The Impact of Selected Corporate Governance Programmes to Auditor Independence: Some Evidence from Malaysia

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Abstract

Corporate governance is essential for establishing an attractive investment climate characterised by competitive companies and an efficient capital market. This paper examines the impact of four corporate governance programmes to perceived auditor independence from the perspective of Malaysian auditors, loan officers and senior managers of public listed companies. Questionnaire and interview surveys were employed to seek the respondent's perceptions on these issues. It is found that auditor independence would be safeguarded on the following issues: the compliance with the Financial Reporting Standards (FRS) of the Malaysian Accounting Standard Board (MASB) was legally mandated, the establishment of the Malaysian Institute of Corporate Governance (MICG), the establishment of the Minority Shareholders Watchdog Group (MSWG) and the implementation of mandatory director accreditation training programme (MDATP).

Keywords: Corporate governance, MASB, MSWG, MICG, Training Programme.

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1.0 Introduction

The accounting profession plays a major role in facilitating good governance, accountability and transparency among corporate participants, and more importantly, it has become the "gatekeeper of financial truth" (A-Kadir, 2000). Indeed, the role played by auditors was deemed to be the financial aspect of corporate governance (Dewing and Russel, 2004). Good financial reporting is critical to effective functioning of the capital market. It is well recognised that auditor independence plays an important role in ensuring good corporate governance (Spira, 1999), where the Cadbury Code has placed a substantial emphasis on independence[1].

Since an auditor is primarily engaged in a company's financial reporting process, an involvement with those that have governance responsibilities might help to improve the governance process (Roussey, 2000, p. 207). Indeed, the Malaysian Code on Corporate Governance outlined two categories of "enforcers" of good corporate governance, namely internal and external enforcers (FCCG, 1999). Internal enforcers are comprised of non-executive directors, audit committees and company secretaries, while external enforcers include auditors, corporate advisers and regulators. It may be the case that the auditor could encourage the executive management to use sound accounting systems, standards and internal controls to report business operations and performance. This is because the auditor has experience with the client's business and industry, and thus has knowledge and skills that could assist governance agents in the establishment of sound practices, and can provide valuable information and counsel to them (Roussey, 2000, p. 207). Investors or users could use the financial statements with peace of mind without worrying about any potential conflicts of interest being incorporated into the accounts. Consequently, capital will be allocated more efficiently, the cost of capital will be more realistically priced, and the overall cost of capital will reduce (Mahmood, 2003). Thus, the stability of the capital market will be enhanced.

The FCCG (1999) regards auditors as watchdogs that have the duty to report breaches or suspected breaches of the law to the regulatory authority. Auditors should use their professional opinion to report negative issues consistent with public interest[2]. In this context, auditors should aim to regain the confidence of the investing public through conforming with high standards of professional conduct that give assurance of the integrity and objectivity of services rendered, which ultimately form a major part of the corporate governance process. Higher standards of corporate governance could be attained through enhancements of the quality of financial reporting, which will facilitate an increased level of auditor independence (Cadbury, 1992).

The aim of this paper is to examine the impact of four corporate governance programmes to perceived auditor independence from the perspective of Malaysian auditors, loan officers and senior managers of public listed companies. These

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[1] Spira (1999, p. 263) pointed out that the emphasis on independence by the Cadbury Code indicates that it has become a "prerequisite for ethical behaviour in the context of corporate governance".

[2] The Malaysian Deputy Prime Minister, Datuk Seri Najib Tun Razak, remarked, "Legislation and rules alone cannot lead to higher standards of corporate governance. There must be a sense of responsibility and integrity among the practitioners to act without fear and favour" (Bernama, 2004).

respondents group are directly involved with corporate governance practices and financial reporting of corporate in Malaysia, thus their view would be authoritative.

The paper is organised into five sections. The following section offers a discussion on the Malaysian corporate governance structure. Section three provides the data collection and research methodology. The fourth sections present the research findings. The final section provides conclusions of the study, its implications and suggestions for future research.

2.0 Malaysian Corporate Governance Structure

This section is divided to three sub-sections, where Section 2.1 would discusses the Malaysian corporate governance practices, Section 2.2 describes the corporate governance reform and Section 2.3 illustrates selected corporate governance programmes.

2.1 Malaysian Corporate Governance Practices

Efforts to establish good corporate governance and to strengthen financial transparency and accountability in Malaysia commenced well before the 1997/1998 Asian Financial Crisis. However, the approach taken during this period was more piecemeal, applied on an individual basis and not as a concerted effort. At the initial stage, the Bursa Malaysia Berhad (BMB) had required listed companies to appoint independent directors on its board before the 1987 financial crisis. Following on from this, in 1993 each listed company was required to establish an audit committee that comprised of a majority of independent non-executive directors.

A significant change in the Malaysian capital market was observed when the Malaysian Securities Commission (SC) was established in 1993. As early as 1995 (prior to the Asian Financial Crisis in 1997/1998), the SC had initiated the idea of shifting from a merit-based regulatory regime (MBR) to a disclosure-based regulatory regime (DBR). The shift to a DBR was carried out in three phases, as shown in Table 1 below. This transformation took effect in 1996, where phase 1 involved the gradual introduction of greater transparency and disclosure standards. In the second phase, the SC's role in selected areas was reduced, and the final phase of the programme saw the SC evaluating corporate proposals wholly from the perspective of the quality of information disclosed in public documents. Under this phase, the Bursa Malaysia Berhad is the approving authority for the listing of securities on the exchange.

TABLE 1 ABOUT HERE

Following on from the shift from MBR to DBR, the Companies Commission (then Registrar of Companies) developed its Code of Ethics for Directors in 1996. The code was formulated to enhance the standard of corporate governance and corporate behaviour and aimed to establish standards of ethical conduct for directors, based on upholding acceptable beliefs and values, and to encourage a spirit of social responsibility and accountability that was consistent with the legislations, regulations and guidelines governing a company.

In 1997, a sole accounting standard board that had legal mandate was established to replace the accounting standards developed by the Malaysian Institute of Accountants (MIA) and the Malaysian Institute of Certified Public Accountants

(MICPA). The Financial Reporting Act 1997 was approved by the parliament, and as a result, the Malaysian Accounting Standards Board (MASB) became the sole statutory authority to issue, approve and review accounting standards and the Financial Reporting Foundation (FRF) was established to monitor the MASB's operations.

The outbreak of the Asian Financial Crisis, sometimes known as the "crisis of confidence", in 1997, "fast-tracked" the exercise to enhance corporate governance developments in Malaysia (A-Kadir, 1999). As a consequence, the "high-level Finance Committee on Corporate Governance" (FCCG) was established in March 1998, with three important pillars:

1. To undertake an assessment of the legal and regulatory infrastructure to appraise its effectiveness in promoting sound corporate governance standards. In addition, to undertake an assessment of laws governing shareholder rights, duties of directors, disclosure provisions and assessing the effectiveness of current enforcement mechanisms;
2. To produce a Malaysian Code of Best Practices in Corporate Governance; and
3. To ascertain training and education requirement of directors, other key corporate participants and investors.

The FCCG is comprised of senior government officials, industry captains and heads of professional organisations (A-Kadir, 2001a, b). The FCCG's report was released in November 1998 and was made public on 25th March 1999. The report outlined 70 recommendations that concentrate on the areas of strengthening laws governing shareholders' rights, directors' duties and duties of other corporate participants, with particular emphasis on related party transactions. This includes fair treatment of all shareholders and protection of minority shareholders' rights. In addition, the report emphasised the need to enhance disclosure and transparency, to promote effective enforcement and develop a Malaysian Code of Best Practices on Corporate Governance that seeks to restructure board composition and consequently form effective boards that promote accountability and independence. Finally, the report focused on the importance of training and education, and strengthening of regulatory enforcement.

Subsequent to the release of the FCCG's report, a series of corporate governance reform activities has been carried out. The Malaysian Code on Corporate Governance codifies the principles and best practices of good governance and outlines international best practices that are tailored to the needs of Malaysian companies. In addition, extensive amendments of laws, rules and regulations to reinforce the regulatory framework have been carried out. This programme seeks to improve the accuracy and timeliness of disclosure, clarify the responsibilities and obligations of major shareholders and the need to raise the efficiency of shareholder rectifying mechanisms. Also, based on the FCCG recommendations, training and education of corporate governance agents has been put in place. The amended Bursa Malaysia Berhad listing requirements in 2001 necessitate a mandatory accreditation training programme for directors of listed companies as a prerequisite to listing, and the directors are required to undergo this training annually.

Based on the recommendation made in the FCCG report, the Institutional Shareholder Watchdog Committee was formed with the aim to increase shareholders' activism to monitor and fight abuses by company insiders against minority

shareholders. Consequently, the Minority Shareholders Watchdog Group was established to monitor companies' corporate governance policies and compliance performance.

Regarding regulations associated with companies' directors, the FCCG found that many of the laws were scattered across various sources such as legislation, rules, case law on fiduciary duties, and the law of negligence. The FCCG (1999) pointed out that these regulations were not readily understood to "persons without legal training". The FCCG's report indicated that directors were most aware of laws that are represented in legislation. As a consequence, many of the FCCG's proposals pertaining to directors' duties and obligations are spelled out as law. Also, regarding the inadequate enforcement activities that give rise to the incidence of ignorance of laws among the directors, Malaysian regulators have continuously stepped up enforcement activities.

Initiatives to reform corporate governance in Malaysia were further enhanced with the announcement of the Capital Market Masterplan by the SC in early 2001. The plan seeks to comprehensively project the strategic positioning of the Malaysian capital market over a ten-year period. The plan focuses on the development of a highly efficient and internationally competitive capital market that is able to accomplish the country's basic capital investment requirements, supported by a strong and facilitative framework.

Consistent with the Finance Committee on Corporate Governance report, the Capital Market Masterplan further aims to provide a corporate governance reform agenda in a number of key areas, such as:

i. Promotion of shareholder activism through further improving ways for minority shareholders to exercise and enforce their rights and encouraging greater institutional investor participation in corporate governance and the promotion of shareholder value.
ii. Ensuring high standards of financial reporting and the continuous disclosure of timely, relevant and accurate corporate information to the shareholder, to assist market discipline and informed investor decision-making.
iii. Further enhancing the awareness of and accountability for the duties and obligations of company directors, financial controllers management and officers, and strengthening the role of auditors of listed companies.

2.2 The Reform of the Malaysian Corporate Governance Practices

The occurrence of the 1997/1998 Asian Financial Crisis was believed to be partly due to weak corporate governance (Kim, 1998; Claessens *et al.* 1999b; A-Kadir, 2000), which has shaken the Malaysian capital market and diminished investors' confidence in the credibility of financial reporting. The FCCG (1999, p. 43) pointed out that weak governance has resulted in a substantial loss of confidence by investors in the Malaysian capital market and concern about the role of directors and regulators in safeguarding their interests (FCCG, 1999).

From a Malaysian perspective, Claessens *et al.* (1999a) and the White Paper on Corporate Governance in Asia (OECD, 2003) revealed the existence of ownership concentration, particularly in the hands of family/individual and state control, in more than half of Malaysian corporations, and separation of management from ownership control is rare. These phenomena weaken the corporate governance of Malaysian

corporations. Shleifer and Vishny (1997) noted that large owners gain nearly full control when ownership gets beyond a certain point, and the owners prefer to use firms to generate private benefits of control that are not shared by minority shareholders. Furthermore, high ownership concentration creates conflict between large and small shareholders (Shleifer and Vishny, 1997; La Porta *et al*., 1997). Claessens *et al*. (1999a) pointed that insider control may also have contributed to weak performance and risky investment prior to the 1997-98 financial crises. However, to overcome this dilemma, the FCCG did not suggested ownership dilution; instead, the committee proposed that efforts be made to carry out checks and balances against abuses by strengthening the law on related party transactions. For instance, interested parties in a related party transaction are currently required to abstain from voting in such transactions as an additional measure for check and balances.

Nicholls and Ahmed (1995) pointed out that in countries where families tend to have substantial equity holdings, there is generally little physical separation between those who own and those who manage capital. As such, capital owners do not have to rely extensively on public disclosure to monitor their investments, since they have greater access to internal information (Adhikari and Tondkar, 1992). In the case of Malaysia, there is a significant number of listed companies with substantial family shareholdings that elect family members to sit on the boards both as executive and non-executive directors (Haniffa and Cooke, 2002). Thus, they may use their position to achieve their financial and personal interest at the expense of minority shareholders. The FCCG (1999, p. 43) noted that "in companies with significant shareholder presence, there is immense skepticism within the shareholding community about the ability of boards to represent the interests of all shareholders, especially in the context of related party transactions, as a result of abuses witnessed in recent times."

A-Kadir (2002a, b) highlighted the fact that the May 1999 Asia-Pacific Economic Cooperation (APEC) Report on Strengthening Corporate Governance in the APEC Region, which was endorsed by the Finance Ministers of member economies, identified the following generic characteristics of Asian corporate governance, which, it said, contributed to the severity of the Asian crisis:

i. Firstly, a key characteristic of corporate governance in Asia has been the high degree of ownership concentration, typically in the hands of family groups or the state, as opposed to institutional investors.
ii. Secondly, minority shareholders and institutional shareholders in Asia are generally passive, preferring exit over voice.
iii. Thirdly, many boards and audit committees do not function as effective oversight mechanisms.
iv. Fourthly, in relation to disclosure and transparency, the APEC report also highlighted the fact that the ethic of full and timely disclosures - the cornerstone of modern capital market regulation - had yet to be fully entrenched in many Asian corporations, giving rise to the perception of a dichotomy between market 'insiders' and 'outsiders' within the investing community.
v. Fifthly, the report pointed out that many regional economies had weak enforcement systems, particularly in relation to their inability to respond swiftly and effectively to corporate governance violations by misbehaving corporations.

In fact, the joint survey on corporate governance practices in Malaysian public listed companies by the Bursa Malaysia Berhad (then the Kuala Lumpur Stock Exchange) and Pricewaterhouse (1998) reveals that almost all of their respondents (94%) strongly believed that Malaysian corporate governance should be reformed. The reasons for reform cover four key issues, namely: (1) the need to maintain and restore investors' interest and confidence in the equity market; (2) the need to increase transparency, including more disclosures in the accounts of related party transactions and directors' dealings; (3) the need to protect minority shareholders' interests; and (4) the need to make directors and management more accountable to shareholders and the investing public. Most of the recommendations in this survey were taken into account in the report of the high-level Finance Committee on Corporate Governance.

Regarding the enforcement issue, A-Kadir (1999) pointed out that the mechanisms for ensuring compliance and enforcement in Malaysia have been generally deficient and that the penalties for breach are insufficient as a deterrent, particularly in times of economic stress on these companies. It was noted that there is lack of awareness of responsibilities among the directors of public listed companies, and A-Kadir (1999) contended that many of the listings arose from the public floatation of small private companies with good growth prospects. Owners of these small private companies become directors of a public listed company overnight, and have to adhere to a large number of complex common laws and statutory responsibilities, most of which are unfamiliar and may not be fully understood or appreciated (FCCG, 1999, p. 42).

2.3 Selected Corporate Governance Programmes

2.3.1 The Malaysian Accounting Standards Board (MASB)

The promulgation of accounting standards in Malaysia before 1997 rested primarily with the accounting profession, which issued accounting standards for implementation by its members[3]. During this period, the accounting standards were based on International Accounting Standards (IAS). It was observed that the level of compliance differed between accounting bodies and that there was a lack of a structured approach to reduce the gap[4].

To resolve the dilemma, the Financial Reporting Act (FRA) was introduced in 1997, the same year as the Asian financial crisis. The FRA outlined the first formal financial reporting framework for Malaysia. In a self-regulated profession such as auditing, the role of MASB as a standard-setter is to reduce the gap between public and private interests (Chandler, 1997). In fact, at that time it was the only statutory framework for accounting standard setting and compliance within the Asian region. The difference between the current regime and the previous one is that the Financial Reporting Standards (FRS) issued by the MASB are mandated by law and imposed on both listed and non-listed companies. Finally, the enforcement of the FRS was entrusted

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[3] Chandler (1997) noted that, "the existence of and the compliance with standards indicate that the profession as a whole will deliver a service of a consistent and acceptable standards" and that standards would act as a benchmark to enable professional bodies to institute and preserve a satisfactory level of performance.

[4] In the UK, the accounting standards issued by the Accounting Standards Board were found to enhance auditor independence and improve the integrity of financial reporting process (Fearnley *et al.*, 2002; Beattie *et al.*, 1999).

to the SC, the CC and the Central Bank, which are responsible to review and examine the financial statements of companies under their ambit.

2.3.2 The Malaysian Code of Corporate Governance (MCCG)

The Malaysian Code of Corporate Governance (MCCG) was introduced in March 2000 as a result of the recommendation made by the Finance Committee on Corporate Governance (FCCG). The MCCG sets out the principles and best practices for companies with the aim to increase standards of corporate governance in Malaysia. In fact, the Malaysian Code of Corporate Governance was based on the UK's Hampel approach. The Code is a voluntary Code; however, the revamped Bursa Malaysia Berhad listing requirements necessitate that companies disclose the degree to which they have applied and complied with the principles and best practices in the Code with effect from the financial years ending on 30th June 2001 onwards.

The Code necessitates that all directors of listed companies attend mandatory accreditation training with the aim to improve their competency and professionalism to ensure that they perform their duties as an oversight body that is able to add value in the strategic decision-making process.

2.3.3 The Minority Shareholders Watchdog Group (MSWG)

The Minority Shareholder Watchdog Group (MSWG) was established as a non- profit public company limited by guarantee on 2nd July 2002 to encourage shareholder activism among the minority shareholders. The establishment of the MSWG was sponsored by five large Malaysian institutional investors, namely the Employees' Provident Fund, Permodalan Nasional Bhd, Lembaga Tabung Angkatan Tentera, Lembaga Tabung Haji and Social Security Organisation (SOCSO).

The MSWG seeks to remind minority shareholders, particularly institutional investors, of their rights and responsibilities, and aims to protect minority shareholders from being pressured by the management of listed companies. The MSWG act as a watchdog to monitor listed companies' business operations. In carrying out their responsibilities, the MSWG develops direct communication with top management and carries out periodic dialogues to monitor company policies and practices. In observing listed companies' business operations, the MSWG is expected to communicate with the BMB to verify any breach pertaining to listed companies, and may then liase with the management of the company to remedy the issue.

2.3.4 The Malaysian Institute of Corporate Governance (MICG)

The Malaysian Institute of Corporate Governance (MICG) was established under the Companies Act 1965 on 10th March 1998 as a public company limited by guarantee. The MICG founder members are the Federation of Public Listed Companies Bhd (FPLC), the Malaysian Institute of Directors (MID), the Malaysian Institute of Accountants (MIA), the Malaysian Institute of Chartered Secretaries and Administrators (MAICSA), and the Malaysian Institute of Certified Public Accountants (MICPA)

The MICG was established with the aim to be a leading centre for development of corporate governance and best practices through continuing education programmes for company directors, chief executive officers, company secretaries, company advisers, company auditors, accountants, lawyers, members of audit committees and investors in Malaysia. Following the recommendations made by the FCCG, the MICG played a

significant role in the training and education of the investing public and other capital market participants, and it is reported that the MICG is actively supporting and complementing the work of the Bursa Malaysia Berhad and the SC (A-Kadir, 2001a, b). The MICG is currently active in organising and participating seminars, conferences and workshops to inculcate investor activism and awareness of rights.

3.0 Methodology

To achieve the research objectives, this study was undertaken in two stages. The first stage involved the use of a postal questionnaire to seek a broad picture on the issues of corporate governance and auditor independence from three different respondent groups, namely auditors, loan officers and senior managers of public listed companies. The second stage entailed a series of interviews with senior managers of audit firms, banks and publicly listed companies aimed at obtaining more precise understanding of the issues concerning corporate governance and auditor independence.

Previous research on corporate governance issues has contributed to the development of the following research question:

> What are the perceptions of senior managers regarding the impact on auditor independence when selected corporate governance programmes (e.g. compliance with FRS mandated by law, the existence of MSWG and MICG and directors are required to attend mandatory accreditation training programme) exist?

As the core research question of this study relates to auditors', loan officers' and corporate managements' opinions of the impact of selected corporate governance to auditor independence, the most appropriate approach was to solicit their perceptions directly. The postal questionnaire is the main research tool utilised in this study, and the selection of this tool was based on the appropriateness of the technique to the research question. It is an effective tool to seek opinions, attitudes and descriptions about auditor independence issues as well as assessing cause-and-effect relationships (Ghauri and Gronhaug, 2002, p. 93). In this context, Beattie and Fearnley (1998, p. 263) pointed out that the behavioural and qualitative technique is important to clarify theories in accounting research because it is able to give "new insight on the 'relationships approach' of audit services, which statistical models and economic theory failed to rationalise the cause of certain events". They further noted that the "economic-based framework can be expected to provide only a partial explanation…on the issue of interest" (p. 263). Gwilliam (1987) pointed out that the concept of auditor independence is "difficult to define in absolute terms" and its interpretation changes over time; thus, the use of questionnaires to gather the current perceptions on auditor independence held by various interest groups could be a "more pragmatic approach" (p. 92). Beattie and Fearnley (1998, p. 264) concurred with this:

> *"the use of the questionnaire approach provides richer insights than is possible using secondary data analyses, which focuses on economic factors, since the questionnaire instrument includes both economic and behavioural factors."*

The questionnaire was comprehensively tested with the intent to improve and enrich its quality, and hence to make sure that it was applicable to the current level of practices in Malaysia in order to generate a maximum response rate. Prior to actual distribution to auditors, loan officers and senior managers of public listed companies, a

series of pilot studies were undertaken in the UK and Malaysia. The comments received were found to be useful and were incorporated into the draft questionnaire.

The population selected for the current study consists of auditors, loan officers and senior managers of public listed companies. These groups were identified based on prior literature that classified them as the key players in the audit market (FCCG, 1999). Auditors were selected because they are the main subjects of the issue of interest that provide certification and/or information credibility assessment to the stakeholders (Humphrey, 1997). Furthermore, Flint (1988, p. 76) pointed that the person to whom the audit reports is addressed and the person that are subjected to audit have a direct interest in the audit outcome. Gul (1991, p. 165) argued that bank officers are relatively sophisticated financial statement users who could be expected to understand the importance of auditor independence. Finally, the manager is the agent of the principal, who conducts business on behalf of the principal and, hence, requires a monitoring mechanism (i.e. an auditor) to report on their performance (Jensen and Meckling, 1976), and on this basis, senior managers' perceptions of auditor independence are valuable to this study.

The total questionnaires distributed and responded are reported in Table 2, where 31%, 44% and 36% of the questionnaires were returned from auditors, loan officers and senior managers of public listed companies respectively.

TABLE 2 ABOUT HERE

An analysis was carried out of the designation of the respondents named as having returned the questionnaire and details of the findings are tabulated in Table 3. The majority of the respondents hold a high rank in their respective organisations: 46% of the auditors who responded are in the position of line manager, while 47% and 43% of the loan officer and corporate management groups respectively come from senior managers, the remainder being the first line of management and the chief executives of the respective organisations. This result indicates that the majority of the respondents are, for the most part, responsible for the auditing, accounting and finance function. These responsibilities include planning the audit work, resources and liasing with audit clients for the audit firms group, analysing corporate annual reports and being involved in loan approval for the bank group or communicating with auditors and being involved in resource allocation for corporate management. Hence, the seniority of the respondents provides strong support for the belief that the responses will give an authoritative source of information on the issues of interest.

TABLE 3 ABOUT HERE

Finally, the respondents were also asked to provide their length of experience in their particular function. It can be seen in Table 4 that more than 80% of the respondents had more than 5 years' experience in their respective functions. The length of service indicates whether the respondents are well versed with their job functions and subsequently keep informed with the changes in the accounting and auditing profession. Respondents who had more than 5 years of experience and were informed about the recent major corporate crises and subsequent changes in rules and regulations, both locally and internationally, dominated the sample. Therefore, the responses received

from all respondent groups are likely to provide a stringent test of perceptions of the auditor independence issues.

The possibility of occurrence of non-response bias arises when some of the survey sample failed to return the questionnaire and the data may consequently turn out to be invalid. It is well recognised in the literature that responses to mail questionnaires are generally poor, and it is a common phenomenon to see return percentages as low as between 30 to 50% (Wallace and Mellor, 1988, p. 132). Hence, in order to ensure the reliability and validity of the data, an attempt to diagnose the presence of non-response bias is essential (see Bartlett and Chandler, 1997; Mallin and Ow-Yong, 1998; Ku Ismail, 2003). Oppenheim (1966, p. 34) and Wallace and Mellor (1988, p. 133) put forward a technique to diagnose non-response bias by comparing the answers to the questionnaire provided by early respondents to those of late respondents. The rationale to this argument is that 'late' responders are reasonable 'surrogates' for non-respondents (Wallace and Mellor, 1988, p. 132).

Therefore, in this study, the first 20 questionnaires received from respondents were categorised as 'early' and the last 20 questionnaires as 'late'. The early and late responses were compared with the aim of observing whether significant differences exist between the two groups. The Mann-Whitney test was employed as a statistical tool to investigate the differences. It was found that there was no significant difference between the 20 early and 20 late responses from the senior managers' and loan officers' groups. The test results revealed that 52 of 54 of the questions (96%) for both groups were not significantly different, implying the absence of non-response bias.

Another source of bias in survey-type studies is self-selection bias (Eysenbach and Wyatt, 2002; Oppenheim, 1992; Whitehead, 1991)[5]. The bias might arise from the fact that "people are more likely to respond to a questionnaire if they see items which interest them" (Eysenbach and Wyatt, 2002) and "they may try to 'respond' extra-well" (Oppenheim, 1992, p.30) to the questions. Indeed, self-selection bias is a result of a pre-existing interest factor, and it is more serious than the non-representative nature of the population due to the existence of many unknown factors (Eysenbach and Wyatt, 2002; Oppenheim, 1992). It may be that the people who responded to the questionnaires have dissimilar characteristics to those who did not reply.

In this study, efforts have been taken to diagnose the existence of self-selection bias. Although no specific approach to identify self-selection bias has been documented, this study employed two techniques. First, two groups of control and experimental respondents were developed (Oppenheim, 1992). The control group consisted of respondents with more than 10 years' experience, while the experimental group comprised of respondents with less than 10 years' experience. Using the Mann-Whitney test, responses from both groups of respondents from all three classifications (i.e. auditors, loan officers and senior managers of public listed companies) were examined, and it was found that the distribution of responses of the two groups in all respondent classifications was not significantly different, indicating that the effect of self-selection response bias was minimal or non-existent. Second, since this study employed both questionnaire and interview survey approaches, the results of interview survey tend to confirm the questionnaire survey in all variables examined. The consistency of

[5] Oppenheim (1992, p.30) termed this phenomenon as 'volunteer bias'.

responses in both approaches indicates minimal or non-existent self-selection response bias.

As mentioned earlier, the second stage of data collection involved the used of interview survey. The aim of the interview survey was to further elaborate the issues raised in the postal survey and to investigate the underlying reasons behind the answers given. Based on the nature of the questionnaire used in this study (i.e. closed-ended), it is important to probe what is happening and to seek new insights (Robson, 1993, p. 42) or get further explanation, which is limited in the postal questionnaire survey approach. In addition, interviewees' own behaviour or that of others, attitudes, norms, beliefs, and values (Bryman, 2001, p. 106) on auditor independence issues could be gathered in a more comprehensive way and not limited to restrictive agreement levels, as in the questionnaire.

A detailed analysis of the period of employment of the respondents participating in the interview stage is provided in Table 4.

TABLE 4 ABOUT HERE

Table 4 above shows the period of employment of interviewees that participate in this stage of the research. The vast majority of the interviewees had more than 5 years of experience. Only 8%, 6% and 29% of the auditors, loan officers and regulators respectively had less than 5 years of experience, and none of the senior managers of public listed companies with that length of experience participated in the study. Only in two (2) cases (29%) did regulators have less than five year of experience, one had just joined the organisation. However, in actual fact, she had gained more than 10 years experience in public listed companies. Hence, with such a long period of experience in their respective functions, the opinions provided by interviewees can be considered authoritative, and consequently can be generalised to the whole population.

4.0 Results and Discussions

The issue of auditor independence in the Malaysian environment is also closely connected with the development of corporate governance practice due to the integrated approach undertaken by the Malaysian regulators to improve corporate reporting in the late 1990s and early 2000s. Thus, this study examined the impact of four corporate governance programmes on auditor independence, namely (1) compliance with the Financial Reporting Standards (FRS) being mandated by law, (2) the establishment of the Minority Shareholders Watchdog Group (MSWG), (3) the establishment of the Malaysian Institute of Corporate Governance (MICG), and (4) the implementation of the mandatory director accreditation training programme (MDATP). The respondents' perceptions on issues relating to the six corporate governance programmes were solicited and the results are reported in the following section.

TABLE 5 ABOUT HERE

4.1 Compliance with the Financial Reporting Standards (FRS) is Mandated by Law

A significant change in the issue of accounting standards in Malaysia was seen in 1997, as discussed in the earlier section, when the issue was undertaken by the Malaysian Accounting Standard Board (MASB) and compliance with the FRS were mandated by

law. Analysis of responses reveals that the majority of the auditors (98%), loan officers (89%) and senior managers of public listed companies (88%) agreed with the statement that auditor independence would be safeguarded by a legal mandate on compliance with the FRS. Although there was strong agreement from the loan officers and senior managers of public listed companies, this was less than the corresponding figure for auditors, which might reflect the auditors' belief in the importance of legal measures to ensure that Malaysian capital market participants complied with all of the accounting standards, as reported in Table 5. Perhaps, the strong agreement showed by the auditors might suggest that the profession welcomes such efforts from regulators, and as a result auditors, would be aware of the consequences of non-compliance with the standards. Indeed, the potential regulators' sanctions resulting from non-compliance would damage firms' reputations, which is not in the interest of audit firms (see for example Ponemon and Gabhart, 1990; Jeffrey *et al*., 2004; Dye, 1993).

A consistent result was found in the interview survey, where the majority of the interviewees (i.e. 77% of the auditors; 100% of the loan officers; 88% of the senior managers of public listed companies; 100% of the senior managers of regulatory bodies) agreed that the mandate of law on compliance with the FRS would strengthen auditor independence. The interviews disclosed that the force of law plays a significant role in ensuring that Malaysian corporate participants comply with the regulations, because there is a lack of voluntary effort to show good financial reporting (Tan, 1997; PwC, 1998). Discussing the importance of the law, a chief internal auditor of a main board company remarked:

> *I think our society is more autocratic due to tradition, culture, level of education and many other factors. Our people are used to tolerating each other.*

As mentioned earlier in Section 2, before the Malaysian Accounting Standards Boards (MASB) was incorporated, the profession adopted the IAS and compliance with its standards was only binding to MIA members. The interviews disclosed that under the previous regime, the level of compliance was low because non-compliance was not an offence under the law and could only be penalised under the MIA's disciplinary by-law if it was reported to the disciplinary committee, which could be avoided most of the time due to weak enforcement by the MIA. However, under the new regime, all parties involves in financial reporting are bound by the law to comply with the FRS, and any failure becomes an offence under the law, and could lead to penalty under the provision of the Financial Reporting Act 1997 and other relevant laws. In addition, the force of the law has become an incentive for auditors to disclose clients' financial affairs, which in turn means that they will be protected under the law. The interviews indicated that although auditors receive audit fees from clients, they are also bound by the law to give a 'true and fair' view on clients' accounts.

In addition, it was mentioned that in the presence of the law, all of the reporting companies are bound by the same law, which means that compliance with FRS is standardised. A senior general manager of a merchant bank pointed that the law must be enforced by a regulatory body and remarked:

> *It is good that it's backed by law. Otherwise we would be back to the situation of avoidance and evasion. …. if I can avoid compliance without getting caught and if I can avoid it without having the books thrown at me, that means I will do it.*

It is important to note that the majority of the interviewees raised their concerns regarding the weak enforcement of the law on compliance with the FRS. The interviews disclosed that the Companies Commission, the Securities Commission and other regulatory authorities should monitor the level of compliance closely by reviewing the financial statements, especially audit reports, to make sure all companies conform with the FRS. A partner of a medium size audit firm remarked:

> *The current standards have more power but I don't know whether the authorities actually implement them and take steps to make sure everybody complies with them ... now all standards are law, but what happen if they don't follow this? ... nothing. You say its law, but if you've qualified the accounts and they show that the company is committing an offence under the law, I don't think any action has been taken. People must take action. In a way the enforcement officers don't really do their job. .... if the authorities keep quite on this, I believe after 2 or 3 years, everybody will write their own law.*

In addition, the interviews indicated that the Malaysian capital market was still not ready for voluntary disclosure; therefore, the force of law is needed to outline the minimum requirement to be observed. On many occasions, Malaysian businesses only comply with the minimum requirement. Thus, the interviewees suggested that the government should regulate the market, and later on when they are satisfied with the level of compliance, they should deregulate the financial reporting practices.

On the other hand, a small minority of the interviewees that disagreed with the force of law on the compliance of the FRS disclosed that the incorporation of the MASB is redundant; instead, it should be a department of the MIA . It was alleged that the incorporation of the body has led to a duplication of the duties carried out by the MIA. It was pointed out that the creation FRS has given rise to a lot of confusion.

4.2 The Establishment of the Minority Shareholders Watchdog Group (MSWG)

As discussed in Section 2, the Minority Shareholders Watchdog Group (MSWG) was established to exercise minority shareholders' rights. Although the majority of the loan officers (78%) and senior managers of public listed companies (79%) agreed with the statement that auditor independence would be safeguarded by the existence of the MSWG, a lower level of agreement was showed by the auditors (54%) (significant at the 1% level) and this might reflect the scepticism of the minority of the auditors about the benefits of having such an organisation, due to the ownership concentration problem in the Malaysian capital market. As mentioned earlier in Section 2, a prominent feature of the Asian corporate landscape (including Malaysia) is the predominance of family-run or individual-run firms and as a result, the management and the board are family members (Anwar, 2003). On the other hand, the responses from the majority of the auditors, loan officers and senior managers of public listed companies might reflect their support for the regulators' argument that the MSWG could play an active role in Malaysian financial reporting to facilitate the building of shareholder coalitions to enhance the effectiveness of the minority shareholders' voices (FCCG, 1999). Overall, the result might be a sign of confidence among the respondents that such a mechanism could improve communication between the management and minority shareholders.

In the interview survey, the majority of the interviewees (i.e. 77% of the auditors; 71% of both the loan officers; 76% of the senior managers of public listed companies; 86% of the senior managers of regulatory bodies) agreed that the MSWG could safeguard auditor independence. This finding is consistent with the questionnaire survey result reported in the earlier section. The interviews disclosed that the Malaysian minority shareholders did not have the appropriate knowledge to monitor their investments either by analysing financial statements or questioning companies' management on reported business affairs during the annual general meeting (AGM).

The interviews disclosed that the minority shareholders came to the AGM to get 'door gifts', souvenirs and food. Knowing the behaviour of minority shareholders, it is disclosed that company's directors would make sure the meeting would be conducted at a 'good place' with 'good souvenirs' to make sure the minority shareholders would ask the minimum of questions. This situation led to the establishment of the MSWG, which become an important tool for shareholder's activism. A chief internal auditor of a public listed company noted:

> *… our shareholders are not educated. They are not learners; they are out to make a fast buck. Those who want to invest basically rely on tips. That is where I think this watchdog becomes important; they should, in a way, play a more pro-active role in attending annual general meetings, asking key questions on behalf of the minority shareholders who do not have the knowledge or expertise about the doings of the company.*

Also, realising the existence of the MSWG and its monitoring of the whole reporting process, auditors have become more aware of their responsibilities to become more independent. The interviewees disclosed that auditors now have more incentive to resist management pressure in situations of conflict, as they need to avoid being questioned by the MSWG, which will damage their reputation if it is found that they have made mistakes or contributed to the company's crisis. A vice president of a public listed company remarked:

> *…they are visible, they do come to the AGM and ask questions about certain issues which they think might not be taken up by the majority shareholders where they see that the interest of the minority shareholders are not being addressed. Lately, they have become more visible; they do come to AGMs and even talk to the chairman and CEO. That means that whenever we make a decision we always take into account what will happen to minority shareholders.*

On the other hand, a small minority of the interviewees indicated that the MSWG would not safeguard auditor independence because it was not functioning well and the majority shareholders were always interfering with its operation, which is consistent with the argument forwarded by LaPorta *et al*. (1997) and Claessens *et al*. (1999b). This situation has arisen due to lack of business and technical knowledge among MSWG staff. The interviews disclosed that share ownership of many Malaysian companies tends to be concentrated in the hands of families or the state, and that these shareholders also held management positions, either themselves or through proxy. Therefore, it is almost impossible for the MSWG to get co-operation to monitor the companies' business affairs.

4.3 The Establishment of the Malaysian Institute of Corporate Governance (MICG)

The existence of the Malaysian Institute of Corporate Governance (MICG) was claimed to increase corporate participants' awareness of the need for good financial reporting, and hence enhance the role played by companies' auditors. It was found that the majority of the loan officers (70%) and senior managers of public listed companies (58%), and a sizeable percentage of the auditors (19%), agreed with the statement that the MICG could safeguard auditor independence, as shown in Table 5, and this might reflect the confidence of the respondents in the benefits that the MICG might bring.

A consistent result was seen in the interview survey, where the majority of the interviewees (i.e.54% of the auditors; 59% of the loan officers; 88% of the senior managers of public listed companies; 86% of the senior managers of regulatory bodies) agreed that auditor independence is strengthened following the incorporation of the MICG. The interviews disclosed that the activities undertaken by the MICG could create awareness of the importance of the auditors' role in terms of providing a high quality of financial reporting. Thus, they agreed that the directors who attended the MICG programme would appreciate the need for an independent auditor. However, it is important to note that many of them indicated that the function could be more effective if the MICG worked together with the other regulators such as the MIA, SC and BMB.

4.4 The Implementation of the Mandatory Director Accreditation Training Programme (MDATP)

As mentioned in Section 2.0, directors of Malaysian public listed companies are now required to attend an accredited training programme to increase their knowledge and understanding of their role as directors of public listed companies. The majority of the auditors (82%), loan officers (89%) and senior managers of public listed companies (75%) agreed with the statement that the requirement for company directors to attend the director accreditation training programme would safeguard auditor independence, as shown in Table 5. Although there is strong agreement from the senior managers of public listed companies and auditors, this is less than the corresponding figure for loan officers, which might reflect the concern of the loan officers about the need to educate corporate directors, especially owner-managers and newly listed companies. Indeed, these companies were initially small, family-run businesses, which were not subjected to corporate laws and regulations, and thus the directors of these companies need formal training as to their roles, responsibilities and public expectations (see FCCG, 1999; A-Kadir, 2001a). Therefore, they need to be trained in a systematic manner on various aspects relating to public listed companies.

In the interview survey, it is found that a large majority of the interviewees (i.e. 92% of the auditors; 100% of the loan officers; 82% of the senior managers of public listed companies; 100% of the senior managers of regulatory bodies) agreed that the implementation of mandatory director accreditation training programme could strengthen auditor independence. This result is consistent with questionnaire survey. The interviews disclosed that this measure would contribute to auditor independence behaviour via creating awareness among the directors as a result of the knowledge gained during their training sessions. Also, the interviews indicated that company directors would learn about what is expected from them as the top management of a company in a systematic way, and would thus appreciate the objective of financial reporting. Some of the interviewees pointed out that before the introduction of the

programme; many of the company directors did not pay much attention to the role of auditors and the impact of auditors' reports on shareholders' perceptions. In extreme cases, they did not realise the importance of their responsibilities to their shareholders and the public. This phenomenon was especially true when the directors held the position in a family capacity or had inherited it from their ancestors. A partner of a medium size audit firm remarked:

> *… at least they would be forced to listen to something that they have not listened to before, and they cannot claim ignorance because they have gone through some training. … I'm surprised that directors must be forced; I thought it would be a natural thing for them to understand all these issues involved in the discharge of their duties. It is just our culture not to be excited about learning, I think that is the whole issue. … You have to remember that these people are entrepreneurs, … but they must behave in a manner that doesn't cause problems to others.*

In addition, the interviewees indicated that the programme would benefit the non-financial directors and those that did not have financial and business backgrounds or relevant academic qualifications. However, the main concern was with inadequate control mechanisms at the training sites, where the interviews revealed that on several occasions, the participants had only registered for the programme and then left the site after the registration, and went back in tome for the closing ceremony to show their faces and make it look as if they had attended the session. Also, criticism was focused on the conduct of training outside Kuala Lumpur. A partner of a medium sized audit firm claimed that there are improper logistics and preparations for training programmes conducted outside Kuala Lumpur, most of which are performed in buildings that do not reflect the image of the programme appropriately. He indicated that a proper training centre would add credibility to the director training programme, rather than having it at a shop lot or other inappropriate building.

Furthermore, the interviewees expressed their concern about the way corporate governance was introduced to Malaysian corporate participants. Most of the professionals, regulators and policy makers introduced corporate governance as a set of rules rather than shareholders values. It was pointed out that the idea of corporate governance should be introduced by focusing on the need to be competitive, profitable and to continue as a business in the long term. People will be more excited about the idea if the above issues become the basis of discussion; however, currently when issues relating to corporate governance are introduced, they are presented as a set of rules. A partner of a medium sized audit firm noted that the common phrases associating with corporate governance are '*you cannot do this*', '*you cannot do that*', '*whenever you want to do this you must do this and that*'. The interviews disclosed that the corporate participants see the issues relating to corporate governance as something that constrains them rather than something that encourages them to be more entrepreneurial and competitive. The discussion of corporate governance should focus on long term shareholder value, how to generate this value, the benefits of a competitive strategy, employing good people, reacting to the market etc. These points should raise awareness of the need for good accounting standards, good financial reporting and the importance of auditor independence. Therefore, when a company fails to make a profit, the majority shareholders that manage the company will not manipulate the numbers to make them look profitable because at the end of the day they, as the majority shareholders, are the ones who will suffer.

In addition, the interviews suggested that the regulatory authorities should make the training programme a pre-requisite for becoming a company director. It was mentioned that directors should at least attend some part of the programme before assuming directors' functions, and that if they failed to attend the programme, mandatory disciplinary action should be taken by rotating the position with someone else who has attended the training. This action should be taken to stress the importance of having enough knowledge about corporate affairs, because the directors are representative of shareholders who do not have direct involvement in day-to-day business operations.

On the other hand, the opponents of the mandatory director training programme pointed out that the programme would not safeguard auditor independence because although it would introduce the subject to the directors and create some level of awareness of the subject matter, the level of compliance with regulations and the level of appreciation of good financial reporting would depend on the individual directors' behaviour, backgrounds, ethics and values. It was claimed that these factors developed in a person over the course of their lifetime, and would not easily change over a short time as a result of a director training programme. Regarding this, a vice president of a public listed company noted:

> *…. only awareness … integrity, ethics etc can be learned through theory, … it is just a refresher course, making one more aware of the importance of corporate governance, the importance of integrity, the importance of being ethical … the fact is that abuses still happen, even among a profession that is supposed to be ethical, so the issue is still there, … enforcement is still required.*

Also, criticism was focused on the syllabus of the training module; a partner of a small audit firms noted:

> *I have looked at the syllabus of some of the providers of this training programme. I don't think they talk very much about accounting presentation; they are more focused on company law, fiduciary duties, extraordinary meetings and M&A* (Memorandum and Article of Association). *Perhaps issues related to accounting should be included, such as basic accounting and principles of auditor responsibility.*

In fact, to ensure that directors would gain maximum benefit from the training, the interviewees stressed that the authorities should assess the backgrounds of directors before requiring them to attend training sessions. The directors of public listed companies are persons that come from all walks of life and may have prior knowledge of the key issues, and the level of this knowledge might differ according to the background and experience of the director. On the other hand, the modules of the training course should also be grouped at certain levels such as basic, intermediate and advanced, which should be matched with the assessment made before the directors are forced to attend. Therefore, the directors could focus their time and energy on learning and understanding at an appropriate level of knowledge or focus on appropriate areas. This move could avoid 'cheating' by participants who only register for the training and attend the closing ceremony without attending the whole programme, as mentioned above.

5.0 Conclusion

Corporate governance is essential for establishing an attractive investment climate characterised by competitive companies and an efficient capital market. In this study, four Malaysian corporate governance programmes were examined. The respondents indicated that auditor independence would be safeguarded if compliance with the Financial Reporting Standards (FRS) of the Malaysian Accounting Standard Board (MASB) were legally mandated. The result might indicate that auditors would be more able to resist management pressure when there is a law mandating compliance; thus, they would be able to highlight these legal requirements to the client. Due to a lack of voluntary effort among corporate participants, the force of the law could play a significant role in ensuring that financial reporting is in accordance with the stipulated standards. The interviews revealed that Malaysian society might be more autocratic because of tradition, culture and level of education, which contribute to the lower level of voluntary action. If non-compliance were to become an offence under the relevant law, it could lead to penalty and might become an incentive for auditors to comply with standards, fearing association with litigation.

In addition, the majority of the loan officers and senior managers of public listed companies and auditors agreed that auditor independence would be safeguarded on the establishment of the MICG and this could create awareness among the directors about auditors' roles and responsibilities. Thus, the board of director would support the auditor's function and as a result, auditor independence would be safeguarded.

The majority of the respondents agreed that the establishment of the MSWG could safeguard auditor independence. The MSWG may act on behalf of the other minority shareholders and carry out shareholder activism. The interviews revealed that the establishment of the MSWG to act on behalf minority shareholders to create an environment of shareholder activism would safeguard auditor independence. It was mentioned that the Malaysian minority shareholders lack the knowledge and desire to voice their rights. The inability to question a company's management during the annual general meeting and the tendency to be influenced by the management through receiving 'door gifts', souvenirs and good food during the annual general meeting have created an urgent need for a strong body to act on their behalf. Realising the existence of the MSWG, auditors would become more aware of the need to be independent and objective without fear or favour to avoid being questioned during the annual general meeting. Perhaps they would then be better able to resist management pressure.

Finally, the majority of the auditors, loan officers and senior managers of public listed companies' respondents agreed that the implementation of mandatory director accreditation training programmes (MDATP) could further safeguard auditor independence. Perhaps, the requirement of the MDATP could refresh directors' knowledge on related areas and create awareness among them about the importance of good financial reporting and the role played by auditors. The interviews disclosed that the implementation of MDATP could create awareness among directors about their roles and responsibilities, and would hence safeguard auditor independence. The training programme is important especially to non-financial directors, or those who hold the position in a family capacity or have inherited the position from their ancestors. However, the interviews disclosed that the regulators need to overcome implementation weaknesses such as higher control on attendance of participants on each of the modules and proper logistics for the programme. Finally, it was suggested that the regulators

should make an assessment of the participant's background prior to asking them to enrol in the programme, because the level of directors' knowledge differs according to their background and experience.

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Appendix 1

Table 1: Shifts Towards a Disclosure Based Regime (DBR)		
Phase	**Timeframe**	**Focus**
One	1996-99	Flexible/hybrid merit-based regulation with enhanced disclosure, due diligence and corporate governance. Significant events: 1. Removal of the SC's control over pricing of new issues of securities. 2. Legislative changes to refine disclosure requirements and accountability.
Two	2000	Partial DBR with further emphasis on disclosure enhancement, due diligence, corporate governance as well as promotion of accountability and self-regulation. Significant events: 1. Reduced involvement of the SC in valuation of assets. 2. Removal of the SC's control over pricing for all issues of securities.
Three	2001 onwards	Full DBR with high standards of disclosure, due diligence, corporate governance and exercise of self-regulation.
Source: Securities Commission (2001, p. 73)		

Table 2 : Analysis of Responses by Respondent's Category						
Category	Total Questionnaires Issued	Usable Responses Received Pre-reminder	Usable Responses Received Post-reminder 1	Usable Responses Received Post-reminder 2	Total Usable Response	Total Usable Response Rate
	Frequency	Frequency	Frequency	Frequency	Frequency	%
Audit Firms	300	25	30	38	93	31
Financial Institutions	200	32	28	27	87	44
Public Listed Companies	300	42	16	49	107	36
Total	**800**	**99**	**74**	**114**	**287**	**36**

Table 3: Profile of Postal Survey Respondents Analysed by Category of Employment								
Auditors			**Loan Officers**			**Senior Managers**		
Status	**Number**	**%**	**Status**	**Number**	**%**	**Status**	**Number**	**%**
Audit Senior	38	41	Officer	34	39	Financial Accountant	36	34
Line Manager	43	46	Senior Manager	41	47	Senior Manager	46	43
Senior Manager	12	13	Chief Executive	12	14	Chief Executive	25	23
Total	**93**	**100**		**87**	**100**		**107**	**100**

Table 4: Analysis Showing the Period of Employment of Respondents Participating in the Interview Survey								
	Auditors		***Loan Officers***		**Senior Manager of Public Listed Companies**		**Senior Manager of Regulatory Bodies**	
Level of Experience	**Number**	**%**	**Number**	**%**	**Number**	**%**	**Number**	**%**
Under 5 years	1	8	1	6	0	0	2	29
Between 6 and 10 years	3	23	3	18	3	18	0	0
Between 11 and 15 years	5	38	5	29	6	35	4	57
Between 16 and 25 years	2	16	7	41	5	29	0	0
More than 25 years	2	15	1	6	3	18	1	14
Total	**13**	**100**	**17**	**100**	**17**	**100**	**7**	**100**

Appendix 1 (Continued)

Table 5: Analysis Showing Perceptions on Issues on Malaysian Corporate Governance Programme													
	Auditors (N=93)				Loan Officers (N=87)				Senior Managers (N=107)				Overall
Auditor independence may be safeguarded if:	**Disagree %**	**No View %**	**Agree %**	**Mean**	**Disagree %**	**No View %**	**Agree %**	**Mean**	**Disagree %**	**No View %**	**Agree %**	**Mean**	**Sig.**
Compliance with FRS is mandated by law	1	1	98	2.97	11	-	89	2.77	9	3	88	2.79	***
By establishing the MSWG	2	44	54	2.52	5	17	78	2.74	5	16	79	2.75	***
By establishing the MICG	3	78	19	2.16	2	28	70	2.68	3	39	58	2.55	***
By implementing the MDATP	1	17	82	2.81	5	6	89	2.83	8	17	75	2.66	***

Note: ***, **, * indicates that the distribution of responses is significantly different at the 1%, 5% and 10% level respectively (using the Kruskal Wallis test).
Annotations: FRS = Financial Reporting Standards; MCCG = Malaysian Code on Corporate Governance; MSWG = Malaysian Shareholders Watchdog Group; MICG = Malaysian Institute of Corporate Governance; MDATP = Mandatory Director Accreditation Programme; BMB = Bursa Malaysia Berhad.

The responses were reported on a 5-point scale ranging from 1 (strongly disagree), through 2 (disagree), 3 (no view), 4 (agree) to 5 (strongly agree). For presentational purposes these 5 points have been collapsed into disagree (scored 1), no view (scored 2) and agree (scored 3) and the reported means are calculated on this collapsed scale. However, the significance tests are based on the full 5-point distribution of responses.