

Chapter 6

Corporate Social Responsibility and Foreign Direct Investment: Legal, Political, and Historical Influences on the Development of Auditing in Malaysia

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ABSTRACT

As well as highlighting the importance of corporate governance mechanisms such as audits in facilitating Corporate Social Responsibility objectives and Foreign Direct Investment – where corporate social objectives are not unduly compromised, this chapter applies the political economic theory introduced by Tinker (1980) and refined by Cooper and Sherer (1984), which emphasizes social relations aspects of professional activity rather than economic forces alone. In a case study format where qualitative data was gathered mainly from primary and secondary source materials, the study found that the function of auditing in the Malaysian society in most cases is devoid of any essence of mission; instead it is created, shaped and changed by the pressures which give rise to its development over time. The largely insignificant role that it serves is intertwined within the contexts in which it operates. Furthermore, chapter is aimed at highlighting the importance and role of external audits – particularly in the aftermath of the 2008/09 global Financial Crisis.

DOI: 10.4018/978-1-5225-0305-7.ch006

INTRODUCTION

The activity of external auditing as conducted by audit firms intervenes between the preparation of financial and non-financial information relating to a particular entity by management and the (supposed) use by many different groups of users of this audited information. In Malaysia, this audit is characterized by little publicity and little public clamor for needed changes. There may be a few lone voices from both the public and private sectors asking auditors and their representative bodies, the Malaysian Institute of Accountants (MIA) and the Malaysian Association of Certified Public Accountants (MACPA) to do a better job, but that seems to be where the “story” ends.¹ From time to time there would also be certain exposures/revelations’ which provide proof that external audit in the country is in need of a certain level of revamp.

Examples include the revelation made by the Central Bank of Malaysia that the main issues of contention between the Central Bank and the external auditor were a consequence of the auditor having compromised his or her independence in two proven areas of financial reporting: disclosure and the provisional figure for bad and doubtful accounts (Central Bank, 1987, p. 6). On the former issue in particular, there had been cases where the auditor either worked together with management or agreed with management efforts at “window-dressing” the accounts leading to inadequate disclosure of significant changes in accounting policy and/or unneeded adjustments to certain disclosed items. A few years later in 1991, it was an auditor himself, Mr. Khoo Eng Choo, a senior partner of Price Waterhouse, who mentioned that there were local auditors who “... have been found not to have exercised sound professional judgement” (Choo, 1991, p. 23). He also made the following revelation (p. 23): “It is also unfortunate that sometimes some members of the profession have sunk to the level of enabling some unscrupulous members of the business community to dictate to them the approach ‘Just your signature’ is enough. They become poodles or lapdogs of these businessmen. These members are tarnishing the image of the profession and have failed in their duties.”

However, even with these revelations, the one single case/only incident where a Malaysian auditor has been brought to court took place in the mid-1960s when a group of company shareholders unhappy with the losses they had incurred, sued the auditor.² Thus, during economic recessions in the 1980s, when many businesses were forced to close down and cases of financial improprieties by directors and top management were disclosed, Malaysian auditors avoided being taken to court. In this regard, the then finance minister Datuk Paduka (now Tun) Daim Zainuddin was quoted by the New Straits Times³ (12 Sept. 1987) as saying that “... it is a miracle that no member of the public or any interested party has sued auditors for being professionally negligent taking into account the various “swindle” cases recently....” The blissful existence of Malaysian auditors certainly contrasts that experienced by teachers/lecturers, government servants, politicians, Malay rulers, nurses who have all by the early 1990s entered the limelight of adverse publicity. Other professionals, such as physicians and lawyers have also in recent years, been confronted with adverse public scrutiny.⁴

Indeed, if there is any profession or group of people in the country which seems to have been able to operate with little challenge to its practices, it is the so-called company auditors. This in fact had led Oh Chong Peng, the then vice-president of the MACPA and also a senior partner of Malaysia’s Coopers and Lybrand, to argue that there was still not enough pressure coming from the Malaysian society in order for the auditor to extend his or her responsibilities - despite the recent numerous cases of failures of companies, both listed and unlisted, where auditors had failed to give warning by qualifying in their audit reports that such companies were not going-concerns (Peng, 1989). Thus, he pointed out, there was

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