complying with IFRS; if so, what kind of problems were these; and what is/are the main barrier(s) for them in providing mandatory disclosure in the annual reports. Basically, the following research questions were addressed to achieve this objective.

a) *How do preparers and auditors view the convergence with IFRS?*
b) *What are the problems faced by preparers to fully comply with IFRS disclosure requirements?*
c) *Which accounting standards are problematic for preparers to comply with and why do they face such a problem?*

The preparers were given an option not to answer certain interview questions if they did not feel comfortable with them. While some preparers were quite reluctant to give responses (in which case they opted not to answer certain questions), others, after a

while, were quite open to share their experience and appeared to give very honest responses. Therefore, not all the questions in the interview guide were answered by all preparers. For the auditors' part, the questions were quite direct, for example, 'In your opinion, what are the problems for Malaysian listed companies to fully comply with IFRS?'

This chapter is organised as follows. Section 9.2 discusses how preparers and auditors perceive convergence with IFRS in Malaysia. Section 9.3 discusses the factors that may contribute to (non-) compliance with IFRS from the perceptions of preparers and auditors. Section 9.4 discusses the perceptions of preparers and auditors regarding the explanatory variables used in the statistical analysis in Chapter 8. Section 9.5 provides the answer to why certain accounting standards were less complied with by Malaysian listed companies. Section 9.6 summarises and concludes the chapter.

It is also important to highlight that quotations used in this chapter have maintained the original 'Malaysian English'[123], no corrections being made in terms of grammar or syntax.

9.2 Perceptions Regarding Convergence to IFRS in Malaysia

This section provides an overview of how the preparers and auditors perceived convergence with IFRS in Malaysia. It is important to gauge the views of preparers and auditors regarding the convergence because the interviews not only reveal how the respondents perceived certain issues but they also highlighted the problems that arose from these issues. The findings are discussed below.

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[123] Malaysian English refers to the English language used by Malaysians in daily interaction or communication.

The majority of respondents expressed the view that IFRS convergence would benefit Malaysian companies in terms of the opportunity to compete globally and to reassure the international investors; however, some respondents disagreed with full convergence to IFRS. It was argued that the undeveloped capital market is not suitable for the fair value model standards (e.g. IAS39-Financial Instruments, IAS41-Agriculture)[124] because the referenced market value is not readily available and thus, it would be costly for Malaysian companies to comply with IFRS requirements. Examples of their arguments:

> *"IFRS standards especially FRS139 requires lot of fair value. It may not be 100% suitable for us in Asia. Those requirements may be suitable in Europe or UK because the fair value is quite easily determine by them…they have the market, the market is liquid but here…like unquoted shares, you don't have a market value. Even for certain derivatives if the market is not active you have to make a lot of judgment. To apply this in practical is tough…"* (AB6)

Respondents also argued that certain IFRS were not relevant to Malaysia because the way in which Malaysian companies conduct business differs from that of Europe and other countries. For example, the new interpretation issued by the International Financial Reporting Interpretations Committee (IFRIC) on real estate sales (IFRIC-15) might put pressure on Malaysian property developers. This is because the IFRIC-15 requires property developers to recognise revenue on a completed basis, which opposes current practice, i.e. on a percentage basis[125]. The preparer from a property development company expressed his view as follows:

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[124] FRS139 was implemented on 1 January, 2010; IAS41 has yet to be implemented in Malaysia.

[125] Property developers in Malaysia have been using a local standard, i.e. FRS201-Property Development Activities, since the 1980s, whereby the revenue from property development activities is recognized based on the stage of completion (Zain, 2010).

> *"Regarding IFRS convergence, I would say YES and NO. Yes, we should converge to IFRS because we have to move with the world to adopt the international standards. NO because not all business models are the same...the way we conduct our business is different from Europe, from US or India. If we have to adopt IFRC-15 on property development for example, we have to incur additional costs because we need to prepare two sets of account. One account on percentage of completion method for income tax purposes and another one on completed basis method…sadly to say the IRB did not do anything about this yet."* (PF18)

These findings support the argument that the developed accounting standards of Western countries might be irrelevant to developing countries due to different environmental factors such as an undeveloped capital market and less sophisticated technology and user knowledge (e.g. Chamisa, 2000; Perera, 1989). Briston (1978) also argued that developing countries supposedly create a system that is suitable to their own rather than adopt Western systems. Nevertheless, to have specially tailored accounting standards that are suited to the Malaysian environment does not seem possible because many countries worldwide have adopted a single set of international accounting standards (IFRS). Furthermore, Malaysia has declared its aim to achieve full convergence by January, 2012.

In summary, the interviews suggest that, although full convergence with IFRS may benefit Malaysian companies, it also creates a problem for the companies to comply with IFRS for two reasons. First, an undeveloped capital market may not facilitate compliance with fair value accounting standards because it contributes to high compliance costs. Second, different business models (or practices) also make it costly for property developers to comply fully with IFRS because it is highly likely for the companies to prepare two sets of accounts. Further, lack of support from the Inland Revenue Board (IRB) may also discourage Malaysian companies to comply with IFRS in Malaysia

(Zain, 2010). It was reported that the IRB did not familiarise themselves with IFRS, nor did they take part in any discussion with the accounting profession to solve the problems in taxation (MIA, 2006).

9.3 Factors That Contribute to (Non-) Compliance with IFRS Based on The Perceptions of Preparers And Auditors.

This section discusses the responses from interviewees on the formulated research questions, where the purpose is to identify factors of (non-) compliance with IFRS. The findings from the interviews are discussed according the themes that emerged in the interview analysis. The frequency of respondents cited on each theme is provided in Table 9.1.

9.3.1 Top Management Attitudes

Gibbins et al. (1990) note that the top management has an influenced on corporate disclosure practice. In the present study, the majority of interviewees also indicate that lack of support from the top management was the main barrier to the company's compliance with IFRS. The issue was cited by twenty-six respondents (refer to Table 9.1). Although preparers were responsible for the preparation of financial statements, the final say on what should be disclosed depended on the board of directors. This means the decision on compliance with mandatory disclosure depended on the approval of the board of directors or the controlling shareholders of the company. Examples of typical responses from preparers to the main problems in complying with IFRS:

"I myself don't see any big problem to comply with the standards, if I know how to do it, I will do [comply]…but sometimes the board say don't do it…for example the board say don't pick up the impairment for this year, the amount is so huge for the company…so what are you going to say...you've to follow the board."(PF15)

"Preparers are not decision maker, in order to make a move [to comply with IFRS] they have to convince the top management…so it's a challenge for preparers if they don't get buy in from the top."(AM11)

The respondents argued that the lack of support from the top management was due to their lack of awareness of IFRS and to the difficulty in changing their mind-set to become more transparent:

"If you want to encourage compliance, you need to educate the bosses first. They [the bosses] don't see the needs here [to comply with IFRS], they don't see the returns…you've to convince them. For me, I don't see any big problem to comply…only need more time to study, to digest and to get update with the new standards…but that's our job anyway. But our bosses are still in old mentality…they are not very open about disclosure. For example in 2006 we have to incur too much impairment…but our bosses are reluctant because it affects our profits. Our bosses are also so stingy to send us for seminar or training. They will screen all the costs and they only see it is so expensive for the company...this is what had happened when your bosses don't understand IFRS". (PF17)

"Honestly I think Malaysian businessmen are not ready…not ready so much from mental perspective. They still refuse to accept all these changes (IFRS). These people see it as a formal compliance matter only, so they may not really see the true value of it [compliance with IFRS]. Those days accounting standards are so simple...they feel comfortable with the standard, so they question why they need to change the standards? ...they cannot appreciate the IFRS." (AB10)

However, to raise the awareness of top management about IFRS presents another challenge because it is the normal practices in Malaysian organisations to delegate duties to the middle manager, who nevertheless has no authority to influence the decision-making of top management:

> *"Even though the accounting standard setting conducts the seminars, but they did not capture the 'right audience'. The CEOs do not want to attend this kind of things. Instead they send their CFO or FC to attend the seminar. Normally the CFO or FC may not want to attend the seminars too…so they send their middle manager to attend. So you see... it doesn't going to change because it's not a top down approach".* (AM11).

This response also indicates that top management do not concern themselves in knowing about IFRS, and the compliance issue may be considered unimportant. The attitude of top management is also reflected in the company policy towards corporate disclosure, whereby the preparers must consider the costs of compliance and its benefits to the company. These include maintaining minimal compliance cost, to avoid disclosing negative news about the company and to avoid disclosing information to competitors. Because of this policy, the preparers claimed that they had difficulty in complying with IFRS. For instance, they argued:

> *"We are still struggling [to comply] because it is not only involves the accountant to put the figure. We're not expert in that field…you need an expert to do…for example in valuation of property, we need evaluator but it is very costly for us to do it every year. This is one of the reasons why the company is quite reluctant to fully comply."* (PF19)

> *"…we did not disclose certain items because the management did not see any benefit for the company, for us it is only the presentation matter…we do not gain or loss anything from such disclosure."* (PG3)

> *"…look at the cost and benefit of compliance... what benefits we get from compliance. If we think it's not important or if it will affect our profit, no need to comply."* (PG20)

Several disclosure theories can explain the top management attitudes towards compliance with IFRS; i.e. compliance cost theory (relating to high compliance costs), proprietary cost theory (relating to detrimental information to the company) and also agency theory (i.e. information asymmetry between controlling shareholders and minority shareholders). The responses from interviewees also imply that boards of directors in family- and state-owned companies do not play their governance role in ensuring that companies fully comply with IFRS. Instead they concur with the controlling shareholders in not disclosing mandatory information, perhaps to win or maintain the support of controlling shareholders. This is consistent with the arguments made by Ho and Wong (2001b) that the board of directors in East Asian countries is a mechanism used by family firms to approve their wishes.

Institutional theory may also be relevant in explaining the top management attitude in that the companies have been coerced by their powerful stakeholder (controlling shareholder) to maintain their regular reporting practice through the guidelines in the management policy.

9.3.2 Problems with the Accounting Standards

The next most cited barrier to comply with IFRS was the challenge in understanding the accounting standards. The respondents argued that the standards were continually

changing, making it difficult for them to keep updated. Furthermore, unlike the former standards, IFRS required more disclosure requirements. This was burdensome for preparers because they had to equip themselves with new developments in the standards and also had to attend to many requirements in order to comply with IFRS. Because of this the preparers sometimes felt they were incompetent. Non-disclosure of certain mandatory information was therefore also due to lack of knowledge or ignorance. Typical responses included:

> *"I cannot say we comply 100% with IFRS…most of our accountants are not ready yet in terms of knowledge and change the mind setting especially our accountants at subsidiary level…at least give us 3 or 4 years to familiarize with these new requirements. During our old time we were trained under conventional accounting standards…so generally we have problem to adapt with the new standards."* (PF7)

> *"I personally think the knowledge of IFRS is still lacking among preparers…maybe they couldn't catch up with so many developments in IFRS. Even I myself sometimes feel pressures to catch up with these changes. So to have 100% compliance with accounting standards is difficult… sometimes both the auditor and company did not aware of the issue."* (AM5)

Apart from the difficulty in understanding the standards, the norms in business practices were also a barrier to the companies for compliance with the IFRS:

> *"...in practice it's difficult [to comply with FRS136] because the company has not properly documented the forward looking cash flow statements. They only prepare the budget for 1 or 2 years only...but in order to do this [impairment disclosure], they have to project up to 5 years and the company must have a reliable projection."* (AM11)

This comment also implies that preparers are unaware of IFRS or they do not possess up-to-date knowledge about IFRS requirements. These findings are similar to those documented by Tai et al. (1990), who have found that insufficient accounting knowledge and awareness are among the factors of non-compliance in Hong Kong. Similarly, the

complexity of IFRS has also been highlighted by Jermakowicz and Gornik-Tomaszewski (2006) and Dunne et al. (2008) as one of the problems cited by respondents in the implementation of IFRS in European countries. Consequently, compliance costs also increase with the time spent in understanding of the accounting standards, attending training seminars and engaging with external consultants from the big four audit firms to assist the preparers in complying with IFRS.

However, unlike preparers in European countries who faced a problem in translating IFRS from English to their local language, preparers in Malaysia argued that they had no problem in using IFRS in the English language. This can be explained by the fact that they had learned accounting subjects in English and had therefore familiarised themselves with English terms. They argued that the challenge in understanding the IFRS lay not in the language but in the way in which the standards had been written, i.e. the increased use of legal vocabulary in laws:

> *" ...the language [English] is not a problem...but the standards use more statutory words...when I read the standard as if I'm reading the law or the Acts...that's very hard for me to digest and understand...can they use a simple language like in the text book?...that's much better for me."* (PG20)

From the interviews with preparers, it can also be inferred that the impact of the difficulty in understanding the IFRS might differ between the state-owned and family-owned companies. Although the challenge in dealing with the standards was also expressed by preparers from the state-owned companies, most of them have established task force teams with the assistance of the big four firms to help preparers to comply with the IFRS. As one preparer from a state-owned company highlighted:

"we do have a problem to understand the accounting standards, but we don't think it's a big problem for us... because we've our task force team to help us to solve the problem... if they [task force team] cannot help with the interpretation then we will refer to our external consultant (big four audit firm)". (PG3)

Similar views were also shared by the other four preparers from the state-owned companies. Furthermore, these companies always conducted in-house seminars to update and enhance their employees' knowledge of the IFRS and also employed the big four audit firms as their external auditors. This differed from the family firms who were always concerned about training or compliance costs; most of them engaged with the medium-size audit firms. Therefore it can be argued that the problems faced by preparers in state-owned companies in arriving at an understanding of the accounting standards may not be as severe as for preparers from the family firms.

9.3.3 Enforcement

Although the respondents did not directly cite ineffective enforcement as the factor for non-compliance with accounting standards, the majority believed that enforcement of compliance was indeed ineffective. The respondents' views regarding enforcement are best described as follows:

"I think the law is quite clear…but whether they [regulators] have manpower and resources are another issue. I think the attitude in our society can only be changed by better enforcement. In developed countries the market punishes them because they have more informed users. But here the market doesn't punish them…so the regulators need to do a better job." (AM11)

"…the directors are supposed to go for training …but lately the Bursa has relaxed the regulation. The Bursa just said that the board has to go continuous training but they did not prescribed how many hours they have to fulfill. So it depends on the company now…we just do half day training for the purpose of disclosure only. The SC…at one time (1997-2000) they did scrutinize the annual reports, but now… I think the surveillance team is no longer active."(PF19)

Furthermore, sixteen preparers claimed that they had never heard of any penalised cases relating to non-compliance with accounting standards in Malaysia. Some were also unaware of the penalties that could be imposed by the regulators for failure to comply with the accounting standards. This not only implies that the enforcement of compliance is lax, but also indicates that the educational and moral persuasion approaches (see discussion in Chapter 7) implemented by the SC and MIA to promote compliance with IFRS has failed to reach their objective. Although the penalised cases relating to non-compliance were published in the SC webpage, it appears that this has been unsuccessful in conveying the message to other public listed companies concerning the consequences of non-compliance. Similarly, the educational approach taken by MIA also appears ineffective since almost all preparers claimed that they did not have time to read the MIA magazine; this would explain their lack of awareness about the penalties imposed by the MIA.

Ineffective enforcement is also evident from the interviews with regulators (see Chapter 7) and from the top management attitudes towards mandatory disclosure in simply opting not to disclose even though compliance is mandated in law (see section 9.3.1). This shows firms have treated mandatory disclosures as if they were voluntary disclosures in the absence of adequate enforcement (Hope, 2003). The top management attitudes towards compliance with IFRS might be different if stringent enforcement is in place.

They may develop the initiative to familiarise or comply with IFRS if non-compliance costs (e.g. monetary penalties and delisting) are higher than the compliance costs that they have to bear. As Zeff (2007) argues that companies might have an incentive for not complying with IFRS if they believe there would be no adverse impact.

From the theoretical perspective, this situation is in line with institutional theory which argues that, ineffective enforcement provides less pressure for companies to fully comply with IFRS.

9.3.4 Materiality

The findings from the interviews also reveal that there had been a compromise between the company and auditors where materiality was normally used as a reason to justify non-disclosure. Asked how they normally resolved a disagreement with auditors about disclosure, one preparer (PF12) commented: "*…most of the time our auditor will accept our explanation as long as it is not material.*" The auditor (AM7) also acknowledged: "*We look how severe the information would be…whether it is material or not…normally we can compromise if it is not material.*" A similar view was shared by the majority of interviewed auditors that they would compromise with the clients if a non-disclosure item was immaterial.

The interviews with preparers indicate that the threshold of materiality used varies from 5 per cent to 20 per cent of net income or total assets. Some respondents stated that they did not have any specific benchmark and left it to auditors to decide whether or not the non-disclosure items were material. Similarly, interviews with auditors also reveal that there was no consensus among auditors in terms of the materiality threshold used. The findings were similar to those of Iselin and Iskandar (2000) who have documented that

the magnitude of materiality varies among auditors and accountants due to the lack of materiality guidelines. In addition, the interviews with auditors reveal that the materiality threshold not only varied among auditors but also differed according to the events and organization risks:

> *"…there is no hard rule to set the threshold…we look at several factors like organization risks and the events that we evaluate…sometimes we use 10 percent of profit before tax and sometimes 5 percent of net tangible assets...and sometimes we can lower or increase our threshold…so it depends…I cannot say that we have a specific threshold for materiality.."* (AB4)

Although companies are permitted not to disclose certain information if it is immaterial, the literature shows that the materiality concept is also subject to abuse because of its vagueness (e.g. Achito et al., 2009; Messier et al., 2005). It is therefore difficult to ascertain whether the reason given by the respondents above was really due to genuine immateriality or only as an excuse to avoid disclosure. Furthermore, it is difficult to prove in the analysis because the materiality threshold used not only varied among preparers and auditors but also differed according to the events and conditions of the company. Nevertheless, the responses by the two preparers below might indicate that auditors would also compromise even though the item was material:

> *"Yes…sometimes we have disagreement with auditor, like last year, the auditors asked us to disclose about impairment results but our management disagreed because it will badly affect our profits, but...after several discussions, they would agree with us."* (PF15)

"…normally the auditors will agree with us…they are businessmen too." (PG20)

Although the interviews with auditors did not reveal any evidence that they would compromise in the material case, it seems reasonable to conclude from these responses that full compliance with IFRS is also impossible if materiality is always used as an excuse for not disclosing certain mandatory information.

9.3.5 Passive Investors

Respondents also argued that they did not supply certain information in the annual reports because Malaysian investors did not appreciate information other than profit and loss, dividend and share prices. They also believed that the Malaysian investors were not sophisticated enough to analyze the information, thus more disclosure would only confuse the local investors, who in turn would give an adverse interpretation about the company:

"…we confuse them [investors] more if we disclose. Even accountant cannot comprehend the standards, so how do you expect the layman or those who are not in accounting area understand the financial statements? They don't care about compliance anyway. I think they don't read [financial statements] also. I attended many AGM [annual general meeting] with shareholders, normally they questioned on income or operating expenses or dividend. I don't think the IFRS disclosures benefit to our shareholders or investors…they have not reached the stage like investors in developed countries yet." (PF19)

"They [investors] don't bother whether we comply with accounting standards or not…their main concern is how much we earn [profit] for this year and how much they will get [dividend]…they are more interested to look at profit and loss account rather than other disclosure…so we just give what they want." (PF20)

"Honestly they [investor] have not read the annual report…they come to AGM to collect door gift, meal vouchers and asking why declare such a low dividend. I think compliance can be improved when there is a demand from investors because at the end there is always a demand and supply…if the company feels pressure to do it [to comply], then there is a demand for compliance." (AB10)

While the above responses refer to the small investors or minority shareholders, two auditors also suggested that institutional investors in Malaysia were not as active as those in developed countries because the majority of listed companies were controlled by major shareholders who were either family members or the government. Furthermore, it has been claimed that, as most institutional investors in Malaysia are backed up by the government (e.g. EPF, ASN), they have less incentive to monitor the firms in which they invest (Suto, 2003).

These findings imply that the extent of mandatory disclosure depends on the demand from the market (investors). The companies may have less incentive to comply with all disclosure requirements given that information is assumed to be less useful to the readers and disclosure would only increase their compliance costs. This indicates that information cost theory is relevant to explain the reasons for non-compliance with IFRS. The findings are also consistent with the stakeholder theory perspective that explains companies may have no incentive to provide more disclosure to other non-controlling

shareholders since they are regarded as less powerful or unimportant to the company's survival.

From the institutional theory perspective, it can be argued that passive investors are part of the institutional structure that provides less pressure for compliance with IFRS disclosure requirements. In summary, passive investors reflect information cost theory, stakeholder theory and also institutional theory.

9.3.6 Accountants' Attitude

Interviews with auditors indicate that the attitude of accountants (preparers) also contributed to non-compliance with IFRS because some preparers also difficult to change their mind-set to accept the new accounting standards (IFRS). This was especially the case with the older accountants. It can be suggested that preparers perhaps felt complacent about the former accounting standards and were unwilling to invest their time and effort to updating themselves with the new knowledge. As Elbannan and McKinley (2006) argue, deviation from reporting norms is not only costly but also burdensome to preparers, making them very reluctant accepts new standards. The auditors further argued that the accountants were therefore not in a position to advise the top management or to influence their perceptions to accept the IFRS. These views are best illustrated in the following statement:

> *"…even the professional accountants have not fully understood the rationale behind the standards. In many cases they are vocal and opposing it, so how they're going to convince the management to adopt the standards? They are not in position to convince the standards. They did not fully convince the management of the changes they have to make…so how they [top management] are going to change?"* (AM11)

Auditors also commented that the accountants did not own the initiative to ensure the financial statements complied with accounting standards because they perceived this to be the role of the auditor:

> *"Some of them [preparers] view the account as auditor's account…they don't take much ownership on their account, so everything they leave it to auditor to handle it. They don't read the standards…they expect the auditor will tell them everything...with this kind of mentality how they're going to accept all the changes in accounting standards?"* (AB10)

The lack of initiative from preparers to ensure compliance was also revealed when they were asked how they ensured full compliance with the accounting standards. One preparer (PG10) asserted *"Whether the company complies or not depends very much on our auditor."*Another preparer (PF11) also commented "*We leave to our auditor to ensure we comply with the standard because we pay them.*"

This 'don't care' attitude expressed by preparers towards the accounting standards could also be observed when almost all preparers claimed that they had never reviewed or commented on Exposure Draft (ED) issued by the MASB; they attributed this to time constraints and to their difficulty in understanding the ED: "*I do not read or reply the ED...I have my own things to do…any issues about the standards I just refer to the auditor."* (PF16)

The above arguments not only indicate that the IFRS received lack of support from the preparers but also demonstrate a lack of accountability from preparers to ensure full compliance with IFRS. Further, the accountants' attitude may contribute to the resistance of top management to change their mentality because their accountants also did not support the new accounting standards. From these views, it seems reasonable to conclude that the accountants' attitude may also contribute to non-compliance with IFRS.

9.3.7 Undeveloped Capital Market

The findings from interviews also indicate that there was a barrier to full compliance with IFRS because the undeveloped capital market did not facilitate the fair value model i.e. the referenced market value is not easily available, as one preparer commented:

> *"...not available information as what the standards want us to do…that is the problem that we cannot truly operate in compliance with IFRS standards. Maybe in overseas or western countries they will quote the rate for you, but not in Malaysia. Malaysia has not reached that stage yet. When they implement it [fair value] in Malaysia…it's hard for us to comply."* (PF19)

The problem with an undeveloped capital market has also been highlighted in section 9.2 in which it is observed that some respondents commented that certain fair value accounting standards were not suitable in a country with an undeveloped capital market. This suggests that the Malaysian institutional structure (its undeveloped capital market) discourages companies to comply with the IFRS disclosure requirement. This also implies that institutional theory can be applied to explain the extent of mandatory disclosure in the Malaysian context.

9.3.8 Political Excuse

The interviews also reveal that political factors could explain why full compliance with IFRS cannot be achieved in Malaysia. The issue was raised by three auditors who argued that the government link companies (GLCs) were sometimes exempted from disclosing certain information (e.g. requirements under the FRS134-related party transactions) because such information was considered 'confidential'[126]. Although the auditors claimed that the cases were minimal, this at least provides evidence to reasonably

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[126] At their request, respondents' quotation was not provided.

conclude that non-compliance in GLCs is partly attributable to political factors; this is consistent with the political cost theory that greater disclosure would attract more attention from the public and non-ally political parties. From the perspective of political economy theory, it explains that state-owned companies may not disclose certain information to protect their political ally. This is not surprising because the association of GLCs with political connections and cronyism is well-documented in the literature (e.g. Gomez and Jomo, 1998). From institutional theory perspective, it explains that Malaysian institutional structure (politic) provides an incentive for certain companies not to provide the mandatory disclosure.

9.4 Perceptions of Preparers and Auditors Regarding Factors Influencing Mandatory Disclosure that were Included in Statistical Models (Regression Results vs. Interview Results)

This section discusses the perceptions of interviewees regarding the explanatory variables used in the statistical models in Chapter 8. Interviewees were asked their views about the explanatory variables used after all the main questions in the interview guide were addressed to them. However, not all interviewees responded to the questions due to time constraints; some also refused to comment because of a lack of knowledge on certain issues. The responses from interviewees are discussed according to the categories of explanatory variables below and the interview findings are compared with the findings from the regression results. This cross-examining of data is also known as triangulation technique, where the objectives are to validate and enhance the interpretation of findings (Arksey and Knight, 2007).

9.4.1 Corporate Ownership

9.4.1.1 Ownership Concentration

The responses from interviewees (10 out of 34) suggest that ownership concentration has no influence on mandatory disclosure. They argued that the disclosure decisions depend on the primary motives of the owners or major shareholders. These findings are also consistent with the regression results in Chapter 8 that showed there was no significant association between ownership concentration and the extent of mandatory disclosure.

9.4.1.2 Family-owned Companies

The responses from interviewees (16 out of 34) suggest that family-owned companies may disclose less mandatory disclosure because of several factors. The respondents explained that family companies are more cost conscious than other types of companies because their main objectives are to prosper and protect the companies for future generations. Therefore, the owners are resistant to disclosing sensitive information or information that is considered detrimental to their business. As one preparer from a family-owned company (PF18) explained, "…*our main concern is the business…so the owner is very particular that anything we do would never harm their business.*" Further, the family-owned companies are less interested in providing extensive disclosure because the companies are managed by the owners or family members; thus, they can easily access all inside information. Preparer (PF11) commented, "…*there is no point to incur additional costs [to provide all information], the owners have already known all those information.*" Interviewees also explained that most listed family companies are small or medium sized companies, thus they have limited resources with which to employ professional staff, invest in new accounting software and training costs. The

above arguments are consistent with information cost theory (compliance and proprietary costs) and Type II agency problem as described in Chapter 3. Nevertheless, the interview findings do not support the regression results in Chapter 8 which showed a non-significant relationship between family-owned companies and the extent of mandatory disclosure.

9.4.1.3 State-owned Companies

The responses from interviewees (19 out of 34) indicate that state-owned companies may have greater mandatory disclosure than family-owned companies because the companies have huge capital and are better funded, i.e. supported by the government. Therefore, the companies can employ more professional staff, engage with international audit firms as external consultants or invest in new software. This implies that compliance costs in state-owned companies are lower than in family-owned companies. Further, state-owned companies are also concerned about their reputations as one auditor (AB10) explained, "*…today they're [state-owned] more concern about their reputation, everything they do will become a spotlight in media*." This implies that state-owned companies provide extensive mandatory disclosure to signal their good reputation to the public, which is consistent with a signalling theory perspective. Or, from the legitimacy theory perspective, it can be interpreted that the companies have incentive to maintain their legitimacy status.

Nevertheless, five interviewees also offered the caveat that the state-owned companies do not necessarily comply with all mandatory disclosure requirements for some reasons (e.g. political agenda). This argument, therefore, may lend some support to the non-

significant relationship between the extent of mandatory disclosure and the state-owned companies in the regression analyses.

9.4.2 Corporate Governance Mechanisms

9.4.2.1 Board Independence

The responses from interviewees (14 out of 34) suggest that the proportion of independent non-executive directors on the board has no influence on the extent of mandatory disclosure. The interviewees argued that the independence of independent non-executive directors in Malaysia can be questioned because they were appointed by the controlling or major shareholders of the company. One auditor commented:

> *"…the danger is the company now has compliance by ticking the box, not principally driven…to certain extent the exercise is just to satisfy the perception rather than to fulfil it principally. The question here: How independent is independent directors in Malaysia? Who appointed these independent members? Most of the time by controlling shareholders…so can he be called independent?"* (AM5)

The evidence of lack of independence of directors can also be seen from the earlier discussions in Section 9.3.1, where the interviewees mentioned that the board of directors did not approve certain mandatory disclosure to be disclosed to the public, indicating that the directors also conform to the controlling shareholders' wishes. These findings therefore support to the non-significant association between the independence of board directors and the extent of mandatory disclosure in the regression analyses. It appears that the findings also support the conclusion drawn by Tam and Tan (2007, p.220), that the board of directors is an ineffective monitoring governance mechanism in

Malaysia, “instead becoming mechanism utilised by large shareholders to control their firm.”

9.4.2.2 Duality

The interviewees (11 out of 34) argued that companies with position duality may disclose less mandatory disclosure because the position duality gives more authority to the CEO or Chairman to control decision making of the board and the implementation of policies. The respondents also argued that position duality normally exists in family-owned companies; therefore, it is likely for a dominant CEO to abuse his position to accommodate his or family’s personal interests. Nevertheless, three respondents argued that separation of the roles of CEO and Chairman could also be futile if the person lacks independence. This implies that it does not matter whether or not there is a separation between the CEO and Chairman if thedominant CEO can work in the best interests of the company and all the stakeholders. This argument therefore supports to the non-significant association between position duality and the extent of mandatory disclosure.

9.4.2.3 Size of the Board

The responses from interviewees (16 out of 34) indicate that the size of the board of directors has no influence on mandatory disclosure because the board’s effectiveness depends on the quality of the board members, which includes their ability to remain independent and their knowledge or skills. The respondents also argued that, although smaller boards are more efficient and effective in decision making, they are futile if the board members cannot make independent decisions or have no influence in decision making. These responses are consistent with the findings in the regression analyses

which showed no significant association between board size and the extent of mandatory disclosure.

9.4.2.4 Board meeting

The responses from interviewees regarding the influence of board meeting on mandatory disclosure are mixed. Some of the interviewees (11 out of 34) suggested that frequent board meetings may increase mandatory disclosure because companies' problems could be resolved efficiently when board meetings are held frequently. Frequent board meetings may also increase awareness or knowledge of the board of directors about compliance with IFRS, and this consequently influences the board of directors' or major shareholders' attitude to be more receptive toward IFRS disclosure. As one auditor (AB6) argued, "*I think frequent [board] meeting can create awareness of the directors and owners about IFRS.*"

However, some interviewees (7 out of 34) argued that board meeting frequency has no influence on the extent of mandatory disclosure if the board members cannot exercise independent judgement. One preparer (PF19) also remarked, "*...if the major shareholders run the company, they basically know everything, so the board meeting is just formality."* This also implies that corporate governance mechanisms are implemented by ticking the boxes rather than by genuine compliance.

Although the interview findings did not support the regression results, the interviewees' arguments assist in interpretation of the regression results; i.e., a positive and significant association between board meeting frequency and the extent of mandatory disclosure can be interpreted as frequent board meetings possibly inculcating awareness of IFRS among

board members, which may influence their attitude to be more receptive towards IFRS disclosure and accordingly increase compliance.

9.4.2.5 Audit Committee Independence

Similar with the previous arguments regarding board independence (see Section 9.4.2.1), the responses (14 out of 34) also indicate that the proportion of independent non-executive directors on the audit committee has no influence on mandatory disclosure. This is also consistent with the non-significant association between audit committee independence and the extent of mandatory disclosure in the regression analyses.

9.4.2.6 Audit Committee Size

The responses from interviews (16 out of 34) indicate that audit committee size has no influence on mandatory disclosure because the audit committee's effectiveness also depends on the quality of the members (i.e. their independent and expertise). This is similar with the arguments regarding board size in Section 9.4.2.3. Therefore, the interview findings do not support the regression results which suggest that smaller audit committees have significant influence on the extent of mandatory disclosure (i.e. a significant and negative association).

9.4.2.7 Audit Committee Meeting

The responses from interviewees are also mixed regarding the influence of audit committee meeting on mandatory disclosure. Some respondents (11 out of 34) argued that frequent audit committee meeting may enhance mandatory disclosure because it can increase the chances to detect and solve the companies' problems. Nevertheless, seven interviewees argued that frequent audit committee meeting does not necessarily increase

mandatory disclosure because the independence of audit committee members can also be questioned (similar with the arguments in Section 9.4.2.4). Two interviewees also added that frequent audit committee meeting is also futile if the audit committee members do not possess adequate and up-to-date knowledge about IFRS. As one preparer explained:

> *"...don't forget those who sit in the audit committee are elderly people. Those people are old aged accountant. They themselves are very difficult to understand the standards. They are falling asleep also [during the meeting]..."* (PF19)

Although the interview findings are mixed, the interviewees' arguments help to interpret the negative association between audit committee meeting frequency and the extent of mandatory disclosure in the regression analyses (see Section 8.5.2.7). It therefore can be interpreted as frequent audit committee meeting being ineffective in enhancing mandatory disclosure because (1) the audit committee members do not have up-to-date knowledge about IFRS, and/or (2) the audit committee members are not independent.

9.4.2.8 Audit Committee Expertise

The responses from interviewees regarding the influence of audit committee expertise on the extent of mandatory disclosure are also mixed. Some interviewees (11 out of 34) suggested that the presence of members with professional accounting qualifications would enhance mandatory disclosure because they can advise the board members about IFRS. However, some of the interviewees (7 out of 34) argued that the effectiveness of audit committee expertise also depends on the quality of committee members' knowledge and whether or not they can make independent decisions. This means the presence of audit committee expertise also does not guarantee increased compliance with IFRS. As one preparer (PF18) commented:

> *"It's good to have accounting experts in the audit committee...but how much this person has an influenced in the company? ...and is he independent enough?"*

The regression results, however, showed a significant and negative association between audit committee expertise and the extent of mandatory disclosure (see Section 8.5.2.8), which implies less mandatory disclosure when there are more accounting experts on audit committees. While most of the interviewees said they could not comment on the results, one preparer (PG20) suggested that it was possible that because audit committee members with an accounting background are knowledgeable about the accounting standards and laws, they also would be aware of how to use loopholes in the laws and standards to avoid disclosure. Similarly, preparer (PF15) reported facing difficulty in dealing with audit committee experts in cases where he was asked to revise financial reports in order to avoid showing higher profits for tax purposes. From these two explanations, it seems reasonable also to suggest that audit committee experts might misuse their knowledge to manipulate financial reports to meet the expectations of controlling shareholders; this helps to explain a negative and significant association between audit committee experts and the extent of mandatory disclosure in regression analyses.

9.4.3 Culture

The responses from interviewees (19 out of 34) also suggest that culture (religion or race) does not influence attitudes towards compliance with IFRS in Malaysia. Typical responses include:

"I don't think religion or races play a role here. These persons…they all are business minded, they look it [disclosure] as a business matter. Look at company B [controlled by Chinese] and company M [controlled by Bumiputra]...both were awarded the best annual report by NACRA [National Annual Corporate Report Awards]...so how do you judge B is more transparent than M or M is more transparent than B... " (AB10)

"I think it's not proper to label attitude [transparency in corporate disclosure] by races or religion…it depends very much on the individual himself…what's their [owners] policy". (AM2)

The responses also imply that there is no difference between Bumiputra-controlled and Chinese-controlled companies in terms of attitude towards compliance with IFRS. Therefore, the interview findings do not support the regression results that documented a significant relationship between culture (Bumiputra and Chinese) and the extent of compliance with IFRS disclosure requirements.

One possible explanation for why the cultural factor was not supported in the interviews is that the respondents perhaps do not want to highlight or reveal the negative side associated with races. Haniffa and Cooke (2002, p.323) argued that "*most Malaysians are uncomfortable and sensitive when such issues (races) are raised or discussed*". Furthermore, during the UMNO general assembly in December 2006, the then prime minister Abdullah Ahmad Badawi reminded Malaysians not to raise the issue of either race or religion in public because of the sensitive nature of these matters in Malaysia (Sani, 2010).

9.4.4 Control Variables

With regard to the control variables used in the statistical analysis, the interviewees (10 out of 34) argued that profitability, leverage, liquidity, listing age, international operation

and industry have no influence on mandatory disclosure except company size and audit firm size. For example, preparer (PF17) commented:

> *"large companies have large resources, big capital...they can employ professional accountants, can easily invest in new technology... so we should expect these companies to comply more with IFRS...from my personal view, the quality of auditor is also different. Big four audit firms have more expertise, they are more independent than other firms [non-big four] and they also concern about their image, so compliance is also higher if companies employ big four firms. ...But I couldn't see how profitable companies, industry, highly leverage or liquidity are associated with compliance here. The thing is compliance is mandatory, so you must follow the rule whether you make profit or not, or you're highly leverage or not...or whether you like it or not...but to what extent you comply depends very much on your resources, your technology and your auditor."*

Another preparer (PF14) also argued:

> *"big companies normally engage with big four audit firms either as their external auditors or as their consultants, so their compliance level should be higher than small companies... I don't think industry, international operation, listing age, profitable and leverage have influence whether companies comply or not, I believe it depends more on your auditor, who is your auditor...to what extent your auditor knows about IFRS. "*

Auditor (AB3) asserted:

> *"...big four audit firms would never compromise their quality; if our clients don't want to comply, it would affect our reputation, so we'll make sure they (client) comply with IFRS...so I would say large companies have better compliance because they can employ the big four."*

These responses are inconsistent with the regression results that suggest that company size and audit firm size have no significant association with the extent of mandatory disclosure. Instead, the regression results showed that profitability and industry have a significant relationship with the extent of mandatory disclosure.

9.5 Reasons Why Certain Accounting Standards were Less Complied with By Malaysian Listed Companies.

Chapter 7 has identified three accounting standards that were problematic for Malaysian companies to comply with: FRS136-Impairment of Assets, FRS117-Leases and FRS119-Employee Benefits. Therefore, preparers and auditors were also asked to explain this lack of compliance. The findings are discussed below.

a) FRS136-Impairment of Assets

The findings from interviews suggest several factors that contribute to non-compliance with FRS136. The most cited reason given by preparers was that compliance with this standard would be detrimental to the company's performance as impairment affects profit. The second most cited reason related to increments in compliance cost as the company needed to engage with evaluators to value its assets in order to comply with the standard.

The auditor also suggested that another explanation for non-compliance with FRS136 was related to the normal business practice. Malaysian companies usually project the forward-looking cash flow statements for up to one or two years only, while in order to comply with the standard, the company needs to prepare projections of cash flow statements for at least up to five years. Due to this business practice, Malaysian companies could not comply with FRS136 disclosure requirements. This indicates that preparers were unaware of IFRS requirements because they did not know what they were expected to prepare in order to comply with this standard.

To summarize, the findings from interviews suggest that this lack of compliance with FRS136 is related to: (1) its adverse effect on companies (which concurs with signaling

theory); (2) high compliance cost (information cost theory); and (3) a lack of awareness or knowledge about the requirements in order to comply with the standard (accountants' attitude).

b) FRS117-Leases

The majority of preparers admitted that they had no problem in understanding and complying with FRS117. The auditors also expressed the view that the Malaysian listed companies supposedly did not have difficulty in complying with the standard as it was not as complicated as FRS139-Financial Instruments. However, the findings in Chapter 7 indicate otherwise as the study found that this standard had the second lowest compliance scores. When the researcher drew attention to these findings, the auditors argued that lack of compliance with this standard could be due to preparers' ignorance of its disclosure requirements.

While most preparers claimed that they complied with the standard, two preparers admitted that they did not disclose certain information (e.g. Para. 35(d) that requires a company to give a general description of the lessee's material arrangement), as required by the standard, because they perceived that the information was not useful for readers; they also claimed that, even if they did disclose it, the information would not be read.

In summary, the findings from interviews suggest that the lack of compliance with FRS117 can be explained by two factors, i.e. the perception that information is irrelevant to users (information cost theory) and ignorance of the disclosure requirements by preparers (accountants' attitude).

c) FRS119-Employee Benefit

The findings from interviews indicate three factors that can explain lack of compliance with FRS119. First, information relating to remuneration and benefits to employees and key management personnel was considered to be sensitive information for certain companies. Both preparers and auditors argued that the top management was reluctant to disclose details about their remuneration and the benefits they received in the annual reports because it still felt uncomfortable about being transparent. Second, the companies needed to engage with actuarial experts in order to value the defined benefit plan, a requirement that would increase their compliance costs. Third, the companies did not comply with certain disclosures of FRS119 because they perceived such disclosures were not relevant to the users.

To summarize, the findings from interviews suggest that lack of compliance with FRS119 is related to the mentality of top management that is still concerned with high compliance cost, sensitivity of specific information and a perception that certain information is irrelevant to users.

9.6 Summary and Conclusion

This chapter has provided an answer for the third research objective of the study, i.e. to identify factors of (non-) compliance with IFRS from perspectives of preparers and auditors. Besides, the responses from interviewees regarding the explanatory variables used in statistical analysis and the regression results in Chapter 8 were compared, and the reasons for lack of compliance with certain IFRS were also discussed. The findings from interviews are summarised and conclusions are presented below.

The responses from interviewees regarding the IFRS convergence indicate that full convergence with IFRS would also create a problem for Malaysian companies to fully comply with IFRS because the Malaysian institutional structure; (i) undeveloped capital market may not facilitate the fair value accounting standards; and (ii) different business practices may make it costly to comply with IFRS.

The findings from interviews suggest several factors that may explain why companies did not fully comply with IFRS disclosure requirements in Malaysia. These factors include top management attitudes, problems with accounting standards, enforcement, passive investors, materiality, accountants' attitude and political excuse. Although these non-compliance factors can be explained from several disclosure theories such as stakeholder theory, political cost theory, information cost theory and institutional theory; it seems the latter is more dominant in explaining the reason for non-compliance with IFRS in Malaysia. This is because most of these non-compliance factors namely, top management attitude, ineffective enforcement, passive investors, accountants' attitude, undeveloped capital market and political excuse, reflect the institutional structures of Malaysia. Therefore it seems reasonable to conclude that Malaysian institutional structures provide less incentive for companies to comply fully with IFRS, a conclusion which is consistent with the arguments of Ball et al. (2003).

Interviews regarding the explanatory variables used in the statistical analysis show that some of the interview findings contradict or do not support the findings in the regression analyses (refer to Section 9.4). For example, the interview findings suggest that culture has not influenced the extent of mandatory disclosure whereas the regression results showed otherwise (Section 8.5.3). Similarly, the interviews suggest that the corporate governance mechanisms are not necessarily effective in overseeing Malaysian

corporations. It is highly likely that corporate governance mechanisms are implemented by ticking boxes rather than by genuine compliance. Contradictory findings between the interviews and regression results can perhaps be attributed to several factors. First, the regression results are sensitive to the methods and measurements used in the statistical analysis (Wallace et al., 1994); thus the results could be different if the researcher used different methods or measurements. Second, the interviewees perhaps did not give candid responses for some reasons; for example, the sensitiveness of cultural issues in Malaysia may hinder respondents from arguing about the issue. It can be suggested that the case study or experimental study, rather than the interview method, is a more effective approach for exploring the influence of culture on mandatory disclosure. These contradictory findings also suggest that the influence of these explanatory variables on mandatory disclosure remains an empirical question.

Despite these contradictory findings, the arguments and explanations offered by interviewees can be used to interpret the regression results; for example, in interpreting the negative direction between audit committee meeting and the extent of mandatory disclosure (see Section 9.4.2.7) and the negative direction for audit committee expertise (see Section 9.4.2.8). Therefore, it can be inferred that the interview findings in Section 9.4 add strength to and complement the explanation of the statistical findings.

The interviews have revealed some areas of concern that cannot be captured in the regression analysis for example; the attitude of top management and accountants, the passiveness of investors and political excuse. The interviews help to explain why certain accounting standards are problematic for compliance by Malaysian companies (see Section 9.5). The interviews also reveal that family-owned companies are more conscious about compliance costs and proprietary costs than the state-owned companies

(see Section 9.4.1.2). Similarly, the problems in understanding the accounting standards could be more challenging for preparers in family-owned companies than preparers in state-owned companies (see Section 9.3.2). The factors identified in interviews may also account for some of the unexplained variations reported in the regression models in Chapter 8. In summary, a combination of quantitative and qualitative findings complement each other and thus provide a holistic picture to assist in understanding the issue of (non-) compliance with IFRS.

Based on these findings, this study argues that stringent enforcement may not be a complete solution to promote full compliance with IFRS in Malaysia, given that materiality and political excuse can always justify non-disclosure. With ambiguity guidelines, it is difficult to justify whether the disclosure item is really immaterial. Similarly, the political excuse is not defensible since there is always an exemption for politically-related companies for not disclosing certain information. Further, an undeveloped capital market may discourage full compliance with IFRS in Malaysia. As argued by Ding et al. (2007), in order to improve the quality of financial reporting, simultaneous changes to the whole system in institutional structures are needed, including capital market developments, governments, regulators, accounting professions, preparers and users.

The limitations of this study are also acknowledged. First, the interviews were conducted only with preparers from family and state-owned companies because of the cost and time constraints of the study; thus the findings from the interviews cannot be generalised for all types of companies. Second, interviews with preparers and auditors might have provided limited results. It is possible that interviews with boards of directors, audit committees and investors might have offered richer results in order to explain why

companies did not fully comply with IFRS. It is possible that some of the claims made here could be refuted by boards of directors and audit committees. Third, although care was taken to increase the validity and reliability of the interview findings, these may have been influenced by interviewer bias since there were occasions when the researcher inferred conclusions from less explicit answers given by respondents; this normally occurred when the respondents refused to elaborate further, simply giving the answer "*read between the lines*". Further, there could be some bias in translating responses from the Malay language into English that might affect their interpretation. Therefore any generalisation of the findings of this study must be made with caution.

The next chapter discusses the findings of the final research objective of this study, i.e. to understand why an unqualified audit report was issued despite non-compliance with IFRS disclosure requirements.

Table 9.1: Frequency of (Non-) Compliance Factors Cited By Interviewees

Respondents	P1	P2	P3	P4	P5	P6	P7	P8	P9	P10	P11	P12	P13	P14	P15	P16	P17	P18	P19	P20	P21	P22	P23	A1	A2	A3	A4	A5	A6	A7	A8	A9	A10	A11	Total
	G	G	G	G	F	G	F	G	F	G	F	F	G	F	F	F	F	F	F	G	F	F	G	B	M	B	B	M	B	M	M	M	B	M	34
Top management		√	√				√	√	√	√		√	√	√	√	√	√	√	√	√	√	√	√			√	√	√		√	√	√	√	√	26
Accounting Standard	√	√		√	√	√	√			√		√			√	√	√		√	√	√	√	√	√	√		√		√	√	√		√	√	24
Enforcement	√	√		√	√		√		√	√	√			√		√		√	√	√	√		√				√	√			√	√		√	20
Materiality				√							√	√			√	√			√	√	√				√	√	√	√			√	√	√	√	16
Passive Investor	√		√					√			√	√	√	√					√					√	√			√	√				√		13
Accountants' attitude																								√		√	√	√		√	√		√	√	8
Undeveloped Capital Market												√					√		√										√				√		5
Political Excuse																										√		√		√					3

Notes:

G=state-owned company; F=family-owned company; B= big four audit firm; M= medium size audit firm

Example: PG1refers to preparer from state-owned company; PF7 refers to preparer from family-owned company;

AB1 refers to auditor from big-four firm; AM2 refers to auditor from medium size firm

CHAPTER 10: AUDIT REPORTING AND (NON-) QUALIFIED OPINIONS - PERCEPTIONS OF AUDITORS

10.1 Introduction

This chapter addresses the fourth research objective of the study, i.e. to explore the reasons why an unqualified audit report was issued despite non-compliance with IFRS disclosure requirements. To achieve this objective the following research questions were addressed:

a) *Does non-compliance with IFRS disclosure requirements warrant qualified opinion?*
b) *In what circumstances was qualified audit opinion issued?*

Eleven auditors were interviewed to gauge their views regarding the issue of unqualified audit reports despite non-compliance with IFRS disclosure requirements. In addition, the perceptions of preparers and regulators were also sought in order to gain further insights into the issue. As in the previous chapter, quotations presented in this chapter are maintained in the original language used by the speakers, i.e. 'Malaysian English'.

This chapter is organised as follows: Section 10.2 discusses the responses of auditors regarding audit opinion and non-compliance with IFRS; Section 10.3 discusses the responses from preparers and regulators regarding audit opinion issues; Section 10.4 summarises and concludes the chapter.

10.2 Perceptions of Auditors Regarding the Unqualified Audit Report With Respect To Non-Compliance with IFRS Disclosure Requirements

The findings of interviews with auditors are discussed below, in relation to each research question.

(a) Does non-compliance with IFRS disclosure requirements warrant qualified opinion?

The responses from all interviewed auditors indicate that qualification of audit opinion is not a result of non-compliance with IFRS disclosure requirements. The typical responses of auditors regarding the issues are best illustrated in the following quotations:

> *"...so far we have never qualified audit report because of non-compliance with accounting standards...normally we issued qualified audit report if there is a limitation of scope...if our clients do not want to disclose certain information, we look how severe the information and how material it is...we cannot qualify the audit report just because of non-disclosure issue."* (AM7).
>
> *"...we do qualified audit report but not on that related to non-compliance with accounting standards...we qualified the report for other reasons like limitation of scope or if we suspect fraud."* (AB6)
>
> *"...as I said earlier to have 100 per cent compliance is very difficult, lot of factors have to be considered (e.g. learning stage, competency)...so we look at materiality whether to qualify or not. Normally qualified opinion is for severe cases only"* (AM5)

From the above responses, it can be inferred that non-compliance with IFRS disclosure requirements does not lead to qualified opinion if the non-disclosure item is considered immaterial by auditors. This is consistent with the concept of materiality that disclosure is not required if the information is perceived as immaterial and does not affect users' economic decision-making (see section 2.4.1.1). Similarly, the issue of unqualified audit

opinion in the case of non-compliance with IFRS does not contradict the guidelines in ISA700 because the standard clearly states that unqualified opinion should be expressed if the auditor concludes that the financial statements give 'a true and fair view' or 'present fairly in all material respects' in accordance with the applicable financial reporting framework. The words 'in all material respect' here also implies that non-disclosure of an immaterial item does not affect the status of unqualified opinion.

The above argument is well justified if the non-compliance case is immaterial. However, it is puzzling in cases when non-compliance is material and yet the company still receive an unqualified opinion (e.g. Glaum and Street, 2003). Even the present study has also found that there were companies with compliance scores below 60% that still received an unqualified audit report (see Chapter 7). Although the literature on mandatory disclosure has never suggested which level of compliance can be considered as material non-compliance, it can be reasonably assumed that when the compliance scores below 60%, the level of transparency or disclosure quality is very poor, and can be considered as material since it is highly likely to affect the decision-making of users. It is important to note that this assumption is made because the level of materiality in disclosure studies is difficult to determine due to several factors. First, the data cannot be quantified (e.g. to quantifying the disclosure about a description of the nature of the entity's operations and its principal activities as required by FRS101, paragraph 126b). Second, the data may be unavailable when it is not disclosed in the financial statements. Third, the materiality threshold used varies among auditors, preparers and organisations; thus it cannot be determined which materiality threshold is considered material by each sampled company.

While the auditors who were interviewed denied that they would compromise in material non-compliance cases, the responses from preparers indicate otherwise (see section 9.3.4). If this is the case (auditors compromise with preparers in material cases) it can be suggested that lack of auditor independence explains why unqualified audit report was expressed even though there was material non-compliance with mandatory disclosure requirements.

However, as discussed in Chapter 2 and again in Chapter 9, the concept of materiality is vague and can be misused by auditors (and preparers). This indicates that the auditors may use legal means to conform to their clients' wishes without violating the laws or rules. In other words, the auditors may use loopholes in the laws or standards to achieve their (or the clients') objective. The audit literature has shown that there are cases whereby auditors are less likely to adjust detected errors or earnings management manipulations even though the errors have exceeded the materiality threshold (e.g. Wright and Wright, 1997; Braun, 2001). It has also been reported that auditors often use materiality as an excuse not to incorporate the potential misstatements (e.g. Weinstein, 2007; Elder and Allen, 1998). Therefore there is a possibility that materiality is also used as an excuse by auditors to justify the unqualified audit opinion despite material non-compliance with IFRS disclosure requirements.

In light of this, the auditors were also challenged both with the findings presented in Chapter 7 and with prior disclosure studies regarding unqualified audit opinion despite significant non-compliance with IFRS disclosure requirements. In response, while some auditors stated that they could not give any comment about the findings; two auditors still believed that materiality could be a reason for non-qualification audit opinion. As one auditor argued:

> *"I think the auditors did not qualify the report may be in his opinion non-disclosure items are not material... though the rule of thumb is 5% of PBT [profit before tax]... we cannot apply one threshold to all cases. The auditors may have their own judgement about the [materiality] threshold they used...the auditors may lower or increase the threshold depending on the companies' condition."* (AM9)

Another auditor remarked:

> *"I think it depends on materiality judgement......the standard said the omissions are material if they affect economic decisions of users where the users here are assumed to have reasonable knowledge of business and accounting and willing to study the information with reasonable diligence....but do you think we have these characteristics of users in Malaysia?...perhaps this is an issue here..."* (AB10)

Two inferences can be made from the above responses. The first response (AM9) suggests that the materiality concept is subjective and that there is no clear-cut materiality threshold to be used. It is therefore possible that certain issues may be deemed as immaterial by some auditors but not to others (Kranacher, 2007). In this regard it is possible that materiality is misused or used as a reason by auditors to justify non-compliance with disclosure requirements. The second response (AB10) implies that the characteristics of users must be considered in assessing whether or not non-disclosure items are material and affect the economic decisions of users. This requirement is prescribed in FRS101-Presentation of Financial Statements (para.12):

> "Assessing whether an omission or misstatement could influence economic decisions of users and so be material requires consideration of the characteristics of those users. The *Proposed Framework for the Preparation and Presentation of Financial Statements* state in paragraph 39 that "users are assumed to have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence." Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making economic decisions."

Given that the users of financial statements in Malaysia are perceived as passive investors (see section 9.3.5), it is possible that auditors use the requirement prescribed in the standard to argue that non-disclosure items are immaterial and that they do not influence the economic decisions of users. In other words, the auditors may argue that non-disclosure items are irrelevant in the economic decision-making of Malaysian users since these users do not possess the characteristics of users as prescribed by the standard.

Nevertheless, three auditors suggested an alternative reason why material non-compliance did not lead to the qualification opinion, in referring to the relief in section 166A (4) of the Companies Act 1965 that allows companies not to comply with the accounting standards when compliance would result in misleading the true and fair view (TFV) of financial statements. As section 166A (4) prescribed:

> "…the directors of a company or holding company shall not be required to ensure that the accounts or consolidated accounts, as the case may be, are made out in accordance with a particular approved accounting standard if they are of the opinion that making out the accounts or consolidated accounts in accordance with the approved accounting standard would not give a true and fair view of the matters required by section 169 to be dealt with in the accounts or consolidated accounts or a true and fair view of the results of the business and the state of affairs of the company and, if applicable, of all the companies the affairs of which are dealt with in the consolidated accounts."

The relief from compliance stated in law is also referred to as 'true and fair view override' of accounting standards (Nobes, 2009; Alexander and Archer, 2003). This relief is also prescribed in the FRS101 (para.17):

> "In the extremely rare circumstances in which management concludes that compliance with a requirement in a Standard or an interpretation would be so misleading that it would conflict with the objective of financial statements set out in the Proposed Framework, the entity shall depart from the requirement in the manner set out in paragraph 18 if the relevant regulatory framework requires, or otherwise does not prohibit, such a departure."

While departure from compliance with accounting standards is allowed, both the Companies Act (Section 166A (5)) and FRS101 (para.18) require the companies to justify such departure in the notes to the financial statements, which should include the reasons for and the financial impact of the departure on the company. However, the application of TFV override in FRS101 is more restricted compared with its application in the Companies Act 1965. This is because the FRS101 specifically mentions that override is applied only in 'extremely rare circumstances', whereas the Companies Act 1965 states that the justification of TFV override depends on the judgement of directors, thus leading to a wider interpretation of TFV override and being open to abusive

opportunity by auditors and preparers. Auditors' arguments regarding a TFV are illustrated below:

> *"...compliance with accounting standards is required by law so technically if you're not complied you will get a qualified audit report. But if you look at Companies Act 1965, there is an avenue for them [companies] that said if the compliance with accounting standards does not reflect to the true and fair view to the companies then they can depart from complying...but they can justify a lot of things why the disclosure is so unfair for them...so non-compliance will not necessarily lead to qualified audit report..."* (AB4)

> *"…normally we take stand on materiality whether to qualify or not…but sometimes the company did not want to disclose it because it contradicts with the company's policy ... according to the rule it can be considered as non-compliance case…but in Malaysia we have another clause in the Companies Act 1965…if there is a contradiction between the company's policy and the accounting standards and leads to misleading about the company, then the Companies Act can overrule the standards. So in this case, we cannot simply give a qualified audit report".* (AB3)

These responses by auditors also suggest that companies may opportunistically use a true and fair view to avoid compliance with certain accounting standards, as implied by auditor (AB4) above - "*they can justify a lot of things why the disclosure is so unfair for them…"* The preparers may perhaps have had the incentive to do so because there was no clear definition of a true and fair view, as auditor (AM11) clarified:

> *"...true and fair view is not easy to define... it involves a lot of professional judgement, whether it alters financial views of the company or not. It also reflects what you believe is fair and reasonable…true means it must be there and it must give a proper view to users but others maybe define it as fairly stated only…actually true and fair is difficult concept to define, you also may define it differently from me ...I think you are going to have a big book if you want to define what is true and fair view...so they [companies] can always argue on this [for not to comply]. "*

Although the TFV is fundamental in the preparation of financial statements, it has never been defined in law (Alexander, 1993; Evans, 2003). The TFV, it is argued, depends on the professional judgment of individuals (Tan, 2000); its meaning and significance are also affected by cultural, legal and accounting attitudes and perceptions (Alexander, 1993). It is therefore not surprising when a TFV has been interpreted and understood differently both within a country and internationally (Evans, 2003; Aisbitt and Nobes, 2001; Nobes, 2000).

The findings from interviews with auditors also show that they provided differing definitions of a TFV: for example, as "*free from material misstatements*" (AB4); as "*not bias and misleading information to external parties*" (AB3) and as "*up to the level that auditors feel comfortable with the financial statements"* (AB6). A different interpretation of a true and fair view among auditors and finance directors is also highlighted in the literature (e.g. Nobes and Parker, 1991; Parker and Nobes, 1991). This indicates that the TFV definition is vague and thus provides an incentive for preparers and auditors to take opportunities to abuse the true and fair view override (Nobes, 2000; 2009; Evans, 2003). As Shah (1996, p. 23) argues, "when there is a gap in rules or the rules are vague, the regulatees may fulfil the letter of the rules, but undermine their spirit". Although non-compliance is permitted by law to achieve the TFV, it is likely that the true and fair view

override might be misused by both preparers and auditors. In this case, the auditors may have argued that unqualified audit opinion was appropriate because non-compliance did not contravene the law.

Overall, the interviews with auditors suggest that non-compliance with IFRS disclosure requirements does not lead to qualification of audit opinion on the basis of materiality and true and fair view override. However, the concept of materiality and a TFV definition are both vague and can be abused by preparers and auditors alike. Therefore, there is a possibility that materiality and true and fair view override are used as an excuse to justify unqualified audit opinion in the case of (material) non-compliance with IFRS disclosure requirements.

(b) In what circumstances was qualified audit opinion issued?

The ISA 700 stipulates that there are two situations that lead to qualification of opinion: (1) where there is a limitation on the scope of the auditor's work, such as when the auditor is unable to observe for stock taking, where there are inadequate accounting records, or when they are unable to carry out the desired audit procedure; and (2) when there is a disagreement with management regarding the selected accounting policies, the method of their application or the adequacy of financial statements disclosures. According to this standard, non-compliance with IFRS disclosure requirements can be argued within the ambit of the second situation (i.e. adequacy of financial statements disclosure) that would lead to qualification audit opinion if the auditor disagreed with the management (preparer).

The interview responses from auditors relating to the second research question (In what circumstances was qualified audit opinion issued?), indicate that qualification audit opinion was normally issued in the limitation of scope or when they suspected there were fraud cases rather than in disagreement with management. In addition to their arguments quoted above (in the discussion of the first research question), the auditors claimed that qualification opinion relating to the disagreement with management was rare because usually they achieved consensus in any disagreement with clients:

> *"They [client] have never said no to our proposal...the process may be quite stressful because you have to convince them...but they will listen to us or else we give the qualified report."* (AB10)

This response also indicates that the disagreement with management would be resolved because the clients would agree with the auditors' advice to avoid qualification audit opinion. However, interviews with preparers imply that auditors would also reach a compromise with clients even in material non-disclosure items (see section 9.3.4). It can thus be inferred from the above findings that the disagreement with management would be resolved either when the client (management) agreed with the auditors or when the auditors agreed with their client (i.e. auditors will compromise their audit independence). Although it is less clear how the disagreement would be resolved, either way this explains why qualified audit opinion is normally expressed in limitations of scope rather than in disagreement with management, since there is less likely to be unresolved disagreement between management and auditors. The findings also suggest that qualification audit opinion is not a result of non-compliance with IFRS disclosure requirements.

10.3 Perceptions of Preparers and Regulators Regarding Unqualified Opinion With Regard To Non-Compliance with IFRS.

The majority of preparers believed that non-compliance with IFRS disclosure requirements would not result in a qualification audit report as they argued that the auditors should base their judgment on the materiality of whether or not to qualify the audit report. Among the arguments:

> *"...I think it has not reached qualified audit report yet if you are not disclosed certain items... if you get qualified [audit report] it signals something wrong with the company...qualified audit report is meant to a very serious matter like fraud."* (PG20)

> *"...I think it depends on materiality. The auditor would not qualify the report just because the preparer does not comply with certain items...and I think it is not fair for us if the auditors qualify the report because they are supposed to advice us on the first place."* (PG4)

While interviews with auditors reveal that true and fair view override was used by preparers to justify the departure of non-compliance with accounting standards, none of the preparers interviewed had mentioned this relief to justify the issue of unqualified audit report in non-compliance cases. These findings are quite intriguing because the responses from auditors imply that preparers have opportunistically used the relief given under the Act as an excuse for not complying with certain accounting standards.

Follow-up interviews with preparers were therefore conducted[127] to ascertain whether the preparers had ever used a true and fair view override and how they defined a true and fair view. The findings from the follow-up interviews indicate that none of interviewed

[127] As stated in Chapter 5, the researcher spent two days conducting follow-up interviews via the telephone in October, 2010. However, not all the preparers in the sample could be contacted, so only eight took part in follow-up interviews.

preparers used a true and fair view override for non-compliance with certain accounting standards. Nevertheless, the findings from the interviews suggest that a definition of TFV also differed among the preparers, most of them also arguing that it was the auditors' responsibility to ensure that their financial statements were a true and fair view[128]:

> *"I think it is auditors' job to ensure our financial statements give a true and fair view or not...but for me true and fair view means you give appropriate information in the financial statements..."* (PF14)

> *"I'm not really sure about true and fair view...I think true and fair view means the financial statements must comply with the accounting standards and the laws..."* (PF19)

Interviews with regulators also indicate that non-compliance with IFRS did not necessary lead to the qualification of audit report because of materiality and true and fair view justification. One regulator also explained that normally they would accept the justification given by preparers and auditors for not disclosing certain items, because only the preparers and auditors knew the real circumstances of the company, unless the case significantly revealed that the accounts were misleading or that there were some irregularities which required in-depth investigation. This is in line with Dao (2005) who argues that regulators can only deal with non-compliance which is visible in a company's financial statements. The regulators' responses also imply that there is no mechanism that can be used to ensure that materiality and true and fair view override are not abused by preparers and auditors.

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[128] Other definitions of a TFV given by preparers include: '*no accounting errors'; 'sufficient disclosure in accordance with the standards'; 'correct and no bias in reporting'; 'no material misstatements of any reporting figure'; 'fairly presented the financial position of company'.*

Overall, the responses from preparers and regulators also indicate that non-compliance with IFRS disclosure requirements does not necessarily lead to the qualification of audit report because of materiality and true and fair view factors. The findings therefore support the earlier conclusion drawn from the interviews with auditors.

10.4 Summary and Conclusion

This chapter has focused on the fourth research objective of the study, namely, to explore the reasons why an unqualified audit report was issued despite non-compliance with IFRS disclosure requirements. Generally, non-compliance with accounting standards would lead to qualification of audit opinion (Forker, 1992; Cairns, 2001). Nevertheless, the findings from interviews suggest that non-compliance with accounting standards does not lead to qualification of audit report for two reasons.

First, the non-disclosure item (i.e. non-compliance) is considered immaterial by auditors. Non-compliance with the IFRS disclosure requirement would therefore not render to qualification opinion because it is consistent with the materiality concept in that disclosure is not required if it is immaterial and does not affect users' decision-making. Further, the ISA700 specifically states that unqualified opinion should be expressed if the auditor concludes that financial statements give a 'true and fair view' or 'present fairly in all material respect' in accordance with the applicable reporting framework, indicating that non-disclosure of immaterial items does not affect the status of clean audit report.

Second, departure from compliance with the accounting standard is allowed in law in order to achieve a true and fair view financial statement, which is also referred to as 'true and fair view override'. The relief is given under the section 166A (4) of the Companies

Act 1965 and also in FRS101 (para.17). In this case the company is required by the Act and by FRS101 to disclose in the notes the justification of such non-compliance, including the reasons and financial impact of such departure to the company.

The interviews with preparers and regulators also indicate that non-compliance with IFRS disclosure requirements does not render to qualification audit opinion because of materiality and true and fair view (TFV) factors. These findings therefore reinforce the conclusion drawn from interviews with auditors.

Although materiality and TFV override can reasonably justify the issue of unqualified audit opinion despite non-compliance with IFRS disclosure requirements, it can also be argued that both materiality and TFV override might be used as an excuse (or misused) by auditors to justify non-compliance with IFRS with the clean (unqualified) audit opinion. In other words, auditors might use the letter of the law and accounting rules to escape from compliance with accounting standards without actually violating the law and rule. Alexander and Archer (2003, p.10) refer to this practice as 'creative accounting or creative compliance' where they note:

> "Creative accounting may involve the use of ingenious arguments to justify a departure from an accounting standard (i.e. an 'override') or 'creative compliance', which is the use of the letter of an accounting standard to disregard its 'spirit'."

There are several arguments from the interviews that suggest the materiality concept and TFV override might be misused by auditors (and preparers). First, the auditor (AM9) still argued that materiality was the factor why the qualification opinion was not issued despite material non-compliance with IFRS. This can be explained by the fact that the materiality concept is very subjective and depends on the individual's professional judgment; so it is likely that what is considered to be immaterial by the auditor may be

considered as material by others. Given this subjective and vague concept of materiality, it is not impossible for auditors to argue that non-disclosure items (or non-compliance) as immaterial even though others perceived them as material.

Second, the auditor (AB10) also asserted that the characteristics of users must also be taken into account in determining whether or not the non-disclosure items are material. This requirement has been prescribed in FRS101, paragraph12, where the users are also assumed to have a reasonable knowledge of business and economic activities, together with a willingness to study the information with reasonable diligence. Since Malaysian investors are perceived as passive and unaware of IFRS disclosure requirements (see section 9.3.5), it is not impossible for auditors to argue that non-disclosure items are immaterial and do not affect the economic decision-making of users. In other words, the auditors may argue that Malaysian investors (or users) do not possess the characteristics prescribed in the standard, and thus non-disclosure items are irrelevant in the decision-making of Malaysian investors.

Third, the responses from auditors also indicate that a TFV override is opportunistically used by preparers to justify non-compliance with IFRS disclosure requirements without affecting unqualified opinion status. This is because the indefinable nature of TFV may give an avenue for preparers to argue many reasons why compliance with accounting standards would lead to misleading financial statements. Furthermore, the Companies Act 1965 also leaves the justification of TFV override to the judgement of company directors, thus creating a wider interpretation of TFV. Although the interviews with preparers have not indicated that a TFV was used as a reason by preparers for not complying with accounting standards, it seems reasonable to suggest that auditors also concur with preparers because they continue to issue unqualified audit opinion despite

knowing that preparers have opportunistically misused a TFV override. Therefore it is not impossible for auditors to use the TFV as a reason to justify the clean (unqualified) audit report despite material non-compliance with IFRS disclosure requirements. Parker and Nobes (1991) draw attention to the possibility that a TFV could be used by auditors to conform to the directors' wishes.

There are several reasons that may explain why interviews with preparers have not raised a TFV for non-compliance with accounting standards. First, only eight preparers were involved in the follow-up interviews, so the findings may not represent all preparers in Malaysia. Second, it is possible that the interviewed preparers have never used a TFV override as an excuse for non-compliance with accounting standards (assuming their responses are candid) or that the preparers do not wish to highlight the fact, suggesting that their responses are not candid. Third, preparers may not have had previous working experience as auditors. This may be due to the use of a TFV by preparers or directors who are ex-auditors, this previous experience giving them an advantage in arguing with their external auditors[129]. This seems a reasonable explanation why the interviewed preparers have not raised TFV in their arguments because they were not exposed to auditing experience.

Apart from the vague and subjective concept of materiality and an indefinable TFV, a weak or lax enforcement environment (see section 9.3.3) may also provide the incentive for auditors to compromise their audit quality or audit independence. Fevere-Marcusi

[129] This explanation was suggested by auditor [AB4]. He also explained that it was common in Malaysia for the audit manager or audit partner to be invited by the client to join the company as financial controller or a member of the board of directors.

(2000) and Ball et al. (2003) argue that the Malaysian institutional structure provides less incentive for auditors to maintain their professional independence.

The audit literature also suggests that cultural background has influenced the auditors' judgement. It has been argued that a society with high power distance and low individualism may accede to clients (see section 2.4.1.2), implying that auditors are likely to express audit opinion in favour of their client (i.e. a clean audit report). In the present study, both Bumiputras (Malays) and Malaysian Chinese auditors possess cultural values of high power distance and low individualism (see section 4.2.6.2).[130] However it has been argued that, at the national level, Malaysian Chinese are more individualistic (high individualism) and possess lower power distance values than the Malays (see Section 6.4). Based on these characteristics, Bumiputra auditors can be expected to accede to clients more than the Malaysian Chinese auditors. Nevertheless, the findings from interviews indicate that both Bumiputra and Malaysian Chinese auditors present similar arguments regarding the issue of audit opinion with respect to non-compliance with IFRS. The findings from interviews show that neither Bumiputra nor Malaysian Chinese auditors will accede to or be tolerant with clients. This suggests that either the cultural background has no significant influence on auditors' judgement on audit report, or that interview is not the most suitable approach to test the influence of culture on audit opinion. A case study or an experimental approach may be more appropriate for testing the influence of culture on the issue of audit report and also for testing whether or not materiality and TFV are misused by preparers and auditors.

[130] In this study, the number of Bumiputra and Malaysian Chinese auditors are about the same, i.e. six and five respectively.

To conclude, while materiality and TFV override reasonably justify the issue of unqualified audit opinion despite (material) non-compliance with IFRS disclosure requirements, this study argues that both materiality and TFV override can also be used as an excuse (or misused) by preparers and auditors to justify departure from compliance with IFRS disclosure requirements without risking the status of clean audit report. In other words, the auditors and preparers may use creative compliance to avoid compliance with accounting standards while maintaining the status of clean audit report. Although creative compliance is not violating the law, the intention is to deliberately mislead the users of financial statements, thus undermining the spirit of the law and accounting standards (Alexander and Archer, 2003); and this issue must be addressed by regulators, standard-setters and policy-makers.

From a theoretical perspective, it appears that institutional theory can explain this phenomenon. The theory argues that organisations may decouple from the expectations of societies (i.e. compliance with mandatory disclosure requirements) while still maintaining legitimacy status, if societies are unaware of these decoupling activities; further, organisations may use a symbolic acceptance of institutional rules or requirements, or manipulate their financial statements.

While the materiality concept still remains subjective and unclear, the issue of whether or not TFV override should be used or abandoned has been debated in academic research. Alexander (1993; 1999; 2001) asserts that TFV override should be used to offer flexibility to preparers in producing useful financial statements; and to prevent it being abused, a TFV must be accompanied by full disclosure as required by the IASB and with an effective enforcement mechanism. Nobes (2000; 2009), on the other hand, argues against the TFV override on the grounds that it would still be open to abuse because

there is no effective monitoring or enforcement agency to check its proper use. Further, the fair presentation of financial statements can also be achieved by complying with accounting standards (ibid). Evans (2003, p.322) proposes that, in order to prevent the misuse of TFV override, the IASB should restrict its interpretation or application to the (legal) residual clause only, because "as a (legal) residual clause, it would provide a safeguard against blatantly wrong applications of the letter of law/rule not appropriate to its context".

In Malaysia, the TFV specified in law (Companies Act 1965) is subject to a wider interpretation because it is left to management judgement to justify a situation that gives a misleading TFV of the financial statements. Furthermore, the current institutional environment (i.e. weak enforcement mechanisms, high ownership concentration in the hands of family members and the government and political agenda) may provide incentives for auditors and preparers to deliberately misuse a TFV rather than to give fair presentation. In this institutional environment, the spirit of TFV can be safeguarded if the regulators take a step to strengthen enforcement mechanisms with the system that can check any abuse of laws or standards; alternatively, regulators could restrict the use of TFV as a residual clause or, forbid TFV override as in the US and Australia.

The limitations of this study are acknowledged. The samples included only eleven auditors, while in the follow-up interviews only eight preparers were involved, thus the findings may not represent the whole auditors and preparers. Further, the interviewed auditors did not include the person who issued unqualified opinion in the sampled companies, thus impeding further investigations into understanding why the auditors issued unqualified opinion when there was significant (material) non-compliance with accounting standards. As suggested in Chapter 9, there could also be bias in the

interpretation of findings due to the less explicit answers given by respondents, and to bias in translating quotations from the Malay language into English. Further, the questions posed to auditors could only inform about the perceptions of auditors and thus the answers provided to the research questions might be biased. Any generalisation of the findings of this study must therefore be made with caution.

Despite these limitations, this exploratory study has provided some answers to the puzzling question raised in prior research (e.g. Glaum and Street, 2003) as to why unqualified audit reports are issued despite non-compliance with accounting standards. This study also may be of interest to regulators, standard-setters and professional accounting bodies, as its findings indicate that there is a possibility that TFV and materiality might be misused by preparers and auditors to justify non-compliance with IFRS disclosure requirements without risking the status of unqualified audit report. Although this practice does not violate the law, it undermines the spirit of the law and accounting standards and gives misleading information, resulting from non-compliance with disclosure requirements, to the users of financial statements.

CHAPTER 11: CONCLUDING REMARKS

11.1 Introduction

This chapter provides the concluding remarks of this thesis. It is organised as follows. Section 11.2 summarises the research objectives and research methods used and the key findings for each objective. Section 11.3 discusses the contributions of the study to the extant literature, theory and practices. Section 11.4 highlights the limitations of the study. Section 11.6 suggests avenues for future research.

11.2 Summary of Research Objectives, Motivations, Methods and Findings

This study has outlined four research objectives to be achieved, and the findings for each objective have been discussed respectively in Chapter Seven, Eight, Nine and Ten. Each research objective, the motivation for each objective, the methods used and the main findings are summarised in the following sub-sections.

11.2.1 Summary of Chapter 7

Research Objective 1: To ascertain whether present regulatory enforcement is effective in curbing non-compliance with IFRS disclosure requirements in Malaysia.

Motivation of the Study: Compliance with accounting standards in Malaysia has been mandated by law since 1998 and the enforcement of the standards has been entrusted to the Securities Commission (SC) and the Companies Commission of Malaysia (CCM). Nevertheless, prior studies (e.g. Liw, 2007; Tam and Tan, 2007) argued that regulation enforcement in Malaysia is ineffective. Further, no prior study has interviewed

Malaysian regulators to identify how the enforcement of accounting standards has been conducted.

Research Questions: The following research questions (RQ) were addressed to achieve this research objective.

a) *What is the extent of compliance with IFRS disclosure requirements of Malaysian listed companies?*
b) *How do the enforcement agencies perceive and monitor compliance with IFRS in Malaysia?*

Research Methods: RQ (a) has been answered by analysing annual reports of 225 Malaysian listed companies using a self-constructed disclosure checklist which contains 295 items. Two scoring methods have been employed to measure compliance scores: (1) Partial Compliance (PC) method; and (2) Cooke's (dichotomous) method. RQ (b) has been answered by interviewing regulators using semi-structured interviews. Interview data were transcribed after each interview session. The purpose of interviews with regulators is to support and validate the findings in RQ (a). RQ (a) and (b) have been analysed descriptively.

Key Findings and Conclusions: The extent of compliance with IFRS disclosure requirements of Malaysian listed companies was 84.2% and 88.2% for the PC method and Cooke's method, respectively. The results indicate that none of the sampled companies fully complied with IFRS disclosure requirements. Analysis by each standard also demonstrates that the average compliance score for six accounting standards was below 80%, and some companies did not provide any of the disclosure items required by

some standards - this is shown by a zero minimum compliance score. The majority of Malaysian companies had problems complying with FRS136-Impairment of Assets, FRS117-Leases and FRS119-Employee Benefits. More worryingly, none of the companies examined had received qualified audit reports despite significant non-compliance with IFRS disclosure requirements; this is similar with what has been documented by prior studies (e.g. Glaum and Street, 2003). These findings not only suggest that compliance with IFRS is problematic in Malaysia, but also indicate that regulatory enforcement is ineffective in curbing non-compliance with IFRS. This conclusion is also supported by the findings from interviews with regulators.

The findings from interviews suggest that monitoring activities of enforcement agencies are lax and insufficient to ensure that companies fully comply with IFRS for the following reasons. First, monitoring of compliance by the SC has been based on referrals, and not all accounting standards are subject to review by the SC. Therefore, it is not surprising that the analysis of archive documents only shows five convicted cases regarding non-compliance with accounting standards from 2002 to 2009. Second, the SC and MIA have emphasised educational and moral persuasion approaches (e.g. through discussion and dialogue with preparers and auditors) rather than punitive action in monitoring compliance with accounting standards. Third, although the CCM has been entrusted by law to monitor compliance with accounting standards in Malaysia, the interviews reveal that the CCM has focused on timely submission of financial statements of private enterprises. Fourth, while the MIA claimed that disciplinary action had been taken against non-compliant directors and auditors, the approach taken by the MIA in not disclosing the names of those convicted of non-compliance cases casts doubt on whether it can effectively promote compliance with accounting standards. Arguably, this

approach provides less incentive for preparers to comply and for auditors to maintain their independence, knowing that the consequences of non-compliance remain invisible to the public.

Although the regulators claimed that limited resources justified the approach they chose in monitoring compliance, it is believed that their positive views regarding the level of compliance with IFRS in Malaysia highly influence their lax monitoring approach. The interviews reveal that the regulators do not perceive compliance with IFRS to be a major problem in Malaysia because they believed that Malaysian companies are already familiar with IFRS, and also that compliance is mandated by law. This is based on the grounds that Malaysian accounting standards have been based on IFRS since 1978 and companies would be penalised if they did not comply with IFRS.

Taken overall, the findings for RQ (a) and RQ (b) suggest that the present regulatory enforcement is ineffective in curbing non-compliance with IFRS in Malaysia. Therefore, the findings of this study also support the arguments of prior studies (e.g. Tam and Tan, 2007) regarding ineffective regulatory enforcement in Malaysia. This study also argues that although compliance with accounting standards is mandated by law and monitoring has been entrusted to enforcement agencies, this fact does not guarantee that companies will fully comply with IFRS. The findings of this study also provide evidence that different methods of measuring compliance scores can result in differing findings and thus can lead to different perceptions on the level of compliance with IFRS. This study therefore supports Tsalavoutas et al.'s (2010) arguments regarding the use of two methods to alleviate reporting biased or misleading findings.

11.2.2 Summary of Chapter 8

Research Objective 2: To determine whether culture, ownership structure and corporate governance mechanisms have a significant impact on the extent of compliance with IFRS disclosure requirements in Malaysia.

Motivation of the Study: A review of literature (see Chapter 2) has identified that the impact of culture, ownership structure and corporate governance mechanisms on the extent of mandatory disclosure are still under-researched both in mandatory disclosure literature and in the context of Malaysia.

Research Questions: The following research questions were addressed to answer this research objective.

a) *Is there any significant association between corporate ownership structures and the extent of compliance with IFRS disclosure requirements?*
b) *Is there any significant association between corporate governance attributes and the extent of compliance with IFRS disclosure requirements?*
c) *Is there any significant association between culture and the extent of compliance with IFRS disclosure requirements?*
d) *Is there any significant difference in compliance scores between Bumiputra-controlled and Chinese-controlled companies?*

Research Methods: The above research questions have been answered by using univariate and multivariate analyses.

Key Findings and Conclusions: Two dependent variables have been used in the regression analyses, i.e. compliance scores measured by the PC method and compliance

scores measured by Cooke's method. Similar with the approach taken by Tsalavoutas (2011), this study also claims that the findings are valid or robust if supported by both methods. This means the hypothesis is accepted if the result is significant in both the PC method and Cooke's method.

With regard to the ownership structures, three types of ownership were examined in the study, i.e. ownership concentration, family ownership and state ownership. It was found that none of these ownership structures is significantly related with the extent of compliance with IFRS disclosure requirements using either PC and Cooke's method in univariate and multiple regression analyses. Therefore, H1, H2 and H3 are not supported (refer to Table 8.2 for the list of hypotheses).

With regard to corporate governance, eight corporate governance attributes were examined: board independence, board size, board meeting, duality of chairman, audit committee expertise, audit committee independence, audit committee size and audit committee meeting. It was observed that only board meeting was significant in the univariate analysis for both the PC and Cooke's methods. However, in the multivariate analysis, board meeting, audit committee expertise and audit committee size were significant for both the PC method and Cooke's method. The positive sign of board meeting implies that the extent of compliance with IFRS increases with the frequency of board meetings held. The negative sign for audit committee size implies that smaller audit committees are more effective in enhancing compliance with IFRS because they face minimal problems in monitoring decision making, and the directors in small audit committees are also more accountable in discharging their duties (Abdul Rahman, 2009). These findings therefore support H7 and H9.

Nevertheless, the significant finding for audit committee expertise is puzzling because the direction of the coefficient was negative, which is in contrast with the predicted direction. This negative direction implies that audit committee expertise does not play a role in ensuring compliance with IFRS, and accordingly the company may heavily rely on external auditors (Kent and Stewart, 2008). Another possible interpretation for this negative sign is that the presence of more audit committee experts may limit mandatory disclosure because they might use their knowledge to manipulate loopholes in the law to avoid complying with mandatory disclosure requirements. Although the finding is significant, it did not support H11.

With regard to culture, Bumiputra-controlled companies and Chinese-controlled companies were used as proxies of culture. In the univariate analysis, it was found that the Chinese-controlled companies were significant in the PC method only, while the Bumiputra-controlled companies were not significant in both the PC and Cooke's methods. Therefore, it is concluded that, from univariate testing, there is no clear evidence to support the influence of culture on the extent of compliance with IFRS. An independent t-test was conducted to examine whether there is any significant difference in compliance scores between the Bumiputra- and Chinese-controlled companies. A marginal significant difference in compliance scores between these two ethnic groups was observed for the PC method only. Therefore, H12 is not supported. Nevertheless, in the multiple regression analysis, the Bumiputra-controlled and Chinese-controlled companies were found to be significant for both the PC method and Cooke's method. Therefore, H13 and H14 are supported.

The positive direction for Bumiputra-controlled companies implies that Bumiputra-controlled companies disclose more mandatory disclosure than other companies. This result is in contrast with the expectation of the Hofstede-Gray model, which suggests the Bumiputra are secretive in corporate disclosure (see Section 6.4). A possible explanation for this positive sign could be attributable to the Islamic values that emphasise corporate transparency in business transactions (Ghazali, 2004). Alternatively, Bumiputra-controlled companies may provide more mandatory disclosure to legitimise their credibility in managing businesses in Malaysia, because the capability of Bumiputras in managing corporations is questioned due to favouritism and patronage by the government (Haniffa and Cooke, 2005).

In contrast, the coefficient for Chinese-controlled companies was negative, which implies the Chinese-controlled companies provide less mandatory disclosure in their annual reports. This is in contrast with the Hofstede-Gray model's expectation that the Chinese are transparent in corporate disclosure (see Section 6.4). A possible explanation for this negative finding could be explained from the political cost theory perspective that suggests the Chinese tend to disclose less information to avoid government intervention because the Malaysian government's policy to redistribute wealth equally among ethnic groups could be perceived as unfair for the Chinese.

In terms of control variables used in the multiple regression models, only profitability and manufacturing industry were found to be significant for both the PC method and Cooke's method. The positive sign for profitability is consistent with signalling theory and agency theory perspectives, whereas the negative sign for manufacturing industry is in line with political cost theory and proprietary cost theory (see section 8.5.4).

In summary, this study has documented that board meeting, audit committee size, audit committee expertise, culture (Bumiputra-controlled and Chinese-controlled companies), profitability and manufacturing industry are significant factors that influenced the extent of compliance with IFRS disclosure requirements in Malaysia. These findings are also robust in several regression models and another transformation technique (see Section 8.6).

11.2.3 Summary of Chapter 9

Research Objective 3: To identify factors of (non-)compliance with IFRS from the perspectives of preparers and auditors in Malaysia.

Motivation of the Study: A review of literature has shown that factors of (non-) compliance with IFRS from the perspectives of preparers and auditors have never been explored in mandatory disclosure literature.

Research Questions: The following research questions were addressed to achieve this objective.

a) *How do preparers and auditors view the convergence with IFRS?*
b) *What are the problems faced by preparers in fully complying with IFRS disclosure requirements?*
c) *Which accounting standards are problematic for preparers to comply with, and why do they face such a problem?*

Research Methods: The above research questions have been answered by interviewing preparers and auditors using semi-structured interviews. Interview data were transcribed verbatim and analysed manually and using NVIVO software.

Key Findings and Conclusions: The responses from interviewees indicate that full convergence could also creates a problem for Malaysian companies to fully comply with IFRS because of the Malaysian institutional structure, i.e. the undeveloped capital market does not facilitate the fair value accounting standards, and practices that are different from Western countries may also make it costly to comply with IFRS. Therefore, it can be expected that non-compliance with IFRS will also continue under the full convergence regime.

The findings from interviews suggest several factors that contribute to non-compliance with IFRS in Malaysia. These factors are: top management attitudes, problems with accounting standards, lack of enforcement, passive investors, materiality, accountants' attitude, undeveloped capital markets and political excuse. These factors are briefly explained below.

- Top management attitude – the majority of respondents claimed that this is the main barrier to full compliance with IFRS. Although compliance with IFRS is mandatory, the top management (boards of directors and/or major shareholders) have set corporate disclosure policies that might constrain transparency or full compliance, i.e. to maintain minimal compliance costs, to avoid disclosing bad or negative news about the company and to avoid disclosing information to competitors. Lack of support from top management is said to be attributed to the lack of their awareness of IFRS and the difficulty of changing their mind-set to accept IFRS.
- Problems with accounting standards – due to difficulty in catching up with the changes in accounting standards and the many disclosure requirements.

- Enforcement – the majority of respondents believed that enforcement is ineffective. Furthermore, the majority of preparers have never heard of any penalised cases relating to non-compliance with accounting standards and were not aware of the type of penalties imposed by regulators if they fail to comply with IFRS.
- Materiality – there are cases where auditors also compromise with preparers even though non-disclosure items are material. It is also possible that materiality is used as a reason to justify non-disclosure because the materiality concept is very subjective.
- Passive investors – the respondents argued that disclosure information is not useful or relevant to Malaysian investors because they are regarded as passive.
- Accountants' attitude – accountants have difficulty in changing their mind-set to accept IFRS. Accountants also regard it as the job of auditors to ensure companies comply with IFRS.
- Undeveloped capital market – difficulty to get referenced market value.
- Political excuse – government link companies are exempted from disclosing certain transactions for reasons of confidentiality.

Interviewees were also asked their opinions about the explanatory factors included in the regression analysis in Chapter 8 (Section 9.4). Although the perceptions of interviewees do not match some of the regression results (e.g. audit committee size, culture) the interviewees' arguments offer additional or alternative interpretations to the statistical findings.

The interview findings also suggest several possible reasons for the lack of compliance with FRS136-Impairment of Assets, FRS117-Leases and FRS119-Employee Benefits. The reasons are related to high compliance costs (for FRS136 and FRS119); being

detrimental to companies' performance (FRS136); remuneration and benefits being sensitive information (FRS119); information being perceived as not useful or relevant to users (FRS119 and FRS117) and preparers' lack of knowledge or ignorance regarding the disclosure requirements (FRS117 and FRS136).

The interviews have revealed several (non-)compliance factors that cannot be captured or explained by the regression analysis. The factors highlighted in interviews may also account for some of the unexplained variation reported in the regression models in Chapter 8. In summary, the interview findings have complemented the quantitative findings in Chapter 8 and thus provide a holistic picture to understand why companies did not fully comply with IFRS.

Based on these findings, this study argues that stringent enforcement may not be a solution to curb non-compliance with IFRS in Malaysia if materiality and political excuse can always be reasons to justify non-disclosure. Further, an undeveloped capital market may discourage full compliance with IFRS. Simultaneous changes to the whole system in institutional structures are needed, including capital market development, governments, regulators, accounting professions, preparers and users; then quality of financial reporting can be improved (Ding et al., 2007).

11.2.4 Summary of Chapter 10

Research Objective 4: To explore the reasons why an unqualified audit report was issued despite non-compliance with IFRS disclosure requirements.

Motivation of the Study: A review of literature has revealed that it is questionable why auditors sometimes issue an unqualified audit report despite non-compliance with IFRS disclosure requirements. This issue has not been investigated in any study so far.

Research Questions: The following research questions were addressed to auditors:

a) *Does non-compliance with IFRS disclosure requirements warrant a qualified opinion?*
b) *In what circumstances was a qualified audit opinion issued?*

Research Methods: The above research questions have been answered by interviewing auditors. Preparers and regulators were also interviewed to get some insight to further understand the issue in the context of Malaysia. Interview data were transcribed verbatim and analysed manually and using NVIVO software.

Key Findings and Conclusions: The findings from interviews suggest that non-compliance with accounting standards does not lead to qualification of audit report for two reasons. First, the non-disclosure item (i.e. non-compliance) is considered immaterial by auditors. Thus, an unqualified audit opinion is considered appropriate because it is consistent with the materiality concept and the guidelines in ISA700, whereby non-disclosure of immaterial disclosure items does not affect the status of an unqualified audit opinion. Second, departure from compliance with accounting standards is allowed in the Companies Act 1965 (section 166A (4)) in order to achieve a 'true and fair view' (TFV) financial statement. This means non-disclosure (non-compliance) is allowable if such disclosure would give a misleading presentation of financial statements.

The interviewed auditors also claimed that qualification of audit opinion is normally issued in the limitation of scope or when they suspect fraud. The interviews with preparers and regulators also suggest that non-compliance with IFRS disclosure requirements does not automatically render a qualified opinion because of the materiality and true and fair view factors. This implies that both factors are commonly used in Malaysia to justify unqualified audit reports despite non-compliance with IFRS.

Nevertheless, the literature has shown that the vague concept of materiality and the ambiguity of TFV are subject to abuse. Therefore, both materiality and true and fair view override might arguably be used (or misused) as an excuse by auditors and preparers to justify non-compliance with IFRS with a clean (unqualified) audit opinion. There are several arguments from the interviews that suggest materiality concept and TFV override might be misused by preparers and auditors.

First, an interviewed auditor still argued that materiality was the reason why a qualified opinion was not issued despite material non-compliance with IFRS. This is based on the grounds that materiality is subjective and depends on individual judgement; therefore, it is likely issues considered immaterial by some auditors may be considered material by others. Second, the interviewed auditor also argued that the characteristics of users must also be taken into account in determining whether or not the non-disclosure items are material. As mentioned in FRS101, users are assumed to have reasonable knowledge of business and economic activities, together with a willingness to study the information with reasonable diligence. Therefore, it is likely the auditors may use this requirement to argue that non-disclosure items are immaterial or irrelevant to Malaysian users' decision making since they are perceived as passive and unaware of IFRS disclosure requirements (see Section 9.3.5). Third, the responses from auditors also indicate that a TFV override

is opportunistically used by preparers to argue for not complying with IFRS. This is because the indefinable nature of TFV may give an avenue for preparers to argue many reasons why compliance with IFRS would lead to TFV misleading financial statements.

In view of this, while materiality and TFV reasonably justify unqualified audit report despite material non-compliance with IFRS disclosure requirements, this study argues that both materiality and TFV override can also be used (or misused) as an excuse by auditors and preparers to justify departure from compliance with IFRS disclosure requirements without risking the status of a clean audit report. In other words, auditors and preparers may use loopholes in the laws or standards to escape from complying with accounting standards without actually violating the laws and standards; thus a clean audit report is considered appropriate.

11.3 Research Contribution

This study offers several contributions to the literature and to practices, as explained below.

11.3.1 Contribution to the Literature

The findings regarding the first research objective contribute to the literature on compliance with mandatory disclosure requirements (e.g. Tsalavoutas, 2011; Al-Akra et al., 2010; Ali et al., 2004; Abd-Elsalam and Weetman, 2003). Specifically, this study has extended prior research on mandatory disclosure in the following ways.

First, this study has provided evidence on the extent of compliance with IFRS disclosure requirements in the context of a developing country, i.e. Malaysia. Although the research on compliance with mandatory disclosure in developing countries is growing, research

that specifically focuses on Malaysia is scarce (see Chapter 2). Also, unlike prior studies in the Malaysian context, the present study employed a large sample size and examined more than one financial reporting standard (FRS). Further, compliance scores are measured using two methods, i.e. the Partial Compliance (PC) method and the dichotomous method (or Cooke's method), whereby this study documented that the PC and Cooke's methods gave different compliance scores. Thus it supports Tsalavoutas et al.'s (2010) arguments that using both methods in measuring compliance scores may avoid reporting misleading perceptions regarding the level of compliance with IFRS.

Second, while compliance with accounting standards is backed up by law, this study found that the average compliance level with IFRS disclosure requirements in Malaysia was below 90%. Further, the majority of the companies examined did not comply with FRS136, FRS117 and FRS119. These findings therefore suggest that merely mandating compliance with accounting standards by law will not result in full compliance with accounting standards if sufficient or stringent enforcement is not in place. In other words, it can be misleading if one simply relies on the written laws or regulations (e.g. Companies Act 1965) to judge whether Malaysian companies fully comply with mandatory disclosure. The findings of this study also support the arguments by Ball et al. (2003) that merely adopting IFRS does not necessarily mean that financial reporting is of high quality.

The findings regarding the second research objective contribute to literature on mandatory disclosure, ownership structure, corporate governance and culture by providing evidence of the impact of ownership structure, corporate governance and culture on the level of compliance with IFRS disclosure requirements. Specifically, this study has extended prior studies in the following aspects.

First, unlike prior mandatory disclosure studies,[131] the present study measured corporate ownership structure by identifying the ultimate owner or major shareholder of the company using 20% of equity shares as a threshold. Since corporate ownership information is not available from any database, the information was manually collected, where various sources of information were sought, including local business magazines, newspapers and information from companies' websites, to trace the ultimate owner or major shareholder. Therefore, the types of ownership (i.e. family-owned firms and government-owned firms) were clearly distinguished in the present study. Although the Malaysian economy is dominated by family-owned companies and state-owned companies, this study documented that there was not enough evidence to support the influence of these ownership types on the extent of compliance with mandatory disclosure requirements.

Second, unlike prior mandatory disclosure studies that examine one or a few corporate governance variables (see Section 2.3.1.2), the present study examined comprehensive characteristics of corporate governance mechanisms, i.e. including characteristics of boards of directors and audit committees. The present study documented that board meeting, audit committee size and audit committee expertise were significantly associated with the extent of compliance with mandatory disclosure requirements. However, the association direction for audit committee expertise is puzzling because the coefficient was negative, suggesting that mandatory disclosure decreases with more audit committee experts. This finding is in contrast with Mangena and Pike (2005) but consistent with Kent and Stewart (2008). The present study suggests that the negative

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[131] The majority of prior mandatory disclosure studies measured corporate ownership using the proportion of shares held by the government, family or foreign shareholders (see Section 2.3.1.1).

relationship implies that audit committee experts might misuse their expertise to manipulate loopholes in the laws or accounting standards to avoid compliance with mandatory disclosure.

Third, this study provides evidence that culture (ethnicity) has significantly influenced the extent of compliance with mandatory disclosure requirements. This study documented that the association between the extent of compliance with mandatory disclosure and Bumiputra-controlled companies was positively significant and the association for Chinese-controlled was negative significant. This suggests that Bumiputra-controlled companies disclose more mandatory disclosure, which is consistent with the legitimacy theory and religion hypothesis, and Chinese-controlled companies disclose less mandatory disclosures in their annual reports, consistent with political cost theory. To the researcher's knowledge, this is the first study that documents the influence of culture (ethnicity) in the context of compliance with mandatory disclosure. Further, the measurement of culture used in the present study is different from Haniffa and Cooke (2002) on voluntary disclosure. Haniffa and Cooke (2002) measured culture using several proxies, i.e. the proportion of Malay directors on the board; Malay Chairman; Malay Finance Director and Malay Managing Director. In the present study, culture is measured comprehensively, whereby the company is said to be controlled by Bumiputra if three conditions are met, i.e. the ultimate owner is Bumiputra (Malay), the Chief Executive Office is Bumiputra and the board of directors is dominated by Bumiputras. Similar measurement also applied to the Chinese-controlled companies.

The findings regarding the third research objective contribute to the extant literature on mandatory disclosure by documenting (non-)compliance factors from the perspectives of

preparers and auditors using the interview method. These factors include top management attitudes, problems with accounting standards, lack of enforcement, passive investors, materiality, accountants' attitude, undeveloped capital markets and political excuse. Further, the interviews also suggest several factors that contribute to the lack of compliance with FRS136, FRS117 and FRS119 (see Section 9.5). These interview findings in fact have not been revealed or cannot be captured by the regression analysis.

The findings regarding the fourth research objective contribute to the literature on mandatory disclosure and auditing by exploring the reasons why unqualified audit opinions were issued despite significant non-compliance with IFRS disclosure requirements. This study found that materiality and true and fair view are the two factors that explain why an unqualified audit opinion was expressed despite (material) non-compliance with IFRS. Nevertheless, this study argues that materiality and true and fair view override might also be used (or misused) as an excuse by auditors for not qualifying audit reports in the case of significant non-compliance with IFRS disclosure requirements. To the knowledge of the researcher, this is the first study investigating unqualified audit reports and non-compliance with IFRS.

11.3.2 Contribution to the Theory

Hope (2003, p.220) notes that "*disclosure is inherently a complex phenomenon, and a single theory can only give a partial explanation*". Consistent with her argument, this study has demonstrated that the findings can be explained from several theoretical perspectives. For example, the attitude of top management towards mandatory disclosure can be explained using: (1) information cost theory (relating to attitude to maintaining minimal compliance cost); (2) proprietary cost theory (to refrain from disclosing

information detrimental to the company); (3) agency theory (information asymmetry between controlling shareholders and non-controlling shareholders); and (4) institutional theory (cognitive, i.e. difficulty in changing mind-set).

Similarly, several disclosure theories are also applicable in explaining the statistical findings. The extent of compliance with IFRS disclosure requirements in Malaysia can be explained by agency theory (corporate governance attributes, i.e. board meeting and audit committee size; profitability), political cost theory (Chinese-controlled companies; manufacturing industry), legitimacy theory (Bumiputra-controlled companies), signalling theory (profitability), cultural theory (Bumiputra-controlled companies), and proprietary cost theory (manufacturing industry).

This study has also demonstrated that institutional theory is applicable in explaining the findings in Chapter 7 and Chapter 10. Institutional theory argues that an organisation may decouple from society's expectations while still maintaining its legitimacy status if the society is unaware of these decoupling activities, or the organisation may use manipulation strategies or concealment tactics to disguise nonconformity from institutional expectations, like window dressing, ritualism, ceremonial pretence or symbolic acceptance of institutional norms, rules or requirements (Oliver, 1991). Applying this premise to the present study, it explains that societies may expect that companies comply in full with IFRS disclosure requirements because compliance is mandated by law. Nevertheless, companies do not comply with all IFRS disclosure requirements (decoupling activities) while still retaining their legitimacy status in societies because the societies are not aware of IFRS, are passive, or because the unqualified audit reports issued by auditors may disguise the non-compliance with IFRS. A declaration made in the annual reports that the preparation of financial statements is in

accordance with approved accounting standards is also a tactic used to disguise non-compliance from societies.

Although institutional theory could not be operationalised in the quantitative analysis of this study, it appears that the theory is applicable in explaining the findings in the qualitative analysis. Institutional theory is also relevant to explain most of the (non-) compliance factors highlighted in the interviews, namely the attitude of top management, enforcement, passive investors, accountants' attitude, undeveloped capital market and political excuse.

Overall, this study has demonstrated that using a single theory alone may not be sufficient to explain the complex functions of mandatory disclosure practices. Using several theories to explain or interpret the findings may provide richer insights to understand the investigated issues.

11.3.3 Contributions to Practice

The findings of this thesis should be of interest and useful to standard-setters, regulators, policy-makers, accounting professional bodies and investors, as explained below.

To standard-setters, like the Malaysian Accounting Standards Board (MASB), the findings are important to safeguard the quality and credibility of IFRS. Although the MASB has no authority to enforce compliance with IFRS, it can insist that regulators strengthen enforcement to ensure full compliance with IFRS in Malaysia. The findings can also be of interest to international bodies like the IASB and the IFAC in dealing with the factors that may hinder full compliance with IFRS (Ali, 2005).

To regulators and policy-makers, like the Securities Commission (SC), the findings of this study may assist in improving the monitoring of compliance with IFRS. This thesis documented that three accounting standards are problematic to comply with according to the majority of Malaysian companies, i.e. FRS136-Impairment of Assets, FRS117-Leases and FRS119-Employee Benefits. Additionally, frequent non-compliance disclosure items were also highlighted in this study (see Table 7.4). Given the resource constraints faced by the regulators, the findings can help them to focus on these problematic areas in monitoring compliance with IFRS.

This thesis also suggests that frequent board meeting and small audit committee size are important corporate governance mechanisms that might promote high quality of financial reporting (i.e. compliance with mandatory disclosure requirements). A board that meets more often can devote more time to discuss current financial reporting issues like changes to the IFRSs. A smaller audit committee can be more effective in monitoring compliance with mandatory disclosure because of low bureaucracy and/or coordination problems that would allow better functioning than larger audit committee.

However, the finding regarding the negative and significant association between the extent of compliance and audit committee expertise is alarming because it may impair the credibility of professional accountants and corporate governance mechanisms. As suggested in this thesis, the negative finding implies that audit committee expert is ineffective in ensuring compliance with IFRS, or it can also be interpreted as audit committee experts have possibly misused their knowledge or loopholes in the law to avoid disclosing certain information for the owners' benefit. Further, this thesis also highlighted that materiality and true and fair view override might be misused by auditors and preparers to escape from complying with accounting standards without affecting the

status of a clean audit report. Given these findings, the regulators, policy-makers and professional accounting bodies should be concerned about how far the audit committee experts, auditors and accountants are independent and uphold their professional ethics. Perhaps regulators and professional accounting bodies should closely monitor the quality of audit committee experts. The name of convicted accountants or auditors should also be published to public for at present, those convicted accountants and auditors in Malaysia remain invisible. Publicity via media is possibly the best mechanism to discipline professional accountants to maintain high integrity and professional ethics because shame penalty can tarnish their reputation and hinder their career opportunities, this could be more severe than monetary penalty.

To investors, the findings may help in decision making processes because the study provides evidence of the extent to which Malaysian listed companies disclose mandatory disclosure, and which accounting standards are less complied with by Malaysian listed companies. This study has also demonstrated that it could be misleading to rely on the declarations made in annual reports regarding compliance with accounting standards and unqualified audit reports issued by auditors because they do not necessarily give the true picture about what has been practiced by companies.

11.4 Limitations of the Study

Despites the contributions mentioned above, the limitations of this study are also acknowledged, and these have already been addressed in each empirical chapter. The main limitations are summarised below.

First, mandatory disclosure studies involve subjective judgement in measuring compliance scores; this will complicate replication and direct comparison with the

findings of other studies (Tsalavoutas, 2009). Further, prior studies also examined different sets of IFRS, covering different periods and different institutional frameworks, which also prevents direct comparison (Al-Shammari et al., 2008).

Second, the analysis of compliance scores is based on twelve accounting standards and a sample of 225 companies. Therefore, the level of compliance reported might be different if all accounting standards are examined and a larger sample size was involved.

Third, although the OLS regression analysis can be used to ascertain relationship between dependent and independent variables, it does not necessarily imply a causal link[132]. Further the OLS regression analysis is also vulnerable to statistical problems such as when explanatory variables are measured with errors and there are omitted variables that would result in biased results (Sarafidis, 2002).

Fourth, due to the costs and timing constraints, interviews were only conducted with preparers from family- and state-owned companies. Thus, the findings from the interviews do not represent all types of companies.

Fifth, although care was taken to increase the validity and reliability of the interview findings, interviewer bias may have influenced the findings because there were occasions when the researcher inferred conclusions from less explicit answers given by respondents. There could also be a bias in translating a quotation from Malay into English, which might affect the interpretation of the responses. Further, the questions posed to preparers and auditors can only inform about their perceptions, and thus the answers provided to the research questions might be biased.

[132] Thanks to Dr. Khaled Hussainey for addressing this issue.

Given these limitations, any generalisation of the findings of this study must be made with caution.

11.6 Suggestions for Future Research

Compliance with IFRS has received considerable attention because the issue is not only of interest to academic researchers but also to investors, regulators and policy-makers globally. Therefore, research on compliance with IFRS is topical and can contribute to both literature and practice. Based on the findings of the present study, several future research opportunities are identified.

First, the extent of compliance with IFRS disclosure requirements reported in this study is based on twelve accounting standards only. Future research can extend this study by examining all IFRS that have been enacted by the MASB.

Second, future research can also replicate the present study using the same sampled companies so that comparison can be made between the present study and future studies, i.e. to identify whether there has been any improvement in the level of compliance with IFRS disclosure requirements. Further, the present study was conducted before the Audit Oversight Board (AOB) became effective on 1 April 2010. Thus, it should be expected that the quality of financial reporting has improved in the presence of the AOB's overseeing the quality of auditors, compared to the findings in the present study. Future studies can examine whether the level of compliance with IFRS has increased and whether unqualified audit reports are still issued in cases of significant non-compliance with IFRS after the establishment of the AOB

Third, the present study revealed that the influence of culture cannot be established through interviews because of the possibility that the interviewees were not comfortable talking openly about culture. This is because cultural issues (i.e. race and religion) are considered sensitive issues in Malaysia. Therefore, future studies are suggested to use a case study or experimental approach to examine the influence of culture on corporate disclosure practices. Similarly, a case study or experimental approach also can be used to test whether materiality and true and fair view override are subject to abuse by preparers and auditors.

Fourth, in the present study only preparers, auditors and regulators were interviewed. Future studies may interview members of boards of directors and audit committees, and investors. Perhaps these findings would be more interesting and provide richer results to better understand why companies did not fully comply with IFRS disclosure requirements.

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APPENDIX A-1: SUMMARY OF PRIOR STUDIES ON COMPLIANCE WITH NATIONAL MANDATORY DISCLOSURE

No.	Author/(s)	Country	Sample size	Year	No. of index	Independent variables tested	Findings
1	Tai et al. (1990)	Hong Kong	76	1987	10 items (UW)	Firm size **, Nature of business, Audit firm	Overall compliance level: 78%. High non-compliance for depreciation of fixed assets (49%)
2	Cooke (1992)	Japan	35	1988	58 items (UW)	Firm size **, Listing status**, Industry (manufacturing)**	Mean compliance: 95%; range between 88%-100%. Std .deviation: 2.7%.
3	Forker (1992)	United Kingdom	185	1987/88	share option disclosure	Firm size, Board Independence, Audit Committee, Duality***, Audit Firm, Value of options held by directors**	Mean disclosure quality of share option: 45.6%; Proportion of Non-Executive Directors is not significant and in negative sign.
4	Ahmed and Nicholls (1994)	Bangladesh	63	1987/88	94 items (UW)	Firm size, Total Debt, MNC**, Professional Accountants*, Audit firm**	Only 4 companies scored more than 90%. 37 companies scored between 60%-80%. None of the sampled companies fully comply with the financial regulations.
5	Abayo et al. (1993)	Tanzania	51	1990	88 items (UW)	not tested	Mean compliance: 52.6%; range between 31% - 72%. Std. deviation: 11.55%.
6	Wallace et al. (1994)	Spain	50	1991	16 items (UW)	Firm size**, Gearing, Profitability, Liquidity#, Industry, Listing status**,Audit firm	Mean compliance: 59.3%; range between 29%- 79.7%. Std. deviation: 12.8%.
7	Wallace and Naser (1995)	Hong Kong	80	1991	30 items (UW)	Firm size**, Foreign registered office, Profitability#, Liquidity, Leverage, Outsider shareholders, Conglomerate status, Audit firm#	Mean disclosure: 72.54%, standard deviation 8%; the level of disclosure ranges between 55.3% and 87.23%.

8	Patton and Zelenka (1997)	Czech Republic	50	1993	66 items (UW)	Firm size, Profitability*, Leverage, Percentage of Intangible assets, Listing, Audit firm**, Industry, Employees number*	Mean compliance level based on 3 disclosure index: Narrow disclosure index (56%), Somewhat broader index (50%), Broader index (43%)
9	Craig and Diga (1998)	Singapore, Malaysia, Indonesia, Philippines, Thailand	145	1993	530 items (UW)	Firm size*, Leverage*, Industry*, Foreign ownership*, International operations	Mean compliance level by country: Singapore (61.3%); Malaysia (58.7%); Thailand (56.4%); Philippines (55.2%); Indonesia (50.9%)
10	Owusu-Ansah (1998)	Zimbabwe	49	1994	32 items (UW)	Firm size**, Auditor, Ownership**, Industry, Company Age**, MNC**, Profitability, Liquidity	Mean compliance: 74.43%; Std. deviation: 4.96%.
11	Abdul Rahman (1998)	Malaysia	54	1974 1984 1994	97 items 141 items 149 items (UW)	Firm size*, Leverage, Shareholders, Profitability, Liquidity, Type of Management, Financial Year End, Industry, Audit firm, Corporate Image*, Parent company size	Mean compliance level has improved from 49.4% (1974) to 77.4% (1984) and 99% (1994).
12	Camfferman and Cooke (2002)	U.K. Netherlands	322	1996	93 items (UW)	Firm size**, Profitability, Audit Firm, Conglomerate**, Liquidity, Leverage	UK companies disclose more than Dutch companies. Audit firm size and profitability are significant factors for UK companies but not for Dutch companies.
13	Naser and Nuseibah (2003)	Saudi Arabia	40 52	1992 1999	23 items (both)	not tested	Mean compliance: 89% (similar result for both weighted and unweighted); Std. deviation: 11%. Low level of compliance by electricity sector may be due to most of companies were owned by government.

14	Owosu-Ansah and Yeoh (2005)	New Zealand	50	1992 1993 1996 1997	not stated	Firm size***, Company Age***, Liquidity**, Profitability***, Management equity holding, Industry, Audit firm**	Overall compliance level: 92.61%; Std. deviation: 4.63%. Compliance level by year: 1997 (94.5%); 1996 (94.14%); 1993 (87.26%); 1992 (86.54%).
15	Ali et al. (2004)	India, Pakistan & Bangladesh	566	1998	131 (UW)	Firm size***, Leverage, MNC***, Audit firm***, Profitability***	Mean compliance level: 79.7%. Std. deviation: 7.74% ; Compliance level by country: Bangladesh (77.8%); India (78.6%); Pakistan (80.7%)
16	Akhtaruddin (2005)	Bangladesh	94	1999	160 items (UW)	Firm size*, Company Age, Industry, Profitability*	Mean compliance level: 43.53%; Compliance range between 35.85% - 94.34%.
17	Yeoh (2005)	New Zealand	49	1996 1997 1998	495 items (UW)	not tested	High compliance level. Mean compliance: 1996 (93.9%), 1997 (94.3%), 1998 (94.5%).
18	Hassan et al. (2006)	Egypt	77	1995-2002	49 items (UW)	Size***, Gearing***, Profitability***, Stock activity***, Legal form***	Mean compliance: 89.8%; range between 43.8% - 100%. Public business sector companies disclose less information than private sector companies.
19	Soewarso et al. (2007)	Singapore & Australia	60	1997/98	160 items (UW)	Firm size**, Profitability, Leverage, Industry, International operations**, country of operating***	Mean compliance: Using NVND index- Singapore (93%), Australia (95%; Using VND index- Singapore (88%), Australia (92%).
20	Basset et al. (2007)	Australia	283	2003	AASB 1028 not stated	Audit size***, Duality **, AC Independence, Board size, Board Independence, Firm size, Listing, Discontinuation of ESO plans[#]	Mean compliance with AASB 1028: 76.1%; Std. Deviation: 18.2%. Big four audit firm was the most significant variable in explaining the level of compliance.
21	Palmer (2008)	Australia	150	2004	qualitative score (total no. of sentence)	Firm size, Leverage**, Profitability, Auditor***, Industry	Audit firm size is the most influenced factor in explaining the extent and quality in relation to compliance with AASB 1047

22	Kent and Stewart (2008)	Australia	965	2004	qualitative score (total no. of sentence)	Firm size**, Overseas Operation**, Industry**, Board Meeting***, Board Size**, AC expertise#, Audit firm***, AC Meeting**, AC size#	Higher disclosure of AASB 1047 was explained by frequent board and audit committee meeting, small audit committee size, engaged with big audit firm, industry type, firm size and overseas operation.
23	Cürük (2009)	Turkey	61	1986-87 1991-92 1995	129 items (UW)	Firm size, Listing status***, Industry	Mean compliance: 1986 (37.8%), 1987 (38.6%), 1991 (70%), 1992 (71%), 1995 (72.7%)

Notes:

* significant at 0.10 level; ** significant at 0.05 level; ***significant at 0.001; # - significant but negatively related with level of compliance;
AC- Audit Committee; UW-unweighted; W-weighted; Both- unweighted & weighted

APPENDIX A-2: SUMMARY OF PRIOR STUDIES ON COMPLIANCE WITH IFRS MANDATORY DISCLOSURE

No.	Author/(s)	Country	Sample size	Year	No. of MDI	Independent variables used	Findings
1	Solas (1994)	Jordan	45	1988	31 items (W)	Firm size, No. of shareholders, Profitability	Mean compliance: 46.35%. Std. deviation: 1.32% (based on IAS 1 and IAS 5)
2	Street et al. (1999)	12 countries	49	1996	survey	not tested	The survey reveals that there is a significant non-compliance with IASs even though the accounting policies/ audit opinions indicated they complied with IASs.
3	Tower et al. (1999)	Australia, Hong Kong, Malaysia, Philippines, Singapore, Thailand	60	1997	512 items	Firm size, Leverage, Profitability, Industry, Country of reporting***, Days*	Mean compliance by country: Ratio 1 & Ratio 2: Australia (94%, 54%), Thailand (93%, 39%), Singapore (90%, 38%), Malaysia (90%, 41%), Hong Kong (89%, 53%), Philippines (88%, 28%)
4	Street and Bryant (2000)	17 countries	82	1998	IAS 1-IAS 38	Firm size, Profitability, Industry, Accounting Policy***, Audit opinion***, Listing***	Mean compliance by US listing & US filings group: 84.3%; By non US listing/filings: 77.4%.
5	Low and Mat Zain (2001)	Malaysia	168	1994-1999	IAS 14	Firm size**, Leverage, Earnings volatility, proportion of assets in place**	Level of compliance with IAS 14-Segmental reporting: 1994 (65%); 1995 (66%); 1996 (68%); 1997 (74.4%); 1998 (76.2%); 1999 (77.5%)
6	Cairns (2001)	29 countries (mainly EU countries)	165	1999/2000	survey	not tested	The survey found that a variety of approaches to compliance with IASs. Unqualified audit opinions were given to non-compliant companies.
7	Street and Gray (2002)	32 countries	279	1998	based on 9 IASs	Firm size, Audit firm***, Policy***, Listing***, ISA, Country**, Industry*	Mean compliance: DISI (72%); Std. deviation: 19%. DIS2 (74%); Std. deviation: 18%

8	Glaum and Street (2003)	Germany	100 IAS 100 US GAAP	2000	IAS 153 items , US 144 items (UW)	Firm size, Audit firm***, Audit report***, Listing status***, Firm Age, Profitability, Sales growth and market to book ratio	Mean compliance: 83.7%; range from 41.6% to 100%. The Mean compliance level is lower for companies that apply IAS as compared to US GAAP.
9	Abd-Elsalam and Weetman (2003)	Egypt	72	1995/1996	not stated	Legal form**, Activity in share trading*, audit firm**, IAS compliance note, leverage**, profitability, liquidity, industry**	Mean compliance with IAS: 83%, range between 57%-98%. Lowest compliance score was reported when IASs are not available in Arabic language.
10	Al-Shiab (2003)	Jordan	50	1995-2000	273 items (UW)	Firm size***, Audit Firm***, Industry, Profitability	Mean compliance by year: 1995 (45.2%); 1996 (45.8%); 1997 (47%); 1998 (50.9%); 1999 (54.9%); 2000 (55.99%)
11	Al-Htaybat (2005)	Jordan	51	1997 2002	31 items 91 items (UW)	Firm size**, Company Age, Profitability, Ownership, Industry*, Audit firm**	Mean compliance with IAS: 1997 (83.6%), 2002 (92.9%).
12	Abd-Elsalam and Weetman (2007)	Egypt	20 72	1991/1992 1995/1996	241 items (UW)	Legal form***, Activity in share trading**, audit firm***, IAS compliance note, leverage**, profitability, liquidity**, industry***	There was an improvement in compliance score after the establishment of regulation: CA score (before: 92%, after: 95%); CML score (before: 73%, after: 84%)' IASs score (before: 76%, after: 84%)
13	Al-Shammari et al. (2008)	Bahrain, Oman, Kuwait, Saudi Arabia, Qatar, UAE	137	1996-2002	varies (128 items: 1996; 185 items: 2002) (UW)	Firm size***, Leverage**, Internationality***, Ownership, Company Age*	Mean disclosure compliance: 69%; Disclosure compliance by country- UAE and Saudi Arabia (75%); Kuwait (72%); Qatar (69%); Bahrain and Oman (65%). No company achieved full compliance with IASs disclosure requirements during the period.
14	Peng et al. (2008)	China	79	1999 2002	77 items	Firm size, Ownership, MNC, Profitability, Intangible assets, Audit firm	Mean compliance level: 1999 (85.7%), 2002 (90%).
15	Laili (2008)	Malaysia	249	2006 2007	FRS136 (IAS 36)	not tested	Non-compliance with FRS136: 2006 (54.6%), 2007 (49.4%)

16	Aljifri (2008)	United Arab Emirates	31	2003	73 items (UW)	Firm size, Industry***, Debt to Equity, Profitability	Banks sector disclose more than the other 3 sectors; Banks (76%); Insurance (57%); Industrial (61%); Service (67%).
17	Samaha and Stapleton (2008)	Egypt	281	2000	306 items (UW)	Manufacturing, trade industry, public sector	Mean disclosure compliance level: 50%.
18	Hodgdon et al. (2009)	13 countries	101	1999 2000	209 items (both)	Firm size***, US listing, Profitability**, International diversification, Leverage,International Standards of Auditing, Audit firm***	Mean compliance: Unweighted (1999: 58%; 2000: 64%), Weighted (SAIDIN) (1999: 45%; 2000: 50%)
19	Tsalavoutas (2009)	Greece	153	2005	489 items (UW)	Firm size, Gearing, Profitability, Liquidity, Firm size***, Industry***, Change in SH equity***, Change in net profit***	Mean compliance using PC method: 79%; std. deviation: 10%. Mean compliance using Cooke's method: 83%; Std. deviation: 8%.
20	Al-Akra et al. (2010)	Jordan	80	1996 2004	301 items 641 items	Non Exec. Directors#, AC**, Board size, Ownership, Firm size, Leverage#, Profitability, Audit firm, Liquidity#, Industry, Listing, Firm Age	Mean compliance in 1996: (55%); 2004: (79%) - imply that higher compliance due to introduction of disclosure regulation.

Notes:

* significant at 0.10 level; ** significant at 0.05 level; ***significant at 0.001

- significant but negatively related with level of compliance

MDI=Mandatory disclosure index; AC- Audit Committee; ISA-International Standards of Auditing

UW-unweighted; W-weighted; Both- unweighted & weighted

APPENDIX B-1: HOFSTEDE'S CULTURAL DIMENSIONS

Hofstede's (1984, p.83-84):

Individualism versus Collectivism

Individualism stands for a preference for a loosely knit social framework in society wherein individuals are supposed to take care of themselves and their immediate families only. Its opposite, Collectivism, stands for a preference for a tightly knit social framework in which individuals can expect their relatives, clan, or other in-group to look after them in exchange for unquestioning loyalty (it will be clear that the word 'collectivism' is not used here to describe any particular political system). The fundamental issue addressed by this dimension is the degree of interdependence a society maintains among individuals. It relates to people's self concept: '1' or 'we'.

Large versus Small Power Distance

Power distance is the extent to which the members of a society accept that power in institutions and organisations is distributed unequally. This affects the behaviour of the less powerful as well as of the more powerful members of society. People in Large Power Distance societies accept hierarchical order in which everybody has a place which needs no further justification. People in Small Power Distance societies strive for power equalisation and demand justification for power inequalities. The fundamental issue addressed by this dimension is how society handles inequalities among people when they occur. This has obvious consequence for the way people build their institutions and organisations".

Strong versus Weak Uncertainty Avoidance

Uncertainty Avoidance is the degree to which the members of a society feel uncomfortable with uncertainty and ambiguity. This feeling leads to beliefs promising certainty and to maintaining institutions protecting conformity. Strong Uncertainty Avoidance societies maintain rigid codes of belief and behaviour and the intolerant towards deviant persons and ideas. Weak Uncertainty Avoidance societies maintain a more relaxed atmosphere in which practice counts more than principles and deviance is more easily tolerated. The fundamental issue addressed by this dimension is how society reacts on the fact that time only runs one way and that the future is unknown: whether it tries to control the future or let it happen. Like Power Distance, Uncertainty Avoidance has consequences for the way people build their institutions and organisations.

Masculinity versus Feminity

Masculinity stands for preference in society for achievement, heroism, assertiveness, and material success. Its opposite, Feminity, stands for a preference for relationship, modesty, caring for the weak, and the quality of life. The fundamental issue addressed by this dimension is the way in which a society allocates social (as opposed to biological) roles to the sexes.

APPENDIX B-2: ASSOCIATION OF GRAY'S ACCOUNTING VALUES AND HOFSTEDE'S SOCIETAL VALUES

Accounting Values	Related Societal Values	Attributes of societal values consistent with accounting values
Professionalism	Individualism	Emphasis on independence, belief in individual decisions and respect for individuals' endeavours.
	Weak Uncertainty Avoidance	Belief in fair play, tolerance in professional judgements
	Small Power Distance	Concern about equal rights, trust, belief in the need to justify the imposition of laws and code
	Masculinity	Concern with individual assertiveness
	Short term orientation	Concern with social status
Uniformity	Strong Uncertainty Avoidance	Concern for law and order, a need for written rules and regulations, a respect for conformity, a search for ultimate, absolute truths and values
	Collectivism	Belief in organisation and order, respect for group norms
	Large Power Distance	Acceptance of the imposition of laws and codes
Conservatism	Strong Uncertainty Avoidance	Concern with security, belief in a cautious approach to cope with the uncertainty of future events
	Short term orientation	Expected quick results, thus adopting a more optimistic approach
	Collectivism	Greater concern for the interests of those closely involved with the firm than outsiders.
	Femininity	Lower tendency to publicise achievement and material success
Secrecy	Strong Uncertainty Avoidance	Preserving security, tendency to avoid conflict and competition
	Large Power Distance	Preserving power inequalities
	Collectivism	Greater concern for the interests of those closely involved with the firm than outsiders.
	Long term orientation	Concern with the need to conserve resources within the firm and to ensure that funds are available for investment
	Femininity	Lower tendency to publicise achievement and material success

Notes: *Italics* indicate that there might be a link but with a weaker relationship to accounting values
Source: Radebaugh and Gray (2002, pp. 46-48)

APPENDIX B-3: MATRIX OF RELATIONSHIP OF ACCOUNTING VALUES WITH SOCIETAL VALUES

Societal Values	Accounting Values							
	Professionalism	**Statutory Control**	**Uniformity**	**Flexibility**	**Conservatism**	**Optimism**	**Secrecy**	**Transparency**
Individualism	+	-	-	+	-	+	-	+
Collectivism	-	+	+	-	+	-	+	-
Large Power Distance	-	+	+	-	n/a	n/a	+	-
Small Power Distance	+	-	-	+	n/a	n/a	-	+
Strong Uncertainty Avoidance	-	+	+	-	+	-	+	-
Weak Uncertainty Avoidance	+	-	-	+	-	+	-	+
Masculinity	+	n/a	n/a	n/a	-	+	-	+
Femininity	-	n/a	n/a	n/a	+	-	+	-
Short Term	+	-	n/a	n/a	-	+	-	+
Long Term	-	+	n/a	n/a	+	-	+	-

Notes: (+) = positive association; (-) = negative association; n/a = not applicable
Source: Adapted from Radebaugh and Gray (2002, p.49)

APPENDIX C: LIST OF SAMPLED COMPANIES (N=225)

No.	Name of Company
1	Petronas Gas
2	Pharmaniaga Berhad
3	Malaysia Airline System
4	Sitt Tatt Berhad
5	Edaran Otomobil M'sia Bhd
6	Malaysia Airports Berhad
7	Sime Darby Bhd
8	Kia Lim Bhd
9	NCB Holdings
10	IOI Properties Bhd
11	Bintulu Port Holdings Bhd
12	Johor Land Bhd
13	Plus Expressways
14	Lion Corporation
15	Aliran Ihsan Resources Bhd
16	Tradewinds Plantation Bhd
17	Boustead Heavy Industries Bhd
18	MISC
19	Nestle (M) Bhd
20	Ann Joo Resource Bhd
21	TH Plantation Bhd
22	Petronas Dagangan Bhd
23	Transmile Group Berhad
24	Mentiga Corp. Bhd
25	Time Dot Com Berhad
26	UMW Holdings
27	Axiata Group
28	Narra Resources Berhad
29	Guocoland Bhd
30	Hong Leong Industries Bhd
31	Esso Malaysia Bhd
32	Sarawak Energy Bhd
33	EonMetall Group Bhd
34	Proton Holdings
35	Classic Scenic Bhd
36	Leader Universal Bhd
37	DK Leather Corp Bhd
38	BP Plastic Holding Bhd
39	Poh Kong Holdings Bhd
40	Telekom Malaysia
41	Selangor Properties Bhd
42	Yeo Hiap Seng (M) Bhd
43	IQ Group Berhad
44	QSR Brand Berhad
45	KLCC Property Holdings Bhd
46	Kumpulan Perangsang Selangor Bhd
47	IJM Plantations Bhd
48	Tenaga Nasional
49	JT International Berhad
50	Boustead Holdings Bhd
51	Bina Darulaman Bhd
52	Lingui Development Berhad
53	Measat Global Berhad
54	FIMA Corp. Bhd
55	Cycle & Carriage Bintang
56	Ahmad Zaki Resources Bhd
57	I Berhad
58	Lion Diversified Holdings Bhd
59	Parkson Holdings
60	Malaysi Pacific Corporation Bhd
61	Fraser & Neave Holdings Bhd
62	Halim Mazmin
63	Hap Seng Consolidated Bhd
64	Far East Holdings Bhd
65	Berjaya Corporation Bhd
66	Mamee Double Decker (M) Bhd
67	Globetronics Tech. Bhd
68	NWP Holdings Berhad
69	Negeri Sembilan Palm Oil Bhd
70	Kumpulan Fima Berhad
71	Box Pak (Msia) Bhd
72	Integrated Rubber Corp. Bhd
73	Cocoaland Holdings Bhd
74	Golden Pharos Bhd
75	Johan Holdings Berhad
76	The New Straits Times Bhd
77	Lafarge Malayan Cement
78	Asiatic Development Bhd
79	Alam Maritim Resources Bhd
80	YTL Corporation Bhd
81	YTL Power International

82	Kulim Malaysia Bhd
83	TDM Holdings Berhad
84	Rimbunan Sawit Bhd
85	CAB Cakaran Corp. Bhd
86	Talam Corporation Berhad
87	CNI Holdings Berhad
88	Yee Lee Corporation Bhd
89	KUB Malaysia Bhd
90	MMC Corporation Berhad
91	Ranhill Berhad
92	Degem Bhd
93	Amway Malaysia
94	Pasdec Holdings Bhd
95	Dominant Enterprise Bhd
96	Hap Seng Plantations Holdings Bhd
97	OKA Corporation Berhad
98	Shell Refining Co (Malaysia)
99	Carlsberg Brewery Malaysia
100	Guinness Anchor BhD
101	AEON Co. (M) Bhd
102	Nationwide Express Bhd
103	YTL Cement Bhd
104	Tan Chong Motor Hlds
105	Batu Kawan Bhd
106	KPJ Healthcare Bhd
107	KFC Holdings Bhd
108	PPB Group Bhd
109	Dutch Lady Berhad
110	Ajinomoto (M) Bhd
111	Farlim Group (M) Bhd
112	British American Tobacco (M)
113	Utusan Melayu (M) Bhd
114	Astral Asia Bhd
115	Digi.com
116	Resorts World
117	Berjaya Sports Toto Bhd
118	POS Malaysia
119	MK Land Holdings Berhad
120	Pentamaster Corp. Bhd
121	Mintye Industries Bhd
122	United U-Li Corp. Bhd
123	Kuala Lumpur Kepong Bhd
124	Suria Capital Bhd

125	Analabs Resources Bhd
126	Utd Plantation
127	LBS Bina Group Bhd
128	Estethic International Group Bhd
129	Sapura Industrial Bhd
130	Johore Tin Bhd
131	MTD Capital Berhad
132	LII Hen Industries Bhd
133	Prestar Resources Bhd
134	London Biscuits Berhad
135	Irekacorporation Berhad
136	Thong Guan Industries Bhd
137	Oriental Holdings
138	Tradewinds (M) Bhd
139	PNE PCB Bhd
140	Cheetah Holdings Bhd
141	Astro All Asia Networks
142	Metrod (M) Bhd
143	Kencana Petroleum Bhd
144	Muda Holdings Bhd
145	Chin Well Holdings Bhd
146	IOI Corp Bhd
147	Sinora Industries Bhd
148	WTK Holdings Bhd
149	Puncak Niaga Holdings
150	Tebrau Teguh Bhd
151	TRC Synergy Bhd
152	Top Glove Corporation Bhd
153	Star Publication Malaysia
154	Apex Health Care Bhd
155	Sunway City Bhd
156	SapuraCrest Petroleum
157	Eng Kah Corp. Bhd
158	SP Setia Berhad
159	Hietech Padu Bhd
160	TSH Resources Bhd
161	Malaysia Smelting Corp. Bhd
162	Media Prima Bhd
163	Ta Ann Holdings
164	Titan Chemicals Bhd
165	Sarawak Oil Palm Bhd
166	Chin Teck Plantation Berhad
167	FCW Holdings Bhd

168	Mah Sing Group Bhd
169	Malaysian Bulk Carriers Bhd
170	Scomi Group Bhd
171	Green Packet Bhd
172	IJM Corp.Bhd
173	Bonia Corporation Bhd
174	Unisem (M) Bhd
175	Wah Seong
176	Khee San Berhad
177	Genting Bhd
178	Gopeng Bhd
179	White Horse Bhd
180	Kumpulan Europlus Bhd
181	Malaysian Resources Bhd
182	Tanjong
183	Multi-Purpose Holdings
184	AirAsia
185	Padiberas Nasional Berhad
186	Goh Ban Huat Berhad
187	Landmarks Bhd
188	KBES Berhad
189	Pelikan International Bhd
190	Silverbird Group Bhd
191	Minho (M) Bhd
192	IGB Bhd
193	Marco Holdings Berhad
194	DRB-Hicom
195	Malayan Flour Mills Bhd
196	Mudajaya Group Bhd

197	Dialog Group
198	Metronic Global Bhd
199	CI Holdings Bhd
200	Putera Capital Bhd
201	Weida (M) Bhd
202	Kobay technology Bhd
203	Mesiniaga Bhd
204	Sern Kou Resources Bhd
205	Keladi Maju Bhd
206	Lityan Holdings Bhd
207	KNM Group
208	Sunrise Bhd
209	Muhibbah Engineering Bhd
210	PDZ Holdings Bhd
211	Poh Huat Resources Bhd
212	Kurnia Setia Bhd
213	Advance Synergy Bhd
214	WCT Bhd
215	Isyoda Corp. Bhd
216	Gamuda Berhad
217	Lingkaran Trans Kota Holdings
218	AKN Technology Bhd
219	Bandaraya Development Bhd
220	Fountain View Development Bhd
221	Gula Perak Bhd
222	Daibochi Plastic Bhd
223	Malaysia Aica Bhd
224	Merge Energy Bhd
225	Tenggara Oil Bhd

APPENDIX D: RESULTS OF PILOT STUDY

Company	Researcher A	Researcher B
1	0.77	0.77
2	0.92	0.92
3	0.76	0.75
4	0.92	0.92
5	0.83	0.80
6	0.63	0.66
7	0.86	0.87
8	0.87	0.80
9	0.78	0.77
10	0.87	0.83
11	0.76	0.75
12	0.94	0.90
Mean	0.83	0.81
Median	0.85	0.80
Pearson correlation	*p=0.957****	
Spearman correlation	*p=0.947****	
Wilcoxon signed ranked	*p=0.094*	

*** significant at 0.001

Notes: Both parametric and non-parametric tests show that the scores between two scorers are not significantly different

APPENDIX E: LIST OF INTERVIEWEES (PREPARERS)

Firm	Position	Race	Gender	Type of Firm	Years in position
A	Group Accountant	Malay	Female	GLC	5
B	Financial controller	Chinese	Female	GLC	10
C	Financial controller	Malay	Male	GLC	5
D	Financial controller	Malay	Female	GLC	15
E	Group Accountant	Chinese	Male	Family (C)	12
F	Group Accountant	Malay	Female	GLC	7
G	Financial controller	Chinese	Male	Family (C)	3
H	Chief Financial Officer (CFO)	Malay	Male	GLC	13
I	Financial controller	Chinese	Male	Family (C)	16
J	Financial controller	Malay	Female	GLC	10
K	Financial controller	Chinese	Male	Family (C)	12
L	Financial controller	Chinese	Female	Family (C)	12
M	Financial controller	Malay	Male	GLC	2
M	Group Accountant	Malay	Male	GLC	3
N	Financial controller	Malay	Male	Family (M)	9
O	Financial controller	Malay	Male	Family (M)	10
P	Financial controller	Chinese	Malay	Family (C)	14
Q	Financial controller	Chinese	Female	Family (C)	12
R	Financial controller	Chinese	Male	Family (M)	12
S	Financial controller	Chinese	Female	Family (M)	13
T	Financial controller	Malay	Male	GLC	12
U	Financial controller	Chinese	Male	Family (C)	4
V	Group Accountant	Chinese	Female	Family (C)	2

Notes:
GLC-Government Link Companies (State-owned companies)
Family (C) – Chinese Family-owned companies
Family (M) - Malay Family-owned companies

APPENDIX F: LIST OF INTERVIEWEES (AUDITORS)

Audit Firm	Type	Position	Race	Gender	Years of Experience
1	Big Four	Audit Manager	Chinese	Female	6
2	Medium	Audit Manager	Chinese	Male	10
3	Big Four	Audit Manager	Malay	Male	8
4	Big Four	Audit Manager	Malay	Female	5
5	Medium	Partner	Malay	Male	16
6	Big Four	Partner	Chinese	Male	10
7	Medium	Audit Manager	Malay	Female	10
8	Medium	Audit Manager	Malay	Female	7
9	Medium	Partner	Malay	Male	12
10	Big Four	Partner	Chinese	Male	10
11	Medium	Partner	Chinese	Male	18

APPENDIX G: DISCLOSURE CHECKLIST

Para	Sub-para	(1) FRS101 Presentation of Financial Statements	Score (1/na/0)
8		**Include the following components in the financial statements:**	
	(a)	a balance sheet;	
	(b)	an income statement;	
	(c)	a statement of changes in equity showing either: (i) all changes in equity, or (ii) changes in equity other than those arising from transactions with equity holders acting in their capacity as equity holders	
	(d)	a cash flow statement; and	
	(e)	notes, comprising a summary of significant accounting policies and other explanatory notes.	
14		Disclose that the financial statements comply with Financial Reporting Standards. ***Financial statements should not be described as complying with FRS unless they comply with all the requirements of FRS. An explicit and unreserved statement of compliance with FRS should be made in the notes***	
18		When an entity departs from a requirement of a Standard or an Interpretation, it shall disclose:	
	(a)	that management has concluded that the financial statements present fairly the entity's financial position, financial performance and cash flows;	
	(b)	that it has complied with applicable Standards and Interpretations, except that it has departed from a particular requirement to achieve a fair presentation;	
	(c)	the title of the Standard or Interpretation from which the entity has departed, the nature of the departure, including the treatment that the Standard or Interpretation would require, the reason why that treatment would be so misleading in the circumstances that it would conflict with the objective of financial statements set out in the Framework, and the treatment adopted; and	
	(d)	for each period presented, the financial impact of the departure on each item in the financial statements that would have been reported in complying with the requirement.	
23		When preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern. Financial statements shall be prepared on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, those uncertainties shall be disclosed. When financial statements are not prepared on a going concern basis, that fact shall be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not regarded as a going concern.	
36		Except when a Standard or an Interpretation permits or requires otherwise, comparative information shall be disclosed in respect of the previous period for all amounts reported in the financial statements. Comparative information shall be included for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.	
38		When the presentation or classification of items in the financial statements is amended, comparative amounts shall be reclassified unless the reclassification is impracticable. When comparative amounts are reclassified, an entity shall disclose:	
	(a)	nature of any restatement or reclassification of comparative amounts	
	(b)	amount of, and	
	(c)	reason for any restatement or reclassification of comparative amounts	

39		When it is impracticable to reclassify comparative amounts, disclose:	
	(a)	the reason for not reclassifying and	
	(b)	the nature of the changes that would have been made if amounts were reclassified	
51		An entity shall present current and non-current assets, and current and non-current liabilities as separate classifications on the face of its balance sheet in accordance with paragraphs 57-67 except when a presentation based on liquidity provides information that is reliable and is more relevant. When that exception applies, all assets and liabilities shall be presented broadly in order of liquidity.	
68		As a minimum, the face of the balance sheet shall include line items that present the following amounts to the extent that they are not presented in accordance with p.68A:	
	(a)	property, plant and equipment;	
	(b)	investment property;	
	(c)	intangible assets;	
	(d)	financial assets (excluding amounts shown under (e), (h) and (i));	
	(e)	investments accounted for using the equity method;	
	(f)	biological assets;	
	(g)	inventories;	
	(h)	trade and other receivables;	
	(i)	cash and cash equivalents;	
	(j)	trade and other payables;	
	(k)	provisions;	
	(l)	financial liabilities (excluding amounts shown under (j) and (k));	
	(m)	liabilities and assets for current tax	
	(n)	deferred tax liabilities and deferred tax assets	
	(o)	minority interest, presented within equity; and	
	(p)	issued capital and reserves attributable to equity holders of the parent.	
68A		The face of the balance sheet shall also include line items that present the following amounts:	
	(a)	the total of assets classified as held for sale and assets included in disposal groups classified as held for sale in accordance with FRS 5 Non-current Assets Held for Sale and Discontinued Operations; and	
	(b)	liabilities included in disposal groups classified as held for sale in accordance with FRS 5.	
70		When an entity presents current and non-current assets, and current and non-current liabilities, as separate classifications on the face of its balance sheet, it shall not classify deferred tax assets (liabilities) as current assets (liabilities).	
74		An entity shall disclose, either on the face of the balance sheet or in the notes, further sub classifications of the line items presented, classified in a manner appropriate to the entity's operations. *For example:(a) items of property, plant and equipment are disaggregated into classes in accordance with FRS 116;(b) receivables are disaggregated into amounts receivable from trade customers, receivables from related parties, prepayments and other amounts;(c) inventories are sub classified, in accordance with FRS 102 Inventories, into classifications such as merchandise, production supplies, materials, work in progress and finished goods;d) provisions are disaggregated into provisions for employee benefits and other items; and (e) contributed equity and reserves are disaggregated into various classes, such as paid-in capital, share premium and reserves.*	
76		An entity shall disclose the following, either on the face of the balance sheet or in the notes:	

	(a)	***for each class of share capital:***(i) the number of shares authorised; (ii) the number of shares issued and fully paid, and issued but not fully paid;(iii) par value per share, or that the shares have no par value; (iv) a reconciliation of the number of shares outstanding at the beginning and at the end of the period;(v) the rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital;(vi) shares in the entity held by the entity or by its subsidiaries or associates; and (vii) shares reserved for issue under options and contracts for the sale of shares, including the terms and amounts;	
	(b)	a description of the **nature and purpose** of each reserve within equity.	
81		As a minimum, the face of the income statement shall include line items that present the following amounts for the period:	
	(a)	revenue;	
	(b)	finance costs;	
	(c)	share of the profit or loss of associates and joint ventures accounted for using the equity method;	
	(d)	tax expense;	
	(e)	a single amount comprising the total of (i) the post-tax profit or loss of discontinued operations and (ii) the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation; and	
	(f)	profit or loss.	
82		The following items shall be disclosed on the face of the income statement as allocations of profit or loss for the period:	
	(a)	profit or loss attributable to minority interest; and	
	(b)	profit or loss attributable to equity holders of the parent.	
85		An entity shall not present any items of income and expense as extraordinary items, either on the face of the income statement or in the notes.	
93		Entities classifying expenses by function shall disclose additional information on the nature of expenses and employee benefits expense.	
95		An entity shall disclose, either on the face of the income statement or the statement of changes in equity, or in the notes, the amount of dividends recognised as distributions to equity holders during the period, and the related amount per share.	
96		An entity shall present a statement of changes in equity showing on the face of the statement:	
	(a)	profit or loss for the period;	
	(b)	each item of income and expense for the period that, as required by other Standards or by Interpretations, is recognised directly in equity, and the total of these items;	
	(c)	total income and expense for the period (calculated as the sum of (a) and (b)), showing separately the total amounts attributable to equity holders of the parent and to minority interest; and	
	(d)	for each component of equity, the effects of changes in accounting policies and corrections of errors recognised in accordance with FRS 108.	
97		An entity shall also present, either on the face of the statement of changes in equity or in the notes:	
	(a)	the amounts of transactions with equity holders acting in their capacity as equity holders, showing separately distributions to equity holders;	
	(b)	the balance of retained earnings (ie accumulated profit or loss) at the beginning of the period and at the balance sheet date, and the changes during the period; and	
	(c)	a reconciliation between the carrying amount of each class of contributed equity and each reserve at the beginning and the end of the period, separately disclosing each change.	

104		Notes shall as far as practicable, be presented in a systematic manner. Each item on the face of the balance sheet, income statement, statement of changes in equity and cash flow statement shall be cross referenced to any related information in the notes.	
108		An entity shall disclose in the summary of significant accounting policies:	
	(a)	the measurement basis (or bases) used in preparing the financial statements; and	
	(b)	the other accounting policies used that are relevant to an understanding of the financial statements.	
113		An entity shall disclose, in the summary of significant accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph 116), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.	
116		An entity shall disclose in the notes information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, **the notes shall include details of**:	
	(a)	nature of these assets and liabilities	
	(b)	their carrying amount as at the balance sheet date.	
125		**An entity shall disclose in the notes:**	
	(a)	the amount of dividends proposed or declared before the financial statements were authorised for issue but not recognised as a distribution to equity holders during the period, and the related amount per share; and	
	(b)	the amount of any cumulative preference dividends not recognised.	
126		An entity shall disclose the following, if not disclosed elsewhere in information published with the financial statements:	
	(a)	(i) the domicile and (ii) legal form of the entity, (iii) its country of incorporation and (iv)the address of its registered office (or principal place of business, if different from the registered office);	
	(b)	a description of the nature of the entity's operations and its principal activities	
	(c)	the name of the parent and the ultimate parent of the group.	
		Total Level of Compliance with the disclosure requirements of FRS101	

Para	**Sub-para**	**(2) FRS 2- Share Based Payment**	
45		The entity should disclose at least the following:	
	(a)	description of each type of share-based payment arrangement that existed at any time during the period, including the general terms and conditions of each arrangement, such as:(i) vesting requirements, (ii) the maximum term of options granted, (iii) the method of settlement (for example, whether in cash or equity).	
	(b)	number and weighted average exercise prices of share options for each of the following groups of options:(i) outstanding at the beginning of the period,(ii) granted during the period, (iii) forfeited during the period, (iv) exercised during the period, (v) expired during the period, (vi) outstanding at the end of the period, (vii) exercisable at the end of the period.	
	(c)	weighted average share price at the date of exercise for share options exercised during the period. The entity may instead disclose the weighted average share price during the period if options were exercised on a regular basis throughout the period	
	(d)	for share options outstanding at the end of the period,(i) range of exercise prices, (ii) weighted average remaining contractual life	

47		The entity shall disclose at least the following:	
	(a)	for share options granted during the period, weighted average fair value of those options at the measurement date and information on how that fair value was measured, including:(i) option pricing model used and the inputs to that model: including – weighted average share price– exercise price– expected volatility-option life– expected dividends– risk-free interest rate– any other inputs to the model, including the method used and the assumptions made to incorporate the effects of expected early exercise.(ii) how expected volatility was determined, including an explanation of the extent to which expected volatility was based on historical volatility; and (iii) whether and how any other features of the option grant were incorporated into the measurement of fair value, such as a market condition	
	(b)	for other equity instruments granted during the period (other than share options), the number and weighted average fair value of those equity instruments at the measurement date, and information on how that fair value was measured, including:(i) if fair value was not measured on the basis of an observable market price, how it was determined, (ii) whether and how expected dividends were incorporated into the measurement of fair value, (iii) whether and how any other features of the equity instruments granted were incorporated into the measurement of fair value	
	(c)	for share-based payment arrangements that were modified during the period:(i) explanation of those modifications,(ii) incremental fair value granted (as a result of those modifications), (iii) information on how the incremental fair value granted was measured, consistently with the requirements set out in (a)and (b) above, where applicable	
48		If the entity has measured directly the fair value of goods or services received during the period, disclose how that fair value was determined; for example, whether fair value was measured at a market price for those goods or services	
49		If the entity has rebutted the presumption that fair value of goods and services other than employee services can be estimated reliably, disclose that fact and give an explanation of why the presumption was rebutted.	
51		To give effect to the principle in paragraph 50 (An entity shall disclose information that enables users of the financial statements to understand the effect of share-based payment transactions on the entity's profit or loss for the period and on its financial position), the entity shall disclose at least the following:	
	(a)	total expense recognised for the period arising from share-based payment transactions in which the goods or services received did not qualify for recognition as assets and were recognised immediately as an expense, including separate disclosure of that portion of the total expense that arises from transactions accounted for as equity-settled share-based payment transactions; and	
	(b)	for liabilities arising from share-based payment transactions:(i) total carrying amount at the end of the period; and (ii) total intrinsic value at the end of the period of liabilities for which the counterparty's right to cash or other assets had vested by the end of the period (for example, vested share appreciation rights).	
52		If the information required to be disclosed by this FRS does not satisfy the principles in paragraphs 44, 46 and 50, the entity shall disclose such additional information as is necessary to satisfy them.	
		Total of Level Compliance with disclosure requirements of FRS 2	
Para	**Sub-para**	**(3) FRS 3- Business Combination**	
67		For each business combination that took effect during the reporting period, the acquirer shall disclose the following information :	
	(a)	the names and descriptions of the combining entities or businesses.	
	(b)	the acquisition date.	
	(c)	the percentage of voting equity instruments acquired.	

	(d)	the cost of the combination and a description of the components of that cost, including any costs directly attributable to the combination. *When equity instruments are issued or issuable as part of the cost, the following shall also be disclosed*: (i) the number of equity instruments issued or issuable; and (ii) the fair value of those instruments and the basis for determining that fair value. If a published price does not exist for the instruments at the date of exchange, the significant assumptions used to determine fair value shall be disclosed. If a published price exists at the date of exchange but was not used as the basis for determining the cost of the combination, that fact shall be disclosed together with: the reasons the published price was not used; the method and significant assumptions used to attribute a value to the equity instruments; and the aggregate amount of the difference between the value attributed to, and the published price of, the equity instruments.	
	(e)	details of any operations the entity has decided to dispose of as a result of the combination.	
	(f)	the amounts recognised at the acquisition date for each class of the acquiree's assets, liabilities and contingent liabilities, and, unless disclosure would be impracticable, the carrying amounts of each of those classes, determined in accordance with FRSs, immediately before the combination. If such disclosure would be impracticable, that fact shall be disclosed, together with an explanation of why this is the case.	
	(g)	the amount of any excess recognised in profit or loss in accordance with paragraph 56, and the line item in the income statement in which the excess is recognised.	
	(h)	a description of the factors that contributed to a cost that results in the recognition of goodwill—a description of each intangible asset that was not recognised separately from goodwill and an explanation of why the intangible asset's fair value could not be measured reliably—or a description of the nature of any excess recognised in profit or loss in accordance with paragraph 56.	
	(i)	the amount of the acquiree's profit or loss since the acquisition date included in the acquirer's profit or loss for the period, unless disclosure would be impracticable. If such disclosure would be impracticable, that fact shall be disclosed, together with an explanation of why this is the case.	
68		The information required to be disclosed by paragraph 67 shall be disclosed in aggregate for business combinations effected during the reporting period that are individually immaterial.	
69		If the initial accounting for a business combination that was effected during the period was determined only provisionally as described in paragraph 62, that fact shall also be disclosed together with an explanation of why this is the case.	
70		To give effect to the principle in paragraph 66(a), the acquirer shall disclose the following information, unless such disclosure would be impracticable:	
	(a)	the revenue of the combined entity for the period as though the acquisition date for all business combinations effected during the period had been the beginning of that period.	
	(b)	the profit or loss of the combined entity for the period as though the acquisition date for all business combinations effected during the period had been the beginning of the period.	
		If disclosure of this information would be impracticable, that fact shall be disclosed, together with an explanation of why this is the case.	
71		To give effect to the principle in paragraph 66(b), the acquirer shall disclose the information required by paragraph 67 for each business combination effected after the balance sheet date but before the financial statements are authorised for issue, unless such disclosure would be impracticable. If disclosure of any of that information would be impracticable, that fact shall be disclosed, together with an explanation of why this is the case.	
72		an acquirer shall disclose information that enables users of its financial statements to evaluate the financial effects of gains, losses, error corrections and other adjustments recognised in the current period that relate to business combinations that were effected in the current or in previous periods.	
73		To give effect to the principle in para 72, the acquirer shall disclose the following information:	

	(a)	the amount and an explanation of any gain or loss recognised in the current period that: (i) relates to the identifiable assets acquired or liabilities or contingent liabilities assumed in a business combination that was effected in the current or a previous period; and (ii) is of such size, nature or incidence that disclosure is relevant to an understanding of the combined entity's financial performance.	
	(b)	if the initial accounting for a business combination that was effected in the immediately preceding period was determined only provisionally at the end of that period, the amounts and explanations of the adjustments to the provisional values recognised during the current period.	
	(c)	the information about error corrections required to be disclosed by FRS 108 for any of the acquiree's identifiable assets, liabilities or contingent liabilities, or changes in the values assigned to those items, that the acquirer recognises during the current period in accordance with paragraphs 63 and 64.	
75		To give effect to the principle in paragraph 74, the entity shall disclose a reconciliation of the carrying amount of goodwill at the beginning and end of the period, showing separately:	
	(a)	(a) the gross amount and accumulated impairment losses at the beginning of the period; (b) additional goodwill recognised during the period except goodwill included in a disposal group that, on acquisition, meets the criteria to be classified as held for sale in accordance with FRS 5; (c) adjustments resulting from the subsequent recognition of deferred tax assets during the period in accordance with paragraph 65; (d) goodwill included in a disposal group classified as held for sale in accordance with FRS 5 and goodwill derecognised during the period without having previously been included in a disposal group classified as held for sale; (e) impairment losses recognised during the period in accordance with FRS 136; (f) net exchange differences arising during the period in accordance with FRS 121 The Effects of Changes in Foreign Exchange Rates; (g) any other changes in the carrying amount during the period; and (h) the gross amount and accumulated impairment losses at the end of the period.	
77		If in any situation the information required to be disclosed by this IFRS does not satisfy the objectives set out in paragraphs 66, 72 and 74, the entity shall disclose such additional information as is necessary to meet those objectives.	
		Total Level of Compliance with disclosure requirements of FRS 3	

No. of Item	Para	Sub-para	(4) FRS 5 Non Current Assets for Held for Sale & Discontinued Operations	
	33		For discontinued operations, an entity shall disclose:	
1		(a)	a single amount on the face of the income statement comprising the total of: (i) the post-tax profit or loss of discontinued operations and (ii) the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation**.**	
2		(b)	an analysis of the single amount in (a) into: (i) the revenue, expenses and pre-tax profit or loss of discontinued operations; (ii) the related income tax expense (gain/ loss on discontinuance, profit/loss from the ordinary activities of the discontinued operation for the period, together with the corresponding amounts for each prior period presented, (iii) the gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation.	
3		(c)	the net cash flows attributable to the operating, investing and financing activities of discontinued operations. These disclosures may be presented either in the notes or on the face of the financial statements. These disclosures are not required for disposal groups that are newly acquired subsidiaries that meet the criteria to be classified as held for sale on acquisition.	
4	**34**		An entity shall re-present the disclosures in paragraph 33 for prior periods presented in the financial statements so that the disclosures relate to all operations that have been discontinued by the balance sheet date for the latest period presented.	
5	**35**		Present separately in discontinued operations any adjustments in the current period to amounts previously presented in discontinued operations that are directly related to the disposal of a discontinued operation in prior period. The nature and amount of such adjustments should be disclosed.	

6	**36**		If a component of an entity ceases to be classified as held for sale, the results of operations of the component previously presented in discontinued operations should be reclassified and included in income from continuing operations for all periods presented. Disclose the amounts for prior periods as having been re-presented.	
7	**38**		An entity shall present a non-current asset classified as held for sale and the assets of a disposal group classified as held for sale separately from other assets in the balance sheet. The liabilities of a disposal group classified as held for sale shall be presented separately from other liabilities in the balance sheet. Those assets and liabilities shall not be offset and presented as a single amount. The major classes of assets and liabilities classified as held for sale shall be separately disclosed either on the face of the balance sheet or in the notes, except as permitted by paragraph 39. An entity shall present separately any cumulative income or expense recognised directly in equity relating to a non-current asset (or disposal group) classified as held for sale.	
	41		An entity shall disclose the following information in the notes in the period in which a non-current asset (or disposal group) has been either classified as held for sale or sold:	
8		(a)	a description of the non-current asset (or disposal group);	
9		(b)	a description of the facts and circumstances of the sale, or leading to the expected disposal, and the expected manner and timing of that disposal;	
10		(c)	the gain or loss recognised as a result of re measurement to fair value less costs to sell and, if not separately presented on the face of the income statement, the caption in the income statement that includes that gain or loss;	
11		(d)	if applicable, the segment in which the non-current asset (or disposal group) is presented in accordance with FRS 114 Segment Reporting.	
12	**42**		If a non-current asset (or disposal group) ceases to be held for sale, a description of the facts and circumstances leading to the decision to change the plan to sell the non-current asset (or disposal group) should be disclosed together with the effect of the decision on the results of operations for the period and any prior periods presented.	
			Total Level of Compliance with disclosure requirements of FRS 5	

Para	**Sub-para**	**(5) FRS114 - Segment Reporting**	
52		An entity shall disclose segment revenue for each reportable segment. (i) Segment revenue from sales to external customers and (ii) segment revenue from transactions with other segments shall be separately reported.	
53		An entity shall disclose segment result for each reportable segment, presenting the result from continuing operations separately from the result from discontinued operations.	
53A		An entity shall restate segment results in prior periods presented in the financial statements so that the disclosures required by paragraph 53 **relating to discontinued operations** relate to all operations that had been classified as discontinued at the balance sheet of the latest period presented.	
56		An entity shall disclose the total carrying amount of segment assets for each reportable segment.	
57		An entity shall disclose segment liabilities for each reportable segment.	
58		An entity shall disclose the total cost incurred during the period to acquire segment assets that are expected to be used during more than one period (property, plant, equipment, and intangible assets) for each reportable segment. While this sometimes is referred to as capital additions or capital expenditure, the measurement required by this principle shall be on an accrual basis, not a cash basis.	
59		An entity shall disclose the total amount of expense included in segment result for depreciation and amortisation of segment assets for the period for each reportable segment.	
62		An entity shall disclose, for each reportable segment, the total amount of significant non-cash expenses, other than depreciation and amortisation for which separate disclosure is required by paragraph 59, that were included in segment expense and, therefore, deducted in measuring segment result.	

65		An entity shall disclose, for each reportable segment, the aggregate of the entity's share of the profit or loss of associates, joint ventures, or other investments accounted for under the equity method if substantially all of those associates' operations are within that single segment.	
67		If an entity's aggregate share of the profit or loss of associates, joint ventures, or other investments accounted for under the equity method is disclosed by reportable segment, the aggregate investments in those associates and joint ventures shall also be disclosed by reportable segment.	
68		An entity shall present a reconciliation between the information disclosed for reportable segments and the aggregated information in the consolidated or individual financial statements. In presenting the reconciliation, the entity shall reconcile segment revenue to entity revenue from external customers (including disclosures of the amount of entity revenue from external customers not included in any segment); segment result from continuing operations shall be reconciled to a comparable measure of entity operating profit or loss from continuing operations as well as to entity profit or loss from continuing operations; segment result from discontinued operations shall be reconciled to entity profit or loss from discontinued operations; segment assets shall be reconciled to entity assets; and segment liabilities shall be reconciled to entity liabilities.	
70		If an entity's primary format for reporting segment information is business segments, it shall also report the following information:	
	(a)	segment revenue from external customers by geographical area based on the geographical location of its customers, for each geographical segment whose revenue from sales to external customers is 10 per cent or more of total entity revenue from sales to all external customers;	
	(b)	the total carrying amount of segment assets by geographical location of assets, for each geographical segment whose segment assets are 10 per cent or more of the total assets of all geographical segments; and	
	(c)	the total cost incurred during the period to acquire segment assets that are expected to be used during more than one period (property, plant, equipment, and intangible assets) by geographical location of assets, for each geographical segment whose segment assets are 10 per cent or more of the total assets of all geographical segments.	
71		If an entity's primary format for reporting segment information is geographical segments (whether based on location of assets or location of customers), it shall also report the following segment information for each business segment whose revenue from sales to external customers is 10 per cent or more of total entity revenue from sales to all external customers or whose segment assets are 10 per cent or more of the total assets of all business segments:	
	(a)	segment revenue from external customers;	
	(b)	the total carrying amount of segment assets; and	
	(c)	the total cost incurred during the period to acquire segment assets that are expected to be used during more than one period (property, plant, equipment, and intangible assets).	
76		In measuring and reporting segment revenue from transactions with other segments, inter-segment transfers shall be measured on the basis that the entity actually used to price those transfers. The basis of pricing inter-segment transfers and any change therein shall be disclosed in the financial statements.	
77		Changes in accounting policies adopted for segment reporting that have a material effect on segment information shall be disclosed, and prior period segment information presented for comparative purposes shall be restated unless it is impracticable to do so. Such disclosure shall include (i) a description of the nature of the change, (ii)the reasons for the change, (iii)the fact that comparative information has been restated or that it is impracticable to do so, and (iv) the financial effect of the change, if it is reasonably determinable. If an entity changes the identification of its segments and it does not restate prior period segment information on the new basis because it is impracticable to do so, then for the purpose of comparison the entity shall report segment data for both the old and the new bases of segmentation in the year in which it changes the identification of its segments.	
82		An entity shall indicate the types of products and services included in each reported business segment and indicate the composition of each reported geographical segment, both primary and secondary, if not otherwise disclosed in the financial statements or elsewhere in the financial report.	

		Total Level of Compliance with disclosure requirements of FRS 114	
Para	**Sub-para**	**(6) FRS 116 - Property, Plant and Equipment**	
73		The financial statements shall disclose, for each class of property, plant and equipment:	
	(a)	the measurement bases used for determining the gross carrying amount;	
	(b)	the depreciation methods used;	
	(c)	the useful lives or the depreciation rates used;	
	(d)	the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and	
	(e)	a reconciliation of the carrying amount at the beginning and end of the period showing:(i) additions;(ii) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with FRS 5 and other disposals;(iii) acquisitions through business combinations;(iv) increases or decreases resulting from revaluations and impairment losses recognised or reversed directly in equity in accordance with FRS 136;(v) impairment losses recognised in profit or loss in accordance with FRS 136; (vi) impairment losses reversed in profit or loss in accordance with FRS 136;(vii) depreciation;(viii) the net exchange differences arising on the translation of the financial statements from the functional currency into a different presentation currency, including the translation of a foreign operation into the presentation currency of the reporting entity; and (ix) other changes	
74		The financial statements shall also disclose:	
	(a)	the existence and amounts of restrictions on title, and property, plant and equipment pledged as security for liabilities;	
	(b)	the amount of expenditures recognised in the carrying amount of an item of property, plant and equipment in the course of its construction;	
	(c)	the amount of contractual commitments for the acquisition of property, plant and equipment; and	
	(d)	if it is not disclosed separately on the face of the income statement, the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in profit or loss.	
77		If items of property, plant and equipment are stated at revalued amounts, the following shall be disclosed:	
	(a)	the effective date of the revaluation;	
	(b)	whether an independent valuer was involved;	
	(c)	the methods and significant assumptions applied in estimating the items' fair values;	
	(d)	the extent to which the items' fair values were determined directly by reference to observable prices in an active market or recent market transactions on arm's length terms or were estimated using other valuation techniques;	
	(e)	for each revalued class of property, plant and equipment, the carrying amount that would have been recognised had the assets been carried under the cost model; and	
	(f)	the revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders.	
		Total Level of Compliance with disclosure requirements of FRS 116	
Para	**Sub-para**	**(7) FRS 117 – Leases**	
		LESSEE -Finance Lease	
31		Lessees shall make the following disclosures for finance leases:	

	(a)	for each class of asset, the net carrying amount at the balance sheet date.	
	(b)	a reconciliation between the total of future minimum lease payments at the balance sheet date, and their present value.	
	(b)	In addition, an entity shall disclose the total of future minimum lease payments at the balance sheet date, and their present value, for each of the following periods: (i) not later than one year; (ii) later than one year and not later than five years; (iii) later than five years.	
	(c)	contingent rents recognised as an expense in the period.	
	(d)	the total of future minimum sublease payments expected to be received under non-cancellable subleases at the balance sheet date.	
	(e)	a general description of the lessee's material leasing arrangements including, but not limited to, the following: (i) the basis on which contingent rent payable is determined; (ii) the existence and terms of renewal or purchase options and escalation clauses; and (iii) restrictions imposed by lease arrangements, such as those concerning dividends, additional debt, and further leasing	
		LESSEE -Operating Lease	
35		Lessees shall make the following disclosures for operating leases:	
	(a)	the total of future minimum lease payments under non-cancellable operating leases for each of the following periods:(i) not later than one year;(ii) later than one year and not later than five years;(iii) later than five years	
	(b)	the total of future minimum sublease payments expected to be received under non-cancellable subleases at the balance sheet date.	
	(c)	lease and sublease payments recognised as an expense in the period, with separate amounts for minimum lease payments, contingent rents, and sublease payments.	
	(d)	a general description of the lessee's significant leasing arrangements including, but not limited to, the following:(i) the basis on which contingent rent payable is determined;(ii) the existence and terms of renewal or purchase options and escalation clauses; and (iii) restrictions imposed by lease arrangements, such as those concerning dividends, additional debt and further leasing	
		LESSOR - Finance Lease	
47		Lessors shall disclose the following for finance leases:	
	(a)	a reconciliation between the gross investment in the lease at the balance sheet date, and the present value of minimum lease payments receivable at the balance sheet date. In addition, an entity shall disclose the gross investment in the lease and the present value of minimum lease payments receivable at the balance sheet date, for each of the following periods:(i) not later than one year;(ii) later than one year and not later than five years;(iii) later than five years.	
	(b)	unearned finance income.	
	(c)	the unguaranteed residual values accruing to the benefit of the lessor.	
	(d)	the accumulated allowance for uncollectible minimum lease payments receivable.	
	(e)	contingent rents recognised as income in the period.	
	(f)	a general description of the lessor's material leasing arrangements.	
		LESSOR - Operating Lease	
56		Lessors shall disclose the following for operating leases:	
	(a)	the future minimum lease payments under non-cancellable operating leases in the aggregate and for each of the following periods:(i) not later than one year;(ii) later than one year and not later than five years; (iii) later than five years.	
	(b)	total contingent rents recognised as income in the period.	

	(c)	a general description of the lessor's leasing arrangements.	
		Total Level of Compliance with disclosure requirements of FRS 117	
Para	**Sub-para**	**(8) FRS 119 - Employee Benefit**	
		Post Employment Benefits - Defined Contribution plans	
46		An entity shall disclose the amount recognised as an expense for defined contribution plans.	
47		where required by FRS 124(Related Party Disclosures) an entity discloses information about contributions to defined contribution plans for key management personnel.	
		Post Employment Benefits - Defined Benefit Plans	
120A		An entity shall disclose the following information about defined benefit plans:	
	(a)	the entity's accounting policy for recognising actuarial gains and losses.	
	(b)	a general description of the type of plan	
	(c)	provide a reconciliation of opening and closing balances of the present value of the defined benefit obligation showing separately, if applicable, the effects during the period attributable to each of the following:(i) current service cost,(ii) interest cost,(iii) contributions by plan participants,(iv) actuarial gains and losses,(v) foreign currency exchange rate changes on plans measured in a currency different from the entity's presentation currency,(vi) benefits paid,(vii) past service cost,(viii) business combinations,(ix) curtailments and (x) settlements.	
	(d)	Provide an analysis of the defined benefit obligation into amounts arising from plans that are wholly unfunded and amounts arising from plans that are wholly or partly funded.	
	(e)	Provide a reconciliation of the opening and closing balances of the fair value of plan assets and of the opening and closing balances of any reimbursement right recognised as an asset in accordance with paragraph 104A showing separately, if applicable, the effects during the period attributable to each of the following:(i) expected return on plan assets,(ii) actuarial gains and losses,(iii) foreign currency exchange rate changes on plans measured in a currency different from the entity's presentation currency,(iv) contributions by the employer,(v) contributions by plan participants,(vi) benefits paid,(vii) business combinations and (viii) settlements.	
	(f)	Provide a reconciliation of the present value of the defined benefit obligation in (c) and the fair value of the plan assets in (e) to the assets and liabilities recognised in the balance sheet, showing at least:(i) the net actuarial gains or losses not recognised in the balance sheet (see paragraph 92);(ii) the past service cost not recognised in the balance sheet (see paragraph 96);(iii) any amount not recognised as an asset, because of the limit in paragraph 58(b);(iv) the fair value at the balance sheet date of any reimbursement right recognised as an asset in accordance with paragraph 104A (with a brief description of the link between the reimbursement right and the related obligation); and (v) the other amounts recognised in the balance sheet.	
	(g)	the total expense recognised in profit or loss for each of the following, and the line item(s) of in which they are included:(i) current service cost;(ii) interest cost;(iii) expected return on plan assets;(iv) expected return on any reimbursement right recognised as an asset in accordance with paragraph 104A;(v) actuarial gains and losses;(vi) past service cost;(vii) the effect of any curtailment or settlement; and (viii) the effect of the limit in paragraph 58(b)	
	(h)	the total amount recognised in the statement of recognised income and expense for each of the following:(i) actuarial gains and losses; and (ii) the effect of the limit in paragraph 58(b).	
	(i)	for entities that recognise actuarial gains and losses in the statement of recognised income and expense- disclose the cumulative amount of actuarial gains and losses recognised in the statement of recognised income and expense.	

	(j)	Provide for each major category of plan assets- which shall include, but is not limited to, equity instruments, debt instruments, property, and all other assets, the percentage or amount that each major category constitutes of the fair value of the total plan assets.	
	(k)	Provide the amounts included in the fair value of plan assets for:(i) each category of the entity's own financial instruments; and (ii) any property occupied by, or other assets used by, the entity.	
	(l)	Provide a narrative description of the basis used to determine the overall expected rate of return on assets, including the effect of the major categories of plan assets.	
	(m)	the actual return on plan assets, as well as the actual return on any reimbursement right recognised as an asset in accordance with paragraph 104A.	
	(n)	Provide the principal actuarial assumptions used as at the balance sheet date, including, when applicable:(i) the discount rates;(ii) the expected rates of return on any plan assets for the periods presented in the financial statements;(iii) the expected rates of return for the periods presented in the financial statements on any reimbursement right recognised as an asset in accordance with paragraph 104A;(iv) the expected rates of salary increases (and of changes in an index or other variable specified in the formal or constructive terms of a plan as the basis for future benefit increases);(v) medical cost trend rates; and(vi) any other material actuarial assumptions used.	
	(o)	Provide the effect of an increase of one percentage point and the effect of a decrease of one percentage point in the assumed medical cost trend rates on:(i) the aggregate of the current service cost and interest cost components of net periodic post-employment medical costs; and (ii) the accumulated post-employment benefit obligation for medical costs.	
	(p)	Provide the amounts for the current annual period and previous four annual periods of: (i) the present value of the defined benefit obligation, the fair value of the plan assets and the surplus or deficit in the plan; and (ii) the experience adjustments arising on:(A) the plan liabilities expressed either as (1) an amount or (2) a percentage of the plan liabilities at the balance sheet date and (B) the plan assets expressed either as (1) an amount or (2) a percentage of the plan assets at the balance sheet date.	
	(q)	Provide the employer's best estimate, as soon as it can reasonably be determined, of contributions expected to be paid to the plan during the annual period beginning after the balance sheet date.	
30		For multi-employer plans that are treated as a defined contribution plan, disclose:	
	(b)	(i) the fact that the plan is a defined benefit plan; and (ii) the reason why sufficient information is not available to enable the entity to account for the plan as a defined benefit plan; and	
	(c)	the extent that a surplus or deficit in the plan may affect the amount of future contributions, disclose in addition: (i) any available information about that surplus or deficit;(ii) the basis used to determine that surplus or deficit; and (iii) the implications, if any, for the entity.	
		Total Level of Compliance with disclosure requirements of FRS 119	

Para	**Sub-para**	**(9) FRS 132- Financial Instrument Disclosure**	
56		An entity shall describe its financial risk management objectives and policies, including its policy for hedging each main type of forecast transaction for which hedge accounting is used.	
58		An entity shall disclose the following separately for designated fair value hedges, cash flow hedges and hedges of a net investment in a foreign operation (as defined in FRS 139):	
	(a)	a description of the hedge;	
	(b)	a description of the financial instruments designated as hedging instruments and their fair values at the balance sheet date;	
	(c)	the nature of the risks being hedged; and	

	(d)	for cash flow hedges, the periods in which the cash flows are expected to occur, when they are expected to enter into the determination of profit or loss, and a description of any forecast transaction for which hedge accounting had previously been used but which is no longer expected to occur.	
59		When a gain or loss on a hedging instrument in a cash flow hedge has been recognised directly in equity, through the statement of changes in equity, an entity shall disclose:	
	(a)	the amount that was so recognised in equity during the period;	
	(b)	the amount that was removed from equity and included in profit or loss for the period; and	
	(c)	the amount that was removed from equity during the period and included in the initial measurement of the acquisition cost or other carrying amount of a non-financial asset or non-financial liability in a hedged highly probable forecast transaction.	
60		For each class of financial asset, financial liability and equity instrument, an entity shall disclose:	
	(a)	information about the extent and nature of the financial instruments, including significant terms and conditions that may affect the amount, timing and certainty of future cash flows; and	
	(b)	the accounting policies and methods adopted, including the criteria for recognition and the basis of measurement applied.	
61		As part of the disclosure of an entity's accounting policies, an entity shall disclose, for each category of financial assets, whether regular way purchases and sales of financial assets are accounted for at trade date or at settlement date (see FRS 139, paragraph 38).	
67		For each class of financial assets and financial liabilities, an entity shall disclose information about its exposure to interest rate risk, including:	
	(a)	contractual re pricing or maturity dates, whichever dates are earlier; and	
	(b)	effective interest rates, when applicable.	
76		For each class of financial assets and other credit exposures, an entity shall disclose information about its exposure to credit risk, including:	
	(a)	the amount that best represents its maximum credit risk exposure at the balance sheet date, without taking account of the fair value of any collateral, in the event of other parties failing to perform their obligations under financial instruments; and	
	(b)	significant concentrations of credit risk.	
86		Except as set out in paragraph 90 and 91A, for each class of financial assets and financial liabilities, an entity shall disclose the fair value of that class of assets and liabilities in a way that permits it to be compared with the corresponding carrying amount in the balance sheet. (FRS 139 provides guidance for determining fair value.)	
90		If investments in unquoted equity instruments or derivatives linked to such equity instruments are measured at cost under FRS 139 because their fair value cannot be measured reliably, that fact shall be disclosed together with a description of the financial instruments, their carrying amount, an explanation of why fair value cannot be measured reliably and, if possible, the range of estimates within which fair value is highly likely to lie. Furthermore, if financial assets whose fair value previously could not be reliably measured are sold, that fact, the carrying amount of such financial assets at the time of sale and the amount of gain or loss recognised shall be disclosed.	
92		***An entity shall disclose:***	
	(a)	the methods and significant assumptions applied in determining fair values of financial assets and financial liabilities separately for significant classes of financial assets and financial liabilities. (Paragraph 55 provides guidance for determining classes of financial assets.)	
	(b)	whether fair values of financial assets and financial liabilities are determined directly, in full or in part, by reference to published price quotations in an active market or are estimated using a valuation technique (see FRS 139, paragraphs AG71-AG79).	

	(c)	whether its financial statements include financial instruments measured at fair values that are determined in full or in part using a valuation technique based on assumptions that are not supported by observable market prices or rates. If changing any such assumption to a reasonably possible alternative would result in a significantly different fair value, the entity shall state this fact and disclose the effect on the fair value of a range of reasonably possible alternative assumptions. For this purpose, significance shall be judged with respect to profit or loss and total assets or total liabilities.	
	(d)	the total amount of the change in fair value estimated using a valuation technique that was recognised in profit or loss during the period.	
		Derecognition	
94	(a)	An entity may have either transferred a financial asset (see paragraph 18 of FRS 139) or entered into the type of arrangement described in paragraph 19 of FRS 139 in such a way that the arrangement does not qualify as a transfer of a financial asset. If the entity either continues to recognise all of the asset or continues to recognise the asset to the extent of the entity's continuing involvement (see FRS 139, paragraphs 29 and 30) it shall disclose for each class of financial asset:(i) the nature of the assets;(ii) the nature of the risks and rewards of ownership to which the entity remains exposed;(iii) when the entity continues to recognise all of the asset, the carrying amounts of the asset and of the associated liability; and (iv) when the entity continues to recognise the asset to the extent of its continuing involvement, the total amount of the asset, the amount of the asset that the entity continues to recognise and the carrying amount of the associated liability.	
		Collateral	
	(b)	An entity shall disclose the carrying amount of financial assets pledged as collateral for liabilities, the carrying amount of financial assets pledged as collateral for contingent liabilities, and (consistently with paragraphs 60(a) and 63(g)) any material terms and conditions relating to assets pledged as collateral.	
	(c)	When an entity has accepted collateral that it is permitted to sell or repledge in the absence of default by the owner of the collateral, it shall disclose:(i) the fair value of the collateral accepted (financial and non-financial assets);(ii) the fair value of any such collateral sold or repledged and whether the entity has an obligation to return it; and (iii) any material terms and conditions associated with its use of this collateral (consistently with paragraphs 60(a) and 63(g)).	
		Compound financial instruments with multiple embedded derivatives	
	(d)	If an entity has issued an instrument that contains both a liability and an equity component (see paragraph 28) and the instrument has multiple embedded derivative features whose values are interdependent (such as a callable convertible debt instrument), it shall disclose the existence of those features and the effective interest rate on the liability component (excluding any embedded derivatives that are accounted for separately).	
		Financial assets and financial liabilities at fair value through profit or loss (see also paragraph AG40)	
	(e)	An entity shall disclose the carrying amounts of: (i) financial assets that are classified as held for trading;(ii) financial liabilities that are classified as held for trading;(iii) financial assets that, upon initial recognition, were designated by the entity as financial assets at fair value through profit or loss (i.e. those that are not financial assets classified as held for trading);(iv) financial liabilities that, upon initial recognition, were designated by the entity as financial liabilities at fair value through profit or loss (i.e. those that are not financial liabilities classified as held for trading).	
	(f)	An entity shall disclose separately net gains or net losses on financial assets or financial liabilities designated by the entity as at fair value through profit or loss.	

	(g)	If the entity has designated a loan or receivable (or group of loans or receivables) as at fair value through profit or loss, it shall disclose:(i) the maximum exposure to credit risk (see paragraph 76(a)) at the reporting date of the loan or receivable (or group of loans or receivables),(ii) the amount by which any related credit derivative or similar instrument mitigates that maximum exposure to credit risk,(iii) the amount of change during the period and cumulatively in the fair value of the loan or receivable (or group of loans or receivables) that is attributable to changes in credit risk determined either as the amount of change in its fair value that is not attributable to changes in market conditions that give rise to market risk; or using an alternative method that more faithfully represents the amount of change in its fair value that is attributable to changes in credit risk,(iv) the amount of change in the fair value of any related credit derivative or similar instrument that has occurred during the period and cumulatively since the loan or receivable was designated.	
	(h)	If the entity has designated a financial liability as at fair value through profit or loss, it shall disclose:(i) the amount of change during the period and cumulatively in the fair value of the financial liability that is attributable to changes in credit risk determined either as the amount of change in its fair value that is not attributable to changes in market conditions that give rise to market risk (see paragraph AG40); or using an alternative method that more faithfully represents the amount of change in its fair value that is attributable to changes in credit risk. (ii) the difference between the carrying amount of the financial liability and the amount the entity would be contractually required to pay at maturity to the holder of the obligation.	
	(i)	The entity shall disclose: (i) the methods used to comply with the requirement in (g)(iii) and (h)(i).(ii) if the entity considers that the disclosure it has given to comply with the requirements in (g)(iii) or (h)(i) does not faithfully represent the change in the fair value of the financial asset or financial liability attributable to changes in credit risk, the reasons for reaching this conclusion and the factors the entity believes to be relevant.	
		Reclassification	
	(j)	If the entity has reclassified a financial asset as one measured at cost or amortised cost rather than at fair value (see FRS 139, paragraph 54), it shall disclose the reason for that reclassification.	
		Income statement and equity	
	(k)	An entity shall disclose material items of income, expense and gains and losses resulting from financial assets and financial liabilities, whether included in profit or loss or as a separate component of equity. For this purpose, the disclosure shall include at least the following items:(i) total interest income and total interest expense (calculated using the effective interest method) for financial assets and financial liabilities that are not at fair value through profit or loss;(ii) for available-for-sale financial assets, the amount of any gain or loss recognised directly in equity during the period and the amount that was removed from equity and recognised in profit or loss for the period; and (iii) the amount of interest income accrued on impaired financial assets, in accordance with FRS 139, paragraph AG93	
		Impairment	
	(l)	An entity shall disclose the nature and amount of any impairment loss recognised in profit or loss for a financial asset, separately for each significant class of financial asset (paragraph 55 provides guidance for determining classes of financial assets).	
		Defaults and breaches	
	(m)	With respect to any defaults of principal, interest, sinking fund or redemption provisions during the period on loans payable recognised as at the balance sheet date, and any other breaches during the period of loan agreements when those breaches can permit the lender to demand repayment (except for breaches that are remedied, or in response to which the terms of the loan are renegotiated, on or before the balance sheet date), an entity shall disclose:(i) details of those breaches;(ii) the amount recognised as at the balance sheet date in respect of the loans payable on which the breaches occurred; and (iii) with respect to amounts disclosed under (ii), whether the default has been remedied or the terms of the loans payable renegotiated before the date the financial statements were authorised for issue.	
		Total Level of Compliance with disclosure requirements of FRS 132	
Para	**Sub-para**	**(10) FRS 136 - Impairment of Assets**	

126		An entity shall disclose the following for each class of assets:	
	(a)	the amount of impairment losses recognised in profit or loss during the period and the line item(s) of the income statement in which those impairment losses are included.	
	(b)	the amount of reversals of impairment losses recognised in profit or loss during the period and the line item(s) of the income statement in which those impairment losses are reversed.	
	(c)	the amount of impairment losses on revalued assets recognised directly in equity during the period.	
	(d)	the amount of reversals of impairment losses on revalued assets recognised directly in equity during the period.	
129		An entity that reports segment information in accordance with FRS 114 Segment Reporting shall disclose the following for each reportable segment based on an entity's primary reporting format:	
	(a)	the amount of impairment losses recognised in profit or loss and directly in equity during the period.	
	(b)	the amount of reversals of impairment losses recognised in profit or loss and directly in equity during the period.	
130		An entity shall disclose the following for each material impairment loss recognised or reversed during the period for an individual asset, including goodwill, or a cash-generating unit:	
	(a)	the events and circumstances that led to the recognition or reversal of the impairment loss.	
	(b)	the amount of the impairment loss recognised or reversed.	
	(c)	for an individual asset:(i) the nature of the asset; and (ii) if the entity reports segment information in accordance with FRS 114, the reportable segment to which the asset belongs, based on the entity's primary reporting format.	
	(d)	for a cash-generating unit:(i) a description of the cash-generating unit (such as whether it is a product line, a plant, a business operation, a geographical area, or a reportable segment as defined in FRS 114);(ii) the amount of the impairment loss recognised or reversed by class of assets and, if the entity reports segment information in accordance with FRS 114, by reportable segment based on the entity's primary reporting format; and (iii) if the aggregation of assets for identifying the cash-generating unit has changed since the previous estimate of the cash-generating unit's recoverable amount (if any), a description of the current and former way of aggregating assets and the reasons for changing the way the cash-generating unit is identified.	
	(e)	whether the recoverable amount of the asset (cash-generating unit) is its fair value less costs to sell or its value in use.	
	(f)	if recoverable amount is fair value less costs to sell, the basis used to determine fair value less costs to sell (such as whether fair value was determined by reference to an active market).	
	(g)	if recoverable amount is value in use, the discount rate(s) used in the current estimate and previous estimate (if any) of value in use.	
131		An entity shall disclose the following information for the aggregate impairment losses and the aggregate reversals of impairment losses recognised during the period for which no information is disclosed in accordance with paragraph 130:	
	(a)	the main classes of assets affected by impairment losses and the main classes of assets affected by reversals of impairment losses.	
	(b)	the main events and circumstances that led to the recognition of these impairment losses and reversals of impairment losses.	
133		If, in accordance with paragraph 84, any portion of the goodwill acquired in a business combination during the period has not been allocated to a cash-generating unit (group of units) at the reporting date, the amount of the unallocated goodwill shall be disclosed together with the reasons why that amount remains unallocated.	
		Estimates used to Measure Recoverable Amounts of Cash-generating Units Containing Goodwill or Intangible Assets with Indefinite Useful Lives	

134		An entity shall disclose the information required by (a)-(f) for each cash-generating unit (group of units) for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit (group of units) is significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives:	
	(a)	the carrying amount of goodwill allocated to the unit (group of units).	
	(b)	the carrying amount of intangible assets with indefinite useful lives allocated to the unit (group of units).	
	(c)	the basis on which the unit's (group of units') recoverable amount has been determined (ie value in use or fair value less costs to sell).	
134	(d)	if the unit's (group of units') recoverable amount is based on value in use:	
	i	a description of each key assumption on which management has based its cash flow projections for the period covered by the most recent budgets/forecasts. Key assumptions are those to which the unit's (group of units') recoverable amount is most sensitive.	
	ii	a description of management's approach to determining the value(s) assigned to each key assumption, whether those value(s) reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information.	
	iii	the period over which management has projected cash flows based on financial budgets/forecasts approved by management and, when a period greater than five years is used for a cash-generating unit (group of units), an explanation of why that longer period is justified.	
	iv	the growth rate used to extrapolate cash flow projections beyond the period covered by the most recent budgets/forecasts, and the justification for using any growth rate that exceeds the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market to which the unit (group of units) is dedicated.	
	v	the discount rate(s) applied to the cash flow projections.	
134	(e)	if the unit's (group of units') recoverable amount is based on fair value less costs to sell, the methodology used to determine fair value less costs to sell. If fair value less costs to sell is not determined using an observable market price for the unit (group of units), the following information shall also be disclosed:	
	i	a description of each key assumption on which management has based its determination of fair value less costs to sell. Key assumptions are those to which the unit's (group of units') recoverable amount is most sensitive.	
	ii	a description of management's approach to determining the value(s) assigned to each key assumption, whether those value(s) reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information.	
134	(f)	if a reasonably possible change in a key assumption on which management has based its determination of the unit's (group of units') recoverable amount would cause the unit's (group of units') carrying amount to exceed its recoverable amount:	
	i	the amount by which the unit's (group of units') recoverable amount exceeds its carrying amount.	
	ii	the value assigned to the key assumption.	
	iii	the amount by which the value assigned to the key assumption must change, after incorporating any consequential effects of that change on the other variables used to measure recoverable amount, in order for the unit's (group of units') recoverable amount to be equal to its carrying amount.	
135	A	If some or all of the carrying amount of goodwill or intangible assets with indefinite useful lives is allocated across multiple cash-generating units (groups of units), and the amount so allocated to each unit (group of units) is not significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives, that fact shall be disclosed, together with the aggregate carrying amount of goodwill or intangible assets with indefinite useful lives allocated to those units (groups of units).	

135	B	In addition, if the recoverable amounts of any of those units (groups of units) are based on the same key assumption(s) and the aggregate carrying amount of goodwill or intangible assets with indefinite useful lives allocated to them is significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives, an entity shall disclose that fact, together with:	
	(a)	the aggregate carrying amount of goodwill allocated to those units (groups of units).	
	(b)	the aggregate carrying amount of intangible assets with indefinite useful lives allocated to those units (groups of units).	
	(c)	a description of the key assumption(s).	
	(d)	a description of management's approach to determining the value(s) assigned to the key assumption(s), whether those value(s) reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information.	
135	(e)	if a reasonably possible change in the key assumption(s) would cause the aggregate of the units' (groups of units') carrying amounts to exceed the aggregate of their recoverable amounts:	
	i	the amount by which the aggregate of the units' (groups of units') recoverable amounts exceeds the aggregate of their carrying amounts.	
	ii	the value(s) assigned to the key assumption(s).	
	iii	the amount by which the value(s) assigned to the key assumption(s) must change, after incorporating any consequential effects of the change on the other variables used to measure recoverable amount, in order for the aggregate of the units' (groups of units') recoverable amounts to be equal to the aggregate of their carrying amounts.	
136		The most recent detailed calculation made in a preceding period of the recoverable amount of a cash-generating unit (group of units) may, in accordance with paragraph 24 or 99, be carried forward and used in the impairment test for that unit (group of units) in the current period provided specified criteria are met. When this is the case, the information for that unit (group of units) that is incorporated into the disclosures required by paragraphs 134 and 135 relate to the carried forward calculation of recoverable amount.	
		Total Level of Compliance with disclosure requirements of FRS 136	

Para	**Sub-para**	**(11) FRS 138- Intangible Assets**
118		An entity shall disclose the following for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets:
	(a)	whether the useful lives are indefinite or finite and, if finite, the useful lives or the amortisation rates used;
	(b)	the amortisation methods used for intangible assets with finite useful lives;
	(c)	the gross carrying amount and any accumulated amortisation (aggregated with accumulated impairment losses) at the beginning and end of the period;
	(d)	the line item(s) of the income statement in which any amortisation of intangible assets is included;
	(e)	a reconciliation of the carrying amount at the beginning and end of the period showing:(i) additions, indicating separately those from internal development, those acquired separately, and those acquired through business combinations, (ii)(ii) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with FRS 5 and other disposals;(iii) increases or decreases during the period resulting from revaluations under paragraphs 75, 85 and 86 and from impairment losses recognised or reversed directly in equity in accordance with FRS 136 Impairment of Assets (if any);(iv) impairment losses recognised in profit or loss during the period in accordance with FRS 136 (if any);(v) impairment losses reversed in profit or loss during the period in accordance with FRS 136 (if any);(vi) any amortisation recognised during the period;(vii) net exchange differences arising on the translation of the financial statements into the presentation currency, and on the translation of a foreign operation into the presentation currency of the entity; and (viii) other changes in the carrying amount during the period.

122		An entity shall also disclose:
	(a)	for an intangible asset assessed as having an indefinite useful life, the carrying amount of that asset and the reasons supporting the assessment of an indefinite useful life. In giving these reasons, the entity shall describe the factor(s) that played a significant role in determining that the asset has an indefinite useful life.
	(b)	a description, the carrying amount and remaining amortisation period of any individual intangible asset that is material to the entity's financial statements.
	(c)	for intangible assets acquired by way of a government grant and initially recognised at fair value (see paragraph 44):(i)the fair value initially recognised for these assets;(ii) their carrying amount; and (iii) whether they are measured after recognition under the cost model or the revaluation model.
	(d)	the existence and carrying amounts of intangible assets whose title is restricted and the carrying amounts of intangible assets pledged as security for liabilities.
	(e)	the amount of contractual commitments for the acquisition of intangible assets.
		Intangible Assets Measured after Recognition using the Revaluation Model
124		If intangible assets are accounted for at revalued amounts, an entity shall disclose the following:
	(a)	by class of intangible assets: (i) the effective date of the revaluation; (ii) the carrying amount of revalued intangible assets; and (iii) the carrying amount that would have been recognised had the revalued class of intangible assets been measured after recognition using the cost model in paragraph 74;
	(b)	the amount of the revaluation surplus that relates to intangible assets at the beginning and end of the period, indicating the changes during the period and any restrictions on the distribution of the balance to shareholders; and
	(c)	the methods and significant assumptions applied in estimating the assets' fair values.
126		An entity shall disclose the aggregate amount of research and development expenditure recognised as an expense during the period.
		Total Level of Compliance with disclosure requirements of FRS 138

Para	Sub-para	(12) FRS 140- Investment Property	
75		**An entity shall disclose:**	
	(a)	whether it applies the fair value model or the cost model.	
	(b)	if it applies the fair value model, whether, and in what circumstances, property interests held under operating leases are classified and accounted for as investment property.	
	(c)	when classification is difficult (see paragraph 14), the criteria it uses to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business.	
	(d)	the methods and significant assumptions applied in determining the fair value of investment property, including a statement whether the determination of fair value was supported by market evidence or was more heavily based on other factors (which the entity shall disclose) because of the nature of the property and lack of comparable market data.	
	(e)	the extent to which the fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued. If there has been no such valuation, that fact shall be disclosed.	

	(f)	the amounts recognised in profit or loss for:(i) rental income from investment property;(ii) direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income during the period; and(iii) direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental income during the period.(iv) the cumulative change in fair value recognised in profit or loss on a sale of investment property from a pool of assets in which the cost model is used into a pool in which the fair value model is used (see paragraph 32C).	
	(g)	the existence and amounts of restrictions on the realisability of investment property or the remittance of income and proceeds of disposal.	
	(h)	contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.	
		Fair Value Model	
76		In addition to the disclosures required by paragraph 75, an entity that applies the fair value model in paragraphs 33–55 shall disclose a reconciliation between the carrying amounts of investment property at the beginning and end of the period, showing the following: (a) additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognised in the carrying amount of an asset; (b) additions resulting from acquisitions through business combinations; (c) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with FRS 5 and other disposals; (d) net gains or losses from fair value adjustments; (e) the net exchange differences arising on the translation of the financial statements into a different presentation currency, and on translation of a foreign operation into the presentation currency of the reporting entity; (f) transfers to and from inventories and owner-occupied property; and (g) other changes.	
77		When a valuation obtained for investment property is adjusted significantly for the purpose of the financial statements, for example to avoid double-counting of assets or liabilities that are recognised as separate assets and liabilities as described in paragraph 50, the entity shall disclose a reconciliation between the valuation obtained and the adjusted valuation included in the financial statements, showing separately the aggregate amount of any recognised lease obligations that have been added back, and any other significant adjustments.	
78	**A**	In the exceptional cases referred to in paragraph 53, when an entity measures investment property using the cost model in FRS 116, the reconciliation required by paragraph 76 shall disclose amounts relating to that investment property separately from amounts relating to other investment property.	
	B	***In addition, an entity shall disclose:***	
	(a)	a description of the investment property;	
	(b)	an explanation of why fair value cannot be determined reliably;	
	(c)	if possible, the range of estimates within which fair value is highly likely to lie; and	
	(d)	on disposal of investment property not carried at fair value:(i) the fact that the entity has disposed of investment property not carried at fair value;(ii) the carrying amount of that investment property at the time of sale; and (iii) the amount of gain or loss recognised.	
		Cost Model	
79		In addition to the disclosures required by paragraph 75, an entity that applies the cost model in paragraph 56 shall disclose:	
	(a)	the depreciation methods used;	
	(b)	the useful lives or the depreciation rates used;	
	(c)	the gross carrying amount, and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period;	

	(d)	a reconciliation of the carrying amount of investment property at the beginning and end of the period, showing the following:(i) additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognised as an asset;(ii) additions resulting from acquisitions through business combinations;(iii) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with FRS 5 and other disposals;(iv) depreciation;(v) the amount of impairment losses recognised, and the amount of impairment losses reversed, during the period in accordance with FRS 136;(vi) the net exchange differences arising on the translation of the financial statements into a different presentation currency, and on translation of a foreign operation into the presentation currency of the reporting entity;(vii) transfers to and from inventories and owner-occupied property; and (viii) other changes; and	
	(e)	the fair value of investment property. In the exceptional cases described in paragraph 53, when an entity cannot determine the fair value of the investment property reliably, it shall disclose:(i) a description of the investment property;(ii) an explanation of why fair value cannot be determined reliably; and (iii) if possible, the range of estimates within which fair value is highly likely to lie.	
		Total Level of Compliance with disclosure requirements of FRS 140	

APPENDIX H: INTERVIEW GUIDE

(A) PREPARERS (FINANCIAL CONTROLLER/ CFO)

a. What are your views about the convergence to IFRS in Malaysia?
b. How do you see the roles of regulators in implementing the IFRS in Malaysia?
c. What are your views regarding the compliance with IFRS in Malaysia?
d. How do you rate the compliance level of your company?
e. Based on your experience, which IFRS are the most problematic to comply with? Why?
f. Are there any ambiguities in dealing with the IFRS? Can you give me an example? How do you resolve this problem? Is there any guidance available to help you in this case?
g. Which parties do you consult if you have a problem with the IFRS?
h. What are the costs incurred in complying with IFRS?
i. Could you explain the mechanism/procedures that you follow to ensure the company complies with the IFRS?
j. Who is involved in monitoring the quality of financial statements in your company?
k. Do you think culture has a significant influence on the quality of financial statements? Why do you think so?
l. How do you see the roles of regulators in promoting compliance with IFRS in Malaysia?
m. In your opinion, what factors would encourage companies to comply with IFRS? And what are the factors that would hinder the companies from complying with IFRS?
n. What actions do you take if you have a disagreement with the external auditor?

(B) AUDITORS (AUDIT PARTNER/ MANAGER)

a. What are your views about the convergence to IFRS in Malaysia?
b. In your opinion, what are the challenges for preparers under the new IFRS regime?
c. What are your views regarding the compliance with IFRS in Malaysia? Do companies comply? Is it easy to comply with the IFRS requirements? Why do you think so?
d. Based on your experience, which IFRSs are the most problematic to comply with? Why?
e. Are there any ambiguities in dealing with the IFRS? How do you resolve this problem? Is there any guidance available to help you in this case?
f. How do you see the attitude of Malaysian companies regarding the compliance with IFRS? What roles do you play in this case? What actions do you take if you find out your client did not comply with IFRS?
g. How do you see the roles of regulators in monitoring compliance with IFRS in Malaysia?

h. Do you think culture has a significant influence on the quality of financial statements? Why do you think so?
i. In your opinion, what are the factors that would encourage companies to comply with IFRS? And what are the factors that would hinder the companies from complying with IFRS?
j. What actions do you take in the case of disagreement with the client? Who is involved in the discussion?
k. Normally, under what circumstances is a qualified audit report issued?
l. Do you think a qualified audit report should be issued if the company did not comply with IFRS? Why do you think so?

(C) <u>REGULATORS</u>

a. What are your views about the convergence to IFRS in Malaysia?
b. What are your views regarding compliance with IFRS in Malaysia? Why do you think so?
c. How do you see the level of compliance with IFRS by Malaysian listed companies?
d. What kind of mechanism do you use to ensure that Malaysian listed companies comply with IFRS?
e. To what extent do you rely on the external auditors?
f. What kinds of actions are taken if the company did not comply with IFRSs? How many non-compliant cases so far? Can you provide any details?
g. Is enforcement working? Why do you think so?

APPENDIX I: FREQUENT NON-DISCLOSURE ITEMS IN THE FINANCIAL STATEMENTS

No	FRS	Paragraph
1	FRS136- Impairment of Assets	• P.130 (a) – the events and circumstances that led to recognition or reversal of the impairment loss. • P.130 (e) – whether the recoverable amount of the asset (cash generating unit) is its fair value less costs to sell or its value in use. • P.130 (f) – the basis used to determine fair value less costs to sell (if recoverable amount if FV less costs to sell) • P.130 (g) – the discount rate(s) used in the current estimate and previous estimate (if any) of value in use (if recoverable amount is value in use) • P. 134(d) (iii), (iv), (v) - the period over which management has projected cash flows; the growth rate used and the discount rate applied to the cash flow projections. • P. 135 (e) (i), (ii) – a description of each key assumption on determination of fair value less costs to sell (if it is not determined using an observable market price for the unit); and approached used to determine the values.
2	FRS117-Leases	*LESSEE/ OPERATING LEASE* • P.35 (a) — total of future minimum lease payments under non-cancellable operating leases for each of the following periods; (i) not later than 1 year; (ii) later than 1 year and not later than 5 years; and (iii) later than 5 years. • P. 35 (d) – a general description of the lessee's material arrangements (e.g. the existence and terms of renewal or purchase options and restriction imposed by lease arrangement) *LESSEE/ FINANCE LEASE* • P.37 (b) – a reconciliation between the total of future minimum lease payments (MLP) at the balance sheet date and their present value (PV); and disclose the total of future MLP at the balance sheet data and their PV for each of the following period: (i) not later than one year; (ii) later than one year and not later than five years; (iii) later than 5 years. • P. 37(e) – general descriptions of the lessee's material leasing arrangements (e.g. the existence and terms of renewal or purchase options and restriction imposed by lease arrangement)
3	FRS119- Employee Benefit	• P.47 – disclose information about contributions to defined contribution plans for key management personnel. *P. 120 A- Post Employment Benefits- Defined Benefit Plans:* • P. 120A (c) – a reconciliation of opening and closing balances of the present value of the defined benefit obligations • P. 120 A (e) – a reconciliation of the opening and closing balances of the fair value • P.120 A(j)- provide for each major category of plan assets the percentage or amount that each major category constitutes of the fair value of the total plan assets • P. 120(A) (m) – the actual return on plan assets • P.120 (A) (p) – provide the amounts for the current annual period and previous 4 annual periods of (i) the PV of the defined benefit obligation, the FV of the plan assets and the surplus or deficit in the plan; and (iii) the experience adjustments arising on the plan assets/ liabilities expressed either as amount or percentage.
4	FRS3- Business Combination	• P.67(h)- a description of the factors that contributed to the cost that results in the recognition of goodwill • P.67(i) –the amount of the acquiree's profit or loss since the acquisition date included in the acquirer's profit or loss for the period, unless impracticable.
5	FRS140- Investment Property	• P.75 (d) – the methods and significant assumptions applied in determining the fair value of investment property • P. 75(e) - the extent to which the fair value of investment property is based on valuation by an independent valuer who holds a recognized and relevant

		professional qualification. If there has been no such valuation by independent valuer, the fact should be disclosed. • P. 75 (f) (ii), (iii) - direct operating expenses that generated or did not generate rental income. • P. 75(h) – contractual obligations to purchase, construct or develop investment property for repairs, maintenance or enhancements. • P.79 (e) – if the entity applies the cost model, it should disclose the fair value of investment property. When the fair value cannot be determined reliably it shall disclose: (i) a description of the investment property and explain why it cannot be determined reliably.
6	FRS138-Intangible Assets	• P. 118(a) - whether the useful lives are indefinite or finite; and if finite, the useful lives or the amortization rates used. • P. 118 (b) – the amortization methods used for intangible assets with finite useful lives. • P. 122 (a) – the carrying amount of intangible asset and the reasons supporting the assessment of an indefinite useful life. • P. 122 (b) - a description of the carrying amount and remaining amortization period of any individual intangible asset that is material to the entity's financial statements.
7	FRS2-Share based payment	• P.45(d)- for share options outstanding at the end of the period; (i) range of exercise prices, (ii) weighted average remaining contractual life • P.47 (a)- weighted average fair value of those options at the measurement date and information on how that fair value was measured, including (i) option pricing model used and the inputs to that model, (ii) how expected volatility was determined, (iii) whether and how any other features of the option grant were incorporated.
8	FRS132-Financial Instruments	• P. 76(a) – amount of maximum credit risk exposure at the balance sheet date. • P. 76(b) – significant concentrations of credit risk. • P.86 – disclose fair value for each class of financial assets or liabilities to permit comparison with carrying amount • P.92 (b) - whether fair values of financial assets or liabilities are determined directly, in full or in part, by reference to published price quotations in an active market or are estimated using a valuation technique.
9	FRS114-Segmental Reporting	• P.71(a) – segment revenue from external customers • P. 76 – the basis of pricing inter-segment transfer and any change there in.
10	FRS116-Property, Plant and Equipment (PPE)	• P.77 (a) – the effective date of revaluation; • P. 77 (c) – the methods and significant assumptions applied in estimating the items' fair values • P. 77 (d)- the extent to which the items' fair values were determined directly by reference to observable prices in an active market or recent market transactions on arm's length terms or were estimated using other valuation techniques.
11	FRS5- Non-current Assets Held for Sale and Discontinued Operations	• P.47 (b) - a description of the facts and circumstances of the sale, or leading to the expected disposal, and the expected manner and timing of that disposal.
12	FRS101-Presentation of Financial Statements	• P.76(b) – a description of nature and purpose of reserve in within equity • P.93 – entities classifying expenses by function shall disclose additional information on the nature of expenses • P.113 – Management judgments in applying accounting policies • P. 116(b)- key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet data- assets and liabilities carrying amount as at the balance sheet date (in the notes)

Notes: P. = paragraph

APPENDIX J: REGRESSION RESULTS (LOG OF ODDS RATIO)

	Predicted Sign	PC Method						Cooke's Method					
		1	2	3	4	5	6	1	2	3	4	5	6
Constant		2.78***	2.84***	2.48***	2.84***	2.67***	2.76***	2.82***	2.79***	2.84***	2.79***	2.92***	2.89***
State	?	0.045		0.132				-0.022		0.051			
Family	-		-0.951		-0.149*				0.038		0.006		
Bumi	?		0.179**			0.209**			0.102			0.102	
Chinese	**?**	**-0.22*** **					**-0.234*** **	**-0.123***					**-0.124***
Owncon	?	-0.054	-0.049	-0.05	0.029	-0.064	-0.034	-0.835	-0.125	-0.107	-0.081	-0.082	-0.053
BODInde	+	-0.333	-0.342	-0.161	-0.208	-0.312	-0.310	-0.308	-0.111	-0.071	-0.024	-0.177	-0.364
BODsize	?	0.175	0.111	0.153	0.119	0.124	0.186	0.119	0.087	0.079	0.093	0.063	0.098
BODmeet	**+**	**0.326*** **	**0.311*** **	**0.346*** **	**0.349*** **	**0.322*** **	**0.335*** **	**0.213** **	**0.227** **	**0.232** **	**0.248*** **	**0.221** **	**0.209** **
Duality	-	0.223**	0.220**	0.181	0.181*	0.207*	0.215	0.111	0.107	0.099	0.085	0.103	0.104
ACexpert	**+**	**-0.61*** **	**-0.62*** **	**-0.617*** **	**-0.669*** **	**-0.581*** **	**-0.606*** **	**-0.299***	**-0.260**	**-0.294***	**-0.289***	**-0.236**	**-0.266**
ACInde	+	0.435*	0.429*	0.388	0.397	0.392	0.415*	0.421**	0.348	0.359*	0.327	0.369	0.435**
ACsize	**?**	**-0.447** **	**-0.543** **	**-0.424** **	**-0.571** **	**-0.516** **	**-0.450** **	**-0.469** **	**-0.525** **	**-0.537** **	**-0.541** **	**-0.529** **	**-0.463** **
ACmeet	+	-0.098	-0.115	-0.097	-0.102	-0.135	-0.104	-0.109	-0.133	-0.118	-0.127	-0.122*	-0.103
Auditor	+	0.084	0.110	0.096	0.102	0.121	0.085	0.148**	0.172**	0.166**	0.168**	0.151**	0.131*
IntOp	+	0.152	0.120	0.112	0.106	0.099	0.148*	0.038	0.024	0.027	0.017	0.022	0.029
ListingAge	+	0.047	0.042	0.044	0.039	0.044	0.048	-0.005	-0.020	-0.022	-0.022	-0.017	-0.002
Size	+	-0.09***	-0.072**	-0.08**	-0.074**	-0.06**	-0.09***	-0.033	-0.036	-0.028	-0.027	-0.029	-0.035
Profit	**+**	**0.210** **	**0.224** **	**0.219** **	**0.217** **	**0.226*** **	**0.207** **	**0.149**	**0.179***	**0.178***	**0.175***	**0.189** **	**0.162**
Leverage	?	0.031	0.038	0.027	0.038	0.034	0.030	0.003	-0.002	-0.001	-0.002	-0.003	0.003
Liquidity	?	0.022	0.025	0.013	0.020	0.021	0.023	0.044	0.029	0.027	0.026	0.019	0.033
TS	?	-0.121	-0.103	-0.088	-0.077	-0.101	-0.119	-0.091	-0.097	-0.086	-0.083	-0.103	-0.096
MFG	**?**	**-0.181** **	**-0.174** **	**-0.185** **	**-0.199** **	**-0.173** **	**-0.185** **	**-0.108**	**-0.130***	**-0.137***	**-0.145***	**-0.126***	**-0.103**
Adj. R^2		0.1328	0.1342	0.1032	0.1198	0.1328	0.1363	0.0646	0.0895	0.0882	0.0867	0.0872	0.0614
F value		3.33***	3.23***	2.89***	3.16***	3.18***	3.44***	2.18***	2.20***	2.22***	2.17***	2.25***	2.25***
N		214	214	214	214	214	214	218	219	219	219	218	217
Max VIF		2.17	2.14	2.16	2.14	2.13	2.17	2.15	2.12	2.11	2.12	2.1	2.13

* significant at the 0.10 level; ** significant at the 0.05 level; *** significant at the 0.01 level