

THE UNIVERSITY OF HULL

A COMPARATIVE STUDY OF ACCOUNTING SYSTEMS  
IN INDONESIA AND SINGAPORE

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By

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Summary of Thesis submitted for PhD degree

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on

A Comparative Study of Accounting Systems In Indonesia and Singapore

Accounting systems are affected by historical, political, social and economic factors. Singapore and Indonesia were chosen for this study because there is very little written about accounting in either country. Singapore was under the British for nearly 150 years and the Indonesians were ruled by the Dutch for over 350 years. Besides these different colonial influences, both countries are different economically, politically and socially.

This thesis traces the development of the accounting system, namely, corporate reporting, government accounting, capital market, accounting profession, accounting education and management accounting, in Indonesia and Singapore. It explains the influences that brought about these developments and analyses the features that distinguish the two systems.

It is very common for developing countries to adopt foreign accounting systems. In the case of ex-colonies, the tendency has been for them to follow the practices of their colonial masters and to be influenced by the latter even after independence because of their long-standing relationships. However, the degree of reform after independence varies among countries.

This study found that for Singapore, the process of adaptation and reform since independence has been dynamic, though, within the historical framework inherited from her colonial period, and there have been continued efforts to improve her accounting system to meet local requirements, and at the same time keep up with developments overseas, not only in the UK but also other developed countries such as the US, Australia, Canada and New Zealand. In the case of Indonesia, major reforms in accounting are slow and in many areas, inadequately co-ordinated. Reform to the commercial code, adopted from the Dutch in 1848 has been stagnant to the extent that it virtually remains intact. At the other extreme, the Jakarta stock exchange, which was established in 1977 with US support, adopted US accounting and reporting practices. The consequences of the lack of control and co-ordination gave rise to sub-standard accounting practices and the emergence of dualism in accounting training, education and practice. For example, the training and education of accounting technicians follow the Dutch system, whereas at the tertiary level, namely at State universities, the American-oriented approach with a heavy emphasis on financial reporting and auditing is taught.

While it is desirable for a developing country to follow and keep up-to-date with accounting practices in developed countries, the blind transplant of foreign systems will yield negative results if the questions of compatibility and the recipient country's needs are not adequately considered. In this regard, Singapore and Indonesia present two contrasting examples on how each country handled the issues of accounting development.

Finally, we have learned from this thesis the importance for developing countries to adapt and improvise accounting systems to suit their particular needs, and that purely relying on foreign assistance is inadequate to ensure the success of any national accounting development programme.



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## CHAPTER 1

### INTRODUCTION

#### I. General

Enthoven (1977) regards accounting as a measuring and reporting information system, which encompasses various sub-systems relating to the planning and control of economic events and conditions. A system is a set or arrangement of elements so interrelated or connected as to form a unity to serve a specific objective or objectives. The three branches identified by Enthoven (1977) are enterprise, government and national accounting. Accounting, according to him, covers both micro and macro economic activities. Enterprise and government accounting, including accounting for non-profit organisations, are often referred to as micro accounting, while national accounting is also referred to as macro accounting.

#### II. Purposes, Scope And Methodology

This thesis looks at the accounting systems in Indonesia and Singapore with regard to the following areas :

1. Financial reporting
2. Management accounting
3. Government accounting
4. Accounting profession
5. Accounting education and manpower
6. The capital market.

Essentially, if one is to use Enthoven's classification of accountancy, the emphasis of this thesis is micro-oriented. The purpose of this study is to :

1. Trace the development of the accounting systems in Singapore and Indonesia.
2. Identify the causes and reasons for such development.
3. Evaluate the characteristics, strengths and weaknesses of each system to understand the differences between accounting practices in Indonesia and Singapore.
4. Assess whether the implementation of foreign accounting systems is compatible with the social and economic environment of the host country.
5. Draw lessons from the study so that improvements can be suggested.

As this subject has never been studied in depth, the potential benefits are many. Besides extending academic knowledge on accounting development and practices in these two countries, this study would also be useful to other developing countries aspiring to develop their own accounting systems.

Furthermore, accounting professionals, students, lecturers and the public who are interested in the field of international accounting, especially in developing countries, will learn from this study, as little has been written about accounting in these two countries. It is hoped that this will pave the way for more research on accounting in this part of the world.

Parker (1983) gave four reasons for studying comparative accounting - the historical reason, the multinational reason, the comparative reason and the harmonisation reason.

Historically, it gives an insight into the practice and development of accounting and the extent to which the country has contributed to its development in this field. Multinational Companies (MNCs) have played an important role in world trade and the transfer of accounting technology from one country to another. Preparation of consolidated financial statements by MNCs entails that they understand the financial reporting statements of host nations and how they differ from their own practices. The comparative reason enables a country to improve its own accounting by observing how other countries have reacted and are reacting to problems. It is also possible to determine that, where accounting methods do differ, the differences are justified by differences in the economic, legal and social environment and are not merely the result of history. With the increase in world trade and the importance of regional groupings such as the European Economic Community (EEC) and Association of South East Asian Nations (ASEAN), the harmonisation of financial reporting has grown steadily in importance in recent years.

This thesis concentrates on the historical and comparative reasons to identify the influences on each country's accounting development, and, indeed, its conclusions will suggest that the harmonisation approach may well be invalidated due to historical influences.

It is very common for developing countries to adopt foreign, western accounting systems. Given the differences in the sophistication

in infrastructure, social and economic framework between countries, the comparative study between the Indonesian and Singapore experiences will throw light on whether it is practical for developing countries to adopt foreign accounting systems. If it is not, there should be long-term benefits from the continued supervision and adaptation of these systems to meet local needs. Furthermore, with so much interest being focused on the harmonisation of accounting in the international scene, this study will examine whether harmonisation is feasible and practical in the ASEAN context.

Indonesia and Singapore were selected because there is virtually nothing written in the area of accounting in these two countries. Indonesia was influenced by the Dutch, and Singapore by the British. These diverse influences, together with the different economic and social backgrounds have affected the manner in which accountancy education and practices have developed in these countries.

This study is based on literary sources and on a systematic examination of secondary sources of information. The research methodology comprises literature search, observation of accounting systems and practices, and personal interviews with accounting professionals, academicians and administrators. Personal visits were made to Indonesia and Singapore to secure research materials and information. Regular correspondence was also undertaken with government and practising accountants, academicians and administrators to keep up-to-date with accounting developments in both countries. In the case of Indonesia, where primary sources of information are few, much reliance was placed on observation and personal interviews to provide a better understanding of accounting development and systems in Indonesia.

### III. Conclusions

It is hoped that this study will give an interesting insight into accounting development in Indonesia and Singapore. This will form a framework for those interested or involved in the development of accountancy, especially in developing countries, as to what, how and when assistance can be provided to help these countries to develop accounting systems to suit their needs. It is hoped that this thesis will engender more interest in this field of research which will contribute to a better understanding of the difficulties encountered by developing countries and provide a useful reference to researchers, planners and decision makers who will have a future impact on the direction of accountancy in such countries.

## CHAPTER 2

### POLITICAL AND ECONOMIC DEVELOPMENT OF INDONESIA

#### I. Introduction



Indonesia is the largest archipelago in the world. It consists of 13,677 islands stretching 5,110 kilometres from Sumatra in the west to Irian Jaya in the east and about 1,880 kilometres from north to south.

The land area is about 2 million square kilometres, making it the tenth largest in the world and, with a population of about 170 million, it is the fifth most populous nation after China, India, the U.S.S.R. and the United States of America. There are over 360 tribal and ethnic groups. 60% of the population live in Java, which is only 7% of the country's land area, but is the richest and the most heavily populated of Indonesia's 13,677 islands.

Indonesia is richly endowed with natural resources, and is the world's largest exporter of liquid natural gas, the eighth largest oil producer, the third largest producer of tin and last, but not least, the second largest producer of natural rubber and palm oil. About 55% of the population are engaged in agriculture and most of this is based on smallholder agriculture.

## II. Political and Economic Development

The migration of Indians during the 1st to 7th centuries A.D. brought with it the Hindu religion, and Hindu kingdoms were established in South Sumatra and Java.

The introduction of the Islamic faith by Arab and Malay seafarers in the 9th century gradually extinguished the importance of Hinduism and, by the 15th century, Majapahit, the last and greatest of the Hindu-Javanese empires, succumbed to rising Muslim kingdoms. The Hindus retreated east to Bali where the remains of the Hindu faith in Indonesia are still found today.

The Chinese were the other early traders with Indonesia from as early as the 2nd century B.C.. Unlike the Indians, Arabs and Malays who spread religion and established empires, the Chinese were mainly interested in trade.

In 1511, the Portuguese were the first Europeans to control Indonesia in order to secure spices and to monopolise their supply. Under the Portuguese, a system of governing each group according to its own law was adopted. When the Portuguese power disintegrated, the control of Indonesia was briefly under Moslem rulers.



The Dutch arrived in 1596, similarly for the purpose of securing spices. To consolidate and to protect Dutch investment in Indonesia, in 1602 the Dutch established the Dutch East India Company (VOC). Besides being an economic entity, the VOC had full power to govern and exercise all rights of sovereignty over Indonesia. This tradition is reflected in many large State enterprises in Indonesia today which have the dual authority of commerce and sovereignty in their business dealings. When the VOC was formed in 1602, Indonesia, for the first time in its history of corporate law, saw the formation of a "company limited by shares" by foreign investors. As there was no strong centralised authority in Indonesia, the foreign investors were free to form entities and act according to their own law. To eliminate competition, business was to be conducted according to law determined unilaterally by the VOC so as to confer to the Dutch virtual monopolistic business rights in Indonesia, mainly to determine who the buyers were and to regulate the types and quantities of production. Deprived of political and economic participation, Indonesians confined their activities to smallholding agriculture, primarily to serve Dutch economic ambition.

In 1795, Indonesia came under French rule when Napoleon Bonaparte over-ran Holland and in 1811 Indonesia fell to the British and came under the rule of the British East India Company till 1816. After the end of the French occupation of Holland, the British and the Dutch signed a convention in London in 1814, in which it was agreed that Dutch colonial possessions existing since 1803 should be returned and, consequently, the Dutch reclaimed Indonesia from the British.

The Dutch returned to Indonesia in 1816 and stayed till 1949, when Dutch sovereignty over Indonesia was terminated with the signing of the Hague Treaty. The period of Dutch occupation was marked by the exploitation of both the people and the resources of Indonesia, and important political and economic powers were held by the Dutch.

Between 1942 and 1945, Indonesia was occupied by the Japanese. All property belonging to Europeans and Chinese was confiscated and the economy was transformed to support Japanese military ambition. After the Japanese surrender, a proclamation of independence was issued on 17 August 1945.

Although the national constitution provides for a strong executive, as in the case of the president of the United States of America, it began initially as a parliamentary democracy. The president was a mere figurehead, while the real executive power rested in the hands of a prime minister accountable to parliament. The 1950's saw cabinets fall and replaced in rapid succession, and between 1949 to 1955, there were six different cabinets. The country was torn by internal strife and the economy suffered adversely.

In 1955, the first general election held in Indonesia failed to bring about political stability. In 1958, President Sukarno declared a policy of "Guided Democracy" aimed at shifting the balance of economic power from foreign hands to national control and from private ownership to State control (Zahri, 1969). Sukarno made himself the Head of government as well as the Head of State, and those political parties which opposed the policies of the Sukarno government were disbanded.

Although the nationalisation of Dutch enterprises began after Indonesia proclaimed her independence in 1945, the actions in the late 1950's considerably extended government control to the more crucial and modern sectors of the Indonesia economy. 1963 witnessed further expansion of government ownership when several foreign enterprises -- mostly British and Malaysian-owned companies -- were nationalised as a reprisal against the formation of the Federation of Malaysia. The nationalisation of foreign enterprises resulted in an exodus of foreign personnel and Indonesia was faced with a critical shortage of well-trained administrators, and of skilled and qualified Indonesians to undertake those positions left vacant by the Europeans. The uncertain political situation and antagonism against foreigners provided a deterrence to foreign capital investment in Indonesia.

As Sukarno's power increased, his policies began to veer more and more towards the left. The political and economic mayhem provided fertile ground for the growth of the Indonesian Communist Party which was affiliated to Communist China.

On 1 October 1965, the communists launched a pre-emptive but unsuccessful coup d'etat. The army led by President Suharto (then a major-general) and backed by an overwhelming majority of Indonesia's Muslims turned against the communists in every part of the country and slaughtered them by the thousands.

Sukarno was eventually stripped of his authority and in March 1966 was forced to sign a decree transferring his power to General Suharto and outlawing the Communist Party. The People's Consultative Congress, Indonesia's highest policy-making body removed Sukarno's title of

"President for Life" and finally, in 1967, voted him out of office, and he remained out of public eye until his death in 1970. Suharto was named acting president in 1967, and in 1968, he was elected president.

The Suharto era saw efforts to encourage private foreign investment, an element of capitalism that Sukarno had officially abhorred and discouraged. Even so, Indonesia's present foreign investment policy is restrictive, as majority foreign ownership is discouraged and foreign operations are closely scrutinised.

### III. Conclusions

Despite Indonesia's abundant economic resources, life for the ordinary citizen still needs to be improved. The majority of the population are engaged in small-scale agriculture and cottage industry, and declining commodity prices have affected their livelihood. About 70% of export revenue comes from oil.

Prior to the attainment of sovereignty, foreign investments were predominantly aimed at exploiting Indonesia's natural and human resources. Deprivation of economic and political involvement during the period under the Dutch had left the Indonesians unable to cope with the demand for well-trained personnel to run industry and the country.

The nationalisation of foreign investments, the uncertain political climate and government restriction on foreign investments into Indonesia stifled the growth of the private sector as the government took control of all major industries. Economic independence from the Dutch only resulted in the government playing a dominant role

at the expense of private capital.

The average per capita income is about US\$600 per year. As in many developing countries, Indonesia faces a widening gap between the rich and the poor. Unfortunately, the company's oil wealth and new industrial development have tended to benefit the rich (FODOR's, 1987).

## CHAPTER 3

### LEGISLATIVE INFLUENCES ON CORPORATE REPORTING IN INDONESIA

#### I. Historical Background : The Basis of Indonesian Company Law

The constitutional history of Indonesia can be briefly outlined as follows :

Year	Description
1511 - 1596	The Portuguese period. Indonesia was briefly under the control of Moslem rulers when Portuguese power disintegrated.
1596 - 1796	The Dutch period.
1796 - 1811	The French period.
1811 - 1816	The British period.
1816 - 1942	Under Dutch rule again.
1942 - 1945	The Japanese Occupation.
17 August 1945	Proclamation of Independence.
1945 - 1949	The Struggle for Independence.
2 November 1949	The Hague Treaty.
27 December 1949	Transfer of sovereignty from the Dutch to Indonesia.

(Adapted from Charles Himawan, 1980)

The Portuguese arrived in 1511 and followed a system of governing each group according to its own law. Following the disintegration of Portuguese power by the end of the sixteenth century, control over Indonesia returned to the hands of the Moslem rulers.

The Dutch came in 1596, and, in 1602, to consolidate Dutch investments in Indonesia, the Netherlands East-Indies Company or Verenegigde Oost-Indische Compagnie (VOC) was formed. As a result, Indonesia, for the first time in its history of corporate law, saw the formation of a "company limited by shares" by foreign investors. Because there was no strong centralised authority in Indonesia, the foreign investors were free to form entities and act according to their own law, in spite of the fact that their intention was to exploit resources in Indonesia (Himawan, 1980).

Besides consolidating the various Dutch investments, VOC obtained monopolistic powers over trade to deter competition, and also to ensure that business was to be conducted according to laws determined unilaterally by VOC. As a further demonstration of this monopolistic self-interest, on 1 July 1602, the Dutch authority enacted an Ordinance to punish people who conducted business with any company other than the VOC. To the Indonesians, the only outlet for their products was the VOC, and as such, the VOC was at liberty to set the prices, usually as low as possible, so as to make higher profits for itself.

Initially, this monopolistic right was confined to simply determining who were to buy spices. Later, more stifling regulatory controls were exercised. These included regulating production of spices in terms of the kind of spices and the number of spice trees.

After nearly 200 years, Dutch control over Indonesia came to an end in 1795, when Napoleon Bonaparte conquered Holland. Indonesia thus came under French rule, and exploitation and corruption continued during this period. In August 1811, the British defeated the French

Governor General and took control of Indonesia.

The British introduced an investment policy entirely different from that of their predecessors. When the Portuguese, the Dutch and the French came, their policy was more or less the same. They wanted to invest in Indonesia with the sole purpose of securing as large a supply as possible of Indonesian spices and other agricultural products for export to Europe. The British had an additional purpose -that of finding a market for English textile products which were being produced cheaply and in large quantities. To ensure the smooth exchange of English textiles and Indonesian produce, money was introduced as a common medium of exchange. Land reforms were also introduced.

The British ceded Indonesia to Holland on 13 August 1814. Two years later, on 19 August 1816, the Dutch returned to Indonesia.

Anticipating more contacts among the Dutch merchants in Indonesia, either in their relationships to one another or to other Europeans, on 30 April 1848, the Dutch government made applicable the new Dutch Civil and Commercial codes to all Europeans in Indonesia. Since local private capital was minimal, the effect of introduction of these codes was to protect Dutch interests as the foreign investments were predominantly Dutch. Indonesia thus had its first Commercial Code in 1848, and it still applies to this day. Article II of the transitional provisions of the Constitution of the Republic of Indonesia states that all existing governmental institutions and laws at the time of Independence shall remain in force until new ones have been instituted.

Following the Napoleonic invasion, the French Commercial Code of 1808 was enacted in 1811 in the Netherlands. The reform of the code,



which led to the new Commercial Code of 1838 and the Civil Code of the same year, maintained the law of the Netherlands along the traditional lines of French law. The Indonesia Commercial Code of 1848 was fashioned closely on the Dutch 1838 Code. Even the new Commercial Code introduced for the Netherlands on 1 October 1938, was principally based on the French code. Thus, the Commercial Code of Indonesia, with its amendments of 1938, contains elements of French and Dutch Commercial Law (Sudargo Gautama, 1968).

The Japanese attacked and occupied Indonesia in March 1942, prompted by Dutch discrimination against the import of Japanese goods. In an anti-western drive, the properties of all Europeans (and the Chinese) were confiscated.

Economic activity was orientated to support Japanese war efforts in the Asia Pacific region. However, the Dutch laws were not abolished.

The Japanese, in contrast to the Dutch, gave the Indonesians military training as part of her efforts to defend Indonesia from the Allied forces. The Pembela Tanah Air (PETA) which stood for "Defenders of the Motherland" was established in 1943. It was disbanded in March 1944, but it became a major force when Indonesia proclaimed her Independence on 17 August 1945, following the surrender of the Japanese.

Despite the Proclamation of Independence, the Dutch were reluctant to cede the territory so easily and refused to recognise the Proclamation. Under the auspices of the United Nations in 1949,

Holland was under pressure to terminate military hostilities against Indonesia. On 2 November 1949, a treaty was concluded in the Hague (The Round Table Conference) between Indonesia and Holland which resulted in the transfer of sovereignty to Indonesia on 27 December 1949.

Although Indonesian company law is based on the Dutch system, it has not kept up with subsequent changes in the Dutch Commercial Code. Consequently, many amendments, supplements and changes made in the Netherlands, in particular those in respect of the limited liability company from 1928 onwards, have never been incorporated into the Indonesian Commercial Code. Despite this, most of these Dutch provisions have become common practice in Indonesia. Notaries public commonly insert Dutch provisions into the memorandum of association or articles of association of a limited liability company. Thus, the rules governing the limited liability company in Indonesia are not all based on formal law. However, the agreements inserted into these articles of incorporation by the notary public are binding and have the effect of law.

In Indonesia, a corporation limited by shares, or Perseroan Terbatas (P.T.) is regulated by the Commercial Code (State Gazette 1847-23) (Sunaryati Hartono, 1984), and the formation of a corporation is still governed by the Commercial Codes of 1848 (as amended). There are only 22 Articles regulating the establishment, operations and dissolution of a corporation. When the Foreign Investment Law of 1967, which permits foreign investments into Indonesia, was enacted, the government took the initiative of setting up a special committee to draft a new law on corporations. The committee completed its work in

1976, but since then the government has not come up with any proposals.

The P.T. is formed by a notarial instrument, which is a prerequisite for the existence of the company and consists of the memorandum and articles of association. It sets out the company's name, objects, duration, location, rules of management, relations with third parties and the rights and duties of the members. The notarial instrument is submitted to the Ministry of Justice for approval. The company's business is managed by the directors. Until 29 March, 1971, no member, whatever his shareholding, could have more than six votes. The amendments made in 1971 have removed this restriction, so that each share carries one vote. Decisions are made by a majority, which can change the articles if it expressly decides to do so.

Once a year, the executive directors must report to the shareholders on the management of the company and deliver the company's accounts. The board of directors is governed by the board of supervisory directors, who advise the board and give consent and authority, if and as required by the instrument of the corporation.

## II. Books and Records

Sections 6-12 of the Commercial Code deal with the requirements of book-keeping. Section 6 of the Code requires anyone carrying on a business in Indonesia to keep records in such a manner that, at any time, the rights and obligations of the person may be determined, but he is free to choose his own system of book-keeping. An exhaustive and

thorough book-keeping system is not necessary, but it should be in accordance with the requirements of the merchant's enterprise. A small business firm can set up a simple set of books, but for a big corporation engaged in world commerce, more complete and detailed books are required. The rights of third parties must be safeguarded (S.Gautama, 1968).

In addition to the obligation to keep records, the entrepreneur is obliged to draw up a balance sheet within six months of the end of the financial year. The balance sheet is to be signed by the entrepreneur. There is no statutory requirement to register financial statements in Indonesia and the Commercial Code contains no further details about the balance sheet. The balance sheet is merely required to be drawn up in accordance with the requirements of the business. It is therefore left to usage and custom to determine the format of the balance sheet.

Many large businesses are requested by the Tax authorities to forward financial statements when filing their returns. In addition, foreign investors are required to file annual financial statements with Bank Indonesia and the government department under whose jurisdiction they fall (Price Waterhouse, 1981). The close scrutiny of foreign corporations in Indonesia perhaps reflects the bad experience Indonesia had under the Dutch.

The books and balance sheets must be retained for thirty years. Copies of correspondence must be retained for ten years.

Although statutory requirements regarding the keeping of records, preparation of financial statements and retention of records, exist, few small businesses in Indonesia comply with them. No sanctions are

imposed under normal circumstances. However, in the case of bankruptcy, failure to keep proper records could constitute a criminal offence (Price Waterhouse, 1981). Furthermore, under Articles 396 and 397 of the Penal Code, it is a criminal offence if false or misleading records result in harmful consequences to a third party.

### III. Access to Records

Section 8 permits the judge to order any party to a lawsuit to open his books. Generally, records kept are of a secret nature. The judge can intervene in this secrecy if he deems it necessary to do so. The books may be inspected and extracts may be taken.

A party to a lawsuit may also propose to the judge that his books be inspected. It is up to the judge to accept or reject the offer.

Section 12 allows records to be inspected by "communication". This is done without a judge's intervention; anyone having an interest in the books kept by another party may request that he be allowed to look into these books. These persons are heirs, partners in a partnership, appointees of buying agents or administrators and managers. In a case of bankruptcy, "communication" may also be requested.

From 1952 onwards, books for taxation purposes should preferably be maintained in the Indonesian language with the use of Latin characters and customary Arabic numerals. Prior to that date, books could be kept in other languages, such as Dutch or English. Books written in Chinese or Arabic characters were not allowed, although

these two groups of people formed the majority of merchants in Indonesia (S.Gautama et.al., 1968).

#### IV. Audit of Financial Statements

The following business entities are required to have a statutory audit:

1. Companies listed on the stock exchange.
2. Foreign banks.
3. Underwriters and stockbrokers.

Other government departments also request audited financial statements, particularly from foreign companies that operate in activities that are under their jurisdiction. As a result of the above requirements, it is generally necessary for foreign investors in Indonesia to have their financial records audited (Price Waterhouse, 1981).

#### V. Taxation and Corporate Reporting

Decision No. 52/1976 by the President established the first stock exchange in Indonesia in 1977. In addition to defining the organisational framework of the stock exchange, the Presidential Decree sought to encourage companies to list their shares on the exchange by conferring tax incentives. For example, companies seeking listing are allowed to revalue their fixed assets and the revaluation surplus is exempted from corporate tax. The increase in nominal value of the share capital attributable to the revaluation surplus is exempted from capital stamp duty. Article 25 of the Decree confers tax reliefs to

purchasers of shares on dividends, royalties and capital gains. To encourage greater participation in the exchange, this article grants amnesty to shareholders from investigation by the authority as to the origins of the purchase money if the amount is within a certain limit.

On 27 March 1979, the President issued Instruction No. 6/1979 (Appendix 3-I) which enhanced the status of public accountants. In the instruction, which is known as the March 27 parcel, the government tried to increase its tax revenues by offering incentives to corporations. However, to be entitled to these incentives, corporations had to have their financial statements audited by public accountants. Article 3(3) of the Decree stipulated that the financial statements must be prepared in accordance with the generally accepted accounting principles (GAAP) applicable to Indonesia which, in essence, are the GAAP issued by the Indonesian Accountants Institute (IAI) in 1973. To be acceptable for the preferential tax rate by the tax authority, the audited financial statements had to have a clean audit opinion (Article 3[4]).

To implement the President's instruction, the Ministry of Finance issued Decree No.108/1979 (Appendix 3-II). This expanded the provision of Article 3(4) of the Presidential Decree No.6/1979 by allowing audited financial statements with qualified audit opinions to be submitted for consideration for tax relief if the company was able to quantify the effect of the audit qualification on the profit and loss account (Article 3(26)). The tax authority is also entitled to make any adjustments to the amount submitted in respect of qualified financial statements if necessary. To ensure a high standard of professional conduct in the audit, Article 6 imposed sanctions on

public accountants who breached the auditing standards and Code of Ethics stipulated by the IAI, and on those who produced incorrect, misleading and false information or concealed information from the tax authority. Those found guilty could have their practising licence suspended either temporarily or permanently. The Decree stipulated general guidelines as to the form and content of the financial statements.

The comparative tax rates for companies with and without audited financial statements were as follows :

**TAX RATE OF COMPANY WITH AND WITHOUT AUDITED FINANCIAL STATEMENTS**

TAXABLE PROFIT		TAX RATE
WITHOUT AUDIT	AUDIT	
0 - 25 million Rp	0 - 100 million Rp	20%
25 - 50 million Rp	100 - 250 million Rp	30%
From 50 million Rp	From 250 million Rp	45%

(Source : Sapiie, 1980)

This Decree gave prominence to the auditing profession and was viewed by the profession as the most significant piece of legislation in its history. Other legislation, such as the requirements for an audit and the publication of financial statements by listed companies imposed costs on companies. However, this Decree literally gave



financial benefits in the form of tax rebates to companies. Nevertheless, the Decree was repealed in January 1984 because the tax concession was not widely used. On 17 January 1980, at a meeting of 300 public accountants, tax consultants and entrepreneurs, the Tax Director General stated that, on average, only three-and-a-half per cent of companies took advantage of the concession. This was because companies preferred to negotiate their tax liabilities rather than take advantage of the rebates available (Sapiie, 1980).

In January 1979, as a further encouragement to companies to publish financial statements for submission to the tax authority, the Minister of Finance issued Decree No.109/KMK 04/1979 (Appendix 3-III). This allowed companies to revalue their fixed assets.

The revaluation surplus or deficit is to be recorded as "Difference in fixed assets revaluation" and is not taxable. Depreciation on the revalued assets is calculated as follows :

1. For assets with a useful life of ten years or less, the Decree allows the assets to be depreciated over their existing useful lives plus an additional three years. Where the extended useful life exceeds ten years, ten years will be used as the basis for depreciation.
2. For fixed assets with a useful life of more than ten years, depreciation will be based on the following :
  - A. If the existing remaining useful life is more than five years, the depreciation will be based on the remaining useful life.
  - B. If the remaining useful life is less than five years, the depreciation will be based on five years.

However, to be entitled to the above benefits, the management of the company must fulfil, inter alia, the following obligations and requirements :

1. Submit a written statement to inform the Tax Inspection Authority that from 1979 onwards, the company will keep proper records as required by Article 13 of Companies Income Tax Act, 1925, and undertake to report all its assets, operations and net income in the year 1979 and in future tax returns.
2. Submit the balance sheets and income statements of 1978 and the two preceding years, if that has not been done.
3. Submit an adjusted balance sheet as at 1 January 1979 with explanations on the derivation of the revalued amounts. The Decree also sets out guidelines on how the revalued accounts should be computed.

Because the Commercial Code is grossly out-of-date, instead of implementing immediate reform, the government has resorted to using fiscal incentives to encourage companies to prepare financial statements. These Decrees were not mandatory, and therefore, were applicable only to companies seeking to take advantage of the tax concession.

Most Indonesian companies are family-owned and corporate information is usually a well-guarded secret, since the publication of financial statements will reflect the family's financial wealth and business operations. Preservation of financial information is therefore akin to preservation of the family's affairs. It is this traditional belief and practice that has had adverse consequences on the development of corporate reporting and the capital market in

Indonesia. Fiscal measures, amongst others, will not be effective unless companies accept their responsibility to be good corporate citizens.

In 1983, the government enacted a new income tax legislation which introduced a "self-assessment" income tax system. Previously, a taxpayer was held liable if he did not pay the taxes which the government assessed on him, or if he falsified information in connection with that assessment. Therefore, an individual was unlikely to be liable simply because the government had failed to make an assessment. The new legislation makes taxpayers responsible for their own assessments. Penalties will be imposed if a person or corporation earns income which is subject to taxation, but that tax remained unpaid because the government did not know of it and the taxpayer took no steps toward making his own assessment and payment. The impact of this legislation was that the Directorate General of Taxation handled twice the number of taxpayers as compared to before the legislation came into force.

## VI. Uniqueness of the Indonesian System

In most developed western countries, the law plays an important role in the development of and influences on corporate reporting practices. Former British colonies, such as Canada, New Zealand, Australia, Singapore and Malaysia, to name a few, adopted the English legal framework. A clear trend, shown by these ex-colonies on gaining independence, is a tendency to tailor the law to adapt to local circumstances and needs. The absence of the British allowed the law to

be given a more local and nationalistic flavour.

Indonesia, previously a Dutch Colony, provides a unique contrast to the British ex-colonies. Dutch influence was so strong that even up to this day, the Commercial and Civil Codes have remained virtually unchanged. These Codes are about 140 years old and were adopted to protect the investments of the Dutch, who have since left the country on her Independence.

Having being exploited and suppressed by the Dutch for more than 350 years, all foreign investments were viewed with scepticism. On 2 November 1949, at the Hague Treaty, the Dutch government and the Indonesian government formally agreed to transfer sovereignty to the Indonesian government. One of the bases of the treaty was to recognise and restore the rights of foreign companies operating in plantation, mining, industry and trading. However, on 3 May 1956, Indonesia unilaterally abrogated the Hague Treaty. At the end of 1957, Dutch companies in Indonesia began to be nationalised. By the early 1960s, British and Malaysian companies were also nationalised. Just before the aborted communist coup of 1965, American properties were also seized. All economic development through multinational corporations ceased to exist. This was in contrast to Singapore, a former British colony, whereby British and other foreign corporations' sovereignties were still left intact after she gained Independence. It was not until 1967 when the President promulgated the Foreign Capital Investment Law (or Law No./1967), that foreign investments were allowed into Indonesia (Himawan, 1980).

According to Enthoven (1977), in 1970, there were approximately

2,700 large companies, 15,300 medium-sized and several hundred thousand small establishments in Indonesia. In 1986, the situation had not changed very much, in that large companies still made up a small proportion of companies in Indonesia. There were about 23,000 companies incorporated under limited liability by shares. More than 90% of businesses in Indonesia were sole-proprietorships and partnerships. Being an agrarian economy, her manufacturing sector is weak and is dominated by a few industries, such as food processing, textile, rubber processing, metal, oil and petrochemicals. Since the 1970s, Indonesian economy has been very dependent on revenue from oil, which accounts for about 70% of total national revenue.

The direct- or quasi-government management and control over many of the Indonesian large companies shifts the significance of the Commercial Code. Since the government owns and manages these companies, the government, therefore, merely has to account to itself. Any guidelines instituted may be made without reference to the Commercial Code, which exists to protect the shareholders. In this case, it is irrelevant because the government also owns the company.

Most small and medium-sized businesses are either sole proprietorships or partnerships, where the ownership and control is restricted to a few persons. The Commercial Code thus has little relevance to these organisations.

Indonesia's Commercial Code is grossly out-of-date. The experiences of UK and USA have been that companies law usually develops with the growth of the capital market. This is to provide protection for investors and the shareholders. As such, one of the possible

reasons for the lack of impetus to reform the Commercial Code may, perhaps, be the passive nature of the Indonesian stock exchange. The exchange has 24 listed companies and is the least active capital market in the world (see chapter on the capital market in Indonesia). Major reforms have begun, but it will be some time before they are enacted as law. For example, foreign joint-ventures must sell a minimum of 60 per cent of their stocks to Indonesian citizens after operating in Indonesia for more than ten years. To provide incentives for more foreign companies to apply for stock exchange listing, foreign joint-ventures would be treated in the same way as a domestic unit if it has issued at least 51 per cent of its shares through the stock exchange (The Straits Times, 8 July 1986).

One particular section of the out-of-date Commercial Code that has stirred up a lot of controversy, as a result of the devaluation of the rupiah currency in September 1986, is Article 47. To protect shareholders and creditors of companies, Article 47 stipulated that when the statutory capital has decreased to 50%, the directors should report to the Registrar's Office of the District Court and make an announcement in the official gazette. If the loss amounts to 75% or more, the company is automatically dissolved and the directors are not allowed to transact business using the limited liability company or P.T. If they do, the liabilities will be fully borne by the directors. Such a provision is not found in the Dutch Law. Even up to now, the interpretation of statutory capital is not clear. Some say it is paid-up capital while others maintain that it refers to authorised capital.

When the Indonesian government devalued the rupiah in September 1986 by more than 30%, the impact was particularly adverse for companies

with large foreign translation exposures, and the foreign translation losses in some cases resulted in the company's losses exceeding the 75% threshold. These companies were automatically dissolved under the law. This raised a lot of disquiet among the business community. Moreover, the directors would lose the limited liability cover for future transactions.

The Ministry of Finance received appeals from companies to allow these foreign exchange losses to be deferred and finally acceded to the request.

It is thus clear that the 1848 Commercial Code is not compatible with the modern business environment and may have several unfavourable consequences, for with international trade conducted in currency rather than by barter, as foreign exchange fluctuations have become a normal risk.

Insofar as legislative influence on corporate reporting is concerned, it plays a negligible role as it is out-of-date and foreign in nature. It will continue to be insignificant until major reforms are implemented.

## VII. Conclusions

Companies with liability limited by shares in Indonesia are required to produce financial statements under the Commercial Code, but the only statement required by the law is the balance sheet. The Code does not stipulate the form and content of the balance sheet, and companies can present it in any manner and form.

If a company is not one listed on the stock exchange, a foreign bank, a company wishing to obtain tax reliefs and incentives, or an underwriter or stockbroker, then no statutory audit is necessary. However, foreign companies need to have their financial statements audited as required by the relevant government departments.

Even those companies which must prepare financial statements or be audited, as the case may be, need not submit them to a central authority, e.g. the Registrar of Companies as in Singapore. The essence of control is absent. Given the liberty to present the financial statements in any manner they wish, there is no incentive to produce timely and accurate accounts. Many small businesses do not, as a matter of practice, bother to keep proper books and records let alone produce annual financial statements.

The dormant securities industry in Indonesia provides no impetus for a rigorous companies law. This is made worse by the old practice of legal pluralism, which has not been removed from the constitution since Independence. It is difficult to envisage Commercial Code (being western in nature) living in harmony with the adat law or customary law (which the majority of the population is governed by).



Although the tax authority requires financial statements, tax assessment is usually conducted on the basis of negotiation. The outcome of the tax assessment is usually determined by the skill and influence of the negotiator, rather than being based strictly on the financial statements, for in the absence of a statutory audit these may well be meaningless.

The Commercial Code provides no guidance as to the form or content of the balance sheet and other statements, such as profit and loss account and statement of changes in financial position, are not required by the Code. Although preparation of financial statements is mandatory for a company with liability limited by shares, the absence of a central authority to ensure compliance and of a requirement to submit the accounts for scrutiny has lessened legislative influence on corporate reporting. The Commercial Code, being out-of-date, has no practical relevance to the modern business environment. The reform which has been going on for quite a while has not come up with anything concrete yet, and it would appear that it may be some time before it is enacted, because of apathy and bureaucracy.

## CHAPTER 4

### ACCOUNTING EDUCATION AND MANPOWER REQUIREMENTS IN INDONESIA

#### I. Historical Background

Book-keeping was first taught in Indonesia in high schools and commercial schools, but enrolment was usually limited to students of privileged status, such as the children of wealthy businessmen. Private tutoring was also given by Dutch staff from the Tax Office, the Audit Office, or the Treasury. The materials used were Dutch and each tutor set his own examination and gave his own certificate.

The number of book-keepers produced by the schools was inadequate, and in 1925, this prompted the establishment of the Trade Teachers Association or Union of Trade/Commerce Education (Bond Van Vereniging Voor Handel Onderwijs, which conducted book-keeping courses classified as Bond A and Bond B - equivalent to basic and intermediate accounting respectively. The Bond conducted a uniform examination and issued its own certificate (Abdoelkadir, 1982).

The Bond A certificate holders were trained for work in small trading companies, while holders of Bond B certificates tended to work in large trading companies with branches. Demand for the holders of these qualifications was high, for they were highly regarded by the business community (Sembiring, 1984).

In March 1942, the Japanese captured Indonesia and imprisoned the Dutch. This resulted in a large demand for personnel to fill the positions in the Ministry of Finance previously held by the Dutch. The Japanese offered four different courses to train Indonesians to take up

these posts. These were (Abdoelkadir, 1982) :

1. Course A for the post of Assistant Inspector for the Ministry of Finance. Applicants had to be lawyers and had to undergo six months of training.
2. Course B, which was initially divided into Course B-1 for Tax Controllers and Course B-2 for Tax officers. The courses were later merged into one single course. Applicants had to be high school graduates, and the training lasted one year.
3. Course C for Assistant-Accountant posts. Applicants had to be high school graduates and the training period was three years. The qualification conferred upon successful candidates was equivalent to a Bachelor of Arts Degree.
4. Course D for the position of Book-keeper. Applicants had to be graduates from Middlebare Handelschool. The training lasted one year. The certificate was equivalent to Bond B.

However, due to financial problems and the urgent need for personnel to administer the Ministry of Finance, the courses were terminated by the Japanese in 1943. Those who were pursuing Course C and Course D were allowed to sit for a common examination in 1944 which was equivalent to Bond B.

The Dutch returned to Indonesia after the Japanese surrendered in 1945, and continued with the educational system of book-keeping as before the Japanese Occupation, namely, the Bond A and Bond B courses.

In 1948, the Moderne Bedrijft Administrative (MBA) certificate, which was equivalent to a similar certificate in the Netherlands, was introduced. This was primarily a book-keeping certificate to equip graduates for executive positions. The course was different from the Bond A and Bond B, which were intended to train people in book-keeping techniques rather than educate them in the principles of accounting, and included cost accounting and advanced accounting. The Bond A, Bond B and the 'MBA' book-keeping certificates followed the Dutch system (Hadibroto, 1971). Initially the MBA was taught by Stichting Moderne Bedryfsadministratie or the Business Education Foundation, a private institution. The courses were later entitled Administrasi Perusahaan Modernen (APM) and handled by the Ministry of Education (Enthoven, 1974).

As far as professional accountants were concerned, it was not possible for Indonesians to qualify as such unless they studied in the Netherlands and became members of the Netherlands Institute of Accountants. In 1954, however, law number 34/1954 made it possible for Indonesians to become registered accountants by means of study in their own country. Under this law a person could become a registered accountant by obtaining a Masters Degree in Accounting from a State university or from an accredited private university. Those with a Masters Degree from an uncredited institution must also pass an examination organised by an expert Committee, appointed by the Ministry of Education and Culture. Persons with these qualifications would be required to register with the Directorate of State Accountancy in the Ministry of Finance. Before he would be allowed to set up a public accounting firm, a qualified person must have worked for the government

for a period of a least three years. This was laid down by Act number 8/1961, the objective of which was to ensure that the government was able to meet some of its staffing needs in the field of accountancy.

In 1952, the University of Indonesia became the first tertiary institution to offer an accounting course. Students were enrolled in the Economics Faculty and in 1957 the first batch of four Indonesian accountants was produced. State universities outside Jakarta later offered an accounting course, namely Universitas Pajajaran in Bandung (1961), Universitas Sumatera Utara in Medan (1962), Universitas Airlangga in Surabaya (1962), Universitas Gadjah Mada in Yogyakarta (1964) and Universitas Brawijaya in Malang (1977). Accounting in Indonesia is taught within the Faculty of Economics, where specialisation in accountancy occurs after the second or third year of a five-year master's (Sarjana) programme. The Sarjana Muda (bachelor's degree) and the full Sarjana programmes cover a period of three and two years of study respectively. Upon completion of the Sarjana programme, the graduates are awarded a Doctorandus degree and are eligible for registration as accountants after completing three years of employment in government service.

In addition, the Ministry of Finance provides accounting education to train accountants to serve the government. In 1957, it established Sekolah Tinggi Ilmu Keuangan Negara (STIKN), which later became the Institut Ilmu Keuangan (IIK), and is now called Sekolah Tinggi Akuntansi Negara (STAN).

Up to 1975, STAN and its predecessor bodies awarded both professional diplomas and academic degrees. However, a 1972 Presidential Decree required that every educational institution with the same characteristics as universities, and conferring a degree course, must be under the supervision of the Ministry of Education and Culture. Given the grave shortage of accountants, the Ministry of Education and Culture granted the Ministry of Finance permission for STAN to continue to conduct accounting courses, but did not permit STAN to award academic degrees, only a Diploma with specialisation in accounting.

The courses are carried out at two levels : Diploma III consisting of six semesters of study, to become an adjunct accountant; and Diploma IV, with four additional semesters of study plus a thesis, for the level of professional accountant, which permits the holder to practise as a "Registered Accountant" in public practice. Normally, those who have at least two years' experience as adjunct accountants are given the opportunity to study Diploma IV. The two years' experience is considered part of the educational programme.

Students who successfully pass the initial selection examination must sign a contract which states that they:

1. Will complete the study for Diploma III in six semesters.
2. Must be evaluated every two semesters and if they do not meet the requirements, they will be expelled.
3. Will work for the government for 15 years, anywhere in Indonesia, after completing the Diploma III programme.

4. Will make a US\$10,000 equivalent payment to the government if the working period cannot be met.
5. Will be appointed as civil servant after successful completion of two semesters of study and will have equal rights with other civil servants (C.A. Prentice, 1986).

Some private universities also offer accounting courses, but their qualifications are not recognised by Law 34 of 1954. Those who wish to become accountants are required by Law 34/1954 to pass examinations set by the Committee of Experts, whose members are nominated by the Minister of Education, Teaching and Culture (Article 3, Law 34/1954).

The vast majority of registered accountants in Indonesia are taught at one of the State universities. Although the private universities had produced 2,536 graduates at the bachelor level by 1978, only 12 of their graduates had reached the Sarjana level, suggesting that very few of them had passed the examinations set by the Committee of Experts. Up to 1978 the State universities plus STAN had produced 1,763 students at the Masters level. The dominance of the public sector in Indonesia is indicated by the fact that 642 of these had graduated from STAN.

The nationalisation of Dutch companies in 1957 resulted in the departure of the Dutch, leaving Indonesia with the problem of finding adequate manpower to fill up positions of a managerial, technical and academic nature. Indonesians had been deprived of such training and experience during the colonial days and only a handful were trained after Independence. In the Accounting Directorate Office, there were only eight accountants (and this included the first batch of four

graduates from the University of Indonesia), when the actual requirement was 1,200 (Sapiie, 1980).

The main impact on accounting education in Indonesia due to the departure of the Dutch was the gradual replacement of Dutch influence by American. With the assistance of the Ford Foundation, the University of California (Berkeley) provided teaching staff on a five year contract to the University of Indonesia and at the same time provided opportunities for Indonesians to study in the USA. The other university helped by the Ford Foundation was Gadjah Mada, which was affiliated to the University of Wisconsin. From then on, the American influence began to gain momentum, though the Dutch influence did not completely disappear and Dutch textbooks and curricula are still being used in some universities and other institutions. Enthoven (1974) observed that even in the so-called American-oriented universities, teaching materials and courses were often based on old US concepts, with a strong emphasis on financial accounting and auditing, but inadequate attention to other areas.

Under the Dutch system of accounting training, the emphasis was more on general and business economics, using out-of-date translated Dutch textbooks. The Universities of Airlangga and Pajajaran followed the Dutch approach up to 1977, when the Consortium of Economics Sciences (CES) was formed and introduced a common educational system for all universities, based largely upon the American approach.

Accounting became a very popular course of study. For example, in the first two decades of the Faculty of Economics at the University of Gadjah Mada (1955 to 1974), a total of 2,024 Sarjana degrees (Doctorandus or graduate degrees) were awarded, with 28% in economics,



61% in business administration, 7% in agriculture economics, and 4% in accounting. However, by 1974, a radical shift in enrolment within the faculty had taken place, with 41% of students (graduate and undergraduate) in accounting, 29% in business administration, and 15% in general economics. At the undergraduate level, the shift was even more striking. In 1974, 44% of all undergraduates were enrolled in accounting, 26% in business administration, 6% in general economics and 1% in government economics. The remaining 23% of the undergraduates were first year students. At the University of Indonesia's Faculty of Economics in 1974, the majority of all students, (graduate and undergraduate) were enrolled in accounting and business administration, with less than one quarter in general and government economics.

Unfortunately, the institutional structure was unable to cope with the demand because of acute staff deficiencies. At the Economics Faculty at the University of Gadjah Mada the student/faculty ratio in accounting was 85:1, in agricultural economics it was 6:1, and 28:1 in general economics in 1974.

## II. The World Bank Seventh Educational Project

During the 1970s, there was much concern expressed in official circles in Indonesia regarding the shortage of well-trained accountants. A great deal of assistance was provided by several agencies, including the Ford Foundation, the UK Overseas Development Administration and USAID.

However, the main overseas agency that has contributed to the development of accounting education in Indonesia has been the World Bank.

The World Bank had previously lent about US\$95.4 million to finance educational projects in Indonesia. These projects focused mainly on primary, secondary and non-formal training. The first two projects (Credits 219-IND and 288-IND) concentrated on meeting specific manpower requirements: the first introduced the concept of centralised workshop training for higher secondary technical students, and the second project was designed to achieve expansion and improvement in quality in the training of middle level agricultural manpower. The objective of the third and fifth projects (Credit 387-IND and Loan 1433-IND), was to raise the quality of primary education through provision of textbooks and teacher training. The fourth project (Loan 1237-IND), was intended to meet manpower requirements through vocational/technical training (formal and non-formal) and public administration training. The sixth project was designed to create new educational opportunities for out-of-school youths and illiterate adults.

The impetus for the seventh project came from the President of Indonesia, who saw the need to narrow the gap between the supply and demand of accountants and other technical experts to provide the necessary manpower for economic development.

In accordance with the President's instructions, the Directorate General of Higher Education of the Department of Education and Culture submitted a project proposal to the World Bank in the fall of 1977 for

the financing of polytechnic and accountancy education in Indonesia. The project proposal was prepared by two Indonesian government working parties, assisted by a mission from UNESCO which consisted of J. Auerhan (Leader, Economist), A. Enthoven (Specialist in accounting training), B. Kimmins (Architect) and J. Trives (Technical Educator).

The project proposal, entitled "Diploma Level Technician and Accountancy Training" consisted of three components. Project A was to develop technician and engineering education and training. Project B was to develop accountancy education and training. Project C covered associated studies which included surveys of the supply and demand for high level technical manpower, accountancy manpower needs, management education and development and a long-range national plan for higher education. The project proposal (1977) identified the main problems faced in the field of accountancy as:

1. The lack of accountancy departments at the universities in Indonesia capable of producing a large number of qualified accountants.
2. The non-availability of competent teaching staff - both in quantity and quality.
3. Deficiencies in the structural set-up of educational institutions e.g. course requirements and programme patterns.
4. The absence of a development plan for accountancy based on existing and projected demands for accountants.
5. The lack of co-ordination between educational and training institutions and practical accountants, in order to gear training to the specific requirements of society.

More specific problems were identified in the World Bank Report on the Project (1978).

1. The accounting degree programme concentrated on financial accounting and auditing and offered little scope for specialisation.
2. There were inadequate local cases, texts, seminars and workshops for teaching purposes. Furthermore, books and periodicals were insufficient and few current materials had been translated into Bahasa Indonesia.
3. Staff needed to be upgraded, for many lacked specialised knowledge and had limited experience in the practical application of accounting methods.
4. Student contact hours and guidance were minimal because most teaching staff held other posts elsewhere. Due to low remuneration, it was difficult to find teaching assistants.
5. There was poor co-ordination between courses and inadequate administrative control over staff.
6. At the technician level, accountancy training was carried out mainly by private institutions and post secondary schools. The quality of training was poor, as teaching staff, materials and facilities were inadequate, and there was a lack of co-ordination and standardisation.
7. The government book-keeping system was still the single-entry system inherited from the colonial administration and was not appropriate for modern public administration and control.

To overcome these problems, the Project Proposal suggested that the following should be done:

1. Prepare a comprehensive survey and projection of accountancy manpower demand and supply. The survey would explore the various fields of accountancy to identify the functions and types of accountants.
2. Establish an Accountancy Advisory Council to direct accountancy development, education and practice.
3. Enlarge existing, and establish new, accountancy departments at specified universities in order to increase the capacity for producing qualified accountants by 25-30%.
4. Set up Accountancy Development Centres (ADCs) at specified universities to upgrade instructors, and to perform a variety of related developmental, training and research activities.
5. Expand the training and research capabilities of the Ministry of Finance's State School for Government Auditors (STAN) to cater for government requirements and to provide an excess for the private sector in future years.

Activities to implement these proposals were to be initially concentrated at four Accounting Development Centres located at the Universities of Indonesia, Gadjah Mada, and North Sumatra, and also at STAN.

On accounting staff development, the project provided for 72 man-months of short-term overseas fellowships for ADC instructors to develop courses and materials to upgrade accountancy training, and four PhD and eight Masters level fellowships for ADC staff between 1979 to 1982. In addition, research grants would be awarded to four professors of accountancy to improve their qualifications as teachers and

researchers, and to undertake research projects to support the ADC development efforts.

Furthermore, training programmes to upgrade accounting teachers and practising accountants at all levels were to be set up. At the university ADCs, courses for academic instructors and practising accountants would initially focus on accounting systems, data processing, operational auditing and management accounting. Training for book-keeping teachers would begin with elementary accounting and upgrading in basic book-keeping methods. At the ADC in STAN, emphasis would be on management auditing and accounting, financial accounting, government and budget accounting, data processing and information systems, and national accounting. The project would provide financing for the training programmes, including the cost of transportation and subsistence for participants.

Teaching materials development would include the translation or writing of standard textbooks, the preparation of Indonesian case studies and the development of course materials. Four research projects would be implemented under the project. The projects would be practice-oriented and the possible topics suggested by the World Bank Report (1978) were : uniform book-keeping systems for small businesses, uniform accounting systems for plantations, Indonesian standards of auditing and financial reporting.

Finally, accounting departments would be set up at various State and private universities with the support of existing departments at the State universities.

In 1977 the Consortium of Economic Sciences (CES) was established to assist the Director General of Higher Education to develop a programme to accelerate and at the same time, to improve the quality of accounting education.

In 1979, CES implemented a "10 year accounting development programme". Initially the programme was intended for accounting education at the university level and included a standard curriculum based on the American system. This had the effect of unifying accounting teaching at the university level, and from 1979 all State universities adopted the American system. However, with financial assistance from the World Bank through its "Seventh Education Project (CR869 IND)", the ten year development programme was extended to include other institutions.

The development programme as funded by the World Bank consists of the following sub-programmes.

1. Opening of new accounting departments at other State universities to increase the production of qualified accountants.

In this connection, the CES, in co-operation with the "Committee of Experts" (Panitya Ahli), set up a special programme whereby accredited accounting departments from State universities, such as the Universities of Indonesia, Gadjah Mada and North Sumatra, would assist other State universities to establish their own accounting departments.

The University of Indonesia through this scheme is linked to the University of Briwijaya (Malang) and the University of Andalas (Padang). The University Hosanuddin (Ujung Pandang) and the University of Diponegoro (Semarang) are associated with the University of Gadjah Mada, while the University of Syah Kuala (Banda Aceh) and the University of Riau (Pekan Baru) are affiliated to the University of North Sumatra.

Because of the shortage of staff and resources within the State universities, the programme has not made significant progress, although it is expected to include other State universities in due course.

2. Establish of New Accounting Development Centres at Major Universities.

There are four ADCs: at the Universities of Indonesia, Gadjah Mada, and North Sumatra and at STAN, the government accounting centre. Technical assistance was to come from foreign academic personnel skilled in various fields of accountancy. According to Sembiring (1984) each centre would provide training to upgrade accountancy instructors and practising accountants, develop courses and teaching materials relevant to Indonesia's public and private sector accounting and auditing needs and carry out practice-oriented research projects to improve Indonesia's accounting methods.

The project would finance the purchase or rental of facilities for use by the centres, the purchase of instructional materials, the costs of training programmes, research contracts and related



technical assistance.

Unfortunately, due to bureaucratic and budgetary constraints, there were numerous implementation problems.

In the first place, the project is actually a polytechnic project with only a small accountancy component, and only US\$4.3m out of a total base cost of US\$45.0m relates to the accountancy programme. With contingencies (US\$25.9m) and administration (US\$3.0m), the total project cost amounted to US\$73.9m.

The accounting project thus constituted less than 10 per cent of the total base cost.

Furthermore, it has been suggested that the project administrators were more concerned with the technical training project, budgeted at US\$40.1m, with the result that the accountancy training component fell badly behind schedule. Thus, although the directors of the ADCs were appointed in January 1978, and the associate directors in August 1978, the work of the foreign accounting experts did not begin until 1985 when five North American advisors arrived. By this time, much of the funds needed for their activities in respect of travel, printing, equipment, etc., had already been spent for other purposes and their arrival was also too late to permit satisfactory co-ordination with the other components of the project.

Finally, the "Accounting Development Advisory Team" which was appointed by both the Minister of Education and Minister of Finance to advise the Ministers on all accounting matters, is

supposed to be a Steering Committee, but has no direct line authority over the project, which makes control over its implementation more difficult.

### 3. Upgrading of High School and University Teachers

Between 1980 and 1983, the Director of the Vocational Middle Education Committee, with the assistance of the Accounting Development Centres at the Universities of Indonesia, Gadjah Mada and North Sumatra, were engaged in upgrading the programme for Commercial High School teachers. This programme was planned to acquaint them with the American accounting system so as to achieve consistency between the universities and secondary schools. However, few accounting teachers, especially those in secondary schools, have been upgraded.

### 4. Recruitment of Foreign Experts

The foreign experts were intended to assist in the post-graduate course in accountancy, but it was not until in 1985 that a team of experts arrived in Indonesia and was attached to the ADCs.

### 5. Development of Accounting Departments

Since 1985, the foreign experts have been working, inter alia, on curriculum study and conducting lectures. It has proved difficult, given the lack of time and resources available, to achieve much with regard to staff development or postgraduate programmes. Staff development has also been hindered due to the

other demands upon staff time if they are to enhance their total salaries.

#### 6. Scholarships

According to Hadibroto (1984), up to 1984, five scholarships were awarded for Master's degrees, two for PhD degrees and nine for short visits abroad. However, the "Tofel Test" and the Graduate Management Attitude Test (GMAT), both conducted in English, have proved a major stumbling block for Indonesians aspiring to study overseas. Furthermore, the scholarships are not sufficiently attractive to encourage Indonesians to leave their families, and they do not usually provide subsistence for the family. Last, but not least, remuneration in the teaching profession is too low to provide any incentive.

#### 7. Scholarships to Would-be Accounting Teachers

This scheme is open to others, especially graduate-assistants (tutors), but suffers from the problems outlined above.

#### 8. Teaching Materials

So far, only teaching materials for the upgrading programme for teachers have been produced. Some other materials, such as translated foreign textbooks, class notes etc., have also been produced, but, due to financial constraints and bureaucracy, progress has been very slow.

9. Research in Accounting

The only research project of any importance up to 1984, was the "Accountancy Manpower Study" conducted by the ADC at the University of Indonesia. There are enormous gaps for Indonesia to fill in this area.

10. Seminars, Discussion and Workshops

The ADCs have conducted seminars, workshops, discussions etc., on a regular basis.

11. Increase in Output of Accredited Accounting Graduates from Private Universities

Under Law 34 of 1954, accounting graduates of private universities are not recognised as licensed accountants in Indonesia. To increase the number of licensed accountants, the Director General of Higher Education released the "State Examination for Accountants" Decree in 1980 (UNA), which allows accounting graduates from private universities to take the State examinations to become licensed accountants. The examinations consist of two parts :

- A. Pre-Professional Examination, consisting of papers in Financial Management, Statistics, Cost Accounting, Accounting and Accounting Systems.
- B. Professional Examination, consisting of papers in Controllershship, Government Accounting, Taxation and Accounting Theory.

Since 1980 these examinations have been held twice a year, organised by an Examination Committee of the CES. Up to 1984 only five students had passed the whole examination. Even though around 500 students are now taking the examinations each year, the pass rate is only 5% for the first and 1% for the second examination. The increase in output of accredited accounting graduates from the private universities is thus no more than minimal at present.

## 12. Accounting System Unification

The Dutch system is still being taught and practised in Indonesia, and the Bond A and Bond B book-keeping certificates are still conducted by the government. In addition, Dutch textbooks are still in use, often dating from the 1930s.

In 1982, the Accounting Development Advisory Team advised the government to revise the materials for Bond A and Bond B courses to bring them in line with the accounting departments of State universities, but due to bureaucratic constraints, harmonisation of the two systems has been difficult.

In an unpublished report by the World Bank (C-EE26/ED-676/08-5-85/jdw-chh) in 1985, it was stated that the general view held by accountants in Indonesia regarding the Polytechnic I Project (or the "Seventh Education Project") is that the accounting component of the Project has failed, and that, if the World Bank is to attempt further assistance to accounting development, it should be by way of a separate and distinct project rather than a component of a multi-purpose project. The recruitment of American experts for the ADCs was behind

schedule. Textbook selection, translation and other procurements showed negligible progress. There was also ambiguity about the duties of the American experts. One of these was to train graduates of S-2 programme to become educators themselves for other accounting programmes, thus reducing the shortage of accounting teachers. However at Gadjah Mada University, the response was poor and the programme has been virtually shelved at other universities. According to the World Bank Report (1985), many of the persons and bodies involved lacked a clear idea of what the ADC's component was, how it should be managed and what it should achieve. Consequently, it was most unlikely to succeed.

Control over the allocation of World Bank's loan money is another area of grave concern. The World Bank Report (1985) highlighted the urgent need for satisfactory accounting and audit of financial projects, for its experience in this field, according to the Report, has been very poor. In the majority of cases, audited accounts are not submitted, and when they are, they are usually late, and the quality of the audits is often deficient. This provides a poor climate for the encouragement of foreign investment, particularly in the private sector. This was reiterated in the Sunday Times of 13 September 1987 which reported that the Government Accounting Office, the auditing arm of the US Congress, in its audit of US aid programme in Indonesia disclosed that the Indonesian government was unable to account for the amount of US assistance to the country. Jakarta failed to submit required reports on commodity sales and expenditure and was generally late in submitting progress reports on the US funded projects. When they did arrive, they were often incomplete and inaccurate. The

General Accounting Office found that of the US aid granted between 1982 and 1985, only about 75% was spent by the Indonesian government. However, the US Ambassador to Jakarta asserted that there was no evidence that Indonesia had misappropriated about US\$26 million of aid funds and attributed the 25% discrepancy to different interpretations of accounting procedures.

Another problem is the manner in which the budget for the World Bank proposal was presented. For example, US\$8.6m of the US\$73.9 for the Seventh Educational Project was approved for equipment expenditure, but there was no breakdown of the nature or type of equipment and, more importantly, how it was to be used and by whom. As a result, equipment may be purchased that is not relevant to the project. The same applies to expenditure in other areas of the project such as civil works, furniture and equipment, technical assistance, operating costs and contingencies.

It is clear that many of the problems that confronted Indonesia before the World Bank project still exist today, and the results have not justified the input of resources and efforts. How the loans were actually allocated and utilised is difficult to ascertain since local accounting practice is weak, which makes continual supervision by the World Bank crucial to ensure that the monies lent were used for the intended purposes. Unfortunately this supervision appears to have been less than perfectly maintained.

The funds for the ADCs were virtually depleted when the accounting experts arrived in 1985. The ADCs were, from the original proposal, supposed to play a key role in helping to train and develop accountancy

in Indonesia. Having arrived six years after the commencement of the project and faced with a shortage of funds for the ADCs, the accounting experts were placed in a very difficult situation, and it is not surprising that they failed to achieve their main objectives.

### III. Dualism in Accounting Education and the Co-ordinating Agency for Accounting Development

At the university level, accounting education was initially predominantly Dutch. This was followed by a period when both American and Dutch systems were to be found, particularly in the 1960s, before accounting courses became fully converted to the American system through American involvement and financial assistance to education in Indonesia.

However, at the lower level, the book-keeping oriented qualifications, such as Bond A, Bond B and APM, and the courses at Senior High Schools or Sekolah Menengah Ekonomi Tingkat Atas (SMEA), are strongly influenced by the Dutch system. SMEA is a vocational school, where the development of the curricula is oriented to covering the needs of the job market. There is still a demand, especially for Bond A and Bond B graduates, from small and medium-sized companies.

The dualism in the education system has resulted in accountants being split between two schools, the Dutch-trained and the American-trained. The Dutch-trained will gradually form the minority in the profession, but they still hold prominent offices in the government and the profession. For example, all the past four



presidents of the IAI were Dutch-trained. Thus, at the practical level, implementation of the American system within an organisation may encounter resistance from senior accountants, most of whom have been trained under the Dutch system and will be reluctant to change.

The state of dualism has continued because there is still a demand for graduates of both systems. This is particularly true for the Dutch book-keeping courses as many companies still use the Dutch method of keeping their books of account (Sapiee, 1980). According to Hadibroto (1971), the old Dutch system of book-keeping followed an inflexible uniform accountancy codes system, which was extended to include the presentation of financial statements (see Appendix 4-V).

Dualism is thus still very much in evidence today, just as it was in the 1950s. The Indonesian accounting education system, through lack of manpower, infrastructure, funds and a host of other problems has made little progress, and the education of accountants remains inadequate and the curriculum inappropriate.

These problems have been exacerbated by the lack of co-ordination within the training and educational system. The route towards a professional accounting qualification is relatively straightforward. The IAI is not an examining body, so entry is possible through a limited number of universities plus STAN, or through the professional examinations organised by the CES. However, these routes are very narrow and restrictive. As a consequence, there are large numbers of accountants of various levels of skill, training and experience who will never have an opportunity to achieve professional recognition. Indonesia desperately needs more accountants and it is crucial that all

of the accounting skills and resources available in the country should be co-ordinated in order to ensure that they are used as efficiently and effectively as possible.

At present, Indonesia has 740 Senior Economic High Schools (290 state and 450 private), which offer accountancy programmes. The total number of students is around 750,000 and the average number of graduates from these schools is about 250,000 per year.

The General Senior High Schools number 5,226 (1,214 state and 4,012 private). The average number of students per school is approximately 1,000 and thus there are around 5,276,000 students in total. The average number of graduates per year is approximately 1,742,000.

Approximately 730 non-formal education institutes offer accounting courses. The average student body is 50-100 students for each institute per year, so that between 40,000 and 70,000 students take accounting courses each year.

There are 48 State or public universities, polytechnics and teacher training institutes providing higher education, and more than 200 other universities, institutes and academics operated by government departments and private organisations. The total student body in higher education all over the country numbers approximately 1,000,000.

The breakdown of universities, institutes and academies which offer accounting programmes is as follows :

1.	State Universities and Institutes :	14
2.	Private Universities and Institutes :	25
3.	Polytechnics :	6
4.	Academy of Accountancy :	40
		--
	Total	85
		--

In 1988, three new departments of accountancy will open at State universities, and three other polytechnic commerce schools will be built in other cities.

The extent of the total accounting resources which are currently being generated through the educational system is indicated in Appendices 4-I to 4-IV, which explain the various routes which may be taken by an accountant or book-keeper and which demonstrate how few of the many routes, taken through a wide variety of training institutions, lead to professional recognition.

Appendix 4-I explains the sequence of programmes available in both the formal and the non-formal educational systems from elementary schooling through to higher education. Appendix 4-II expands on this by showing the institutions which provide accounting programmes within the formal system and the routes which an accounting student might follow within that system. Appendix 4-III relates the accounting education system to the career paths available to accountants and demonstrates the educational routes which might be taken towards a career at various levels of accounting. Finally, Appendix 4-IV gives additional details of the various careers available in accountancy, and highlights the narrowness of the career path leading to registration as a public accountant.

The new accounting education programme at the higher educational level was established in 1980. Two types of programmes must be followed by universities or institutes, namely the degree and the non-degree programmes.

#### Degree and Non-Degree Programmes

<u>No.</u>	<u>Degree</u>	<u>Non-Degree</u>	<u>Cum Cr. Hrs</u>	<u>Length of Study (Semester)</u>
1	-	D I	40-50	2-4
2	-	D II	80-90	4-6
3	-	D III	110-120	6-10
4	S-1	D IV	144-160	8-14
5	S-2	Sp I	180-194	12-18
6	S-3	Sp II	228-223	16-22

Notes : D = Diploma    Sp = Specialist    S = Stratum

The degree programme is divided into three levels of education.

They are :

S-1 (Sarjana or Bachelor)

S-2 (Sarjana Utama or Master's degree)

S-3 (Doctor or PhD degree)

The non-degree programme is divided into several levels :

D I    (1 year course)

D II    (2 year course)

D III    (3 year course)

D IV    (4 year course)

Sp 1 equivalent to S-2

Sp 2 equivalent to S-3

The degree programme is offered by Faculties of Economics, and the non-degree programme is given by institutes, academies and polytechnics. Basically, graduates of S-1 programmes or D IV

programmes in accountancy from State universities or institutes are qualified to become accountants.

The graduate of a private university, as explained earlier, must take two further examinations to become a qualified accountant, namely the pre-professional examination and the professional examination.

The structure of the S-1 and the S-2 programmes at Gadjah Mada University is as follows :

Professional Education Curriculum  
S-1 and S-2 Accountancy Program

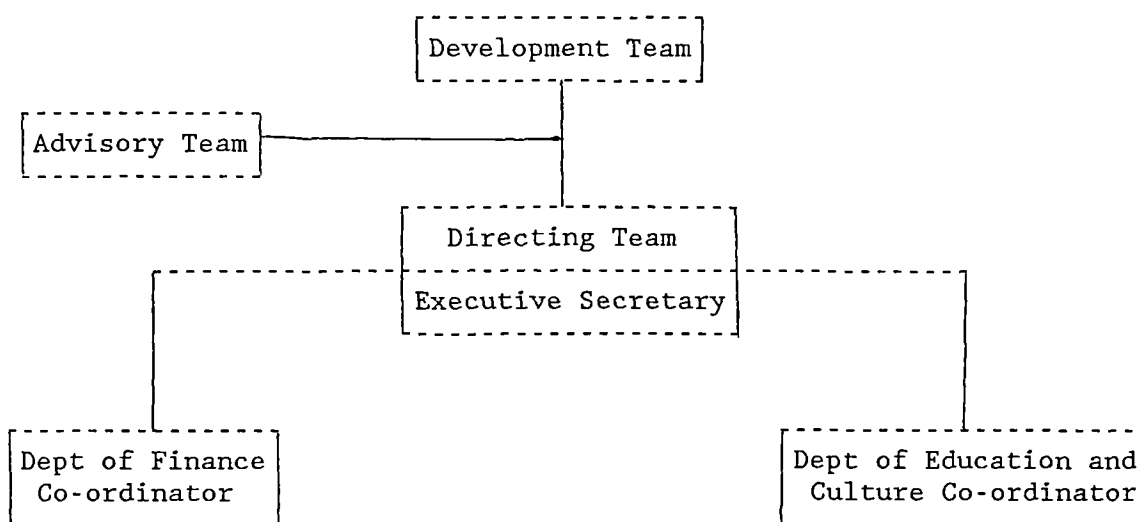
(Gadjah Mada University, 1986)

	S-1 Program (Cr. Hrs)	S-2 Program (Cr. Hrs)
General Education Subjects		
Language	0	0
Behavioural Science	3	3
Economics	9	9
Elementary Accounting	6	6
Introduction to Computers	0	3
Maths & Statistics	13	13
Humanity, Science, & Art	6	6
State Phil. & Religion	8	8
	--	--
	45	48
	--	--
	(29.6%)	(24.7%)
Business Subjects		
Economics	23	26
Legal Environment	0	0
Business Law	3	3
Marketing	0	0
Finance	6	6
Organization Theory	0	6
Quant. Analysis	0	0
Written Communication	0	0
Research Methodology	3	6
	--	--
	35	47
	--	--
	(23.0%)	(24.2%)
Accounting Subjects		
Financial Accounting	24	27
Managerial/Cost Accounting	12	15
Auditing	12	15
Thesis	6	15
Taxation	6	6
Computer	6	9
Electives	6	12
	--	--
	72	99
	--	--
	(47.4%)	(51.1%)
Total Credit Hours	<u>152</u>	<u>194</u>

In late 1984, in order to co-ordinate accounting education, the World Bank and government accounting projects and to eliminate dualism in the system, the World Bank recommended that the Indonesian government should establish a co-ordinating agency. In February 1985, the Minister of Finance and the Minister of Education and Culture in a joint decree established the Co-ordinating Agency for Accounting Development (CAAD) with a full-time Executive Secretary.

The objectives of CAAD are to improve accounting standards and practices in the government and private sectors, to organise the application of accounting standards and practices in stages, and to develop a uniform and unified accounting education system.

#### The CAAD's Organisation Structure



The Development Team consists of the Minister of State for the National Development Plan, the Chairman of BAPENAS, and the Minister of Finance. It is responsible for establishing general policy on the development of accountancy, including accounting education, research and accounting practice.

The function of the Advisory Team, which is accountable to the Development Team, is to give suggestions and opinions to the Development Team and/or the Directing Team.

The Directing Team is responsible to the Development Team. Its tasks are :

1. To provide suggestions to improve accounting and auditing standards and principles in the government and private sectors by keeping in touch with international accounting and auditing developments.
2. To provide suggestions to improve existing and future laws on accounting and auditing.
3. To perform regular and continued research on the demand and supply of accounting manpower over the short and long runs.
4. To formulate and assist in the execution of accounting and auditing development projects.
5. To provide suggestions on accounting and economic science curricula, both in the government and the private sector.
6. To provide suggestions on educational materials and books for use in accounting and auditing education and training for the Minister of Education and Culture.
7. To provide suggestions on accounting and auditing training in the government and private sector, including continuing education.
8. To assist the co-ordinators in accounting for and auditing of projects.
9. To study accounting and auditing development programmes in the government and the private sector.



10. To evaluate periodic reports from the Co-ordinators and Executive Secretary, and to report thereon to the Development Team.
11. To perform tasks assigned by the Development Team.

To Co-ordinator's tasks are to co-ordinate, control and evaluate all accounting development projects.

The daily functions of the Directing Team are delegated to the Executive Secretary, who is also responsible for overseeing the activities of the Co-ordinators.

The formation of the CAAD is the single most important effort by the government to harmonise and improve the standard of accounting education and practice in Indonesia. Previous efforts had failed because of the lack of co-ordination between the bodies that educate accounting graduates (i.e. the Ministry of Education and Culture) and those who finally use these graduates (i.e. Ministry of Finance - which employs the bulk of registered accountants in Indonesia) and also due to a shortage of funds. The most significant development is the involvement of a full-time executive to direct these efforts.

CAAD is financed by Ministry of Finance, which in turn depends on loans from overseas agencies such as the World Bank. The initial funding came from the World Bank's "Seventh Educational Project (869-IND)". Unfortunately, the availability of funds is limited as the closing date of the project is 1987. In October 1986, the government began work on a fresh proposal for more funds from the World Bank, since the earlier loans were exhausted. The efforts of the CAAD to co-ordinate accounting development would have been in jeopardy if funds

had not been made available to sustain its effort, but fortunately it appears likely that additional funds will be available, for a self-standing accountancy development project is currently in the course of preparation.

At the time of writing (October 1987), it is expected that a total of US\$35m will be made available for an accountancy development project with two main components :

1. To reform the system of accountancy throughout the government and private sector through the establishment of professional organisation and standards, and
2. To expand and improve accountancy education to meet the demand for graduates of varying levels of education.

#### IV. Conclusions

It seems clear that Indonesia still suffers from an acute shortage of well-qualified accountants. The system of accounting education is still very weak and suffers from several major deficiencies :

1. A lack of well trained educators. One of the main reasons for this, of course, is the poor level of pay available to educators compared to the salaries available outside, particularly in Public Accounting and Management Consultancy.
2. A lack of good quality teaching materials. There are intermittent supplies of books available from various aid organisations but there is not a regular supply of up-to-date copies of recent texts.

3. The curriculum is far too strongly influenced by American practice. As a result, there is an over-emphasis on reporting to investors, even though there is only a handful of investors in Indonesia, and on external auditing, rather than internal auditing and public sector auditing which appear to be more relevant to Indonesia. Business finance is dominated by theoretical issues such as the capital asset pricing model, the relevance of which to Indonesia, dominated as it is by State enterprises and small businesses, is not immediately apparent. For instance, there were only 1,970 large corporations and 8,203 medium-sized establishments in Indonesia in 1976. Large corporations in this context employed an average of over 200 employees and the average number of employees of medium-sized companies was around 30. With such a corporate sector and coupled with the fact that most major enterprises are state-owned, one has to question whether the American accounting system, biased as it is toward external reporting to shareholders, is relevant to Indonesia. After ten years of operation, there are only 24 companies listed on the Jakarta Stock Exchange and on average there is one transaction of 1,000 shares in each day of trading; yet considerable resources have been directed towards the area of accounting education to the supposed needs of investors in those companies. By 1986, the number of large corporations had increased to only 3,447, there were 22,214 Perseroan Terbatas (limited liability companies), and more than 90% of businesses consisted of sole proprietorships, partnerships and co-operative establishments.

4. The fragmentation of responsibility for the training and registration of accountants between the Ministry of Education and the Ministry of Finance, with the Ministry of Trade also having a concern with these areas, has made it difficult to reform the education process. In particular, it is by no means evident that five years at university should be essential for the training of a public accountant. Also, the requirement of a period of government service makes a short-term increase in the number of accountants very difficult to achieve. A further problem of fragmentation lies in the lack of linkages between the training of book-keepers and the training of intermediate and full professionals. This too is a feature of the Anglo Saxon accounting system and is one which has proved a considerable problem in many developing countries around the world.

On the more positive side, a major achievement in Indonesia has been the formation of the Co-ordinating Committee. This Committee may be able to overcome some of the fragmentation referred to above, but it will have an enormous task in overcoming departmental jealousies. At least, however, it should be able to carry out a detailed analysis of the accounting resources available at all levels, both in education and practice, and advise on the creation of a realistic framework for co-ordinating the profession as a whole.

In conclusion, it must be stressed that there is very little in this chapter which is intended to be critical of the efforts of accounting educators in Indonesia. They face a task of immense difficulty and over the past two decades a small group of

dedicated teachers have performed near miracles in producing the number of accountants that have passed successfully through the system. They have been hampered in their efforts by the intransigence of government departments and by the sporadic and fragmented nature of the overseas aid provided for accounting. Inputs have been provided by various aid programmes in an inconsistent and unco-ordinated way and, throughout, there has been far too much emphasis on the adoption of the Anglo-Saxon system rather than analysing the real accounting needs of the Indonesian economy. However, the formation of the Co-ordinating Committee holds out real hope that it may be possible for these indigenous needs to be identified and that a relevant and feasible solution, appropriate to the Indonesian system, might be identified.

## CHAPTER 5

### GOVERNMENT ACCOUNTING IN INDONESIA

#### I. Introduction

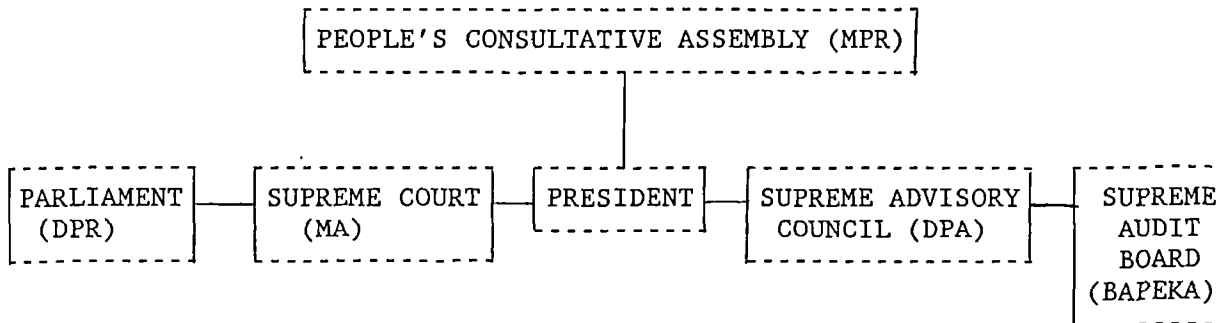
Government accounting consists of three major components, namely government financial administration (i.e. governmental financial recording, control and auditing), the budgetary process and tax administration and policy. These encompass the raising and spending of funds and also planning and control of financial activities to ensure proper accountability in respect of the nation's resources.

Government accounting practices in Indonesia still adhere to the old Dutch methods inherited from her colonial days as a result of the 1945 Constitution of Indonesia, which adopts the colonial legislation and practices unless otherwise deleted or replaced by new laws or regulations passed subsequently by parliament.

Unfortunately, little development has occurred in the field of government accounting. Besides the lack of expertise and trained personnel, legislative reform, which is an important factor in keeping the law abreast with modern developments, has been slow. This is reflected not only in constitutional and government accounting legislation but also in the Indonesian Commercial Law, which has been in existence since 1848.

This chapter gives a historical background and a broad outline of government accounting practice in Indonesia.

## II. Constitutional Structure of Indonesia



According to the Indonesian Constitution, there are six State institutions. The highest is the People's Consultative Assembly or Majelis Permusyawaratan Rakyat (MPR); the others are the President, Parliament or Dewan Perwakilan Rakyat (DPR), Supreme Court or Mahkamah Agung (MA), Supreme Advisory Council or Dewan Pertimbangan Agung (DPA) and the Supreme Audit Board or Badan Pemeriksa Keuangan (BAPEKA) which are all of an equal level.

The MPR is the supreme authority and the highest legislative and policy-making body in Indonesia. Its members are equally divided between members of Parliament and provincial representatives, and the Constitution (Article 2[2]) requires the MPR to convene at least once every five years.

The authority of the MPR includes, inter alia, the formulation and enactment of the Constitution, the determination of State policy and the selection of the President and Vice-President. Being the highest State institution, the MPR is collectively accountable to the people of Indonesia, for the Constitution provides that the sovereignty of Indonesia lies in the hands of the people and is carried out through MPR.

The President is the mandatory representative of MPR and is vested with the executive power of the government. The President and his subordinates are responsible to MPR and are required to carry out State policies. The President is assisted by the Vice-President, the Minister of State and the State Secretary. The President and his executive officials are in charge of the management of public finance and other State properties. In the management of State finance, there is a division of functions among three group of officials. The first group consists of officials having the authority to execute the government budget, namely the President and his ministers. The second group consists of officials having the authority to examine and to order payments of claims to the government. This authority is delegated by the President to the Minister of Finance. The final group consists of officials having the authority, inter alia, to recover money and custody of State funds and properties (Moechtar, 1975).

The Parliament or DPR is the legislative body of the State. Parliament controls and scrutinises the operations of the government. It approves all legislation passed by the government. Both the President and Members of Parliament may initiate bills for enactment. The Constitution (Article 23[1]) provides that the annual state budget on revenues and expenditures be approved by parliament and if it is not approved, the budget of the preceding year is automatically adopted. Members of Parliament are also members of MPR and parliament cannot be dissolved by the President.

Members of the Supreme Advisory Council or DPA are appointed by the President. The Council's role is mainly to advise the President



and the government. Its views are not binding on the government.

The Supreme Court or MA is the highest judicial organ and is independent of the government.

The Supreme Audit Board or BAPEKA is also independent of the executive branch and is responsible for the proper accountability and financial control of state finance. Its members are appointed by the President and its audit reports are presented directly to Parliament.

### III. Budgetary Process

A budget is essentially a tool to assist the government in the planning, management and control of public funds.

The main regulations governing financial administration are contained in Article 23 of the Constitution. Article 23(1) requires that a budget of revenues and expenditure be prepared and submitted by the President for approval. If it is rejected, the preceding year's budget is adopted. Bills on tax, denominations of money and other matters concerning public finance must be approved by parliament (Articles 23(2) to (4)). Finally, the control and audit of the government accounts rest with the Supreme Audit Board (BAPEKA), whose findings are reported directly to parliament (Article 23(5)).

The government budgetary system consists of the routine (or current) budget, prepared solely on a cash basis, and the development (or capital) expenditure budget which is prepared on a combination of the cash basis and a deferred method by which unabsorbed accounts from the previous year are carried forward to the next budget year. No clear separation exists between these two types of budgets. Efforts

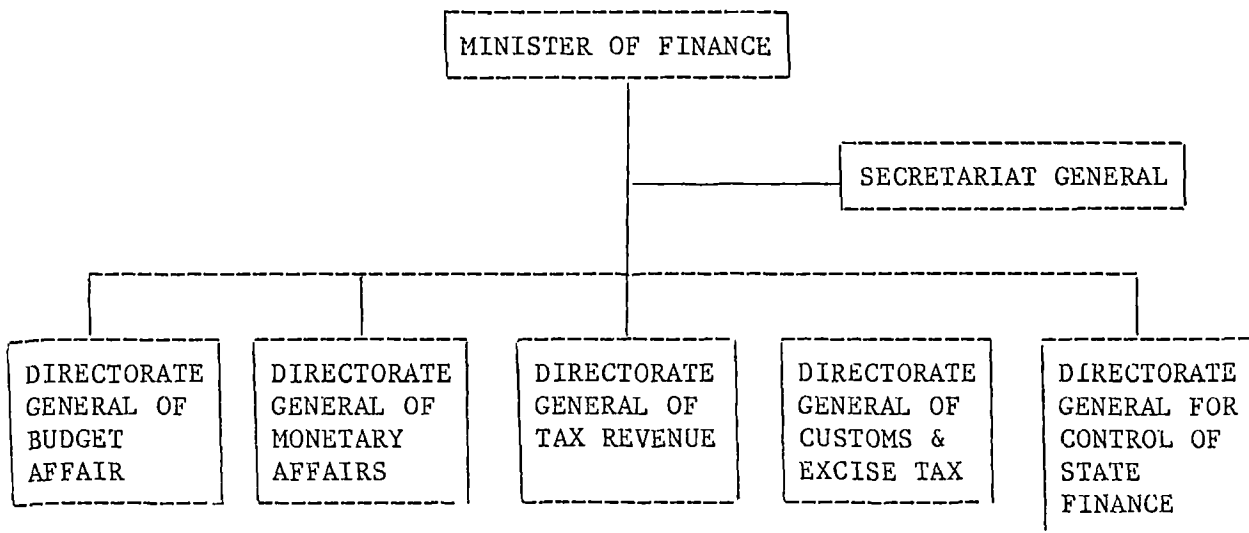
are being made to follow performance budgeting procedures, but results have been poor. The budget is not adequately linked with the planning process (Enthoven, 1977).

The government budgetary process in Indonesia involves :

1. Preparation and submission of the budget by the executive branch (i.e. the government).
2. Consideration and enactment of budget by parliament.
3. Execution of the budget by the executive branch.
4. Audit and review of the financial statements by the executive and legislature.

The Indonesian government has adopted an executive type of budgetary process under which the Chief Executive Officer (i.e. the President) is responsible for the formulation of the budget. This is in contrast to the broad type of budgetary process, where a group of administrative or administrative and legislative officers, is responsible for the preparation of the budget. It also differs from the "legislature" type, which depends on the legislative body, through one of its committees or agents, to formulate the budget (Moechtar, 1975).

## THE DEPARTMENT OF FINANCE



(Source : T. Moechtar, 1975)

Estimates of revenues for the ministries are submitted by the Directorate Generals for Tax Revenues, Customs and Excise Tax, and Monetary Affairs to the Minister of Finance. After they have been reviewed by the Minister of Finance, the general estimates are submitted to the President and his Cabinet, which will elaborate on the revenue targets and limits on expenditure within the framework of the government's policies.

The annual budget is prepared under the direction of the Minister of Finance, but the preparation of the budget is actually the responsibility of the Directorate General for Budget Affairs.

Budget debates consist of four stages. In the first stage, the President outlines the general policies of the proposed budget. The second stage involves discussions by Members of Parliament, with opportunities for questions by the members and replies by the

government. The budget is then referred to the House Committee on Appropriations. This Committee consists of nine sub-committees, each of which is assigned to review and inspect the budget requests of three or four departments or agencies. Members of Parliament who are not members of these sub-committees may attend the sub-committees' meetings and make suggestions, but they have no voting power. Officials from ministries may be invited to attend the meetings to discuss matters relating to their ministries' budgets. The sub-committees are mainly concerned with the policies adopted by each ministry and the efficiency of departmental operations. Each sub-committee prepares a report containing a summary of the discussions held and the results of their examinations. The government may propose amendments in writing to the original bill, but these are usually modified in accordance with the recommendations of the sub-committees. The final stage is where the budget is debated and voted upon by Parliament. The bill is sent for the President for endorsement and becomes law after it is published in the State Gazette (Moechtar, 1975).

After it has been approved, the government is authorised to execute the budget, usually in accordance with the instructions laid down in the Presidential decree. At the end of the fiscal year, which runs from 1 April to 31 March the following year, each department or agency is required to submit a detailed annual report of their receipts and expenditure by budget items to the Department of Finance, which will then draw up the government financial statements. The financial statements have to be audited by the Supreme Auditing Board (BAPEKA) before being submitted to parliament for consideration and approval.

Enthoven (1977) noted that budgetary techniques in Indonesia are deficient. Budgets are often merely repeated from the previous year, and no proper appraisal of the effectiveness of the budget categories is undertaken. Furthermore there tends to be an inadequate comparison between budgetted and actual data.

According to Prawiro (1987) the Indonesia budgetary system is out-of-date and lacks uniformity. The Financial Administration Act of 1968 contains only minor variations of an earlier version of 1941, which in turn was a direct translation of the Dutch Financial Administration Act enacted in 1864. The budgetary process for expenditure is based on a three-tiered allocation of resources by jurisdiction (central, provincial and regional), and a two-tiered allocation by category (routine and development expenditures). However, on the revenue side, the system lacks uniformity, and the procedures vary from one government agency to another. For example, some cash receipts are paid in through Treasury cash offices, some through the central bank, and others through State banks and post offices, and other customs and excise offices. Similarly, there is no fixed system for tabulating tax receipts during collection. The revenue procedure is not very clear.

#### IV. Government Accounting Practices

The accounting system of the Indonesian central government is accountability-oriented, designed to ensure accountability and administrative control of appropriated funds. It is still based on former Dutch methods, namely Kameralistische boekhouding, which has not yet been adequately updated in Indonesia. Under this system, a governmental unit prepares, before the beginning of each fiscal year, a

budget or estimate of revenues and expenditures for the coming year. Cash receipts and expenditures are recorded on a single-entry basis in the cash book and revenue and expenditure ledgers. The financial information recorded in the ledger accounts is classified by organisational units, source of revenues and object of expenditures. The financial statements compare budgeted and actual amounts of each item of revenues and expenditures (Moechtar, 1975). The primary purpose is to measure and report on compliance with the budget limits set by parliament (Prawiro, 1987).

Indische Comptabiliteits Wet (ICW) adopted by the Dutch in 1864, is still in force in Indonesia by virtue of Article II of the transitional provisions of the Constitution of Indonesia, 1945. The Undang-Undang Perbendaharaan Indonesia (UUPI) or Indonesian Accountability Law as ICW is called, emphasises compliance with legal provisions and budget allowances, with little or no regard to providing information for decision-making. The current reports produced are limited to revenue and expenditure reports and reports on cash positions. The reporting activities are carried out by two levels within the central government. Firstly, at the agency level, for use within the agencies and not for external reporting purposes. Secondly, by the Ministry of Finance, which accounts for all financial transactions by the central government. The accounting and reporting systems based on the 1864 Dutch practices have failed to keep pace with economic and political developments in Indonesia. Coupled with the lack of expertise and weaknesses at the operational units, reports on public expenditures and revenues are regularly behind by at least three years. As such, the government is perpetually deprived of timely and

accurate information for decision-making, planning and managing the country's economic resource allocations and expenditures effectively (Prawiro, 1987). The UUPI contains a very limited number of financial and accounting provisions concerning the government.

Article 10 of UUPI requires financial statements of receipts and expenditure to be prepared six months, at the latest, after the end of each fiscal year and the Minister of Finance is responsible for establishing regulations for the preparation of the accounts.

An instruction manual on the maintenance and operation of accounting systems in the government departments and agencies is issued by the Minister of Finance (e.g. Circular of the Minister of Finance No.292429/G.T. 9 December 1953) to achieve uniformity in the maintenance of accounts.

Since 1967, provisions on government accounting have also been published in the Presidential decrees containing the instructions on budget execution for each fiscal year. These require, inter alia, keeping of proper books and records, proper safeguard of goods and properties of the State and adherence to guidelines and regulations issued by the Minister of Finance, including those prescribing the type and date of submission of financial reports to the minister.

The Supreme Audit Board (BAPEKA) is the highest audit institution in Indonesia (See Appendix 5-I). It is responsible for monitoring the accountability of the government and the implementation of the central government budget, regional State budget and the budgets of State-owned enterprises. There are 11 main audit divisions and each division is given specific audit responsibilities :

## Audit Division

## Main Responsibilities

- A Department of Finance.
- B Department of Defence and Securities.
- C
  - A. Department of Education and Culture.
  - B. Department of Social Affairs.
  - C. Department of Religion.
- D
  - A. Department of Public Works.
  - B. Department of Labour and Transmigration.
  - C. Department of Mines and Energy.
- E
  - A. Department of Agriculture.
  - B. Department of Trade.
  - C. Department of Industry.
- F
  - A. Department of Communication.
  - B. Department of Justice.
  - C. Department of Foreign Affairs.
- G
  - A. Department of Health.
  - B. Department of Information.
- H Department of Home Affairs.
- I
  - A. State-owned oil and gas enterprises  
(Pertamina).
  - B. State-owned mine and energy enterprises.
  - C. State-owned industrial enterprises.
- J
  - A. State-owned agricultural enterprises.
  - B. State-owned communication services  
enterprises.
  - C. State-owned trade and services enterprises.



## Audit Division

## Main Responsibilities

K

A. State-owned banks.

B. State-owned financial institutions.

The responsibilities of the three regional audit offices are mainly to perform audits of public enterprises and regional audits in each location.

The training programmes at BAPEKA consist of three main segments, namely core courses, job-oriented courses and personal development skills. The core courses are basically introductory in nature and cover audit concepts, and professional ethics and responsibilities. At the job-oriented courses, the trainees are familiarised with BAPEKA's organisation structure and are expected to be taught financial and efficiency audits. Communication and problem-solving skills are covered in the personal development courses. However, due to the critical shortage of staff, training usually takes the form of on-the-job exposure.

In practice, in addition to auditing government ministries and departments, BAPEKA has to cover State-owned enterprises in Indonesia. With barely enough manpower to carry out financial audit, VFM audit is scarcely not practised. Without tight governmental control through a wider and more detailed audit coverage of all government establishments, the impetus to produce timely and accurate financial statements is thus absent. This is further aggravated by the acute nationwide shortage of accountants with the result that the government financial statements, including those of State-owned enterprises, are perpetually late by at least three years. Accounting practices in

State-owned enterprises, being profit-oriented in nature, follow commercial accounting systems. Unfortunately, they suffer from the same deficiencies as do government ministries and departments, i.e. inadequate control, untimely and inaccurate corporate reporting practices.

Within each ministry is an Inspector-General's office which performs internal audit functions in the ministry concerned. Within the Department of Finance is the Director General for Control of State Finance whose task is to perform the internal audit of all government accounts. Because BAPEKA alone cannot audit all the government ministries and State-owned enterprises, it also relies on the internal audit functions in those institutions.

The Indische Compatabiliteits Wet, 1925, requires public servants who are negligent in their duties to compensate the State for any loss suffered by the State (Article 74). Where accounting officers fail to render accounts to BAPEKA, the officer may be liable to pay compensation to the State (Article 77). The administration of these two kinds of compensation claims was formerly the task of BAPEKA, but since 1973, with the enactment of Act No.5/1973 on BAPEKA, the task mentioned in Article 74 rests with the Ministry concerned.

BAPEKA submits its audit report to parliament in accordance to Article 23(1) of the Constitution. This will contain the findings of the audit on the accounts of central and regional governments and of the State-owned enterprises, together with recommendations on the audit findings.

## V. Remedial Action

Reform to Indonesian government financial management and accounting practices is long overdue. According to Prawiro (1987), the government has taken three specific measures to improve the situation.

1. In 1982, SGV & Co., a private consulting firm was employed to evaluate existing accounting and reporting systems, and to make recommendations for improvements.
2. The establishment of the Co-ordinating Agency for Accounting Development (CAAD) in February 1985, to co-ordinate accounting standards within the private and public sectors. CAAD will also play an important role in evaluating and implementing changes.
3. Drafting timetables to implement the reform programme including pilot projects in specific areas before full implementation of the new systems.

The main reforms proposed by SGV & Co. are :

### 1. The Accounting and Reporting Entity

The establishment of a Central Accounting Office (CAO) which will report directly to the Minister of Finance. The CAO will maintain all government accounts using source documents received by operating units of the central government, while separate detailed accounts will be maintained by each operating agency. This separation of functions will help to speed the start-up of the CAO itself, and later, facilitate its ongoing operations. The term 'central government' includes all government agencies and

their sub-divisions, but excludes regional and local governments, State-owned financial institutions and state enterprises.

## 2. The Basis of Accounting

The change from the present single-entry system of accounting to a double-entry system on a modified accrual basis to facilitate meaningful financial reporting.

Revenue and expenditure are still maintained on a cash basis. The difference between actual receipts of revenues and actual disbursements on expenditures would constitute either a deficit or surplus for the year.

All assets of the government should be recorded in the books of the central government. Liabilities in the form of financial claims by outside entities are to be recorded. The difference between assets and liabilities would represent equity funds. Fixed assets are not depreciated, but it was recommended that an accumulated depreciation allowance be established and charged against the appropriate invested fund equity account.

## 3. The Classification of Expenditure

In addition to the existing method of classifying expenditures into routine and development categories, further classifications by programmes, projects, activities, organisation unit, object of expenditure or character were recommended to provide relevant information to government decision makers.

#### 4. The Classification of Revenues

Current revenues are classified by organisational unit i.e., the unit responsible for collecting or realising the revenues. Classification by "Source" category was recommended as it was considered helpful in ascertaining revenues for the different categories of taxes as well as the returns gained from different types of services rendered and goods sold. This will enable the government to monitor performance and to analyse and evaluate government policies and programme.

The project undertaken by SGV & Co. was funded by the World Bank. The recommendations were essentially based on the US GAO practices. Being politically, economically and socially different, it is very doubtful if the new system is compatible with Indonesia and feasible to implement.

Given the vastness of the country, the lack of properly trained personnel and the deep entrenchment of the old Dutch practices in the present system, the government will face a very difficult task in reforming current practices. The educational institutions are not producing accounting graduates in sufficient quantity or quality to meet the challenge. Bureaucratic hindrance and apathy are the obstacles to the smooth implementation of any system. To change a system that has been practised virtually in the same shape and form for over 120 years is by no means an easy task. Although marginal improvements may be expected, the fundamental problems that exist today will persist, at least for the next few years, unless drastic reforms in education and the

accounting profession prove successful.

## VI. National Income Accounting

National income accounting or macro accounting encompasses business enterprises, private households, government related accounts such as transactions with the rest of the world and capital formation; and the derivation of their components. It is concerned with the application of accounting methodology to macro economic analysis. Its aim is to describe coherently, systematically and quantitatively the structure and activities of an economy or region/sector during a certain time span, and of stocks (assets and liabilities) at a particular period (Enthoven, 1977).

The present national income accounting practices in Indonesia follows the United Nations System of National Accounts (SNA) established in 1953, because the 1968 SNA, according to Enthoven (1977), is considered too complicated to be executed in Indonesia. Micro accounting, linked to macro accounting, assists economic analysis and planning. Although the UN's SNA approach has been adopted, there is a lack of uniformity in standards, concepts and classifications in the national accounts data. This is because of a shortage of qualified personnel to collect and appraise various financial and statistical data at the Biro Pusat Statistik or Bureau of Statistics. Other problems are the lack of co-operation from respondents to industrial surveys, for corporate information is traditionally treated as a closely guarded secret. Also, the knowledge of accounting by data collectors is normally inadequate, which affects the reliability and relevance of information. The poor standard of accounting at the micro

level is manifested in accounting at the macro level. Companies do not need to have their financial statements audited and submitted to a central authority like the Registrar of Companies. As corporate information is usually not available, or if available, is usually too inaccurate or delayed to be of any use, reliable micro accounting practices would enhance better estimates for the preparation of national income accounts. Unfortunately, the margin of error in the Indonesian national income accounts has been estimated at 20-50%, which is far too wide for use in economic analysis and planning (Enthoven, 1977).

National income accounting in Indonesia suffers from many deficiencies identified in micro accounting. Besides the lack of qualified personnel, funds and infrastructure, one of the greatest obstacles to progress has been apathy and complacency to change. Being used to traditional methods of doing things, foreign ideas and systems are looked upon with suspicion.

## VII. Conclusions

Government accounting in Indonesia is based on out-of-date legislative provisions inherited from the Dutch and is in need of major reform. This is recognised by the World Bank which provided funds to finance the project to produce a government accounting system for Indonesia. The lengthy reports consisting of no less than 10 volumes were completed in mid 1980s, but the proposals have yet to be implemented. The study was conducted by a firm of public accountants, SGV and Company. During a visit by the author to BAPEKA in October 1986, the Ministry of Finance, according to one of the officials, was

still in the process of vetting the reports and it is unlikely that the recommendations will be implemented. This is because major structural and personnel reforms are urgently needed. Moreover, due to her immense geographical size, inadequate funds, personnel and expertise at most levels, the process of introducing reforms in this area is a long and difficult endeavour.

Given that government and State-owned enterprises are the major financial institutions in Indonesia, an efficient government accounting system is urgently needed. Many financial records are still maintained manually, which inhibits timely reporting and causes lack of accuracy in the financial information.

Unfortunately, obstacles confronting the government in upgrading the present accounting system are indeed formidable and it may be some years before any significant improvements are visible.



MANAGEMENT ACCOUNTING PRACTICES IN INDONESIA

I. Introduction

Financial accounting is primarily concerned with supplying financial information to outside parties, oriented towards financial stewardship, and is usually governed by historical cost accounting concepts and rules. Management accounting on the other hand, is geared towards internal decision-making and is less governed by specific guidelines, laws, principles and rules. It assumes a more economically realistic approach and includes future measurements and forecasts. The principles and rules governing management practices are varied to suit the individual company's requirements and needs.

Although the origin of management accounting can be traced to Italy in the twelfth century, it was only in the twentieth century that any real impetus to develop cost accounting began. This was because, prior to the Industrial Revolution, business was largely commercial rather than industrial in nature, so that the need for cost accounting was minimal. With industrial production, the pricing of goods by constituent parts became essential, while the use of machinery and power established the need to allocate various costs and to determine the profit by unit of production. Refinements in cost accounting came later, during this century, with mass production techniques and high capital investment. A need arose to allocate costs correctly over units of production to provide a measure of productivity and efficiency (Enthoven, 1973).

Enthoven (1973) stated that, in most developing countries, cost records were poorly maintained and realistic cost and allocation procedures were not used. As a result, companies did not know the real cost of products, or whether departments were profitable. Management accounting, where it existed, usually lacked sophistication and was ineffectively applied. Companies were reluctant to instal and use effective cost accounting systems, while scarce accounting skills also hampered the appreciation, implementation and refinement of cost accounting. This chapter examines the nature and extent of management accounting in Indonesia and identifies the factors that encouraged its practice at various stages of economic development.

## II. Characteristics of the Indonesian Economy

Indonesia has several hundred thousand small establishments. A 1970 survey found approximately 18,000 large and medium-sized establishments, of which 2,700 (15%) were large companies. Small enterprises were those with fewer than 20 workers, while the medium-sized had between 20 to 100 and the large companies over 100 over employees. At that time the manufacturing sector was dominated by a few industries, namely the food processing, textile, rubber processing and metal industries, and was hampered by a shortage of credit on reasonable terms (Enthoven, 1977).

Due to her experience under the Dutch, Indonesia had, up to 1967, been very apprehensive of the entry of foreign companies for fear that this might lead to economic colonialism. Deprived of foreign skills and technological involvement, these fears in many ways hindered her economic progress.

In 1967, the Foreign Investment Act was enacted to allow foreign participation in businesses in Indonesia. However the many years of political turmoil and economic exclusion of foreign involvements meant that much of the social and economic infrastructure that was vital to attracting foreign investment was either underdeveloped or non-existent.

The extreme nationalistic approach to foreign participation, including elaborate and tedious red-tape and continuing insistence on local majority ownership and participation, coupled with political uncertainty and the lack of skilled workers deterred foreign venture capital from Indonesia.

For these reasons, although endowed with an immense amount of resources, the economy is still underdeveloped and the manufacturing sector is relatively weak. These factors have also affected accounting development. Enthoven (1977), noted that the accounting systems, procedures and information in most medium and small, and also in large establishments were very poor.

The standard of accounting education is also relatively poor. Out-of-date textbooks are still being used, and, faced with inadequate funds, critical shortage of lecturers, deficiencies in co-ordination of accounting developments and also inadequate infrastructures, the output of accounting graduates has been slow and the quality is low. A weak accounting profession goes hand in hand with a relatively poor accounting education system. In 1977, there were around 800 registered accountants and today, Indonesia has about 3,500 qualified accountants

out of a population of 170 million people.

### III. Management Practices

#### A. General

Enthoven (1977) found in 1977 that old methods of maintaining accounting records were still being followed in Indonesia, while accounting information, when available, was not used effectively for internal and external reporting and managerial decision-making. Financial, management, and cost accounting were not developed in many enterprises to provide information for the analysis, planning and control of enterprise activities, nor were they effectively used for aggregation purposes, including national accounts. Accounting records kept by many establishments were considered outdated by international standards, and companies often maintained two or three types of accounts, e.g. one for tax purposes, one for credit purposes and one for internal purposes.

Cost records were deficient in many large enterprises, and were inadequate for effective allocation of resources and decisions. These observations made by Enthoven in 1977 are still very valid today.

Although management training had been going on since 1958, it had failed in its impact because the training had been too theoretical. The lecturers who conducted the course lacked practical experience and had inadequate knowledge of the methods of instruction. In addition, the poor standard of education had made the transfer of principles into practice almost impossible (Newbigging, 1973).

The Ford Foundation carried out a number of studies between 1969 and 1971 and found that there was a need for development of managers and administrators in all sectors - government, public corporations and private enterprises (including indigenous and joint venture companies).

Traditional management training, with its emphasis on theory rather than practice, was recognised as having limited use for the businessman. The Foundation, in co-operation with the Overseas Development Agency (ODA), decided to concentrate initially on basic analytical skills and their practical application in industry for potential Indonesian management trainers and consultants, to give them realistic exposure to Indonesian business problems and practices.

The other activities carried out by the Foundation were (Newbigging, 1973) :-

1. Development of an Indonesian management training capacity through the training of local consultants, management teachers and personnel from government industries.
2. Support for the establishment and development of the Management Foundation in Surabaya.
3. Retention of a resident consultant to develop plans and support training and consultancy operations of the Management Institute in the University of Indonesia, the Institute for Management Education and Development and the Management Foundation in Surabaya.

## B. Ford Foundation - ODA Project

The Ford Foundation - ODA management practice development programme also included training in accountancy and finance. In this respect, the study by Newbigging (1973) recommended that a British Professor of Finance should be sent to Indonesia to examine training needs in both accountancy and financial management. This would be followed up in 1974 by the visit of an accountancy teacher to develop and conduct training programmes over a period of 3-6 months. Although some short courses were conducted and there was a visit to the UK by a number of Indonesians to study how accounting courses were being conducted, little progress was made to provide continuing support of the programme by way of a resident consultant in Indonesia to ensure that the development of the accounting component was properly run. This aspect of the project fell through because the expert who was initially appointed rejected the terms of the offer and no subsequent effort was made to find another one.

## C. Survey of Management Accounting Practices

### 1. Scope and Nature of Survey

A survey was conducted by V.N. Juwono in 1980 of 89 companies regarding their practice of management accounting techniques in Indonesia. Of these, 60 (67.4%) were local businesses, 13 (14.6%) state-owned enterprises and 16 (18%) joint ventures.

The study sought to establish, inter alia, :-

1. The extent of management accounting practices among local, State-owned and joint venture enterprises.
2. The nature of specific techniques used by these three categories of businesses.
3. The degree of awareness of management accounting techniques.
4. The differences in practices between companies located in Jakarta and elsewhere.
5. The correlation between academic qualifications of staff and the use of management accounting.
6. Impetus for using management accounting techniques.
7. The relationship between the age of the enterprise and the utilisation of management accounting practices.
8. The relationship between the size of the enterprise and the extent of managerial accounting practices.
9. Capital budgeting techniques used.

## 2. The Extent of Management Accounting Practices Among Local, State-Owned and Joint-Venture Enterprises

All the joint venture enterprises surveyed used management accounting techniques. The majority of the Indonesian businesses, on the other hand, did not adopt any form of management accounting techniques. Nearly 52% and 69% of the local businesses and State-owned enterprises respectively in the study fell into this category.

### The Number of Techniques used by Types of Ownership

No. of Management Accounting Techniques Used	Local Businesses	Joint Ventures	State-Owned Enterprises	Total
0	31 (51.7%)	0 (0%)	9 (69.2%)	40 (44.9%)
1	4 (6.7%)	0 (0%)	3 (23.1%)	7 (7.9%)
2	2 (3.3%)	4 (25%)	1 (7.7%)	7 (7.9%)
3	3 (5%)	3 (18.6%)	0 (0%)	6 (6.7%)
4	4 (6.7%)	2 (12.5%)	0 (0%)	6 (6.7%)
5	6 (10%)	1 (6.3%)	0 (0%)	7 (7.9%)
6	1 (1.7%)	2 (12.5%)	0 (0%)	3 (3.4%)
7	3 (5%)	1 (6.3%)	0 (0%)	4 (4.5%)
8	5 (8.2%)	2 (12.5%)	0 (0%)	7 (7.9%)
9	1 (1.7%)	1 (6.3%)	0 (0%)	2 (2.2%)
10	0 (0%)	0 (0%)	0 (0%)	0 (0%)
	60 (100%)	16 (100%)	13 (100%)	89 (100%)

(Source : Juwono, 1980)

None of the respondents used 10 types of techniques. In addition to having the highest number of non-users, the State-owned enterprises also used the least number of techniques.

The study (Juwono, 1980) concluded that joint businesses practised the most techniques, as compared to local and State-owned enterprises. This was because most of the techniques were being used by their parent companies and they therefore had the personnel and knowledge to implement the systems. State-owned enterprise management, on the other hand, was found to be complacent and lacked motivation to be innovative and creative. The majority of businesses in Indonesia, the study concluded, did not know or practise management accounting techniques.



# AWARENESS OF MANAGEMENT ACCOUNTING TECHNIQUES

Technique	Not Aware	Aware But Not Using	Aware And Currently Using	Aware And Used Previously	Total
Break-even Analysis	49 (55.1%)	21 (23.6%)	19 (21.3%)	0 (0%)	89 (100%)
Contribution Reporting	56 (63.0%)	14 (15.7%)	19 (21.3%)	0 (0%)	89 (100%)
Standard Costing	48 (53.9%)	25 (28.1%)	16 (18%)	0 (0%)	89 (100%)
Capital Budgeting	45 (50.6%)	16 (18%)	27 (30.3%)	1 (1.1%)	89 (100%)
Operating Budgeting	41 (46.1%)	11 (12.3%)	37 (41.6%)	0 (0%)	89 (100%)
Responsibility Accounting	53 (59.6%)	6 (6.7%)	30 (33.7%)	0 (0%)	89 (100%)
Inventory Model	55 (61.8%)	16 (18%)	18 (20.2%)	0 (0%)	89 (100%)
Fixed Budget	43 (48.3%)	29 (32.6%)	16 (18%)	1 (1.1%)	89 (100%)
Flexible Pricing	49 (55.1%)	15 (16.8%)	24 (27%)	1 (1.1%)	89 (100%)
Transfer Pricing	59 (66.3%)	18 (20.2%)	12 (13.5%)	0 (0%)	89 (100%)

(Source : Juwono, 1980)

Among the 89 companies studied, 51.7% and 53.9% of the respondents were aware of the fixed budget and operating budget techniques respectively. But, other than that, the majority of the companies were not aware of the other techniques. The proportion of the respondents that was aware of management accounting techniques and using them comprised about 1/4 of the 89 companies. The techniques

that were most commonly used were operating budgeting (41.6%), responsibility accounting (33.7%) and capital budgeting (30.3%), while transfer pricing (13.5%), standard costing (18%) and fixed budget (18%) were the least used techniques.

For those who were aware of the techniques, some of the reasons given for not applying them were lack of staff to implement the system, and the fact that the techniques were not applicable or relevant to the enterprises. For example, standard costing was not utilised because of the erratic price fluctuation of the inputs. The study also noted that the respondents, although they stated that they were aware of the techniques, were confused or ignorant of their actual meaning. One respondent's reason for not using transfer pricing was that the company did not have an overseas operation, whereas in reality, transfer pricing can be practised among local affiliated companies. Also, capital budgeting was confused with capital expenditure budgeting.

### 3. Management Accounting Techniques Used

#### The Use of Different Types of Management Accounting Techniques

##### According to Different Types of Business Ownership

Techniques Used	Local Businesses	Joint Ventures	State Enterprises	Total
Break-even Analysis	16	2	1	19
Contribution Reporting	12	7	-	19
Standard Costing	9	7	-	16
Capital Budgeting	17	9	1	27
Operating Budgeting	21	15	1	37
Responsibility Accounting	20	10	-	30
Inventory Model	12	6	-	18
Fixed Budget	8	6	2	16
Flexible Budget	15	9	-	24
Transfer Pricing	9	3	-	12

(Source : Juwono, 1980)

The most common management accounting techniques being used by local businesses and joint venture enterprises were operating budgeting, responsibility accounting and capital budgeting. The extent of techniques used in State-owned enterprises was found to be deplorable, with break-even analysis, capital budgeting and operating budgeting used in only one instance and fixed budgets was used in just two instances.

The study also found that companies located in Jakarta were more likely to use management accounting techniques than those located elsewhere. 82 (92%) of the respondents were from Jakarta. Six of the

seven respondents from outside Jakarta did not know any of the ten techniques being investigated while one claimed to be aware of operating budgeting, capital budgeting and break-even analysis. The reasons given were management apathy, lack of exposure, inadequate personnel and lack of training facilities.

The academic background of the personnel had an influence on the extent of the techniques used. For example, of the 49 respondents who used management accounting techniques, 67.3% of them obtained the knowledge in university or an equivalent level of study and the other respondents did so through self-study and upgrading courses.

It was also noted that the extent of management accounting techniques used increased with the size of the companies.

Size of Company	No. of Companies	No. of Techniques Used		
		0	1-5	>5
Large	21	6 (28.6%)	6 (28.6%)	9 (42.8%)
Medium	46	18 (39.1%)	21 (45.7%)	7 (15.2%)
Small	22	16 (72.7%)	6 (27.3%)	0 (0%)
Total	89	40	33	16

#### D. Status of Management Accounting Practices

In October 1986 and July 1987, the author visited Indonesia to conduct interviews to obtain first hand information on the actual status of management accounting practices. The interviewees included :

1. Public accountants.
2. Officials and IAI.
3. World Bank accounting experts.
4. Government officials.
5. Lecturers at State universities.
6. A director of the management accounting institute in one of the state universities.
7. Two major Indonesian groups of companies that, together, own more than 150 companies, with many diverse activities including manufacturing, banking and trading. Their views on practices in Indonesian companies generally were also sought.

Although management accounting was taught in most State universities, it has only been introduced to many private universities during the past 3-5 years. Even at the State universities, the subject is theoretically biased and too divorced from practical orientation to be of any benefit for post-graduation implementation. The accounting curriculum stresses financial accounting and management accounting is given a low profile.

The fact that it was introduced only recently to many private universities, coupled with the fact that what has been taught at the State universities is mainly theoretical, is commonly given as one of the reasons for the lack of management accounting among Indonesian

companies.

The professional body suffers from a lack of well-trained members to conduct seminars and lectures for members in order to introduce management accounting techniques and tools. The lecturers also have inadequate practical experience. Unfortunately, with the poor pay structure for lecturers, the incentive to devote more time to better themselves in this area is minimal, as they have to concentrate on other outside jobs, such as public accounting practices or their own businesses to make a decent living. With a weak professional body and inadequately trained and inexperienced lecturers, it is unlikely that the status of management accounting practice can be enhanced. The majority of accounting graduates come from STAN, where government accounting is emphasized. This leaves the State universities to shoulder the burden of teaching management accounting. Even then, upon graduation, all the graduates have to serve a mandatory three-year bond with the government.

The smooth transition from theory to practical implementation is therefore not possible as the government accounting system in itself is so weak. For example, the government financial statements have been perpetually late by at least three years. Without the resources to prepare financial statements it would not be sensible to expect the government to concentrate resources to prepare management accounting information.

The same can be said of private companies. However, the fundamental source of resistance to implementing management accounting systems comes from the owners of the enterprises. Installation takes

up time and resources, and the benefits are not directly identifiable or immediately enjoyed by the owners. This is aggravated by their lack of knowledge in modern management techniques, which makes the owners sceptical, for they feel more at home with their customary ways of conducting their operations, as these have proved useful to them over the years. Companies are usually tightly held and controlled, and the installation of management information systems means having to disclose financial information about their business and trading activities. This goes against their tradition of keeping financial information to themselves and treating this as a well-guarded secret.

The impression gathered from the interviews is that management accounting practices in Indonesia is not widely practised at all and is in an infantile state. The managers and owners do not see any direct benefits and resist any change in their traditional ways of operations. A further factor that contributes to this lack of management accounting practices is the severe shortage of qualified managers, so that there is little appreciation of the importance of management accounting and other modern tools of management.

The present pre-occupation with financial reporting in Indonesia makes any significant shift of interest to management accounting difficult. Given the generally poor standard of financial reporting and book-keeping, the most crucial task is to rectify the shortfalls in this area before any marginal improvements in the maintenance of cost records, and eventually management accounting, can be expected. According to Chandler and Holzer (1984) a low level of management accounting in a country is positively correlated to the existence of deficiencies in financial accounting and reporting systems.

Management and staff who feel more at home with their traditional ways of operation are opposed to modernisation, while resistance to computerisation has resulted in accounting records and books still predominantly being maintained on a manual basis. This hinders the external reporting and managerial decision making processes, for timely and reliable accounting information is not readily available. Cost accounting and budgeting are usually based on well-designed and effective basic systems of financial accounting and without such a financial accounting basis, it is difficult to operate management accounting systems.

At a personal interview in July 1987 with the Executive Secretary of the Co-ordinating Agency for Accounting Development, it was pointed out to the author that the importance of accountancy as a management information system to serve managerial and economic purposes has not been adequately appreciated. Furthermore, training of accountants at the universities is geared towards external reporting, with a heavy emphasis on financial accounting and auditing.

According to Dr. Abdoelkadir, the Executive Secretary of CAAD, from 1988, additional time will be allocated to the teaching of management accounting at the universities with the introduction of a more practical management accounting programme (e.g. case studies) to strengthen the existing programme, which is too theoretically biased. There is no structured continuing professional education for members of IAI at the moment. However, to help upgrade the knowledge and skill of its members, the accounting professional body could be instrumental in organising workshops, seminars and lectures on a regular basis to raise



the standard of professional practice in Indonesia. More important, management staff must be educated on the need to modernise and improve corporate productivity and efficiency.

#### IV. Conclusions

The evidence suggests that management accounting practices are not prevalent in Indonesia, and are mainly confined to joint venture enterprises. As a matter of corporate policy, the practices of the foreign parent companies are usually adopted and foreign expertise and personnel are usually used to set-up and implement the systems. Local companies have been hampered by many factors. Historically, the experiences the Indonesians have had during the 350 years of colonial rule made them suspicious of foreigners and this led to the nationalisation of foreign enterprises in 1957, which deprived Indonesians of modern managerial and technological skills.

Up to 1967, when the foreign investment law was passed to enable minor foreign participation in the economy, this "self-imposed" alienation caused havoc to Indonesia's education, social, economic and political progress.

The accounting profession is weak in that membership is low and little has been done to improve the knowledge and training of the profession. This is aggravated by a poorly conducted and co-ordinated accounting education system, especially at the tertiary levels. Books used were usually out-of-date and very few books had been translated from foreign texts. There was also a lack of trained and dedicated lecturers (as the pay is deplorably low), together with poor

facilities, inadequate funds and a whole host of other problems, which hampered the development of accounting education. The majority of the accountants are in government service and, being poorly paid, they have little incentive to be innovative and or to introduce change. The law requires foreign joint venture accounts to be audited annually and, as such, for a proper set of accounts to be kept. Except for those companies listed on the Stock Exchange, banks and financial intermediaries, local companies need not have their accounts audited. Therefore, where proper maintenance of books is not common, there is little scope for cost records to be maintained. This also inhibits the development and practice of management accounting. Since the legal, institutional and educational structures provide little impetus for development, and are aggravated by resistance and apathy from management, it is difficult to envisage any significant improvement to the present state of affairs.

## CHAPTER 7

### THE ACCOUNTING PROFESSION IN INDONESIA

#### I. Introduction

The development of the accounting profession in Indonesia may be divided into two periods : pre-1957 and post-1957.

This chapter covers the important developments in each of these periods, with emphasis on the reasons and influences for each development.

The significant events can be outlined as follows :

YEAR	DESCRIPTION
1954	Law number 34 was passed concerning the use of the title "Akuntan" ("Accountant")
1957	1) Indonesia revoked the Hague Treaty of 1949 which led to the nationalisation of all Dutch companies in Indonesia. By the early 1960s, all foreign enterprises were nationalised. 2) 23 December 1957, formation of Ikutan Akuntan Indonesia or Indonesia Accountants Institute IAI.
1959	Ministry of Justice approved the Articles of Association of IAI submitted on 19 October 1958.
1961	University Graduate Compulsory Service Act, No.8, 1961 was enacted.

YEAR	DESCRIPTION
1963	First IAI Congress.
1967	<ol style="list-style-type: none"> <li>1) Law No.1 in 1967, Investment of Foreign Capital (PMA) was passed.</li> <li>2) Minister of Finance allowed a foreign accounting firm to establish joint partnership with an Indonesian accounting firm.</li> </ol>
1968	<ol style="list-style-type: none"> <li>1) Law No.6 in 1968, Investment of Local Capital (PMDN) was enacted.</li> <li>2) Another foreign accounting firm was allowed to establish joint partnership with an Indonesian accounting firm.</li> </ol>
1971	Notice 76 was passed by the Minister of Finance, revoking the joint partnerships of Indonesian and foreign accounting firms.
1972	<ol style="list-style-type: none"> <li>1) Notice 25 in 1972 from the Minister of Finance created a committee to develop the money and capital market (BAPEPAM).</li> <li>2) Second IAI Congress was held in January 1972.</li> </ol>
1973	1) Third IAI Congress was held in December 1973, which led to the adoption of Indonesian Generally Accepted Accounting Principles (PAI), Generally Accepted Auditing Standards (NPA) and the Code of Ethics.

YEAR	DESCRIPTION
1976	<p>1) Decision of the President, No.52 of 1976 on the establishment of the capital market.</p> <p>2) IAI became founding member of ASEAN Federation of Accountants and IAI's representatives attended the 8th Asian and Pacific Accountants Conference.</p>
1977	Consortium of Economic Sciences was formed to establish uniform curricula for students of the master's degree in accounting.
1978	IAI-SAP (Public Accountant Section) set up to guide the practice of public accountants, and to specifically update accounting principles and auditing standards.
1979	Minister of Finance issued Law No. 108/KMK.07/1979 setting the terms of reference for the assignment of public accountants to conduct the audit of business enterprises which are obliged to pay corporate tax. Generally, if financial statements were audited by public accountants the company was entitled to a tax concession.
1980	As at 30 October, 208 practising permits had been issued.
1982	Fourth IAI Congress was held on October. During the Congress, the PAI-IAI Committee (Committee of Indonesian Accounting ) was formed. The Committee published several exposure drafts.

YEAR	DESCRIPTION
1984	IAI hosted the 4th ASEAN Federation of Accountants Conference in October.
1986	Fifth IAI Congress was held in August.

## II. Historical Background

According to Hadibroto (1971), up to World War II the Indonesian accounting profession was dominated by the Dutch because of their monopolistic influence over business activities. About 80% of capital invested was of Dutch origin.

Before the Japanese Occupation in 1942, Indonesians were excluded from participating in business activities as covered by the Commercial and Civil Codes, which applied almost exclusively to the Dutch and Europeans. Except for some non-Dutch foreign enterprises, such as English, American, French and Belgian, which employed their own nationals as accountants for their Indonesian operations, nearly all accountants were Dutch.

The Japanese Occupation gave Indonesians the opportunity to enter the field of accountancy, if only due to the necessity to replace the Dutch, who were imprisoned by the Japanese. At the end of 1942, the Ministry of Finance conducted a training programme for civil servants and, at the end of a year's study, the successful students served as tax auditors. Indonesians were given top posts, but were treated as juniors by the Japanese, since they were given no real authority for decision-making.

After Indonesia gained political independence from the Dutch in 1949, many of the Dutch returned to Indonesia to continue their practices as public accountants or to serve as foreign experts with the Indonesian government, for one of the terms of the Hague Treaty of 1949 between Indonesia and the Netherlands, was the preservation of Dutch enterprises' sovereignty in Indonesia after independence. In fact, many Dutch enterprises continued their operations in Indonesia after the Japanese surrender in 1945.

In 1954, Law No.34 was enacted (see Appendix 7-I) to govern the use of title "Akuntan" or accountant. Prior to this law, anyone could call himself an accountant. However, under this law, the title of accountant could be used only by those who had earned a master's degree in accounting from a State university or from other accredited institutions, or who had earned a master's degree from an uncredited institution and had also passed an examination administered by an "Expert Committee", appointed by the Ministry of Education and Culture. The law required new accountants to register with the Directorate of State Accountancy of the Ministry of Finance upon graduation from an accredited institution or "Expert Committee" examination.

In 1953, the University of Indonesia became the first tertiary institution to offer a programme of study leading to a master's degree in accounting under the Dutch system. Prior to this, those who wished to acquire a professional accounting qualification had to go to Holland. In 1957, the first batch of four Indonesian graduates were produced (Abdoelkadir 1982).

Other State universities outside Jakarta began to conduct accounting courses. These were :

1. Universitas Pajajaran in Bandung (1961).
2. Universitas Sumatera Utara in Medan (1962).
3. Universitas Airlangga in Surabaya (1962).
4. Universitas Gajah Mada in Yogyakarta (1964).
5. Universitas Briwijaya in Malang (1977).
6. Universitas Andalas in Padang (1978).

Some private universities also began to offer courses in accounting : Universitas Parahiyangan (1965) in Bandung, Universitas Trisakti (1969), Universitas Tarumanegara (1972) and Universitas Atmajaya (1973) in Jakarta. Graduates from private universities are not eligible for admission to the IAI as they are not recognised by Law 34 of 1954 (see Appendix 7-I).

In 1957, the Ministry of Finance established a school to train accountants to work for the ministry. Originally, it was called Sekolah Tinggi Ilmu Keuangan Negara (STIKN). The name was changed Institut Ilmu Keuangan (IIK) and finally to Sekolah Tinggi Akuntan Negara (STAN), its present designation.

Some universities adopted the Dutch curriculum, while others followed the American system. This dualism persisted until 1977, when the Ministry of Education and Culture formed the Consortium of Economic Sciences (CES). The CES issued a ruling which directed universities to follow a uniform curriculum in preparing students for a master's degree in accounting (Abdoealkadir 1982). Essentially, the system switched to an American orientation.



Coinciding with the graduation of the first batch of local accountants in Indonesia in 1957, the Indonesian government unilaterally breached the Hague Treaty of 1949 by nationalising all Dutch businesses in Indonesia. This caused, inter alia, an exodus of Dutch accountants from Indonesia.

This nationalisation had a significant impact on the accounting profession (Sapiie, 1980) :

1. The return of Dutch teaching staff to the Netherland resulted in a grave shortage of accounting teachers. To temporarily overcome this, with assistance from the Ford Foundation, Professor Sumitro of the University of Indonesia signed a co-operative agreement with the University of California (Berkeley), which was designed to provide a regular stream of Americans from Berkeley to teach in Indonesia. At the same time, the University of Indonesia was to send some of its graduates to USA to study.
2. The exit of the Dutch also left a vacuum in the Department of Finance, for the Dutch previously formed the core group of specialists, advisers and trainers.
3. Foreign public practices, mainly of Dutch origin, whose major clients were Dutch enterprises, had to close shop.
4. The flow of Dutch accounting periodicals, journals, books and other academic resources, which used to be the main materials for accounting students in Indonesia was discontinued.

This void was filled by American literature, largely due to co-operative efforts between American and Indonesian universities, through the assistance of international bodies such as the Ford Foundation. Because of the poor standard of English and shortage

of funds, little progress was made.

The initiative to form an Indonesian professional accounting body was taken by Professor R. Sumardjo Tjitrosidojo in 1957, who, together with six fellow Indonesians (Abutari, Tio Po Tjang, Tan Eng Oen, Tang Siu Tjhan, Liem Kwie Liang and The Tik Him), all of whom were graduates from Holland, and four recent Indonesian graduates from the University of Indonesia (Basuki Siddharta, Hendara Dermawan, Tan Tong Djoe and Go Tie Siem), established the Ikutan Akuntan Indonesia or the Indonesian Accountants Institute.

At the first meeting on 17 October 1957, the objectives of IAI were laid down (Akuntansi, No.19 Thn. V, Pebruari 1986). These were :

1. To help accomplish Law No.34 of 1954, including the compilation of labour laws, ethical rules etc..
2. To ensure adherence to the law.
3. To assist in upgrading the quality of accounting education.
4. To hold meetings and discussions among members on theoretical and practical aspects of accounting.

Among the resolutions passed at the meeting were :

1. To form a committee to prepare the Articles of Association of IAI.
2. To seek views on the formation and objectives of IAI.

At a second meeting held on 5 December 1957, the following matters were discussed:

1. The possibility of foreigners being accepted as members of IAI.
2. The collection of fees.
3. The number of office bearers and the duration of office.

4. The organisation of IAI conferences.
5. The education of assistant accountants.
6. Legal matters.
7. The number of meetings to be held annually.
8. The restriction of unqualified people professing to be accountants.

The IAI was officially formed at the third meeting on 23 December 1957, when office bearers were appointed and the Articles of the Institute were discussed.

After a series of fortnightly meetings to discuss the Institute's Articles of Association, the formal documents were completed on 15 May 1958 and submitted to the Minister of Justice, who approved the Articles and regulations of IAI on 11 February 1958 (Sapiie, 1980).

The original objectives have been refined since its inception and these include :

1. The setting up of a discipline of study on which the profession should be based.
2. The preparation of a curriculum for the attainment of this specified discipline.
3. The adoption of standards on the qualification of candidates for membership and the procedure for the formal acceptance of members.
4. The adoption of standards to govern the relationship of accountants with their clients and with the public in general.
5. The establishment of an organisation to look after the professional development of members and the fulfilment of their responsibilities to the public.

### III. Membership

Only those graduates recognised under Law 34 of 1954 are eligible for admission to IAI. The growth of membership has been relatively slow, the main reason being the inability of the tertiary institutions to produce enough graduates. Since 1960, the number of accounting graduates from State universities and STAN has been 5,269. In 1960, IAI had 30 members. The number rose to 513 and 2,175 in 1970 and 1980 respectively. By 1986, there were 3,316 members. The average annual number of admission to the IAI between 1960 to 1970 was about 50 ; however, for the 10 years to 1980, admissions averaged about 160 per year and increased to about 190 per year from 1981 to 1986. Among the main reasons for the slow rate of increase in the output of accounting graduates are the lack of lecturers, inadequate books and literature, lack of funds, poor co-ordination of accounting education and dualism in the accounting educational system.

The high concentration of qualified accountants in the government and quasi-government sectors is understandable, partly because the government owns the majority of the large corporations in Indonesia and partly because of the compulsory requirement for accounting graduates to serve the government for at least three years (Act No.8, 1961, University graduate compulsory service, see Appendix 7-II). Because of the out-of-date Commercial Code, in which auditing is not a requirement for local enterprises, and the dormant nature of the capital market, it is not surprising that public accounting profession's growth in Indonesia has been relatively slow compared with other more developed countries.

In an unpublished report by the World Bank in 1985, it was noted that there were approximately 70,000 people working in the accounting field. Of these, only 4,000 were graduate accountants with a Doctorandus degree. About 2,400 of these graduates work for the government and only 300 are in public accounting practice. Of the graduates, only 2,000 were registered members of the IAI and even fewer, about 1,000 actually pay their fees of Rp. 2,500 per month.

It also noted that the IAI is weak and needs to be strengthened, and that there is a need to prepare a development plan for the accounting profession. To this end, the report proposed that the Executive Secretary of the Co-ordinating Agency for Accounting Development (CAAD) and the governing council of IAI work out a development plan that covers the following areas :

1. Steps necessary to ensure continued promulgation of accounting principles.
2. Plan to acquire permanent premises.
3. Library facilities.
4. Membership drive.
5. Continuing professional education.

On 1 May 1978, the IAI established the IAI-SAP (Public Accountants Section) with the task of guiding the practice of public accounting by members and specifically to update the accounting principles (PAI) and auditing standards (NPA) adopted at the Third Congress. The IAI-SAP is also expected to involve itself with the continuing education of members and to keep in touch with accounting developments overseas.

To become a member of Seksi Akuntan Publik (SAP), an accountant must pay an initial fee of Rp. 50,000 and a monthly subscription of Rp. 5,000. In August 1981, the section had 172 members and by December 1986, it had 282 members.

To open a public practice, a person must possess the title of accountant as stipulated by Law No.34/1954 and must have worked for the government for a period of at least three years. This minimum work period is known as "Wajib Kerja Sarjana" and is governed by Act No.8/1961 concerning university graduates compulsory service. A similar three-year period of work for the government is also required of graduates from colleges of medicine, dentistry, veterinary medicine and pharmacy. The purpose of this requirement is to ensure that the services of these professionals can be utilised in government work, especially outside the province of Java. This may also explain the high concentration of accountants in the government and quasi-government sectors. Of the 3,316 active members of IAI in December 1986, 335 were in public accounting, 623 in the commercial sector, 120 academic and the rest ( 2,238 or 67%) were employed in the government sector. The membership had increased to about 3,500 by October 1987.

An accountant is eligible to apply for a permit to practise from the Directorate of State Accountancy of the Ministry of Finance on completion of his compulsory service with the government. As of 30 October 1980, the Directorate had issued 208 permits (Abdoelkadir, 1980), and by 20 October 1986, there were 312 public accounting firms in Indonesia.

#### IV. Foreign Accounting Firms

Ever since the expulsion of foreign enterprises and firms from Indonesia between 1957 and the early 1960s, Indonesia's policies have been protective to avoid economic colonialism of her economy.

In 1967, to provide impetus for economic growth, especially in the private sector which had been overshadowed by the government, Law No.1 was passed to promote foreign capital investment. In 1968, Law No.6 was enacted to encourage local capital investment. It was inevitable that, by opening the door to foreign capital for the first time since 1957, there would be a greater need for accountants. The exclusion of foreign accounting firms to service these companies and to provide specialist skills could no longer be continued. These foreign subsidiaries also had to account to their holding companies or overseas investors. Foreign accountants are usually preferred to take charge of their Indonesian accounting functions, since they are more familiar with their corporate accounting systems than are local accountants. There were also reservations about the competence of Indonesian trained accountants as the educational institutions are slow to adapt to developments overseas.

In the hope of upgrading the technical and professional skills of local practising accountants, the Minister of Finance in 1967 granted a local practice, Santoso Harsokusmo, permission to establish a joint partnership with Arthur Young of USA. In 1968, Utomo Josodirjo was also granted permission to establish a joint partnership with Sicip, Gorres, Velayo & Co. (SGV). One of the conditions which had to be fulfilled by the joint partnership was that the office must show that

it had at least five foreign companies as its clients.

Other conditions were :

1. They were not allowed to audit State industries, perhaps to deny foreign firms access to information on State enterprises.
2. They were not allowed to invest foreign capital in the practice.
3. The assignment of foreign accountants to Indonesia must be in line with Law No.34 of 1954.
4. There should be significant contributions to education and training of Indonesian accountants.
5. It would contribute to the development of the profession in Indonesia.
6. It would adhere to government regulations.

In August 1971, the Minister of Finance withdrew permission for the two foreign firms to engage in joint partnerships and passed Notice 76, 1971, in an attempt to protect the interests of Indonesian accountants. Part 2 of the Notice requested the headquarters of these two foreign firms, i.e. in the USA and the Philippines, to grant reciprocal practising privileges to Indonesian accountants in these two countries. The request was not met and the joint partnership arrangements were dissolved. All foreign accounting firms can now only be associated with Indonesian accounting firms as correspondents, i.e. in an advisory capacity. Notice 76, 1971, virtually destroyed the monopoly which Arthur Young and SGV had held (Sapiie 1980). The time frame of each correspondent agreement was set at three years.



Several foreign accounting firms have since established correspondent relationships with Indonesian practices. They are :

1. Go Tie Siem with Turquand Young since 1971, and with Klijnveld Kraijenhof & Co. since 1974.
2. Tan Eng Oen with Price Waterhouse since 1971.
3. Sujono Sudomo with Peat, Marwick & Mitchell between 1971 to 1977.
4. Sudjendro with Peat, Marwick & Mitchell since 1977.
5. Suparman with Coopers & Lybrand between 1971 to 1979.
6. DLP Siregar with Coopers & Lybrand between 1979 to October 1987.
7. Siddharta & Co. with Coopers & Lybrand since October 1987.
8. Hendra Dermawan with Touche Ross International since 1975.

Foreign accounting firms are therefore not allowed to practise on their own in Indonesia. On 28 December 1976, the Minister of Finance issued Notice No.1681/MK/V/12/76 (see Appendix 7-III) to replace Notice 76 of 1971. The new statement did not require reciprocation of audit recognition over national boundaries and extended the time frame for joint correspondents from three to five years.

The main purpose of Notice 1681 was to encourage the transfer of skills and knowledge from foreign accounting firms to local correspondent firms so that by 1981, dependence upon foreign accountants could be eradicated (Sapiie, 1980).

According to Abdoelkadir (1982) foreign accounting firms have displayed little interest in changing their legal status, for they are apparently satisfied with the correspondent relationship. Being profit oriented, they may be unwilling to commit their resources to train Indonesians for five years, possibly because of the uncertain nature of

the correspondent agreement which may be revoked by the government after five years or earlier. In reality, foreign firms under the cover of correspondent status are aggressive in soliciting clients and one could understand the benefits arising from this compared with the burden of training Indonesians to be good accountants.

Notice 003/PM/1977 on "Guidelines to Issue of Shares" released by the Stock Exchange (BAPEPAM) in 1977, is also biased against foreign public accountants because reports from the latter will not be given consideration unless the foreign accounting firm is a joint partner with an Indonesian national firm of accountants (Sapiie, 1980).

#### V. Accounting Standards And Pronouncements

At the Third IAI Congress held in December 1973, the members approved and adopted the generally accepted accounting principles or Prinsip Akuntansi Indonesia (PAI) and auditing standards or Norma Pemeriksaan Akuntan (NPA) in Indonesia. The GAAP or Prinsip Akuntansi Indonesia (PAI) are modelled upon Accounting Research Study No.7 entitled "Inventory of GAAP For Business Enterprises" published by the American Institute of Certified Public Accountants in 1965. In the absence of authority within the GAAP, reference to the American Financial Accounting Standards Board (FASB) and the International Accounting Standards Committee pronouncements may be sought for guidance (SGV Group, 1984).

The NPA summarises the criteria for conducting an audit. It is a general guideline for public accountants to ensure uniformity in the quality of work. The NPA did not explain auditing principles as it presumed that these are understood by all accountants (Sapiee, 1980).

The principles and procedures expounded in the PAI are still used as the basis of accounting procedures in Indonesia, and have the approval of several institutions, such as banks and the tax authorities.

Since 1973 the PAI were based on the American guidelines established in the mid-1960s, they do not cover several accounting matters and problems, which were dealt with in the USA after that date, e.g. deferred taxation.

A Code of Ethics was also adopted to regulate the professional conduct of members, including, inter alia, advertising, confidentiality and professional independence.

At the Fourth IAI Congress held in October 1982, the PAI-IAI Committee (Committee of Indonesian Accounting) recommended the publication of several new exposure drafts (Sembiring, 1984). These were :

1. Principles of Indonesian Accountancy, 1983.
2. Statement No.1 : Accounting for Foreign Currency Transactions and Translations.
3. Statement No.2 : Capitalisation of Interest During Construction Period.

In addition, the Committee on Auditing Standards (NPA) has also issued three exposure drafts :

1. Supplement No.1 : Communication Between Predecessor and Successor Auditor.
2. Supplement No.2 : Client Representation Letter.
3. Supplement No.3 : Audit Report on Comparative Financial Statements.

#### VI. International Affiliations and Conferences

IAI was one of the founding members of the ASEAN Federation of Accountants (AFA) in 1976. In the same year, IAI also sent representatives to attend the Eighth Conference of the Asia and Pacific Accountants in Hong Kong.

Since then, IAI has regularly participated in international conferences, and in October 1984, hosted the Fourth AFA conference.

Since its inception, IAI has organised five congresses :

First IAI Congress	September 1963.
Second IAI Congress	January 1972.
Third IAI Congress	December 1973.
Fourth IAI Congress	October 1982.
Fifth IAI Congress	August 1986.

## VII. Conclusions

The period prior to 1957 saw the profession of accountancy in Indonesia as the exclusive preserve of foreigners, particularly the Dutch. With the formation of IAI in 1957 there was a reversal of the earlier trend. Only relevant accounting graduates (including those Indonesians trained and qualified under the Dutch system) recognised by Law No.34 of 1954, could join IAI and call themselves accountants. Because of this closed-door policy, foreigners are not allowed to practise in Indonesia.

Since the purge of foreign enterprises and accounting firms between 1957 and the early 1960s, it was only in 1976 and 1977 respectively, that two foreign accounting firms were allowed to practise in Indonesia through joint partnership arrangements. This privilege was revoked in 1971 and since then, foreign accounting firms can only operate as correspondent firms in a consultative capacity. The result is that foreign accounting firms operate under difficult conditions, which deter them from transferring expertise and skills. This may explain why the Indonesian accounting profession has not developed after all these years. Also, most major enterprises are government owned and are therefore audited by government auditors. Foreign accounting firms are prohibited from such audits because of government interest. The dormant nature of the Indonesian stock exchange, in which there are only 24 companies listed as at October 1987 provides very little impetus for growth in public accounting. Last but not least, is the sad state of accounting education in Indonesia. Despite efforts to upgrade and establish a strong educational structure for the development and training of accountants,

little improvement has been made. This may be attributed to the following factors :

1. Lack of well-trained lecturers.
2. Low salaries for academic staff. Most lecturers need to have more than one job or source of income. As such, it is difficult to have dedicated lecturers and lectures may have to be cancelled because lecturers are busy with their other jobs.
3. Lack of textbooks, journals and periodicals. Moreover, most of the materials are out-of-date, left by the Dutch or imported from the Americans in the 1960s. Unfortunately, most students have very poor command of English, so that even with the most recent materials, students may have problems in understanding them.
4. Lack of co-ordination among State universities and private universities. This was particularly critical prior to 1977, the year the Consortium of Economic Sciences was established to eradicate dualism in the accounting educational systems (i.e. the American and the Dutch). Although matters improved, dualism is not totally eradicated, especially at the accounting technician level, where out-of-date Dutch textbooks are still used. With the establishment of the Co-ordinating Agency for Accounting Development (CAAD) in 1985, it is hoped that the standard of accounting education will improve. CAAD was jointly established in February 1985 by the Ministry of Finance and the Ministry of Education and Culture to co-ordinate accounting education and the World Bank and government accounting projects in Indonesia. If appropriate, it may obtain the assistance of established professional institutions from overseas and a full-time consultant

to strengthen the IAI, the cost to be shared by the IAI and the foreign professional association. To date, nothing has been done in this direction and, with a shortage of manpower and funds, it may be difficult to see any noticeable improvement in the near future.

5. The weak educational structure stifles the training and education of accountants in Indonesia, which may explain why there are just over 3,000 accountants in Indonesia in 1986, compared with its population of about 170 million.

Although the IAI adopted GAAP and GAAS in 1973, much of this is out-of-date or irrelevant, and little effort has been made to revise them. Perhaps with the adoption of International Accounting Standards, (which members of AFA have agreed to adopt) the problem of falling behind development overseas may be overcome.

On the other hand, one may question the usefulness of the IAS, given that all major enterprises are government owned. What is more relevant is a series of standards for public sector accounting, and efforts should be concentrated on developing standards and guidelines for government accounting instead of for the very few private enterprises. Moreover, most private companies are sole proprietorships, partnerships or family-owned, and as such corporate reporting and auditing are not significant to them.

Indeed, it is interesting to note that, although the post-1957 period saw the development of IAI and thus better control over the accounting profession, many of the problems of the pre-1957 period still remain today.



THE DEVELOPMENT OF THE SECURITIES INDUSTRY IN INDONESIA

I. Historical Background

According to Sereh (1978), the capital market in Indonesia is not new, and a stock exchange has existed there since 1912. Himawan (1980), on the other hand, suggests that the Dutch established the first Indonesian Stock Exchange in 1818 to attract private capital to exploit the economic resources of Indonesia. 1912 was the year the Dutch government modernised the stock exchange by establishing a Vereeniging Voor den Effecten Handel (Association of the Trading of Stocks) consisting of twelve brokers. At that time, the exchange dealt only with foreign issues. In fact, the pre-independence market was basically designed to meet the needs of the Dutch business community and Dutch individual investors (The Indonesian Capital Market, Fact Book 1984).

The stock exchange was closed during the Japanese occupation between 1942 to 1945 and through to 1952, when it was reopened by virtue of the provisions of the Stock Exchange Act No.15/1952. It continued to operate until 1958, when nationalisation of Dutch businesses, together with the exit of Dutch nationals following Independence, contributed to the virtual demise of the Exchange. Between 1951 and 1958, stocks of seventy-four Dutch enterprises and twenty-seven American corporations were traded in the Indonesian capital market.

The period following Independence saw a deterioration of the economy, and the capital market could not develop due to many factors. There was the policy of Confrontation which resulted in a waste of national resources in open hostilities against Malaya and Singapore in the early 1960s. Also, the departure of the Dutch left a power vacuum which led to a struggle between political factions. The communist insurgence, which gained widespread support from the minority ethnic Chinese community, added further chaos to the unstable economic and political situation. The astronomically high rate of inflation at that time shattered both the people's and investors' confidence in the currency, and resulted in the government having difficulty in convincing the Indonesian public of the merits of investing in stocks. Being unfamiliar with such investments, they prefer to invest their capital in gold or jewellery or in time deposits (Himawan, 1980). All of these factors hindered the growth of a capital market in Indonesia and, by 1965, the capital market ground to a halt. Finally, Indonesians' memories of their colonial past made them suspicious of foreign capital and investment.

More recent Indonesian leadership recognises the importance of developing private capitalism and wider share-ownership. On 27 December 1976, Government Regulation No.52 was enacted to re-establish a capital market for Indonesia (see Appendix 8-I for the decree) and to accelerate the process of extending public participation in private companies. This was intended to promote an equitable distribution of income and to encourage further public participation in the mobilization of funds for financing national development. To make it attractive for private companies to sell their shares, tax relief

incentives were considered. These include, inter alia, the reduction of the maximum tax rate of 45 per cent to 35 per cent if the company sells at least 30 per cent of its shares through the exchange. If the company sells at least 51 per cent of its shares through the exchange, the company tax rate is reduced to 25 per cent. This tax relief was given for a period of five years from the fiscal year in which the company sells either 30 per cent or 50 per cent of its shares, provided that the sale takes place before January 1982. Capital gains resulting from the buying and selling of shares are exempt from personal income tax. No tax is levied on interest, dividends or royalties received from shares or certificates (Sereh, 1978). On 10 August 1977, the stock exchange was officially declared open by President Suharto.

## II. Capital Market Organisation

The institutions established to operate the capital market in Indonesia are described in the President's Decree of 1976, as are their functions. The institutions consist of a Capital Policy Council (see Part II of the Decree), and a Capital Market Executive Agency also called Badan Pelaksana Pasar Modal (or BAPEPAM) (see Part III of the Decree) and P.T. Danareksa.

# 1. The Capital Market Policy Council

The functions of the Council according to Article 4 of the 1976 Presidential Decree are two-fold:

- A. To present guidelines and policy alternatives to the Minister of Finance in the execution of his powers in respect of the capital market.
- B. To present guidelines and policy alternatives to the Minister of Finance for the execution of his powers relating to P.T. Danareksa.

The Council consists of the following members (Article 3):

- A. The Minister of Finance.
- B. The Minister of State for Administrative Reform/Vice Chairman of the National Development Planning Agency.
- C. The Minister of Trade.
- D. The Secretary of the Cabinet.
- E. The Governor of Bank of Indonesia.
- F. The Chairman of the Capital Investment Coordinating Board.
- G. The Minister of Industry.
- H. The Minister/Secretary of State.

[(G) and (H) are additions to Article 3 of the 1976 Decree and are extracted from The Indonesian Capital Market Fact Book, 1984].

## 2. Capital Market Executive Agency (BAPEPAM)

BAPEPAM is established to control and operate the capital market in accordance with the policies outlined by the government (Article 8). The organisation structure of BAPEPAM is set out in Appendix 8-II. According to Article 9 of the 1976 Presidential decree, its functions are:

- A. To evaluate companies seeking listing and to ensure that the listing requirements are complied with.
- B. To operate an effective and efficient exchange.
- C. To monitor the progress of companies listed on the exchange.

## 3. P.T. Danareksa

P.T. Danareksa is a state-owned limited liability company and is basically an investment trust company set up by the 1976 Presidential decree with a paid-up capital of Rp. 10 billion and an authorised capital of Rp 50 billion (Article 17 of the 1976 Presidential Decree).

The trust invests in shares on the stock exchange and sells back-to-back share units to the public. Its objectives are to accelerate the process of public participation in the ownership of shares and to promote an equitable distribution of income by selling units of low denomination throughout Indonesia. A third, but unwritten, function is considered to be that of a market stabilizer by stepping in and buying or selling shares as required. The purchase of shares on the stock exchange is restricted to Indonesian citizens and certain nominated Indonesian corporations and institutions (Price Waterhouse, 1981).

P.T. Danareksa has first priority to buy at least 50 per cent of the

shares offered by companies in the capital market (Article 18 of the 1976 Presidential decree). Currently, it issues its own bearer certificates related to specific companies. These certificates are backed by shares held in trust in the name of P.T. Danareksa. Dividends declared are accrued to the holders of P.T. Danareksa bearer certificates and P.T. Danareksa may buy back its certificates at a price determined by the price of the related shares on the stock exchange. To prevent the accumulation of certificates of a company by any one individual or one group of individuals, each individual is restricted to one hundred unit certificates (Article 21). The ultimate aim is for P.T. Danareksa to operate as a unit trust and to offer the small investor the opportunity to spread his risk and to benefit from supervised management (Sereh, 1978).

P.T. Danareksa, as a member of the exchange, can also deal in the short-term money market and may act as an underwriter. In fact, it played a major role in the listing of the first Indonesian company, P.T. Semen Cibinong, in 1977. As a government-backed company, especially with the close collaboration of BAPEPAM and the Capital Market Policy Council, it holds a monopoly over the underwriting function in the exchange, since the mere acceptance for underwriting by P.T. Danareksa is as good as an endorsement by BAPEPAM for a company seeking listing on the exchange.

Up to the end of 1984, the company had issued three types of back-to-back certificates with a dividend payment schedule being aligned with the dividend payments of the stocks issued by the investee companies. The amount of the back-to-back dividend certificate is the same as the amount of dividend on the stock. It has also issued four

mutual fund certificates. Both types of certificates are traded over the counter.

### III. Failure of the Exchange

By the end of 1984, the number of companies listed on the exchange was 24, which is exceptionally low by any standard. According to Logoraj (1979), the main drawback to the growth of the capital market is the exposure of the company to publicity on listing, with the requirement to disclose shareholders identities and the publication of corporate results and balance sheets.

Writing in 1974, Briston observed that there is no chance for a capital market to develop in the absence of a rigorous Companies Act and a strong accountancy profession to enforce it in Indonesia. It is clearly still difficult for a national capital market to develop, because neither the public nor the financial institutions would be prepared to invest unless listed companies were made subject to financial regulations and to an annual audit. A further drawback to economic progress is the absence of accountants to act as financial managers in industry. Logaraj (1979) also argued that the existence of stringent regulations on corporate disclosure and activities discourages companies to seek listing.

However, a major reason for the lack of interest is the absence of a rigorous Companies Act. The present Commercial Code of Indonesia is about 140 years old and is grossly out-of-date. Financial reporting is not mandatory under the Code and it does not specify the form or content of financial statements or the need for an audit. Had

the Commercial Code been brought up to date with current business practice as in many developed economies, financial disclosure would have provided an impetus for a more developed capital market. As it is now, the mere discrimination between listed companies (which have to disclose and comply with stringent regulations) and non-listed companies provides a disincentive to the former, as the disclosure of financial statements is not and has never been a normal practice in Indonesia. If Indonesia had a long history like Singapore in which the disclosure of financial statements was made mandatory by the Companies Act as early as 1857, fear of disclosure or safeguarding of corporate information would not have been so strong a deterrent.

The Stock Exchange Building in Central Jakarta epitomises the stock market in Indonesia. Opened in 1981, it is a modern and impressive edifice but almost entirely devoid of activity. The boards, desks and telephones are all in place on the spacious trading floor, but the buyers and sellers are conspicuous by their absence (McLeod, 1984).

McLeod (1984) went on to state that though there are many registered stockbrokers, few bother to attend the Jakarta stock exchange on all trading days. What business there is can usually be completed within a short space of time, and the value of shares sold in a typical day's trading is absurdly small in comparison with the facilities made available for this purpose.

McLeod's observations in 1984 were also confirmed by a visit to the Jakarta stock exchange in February 1986. Little seems to have changed. The number of companies listed in the exchange as at 31



December 1984, was 24 (see Appendix 8-III). Although the number of shares listed since 1977 has increased from about 260,000 shares to nearly 580 million shares by the end of 1985, the market value of listed stocks had failed to match up this increase proportionally. In fact, since 1983, the market value of the listed shares had been decreasing relative to previous years. The Indonesia composite stock price index has also been on the decline since 1982 (see Appendix 8-IV).

The profile of the members of the exchange is as follows :

Institution	No. of Members
1. Banking Institutions	28
2. Non-Banking Institutions	11
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Total	39
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(Source : The Indonesian Capital Market, Fact Book 1984)

Although there were 39 members, only 28 traded in 1984. It is interesting to note that there are more members in the exchange than the number of listed companies. There were nearly two members to each company listed.

The trading volume since 1984 has fallen to almost the 1980 level and the annual sales value has also deteriorated, dropping about 80 per cent compared with the 1983 sales value (see Appendix 8-V). In its first year of operation in 1977, 15,000 shares (or 150 shares per day) were traded, valued at Rp. 154 million (or Rp. 1.6 million per day). By 1986, the trading volume had increased to 1.4 million shares (or 5,768 shares per day) with a sales value of Rp. 1,813

million (or Rp. 7.3 million per day). In contrast to the inactive nature of the Jakarta stock exchange, in 1977, the Stock Exchange of Singapore recorded a sales volume of 643,806 shares, valued at about S\$1.2 billion. The turnover was about 3 billion shares in 1985 with a sales value of S\$6.3 billion. In 1986, the trading volume was 4 billion shares, valued at about S\$8 billion.

The insignificant nature of the Indonesian capital market can be measured by its market size as a percentage of her Gross Domestic Product. As at December 1986, it stood at 0.6% making it the smallest in the world (The Straits Times, 6 April 1987).

Of the 24 companies listed on the exchange, 18 are foreign joint-ventures. The Director General for Domestic Monetary Affairs in June 1987 emphasised that the exchange would continue to be off-limits to foreign buyers. The Straits Times, on 24 June 1987, reported that although many companies, including foreign ventures, have long wanted to use the capital market to raise funds (they considered this a cheaper alternative to bank loans which carry exorbitant interest rates), there was a lack of interest from the public who preferred to invest in high yielding time deposits. With foreigners excluded from investing in the exchange and the apathy shown by the locals, there is very little scope for the exchange to expand (The Straits Times, 24 June 1987).

Besides being the smallest equity market, according to a report in The Straits Times of 17 May 1986, the Jakarta stock exchange is one of the world's least active financial institutions. This has prompted the

government to attempt to revive it. The share values of the 24 listed companies have been steadily falling; the World Bank suggests that to operate efficiently, the stock exchange should have at least 100 companies. According to the Chairman of Indonesia's Investment Coordinating Board, the activity in the exchange has been sluggish since its opening nine years ago. The Composite Share Index stood at 65.81 on 16 May 1986, compared to 100 in August 1982. Trading volume on 16 May totalled just 3,000 shares, yet the total value of shares available on the market is US\$58 million.

Bankers attribute the underdeveloped capital market to the existence of trading restrictions (e.g. prohibition of foreign nationals from investing in the exchange) and the lack of obligation of companies to publish detailed results. The Minister of Finance added that companies selling shares did not usually provide adequate information and as a result, the business world and the general public were reluctant to buy shares. Companies were urged to give more information to the public to encourage wider interest in investing through the exchange. A package of economic measures was introduced to give special concessions to foreign companies selling a proportion of shares on the stock market, while P.T. Danareksa planned to start an Indonesia fund in US dollar certificates which could be sold abroad. In the nine years of operation, it has sold 11.2 million shares to 2.3 million people.

McLeod (1984) listed the following reasons for the lack of activity and slow growth of the Indonesian Capital market :

1. In respect of domestic companies, there is a strong desire to avoid the dilution of ownership that results from a public issue - all

the listings to date have been foreign or joint-venture firms.

2. Although there is an official requirement for at least 50 per cent of joint-venture companies to be in Indonesian hands by 1985, this does not imply that such companies are forced to seek listings.
3. Many companies are encouraged to rely on State Bank finance rather than equity funding, because of low interest rates.
4. Finance is also available from other sources (such as Investment Finance Corporations (IFCs) and Development Finance Corporation (CDFCs), and suppliers of plant and equipment. The significance of profit reinvestment should also not be underrated.
5. The public disclosure requirements associated with listing are a decided disadvantage for companies which traditionally negotiate their tax liabilities with taxation officials, as is often the case in Indonesia.
6. The existence of competing investments should be stressed. As well as reasonably attractive time and saving deposits, individuals commonly invest in tangible assets such as gold and real estate, not to mention their own small enterprises.

One extreme interpretation of the failure of stock exchange activity in Indonesia is the incompatibility of foreign law with adat law (i.e. customary or living law). Western legal processes, like foreign investment law, company law, bank credit, the stock exchange, anti-trust law, consumer protection and labour unions, could not work in Indonesia, because these are absent in adat law. Thus, a bureaucratic law which does not incorporate adat elements is void, because such a bureaucratic law becomes foreign to Indonesian values

(Himawan, 1980).

Although the new investment regulations are aimed at encouraging companies to obtain listing on the exchange, it will be some time before any noticeable results can be achieved. Corporate disclosure is the exception rather than the rule in Indonesia and, if it is to be made acceptable, the out-of-date Commercial Code must be revised to make the preparation and disclosure of financial statements mandatory for at least all limited liability companies. Also, listed companies would be required to meet the stock exchange requirements in addition to the Commercial Code. The whole infrastructure supporting the capital market, such as the financial institutions (e.g. banks), professional bodies (e.g. qualified analysts, accountants and auditors) and the stockbroking community, needs to be strengthened to provide sophisticated and sound expertise to facilitate such development.

The strict control over foreign companies' operations and ownership have affected foreign investment into Indonesia. Foreign investment fell to US\$ 859 million in 1985 from a record of US\$2.88 billion in 1983. The total for the future is rather uncertain.

In October 1986, the Indonesian government announced that foreign firms will be allowed to buy shares in Indonesian companies to attract investment from overseas. Previously, foreign investors could set up joint ventures only with a maximum initial equity of 80%. Under the new deregulation policy, foreign investors would be allowed to buy up to 80% of shares if the venture assists the financial situation or export performance of a company. In cases where they cannot find an Indonesian partner able to raise the necessary 20% equity, foreign

investors will also be allowed to own up to 95% of equity in a joint venture. Because of declining oil revenue, the government is encouraging joint ventures which would promote the export of Indonesian goods (The Straits Times, 27 October 1986). This move follows Indonesia's second devaluation of the rupiah in four years. The latest was in September 1986.

Although devaluation would make Indonesia's exports much cheaper, there is still uncertainty over the rupiah. Nearly 70% of Indonesia's revenue is derived from oil exports, and with an uncertain future over oil prices, the unstable rupiah would make foreign investors very cautious about investing in Indonesia.

At the end of 1984, there were about 26,000 shareholders and 1,000 bondholders. Compared with the total population of 170 million people, the number of participants in the stock exchange is very low. Obviously, the government is a long shot away from reaching its objective of revitalising the securities industry. In 1984, there were only 2,296 transfers of share-ownership. One of the purposes of setting up the exchange is to allow the population access to the corporate wealth of the nation by their participation in the exchange. Obviously, the ludicrously low share and bond ownership indicates that only a handful of the 170 million Indonesians can afford to participate.

#### IV. Standard and Requirements for Stock Issues

##### 1. Listing Requirements

In order to qualify for listing on the Stock Exchange, a company has to meet the following requirements:

- A. Be a limited company.
- B. Be domiciled in Indonesia.
- C. Have a minimum authorised capital of Rp.100 million, of which at least Rp. 25 million has been fully paid up.
- D. Have recorded profits in the two financial years immediately preceding the company's application for registration on the stock exchange.
- E. Net profit for the last financial year must be at least 10% of the company shareholders' equity.
- F. The previous two years' financial statements must have been audited by a public accountant. The last audit report must contain an unqualified opinion.

On 5 August 1985, the Minister of Finance issued regulation No. 695/KMK 011/1985 on The Issue of Securities Through the Capital Market which introduced some amendments, one of which was the raising of the paid-up capital to at least Rp. 200 million (Article 5).

The amount of securities issued should be at least Rp.100 million in denominations of Rp.1,000 and, for bonds, denominated in at least Rp.10,000 (Article 7).

Licence from the Chairman of BAPEPAM to issue the securities is usually granted, at the latest, 30 days after all the necessary requirements have been met. The Registration Statement of Securities and all reports submitted to BAPEPAM for listing are open for public scrutiny (Minister of Finance, No. 695/KMK 011/1985, Article 25).

The listing procedures on the Stock Exchange require a company to submit the following statements (Decision of Minister of Finance, No 695/KMK 011/1985, Article 12):

A. Registration statement signed by a person authorised to represent the company. The obligation to submit the Registration statement is not applicable to:

1. Securities being offered to a maximum of 20 persons or where the offer is not made through public notification, i.e. through the mass media.
2. Other securities granted waiver by the Finance Minister.
3. Securities issued on behalf of and guaranteed by the Government of the Republic of Indonesia.
4. Insurance policies.
5. Bills of exchange, promissory notes, cheques and deposit certificates issued by banks or institutions having a licence for that purpose.
6. Dividend warrants.

B. The following documents have to accompany the Registration Statement of Securities (Decision of the Minister of Finance, No. 695/KMK 011/1985, Article 13):



1. Sample or specimen of the offered securities.
  2. Draft of the prospectus, advertisements, circulars or leaflets used for the offering of the securities.
  3. Copies of the Articles of Association and any amendments.
  4. Curricula vitae of the members of the Board of Directors and the Supervisory Board.
  5. Organisation Chart.
  6. Financial Statements for the last two years including the accountant's or government accountant's report.
  7. Working permits for foreign experts.
  8. Taxpayer registration number.
- C. Prospectus signed by the issuer and underwriter and published in at least two newspapers with nationwide circulation. The prospectus should include information on the following matters :
1. Shareholders.
  2. Composition of the company's management.
  3. Details of the offer.
  4. Financial statements.
  5. History of the company and future prospects.

On receiving the licence to issue the securities from BAPEPAM, the company should circulate the prospectus to as wide a public audience as possible. A summary of the prospectus must be published in at least two daily Indonesian newspapers, one of which should have a national circulation and the other published in the domicile of the issuer. (Decision of the Minister of Finance, No.695/KMK 011/1985, Article 18).

The financial statements are to consist of :

- A. Balance sheet.
- B. Profit and loss account.
- C. Statement of changes in financial position.
- D. Notes to the financial statements.
- E. Any other statements decreed necessary.

The financial statements are also to be supported by an audit opinion from a registered accountant.

Securities licensed by the Chairman of BAPEPAM to be offered and sold to the public should be listed on the Stock Exchange within 90 days of being granted the licence. Such securities are to be traded only on the exchange. Bonds on the other hand, can be traded both on and outside the exchange (Decision of the Minister of Finance, No. 697/KMK 011/1985, Trading on Securities, 5 August 1985, Article 2).

All these requirements are obviously aimed at facilitating BAPEPAM in its role to evaluate whether companies who wish to sell their shares through the capital market are operating well and have growth potential. These requirements have also raised substantially the status of the accounting and auditing professions in Indonesia. Previously, people had no use for auditing, for there were no requirements to audit financial statements or even present them.

BAPEPAM also requires companies which have been granted a licence to offer securities on the exchange to submit periodically the following reports :

- A. Financial statements together with the audit opinion of a registered public accountant. These are to be submitted no later than 120 days after the close of the company's financial year.
- B. Post balance sheet data/events which may materially affect the company's operations. BAPEPAM must be notified of these events within 30 days of their occurrence.
- C. Any additional reports which BAPEPAM may request.

If these reports are deliberately misleading or are not submitted to BAPEPAM on time, the company is liable to a fine and possible delisting. These requirements help BAPEPAM to monitor the progress of companies listed on the exchange.

To protect the interests of public investors, BAPEPAM has the power to suspend trading in stocks of companies quoted on the Stock Exchange or to delist the companies. In addition, Registration Statements and the company's financial statements submitted to BAPEPAM are public records which are open for inspection.

It is interesting to note that no provisions have been made for newly incorporated companies to offer stocks to the public. Perhaps this is in keeping with BAPEPAM's function to protect the interests of the public by not allowing a company to float its shares on the exchange unless it has proven its worth and viability.

## 2. Reports

When a licence to issue securities is granted, the company has to submit to BAPEPAM the following reports (Decision of the Minister of Finance, No. 695/KMK 011/1985, Article 22):

- A. Financial statements prepared in accordance with generally accepted principles of accountancy and rules stipulated by the Chairman of BAPEPAM. The financial statements have to contain an unqualified audit opinion from either a public accountant or government accountant. The financial statements must be submitted to BAPEPAM within 120 days after the end of the financial year (Article 23).
- B. Reports on transactions or events which occurred after the date of the financial statements and which have an impact on the future prospects of the company.

Such reports must be submitted to BAPEPAM within 30 days after the transaction or event (Decision of the Minister of Finance, No.695/KMK/1985, Article 23).

### 3. Audit

Companies listed on the stock exchange are required to publish a balance sheet audited by a public accountant or government accountant in at least two Indonesian daily newspapers within 120 days after the end of the financial year. One of the newspapers needs to have a national circulation and the other to be circulated in the domicile of the company (Decision of the Minister of Finance, No. 695/KMK 011/1985, Article 22[3]).

BAPEPAM is vested with the power to conduct investigations if there is doubt as to the correctness and reliability of information provided by the issuer (Decision of the Minister of Finance, No. 695/KMK 011/1985, Article 24).

A public accountant may be suspended from practising if he is found to have assisted the company in misleading the public, either by reporting incorrect or false information or by concealing information from the public. Besides suspension, other legal sanctions may be applied as the Chairman of BAPEPAM sees fit (Decision of the Minister of Finance, No. 695/KMK 011/1985, Article 28[2]).

Sanctions are applied against a company for reporting misleading and false information (Article 28[1]) and for any delay in submitting financial statements or any reports required by BAPEPAM (Decision of the Minister of Finance, No. 695/KMK 011/1985, Article 27).

#### 4. Trading on the Stock Exchange

Trading on the exchange is on a call and/or a continuous system (Article 7) and the trading procedures are decided by the Chairman of BAPEPAM (Decision of the Minister of Finance, No. 697/KMK 011/1985, Article 8).

Transactions are on a cash basis and delivery of securities and payment should be completed within four days from the date of execution (Decision of the Minister of Finance, No. 697/KMK 011/1985, Article 11[1]).

#### 5. Supervision

Trading on the exchange is supervised by BAPEPAM (Article 20), whose Chairman has the power to cancel transactions, suspend trading and revoke a licence for listing on the stock exchange (Decision of the Minister of Finance, No. 697/KMK 011/1985, Article 21).

Anyone with inside information is not allowed to trade in respect of any securities of the companies concerned (Decision of the Minister of Finance, No. 697/KMK 011/1985, Article 22).

To enhance the supervisory role of BAPEPAM, sanctions may be enforced for any breach of the regulations. The types of sanctions are at the discretion of BAPEPAM (Decision of the Minister of Finance, No. 697/KMK 011/1985, Article 24).

On 5 August 1985, the Minister of Finance also released his decision on the roles of the institutions which support the capital market. Regulation No. 697/KMK 011/1985 stipulated those who are eligible to operate as underwriters, trustees, guarantors, stockbrokers, stock jobbers and bureau of stock administration. The procedures involving the application for such licences and the functions of each of these involved are stipulated in the regulations.

#### 6. BAPEPAM - Disclosure Requirements for Financial Statements

To ensure uniform reporting by companies listed on the exchange, BAPEPAM has issued regulations on the form and content of financial statements that must be filed with the exchange. The regulations follow closely the disclosure requirements of Regulation S-X of the US Stock Exchange Commission. While the regulations are mandatory only for listed companies, many unlisted companies apply the disclosure requirements in their financial statements (SGV Group, 1984).

Under BAPEPAM's regulations, the following items need to be disclosed (THE SGV GROUP,1984):

SUBJECT

DISCLOSURE

1. Fundamental Concepts

Materiality

Financial statements must disclose all items which are material enough to affect evaluations or decisions (BAPEPAM 1 - 2).

2. Financial Accounting

(i) Accounting Changes

General Areas

Disclosure is to be made of the following in the financial statements or related notes:

(a) The nature of and justification for any change in accounting principles and methods (BAPEPAM 2 - 14).

(b) The effect of a change in accounting principles and methods (BAPEPAM 2 - 14).

(ii) Comparative Financial Statements

Comparative financial statements are to be presented for general purpose financial reporting (BAPEPAM 2 - 2).

(iii) Classification and Disclosure of Allowances

Accumulated allowances for depreciation and depletion and asset valuation allowances for losses (e.g. on receivables and investments) are to be deducted from related assets and appropriately disclosed (BAPEPAM 4 - 1[4a] and 4 - 1[17]).

(iv) Accounting Policies

All significant policies are to be disclosed (BAPEPAM 2 - 13).

(v) Contingencies

Contingent losses not shown in the financial statements are to be disclosed (BAPEPAM 2 - 15[i]).

(vi) Subsequent Events

Significant events or transactions (which occur between the balance sheet date and the date of the auditor's report) having a material effect on financial statements are to be recognised by adjusting the financial statements or by disclosure (BAPEPAM 2 - 15[o]).



SUBJECT

DISCLOSURE

(vii) Assets Pledged and Liabilities Secured

(a) Assets mortgaged, pledged or otherwise subject to lien are to be disclosed (BAPEPAM 2 - 15[c]).

(b) Secured liabilities are to be disclosed (BAPEPAM 4 - 1 para 25).

3 Balance Sheet (Assets,  
Liabilities & Capital)

Assets

(i) Receivables

(a) Classification

Receivables are to be classified as trade and non-trade and as current and non-current (BAPEPAM 4 - 1 para 3).

(b) Valuation

Receivables are to be reduced by provisions for possible losses on doubtful or uncollectible accounts (BAPEPAM 4 - 1 para 4).

(ii) Inventories

Disclosure is to be made of the following in the financial statements or related notes:

- (a) The principal categories of inventories such as finished goods, work-in-progress and raw materials (BAPEPAM 4 - 1 [6a]).
  - (b) The basis used for valuing inventories (BAPEPAM 2 - 9 and 4 - 1 [6b]).
  - (c) The method of determining cost (e.g. weighted average cost, FIFO, etc) (BAPEPAM 2 - 9 and 4 - 1 [6b]).
- (iii) Investments
- (a) Marketable Securities  
Valuation  
Investment in marketable securities shown as current assets are to be carried at cost, with allowance when there is permanent impairment in value (BAPEPAM 4 - 1 para 2d).
  - (b) Disclosures are to be made of the following in the financial statements or related notes:

(i) The basis used for valuing marketable securities (BAPEPAM 4 - 1 para 2).

(ii) Market value when the investment is carried at other than market value (BAPEPAM 4 - 1 para 2).

(iv) Property, Plant and Equipment

(a) Valuation

Property, plant and equipment are to be carried in the accounts at appraised value or valuation other than cost, less accumulated depreciation (BAPEPAM 4 - 1 para 16).

(b) Disclosures

Disclosure is to be made of the following in the financial statements or related notes:

(i) the basis of valuation

(BAPEPAM 4 - 1 para 16)

(ii) the major classes of property, plant and equipment (BAPEPAM 4 - 1 para 16)

Liabilities(i) Current and Other Liabilities

## Classification

- (a) When a classified balance sheet is presented, liabilities payable within one year (or the normal operating cycle of the company, if it exceeds one year) or at the demand of the creditors, are to be shown as current liabilities (BAPEPAM 2 - 11).

- (b) Current liabilities are to be segregated according to type and classified according to the source of credit. They should ordinarily be listed in the balance sheet in the approximate order of their liquidity (BAPEPAM 4 - 1 para 25).

(ii) Discount or Premium/DebtExpenses

Discount or premium associated with a debt is to be reported in the balance sheet as a direct addition to or reduction of the face amount of the debt (BAPEPAM 4 - 1 para 29). Disclosures are to be made of the following in

the financial statements or  
related notes :

- (a) Material items of long-term debt (e.g. bonds, notes, mortgages, or others) and appropriate title (BAPEPAM 4 - 1 para 28).
- (b) Interest rates, amounts, number of periodic instalments, and maturity dates (BAPEPAM 4 - 1 para 28).
- (c) The nature and amount or extent of assets pledged against the debt (BAPEPAM 4 - 1 para 28).
- (d) Restrictive covenants such as those affecting dividends, retained earnings, or working capital (BAPEPAM 4 - 1 para 28).
- (e) Any default in principal payments, interest, or in other requirements of the loan agreement (BAPEPAM 4 - 1 para 28).

(f) Convertibility into capital stock, if applicable and the basis thereof (BAPEPAM 4 - 1 para 28).

(g) Sinking fund requirement, if any (BAPEPAM 4 - 1 para 28).

(iii) Stockholders' equity

(a) Capital changes

Changes in the separate accounts comprising stockholders' equity are to be disclosed (BAPEPAM 4 - 1 para 38).

(b) Retained earnings

Restrictions on retained earnings, if any, for the cost of treasury stock, for cumulative preferred dividends in arrears, for compliance with loan agreements, indentures, or similar documents are to be disclosed (BAPEPAM 4 - 1 para 39).

(c) Preferred Stock

Liquidation preference of preferred or other senior stock in involuntary liquidation which is considerably in excess of the par

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or stated value of the shares is to be disclosed in the balance sheet or the notes thereto (BAPEPAM 4 - 1 para 38).

The amounts at which preferred stock may be called or redeemed and the arrears in cumulative preferred dividends are to be disclosed (BAPEPAM 4 - 1 para 38).

### (d) Subscribed Capital Stock

The corresponding subscriptions receivable is to be shown as a deduction from the related capital stock subscribed. (BAPEPAM 4 - 1 para 38)

### (e) Reserves

General reserves (e.g. reserves for general undetermined contingencies, indefinite future losses) are to be recorded as Appropriation of retained earnings (BAPEPAM 4 - 1 para 38)

## 4 Profit & Loss Statement

### (i) Results of Operations

Disclosures are to be made of the following in the income statement:

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- (a) sales and/or gross revenue  
(BAPEPAM 4 - 2 [b.a])
- (b) cost of sales (BAPEPAM 4 - 2  
[b.b])
- (c) operating expenses
  - (i) by total (BAPEPAM 4 - 2 [c])
  - (ii) by major classification (e.g.  
selling expenses) (BAPEPAM 4  
- 2 [c])
  - (iii) by separate specific items of  
operating expenses (e.g.  
depreciation, directors'  
remuneration, rent expense,  
auditors' remuneration)  
(BAPEPAM 4 - 2 [c 1, 2, 3]).
- (d) Extraordinary items - those which  
are derived from events or  
transactions outside the ordinary  
activities of the business and  
which are not expected to recur  
frequently or regularly (BAPEPAM 4  
- 2 [f]).
- (e) Unusual or infrequently occurring  
items - those which result from  
material events or transactions  
that are unusual in nature or that



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occur infrequently, but not both  
(BAPEPAM 4 - 2 [f]).

(f) Prior period adjustments (BAPEPAM  
4 - 2 [g]).

(ii) Earnings per share (EPS)

(a) EPS data is presented in the  
general purpose financial  
statements (BAPEPAM 2 - 15 [p]).

(b) The basis for computing EPS is  
disclosed (BAPEPAM 4 - 15 [p]).

### 5 Changes in Financial Position

(i) A statement of changes in financial  
position is to be presented with the  
balance sheet and the income statement  
as an integral part of the general  
purpose financial statement (BAPEPAM 4  
- 3).

(ii) If a statement is presented, the form  
of presentation is to be that of  
expressing changes in terms of working  
capital (BAPEPAM 4 - 3).

BAPEPAM's requirements also extend to the following special areas

### 6 Consolidation

(i) Financial statements prepared for  
issuance to stockholders are to  
include consolidated financial  
statements only (BAPEPAM para 5).

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- (ii) Financial statements of a subsidiary may be excluded from consolidation if:
  - (a) control is likely to be temporary (BAPEPAM para 5 [3]).
  - (b) activities of the subsidiary are so dissimilar to those of the other companies within the group that the presentation of separate financial statements of the subsidiary would provide better information (BAPEPAM para 5).
- (iii) Intercompany transactions are to be eliminated (BAPEPAM para 5 - 3 [1]).
- (iv) Disclosure is to be made of the following in the financial statements or related notes:
  - (a) The consolidation policy (i.e. the basis on which subsidiaries are included or excluded in consolidation) (BAPEPAM para 5 -1).
  - (b) The reasons for not consolidating a subsidiary (BAPEPAM para 5 - 1).
  - (c) The parent company's equity in net assets of an unconsolidated subsidiary, stated at cost (BAPEPAM para 5 - 2).

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7 Foreign Currency  
Transactions

Foreign Currency Transactions

Disclosures are to be made of the following in the financial statements or related notes:

(i) the translation method used (BAPEPAM para 2 - 15[b])

(ii) the accounting treatment of exchange gains or losses (BAPEPAM para 2 - 15[b]).

8 Property, Plant &  
Equipment Appraisal

(i) Appraised value or valuation other than cost is to be :

(a) determined by independent third parties (BAPEPAM up to June 1982), or

(b) based on revaluation coefficients (BAPEPAM Decree 66/82).

(ii) Appraised value or valuation other than cost is to be indicated in the financial statements:

(a) By incorporation in the accounts (BAPEPAM Decree 66/82).

(b) The excess of appraised value or valuation is to be credited to a revaluation reserve account (BAPEPAM Decree 66/82).

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(c) Depreciation is to be based on appraised value or valuation other than cost (BAPEPAM Decree 66/82).

(iii) The revaluation reserve account is to be carried indefinitely in the accounts until transferred to capital account (e.g. stock dividends) (BAPEPAM Decree 66/82).

(iv) Disclosure is to be made in the financial statements or related notes if the basis of appraisal or valuation other than cost is disclosed (BAPEPAM 4 - 1 para 16).

9 Related Party Transactions

Disclosures are to be made of receivables from and payables to affiliated companies (BAPEPAM 4-1 para 3).

10 Leases

Disclosures are to be made of the following in the financial statements or related notes (BAPEPAM para 2 - 15):

- (i) Lease payments expensed under long-term leases (BAPEPAM para 2 - 15).
- (ii) Details of future commitments to pay lease rentals (BAPEPAM para 2 - 15).
- (iii) The accounting policy for leases (BAPEPAM para 2 - 15).

## V. Annual Report Award Competition

To encourage better presentation and more informative disclosures in annual reports published in Indonesia, Badan Pembina Pasar Modal or Capital Market Policy Council (BAPEPAM) in co-operation with Ikatan Akuntan Indonesia or Indonesia Accountants' Institute (IAI), P.T. Danareksa, Bank Indonesia, Directorate General of Taxation, Board of Financial and Development Control (BPKP), Capital Investment Coordinating Board (BKPM), Chamber of Commerce and Industry (KADIN) and the universities conduct the Annual Report Award (ARA) competition. The first year of the ARA was 1977. Since then, it has been held every year.

The ARA is not only open to listed companies, and private as well as State companies from various industries may participate.

The objectives of ARA are (Annual Report Award, 1984, BAPEPAM, p.5) :

1. To encourage the presentation, publication and distribution of fair and proper financial information as well as other information to shareholders, creditors, company's employees, government and the public in general.
2. To facilitate and expedite the development of the capital market in Indonesia through fairness, disclosure and quality in reporting.
3. To encourage the development and use of uniform and objective measures of company performance.
4. To encourage the development of better valuation methods and industrial data collection.

The participants are divided into five categories :

1. Financial Industry
2. Insurance Industry
3. Manufacturing Industry
4. Agricultural Industry
5. Others.

The annual report is judged on its presentation (on a point system) in four main areas :

1. Financial statements (the highest score attainable is 480 points).
2. Management reports (the highest score attainable is 230 points).
3. Non-financial data (the highest score attainable is 100 points).
4. Important financial data (the highest score attainable is 190 points).

Therefore, the total score is 1,000 points. For each of the above areas, specific guidance is also given to the panel of judges on how the points should be awarded (see Appendix 8-VI).

As an incentive to participants, companies which achieve a score of not less than 450 points will receive tax advantages. These are :

1. Appeals on tax assessments for the year to which the annual report submitted for the ARA competition relates and prior years, will be settled with the Directorate General of Taxation within four months from the date of filing a registration for the ARA competition.
2. Priority in refund of tax overpayment will be given within three months after filing a tax return to the District Office or after

the date of filing a registration for the ARA competition, whichever is later.

The organisation of the ARA competition is undertaken by the Competition Committee. The panel of judges is responsible for judging the annual reports submitted to them by the Working Committee which, in turn, screens the reports to ensure that :

1. The disclosures in the reports give a clear indication of the nature of the business of the participants.
2. All financial statements have been audited by an independent public accountant or by government auditors in respect of State owned enterprises.

Control.

#### Number of Participants

INDUSTRIAL SECTOR	1977	1978	1979	1980	1981	1982	1983	1984
Financial Industry	10	15	17	21	20	26	30	29
Insurance Industry	3	5	9	10	10	10	9	11
Manufacturing Industry	5	9	10	18	19	19	25	26
Agricultural Industry	5	3	7	10	10	8	9	9
Others	0	0	2	3	3	3	2	5
Total	23	32	45	62	62	66	75	80

(Sources : Annual Reports, 1977 to 1985, Capital Market Council)

For a large economy like Indonesia, the number of participants is deplorably low, in spite of the tax benefits that can be derived from

participation. This trend is also manifested in the Minister of Finance decree No. 108 of 1979, in which companies were given tax concessions, in the form of lower tax rates if they subject their financial statements to an audit by a public accountant. Unfortunately, the scheme only attracted an average of three-and-a-half per cent of the business community and was subsequently withdrawn.

The conclusion one can derive from these examples is that the tradition of guarding corporate financial and operational information is deeply rooted in Indonesia, and fiscal incentives, such as tax benefits, have proved unsuccessful. As such, legislation to enforce mandatory independent audit of a company's financial statements is likely to face strong opposition from the business community. Also, implementation will be difficult because there is a crucial shortage of accountants in Indonesia and, therefore, inadequate resources to enforce the legislation. To aggravate the problem, the majority of qualified accountants in Indonesia are employed in government or quasi-government service. Despite this, the government also faces a shortage of accountants to meet its own needs (e.g. in the tertiary institutions).

Perhaps a campaign to cultivate the business community to be more responsible corporate citizens may be carried out by the various professional and business or trade associations. This aversion to public disclosure by companies has been one of the major factors that has inhibited the growth of the capital market.



## VI. Conclusions

The current Stock Exchange reporting and operating formats are fashioned closely upon those in the USA. After so many years of suppression by the Dutch, the Indonesians are most apprehensive of foreigners and their acceptance of the Americans may be attributable to US efforts in assisting Indonesian development since Independence. US aid has included the supply of accounting academics to advise and to teach accounting in the universities and the training of students at US universities. The funds to build the modern building to house the Stock Exchange came from the World Bank, which is strongly influenced by the US. The World Bank has also provided funds to improve education at all levels in Indonesia.

As with the adoption of accounting principles in the early 1970s, Indonesia directly copied the capital market regulations from the US without considering that the two economies are very dissimilar in many aspects. The capital market in the US is very sophisticated, so is the tightness of supervision and control through securities legislation and authoritative bodies (such as the SEC and the accounting profession). Economic, social and structural differences make the direct copying of such rules, regulations and practices impractical.

Although the modern Indonesian Stock Exchange has been in existence since August 1977, the concern of the Minister of Finance (as expressed in May 1986) over the Exchange being the least active one in the world highlights the fact that the exchange is small, inactive and a failure. Financial disclosure guidelines provided by BAPEPAM may have all the air of tight control and regulations. In reality, no company has been suspended, disciplined or reprimanded since the modern exchange's inception. The average Indonesians are too poor to buy shares. Physical survival is foremost in their minds, and participation in the Stock Exchange would only occur in the more economically privileged sectors of the population. Even the rich, however, prefer to hold their wealth in other forms, such as gold or hard currencies.

The presence of corruption makes the growth of the capital market difficult. Listing on the exchange opens a company to public scrutiny and audit. Companies in Indonesia are usually under the control of a few persons or a family, and if public exposure for these companies were to mean lower personal gains for these people, there would be no incentive to tap funds from the stock exchange. Borrowing from banks or from rich personal friends or associates provides a better avenue for expansion.

Finally, neither the expensive facilities provided in the sophisticated Stock Exchange building nor the well written regulations found in the Presidential Decree, Minister of Finance's Decisions, Chairman of BAPEPAM, government and State regulations are justified in the light of the inertia of the Exchange. The truth of the matter is that they serve very little practical function, and a broader outlook must be taken in the form of companies' legislation reform, training of appropriate staff and minimising malpractices.

## CHAPTER 9

### POLITICAL AND ECONOMIC DEVELOPMENT OF SINGAPORE

#### I. Introduction

Singapore is situated at the tip of the Malay Peninsula. The island of Singapore and 57 adjacent islets constitute the Republic of Singapore and encompass a total land area of 622 square kilometres. The main island is 42 kilometres in length and 23 kilometres in breadth, and 570 square kilometres in area. It has a population of about 2.5 million consisting of 77% Chinese, 15% Malay, 6% Indian and Pakistani and 2% others. The average per capita income is about US\$6,900 per year and 78% of the population are engaged in manufacturing and commerce (FODOR's, 1987). Because of her strategic location, Singapore is the second busiest port in the world.

#### II. Political and Economic Development

In late 1818, Lord Hastings, Governor-General of India, gave approval to Sir Stamford Raffles (Lieutenant-General of Bencoolen, an insignificant British trading post on the west coast of Sumatra) to establish a trading station at the southern tip of the Malay Peninsula. The British, whose trade with China in the second half of the 18th century was expanding, saw the need of a half-way house to refit, revitalise and protect its merchant fleet as well as to forestall any advance by the Dutch in the East Indies.

On 29 January 1819, Raffles landed on Singapore island. In 1824, Singapore's status as a British possession was formalised by two treaties, one the Anglo-Dutch Treaty of March 1824, by which the Dutch withdrew all objections to British occupation of Singapore and the other, with Sultan Hussein of Johor and Temenggong Abdu'r Rahman in August, by which they ceded the island outright to the British in return for increased cash payments and pensions.

Singapore, together with Malacca and Penang became the Straits Settlements in 1826, under the control of British India. By 1832, Singapore became the centre of government of the settlements. On 1 April 1867, the settlements became a Crown Colony under the Colonial Office in London.

With the opening of the Suez Canal in 1869, Singapore became a major port of call for ships plying between Europe and East Asia. The development of rubber planting in Malaya after 1870 made Singapore the world's main sorting and exporting centre.

As trade expanded eightfold between 1873 and 1913, Singapore attracted many migrants from around the region. With this influx of migrants, whose intention was to make a better living for themselves, free enterprise flourished. Control over the economic activities of Singaporeans by the British was minimal. The locals were also not discriminated against in holding administrative and responsible offices with the colonial government.

On 15 February 1942, Singapore fell to the Japanese and was occupied until their surrender in 1945. Between September 1945 and

March 1946, Singapore came under the British Military Administration. The Straits Settlements was dissolved when the British Military Administration ended. On 1 April 1946, Singapore became a separate Crown Colony.

In June 1948, a state of emergency was declared, when the Communist Party of Malaya tried to take over Malaya and Singapore by force. The Rendell Commission, appointed by the British government in 1953 to review Singapore's Constitution, recommended measures to give Singapore a greater degree of self-government. The 1955 election resulted in the formation of a coalition government of the Labour Front, the United Malays National Organisation and the Malayan Chinese Association. David Marshall of the Labour Front became Singapore's first Chief Minister on 6 April 1955.

Following the breakdown of constitutional talks in London for full internal self-government, Marshall resigned on 6 June 1956 and he was succeeded by his deputy, Lim Yew Hock.

An agreement on the main terms of a new Singapore Constitution was reached after further negotiation, and the signing was held on 28 May 1958.

Singapore's first general elections were held in May 1959 and the People's Action Party (PAP) formed the first government with Lee Kuan Yew as prime minister. He has held that position since. On June 1959, the new Constitution confirming Singapore as a self-government state was brought into force by the proclamation of the Governor as the Head of State. The British were responsible for the external affairs, defence and security of Singapore.

In 1963, to promote closer political and economic co-operation, Singapore joined Malaysia, which consisted of the Federation of Malaya, Sarawak and Sabah. The merger was endorsed by the people of Singapore in a referendum held on 1 September 1962. President Sukarno of Indonesia, who opposed the merger, embarked on a confrontation against Malaysia which lasted for three years.

The merger was short-lived and Singapore was separated from the rest of Malaysia on 9 August 1965, and became a sovereign, democratic and independent nation.

Since 1968, Singapore has had a one-party parliament represented by PAP, a democratic party. Free enterprise is encouraged and government participation is limited to the provision of essential utilities and industries that would not be forthcoming without active government participation.

To diversify her economy away from over-dependence on entrepot trade, a massive industrialisation programme was launched in the early 1960s. Foreign investments were encouraged, and private enterprises took the leading role in the development of commerce and industry. Government activities concentrated on the development of the infrastructure, an efficient administrative framework, and an array of public and social services.

Compulsory national service was introduced when the British government decided in 1967 to withdraw her forces by the end of 1971.

In August 1967, Singapore joined Indonesia, Thailand, Philippines and Malaysia to form the Association of Southeast Asia Nations (ASEAN).

The growth of the manufacturing sector in the sixties was stimulated by labour-intensive industries such as textiles, garments, foods, paper and wood products. In the seventies, as a result of the policy of upgrading the manufacturing sector, industrial expansion shifted to higher value-added and export-oriented industries. By the eighties, emphasis was also placed on making Singapore an important financial centre in the region with the manufacturing sector upgraded to concentrate on high technology products.

The trade sector, which historically had been the mainstay of the economy in Singapore, is still important, although its share of GDP has declined. The manufacturing sector continues to grow and remains the prime mover of the economy in the eighties. The bulk of foreign capital comes from Japan and the United States.

Foreign investments, which constitute a significant proportion of total investments in Singapore, have been vital to Singapore's economic growth and survival.

### III. Conclusions

Deprived of natural resources, Singapore thrived historically on entrepot trade due to her strategic location. And it was the latter that brought the British to Singapore in 1819.



In the early days, Singapore prospered on trade and this attracted many migrants from the surrounding countries to Singapore. Free enterprise flourished and there were minimal restrictions on the influx of foreign capital.

After self-government was attained in 1959, a massive industrialisation programme got underway and the manufacturing sector by the 1980s became the mainstay of the economy. Much of the economic growth is generated by foreign capital investment, in view of the government providing good infrastructure and a stable political climate to attract foreign investors.

The PAP has been in power since 1959 and has dominated the one-party parliament since 1968. The economic transformation has been achieved largely through the government's successful efforts in attracting new foreign and local investments with pragmatic economic policies and attractive incentives. With a per capita income of US\$6,900 per year, Singapore's standard of living is second only to Japan in Asia. With an educated and well-trained workforce, its free enterprise economy imposes no restrictions on ownership, expatriate employment, or the repatriation of investment capital and profits, giving Singapore a competitive edge over many neighbouring countries as a location for investment.

## CHAPTER 10

### CORPORATE REPORTING IN SINGAPORE: THE INFLUENCE OF LAW

#### . Introduction

Singapore's history in modern times commenced in 1819 when Sir Stamford Raffles landed on the bank of the Singapore river. To understand the legislative influences on corporate reporting, a brief preview of Singapore's constitutional history would be useful.

#### Constitutional History

Years	Descriptions
1. 1819 to 1823	Singapore was a dependency of British Bencoolen, now called Sumatra.
2. 1823 to 1826	Singapore came under the direct control of the Governor of India.
3. 1826 to 1867	In 1826, it became part of The Straits Settlements (which included Penang and Malacca) and was under direct British Indian rule from 1830 to 1867.
4. 1867 to 1946	The Straits Settlements came under direct colonial rule.
5. 1946	Singapore was made a separate colony.
6. 1959	Singapore attained self-government.

## Constitutional History

Years	Descriptions
7. 1 - 16 September 1963	Singapore enjoyed 16 days of de jure independence.
8. 16 September 1963 to 8 August 1965	It merged into the Federation of Malaysia as a Component State.
9. 9 August 1965	It became independent upon separation from Malaysia.

(Source: Adapted from P. T. Tan, 1985)

Being an ex-British colony, the British judicial and legislative influences are deeply embedded in the Singapore constitution, and the Singapore Companies Ordinances and law are no exception.

## II. Joint Stock Companies

### 1. 1819 -1889

Although joint stock companies had been in existence in England before 1844 (e.g. East India Company), 1844 and 1855 stood out as two important years, for they marked the beginning of a new era in business corporations.

The British Joint Stock Companies Act of 1844 made possible the incorporation by registration of companies with unlimited liability. The Joint Stock Companies Act of 1855 extended this privilege to

include companies with limited liability. Previously, such companies could only be created by Royal Charter or by a Special Act of Parliament, which were both time-consuming and expensive.

Underlying the significance of joint stock companies is the concept of limited liability. The industrialisation process brought about by the Industrial Revolution, particularly in its secondary stages, demanded large sums of capital for mechanisation of industry, construction of railways, etc. The joint stock company made it possible for the company to tap capital from the world at large, for as far as the investors were concerned, their liabilities were limited to the amount of any unpaid shares purchased.

Because the number of investors is usually large, the management of the company is usually left to elected members and professional managers. The law recognises that management can manipulate and defraud the company unless they are made accountable to all the owners (i.e. the shareholders) by reporting on assets and liabilities and the performance of the company under their charge. The nature of corporate disclosure was to meet this end, and the thrust of legislation has been to protect the investors and creditors by requiring companies to publish information to inform investors and creditors of what they were investing in or lending their monies to respectively.

Investors and creditors have different information needs in decision-making, but it is impractical for the legislature to identify all these needs. The philosophy underlying the laws on corporate disclosure is, therefore, to impose minimum disclosure requirements on

companies. It is up to the management's discretion to provide additional information for the users of annual reports in order to facilitate better understanding of the accounts. However, over the years, the standard of minimum disclosure has been continuously reviewed, and as a result of major financial scandals, successive legislation has tended towards more and more corporate disclosure.

Audit gained prominence due to the stewardship function and provides further safeguards to the shareholders of the company by requiring the auditors to express an opinion on the accounts presented by the management. Their role is not made any easier by the complexities of modern companies' structures and transactions which have made it necessary for auditors to be specially trained and qualified. In the United Kingdom, the qualifications of auditors were stipulated in the Companies Act of 1948 and Singapore followed fifteen years later, with the enactment of the Singapore Society of Accountants Ordinance of 1963 to register and control the profession.

The earliest companies acts affecting Singapore were the Indian Companies Acts 1857, 1869 and 1866. This was because between 1826 to 1867, Singapore was part of the Straits Settlements and came under British-India rule from 1830. This fact is confirmed by Bartholomew (1976), who noted that during this period, the Indian Acts (including those relating to companies) constituted the principal body of local legislation. The Indian Joint Stock Companies Act No.XIX of 1857, Limited liability - Joint Stock Banks Act No.VIII of 1860 and the Indian Companies Act, 1866, were modelled upon the British Joint Stock Companies Acts of 1844 and 1855 which were later consolidated to

form the Joint Stock Companies Act, 1856.

In Singapore, the emergence of joint stock companies with or without liability was made possible by the enactment of the Indian Joint Stock Companies Acts of 1857 which was based on the British Joint Stock Companies Acts of 1844 and 1855. The Indian Limited Liability - Joint Stock Bank Act of 1860 extended the privilege of limited liability to banks.

A. The Indian Companies Acts of 1857 and 1866

Under Section 32 of the 1857 Act, the balance sheet had to be produced in the form of Table B (which was virtually the same as Table A of the 1866 Act) and filed with the Registrar of Joint Stock Companies. The Act did not mention that it had to be laid at a general meeting although this was implied if the model Articles of Association were adopted. Section 36 provided for the balance sheet and the auditors' report to be inspected at the company's registered office and the auditors had to certify that, to the best of their belief, the balance sheet contained a true account of the capital and liabilities, and of the property and assets of the company, or make such special report as they thought necessary (Section 35).

The Indian Companies Act, 1866, was substantially the same as its predecessor, the Joint Stock Companies Act of 1857, insofar as accounts and audit were concerned. A balance sheet was required to be laid at the general meeting and filed with the Registrar of Joint Stock Companies, and had to contain a summary of the property and liabilities of the company in the format prescribed in Table A in the First

Schedule. The "correctness" of the balance sheet was to be examined by one or more auditors (S49).

At the request of a specified proportion of members, the government could appoint an inspector to examine the affairs of the company (S56) and the company could do likewise by passing a special resolution (S60).

The 1866 Act provided a set of model Articles of Association. Table A of the First Schedule contained regulations for the management of a company limited by shares, and there were specific clauses relating to accounts and audit. However, a company could adopt or alter the model Articles of Association laid down in the Act and any company which opted to adopt its own articles could ignore the model Articles. Any company which adopted the latter and proceeded to ignore them had thereby committed no breach of general law. However, auditors who failed to observe the duties imposed by such articles ran the risk of successful legal action against them should their neglect injure the company (Edey, 1979).

In Table A, the directors were requested to keep "true" accounts of (Clause 78):-

1. Stock in trade.
2. Sums of money received and expended.
3. Credits and liabilities of the company.

The books of account were required to be kept at the registered office and had to be open for inspection by members of the company.

Though the Act did not state that a profit and loss account was to be laid at a general meeting, the model Articles (Clause 79) provided that an income and expenditure statement should be prepared which distinguished the sources and amount of gross income and gave a breakdown of expenses charged against the income. Matching of expenses against income was recognised and the reasons for allocating the expenses to a particular year had to be stated (Clause 80). The Act merely required the balance sheet to be audited and presented at a general meeting. As the income and expenditure statement was not regarded as important as the solvency of the company and its ability to pay dividends as reflected in the balance sheet, the guidelines prescribed for the income and expenditure statement were rather general in nature and no specific form was given. As such, the management was at liberty to do what they liked, as the statement was not required to be filed with the Registrar of Joint Stock Companies or to be audited.

In contrast, the balance sheet had to be prepared in the form prescribed in Table B by virtue of Section 32 (Appendix 10-I).

As illustrated in the model balance sheet, the profit and loss account indicated little more than the balance available for dividends. However, in conformity with the obligation of the stewardship function, a true account of the capital and liabilities, and the property and assets had to be presented.

As far as auditing was concerned, the audit of the balance sheet was compulsory. By this time, the situation in the United Kingdom was that, by virtue of the Joint Stock Companies Act of 1856, auditing was not mandatory and it was not until 1900 that it was re-imposed.



However, companies could choose to be audited if they so wished. Why the Indian Act did not follow the English in respect of auditing is not clear. Perhaps the fact that India was a colony with different cultural, social and economic structures, meant that a greater level of safeguard was needed. Table A of the First Schedule contained provisions in respect of the auditors and audit reports. Except for the first year, auditors were elected by members at a general meeting and their remuneration was fixed therein. Other than the directors, officers of the company and shareholders who had interest in any transaction of the company, anyone could be elected as an auditor. The auditor need not be a professional accountant and could be a member of the company. However, he could, at the company's expense, employ an accountant to assist him. The auditors' report had to :

1. State whether the balance sheet was full and fair;
2. Contain particulars as prescribed in the model balance sheet in Table A of the First Schedule;
3. Be properly drawn up to give a true and correct view; and
4. State that such information and explanations as were required from the directors were received satisfactorily.

#### B. The Companies Ordinance of 1889

The Companies Ordinance of 1889 was the first companies legislation enacted by the Legislative Assembly of the Straits Settlements. It repealed the Indian Companies Act of 1866 and any English law adopted by virtue of Section 6 of the Civil Law Ordinance, 1878, to align the companies law of Singapore with English law.

On matters relating to accounts and audit, there were no changes from its predecessor, the Indian Company's Act, 1866. A balance sheet had to be filed with the Registrar of Joint Stock Companies and it was to be presented in accordance with Table A of the First Schedule, which was identical in all respects to the Table in the 1866 Indian Act. Auditing was compulsory, but the auditors did not have to be professionally qualified, and the law did not require profit and loss accounts to be laid before the general meeting or to be audited.

## 2. 1890 TO 1939

The Companies Ordinance, 1909, the Companies (Sub-division of Shares) Ordinance 1909 and the Companies (Amendment) Ordinance 1914 were subsequently enacted, but none of these affected any provisions in the Companies Ordinance 1889 relating to accounts, corporate disclosure and auditing.

The Companies Ordinance, 1915, repealed the Companies Ordinance, 1889, the Companies Ordinance, 1909, the Companies (Sub-division of Shares) Ordinance, 1909, and the Companies (Amendment) Ordinance, 1914, except for Table A in the First Schedule annexed to the Companies Ordinance, 1889.

Under the 1915 Ordinance, the books of accounts had to be kept in the English language (S107). A similar provision was imposed by the Companies (Amendment) Ordinance of 1914 on any banking or insurance company or any deposit, provident or benefit society. This provision was made mandatory upon all companies by the 1915 Ordinance.

In the same year, the Ordinance No.155 (Companies) was enacted and was followed by the Companies (Amendment), Ordinance 1916, the Companies (Further Amendment) Ordinance, 1916, the Companies (Amendment), 1918, the Companies Ordinance, 1923, and the Companies (Amendment) Ordinance, 1937. None of those altered what had been enacted in 1889 in respect of accounts and audit.

### 3. 1940

In 1929, English Company law was revised and consolidated. However, many of the amendments introduced by that Act were not adopted immediately in the colony. In order to bring local law into line with that of England, the Registrar of Companies in Singapore prepared a draft bill based on the English Companies Act, 1929. This was enacted as the Companies Ordinance, 1940, and was based substantially on the Report of the Company Law Committee (Greene's Report) set up by the British parliament in 1925 to consider and report what amendments were desirable to the UK Companies Act, 1908. The report identified the following deficiencies as far as accounts were concerned:

- A. There was no direct statutory obligation on a company to keep proper accounts, causing confusion as to the status of goods and money belonging to the company in the event of a liquidation action.
- B. There was no proper classification of a company's assets, thus making it difficult to ascertain readily the true position of the company. In addition, the information given by the accounts was

very scanty.

- C. Profit and loss accounts were not included in the financial statements to be presented at the general meeting.
- D. There was no disclosure as to how the aggregate profits and losses of subsidiaries were dealt with.
- E. There was no definition of a subsidiary company.

The UK Companies Act, 1929, contained three significant innovations (Edey, 1979). The first related to information in prospectuses of new issues. This was the first time that the law had required reports by the auditors on the past profits and dividends of the company whose securities were to be issued or offered for sale, and by accountants named in the prospectus on the past profits of any business that was to be acquired from the proceeds of the issue.

The second important change was the formal recognition of the growing importance of holding companies. Unfortunately, despite the growing support for consolidation or preparation of group accounts, this was not made compulsory. However, the Act defined a holding company and required the disclosure of the way in which profits and losses of subsidiaries had been accounted for. For the first time, the Act also provided for a separate statement in a holding company's balance sheet of investments in, and loans to and from subsidiaries.

The third innovation was the requirement that, in addition to the balance sheet, an annual profit and loss account should be laid before the company in a general meeting. But companies (even public ones) were not compelled to file a copy of the profit and loss account with the Registrar nor was an auditors report on the profit and loss account

required.

Prior to the Companies Ordinance, 1940, companies were under no obligation to present a profit and loss account, although they could do so should they adopt the model Articles of Association laid down in Table A of the First Schedule of the Companies Ordinance, 1889. Fear of divulging too much information to competitors was a common defence against the presentation of the profit and loss account to the public. But, due to increasing corporate scandals, this defence was subjected to continuous governmental and public pressures.

The Act made it mandatory for every company to maintain proper books of account in the English language with respect to (S.130[1]) :

- A. All sums of money received and expended by the company and the details of the transactions;
- B. All sales and purchases of goods by the company; and
- C. The assets and liabilities of the company.

The auditor's reporting duties were not significantly altered. However, instead of signing a certificate at the foot of the balance sheet stating whether or not all their requirements as auditors had been complied with, the auditors had to make a report to the shareholders on the accounts examined, giving an opinion on the balance sheet laid before the general meeting in a report, stating (S135):

- A. Whether all information and explanations had been obtained satisfactorily; and
- B. Whether the balance sheet was properly drawn up to give a true

and correct view.

The balance sheet was to disclose (S125(1)):

- A. Summary of authorised and issued capital;
- B. Liabilities and assets;
- C. Nature of liabilities and assets;
- D. Distinction between fixed and floating assets; and
- E. Method of valuation of fixed assets.

Also to be disclosed under separate headings in the balance sheet were:

- 1. Any preliminary expenses, expenses incurred in share and debenture issues, amount of goodwill, patents and trade marks (S125(2) );
- 2. Statement that liabilities were secured (S125(3) );
- 3. Assets and liabilities relating to subsidiaries (S126);
- 4. Method of dealing with profit and loss of subsidiaries (S127(1)) and the manner in which auditors reports were qualified in subsidiaries (S127(2)); and
- 5. Loans made to directors of the company and directors remuneration (S127(3)).

The nature and extent of disclosure were more detailed and extensive than under previous legislations. Four significantly new provisions were introduced, namely, the laying of the profit and loss account (which need not be audited) at a general meeting, the inclusion of a directors report, more specific disclosure recommended as noted above and, last but not least, details of treatment of subsidiaries.

The directors report to be attached to the balance sheet had to include the following (S124(2)) :

- A. The company's affairs;
- B. The amount, if any, which they recommended to be paid as dividends; and
- C . Amount proposed to be transferred to reserve fund, general reserve or reserve account.

Insofar as the control of accountants was concerned, there was no recognised professional body to oversee the professional practice and conduct of accountants. The Companies Ordinance of 1889, for example, permitted anyone to act as an auditor. This state of affairs continued until 1963 when the Singapore Society of Accountants Act of 1963 was enacted to register and control the accounting profession. With the exception of Licensed Accountants, who are allowed to practise even though they may not have the pre-requisite qualifications because they had been practising long before the passing of the Act and obviously possess the necessary experience, all members of the Singapore Society of Accountants are required to possess recognised qualifications before admission is granted.

#### 4. 1967

1967 was also an important year as far as auditing and financial disclosure were concerned. The Companies Act, 1967, repealed the Companies (Amendment) Ordinance (Chapter 174), 1955. The Act followed closely the United Kingdom 11 and 12 Geo VI 1948 (Imperial) Act and Australia Victoria No: 6833/1961. It was also modelled upon the

Malaysian Companies Act , 1965, which was based on the recommendations of Professor Gower's Ghana Companies Code of 1963, the UK's Cohen Committee Report (Company Law Committee 1945) and the Jenkins Committee Report (Company Law Committee 1962).

#### A. The Cohen Report

This committee was established to consider what major amendments were desirable to The Companies Act of 1929 and, in particular, to review the requirements prescribed with regard to the formation and affairs of companies and the safeguards afforded for investors and the public interest.

Some of the deficiencies noted by the committee in respect of accounts were:

1. No requirements as to the form or disclosure of the profit and loss account. It was argued that emphasis should be shifted to the profit and loss account because it is the best indication of the prosperity of the company and because the value of the assets depends largely on the maintenance of the business as a going concern. There is recognition of the importance of the profit and loss account, which previously was assumed to be of secondary significance to the statement of solvency depicted by the balance sheet;
2. The absence of statutory support in the Act weakened the auditors ability to persuade the directors to present the accounts according to the recommendations of the professional accounting bodies;
3. The Act did not define fixed assets and current assets;



4. There was no uniformity in the methods of arriving at the statement of fixed assets in the balance sheet;
5. There was the problem of undisclosed or secret reserves. The balance sheet, as such, might not show the actual state of affairs of the company and might misguide shareholders as to its performance;
6. There was no requirement to disclose any change of accounting policies which could have a material effect on the financial statements;
7. There was no requirement for auditors to report on the profit and loss account;
8. The definition of a subsidiary did not cover sub-subsidiary companies;
9. Consolidated accounts were not required for groups;
10. The limited disclosure as to the amount of the aggregate interests in subsidiary companies provided no real information as to their financial position unless particulars of their liabilities, reserves and assets were published to supplement the accounts of the holding company; and
11. There was an absence of guidelines as to how the pre-acquisition profit of a subsidiary should be determined, where acquisition was made before the accounts of the subsidiary company were drawn up.

One of the main recommendations of the Cohen Committee was that general principles applicable to the balance sheet and profit and loss account should be embodied in the Companies Act. Provisions as to the detailed contents of the balance sheet and profit and loss account

should be included in a schedule and should be capable of being modified or extended by the legislature (an example of this is the Ninth Schedule of the Singapore Companies Act of 1967 which substantially followed the UK's Act).

#### B. The Jenkins' Report

The objective of the Jenkins' Committee was to review and report on the provisions and workings of the Companies Act of 1948 and to recommend any changes that were desirable.

The committee made numerous recommendations on matters concerning the accounts, which supplemented the Cohen's Report recommendations and gave the present corporate reporting practice in Singapore its fundamental structure.

Many of the recommendations are embodied in the Ninth Schedule of the Companies Act and some of the amendments made concerned, inter alia :

1. Distribution of profit.
2. Pre-acquisition profit.
3. Depreciation.
4. Exemption from disclosure for unquoted companies.
5. Contents of the Eighth Schedule, namely, fixed assets, nature of assets, investments, capital expenditure, stocks, current assets, issued capital, reserves, provisions, liabilities and disclosure of companies' shareholdings.

On the profit and loss account, some of the matters dealt with in the report were income, expenditure, profit for the year and turnover.

C. The Singapore Companies Act, 1967

At the Third Reading of the 1967 Companies Bill on 21 December 1967, the Minister for Law and Development reiterated the urgent need to reform the Companies law (Third Reading of Companies Bill, 21 December 1967):

The need for an up-to-date Companies law has long been felt, as the existing law, which is based upon the English Companies Act of 1929, is now completely obsolete.

While Singapore was a component of Malaysia, it was associated with the drafting of a new Companies Act for Malaysia which took over eighteen months to prepare. The Malaysian Companies Act, 1965, was enacted soon after Singapore was separated from Malaysia and came into operation in April 1966.

This Bill follows closely the provisions contained in the Malaysian Companies Act, 1965, as it is considered that Singapore's new law relating to companies should not be different from the legislation in force in Malaysia in order to facilitate trade and commercial intercourse with and within this region.

The significant changes proposed by the Bill were:

1. Private companies to be prohibited from inviting the public to invest money. Existing private companies should convert themselves to public companies if they desire to continue to raise funds from the public (Clause 15 of the Bill).
2. Every company to send copies of its balance sheet, profit and loss account and auditor's report to all members of the company before the general meeting (Clause 170).
3. Minority interests who are being oppressed by the majority to be

given remedy (Clause 181).

4. Directors to have the duty of disclosing any conflicting interests they might have and officers of the company to be prohibited from acquiring an advantage because of information gained by virtue of their position.

There were also provisions to ensure that directors should not take undue advantage of their position in the company and to prevent the company from giving undue preference to them. Inter alia, under the Bill, the duties and powers of the Registrar were extended to enable proper enforcement of the law over companies (see Appendix 10-II for an outline of the Bill as read at the Second Reading on 21 December 1966).

The need for greater disclosure was recognised. Every company, besides having to keep proper books of account, was required to keep other records to explain the transactions and financial position of the company (S167(1)). This was also to enable a true and fair profit and loss account and balance sheet to be prepared. For the first time, the words 'true and fair view' were introduced, replacing 'true and correct view'. Unfortunately, what is true and fair is never defined.

The company was under an obligation to retain its records for seven years (S167(2)). Besides the balance sheet, the profit and loss account had to be audited (S169(4)) and the contents of the balance sheet and profit and loss account were to comply with the requirements stipulated in the Ninth Schedule (S169(11)), which were far more comprehensive than in previous legislation.

The provisions on auditing were further enhanced. In previous legislation, the auditor's report would include an opinion on whether the balance sheet gave a true and correct view and also whether all information and explanations had been obtained. Under S174(1) of the 1967 Act the auditors report must state whether :-

1. The balance sheet and profit and loss account were properly drawn up in accordance with the provisions of the Act so as to give a true and fair view;
2. The accounting and other records were properly kept; and
3. Matters dealt with in the directors' report pursuant to S169(5) gave a true and fair view of such matters.

S169(5) required the directors to report on:-

1. Whether the operations of the company and its subsidiaries have been materially affected by items of an abnormal character;
2. Amount of dividend paid, declared or proposed;
3. Whether any circumstances have arisen to render the existing method of valuation of assets or liabilities misleading or inappropriate;
4. Any contingent liabilities, their nature and effects, and the company's ability to meet its obligations;
5. Any amount transferred or to be transferred to a reserve fund, general reserve or reserve account; and
6. Whether the current assets amount is reasonably realisable.

The roots of the current disclosure practices derive their fundamental structure from the Singapore Companies Act of 1967, which

marked the inception of modern corporate disclosure practices in Singapore.

#### 5. 1968 TO 1984

The Companies (Amendment) Act of 1970 introduced many amendments to the directors' report, including disclosure of the principal activities of the company, circumstances which would render the values attributed to current assets misleading, contingent liabilities, etc.

Subsequent legislations, namely, the Companies (Amendment) Act, 1973, the Companies (Amendment) Act, 1974, the Companies (Amendment) Act, 1975, the Companies (Amendment No.2) Act, 1975, did not alter earlier provisions on corporate disclosure and auditing.

The Companies (Amendment) Act, 1984, insofar as disclosure requirements were concerned, introduced two minor amendments to S169 on accounts and more significant ones to the Ninth Schedule relating to investments and investment income.

Disclosure in the profit and loss account of gross income before tax should distinguish between income received from:

- A. Quoted investments in subsidiaries;
- B. Unquoted investments in subsidiaries;
- C. Quoted equity investments in companies other than sub-subsidiaries;
- D. Other quoted investments; and
- E. Other unquoted investments.

Similarly, disclosure should be made in the balance sheet of the amounts of investments and the methods used to arrive at these amounts under separate headings as in (A) to (E) above (Singapore Accountant, SSA, September/October 1984).

The latest legislation, the Companies (Amendment) Act, 1987, which was passed by Parliament on 26 March 1987, introduced amendments to two main sections, namely, section 201 and the Ninth Schedule regarding the disclosure of a company's results of operations and financial position.

The new section 201 requires directors of holding companies to prepare and lay consolidated accounts before the annual general meeting. Previously, there were no provisions in the Act specifying the obligations of directors of holding companies to lay the consolidated accounts before the annual general meeting.

In line with the trend in other countries (e.g. the UK), the emphasis is to incorporate into statute those elements that are regarded as best accounting standards and practices. The new Ninth Schedule made extensive changes to the existing Ninth Schedule, which will bring the provisions on the form and content of annual accounts substantially into line with the accounting standards and recommended practices adopted by the Singapore Society of Accountants. The main amendments are in relation to the profit and loss account, the profit and loss appropriation account and the balance sheet.

A. Profit and Loss Account

Items to be Disclosed in the Profit and Loss Account - Ninth Schedule

Expenses	Income
(1) Interest paid or due and payable on debentures, deposits, loans or advances or otherwise	(1) Dividends received or due and receivable
To the Holding company	Quoted investments in subsidiaries
To subsidiaries	Unquoted investments in subsidiaries
To other related company	Quoted equity investments in companies other than subsidiaries
To other persons	Unquoted equity investments in companies other than subsidiaries
(2) Losses arising from the sale or revaluation of long-term assets	Other quoted investments
On sale of assets	Other unquoted investments
On revaluation of assets	
(3) Losses arising otherwise than in the ordinary course of business	(2) Interest received or due and receivable on debentures, deposits, loans, or advances
(4) Provision for depreciation, diminution in value or amortisation	From the Holding company
On fixed assets	From subsidiaries
On investments	From other related companies
On tangible assets	
(5) Provision for renewal or replacement of fixed assets	(3) Profit from the sale or revaluation of long-term assets
(6) Bad debts	On sale
Amount written off	On revaluation
Amt w/o agst any provision, reserve or other account	(4) Profit arising otherwise than in the ordinary course of business
(7) Doubtful debts - amount set aside	
(8) Directors remuneration	
(9) Auditors remuneration	



## Expenses

- (10) Income tax :
  - (a) Amount set aside for current year and for the succeeding years shown separately
  - (b) Any amount set aside to any provision for the payment of income tax attributable to a period other than the financial year
- (11) Net amount of profit or loss after providing for payment of income tax attributable to the financial year

Although no format is prescribed for the profit and loss account, the new Ninth Schedule requires the above items to be disclosed. The right column shows the revenue items while the left column shows the expense items.

## B. Profit and Loss Appropriation Account

### Profit and Loss Appropriation Account - Ninth Schedule

- |  |   |
|--|---|
| (1) Amount transferred to reserve, stating the origin of the amount              | (1) Balance of unappropriated profit at the beginning of the year   |
| (2) Any amount set aside to a provision - other than any specific provision      | (2) Net profit or loss for the financial year after providing for the payment of income tax.                |
| (3) Any amount set aside for redemption of share capital or loans                | (3) Amount withdrawn from any reserve   |
| (4) Dividends - amount paid during the year and proposed to be paid for the year | (4) Amount withdrawn from any provision, where the amount was not applied for the purposes of the provision |
| (5) Any other appropriation or adjustment of unappropriated profits              |   |
| (6) Amount of unappropriated profit at the end of the year                       |   |

A separate and more detailed profit and loss appropriation account is required. This account starts with the balance of retained earnings at the beginning of a financial year and concludes with the balance at the end of the financial year. The right column shows the net profit for the financial year after providing for income tax, and any transfers from reserves and provisions to retained earnings. The left column shows the loss for the period, transfers to reserves and provisions, amounts of dividends paid and proposed, and any other adjustments.

## C. Balance Sheet

### Format of the Balance Sheet - Ninth Schedule

- |  |   |
|--|---|
| <p>(1) Share capital, distinguishing between different classes of shares</p> <p>    Authorised<br/>    Issued<br/>    Paid-up</p> <p>    For preference shares<br/>    Rate of dividend<br/>    Amount of arrears of dividend<br/>    Whether cumulative, non-cumulative, participating or non-participating<br/>    Whether redeemable or not<br/>    If redeemable, the date on or before which they are to be redeemed</p> <p>(2) Amount of capital upon which interest has been paid out of capital during year and the rate of interest paid</p> <p>(3) Amount of calls in arrears</p> <p>(4) Amount of reserve liability resolved according to section 65(2)</p> <p>(5) Amount of reserves of all descriptions</p> <p>(6) Amount of the share premium</p> <p>(7) Amount of unappropriated profits or accumulated losses</p> <p>(8) Non-current and current liabilities : The terms "non-current liabilities" and "current liabilities" are defined in the new section 209A</p> <p>    If it is a borrowing corporation or a guarantor corporation, estimates of debentures repayable :</p> <p>        (a) Within two years<br/>        (b) Later than two years but not later than 5 years</p> | <p>(1) Fixed Assets : the following must be disclosed -</p> <p>    (a) At cost or valuation amount. If shown at the valuation amount,<br/>        Date of valuation<br/>        Whether the valuation was made by an officer of the company or by a person not being an officer</p> <p>        If the valuation is by an independent valuer - the name of the valuer and qualification must be shown in the first accounts in which reference is made to the valuation</p> <p>    (b) Aggregate amount of depreciation, diminution in value, and amortisation</p> <p>    (c) Written down value</p> <p>    Note : If an item of fixed asset is dealt with on the replacement or renewal basis, then the method and the aggregate amount of the unused provision for renewal or replacement must be disclosed</p> <p>(2) Intangible assets<br/>    Goodwill, patents and trade marks must be shown at their written down value</p> <p>(3) Investments</p> <p>    (a) At cost or valuation amount<br/>        The requirements regarding disclosure of valuation are the same as for fixed assets</p> <p>    (b) Aggregate amount provided as depreciation,</p> |
|--|---|

- (c) Later than 5 years  
after the end of the financial  
year must be shown separately

The following must be shown  
separately, classified either  
as current liabilities or as  
noncurrent liabilities :

- (a) bank loans
- (b) bank overdrafts
- (c) debentures held by -
  - (i) subsidiaries
  - (ii) holding company
  - (iii) other related  
companies
  - (iv) other persons
- (d) amounts due to trade  
creditors and on bills  
payable
- (e) other amounts payable to -
  - (i) subsidiaries
  - (ii) holding company
  - (iii) other related  
companies
- (f) capital amounts contracted  
for but not provided so far
- (g) other liabilities with  
particulars

diminution in value, or  
amortisation

- (c) Written down value  
In addition, investments must  
be classified as follows :
  - (a) Government and other  
public debentures, stock  
and bonds classified as  
quoted and unquoted
  - (b) Shares in the holding  
company classified as  
quoted and unquoted
  - (c) Shares in subsidiaries  
classified as quoted and  
unquoted
  - (d) Shares in other  
related companies  
classified into  
quoted and unquoted
  - (e) Shares in other  
companies classified  
into quoted and  
unquoted
  - (f) Debentures in holding  
company classified into  
quoted and unquoted
  - (g) Debentures in subsidiaries  
classified into quoted  
and unquoted
  - (h) Debentures in other  
related companies  
classified into  
quoted and unquoted
  - (i) Debentures in other  
companies classified  
into quoted and unquoted

- (4) Current Assets
  - (a) Stock in hand
  - (b) Work in progress
  - (c) Amounts due from trade  
debtors and bills  
receivable
  - (d) Other amounts receivable  
from
    - (i) the holding company
    - (ii) subsidiaries
    - (iii) other related  
companies
  - (e) Loans to directors of the  
company or related  
companies

- (f) Other assets
- (g) Cash at bank and in hand
- (5) The following expenses to the extent they have not been written off
  - (a) Preliminary expenses
  - (b) Shares or debentures issue expenses
  - (c) Commission paid in respect of shares or debentures
  - (d) Discount allowed on debentures
  - (e) Discount allowed on issue of shares

The new Ninth Schedule prescribes the above items to be disclosed in the balance sheet. The right column shows a detailed breakdown of five principal types of assets, namely, fixed assets, intangible assets, investments, current assets and expenses that have not been written off, and their bases of valuation. They are listed in inverse order of liquidity.

The left column shows (1) how these assets have been financed, (2) the maturity periods of liabilities, and (3) securities given to obtain finance. The balance sheet also shows the amounts receivable from and amounts due to related parties.

Overall, the Companies (Amendment) Act, 1987 has increased the amount of information required to be disclosed in the financial statements. This trend is consistent with developments overseas where each succeeding legislation seems to expand the details to be disclosed in financial statements.

### III. Relationship Between Singapore Companies Law And United Kingdom Companies Law

Singapore's first companies law was the Indian Companies Law - Joint Stock Companies Act of 1857, which was adopted in the Colony by virtue of the fact that Singapore was under British Indian rule.

In 1889, the Straits Settlements enacted its first companies legislation, the Companies Ordinance of 1889 which was largely similar to the Indian Companies Act of 1866 which it replaced.

Companies legislation in Singapore before 1900 was predominantly influenced by India. India, on the other hand, derived her companies law from the British and primarily from the British Joint Stock Companies Acts of 1844 and 1855. Thus, the pre-1900 era in Singapore was strongly influenced by British legislation via India.

The Companies Ordinance XXV of 1915 and Ordinance No.155 (Companies), enacted in the same year, in Singapore repealed the 1889 Companies Ordinance. However, the 1915 Companies Ordinance was modelled upon the UK Companies Act of 1908.

Although the 1925 Companies Ordinance repealed the Ordinance No.155 (Companies), the sections on accounts were not affected. Thus, up to 1940, Singapore was still following the UK 1908 Companies Act while in the UK, the 1929 Companies Act was already in force. Singapore, therefore, lagged behind the UK by at least 40 years and her company law was thus becoming obsolete.

The 1940 Companies Ordinance was modelled upon the UK's 1929 Companies Act and brought Singapore Companies law into line with the UK.

The 1967 Companies Act of Singapore drew its substance from the Australian Victoria Act of 1961, the Malaysian Companies Act of 1965 and was also influenced by the Cohen and Jenkins Committee Reports published in the UK in 1945 and 1962 respectively. The Malaysian and Australian legislation was, in turn, influenced by the British, as many of the recommendations of the Cohen and Jenkins Reports were incorporated into it.

Some of the amendments in the Companies (Amendment) Act of 1984 are derived from the UK (see Companies (Amendment) Bill, Third Reading, 29 June 1984).

The evidence gathered indicates the predominance of British influence in companies legislation and corporate reporting practices in Singapore, though there are some important differences, mainly attributable to Australian influence.

Some of the important differences between the Singapore Companies (Amendment) Act, 1987, and the UK's Companies Act, 1981, are :

1. Format of financial statements.

The Ninth Schedule of the Singapore Act prescribed details to be disclosed in financial statements, but it did not lay down any formats for the financial statements. The UK Act, on the other hand, went as far as to prescribe formats for both the balance sheet and the profit and loss account.

Two types of formats were recommended for the balance sheet and four for the profit and loss account. The vertical format of presentation for the balance sheet and profit and loss account is recommended in the UK.

2. Filing exemption for certain companies.

The UK 1981 Act exempts "small" and "medium-sized" companies from full filing requirements. These exemptions do not include public companies or banking, insurance or shipping companies.



To qualify for categorisation as "small" or "medium-sized", two or more of the following conditions must be satisfied :

	Small	Medium-sized
A. Turnover does not exceed (per annum)	£1,000,000	£5,750,000
B. Total assets do not exceed	£ 700,000	£2,800,000
C. Average number of employees does not exceed	50	250

These conditions must be satisfied for at least two consecutive years. However, the company may then miss a year and still qualify.

The exemptions conferred on small companies are as follows (S6) :

- A. Need not file a profit and loss account or a directors report.
- B. May file an abbreviated balance sheet which only shows items such as the aggregate amount of debtors and creditors due or payable within one year and those due or payable after more than one year.
- C. Need only disclose information on :
  - (1) Accounting policies.
  - (2) Share capital.
  - (3) Particulars of allotments.
  - (4) Particulars of debts.
  - (5) Basis of foreign currency translation.
  - (6) Comparative figures.
- D. Details of directors and senior employees emoluments need not be given.

Medium-sized companies may file a modified profit and loss account which starts with gross profit or loss (i.e. turnover, cost of sales, gross profit or loss and other operating income are combined). The particulars of turnover and profits by class of business and geographical markets need not be given. These exemptions do not apply to the accounts submitted to members.

In contrast, if a company is an exempt private company, which the Singapore Act defines as a private company with no more than 20 members and whose shares are not held directly or indirectly by any corporation, the company is not required to submit financial statements to the Registrar of Companies. In lieu of the financial statements, the Eighth Schedule of the Companies Act requires a certificate to be signed by a director, the secretary and the auditor of the company and filed with the Registrar of Companies.

The certificate states, *inter alia*, that the company appears able to meet its liabilities as and when they fall due.

### 3. Accounting Practice

The 1981 UK Companies Act laid down guidelines (SS36-40) on the use of merger accounting for group accounts. There are no such guidelines in the Singapore Act.

## IV. Empirical Study of Annual Reports

### 1. Objective

Having reviewed the legislative history of the Companies Ordinances and Act in Singapore, the purpose of this empirical study is

to trace this development by using four established companies in Singapore to provide an understanding of the relationship between law (i.e. what had been enacted) and practice (i.e. how the companies presented financial statements in reality).

## 2. Scope of the Study

This study covers the period from 1819 to 1970. 1970 was used as a cut-off year because in 1969 the Singapore Society of Accountants (SSA) set up the Auditing Standards Committee (renamed in 1973 as the Financial Standard Review Committee [FSRC]) to monitor and report on non-compliance with the Companies Act and professional pronouncements. The detailed yearly analyses of the activities and findings of the FSRC are covered in the chapter on the Accounting Profession in Singapore. The legislative influences can also be inferred from the FSRC reports.

In an examination of the files in the National Archives in Singapore, it was found impossible to obtain records of a single company that covered the period of the study. The Registrar of Companies only commenced keeping such records for archive purposes in 1887 and, to aggravate the problem, many records had been misplaced or destroyed.

To overcome this problem, it was decided that it would be practical to study a few companies' accounts to provide reasonable coverage. The companies selected were Tanjong Pagar Dock Company Limited (TPDC) established in 1863, Fraser and Neave Company Limited (F & N) set up in 1898, Singapore Cold Storage Company Limited (SCSC)

founded in 1903 and the Straits Steamship Company Limited (SSC) established in 1887. F & N, SCSC and SSC are still in existence and, listed on the Singapore and Malaysia Stock Exchanges.

TPDC annual reports were used as a basis for analysis for the period prior to 1900. Here, it was rather fortunate that the earliest records found on the company at the National Archive were dated 1865. For the period from 1900 to 1925, the annual reports of F & N were analysed and the SCSC's financial statements were used for the period from 1926 to 1960. From 1961 to 1969, SSC was used for the purpose of the study.

In TPDC's annual filings with the Registrar of Joint Stock Companies in Singapore, two covering letters attached thereto, dated 21 September 1880 (Appendix 10-III) and 16 March 1883 (Appendix 10-IV) were found. In the covering letters, the company stated that the documents delivered to the Registrar were prepared in compliance with the Indian Companies Acts of 1857 and 1866 respectively, thus demonstrating that, prior to 1889, the Indian Companies Acts of 1857 and 1866 were enforced in the colony.

The 1865 accounts of TPDC consisted of a balance sheet which was brief and simple (see Appendix 10-V) and followed the model balance sheet laid down by Table B of the Indian Joint Stock Company Act, 1857 (see Appendix 10-I). The left hand column contained the capital and liabilities and the right hand column the properties and assets of the company. There were no notes or explanations of the accounting policies or any detailed breakdown of the major accounts.

At the bottom of the balance sheet, the directors certified that it gave a 'true account' of the capital, liabilities, properties and assets of the company.

Similarly the auditors stated in their reports that the balance sheet, examined together with the books of the company, was certified to be correct and to exhibit a 'fair and correct view' of the company's affairs. The credentials of the two auditors were unknown. The auditors' report appeared to be a certification of the authenticity of the balance sheet. Very little is known of the profession in early times. The auditor was Derrick and Company, one of the best established firms at that time. It was set up in 1889 and dominated the accounting scene up to the Second World War when the international accounting firms came to Singapore.

The company also produced for the six month period to 31 December 1865 a Statement of Receipts and Expenditure, which was not subject to audit. This was essentially a summary of the cash and bank account by major categories of receipts and payments, with the closing balance representing the year end cash and bank balances as stated in the balance sheet. Under the Companies Ordinance, the company was under no obligation to produce any statements other than the balance sheet to the shareholders.

The next account found was that of 30 June 1875 (Appendix 10-VI). In the directors report, it was stated that the balance sheet and profit and loss account were presented at the general meeting. The directors report contained :

- A. The amount of distributable profit after making allowance for all necessary payments including depreciation.
- B. Amount of dividends recommended.
- C. Contingent liability.
- D. Status and cost of major projects in progress.
- E. Appointments of senior executives of the company.

The balance sheet this time contained many more details. For example, under liabilities, it showed, inter alia, the accruals for directors fees, wages and salaries and interest due. Under assets, inter alia, the stock amount was broken down into individual categories such as iron, steel, timber, etc. The format was in conformity with the model balance sheet laid down in Table A of the First Schedule of the 1866 India Companies Act. The auditors report, directors report and statement from the directors remained unchanged.

The early form of the profit and loss account was presented in the same manner as the balance sheet, i.e., in the horizontal form with the credit items on the right-hand side and the debit on the left (see the 1875 accounts - Appendix 10-VI). The income from the various sources was added to the retained earnings brought forward from the previous year. The income included net income from operations attributable to the Dock and Machine Shop, but little detail was provided. Except for dividends, directors fees, auditors remuneration, and interest expenses, the rest of the expenditure was lumped together as one amount. At the bottom of the profit and loss account, a memorandum account was drawn showing how the half year's profit was distributed as dividends and directors fees. No evidence

could be found to explain why half-yearly accounts were prepared. The Companies Act required accounts to be presented at the general meeting once a year. One possible reason could be that the constitution of TPDC required half-yearly accounts to be presented.

In those days, the model balance sheet of the Companies Act provided the only guidance to presentation. There were no such things as notes to the accounts to explain the accounting policies or to enhance the information disclosed on the face of the balance sheet. The emphasis was on solvency of the company and, as such, the balance sheet was more important than the profit and loss account. As for the profit and loss account, the primary concern was that dividends should be distributed from revenue and not capital. Details of the profit and loss account were therefore regarded as insignificant. The Memorandum Account on the distribution of distributable profit was presumably considered important to the shareholders who were felt to be mainly interested in the returns from their investments.

## 2. 1889 TO 1900 (TPDC)

The first companies legislation to be enacted in Singapore, the Companies Ordinance, 1889, was, as far as the accounts and audit were concerned, fundamentally the same as its predecessor, the Indian Companies Act of 1866.

By this time, the details presented in TPDC's balance sheet were reasonably comprehensive by the standards of that time (see 1891 balance sheet - Appendix 10-VII). For example, all major categories of fixed assets and movable properties were disclosed individually and

debentures were analysed by the series of issue and the due dates. There was no change in the profit and loss account or the statement by the directors.

However, the auditors report saw three innovations. In their report, the auditors had to state that the balance sheet was 'full and fair', properly drawn in conformity with the law and that it exhibited a 'true and correct view'. Previously, the words 'fair and correct view' were used.

### 3. 1900 TO 1925 (F & N)

Though it was usual for companies to adopt the model Articles of Association contained in Table A of the First Schedule of the Companies Ordinance, 1889, F & N departed from this practice. Its Articles of Association (Appendix 10-VIII) provided that the profit and loss account and balance sheet, containing a summary of the properties and liabilities of the company, should be presented to the shareholders (Clause 131) and that the correctness of these two statements should be audited (Clause 134). The standard provisions of the 1889 Ordinance required only the balance sheet to be presented and audited. There was no guidance from the statute as to how the profit and loss account should be presented.

An analysis of F & N 's profit and loss account for the year 1902, showed that, like TPDC, the details presented were reasonably comprehensive (see Appendix 10-IX). The expenses were itemised and the gross profit from trading was distinguished from other income. All the information was confined to the face of the profit and loss



account, as was the case for the balance sheet. The presentation of the balance sheet followed reasonably close to the model balance sheet provided by Table A of the First Schedule.

In the audit report, prior to 1889, the words 'certify that in our [auditors ] opinion' were normally used. The post-1889 period saw the word 'certify' being discontinued and the word 'opinion' gained prominence. In the case of the auditors report of 1902, the auditors had to state whether or not, in their opinion, the financial statements complied with the regulations of the Companies Ordinance of 1889 and exhibited a true and correct view.

It was noted in TPDC's accounts that, up to 1894, the balance sheet still contained the directors statement certifying that the balance sheet gave a true account of the properties and liabilities of the company. However, in the 1902 F & N's accounts and beyond, this statement was omitted and in its place were signatures by two directors.

Prior to 1910, F & N's profit and loss accounts were noted to be reasonably detailed. However, from 1910, except for depreciation, auditors fees, directors fees, preliminary expenses, interest, etc, all the other expenditure was lumped into one. In the balance sheet, the movements in retained earnings, including distributions, were disclosed on the face of the balance sheet.

It is interesting to note that, from 1910, the financial statements appeared to concentrate on disclosing information that was useful to the shareholders of the company. Information on distributions indicated the return on their investments and the

movements in retained earnings served to emphasise the status of their investments. In the profit and loss account, information was displayed showing how much the principal employees or "agents" were paid (which included the auditors and directors of the company) and also interest payments to inform the shareholders on the extent that the company's funds were utilised to pay non-equity sources of finance and so forth. One explanation for the change in presentation in financial statements was the influence of the UK Companies Act of 1908 which was not adopted in Singapore until 1915. The 1915 Companies Ordinance repealed the 1889 Companies Ordinance. Since the 1889 Companies Ordinance did not provide specific guidance on disclosure, it was usual for Singapore companies to follow UK practice, as we shall see later in the case of Straits Steamship Company Limited. Public accounting in Singapore at that time was dominated by one firm, Derrick and Company, which audited all the companies covered in this empirical study.

In 1915, the auditors report, besides the standard opinion that the financial statements complied with the requirements of the Companies Ordinance, 1889, and exhibited a true and correct view, also stated that the financial statements were prepared to the best of the (auditors) information and explanations given to us (the auditors) and as shown by the books of the company (Appendix 10-X).

From 1915, the standard practices in the financial statements and the auditors report continued unchanged until 1925.

#### 4. 1925 TO 1960 (SCSC)

SCSC, established in 1903, followed much the same practice as F & N and the auditors report covered both the balance sheet and profit and loss account.

The balance sheet presentation followed Table A of the First Schedule of 1889 Companies Ordinance. Like F & N, until 1909, the profit and loss account contained detailed analyses of expenditure and income. However, from 1910 onwards, the profit and loss account merely disclosed the opening balance, current profits (or losses) and the closing balance, which was even more scanty than F & N. Such differing practices were made possible because there were no statutory pronouncements on the presentation of the profit and loss account.

It was only after 1940 that there were any significant changes in the financial statements, due to the Companies Ordinance of 1940. The operations of SCSC were interrupted by the outbreak of the Second World War. From 1940 to 1945, Singapore was under Japanese occupation, and there were no financial statements available.

In its first annual accounts after the war, published in 1946 (Appendix 10-XI), there were significant changes brought about by the 1940 Companies Ordinance, and presentation of the profit and loss account to the shareholders was made compulsory, in addition to the balance sheet. Unfortunately, the Ordinance did not specify the form and content of the profit and loss account. Hence, the manner of presentation was left very much to the discretion of the directors.

In the 1946 accounts, a noticeable change was seen in the categorisation of current and non-current items in the balance sheet. Previously, investments in subsidiaries and associated companies were included as one sum with other investments, while in the 1946 accounts, these were separately disclosed. As before, there were no notes or explanations on accounting policies or any other information to facilitate better understanding of the accounts. The profit and loss account contained information on the net profit, directors fees and appropriations. It was very brief in detail.

Section 127 of the 1940 Companies Ordinance required the directors to state in the financial statements how the profits (or losses) of subsidiary companies were treated in the accounts (e.g. to the extent of dividends received).

The auditors report format registered no change from previous years.

In SCSC's 1949 annual report, in addition to the normal directors report, the chairman also issued a statement explaining the financial statements and events that had taken place during the year and future developments which were likely to be of interest to the shareholders. The annual report was also made more interesting with the inclusion of pictures, a summary of new developments and various facts relating to the company. Although not required by the Ordinance, the chairman's statement has since been a regular part of the annual report.

From 1950 onwards, SCSC's financial statements included comparative figures and a summary of authorised and issued capital as required by the 1940 Ordinance.

#### 5. 1961 TO 1969 (SSC)

SSC was established in 1887 and its financial statements were relatively advanced compared with SCSC. For example, by 1964, the company had produced consolidated results of subsidiaries and associated companies. Although there were no notes explaining accounting policies, there were, however, notes to explain, inter alia, the movements in reserves, fixed assets, depreciation, directors fees, auditors remuneration, contingent liabilities and valuation of securities (see Appendix 10-XII). Other than this, the practices at this time were mainly similar to prior periods.

1967 saw the most important legislation, the Companies Act, 1967. This gave birth to modern corporate reporting practices in Singapore.

As early as 1964, SSC had been disclosing more information than the minimum stipulated by statute. The accounting practices of the company included much information that was later made mandatory by the 1967 Act. For example, the profit and loss account had been presented in vertical form since 1964 and its contents were essentially the same as those required by the 1967 Act. Thus, the 1967 Act added little in the manner of presentation of information and accounts to SSC's practices which were relatively advanced by the standards of that time.

The auditors report was also affected by the Act, in that the auditors had to give an opinion as to :

- A. Whether the financial statements were properly drawn in accordance with the Companies Act, 1967, to give a true and fair view;
- B. Whether the accounting and other records were properly kept; and
- C. Whether the directors report gave a true and fair view.

For the first time, the words 'true and fair view' are used, although what is true and fair is not defined. In addition, the detailed format and information to be disclosed in the balance sheet and profit and loss account are dictated by the Ninth Schedule of that Act, the degree of disclosure being much wider than previous legislations.

To monitor compliance with the requirements of the Companies Act and professional pronouncements, the Singapore Society of Accountants set up the Auditing Standards Committee in 1969. In 1973, this committee was re-named the Financial Statements Review Committee. Since 1974, the Annual Report Awards Committee has conferred awards to the best annual reports of companies listed on the stock exchange.

A comprehensive analysis of reports by the committee on compliance and deviations since 1969 and of the requirements of the Companies Act and professional pronouncements is covered in the chapter on Accounting Profession in Singapore and should be referred to for an understanding of legislative influences since 1969.

The evidence gathered from the studies of the four companies demonstrated the importance of statutes in setting the rules and standards of corporate reporting practices in Singapore. This is

still true today.

Companies do abide by the requirements of the Companies Act. TPDC, F & N and SSC, for example, disclosed more information than required by the law of that time under review. TPDC and F & N had very detailed profit and loss accounts. In the 1960s, SSC followed disclosure practices in the UK (11 & 12 Geo VI 1948 [Imperial] and Australia [Victoria No.6839/1961]) long before the Singapore Companies Act, 1967, which was modelled very closely upon the UK and Australia Companies Acts, was enacted.

From the 1970s, the findings of the Financial Standards Review Committee and the Annual Report Award Committee have shown that, as a normal policy for disclosure, most companies tended to maintain minimum disclosure as prescribed by the Companies Act, accounting standards and guidelines. Thus company law still plays an important role in determining corporate behaviour and reporting.

## V. Conclusions

The legislative history of Companies Ordinances and Acts in Singapore shows a characteristic trend where the boundary of minimum disclosure has been continually widened and enhanced over time. This trend is similarly witnessed in the UK, USA, Australia, New Zealand and Canada and many other countries, and Singapore's experience is no exception.

The British influence was dominant in the early days of Singapore companies legislation, when the standard of corporate reporting was

brief and simple. One can also say the same of the modern corporate disclosure structure developed in the Companies Act of 1967, which derived much of its impetus from UK practice or by legislation affected by the former, such as the Australian Companies Act. The results of the empirical study of four companies since 1889 illustrated the important role companies law has had, and still has today, in influencing corporate reporting in Singapore. Although the law provided minimum disclosure requirements, it is not a normal practice for companies to disclose any more than they have to. Perhaps the inclination to keep corporate affairs a matter of internal interest is still as strong as it has been since the inception of joint stock companies law. With each new legislation, we have witnessed the boundary of minimum disclosure being extended. This indicates the coercive influence of companies law on the presentation of financial statements. And last, but not least, for an ex-colony like Singapore, the influence of Britain is still present and does not end on Singapore's attainment of independence. Like old habits, established historical links are hard to eradicate.



## CHAPTER 11

### ACCOUNTING EDUCATION AND MANPOWER IN SINGAPORE

#### I. Introduction

The types of accounting education can be generally classified into the following categories :

1. Tertiary.
2. Professional, including semi-professional qualifications at technician level.
3. School Certificate at General Certificate of Education Ordinary and Advanced levels.

Early evidence of accounting education in Singapore can be traced to 1936 when the predecessor bodies of the Chartered Association of Certified Accountants, the Society of Incorporated Accountants and Auditors and the Association of Certified and Corporate Accountants established their overseas examination centre in Singapore. Prior to this, those who sought to acquire accounting qualifications had to go abroad (Johnson and Caygill, 1971).

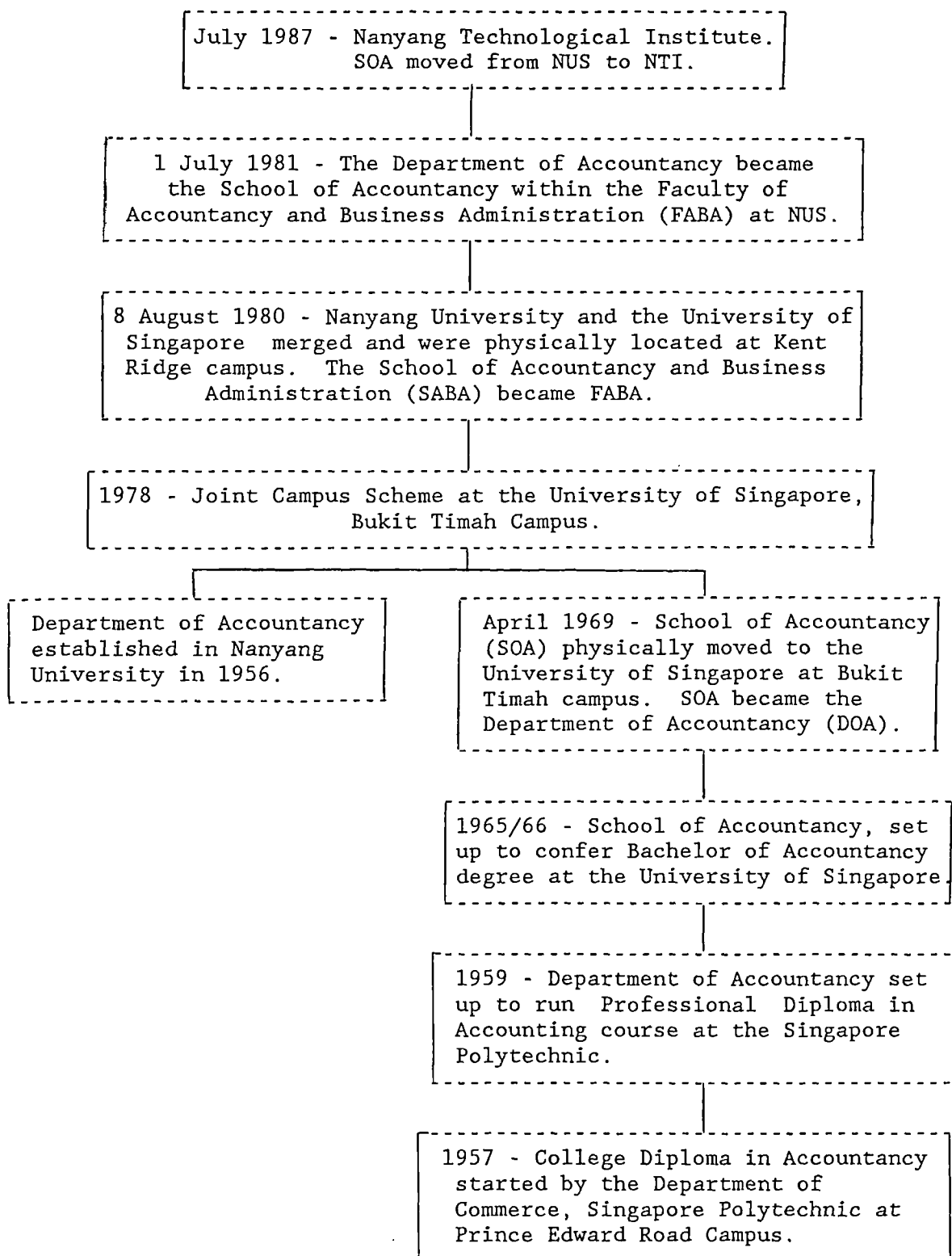
In 1954, the Ministry of Education (MOE) introduced commercial education to Outram School.

In 1956, Nanyang University (NU) became the first institution to offer an accounting degree course in Singapore, and in 1957, the Singapore Polytechnic (SP) started the professional accounting diploma course. Both of these institutions were the predecessors to the School of Accountancy, National University of Singapore (NUS) and subsequently Nanyang Technological Institute (NTI), with effect from July 1987.

This chapter traces the development of and influences upon accounting education in Singapore.

## II. Tertiary Education

### 1. School of Accountancy, Nanyang Technological Institute



The School of Accountancy of NUS and subsequently NTI, has its roots in Nanyang University and the Singapore Polytechnic.

Although the SOA became part of NTI from July 1987, in spite of physical and administrative detachment from the NUS, all the other characteristics such as curriculum, staff and standard of entry remain the same. The reasons for the move to NTI will be discussed later after the development of Nanyang University and the National University of Singapore is traced.

#### A. Nanyang University (NU)

In the colonial days, especially before the Second World War, Chinese education in West Malaysia and Singapore was virtually the sole responsibility of the Chinese community rather than the concern of the colonial government. When the Communists came to power in China in 1949, the flow of Chinese high school leavers from Singapore seeking higher education in China came to an abrupt halt.

Since the colonial government did not seem to appreciate the magnitude of the problem precipitated by the closing of the avenue for higher education to numerous Chinese high school leavers, the Chinese community took it upon themselves to safeguard their own interests and progress.

NU was first incorporated as a company in 1953. In 1956, it began to function in a 500 acre site in Jurong, donated by the Hokkien Huay Kuan (Association).

With the creation of NU or Nantah (as commonly called by the Chinese), Singapore became the only country outside China and Taiwan

that was able to provide a complete educational system using Chinese as a medium of instruction from primary school to university level.

The objectives of NU stipulated by its founders were (The Straits Times, 14 March 1980) :

1. To establish an institution of higher learning for middle school leavers to further their studies, although it should be emphasised that NU was not exclusively for Chinese stream students.
2. To train secondary school teachers.
3. To train specialists for the nation.
4. To meet the needs of the population.

In addition, they envisaged Nantah as possessing two special features:

1. To serve as a link between eastern and western cultures.
2. To promote (the then) Malayan culture.

Nantah was unique in that it was a university brought into being despite the absence of support from the colonial government of that time. It was the first Chinese-medium university to be established overseas with the intention of preserving and fostering Chinese culture. And, last but not least, it was the only university in the region at that time to be established and maintained entirely by private funds.

The Bachelor of Commerce degree with a major in accountancy was first offered at NU under the Department of Economics and Political Science in the College of Arts in March 1956.

In the following year, the College of Commerce was established with accountancy and banking as one of the two departments within the College. Subsequently, accountancy became a department of its own. The degree course was spread over four years, structured along the Chinese university system which, in turn, was modelled on the American system.

The lack of commitment of the colonial government was signified by the fact that it was only in 1959 that NU was given statutory status as a university with the passing of the Nanyang University Ordinance. This was accorded following the Prescott Report. However, the degrees of NU were not recognised by the government.

The Prescott Commission reported on academic standards and conditions of teaching and recommended the appointment of a committee to review the report and determine the extent and sequence of the re-organisation.

The Commission was appointed by the government of the Colony of Singapore in January 1959 and completed its findings on 12 March 1959.

Some of the recommendations of the Commission were :

1. That an ad hoc committee of not more than seven members be formed. This should consist of representatives of the NU and the government to review the report and determine the extent and sequence of the re-organisation.

2. That the salary scale of the full-time staff be raised immediately by approximately 50 per cent as a transitional measure, and that the ad hoc committee work out the new salary scales and terms of appointment including tenure, superannuation etc., for all academic and administrative staff, effective from 1 January 1960, although present staff would not be eligible automatically for the new salary scales.
3. That the ad hoc committee consider and determine the income of the university from private and government sources for 1960 and fix the number of staff positions that can be established.
4. That, in order to raise the academic standards of NU, the university should adopt the external examination system as used in the University of Malaya.
5. That with the proposed re-organisation of NU, the Public Service Commission consider the NU degree as an eligible qualification for entry into the public service.

In accordance with the Prescott Commission Report, the Minister of Education appointed a seven member Nanyang University Review Committee (NURC) on 23 July 1959 to review the report. The committee, chaired by Dr. Gwee Ah Leng, completed its findings on 20 November 1959.

With regard to staff at NU, the NURC found that the staff structure of NU followed broadly that of universities in China before 1949. Each department was under a head, under whom were a number of professors, associate professors, lecturers and assistants. Under the British university structure, a professor would be the Head, and under him are senior lecturers, lecturers and assistant lecturers.

In terms of staff qualifications, many of the staff acquired their qualifications and training from the United States. However, among the professors at NU, only 20 per cent had doctorates, while 17 per cent of the associate professors had doctorates and 40 per cent had masters degrees. The report emphasised the importance of doctorate qualifications and research. The NURC suggested proper evaluation of present and future staff members to maintain a high standard among staff.

Staff were engaged on a yearly basis and it was suggested that future staff be engaged on a one-year contract in the first instance, to be followed by a fixed three-year contract and then permanent tenure. Without such incentives, it would be impossible for the staff to settle down to plan their work on a long-term basis.

The staff salary scales were too low and new scales were worked out by NURC. In addition, the housing and municipal services provided to staff were to be charged at a flat rate according to the types of accommodation.

There was an overwhelming proportion of staff from Taiwan. This was unavoidable as the principal language of instruction was in Chinese. The NURC recommended the use of more English in NU and that the majority of the staff be recruited from the locals.

On the curriculum, NURC found that there was a lack of systematic planning. Individual experience and preference influenced to a large extent the organisation of the curriculum. There was insufficient co-ordination between the various related courses, and certain courses were offered without reference to pre-requisites or to other courses



in the same field. Courses were assigned to teachers with no special training in the subjects, which caused problems to the teachers and disadvantage to the students.

The credit system adopted in NU followed the Chinese university system which, in turn, was patterned after the American system. As such, a student need not pass all the subjects in the major course of study in order to proceed to the next year as long as he secured the requisite number of credits required for graduation. It was found that some students in the final year had not completed their first year course in one or more subjects.

The number of credits was disproportionately high in the first year and resulted in the imposition of an unreasonably heavy burden. The NURC recommended that the 16 compulsory credits for the first year be reduced to 8.

Textbooks and reference materials were in English and NURC found the general standard of English of students in the first and even later years to be quite inadequate, for most students did not possess the ability to comprehend the standard texts and reference materials. NURC recommended that the standard of English for entry to NU be raised. Those who failed the Entrance Examination in English were required to attend a one year pre-university course devoted mainly to the study of English.

The system of examinations was unduly complicated. There were two examinations per term, a mid-term and a terminal examination. There were also informal class tests conducted at the discretion of the

teachers and these were combined with the two examinations to arrive at the average result for the term. This was again combined with the marks obtained in the final graduation examination to arrive at the average graduate result. NURC were of the opinion that the informal tests should not form an integral part of the graduation result, but be used as a guide to the student's progress and, in borderline cases, to determine a pass or a failure in terminal examinations.

NURC was alarmed at the leniency in the marking of examination scripts. In a number of cases, it was found that the final marks had been pushed up to more than double the original marks. The regulations and guidelines were to be tightened and, in addition, a panel of external examiners was to be called in to maintain consistency and high standards (Report of the Nanyang University Review Committee, 1960).

The report was tabled in the Legislative Assembly in February 1960. In accepting the recommendations, the government stated that it was prepared to give financial support to NU, subject to re-organisation being carried out in accordance with the NURC's report. In fact, the government was prepared to go further by giving it parity treatment with the then University of Malaya in respect of Singapore students, which was estimated at 40 per cent of the total student enrolment, or the equivalent of \$2.115 million per annum (Ministry of Education Annual Report 1960).

In 1964, the government and NU Council reached an agreement under which NU would preserve its identity and the government would provide it with financial support on the same basis as the University of

Singapore.

In 1965, the Nanyang University Curriculum Review Committee (NUCRC) was established under the chairmanship of Professor Wang Gungwu to review the current organisation of courses of study and contents of individual courses in Nanyang University and to recommend to the university revised courses of study adapted to the needs of society.

In spite of the Prescott Commission Report and NURC's recommendations, the NUCRC found that NU's attention had been directed to producing a large number of graduates without adequate consideration of the prospects of employment or of the standards of teaching and research or of serving the needs of society. NU catered only to students from Chinese-medium schools and this function was thought by the committee to be too narrow.

The NUCRC put forward its recommendations, inter alia, on the use of the English language, the new degree structure, the College of Arts and the College of Commerce.

The degree structure, which required each student to obtain a total number of 128 credits spread over four years for a pass degree, was found to be unsatisfactory as there was a great disparity in the assignment of credits to each of the courses.

The course of study was based entirely on formal lectures, and there was little personal contact between staff and students. Students were not given adequate written assignments and there was an excessive dependence on textbooks and printed lecture notes. Many of the courses were not based on up-to-date publications and very few of them made use of materials from recent periodicals.

The system was exclusively dependent on examinations. Much time was spent on preparing students for these examinations and on marking examination papers. Moreover, in the examinations, students were given very little choice in examination questions. The grading system for the examinations was found to be inconsistent and this created problems in assessing a student's academic achievements. The lack of statutory boards of examiners for each college was a serious defect in the system.

The new degree structure consisted of a pass degree and an honours degree. The pass degree was to be based on the credit system. The honours courses were offered to students who had completed the required 108 credits within two years and had done extremely well in the pass degree within three years. The honours course was not based on the credit system and the examinations consisted of a number of papers to be taken at the end of the academic year and which had to be passed at one and the same time. The new degree structure was to start in academic year 1966/67. A tutorial/seminar system was recommended to encourage interaction between teaching staff and students and the discussion of relevant topics and questions.

For each college, a board of examiners was recommended for the first year courses. Specified pass degree courses were moderated by external examiners and this was also done for the honours degree.

A uniform marking/grading system was recommended for each college. All percentages and marks were to be translated into non-numerical grades.

The committee also recommended that a committee on curriculum be formed to revise the curriculum from time to time.

The committee emphasised the need for stringent recruitment of staff and for making staff salaries more attractive. The upgrading of library facilities and promotion of research works were some of the other important recommendations put forward.

With so many shortfalls, one could appreciate the bias against NU's qualifications from the government and private sectors. The question of recognition by the Singapore Society of Accountants and the Malaysian Association of Certified Public Accountants was suggested by NUCRU now that the new curriculum and improved system were introduced.

It was only in 1968 that the Minister of Education at the 1967/1968 convocation announced that the Nanyang degree would be recognised for appointments by the Public Service Commission for employment in the civil service.

However, for the accountancy graduates, professional qualifications were not accorded until 1971 — to the third batch of the new degree structure graduates. Graduates under the old degree structure had to sit and pass the auditing, taxation and accounting papers of the final examinations of the new degree curriculum to gain admission into the Singapore Society of Accountants (SSA).

To give NU a role in the professional body, the Minister of Finance nominated a member of the NU Department of Commerce to be appointed as statutory member of SSA Council and at the same time a member of the profession was appointed to the Council of NU.

This first external examiner appointed to moderate the Bachelor of Commerce (Accountancy) under the new degree structure was Professor P.A. Towsey of the University of Singapore from 1968 to 1970.

He was followed by Professor David H Li of the University of Washington from 1971 to 1978. The last examiner before the merger with the University of Singapore was Professor B.Colditz of the University of Newcastle, Australia, in 1979. Dr. Yang Ju-Mei of the Chinese University of Hong Kong was the external examiner from 1966 to 1968.

Academic Year	Number of Graduates
Old Degree Structure	
1959/60	25
1960/61	10
1961/62	20
1962/63	23
1963/64	35
1964/65	41
1965/66	54
1966/67	45
1967/68	41

Academic Year	Number of Graduates
New Degree Structure	
1968/69	44
1969/70	49
1970/71	68
1971/72	72
1972/73	70
1973/74	92
1974/75	90
1975/76	95
1976/77	71
1977/78	72
1978/79	65
1979/80	62

Prior to the Minister of Finance's announcement of the recognition of the NU degree in 1968, the output of accounting graduates was rather inconsistent. However, from 1970/71, the number showed a gradual increase to reflect the impact of the change in government's policy towards the NU degree. This was further enhanced by the recognition by SSA of the Bachelor of Commerce (Accountancy) degree from NU in 1971. The number of graduates reached its highest in 1975/76.

Compared with the accountancy degree course conducted by the University of Singapore (SU), there was a bias against NU, as the degree was regarded as inferior to that of SU. This psychological bias was perhaps caused, firstly, by the government's initial reluctance until 1968, to recognise the NU degree. Secondly, professional recognition was not accorded until 1971, while accounting graduates from the Singapore Polytechnic and later SU were accorded immediate recognition. Thirdly, the idea of a private university not totally controlled by a government agency such as the Ministry of Education affected the credibility of NU.

In 1974, the SU and NU established a common admissions board to streamline admission of students to the first degree courses of both universities.

With the growing number of Singaporeans getting better educated, SU was always preferred to NU and the bias was reflected in the decrease in enrolment and in the numbers graduating from 1977 to 1980. This caused the Prime Minister to take drastic measures to arrest the trend. To this end, the initiation of the eventual merger of SU and NU in 1980 was made, with the Joint Campus scheme being set up at Bukit



Timah to promote closer ties between the two universities. Under the scheme, students of arts, social sciences, science, accountancy and business administration faculties of the two universities studied the same courses taught by the same teachers from both universities and were examined by the same internal and external examiners. A Joint Senate, consisting of Senate members of both universities, dealt with the academic details of the Joint Campus courses.

The other constituent part of the School of Accountancy (SOA) of NUS can be traced to the SOA at SU, which, in turn, had its roots in the Department of Commerce of the Singapore Polytechnic.

#### B. Singapore Polytechnic (SP)

The Department of Commerce was established in 1957. The impetus for setting up the department as a constituent part of the SP was derived from the Committee On A Polytechnic Institute for Singapore, established in January 1953 to consider establishing a "Polytechnic Institute" in Singapore. The committee was under the chairmanship of Professor E.H.G. Dobby. The committee completed its report on 17 September 1953 and it was submitted to the Governor of Singapore, who nominated the members of the committee.

The idea of setting up a polytechnic was initiated by groups of private persons, who considered the matter to be one of major public importance, in view of their difficulty in securing men and women adequately trained for the varied developments taking place in the colony and of the problems facing the younger generations of workers in all categories. These groups set up an ad hoc committee and later made

representations to the Colonial Secretary on 6 September 1952.

After taking evidences from experts (e.g. Advisor on Technical Education to the Secretary of State for the Colonies, Director of the London School of Economics and Vice Chancellor of the University of Southampton), the ad hoc committee reviewed a series of 28 papers presented to the committee, examining the characteristics and organisation of a number of British polytechnics and including an industrial survey in Singapore. The Dobby Report came to the conclusion that there was a need to establish a polytechnic to teach technical, commercial, business and arts subjects to meet the needs of Singapore's development.

The Division of Commerce would offer courses in :

1. General business training leading to the London Chamber of Commerce or Royal Society of Arts equivalent to the National Certificate of Commerce.
2. Stenography, diplomas for teachers of stenography and the operation of commercial machines.
3. Preparation for local Civil Service and City Council Administrative examinations.
4. All grades of book-keeping and accountancy courses leading to diplomas.
5. Secretaryship to the diplomas of the Chartered or Incorporated Institutes.
6. Shipping principles and practice leading to the Certificate of the Institute of Shipping and Forwarding Agents.
7. Banking principles and practice at professional levels.

8. Transport courses to the Associateship of the Institute of Transport and to the Royal Society of Arts diplomas.
9. Background courses on the rubber trade, textile trade, tropical produce trade, oil trade, distributory trade, etc.

The Dobby Report also covered items such as the nature of a polytechnic, relations between the polytechnic and other teaching institutions, training schemes, staff and building requirements, cost of implementation, control of the polytechnic and procedures for establishing the polytechnic.

The Gibson Report (1954) on the "Planning of the Singapore Polytechnic" dealt comprehensively with the professional and administrative measures necessary for the establishment of the Singapore Polytechnic. Mr A.W. Gibson was Principal of Dudley and Staffordshire Technical College, United Kingdom.

The Department of Commerce was organised primarily to satisfy the need for properly trained and qualified personnel in executive positions as well as in clerical occupations. For school leavers and others, the department offered various full-time College Diploma programmes and part-time evening courses.

Evening classes commenced in 1957 and by the 1958/59 academic year, the following courses were conducted :

1. Full-time

- (a) College Diploma in Accountancy.
- (b) College Diploma in Secretarial Duties.

2. Part-time

Courses leading to external examinations of recognised bodies or institutions in accountancy, advertising, banking and finance, company secretaryship, book-keeping, shorthand and typing.

In 1959, following Singapore's attainment of self-government, to provide the much needed skills for her industrialisation, restructuring of the Department of Commerce was undertaken. A Professional Diploma of Accountancy course was introduced, which emphasised greater specialisation and training to provide accountants for industry, commerce, public practice and the government service. All other courses were later transferred to the Vocational Institutes that were being set up.

To maintain high standards, the professional diploma courses were moderated by external examiners.

The professional diploma course followed the Australian credit system whereby students were required to complete pre-requisite courses before proceeding to more advanced courses in each subject.

The Australian influence in SP can be traced to her earlier aid in the 1950s through the Australian Society of Accountants under the Colombo Plan assistance to Third World countries which provided training, skills and education for development. Until 1950, no

foreign student was admitted to the examinations of the accountancy institutions in Australia, other than British subjects who were residents in Australia.

In addition to providing teaching staff and expertise, the first external examiner was Professor Carrington, who was originally from the University of Canterbury, New Zealand, and later taught at the University of New South Wales, Australia.

In an unpublished report in 1961 to the Board of Governors of SP by Professor Carrington, setting out his impressions of the Department of Accountancy as an external examiner, he elaborated on the following areas :

1. Effect of initial problems of staffing and establishment.
2. Structure of the course.
3. Subject content.
4. Teaching staff, methods and attitudes.
5. Capacity and attitude of students.
6. Post-graduation problems, including practical experience, employment and professional body membership.

On the initial problems, he found that there were staff changes in the Department of Accountancy which resulted in both the students in the final year and those in the second full-time year having to face considerable changes in course structure, subject content and general emphasis during their courses of study. However, the general coverage achieved had been adequate in terms of accepted professional requirements overseas. Recommendation was made to reduce the requisite 17 units to 15 units by excluding business administration as a separate

subject, and by reducing the number of years study of economics from three to two.

There was also the need to improve on the subject content to make it comparable in scope with that of the examination requirements of well-established overseas accounting bodies.

The standard and keenness of the staff were reassuring, although adjustment of the heavy lecturing load was necessary to allow the lecturers more time for preparation and for keeping abreast of current trends through reading and discussions.

The students were generally keen although they lacked analytical ability. Emphasis should also be placed on understanding and expressing ideas in English.

The report stated that, on post-graduate experience and employment, it was desirable, at the time the first diploma was conferred, to stress the fact that the holders had completed a course of academic study up to full professional standard and a period of practical experience was an equally necessary part of their development as fully-fledged accountants. Also the report favoured the completion of academic qualifications prior to proceeding to practical training as the graduates would approach work in a more informed manner. Therefore, part-time study was seldom satisfactory.

On professional recognition, the report suggested that the Board of Governors consider approaching the appropriate government authority to establish by statute a single professional body to regulate the profession in Singapore. Such a body would also enhance the prospect

of a local accounting qualification acquiring overseas recognition through reciprocal recognition of members.

In December 1963, the Singapore Society of Accountants Ordinance was passed by the government and the Singapore Society of Accountants (SSA) was formed. The head of the Department of Accountancy was given a statutory seat in the Council of the SSA by the Minister of Finance to engender close co-operation between the two establishments. The seat was still preserved when the teaching of accountancy was transferred to the University of Singapore and later to the National University of Singapore following the merger of SU and NU.

The University of Singapore was established on 1 January 1961 following an agreement by the governments of Singapore and the then Federation of Malaya, that the University of Malaya's two divisions should become autonomous, separate, national universities in their respective countries. Its predecessor, the University of Malaya, was established in October 1949 and was located in Singapore. Following the recommendation of the Commission of Enquiry set up by the governments of Singapore and Malaya in 1957 to look into prospective expansion, including the plan for developing the university in Kuala Lumpur, the University of Malaya was split into two autonomous divisions of equal status, one in each territory. This came into effect on January 1959.

In 1963, the University of Singapore and SP held discussions on a proposal to enable SP's students under certain conditions to become registered students of the university and to be eligible for the award of the university's degrees in engineering, architecture and

accountancy.

Agreement was reached in 1965 and implemented the following year. The first degree of Bachelor of Accountancy was awarded in June 1967.

To expand the courses available at the University of Singapore and with the termination of the Diploma in Accountancy course at the polytechnic, the School of Accountancy at the polytechnic was amalgamated with the Department of Business Administration of the University of Singapore, to form the School of Accountancy and Business Administration (SABA) in 1968. SABA was headed by a director and the heads of the two Schools reported to him. Students enrolled in SABA had a common first year of study and examination, and were streamed into either accountancy or business administration in the second year.

In 1970, evening classes for part-time studies were discontinued with the change of emphasis following the termination of the diploma course. From 1970, supplementary examinations for the final year students were introduced. Previously, only first and second year students were allowed supplementary examinations.

In 1973, the department appointed its own law lecturers to teach business law courses. These used to be taught by lecturers from the law faculty. In 1974, the examination system was changed to a one-examination paper per course basis.

A Vacation Practical Training Programme for second year students was organised in 1969 to provide practical exposure for the students during the long vacation with attachment of up to twelve weeks. This



programme is still in operation.

#### C. Joint Courses and Merger of SU and NU

From 1959 to 1977, the percentage of Singapore students registering for Chinese language schools dropped from 45.9% to 10.8%. Up to 1967, NU had good students from the best Chinese Middle Schools, not only from Singapore, but also from Malaysia and Indonesia. However, the number of good students from Malaysia and Indonesia diminished due to changes in educational policies and consequently, their students did not have sufficient command of the Chinese language to enter NU.

Also, from 1960, the top 20 students from Chinese Middle Schools were awarded scholarships to study in universities abroad and there was a tendency for the good students to opt for SU. Mastery of the English language is important if Singapore's economy is to be developed. NU's emphasis on the use of the Chinese language placed its graduates at a disadvantage in their working environment where English is widely used.

In an address to the Historical Society, Nanyang University, on 10 February 1978 (Ministry of Culture, 1978), the Prime Minister of Singapore pointed out that NU's fatal error in adjusting to this drop in students was to lower standards in order to retain the size of the student population.

In order to check the falling number of students in NU, a Joint Universities Admissions Selection Committee was established in 1974 to maintain minimum standards for admission.

In 1975, the government, with the agreement of the NU Council, tried to get NU to use more English as the medium of instruction. This was found to be difficult to implement in an established Chinese-speaking environment.

It was in light of this difficulty that NU agreed to the Joint Campus scheme with SU in 1978, where English would be used as the medium of instruction. The joint courses were conducted at the Bukit Timah campus of SU to encourage those from NU to speak and learn more English.

This meant that the teaching of accountancy was carried out in three campuses in the academic year 1978/79 :

- (1) The Bukit Timah Campus for first year students of both universities.
- (2) Kent Ridge for second and final year students of SU.
- (3) Jurong Campus for second and third year students of NU.

With the implementation of the joint campus courses, the framework was established for the eventual merger of the two institutions.

In October 1979, Sir Federick Dainton, Chancellor of Sheffield University, was invited by the Prime Minister to study the future of university education in Singapore.

In his report, Sir Frederick quoted economies of scale as one of his arguments for a single university in one campus for Singapore. There would be larger, stronger departments in every field of study and greater opportunities for multi-disciplinary teaching and research. The other point raised was that there was little hope of NU competing on an equal footing with SU because of the overwhelming student preference, especially on the part of the brighter ones, for SU (The Straits Times, 16 March 1980).

In 1980, the Singapore government announced that SU and NU would be merged to form a new institution of higher learning to be known as the National University of Singapore (NUS).

The first batch of graduates under the Joint Campus scheme was awarded the Bachelor of Accountancy degree of NUS in 1981. Also with the merger of the two universities, SABA became the Faculty of Accountancy and Business Administration (FABA).

#### D. Move to Nanyang Technological Institute

The Nanyang Technological Institute Act was passed in August 1981, changing the name of NU to Nanyang Technological Institute (NTI), which would provide engineering degree courses with a practical orientation as opposed to those at NUS which are more academic in nature. The degrees conferred on NTI graduates are the same as those in NUS, who share a common first year course of study.

The Minister of Education, in August 1986, announced that SOA would be relocated to the NTI campus in July 1987. The staff of SOA, in a poll to ascertain whether SOA was to fall within the administrative ambit of NUS or NTI, decided overwhelmingly for the

latter. The Minister gave two main reasons for the shift. Firstly, it was necessary to alleviate the problem of overcrowding at the NUS campus. NUS has 13,600 students spread over eight faculties and occupies 400 hectares. NTI has only a student population of 2,000 in three schools of engineering but occupies 500 hectares. Secondly, the shift was in line with the government's intention to make NTI a professional technological university (FABA News, August 1986).

Besides the physical relocation and change in administrative control to NTI, the other aspects such as staff, library facilities, curriculum, etc. were to be maintained.

#### E. Staff Development

The Australian Universities International Development programme offered scholarships to the teaching staff to pursue post-graduate education in Australia from 1976 to 1985.

The NUS scholarship has now become a principal avenue for staff to pursue post-graduate degrees since the Australian programme has faced a serious cut back in funding. Most of the staff under the NUS Scholarship Scheme study in the United States and Canada. The majority are reading for their PhD. degrees, in contrast to the early emphasis of those who went to Australia or New Zealand, when a Masters degree was adequate.

The other aid agency that was involved with staff development is the Commonwealth Fellowship. But not many staff went on this scheme as there was previously adequate funding from the Australia programme and recently from the NUS and NTI.

#### F. Statistic of Graduates

##### 1. Professional Diploma

Academic Year	Number
1960/61	5
1961/62	11
1962/63	24
1963/64	16
1964/65	52
1965/66	52
1966/67	51
1967/68	33
1968/69	11

## 2. Bachelor of Accountancy

Academic Year	Number
1966/67	25
1967/68	37
1968/69	79
1969/70	82
1970/71	90
1971/72	101
1972/73	135
1973/74	128
1974/75	181
1975/76	184
1976/77	192
1977/78	219
1978/79	255
1979/80	170
1980/81	194
1981/82	221
1982/83	292
1983/84	345
1984/85	364
1985/86	411
1986/87	414

Besides the large output of graduates each year as shown above, the staff has also grown considerably. The number of full-time staff for the academic year 1958/59 was 5 and by October 1987 it had increased to about 80. In the early days at SP, in 1958/59 for example, there were 24 part-time or visiting lecturers. Part-time tutors and lecturers are seldom employed at the moment and in line with NUS policy, SOA is aiming to reduce the present student/staff ratio of 15:1 to 10:1. As such, the staff numbers at SOA are expected to increase over the years.

#### G. Influences on NUS, SU, NU AND SP

Accountancy courses at the NTI and its predecessors, NUS, SU and SP, were predominantly influenced by the British system, directly or indirectly through the Australian and New Zealand assistance such as the Colombo Plan, Australian Universities International Development Programme and Commonwealth Fellowships in the planning of courses and in staff development. Up to 1980, the external examiners were predominantly Australian professors and from 1980 onwards, this appointment was taken up by British professors.

From time to time, the SOA also appointed consultants or advisors. Professor Meredith (1971), Professor Ma (1973-74) and Professor Carrington (1980-82) from Australia were consultants to the school.

The heads of the department or school have all had an educational background from either the United Kingdom, Australia or New Zealand.

1961 - 63

Mr. K. A. Middleton

1964 - 67

Mr. Kenneth Most

1968 - 70 (April)	Mr. P. A. Towsey
April 1970 - 80 (April)	Assoc. Prof. Fong See Weng
1980 - 81	Assoc. Prof. Han Kang Hong
1981 - 82	Mr. Tan Teck Meng
1982 -	Assoc. Prof. Han Kang Hong

The current entry requirement to the school is second to the Faculty of Medicine. Total student enrolment in 1987 was about 1,600. With a growing student population, the SOA can be proud to boast of being the largest accountancy undergraduate school in Asia, if not the world. Its growth is unmatched by many western universities which faced severe financial cut-backs in education. In Singapore, the case is quite the reverse.

### III. Commercial Education at Secondary and Pre-University Levels

Commercial education was first taught at Outram Secondary School in 1954. It was taught in English from Secondary One level onwards.

Besides providing the necessary manpower at clerical and technician levels, the rationale for introducing commercial education was to teach marketable commercial skills to the less academically inclined pupils. Hence, students with poor Primary Schools Leaving Examination (PSLE) results were more likely end up in the commerce or technical stream.

Between 1953 to 1963, the commerce secondary students sat for the London Chamber of Commerce School Certificate (Intermediate Stage) examination at the end of a four-year course. In its two sessions, Outram School had a total enrolment of 1,136 pupils and among its



teachers, eight had qualifications in commercial subjects. Commercial subjects, viz., shorthand, book-keeping, typewriting, commercial arithmetic, elements of commerce and commercial geography, occupied roughly two-thirds of the time, while the remaining one-third was devoted to English language, English literature and a second language (Report of The Commission of Inquiry into Vocational and Technical Education in Singapore, Government Printer, 1961).

The Commission of Inquiry into Vocational and Technical Education in Singapore established in 1961 by the President of Singapore also found that there was a need for a large number of trained stenographers and book-keepers for economic development. The Commission recommended that the government should consider taking a more active part in commercial education and should establish more secondary commercial schools, including evening classes in commercial subjects at a more advanced level so that suitably qualified personnel for the intermediate management rank might be available.

On the general standard of the various categories of commercial workers, the Commission noted that it did not appear as high as might be desired. Commercial education at that time was largely in the hands of private schools and this was not considered conducive to the standardisation and raising of the general educational level of students.

The Commission recommended that students joining the secondary commercial schools should first receive two years of general secondary school instruction after passing PSLE. The duration of the course in the secondary commercial schools would be two years to prepare students

for any of the following examinations :

1. The Cambridge School Certificate Examination with commercial subjects, or
2. The London Chamber of Commerce Examination (Intermediate Stage) for the full certificate, or
3. Equivalent examinations, particularly for the non-English streams.

On the allocation of primary school leavers, the Commission of Inquiry recommended the channelling of the following proportion to the various types of secondary schools :-

		%	Number of Students
1. Academic	20%	28*	9,800
2. Commercial	8%		
3. Technical		7	2,450
4. Vocational		65	22,750
		---	-----
		100	35,000
		---	-----

\* (Streaming to Academic (20 per cent) and Commercial (8 per cent) after the first two years of secondary school academic education).

In 1957, the first batch of pupils sat for the LCC examination and the last batch in 1963, when the LCC Certificate was no longer recognised as a basic qualification for government jobs and tertiary institutions. Instead, two commercial subjects were offered as electives in the Cambridge Overseas School Certificate Examination. The first batch of English stream pupils sat for the examination in 1964. Commercial education at secondary school level was not a popular course because it was considered to be meant for the less academically inclined.

The aims and broad objectives of commercial education were to develop :

1. A capacity to understand the principles and procedures upon which commercial activities are conducted in the national, regional and international economy.
2. A general understanding of the more commercial institutions within which the national economy works.
3. An awareness of the commercial realities and trends of Singapore.
4. Marketable skills that will enable them to seek gainful employment and career employment.
5. The abilities to use these skills in a commercial environment.

(Economic & Commercial Unit, Social Education Section, Ministry of Education, 1979).

In 1969, the Higher School Certificate (HSC) commerce classes in English were started in Outram Secondary School. The rationale was to

provide commercial education for pupils who intended to seek employment in commercial establishments or to seek admission to university courses, particularly in accountancy or business administration.

In 1970, Dunman Government Middle School started Secondary three commercial classes in Chinese to prepare students for employment in the commercial sector after their completion of the Singapore Cambridge General Certificate Examination (GCE) 'ordinary' level Chinese course in 1971.

Hwa Chong Junior College conducted lectures on Principles of Accounting for Chinese-stream commercial pupils in 1974. They sat for their GCE "Advanced" level examination in 1975.

By 1979, there were 39 schools, 29 at 'O' and 10 at 'A' levels including five junior colleges, offering commercial subjects. Commercial subjects in Chinese were taught in eight 'O' level centres. There were no Malay or Tamil classes in commercial education. In 1980, three more 'A' level centres were added.

At the GCE 'O' level in 1980, the commercial subjects included :

1. Principles of Accounts which included double-entry book-keeping and interpretation of accounts.
2. Commerce which included organisation structure and purpose, local and international trade and the main procedures and documents used in the daily conduct of business.
3. Commercial studies which comprised elements of commerce, shorthand and typewriting.

Up to 1979, the following commercial subjects were taught at the GCE 'A' level :

1. Principles of Accounting.
2. Principles of Management.
3. Economic Structure and Organisation.
4. Commercial Law.
5. Office Administration.
6. Stenography.

In 1979, the GCE 'A' Commerce syllabus was revised with effect from 1 January 1980. The Principles of Accounting course was revised to make it more relevant to current accounting practices. The Management of Business course, incorporating modern business management techniques, was introduced to replace Principles of Management. At the same time, Economic Structure and Organisation, Commercial Law, Office Administration and Stenography were withdrawn. Economic Structure and Organisation was withdrawn because it duplicated the Cambridge 'A' Level Economics subject. Acting upon advice from the University of Singapore that Commercial Law should be taught only by teachers with legal training to ensure correct interpretation of local statutes and case law relating to commercial practice, commercial law was withdrawn. Office Administration and Stenography were also withdrawn due to the non-recognition of the subjects for university admission (Wang, 1980).

**Enrolment of Commercial Courses in Government and Government-Aided Schools : 1974 to 1984**

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984*	1985*	1986*
Commercial-Secondary 3	1,010	1,280	2,249	2,297	2,175	1,717	2,058	2,548	2,662	3,727	3,463	4,012	3,760
Commercial-Secondary 4	808	1,173	1,742	1,694	2,034	1,885	1,621	1,850	2,147	2,810	4,006	4,106	5,684
Pre-University I	-	-	-	-	-	-	-	1,301	1,147	1,175	1,199	1,264	1,273
Pre-University II	-	-	-	-	-	-	-	1,200	1,260	980	1,070	1,046	1,186
Pre-University III	-	-	-	-	-	-	-	545	1,159	1,244	1,015	1,103	1,011
Junior College I	467	489	837	1,202	1,156	1,621	1,714	1,418	1,452	1,326	1,802	2,131	2,721
Junior College II	328	451	500	838	1,224	1,156	1,535	1,204	1,498	1,426	1,415	1,792	2,133
Total	2,613	3,393	5,328	6,031	6,589	6,379	6,928	10,066	11,325	12,688	13,970	15,454	17,768

\* As at the end of June.

(Sources : Statistical Bulletins, Ministry of Education, Singapore 1974 to 1983. And Key Education in Statistics 1984, 1985 and 1986, Education Statistics Section, Ministry of Education)

The popularity of commercial education at the pre-university and junior college levels is reflected in the dramatic rise in enrolment from 2,613 in 1974 to 17,768 in 1986 over a 13-year period. This represented an increase of about 58%. The increasing trend in enrolment was also registered at all levels, i.e. in commercial (secondary three and four), pre-university (I to III) and junior college (I to II).

In 1974, the total number of commerce students expressed as a percentage of the total student population (i.e. academic, technical and commercial) at secondary three, secondary four, pre-university I to III and junior college I to II was 3 per cent. By 1984, this had increased to 13 per cent (The Straits Times, 27 November 1986).

Due to Singapore's colonial ties, commercial education at the school level is predominantly influenced by the British system. In the early days, the teaching of the subjects was geared towards preparing the students for the London Chamber of Commerce Examinations. This was followed by the Cambridge Overseas Examination and later the Cambridge-local Joint Scheme Examination.

By the end of 1986, there were twenty-two pre-university centres which were part of secondary schools. Unlike junior colleges, GCE 'A' level education at the pre-university centres was spread over three years instead of two years.

In November 1986, the Ministry of Education announced that as from January 1987, commercial education would be centralised at the newly created Outram Institute, which would specialise in commercial subjects and would take in 400 students for the full-day school. It would

function on its own and need not share teachers and classrooms with secondary one to four pupils. The teaching structure would also be new, a blend of junior college and pre-university centre style, with students having a mix of lectures, classroom instruction and tutorials.

The decision was made because the pre-university centres were found to be inadequate in that the attrition rate among students was high. The Minister of Education also found that these pupils had a hard time adjusting to life with secondary school pupils. He estimated that out of all students admitted in any one year, less than a third eventually sat for the 'A' level examinations and obtained two 'A' and two 'O' levels passes. Once there are enough centralised institutes set up, pre-university centres in secondary schools will gradually be phased out (The Straits Times, 27 November 1986).

#### IV. Professional, Semi-Professional and Technician Levels

##### 1. Lembaga Gerakan Pelajaran Dewasa (Adult Education Board)

Before self-government, the conduct of adult education was almost exclusively in the hands of an ad hoc body known as the Singapore Council for Adult Education, which received financial assistance from public funds amounting to S\$500,000 (Ministry of Education Annual Report 1959).

The Adult Education Board (AEB) was constituted under section 3 of the Lembaga Gerakan Pelajaran Dewasa Ordinance, 1960. The AEB took over all the functions of the former Singapore Council for Adult



Education as well as all its assets and properties.

The early emphasis of adult education was on adult literacy. In this connection, the main programme was the teaching of languages such as Malay, Chinese, English and Tamil. In 1959, the government organised four commercial classes which had a total enrolment of 127 (Ministry of Education Annual Report 1959).

By 1962, the number of classes for commercial education was increased to 27 with an average monthly enrolment of 800. Shorthand courses were conducted in both Chinese and Malay. Book-keeping, Chinese typewriting and the use of the abacus were all conducted in Chinese. Enrolment generally declined in the course of the year as was the case with other courses because most of the students were working in the day and could not keep up with the rigours of studying several hours at night (Annual Report of The Lembaga Gerakan Pelajaran Dewasa 1962).

By the last year of the AEB in 1979, when it was merged with the Industrial Training Board (ITB) to form the Vocational and Industrial Training Board (VITB) from 1 April 1979, it was conducting commercial education courses in three broad categories :-

1. Full-time commercial education courses.
2. Part-time commercial education courses.
3. Part-time professional commercial education courses.

The courses under the full-time programme were the Accounts Clerk Course, Advanced Accounts Clerk Course, Certificate in Accounting Courses (first year and second year), Commercial Practice Course and Private Secretary's Certificate Course. These full-time commercial

courses catered for secondary school-leavers, especially girls, who wished to take up commercial careers. The student enrolment in 1979 for these courses were as follows :

Course	Number of Students
1. Accounts Clerk	163
2. Advanced Accounts Clerk	145
3. Certificate in Accounting (1st Year)	526
4. Certificate in Accounting (2nd Year)	374
5. Commercial Practice	1,865
6. Private Secretary's Certificate	232
	-----
Total	3,305
	=====

(Source : Annual Report of the Lembaga Gerakan Pelajaran Dewasa 1978/79).

Part-time commercial courses offered a wide range of subjects and generally prepared students for the Intermediate and Higher Stage Examinations of the London Chamber of Commerce and Industry. There was an average monthly enrolment of 2,714 students and the most popular subjects were accounting, book-keeping and typewriting. There were also 2,309 students enrolled in the AEB's ad hoc commercial education courses. These included courses in book-keeping (Chinese medium), Chinese typewriting, Cobol programming, commercial English, import and export procedures and documentation for businessmen, introduction to computers and computer programming, introduction to data processing and programming, introduction to public relations, revision courses in accounting, book-keeping, and commercial correspondence, private secretary's certificate and typewriting, sales and marketing,

secretarial development and stenography.

The part-time professional education courses prepared students for the examinations of overseas professional bodies. A total of 1,218 students enrolled for a number of professional examinations, including the Association of Certified Accountants, UK, (Foundation Examination-Part A) and the Institute of Accounting Staff, UK, (Part I).

## 2. Vocational And Industrial Training Board (VITB)

The Vocational and Industrial Training Board Act, 1979, was brought into force on 1 April 1979, amalgamating the former AEB and the former ITB.

ITB was established by the Industrial Training Board Act, 1972, and came into operation on 1 April 1973. It was concerned with producing skilled workers at trade and industrial technician levels to support Singapore's planned economic growth (Industrial Training Board Annual Report 1977/78). This included both apprenticeship and skills development courses through continuing education.

The merger was brought about to integrate training and continuing education within a single vocational training system and organisational framework. The merger was specifically intended to enable development of a national commercial training system, parallel to that already established by the ITB for industrial skills and, to a lesser extent, service and applied arts skills. It was also intended to rationalise functions and resources that would otherwise have been duplicated (Annual Report of the Vocational and Industrial Training Board, 1979/80).

Pending adoption of a national system of commercial training, the commercial training programmes inherited from AEB were re-structured and consolidated into three courses, namely, Certificate in Clerical Practice, Certificate in Accounting and the Private Secretary's Certificate courses. A special feature of VITB's "vocational" approach to commercial training was the incorporation of up to 55 per cent of practical assignment time to ensure attainment of a high degree of skill competency.

Applications for the academic year 1979/80 were barely in excess of places available for the commercial courses. This reflected both a lack of appreciation of the need for occupational skill development prior to employment, as well as a lack of appeal of the former AEB courses in the absence of a national certification system. The total intake for the commercial courses in 1979 was 3,032 and the output for the year was 2,103 (Annual Report of the Vocational and Industrial Training Board, 1979/80).

On a part-time basis, commercial continuing education provided courses in 1979/80 for over 4,000 students for the London Chamber of Commerce and Industry (LCCI) courses at Intermediate and Higher stages. In addition, over 1,000 students were enrolled for courses leading to the following professional examinations conducted by :-

- A. The Association of Certified Accountants.
- B. The Association of International Accountants.
- C. The Institute of Accounting Staff.
- D. The Institute of Administrative Management.
- E. The Institute of Chartered Secretaries and Administrators.

(Annual Report of the Vocational and Industrial Training Board, 1979/80).

In 1981, a new national system of commercial education and certification was implemented. A National Commercial Training Certificate was introduced, which consisted of a two-year Level II Certificate in Business (CBS) and a one-year Level III Preliminary Certificate in Business Studies (PCBS). The VITB discontinued using part-time teachers for its full-time courses.

In the CBS (accounting) course, training includes :

- A. Keeping and balancing a set of accounts and summarising day-to-day financial transactions.
- B. Checking the accuracy of daily records and inspecting supporting documents for financial transactions.
- C. Entering details of financial transactions in appropriate records.
- D. Preparing preliminary and final trial balances for audit purposes.
- E. Preparing final accounts in accordance with legal requirements.
- F. Preparing simple budgets for trading and manufacturing concerns.
- G. Using basic costing techniques.
- H. Using basic principles for auditing final accounts.
- I. Computing assessable incomes and the tax payable.
- J. Writing concise business letters.
- K. Using basic statistical techniques to analyse business problems.

L. Taking an effective part in business data processing activities.

Those graduating are expected to work as accounts clerks, audit clerks and cost clerks. In pursuit of higher qualifications, they may attend courses offered by the Association of Accounting Technicians, the Chartered Association of Certified Accountants and the Institute of Chartered Secretaries and Administrators.

The CBS (Secretarial Practice), as the name implies, trains its graduates to be stenographers and personal secretaries. This course also has a small accounting component to teach students to keep and balance simple financial accounts, including petty cash and current accounts (Prospectus, Diploma, Industrial Technician Certificate and Certificate in Business, Vocational and Industrial Training Board, 1985).

In the PCBS course, the training includes basic book-keeping, commerce, office practice, business correspondence, commercial arithmetic and typewriting for graduates to be employed as general clerks, typists or receptionists (Prospectus, Preliminary Certificate in Business Studies, National Trade Certificate, Basic Skill Training and Pre-Vocational Training, July 1985).

Of the 1,019 applicants selected for the new business studies courses in 1981, 337 were for the two-year CBS - Accounting course and 302 for the two-year CBS - Secretarial Practice Course. The remaining 380 were admitted to the one-year PCBS Clerical Practice Course. The overall response was good with an application to intake ratio of 2.8:1

(Annual Report of the Vocational and Industrial Board, 1980/81).

Part-time continuing education and training courses on commercial skills had 2,545 students and the VITB continued to provide courses for the LCCI examinations and other sub-professional and professional examinations of foreign institutions (Annual Report of the Vocational and Industrial Board, 1980/81). Two commercial training institutes were also approved. One would be at the former Singapore Polytechnic Campus and the second at a new institute at Clementi. Each would have 2,000 training places and, when completed, commercial training of VITB would be centralised at these two institutes.

On April 1982, the first of the two National Institutes of Commerce (NIC) was opened at the former Singapore Polytechnic campus at Prince Edward Road. The NIC absorbed all the business studies students from five vocational institutes, namely, the Friendly Hill Vocational Institute, Newton Vocational Institute, Kim Keat Vocational Institute, Mountbatten Vocational Institute and Singapore Vocational Institute. Situated in the heart of the business district, the NIC is also the Board's major centre for part-time courses for the commercial workforce. 390 applicants applied for the 490 vacancies for the CBS courses. This was primarily due to higher entry requirements. For the PCBS, there were 450 applicants for the 390 vacancies. This course caters for those with either secondary three or four education and is a one-year course. Intake for the part-time continuing education and training commercial courses was 4,120 for 1981/82 (Annual Report of the Vocational and Industrial Training Board, 1981/82).

By the academic year 1984/85, the full-time intakes for the CBS and PCBS were 596 and 953 respectively. The part-time business courses enrolment was 8,304 with 6,691 registered for the single subject LCCI courses at the Intermediate and Higher Stages. The output during the year for CBS was 415 and 576 for PCBS (Annual Report of the Vocational Industrial Training Board, 1984/85). In the academic year 1985/86, the average enrolment for the CBS was 841 and for the PCBS it was 947 (Annual Report of the Vocational and Industrial Training Board, 1985/86).

## V. Ngee Ann Polytechnic

### 1. Introduction

The historical background of Ngee Ann Polytechnic (NP) can be briefly outlined as follows :-

A. 1963 Ngee Ann College (NAC) was established by Ngee Ann Kongsu as an independent college offering degree courses in Arts, Science and Commerce.

B. 1967 a) NAC stopped enrolling new students for degree courses. Instead courses were offered at diploma level and below.

b) Ngee Ann College Act was passed by Parliament in September. This altered the status of the college from a private to a public educational institution.

C. 1968 a) January 1968, NAC moved from its borrowed premises at Tank Road to its present campus at Clementi Road.



b) August 1968, the Ngee Ann College Act was amended and Ngee Ann College renamed to become Ngee Ann Technical College (NATC).

Also in August 1968, NATC admitted its first batch of the Technician Diploma in Mechanical Engineering students.

D. 1969 March 1969, two more departments, Electrical and Electronic Engineering (previously known as the Industrial Electronic) and Business Studies (previously known as Commerce) were established.

E. 1982 The name of NATC was changed to Ngee Ann Polytechnic (NP) with the passing of the Ngee Ann Technical College (Amendment) Bill by Parliament.

The idea of setting up an independent college to train young people to become technicians in commerce and industry was mooted by the Ngee Ann Kongsì in the middle of 1961. The Ngee Ann Kongsì was formed by the Teochew group of the Chinese community. After consultation with the Minister of Education, Ngee Ann College (NAC) was inaugurated in May 1963 and the new college was temporarily housed at the Teochew Building at Tank Road.

NAC was conceived as an alternative to Nanyang University (NU) which was established by the Hokkien community, the Hokkien Huay Kuan (Report of the Committee on the Future Development of Ngee Ann College, (Thong Saw Pak Report, July 1966).

Academic staff were mainly recruited from Hong Kong, Taiwan and Japan. The Board of Governors set forth the following aims of the

college :

- A. Emphasis on the teaching of both Chinese and English languages.
- B. Emphasis on the cultivation of both theoretical knowledge and practical skills.
- C. Emphasis on training in moral responsibilities.

The college offered the degrees of Bachelor of Arts, Bachelor of Commerce and Bachelor of Science. Full-time courses were four years and six years for those studying part-time. The Chinese university system, using the credit points system, was followed. For the Bachelor of Commerce (Accountancy) degree, a student had to accumulate 144 credits. The Department of Accountancy ran the Bachelor of Commerce (Accountancy) degree. Students had to study compulsory subjects plus a number of electives each year. The electives were restricted to two in the first year and varied between seven to eight subjects in the second to fourth years for the full-time accounting course (Prospectus, Ngee Ann College, 1966).

The NAC had seven departments divided into three faculties. These were :

- A. Faculty of Language
  - (1) Chinese Language Department.
  - (2) Malay Language Department.
- B. Faculty of Commerce
  - (1) Business Administration Department.
  - (2) Accounting Department.
- C. Faculty of Technology

- (1) Applied Chemistry Department.
- (2) Telecommunication Department.
- (3) Domestic Science Department.

In the general meeting on 18 February 1967, the Ngee Ann Kongsì accepted unanimously the Report of the Committee of Review on the Future Development of Ngee Ann College (or the Thong Saw Pak Report) completed in July 1966 and convened by Ngee Ann Kongsì. Prior to this, in 1964, the chairman of the Board of Governors invited Arthur L. Singer Jr., an Executive Associate of the Carnegie Corporation of New York, and Lucian W. Pye, Professor of Political Science, MIT, to visit the NAC. In their reports they recommended the role of community college for NAC.

A community college is essentially a junior college which has, in addition to its role of a junior college, developed a breadth of services useful to the community it serves. Such services could include curricula under vocational education, general education and community services. As a junior college, it gives two years of undergraduate training in a four year degree system. These students later transfer from a community college to graduate colleges and universities to complete their education. As a rule, community colleges do not confer degrees. The report also found that most of the staff were recruited from overseas and were from the least eminent of American colleges and universities (Thong Saw Pak Report, 1966).

The Thong Saw Pak Report noted that besides the problems of finding suitable staff, the pay offered by NAC was not comparable to either the University of Singapore or Singapore Polytechnic, mainly

because funds were inadequate. For example, the subsidy per student at NAC was \$120 compared with the \$2,100 per student at the Singapore Polytechnic. Facilities were also inadequate and NAC had difficulties attracting the best of the Chinese-middle school leavers. Hence, student quality was poor. The main recommendations of the Thong Saw Pak Report were :

- A. NAC should be changed into a public institution to train commercial and industrial technicians. The college should be managed by a council comprising the principal, three representatives from Ngee Ann Kongsí, the members appointed by the Minister of Education, one member from the Economic Development Board, three persons from commerce, three persons from industry and two from the Senate.
- B. In its curriculum, courses of instruction to train technicians and craftsmen should be offered first, therefore discontinuing the degree courses. Gradually, the experience gained could be used to revise some of the technician courses to professional or even degree level.
- C. Ngee Ann Kongsí should make long term grants to the college and the name of Ngee Ann should be perpetually maintained.

In early 1967, the college stopped enrolling new students for the degree courses in order to phase out the programme, which was completed at the end of 1969 when the last batch of degree course students left the college upon graduation.

In September 1967, NAC became a legal independent organisation when the Ngee Ann College Act, which altered its status from a private

to a public educational institution, was passed by Parliament.

In place of the degree courses, for commercial subjects, the college offered business administration and company secretaryship courses. These were at diploma level and included book-keeping and basic accounting. For the company secretaryship courses, taxation and auditing were taught.

With the termination of the degree courses, accounting courses were de-emphasised and broad management studies subjects were introduced. This has been the general practice up to today.

In August 1968, NAC was changed to Ngee Ann Technical College (NATC). It was divided into three schools: School of Engineering, School of Management Studies, consisting of the Department of Business Administration and the Department of Company Secretaryship, and, finally, the School of Institutional Management which consisted of the Hotel Management Department and the Home Economics Department. In the same year, NATC enrolled its first batch of students for the Technician Diploma in Mechanical Engineering. In March 1969, the Business Studies Department, as it is now called, was established to take over the teaching of commercial courses.

The business studies course at middle-management level leads to the Diploma in Business Studies. A revised curriculum for the three-year course was prepared with the advice and guidance of external examiners from the Polytechnic of Central London. It was introduced in the November 1974 semester, offering students in the final year the option of one of several electives of specialisation, namely :

A. Accounting, Finance and Electronic Data Processing.

- B. Personnel and Industrial Relations.
- C. Marketing and International Trade.
- D. Banking.
- E. Insurance.
- F. Purchasing and Supply.

The elective in banking was developed in close co-operation with the Institute of Bankers, UK (Annual Report, Ngee Ann Technical College, 1974/75).

ENROLMENT OF STUDENTS IN BUSINESS STUDIES DEPARTMENT\*

	Total BS Enrolment For The Year (A)	Total for NP For For All Courses (B)	A as a % of B
1969/70	184	478	38.5%
1970/71	219	1,363	16.1%
1971/72	439	2,207	19.9%
1972/73	876	2,283	38.4%
1973/74	950	2,467	38.5%
1974/75	1,100	2,735	40.2%
1975/76	1,269	3,424	37.1%
1976/77	1,453	4,172	34.8%
1977/78	1,418	4,505	31.5%
1978/79	1,236	4,419	28.0%
1979/80	1,176	4,579	25.7%
1980/81	1,385	5,337	26.0%
1981/82	927	3,146	29.5%
1982/83	1,087	3,781	28.7%
1983/84	1,357	4,927	27.5%
1984/85	1,621	6,987	23.2%
1985/86	1,865	8,516	21.9%
1986/87	2,259	9,621	23.5%

(Sources : Ngee Ann Polytechnic Annual Report, 1985/86 & 1986/87)

\*Note: Between 1970 and 1980 inclusive, there were two intakes per year.

One in April and the other in October.

Total enrolment for the business studies courses in 1974/75 was about 1,100 over the April and November semesters, compared with 184 in the academic year 1969/70. In 1980/81, the enrolment was 1,385 or 26% of the total enrolment. By 1985/86 this had increased to 1,865 and accounted for nearly 22% of the total enrolment.

In November 1975, the Department of Business Studies started a part-time course for the Institute of Cost and Management Accountants Foundation Stage Examination for the November 1976 sitting. A second such course was started in May 1976 to prepare the students for the May 1977 Foundation Stage Examination. Revision courses were conducted for students preparing for the examinations of the Institute of Bankers, London, and the Institute of Secretaries and Administrators, London.

Three new courses were introduced in academic year 1976/77. These were :

1. A seven-month full-time course for the December 1971 Part 1 Examination of the Institute of Chartered Secretaries and Administrators, London.
2. A one-year part-time evening course for the June 1977 Foundation Stage Examination of the Association of Certified Accountants, London.
3. A one-year part-time evening course for the December 1977 Examination of the Institute of Banking and Finance, Singapore, leading to the Conversion Certificate.

The college became the only institution outside the UK to be granted approval by the Institute of Works Managers to run its Diploma course, which was introduced in October 1978. The College also decided



to award its own Certificate and Diploma of Industrial Management, which were recognised by the Institute of Works Managers.

The arrangement whereby the Polytechnic of Central London (PCL) supplied external examiners to assess the college's examination results ended in 1979. The link with PCL saw the diplomas awarded jointly certified by the College and PCL. Local external examiners have since been appointed under the new scheme.

The Department of Business Studies set up the Extension Division in 1977 to monitor and to meet the needs for specific skills of business and industry by organising and conducting appropriate courses. The division offers career development programmes in marketing management and industrial management. In 1981/82, 411 students were enrolled for the following evening courses :

- A. Certificate in Industrial Management (276 students).
- B. Diploma in Industrial Management (60 students).
- C. Diploma in Marketing Management (75 students).

Most of these students were sponsored by their employers. The number of students increased to 449 in the academic year 1982/83.

NATC changed its name to Ngee Ann Polytechnic (NP) with the passing of the NATC (Amendment) Bill by the Parliament on 3 March 1982. The new name is a more accurate reflection of the status of the institution as it removes the disparity which otherwise existed between the names of NATC and Singapore Polytechnic, although both institutions conduct courses of the same level.

# Enrolment and Graduates

## STATISTICS OF BUSINESS STUDIES (BS) GRADUATES

Year Semester	BS Graduates		Total Number Of Graduates For The Year
	By Semester	Total For The Year	
1971/72	April	-	136
	October	39	
1972/73	March	28	169
	October	49	
1973/74	April	24	251
	October	39	
1974/75	April	52	369
	October	69	
1975/76	April	75	335
	October	80	
1976/77	April	60	344
	October	87	

STATISTICS OF BUSINESS STUDIES (BS) GRADUATES - Cont.

Year Semester	BS Graduates		Total Number Of Graduates For The Year
	By Semester	Total For The Year	
1977/78	April	74	559
	October	114	
1978/79	April	146	754
	October	113	
1979/80	April	91	584
	October	80	
1980/81	April	55	661
	October	63	
1981/82	April	57	973
	October	225	
1982/83	-	-	928
1983/84	-	-	1,293
1984/85	-	-	1,535
1985/86	-	-	1,932
1986/87	-	-	2,710

(Sources : Ngee Ann Polytechnic Annual Report, 1985/86, 1986/87)

Enrolment in the business studies full-time courses increased more than twelve-fold from 184 in 1969 to 2,259 in 1986/87.

Between 1969 to 1977, total enrolment in business studies accounted for more than 30 per cent of total enrolment in NP. This statistic has been in a steady decline since 1981/82, as engineering and related courses have been expanding progressively over the years. However, the enrolment for the business studies courses still ranks

second to the Mechanical Engineering Department.

Average intake for the business studies courses increased more than seven times from 98 in 1972/73 to 749 in 1984/85.

There were 39 graduates from business studies in 1971 which accounted for nearly 1/3 of the total graduates. By 1985, the number had increased nearly 15 times to 574. Between 1971 to 1985, about 30% of all graduates from Ngee Ann were from the Business Studies Department.

In addition to PCL, in 1982/83, two more overseas institutions gave formal recognition to the diplomas awarded by NP. The Royal Melbourne Institute of Technology (RMIT), Australia, agreed to accept NP graduates into the second year of some degree courses. First-year block exemption is given to students in RMIT's Department of Mechanical and Production Engineering, the Department of Communications and Electronic Engineering and the Department of Accountancy.

The University of Kent at Canterbury in the UK gave special exemption to graduates of the Diploma in Electronic Engineering to be admitted for the degree programme.

The Department of Business Studies offered :

A. Full-time

(1) Diploma in Business Studies.

B. Part-time

(1) Certificate in Industrial Management (two years).

(2) Diploma in Industrial Management (one year).

(3) Diploma in Marketing Management (one year).

The courses in industrial management are recognised as equivalent to those conducted in the UK, while graduates of the diploma course in marketing are exempted from all but one of the subjects in the Institute of Marketing (UK) diploma course.

The Diploma in Business Studies curriculum has been designed to meet career opportunities in the three economic sectors of Singapore : financial, commercial and manufacturing. All students on the course study accounting, economics, business statistics, business law, business data processing and business organisation. Final year students would select one of the following options : financial services (accounting, banking and insurance), commercial services (marketing, sales and purchasing and supply) and manufacturing services (work study, industrial relations, production planning and control). The financial services option includes inter alia, auditing, taxation, accounting and cost and management accounting. In 1984/85, the number of options previously offered to final year students was reduced from three to two, namely, accounting and management.

As some of the graduates may choose to enter public accounting practice as audit assistants they may, more often than not, pursue UK professional accounting qualifications such as the Chartered Association of Certified Accountants or the Institute of Cost and Management Accountants examinations to enhance their career development. NP graduates are given full exemption for the Foundation Examination and the Taxation paper for the ACCA examinations.

## VI. Other Semi-Professional and Professional Qualifications

### 1. Professional Level

#### A. British Professional Bodies

Before the establishment of Nanyang University in 1956, those who wished to pursue an accounting qualification in Singapore had to pursue overseas qualifications either through academic institutions or professional accounting bodies.

According to Johnson and Caygill (1971), various British associations exerted a continuous influence on accountancy in the Commonwealth. Individual institutions had exhibited a unique pattern of influence. The content and timing of these links were varied and have had varying consequences for the development of accountancy in Commonwealth countries.

The spread of accountancy from Britain to the Commonwealth arose from the lack of recognition of newly incorporated accountancy societies, e.g. the Incorporated Society, by the more established Institute of Chartered Accountants. The former exported accountancy qualifications overseas and established overseas examination centres. It was hoped that through the enhanced membership size, it would be a force to be reckoned with. If it acquired respectable status, it would enable the association to win legislative support to perform work such as auditing, which was the preserve of the members of the Institute of Chartered Accountants.

Johnson and Caygill (1971) noted that before the Second World War, British influence in the Commonwealth was predominantly felt through

the export of British accountants who established affiliated local associations. However, since the Second World War, the pattern has changed. Britain exported fewer accountants and became, on balance, an exporter of qualifications; examining Commonwealth students in Britain or in their own countries.

The most active association in the Far East and indeed in South Africa, Canada, Australia, New Zealand, Africa and India, was the Chartered Association of Certified Accountants and its predecessor associations, the Association of Certified and Corporate Accountants (which previously consisted of, inter alia, the Corporation of Accountants [Scotland] established in 1891, London Association of Certified Accountants set up in 1904, Institute of Certified Public Accountants established in 1903 and the Central Association of Accountants in 1905).

The first overseas centre was established in Melbourne by the Society of Incorporated Accountants and Auditors in 1900. In 1957, the Society amalgamated with the Institute of Chartered Accountants in England and Wales.

In 1935, the Association of Certified and Corporate Accountants (ACCA) set up overseas examination centres in Singapore and Kuala Lumpur. In 1936, it set up its affiliated body in Malaya, (Johnson and Caygill, 1971).

Even up to this day, the ACCA is the most popular accounting professional qualification sought by those pursuing an overseas accounting profession qualification in Singapore. It is recognised by

the Singapore Society of Accountants (SSA), along with the Australian, New Zealand and Canadian Institutes of Chartered Accountants.

Distance learning makes the ACCA an attractive alternative for those who cannot pursue a tertiary accounting education or other full-time studies. Students do not have to spend large sums of money going to Britain to gain the qualification and at the same time they are able to acquire the necessary practical experience.

In 1984, a joint scheme between SSA and ACCA allowed local papers in law and taxation to be examined. At the same time, graduates from the NUS were allowed full-exemption for levels I and II and therefore needed only to sit for the final part. There were more than 3,000 students registered with the SSA who studied for the ACCA in 1985. This increased to 4,078 by December 1986. The number is expected to increase over the years, with more accountancy graduates taking advantage of the exemptions to attain a qualification that is internationally recognised. At the moment, no foreign accounting association grants formal recognition to SSA members to practise in their countries. Possession of the ACCA qualifications gives these members professional mobility, if required.

The other popular professional qualifications are those offered by the Chartered Institute of Cost and Management Accountants (ICMA), Institute of Chartered Secretaries and Administrators (ICSA) and, more recently, the Association of Accounting Technicians. The ICMA was given recognition by SSA in 1981.



## B. Australian Professional Bodies

The Australian Society of Accountants (ASA) has played a very important part in accounting education in Singapore, Malaysia and Hong Kong. Until 1950, no student had been admitted to the examinations of the accountancy institutions in Australia, other than British subjects who were residents of Australia. The policy was changed in response to Australia's commitments under the Colombo Plan.

The ASA conducted examinations in centres in Singapore, Malaysia and Hong Kong, whose students made up the majority of its overseas students. Although the Institute of Chartered Accountants in Australia did not conduct examinations outside Australia, many hundreds of Asian students have received their education in Australian universities and, subsequently, trained in the offices of the Institute members within Australia. In the October 1971 Institute's examination, 15.5% of the final examinations' candidates were from Asia (Institute of Chartered Accountants in Australia and Australian Society of Accountants, October 1972).

In the early 1970s, the ASA discontinued conducting examinations overseas, and instead relied on local educational institutions, such as the then University of Singapore and the local professional body, the SSA (to which it had offered some assistance in development), to play prominent roles in providing an accounting qualification.

## C. Technician Level

The UK LCCI had been a popular course for those intending to pursue commercial education. In September 1986, the Singapore Society

of Accountants disclosed plans to train accounting technicians in 1987.

In 1987, SSA entered into a joint scheme arrangement of examinations with the Association of Accounting Technicians of the United Kingdom. Under the scheme, school leavers with 'O' and 'A' levels will be trained for junior positions in the accountancy profession. It was estimated that about 15,000 students can avail themselves of this opportunity.

It would take three to four years to train junior accountants. Apart from the 'O' and 'A' level school leavers, holders of Ngee Ann Polytechnic diplomas in business studies (majoring in accounting) would also be possible candidates.

The subjects to be taught under the scheme will be broadly similar to those taught at the university but at a less advanced level. These include accounting, auditing, company law, taxation, economics, management and computer systems. Those who perform exceptionally well in the examinations under the scheme may be able to proceed to degree courses or professional examinations.

At the same time, SSA was thinking about a professional orientation programme to familiarise accounting graduates and graduates of the joint scheme operated by SSA and the Chartered Association of Certified Accountants with the practical requirements of the profession such as Singapore company law, taxation and professional ethics. In 1986, SSA also planned to start structured practical training for different levels of staff in accounting firms (Business Times, 19 September 1986).

The Structured Practical Audit Training Programme (SPATP) was officially launched on 19 January 1987. According to the Chairman of the SPATP committee, traditionally only the larger international accounting firms have been able to provide continuous in-house training facilities for their staff. With SPATP, SSA hopes to take over the function of training those members and their employees who are not being employed in the larger firms to maintain a high standard of professionalism in Singapore (Singapore Accountant, Vol.3 No.3, March 1987).

## VII. Manpower

A comprehensive study of the skilled manpower needs of Singapore for the eighties was launched in 1979 by the government. This led to the formation of a Council on Professional and Technical Education (CPTE) chaired by the Minister for Trade and Industry.

The CPTE recommended increasing the enrolment at various educational institutions.

Annual Intake of Institutions, 1976, 1980 and 1985

Institutions	1976 Actual	1980 Actual	1985		1980 - 85 Average Annual Growth (%)
			Targeted	Actual	
Tertiary NTI & NUS	2,000	3,000	4,500	4,800	10
Technicians Polytechnics, VITB & EDB Training Institutes	3,600	4,100	8,200	8,800	17
Skilled workers VITB, CITC, Training Centres	7,500	6,100	15,400	12,900	16

(Source : Report of The Economic Committee, The Singapore Economy : New Direction, Singapore, February 1986).

As a result of the 1980 CPTE's recommendations, the average annual intake for tertiary institutions grew by 10% each year between 1980 to 1985. The university intakes increased by 60% from 3,000 in 1980 to 4,800 in 1985, which was nearly twice the number achieved for the period from 1976 to 1980.

The projected student enrolment in SOA for the three years from academic year 1988/89 are as follows (NTI, 1987).

Academic Session	Student Enrolment in Accountancy
1988/89	1,670
1989/90	1,740
1990/91	1,850

For the period 1980 to 1985, the average annual intake for the technician and skilled worker categories grew by 17% and 16% respectively.

The rationale underlying the CPTE recommendations was that the Singapore workforce is relatively less educated than those in the United States, Japan and Taiwan. Only 5% of Singapore's workforce have tertiary education compared with 19% in the US and Japan and 6% in Taiwan. 53% of the workforce have, at most, primary level education, compared with 15% in the US, 35% in Japan and 45% in Taiwan. The Economic Committee recommended the 1990 intakes to the tertiary institutes to be 5,600 (a 3% average annual growth with 1968 as the reference year), 11,500 at Technician level (a 6% average annual growth) and 14,200 skilled workers (or 2% average annual growth). The committee also urged professional associations, such as law, medical, engineering and accountancy, to have programmes to update their members on the latest professional developments (Report of the Economic Committee, 1986).

#### VIII. Conclusions

Accounting education in Singapore has come a long way. The British influence is deeply entrenched, firstly, through the export of British accounting personnel, secondly, through the export of qualifications, thirdly, through the establishment of overseas accounting examination centres, fourthly, through involvement of British experts in the planning, directing, organising and teaching and assistance in one form or another in the development of academic institutions in Singapore, and last, but not least, through its

historical influence upon the business, education and administrative environment in the early years of Singapore. This close relationship still persists even today.

The pioneering Chinese tertiary institutions started by the Chinese community in Singapore, such as NU and Ngee Ann College, functioned with an educational system based on the Chinese system which, in turn, was influenced by the Americans. This was because these institutions were started with overseas personnel from China and Taiwan. In contrast, the then University of Malaya and Singapore Polytechnic, which were established by the colonial government, were modelled upon the British system.

Initially, the Chinese institutions were not amalgamated with the overall educational system in Singapore, and, as far as accountancy education is concerned, the British system is the only recognised qualification for jobs in the public sector and jobs in the majority of the commercial sectors.

Accounting education today is divided into three levels : tertiary, semi-professional and professional, and at secondary and high school levels to cater for those aspiring to be accountants and accounting clerks. The system also allows those with lesser qualifications such as the NIC's Certificate or Diploma in Business Studies to pursue higher qualifications such as the ACCA, ICMA and ICSA. Those with GCE 'A' level may pursue an accountancy degree at the university, go to the polytechnic for the Business Studies Diploma or take overseas semi-professional (e.g. Accounting Technician

Certificate) and professional (e.g. ACCA, ICMA or ICSA) courses.

Accounting education has reached such a stage of maturity that at the university, emphasis has been placed on staff to perform research which was not common before the move to NUS. As an undergraduate school, the School of Accountancy produced more than 400 graduates each year and the intake for the first year is expected to reach more than 600 in 1987/88 making it the largest school of accountancy in Asia.

The strong accounting profession has also contributed to enhancing Singapore's image as a leading financial centre in the region. Assistance was rendered to the Brunei government to help the country establish an accounting body. In 1986, representatives from SSA visited China to discuss areas in which the SSA could assist the Chinese. This has resulted in the attachment of some representatives from China to SSA to study how the SSA is being run and accounting practices in Singapore in general.

Some lecturers from NTI went to China to conduct accountancy courses for the profession in 1985 and 1986. This reflected a reverse role, as at one time Singapore was dependent on China to supply teachers for its accounting institutions established by the Chinese community. The flow of lecturers and interaction with the Chinese is expected to grow and develop.

Finally, the present accounting education system is adequate and appropriate for Singapore's needs. From a small beginning, accounting education in Singapore has grown to be one of the most recognised and best respected in the region.

## CHAPTER 12

### GOVERNMENT ACCOUNTING IN SINGAPORE

#### I. Introduction

The fundamental differences between government and commercial accounting systems are as follows :-

	Government Accounting System	Commercial Accounting System
	(A)	
1. Sets of co-ordinated accounts	Two or more.	One
2. Type of organisation	Non-profit entity.	Generally, profit-motive entity.
3. Objectives	To promote service efficiency and guard against impairment of capital.	To ascertain profitability in addition to promoting operational efficiency.
4. Cash or accrual	Cash and/or accruals (only for expenditure).	Accruals.
	(B)	
5. Type of accounting	Fund accounting.	Sales/revenues accounting.
6. Details of assets	Assets are not itemised and identified, but are under general headings, e.g. civil works, in each of the capital funds.	Assets are itemised.
7. Asset write-off	No need for depreciation. Loan repayments are charged in lieu.	Depreciation according to economic life span of assets.
	(C)	
8. Final accounts statements	Income/revenue and expenditure account.	Profit & Loss account (or revenue account). Balance sheet.



Budgetary control	Necessary, especially for expenditure (D) control.	Not essential.
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- A. The minimum two co-ordinated sets of accounts are for capital and revenue.

Capital accounts are for resources financed by way of loans or grants, or specific levies for development or improvement of assets.

Revenue accounts are for the provision of annually recurrent administrative and general services, and may include non-annually recurrent expenses.

- B. Fund Accounting. A fund has been technically defined as a sum of money or other resources segregated for carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations and constituting an independent fiscal and accounting entity.

- C. Where the period of loan repayment exceeds the life of the asset, a deferred charge account will be created till the loan is repaid.

If the loan is repaid before the end of the life of the asset, a loan extinguished account will be created till the asset is written off. Where the asset has not been financed by loans, depreciation may be charged.

- D. Budgetary control is essentially based on the schedules of expenditure for specified fiscal periods with plans for its financing. These plans commonly include the receipt of money

by way of grant/subsidy from the government, special levies, or charges for services rendered.

(Source : Adapted from Lim Tian Leong, 1986)

A fundamental difference between commercial and governmental accounting is that government accounts are usually kept on a cash basis. This means that government budgets are prepared in terms of cash flow alone, and depreciation, accruals, changes in stocks, the level of debtors and creditors balances, and other non-cash items are not included. Commercial accounting, however, is based on matching costs and income and includes the above items.

The main purposes of government accounting are the accountability or stewardship function and the provision of management information. For the accountability function, the financial statements are to be prepared in accordance with conventional government accounting procedures, so as to comply with legal requirements, adhere to budgetary guidelines, permit audit of the accounts and also facilitate parliamentary control of expenditure. While, for management purposes, the financial statements provide vital information to the government for planning and controlling operations, programmes and financial activities.

In contrast to a private corporation, which is profit-orientated, a government department aims to provide services for the benefit or well-being of the general public or a particular group in the most effective manner possible. Government departments exist only to implement the programmes and policies of the government, and proposed programmes are assessed on the extent to which they will contribute to the overall

policies of the government.

The traditional purposes of government accounting are :

1. To facilitate parliamentary control over government receipts and expenditure (the accountability objective).
2. To facilitate executive control over government financial activities (the management control objective).
3. To inform taxpayers and other citizens of the revenue raised by the government and the nature of expenditure incurred (the reporting objective).

To meet the accountability objective, it is necessary that budgeting and accounting records be maintained and integrated to ensure that public moneys are spent only when authorised by parliament. The accounting system needs to be designed to reflect the pattern of financial responsibility within the public service and the accounts should be subject to external audit carried out independently on behalf of parliament.

Execution of the policies chosen by the parliament is in the hands of the government ministries or departments, and budgetary accounting procedures must therefore permit administrative control over the government's financial activities. Therefore, the accounting system should reflect the division of administrative responsibilities and should measure the cost of carrying out particular programmes and activities. It should also enable executive branches of the government to carry out their planning and financial control functions. Emphasis is placed on the purpose of the expenditure rather than its nature (R.L. Mathew, 1986).

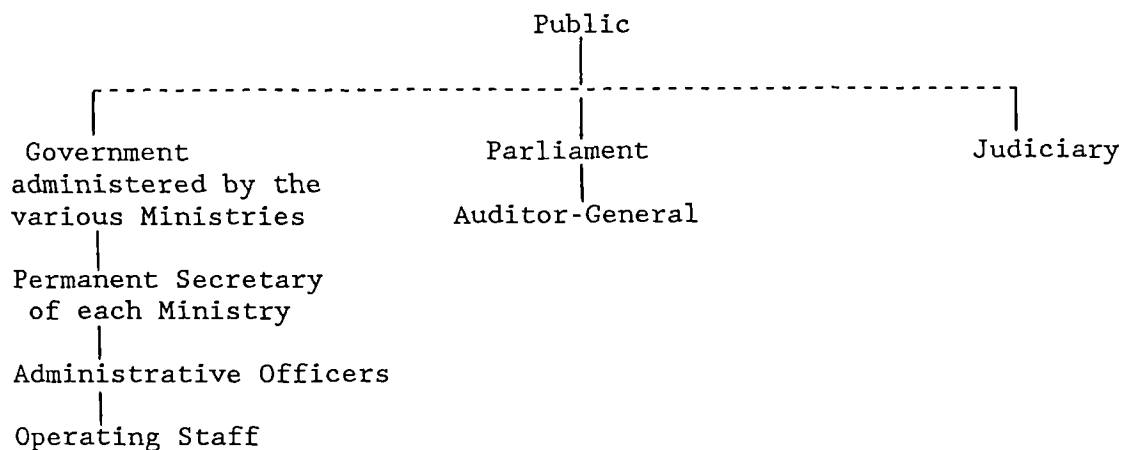
Government accounting practices in Singapore are principally bound by the following regulations :

1. The Constitution of the Republic of Singapore.
2. The Finance Procedure Act, 1966.
3. The Financial Regulations, 1959.
4. The Audit Act, 1966.

This chapter looks at government accounting practices, especially the legislative influences thereon, and their implications for government reporting in Singapore.

## II. Constitutional Structure of Singapore

### Constitutional Structure of Singapore



The above chart depicts the constitutional reporting structure in Singapore. The Judiciary and the Auditor-General are both constitutionally independent of the government.

From an accounting standpoint, the judiciary branch is of little significance. The executive division, or the government ministries, plays a leading role in government accounting because of its direct responsibility for collecting and spending public money, keeping financial records, safeguarding public properties and producing financial reports. Of almost equal importance is the legislative division, or parliament, which provides for the raising of revenues and control of expenditure made by the government and scrutinizes the activities of the executive branch.

On financial matters, public bodies and their officers are governed in almost every activity by specific laws, regulations and guidelines. Each government ministry has a Permanent Secretary, who is also its chief accounting officer. The Permanent Secretary assists the Accountant-General and prepares the financial statements to be presented to Parliament. He also reports to the Minister in charge, and is assisted by administrative and operating staff.

The preparation of the financial statements is under the ultimate charge of the Accountant-General, who is located in the Ministry of Finance. The accounts have to be audited by the Auditor-General, who reports directly to parliament on his findings.

There is a clear division of responsibility between the executive (i.e. government, its ministers and public officers) and parliament. Ultimate control of expenditure rests with parliament, but the day-to-day management of the nation's finances is carried out by the government through its ministers and public officers.

The government has two main roles in the management and control of expenditure :

1. It formulates plans and translates these into statements of intended expenditure (Annual Estimates) for presentation to parliament; and
2. It manages the funds entrusted to it, to make sure that these are spent on the purposes and within the limits set by parliament.

These functions are the ultimate responsibility of the Minister of Finance.

The financial year commences on 1 April each year. The collection of revenues and expenditures is governed by specific regulations and administered by way of a budget. This enables the government to provide the necessary infrastructure and services to the nation, and also ensures that it has the resources to perform these tasks. Section 144(1) of the Constitution stipulates that estimates have to be accepted by parliament before proceeding into another financial year. Officers of each ministry are responsible for drawing up the estimates which have to be approved by the respective Permanent Secretary and Minister. The Minister of Finance collates all these estimates into an Estimates Budget for the Cabinet, and subsequently seeks parliament's

approval at the budget meetings.

Legislative approval of the Annual Estimates is given in the Supply Act, which controls the amount of money issued from the Consolidated Fund that the government may spend in the coming financial year. The Act also defines the purposes for which the money may be spent. However, not all estimates of expenditure need legislative approval. Statutory Expenditure, including the cost of servicing the national debt and salaries of certain office-holders, for example, the Speaker, the Chief Justice and the Auditor-General, is paid out of the Consolidated Fund without any further parliamentary authority. Besides the voting of funds to the government, parliament has the Estimates Committee to keep watch on Government expenditure. Its duty is to examine, among other things, any of the estimates and to report on any savings that may be made. Members of Parliament also keep a close watch on the use of public money and may question any Minister for clarification and explanations.

Parliament is entitled to receive a report on the financial statements from the Auditor-General. This is then referred to the Public Accounts Committee for consideration and report. (Finance and Accounts, Instruction Manual No.1, Republic of Singapore, Section A, Paras. 2 to 13).

As an ex-British colony, Singapore's government accounting and budgetary process adheres to what is commonly called the Westminster system. Under this system, public expenditure and revenue decisions are made by the executive (i.e. the government) and implemented through its administrative arm which consists of permanent officials (civil

servants) whose continuing employment is not affected by any change of government. In terms of financial accountability, this entails a broad obligation of those exercising expenditure and revenue authority to report, explain and justify the extent and manner of the discharge of their responsibilities. The financial accountability and integrity of the executive is institutionalised in that the administrative arm is responsible to the executive, the latter to parliament, and parliament to the electorate. Furthermore, Ministers are individually responsible to parliament for the affairs of their portfolios, and the Cabinet is collectively responsible to parliament for the decisions of the executive and the conduct of the government (Hardman, 1982).

### III. Budgetary Process and Control

The Financial Provisions (Part XI) of the Constitution make clear that no collections or expenditure can be made by the government unless they are authorised by law. The manner in which expenditures are to be met, such as those to be paid from the Consolidated Fund (S.146[1]) is also spelt out.

The budget is not merely a set of receipts and expenditures for control purposes, but is a major economic, social and political statement which includes virtually the whole of government policy capable of being expressed in financial measures.

A flow chart showing the steps involved in the preparation of the Annual Budget is illustrated in Appendix 12-I. Essentially, the draft budget for the next financial year is presented to parliament and considered by the Committee of Supply. The principal parts of the



budget are the Estimates of Revenue, the Main and Development Estimates of Expenditure, and the Establishment list. Funds to meet estimated expenditure under the Main Estimates are derived from the Consolidated Revenue Account through the provisions in the Supply Act. Development expenditure is financed from a Development Fund established under the Development Fund Act (chapter 65). A General Warrant is issued to cover both the amounts authorised in the Supply Act as well as the Statutory Expenditure in the Main Estimates. Another General Warrant covers the amounts appearing in the Development Estimates.

The Establishment List contains the authorised manpower (i.e. permanent establishment for each activity) which is classified in terms of personnel groups. These essentially comprise staff of similar grades with one basic entry point and one or more merit promotion grades. The number of posts approved under each group is also indicated.

As a result of the recommendations made by the Report of the Estimate Committee in 1977, the Programme Budget System (PBS) was introduced for preparation of the budget as from 1978, for it was felt that the traditional format of the budget had not produced an effective system for allocating financial resources and evaluating results. The traditional layout of the budget presented on a line-item basis was replaced by one prepared on a programme basis. The following are the main features of the PBS (Report of The Estimate Committee, Republic of Singapore, 1977, Appendix I) :-

1. Funds under each head of expenditure are apportioned among a number of programmes. A programme is defined as a collection

of activities aimed at achieving a specific objective or set of objectives.

2. Each activity is considered as one subhead of expenditure. For purposes of evaluation of financial requirements and to meet accounting needs, each subhead is broken down into items or objects of expenditure, such as Permanent Staff Salaries, Allowances, Supplies and Materials, etc.
3. There is greater flexibility for ministries/departments in the use of funds to achieve sets of objectives, as they have the authority to reallocate funds within individual subheads without reference to the Ministry of Finance. Transfer of funds between subheads, however, remains with the Ministry of Finance.
4. The authorised manpower for each Head is shown, on a programme basis and by personnel groups.
5. A Programme Analysis and Review (PAR), showing the results attained by each programme in the last financial year as well as the targets for the next financial year, is included in the programme budget documents.

PBS thus sought to encourage better management, to incorporate long-range planning into budgeting, and to obtain economies of operation.

The budget under the PBS provides details of government expenditure, manpower and revenue estimates. Previously, the estimates for a financial year showed the expenditure and manpower requirements under each head of expenditure in terms of items of expenditure. Under

the PBS, the budget (previously called Estimates) shows the expenditure and manpower requirements of each head of expenditure in terms of programmes and activities.

Before the budget of any ministry is finalised, the Budget Division of the Ministry of Finance, on receipt of the new financial year's Main Estimates proposals for a head of expenditure, will hold meetings with the ministry and departments concerned. The proposals will be reviewed with reference to the previous year's recommendations and to observations made by the Budget Division in previous budget exercises.

The Budget Division will prepare a Budget Analysis indicating, inter alia, the extent of support for the proposals and whether the ministry and department concerned have agreed to the proposed cuts. Copies of the Budget Analysis are sent to the ministry concerned and response may be made in writing or at meetings to be held at Permanent Secretary level in November, following which the budget of the ministry is finalised.

#### IV. Government Accounting and Reporting Policies

Financial matters are covered in sections 142 to 148 of the Constitution of Singapore (amended up to 31 March 1980).

Under section 144(4) of the Constitution, the Minister of Finance is required to lay before parliament a statement showing, as far as practicable, the assets and liabilities of Singapore at the end of the last completed financial year, the manner in which those assets are invested or held and the general heads in respect of which these

liabilities are outstanding.

The financial statements submitted to parliament have to be audited by the Auditor-General. This is covered in the Audit Act, Chapter 60 section 9 of which requires the Auditor-General to report on the financial statements, which have to disclose information as prescribed by section 18 of the Constitution. This information includes :

1. A full and detailed account of the Consolidated Revenue Account stating under heads and subheads the amounts estimated to be received and spent in that year and the amounts actually received and spent in that year.
2. A Consolidated Loan Account showing receipts and expenditure of loan moneys.
3. A statement of receipts and expenditure of moneys held in any deposit account.
4. A statement of receipts and expenditure of moneys held in any advance account or class of advance accounts.
5. A statement of receipts and expenditure of moneys held in any government fund created by any law.
6. A statement of assets and liabilities at the end of the financial year, the manner in which the assets are invested or held, and the general heads in respect of which those liabilities are outstanding.
7. Any such statements as the Minister may think fit.

In contrast with commercial enterprises, government accounts are prepared on a cash basis and do not emphasise assets and liabilities. They account for receipts and payments and not for income and

expenditure. Therefore, the government does not produce a balance sheet and the statements of account for each financial year show the actual money received and spent during that financial year. The manner in which receipts and payments of the Consolidated Fund, Development Fund and Sinking Fund are raised and expended are shown in Appendix 12-II. The government financial procedures require all revenue collected by the government, with certain exceptions, to be paid into the Consolidated Revenue Account. Allocation of money under the Main Estimates as voted by parliament are then made from this account. In general, a tax or source of revenue is not set aside for specific items of expenditure.

The Accountant-General is responsible for keeping the government accounts and preparing financial statements. The Accountant-General's Department belongs to the Budget Division of the Ministry of Finance and is directly under the Administrative Director of that Division (see Appendix 12-III). The Revenue Division is the other branch that makes up the Ministry of Finance. The Accountant-General's Department is also responsible for the accounting procedures throughout government and for making sure that public funds are adequately safeguarded. In addition, it assists ministries and departments to prepare their staff payrolls and also acts as a paying office for the majority of payments from public funds. Accounting responsibilities are under the charge of the Permanent Secretary of each ministry and he must broadly ensure that (Finance & Accounts, Instruction Manual No.1, Singapore) :-

1. All bills passed for payments have been properly and correctly passed;
2. Voted funds are available for all such payments; and

### 3. Money due to government is properly billed and collected.

Since the accounts are presented on a cash basis, fixed assets acquired are charged under the respective head of expenditure, e.g. civil works, and they are not itemised. There is no depreciation provision and no distinction is made between long-term and current assets and liabilities. A detailed statement of government accounting policies and traditions is given in Appendix 12-IV.

## V. Audit and Scrutiny of Government Accounts

The task of ensuring that public funds are properly and accounted for is placed upon two main bodies, the Public Accounts Committee (PAC) and the Auditor-General.

### 1. Auditor-General's Department

The Auditor-General's Department, which is independent of the government, serves as the "watchdog" of parliament. Under the Audit Act (Chapter 60), the Auditor-General is empowered to carry out any examination he thinks necessary to ascertain whether reasonable steps have been taken to safeguard public money, and whether the provisions of the Constitution, the Financial Procedures Act (Chapter 68), and the laws and regulations relating to money or stores subject to his audit have been complied with and to make appropriate recommendations for improvement. The work carried out by the Audit Department consists of financial and compliance audit, value-for-money audit and last, but not least, programme audit, which is concerned primarily with evaluating whether the desired results or benefits desired by the legislative or other authorising body are being achieved (Audit Department, Singapore,

1981).

The Auditor-General's office has 138 staff classified under three services schemes.

Scheme	No. of Staff (As at September 1987)
A. Auditing	39
B. Executive	34
C. Clerical	65
	---
	138
	==

Included in the clerical service scheme are four typists, one stenographer, one record keeper and three office clerks. Officers from this scheme, depending on their grades, carry out the functions of Audit Assistants or Project Officers.

Officers from the executive service scheme, depending on their grade, carry out the functions of Project Officers or Senior Project Officers.

Senior members of the Auditor-General's office come under the auditing service scheme. Newly recruited officers from this scheme act as Senior Project Officers and officers with at least two years of experience act as Project Leaders. The other personnel consists of the Assistant Director, Deputy Director and the Auditor-General.

The Auditor-General's office is organised into six divisions.

- A. Financial and Compliance Audit.
- B. Manpower Audit.
- C. Value-for-Money (VFM) Audit.
- D. Statutory Board Audit.

E. Computer Audit.

F. Support Division.

The Financial and Compliance Audit Division audits the government financial statements and the ministries and departments to see if they comply with laws, rules and regulations.

The Manpower Audit Division was set up in January 1986 to assist the national effort to reduce manpower levels in the public sector. It audits and reports on the effectiveness and efficiency of manpower utilisation.

The Value-for-Money Audit Division carries out audits in government ministries and departments to ensure that public resources, e.g. land, buildings, equipment, plants and machinery, are used economically, effectively and efficiently. It also audits the effectiveness of programmes.

The Statutory Board Audit Division audits and certifies the accounts of statutory boards and government-owned companies that are subject to audit by the Auditor-General. It carries out compliance and value-for-money audits and liaises with the public accounting firms which conduct the financial audit of those statutory boards whose accounts are not certified by the Auditor-General.

The Computer Audit Division provides the line auditor with technical support, undertakes more complex computer audit tasks and carry out special projects (e.g. system study) in computer-related areas.



The Support Division consists of :

- A. The Computer and Information System Branch which is responsible for managing the Auditor-General's office micro-computers and for computerisation and office automation projects;
- B. The Training branch, which handles all training-related matters; and
- C. The Finance and Administration Branch which handles office administration and all financial and personnel matters.

The training programme in the Auditor-General's office consists of local and overseas training. A detailed training schedule in the Auditor-General's office is shown in Appendix 12-V. The local training takes the form of in-house and external courses. All training is conducted through short courses and the majority is conducted in-house with the exception of computer audit courses, where external experts from organizations such as IBM, the Institute of Systems Science and public accounting firms, are usually employed. Overseas training takes the form of three to twelve months practical attachments and study tours to the US Government Accounting Office, the Office of the Auditor-General of Canada and the UK National Audit Office.

The training policies in the Auditor-General's office are as follows :

- A. The emphasis of training will be on auditing knowledge and skills, e.g. accounting and internal control systems, auditing statutory boards' financial statements and accounts.
- B. All project leaders and above must attain basic computer

auditing skills (i.e. level 1) within two years of joining the Office. Training is carried out through a self-study package. All project officers and above whose job involves auditing of computerised accounts and systems would be trained in Computer Audit Level II skills. This involves on-the-job training given by officers from the Computer Audit Division. Only officers from the latter would be trained in Computer Audit III skills.

- C. Officers are identified and developed as resource persons to specialise in subjects such as tax, statistical sampling etc. These persons will be given preference for training in their areas of specialisation and would be called upon to conduct training, develop methodologies and manuals when necessary.
- D. Officers will be sent on training courses on the use of microcomputer software on a need-to-know basis.
- E. Management courses are desirable but, in view of the limited resources, training in these areas will not be provided and are not as crucial compared to auditing work.
- F. For overseas training, unless otherwise decided by the Auditor-General in specific cases, only officers who meet the conditions such as good performance records and have worked in the Auditor-General's office for at least three to five years, depending on the nature of the courses, are eligible.

The Auditor-General is required by the Audit Act, chapter 60, to audit the accounts of all departments and offices of the government, or such accounts as may be prescribed by law or as directed by the

Minister of Finance. Inter alia, he is to make such examination as he thinks necessary to safeguard public moneys, make recommendations and generally comment upon all matters relating to public accounts, public moneys and public stores. While the law does not specifically require or prohibit the Auditor-General from carrying out VFM or programme audits, the wording of the Act is very broad and can be construed as allowing the Auditor-General to carry out such audits (Auditor-General's Office, November 1983). Finance Circular Try F 10/1-5 dated 10 November 1972, extended the Auditor-General's authority to conduct VFM audit upon statutory boards.

In 1983, the Auditor-General's office issued its first VFM audit manual (a) to assist all levels of officers in carrying out VFM audits; (b) achieve uniformity and consistency in carrying out VFM and (c) document and explain policies and procedures for VFM audits.

## 2. Public Accounts Committee

The Public Accounts Committee (PAC) is made up of a small group of Members of Parliament. It meets annually to consider the Auditor-General's report to parliament, and to examine government financial statements and other accounts presented to parliament, and is assisted in its examination by the Auditor-General. The Committee can call upon the Permanent Secretary and officials of any ministry to appear before it to provide further information. A report on its findings and recommendations are submitted to parliament and the recommendations must be implemented by the ministry concerned.

The PAC's work is not confined to matters brought up by the Auditor-General, for it may ask the Auditor-General to obtain

information and investigate areas not raised in his report. The main interest of the Committee lies in eliminating waste and extravagance, encouraging sound financial practices and seeing that value for money has been obtained (Finance & Accounts, Instruction Manual No.1, Ministry of Finance). Any Member of Parliament may also raise queries on the financial statements and on how public funds have been kept and expended.

#### VI. National Income Accounting

The output and expenditure approaches are adopted for compiling national income aggregates of Singapore. The compilation, according to the Department of Statistics, follows closely the concepts, definitions and methodology given in the United Nations' publication, A System of National Accounts (SNA), 1968.

The output method measures the national income by its sources, i.e. the value of output of goods and services produced by productive factors. In this approach, for each and every economic activity the value added is computed and the sum of all the value added gives the gross domestic product (GDP). From GDP, after payments to abroad, an estimate of national income is obtained.

In the expenditure approach, the magnitudes of various demand aggregates are first estimated and GDP at market prices is obtained as private consumption and investment expenditure plus exports minus imports of goods and services. GDP at market prices less indirect taxes plus subsidies gives GDP at factor cost. National income equals GDP at factor cost minus net factor payments to abroad and minus

depreciation.

The third method of compiling estimates of national income is the income received approach. Data on the wages, salaries and property incomes received by nationals are collected and the sum of all these incomes gives an estimate of national income (Rao, 1976). The income approach is omitted perhaps because of the extreme difficulty in obtaining all income received, and, in particular, in identifying the sources (which can be local and overseas) and also the sums involved.

The standard of national income accounting practices in Singapore is relatively higher than Indonesia. However, accounting information gathered at the micro level is not integrated with the national income accounting system.

Individual and corporate taxpayers are required to submit tax returns to the Inland Revenue. In addition, all businesses in Singapore have to make annual returns (which include the financial statements) to the Registrar of Companies. The integration of financial information produced at the micro level would help to produce more accurate national income estimates. For a start, the government could take the initiative by linking government accounting with the national income accounting or macro accounting system. Although the principle appears simple, it is not easy to implement as it involves an enormous amount of work and resources, and this is seldom put into practice even in many developed countries.

## VII. Conclusions

Government accounting practice in Singapore adheres closely to the Westminster model, a legacy left from colonial days.

The degree of accountability is rather higher than that found in commercial enterprises, as indicated by the fact that the way in which funds are collected and spent is usually set out by law. The Auditor-General, PAC, parliament and citizens (who could express their discontent through official channels and the mass media) provide further scrutiny of public accountability by the government.

The manner in which funds are raised and spent is also subject to safeguard against abuse. Financial statements are presented on a cash basis and the accounting policies adopted to prepare them are unique to the government and may differ from country to country, dictated by specific laws and regulations of the country concerned.

Finally, as Singapore becomes more economically advanced, accurate and reliable information for decision-making is essential and the manner in which the present government accounting practices and accounts are presented has to be reviewed continuously to make financial statements and control more meaningful.

## CHAPTER 13

### MANAGEMENT ACCOUNTING PRACTICES IN SINGAPORE

#### I. Introduction

It was only in the 1970s that the practice of management accounting became widespread in Singapore. Management accounting practice prior to this period was characterised by apathy, particularly on the part of local companies, which preferred to adhere to their old methods of management which traditionally regarded financial information of their company as a closely-guarded secret.

It was only in recent years that Singapore became a newly industrialised country, as a result of which, modern management accounting techniques became important to help improve efficiency and competitiveness. This chapter traces the nature and extent of management accounting practice in Singapore and looks at the factors which influenced its development.

#### II. Characteristics of the Singapore Economy

Singapore, because of its strategic location, originally prospered due to entrepot trade. This potential was realised as early as 1819, when Sir Stamford Raffles founded modern Singapore. Singapore was used as a trading outpost for the British East Indies Company, a political and economic accessory of the British empire in the Far East.

Because economic activities were centred on entrepot trade, the industrial base was very much neglected and it was only in 1959, when

Singapore achieved self-government, that any real effort was made towards industrialisation. This has gained momentum ever since, and Singapore was one of the fastest growing economies in the world over the period 1974 to 1983.

Gross Domestic Product (GDP) of Manufacturing as a  
Percentage of Industry of Singapore

Gross Domestic Product	1960 S\$(m)	1970 S\$(m)	1984 S\$(m)	1986* S\$(m)
Total GDP for all Industry	1,985	5,320	35,463	37,774
GDP for Manufacturing	236	1,048	8,857	10,133
% of GDP by Manufacturing	11.9%	19.7%	25%	26.8%

(Sources : Ministry of Culture, Singapore 1984 and \*Yearbook of Statistics, Singapore, 1986)

Since independence, Singapore's economy has been transformed from one that was highly dependent on entrepot trade to one that is based increasingly on manufacturing activity. In 1960, the GDP for manufacturing as a percentage of the total GDP for all industry was a mere 11.9% while the number of persons employed in the manufacturing sector was 10 per cent of the total work force (United Nations Industrial Development Organisation, August 1970).

In 1961, the Economic Development Board (EDB) was set up to implement Singapore's industrialisation programme. Its primary aim is to attract foreign investors to commence manufacturing activities in Singapore, and it provides all necessary information, advice and support for overseas investment in Singapore. This includes facilities



and infrastructure for industries, tax incentives for industrial investment and a network of overseas promotional offices to attract foreign investment.

By 1970, with virtually full employment, the emphasis was on better quality jobs and products. Tax incentives shifted to high technology industries and training the labour force to diversify by attracting more foreign companies, with skilled and technical personnel. In 1970, the GDP of manufacturing as a percentage to that of all industry increased to 19.7%. Since 1967, the number of persons employed in the manufacturing sector has been increasing as the manufacturing sector contributes progressively more to national economic development.

In 1976 and 1977, there was a high demand for technical goods due to the global economic recovery, but Singapore was not able to capitalise on this because she was hampered by her unskilled and low wage labour supply. In 1979, measures were taken to improve the skills of the Singapore labour force. Emphasis was placed on capital, technology and skill-intensive industries and on products that were less vulnerable to the protectionist measures of the developed nations (Ministry of Culture, 1984). By 1986, the manufacturing sector contributed more than a quarter of the total GDP, which signifies the continuing importance of industrial development to the economic growth of Singapore.

### III. Management Accounting Practices

It was only after Singapore attained self-rule in 1959 that any significant effort to shift the over-reliance of the Singapore economy on entrepot trade towards manufacturing was made. With a weak industrial base, one would not expect the prevalent use of management accounting for management control and decision-making.

#### A. Unido Light Industries Service Project

The relative ignorance of management accounting techniques was so critical as to encourage the EDB to approach the United Nations Industrial Development Organisation (UNIDO) for assistance in the late 1960s.

The UNIDO report (1970) classified the structure of industry in Singapore into four categories :

- (1). Small family businesses with little or no records. They were not likely to use management accounting, being characterised by small total output with little or none being exported.
- (2). Well-established large businesses under the control of Chinese businessmen. These owners were usually deeply entrenched in their traditional methods of running their businesses. They were sceptical of modern management techniques and were not likely to favour outsiders trying to introduce such techniques if it meant having to disclose confidential information about their activities and the internal structure of the organisations.

- (3). New projects being established with local and Asian capital and possibly government support. They would need management accounting, management guidance and access to modern management techniques to run their operations successfully.
- (4). Projects associated with large overseas companies which initially would import their own management personnel and expertise to set-up and implement management accounting and management techniques, assisted by local employees.

Under the UN Special Industrial Services Programme of Technical Assistance, UNIDO undertook to assist the government of Singapore to introduce management accounting techniques to the Light Industries Services (LIS, a division of EDB) by the following means (UNIDO, 1970) :

- (1). Advise and assist Light Industries Services (Economic Development Board) to institute proper and effective cost accounting systems.
- (2). Advise and assist Light Industries in all aspects of management accounting.
- (3). Advise and assist in the planning and implementation of training programmes in management accounting for the management of light industries
- (4). Train LIS counterparts.
- (5). Review the existing state of the field of management accounting systems in the industries concerned.
- (6). Investigate and recommend new cost and management accounting techniques.
- (7). Investigate all relevant problems related to management

accounting systems.

The purpose of the project was to develop a programme and train LIS counterparts in Singapore to introduce effective management accounting into light industries in Singapore.

The programme to implement the UNIDO - LIS Project consisted of :

- (1). Three LIS counterparts being trained at the commencement of the project in management accounting techniques.
- (2). The three Singapore counterparts being assisted by the Resident Management Consultant to introduce management accounting to selected companies in Singapore.
- (3). The selected companies personnel being trained in management accounting techniques.

The Singaporean or LIS counterparts were trained in two phases. The first phase consisted of management accounting theory. The Resident Management Consultant conducted a Management Training Programme for one week commencing 30 March 1970. The second phase consisted of practical guidance. The counterparts were assigned to companies in light industries and also assisted the Resident Management Consultant to train industry personnel.

The industry personnel training was conducted on an "in-company" basis. It comprised an initial appreciation discussion on costing systems and management accounting techniques together with a practical implementation phase in the respective companies which had agreed to participate in the project. This aspect of the project faced

problems due to the reluctance of participating companies to send staff for training because of a critical shortage of trained accounting and production staff to carry on in their absence. The other problem was the inability of some staff to understand or speak fluent English (UNIDO 1970).

Four companies participated in the project. However, one later withdrew because the rebuilding of their factory made it impractical for them to participate at that stage.

A project in one of the companies was not completed because one of the three local counterparts who was in charge of that company had been transferred to another government agency, as of 30 July 1970.

The work performed in the two remaining companies which was satisfactorily completed included, (UNIDO, 1970) :

- A. Appraise the existing organisation structure.
- B. Revise the chart of accounts.
- C. Implement an integrated financial and process costing system.
- D. Implement cost control for materials, labour and overheads.
- E. Calculate pre-determined manufacturing overhead absorption rates.
- F. Implement control techniques to ensure that actual performance was evaluated against pre-determined standards.
- G. Introduce Management Reporting and Variance Reports to ensure that all levels of management were continually aware of actual performance.
- H. Compile an Accounting Procedures Manual.

Some of the difficulties encountered by the LIS project included :

A. Lack of Interest

Seven companies were approached by the LIS about the project. Of these, only two companies subsequently implemented the recommended management accounting systems.

One possible reason for the apathy was the inadequate notice given by UNIDO to the LIS to enable proper preparation before the Resident Management Consultant arrived in Singapore. The fact that a fee was charged to participating companies acted as a disincentive to smaller companies.

B. A lack of suitable persons to participate as counterparts

W.D. Scott & Co., the consulting firm attached to the project, was prepared to train up to nine LIS counterparts. However, due to staff shortages, LIS were only able to appoint four to participate in the programme. Of these, only one had a cost accounting qualification. The rest were economics graduates and one was later transferred from the project to attend a marketing course at Harvard University, thus leaving only three counterparts.

The training of industry personnel was also hampered due to critical staff shortages and lack of trained staff to carry on during their absence.

### C. Language

Mandarin was widely used by Chinese businesses. This restricted the value of seminars given by foreign experts and adversely affected the implementation of management techniques, as interpreters were needed to communicate with management and staff.

### D. Disclosure of Confidential Information

Due to the conservative attitude of the Chinese, resistance was encountered from companies regarding disclosure of certain cost and financial information. This affected the reliability of information used for planning the proposal by the LIS team.

At that time, there were only 768 accountants registered with the Singapore Society of Accountants, of which, 198 were Public Accountants, 418 Registered Accountants, 33 Licensed Accountants (unqualified) and 119 provisional members. The LIS Project report noted that there was a shortage of local experienced personnel and that training was inadequate.

The Project found that the extent of management accounting practice being used in industry varied according to the type of company (UNIDO, 1970).

Companies with overseas affiliates tended to import their own experts to set up and implement management accounting systems and techniques. Local accounting staff were normally trained to maintain and control these systems when the experts returned to their home base. This group of companies, therefore, made the most extensive use of

management accounting.

In well-established Chinese companies, it was usual to find either a qualified accountant with limited experience and a few experienced clerks, or merely experienced clerks with limited training. These companies were very difficult to penetrate, due to Chinese mistrust of outsiders, and were reluctant to change. Thus, management accounting, being relatively new and unfamiliar was seldom used in these companies. In small companies, management accounting practices were virtually non-existent.

#### B. Management Accounting Practices in the 1970s

Two major studies were conducted during this period by staff of the Department of Accountancy, Nanyang University. The first study, entitled "Survey of Cost Accounting Applied in Singapore Industries" was conducted by George Shee Yang in 1971. "Report on the Survey of the Accounting Systems and Practices of Selected Firms in the Jurong Industrial Estate" was the title of the second study, in 1975, by Ng Hong Chong, Ang Kong Beng and Lim Soo Hee.

Yang (1971) studied 475 companies randomly selected from the 1,758 establishments included in the Monthly Digest of Statistics, June, 1970. Of the sample, 180 refused to be interviewed and six firms were not in operation. Therefore, only 289 companies were studied.

In accordance with the classification of the Monthly Digest of Statistics, the 289 Companies were classified into 20 major groups (Appendix 13-I), by different employment level (Appendix 13-II) and by



type of ownership, such as local and foreign-owned companies (Appendix 13-III).

Footwear and Apparel (12.8%), metal products (11.1%), Chemical products (11.1%), food manufacturing (8.3%) and electrical apparatus and appliance (5.9%) sectors made up nearly 50% of the sample in terms of number. The lowest employment in one single company was two workers, and the highest was about 3,000 workers. There were 146 companies which employed fewer than 50 workers, accounting for about 50% of the total companies interviewed, and 242 (or 84%) of the sample employed fewer than 300 workers.

156 (54%) of the sample were locally-owned, 76 (26.3%) comprised local and foreign joint-ownership and 57 (19.7%) were foreign-owned.

The survey was divided into three parts. The first part covered the use of cost accounting, the second part focused on the employment prospects of accountancy students, while the last part sought the opinions of the interviewees on the establishment of a cost accounting service centre to assist industry in Singapore.

On the extent of management accounting practices, 174 (60.21%) of the 289 companies interviewed did not use any form of management accounting techniques. Of the 115 companies which practised management accounting, 70 (or 24.22% of the total sample) had sophisticated cost accounting systems such as job-order, process costing or a combination of the two, actual and standard costing being used. The remaining 45 (15.57%) companies had what the study called partial costing systems, i.e. less comprehensive cost accounting recording and recording systems, and employed less sophisticated

costing procedures.

Among the 70 sophisticated users of accounting systems, 30 used job order systems, 38 process costing methods and two a combination of both. Of the 30 using job order systems, 19 used an actual cost basis, 11 standard cost and none used a variable cost basis. Of the 38 companies that used process costing, 15 employed actual and 23 standard cost bases.

In terms of economic group, the Furniture and Fixtures Industry group had the highest incidence of non-users, with 10 out of 12 companies (or 83.3%) in that category having no form of management accounting system. The next highest groups were found in the Machinery (except electrical machinery) Industry group, Metal Product Industry group and the Rubber Products group where 75% of the companies interviewed in each group did not use any form of costing system at all.

All the companies interviewed in the Beverage Industry group had a sophisticated costing system. The next highest group of respondents with elaborate management accounting practices was the Transport Equipment Category at 83.3%, followed by the Petroleum Industry group at 75%, the Printing and Publishing Industry group at 55% and the Tobacco Industry at 50% respectively.

In general, the survey found that only 25% of the sample had well-established management accounting systems. It also found that a correlation existed between the extent of such practice and the company's level of employment. All the seven companies interviewed

with 401 to 500 workers had sophisticated management accounting systems, while for companies with fewer than 100 workers, only 19 or 10% had implemented proper costing systems. The number of non-users of management accounting, the survey found, gradually diminished as the size of the company in terms of employees increased.

When the size of the company was measured in terms of paid-up capital, the survey found that companies with higher paid-up capital tended to have well-established costing systems. The prevalence of usage increased with the size of equity. For example, there were 70 companies in the sample with less than S\$0.5 million of paid-up capital. Only three (or 4.3%) of them had a sophisticated management accounting system. In the S\$1m to S\$1.9m range, 14 out of the 30 companies (or 47%) used management accounting techniques. The percentage increased to 71% (5 out of 7 companies) for those in the S\$5m - S\$5.9m range, and 100% (1 out of 1) in the S\$9m - S\$9.9m paid-up capital range.

Among the 156 local companies, 17 or 11% used sophisticated management accounting systems. The percentage was 32% (or 24 out of the 76 companies) for joint-ownerships and 50% of the foreign-owned companies used sophisticated methods. This finding was consistent with the results of the UNIDO Project (UNIDO, 1970) which revealed that the propensity to apply management accounting techniques was higher in foreign-owned companies than in local companies.

From the results of the survey, it appeared that the degree of use of management accounting techniques had improved somewhat compared to the pre-1970s period although the figures were still relatively low for

local companies.

Ng, Ang and Lim (1975) looked at accounting systems and practices of 48 manufacturing companies in the Jurong Industrial Estate. It covered, inter alia, the nature of the company, organisation of the accounting department, accounting systems and records, accounting information for planning and control and recruitment and training of accounting staff. The period covered by the study was from October to November 1973. 27 of the 48 companies were foreign subsidiary companies and the remaining 21 were independent companies. There were three public limited companies in the total sample.

The report noted that the accounting system of some subsidiary companies were designed by accounting personnel sent from the holding companies. The accounting policies and procedures adopted by the holding companies were also followed. These subsidiary companies were required, for control purposes, to submit financial reports to their holding companies abroad.

All the companies surveyed kept proper cost accounting records for direct materials. For direct labour, clock cards were used by 34 companies and 24 companies required their employees to fill out time sheets showing the time spent on each job. On the treatment of factory overheads, 28 companies (or 58%) made no allocation of factory overheads to individual jobs. Of the 20 companies that did allocate factory overheads, one used a standard cost method, twelve used a pre-determined cost method and seven an actual cost basis.

On matters relating to accounting information for planning and control, 22 companies prepared a long-term (i.e. more than one year)

profit plan. It was noted that foreign companies paid particular emphasis to the long-term profit plan to maintain performance, and 20 out of the 22 foreign companies prepared long-term profit plans covering a period less than five years.

#### NATURE OF BUDGET PREPARED

<u>Types of budgets</u>	<u>No. of Companies</u>
Sales budget	37 (77.1%)
Expenses budget	33 (68.8%)
Cash budget	33 (68.8%)
Production budget	31 (64.6%)
Master budget	27 (56.3%)

As to the types of budgets most commonly prepared, the Sales budget had the highest incidence, followed by Expenses, Cash, Production and Master budget respectively (see above).

# NATURE OF REPORTS PRODUCED

<u>Types of Report</u>	<u>No. of Companies</u>	<u>Monthly</u>	<u>Daily</u>
Sales Report	6	5	1
Product Report	8	6	2
WIP Report	1	1	-
Expenses Report	3	3	-
Inventory Report	2	2	-
Direct Labour Report	2	2	-
Cash Report	3	3	-
Accounts Receivable/Debtors Report	2	2	-
Accounts Receivable/Creditors Report	1	1	-
Statement of Cost of Goods Manufactured	1	1	-

The survey noted that formal management reports were not normally used (see above). It offered the possible reasons as being :

- A. Management did not really recognise the practical value and usefulness of the various types of management reports; and
- B. Management might depend to a considerable extent on informal reports rather than regular formal ones.

Special reports, like Break-even Analysis, Cost Analysis for large tender bids, Report on Cost as the basis of determined selling price, Initial Report on New Investment Plans and Initial Report in Take-over bids were not widely used, and only one company was found in each category.

The 1970s saw the increasing importance of the manufacturing sector to the Singapore economy. Although the results from the two surveys indicated a slight improvement in the awareness and utilisation of management accounting techniques, considerable improvement was needed to narrow the gap between local and foreign companies in this area. The influx of more foreign companies, especially the multinational corporations, with their widespread use of management accounting methods and the increase in the output of accountants from the tertiary institutions helped to eradicate the prejudice and apprehension local businessmen had against management accounting techniques for control and decision-making. The other contributing factor was the government's efforts to increase the productivity of local industries and to upgrade the skills of workers and management alike. One such effort was the establishment of the National Productivity Board (NPB) in May 1972 under the Ministry of Labour. NPB objectives and activities are geared towards spearheading the productivity movement in Singapore through activities to :

- A. Inculcate productivity awareness among Singaporeans through the promotion of the need to improve productivity and of the productivity concept.
- B. Promote and provide training to managers, supervisors and line leaders on modern management, productivity concepts and techniques.
- C. Foster good labour-management relations by promoting teamwork and better labour-management communication.
- D. Formulate a strategic plan on the productivity movement, to study and formulate productivity policies and practices, and to monitor

national and sectional productivity movements.

The training function was identified as one of the key processes to develop better managers and supervisors who would serve as catalysts to increase productivity at the workplaces. NPB offers a wide range of training courses to upgrade skills and knowledge in the following areas:

- A. Management accounting.
- B. Executive development training.
- C. Supervisory development training.
- D. Industrial engineering.
- E. Organisation training.
- F. Labour management relations.
- G. Computer training.
- H. Occupational safety and health.

#### C. Management Accounting Practices in the 1980s

The first study in this period was published in 1985 by Maschmeyer and Hwang, who carried out a survey of management accounting practices of members of the Singapore Manufacturers' Association. The second study by Ang, Choudhury and Goh, published in 1986, studied management accounting practices in small companies in Singapore. Ghosh, Wan and Chung in 1986, conducted a study on financial control practices by manufacturing and non-manufacturing companies.

Maschmeyer and Hwang (1985) studied the utilisation of management accounting techniques in the manufacturing sector by members of the



Singapore Manufacturers' Association. Of the 866 questionnaires originally sent, 105 (12%) usable responses were received. The study covered the use of management accounting techniques for planning, standard cost usage, performance evaluation and other specific techniques for planning and control of on-going operations.

The companies were categorised into small, medium and large as follows :

<u>Total Fixed Assets</u> <u>(Net of accumulated depreciation)</u>	<u>No. of Companies</u>
1. Less than S\$3m (small)	32
2. S\$3m to S\$8m (medium)	29
3. More than S\$8m (large)	44
	-----
	105
	=====

On planning, the study noted that an overwhelming majority of companies used, to some degree, a formal planning system. The proportion of small, medium and large sized companies reporting a formalization of goals, strategies and objectives were 75%, 90% and 86% respectively. The time horizon commonly used for long-range planning was found to be three years. Budgets were extensively used by the companies, the frequency of use being 84%, 97% and 95% for small, medium and large companies respectively.

56% of the companies studied employed a system of standard costs, with the incidence of standard cost usage decreasing as the size of the companies increased. The possible reason given in the study for this trend was the increased amount of international transactions

involved for larger companies in securing input resources. Thus, many companies were unable to establish stable standard costs due to volatile overseas markets. Other possible reasons were the difference in tasks within a job order system and the lack of necessary skills to establish the standard costs and subsequently implement the system.

60% of the companies surveyed reported that budgets were an important tool in assessing the performance of individual members of management, whereas, for standard costs and variance analysis, only 28.5% responded that it was a significant indicator of the performance evaluation process.

The most widely used techniques were contribution reporting (70%), cost-volume profit analysis (64%), and the pay-back method of capital budgeting (53%). These were followed by discounted cash flow method of capital budgeting (40%) and flexible budgeting (36%). More sophisticated techniques such as Economics Order Quantity (EOQ), Inventory modelling, Linear programming, Regression and Correlation Analysis and Statistical sampling were not used because of the difficulties in identifying costs, the need to follow the parent company's practices and the lack of expertise necessary to implement the techniques. The techniques that managers were not generally aware of included network analysis, system simulation, probabilistic budgeting and probabilistic analysis of variance from standard costs.

Ang, Choudhury and Goh (1986) studied the management accounting practices of 68 small companies in Singapore. A company was considered small if it had less than S\$8 million invested in fixed operating assets. The respondents were all from participants in the Mandarin

Diploma in Business Studies classes organised by the Singapore Institute of Management during 1984 and 1985.

As to the awareness and usage of management accounting techniques, the respondents reported that budgeting was most widely used (53%), followed by breakeven analyses (41%), standard costing (38%), capital budgeting (37%), inventory models (32%), responsibility accounting (26%), relevant costing (24%), network analyses (13%) and, lastly, linear programming (9%).

51.7% of those who did not use any of the above techniques, although they were aware of them, claimed that the techniques were not applicable to them. 24.9% gave the reason as being that their present systems were adequate (24.9%), 11.9% stated that they did not use the technique because it was too costly to implement and 4.9% said that they were not convinced of its usefulness.

The survey noted that the qualifications of the respondent companies' staff had an impact on the use of management accounting techniques. It found that the degree of sophistication of a technique was positively correlated to the level of staff qualifications. In addition, it found that the better qualified the employees, the greater the number of techniques used.

Ghosh, Wan and Chung (1987) sent questionnaires to 750 randomly selected companies from all industries in Singapore. The questionnaires were addressed to those chief financial officers who were members of the Singapore Society of Accountants. 174 companies (or 23%) responded to the questionnaires.

Of these, 165 (95%) companies said that they used an operating budget as one of the control methods. All of them compared the actual results with the budget. 159 of the total respondents (or 91%) indicated that they used the comparison for performance evaluation purposes and 143 reported that deviations from budgets were acted upon. The study found that there were no significant deviations in practice among the various industries.

118 of the respondents (or 68%) had some sort of long term planning. Of these, 67 used a time frame of less than three years and 51 used a longer time frame.

130 (75%) of the companies indicated that they used cash budgeting. This practice is less prevalent among companies in the service industry.

Periodic income statements for periods shorter than a year were found to be the most important financial report required by management, as 172 companies reported that they prepared income statements more than once a year.

28 (or 16%) of companies reported that they used standard costing techniques for control fairly extensively, whilst another 54 used them partially. 99 companies (57%) used break-even analysis. 110 (63%) companies reported using the return on investment measurement as a management control technique and 140 (80%) used capital budgeting appraisal before authorising major capital expenditures.

Overall, Ghosh et al concluded that the survey results indicated a reasonable level of achievement by Singapore companies in terms of

financial control practices compared to Hong Kong and Taiwan. As the respondents were medium to large-sized companies, they inferred that such practices were considerably weaker in smaller organisations, to which category the majority of Singapore companies belonged.

The post-1980 era saw a greater awareness of management accounting techniques especially among the smaller companies which were previously apprehensive and reluctant to adopt modern management tools and which were also hampered by difficulties in understanding the English language and by inadequately qualified staff.

#### IV. Conclusions

The evidence gathered in this chapter highlighted the positive correlation of management accounting practices in Singapore with her industrial growth and development. In 1970, when UNIDO conducted the project to improve management accounting practices in the Singapore industry, it found that local companies, especially those which were Chinese-owned, were sceptical of modern management accounting techniques and were reluctant to divulge corporate information to outsiders. Management accounting techniques were mostly used by foreign-owned companies.

As the growth of the manufacturing sector gained momentum through the government's intensive efforts to industrialise the economy, management accounting slowly became more accepted, especially by local companies. Besides the emphasis on modern management techniques by the government to encourage companies to be more productive, the growing awareness of management accounting techniques may be attributed to the

production of more accounting graduates by the tertiary institutions where management accounting was taught, and also the maturity of the Singapore Society of Accountants which disseminated technical information through its journal and seminars. There were 807 members at the end of 1970. By 1987, it had increased to more than 5,000 with local university graduates accounting for the majority of the increase. The English language is taught in the schools and, as proficiency in the English language improves, it also facilitates the acquisition of new knowledge and information.

The manufacturing sector has continued to play an important role in Singapore's economic growth in the 1980s, and by 1986, accounted for more than 25% of Singapore's total gross domestic product. Small companies by the 1980s were found to be aware of, and using, modern management accounting techniques - a far cry from the 1960s and the early 1970s, when local companies, especially Chinese-owned, were averse to foreign management tools. This period is also characterised by the use of more sophisticated techniques compared to earlier years, especially with the wide-spread enhancement of computer power to capture and process information.

However, foreign-owned companies are still the main users of management accounting techniques although the gap may be narrowed in future. The members of the Singapore Society of Accountants exceeded 5,000 in 1985 and provided a considerable pool of qualified accountants to the industry. Besides this pool of expertise, the government's continued efforts to improve the quality of education of the people and the productivity of the economy in the face of intense competition from other newly-industrialised countries such as South Korea, Taiwan and Hong Kong, has meant that modern and better tools of management and technological innovation will have to be applied, and management accounting techniques are but one of the many tools that will gradually be accepted and applied in industry.

## CHAPTER 14

### THE ACCOUNTING PROFESSION IN SINGAPORE

#### I. Introduction

Stacey (1954), writing on the growth of the accounting profession in Great Britain, attributed it to the result of converging developments, such as the Industrial Revolution, concentration of population in towns, liberation of corporate enterprises, etc. The pursuit of commerce, trade and industry, particularly in larger towns, caused a need for competent persons with knowledge and ability to practice accountancy. It is no mere coincidence that, by and large, associations of accountants were formed in cities with extensive trading activities.

The first organised accounting society in Great Britain was established in Scotland in 1854, when the Society of Accountants in Edinburgh was formed and received its Royal Charter.

In England, the first societies, the Incorporated Society of Liverpool Accountants and the Institute of Accountants in London were founded in 1870 and were followed by the Manchester Institute of Accountants and the Sheffield Institute of Accountants in 1873 and 1877 respectively. These professional accounting bodies owed their existence to the efforts of practising accountants themselves to protect and develop the profession.

The birth of the Singapore accounting professional body, the Singapore Society of Accountants (SSA), was different in that the



impetus for its formation came from the government. The objective was to register and control accounting practice in Singapore through a national body or association by stipulating bye-laws, a code of ethics and the maintenance of high standards of accounting knowledge, skill and integrity.

## II. Development of the Accounting Profession in Singapore

No records are available to show precisely how and when the accountancy profession was first established in Singapore. Sufficient records are, however, available to show that the profession has a relatively long historical background in the Island. For example, one of the earliest accounting firms was Derrick and Company, which was established by Colonel Derrick in 1889.

George Alexander Derrick was born in Southampton in 1860, and was educated privately. He came to Singapore at the age of eighteen in the employment of the Eastern Extension, Australasia and China Telegraph Company. He joined the firm of Martin, Dyce and Company, general merchants, a year later as an assistant. The company had branches in Singapore, Java and the Philippines, and on that firm's failure in 1884, he wound up their Singapore affairs. He then commenced practice in 1889 and Messrs Derrick & Co., became one of the leading firms in Singapore. The firm liquidated several large local companies, was engaged by the government in connection with the investigation of the Tanjong Pagar Dock Company Ltd., prior to its expropriation by government, and was subsequently appointed one of the auditors on behalf of the government for the Tanjong Pagar Dock Board.

George Derrick was for many years the accountant of the Straits Trading Company and Derrick and Company were also the auditors of that company. The Ordinance at that time permitted this so long as they were elected by the members at the company's annual general meeting. Table A of First Schedule of the 1889 Companies Ordinance stated that the auditors could be members of the company (S.86) and the auditor could, at the expense of the company, employ accountants or other persons to assist him (S.93). Therefore, non-qualified persons or persons who were not properly trained could become auditors.

In 1905, Derrick and Company admitted H.R. Llewellyn as a partner, G.A. Derrick retired from the firm in 1915 and H.R. Llewellyn, in 1918.

G.A. Derrick was also a Justice of the Peace in Singapore, and he died on 19 July 1945 at the age of 85 (Who's Who, Volume IV, 1941-1950).

In 1935, the firm merged with the practice of Sir Henry McAuliffe, who established his practice in Penang in 1909 in the name of McAuliffe Davis and Hope.

In 1938, the name was changed to McAuliffe Turquand Youngs and Co., following the merger in the UK of McAuliffe and Turquand & Co. After World War II, 13 of the former British personnel returned to Singapore and devoted themselves to reconstituting the practice (Quarterly Account, E & W [UK]), July 1979).

Following the death of Sir Henry McAuliffe, the name of the practice was changed to Turquand Youngs & Co. The merger of Turquand Barton Mayhew and Whinney Murray of the UK, with Ernst & Ernst of the

US and their associated firms worldwide in 1979, brought about the formation of Ernst and Whinney, as it is presently called.

Prior to the 1920s, the firms of chartered accountants in Singapore were in the hands of the Europeans and they were intent on maintaining a closed shop. It was only in 1928 that the first Chinese chartered accountancy firm was established by Evan Wong, who was educated in Cambridge and trained in the UK.

He started in a one-desk room at Change Alley. It was a difficult task. No European company would come to the firm and the Chinese traders were mostly family-owned partnerships rather than companies, which neither needed nor desired accountants to examine their accounts. The big break came when the firm was given work from a local tycoon, Lee Kong Chian, to do all of the various Lee companies' business and it even arranged to have Lee Rubber Company Ltd. registered.

Up till then, the Chinese family enterprises were mainly partnerships which were not convinced that they should pay someone to have their accounts audited. Moreover, preservation of the secrecy of their business activities was important to them.

However, there were some progressive Chinese entrepreneurs like Lee Kong Chian and Tan Siak Kuang and, once they began registering their companies, others were more easily persuaded. The accounts were often in Chinese and these were translated into English. Because of Evan Wong's English education and training, Chinese businessmen employed the firm because it had the ability to deal with Europeans (Business Times, 1 October 1979).

The firm, Evan Wong, is today affiliated with Ernst & Whinney and it still audits the Lee group of companies, such as Lee Rubber Company Ltd., which it helped to incorporate more than 50 years ago. It was not until the arrival of the international firms after the Second World War that the development of larger practices began (SSA, Souvenir Journal, 1970).

With greater disclosure requirements imposed upon companies by successive legislation and with the imposition of income tax upon the enactment of the Income Tax Ordinance, 1948, the demand for accountants increased after the Second World War.

Accountancy became a popular course of study during the post World War Two era. Professional bodies and universities in Great Britain and Australia and, to a lesser extent, New Zealand and Canada, were the main sources providing accountancy education and training for Singapore students (SSA, Souvenir Journal, 1970). The preference for Great Britain was obvious because of Singapore's colonial ties and because Great Britain at that time was a major economic power and a leader in accounting practice and education. Australia's ties with Singapore have always been good. Because the profession there has a longer historical background, having been set up in the mid-nineteenth century (e.g. Australian Society of Accountants was formed in 1887, compared with New Zealand in 1905) and because of its close proximity to Singapore, it was a logical second choice. By that time, the Australian Society of Accountants was active in accounting education in the Asia-Pacific region, by conducting external examinations leading to admission to the Australian Society of Accountants.

### III. Australian Influence

Until 1950, no student was admitted to the examination of accountancy institutes in Australia other than British subjects who were residents of Australia. This policy was changed in response to Australia's commitment under the Colombo Plan, inter alia, to provide assistance in accounting education and training in the Asia-Pacific region.

At first, the number of Asian students who wished to obtain an Australian accountancy qualification was comparatively small. By 1962, approximately 1,600 students in the area were taking the Australian Society of Accountants' examination. They were mainly located in Malaya (650), Singapore (550) and Hong Kong (375). Some 125 students were sitting for examinations in other Asian countries and the islands of the Pacific. From the records of the Immigration Department, there were about 1,000 Asian students studying accounting in Australia under various arrangements, mainly in preparation for the examinations of the Society. About 400 of these students were enrolled in government educational institutions and 600 were studying at private colleges (Australian Society of Accountants, 1962).

By early 1961, it was clear that the organisation of the Australian Society of Accountants' examinations, which covered extensive geographical territories, was getting more administratively complex as the number of students opting for the examination grew larger and larger each year.

The Australian influence on the accountancy profession in Singapore and the Asia-Pacific thus entered a new phase. In the initial phase, her involvement was confined to preparing and examining students for the Society's examination. In this new phase, the thrust of the Australian government was aimed at the possibility of instruction in accounting being provided by local institutions and of the formation of local professional bodies. Under a Colombo Plan assignment, the Vice-President (Mr. L.A. Braddock) and the General Registrar (Mr. C.W. Anderson) of the Australian Society of Accountants in 1961 were asked to investigate these matters. The recommendations submitted to the Australian government took a new direction by advocating assistance to teaching institutions and developing local facilities for the study of accountancy, thus rendering unnecessary the system of external examinations operated by the Society. The Society played an important role in promoting the development of accounting education in South-East Asia, and its influence still prevails in tertiary institutions.

However, external accounting examinations are still a popular and important source of accounting education and the Chartered Association of Certified Accountants and its predecessor bodies have been active in conducting their examinations in the region since 1936.

#### IV. Causes of Governmental Control and Regulation

With no authoritative professional body in Singapore prior to 1963, the diverse professional and educational backgrounds of members of the profession meant that those who were UK-trained and qualified

adopted UK practice, while the Australian-trained and educated used Australian procedures and so forth. To boost Singapore's image as a financial and economic crossroad of South-East Asia, it was felt by the government that a national accounting body should be formed to regulate and control the practice of all accountants and to provide training and education facilities for people who aspired to be accountants.

In proposing the creation of a national professional accounting body, Dr. Goh Keng Swee, the then Minister of Finance, at the Second Reading of the Bill (Appendix 14-I) stated that:

There is no legislation providing for the control of the accountancy profession as in the case of lawyers, architects and doctors. Qualified members of recognised bodies practising in the State observe professional codes laid down by distant bodies which cannot, however, exercise control here. Again, unqualified accountants in practice are not bound by bye-laws and codes of ethics. Any malpractices among them are apt to bring the profession into disrepute. There is, however, a danger of having "mushroom" or "splinter" societies or associations of accountants being formed to admit persons of very low standards of accounting knowledge and skill. In these circumstances, the need for a local parent body control is evident.

At the same time, Dr Goh warned that :

It often happens that the professional associations, under the pretext of maintaining high standards, introduce unduly restrictive measures which have the effects of creating a tight closed shop. This is undesirable in two ways. First, an artificially created scarcity value for their services compels society to pay high rates for them. Second, talented people are denied adequate opportunities of entry into the profession and are hence restricted in the choice of career open to them. Members will agree that we do not want this to develop in the profession of accountancy as a result of regulation (Singapore Society of Accountants Bill, Second Reading, 27 June 1962).

#### V. Formation of the Singapore Society of Accountants (SSA)

The impetus towards the Bill referred to above began in June 1961

when the Vice President (Mr. Braddock) and the General Registrar (Mr. Anderson) of the Australian Society of Accountants visited Singapore on a Colombo Plan assignment to carry out a survey of the accountancy profession. The government took the opportunity of inviting them to study the feasibility of and to make recommendations for the formation of a national accountancy body to register and regulate the conduct of all accountants in Singapore.

Geographical proximity and the continued cordial rapport between the two governments were two reasons for the Singapore government to place the study in the hands of the two representatives from the Australian Society of Accountants. Also, the Society had been involved with accountancy education in Singapore and the Asia-Pacific region since the 1950s, which made it familiar with local needs.

Their recommendations resulted in the drafting of the Singapore Accountants' Bill, based very closely on the New Zealand Society of Accountants Act. Compared with Great Britain and Australia, the New Zealand accountancy society is relatively young. Like Singapore, the initiative for forming a New Zealand national accounting body came from the government. By a special statute of parliament in 1908, the New Zealand Society of Accountants was formed to promote the interests of accounting and to control and regulate the profession in New Zealand (Wasley, 1968). The 1908 Act merged the Institute of Accountants of New Zealand (set up in 1894) with the New Zealand Accountants and Auditors Association, and it was not until these two organisations joined forces by virtue of the Act that the accountancy profession achieved legal recognition (SSA Souvenir Journal, 1970). Due to the



limited size and resources of New Zealand, one national body was adopted to avoid duplication and to centralise control over the profession, unlike the UK and Australia, where the professions were more mature and the membership large enough to permit the existence of a number of professional bodies.

Since this was the first time such a Bill was proposed and because of its important impact on accountants and accounting practices in Singapore, the Bill was committed to a Select Committee by a resolution of the Legislative Assembly on 27 June 1962.

Advertisements inviting the public to make written representations on the Bill were published in the local English, Malay, Tamil and Chinese newspapers between 30 June and 3 July 1962. Publicity was also given through press releases and broadcasts over Radio Singapore. There were 21 written representations received and 22 oral evidences taken.

Many of these representations were from people who appealed for a clause to be inserted in the Bill, whereby existing practising accountants and persons authorised by the Colonial Secretary to be auditors under Section 134 of the Companies Ordinance, 1940, who might otherwise be unable to become members of the Singapore Society of Accountants, were permitted to continue their practice as auditors under the proposed Ordinance. Since it was not the intention of the Bill to deprive any person of his livelihood, two important amendments to the original Bill were adopted, namely, Section 24(5) which recognised those who were authorised as auditors by virtue of Section 134 of the Companies Ordinance, 1940, to be entitled to be registered

as public accountants, and Section 26, which permitted those who were in practice before 17 April 1962 as accountants, tax consultants or auditors to be registered as Licensed Accountants of the Society even though they did not possess the requisite qualification for admission. The Bill as amended was passed by the Legislative Assembly on 15 June 1963 (Yew, 1968).

The Ordinance came into operation on 13 December 1963 and on the same date, the Singapore Society of Accountants was incorporated.

#### VI. The Objectives of SSA

The Singapore Society of Accountants Ordinance, 1963, covers a broad spectrum of matters regarding the Society such as its constitution, rules, council and powers (both general and specific), etc.

The purposes of the Society, according to Section 6 of the Ordinance, are :

1. To register accountants and to regulate the practice of the profession of accountancy in Singapore;
2. To provide for the training, education and examination, by the Society or any other body, of persons practising or intending to practise the profession of accountancy in Singapore and elsewhere;
3. To determine the qualifications of persons for admission to membership in the Society and for registration under this Ordinance;
4. To grant or issue diplomas or certificates to members of the Society;

5. To promote, in any manner which the Society thinks fit, the interests of the profession of accountancy in Singapore;
6. To grant prizes and scholarships, to hold exhibitions and to establish and subsidise lectureships in universities and other educational institutions in subjects of study relating to accountancy or to students for that profession; and
7. To afford pecuniary and other assistance to members of the Society who are in need of any such assistance, and to the wives and children and other dependents of members and to the widows and children and other dependents of deceased members.

#### VII. The Council of SSA

The management and control of the Society are vested in the council. Its powers, general and specific, are explicitly laid down by Sections 17 and 18 of the Ordinance respectively. The members of the council were also specified by the Ordinance, which provided for 11 members. Three of them, the Accountant-General, a representative from the Ministry of Finance and a representative from the Department of Accountancy in the Singapore Polytechnic were statutory appointments, while the remaining eight, consisting of four public accountants and four registered accountants, were elected to office by the members. The representation from the public accountants and registered accountants was increased to eight members each by the Singapore Society of Accountants (Amendment) Act of 1970 to give a wider representation of members, as the membership had grown by 135% from 344 at the end of 1964 to 807 in 1970. In addition, the representative for the Singapore Polytechnic was deleted and replaced by the University of

Singapore when the Department of Accountancy was transferred to the latter at the end of the 1968/69 academic year.

The Accountants (Amendment) Act 1972 provided a council seat for a representative of the Nanyang University for the first time. This was a much delayed move as Nanyang University had taught accountancy education since 1956, but its graduates had difficulty obtaining professional recognition, for they were regarded as inferior to graduates of the Singapore Polytechnic and the University of Singapore. This move gave the degree course in accountancy conducted by Nanyang University a substantial boost. When Nanyang University and the University of Singapore were merged in 1980, the Accountants (Amendment) Act 1980, replaced representatives from Nanyang University and the University of Singapore with one representative to take the seat on behalf of the newly created National University of Singapore.

The council is empowered to make rules to govern the professional conduct of its members to prevent illegal and dishonourable practice (Section 32). There are provisions for the Investigation Committee and the Disciplinary Committees to look into complaints against members and to take action as appropriate. The powers of the Investigation and Disciplinary Committees are also laid down by the Ordinance.

# VIII. Memberships

	1964	1965	1966	1967	1968	1969
Public Accountants	121	134	146	152	165	190
Registered Accountants	127	166	210	260	309	371
Provisional Accountants	54	55	53	65	84	103
Licensed Accountants (L.A.)	42	43	42	41	36	34
Total	344	398	451	518	594	698

	1970	1971	1972	1973	1974	1975	1976	1977	1978
Public Accountants	207	213	241	251	273	254	277	303	320
Registered Accountants	452	543	614	734	876	1,064	1,256	1,425	1,574
Provisional Accountants	117	167	293	388	410	526	655	752	810
Licensed Accts (L.A.)	33	33	33	31	31	29	27	26	24
Total	809	956	1,181	1,404	1,590	1,873	2,215	2,506	2,728

	1979	1980	1981	1982	1983	1984	1985	1986
Public Accountants	345	381	404	449	487	513	544	574
Registered Accountants	1,791	2,083	2,260	2,612	3,015	3,413	3,538	3,805
Provisional Accountants	830	819	762	738	701	746	808	832
Licensed Accountants	24	24	21	21	19	19	18	18
Total	2,990	3,307	3,447	3,820	4,222	4,691	4,908	5,229

Under the Ordinance, members are classified into four categories. Public accountants are those who practise as auditors, registered accountants are non-public accountants who possess the pre-requisite qualifications and experience, while provisional accountants may have the requisite qualification but not the experience. Licensed

accountants made up a small and declining group as they are registered by virtue of the fact that they were already in practice by way of Section 134 of the Companies Ordinance, 1940, and did not possess the pre-requisite qualifications for admission to SSA.

As at December 1985, the qualifications of the members were as follows :

Local graduates	-	57.37%
UK	-	27.09%
Australia	-	12.76%
New Zealand	-	1.34%
India	-	1.20%
Canada	-	0.24%
		-----
		100%
		-----

In the UK category, the majority of the members are members of the CACA, followed by the Institute of Chartered Accountants in England and Wales, ICMA, the Institute of Chartered Accountants in Scotland and the Institute of Chartered Accountants in Ireland respectively.

Nearly 83% of the members in the Australia category are members of the Australian Society of Accountants with the remainder from the Institute of Chartered Accountants in Australia.

Those from Canada, India and New Zealand are members of the Institute of Chartered Accountants in their respective countries.

As at 31st December 1985, the number of students registered for the SSA-ACCA Joint Scheme Examination was 3,874. In December 1986, it

reached 4,673 and by September 1987, there were 5,177 students. With the course gaining popularity because of its international recognition and reputation, the number is expected to grow and the UK-qualified members of the Society are expected to maintain their second position in terms of members.

For the future, the membership will continue to expand and the major contributors will be graduates from the National University of Singapore (or Nanyang Technological Institute with effect from July 1987) and the ACCA. With the Singapore government's emphasis on expanding tertiary education, local graduates will make up the bulk of the members and will continue to play an important role in the development of the profession in Singapore.

#### IX. Committees

The Committees can be generally categorised as follows:

1. Administrative e.g. Membership Committee
2. Regulatory e.g. Investigation Committee and Disciplinary Committee
3. Technical e.g. Accounting and Auditing Standards Research Committee
4. Social e.g. 150th Anniversary Scholarship Committee and the Social Committee.

Although the powers and management of the Society rest with the council, the committees formed by the council play a significant role in helping to organise, implement and monitor the policies of the council.

From a humble beginning of four committees in 1964, the number kept increasing and reached a peak of thirty-eight in 1984 (see Appendix 14-II). This suggests :

1. The changing and increasing need to serve its membership which is increasing at a healthy rate;
2. The sophisticated technical development and complexity of modern businesses which demand a greater degree of awareness and education of professional accountants;
3. Complexities in administration as membership increases;
4. The growing emphasis on the responsibilities of the accounting profession to society as 'corporate citizens';
5. The importance the accounting profession plays in the growth of accounting education which entails close liaison with tertiary and other educational institutions; and
6. The need to work closely with the government and commercial organisations.

## XI. Professional Recognition

### 1. General

To maintain a high standard of professional proficiency, the first council was entrusted with the important function of determining the qualifications acceptable for admission to the Society. With the approval of the Minister of Finance, graduates and members of the following bodies were eligible for admission to the Society (Yew 1968):-

- A. Association of Certified and Corporate Accountants (later renamed the Chartered Association of Certified Accountants);



- B. Australian Society of Accountants;
- C. Institute of Chartered Accountants, Canada;
- D. Institute of Chartered Accountants, Australia;
- E. Institute of Chartered Accountants, England and Wales;
- F. Institute of Chartered Accountants, India;
- G. Institute of Chartered Accountants, Ireland;
- H. New Zealand Society of Accountants;
- I. Institute of Chartered Accountants, Scotland; and
- J. School of Accountancy, Singapore Polytechnic.

The list was later extended to include the School of Accountancy, University of Singapore, when the latter in 1968 took over the teaching of accountancy from the Singapore Polytechnic and upgraded the course to a degree course.

On 15 October 1971, The Singapore Society of Accountants (Accountant No.2) Rules, 1971, recognised for admission to membership of the Society, the Bachelor of Commerce (Accountancy) degree conferred by the Nanyang University under the new curricular structure. It was also decided to accommodate graduates who qualified under the old curricular structure, subject to their passing a qualifying examination.

In 1972, the council stipulated that the qualifying examination was to include examinations in Auditing, Taxation and Accounting which would be the same as those for third year students of Nanyang University and, to help Licensed Accountants to be upgraded to the status of public accountants, they were to be allowed to sit for the same subjects as the Nanyang University graduates (Singapore Society

of Accountants, Annual Report & Accounts, 1972).

The first examination was held in March 1973. The results were poor, to say the least, especially for the Licensed Accountants and in the last year of the examination in 1975, none of the candidates passed.

In 1980, the Bachelor of Accountancy from the School of Accountancy, National University of Singapore, was included in the list of recognised qualifications following the merger of the Nanyang University and the University of Singapore in August 1980. With effect from July 1987, the School of Accountancy is physically located in Nanyang Technological Institute and the council representative clause was duly amended to reflect this change.

In 1981, Associates and Fellows of the Chartered Institute of Cost and Management Accountants (ICMA) of the United Kingdom were included in the list of recognised foreign qualifications and, provided they satisfy the experience criteria laid down in the rules, they will be admitted as Registered Accountants. Those who do not have the requisite experience can apply to be Provisional Members. However, an ICMA member may apply to be a Public Accountant subject to passing four subjects within a five-year period. The subjects set by the Society are Auditing, Company Law, Taxation and Advanced Financial Accounting. Subjects passed would be credited (Singapore Society of Accountants, Annual Report and Accounts, 1981).

In 1966, the Malaysian Association of Certified Public Accountants made an application for inclusion in the list but so far, formal recognition has not been forthcoming (Singapore Society of Accountants, Annual Report and Accounts, 1966).

## 2. Recognition of SSA

The recognition of foreign professional bodies permits geographical mobility, whereby foreign accounting firms and accounting professionals can establish themselves in Singapore, thus lending their skills and expertise to economic progress in Singapore and helping her to realise her ambition to be the financial hub of South-East Asia.

However, efforts to obtain reciprocal recognition of local accounting qualifications have been unsuccessful in spite of the fact that the accounting examinations conducted by the local educational institutions in Singapore since 1961 have been supervised and vetted by eminent external examiners. Many of the lecturers at the university are members of these prominent foreign professional bodies and admission requirements to the School of Accountancy are very stringent.

The Society's concern for a reputable professional body and recognition can be inferred from its active co-operation with the local educational institutions. The council in 1965 recommended that the Society play a greater role in the development of the accountancy courses run by these institutions (Singapore Society of Accountants, Annual Report and Accounts, 1965). In 1964, a representative from the Society helped to examine the accounting degree syllabus. Similar efforts were made in 1969 with the accounting degree course syllabus conducted by the University of Singapore. In 1972, a study by the Society included both the University of Singapore and Nanyang University with a view to assist in planning supplementary post-qualifying education. Unfortunately, in spite of all these efforts, no foreign professional bodies yet recognise graduates from the National University of Singapore (and Nanyang Technological Institute as from July 1987) and its predecessors, the School of Accountancy, Singapore Polytechnic, the University of Singapore and Nanyang University.

### 3. SSA - ACCA Joint Scheme of Examination : An Alternative Recognition

In 1981, the Society negotiated with the Chartered Association of Certified Accountants (ACCA) on a SSA-ACCA Joint Scheme of Examination in which Company Law and Taxation at Level 2 and Taxation and Tax Management at Level 3 would be localised since most of the Singapore members of ACCA would be practising in Singapore. The UK examinations were found to be inadequate and only partially tested an accountant's competence to work in Singapore (Singapore Society of Accountants, Annual Report and Accounts, 1982). On 1 August 1983, an agreement on a joint scheme of examination was signed with ACCA, and the joint examination began in June 1984. The two bodies have a common exemption and admission policy, and all students who complete the joint scheme examination are eligible to be members of either or both of the SSA and the ACCA.

The overall performance of candidates who sat for the first Joint Scheme of Examinations held in 1984 is shown in the following table :-

Total number of students listed : 1,806

Level 1	:	Total	1.1	1.2	1.3	1.4	1.5
Sat (No)	:	817	337	361	325	338	271
Passed (%)	:		47	33	32	36	30
Level 2	:	Total	2.1	2.2	2.3	2.4	2.5A 2.5B
Sat (No)	:	847	194	227	246	264	10 146
Passed (%)	:		42	54	62	21	10 61
			2.5C	2.5D	2.6	2.7	2.8 2.9
Sat (No)	:		23	0	329	91	182 198
Passed (%)	:		26	0	30	34	25 47
Level 3	:	Total	3.1	3.2	3.3	3.4	
Sat (No)	:	142	118	119	120	120	
Passed (%)	:		28	39	52	43	

(Source : Extracted from The Singapore Accountant, September/October 1984).

For the three local variant papers, namely, Paper 2.3 (Taxation), Paper 2.2 (Company Law) and Paper 3.3 (Taxation and Tax Management), the candidates registered some of the best results in terms of the number of passes. The scheme is supervised by an external Inspector from the ACCA. To assist candidates to prepare for the examinations, the Society opens its library facilities to the SSA/ACCA Joint Schemes students (The Singapore Accountant, September/October 1984) and conducts intensive revision courses for students preparing for the examinations.

Graduates of the National University of Singapore and Nanyang Technological Institute, School of Accountancy, are exempted from Levels 1 and 2 and only have to sit for the final part. This is tantamount to partial recognition of the local degree course. The Joint Scheme Examination provides a convenient means for local graduates to obtain recognition by overseas professional bodies via the ACCA. However, it is no real solution to the problem of overseas recognition of local graduates. The lack of such recognition may result in the university's accountancy course being less appealing to locals than an internationally recognised qualification such as the ACCA, which carries more prestige.

On 19 March 1987, the Society entered into an agreement with the Association of Accounting Technicians (UK) to introduce a joint examination to train accounting technicians. Such technicians will support and complement the work of professional accountants.

#### XI. Professional Pronouncements

Although SSA was formed in 1963, in its first seven years it did not issue any professional pronouncements on accounting standards or guidelines. The reason for this lack of activity can be explained by the activities of the committees established by the council between 1963 to 1968. The efforts of the Society appeared to have been geared towards :

1. Formulating internal regulations and guidance for members.

In this context, the first three years saw the Rules Committee indulged in drafting rules and etiquette guidelines for the Society. On 19 June 1965, the Accountants Rules, 1965, were adopted at an extraordinary meeting of members and, in the same year, the Singapore Society of Accountants (Amendment) Rules, 1965, were issued. These were aimed at helping the council carry out their duties and functions more speedily and efficiently (Singapore Society of Accountants, Annual Report and Accounts, 1964). In 1966, the "Public and Etiquette Bye-Laws" were issued to the members.

2. Professional development of members.

The Education Committee was extremely busy in the initial period of the Society's existence. Its first major project, in 1964, was to conduct a series of lectures for the benefit of members. In 1965, a series of lectures by prominent persons was conducted. In 1966, the committee was responsible for organising the First Singapore Accountants Conference, seven lectures on Income Tax and a seminar on "Introduction to Electronic Data Processing". In the same year, the Education Committee recommended that a library be set up (Singapore Society of Accountants, Annual Report and Accounts, 1964, 1965 & 1966).

The SSA's journal, the Singapore Accountant, was launched in 1966 in addition to the News Bulletins and circulars issued to keep members informed.



### 3. International affiliations and publicity.

The Society was invited to the Fourth Confederation of Asian and Pacific Accountants Conference in 1965. The council in the 1964 Annual Report stated that "this will provide a good opportunity to publicise the Society" and at the conference, made a bid to host the next Conference in 1967. It eventually lost the bid to New Zealand. However, at the 1967 Conference, Singapore was unanimously elected to host the Sixth Conference of Asian and Pacific Accountants jointly with Malaysia in 1970.

The need to provide guidelines to members in order to maintain and improve auditing standards of members was recognised by the council with the formation of the Bulletin on Auditing Standards Committee in 1968. The committee, aimed at formulating a bulletin on auditing standards based on the Companies Act, 1967, comprised representatives from accounting firms. The committee started to work on two bulletins, "Standard of Presentation of Accounts in Compliance with Requirements of the Companies Act, 1967" and a separate bulletin on "Auditors Reports and Qualifications" (Singapore Society of Accountants, Annual Report and Accounts, 1968). In 1969, this committee was renamed Auditing and Accounting Standards Research Committee. The Society's first professional pronouncements in the form of Bulletin No.1 "Standards of Disclosure in Financial Accounts" and Bulletin No.2 "Auditors Reports and Qualification" were issued in 1970. Bulletin No.1 was prepared with the assistance of the Institute of Chartered Accountants in Australia and the Institute of Chartered Accountants in Canada. Due to the fact that the Companies Act, while containing extensive requirements as to the matters to be disclosed in the

accounts, does not prescribe any standard method of giving the true and fair view required, the Bulletin sought to augment the requirements of the Act with recommendations on what is regarded as best practice. In so doing, both the validity of accounting principles and the extent of disclosure in the financial statements were emphasised.

Bulletin No.1 (with amendments since 1970) has now been renamed Recommended Accounting Practice No.1, in short R.A.P. 1. These recommendations are not mandatory, in that members are not legally bound to follow them.

Bulletin No.3 on 'Accountant Reports for Prospectus' and Bulletin No.4 on the 'Auditors Study and Evaluation of Internal Control' were issued in 1971 and 1974 respectively.

In 1975, SSA joined the International Accounting Standards Committee (IASC). This marked an important event in the development of accounting practice in Singapore, for the International Accounting Standards (IAS) were adopted as Singapore Accounting Standards (SAS).

The Auditing and Accounting Standards Research Committee was responsible for reviewing, making recommendations on any amendments, and the preparation of exposure drafts based on the standards issued by IASC. In 1977, the Auditing and Accounting Standards Research Committee was split into the Accounting Standards Committee and the Auditing Standards Committee. The council is empowered to accept the recommendations or to make such amendments as deemed necessary. It can exempt certain companies or make it mandatory for all companies to comply with standards.

It has been argued by Dev (1985), that compliance with International Accounting Standards is desirable, but that this would not be comprehensive enough to suit the diverse needs of each country, which arise because of different political, social and legal environments. On the other hand, countries without accounting standards have access to the pooled experience of the IASC so that the cost of introducing the standards would be much less than in those countries (e.g. USA and Canada) which conducted their own research and experimentation.

The Accounting Standards Committee reviews each new IAS, focusing mainly on its applicability to Singapore's conditions and laws. The committee then proposes to the council the issuance of the IAS as an exposure draft to the members for at least six months. During this period, seminars are normally held to discuss the draft. Comments received from these seminars and other members are reviewed and evaluated by the committee, which will only recommend the adoption of the IAS when it is reasonably assured of its suitability and practicality. In certain cases, guidelines or modifications are prepared and issued together with the IAS to enable members to have a good understanding of the contents and application of the IAS. The council then sets a date for compliance with the IAS (The SGV Group, 1984).

Although the United Kingdom has a longer accounting historical background than most countries, it published its very first accounting standard, Statement of Standard Accounting Practice No.1 (SSAP 1) in 1971. Singapore was a mere six years behind.

Table of IASs adopted as SASs

<u>IAS No.</u>	<u>SAS No.</u>	<u>Effective for financial periods beginning on or after</u>
1	1	1.1.77
2	2	1.1.77
3	3	1.1.77
4	4	1.1.77
5	5	1.1.82*
6	-	NOT APPLICABLE
7	7	1.1.79
8	8	1.1.81
9	9	1.1.81
10	10	1.1.81
11	11	1.1.83
12	12	1.1.84
13	13	1.1.83
16	14	1.1.84
17	15	1.1.85
18	16	1.1.85
19	17	1.1.85
20	18	1.1.85
21	20	1.1.86
22	22	1.1.87
23	19	1.1.86
-	6	1.1.83
24	21	1.1.87

\* Originally supposed to become effective from 1.1.80

Although the IASs are the forerunners to SASs, the Accounting Standards Committee is prepared to issue standards that are outside the IASC's agenda, for example, SAS No.6 on Earnings per share.

The International Accounting Standards and overseas professional bodies have clearly had considerable influence over the development of accounting standards and practices in Singapore. The Society, being relatively small compared with professional bodies in the UK, USA and Canada, is continuously observing developments overseas, as they provide a constant flow of ideas for the Society to adapt to the local environment. Affiliations with international and regional professional bodies, such as the Confederation of Asian and Pacific Accountants (CAPA) in 1964, the International Accounting Standards Committee (IASC) in 1975, the ASEAN Federation of Accountants (AFA) in 1977 and the International Federation of Accountants (IFAC) in 1975 also help to enhance this effort.

Of these international accounting professional bodies, the IFAC appears to have a significant influence on accounting standards in Singapore, as manifested by the adoption by SSA since 1977 of IFAC accounting standards and guidelines as the operational model for Singapore. Among the different objectives of CAPA and AFA is that of narrowing the gap between different accounting practices among its members.

According to Choi (1979), in its attempt at regional harmonisation, AFA issued Exposure Draft 1, "Introduction to ASEAN Accounting Standards" and Exposure Draft 2, "Fundamental Accounting Principles". As a first step, AFA attempted to formalise those

accounting practices and principles that are common to all countries in the region and divergent accounting principles are identified with the aim of reconciling such differences.

Unfortunately, neither of the Exposure Drafts were very well received by the AFA members. This was evidenced, for example, by the unsatisfactory responses of only two letters of comment received by AFA on its request for comments from members. Wilkins (1983) observed that there was a lack of co-ordination and communication between AFA committees and AFA members and between AFA members and their own national professional accounting bodies. With its lack of organisation, resources and allies, AFA's harmonisation effort has proved ineffective. According to Wilkins (1983) there appeared to be divergent views on the harmonisation process. One approach is to develop unique ASEAN accounting standards to suit its members' needs. The other is the adoption of the International Accounting Standards Committee pronouncements by all member nations.

While the idea of harmonisation seems attractive, the application of harmonisation in ASEAN, as elsewhere in the world, is not really suitable. With the exception of Thailand, ASEAN countries were formerly under foreign rule. Accounting practices in the Philippines and Thailand are largely patterned after the US. Malaysia, Singapore and Brunei are influenced by the British, while Indonesian accounting practices are influenced by the Dutch and, more recently, by the US. The historical influences are also felt in the accounting education systems in ASEAN. Furthermore, each member country has different laws and regulations with a different impact on financial reporting standards, types of accounting records to be maintained, the form and

content of financial statements to be filed, reporting periods to be observed, and the manner of recognising revenue and expense for tax purposes. Environmental differences also hamper harmonisation efforts. Public ownership of corporate equities in countries like Singapore and Malaysia may require financial reporting and disclosure principles different from those applicable to predominantly family-owned corporate interests as in Indonesia and Thailand. Similarly, agrarian economies such as Indonesia and Thailand may require accounting systems that differ from those utilized by an economy based largely on trade and financial institutions, such as Singapore (Choi, 1979).

There have been no renewed efforts by AFA for harmonisation since the last attempt in late 1970s. Although member countries such as Singapore have adopted the International Accounting Standards and some like Malaysia and Brunei are in the process of doing so, there are other members such as Indonesia which have not issued any formal accounting standards.

## XII. Enforcement of Professional Standards and Statutory Disclosure Requirements

### 1. General

The recommendations and standards of the Society are not codified as part of the Companies Act. As such, they are not mandatory and members are not legally bound to follow them. However, being members of the national body, compliance with the Society's recommendations and standards is encouraged.

In the absence of any accounting pronouncement, the accounting standards set by certain overseas bodies, mainly in the United Kingdom and Australia, are often referred to for guidance in determining the best accounting practice (The SGV Group, 1984).

The council has set up committees to monitor compliance with professional pronouncements and the Companies Act. Cases of non-compliance are referred to the parties concerned for attention and rectification. Serious cases, such as fraudulent manipulation or disclosure, can be referred to the Investigation Committee which will then decide whether or not the case should be referred to the Disciplinary Committee.

## 2. Auditing Standards Committee

The first such committee formed was the Auditing Standards Committee in 1969. This was prior to the issuance of any professional pronouncements by the Society. The thrust of the committee then was to maintain high professional standards with a continuous review of gazetted and published accounts. When accounts did not comply with accepted accounting principles or with the Companies Act, 1967, the attention of the auditors concerned was drawn to the fact (Singapore Society of Accountants, Annual Report and Accounts, 1969). The review committee has no power other than to draw non-compliance to the auditors' attention, but its establishment signified an important move towards maintaining uniformity and conformity in practice.



In 1971, the committee reviewed the published and gazetted reports and accounts of 19 companies. Where improvement in presentation was necessary or defects observed, the attention of the auditors concerned was directed (SSA, Annual Report and Accounts, 1971). The reason why the auditors were notified was due to the fact that they are members of the Society and therefore under the jurisdiction of the Society. The company, on the other hand, does not have any legal relationship with the Society. Thus, any proposals would have to be conveyed through its members, the auditors.

### 3. Financial Statements Review Committee

At the 1973 Annual General Meeting of the Society, the Auditing Standards Committee was renamed the Financial Statements Review Committee operating under the same terms of reference, namely, to safeguard and improve auditing standards and to consider cases of apparently unsatisfactory professional work, excluding those properly referable to the Investigation Committee, and to assist members with audit problems. In relation to published accounts and prospectuses, the committee seeks to ensure compliance with Companies Act requirements, bulletins issued by the Society and with the best accounting practices (SSA, Annual and Report and Accounts, 1973). Out of approximately 30 publicly listed companies incorporated in Singapore that were reviewed, the auditors of 20 of these Companies were contacted by the committee for apparent failure to comply with the Act or Bulletin No.1.

In 1974, the Financial Statement Review Committee's terms of reference were revised as follows :-

- A. To enhance the standards of the accountancy profession in Singapore by assisting members to ensure that their responsibilities with regard to financial statements are discharged in compliance with statutory requirements and with the published recommendations of the Society. This is to be done by a continuous review of financial statements and by drawing the attention of the members responsible for their preparation, or for reporting on them, to any areas in which the presentation or content appears to fall short of such compliance.
- B. To respond appropriately to questions and problems submitted to the Society by members who may have difficulty in determining the manner in which such compliance is to be achieved.
- C. To submit an annual report to the council and, where appropriate, to refer special items of difficulty or interest to the council.

The scope of review included accounts published in the press and the government gazette (principally in compliance with the Housing Developers Control and Licensing Act) as well as published accounts of public companies and accountants' reports for prospectuses.

The general standards of financial reporting, according to the committee in 1974, were extremely poor, for there were many cases of non-compliance with statutory requirements and recommendations of the Society. However, the reporting standards of public company accounts showed a marked improvement over those of previous years (SSA, Annual Report and Accounts, 1974).

In 1975, the committee noted that in a number of areas there was frequently a lack of compliance with the Ninth Schedule of the Companies Act (SSA, Annual Report and Accounts, 1975). In 1976, the largest cause for comment was the failure to comply with the Society's recommendations outlined in "Standards of Disclosure in Financial Accounts" (Bulletin No.1) in respect of public companies. For the gazetted companies, the most comments were on failure to comply with the provisions of the Companies Act (SSA, Annual Report and Accounts, 1976).

On 1 January 1977, IAS 1 to 4 were adopted as SAS 1 to 4 respectively. A circular issued by the Society in February 1978, entitled "Compliance with Accounting Standards", stated that with effect from 1 January 1978, it would be mandatory for all members of the Society to observe Singapore Accounting Standards in respect of all accounting periods commencing on or after 1 January 1977 (see Appendix 14-III).

In the Financial Statements Review Committee's review of financial statements in 1980, they noted many shortcomings in the following areas (SSA, Annual Report and Accounts, 1980) :

- A. No depreciation provided for buildings (e.g. departure from IAS 4 or SAS 4 on Depreciation Accounting).
- B. Qualification by the auditors when there is no need for qualification (in particular, where lack of evidence such as non-receipt of debtors' confirmations and non-sighting of title deeds, can be satisfied by performance of alternative procedures, no qualification may be necessary).

- C. Accounts not published in full in the government gazette (especially with the notes to the accounts and the auditor report omitted).
- D. Contingent liabilities (in which there was no statement indicating whether these were secured or otherwise as required by the Ninth Schedule of the Companies Act).
- E. Prior-year adjustments (in which under or over-provision of income tax in the previous year was treated as a prior-year item).
- F. Income tax (in particular, there was no disclosure as to why income tax charged in the accounts was materially different from the amount derived by applying the statutory income tax rate to profit before taxation).
- G. Accounting Policies (in which some of these policies stated in the accounts were not relevant. For example, policies regarding recognition of anticipated losses when in fact there were no such losses).

It was pointed out by the Annual Report Award Committee in 1981, that out of a total of 268 listed companies, about 90 did not disclose anything over and above the minimum requirements and there is still further scope for improving corporate disclosure in Singapore (SSA, Annual Report and Accounts, 1981).

Some of the common areas of non-compliance which the Financial Statements Review Committee noted in their report in 1982 were (SSA, Annual Report & Accounts, 1982) :

- A. Insufficient care and attention being given to the precise wording of auditors' reports. In particular, the committee felt that 'exception' opinions were being given in circumstances where disclaimers of opinions would have been more appropriate.
- B. No mention in the audit report where a subsidiary's accounts were neither consolidated with nor attached to the holding company's accounts as required by the Companies Act.
- C. Inventories in the balance sheet not split into the appropriate categories such as materials, work in progress and finished goods as required by SAS 2 (or IAS 2).

By 1983, the Financial Statements Review Committee was the largest committee in the Society (SSA, Annual Report and Accounts, 1983) in order to enable it to cover more companies' accounts. By then, six more IAS had been adopted as SAS.

In the 'Report on Findings of the Financial Statements Review Committee' for the three years ended 31 March 1983 (see Appendix 14-IV), under non-compliance with Companies Act, the committee found that failure to disclose whether contingent liabilities were secured or unsecured was frequently breached.

For non-compliance with Statements of Accounting Standards, the following defaults were frequently found :

- A. Accounting policies relating to :
  - 1. Foreign currency transactions especially, on the treatment of resulting gains or losses;
  - 2. Recognition of income and losses on long-term contracts and properties under development;

3. Valuation of investment including recognition of income and diminution in value;
  4. Amortising of preliminary expenses; and
  5. Basis of accounting used in the accounts.
- B. Inventory not classified into major categories;
  - C. Equity accounting not done for results of associated company;
  - D. Each major class of depreciable assets not disclosed;
  - E. Useful lives or depreciation rates for each major class of depreciable assets not disclosed;
  - F. Depreciation charge for the year of each major class of depreciable assets not disclosed;
  - G. Depreciation not provided for buildings;
  - H. Summary of interest rates, repayment terms, covenants, subordination, conversion features and amounts of unamortised premium or discounts of long-term loans not disclosed;
  - I. Statement of changes in financial position not prepared;
  - J. Profit on sale of fixed assets and investments incorrectly treated as extraordinary items; and
  - K. Immaterial items treated as prior-year adjustments.

On failure to adopt best practices set out in RAP 1, the most frequent breaches were :

- A. Reserves not distinguished into distributable and non-distributable reserves;
- B. Date and source of valuation of fixed assets not disclosed in the accounts; and
- C. Basis of amortising and valuation of goodwill and deferred expenditure not stated in the accounts.

The most common default was non-compliance with Statements of Accounting Standards, followed by failure to adopt RAP 1 and breaches of the Companies Act disclosure requirements respectively.

The reviewing workloads are split into three sub-committees, and each deals separately with published accounts, prospectuses and private limited companies' accounts and gazetted accounts. It is interesting to note from the Society's 1984 Annual Report that the Society's Secretariat maintains a record of instances of non-compliance with the requirements of the law and accounting standards promulgated by the Society. Although appropriate action may be taken where members have failed in three instances to comply with these requirements, they may also be taken to task in respect of one single serious instance of non-compliance at the Committee's discretion (SSA, Annual Report and Accounts, 1984).

The FSRC draws the attention of members to what it considers to be deficiencies noted in the financial statements and invites their comment and explanation. Depending on the frequency and seriousness of the defaults, appropriate action is taken by the committee against the member. This may take the form of counselling, attendance at seminars or in more serious cases, reference to the Investigation Committee (SSA, Annual Report and Accounts, 1986/87).

The number of financial statements reviewed by the FSRC in 1985 and 1986 was as follows :

	1986/87	1985/86
A. Public listed companies	60	53
B. Prospectuses and private limited companies	95	32
C. Gazetted and other accounts	40	33
	---	---
	<u>195</u>	<u>118</u>

The number of member firms referred to for counselling by the Public Accounting Practice Committee in 1986/87 was three and in 1985/86 it was one. However, for both years, the FSRC reported favourably that most of the deficiencies pointed out previously were made good in the following year (SSA, Annual Report and Accounts, 1985/86 and 1986/87).

The Financial Standards Review Committee plays an important watchdog role to ensure compliance with the requirements of the Companies Act, the Society's promulgations and generally accepted accounting principles and practices in Singapore. Its lack of punitive powers does not undermine its role as its recommendations usually have the endorsement of the council, which has the authority to take the appropriate action.

#### A. Annual Report Awards

The idea of conferring annual awards for the best set of published accounts each year, thrown open to all companies listed on the Stock Exchange, was proposed by the predecessor of the Financial Standards Review Committee, the Auditing Standard Committee, in 1972. The then Stock Exchange of Malaysia and Singapore offered to donate a trophy and a replica (SSA, Annual Report and Accounts, 1972).



The objective of the awards are (Boydell, 1974) :

- A. To encourage the presentation and distribution to proprietors, employees, and to the public generally, of adequate financial and other information regarding a business enterprise in a form which those without business training can readily understand.
- B. To encourage the development and use of valid and objective measures of company performance.
- C. To establish a better relationship between employers and employees by disseminating facts and financial results, thus creating in employees a pride in the products and services they provide.

A good financial report is not confined to disclosure of economic information but also includes information on the corporation's social responsibility. Therefore (Boydell, 1974), information additional to that required by law is necessary to promote an understanding of competitive business enterprise. It is not enough that an annual report complies with the relevant statutes, for good practice should set the pattern which statutes follow. What is needed in the annual report in addition to the statutory requirements, is disclosure in readable, concise and specific language of the organisation's operations and prospects, and the avoidance of the presentation of irrelevant information under the guise of disclosure.

The Annual Report Awards Committee also comments on the principal deficiencies observed when judging the reports. This effort supplemented the endeavours of the Financial Standards Review Committee. However, their objectives are different. The Financial Standards Review Committee has a watchdog role to monitor compliance

with disclosure requirements of the Companies Act, professional pronouncements and generally accepted accounting principles and to recommend appropriate remedial actions to the council for any serious breaches. The Annual Report Awards Committee, on the other hand, is not a watchdog committee but one set up to encourage good reporting practices where the ambit of disclosure goes beyond compliance with statutes, professional pronouncements and generally accepted accounting principles. Therefore, its function is to select the accounts that give the best quantitative and qualitative information to the users of the annual report with the ultimate aim of improving the corporate reporting standards in Singapore.

#### XIII. The Accountants Act, 1987

In July 1987, The Accountants Bill was introduced and passed by parliament. This is the first major overhaul of the accounting profession in 25 years. The proposed Accountants Act, 1987, will replace the existing legislation of 1963.

The accounting profession in Singapore, according to the Bill, will be governed by two separate bodies. The Bill provides for the setting up of a watch-dog body, the Public Accountants Board, which will register accountants and deal with disciplinary matters as well as regulating professional conduct.

The other existing governing body is the SSA, which will soon be restructured and renamed the Institute of Certified Public Accountants of Singapore. The Institute will deal with professional matters and promote professional interests. Currently, both sets of functions are

handled by the SSA.

The new Act will bring the Singapore accounting profession in line with the other professions such as engineering and architecture.

Members of the Institute are given the designation of Certified Public Accountant. Currently, non-practising members are given the designation of Registered Accountant. According to the President of the SSA, this tends to convey the wrong impression that they are not as fully qualified as public accountants who are designated Public Accountants of Singapore (PAS) (Business Times, 31 July 1987).

The members of the proposed Public Accountants Board will consist of :

1. Accountant-General.
2. Auditor-General.
3. A member to be appointed by the government from the Nanyang Technological Institute or the National University of Singapore.
4. Seven members are also to be appointed by the government, of whom three shall be on the nomination of the council of the Institute.

To deal with disciplinary matters, the Board can form one or more inquiry committees comprising four certified public accountants and a lay person.

The government will appoint a Registrar to the Board who, among other things, will prepare and publish in the Gazette a list of all registered accountants. The Board will also arrange examinations for persons to qualify for registration as public accountants.

The Institute, charged with the task of promoting the interests of the profession, will determine a person's qualifications for admission, grant prizes and scholarships, hold exhibitions and subsidize lectureships in educational institutions. It can also issue diplomas and certificates.

The Bill is expected to become law either at the end of 1987 or early 1988.

#### XIV. Conclusions

The growth of the SSA is attributable to the popularity of the accounting profession brought about by the phenomenal economic growth enjoyed by Singapore since the 1960s.

Membership has increased every year since its inception and this trend is expected to continue as the output of graduates from the School of Accountancy continues to grow.

Initially, the committee structure reflected the efforts of the Society to get its organisation on a sound footing. From the 1970s onwards, social awareness and efforts to keep members abreast with professional and technical developments saw the number of committees gradually being increased.

The first local Accounting Standard was issued in 1977 and since then many of the IAS have been adopted.

On the international front, the SSA's problem since inception is the recognition of its members. To date, it has not been successful. The joint SSA-ACCA examination scheme is one measure to overcome this but one shortcoming is that the certificates for this professional examination are issued by the ACCA. In reality, what has changed is the inclusion of local content in the law and tax papers; but in substance, little else. Where most professional bodies are trying to maintain a closed-door policy, the problem of reciprocal recognition is far from over.

The SSA's influences on corporate reporting operate mainly through its professional pronouncements such as SASs, Bulletins, Recommended Accounting Practices (RAPs) and Circulars. Committees such as the Financial Statements Review Committee and the Annual Report Awards Committee enhance this effort by ensuring compliance.

Overall, given its short history, the SSA has played an indispensable role in the accounting profession in Singapore by maintaining the spirit and letter of the parent legislation, the Singapore Society of Accountants Ordinance of 1963, that gave birth to it.

## CHAPTER 15

### THE DEVELOPMENT OF THE SECURITIES INDUSTRY AND STOCK EXCHANGE OF SINGAPORE

#### I. Historical Background

Singapore was founded by Sir Stamford Raffles as a trading outpost of the East India Company in 1819. The Peninsula of Malaya with its vast natural resources, particularly rubber and later tin, attracted much venture capital from England. This was also encouraged by the introduction of the 1857 Indian Joint Stock Companies Act which permitted limited liability companies to be set up by registration in the Straits Settlements to which Singapore, Malacca and Penang belonged.

Many British companies were listed in the London Stock Exchange to exploit the natural resources of the region, and even before the start of the twentieth century, there were transactions by stockbrokers in Singapore in British listed shares (Stock Exchange of Singapore, Fact Book 1985). Thus, stockbroking came to Singapore and Malaysia partly as an accessory to British corporate enterprise in the plantation and extractive industries in Peninsular Malaysia in the late nineteenth century. The sharebrokers provided supporting services and facilities for the purchase and sale of shares, especially in British rubber and tin companies. The characteristics of purely local companies were that they were usually family-owned and were either sole-proprietorships or partnerships.

However, it was not until the rubber boom in 1910 that sharebroking became a major activity in Singapore. The birth of the securities industry can be traced to the Arcade, Singapore's first shopping complex, built in 1908. The building, which has since been demolished, was located at the heart of the business centre in Raffles Place facing the sea-front at Collyer Quay. The Arcade became a focal point for sharebrokers, with transactions conducted in a little room on the ground floor, in a bar where business was mixed with pleasure, and along corridors and pavements around the Arcade.

Shares were bought and sold by sharebroking firms in the London market through local intermediaries. Shares bought were delivered to clients on arrival of the scrips, usually after a lapse of five to six weeks, and shares sold had to be delivered to the London brokers through local intermediaries. The sharebroking firms also conducted transactions locally, acting as brokers for sellers with ready scrips. Trading continued to be on a client/broker and broker/broker basis. It was still a dispersed market despite the gathering in the Arcade. The brokers would visit their regular clients each morning of a trading day, armed with an array of telegrams from London. Trading during this period was dominated by one firm, namely, Fraser & Co., established in 1873. Most business was completed in the morning, and at about four in the afternoon, the brokers would congregate to mark prices. This was an exercise undertaken primarily to determine the prices of various securities traded during the day by individual brokers. The marked prices were published in the next morning's newspapers to serve as guide to the state of the market (P.T.Tan 1985).

The rubber boom in 1910 encouraged many sharebroking firms to set up operation, but following the decline of demand for rubber in 1912, many broking firms collapsed (Stock Exchange of Singapore Limited, Fact Book 1985).

## II. Singapore Stockbrokers Association (1930) and The Malayan Stockbrokers Association (1938)

The Wall Street Crash in 1929 profoundly affected the Malayan economy. Ruthless competition among brokers necessitated some form of organisation and, on 23 June 1930, 15 firms formed themselves into the Singapore Stockbrokers Association to regulate the conduct of its members under the Society Ordinance of the Straits Settlement (SES, Fact Book, 1985). However, the primary motive for its formation was probably to enforce a closed shop policy against the threat of competition from new foreign stockbroking firms (particularly, the Americans) which had set up in Singapore (P.T. Tan, 1985).

In 1938, the Singapore Stockbrokers Association was re-registered as the Malayan Sharebrokers Association to admit member firms from Malaya. Other than the extended membership and change of name, the nature of the association remained the same. Records of the Singapore Stockbrokers Association were destroyed during the Japanese occupation of Singapore (Appendix 15-I). Since there were no fundamental differences, its objects, constitutions, rules and by-laws can be inferred from the documents gathered on the Malayan Sharebrokers Association.



According to the Malayan Sharebrokers Association Rules Book published on 1 September 1939, which was similar to its predecessor of 1 March 1939, the membership was 27, and the objects of the association were :

1. To regulate and control the methods by which the business of stock and sharebrokers in Malaya was to be carried on.
2. To protect the interests of such brokers.
3. To record transactions between such brokers and furnish reliable quotations of the prices of stocks and shares as required.
4. To improve the conditions of stock and sharebrokers in Malaya and to promote or oppose legislation in respect thereof.
5. To provide an authority for the interpretation and means for the enforcement of the rules and bye-laws of the association and to undertake arbitrations between members.
6. To prepare, publish, circulate reports and records and maintain an office for the purpose of keeping and providing access to such reports and records.
7. To do all such things as in the opinion of the committee may be incidental or conducive to the foregoing objects.

The association was managed by a committee of elected members consisting of a Chairman, a Deputy Chairman and six other persons (Rule 12). The association had the interests of its members embedded in its constitution, and, to implement its policy of restraining outside competition, members were not permitted to carry on the business of dealing with securities in Malaya unless they were admitted as members of the association (Rule 4). Members who failed to comply with the rules and by-laws of the association could be expelled (Rule 24).

In May 1953, the association published a reprint of its rules, with no fundamental changes. By 1959, when the membership was reduced to 19 members, it also published a reprint of its by-laws governing shares dealing by members.

### III. The Malayan Stock Exchange (1960)

As the number of companies grew, the commercial need to raise funds and efforts by the government to make Singapore the manufacturing and financial centre of the region provided an impetus for the establishment of the Malayan Stock Exchange on 21 March 1960. As a result, the Malayan Stockbrokers Association was deregistered. In a letter to the Registrar of Societies on 19 December 1959, the secretary of the Malayan Sharebrokers Association, in reply to a query made to the Registrar of Companies as to the change of name, stated that (Appendix 15-II):

The reason for the change is that the new name better describes the activities of the Association. In addition the new name will be readily understood by the general public, and will avoid confusion with overseas correspondents. The Association is already listed in the London Stock Exchange Year Book as a "recognised Overseas Stock Exchange".

It is not proposed to make any change in the rules and objects of the Association for the time being, apart from purely consequential changes to deal with the change of name.

The Malayan Stock Exchange Rules was published on 24 April 1960 and it was merely a reprint of its predecessors. The pioneering members of the exchange comprised 19 firms of which ten were from Singapore, four from Kuala Lumpur, three from Penang and two from Ipoh. The exchange was formed with the assistance of Mr A.H.Urquhart, then Chairman of the Sydney Stock Exchange, to devise a suitable system of

public trading.

Upon the recommendations of Mr. Urquhart, the Sydney Board System of trading was adopted by Kuala Lumpur in November 1960. Under this system, shares of various companies were posted on boards in a trading room and bids and offers were made on a continuous auction basis. The board system was introduced in Singapore on January 1961. For the investor, the principal advantages were that he received more information on his shares, greater protection in that the deals will be marked and within active limits and he would have the opportunity to watch dealing in progress (P.T. Tan, 1985). The Singapore and Kuala Lumpur trading rooms were linked by direct telephone lines in 1962, thus enhancing continuous trading.

Initially the bulk of the trading activities were concentrated on British incorporated companies with an interest in rubber and tin in Malaya. Registration of shares had to be effected in the United Kingdom, and this usually took several weeks. In 1962, the Companies Register (Federation of Malaya) Order was enacted by the British government to allow branch share registers to be established in Malaya for British companies. Singapore was not included, but the law later applied to Singapore when it became part of Malaysia in 1963, at which time the stock exchange was renamed the Stock Exchange of Malaysia.

In April 1964, Mr. A. G. Wallace, consultant to the Sydney Stock Exchange came to Singapore to survey and report on matters relating to the exchange and he made recommendations on the development and efficient operation of the exchange. A new set of rules and by-laws and a listing manual were adopted in 1964 pursuant to his

recommendations.

Under the new rules and by-laws, important provisions were made requiring members to (Stock Exchange of Malaysia, Annual Report of the Committee, 1964) :-

1. Submit auditors reports on their financial positions.
2. Open trust accounts for clients' funds.
3. Declare securities held for clients.
4. Submit quarterly statements of outstandings with other members.
5. Take out indemnity insurance of \$50,000 for each firm.
6. Obtain bankers' guarantees for all dealers (including partners).
7. Restrict other business interests.
8. Obtain approval for the appointment of staff empowered to deal in stocks and shares on behalf of the firm.

At the same time, a Fidelity Guarantee Fund, into which all members were to contribute specific sums, was established for the protection of the investing public against losses arising from defalcations by members or their employees.

Other than these new provisions, the objects and constitution remained the same.

The thrust of the new listing requirements was to protect the investing public more adequately by not only providing much more information in standard form before a listing was given, but also by ensuring that, once listed, companies maintained their flow of information to the exchange. For example, mining companies had to publish regular reports of production and development. Property companies had to state the basis of valuation of the properties in the

prospectus and any reports in the prospectus had to be prepared by a party who had no interest, direct or indirect, in such property (The Straits Times, 8 May 1964). These requirements were more stringent than those imposed by the Companies Ordinance. The exchange was to be managed by a full-time manager, and direct links were established between the two trading rooms and Malacca, Penang and Ipoh.

#### IV. The Stock Exchange of Malaysia and Singapore (1965)

Following the separation of Singapore from the Federation of Malaysia on 9 August 1965, the exchange was renamed the Stock Exchange of Malaysia and Singapore and functioned as a joint body despite the political detachment. The stock exchange was registered under the Societies Ordinances in Singapore and Kuala Lumpur, with official addresses at both centres. The two trading rooms, one in Singapore and the other in Kuala Lumpur continued to be linked by direct telephone connection throughout business hours to enable investors from Perlis in the north to Singapore and Sabah in the south, to deal with shares listed in the exchange promptly and at genuine prices (Stock Exchange of Malaysia and Singapore, Annual Report and Accounts of the Committee, 1965).

In the Chairman's address to the members of the Stock Exchange of Malaysia and Singapore on 24 April 1966, it was noted that the separation of Singapore from the Federation of Malaysia raised a wide range of financial problems. It was of greatest importance that the separate currencies of the two countries should run in parallel and that a scheme of common acceptance of the currencies in both

territories would be in effect from the time when common currency was withdrawn. Any divergence in value of the currencies or any restriction on transfer could have a disastrous effect on the operations of the exchange, and therefore on the capital market (Chairman's address to member of Stock Exchange of Malaysia and Singapore, Stock Exchange of Malaysia and Singapore, Annual Report and Accounts of the Committee, 1966). In August 1965 the government announced that it had not been possible to reach an agreement on the future of the Straits Dollar, hitherto legal tender for Malaysia, Singapore and Brunei, and in June 1967, Malaysia and Singapore introduced their own fully-backed and interchangeable currencies. Notes and coins of the two territories circulated freely in both areas (Stock Exchange of Malaysia and Singapore, Annual Report and Accounts, 1967).

The proliferation of new issues encouraged the Malaysian government to set up the Capital Issue Committee in 1968 to consider the draft prospectus or announcement of any company intending to make a new issue or to seek a listing on the exchange, so as to ensure that the public was provided with all relevant information about the company. Control in Singapore, on the other hand, rested with the Ministry of Finance via the Registrar of Companies and was subsequently transferred to the Monetary Authority of Singapore in 1971.

The stock exchange is a self-regulatory body to a large extent. Prior to 1973, it was registered under the Societies Ordinance, and thus legally fell within the ambit of that legislation, but any exercise of control by the government through the Societies Ordinance was either minimal or non-existent (P.T. Tan, 1978).

## V. The Stock Exchange of Singapore (1973)

On 8 May 1973, the Malaysian government decided to split the exchange due to its decision to terminate the interchangeability of currencies between the two countries. This resulted in the incorporation of the Stock Exchange of Singapore under the Companies Act on 24 May 1973, and its full operation as a separate exchange commenced on 4 June 1973 (SES, Fact Book, 1985). A revised set of rules, bye-laws, listing manual, and corporate disclosure policies were adopted.

On 2 June 1973, at an extraordinary meeting of members, it was agreed that the Stock Exchange of Malaysia and Singapore should be voluntarily wound up and the assets of the exchange distributed so that the functions of the securities market in both countries could be carried out without undue interruption. Although both exchanges are separate autonomous entities, close co-operation still prevails because of the strong historical ties between the two countries.

## VI. Forms Of Control

In the 1960s, there was general suspicion of widespread manipulation and rigging of the market. Remedial steps which were intended by the Stock Exchange Committee to improve the situation were regarded as less than satisfactory (Stock Exchange of Malaysia and Singapore, Annual Report and Accounts, 1969, Chairman's Speech). Concern was also expressed over the ease with which a person, whatever his training, experience and previous history, provided he could afford the initial financial outlay or secure support for it, could enter the

securities industry and set up business or be employed as a representative by a member of the stock exchange. These considerations prompted the government in 1969, to appoint George M. Ferris (then Governor of the New York Stock Exchange) to study the situation.

His recommendations, published in November 1969, concentrated on the organisation of the exchange, the structure of member firms and ways to dampen excessive speculation and improve trading facilities. He identified a large number of deficiencies in the existing system and made an equally large number of recommendations for reform. The traditional state of laissez-faire and ad hoc administrative control could not be permitted to continue if Singapore was to attract private capital investment to support its rate of economic development.

The report concluded that, on the whole, self-regulation by the stock exchange could not effectively replace government regulation (P.T. Tan, 1978). However, the Ferris Report recommended that self-regulation should continue for reasons summarised by the Attorney-General of Singapore, Mr. Tan Boon Teck in 1974 as follows :

1. Since there was only one securities market operating in Singapore, the stock exchange here was in a position to exercise effective control, unlike the position in the United States, where there are a number of securities markets operating.
2. The vast size of the United States, its scattered markets, the existence of fifty separate States and the history of the securities market there, prior to 1933, made strong, centralised control in Washington important.



3. The Securities and Exchange Commission in America has very considerable resources of commercial, financial, and stock market expertise, whereas Singapore lacked persons who had the expertise which would make for effective control.

In accepting the Ferris Report, the Minister of Finance emphasised that the government had decided to adopt the principle of self-regulation, subject to certain forms of control rather than the disclosure doctrine and regulatory policy adopted in the United States (Tan Boon Teck, 1985).

Although self-regulation was adopted as an operational model for the Stock Exchange of Singapore, certain forms of control have been introduced. These have consisted of :-

1. The Securities Industry Acts.
2. The Securities Industry Council.
3. Other Controls.

1. The Securities Industry Act

- A. The Securities Industry Act 1970

At the Second Reading of the Securities Industry Bill, 1970 (Appendix 15-III), the Minister of Finance reiterated that :

The experience of Singapore in this respect would not, it is thought, have been unlike the experience of the more economically advanced members of the Commonwealth, for example Australia and the United Kingdom, where the need to exercise some form of control over the Securities Market has in the period 1958-1970 found legislative expression in various Acts of Parliament in those countries. The decision of the Government to legislate, to regulate the Security Market in Singapore can, therefore, be regarded as part of a Commonwealth - wide approach towards investor protection. The form of

control adopted in Australia and the United Kingdom takes substantially the same pattern and it is to be noted that in each of these countries the system of self-regulation by the Stock Exchange has been preferred to that of regulation by an independent statutory body along the lines of the Securities and Exchange Commission in the United States of America. And it is this pattern which has been incorporated in the present bill.

In the late 1960s, the State government of Australia was equally concerned over the appropriate form of control of the securities market in the light of the excessive freedom in their own share markets. As a result, the States of New South Wales, Victoria and Western Australia passed their respective Securities Industry Acts in 1970 and Queensland later in 1971. Discussions took place between the Singapore and Australian State authorities, and this eventually led to the adoption by Singapore, with suitable modifications, of its own version of the Securities Industry Act, 1970 (P.T. Tan, 1978).

According to Tan Boon Teck (1985), the result of the discussions with the Attorney-General and Parliamentary Draftsmen of New South Wales and Victoria with regard to the forms of control over the securities industry was that many of the provisions of the Singapore Securities Industry Act of 1970, on such matters as the licensing of dealers and investment advisers, the keeping of records by dealers, the conduct of the securities business as well as from trading in securities, followed very closely the provisions in the legislation of the Australian States.

The scope of the proposals contained in the 1970 Bill as it affected investor protection was much wider than that contemplated in the Ferris Report. This was because the Ferris study concentrated upon ways in which the Stock Exchange of Malaysia and Singapore could strengthen the basic structure of the member firms of the exchange to curtail excessive speculation and to improve trading facilities. However, the report made some useful recommendations with regard to investor protection and these included, inter alia, listing requirements for companies, minimum capital requirements of member firms, surprise financial audit of member firms, prevention of excessive speculation and disclosure of information to the public. Many of these were implemented in the 1970 Bill, while others have been incorporated in the Stock Exchange Rules.

The 1970 Act proposed the following forms of control :

- (1) Ministerial approval would be needed to establish any new stock exchange.
- (2) Any future alteration of the existing rules of a stock exchange might be disallowed by the minister.
- (3) The maintenance of proper trust accounts by brokers and other dealers in securities and the auditing of the same would be given statutory force and the minister might in special circumstances appoint a special auditor.
- (4) The establishment of a fidelity fund by the stock exchange was placed on a statutory footing, and persons who suffered losses as a result of defalcations by brokers might be compensated out of the fund.
- (5) Dealers, who are not stockbrokers, would also be required to keep

accounts and records and make a deposit of \$100,000.

- (6) All dealers in securities, including stockbrokers, would need to be licensed to deal in securities.
- (7) Specific penalties were created to deal with dishonest trading in securities.

Unfortunately, the operation of the Act was delayed as the Malaysian government was contemplating similar legislation, and it was later repealed by the Securities Industry Act, 1973, following the Malaysian government's decision to split the exchange.

Immediately following publication of the Bill, in October 1970, turnover contracted to the lowest level experienced since confrontation with Indonesia and share prices fell sharply, reinforcing the downward trend which had been in evidence for some time. This gave credence to the contention of many members of the exchange and the investing public that a significant cause of the stock market's weakness during 1970 was legislative interference in the affairs of the exchange. However, in the annual report, the Chairman reiterated that members, at the same time, had unanimously accepted the need for measures to regulate more strictly the affairs of the exchange. The principal considerations were as follows :

- (1) The need to curb what was termed "excessive speculation". To this end, Mr Ferris had recommended the imposition of margins but this was rejected by the Exchange Committee which represented the view of the members. Instead, rules were introduced which were designed to regulate the market in any share when justified by very exceptional circumstances.
- (2) Members were asked to accept the principle of an adequate minimum

capital requirement as protection to the public. A formula was eventually worked out which was satisfactory both to the government and to the exchange, and which has now been embodied in the rules.

- (3) The exchange was asked to accept more stringent self-regulation, as recommended in the Ferris report, and, in particular, the concept of an annual surprise audit on each member firm by an independent firm of auditors. The main purposes of the surprise audit are to establish that minimum capital requirements are maintained at all times and that each member conducts his business in a proper manner (Stock Exchange of Malaysia and Singapore, Annual Report and Accounts, 1970, Chairman's Speech).

#### B. The Securities Industry Act 1973

The Securities Industry Act, 1973, established the first visible government control over the securities market, though it refrained from interfering with the powers of self-regulation already possessed by the stock exchange. In other words, there is, under the legal framework established by the Securities Industry Act, a dual regulation of the securities market : self-regulation by the stock exchange on the basis of its Memorandum and Articles of Association, Rules and Bye-laws, Listing Manual and Corporate Disclosure Policy, and government regulation on the basis of the Act, in the following areas :

- (1) The establishment of a stock exchange requires ministerial approval;
- (2) The making of stock exchange rules also requires ministerial approval;

- (3) Dealers and investment advisors and their respective representatives are to be licensed;
- (4) Dealers in securities are required to maintain proper accounts, including trust accounts which will be subject to audit;
- (5) Dealers, investment advisers and their representatives, and financial journalists are required to keep a register of securities in which they have an interest;
- (6) A fidelity fund is to be established and administered according to Part IX of the Act; and
- (7) Forms of unfair trading such as wash sales, matched orders, insider trading, market rigging and other forms of fraudulent trading are expressly prohibited under Part X of the Act.

The Act is administered by the Registrar of Companies.

#### C. The Securities Industry Act 1986

The draft legislation of this Act was circulated to stockbrokers in Singapore in June 1984. It brought vehement objections from the stockbroking community, who felt that their hands would be tied and considered the move a deviation from the tradition of self-regulation. The intention by the Monetary Authority of Singapore (MAS) to interfere was considered an act of administrative overkill and stockbrokers claimed that the new rules would stifle share trading.

However, following the financial havoc caused by the collapse of Pan-Electric Industries (Pan-El) in December 1985, which led to the suspension of trading in the stock exchanges in Singapore and Kuala Lumpur from December 2 to 4, the new Securities Industry Bill was read for the first time in parliament on 10 January 1986 to tighten control over the stock market and to prevent the kind of crisis caused by Pan-El. Supporting the decision to close the Stock Exchange of Singapore, the Finance Minister said that the main priority was to stabilise the market and prevent panic among investors. The decision to suspend the Stock Exchange was taken independently by the Committee of SES after consulting MAS and the banks with the consent of the Finance Minister (The Straits Times, 11 January 1986 [a]).

Introducing the Bill to parliament, the Minister of Finance stated that, with hindsight, the Bill should have been brought forward earlier. Unfortunately, because the stock market was considered only a small component of the overall financial system, it was left to the tail-end of the process. To put the stock market's role in the Singapore economy in perspective, the Minister used data based on 1984 to substantiate his point. The stockbroking industry contributed 0.6 per cent towards Singapore's gross domestic product and employed fewer than 5 per cent of the total 35,000 workforce in the financial sector. The total loans extended to industry was just more than \$1 billion or 3 per cent of total loans extended by commercial banks to non-bank customers. The total capitalisation of the Singapore and Malaysian stock exchanges together was about \$70 billion or just 1 per cent of what all shares in the major stock markets of the world were worth. Annual turnover of the Stock Exchange of Singapore was about \$8 billion

or 0.6 per cent of the turnover of the major stock markets, while foreign ownership of Singapore shares accounted for less than 8 per cent of the total capitalisation of Singapore listed companies. Foreign investors, according to the Minister, had never been very important players in the local stock market nor had they been actively solicited, primarily because of the thinness of the market. The government, he added, wanted the securities industry to contribute more towards the economy, and the proposed reforms would provide the necessary regulatory framework for the long-term growth of a healthy capital market in Singapore (The Straits Times, 11 January 1986[b]).

The new Bill was based on the premise that self-regulation per se, without government scrutiny, was a defect in the existing system which had contributed to the collapse of the capital market in December 1985, and the aim of the Bill was to rectify this weakness by giving the Monetary Authority of Singapore (MAS) the legal power, which was previously absent, to enquire and demand information. Although the Securities Industry Council was retained, its sole function was to advise the Minister on new listing of companies and on administration of the Takeover Code (The Straits Times, 11 January 1986[a]).

Because of the far-reaching implications of the new Bill for the stockbroking community and the investing public, several Members of Parliament at the Second Reading on 31 March, 1986, proposed that the Bill be referred to a Select Committee. Among the reasons for such a move was the fear that the MAS did not have the expertise to deal with the stock market and had been given excessive powers to regulate the industry. The other misgiving was that the Bill treated the MAS differently from the way it would treat the brokers. While clause 10



protected the MAS from prosecution arising out of neglect or default in the performance of its duties, the next clause held the broking firms and its officers, both directors and employees, guilty for such an offence. These Members of Parliament wanted proper consultation and suggested that the Bill should not be rushed. In reply, the Finance Minister stated that a Select Committee was unnecessary, and that, because of the urgency to restore confidence in the market, the new rules were urgently needed. Although he admitted that the Bill as it stood might be overly restrictive, amendments could be considered (The Straits Times, 1 April 1986).

In contrast to the 1973 Securities Industry Act, the 1986 Act, which was passed in August 1986, is much more comprehensive and restrictive. Although self-regulation by the stock exchange remains, all powers of administration and supervision are transferred to the MAS, to provide the authority and legal powers to control and supervise the activities of the capital market.

The following comparison can be made between the 1973 and 1986 Securities Industry Acts :

1. The 1986 Act has ten lengthy administrative clauses while the 1973 Act has only two such sections. Penalties for breach of administrative sections are also included, with a maximum penalty of \$10,000 or two years' jail or both.
2. Section 21 gives the MAS the power to issue directions to a securities exchange in the public interest. These relate to trading on the exchange, the manner in which the exchange carries on its business, including the reporting of off-market purchases,

and any other matter which the MAS considers necessary.

3. Section 22 sets out the procedure for suspension of trading in specific securities or classes of securities.
4. Dealers, advisers and the various categories of representatives have their duties and responsibilities more clearly spelt out.
5. The 1973 provisions on issuing of licences have been replaced by more comprehensive requirements. Emphasis is placed on whether the authority believes a person will carry out his duties efficiently, honestly and fairly.
6. The section relating to revocation of licences is more detailed than the 1973 Act.

Investors are given a greater degree of protection from unscrupulous and questionable practices :

7. Section 49 requires the issuing of contract notes. The note must contain stated information, including the names of buyer and seller. The investor receives a standard document which will make supervision easier and subsequent switching of parties to deals in case of losses more difficult.
8. Section 50 expands on the 1973 provisions by requiring a declaration of interest when offering information and advice on securities. Thus, where written recommendations are made in respect of securities, they must carry a clear statement of any interest in the acquisition or disposal of those securities by those responsible for the communication.

9. Advisers who give advice without any reasonable basis will be liable to compensate any person who suffers loss or damage in relying on that advice (section 51).
10. Section 52 requires a stockbroker who is acting as a principal to declare that fact, and to state so in the contract note. Failure to comply with this requirement enables the other party to rescind the deal within 30 days.

Sections relating to the spread of information have been widened and spelt out in greater detail:

11. Sections 99 and 100 hold liable persons who make statements or pass on information that is false or misleading, or who do so without caring whether the information is correct. Passing on of unfounded rumours also falls under these sections.
12. On insider information, section 103 prohibits dealing based on such information by employees of companies or outsiders who knowingly obtain such information.

The penalty for contravention of the section is a fine of \$50,000, or seven years' jail, or both. Persons convicted of such an offence will also be liable to compensate others for the losses they sustain as a result of the deal.

Other measures include :

13. The new Act increased the amount payable by stockbroking firms to the fidelity fund for the purpose of compensating people who suffer from misuse of funds by member firms from \$100,000 to \$300,000.

14. The MAS is given direct access to the books of stockbrokers and it will require auditors to report more fully on all matters of interest.

The Pan-El fiasco and the resultant Act have meant that total freedom of self-regulation may be a thing of the past in Singapore. Because the attitude of the authority in legislating is not anticipatory in nature, each major scandal results in more and more regulations. It demonstrates that the innocent investor in the capital market needs the full protection of the law, though a fine balance is necessary to ensure that regulations are not so excessive that they stifle the efficient operation and growth of the securities industry.

## 2. The Securities Industry Council

The Securities Industry Council (SIC) was set up in January 1973 as an advisory and consultative body to the Minister of Finance, the Stock Exchange and the Registrar of Companies. The members are appointed by the Minister of Finance and are drawn from the government, the private sector and the stock exchange. It is a body established under section 3 of the Securities Industry Act, 1973.

In January 1974, the SIC was given administrative and regulatory functions similar to those of the London Panel on Takeovers and Mergers following the enactment of the Singapore Code on Takeovers and Mergers, modelled upon the London City Code. The Code is intended to give guidance on the principles of conduct and the procedures to be observed in takeover and merger transactions. The Code is of a non-statutory nature and supplements the statutory provisions in section 179 and

the Tenth Schedule of the Companies Act (Chapter 185), (The Stock Exchange of Singapore Limited, Fact Book 1974).

The provisions of the Code fall into two categories. On the one hand, the Code enunciates general principles of conduct to be observed in bid situations and it lays down certain rules, some of which are precise, others no more than examples of the application of the general principles. The rules, however, in no way limit the application of the general principles. Further, while the statutory provisions in the Companies Act are expressed to apply to takeovers (where the direct or indirect control over the assets of the offeree company passes to the offeror company), the provisions of the Code are expressed to apply to both takeovers and mergers.

The Code is drafted with listed public companies in view but unlisted companies and private companies are expected to observe the spirit and the letter of the general principles and the rules. The Code, like the statutory provisions, extends to cover offeror companies which are incorporated outside Singapore. Neither the Code nor the Securities Industry Council is concerned with the evaluation of the financial or commercial advantages or disadvantages of a takeover or merger proposition, which remains to be decided by the company and its shareholders (The Singapore Code on Takeovers and Mergers, 1979).

The setting up of the SIC appears to be a halfway house between an SEC type of control and total self-regulation. The advice of the SIC legally binds neither the government nor the stock exchange nor the Registrar of Companies, and it operates by way of consultation and the moral weight of its opinion. Even under the Takeover Code, its

sanctions against breaches consist of a recommendation to the stock exchange for the withdrawal of market facilities or public reprimand in the case of an individual offender. The duty of the Council is the enforcement of good business standards and not the enforcement of law, and its ruling is final. In this context, it will, from time to time, issue guidance notes on the interpretation of its principles and rules and the practice to be followed. The SIC has on occasions, been mistaken for an SEC type of institution or its intended harbinger (P.T. Tan, 1978). To clarify any confusion over its role, the SIC issued a press statement in 1974 with the approval of the Minister of Finance, stating its terms of reference (SIC Press Statement, September 1974). These are :

- A. Advise the Minister on all matters concerning the securities industry, including the administration of legislation, particularly on the protection of investors.
- B. Advise the Committee of the Stock Exchange on matters referred to it and to consider recommendations submitted by the Committee including listing requirements and the suspension and delisting of companies.
- C. Advise the Committee of the Stock Exchange on action to be taken to prevent or expose unlawful or dishonest forms of trading.
- D. Advise the Committee of the Stock Exchange on applications by companies wishing to raise money by a public issue in any form.
- E. Advise the Registrar of Companies on matters referred to it and on the activities of any company which in the opinion of the Council are suspect.

F. Administer and enforce the Singapore Code on Takeovers and Mergers.

Under the 1986 Securities Industry Act, MAS is granted greater power. All powers of administration and supervision are transferred to the MAS, including the power to inquire and to demand information and direct access to the books of stockbrokers which it had no legal power to do prior to the 1986 Act.

On the other hand, the SIC's fundamental advisory role has not changed. Its main function is still to advise the Minister on new listings of companies and on the administration of the Takeover Code.

### 3. Other Controls

#### A. General

According to P.T. Tan, (1978), apart from self-regulation and government regulation, the Securities Industry Act, 1973, employs a combination of other complementary techniques of regulation. These methods of control include :

1. The outright proscription of an identified activity or category of activities labelled as fraudulent or manipulative or unfair practice, such as specified in Part X of the Securities Industry Act.
2. The technique of licensing professional intermediaries such as brokers, dealers and investment advisors and their respective representatives which are required to be licensed under the Securities Industry Act, 1973. Besides weeding out undesirable

characters, the licensing requirements also provide the government with a means of controlling the number of entrants into the market.

3. The requirement to conform with the principles of fair play, such as observing the Singapore Takeover Code in the case of a takeover bid.
4. Compliance with the doctrine of disclosure, such as the regulations on disclosure in a prospectus in the Companies Act.

B. The Stock Exchange Corporate Disclosure Policy Guidelines

The Stock Exchange of Singapore's Corporate Disclosure Policy was issued on 26 May 1973 in recognition of the need by the management of publicly held corporations for more specific guidance in making decisions involving full and timely disclosure of significant corporate developments. By means of a question and answer format, policies on six areas of corporate disclosure are given :-

1. Immediate Public Disclosure of Material Information

A listed company is required to make immediate public disclosure of all material information concerning its affairs, except in exceptional circumstances.

2. Thorough Public Dissemination

A listed company is required to release material information to the public in a manner designed to obtain its fullest possible public dissemination.



### 3. Clarification or Confirmation of Rumours and Reports

A listed company should publicly clarify as promptly as possible rumours or reports that contain information that is likely to have or has had an effect on trading in the company's securities or would have a bearing on investment decisions.

### 4. Response to Unusual Market Action

Whenever unusual market action takes place in a listed company's securities, the company should make inquiries to determine whether rumours or other conditions requiring corrective action exist and, if so, to take whatever action is deemed appropriate.

### 5. Unwarranted Promotional Disclosure

A listed company should refrain from promotional disclosure activity which exceeds that necessary to enable the public to make informed investment decisions.

### 6. Insider Trading

Insiders should be prohibited from trading on the basis of material information which is not known to the investing public. Insiders should be restricted from trading even after material information has been released, for a period sufficient to permit thorough public dissemination and evaluation of the information.

### C. SES Guidelines

These were issued to help management of listed companies and to facilitate the application of the exchange's disclosure policies. These guidelines set forth various criteria and situations which give rise to questions in respect of full and timely disclosure. The new guidelines reflect the views of the SES in the light of their experience with disclosure problems of listed companies as well as with problems occurring in recent court decisions relating to disclosure.

They also describe in detail the contents and preparation of public announcements by listed members and set out the new SES Exchange Surveillance Procedures which are carried out by the Listing Department.

Although requirements on prospectuses are rigorous and detailed, they are significant when the company first comes to the market. The important disclosures that are above the normal requirements of accounting standards and the Ninth Schedule of the Companies Act are :

1. Provision of a statement showing the sales turnover figures or gross trading income during the preceding five financial years.
2. Statement giving :
  - (a) The financial and trading prospects.
  - (b) Analysis of the financial conditions and operations of the company or group.
3. Particulars of the directors, proposed directors and executives, such as the name, address, other directorships, bankruptcy suits and criminal convictions (if any) of such persons.

4. Statements by experts and a valid written consent from the expert to have the statements included in the prospectus.
5. History of the company.
6. Profit forecast and dividend and an Accountants Report on these.

Hence, the sources of law and authoritative rules governing the Securities market can be summarised as follows (P.T. Tan, 1978) :

1. The Stock Exchange Memorandum and Articles of Association, Rules and By-laws, Listing Manual and the Corporate Disclosure Policy.
2. The Singapore Code on Takeovers and Mergers, together with the rulings and practice notes issued by the SIC on the Singapore Code on Takeovers and Mergers.
3. The Securities Industry Act, 1973, and the Securities Industry Regulations, 1973, as amended from time to time.
4. The general law of the land such as the Penal Code and the Trustee Act, and the body of English common law initially received into Singapore by virtue of the 1826 Charter of Justice and, currently, by Section 5 of the Civil Law Act, Chapter 30. Precedents of other jurisdictions are of persuasive authority only.

#### VII. Companies Listed on the Exchange

##### 1. Number of Companies by Economic Sectors

Up to 1968, plantations and mining companies constituted more than 50% of the total companies listed on SES (see Appendix 15-IV). None of these companies were incorporated in Singapore, since it had no natural resources. Even now, this is still the case. As at the end of 1986

(see Appendix 15-V), nearly all the companies in the mining and plantation sectors are incorporated in Malaysia, except for three companies which are incorporated in the UK. British companies' interest in Mining and Plantation in Malaysia could be traced as far back as the early 1900s, and it was interest in trading in such companies' shares that gave rise to the first visible securities activities in Singapore and Malaysia.

With the Singapore and Malaysian governments' wish to intensify their national industrialisation programmes on independence from British colonial rule, the industrial sector slowly gained prominence. By 1970, companies categorised under the industrial and commercial sector (I & C), accounted for nearly 50% of listed companies, and, by 1986, companies in this sector accounted for nearly 60% of the companies listed on SES.

The nationality profiles of the companies listed in the I & C in SES sectors for the years 1984, 1985 and 1986 were as follow :

Year	Singapore	Malaysia	Foreign	Total
1984	74 (40.66%)	104 (57.14%)	4 (2.20%)	182 (100%)
1985	74 (39.36%)	109 (57.98%)	5 (2.66%)	188 (100%)
1986	74 (39.36%)	109 (57.98%)	5 (2.66%)	188 (100%)

(Sources : SES, Fact Book, 1985, 1986 & 1987)

Malaysian companies formed the majority in the I & C, and the mining and plantation sectors on SES.

However, Singapore companies were the majority in the financial sector (having twice the number of Malaysian companies) and hotel sector (having 16 more companies listed than Malaysian companies). In the property sector they were equal in number.

## 2. Analysis of Companies by Country of Incorporation

Malaysian incorporated companies constituted more than 50% of the companies listed in the exchange, with Singapore companies gradually gaining importance from 28% in 1973 to nearly 40% in 1986. However, the most significant trend is noticed in the companies incorporated overseas which fell from 16.24% in 1973 to 3.78% in 1986 (see Appendix 15-VI).

The domination of Malaysian incorporated companies on SES can be attributed to her huge natural resources, extensive market and large labour force, which have encouraged the growth of business enterprise. The decline in overseas incorporated companies, which were mainly in plantation and mining, was because they were either closed down or taken over by larger local companies in line with the Malaysian government's policy of encouraging local participation in the ownership and management of Malaysian-based companies.

## 3. Distribution of Paid-up Capital and Market Capitalisation of Shares By Economic Sectors

The industrial and commercial sector accounted for the highest proportion in terms of paid-up capital and market capitalisation (Appendix 15-VII & 15-VIII). This is because it has the highest concentration of companies and most new listings in recent years fell

into this category. This trend is expected with the government's emphasis on industrialising the economy.

Up to 1970, the plantation and mining sectors accounted for more than 25% of the total in terms of paid-up capital and market capitalisation. By 1980, the percentage dropped to around 15%, signifying the declining importance of these two sectors with the emergence of the finance and property sectors from 8% in 1976 to 33% in 1980. In 1986, the status of these sectors remained the same.

#### 4. New Listings

From 1968 to 1972, 106 companies were accepted for listing on SES. Between 1973 to 1986, a total of 143 new listings were made, of which 77 (53.85%) were Singapore incorporated companies, 60 (41.96%) from Malaysia and 6 (4.19%) from other countries (Appendix 15-IX). The majority of the newly listed companies belonged to the I & C sector.

Although the Malaysian companies still made up the majority of companies in the exchange, Singapore incorporated companies formed the bulk of the new listings. If this trend prevails, the gap between Malaysian and Singapore companies will be narrowed in the near future. However, one cannot speculate whether the balance will eventually turn in Singapore's favour because this depends very much on future economic, social and political developments in the two countries.

The largest number of new listings (37) recorded in 1969. In terms of paid-up capital, 1982 registered the highest at S\$1.46 billion.

Although there were 11 Singapore companies, against 10 Malaysian companies listed, the Malaysian companies' paid-up capital was nearly double that of the Singapore companies. The bulk of this was attributable to Multi-Purpose Holding Bhd., with a paid-up capital of S\$380 million. This company is the investment arm of the Malaysian Chinese political party, Malaysian Chinese Association (MCA).

Of the Singapore companies listed in 1982, the hotel sector accounted for about 53% of paid-up capital with the listing of Hinds Hotels International Ltd., Hotel Properties Ltd and ANA Hotels Singapore Ltd.

Between July 1985 to December 1985, there was only one new listing, Singapore Airlines Limited (SIA), bringing the total number of companies listed in the exchange to 316. The listing of SIA is the most significant one in recent years, in that it heralded the launching of the Singapore government's efforts to privatise some national enterprises. SIA, which made a public offering of 100 million new shares in December 1985, accounted for 59% of the total funds raised in the period.

Due to the worst recession in Singapore in 20 years during 1985/86, the Pan El collapse and the liquidation of some members of the exchange, investors were generally cautious during this time. 1986 had only one new listing, FAI Insurance Limited, an Australian company. This broke the previous low of four listings on SES in 1977 and 1980 respectively.

With improved economic performance during 1987, confidence was gradually restored. A secondary market, Stock Exchange of Singapore Dealing and Automated Quotation System (SESDAQ) was established in 1987 to provide opportunities for enterprises to raise equity funds from the public without seeking a full listing on the stock exchange. It is comparatively easier and cheaper to secure a listing on SESDAQ than on the Main Board of SES. It is thus suitable for smaller but growing enterprises.

As the government is committed to privatising of public companies and at the same time encouraging growth in smaller enterprises, more new listings on the SESDAQ and the main board are expected in the near future.

## 5. Share Ownership

Ooi (1985) conducted a survey of share ownership of Singapore incorporated companies listed on the Stock Exchange of Singapore in 1975.

It was found that individuals comprised 91.9% of the total shareholders, with nominees and trustees forming the second largest group of shareholders at 3.3% followed by corporate firms at 2.9% of individual shareholders, 62.8% resided in Singapore, 34.0% in Malaysia and 3.2% in other countries. 68.2% of the corporate shareholders resided in Singapore, 27.9% were Malaysian companies and foreign companies accounted for 3.9%. However, in terms of share ownership by classes of shareholders, corporate firms had the highest level of



ownership at 36.3%. Individuals were second with 29.5%, followed by nominees and trustees at 23.6%. Overall, shareholders in Singapore owned 73% of the total shares, those in Malaysia owned 13%, and others 14%.

A similar survey was conducted in 1980 by the Singapore Securities Research Institute (Securities Industry Review, October 1982). With respect to the largest groups of shareholders, the results were consistent with the 1975 survey in that individuals, Corporate firms and nominees and trustees accounted for over 98% of the shareholder population. Individuals were still the largest group, accounting for over 90% of the total number of shareholders. An interesting finding in the 1980 survey was the decline in individual ownership and the corresponding increase in institutional and corporate ownership of shares. This indicates that the local market is moving to a higher level of sophistication and stage of maturity where the relative size of and ownership by institutional and corporate groups increases with the development of the securities market.

Ooi (1977) carried out a similar pilot study on companies incorporated in Malaysia listed on the Singapore exchange. Individuals, as with the Singapore listed companies surveys, accounted for 93.4% of the total number of shareholders. Of these, 31.1% resided in Singapore, 68.4% in Malaysia and 0.5% in other countries. Foreign shareholdings accounted for 17.2% of share investment while ownership by Singapore residents totalled 29.6%.

Corporate firms, which accounted for 3% of total shareholders, owned 38.7% of total shares. Individuals, on the other hand, which

ranked in top position in terms of total shareholders, owned only 31.9% of total shares, while nominees and trustees owned 23%. This trend was consistent with the results of the 1975 survey on companies incorporated in Singapore. Singapore residents were more inclined to own shares in names of nominees than were their counterparts in Malaysia and other countries. This was reflected by the higher holding of shares by nominees for Singapore residents (32.4%) as compared to Malaysian residents (25.1%).

As at the end of June 1986, the Straits Times of 29 October 1986, reported that shares in Singapore incorporated listed companies are very tightly held. 75.2% of the shares in the companies listed in the industrial, finance, hotel and property sectors are in the hands of the top 20 shareholders. In the hotel sector, the top 20 shareholders hold up to 82.2% of the listed companies.

Of these substantial shareholders, individuals accounted for less than 5% of share ownership while corporations had a 40% share. Another 25% was held by nominee companies (The Straits Times, 29 October 1986).

#### VIII. The Stock Exchange of Singapore Dealing and Automated Quotation System (SESDAQ)

SESDAQ, a secondary capital market, was established by the SES in 1987. Its aim is to provide opportunities for enterprise to raise equity funds from the public without seeking full listing on the exchange.

SESDAQ's unique feature is its scripless trading. The major operational difference of SESDAQ and the Main Board is the need for a market maker. The market maker deals on his own account and is committed to making buy-and-sell price quotes in registered stocks.

To qualify for listing on SESDAQ the following key criteria have to be satisfied :

1. Applicants must be locally incorporated public limited companies.
2. Applicants must have been in operation for at least three years, although profitability is not taken into account.
3. Information relating to the business is usually required to cover a 5-year span, but companies with a shorter trading period must provide information for the last three years.
4. Venture companies with shorter trading records are eligible if they can show that funds are required to finance a project with a reasonably short payback period.
5. At least 15% (subject to a minimum of 500,000 shares) of the issued share capital must be held by the public when dealing starts.
6. Not more than 50% of the share capital is allowed to be offered to the public at the time of going public. There is no specific requirement for a minimum number of shareholders.
7. Continuity of management and integrity of directors are required.
8. Applicant companies should not be too dependent on key suppliers or customers.
9. Applicant must have a market maker for at least 12 months after date of listing.

The information required for listing application and the contents of the prospectus are essentially the same as those required by the Main Board. Financial statements have to be audited and the disclosure requirements follow those in the Main Board.

## IX. Conclusions

From a humble beginning in 1960, the Stock Exchange of Singapore has grown into one of the leading capital markets in Asia.

The requirements for listed companies to disclose more information are greater than for non-listed companies. Non-listed companies have to abide by the Companies Act and professional pronouncements while listed companies have to adhere to the guidelines issued by SES as well. In order to obtain a listing, a company has to prepare a prospectus which discloses more information and in greater detail, including a profit forecast. These are not required from a private company. It is also mandatory for listed companies to prepare interim results.

The trend over the years has been the proliferation of more disclosure and other regulatory impositions on obligation by companies to safeguard the interests of investors and to maintain a sound environment to promote Singapore as an attractive financial centre.

The Securities Industry Act, 1986, signifies the move away from a self-regulatory exchange to one where the government maintains closer supervision on how the securities community behaves. Singapore is not the only country with this system; Britain's Securities and Investment Board (SIB) established in 1986, has also broken the long tradition of

self-regulation. The concern has been to maintain integrity in the securities market and to protect investors.

Hence, self-regulation may be a myth and the future is likely to see stricter supervision by the government and more quantitative and qualitative disclosure by companies.

## CHAPTER 16

### COMPARATIVE STUDY OF ACCOUNTING SYSTEM

#### I. Political and Economic Background

Singapore is a very small island state with a population of over 2.5 million and virtually no natural resources. Indonesia, on the other hand, enjoys an abundance of natural resources, an enormous land area scattered over a few thousand islands and a population of about 170 million.

Although both shared the same fate of being colonised, their experiences were different. Other than the brief Japanese Occupation of Singapore in the 1940s, the British were the only colonial power in Singapore before she gained self-government in 1959. Besides the Dutch, Indonesia had also been colonised by the Portuguese, French and the British. All were there for the lucrative spice trade. The Dutch stayed the longest, for about 350 years. To preserve the dominance of the Dutch, the Indonesians were deprived of political and economic exposures. Most of the laws and regulations were enacted for the benefit of the European minority. In addition to taking advantage of the vast resources, the Dutch exploited the Indonesians for their cheap labour. All important political and executive positions were held by the Dutch and the Indonesians were employed in insignificant positions. The Indonesians confined themselves to small businesses, usually family-owned or partnerships. These features had grave political and economic consequences, because after independence in 1945, there was insufficient economic infrastructure or well-trained personnel to

manage the economy and the country.

The period after 1945 was marked by political turmoil and uncertainty. Between 1949 to 1955, there were six different cabinets, the country was torn by secessionist rebellions and the economy deteriorated. Under Sukarno, the country moved more and more towards the left, and there was widespread corruption and instability. In 1965, the communists launched an unsuccessful coup d'etat which was toppled by the military led by General Suharto. Sukarno was forced to cede his position to Suharto as president in 1968, and since then Indonesia has been under military rule.

The economy under the Dutch period was geared to serve Dutch interests and the Indonesians were exploited for their cheap labour. Foreign investments were predominantly Dutch and private investments were negligible.

After independence, foreign enterprises were gradually nationalised and by the early 1960s, all foreign enterprises were under government control. The period under Sukarno saw Indonesia indulging in a policy of economic isolation and it also marked the beginning of the prominence of State enterprises.

It was only after Suharto came to power that a conscious effort was made to encourage foreign investors. However, for fear of a recurrence of economic colonisation by foreigners, foreign ownership is restricted and their activities closely scrutinised. Also, due to the record of political turmoil and anti-foreigner sentiment as exhibited by the nationalisation of foreign businesses, foreign

investors are apprehensive about investing in Indonesia. There are also many bureaucratic constraints. However, with the political situation gradually becoming more stabilised under Suharto, some foreign investors' confidence were restored.

Indonesia is an agrarian economy. In spite of her wealth of natural resources, she is still a developing country, with one of the lowest per capita incomes in the world. Wealth is unevenly distributed and the majority of the population live in poverty. Private capital investment is weak and the principal growth comes from the public sector.

Singapore, on the other hand, enjoys one of the highest per capita incomes in Asia and has a sophisticated economic infrastructure. The economy was transformed from one that was based on entrepot trade to one based on manufacturing. At present, over 70% of the population are employed in manufacturing and commerce. Other than its strategic location, Singapore has little to offer in terms of natural resources.

After self-government was attained in 1959, a massive industrialisation programme was embarked upon, with heavy emphasis placed on encouraging foreign capital investments. Compared to Indonesia which has been apprehensive about foreign investors, Singapore adopts an open-door policy and foreign investments have played a dominant role in her growth.

By any standards, Singapore cannot be classified as a developing country, with which category Indonesia is clearly identifiable. Because of Singapore's long-standing cordial ties with the UK, the UK's influence still prevails to this day. Under the British, Singaporeans



were allowed to engage in business and trade, and they were less exploited than the Indonesians. Indonesia's relationship with the Dutch was marked by nationalistic uprisings leading to the purge of the Dutch and nationalisation of Dutch properties. The bitter experience with the Dutch led the Indonesians to turn to the US, which was instrumental in securing Indonesia's political independence from the Netherlands. The US influence replaced the Dutch in many areas, and in the field of accounting this took the forms of financial and technical aids to develop the accounting infrastructure, train teachers, grant overseas training to the Indonesians, supply teachers and textbooks, and develop accounting systems at all levels of accounting training and education.

Enthoven (1985) noted that most developing countries, depending on their historical background and state of economic development, feel one or more accounting zones of influence. The zones of accounting influence distinguished by the Committee on International Accounting of the American Accounting Association (1977) are :

1. British.
2. Franco-Spanish - Portuguese.
3. Dutch-German.
4. US.
5. Communist.

Although current influences are still important, knowing the origins of accounting in a country will facilitate a set of potential improvements and changes in its systems.

According to Gray et.al. (1984) Singapore belongs to the British sphere of influence. As in Malaysia, the degree of British influence is very strong. Australia, which in turn was influenced by the UK, has strong influence in Singapore with the US having a moderate degree of influence through the presence of US multinational companies establishing operations in Singapore.

The US influence is dominant in Indonesia according to Gray et. al. (1984). However, the historical influence of the Dutch still remains in many local companies, and the education and training of accounting technicians and the commercial code are still predominantly Dutch. As a result of this, a hybrid of US and Dutch-German zones of accounting influence exists, resulting in dualism in accounting practice in Indonesia. Given the nature of the Indonesian economy, which is still relatively under-developed, as characterised by her low per capita income, the infusion of western accounting systems may be inappropriate at this stage of development. The over-emphasis on financial accounting based on stewardship accountability and performance causes a large drain of resources to cater for so few companies, to the detriment of and neglect in the training and practices in managerial accounting systems and procedures, controllership, government accounting and budgeting, national accounting and economic development accounting.

The accounting weaknesses in developing countries' accounting systems can be largely traced to historical, cultural and educational factors (Samuels and Piper, 1985). Historical accidents, therefore, have an interpretative value in explaining why a country is what it is today.

Against the political and economic backdrop described earlier on, this chapter discusses the fundamental differences in accounting systems between Indonesia and Singapore and seeks to provide a better understanding as to why the differences exist.

## II. Corporate Reporting

The fundamental differences between Indonesia and Singapore in corporate reporting are :

Factors	Indonesia	Singapore
1. Legal systems	Romano-Germanic and Adat Law (or customary law).	Common Law
2. Zone of influence	Hybrid of US and Dutch-German influences	British
3. Business organisation and ownership	Most large enterprises are owned by government. Ownership of companies is not widespread. Usually family-owned and tightly controlled.	Ownership relatively dispersed compared with Indonesia. Enterprises not as tightly controlled by family or single individual. Many foreign multinational companies operate in Singapore.
4. Companies law	Based on 1848 Dutch Commercial Code. The Code does not give specific guidelines or general ideas on how to prepare and disclose financial statements.	The companies law is frequently reviewed and it sets out minimum items for disclosure although the format of financial statements is not provided.

5. Audit	Not mandatory.	Mandatory for all companies limited by shares unless specifically exempted.
6. Annual returns	Companies not required to submit annual returns to the Registrar of Companies.	All companies required to submit returns to the Registrar of Companies.
7. Status of financial reporting	Usually not prepared or perpetually late. If prepared, they are simplistic, and not reliable or useful.	Standard of financial reporting is high and reports are produced on time. The companies law imposes stringent sanctions on those who fail to comply with it.
8. Relevance of accountability	Very questionable because of different economic, social and legal framework.	Applicable as there is relatively widespread ownership, large and active foreign investment.
9. Taxation	Financial statements normally geared towards taxation. Due to the inaccurate nature of the accounts, taxation liability is normally established on a negotiation basis.	Tax authority requires financial statements for assessment of tax.

The nature of the legal system has a direct influence on company law and hence the behaviour of companies and how they publish their financial statements.

Singapore follows the common law system. The characteristics of this system is that laws tend not to be codified and it relies upon a limited amount of statute law, which in turn is interpreted by courts as case law to supplement the statutes. Nobes (1984) noted that corporate reporting in many countries that follow the common law legal system is not dependent upon law. The major influence comes from

promulgations of the accounting profession and the stock exchange. As a result, company law does not seek to provide very detailed guidelines on how companies should present their financial statements. The law on this area as stated in the Ninth Schedule of the Singapore Companies law, prescribes the minimum information to be disclosed and does not set down the format and nature of financial statements.

The present Indonesian Commercial Code is based on the 1838 Commercial Code of the Netherlands with some minor amendments. The Netherlands adopt the Romano-Germanic legal system. Under this system, law is codified. Therefore, company legislation prescribes rules in detail for accounting and financial reporting. By implication, Indonesia, being an ex-Dutch colony, would be expected to follow the Netherlands by having a codified commercial code that governs corporate behaviour and reporting. Unfortunately, many of the amendments that have been made in the Netherlands since 1848 were not incorporated in the Commercial Code in Indonesia. As a result, Indonesia is operating on an out-of-date commercial code adopted in the 19th century that is incompatible with today's commercial environment. The commercial code was originally applicable to the Dutch and foreigners. The indigenous population conducted their business activities following the "Adat Law" or customary law, where corporate reporting is unimportant. Being a country that is relatively poor and under-developed in comparison with Singapore, the Adat law still plays an important role in the local business environment.. The private sector is weak as most major business organisations are State-owned or foreign joint ventures. There is very little need for Indonesians to refer to the commercial code, given the nature and size of their economic activities. The

commercial code is therefore not as important as in Singapore which has a relatively strong private sector, an increasing inflow of foreign investment and a large and active capital market.

The Indonesian commercial code has over 20 provisions on corporate matters without any guidance on what to disclose or how the financial statements are to be published. The incompatibility of the commercial code to the Indonesian business environment makes it inoperative and unenforceable. Reform has been slow and it is unfortunate that rectifying the problem is not viewed with greater seriousness. Without an effective companies law, foreign aid agencies and companies will be apprehensive of the integrity of the corporate reporting system and thus discouraged from investing in or giving aid to Indonesia.

Like Indonesia, the present status of the Singapore Companies Act is very much influenced by her colonial ties with Britain. The main contrast is that the first Companies Act enacted in Singapore, the Indian Stock Companies of 1857, which followed the British Joint Stock Companies Acts of 1844 and 1855, was repealed in 1889, since then the Companies Act has been continually revised to keep pace with Singapore's economic, social and political development. However, there were invariably some lags before new laws enacted in Britain could be introduced in Singapore, although the situation was not as bad as in Indonesia. For example, the Singapore Companies Ordinance XXV of 1915 was modelled upon the UK Companies Act of 1908. This was the law in Singapore until 1940, while in the interim period the Companies Act, 1929, had already been enacted in the UK. The Singapore Companies Ordinance of 1940 followed the 1929 UK Companies Act and was some

considerable years behind developments in the UK. This continued until 1967 when the Singapore Companies Act of that year brought Singapore law in line with the UK, Australia and Malaysia. Since then the Companies Act has been continually updated, and the 1984 Companies Act derived much of its substance from the UK 1981 Companies Act. Since its inception, the companies law has embraced all businesses enterprises without prejudice on any ethnic group.

The differences in the origin and the nature of the legislation are manifested in the corporate reporting practices in both countries.

The Indonesian commercial code requires only a balance sheet to be drawn up and there is no statutory requirement to register the financial statements with the authorities. As there are no guidelines on the format and presentation of the financial statements, the balance sheet is drawn in accordance with the requirements of the business and companies can generally do as they wish.

The Companies Act of Singapore requires a balance sheet and a profit and loss account to be prepared and presented to the shareholders. The financial statements are to be registered with the Registrar of Companies. Failure to do so would result in the directors responsible being liable to a fine. In addition, the Act lays down what is regarded as the minimum disclosure required of a company. The company is left to decide whether to provide information over and above that required by law.

In Singapore, sanctions are imposed on companies for failure to keep proper books of accounts, submit annual returns to the Registrar of Companies on time or to comply with disclosure requirements. In

Indonesia, sanctions are normally not imposed and this has resulted in many companies not complying with the commercial code. The existence of the Registrar of Companies makes the task of ensuring compliance much easier, whereas in Indonesia a similar authority does not exist.

Except for some companies, e.g. those listed on the stock exchange, foreign banks, most foreign companies, underwriters and stockbrokers, audit is not generally required of companies in Indonesia. Without an audit there is little inducement for companies to keep proper books of accounts, let alone prepare financial statements.

In Singapore, company law plays a significant role in corporate behaviour and reporting, while the Indonesian Commercial Code has a negligible impact on accounting practice. According to Briston (1979), financial reporting lacks relevance in both its current practice and "theory" in many developing countries. Indonesia is no exception. Practice tends to be stewardship oriented and geared toward tax, while "theory" is just a set of practical rules. The presentations of the balance sheet and profit and loss account are not informative. Assets and liabilities tend to be reflected inadequately. There is no clear segregation of current and capital items, or among capital items. The profit and loss account is not broken down properly. Accordingly, the amount of useful information generated by the financial statements for analysis and decision-making is usually scanty, unreliable and untimely. Financial statements are sometimes delayed for as long as several years. Consequently, the accounting systems and the corporate reports generated by the systems are not relied upon by investors,



bankers, national statistical institutes, government and management.

According to Qureshi (1975), the importance of financial reporting to economic development, especially in developing countries, cannot be over-emphasised. At the first stage in the investment process, the credibility of the financial reports is the basis of the investors' confidence. At a later stage, the financial statements are indicators of the success or otherwise of the enterprise and management ability.

In Indonesia, most major corporations are State-owned, foreign joint ventures or family-owned. The government is the main source of economic growth. The lack of importance and sophistication in corporate reporting practice is characterised by the importance of the public sector. There are only 24 listed companies and ownership is not widespread. 18 of the listed companies are foreign joint ventures. Although these foreign interests are not allowed to own more than 50 per cent of the shares, the majority of the population is too poor to participate in the equity market. As such, ownership of listed companies is tightly held. Because of the smallness and the dormant nature of the Indonesian stock exchange, the capital market plays a very insignificant role in corporate reporting. In most western countries, the development of corporate reporting usually rides on the back of the capital market. Moreover, it has been noted that the class elite that controls many business organisations and activities in many developing countries may prefer maintaining secrecy. Without a reliable system of financial reporting it is easy for members of this elite to maintain secrecy regarding their own gains (Belkaoui, 1974).

However, the most prominent reason for the slack corporate

disclosure practices in developing countries like Indonesia, has been the insufficient awareness of the value of accounting information as an instrument of administrative and financial control by entrepreneurs and managers, including those in the public sector. Business ownership is often concentrated in a few individuals and business affairs are frequently conducted in secrecy. Rather than relying on a company's financial statements, financial institutions emphasise other factors in their credit investigations, such as reputation and personal knowledge of the owners of the borrowing enterprises and substantial security pledged in the form of personal property. Accounting methods and practices are usually outdated; financial accounting is deficient and rudimentary, and it is maintained solely for the purpose of satisfying the formalities required by law and the tax authorities (SID, 1976).

Singapore, on the other hand, enjoys a high influx of capital from the US, Japan and Europe. The private sector is relatively active and plays a positive role in Singapore's economic growth. The role of the public sector has been over-shadowed in recent years by the government's intention to privatise the majority of State-owned companies, the first to be privatised being Singapore Airlines in December 1985. The inflow of foreign capital also brings with it the practice of timely and accurate financial reporting to account for their investments and proprietary interests. The strong and mature stock exchange makes ownership more widespread compared with Indonesia. Although institutional investors account for a greater share of ownership, these investors may be better organised than private shareholders. Thus, their desire for information and their command of resources would put pressure on companies to produce timely and

accurate information on their investments. This would also provide access to internal information which may otherwise not be possible (Nobes, 1984).

The absence of regulation in many developing countries limits the comparability and usefulness of financial statements. The functions of capital markets and capital formation may be hampered and the users of financial statements may be deprived of adequate protection. Accounting practices accordingly may vary to serve those who prepare the statements.

The dormant capital market, weak accounting profession and the insignificant role of the private sector in economic development, as seen in developing countries such as Indonesia, means that the government has to play a stronger role in corporate reporting compared with more developed countries like Singapore. In the former case, the government is usually the main user of financial statements for the purpose of taxation.

In Singapore, although financial statements are required by the tax authority, the government is not the only user nor the main influence on corporate reporting. With a strong capital market, private investment and accounting profession, these groups exert pressure on companies to disclose reliable and timely information and to be accountable to investors and interested parties, such as creditors and shareholders. External audit is mandatory under the law, and sanctions are imposed on the companies who fail to submit annual returns to the Registrar of Companies.

Because of deficient book-keeping methods and records, most financial statements produced for tax purposes in Indonesia are usually unreliable and, in the absence of mandatory external audit, lend very little credibility to the accounts. Moreover, companies are not statutorily required to submit financial statements to a regulatory body. Tax liabilities are established on a negotiation basis, which is subjective and based on the influence and skill of the negotiators.

Moreover, penalties for tax evasion are mild and, due to the widespread practice of inadequate maintenance of proper books and records, the taxation influence on financial reporting in Indonesia is much less than one would expect. For taxation purposes, the entrepreneurs may not wish to keep accurate records so as to minimise their tax burdens, preferring to negotiate their tax liabilities.

### III. Accounting Profession

The main differences between Indonesia and Singapore are :

Factors	Indonesia	Singapore
1. Impetus to form Professional Accounting body	From a group of individual accountants.	From the government.
2. Pre-requisites for membership	A) Graduates of state university and candidates who passed the CES exams.  B) Adopt a tight closed-door policy.	A) Graduates of local tertiary institutions and some overseas tertiary institutions and professional bodies. These are mainly from the UK or British influenced institutions.  B) Relatively less restrictive than Indonesia.
3. Self-regulation	Strong governmental control.	Full autonomy.
4. Access of foreign accounting firms to practise	Not allowed to set up practice but can be involved in a consultative and advisory role.	No restriction as long as the partners' qualifications are recognised by Singapore Society of Accountants.

Factors	Indonesia	Singapore
5. Strength of the accounting profession	<p>A. Too few accountants compared with total population.</p> <p>B. Few well-trained members in the profession.</p> <p>C. Co-ordination difficult, resulting in dualism in practice. Those at accounting technician level follow Dutch educational system, and those at State universities the US system.</p> <p>D. Post qualification education lectures and seminars not frequently conducted.</p>	<p>A. Output of accountants over 400 per year from the university, which is considerable.</p> <p>B. Adequate well-trained accountants in the profession to the extent of being able to export their expertise to Brunei and China.</p> <p>C. No co-ordination problem as there is only one tertiary institution producing accountants and the accounting body is well-staffed and established.</p> <p>D. Post-qualification education overseen by a committee from the SSA and seminars held at regular intervals.</p>
6. Profile of members	Majority of members work for the government.	The bulk of members are employed in the industrial and commercial sector.
7. Country of influence on the professional body	US	UK
8. Corporate reporting and accounting standards	Generally very poor as there are few guidelines issued by the professional body. To date only three exposure drafts have been issued.	Corporate reporting standard is good. So far 21 IASs have been adopted as local accounting standards.
9. Audit	Not required by the commercial code. Members of the IAI are predominantly involved in taxation.	Mandatory under company law. Therefore auditing contributes the bulk of gross fees for most public accounting firms.

The impetus for the formation of an accounting body in Singapore came from the government with the aim of controlling accounting practice to ensure a high standard of professional conduct.

In Indonesia, IAI was established in 1957, some six years before the SSA. The impetus for the IAI's formation came from a few individual accountants with the intention of providing an avenue for professional interaction and enhancement of professional competence among the members. Control over the use of the title "Accountants" was already enacted by Law 34/1954, which adopted a closed-door approach in terms of who can practise in Indonesia. Only those from State universities or institutions and those who have passed accredited examinations set by the Committee of Experts can call themselves accountants.

Members of overseas professional associations such as the Chartered Association of Certified Accountants, Australian Society of Accountants, to name a few, can join as members of SSA. All these overseas associations or institutions are British or have historical links with the British professional bodies (e.g. Australia and New Zealand), on which practice in Singapore is still predominantly based.

On matters of professional mobility, foreign accounting firms, whose members' qualifications are recognised by SSA, can establish offices in Singapore without having to enter a joint partnership or correspondent agreement with local firms as is the case in Indonesia. Because of her colonial past, which was characterised by political and economic exploitation, Indonesia has been sceptical of foreigners ever since, and her extreme stance inhibits the transfer of skills and

expertise which are vital to her development. This is not only reflected in the restrictions on foreign professionals wishing to practise in Indonesia, but is also extended to exclude foreign capital investment. Singapore is more liberal in this respect, being very dependent on foreign technology, skills, expertise and investment for economic survival, since she has no natural resources.

Given Indonesia's large population of 170 million, compared with the 2.5 million in Singapore, and an older accounting professional body, the growth of IAI members is deplorably slow. Today it has just over 3,000 members compared with 5,000 SSA members. Indonesia also has more State-recognised institutions and many more private universities teaching accountancy than Singapore. The major factors causing the difference between the two countries are the well-developed educational infrastructure and direct government effort to enhance overall education in Singapore through training and commitment of funds. Singapore does not have the problem of dualism in her education system and, being small, it is easily manageable. University lecturers are competitively remunerated compared with their peers in public practice and in the commercial sector, and thus students have the commitment of full-time lecturers. There is little incentive for lecturers to take outside jobs to supplement their university income. If this happens, it may have adverse effects such as cancellation of classes and less attention being given to university matters due to conflict of interests. The English language is widely taught and used in schools. Also, many of the staff are sent overseas to be educated and trained and this ensures that a reasonable standard is maintained. The presence of foreign accounting firms and companies also helps to



maintain a reasonable standard of professional practice, for the SSA has to ensure that members are kept up-to-date and properly trained to be of use to these corporations or firms. The SSA, in addition to adopting all the IAS and Guidelines, also issues its own standards and guidances to suit local circumstances. Up to October 1987, SSA has issued a total of 22 accounting standards. The profession in Indonesia is well behind in the adoption of International Accounting Standards and Guidelines, with only three exposure drafts being issued to date. One of the contributing factors is the presence of a strong public sector. Virtually all major corporations in Indonesia are State-owned, either directly or indirectly. This is also reflected in the membership profile where the majority of the members of IAI are in the government sector, compared with the SSA where the majority are in the industrial and commercial sector.

In 1987, there were over 500 public accounting firms in Singapore compared with about 350 in Indonesia. In Indonesia, external audit is not required by the Commercial Code, which is one of the reasons that may help to explain the small number of public accounting firms. Besides the university, the large membership of SSA is also attributed to the opportunities available for Singaporeans to take up self-study accounting courses leading to overseas professional qualifications such as ACCA, ICAS and ICMA. At the moment, SSA runs joint ACCA-SSA examinations. Such an arrangement is absent in Indonesia and the avenues for getting a recognised accounting qualification are much narrower in Indonesia than in Singapore, given that the SSA recognises most established overseas professional bodies or institutions. In 1987, SSA established a joint examination scheme with the Association of

Accounting Technicians (UK) to cater for those seeking an accounting technician qualification.

While Indonesia is endeavouring to produce accountants to meet her national demands, Singapore is making plans to "export" accounting expertise to China and has assisted Brunei to establish its professional accounting body. Compared to SSA, the IAI has much to learn and the gap between the two in the areas of professional promulgations, training and control is rather wide. Given the current state of Indonesian accounting development, it has much to do in order to catch up with Singapore.

The strength, size and competence of the accountancy profession are affected to a large extent by the legal system, the stock exchange, business organisations, and the education and training of accountants. The lack of a substantial body of private shareholders and a mature capital market means that the need for auditors is much smaller. The nature of the profession also affects the type of accounting that is or could be practised (Nobes, 1984).

Although the US accounting system is being taught, Dutch practice is still widespread in Indonesia. Most small enterprises use Dutch book-keeping methods, while the larger companies, especially foreign joint ventures, adopt more sophisticated financial reporting procedures. According to Enthoven (1985), in some countries, obligatory audits of major companies to be filed with governments, have not only improved accounting and spurred the profession onwards, but have also tended to influence positively capital formation and economic development. This is very true of Singapore. An established accounting

profession adds credibility to the audited financial statements. Investors will be less apprehensive as to how their investments are being accounted for and assured that accurate and reliable corporate information is produced for use in decision-making. But this cannot be said of Indonesia, which has a weak accounting profession. As observed by Enthoven (1985), external and internal auditing and related auditing procedures are not well developed in many Third World economies. Shortage of trained auditing staff is endemic.

The irony of the Indonesian accounting education and profession is that, given her weak private sector economic participation and unsophisticated economy, much emphasis is placed on teaching US accounting methods which are geared towards serving the accountability function. The relevance of such a policy is questionable as so many resources have been committed to serve so few as illustrated by the deplorable size of the stock exchange. Furthermore, there are too few large private companies with dispersed share ownership. The US system with its emphasis on financial reporting for investors is likely to draw research, manpower and resources away from other more important areas of accounting. Accounting for economic development such as training of more government accountants, management accounting and human resource accounting would be far more beneficial than the present misdirection toward a stewardship-based accounting system. Auditing standards, where these exist in developing countries, according to Enthoven (1985), tend to be geared towards financial audits, and very little is done about operational or economic audit.

In contrast with Singapore, the Indonesian accounting body is weak. Not enough attention is given to the future direction of accounting tasks or ways to introduce new approaches to its members. Accounting has not been geared adequately to meet the economic development needs of the country. Accounting research is practically non-existent. One of the weaknesses of developing countries like Indonesia has been to follow foreign accounting and auditing pronouncements without reference to their relevance. This may serve foreign corporations but the accountability orientation has no place in the local corporate reporting structure, which consists mainly of tightly held family-owned companies and government-owned enterprises. Yet, little effort has been invested in Indonesia to localise accounting standards and practices.

Samuels and Piper (1985), noted that the way accountancy is practised in less developed countries is perhaps one of the most important causes of failure to meet social objectives. Most of the accounting practices originating from developed countries were imposed in an inappropriate and unmodified form.

#### IV. Accounting Education and Manpower

The main differences between Indonesia and Singapore in accounting education and manpower are :

Factors	Indonesia	Singapore
1. Sources of influence	Dualism in practice. Dutch influence at the accounting technician level and the US at the tertiary level.	Predominantly influenced by the British.
2. Foreign aid	Accounting education programme dependent on foreign aid since the 1950s.	Funds primarily from the government.
3. Tertiary institutions teaching accounting	There are six State universities and numerous private universities. This gives rise to co-ordination and harmonisation problems and also varying standards.	There is only one tertiary institution conferring an accounting degree.
4. Output of graduates	Relatively low at an average of 300-500 per year in recent years.	About 400 in 1987 and the number is expected to increase over the years.
5. Staffing	Lecturers are very lowly paid. Most have other outside jobs resulting in poor supervision and standards in teaching. There is also a critical shortage of properly trained accounting teachers.	Pay structure comparable with the commercial sector. The university is able to attract high-calibre staff committed to working full-time.
6. Textbooks and teaching materials	Very few textbook translated and usually outdated books were used. Moreover, library facilities and infrastructure are inadequate.	No problem with textbooks and library facilities as substantial resources and funds have been committed to acquire the latest and most modern of amenities.

Factors	Indonesia	Singapore
7. Compulsory three years post - qualification employment with the government	Required by law.	No such requirement.
8. Availability of overseas accounting professional courses	Not available and moreover, such qualifications are not recognised by IAI.	Most British accounting professional bodies such as ACCA, ICMA and ICSA conduct courses and examinations in Singapore. Therefore, there are other sources whereby Singaporeans can acquire accounting qualifications.

The standard of education in Indonesia is generally poor. This has led the government to seek overseas assistance since the 1950s. Unfortunately, in spite of all these efforts, progress has been slow. Prior to Indonesia's political independence, the Dutch were actively involved in accounting education in Indonesia. The post-independence era saw the Americans taking over this role.

Being a very large country with many different cultures and languages, co-ordination and supervision at every level of education are very important. The consequences of neglecting these are the presence of dualism in the accounting educational system and varying standards in practice.

Before the formation of the Consortium of Economic Science to harmonise the accounting educational system, dualism existed not only in private institutions but also in State universities. For example, the University of Indonesia follows the American curricula while the

University of Gadjah Mada used to adopt the Dutch system. Although the curricula have since been harmonised, especially at state universities, the same cannot be said of private universities which are left on their own to administer their courses.

Standard curricula introduced for the State universities need not necessarily mean that it is carried out to its fullest. In the first place, CAAD, the co-ordinating agency for accounting, was only established in 1985. Besides being in its infancy, it lacks manpower, both in number and quality, to cover the task. The physical coverage is enormous and large sums of monies are required. The five World Bank experts who were supposed to assist in the accounting project arrived late. Instead of helping to critically examine accounting education problems and directing their attention to solving them, they were reduced to the role of lecturers due to shortage of teaching staff. The low pay structure provides a disincentive to accounting professionals or graduates to take up the job full-time. Lecturers usually have jobs elsewhere to supplement their incomes and more often than not, their work at the university is given very low priority to the detriment of the students. Moreover, the standard of teaching is low, aggravated by inadequate textbooks and lack of facilities such as computers, classrooms and journals. Textbooks are mostly American and some institutions still use out-of-date Dutch textbooks. Translated texts are few and the students' poor command of English makes the understanding and the teaching of the subjects difficult.

The presence of dualism saw the non-professional or book-keeping level courses adhering to the Dutch system as signified by the presence of the Bond A, B and APM certificates. The other characteristic is the importance of the government accounting school which produces the majority of the accounting graduates each year. This is because the bulk of the accounting graduates work with the government, and major corporations in Indonesian are all government-owned. The irony is that, given that Indonesia has a strong public sector, the emphasis by universities on following the American financial reporting and auditing based curricula seems absurd. There are only 24 listed companies on the stock exchange. The huge amount of resources committed to benefit only a handful leads one to question whether it is justifiable to adopt a foreign system without examining what Indonesia's real needs are.

With the exception of foreign companies, companies listed on the Exchange and certain local companies (e.g. banks), audits and the preparation of financial statements are not mandatory. This is because most Indonesian businesses are either sole-proprietorships or partnerships. This diversion of resources distracts attention from improving government accounting, which still adheres to the 1864 Dutch system. The government financial statements are consistently late by at least three years and the preceding year's budgets are carried forward for implementation. Accurate and timely information for planning and decision-making are thus lacking.



Except for the period between the 1950s and 1960s when Nanyang University was privately run with government assistance, dualism has not existed in Singapore. Nanyang University used to follow the American system whilst the then Singapore Polytechnic was British oriented.

Although foreign assistance in terms of lecturers and consultants is used, the tertiary institutions in Singapore are mainly funded by the government. From the technician or book-keeping level to the professional level, the British influence is dominant. Also prevalent in most ex-British colonies is the availability of correspondence courses leading to UK professional and non-professional qualifications. This type of alternative is not available in Indonesia. On the subject of lecturers, textbooks and facilities, many resources have been invested, especially in training lecturers by sending them overseas for post-graduate courses. The government has installed up-to-date amenities to make the tertiary institution specifically, NTI, a centre of excellence in this part of the world.

The output of graduates from a single School of Accountancy at the university was over 400 in 1987 and the number is expected to be in the region of 500 per year over the next few years. This is very much higher than Indonesia, and, compared with its size, Indonesia is grossly behind in producing graduates in decent quantity or quality.

The close link between the profession and the School of Accountancy is signified by the presence of a staff member from the university sitting as a statutory member on the Council of the SSA. SSA has its own journal with contributions from all over the world and

from staff of the university. Research has always been strongly encouraged at the Nanyang Technological Institute and its predecessor institutions.

In the majority of developing countries, accounting education and practice are modelled on criteria relevant to industrialised countries. It is common for less developed countries to receive economic aid from developed countries. As recipient countries, these developing countries are usually very dependent on the donor nations for technological assistance, especially in the field of education. All too often, the donor nation's systems are adopted wholesale without any thorough understanding of what the recipients' real problems are. The social, political and economic attributes of the developing countries are seldom taken into consideration, with the result that the projects are infested with implementation difficulties, such as resistance to change, ignorance of the benefits and costs and bureaucracy, which inevitably leads to considerable delay in development and the wastage of resources. Indonesia has received financial and technical assistance to improve accounting education from major foreign aid agencies, particularly from the World Bank, from as early as the 1950s. In spite of large sums of money being spent and the involvement of many experts, Indonesia's current weak education and professional accounting practices bear testimony to the fact that implanting foreign educational systems and practices en bloc into developing countries is not practical.

Funds and expert advice may be given, but the developing countries must determine their own programmes to meet their needs. It is erroneous to assume that, since developing countries lack know-how and skill, it would serve them better if everything is planned for them by the donors. Co-operative efforts might bear better results, as problems or weaknesses can be identified and efforts directed to solve them. The crux of the matter is to supervise and review progress regularly with the employment of full-time staff, both from the recipient and donor nations working together to meet the objectives.

The fallacy in most foreign aid, besides introducing what the donor nation thinks is useful to the recipient country, is the perpetual absence of rigorous supervision and accountability of resources given by the donor agency. Such a situation is prevalent and the attitude that, once the funds have been given, the recipient nation can take care of itself and the programme will succeed, is too presumptuous. The conspicuous absence of direct monitoring and continuous review seems to result in the problems being left unsolved and the further injection of aid when each preceding project fails. More often than not, the allocated funds were exhausted before the dateline. Experiences like these may not be peculiar to Indonesia. Indeed, Engleman (1962) pointed out the need for a flexible programme of education to allow for each individual country's circumstances, which will almost certainly differ from the educational ideas applied in most developing countries.

Students in developing countries often have to use textbooks which have been written for students in another country. American textbooks

were translated into Indonesian and usually there are also the difficulties of translation which distort the clarity of the ideas or concepts.

Unfortunately, Indonesia faces a dual educational system. This is due to significant divergencies in accounting training at tertiary, institutional and other training centres. At the accounting technician level, the Dutch method of instruction is still prevalent, and out-of-date textbooks are often used. At the tertiary level, the US accounting system is followed, with heavy emphasis on corporate reporting to serve the stewardship function.

Engleman (1962) believed that the pre-requisites of a successful accounting profession in developing countries were :

1. A full comprehension of accounting goals over and above the mere recording of cash in and cash out.
2. Understanding of the role of accounting for management purposes.
3. Recognition of the principles of business economics.
4. Acknowledgement of the public responsibilities involved in the profession.

The training of accountants in developing countries has become an international issue. However, the mere act of giving aid is not adequate, the attributes and needs of each developing country have to be thoroughly studied and understood before aid is rendered. Otherwise, experience has shown that the efforts are doomed to failure.

Enthoven (1985) pointed out that in many developing countries, the educational system is geared to financial reporting. Accounting education, he argues, should take into account socio-economic

objectives and provide the necessary tools for economic development. Educational content requires both a theoretical and a practical emphasis. To enhance accounting training and the profession, Enthoven advocates that accounting education should take into account the following :

1. A conceptual socio-economic foundation of accounting education and training.
2. A further specialisation in the various branches of accounting.
3. A closer link among the institutional, professional and educational programmes and continuous education.
4. A greater focus on forecasting techniques, of both an internal and external nature.

#### IV. Securities Industry

The fundamental differences between the securities industries in Indonesia and Singapore are as follows :

Factors	Indonesia	Singapore
1. Size of the stock exchange	24 companies.	317 companies as at 31.12.86.
2. Nature of control	Tight governmental control.	SES essentially self-regulates.
3. Influence on corporate reporting practice	US.	British and Australian
4. Status of the exchange	Least active in the world.	One of the most active in Asia and the world.
5. Access to foreign companies and investors	Prohibition on foreign ownership.	Generally, free to participate, except for some Singapore companies e.g. SIA,

Factor	Indonesia	Singapore
		where the proportion of foreign ownership is defined by the government.
6. Secondary stock exchange	None	An unlisted securities market was established in January 1987.
7. Composition of the Exchange	18 of the 24 companies are foreign joint ventures.	The majority of the companies listed on the exchange are Malaysian listed companies.

In terms of market capitalisation over gross domestic product, the equity market of Singapore and Malaysia had a percentage of 68.6% in 1986, making it one of the highest in the world. The Indonesian equity market, on the other hand, registered only 0.6%. This was the lowest in the world and the Indonesian capital market is also the world's least active.

Stocks and shares dealings were first introduced to Indonesia and Singapore by the Dutch and British respectively. Both countries' securities markets were originated by their colonial masters to allow their own people stationed in the colonies access to shares and stocks dealing in their homeland. Some of the shares and stocks were related to venture capital raised to exploit the natural resources in the colony and the surrounding region.

The present Indonesian stock exchange adopts US reporting practices and a tight authoritative administration in which the process of self-regulation by the exchange is minimal.

Since Indonesia's independence, the US has given considerable assistance in the areas of education, economics and defence. Having purged the Dutch from Indonesia in 1957, the vacuum was gradually filled by the Americans. After more than 350 years under Dutch rule, the Indonesians are generally apprehensive of foreigners. Foreign participation, although encouraged, is very tightly controlled to prevent the recurrence of economic colonisation. The control of the exchange is institutionalised by the government through Presidential and Minister of Finance decrees. Explicit majority foreign ownership is not encouraged and foreign companies are generally more closely scrutinised than local ones.

Unlike Indonesia, Singapore's historical and political experiences are rather different. Due to her strategic location, Singapore thrived on entrepot trade. She became an important market for trade, especially in natural resources from neighbouring countries. Free enterprise was therefore encouraged. The exchange was influenced by the British system and the historical ties and influences have not been abandoned. As she lacks natural resources, foreign investment is crucial to Singapore's economic survival and this was extended to include foreign equity participation in the exchange.

Another characteristic of the SES was that, prior to 1973, it operated as a single exchange for both Singapore and Malaysia. Being previously under the British, they shared similar political experiences and were economically linked in that Singapore used to be the distribution and market place for Malaysian produce. Even today, Malaysian incorporated companies still form the majority in SES.

Foreign companies' dominance is also witnessed in the Indonesian exchange as 18 of the 24 listed companies are foreign joint ventures. The difference is that the majority shareholding of these companies are held by Indonesians.

In Indonesia, most large corporations are State-owned or nationalised industries. Local indigenous companies, on the other hand, are usually small or medium-sized and are either family-owned or tightly held by a group of individuals. The preservation of operating and financial information is deeply embedded in the business tradition. The consequence of having to publish financial statements once listed on the exchange acts as a deterrent. Foreign companies are required to produce audited accounts for the authorities to inspect. Coupled with the fact that such practices are common in their own country, foreign-owned companies are the more likely participants on the exchange. With one of the lowest per capita incomes in the world, only the rich can afford to participate in the exchange. Shareholding is not widespread. Interest offered by banks and deposit taking institutions give higher returns than the exchange. Uncertainty over the political situation and the rupiah (which was devalued in September 1986) has dampened confidence, produced a climate unfavourable to investment and restricted the growth of the capital market.

Singapore, on the other hand, enjoys political and economic stability. Coupled with an ultra-modern infrastructure to service the commercial and industrial sectors, businesses, both local and foreign, find it convenient and attractive to set up operations in Singapore.



The development of corporate reporting is influenced by the growth of the capital market. The shareholders' needs for information usually lead to legislation being enacted to protect what are regarded as owners' rights. The bigger and more sophisticated the capital market, the more legislative expression is given to require companies to produce accurate and relevant financial information.

The Indonesian stock exchange, besides being the smallest, is also the least active in the world. The small number of shareholders provides very little incentive to the government to commit much interest and resources into legislating corporate reporting. However, the irony is that, in the field of education, the teaching of accounting is predominantly based on the US financial accountability or stewardship reporting. This has little significance in practice, because very few companies are listed on the exchange and, also, non-listed companies are not required by law to submit financial statements, either audited or otherwise, to a regulatory body such as the Registrar of Companies. Information sent to the Registrar of Companies is public information and the absence of a law to make corporate information public and a stiff sanction to enforce it, inhibits the development of corporate reporting and therefore fails to enhance the importance of financial reporting. Without widespread share ownership and active participation by the public, the need for protection by the regulation of companies has not been felt. The Jakarta Stock Exchange does not enjoy any degree of self-regulation like the Stock Exchange of Singapore. This is due primarily to fear of foreign domination which is why most foreign investments in Indonesia have to be jointly-owned with the locals, with the latter

having the majority shareholding.

## VI. Government Accounting

The Indonesian government's financial management and accounting practices have not changed very much since 1864. Government accounting still adheres to out-of-date Dutch practice with accounts being maintained on a single-entry basis rendering them less useful for decision-making.

Coupled with inadequate well-trained personnel and bureaucratic constraints, the government's financial statements are often produced late by at least three years. This has also put a strain on the annual budgetary process in that vital statistics and financial information for budget preparation are not available. This has resulted in the roll-over of the preceding year's budgets, which is permitted by the Constitution in the absence of a new budget being produced. The economy of Indonesia is not static as it depends on foreign markets for its exports. The persistent rolling-over of budgets has also caused government policies to be divorced from economic reality. The lack of timely and accurate information for decision-making is thus a major consequence. The absence of tight control over financial recording and administration gives rise to different practices between the local and central government, and also among different government departments.

The other feature is the presence of foreign-aid agencies to help improve government accounting practices. In 1982, the Indonesian government, with financial assistance from the World Bank, employed the SGV Group to improve government accounting and reporting. The

recommendations included the adoption of the American government's administration and accounting practices.

In view of her weak infrastructure, inadequate well-trained staff, bureaucracy, social and economic differences, it is unlikely that full implementation of the US system is feasible. Given such diverse differences between the two countries, one has to question the rationale for adopting the US model.

The Singapore government accounting system is still predominantly British influenced. Unlike Indonesia, it has kept abreast with time.

In the British system, the funds involved are :

1. A consolidated fund through which all transactions are carried out.
2. A contingency fund to meet unforeseen expenditure, subject to legislative approval.
3. A public account in which public monies are held in trust.

In the American and other related practices, there is usually a general account forming the hard core of the accounting system, and a number of other special accounts set up for specific purposes (Enthoven, 1985).

A general feature of the Indonesian and Singapore systems and that of most systems, is that the accounts are maintained on a cash basis with no separate physical balance being maintained. In the 1970s, the Programme Budgeting System was introduced in Singapore. Although accounts are maintained on a cash basis, they are recorded using the double-entry system. Standing orders and manuals are issued to all

government departments and periodically amended to ensure consistency and uniformity in practice. Accounts are timely and prepared each year. This is also facilitated by the use of computer technology, while in Indonesia, the accounts are mainly prepared manually. Consistency in practice and control are also made easier as there is generally one level of government in Singapore. There is a large gap in the quality and standard of accounting practices between Singapore and Indonesia. Singapore has the manpower and the infrastructure while these are lacking in Indonesia.

The main feature of most developing countries is the government's active participation in economic and business activity. The public sector is usually the principal engine of economic growth. According to Enthoven (1985), accounting in State-owned entities often has the same deficiencies as in private entities. Public sector accounting is still mainly seen as an accountability and control device for public receipts and expenditures. Accounting is biased towards stewardship and the checking of the legality and propriety of transactions. However, even in this area, delays are so great that the usefulness of accounting is reduced. The accounting system is devoted to the recording of cash movements rather than cost measurements. Also, excessive rigidity and archaic procedures mean that public needs are not well served. These observations, made by the Society for International Development in 1976, are still valid in the context of Indonesian government accounting today.

In Indonesia, government accountants are trained at STAN, the government accounting institute. Also, all accounting graduates have

to serve three years of compulsory service with the government. These elements are not present in Singapore.

The standard of government accounting in Singapore has improved over the years. The emphasis has shifted from accountability oriented accounting to a managerial approach where value-for-money or efficiency audits have been undertaken to improve the productivity of government departments and to ensure proper utilisation of public funds.

#### VII. Management Accounting

The main differences in management accounting practices are as follows :

Factors	Indonesia	Singapore
1. Status of practice	Very poor and usually non-existent in local and government owned enterprises.	Generally reasonable as the situation has improved in recent years.
2. Personnel	Lack of properly trained staff.	Strong accounting profession and well-trained personnel.
3. Influence in practice	The tertiary institution, which is the primary source, is weak, as management accounting was only introduced during the past few years.	Management accounting has been taught for some time at the university. The presence of many multinational corporations helps to popularise and enhance the practice.

The standard and extent of managerial accounting practice in Singapore is relatively satisfactory compared to Indonesia. This may be attributed to a number of factors. Using out-of-date textbooks,

inadequate facilities and funds, and the shortage of qualified lecturers, have adversely affected the standard of accounting education in Indonesia.

The number of registered accountants is relatively small compared to her population of 170 million people. Moreover, the bulk of the accountants are in government service where the practice of management accounting is minimal. The accounting profession is also weak. Being basically an agrarian economy provides little impetus for accounting compared to one with a strong industrial base. Economic sanctions against foreign companies since independence resulted in a slow-down in the transfer of modern technological and management skills. Even today, foreign capital, although welcome, is tightly controlled and scrutinised. Political and economic uncertainties, coupled with currency volatility, further hinder the inflow of foreign capital. English, the language of modern science and technology, is not widely used and understood. All of these inhibit the acquisition of knowledge and skills.

Furthermore, the number of translated texts is few and efforts to enhance this are retarded by the lack of funds and properly trained personnel to perform the task. Management accounting practices appear to be more prevalent in foreign companies which adopt their parent company's procedures as a matter of corporate policy. The majority of companies are small and comprise mainly sole-proprietorships or partnerships. The large companies, on the other hand, are usually State-owned. The standard of financial reporting in these companies is

low and that of small and medium-size companies deplorable, to the extent that the government has to introduce fiscal incentives for companies to produce audited financial statements. Without proper maintenance of records for financial reporting, it is unlikely that the management accounting system will be strong. Interviews with prominent accountants and accounting administrators in Indonesia confirmed this conclusion. What has been taught at the universities is seldom applied because the staff are not experienced and, more crucially, because they are accustomed to their old methods of doing things, management is reluctant to change. Perhaps a thorough review is necessary to assess the teaching curricula, since the efforts spent on teaching sophisticated management accounting at the universities have had very little practical effect on Indonesian companies as a whole.

Being an agrarian society with a weak manufacturing base, the relevance of copying the American accounting curricula is very questionable. Aid for education is predominantly from the World Bank, which is very much American-influenced. The lesson seems to point to the need to improvise a system to cater for each individual country's needs or to amend established systems to suit one's requirements. The importance of Indonesians planning (with foreign experts as advisors) for themselves cannot be overstated and although foreign experts are important, only the Indonesians really have a full understanding of their own culture, social and economic structures.

The standard of management accounting practice in Singapore is relatively higher than in Indonesia. As the Singapore economy has shifted to concentrate on manufacturing since the 1960s, the empirical

evidence gathered has shown an increasing proportion of companies using some form of management accounting techniques. Local companies, which were initially sceptical of foreign management tools, began to accept the importance of such tools, if they were to be productive. The government also plays a positive role in enhancing this awareness. In the first place, with high technology and modernisation being emphasised in the manufacturing sector, foreign participation is needed and encouraged, and this facilitates the transfer of technology and management skills. Local workers have opportunities to upgrade themselves through the government's skill development schemes (e.g. courses organised by the National Productivity Board). At the tertiary institutions, modern facilities are installed and management skills and knowledge are taught with the aim of servicing industry. Unlike Indonesia, what is taught in Singapore has at least a ready outlet for exposure as the multinationals and many local companies have upgraded the manufacturing process with government incentives. English is taught in Singapore schools and is also widely spoken. Modern management and manufacturing tools are relevant and vital to Singapore's economic progress. Indonesia, on the other hand, is less developed and with an agrarian economy, it is difficult to visualise the relevance of the American influence unless the fabric of the Indonesian society is changed to absorb the influence.

Management accounting practice in Indonesia is virtually at an infant stage. Where it is practised, it is usually confined to foreign-owned enterprises which follow practices in their parent companies. Singapore, on the other hand, has relatively more sophisticated management accounting practices, although not as developed as those in



more industrialised countries like the US, UK and Australia. The high standard of accounting education, the strong accounting profession and the existence of many multinational corporations, all contribute to the growing awareness of the importance of management accounting to promote industrial productivity and competitiveness. The Singapore government's efforts to promote these latter objectives have also encouraged management to upgrade their management skills.

Unfortunately, in Indonesia, the standard of financial recording is weak and it is very unlikely that any decent form of records are kept for the purpose of decision-making. Also, without properly trained and skilled accounting personnel and with the accounting profession's pre-occupation with the accountability-oriented role of accounting, management accounting practices in many indigenous Indonesian companies, even the larger ones, are usually non-existent.

In most developing countries, management usually fails to appreciate the value of installing management accounting systems. The direct benefit of such a system seems too remote for them to assess and they would prefer to invest in projects that produce tangible results. Managerial accounting faces the challenge of being economically irrelevant. Although management may be ignorant, supporting staff such as accountants will inevitably have to play an important function to fill the gap. The problem with this in Indonesia is that the accounting profession is generally weak and it would be too much to expect for accounting personnel to go beyond the ambit of financial accounting.

Enthoven (1985) noted that in Indonesia, management accounting has been neglected due to a pre-occupation with financial accounting. As a result of this, cost records are poorly maintained. Deprived of realistic cost and allocation procedures, internal planning and control methods are often very weak and accountants, both in the private and the public sectors, tend to spend a relatively small portion of their time on systems and procedures.

#### VIII. Conclusions

This comparative study indicates that there are fundamental differences between the accounting systems in Indonesia and Singapore. Singapore enjoys a high standard of living and can be considered a developed economy with a relatively good manufacturing, financial and socio-economic infrastructure. On the other hand, Indonesia is a developing country and, as in most developing countries, the economy is predominantly agrarian. The major part of the population live in rural areas and income and wealth are unevenly distributed, with the majority of the population being exposed to extreme poverty. Exports consist mainly of agricultural and mineral products. In the case of Indonesia, oil revenue accounts for about 70% of the national income.

With respect to the status of accounting practice, this study has found that Indonesia's underdeveloped economy goes hand in hand with her underdeveloped accounting system. As with many former colonies, the influence of the former colonial master, in this case the Dutch, is still significant in Indonesia. However, the peculiarity of Indonesia is the co-existence of US influences with Dutch accounting systems,

which gives rise to dualism in accounting practices and difficulty in co-ordination. In the case of Singapore, accounting development and practices are still predominantly influenced by the British models of accounting education, financial reporting, the accounting profession and government accounting.

Another unique feature of Indonesia is the insignificant influence of foreign accounting firms and multinational companies (MNCs) on accounting practices. Since independence, foreign capital investments and majority foreign stakes in businesses in Indonesia have been discouraged. Most major corporations are owned by the government and, through the employment and training of local accountants, the government exerts an important influence on the development of accounting. The adoption of the US system (which is biased towards listed companies) with its emphasis on financial reporting for investors is likely to draw research, manpower and resources away from other more important areas such as management accounting and public sector accounting.

The direction of accounting development in Singapore has moved very much in line with that in the UK. Although the US may have an influence through the presence of many US MNCs in Singapore, it does not pose a major challenge to the British models, which have been adopted and institutionalised in Singapore for over 150 years.

The nature of accounting problems in Singapore is different from Indonesia. Indonesia's pre-occupation with accountancy is mainly of a quantitative nature, e.g. ensuring adequate infrastructure, funds and personnel to help in the national endeavour to produce more

accountants, as was the situation facing Singapore in the 1960s. Singapore's primary concern at the moment is to enhance the quality of the accounting institutions and profession to help her to improve her image as an important financial centre and a sophisticated economy. To achieve this, foreign technology and capital are needed. However, foreign investors need to be assured that the performance and propriety of their investments are properly accounted for. The audit function is important as it enhances the credibility of the financial reports. A strong accounting profession is essential to control and train members in practice. In addition, other areas of accounting such as management accounting and macro accounting are also important to provide a useful measurement functions needed for economic planning, control and decision making.

The current status of a country's accounting system is attributed to historical, cultural and educational factors. These have given rise to fundamental differences between accounting practices in Indonesia and Singapore. However, with the increase in international trade, there have been efforts to harmonise accounting practices among countries. Such an effort was initiated in ASEAN by the ASEAN Federation of Accountants (AFA) in the late 1970's, but suffered an early demise due to apathy and the lack of commitment from member countries. Although harmonisation may be applicable to MNCs and listed companies with widespread international investments, it should be not be substituted for national standards or procedures, for accounting should reflect the economic reality of local business. Too much emphasis on harmonisation with its attention on financial reporting will most likely divert resources away from other important areas of

accounting, such as management accounting and government accounting. Those who cherish the thought of harmonisation in ASEAN becoming a reality must appreciate the fact that Indonesia and Singapore are just two of the six member countries in AFA, yet their differences appear irreconcilable. Having to standardise the practices in all six countries from different political, social and economic backgrounds is no easy task and it may create more problems than it can ever solve.

Each country is different and has different needs. The purpose of accounting is to serve society. It is not an end in itself, but a means to an end.

## CHAPTER 17

### SUMMARY AND CONCLUSIONS

This thesis looks at the following areas of the accounting systems in Indonesia and Singapore :

1. Corporate reporting.
2. Accounting education and manpower.
3. Government accounting.
4. Management accounting.
5. Accounting profession.
6. Securities industry.

The thesis began with a review of political and economic development, followed by an examination of the Indonesian and Singapore accounting systems respectively, and concluded with a detailed comparative study of the two systems.

This study found that Indonesia's underdeveloped economy goes hand in hand with the underdeveloped accounting establishment and practices. Corporate reporting is not widely practised and is applicable to very few corporations, such as those listed on the stock exchange and foreign companies. This is inhibited by an out-of-date commercial code adopted in 1848 and the government ownership of major Indonesian corporations, thus reducing the influence of MNCs to the minimum as foreign investments are tightly controlled in Indonesia. Dualism in accounting practice exists and renders proper co-ordination difficult. Generally the status of corporate reporting is poor and most businesses do not prepare financial statements, as tax liabilities are usually established on a negotiation basis.

The output of accounting graduates is affected by the weak educational establishment, lack of resources such as funds, lecturers, textbooks, and inadequate co-ordination. There is a grave shortage of suitably qualified accountants in Indonesia. The bulk of the graduates was from STAN, the government accounting school, and the heavy emphasis on financial reporting and auditing at the tertiary institutions appears irrelevant as only a handful of corporations produce financial statements and an even smaller number have their accounts audited. Dualism in accounting education exists as the Dutch system is still prevalent at the book-keeping level.

The other feature of the educational system is the presence of foreign funds and accounting experts, particularly from the US. In spite of this assistance, the standard of accounting has not prevented the mis-management of the aid projects and funds. The route to becoming an accountant as recognised by IAI is very restrictive as only those who graduate from State universities and those who pass the examinations set by the Committee of Experts can call themselves accountants. Given Indonesia's grave shortage of accountants, her immediate problem is to solve the quantitative shortfall, and at the same time ensure that a decent standard is maintained through proper co-ordination. The adoption of the US system with its emphasis on financial reporting for investors diverts resources away from other more important areas such as management accounting and public sector accounting.

The state of government accounting practice is as poor as that of corporate reporting in Indonesian companies. The government financial

statements are perpetually late by at least three years. The law affecting government accounting is still based on the 1864 Dutch accountability legislation with few amendments. With financial assistance from the World Bank, a firm of public accountants was commissioned in 1984 to revamp the whole system of government accounting in Indonesia. The final recommendations called for the adoption of practices similar to the US Government Accounting Office (GAO). In view of the political, economic and social differences, the practical implication of introducing such a system into Indonesia is that it may not be compatible or feasible to implement.

Management accounting is virtually non-existent in Indonesian companies. If there is any, it is usually confined to those engaged in joint ventures with foreign companies. Due to the emphasis on financial reporting and auditing at the tertiary institutions, the teaching of management accounting is neglected and theoretically biased. Even in government-owned companies, management accounting is not widely used. Management and staff are ignorant of the usefulness of management accounting and still prefer to adhere to traditional methods of conducting business. A weak book-keeping and financial reporting system usually reflects poor management accounting practice.

With an educational system that produces few accountants of reasonable quality, the accounting profession, in particular IAI, is weak. Except for a handful of exposure drafts, no other professional guidelines have been issued. There are over 3,500 members and the majority are employed by the government. Continuing professional education for its members is seldom organised. Without the profession taking the initiative to improve the knowledge and skills of its



members, the scope for raising the standard of accounting is limited.

The Indonesian stock exchange is the least active in the world. There are only 24 listed companies and foreign participation is limited. In many countries, the need for corporate reporting and auditing usually arises from the growth of the capital market. The inert nature of the exchange may perhaps be one of the contributing factors for the poor state of corporate reporting practice in Indonesia. While many countries are opening up their financial institutions and markets to foreign participation, Indonesia has been slow to respond to such overseas developments. Moreover, the tradition of preserving corporate information by most Indonesian companies makes them unwilling to participate in the exchange, as this would entail having to produce financial statements on the business activities. Furthermore, the exchange, being inactive, does not provide attractive returns to investors who prefer higher returns from time deposits. Most Indonesians are too poor to engage in securities trading. Last, but not least, the exchange is too tightly controlled by the government to allow for any innovations to improve the situation.

The standard of corporate reporting practices in Singapore follows the UK very closely. Companies are required to produce audited financial statements and to submit them to the Registrar of Companies. With the government's efforts to attract foreign investments, legislative control over corporate behaviour is vital to safeguard investors' interests. To supplement the disclosure requirements in the Companies Act, the accounting profession has issued accounting standards and guidelines which are essentially similar to those issued

by the International Accounting Standards Committee (IASC). This has brought the accounting practices of Singapore into line with those of the many MNCs operating in Singapore, whose national accounting bodies are also members of IASC. Corporate reporting in Singapore is thus relatively up-to-date.

Singapore has only one institution conferring accounting degrees. In addition, many accredited overseas qualifications are recognised for admission to the SSA. The output of graduates is about 400 per year, comparable to that of Indonesia. The institution produces enough accountants to meet her needs. However, this is not the main concern facing accounting education, but that of improving the quality of education and the profession. Unlike in the 1960s, when Singapore had to rely on foreign accountants to meet her needs, at present Singapore has sufficient accounting professionals to be able to export her expertise to places like China and Brunei. The university accounting qualification is recognised for admission to many overseas post-graduate courses and attracts partial exemption to professional examinations such as ACCA and ICMA. This indicates that the standard of accounting education in Singapore has attained a reasonable level if it is given such overseas recognition.

The standard of government accounting in Singapore has improved over the years. In the late 1970s, a Programme Budgeting System was introduced to ensure proper accountability of public funds. Moreover, the emphasis is placed on generating information for decision-making, while value-for-money audits are carried out to ensure the efficient utilisation of resources.

Efforts to introduce management accounting techniques into industry were taken by the EDB with assistance from UNIDO in the 1960s. Unfortunately, it encountered resistance, particularly from local businesses which were apprehensive and reluctant to change their traditional ways of conducting business. Moreover, there was a communication problem as English was then not widely used. With better education and government encouragement to industries in Singapore to modernise and be productive, management accounting has caught on with local companies. Empirical studies have also indicated that small businesses which were the main resisting group in the early days have begun to accept and implement some management control techniques. However, management accounting practice is more prevalent in foreign corporations, which are usually larger and more established. The effort by the government to attract more sophisticated industries to Singapore also facilitates the transfer of such skills to local companies. At the university, the teaching of management accounting is also emphasised and a case study approach is used to introduce students to the practical aspects of the subject. A good financial reporting practice and a well-established professional body help to enhance management accounting.

The accounting professional body has over 5,000 members. Members are required to participate in the continuing professional education programme organised by SSA. The bulk of the members are employed in the industrial and commercial sectors. Professional accounting standards and guidelines follow those issued by the International Accounting Standards Committee. Members from most UK and British influenced accounting associations such as those from Canada, New

Zealand and Australia, are recognised by SSA. However, there is no reciprocal recognition, thus restricting the mobility of local accountants in setting up practices in these countries. In general, compared with other professional accounting bodies in the ASEAN region, Singapore can be regarded as being more established and better organised.

The Stock Exchange of Singapore is very active. The developed exchange, coupled with a rigorous companies law, provides impetus for improvements in corporate reporting standards. Foreign participation is encouraged and this helps to create more activity on the exchange. Listed companies are required to produce timely and accurate financial statements. Furthermore, the reporting requirements of the exchange are more comprehensive than those required by company law. An unusual feature of the exchange is that, prior to 1973, it operated as a single exchange for both Singapore and Malaysia. Malaysian incorporated companies have accounted for the majority of the listed companies on the exchange and this was attributed to the close link between both countries since the colonial days. The securities industry in Singapore is relatively advanced and with its endeavour to be an important financial centre, one would expect the need for more controls and accountability for corporate behaviour.

For accounting to contribute significantly to Indonesia's economic development, a sound accounting education and training system is needed. In addition, an influential professional accounting body and a set of cohesive laws and policies pertaining to accounting at both micro and macro economic levels are essential. Major reforms are

required in these three areas.

In the field of accounting education and training, a policy decision to determine the direction of accounting development has to be laid down. The bias towards the US system (with its heavy emphasis on financial accounting and auditing) has to be weighed against its relevance and benefit in the light of Indonesia, which is an agrarian economy characterised by a weak private sector and an underdeveloped capital market. As the US system favours widespread share ownership, the pre-occupation with the system benefits only a handful of enterprises and leads to wastage of monetary and manpower resources. As the public sector is the mainstay of the economy, the emphasis should be shifted away from accounting for investors to providing accounting information for control and decision-making. A curriculum review at all levels of accounting education and training is needed to emphasise subjects such as management accounting, government accounting, operational audit and economic development accounting. There must be scope for greater accounting specialisation in these areas. Unless her national needs are identified, Indonesia will face a shortage of accountants with the required expertise and knowledge to enhance economic development.

The lack of lecturers who can commit themselves full-time is another area of grave concern to Indonesia. The poor remuneration provides little incentive to induce lecturers to teach full-time, and they hold other jobs to supplement their meagre income. This has been a chronic problem since 1952 when accounting was first introduced at the tertiary level. Unless the plight of lecturers in Indonesia is recognised and their welfare taken care of, the benefits of foreign

aid, the injection of funds to build a proper infrastructure and the effort spent on planning and co-ordination in accounting will be wasted. If Indonesia is determined to improve the standard and quality of accounting in the country, she must be prepared to make teaching an attractive and lucrative profession. The human factor is an integral and important element in any accounting development effort. Moreover, Indonesia has to consider re-allocating her resources to overcome the shortage of teaching materials - a problem she is facing at the moment. More has to be done to encourage research to be carried out and more Indonesian textbooks to be written about accounting. In addition, efforts are needed to facilitate the translation of foreign accounting texts.

The accounting professional body has to play a more active role in upgrading its members and keeping them informed of developments in accounting overseas. Continuing professional education (CPE) must be emphasised and, where possible, a structured programme should be introduced to serve the various needs of members. Regional co-operation would be particularly useful, whereby experts from the ASEAN region could be invited to share their expertise and experience. This could be arranged through ASEAN Federation of Accountants (AFA) of which Indonesia was a founding member. In the area of accounting standards setting, the IAI should concentrate on producing standards and guidelines for the public sector which are virtually non-existent at the moment. Instead of stressing financial reporting and auditing, the adoption of standards and guidelines promulgated by IASC with some revision to suit Indonesia's environment would suffice. This would

enable resources to be channelled to other areas where the need is more crucial.

Reform of the Indonesian Commercial Code is long overdue. Well-developed companies legislation might enhance the growth of the private sector, as investors are more willing to invest if their interests are recognised and protected by law. As Indonesia is gradually opening up her economy to foreign investments, an obsolete corporate law with many irrelevant and unrealistic clauses for today's modern economy will cause apprehension and uncertainty for foreign investors, who may find it difficult to operate under these circumstances.

A tighter and closer scrutiny of foreign aid with regular reporting and audit by the lending organisation on the proper use of funds will help to ensure that previous errors of control and supervision are not repeated. Indonesia has to be made more accountable for the borrowed funds and close co-operation with the lenders is important to ensure success.

Two immediate areas of reforms are applicable to Singapore. The first involves efforts to integrate micro and macro accounting to facilitate national economic planning and decision-making. At present, accounting information produced by companies is not incorporated into the national income accounts and such inclusion would enhance the accuracy of national income estimates. The second is in the field of accounting research. This should be emphasised at the tertiary

institutions and by the accounting professional body. An examination of Singapore's present and future accounting needs, regional accounting co-operation, impact of information technology on accounting and a study of uses of financial statements in macro-economic analysis and social accounting are some possible areas for research.

The comparative differences of accounting systems between Indonesia and Singapore are very wide. Indonesia's system reflects the majority of the deficiencies encountered by most developing countries. The implanting of foreign systems into an incompatible environment causes apathy and resistance. This is one major lesson that other countries can learn from Indonesia. Aid, either foreign or local, is useful in building the infrastructure and training personnel to meet the problems facing accounting practices in Indonesia, but the lack of supervision and accountability in respect of how the funds are spent and whether they are used for the intended purposes reduces the impact of such assistance. Thorough planning, directing and control are vital if one is to see improvement in Indonesia.

The challenge facing Singapore, is of a qualitative nature - whether she can improve the skills and expertise of the accounting profession to serve her economic needs for a high technology and financially based economy. The present standard of the accounting systems is reasonable. However, as the business environment is dynamic, there may still be room for further improvement.



Finally, harmonisation of accounting standards with its emphasis on financial reporting is no substitute for national standards or procedures. The danger of harmonisation drawing resources away from other important areas of accounting cannot be ignored. For those who advocate regional or global harmonisation of accounting practices, this study provides substantial evidence to show that, given the immense differences in just two neighbouring countries, the complications in including more countries would render harmonisation a myth.

THE UNIVERSITY OF HULL

A COMPARATIVE STUDY OF ACCOUNTING SYSTEMS

IN INDONESIA AND SINGAPORE

VOL. 2

being a Thesis submitted for the Degree of Doctor of Philosophy

in the University of Hull

By

FOO SEE LIANG, B.Comm. (N.S.W.)

February 1988

APPENDIX 3-1

PRESIDENT OF THE REPUBLIC OF INDONESIA

INSTRUCTION OF THE PRESIDENT OF THE REPUBLIC OF INDONESIA

No. 6 OF 1979

RE

TAXATION POLICY

PRESIDENT OF THE REPUBLIC OF INDONESIA

- Considering : a. that taxation, besides constituting the main source of the State's revenues, is also a mechanism to support the intensification of investment and product and equal distribution of income in the community.
- b. that in the Third Five Year Development Plan, it is necessary to more intensify the discipline, obedience and frankness of tax-payers in the frame of developing a sound climate for the business world.
- c. that to execute the said taxation policy, it is regarded necessary to give directions as its executive directions.
- With a view to : 1. Article 4 paragraph (1) and Article 23 paragraph (2) of the 1945 Constitution;
2. Edict of People's Consultative Congress No. IV/MPR/1978 re Outlines of the Policy of the State;
3. Corporation Tax Ordinance 1925 as already altered and added, most recently by virtue of Law No. 8 Year 1970 re Amendments and Additions of the 1925 Corporation Tax Ordinance (Official Gazette Year 1970, No.44, Supplementary Official Gazette No. 2941);
4. Income Tax Ordinance 1944 as already altered and added, most recently by virtue of Law No. 9 Year 1970 re Amendments and Additions of the Income Tax Ordinance 1944 (Official Gazette No. 2491).
5. Properties Tax Ordinance 1932, as already altered and added, most recently by virtue of Law No.24 Prp. Year 1959 re Amendments and Additions of Law Substituting Government Regulations :

- 1) No. 7 Year 1959 (Official Gazette Year 1959 No. 100) re Amendments and Additions of Properties Tax Ordinance;
  - 2) No. 12 Year 1959 (Official Gazette Year 1959 No. 103) re Dividend Tax Collections;
  - 3) No. 13 Year 1959 (Official Gazette Year 1959 No. 24) re Amendments and Additions of Corporation Tax Ordinance;
  - 4) No. 15 Year 1959 (Official Gazette Year 1959 No. 108) re Increase of Tariff of Excises against Beer and Refined Alcohol and Import Duty Increase against Beer;
  - 5) No. 16 Year 1959 (Official Gazette Year 1959 No. 109) re Amendments and Additions of Income Tax Ordinance;
  - 6) No. 17 Year 1959 (Ordinance Gazette Year 1959 No. 110) re Amendments and Additions of Wage Tax Ordinance;
  - 7) No. 18 Year 1959 (Official Gazette Year 1959 No. 111) re Amendments and Additions of Stamp Duty Regulations;
  - 8) No. 19 Year 1959 (Official Gazette Year 1959 No. 112) re Amendments and Additions of Household Tax Ordinance;
  - 9) No. 20 Year 1959 (Official Gazette Year 1959 No. 113) re Amendments and Additions of Sales Tax Law.
6. Indonesia Tariff Law 1872, as already altered and added;
  7. Excises and Ordinance 1931, as already altered and added;
  8. Tobacco Excises Ordinance 1932, as already altered and added;
  9. Law No. 34 Year 1954 re Using the Title of "Accountant" (Official Gazette Year 1954 No. 103, Supplementary Official Gazette No. 705).
  10. Law on Tax against Interest, Dividend and Royalty 1970;

11. Law No. 1 Year 1967 re Foreign Capital Investment (Official Gazette Year 1961, No. 1, Supplementary Official Gazette No. 2818), as already altered and added most recently by virtue of Law No. 11 Year 1970 (Official Gazette Year 1970 No. 96, Supplementary Official Gazette No. 2943);
12. Law No. 6 Year 1968 re Domestic Capital Investment (Official Gazette Year 1968 No. 33, Supplementary Official Gazette No. 2853), as already altered and added most recently by virtue of Law No. 12 Year 1970 (Official Gazette Year 1970 No. 97, Supplementary Official Gazette No. 2944).
13. Stamp Duty Regulation 1921 as already altered and added, most recently by virtue of Law No. 2 Prp. Year 1963;
14. Sales Tax Law 1951, as already altered and added most recently by virtue of Law No. 2 Year 1968;
15. Decree of the President of the Republic of Indonesia No. 7 Year 1979 re the Third Year of the Five Year Development Plan ("REPELITA" III).

**T O I N S T R U C T :**

To : Minister of Finance of the Republic of Indonesia

In order  
Firstly : To stipulate regulations to materialize better services both to taxpayers' community, control and re-ordering on taxation apparatus, upholding the fiscal discipline and taxpayers' obedience and arrangement on using the services of Public Accountants based on the policies as inserted hereinunder :

**Article 4**

The taxation relief as referred to under paragraph (2) of Article 3 covers :

- a. Revaluating the fixed assets of the undertaking bodies on January 1, 1979.
- b. Granting relief of corporation tax tariff and assessment bodies for charging tax as from the 1979 fiscal year.
- c. Granting corporation tax tariff relief for the undertaking body in the form of Cooperative.

- d. Granting taxation relief for the addition of share capital of the undertaking bodies, of which the capital is divided into shares which are derived from the retained profit.
- e. Granting taxation relief for the Limited Liability Company which sells its shares to the public via the Capital Market.
- f. Giving opportunity to the undertaking bodies to apply the system of evaluation on the stock of goods and the calculation of the basic selling price of the goods which the more profitable viewed from the aspect of the calculation of the tax which is due.
- g. Granting tax relief and amnesty to undertaking bodies which use the services of the Public Accountant.
- h. Prolonging the validity period of the provisions on the capital whitening facility.
- i. Granting relief to the tobacco product duty tariff and harmony between the price of duty tape and the retail price of tobacco products.

#### Article 5

To execute better and more open the company's administration, Minister of Finance shall stipulate the directives concerning the assessment of the Corporation Tax.

#### Article 6

Public Accountants who make Audit Reports and other reports which are not true or hide information which is important or misleading and inflict tax losses on taxation and do not obey the provisions which are regulated in the Accountant Audit norms and Code of Ethics which are stipulated by the Indonesian Accountants Association shall be charged sanction in the form of prohibition to run practice temporarily or for good.

Secondly : This Presidential Instruction is effective as from the date of the sanctioning.

Sanctioned in Jakarta

On March 26, 1979,

PRESIDENT OF THE REPUBLIC OF INDONESIA,

W.S.

SOEHARTO

Note : This appendix is extracted from Katjep K. Abdoelkadir, The Perceptions of Accountants and Accounting Students on the Accounting Profession in Indonesia, Texas A & M University, 1982 (Unpublished PhD thesis).

APPENDIX 3-II

DEPARTMENT OF FINANCE

DECREE OF THE MINISTER OF FINANCE OF THE  
REPUBLIC OF INDONESIA

NO. 108/KMK.07/1979

ON

UTILIZATION OF AUDIT REPORTS OF PUBLIC ACCOUNTANTS FOR  
OBTAINING RELIEFS CORPORATION TAX ASSESSMENT

THE MINISTER OF FINANCE OF THE REPUBLIC OF INDONESIA

Considering : a. that is the implementation of development as outlined in the third Five Year Development Plan (REPELITA III), the participation of the entire community, including business enterprises, is needed;

b. that it is necessary to create a favorable climate for business circles in the form of more objective and reasonable tax assessment with the existence of orderly and open administration of business enterprises;

c. that the results of a Public Accountant's audit can serve as a yardstick for the orderly and open administration of business enterprises;

d. that to business enterprises keeping an orderly and open administration, certain tax reliefs can be granted.

With a view to : 1. The Corporation Tax Ordinance 1925 as lastly amended and added with Law No. 8 Year 1970;

2. Law No. 34 Year 1954 on the Use of the Title of Accountant;

3. Decree of the President of the Republic of Indonesia No. 59/M Year 1978 on the Formation of the third Development Cabinet;

4. Instruction of the President of the Republic of Indonesia No. 6 Year 1979 on Taxation Policy.



## H A S     D E C I D E D

To Stipulate     :    DECREE OF THE MINISTER OF FINANCE OF THE REPUBLIC OF INDONESIA ON UTILIZATION OF AUDIT REPORTS OF PUBLIC ACCOUNTANTS FOR OBTAINING RELIEFS IN CORPORATION TAX ASSESSMENT.

### GENERAL PROVISIONS

#### Article 1

Meant by business enterprise in this Decree, is any business enterprise obligated to pay Corporation Tax, which :

- a. Keeps an accounting system in accordance with the Indonesian Accountancy Principles stipulated by the Accountants Association of Indonesia;
- b. At the end of each fiscal year issues a Financial Report consisting of a Balance-sheet, Profit/Loss Statement, and its explanation, which can prevent misinterpretation, in accordance with Attachment I of this Decree;
- c. The Financial Report is audited by a Public Accountant in accordance with the assignment conditions (Terms of Reference) as referred to in Article 2 letter d.

#### Article 2

Meant by Public Accountant in this Decree, are Public Accountants :

- a. Who are in possession of a legal permit/licence to perform the tasks as a Public Accountant;
- b. Where each member of the Management and employees of the Public Accountant Office or family of its Management and employees have no work relations of financial interest, directly as well as indirectly, with the business enterprise or its affiliations to be audited by them;
- c. Who conducts their accountant's audits in accordance with the Accountants' Audit Norms and Code of Ethics stipulated by the Accountants Association of Indonesia;
- d. Who adheres to the conditions for the Assignment of Public Accountants (Term of Reference) to conduct an audit on a business enterprise obligated to pay corporation Tax, in accordance with Attachment II of this Decree.

## BASIS OF CORPORATION TAX LEVY

### Article 3

1. The Financial Report already audited by a Public Accountant shall be submitted to the Head of the Tax Inspection within a period of maximally twelve months after the end of the fiscal year.
2. The Financial Report of the business enterprise audited by a Public Accountant shall be used as the basis for obtaining reliefs in Corporation Tax assessment, if the Audit Report :
  - a. Contains an unqualified opinion;
  - b. Contains a qualified opinion, with the provision that the effect/influence of this qualification on the profit/loss of the business enterprise shall be firmly stated.

### Article 4

An unqualified opinion is a Public Accountant's opinion in a Long Form Report, stating that :

- a. An audit has been conducted in accordance with the Accountant's Audit Norms stipulated by the Accountants Association of Indonesia without limitation of audit scope;
- b. The Balance Sheet of the business enterprise presents a reasonable picture of the financial situation at the end of the fiscal year;
- c. The Profit/Loss Statement presents a reasonable picture of the business results during fiscal year;
- d. The Financial Report has been shown drawn up in accordance with the Indonesian Accountancy Principles, including the conditions on disclosure which can prevent misinterpretations;
- e. The Financial Report has been drawn up in a consistent way, in accordance with the preceding year.

### Article 5

1. The Tax Inspection Head shall accept the Financial Report as referred to in Article 3 paragraph (2) as far as it concerns the facts described therein, with the provision that :
  - a. In respect to the Audit Report, on which an unqualified opinion has been given, the Tax Inspection Head can make limited fiscal corrections on matters which in a juridical fiscal way, should be corrected/rectified, on the basis of the tax legislative regulations,

- b. In respect to the Audit Report, on which a qualified opinion has been given, besides the correction as referred to in letter a above, the Tax Inspection Head can make corrections on matters which constitute the qualifications as far as considered necessary.
2. Before the tax assessment is issued, the Tax Inspection Head shall notify the business enterprise in writing concerning the fiscal correction as referred to in paragraph (1) of this article, with a copy to the Public Accountant concerned.
3. In case the business enterprise has a different opinion on the fiscal correction notified to him, then the business enterprise concerned can forward his problem/case to the Director General of Taxes within a period of 14 (fourteen) days after the receipt of the notification as referred to in paragraph (2) of this article.
4. As long as the relative problem/case has not yet been decided upon by the Director General of Taxes, the Tax Inspection Head concerned shall postpone his tax assessment.

## SANCTIONS

### Article 6

A Public Accountant who draws up an Audit Report and other reports which are incorrect, false or conceal important information or which are misleading and detrimental to taxation, and who do not adhere to the provisions as regulated in the Accountants Audit Norms and Code of Ethics as stipulated by the Accountants Association of Indonesia, shall be imposed with the sanction of prohibition to practise, temporarily as well as permanently.

### Article 7

The investigation on the matters as referred to in Article 6 with the form of sanction to be imposed on the Public Accountant concerned, shall be regulated by the Director General of Taxes in conjunction with the Director General of State Finance Control.

## TRANSITIONAL PROVISION

### Article 8

For business enterprise, which, as from the 1979 fiscal year, adheres to the provisions as referred to in Article 1, the disclosure of new facts conducted within the frame of applying the relative provisions shall not be used as basis for the issuance of a successive tax collection assessment, for the 1978 fiscal year and before that.

## CONCLUDING PROVISIONS

### Article 9

1. Matters not yet regulated in this Decree, as far as it concerns audits by Public Accountants will be stipulated by the Director General of Taxes in conjunction with the Director General of State Finance Control.
2. The Director General of Taxes is authorized to regulate the implementation of this Decree, as far as it concerns matters of tax levy.

### Article 10

This Decree shall become effective on the date of its stipulation and shall for the first time be applied on Financial Reports for the 1979 Fiscal Year.

In order that any person may be advised hereof, this Decree shall be inserted in the State Gazette of the Republic of Indonesia.

Stipulated in Jakarta  
on March 27, 1979

THE MINISTER OF FINANCE

w.s.

ALI WARDHANA

E L U C I D A T I O N

O N     T H E

DECREE OF THE MINISTER OF FINANCE OF  
THE REPUBLIC OF INDONESIA  
NO. 108/KMK.07/1979

O N     T H E

UTILIZATION OF AUDIT REPORTS OF PUBLIC ACCOUNTANTS  
FOR OBTAINING RELIEFS IN CORPORATION TAX ASSESSMENT

1. GENERAL

In the development of business circles in Indonesia, the role of Public Accountants is already being increasingly recognized, and its need is also felt, particularly for the purpose of objective Corporation Tax assessment, which has been initiated with the issuance of a Joint Statement by the Director General of Taxes and the Accountants Association of Indonesia on May 19, 1973.

The utilization of Public Accountants' service plays an important role in realizing an orderly and open administration of business enterprises; as for an audit by a Public Accountant, the existence of an orderly and open administration is required.

The Government has an interest, that business enterprises keep an orderly and open administration, as in this way the application of the provisions of the Corporation Tax Ordinance 1925 can be implemented in a more objective and reasonable manner.

Therefore, the Government grants facilities to business enterprises which have an orderly and open administration, in the form of Corporation Tax reliefs and whitening of previous taxes.

The results of a Public Accountant's audit on the Financial Report of a business enterprise can be used as a yardstick for the orderly and open administration of the business enterprise concerned.

Therefore, in this Decree it is stipulated that Corporation Tax reliefs and whitening of previous taxes will be linked with the Audit Reports of Public Accountants.

## II. ARTICLE BY ARTICLE

### Article 1 and Article 2 :

The business enterprises and Public Accountants meant in this Decree are limited to those which really fulfill the requirements as stipulated in these two articles. Therefore, only those have the right of the fiscal treatment as stipulated in Article 5.

### Article 3 :

Paragraph (1) : The stipulation of a twelve-month period after the end of fiscal year is regarded as sufficiently reasonable considering that the orderly administration of a business enterprise will facilitate the composition of the Financial Report and also facilitate the audit by the Public Accountant.

Paragraph (2) : The opinion of a Public Accountant on the Financial Report of a business enterprise can constitute :

- a. an unqualified opinion, or
- b. a qualified opinion, or
- c. no opinion, or
- d. an adverse opinion.

A Financial Report which has obtained an unqualified opinion from a Public Accountant can be used as basis for obtaining Corporation Tax reliefs by obtaining the fiscal treatment as referred to in Article 5 paragraph (1) letter a.

A Financial Report which has obtained a qualified opinion can also be used as basis for obtaining corporation tax reliefs, but the fiscal treatment will be that as referred to in Article 5 paragraph (1) letter b, with the provision that the effect of influence of the qualification on the profit/loss concerned shall be firmly stated with regard to the amount in the Audit Report of the Public Accountant. If the Public Accountant has not firmly stated the effect/influence of the relative qualification on the profit/loss, then the Financial Report concerned cannot be used as basis for obtaining Corporation Tax reliefs.

### Article 4 :

A long Form (Audit) Report has the purpose that all matters, particularly the important items, shall be clearly described.

## Article 5 :

If a Financial Report has obtained an opinion from a Public Accountant as referred to in Article 3 paragraph (2), then the Tax Inspection Head shall accept the facts as stated in the relative Audit Report of the Public Accountant.

The Tax Inspection Head will make only corrections limited to matters which are not in accordance with the tax legislative regulations, for instance :

1. In business circles, there are three kinds of reserves, namely :
  - a. Reserves constituting a part of their own (equity) capital.
  - b. Reserves constituting corrections on values of assets, such as fixed assets depreciation reserves, dubious debits loss reserves, or stock loss reserves.
  - c. Reserves constituting a part of the liabilities, such as claims on loss/indemnity insurance.

The reserves of kind a. do not constitute a fiscal burden, and will therefore be corrected/rectified. Reserves of kinds b, and c. can be accepted as fiscal burdens as far as they are within reasonable limits in accordance with sound business practices (its formulation will be further stipulated by the Director General of Taxes and the Director General of State Finance Control).

2. Depreciation of a fixed asset which is in accordance with the Indonesian Accountancy Principles will be accepted by Public Accountants. However, the depreciation amount shall be in accordance with the relative provisions of the Minister of Finance (Decree of Depreciation).
3. The Indonesian Accountancy Principles do not limit the total expenditures of a business enterprise for social contribution purposes, whereas, according to Article 10 paragraph (1) of the Corporation Tax Ordinance 1925, they are limited to maximally 3% of the taxable profit and may be given only to social, religious, cultural, educational, scientific bodies, et cetera, in accordance with the provisions of the Minister of Finance.
4. According to the Indonesian Accountancy Principles, the payment of interests on loans from outside the business enterprise constitutes a fiscal burden.

According to the fiscal provisions, not all payments of interests constitute a fiscal burden. Interest paid to creditors having a special relationship with the business enterprise concerned does not constitute a fiscal burden.

A special relationship is regarded to exist, if the following elements/conditions are fulfilled :

Firstly : that the creditor owns more than 50% of the capital of the business enterprise concerned, or

Secondly : If the procedure adopted by the business enterprise to obtain the relative loan is unusual, according to its nature as well as in respect to the unreasonable interest percentage viewed from general business practices.

5. The parent company abroad owns most of the shares of the subsidiary company in Indonesia, which produces and markets the goods on the basis of a patent right from the parent company, and also acts as the sole supplier of raw material for the subsidiary company concerned.

In the administration and financial report there are no facts that expenditures have been made for payment of royalties by the subsidiary company concerned in accordance with the general/common practice in international business circles. In this case, it can be concluded that a secret transaction has been made, due to the existence of a special relationship (for instance, the royalty is incorporated in the purchase price of the raw material from the parent company).

The tax office can rectify a reasonable amount as expenditure for the parent company abroad, and on this amount Tax on Interest, Dividend and Royalty is indebted in Indonesia.

Paragraphs (2) through (4) :

These provisions have the purpose of preventing the occurrence of fiscal corrections without sufficient reasons.

#### Article 6 :

The sanction meant here depends on the seriousness/severity of the violation committed. In this regard the sanction will range from a warning letter to prohibition to practise.

#### Article 7 :

Contents of the Article are sufficiently clear.

#### Article 8

The Government prefers business enterprises to keep an orderly and open administration and to fulfill the provisions in Article 1 of this Decree.



It is not impossible that there are business enterprises which, in order to fulfill the provisions in Article 1 of this Decree, will feel harmed/obstructed due to the existence of matters which have not been disclosed before to the Tax Office. In order to solve these obstacles, this transitional provision is stipulated, which provides the opportunity to the business enterprises concerned, in the administration of 1979, to whiten the facts which have not been disclosed before.

Article 9 :

Amendments and/or additions in Attachment I and Attachment II of this Decree concern matters on audits by Public Accountants; therefore, they can be jointly regulated by the Director General of Taxes and the Director General of State Finance Control.

Article 10 :

Contents of the Article are sufficiently clear.

ATTACHMENT 1 : DECREE OF THE MINISTER OF FINANCE OF THE  
REPUBLIC OF INDONESIA NO. 108/KMK.07/'79  
DATED MARCH 27, 1979

GUIDELINE ON THE FORM AND CONTENTS OF  
FINANCIAL REPORTS

CHAPTER I

GENERAL PROVISIONS

- 1.1 This guideline stipulates the requirements of the form and contents of Financial Reports which have to be submitted by business enterprises to the Tax Inspection Head (KIP) within the frame of Corporation Tax Levy.
- 1.2 Except if specifically mentioned, the term Financial Report in this Guideline shall cover : a Balance Sheet, a Profit/Loss Statement with their explanations, and attached with a sales summary cost price summary of the goods produced and sold, together with all explanations/notations and other tables related to the report concerned.

CHAPTER II

GENERAL GUIDELINE ON THE COMPOSITION OF  
FINANCIAL REPORTS

2.1 Responsibility for Financial Reports

The correctness of a Financial Report submitted to the Tax Inspection Head shall be the responsibility of the management of the business enterprise obligated to pay Corporation Tax.

The appropriateness of the presentation of the relative Financial Report shall be stated in an Accountant's Opinion of a Public Accountant.

2.2 Comparative Financial Report for the Last Two Years

- a. The Financial Reports submitted to the Tax Inspection Head shall be composed in a comparative way for the last two years.
- b. In the presentation of a comparative Financial Report the Accountant's Opinion need not cover the Financial Report of the preceding fiscal year.

If the Financial Report of the preceding fiscal year has not been audited, the Public Accountant shall give an explanation in a separate paragraph, after the paragraph on the scope of the audit, but before the paragraph on his opinion. Besides that, the notation "not audited" shall also be provided in the column for the Financial Report of the preceding fiscal year.

If the Financial Report of the preceding fiscal year has been audited by another Public Accountant, then the Public Accountant auditing the Financial Report of the last fiscal year shall make a notation on this matter in a separate paragraph after the paragraph on the scope of the audit, but before the paragraph on his opinion.

- c. A comparative presentation is not required for the attachment tables of the Financial Report.
- d. If the Public Accountant has some notes or exceptions on the Financial Report of the preceding year, this shall be stated in his report.

### 2.3 Form, Composition and Terminology

- a. A Financial Report shall be presented in a form, composition and terminology which can be understood by the public and shall be in accordance with the Indonesian Accountancy Principles stipulated by the Accountants Association of Indonesia (I.A.I.).
- b. Presentation in a Financial Report can be conducted in figures rounded off to the full Rupiah.
- c. Negative figures shall be stated in brackets.

### 2.4 Additional Information

In the Financial Report all other information which is considered necessary shall be presented in order that the Financial Report will not be misleading.

### 2.5 Evaluation Estimates

Evaluation estimates, such as reserve estimates for dubious debits and accumulation of depreciation of fixed assets in the Financial Report shall be expressed as deductions from the relative estimates (for instance, debits and fixed assets), or these assets estimates shall be expressed in net amounts with an explanation in brackets on their evaluation estimate amounts.

### 2.6 Method of Evaluation

The specific method of evaluation estimates shall be explained in the Financial Report; for example, whether the total stock of goods is based on the FIFO or LIFO system, or on the lowest price between the acquisition price and the market price, or on another basis.

### 2.7 Liquid/Current Assets Group

The Liquid/Current Assets Group is used to state cash/bank and other assets or source from which can be expected to be realized, sold or entirely used in one year or one normal operation cycle in a company, if the relative operation cycle exceeds one year.

## 2.8 Current Liabilities Debts/Group

The Current Liabilities/Debts Group constitutes the obligations which shall be fully settled in one year (or in one normal operation cycle in a company, if the relative operation cycle exceeds one year).

## 2.9 Repurchased Own/Equity Shares (Treasury Stock)

Repurchased own/equity shares (treasury stock) shall be presented separately in the total acquisition price (with an explanation of the kinds and number of the treasury stock), as a deduction from the total share capital.

If the relative shares have been repurchased with a specific aim, for instance to be sold to employee, then this shall be adequately explained.

## 2.10 Summary of Accountancy Policies

- a. Explanations of all important accountancy policies affecting/influencing the financial position and operation results of the company shall be included as a part of the Financial Report.

Explanations which are usually given, for example; on depreciation method of fixed assets, amortization, evaluation method of stocks/supplied, description of foreign currency exchange rate and determination of profits in long-term construction contracts.

- b. Explanations on the accountancy policies applied shall be presented in a separate summary before the notations of the Financial Report or as a part of the notations on the Financial Report.

Items in the Financial Report shall be marked showing their connection to/relationship with the accountancy policies presented in the summary of Accountancy Policies.

## 2.11 Changes in the Application of Accountancy Principles

Each change in the application of Accountancy Principles, which can materially affect/influence the comparison of the Financial Report of a fiscal year with the preceding fiscal year, shall be explained in the notations on the Financial Report.

These notations shall show the nature and reason for applying the new principle or for changing the principle adopted/applied in the preceding fiscal year.

## CHAPTER III

### SPECIFICATION OF ITEMS IN THE BALANCE SHEET AND PROFIT/LOSS STATEMENT

This chapter regulates the specification of balance sheet and profit/loss statement items in Financial Reports to be submitted to the Tax Inspection Head.

#### 3.1 Balance Sheets

The form and contents of the balance sheets submitted by business enterprises shall fulfill the following requirements :

#### A S S E T S

##### Liquid/Current Assets

1. a. Cash is the available cash money and anything which can be regarded as the same as money.

Bank is the still liquid/current bank clearing account balance.

- b. Those which shall be excluded from the liquid/current assets group are :

- (i) Cash which is set aside to be utilized for company activities operations of non-liquid nature, to acquire or construct fixed assets, or to pay long-term debts.

- (ii) Special funds which have been reserved and of which the withdrawal/disbursement and utilization have been limited.

2. Time deposits with a maturity of less than one year.

3. Stocks/Effects which are easily traded.

- a. This estimate concerns only stocks/effects which already have a market and can be transacted immediately and are intended as temporary investment.

- b. The basis of evaluation used in the balance sheet, for these easily-traded stocks/effects, shall be stated as clearly as possible.

The acquisition price and the value shall be stated according to market price quotations on the date of the balance sheet.

If the total acquisition price exceeds the price according to the market price quotation in material amounts, then a depreciation fund amounting to the relative price difference shall be set aside.

- c. The total stocks/effects used as collateral/guarantees shall be stated.
- 4. Debits and collection drafts.
  - a. Separately shall be stated the total debits on :
    - i) trade customers,
    - ii) the parent company and subsidiary companies;
    - iii) affiliate companies and other companies, of which the share-capital is owned for less than 50%;
    - iv) managing directors, functionaries and principal shareholders.
  - b. Debits on the parent company, subsidiary companies, affiliate companies or other companies as referred to in numbers of (ii) and (iii) above, cannot be included in the liquid current assets/group if the relative debits have arisen from ordinary business transactions.
  - c. Debits used as collateral/guarantees shall be stated.
- 5. Set-aside funds for dubious debits and collection drafts :
  - a. Set-aside funds for dubious debits collection drafts shall be deducted from the total debits, according to the following presentation methods :
    - i) the total debit amount is deducted with the set-aside funds for debits; or
    - ii) the net debit amount is stated by mentioning between brackets the set-aside funds for debits.
  - b. Debits and collection drafts known to be unrecoverable shall not be included in the debits collection draft estimate, but shall be depreciated from the set-aside funds estimate burden, and if it is inadequate, the balance shall be charged to the profit/loss.
- 6. Stock of goods.
  - a. Separately shall be stated group in this assets or with a notation on the Financial Report, the classification of stocks/supplies, for example :
    - i) commercial/finished goods;
    - ii) goods in production process;
    - iii) raw materials and auxilliary materials (supplies).

- b. In the Financial Report or with a notation shall be stated the total stocks of goods used for debt collateral guarantee.
- c. Sailing goods and goods purchased in advance of which the quantities are sufficiently large, can be stated in a separate estimate, after the stocks/supplies estimate.
- d. Set-aside funds for unsaleable stocks/supplies shall be deducted from the total stocks/supplies, according to the following presentation methods :
  - i) the total stocks/supplies are deducted with the set aside funds for the unsaleable stocks/supplies; or
  - ii) the net stocks/supplies amount is stated by mentioning in brackets the set-aside funds for stocks/supplies.
- e. Losses in the sale of unsaleable stocks/supplies shall be charged to the set-aside funds estimate, and if it is inadequate, the balance shall be charged to the profit/loss.

#### 7. Advance Payments

- a. These include the short-term advance payments for company operational costs, for example : advance payments on insurance premiums, taxes, interest, office machine rentals, personnel travelling expenses and advertisement costs.
- b. Advance payments of which the amounts are material shall be stated separately.

#### 8. Other Liquid/Current Assets.

In this item shall be included all liquid/current asset items which cannot be grouped/classified in the above items.

### Participation

#### 9. Participation in stocks/effects.

- a. Separately shall be stated the participation in unconsolidated subsidiary companies and in affiliate companies.

The basis of evaluation of the relative participation shall also be stated.

- b. Participation used as collateral/guarantee shall be stated.

#### 10. Advance payments to unconsolidated subsidiary companies and to affiliate companies.

Advance payments of non-liquid/non-current nature to unconsolidated subsidiary companies and to affiliate companies, shall be stated.

### Fixed Assets

#### 11. Building, machinery and other equipment.

- a. Separately shall be stated in the balance sheet or in the notations on the Financial Report, each grouping/classification of fixed assets, such as : buildings, machinery and other equipment.
- b. Not included in this grouping shall be each fixed asset of material value, which is owned by but no longer used in the company. Such unused fixed assets shall be grouped in "Other Assets".
- c. Construction work still in progress, if the amount is material, can be stated separately. If the relative amount is included in the entire project, then this amount can be stated in brackets or as a notation on the Financial Report.

#### 12. Accumulation for depreciation of fixed assets.

The total accumulation for depreciation of fixed assets shall be stated as deduction from the relative fixed assets group, or as deduction from the total fixed assets amount.

### Intangible Assets

#### 13. Intangible Assets

Intangible Assets shall be stated separately according to the grouping/classification of intangible assets such as, for example :

- a. goodwill,
- b. trademarks,
- c. patent rights.

#### 14. Accumulation for Amortization of Intangible Assets

The total accumulation for amortization of intangible assets shall be stated.

#### 15. Other assets

- a. Other items which cannot be grouped in any of the above-mentioned assets estimates shall be included in this group.
- b. For example : development and research costs, debt expenditures and other deferred charges and other non-liquid/non-current assets, such as debits with functionaries and employees.
- b. Separately be stated each group of deferred charges.



### Current Debts/Liabilities

#### 16. Debts and Payment Drafts

##### a. Separately shall be stated debts to :

- i) Business creditors;
- ii) Banks and other Financial Institutions;
- iii) The parent company and subsidiary companies;
- iv) The Management Board, functionaries, employees and principal shareholders of the company or affiliate companies (not included in this group are purchases with ordinary trade conditions, for travelling expenses and other items for company purposes).

##### b. Separately shall be stated the debts with collateral/guarantee and the debts without collateral/guarantee. Assets used for collateral/guarantee of the relative debts shall also be stated. Current debts guaranteed by other parties shall be stated.

##### c. Accrued Obligations/Liabilities

- i) The total taxes to be paid shall be stated, as well as the taxes expected to be paid within a short time.
- ii) Separately shall be stated the amounts still to be paid for salaries, taxes, interest and other material items.

#### 17. Other Current Debts

Separately shall be stated :

- a. Dividends already announced but not yet paid/disbursed on the balance sheet date.
- b. Parts of the long-term debts maturing within 1 (one) year.

### Long Term Debts

#### 18. Long Term Debts

Information shall be given on :

- a. Debts on bonds, mortgages or other kinds of long-term debts;
- b. Interest rates, periodical instalment amounts and their maturity dates;
- c. Nature and amounts of assets pledged for those debts;

- d. Limitation conditions, such as, for example : those which affect/influence dividends, undisbursed profits or other working capital conditions;
- e. Provisions in loan agreements on failure or nonpayment of debts or interest;
- f. The possibility of exchange with shares and the basis of exchange;
- g. Sinking fund conditions, if there are any. State each important alteration on the amounts of bonds, mortgages or other similar kind of debts, since the date of the last balance sheet.

19. Other Long-Term Debts

Other long-term debts not included in number 18 as mentioned above shall be included in this group.

If there is a collateral/guarantee this shall be stated.

Other Debts/Liabilities and Deferred Revenues

20. Other Debts/Liabilities

Separately shall be stated the other debts/liabilities amounts which are not yet included in the above-mentioned debts/liabilities group.

21. Deferred Revenues

Separately shall be stated the receivables which do not constitute revenues yet and other similar deferred items, of which the amounts are material.

The parts of the deferred revenues maturing in a one successive operation cycle shall be included in the current debts/liabilities group.

Set-Aside Funds

22. Set-Aside Funds

- a. the term "set-aside funds" is intended for obligations of which the amounts cannot be definitely determined yet, but are based on estimates.

As an example, for instance, are estimated obligations for personnel, legal proceedings, claim, additional tax, and other purposes.

Do not use the term "Reserve(s)" for the above-mentioned purpose.

- b. If the debt amount can be determined later, these set-aside funds shall be eliminated.

### Capital of Owners

#### 23. Share/Equity Capital

Separately shall be stated each group of shares issued their nominal values, the priority right on dividends or liquidation of the basic/statutory capital, subscribed capital, paid-up capital and other information.

#### 24. Other Capital of Owners

Separately shall be stated the capital of owners apart from the share/equity capital as mentioned in number 23, such as among others :

- a. additional paid-up capital;
- b. capital increase due to revaluation of fixed assets;
- c. undisbursed profits : separately state those already reserved and those not yet recovered.

#### 25. Repurchased own/equity shares (Treasury Stock)

- a. Treasury stock shall be stated as deduction from the total share/equity capital and estimate of other capital of owners.
- b. Recovered share capital due to exercise of conversion right by shareholders shall be treated as treasury stock.
- c. The acquisition price of treasury stock and the total number of the share-certificates shall be stated.

### 3.2 Profit/Loss Statements

The form and contents of Profit/Loss Statements submitted by business enterprises shall fulfill the following requirements :

- 1. Revenues from sales or other transactions within the frame of activities/operations constituting the objective of the undertaking concerned, shall be designated with the term operational revenues.
  - a. Separately shall be stated the total sales to unconsolidated subsidiary or affiliate companies and sales to other parties.
  - b. The Profit/Loss Statements shall show the total sales and other operational revenues.
  - c. A separation shall be made between revenues from sale of goods and revenues from sale of services.

If the source of sales and/or revenues is obtained from various different activities/operations, then a separate list shall be composed, showing the specification of these activities/operations as well as the results/proceeds thereof.

2. Sales Cost-Price

- a. Separately shall be stated in this item or in a notation
  - i. acquisitions from unconsolidated subsidiary or affiliate companies;
  - ii. acquisitions from other parties (not mentioned in i above).
- b. the total initial and final stocks of goods used for the calculation of the sales cost-price shall be stated.

3. Operational costs or sales costs and administration costs :

- a. Items of which the amounts are material shall be stated separately;
- b. The depreciation and amortization amounts shall be stated;
- c. Burdens due to set-aside funds for dubious debits and debits depreciation shall be stated separately;
- d. Burdens due to set-aside funds for unsaleable stocks/supplies and losses due to sale of unsaleable stocks/supplies shall be stated separately.

4. Other Revenues and Costs

- a. All dividends obtained shall be stated ;
- b. All interests on acquired stocks/effects shall be stated;
- c. All profits/losses or sale of stocks/effects shall be stated;
- d. Interest and amortization on costs and debt discounts shall be stated separately as follows :
  - i) interest on long-term debts;
  - ii) amortization on premiums, discounts and long-term debt charges;
  - iii) other interests.

e. Miscellaneous

Separately shall be stated : items included in groups not yet mentioned above, if the amounts are material.

The nature of the transactions causing the relative items shall be clearly stated.

Miscellaneous revenues can be stated as deduction on miscellaneous costs, and, conversely, if the amount is material, it shall be stated separately.

5. Profit and Loss before the Extraordinary Items

This item shall be used if there are extraordinary items.

6. Extraordinary Items

Th extraordinary items cover items of which the amounts are material, namely :

- a. Clear, having no or hardly any relationship with the activities/operations of the company, by taking into consideration the condition of the company concerned.
- b. Expected not to be repeated again or normally expected not to be repeated in the future.

State each extraordinary item in the profit/loss statement, but if such a presentation is not practical, then the specification of this item can be stated in a separate notation.

If this extraordinary item is imposed with corporation tax and a special tariff, then this corporation tax amount shall be stated in the profit/loss statement or in the relative notation.

7. Adjustments for previous periods cover :

- a. Change of accountancy principles, which are not yet generally accepted, into generally-accepted accountancy principles.
- b. Change in the application of accountancy principles, for example : change in accountancy principle application from the cost method to the equity method in recording participation transactions.
- c. Material corrections in errors made in the Financial Report of the preceding period, discovered after the Report had been issued.
- d. Adjustments of which the amounts are material in the previous years, which :
  - i) can be identified or are directly related to the activities/operations of the company in a certain past period, and
  - ii) are not related to economic events occurring after the date of the Financial Report of a previous period, and
  - iii) depend on determination by other parties and not by the Management of the Company and
  - iv) cannot possibly be estimated before the events concerned have occurred; for example, due to an uncertain matter.

8. Profit Before Imposition of Corporation Tax

In this item shall be stated : the profit or loss before Corporation Tax is imposed/deducted with the amount set aside for Corporation Tax.

9. Corporation Tax

10. Net Profit or Loss

11. Undisbursed Profits or the Stipulated Dividends If There are Any

The undisbursed profit balance at the end of the year shall be equal to the profit balance in the balance sheet.

### 3.3 Tables to be Submitted

1. Except if composed in another form, the hereunder mentioned tables shall be submitted as attachments to the Financial Report.

Reference to these tables shall be made in accordance with the relative items in the Financial Report. (With regard to the form and contents of these tables, see Chapter IV).

2. The aforementioned tables can be disregarded if the information found in the table(s) concerned has already been stated in the Financial Report or in the notations on the relative Financial Report.

TABLE-A : Debits on managing directors, functionaries, employees and principal shareholders (non-affiliates).

This table shall be submitted, if the claim amount from each person among the managing directors, functionaries, employees and principal shareholders (non-affiliates) is more than 1% of the total assets.

For the purpose of composing this table, the total claims on the above-mentioned persons for purchase, travelling expenses, advance and other expenditures which are usually made for company purposes, shall be excluded.

TABLE-B : Participations

This table shall be submitted as a support of the item on participation in the balance sheet. This table can be disregarded if :

1. the item on participations is added with an item on advances to unconsolidated subsidiary companies and other affiliated companies in the balance sheet, and the total items on debts to affiliated companies in the balance sheet concerned do not exceed 5% of the total assets stated in the balance sheet, as the start as well as the end of the report period;
2. there are no changes in the relative information compared to the earlier submitted report.

TABLE-C : Advances to unconsolidated subsidiary companies and affiliated companies.

This table shall be submitted to support the item on advances to unconsolidated subsidiary companies and affiliated companies in the balance sheet.

This table can be disregarded if :

1. Participation in and advances to unconsolidated subsidiary companies and affiliated companies in the balance sheet and the item on debts to affiliated companies in the balance sheet do not exceed 5% of the total assets as stated in the balance sheet concerned, at the start as well as the end of the report period.
2. there are no changes in the relative information compared to the earlier submitted report.

TABLE-D : Fixed Assets

This table shall be submitted to support the fixed assets item in the balance sheet.

This table can be disregarded if :

1. the total fixed assets do not exceed 5% of the total assets as stated in the balance sheet, at the start as well as at the end of the report period, and
2. the additions to or deductions from the fixed assets during the current year do not exceed 5% of the total assets as stated in the balance sheet, at the start as well as the end of the report period.

TABLE-E : Accumulation for depreciation of fixed assets

This table shall be submitted to support the accumulation item for depreciation of fixed assets in the balance sheet.

This table can be disregarded, if Table-D is disregarded.

TABLE-F : Intangible Assets and Other Assets

Part A of this Table shall be submitted to support the intangible assets item and part B to support other assets in the balance sheet.

One of these two parts can be disregarded if :

- 1) the relative amount does not exceed 5% of the total assets at the start as well as the end of the year; and
- 2) the addition to and deductions from the item concerned do not exceed 5% of the total assets in the balance sheet, at the start as well as at the end of the report period.

TABLE-G : Accumulation for Amortization of Intangible Assets

This table shall be submitted to support the item on accumulation for amortization of intangible assets in the balance sheet.

This table can be disregarded if Table-F is disregarded.

TABLE-H : Long-Term Debts/Liabilities

This table shall be submitted to support the item on long-term debts/liabilities in the balance sheet.

TABLE-I : Debts to Affiliated Companies

This table shall be submitted to support the item on debts to affiliated companies in the balance sheet.

This table can be disregarded if :

- 1) the items on participation in and advances to unconsolidated subsidiary companies and to affiliated companies as well as debts to affiliated companies in the relative balance sheet do not exceed 5% of the total assets, at the start as well as at the end of the period.
- 2) there are no changes in the relative information compared to the earlier submitted report.

TABLE-J : Set-Aside Funds and Reserves

This table shall be submitted to support the item on set-aside funds and reserves as stated in the balance sheet.

TABLE-K : This table shall be submitted to support the item on share/equity capital in the balance sheet.



## CHAPTER IV

### FORM AND CONTENTS OF THE TABLES

4.1 This chapter regulates the form and contents of the tables as referred to in 3.3.

TABLE-A : Debits on Managing Directors, Functionaries, Employees and Principal Shareholders (excluding affiliate companies) :

Name and Position of Debtor (1)	Initial Balance	Additions	Deductions		Final Balance	
			Collected Amounts (2)	Depreciated Amounts (3)	Liquid/ Current	Fixed

1) Separately shall be stated debits and collection drafts.

In the collection drafts shall be stated the necessary information, such as maturity date, interest rate, terms of payment and collateral/ guarantees, if there are any.

2) It shall be stated if the collection is not in cash.

3) The cause of depreciation shall be stated.

TABLE-B : Participation

	Initial Balance	Additions	Deductions		Final Balance
Name of Emittor and Explanation Participation (1)	Number of Share Certificates (2) or Nominal Value of Bonds/ Stocks and Drafts	Right on Profit (Loss) on Emittor for the Relative Period (3)	Others (4)	Profit Sharing by Emittor (5) Others (6) & Drafts	Dividends Received From Participations Not Calculated With the Equity Period Amount in Rupiah (7)

1) Separately shall be grouped participants in :

- a. unconsolidated subsidiary companies;
- b. other affiliated companies;
- c. other companies.

Separately shall be stated the participations in each affiliated company of which the total amount, if calculated with the advance payments, does not exceed 2% of the total assets.

- 2) The ownership percentage shall be stated, if the amount is sufficiently material.
- 3) The total in this column shall be conformed to the total as stated in the profit/loss statement.
- 4) Each item shall be briefly explained.

It shall be briefly explained.

It shall be stated if the acquisition was not effected in cash, for example : with an exchange of goods/services.

- 5) With respect to dividends not in cash, state the basis used in recording the relative dividends and the reasons for applying the accounting system concerned.

If the dividends received from affiliated companies have already been credited with the amounts differing from those already charged to profits not disbursed to the company paying the dividends, this shall be stated and the different amount shall be stated.

- 6) Briefly shall be stated each stock/effect, by mentioning :

- a. the cost-price of the stock/effect sold;
- b. the amount of money received (it shall be stated if this is not in cash);
- c. how this loss or profit is stated in the profit/loss statement.

- 7) The total in this column shall be conformed to the estimate in the balance sheet.

TABLE-C : Advances to Unconsolidated Subsidiary Companies and Affiliate Companies.

Affiliated Company (1)				Initial Balance	Final Balance (2)
Name	Address	Form	Kind		

- 1) The necessary information shall be shown separately for each affiliated company concerned.
- 2) For each affiliate mentioned in the first column, the nature and purpose of additions of which the amounts are material shall be stated.

TABLE-D : Fixed Assets (1)

Grouping (2)	Initial Balance	Additions According to Acquisition Value (3)	Withdrawn From Usage (4)	Other Additions or Deductions (5)	Final Balance
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- 1) Each addition, depreciation and withdrawal from usage or important and extraordinary change in the nature and location of fixed assets units occurring in the relative period, shall be stated.
- 2) The grouping of fixed assets as referred to in 3.1 shall be stated.

If an unused fixed asset is recorded without its acquisition value, the relative amount shall be stated and the reason(s) shall be explained. Other fixed assets, of which the amounts are small and not so significant, can be grouped in other kinds of assets.

- 3) For each change, not expressed in its acquisition value, the nature of the relative change shall be stated, as well as other estimates which are affected/influenced by it.
- 4) Changes not expressed in their acquisition values/prices, shall be stated.
- 5) The nature of the changes as well as the estimates which are affected/influenced by them, shall be stated.

TABLE-E : Depreciation of Fixed Assets

Description (1)	Initial Balance	Additions Charged To Costs/ Burdens	Depreciation Percentage	Withdrawn From Usage	Other Additions Deductions	Final Balance
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- 1) If possible, this depreciation of fixed assets shall be composed in accordance with the grouping in the Fixed Assets Table.

TABLE-F : Intangible Assets - Other Assets (1)

Description (1)	Balance (2)	Additions According to Acquisitions (3)	Deductions (4)		Other Changes Additions/ Deductions (5)	Final Balance
			Charged To Costs	Charged to Other Estimates		

- 1) If in the accounting it is impossible to separate the intangible assets from fixed assets, the explanation as stated in this table shall be inserted in the fixed assets table.
- 2) The information in this table shall be grouped into :
- Intangible assets included in the "Intangible Assets" group.
  - Deferred charges included in the "Other Assets" group.
- 3) Each change not constituting an acquisition shall be stated clearly with respect to the nature of the relative change as well as other items affected/influenced by it.

The additional value of the fixed asset shall also be stated, if its acquisition was not effected in cash, for example : with an exchange of goods/services.

- 4) If the amortization of intangible assets is credited directly on the estimate of the intangible assets concerned, then the amount shall be stated and explained as necessary, including the estimate charged.
- 5) The nature of deductions shall be clearly stated if the relative deductions are due to other than periodical amortization.

TABLE-G : Accumulation of Amortization of Intangible Assets (1)

Description (2)	Initial Balance	Additions				Final Balance
		on Costs/ Burdens	Percentage	to Other Estimates	Percentage Deductions	

- 1) If the Intangible Assets estimate is directly credited with the relative Amortization Amount, then the amount concerned shall be shown in the Intangible Assets Table (TABLE-F).
- 2) If possible, the composition of the item on accumulation of amortization shall be in accordance with the grouping of intangible assets.

TABLE-H : Long-Term Debts/Liabilities

Name of Creditor and Kind of Obligation Liability (1)	Amount Agreed to in the Credit Agreement		Part Maturing in Current Year (2)	Part Not Yet Maturing in Current Year (2)	Particulars (3)
	Foreign Curency	Rupiah			

- 1) In this column shall be included each kind of long-term debt/liability.
- 2) This column shall be totalled and shall be conformed to the estimate in the balance sheet.
- 3) In this column shall be stated the specification on interest rate, periodical instalment amounts, maturity date, credit terms, foreign currency or Rupiah debts.

TABLE-I : Debts to Affiliated Companies

Affiliated Company (1)				Initial Balance	Final Balance (2)
Name	Address	Form	Kind		

- 1) The names of the companies shall be grouped as in Table-C.

The necessary explanations shall be shown separately for each affiliated company.

- 2) For the affiliated companies mentioned in the first column, under this table shall be stated the nature and purpose of increase of which the amounts are sufficiently material during the report period, namely, if the amount exceeds 10% of the initial balance or the final balance.

TABLE-J : Set-Aside Funds and Reserves

Explanation and Purpose of Set-Aside Funds in Reserve (1)	Initial Balance	Additions		Deductions (Specified)	Final Balance
		Charged to Costs	Charged to Other Estimates (Specified)		

- 1) Each set-aside fund and reserve shall be described with its clear designations.

Additions, deduction and balances of set-aside funds and reserve, which separately are not so significant, can be combined into one amount.

TABLE-K : Share/Equity Capital (1)

Description on Kind of Shares	Statutory Basic Capital Amount	Subscribed and Paid up Capital Amounts as Stated in the Balance	Share Equity Capital Amount Ordered	Share Equity Capital Amount Held by Affiliated Companies	Total Shares Set-Aside for Option Rights, Warrants, Exchanges, and Other Rights	
					Management Boards, Functionaries and Employees	Others

- 1) In notations shall be stated each significant change after the balance sheet date.
- 2) In this column shall be stated the kinds of shares issued.
- 3) Affiliates shall cover affiliated companies of which the financial reports are submitted separately and are already included in the consolidated report, except emitters.

ATTACHMENT II OF DECREE OF THE MINISTER OF FINANCE  
OF THE REPUBLIC OF INDONESIA NO. 108/KMK.07/1979  
DATED 27 MARCH 27, 1979

TERMS OF REFERENCE FOR ASSIGNMENT OF PUBLIC ACCOUNTANTS  
TO CONDUCT AN AUDIT ON BUSINESS ENTERPRISES WHICH  
ARE OBLIGATED TO PAY CORPORATION TAX

The contents of these Terms of Reference/Assignment Conditions are intended as a guideline for business enterprises obligated to pay Corporation Tax, which assigns a Public Accountant to conduct an audit in order to obtain reliefs in Corporation Tax assignment.

A. DUTIES AND RESPONSIBILITIES OF PUBLIC ACCOUNTANTS IN CONDUCTING AN AUDIT

1. In conducting an audit, the Public Accountant shall abide and adhere to the provisions as stated in the Accountant's Audit Norms issued and ratified by the Accountants Association of Indonesia.

An audit conducted by and assigned to a Public Accountant to audit a Financial Report is, in principle, a general audit on the administration and Financial Report of a business enterprise obligated to pay Corporation Tax, with the aim to give an opinion on its appropriateness.

2. Within the frame of monitoring the implementation of audits by Accountants, the Tax Inspection Head can obligate the Accountant concerned to give explanations of his audit, including showing the Working Papers of the audit assigned to him, if required. These Audit Working Papers shall remain the property of the Public Accountant and shall at all times be kept under his control.
3. Public Accountants shall be responsible for the quality of accountants' audits and reports as well as completing of the assignments according to a reasonable schedule as stipulated.
4. The scope of the audit shall be sufficient to enable the Public Accountant to give an opinion on the appropriateness of the Financial Report as a whole.

B. PUBLIC ACCOUNTANT REPORTS

5. A Public Accountant Report drawn up within the frame of an audit on a business enterprise obligated to pay Corporation Tax shall be addressed to the assignor.
6. The Public Accountant Report requested by the Tax Inspection Head shall be a long form (Public Accountant) Report, consisting of :



- a. The Accountant's Opinion;
  - b. A Financial Report, consisting of a Balance Sheet, Profit/Loss Statement with sufficiently suitable explanations. The explanations are regarded as sufficiently suitable if they obtain all information which can prevent misinterpretation.
  - c. The Attachment lists as mentioned in Attachment 1 of the Decree of the Minister of Finance No. 108/KMK.07/1979 dated March 27, 1979.
  - d. Statistical data, comments and other informative material which may be of non-accounting/non-financial nature.
7. A Public Accountant Report shall contain attachments explaining :
- a. The scope of the audit;
  - b. The Accountant's Audit Norms, which cannot be completely applied with the reasons thereof.
8. A Public Accountant's Opinion on a Financial Report shall firmly state the following opinions :
- an unqualified opinion, or
  - qualified opinion, of
  - no opinion, or
  - an adverse opinion
9. All occurrences or transactions which have material consequences on the Financial Report, occurring after the balance sheet date but before the date of the Public Accountant's Report, shall be reported, such as :
- a. An occurrence which provides additional proof of the financial situations on the balance sheet date and therefore influences/affects the estimate at the time of preparing the Financial Report.
- The kind of occurrence shall be used to adjust the number of the relative items in the Financial Report with the just-discovered development, for example : a debit which was first dubious, but can be recollected, or the bankruptcy of a customer having debts to the company.
- b. Occurrences which have no connection with the relative items on the balance sheet date, for example : fire on the company's assets, the purchase of a new company or very important price changes/fluctuations in stock exchange notations.

10. The Report shall disclose the commitments and contingent liabilities if there are any, as well as other commitments, for example : commitments on sale of shares, Letters of Credit (L/C) and still unrealized credits, etc.

11. In conducting an accountancy audit, Public Accountants shall give priority to the checking system and internal control of the business enterprise being audited.

If weaknesses are found in the relative system, then the Public Accountant shall inform the business enterprise concerned, accompanied by recommendations for improvement in a letter separate from the Public Accountant's Report.

12. In case the audit on the financial Rpeort is conducted by more than one Public Accountant refers/bases the audit results to/on several certain estimates made by other Public Accountants, then the reports of the other Public Accountants concerned shall also be submitted.

Exceptions from the requirement to submit the report of other Public Accountants, besides the report of the principal Public Accountant, shall be :

a. If the principal Public Accountant concerned does not refer, directly as well as indirectly, to the reports of other Public Accountants;

b. If the principal Public Accountant, after referring to the reports of other Public Accountants, firmly declares his responsibility on the audit conducted by the other Public Accountants concerned.

#### C. IDENTIFICATION OF PUBLIC ACCOUNTANT REPORTS

13. A Public Accountant Report shall contain :

a. The date;

b. The signature;

c. The complete name of the business enterprise and the fiscal year of the Financial Report audited by him;

d. The complete name of the signing Public Accountant and/or the Public Accountant's Office represented by him.

Note : This appendix is extracted from Katjep K. Abdoelkadir, The Perceptions of Accountants and Accounting Students on the Accounting Profession in Indonesia, Texas A & M University, 1982, (Unpublished PhD thesis).

## APPENDIX 3-III

### MINISTER OF FINANCE DECREE NO. 109/KMK.04/1979

#### REVALUATION OF COMPANIES FIXED ASSETS ON JANUARY 1ST, 1979

##### Article 1 : Revaluation Subject

1. Companies are allowed to revalue their fixed assets under this decree for the purpose of tax exemptions under the Corporate Income Tax Act, 1925.
2. To be able to revalue the fixed assets, companies must maintain proper accounting records as required by the Corporate Income Tax Act 1925, Article 13, so that the purchase or acquisition costs (including purchase, construction, repair and freight) and the amount depreciations could be accurately determined.
3. This decree does not apply to companies which are allowed to keep their records in foreign currency, i.e. foreign corporations.

##### Article 2 : Revaluation Conditions

1. Revaluations are permitted on fixed intangible assets which are owned by companies, used in Indonesia and meet the following requirements :
  - a. After revaluation the assets are still used by the company in its business operations.
  - b. It is acquired not for the purpose of sale or disposal.
  - c. The fixed assets were acquired between 1960 and 1978.
2. Except for land and land rights, all companies' fixed assets which satisfied to the first paragraph requirements, may be revalued.

##### Article 3 : Revaluation Date

1. At January 1, 1979.

##### Article 4 : Computation of Revaluation Amount

1. Acquisition cost (from import, purchase, construction, repair and other charges) and accumulated depreciation as at the time of revaluation has to be multiplied by the factors as stated in Article 5 to arrive at the revalued amount.

For land crops as stated in Article 5 para e, the acquisition cost is the plant value when the crop starts to be productive.

2. After revaluation, the difference between the adjusted acquisition cost (include import duty, purchase, construction, repair and other charges) and the adjusted accumulated depreciation of fixed asset (as stated in para 1 of this article) becomes the new value of the fixed asset as at January 1 1979.
- 3) If the acquisition cost (as stated in para 1 of this article) is stated in the old rupiah denomination, which was used before 1966, the acquisition cost has to be stated to the new rupiah denomination, with the equivalent of Rp 1000 old rupiah = Rp 1 new rupiah.

Article 5 :

Multiplication factors as stated in Article 4, para 1 are as follows :

- a. Buildings, constructions and their facilities.

<u>Year Acquired</u>	<u>Multiplication Factor</u>
1967	7,6
1968	5,4
1969	3,2
1970	2,7
1971	2,4
1972	2,3
1973	2,2
1974	1,7
1975	1,4
1976	1,3
1977	1,2
1978	1,1

Buildings, etc., acquired between 1960 and 1966 have the same multiplication factor as those acquired in 1967. Those acquired after November 15, 1978 has a multiplication factor of 1.

- b. Machinery and other heavy equipment.

<u>Year Acquired</u>	<u>Multiplication Factor</u>
1967	5,3
1968	3,6
1969	2,1
1970	1,9
1971	1,8
1972	1,6
1973	1,5
1974	1,4
1975	1,3
1976	1,3
1977	1,2
1978	1,1

c) Motor vehicles and office equipment.

<u>Year Acquired</u>	<u>Multiplication Factor</u>
1971	2,9
1972	2,6
1973	2,0
1974	1,7
1975	1,4
1976	1,3
1977	1,2
1978	1,1

Motor vehicles and office equipment acquired between 1960 and 1970 have the same multiplication factor as those acquired in 1971. Those acquired after November 15, 1978, have a multiplication factor of 1.

d) Ships, aeroplanes and related equipment.

<u>Year Acquired</u>	<u>Multiplication Factor</u>
1967	5,2
1968	3,1
1969	2,6
1970	2,2
1971	1,9
1972	1,8
1973	1,7
1974	1,5
1975	1,4
1976	1,3
1977	1,2
1978	1,1

Ships, aeroplanes etc., acquired between 1960 and 1966 have the same multiplication factor as those acquired in 1967. Those acquired after November 15, 1978 have a multiplication factor of 1.

e) Crops which are more than two years old.

<u>Year Acquired</u>	<u>Multiplication Factor</u>
1967	3,1
1968	2,5
1969	2,0
1970	1,8
1971	1,7
1972	1,5
1973	1,4
1974	1,3
1975	1,2
1976	1,2
1977	1,1
1978	1,0

Acquisition cost for crops between 1960 and 1966 has the same multiplication factor as those in 1967.

#### Article 6 : How to Record?

- 1) The difference between the new value of fixed assets as stated in Article 4 para 2 and the book value is recorded in the Capital Account as "Difference in Fixed Assets Revaluation, 1 January 1979".
- 2) The account, can only be posted to "Stockholders' Equity" account (capitalization of valuation surplus) after the Tax Inspection Authority has been notified.

#### Article 7 : Depreciation of Revaluation Amounts

Depreciation of the new value of the fixed assets as stated in Article 4 para (2) is calculated as follows :

- a) For fixed assets with useful life of ten years or less, depreciation is computed according to the remaining life plus three years. If the extended useful life exceeds ten years, 10 years will be used as the basis for depreciation.
- b) For fixed asset with useful life of more than ten years, depreciation will be based on :
  - b.1 if the remaining useful life according to the accounting record is more than five years, the depreciation will be based on that remaining useful life;
  - b.2 if the remaining useful life is less than five years, the depreciation computation is based on five years.

#### Article 8 : Obligation and Requirements

- 1) The management of the company who wants to revalue the fixed assets' has to submit, at the latest by December 31, 1979, to the Tax Inspection Authority :
  - a) Written statement that starting from financial year 1979 the company will prepare accurate and complete book-keeping as required by Company Income Tax Act, 1925, Article 12 and will report all its assets, operation and net income accurately in its 1979 and future tax returns.
  - b) Balance sheet and income statement of 1970 and the two preceding years if they have not been submitted yet.
  - c) Adjusted balance sheet on January 1, 1979 with explanations of the computations.

- 2) The management should have fulfilled its tax obligation as stated in the tax regulation up to 1978.
- 3) Companies which have obtained the Company Income Tax incentives under the 1967 Act No.1 (for capital investment, superceded by Act. No.11, 1970) and Act No.6, 1968 (superceded by Act 12, 1970), are obliged to submit audited financial statements, at the latest 12 months after the end of the financial year, starting with 1979 financial year.
- 4) Other companies, where the fixed assets value (after revaluation) is Rp 500 million or more, starting from 1979 financial year have to submit audited financial statements at the latest, 12 months after the end of the financial year.

Article 9 :

- 1) The head of the area Tax Inspection Authority\* examines the audited balance sheet (with the appropriate revaluations made) as at 1 January 1979 and issues a certificate endorsing the audited adjusted balance sheet.
- 2) The head of the area Tax Inspection Authority, has to accept the term and fairness of the audited balance sheet as long as the audit opinion is unqualified or if it is qualified, the qualification does not concern the fixed assets subjected to the revaluation.

Article 10 : Tax Facilities

- 1) The difference between the new value and the book value of the fixed assets is exempted from company income tax.
  - 2) With written approval from the head of the Tax Inspection Authority the "Difference from Fixed Assets Revaluation, January 1, 1979" account can be classified under the "Capital (Stockholders' Equity)" account and the tax concession are :
    - a. No stamp duty on the increase of the capital/shares nominal value is required;
    - b. For the bonus share granted or additional in share value derived the shareholders need not pay income tax nor tax on interest, dividend and royalty (withholding tax).
  - 3) New facts reported in the adjusted balance sheet as at January 1, 1979, to comply with the obligations and requirements as required by Article 8 para 1, will not be subjected to additional tax assessment for 1978 and subsequent financial year.
- \* This has the authority to administer the tax functions within its region, but some companies which are founded under the 1967 Act No.1 and 1960 Act No.6 (Foreign Capital Investment Act and Local Capital Investment Act have a special tax inspection authority which is not determined by their location).

- 4) If in the future it is found that the obligation and requirements required by Art 8 is not fulfilled, additional Income Tax will be assessed on the "Difference From Fixed Assets Revaluation January 1, 1979" account at 10% rate plus other sanctions as stated in the Company Income Tax, 1925.

#### Article 11

- 1) Companies which had revalued their fixed assets according to the Minister of Finance Decree No. KEP 508/MK/II/12/1976 or according to other regulations which have been authorised by the Minister of Finance, before the inception of this decree, still have the right to revalue their fixed assets based on this decree.

In this case the new fixed assets value adjusted by the other decrees is considered as the acquisition cost.

- 2) The Director General of Taxation has the authority to exercise the regulations in this decree.

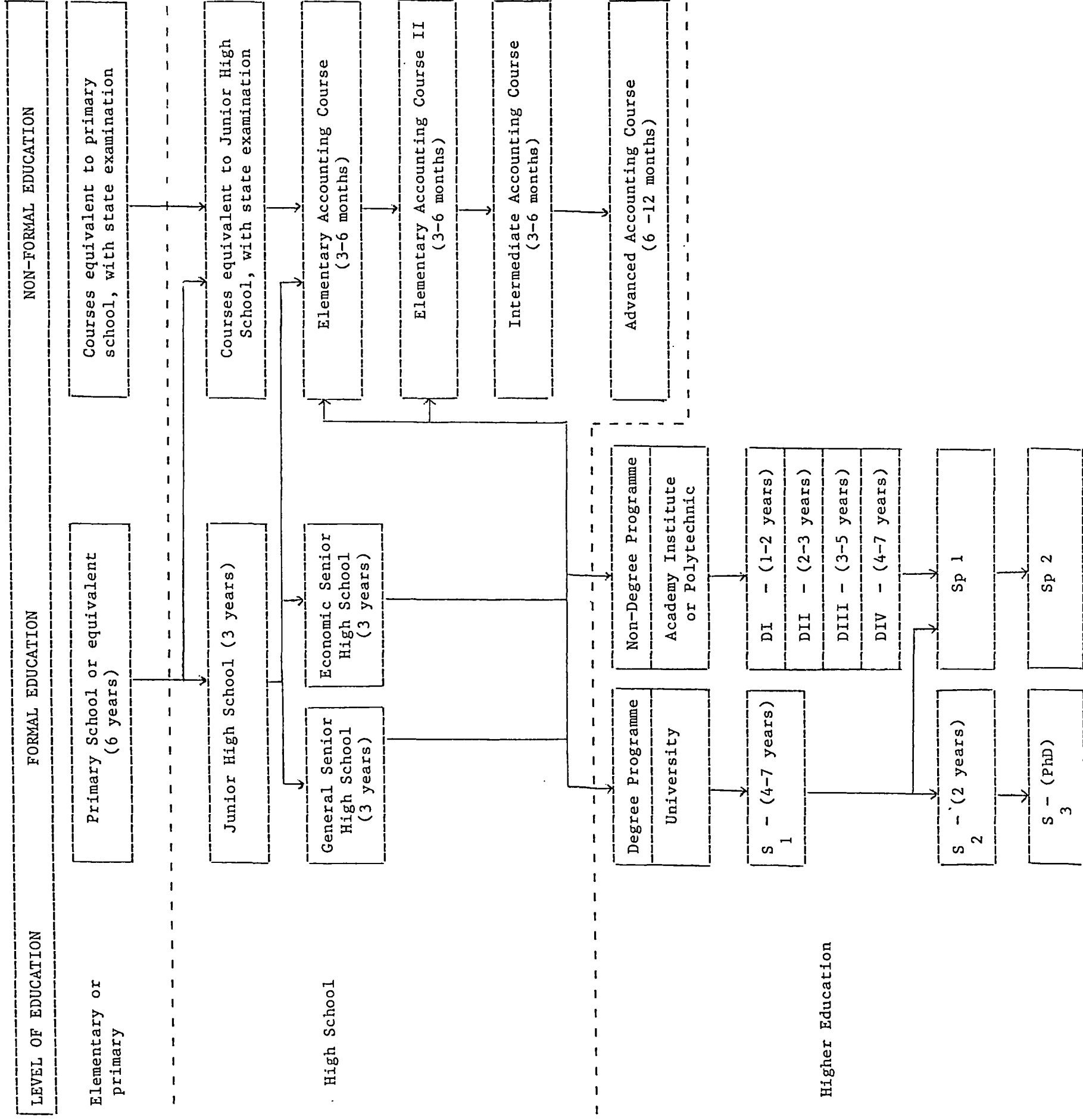
#### Article 12

This decree is enacted on March 27, 1979.



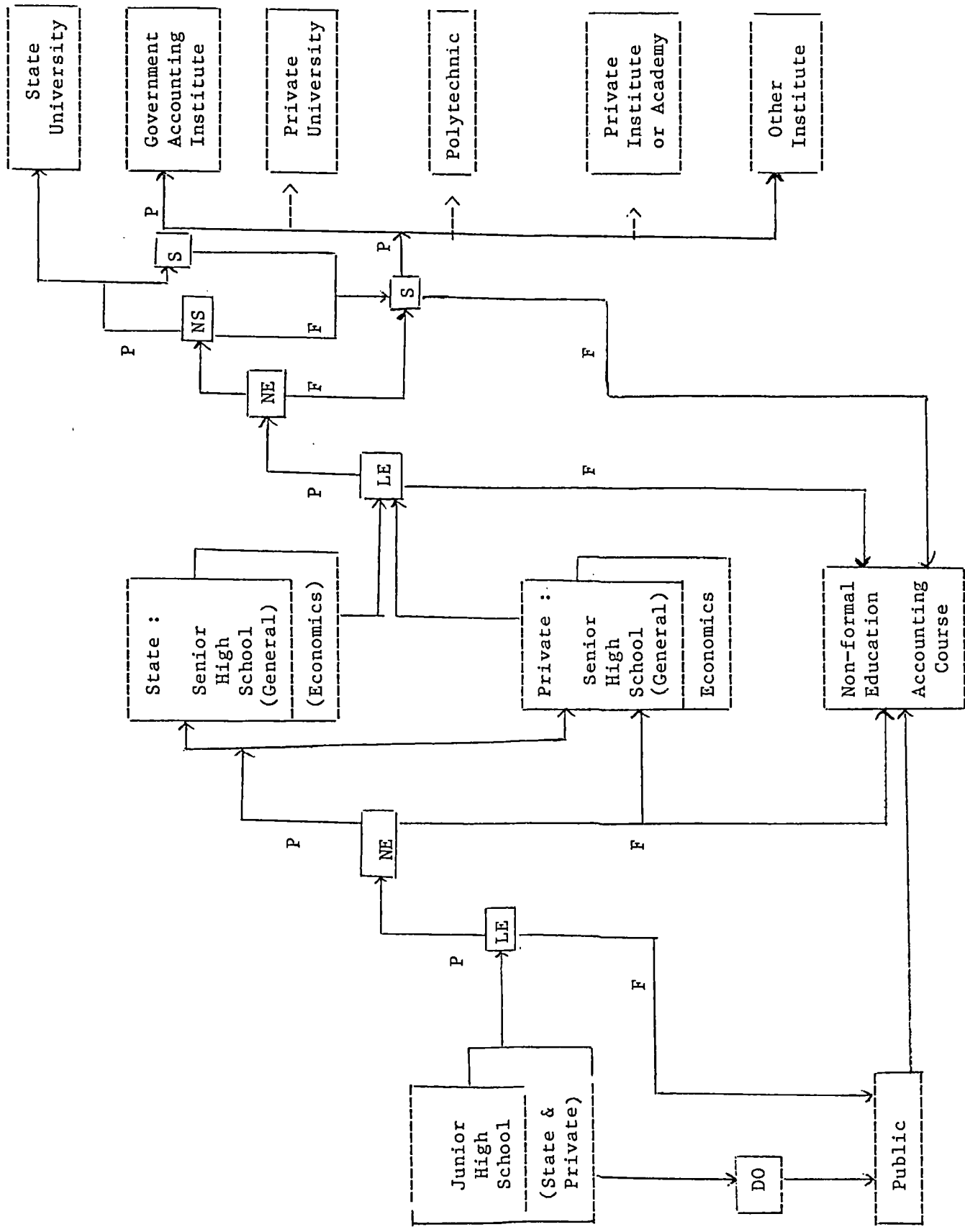
# APPENDIX 4-I

## General and Accounting Education Structure in Indonesia



# APPENDIX 4-II

## Input Process of Senior High School Graduate Entering Higher Education and Non-formal Education in Accounting

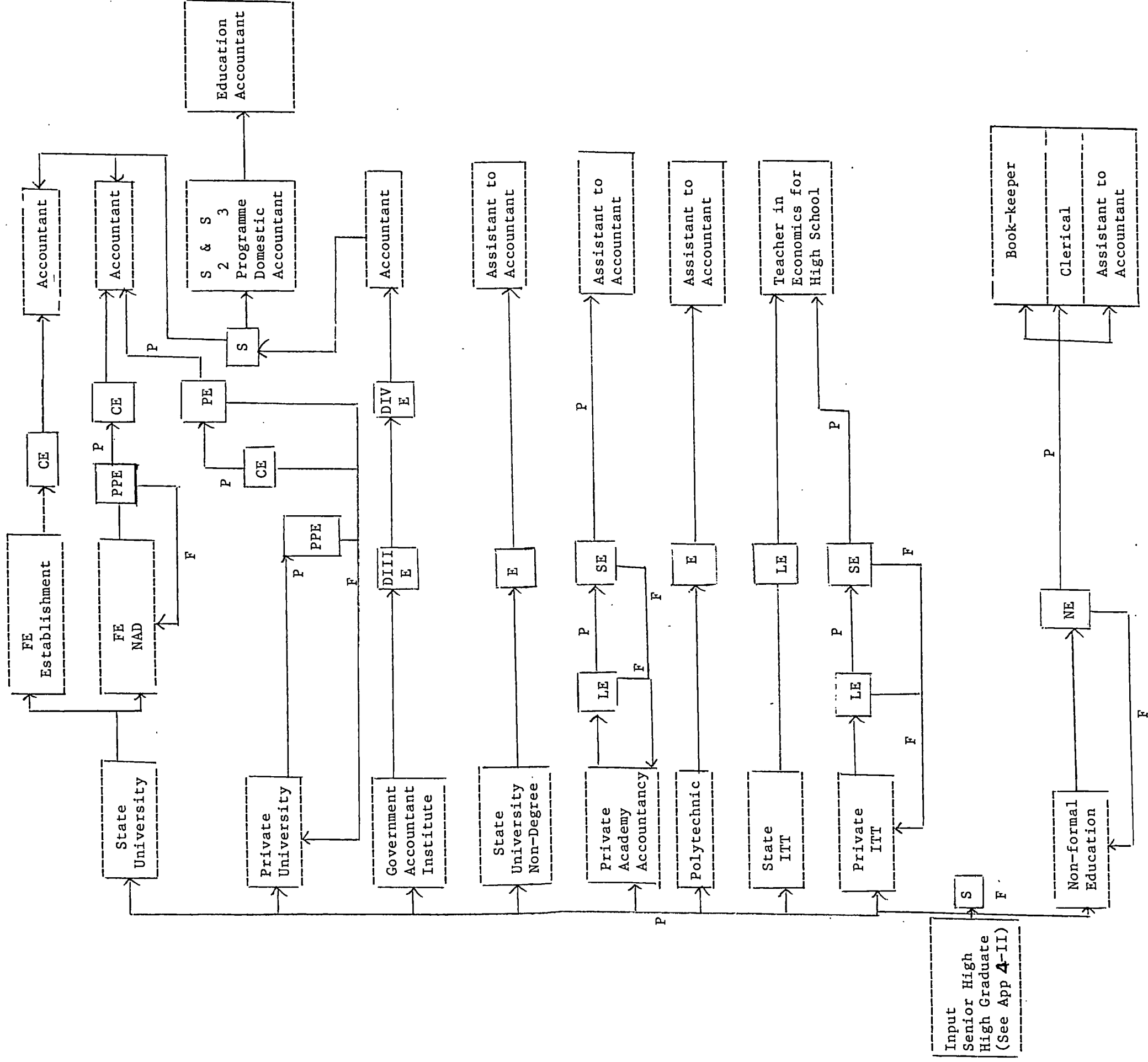


Notes : P = Pass  
 F = Fail  
 S = Selection  
 DO = Dropped Out

LE = Local Exam  
 NE = National Exam  
 NS = National Selection

# APPENDIX 4-III

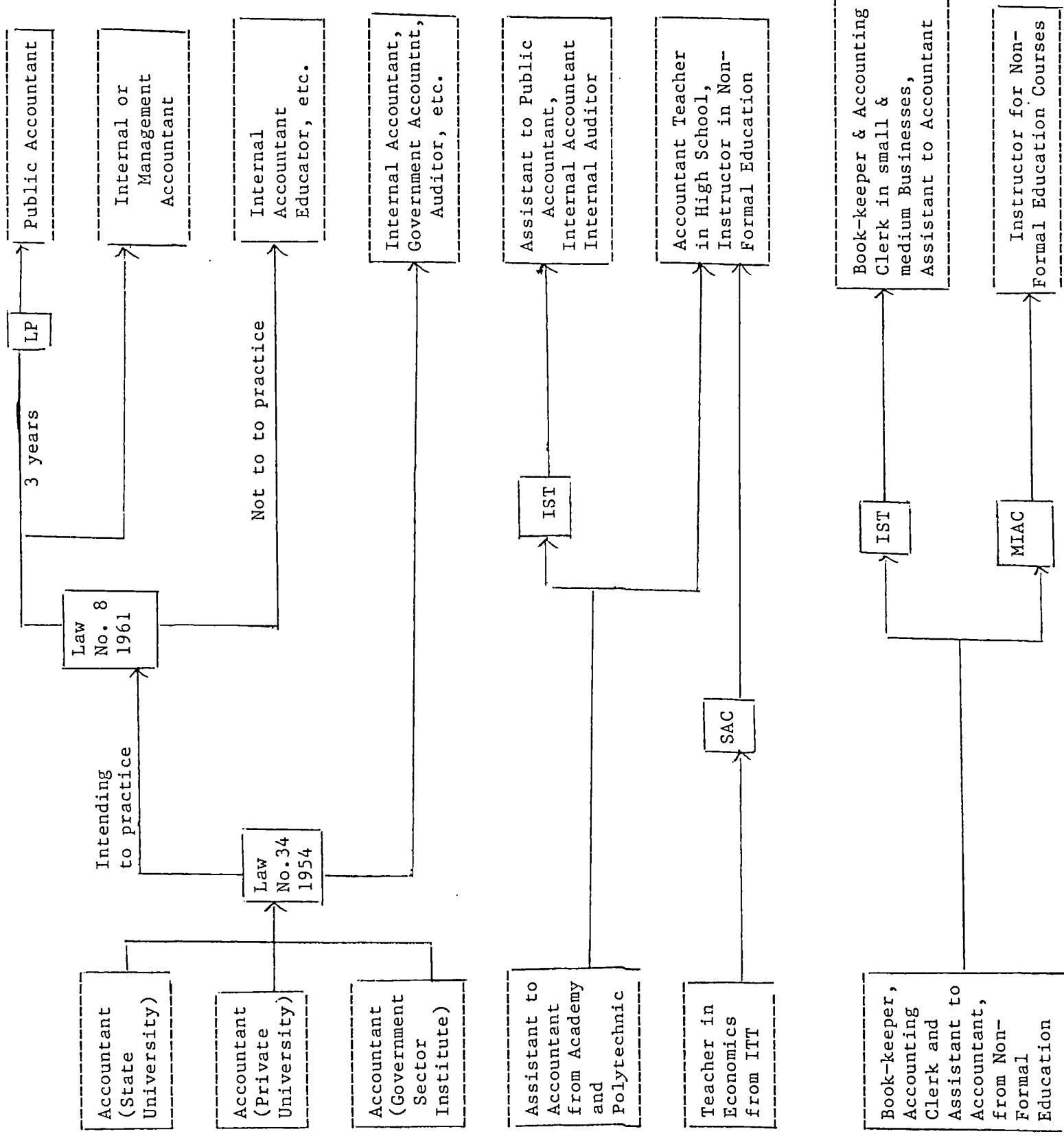
## Accounting Education Process In Higher Education and Non-Formal Education



Notes : S = Selection  
 P = Pass  
 F = Fail  
 FE = Faculty of Economics  
 NAD = Non-Accountancy Department  
 ITT = Institute for Teachers Training  
 NE = National Examination  
 PPE = Pre-Professional Examination  
 PP = Professional Examination  
 CE = Comprehensive Examination  
 SE = State Examination

# APPENDIX 4-IV

## The Output Support Process of Accounting Education



Notes : LP = Licensing Procedure

IST = Internal Short Training

SAC = Short Accounting Course

MIAC = Management Training for Accounting Course

# APPENDIX 4-V

## BALANCE SHEET PREPARED UNDER THE UNIFORM DECIMAL ACCOUNT-SYSTEM

### Balance Sheet of A Corporation

31 December 19..

Active		Passive	
000	Land	000	Reserve for Deprec. of Building
601	Building	015	Reserve for Deprec. of Machines
030	Machines	035	Reserve for Deprec. of Off.Equip
032	Office Equipment	045	Reserve for Deprec. of Patents
040	Patents	070	Long Term Liability
100	Cash	080	Capital Stock
110	Deposits	081	Rec. in accordance with the
111	Bank Account		Bylaw
130	Receivables	082	General Reserve
131	Instalment Receivables	083	Insurance Res. for Own Risk
132	Dubious Receivables	090	Previous Year's Profit
190	Prepaid Expenses	091	This Year's Profit
320	Inventory Raw Materials	135	Reserve for Receivables
340	Inventory Advertising Mat.	136	Reserve for Instalment Rec.
700	Inventory Finished Product	160	Creditors
730	Inventory Work in Process	185	Taxes Payable
		191	Accrued Expenses
		210	Calculated Deprec. of Building
		211	Calculated Deprec. of Machines
		212	Calculated Deprec. of Off.Equip
		214	Calculated Deprec. of Immaterial
			Activa
		710	Res. for Defective Finished Prod
		...	...
		===	===

Source : A.J.A. Prange, Voortgezet Bookhouden, N V Uitgevers - Mij v/h G Delwel, 's Gravenhage, 1952, p.288.

## APPENDIX 5-I

### ACT NO. 5/1973 ON THE SUPREME AUDIT BOARD

#### PART I POSITION

##### Article 1

The Supreme Audit Board is a High State Institution. In the implementation of its tasks, it shall be independent from the influence and power of the Government, but shall not, however, superordinate the Government.

#### PART II TASK, OBLIGATION AND AUTHORITY OF THE SUPREME AUDIT BOARD

##### Article 2

- (1) The Supreme Audit Board shall have the task of auditing the accountability of the Government concerning the State Finance.
- (2) The Supreme Audit Board shall have the task of auditing the implementation of the State Budget.
- (3) The implementation of the audit referred to in paragraph (1) and (2) of this article shall be carried out by virtue of provisions of another Act.
- (4) The outcome of audits made by the Supreme Audit Board shall be submitted to Parliament.

##### Article 3

Should an audit reveal matters which give rise to suspicions that a criminal offence or an act detrimental to the State Finance has been committed, the Supreme Audit Board shall present the case to the Government.

##### Article 4

In connection with the implementation of its task, the Supreme Audit Board shall have the authority to request any information, which anyone, any Government body or agency, or any private body shall be obliged to furnish as long as it is not incompatible with any other existing Act.

PART III  
DOMICILE, FORM, COMPOSITION AND MEMBERSHIP  
OF THE SUPREME AUDIT BOARD

Article 5

The Supreme Audit Board has its domicile in the Capital City of the Republic of Indonesia.

Article 6

The Supreme Audit Board shall compose of seven members including a Chairman and a Vice-Chairman.

Article 7

The Chairman, Vice-Chairman and the other Members of the Supreme Audit Board shall be appointed by the President as Head of State upon nomination by Parliament.

Article 8

- (1) To fill a vacancy in the membership of the Supreme Audit Board, Parliament shall nominate three candidates.
- (2) In order to be nominated as a Member of the Supreme Audit Board a candidate should meet the following qualifications.

He must be :

- a. of Indonesian nationality;
- b. devoted to God Almighty;
- c. at least 35 years of age;
- d. loyal to the State and the Fundamental Course of the Unitary Republic of Indonesia based upon Pancasila (State Five Principles) and the 1945 Constitution;
- e. capable and experienced in the field of State Finance and Administration; and
- f. beyond any doubt, a man of integrity and honesty.

Article 9

- (1) A member of the Supreme Audit Board shall be appointed for a term of office of five years, after which he may be eligible for reappointment for another term for five years.
- (2) On the termination of the terms of office of the Members of the Supreme Audit Board, the terms of office of Members whose terms have not expired shall be extended until the vacancies have been filled.

- (3) In order to preserve the continuity of the Supreme Audit Board and without disregarding the need for changes, every replacement of the members of the Board shall be implemented in such a way that at least three of its former members are reappointed.

#### Article 10

Members of the Supreme Audit Board shall resign or be dismissed by the President as Head of State :

- a. due to death;
- b. upon request of the Member concerned;
- c. due to termination of the term of office;
- d. after having reached the age of sixty-five years;
- e. due to inability to perform his duties actively, on account of serving a prison sentence by virtue of a court's final conviction, relating to a criminal offence punishable with at least five years' imprisonment;
- f. due to cessation of fulfilment of the qualifications referred to in article 8 paragraph (2) of this Act, by virtue of a declaration by the Government;
- g. due to violation of their oath or pledge according to the judgement of the Supreme Court and Parliament;
- h. due to mental illness or physical illness or continuing incapacity, making them incapable of performing their duties properly; and
- i. due to violation of the prohibitions referred to in article 11 of this Act.

#### Article 11

- (1) Members of the Supreme Audit Board shall not be allowed, either directly or indirectly, to become owners either wholly or partly, or to become guarantors of a business enterprise by virtue of an agreement with the purpose of obtaining profits or benefits from the State of the Republic of Indonesia.
- (2) Members of the Supreme Audit Board shall not be allowed to hold any offices in other High State Institutions, the State administration, or the Highest State Institutions.
- (3) Members of the Supreme Audit Board shall not be allowed to engage in commerce and/or have an interest in a commercial enterprise of other parties, either directly or indirectly.
- (4) Members of the Supreme Audit Board shall not be allowed to have a claim chargeable to the State finance, except with regard to the public debentures.



## Article 12

- (1) Prior to assuming office, Members of the Supreme Audit Board shall take a sincere oath or pledge according to their religion or belief in God Almighty, to be administered by the Chairman or the Supreme Court in the presence of the President of the Republic of Indonesia.
- (2) The oath or pledge referred to in para (1) of this article shall read as follows :

"I swear/pledge sincerely that in order to become Member (Chairman/Vice Chairman) of the Supreme Audit Board, I have not given nor promised, nor will give nor promise anything to anybody, either directly or indirectly by any term or pretext. I swear/pledge sincerely that I will not receive, either directly or indirectly any promise or any gift from anybody, in order to perform or not to perform anything in the present office.

I swear/pledge sincerely that I shall fulfil the obligation as Member (Chairman/Vice Chairman) of the Supreme Audit Board to the best of my ability and with the fullest sense of responsibility according to the 1945 Constitution and other legislation relating to the obligation referred to.

I swear/pledge sincerely that I shall be loyal to the State, the 1945 Constitution and the Fundamental Course of the State."

## PART IV FINANCIAL/ADMINISTRATIVE RIGHT AND ORDER OF PRECEDENCE

## Article 13

The financial/administrative rights and order of precedence of the Members of the Supreme Audit Board shall be provided by law.

## PART V DIVISION OF DUTIES AND OPERATIONAL PROCEDURES OF THE SUPREME AUDIT BOARD

## Article 14

The division of duties and the procedures of operations and decision making of the Supreme Audit Board shall be regulated by the Supreme Audit Board.

PART VI  
POLICE ACTIONS AGAINST MEMBERS  
OF THE SUPREME AUDIT BOARD

Article 15

- (1) No police action will be taken against Members of the Supreme Audit Board in view in the course of duty, except by order of the Attorney General after having obtained the consent of the President of the Republic of Indonesia.
- (2) Should a Member of the Supreme Audit Board be caught redhanded while committing a criminal act punishable by imprisonment of more than one year, such Member shall be arrested and detained for a period of up to forty-eight hours, on condition that such detention shall be reported to the Attorney-General immediately who shall be obliged to report the detention to the President of the Republic of Indonesia. Further detention shall only be executed by order of the Attorney-General after having obtained the consent of the President of the Republic of Indonesia.

PART VII  
SECRETARIAT GENERAL  
OF THE SUPREME AUDIT BOARD

Article 16

- (1) The Supreme Audit Board shall have a Secretariat headed by a Secretary General.
- (2) The Secretary General shall be appointed and dismissed by the President of the Republic of Indonesia upon the recommendation of the Supreme Audit Board.
- (3) The organizational structure and operational procedures of the Secretariat General shall be provided by the Supreme Audit Board.

Article 17

The Secretary General and officers of the Secretariat General are civil servants.

PART VIII  
PENAL PROVISIONS

Article 18

- (1) Anybody who intentionally fails to fulfil the obligation to furnish information and other material for the audit referred to in article 4 of this Act and anybody who prevents, obstructs or opposes an audit, shall be punishable with imprisonment of up to one year or a fine of up to Rp. 1,000,000 (one million Rupiahs).

- (2) Anybody who intentionally furnishes false information and other material for audit as referred to in article 4 of this Act, shall be punishable with imprisonment of up to three years or a fine of up to Rp. 2,000,000 (two million Rupiahs).
- (3) The acts referred to in paragraph (1) and (2) of this section are considered as a crime.

#### Article 19

- (1) Anybody who intentionally misuses information obtained while carrying out an assignment with the Supreme Audit Board, shall be punishable with imprisonment of up to six years or a fine of up to Rp. 4,000,000 (four million Rupiahs).
- (2) The Act referred to in paragraph(1) is considered a crime.

### PART IX TRANSITIONAL PROVISIONS

#### Article 20

- (1) Where the composition of the Supreme Audit Board is not in line with the provisions as stipulated in this Act, the composition of the Supreme Audit Board as it is at the time of the promulgation of this Act shall have the status of the Supreme Audit Board referred to in this Act.
- (2) The adjustment to the composition of the membership of the Supreme Audit Board as stipulated in this Act shall be carried out within a period of six months after the promulgation of this Act.

#### Article 21

As long as no provisions are available regulating the implementation of the audit referred to in Article 2 paragraph (1) and (2) of this Act, the implementation of the audit by the Supreme Audit Board shall be based upon existing legislative provisions.

### PART X FINAL PROVISIONS

#### Article 22

This Act shall be in force on the day of its promulgation.

In order that everyone take cognizance hereof the promulgation of this Act shall be published in the State Gazette of the Republic of Indonesia.

APPENDIX 7-I

THE ACCOUNTING PROFESSION IN INDONESIA

THE PRESIDENT

OF THE REPUBLIC OF INDONESIA

LAW NUMBER 34 YEAR 1954

THE USE OF THE TITLE OF "AKUNTAN" ("ACCOUNTANT")

THE PRESIDENT OF THE REPUBLIC OF INDONESIA

Considering : a. that it is necessary to provide provisions to regulate the affairs of accountancy;

b. that it is felt to be necessary to protect the title of "akuntan" ("accountant") by law;

In view of : Article 89 of the Temporary Constitution of the Republic of Indonesia;

By consent of the Parliament :

H A S R E S O L V E D :

To establish :

A LAW CONCERNING THE USE OF THE TITLE OF "AKUNTAN" ("ACCOUNTANT").

Article 1

By not cutting the provision in the official salary regulation for the various functions in the State Accountancy Service and in the Tax Accountancy Service, the right to use the title of "akuntan" ("accountant") either with explanation or addition or not, is only attributed to him who is in the possession of an accountant licence conform the provision and based on this law.

Article 2

With the licence mentioned in Article 1 is meant :

- a. a licence which is attributed by a state university or another higher education body which is founded according to law or is recognized by the Government, as a token that the accountant education in the higher educational body mentioned is finished with good success.

- b. a licence which is gained after passing another examination according to the opinion of the committee of experts mentioned in Article 3, to observe the function of an accountant can be equalized with the licence mentioned in letter a. of this article.

### Article 3

1. The Minister of Education, Teaching and Culture nominates a Committee of Experts with the duty of deliberating whether a licence to observe the function of an accountant can be equalized with the licence mentioned in Article 2, letter a.
2. The Minister of Education, Teaching and Culture, together with the Minister of Finance, regulates the composition and the work-method of the committee.
3. The Minister of Finance has the right to instruct another task to the committee mentioned in paragraph 1 to ensure the perfectness of the accountancy affairs and to regulate further the accountancy affairs.

Every licensed accountant enlists his name in order to be contained in a State register being held by the Ministry of Finance.

### Article 4

To observe the function of an accountant by applying the name of "kantoor akuntan" ("accountants kantoor"), "biro-akuntan" ("accountants-bureau"), or another name which contains the word "akuntan" ("accountant") or "akuntansi" ("accountancy") is only permitted when the management of the agency or of the bureau mentioned is held by one or more accountants.

### Article 5

- (1) those who infringe the provision contained in Article 4 are punished with a custody at the utmost for two months or are fined for the maximum of ten thousand rupiah.
- (2) The act contained in paragraph 1 represents an infringement.

### Article 6

The Minister of Finance has the right to establish a further regulations in order to execute this law.

Article 7

This law begins to be valid on the day of its legal establishment, with the provision that for those who at the time this law begins to be valid are observing the function of an accountant applying the name mentioned in Article 4, the provision in that article and in Article 5 is just valid on the 1st of April 1955.

In order that everyone can know about it instruct the legal establishment of this law by containing it in the State Issue of the Republic of Indonesia.

Sanctioned in Jakarta  
on the 13th of November 1954

THE VICE PRESIDENT OF  
THE REPUBLIC OF INDONESIA,

signed

MUHAMMAD HATTA

THE MINISTER OF FINANCE

signed

ONG ENG DIE

Promulgated  
on the 2nd December 1954

THE MINISTER OF JUSTICE

signed

DJODY GONDOKUSUMO

THE MINISTER OF EDUCATION  
TEACHING AND CULTURE

signed

MUHAMMAD YAMIN

STATE ISSUE NO.103 YEAR 1954.

THE PRESIDENT  
OF THE REPUBLIC OF INDONESIA

EXPLANATORY MEMORANDUM

CONCERNING

THE PROPOSAL LAW CONCERNING THE ATTRIBUTION OF THE TITLE  
OF "AKUNTAN" ("ACCOUNTANT")

In the last decades the function of an accountant has had a meaning which is becoming ever more important for the society.

It is caused by the more difficult economical relation, the aggravated competition, and the increase of the taxes of the entrepreneurs of traders and industries, so that there is more felt the need for information and advice of the experts in order to achieve an improvement in the system of administration and in the control of the enterprise, a more correct "cost-price calculation", and the implementation of the principles of the business administration.

Of course they will profit the services of those who study such problems on the basis of science and practise it, i.e., the accountants.

But the ever enlarging need of the aid of an accountant may become an argument for the many people to present themselves as "akuntan" to the public, without skill and experience in that field equal to the requirement provided by the Government for those who have followed the study in the State Higher Education with good success.

Therefore the Government establishes a regulation by this law in order to protect the accountant licence, in order that on the side of the entrepreneurs and others -- because by the not legal attribution of the title of "akuntan" -- does not occur misappreciations concerning the knowledge and the experience of those who called themselves "akuntan", who are requested for information and advice.

EXPLANATION ARTICLE BY ARTICLE

Article 1

In preparing the working of the law mentioned, first of all there occurs the question about the limit of protection according to this law.

Therefore, in the future the public clearly can distinguish those who are legally licensed from those who not theoretically educated, and can decide by themself which functionary will be employed.

Exception is made only for functionaries of the State Accountancy Service and the Tax Accountancy Service, which according to the valid salary regulation hold the position with the rank of "akuntan-pajak", "adjun-akuntantan", or another similar rank.

## Article 2

A licence which gives the right to attribute the title of "akuntan" ("accountant") is a licence issued by a state university to those who have finished the lectures successfully at the Faculty of Economics.

Besides that, this law gives the accountant the opportunity to acquire the needed theoretical knowledge by another way. Whether the licence which is acquired by another way provides a sufficient guarantee for a good knowledge base, and can be considered equal to a licence of a state university, c.q., a licence issued by another body of higher education for observing the function of an accountant, this matter will be examined by a Committee of Experts.

## Article 3

The Committee of Experts is nominated by the Minister of Education, Teaching and Culture, who, after hearing the opinion and the considerations of the committee, decides whether a licence can be equalized and appreciated on the same footing as the accountant licence acquired from a state university.

It is not necessary to further explain that the right to decide whether a licence equals to a licence issued by a state university is the right of the Minister of Education, Teaching and Culture.

The nomination of the members of the committee is done after hearing the opinion and the consideration of the Minister of Finance, the Minister of Economic Affairs and the presidents of the universities.

On the committee are present representatives from the circles of the Ministry of Finance (the State Accountancy Service, the Tax Accountancy Service), the Ministry of Economic Affairs, the Ministry of Education, Teaching and Culture, universities and some private individuals from the enterprise circles.

Besides considering various licences, the Committee of Experts has the duty to implement other matters, especially to draft a regulation of order for the accountants and to control the method of implementation of their function.

Only those whose names appeared in the State Register maintained by the Ministry of Finance have the right to the title and the right to practise as an accountant.



#### Article 4

Where the function of accountancy is observed, either by an individual or by a combination without its own name, but with the name of a firm by applying the name of an individual or not, when in that name by what other way also is applied the word "akuntan" ("accountant") or "akuntansi" ("accountancy"), then the aforementioned individual or at least one individual of such combination should have the right to have attributed to him the title of accountant.

To perform the function of an accountant in the form of a limited liability company (N.V.) according to the Government is not correct. Not only can the character of the limited liability company be used less for the works which stress the individual relations between the respective accountant and his client, but especially in respect to the secret which must be kept by an accountant, then the structure of a limited liability company is not correct.

#### Article 5

Content of Article sufficienctly clear.

#### Article 6

When the implementation of this law needs a further regulation in connection with the needs in practice and so on, then the competence to draft mentioned regulation is attributed to the Minister of Finance.

#### Article 7

The period until the 1st of April 1955 is needed as a transitional period for those who at present are observing the function of an accountant in order to fit themselves to the provisions in this law.

----0----

ADDEMDUM OF THE STATE ISSUE NO. 705

Note : This appendix is extracted from Katjep K. Abdoelkadir, The Perceptions of Accountants and Accounting Students on the Accounting Profession in Indonesia, Texas A & M University, 1982 (Unpublished PhD thesis).

APPENDIX 7-II

ACT NO. 8 YEAR 1961

RE

COMPULSORY SERVICE FOR UNIVERSITY GRADUATES

THE PRESIDENT OF THE REPUBLIC OF INDONESIA

Considering : a. that the science and expertise are in principle to serve the fatherland and should therefore be developed and carried out;

b. that within the framework of the planned overall national development, university graduates in various fields are needed badly;

c. that for an orderly and equal employment and use of said scholars, it is necessary to have a regulation on university graduates' compulsory service.

With a view to : a. Article 5 item (1) to Article 20 item (1) and Article 27 item (2) of the Constitution;

b. Decree of the Provisional People's Consultative Congress No. I/MPRS/1960 and No. II/MPRS/1960;

c. Act No. 10 Prp year 1960 (O.G. 1960 No. 31);

With the approval of the Gotong Rojong People's Representative Council.

H A S D E C I D E D :

- I. To revoke : Act No. 8 year 1951 re postponement of issuing permits to physicians and dentists and all regulations which are in contradiction with this Act (O.G. 1951 No.44).
- II. To lay down : ACT RE UNIVERSITY GRADUATES' COMPULSORY SERVICE.

Article 1

- (1) Every citizen whether man or woman,
- a. who has obtained the diploma for the final examination at a State's University,
- b. who has obtained the diploma for the final examination at a Private University pointed out by the Minister who is entrusted with affairs on universities.

- c. who has obtained the diploma for the final examination at an overseas University pointed out by the Minister entrusted with affairs on universities, all university graduates, are obliged to work with the Government or enterprise pointed out by the Government for at least three years successively.
- (2) In this regulation Academies are excepted from the term "Universities".
- (3) For Medical, Dental, Veterinary Surgeons, Pharmacists and Accountants education the diploma for the final examination as meant in item (1) is the diploma after passing respectively the examination for physician, dentist, veterinary surgeon, pharmacist and accountant.
- (4) the graduates mentioned in items (1) and (3) of this article who are preparing for the thesis to secure the title of "Doctor" are for the time being exempted from the compulsory service in case there is a statement of the President of the University or Principal Colleges mentioned in Article 5 item (1); the compulsory service for them starts after they have secured the title of "Doctor".
- (5) A University Graduate who has reached the age of 50 years can be exempted from this obligation.

#### Article 2

The Department which is entrusted with affairs on universities registers the university graduates mentioned Article 1.

#### Article 3

- (1) To employ the University Graduates mentioned in Article 1, a University Graduates Employment Board is set up seated directly under and presided over by the Minister of Labour.
- (2) The members of said University Graduates Employment Board, in addition to the Minister of Labour, consist of representatives with full authority from the Ministers of :
  - a. Education and Culture,
  - b. Universities and Science,
  - c. National Security,
  - d. Construction,
  - e. Production,
  - f. Distribution,
  - g. Health,
  - h. Religion.

#### Article 4

Competence, task, and obligation and composition of the University Employment Board are determined in a Government Regulation.

#### Article 5

- (1) The President of the State University, Principal of State Colleges, President of private universities and Board of private faculties are obliged to inform the Department entrusted with affairs on universities of the students within one month after they have obtained the diploma for the last examination.
- (2) The persons passed mentioned in Article 1 item (1) letters a and b -- within one month after having obtained the diplomas for the final examination, and the persons passed mentioned in Article 1 item (1) letter c, within one month after arrival in Indonesia -- are obliged to give in writing to the Department entrusted with affairs on universities the information mentioned in item (1) of this article, together with the explanation deemed necessary in order that their employment is as far as possible carried out in accordance with their respective ability and desire.
- (3) If they are preparing a thesis to secure the title of "Doctor", this information should also be accompanied by a statement from the President of the University or Principal of College as mentioned in Article 1 item (4).
- (4) The provisions related with the registration mentioned in item (1) and (2) are determined in a government regulation.

#### Article 6

All Departments and other offices not falling under the competence of a Department inform the Department entrusted with affairs on universities at a certain date of the number of University Graduates working with them. At the beginning of every calendar year the number of university graduates needed is also made known provided with the necessary information.

#### Article 7

- (1) The infringement of Article 5 Item (2) is punished by a penalty of at most six months or a fine of a maximum of ten thousand rupiahs.
- (2) Whoever does not meet the compulsory service for three years successively for the period, at the place and in the function determined by the competent Government offices is punished by detention of at the most nine months or a fine of a maximum of one hundred thousand rupiahs.

- (3) Whoever employs a University Graduate who does not meet the obligation mentioned in Article 5 Item (2) is punished by detention of at the most nine months or a fine of a maximum of one hundred thousand rupiahs.
- (4) Repetitions of the infringement mentioned in items (2) and (3) are punished by a detention of, at the most, one year.
- (5) The delicts mentioned in items (1), (2), (3), and (4) of this article are considered infringements.

#### Article 8

Implementation of this Act is entrusted to the Minister of Labor and Minister of Education and Culture and the Minister of Affairs on Universities and Science.

#### Article 9

The Act comes into effect as of the date of promulgation.

In order that everybody may know, it is instructed to promulgate this Act by insertion in the Official Gazette of the Republic of Indonesia.

Legalized in Djakarta  
on April 29, 1961

Promulgated in Djakarta

on April 29, 1961

w.s.

S A N T O S O

ACTING PRESIDENT OF THE REPUBLIC

OF INDONESIA

w.s.

D J U A N A

OFFICIAL GAZETTE 1961 NO. 207

## E X P L A N A T I O N

"ACT NO. 8 YEAR 1961"

RE

### UNIVERSITY GRADUATE COMPULSORY SERVICE

#### GENERAL EXPLANATION :

Since the Government has long had a shortage of university graduates, i.e. persons having passed the university except academies, this result is a less smooth course of the government wheel. This matter will be felt more in the period of the planned overall national development in line with the implementation of the broad outlines of the development blueprint already approved by the Provisional People's Consultative Congress. To overcome the difficulties which hinder the state, in addition to giving university graduates the exact possible objectives appreciation, the Government should regulate the use of university graduates in accordance with their direction by way of compulsory service with the Government or private bodies to be pointed out by the Government.

Implementation of the university graduate compulsory service based on this Act is needed more, especially in the transitional period, i.e., the period of the implementation of the Political Manifesto of the Republic of Indonesia dated August 17, 1959. A university graduate who has just passed the final examination must register himself within one month at the Department entrusted with Affairs on Universities which forwards said registration to the University Products Employment Board. Said employment should, wherever possible, be synchronized with the ability and desires of the person registering himself.

It should be put forward that this act revokes Act No. 8 year 1951 re-postponement of issue of permits to practise as physician or dentist, since the objective thereof is already regulated and perfected by this Regulation. Meant by other regulations are regulations on university graduates' compulsory service, e.g., Regulation of the Supreme War Administrator No. 1132/PMT/1957 in addition to regulations connected with the military compulsory service.

Finally, as a supplement should be added here that this act does not diminish the compulsory service due to a contract of service carried out after the expiration of the compulsory service according to this Regulation.

## EXPLANATION OF ARTICLE BY ARTICLE

### Article 1

Every university graduate of Indonesian citizenship is obliged to work with the state for three years successively. Foreign university graduates are exempted from this compulsory service.

Diplomas secured from overseas universities for Baccalaureate which are evaluated as being similar to the university graduate's diploma in Indonesia fall under the conception of "university graduate" according to this Regulation (for instance B.Sc of universities in Canada and Australia).

Persons having passed an academy are not of the same grade as university graduates and are for that reason exempted.

Those who have passed the university graduate's examination are called university graduates; however, for study at the Medical, Dental, Veterinary, Pharmaceutical, and Accountant Faculties, the university graduate's examination does not form the final examination. The final examinations for them are the examination for physician, dentist, veterinary surgeon, pharmacist and accountant so that those subject to the compulsory service are the physicians, dentists, veterinary surgeons, pharmacists and accountants who have just passed.

Temporary exemption for a university graduate who is writing or preparing a thesis to secure the title of Doctor is meant to give opportunity to advance science in Indonesia. The period of exemption is for a maximum of three years.

### Articles 2 and 3

Contents of the Articles are sufficiently clear.

### Article 4

In the wording competence is included the provision concerning the bases for the distribution of university graduates' employment in bodies owned; administered or supervised by the Government.

In employing female university graduates, feminity may be taken into consideration. In line with the realization of the Overall Development, priority to employ said university graduates is regulated in line with the implementation of the above development in the following sequence :

- a. Economic, educational and research field,
- b. The field of Enterprises, in the first instance State Enterprises which are administered by the state in this case without neglecting the interest of private parties.

#### Article 5 and 6

Contents of the Articles are sufficiently clear.

#### Article 7

The maximum fine here was fixed intentionally high to prevent the person subject to the compulsory service from avoiding the period of three years.

With the existence of a penal threat of detention only, it is expected that a repetition of the infringement be avoided.

Penal threats for these employing university graduates mentioned in item (3) only applied to those accepting university graduates (for employment) who have not registered themselves and do not apply to those who have been registered but are not employed yet.

#### Article 8

Contents of the Articles are sufficiently clear.

#### Article 9

Basically, all university graduates are since the promulgation of this act subject to the university graduates' compulsory service. Naturally, this includes also university graduates who have passed before the enforcement of this act. In the interest of justice, the implementation thereof is synchronized with the compulsory service for physicians and dentists before the enforcement of this act.

Note : This appendix is extracted from Katjep K. Abdoelkadir, The Perceptions of Accountants and Accounting Students on the Accounting Profession in Indonesia, Texas A & M University, 1982 (Unpublished PhD thesis).



APPENDIX 7-III

DEPARTMENT OF FINANCE

DECREE OF MINISTER OF FINANCE OF THE R.I.  
NO. KEP.1681/MK/V/12/1976

RE

PERMIT TO ESTABLISH JOINT PARTNERSHIP ACCOUNTANT  
OFFICE BETWEEN INDONESIAN PRIVATE ACCOUNTANT  
OFFICE AND FOREIGN PRIVATE ACCOUNTANT OFFICE

MINISTER OF FINANCE OF THE R.I.,

Considering : a. that for the need of capital market on the services of accountants who have been conversed in money and capital traffic accountancy requirements, it is regarded necessary to give permit to foreign accountant office to work in Indonesia.

b. that in Indonesia are many accountant offices which can render accountant services but need much more experience in accountancy requirements for capital market, so that it is regarded necessary to give them the opportunity.

c. that due to the said matter, the form of joint partnership accountant office between the Indonesian accountant office and foreign accountant office is regarded capable of fulfilling the said demand.

d. that accordingly there must be a transfer of technical knowledge and experience to Indonesian accountants, to comply with the growth of international standards in accountants' services.

With a view to : 1. Law No. 34, Year 1954;  
2. Presidential Decree No. 9, Year 1973;  
3. Presidential Decree No. 52, Year 1976;  
4. Decree of Minister of State's Revenues, Financing and Auditing Affairs No. DAN-1-1-28 Year 1965.

Having studied : Opinion of Chairman of Central Executive Board of Indonesian Accountants Association.

H A S D E C I D E D

By revoking Decree of Minister of Finance of the R.I. No. KEP. 76/MK/V/2/1971.

To lay down : Decree of Minister of Finance of the R.I. Re Permit to establish Joint Partnership Accountant Office between Indonesian Private Accountant Office and Foreign Private Accountant Office.

#### Article 1

Foreign Private Accountant Office is given chance to advance to establish Joint Partnership Accountant Office with Indonesian Private Accountant Office with the requirements stated under Article 2 to Article 13.

#### Article 2

The said Joint Partnership Accountant Office shall not make audit on State-owned companies or companies where State finance interest is found, except with the permission of Minister of Finance.

#### Article 3

The said Joint Partnership Accountant Office must employ accountants who fulfill the requirements, and, accordingly, the said accountants must first be registered in the State Register, to comply with Law No.34 Year 1954;

#### Article 4

The said Joint Partnership Accountant Office must educate and employ Indonesian Accountants to fill executive and staff positions.

#### Article 5

The said Joint Partnership Accountant Office must restrict the employing of foreign personnel and within the period of 4 (four) years after the date of the permit of establishment, the executive and entire personnel and staff must consist of Indonesian citizens.

#### Article 6

While working as employees, executive/staff or partner of the said Joint Partnership Accountant Office, its accountants are prohibited to open accountant practice or work at the other accountant offices.

#### Article 7

Every quarter the Joint Partnership Accountant Office must inform the names of companies which become its clients to Director General State Finance Control Affairs.

#### Article 8

The said Joint Partnership Accountant Office must concretely assist the build-up of Capital Market in particular and promote the accountancy world in Indonesia in general.

#### Article 9

The said Joint Partnership Accountant Office is given permission maximally for five years after the date of its establishment.

#### Article 10

Joint Agreement between Foreign and Private Accountant Office and Indonesian Private Accountant Office is in the character of cooperation agreement between two parties that are of equal level, right and obligation.

#### Article 11

Director General for State Finance Control Affairs shall further arrange matters in the frame implementing this Decree.

#### Article 12

Violation against provisions stipulated under the articles of this decree may result in the revocation of the permission by the Minister of Finance.

#### Article 13

This Decree is effective for the period of 5 (five) years as from January 1, 1977.

Sanctioned in Jakarta  
on December 28, 1976

MINISTER OF FINANCE

w.s.

Ali Wardhana

Note : This appendix is extracted from Katjep K. Abdoelkadir, The Perceptions of Accountants and Accounting Students on the Accounting Profession in Indonesia, Texas A & M University, 1982 (Unpublished PhD thesis).

APPENDIX 8-1

DECISION OF THE PRESIDENT OF THE REPUBLIC OF INDONESIA

NUMBER 52 OF 1976

ON

THE CAPITAL MARKET

THE PRESIDENT OF THE REPUBLIC OF INDONESIA

- Considering : a. that within the framework of accelerating the process of extending public participation in private company share ownership to promote an equitable distribution of the public's income, and to further encourage public participation in the channeling and mobilization of funds for productive use in the financing of national development, it is necessary to develop a Capital Market;
- b. that in order that the operations and objectives of the Government in the field of the Capital Market may be efficient and effective, it is necessary to establish an agency for the control and implementation of the Capital Market;
- c. that in order that the Capital Market in Indonesia may be as successful as possible, it is necessary to encourage sound private companies to sell their shares through the Capital Market by giving tax reliefs;

- Having regard to : 1. Article 4 paragraph (1) of the 1945 Constitution;
2. Act Number 15 of 1952 converting the Government Regulation in lieu of an Act on the Stock Exchange (Lembaran Negara of 1951 Number 79) into an Act (Lembaran Negara of 1952, Number 67);

H A S D E C I D E D :

- To Lay down : THE DECISION OF THE PRESIDENT OF THE REPUBLIC OF INDONESIA ON THE CAPITAL MARKET.

## PART I

### DEFINITIONS

#### Article 1

1. The "Capital Market" (Pasar Modal) means the Stock Exchange as referred to in Act No.15 of 1952 (Lembaran Negara of 1952 No.67).
2. The "Stock Exchange" (Bursa) means the building of hall assigned as the office and place for trading in securities.
3. "Securities" (Efek) means any shares, bonds, or other instruments, including certificates of substitute or provisional documents of title, profit right certificates and other securities, options, or other rights to subscribe or purchase shares, bonds, or other certificates or participation in share or loan capital, and any other instruments commonly known as securities.
4. "Shares" (Saham) means certificates evidencing participation in the capital of a Limited Liability Company as provided in the Commercial Code (Lembaran Negara of 1847 No. 23).

## PART II

### CAPITAL MARKET POLICY COUNCIL

#### Article 2

A Capital Market Policy Council is established to present guidelines and policy alternatives to the Minister of Finance in the field of the Capital Market.

#### Article 3

The Capital Market Policy Council, hereafter in this Decree of the President called Policy Council, consists of :

- a. The Minister of Finance, as Chairman and concurrently a Member;
- b. The Minister of State for Administrative Reform/ Deputy Chairman of the National Development Planning Board, as Deputy Chairman and concurrently a Member;
- c. The Minister of Trade, as a Member;

- d. The Secretary to the Cabinet as a Member;
- e. The Governor of Bank Indonesia, as a Member;
- f. The Chairman of the Capital Investment Coordination Board, as a Member.

#### Article 4

The Policy Council has the following tasks :

- a. to present policy alternatives to the Minister of Finance in the execution of his powers in the field of the Capital Market pursuant to Act No.15 of 1952 on the Stock Exchange and other statutory regulations;
- b. to present policy alternatives to the Minister of Finance for the execution of his powers relating to the State Corporation as provided in Article 16 of this Decree of the President.

#### Article 5

To the Policy Council are seconded a Secretary and not more than two staff officials from the Department of Finance, who shall be appointed and dismissed by the Minister of Finance.

#### Article 6

The Policy Council shall hold regular meetings at least once per month.

#### Article 7

The procedures for the meeting and operations of the Policy Council shall be drawn up by the Policy Council.

### PART III

#### BAPEPAM

#### Article 8

A capital market executive agency (Badan Pelaksana Pasar Modal) is established to control and operate the Capital Market in accordance with the Policy outlined by the Government.

#### Article 9

The badan Pelaksana Pasar Modal, hereafter in this Decree of the President called "BAPEPAM", is an agency directly subordinate and responsible to the Minister of Finance, and its functions are :

- a. to make an evaluation as to whether companies which desire to sell their shares through the Capital Market have met the appropriate requirements and whether they are sound and operating well;
- b. to operate an effective and efficient Capital Market/Stock Exchange.
- c. to monitor continuously the progress of companies who sell their shares through the Capital Market;

#### Article 10

1. The procedures for making the evaluation, for operating the Capital Market/Stock Exchange and for monitoring the progress of the companies as provided in Article 9 of this Decree of the President, shall be regulated by the Minister of Finance on the basis of the prevailing statutory regulations after hearing the recommendations of the Policy Council.
2. In the performance of its tasks as provided in Article 9b, of this Decree of the President BAPEPAM shall give priority to the State Corporation as referred to in Article 16 of this Decree of the President with a view to its purchasing at least 50% (fifty per cent) of the shares offered by a company.

#### Article 11

1. BAPEPAM shall be under the direction of a Chairman.
2. In operating BAPEPAM, the Chairman has the following functions :
  - a. to direct BAPEPAM in accordance with prevailing policy, and to develop BAPEPAM's organization so that it may work efficiently and usefully;
  - b. to draw up technical implementation regulations in the field of the Capital Market for which he is functionally responsible, in accordance with the policy of the Minister of Finance and in virtue of the existing statutory regulations.

3. In performing his function, the chairman of BAPEPAM shall be responsible to the Minister of Finance.

#### Article 12

In the performance of his functions, the Chairman of BAPEPAM shall be assisted by one Secretary and the following Bureaus consisting of :

- a. Bureau for Legal Affairs and Research;
- b. Bureau for Stock Exchange Development and Intermediaries;
- c. Bureau for Investigation and Evaluation;
- d. Bureau for Issue Registration and Accountancy.

#### Article 13

Further regulations on the organization and the financing of BAPEPAM shall be made by the Minister of Finance after obtaining the written approval of the Minister of State for Administrative Reform.

#### Article 14

In performing their functions, the Chairman, Secretary, and the heads of the Bureaus must apply the principles of coordination, integration, and synchronization in their respective fields both between the organizational units within BAPEPAM and in its relations with other Government agencies outside BAPEPAM in accordance with their respective functions.

#### Article 15

1. The Chairman of BAPEPAM shall be appointed and dismissed by the President.
2. The appointment and dismissal of the other BAPEPAM officials shall be determined by the Minister of Finance.



#### PART IV

#### ESTABLISHMENT OF A LIMITED LIABILITY COMPANY TO PROMOTE THE EQUITABLE OWNERSHIP OF SHARES

##### Article 16

1. With a view to giving the public a wide view opportunity to own shares of companies, a Limited Liability Company shall be established, hereafter in this Decree of the President called PERSERO, with the task of purchasing shares through the Capital Market for subsequent sale to the public in the form of units of shares (unit certificates) under the basic provisions of Article 17 to Article 22 inclusive of this Decree of the President.
2. The establishment of this PERSERO shall be carried out pursuant to the existing statutory regulations.

##### Article 17

Rp 50,000,000,000.--(fifty billion Rupiah) shall be made available to the PERSERO for its authorized capital, and the paid-up capital shall be Rp 10,000,000,000.-- (ten billion rupiah).

##### Article 18

The PERSERO shall be given priority to buy at least 50% (fifty per cent) of the shares offered by companies in the Capital Market).

##### Article 19

1. The PERSERO shall divide the shares into unit certificates, each with a nominal value of Rp 10,000.-- (ten thousand Rupiah) for sale to the public.
2. If so considered necessary, the Minister of Finance may decide on a change in the nominal value of the unit certificates referred to in paragraph (1) of this Article.

##### Article 20

The PERSERO shall give preference to the sale of unit certificates to the sections of the public with limited financial means such as Government employees, company employees, farmers and so on.

#### Article 21

In order to prevent the accumulation of unit certificates of a company by any one individual or one group of individuals, the PERSERO shall sell not more than one hundred unit certificates of a company to any one individual.

#### Article 22

In order to give the public the widest opportunity to own unit certificates, the PERSERO shall :

- a. conduct the sale of unit certificates in all regions through the branches of the State-owned Bank in the regions;
- b. give to the public a most extensive explanation of the function of PERSERO, the procedures for buying unit certificates and the benefits that can be enjoyed from the purchase of unit certificates.
- c. to give the best service to the buyers of unit certificates, to ensure smooth trading in the certificate pursuant to the prevailing regulations.

### PART V

#### TAX RELIEFS

#### Article 23

The companies referred to in Article 22 of this Decree of the President which sell their shares through the Capital Market shall also be given an opportunity to carry out a revaluation of their fixed assets up to the maximum value equivalent to their proper value, with tax reliefs in the form of :

- a. exemption from Corporate Income Tax in respect of the difference between the book value and the proper value resulting from the revaluation;
- b. exemption from Capital Stamp Duty on an increase in nominal value of share capital arising from the value difference resulting from the revaluation;
- c. exemption from Corporate Income Tax, Income Tax and Tax on Interest, Dividends and Royalties on the increase in value of shares owned by long-standing shareholders resulting from the revaluation.

#### Article 24

The companies referred to in Article 22 of this Decree of the President which sell their shares through the Capital Market shall be given reliefs from Corporate Income Tax according to the percentage of the total share capital that has been sold.

#### Article 25

The purchaser of shares and capital participation certificates who makes his purchase through the Capital Market, shall be given certain reliefs from the Income Tax, Tax on Interest, Dividends, and Royalties, and Wealth Tax, in addition to freedom from fiscal investigation as to the origins of the purchase money, if the share and capital participation certificate purchases do not exceed a certain amount.

#### Article 26

The regulations for the implementation of the provisions referred to in Articles 23, 24, and 25 of this Decree of the President shall be further laid down by the Minister of Finance.

### PART VI

#### FINAL PROVISIONS

#### Article 27

The budget for the implementation of this Decree of the President shall be charged to the budget of the Department of Finance.

#### Article 28

Matters not sufficiently provided for in this Decree of the President shall be charged to the budget of the Department of Finance.

#### Article 29

With the coming into force of this Decree of the President, all provisions contradictory to this Decree are declared no longer valid.

Article 30

This Decree of the President shall come into force on the date of its enactment.

Enacted in : Jakarta

On : December 27, 1976

PRESIDENT OF THE REPUBLIC OF INDONESIA

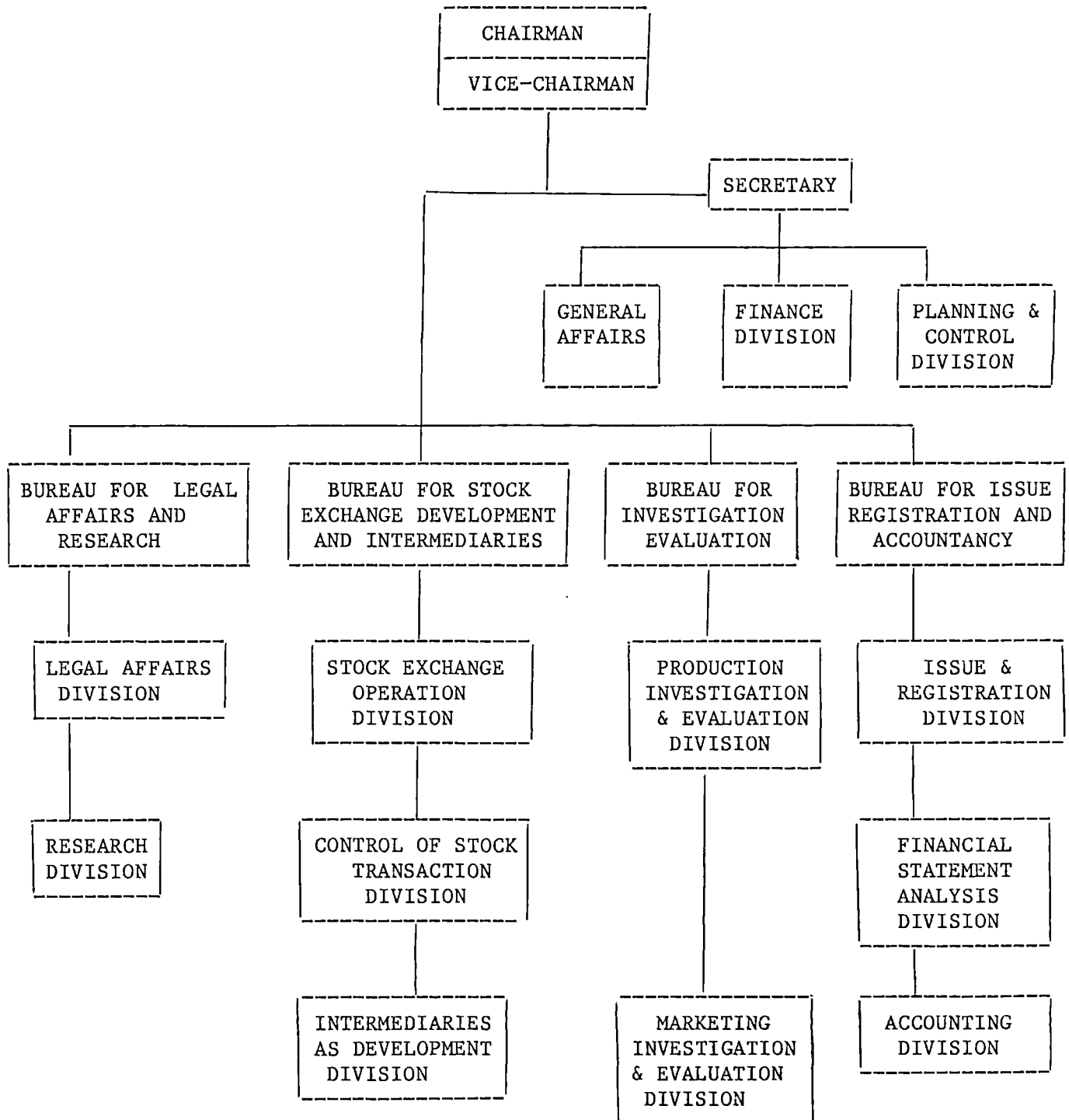
(signed)

SOEHARTO

Note : This appendix is extracted from Katjep K. Abdoelkadir, The Perceptions of Accountants and Accounting Students on the Accounting Profession in Indonesia, Texas A & M University, 1982 (Unpublished PhD Thesis).

# APPENDIX 8-II

## ORGANIZATIONAL STRUCTURE OF CAPITAL MARKET EXECUTIVE AGENCY (BAPEPAM)



Source : 1984 Indonesian Capital Market Fact Book

# APPENDIX 8-III

## KEY STATISTICS FOR LISTED STOCKS

End of	Number of Listed Companies	Number of Listed Stocks (shares)	Capital Stock of Listed Companies (Million's Rp)	Market value of Listed Stocks (Million's Rp)
1977	1	260.2	13,513.5	2,862.2
1978	1	330.2	13,513.5	4,128.2
1979	3	7,058.1	45,513.5	22,725.6
1980	6	14,588.1	91,638.5	39,520.4
1981	8	19,788.1	194,608.5	47,874.2
1982	14	39,948.2	269,726.0	99,507.4
1983	19	48,005.2	287,261.0	100,743.3
1984	24	57,938.1	343,261.0	90,979.5
1985 *	24	57,938.8	343,261.0	91,270.5

Source : 1985 Indonesian Capital Market Fact Book

Note : As at October 1987, the number of companies listed on the exchange is still 24.

# APPENDIX 8-IV

## INDONESIA COMPOSITE STOCK PRICE INDEX

YEAR	BEGINNING	HIGH	LOW	END
1977	93.87	103.92	93.87	98.00
1978	99.50	114.99	98.56	114.99
1979	114.99	114.99	105.53	110.03
1980	105.30	108.61	56.01	103.54
1981	101.57	111.42	99.47	100.26
1982	100.00	123.27	93.87	95.0
1983	95.07	98.12	76.80	80.37
1984	79.51	79.51	63.53	63.53
1985 *	67.83	72.65	65.12	67.71

\* Up to September 1985.

Note : Base day of Index is August 10, 1982 (= 100)

Source : 1985 Indonesian Capital Market Fact Book

# APPENDIX 8-V

## STOCK TRADING VOLUME (1977 - 1986)

Year	Trading Days	Sales Volume (shares)	Sales Value (million Rp)	Average Sales Value (million Rp)
1977	98	14,577	153.1	1.6
1978	250	19,541	218.5	0.9
1979	249	119,310	1,333.5	5.4
1980	251	1,656,290	5,733.4	22.8
1981	254	2,891,348	7,651.7	30.1
1982	249	5,018,526	12,624.8	50.7
1983	250	3,507,748	10,107.6	40.4
1984	246	1,218,833	2,139.0	8.7
1985*	182	1,611,364	2,749.8	15.1
1986	248	1,430,341	1,813.4	7.3

\* Up to September 1985

Sources : 1984 Indonesian Capital Market Fact Book and Department Keuangan Republik Indonesia, Statistik Pasar Modal Indonesia, Badan Pelaksana Pasar Modal, Jakarta, 1986.



## APPENDIX 8-VI

### RATING SYSTEM OF THE ANNUAL REPORT AWARD COMPETITION

Rating Groups	Scores
(1) Financial statements (the financial statements and auditors report included in the participating annual report have to be presented as they originally are).	
Items to be judged will mainly compromise :	
(a) The auditor's report .....	25
(b) The balance sheet.....	125
(c) The statement of profit and loss .....	100
(d) The statement of retained earnings.....	25
(e) The statement of changes in financial position.....	50
(f) Notes to financial statements.....	130
(g) Supplementary information.....	25
Total scores of "Financial Statements" group.....	480
(2) Management Reports (and the Board of Commissioner's, if any).	
Items to be judged will mainly comprise :	
(a) Reading ease (to include writing ability, report's organization and others).....	40
(b) Broad outlook regarding the company's performance.....	30
(c) Special explanations as to profit and loss.....	30
(d) Operational changes.....	20
(e) Financial position.....	30
(f) Macro-economic analysis.....	15
(g) An outlook with regard to company's future prospectus.	40
(h) Additional data.....	25
Total scores of "Management Reports" group.....	230
(3) Non financial data.	
Items to be judged will mainly comprise :	
(a) Company's identity.....	10
(b) The management.....	10
(c) Illustrations on products or services .....	15
(d) Graphs on production and business activities.....	15
(e) Presentations of the report as a whole.....	30
(f) Additional data.....	20
Total scores of "Non Financial data".....	100

## Rating Groups

## Scores

### (4) Important financial data

Items to be judged will mainly comprise :

(a) Net revenues on sales.....	20
(b) Income before and after taxes.....	20
(c) Total and per share dividends declared.....	20
(d) Earnings per share.....	15
(e) Total and type of share.....	15
(f) Working Capital.....	20
(g) Total assets.....	20
(h) Net income on total assets.....	10
(i) Net income on owner's equity.....	10
(j) Additional data.....	40
Total scores of "Important financial data".....	190

Source : 1983 Annual Award Report

# FORMAT OF BALANCE SHEET

Source : Table B - Indian Companies Act, 1857

## APPENDIX 10-II

### COMPANIES BILL

Order for Second Reading read.

3.51 p.m.

The Minister for Law and National Development (Mr Barker) : Mr Speaker, Sir, I beg to move, "That the Bill be now read a Second time".

Sir, the need for an up-to-date company legislation has become a matter of urgency as our existing legislation on companies, which is based on the English Companies Act of 1929, is now completely out of date. The main provisions in this Bill are outlined in the Explanatory Statement attached to the Bill. I now propose to give only a brief outline of the significant changes in the law proposed by this Bill.

Under clause 15 of the Bill a private company is prohibited from inviting the public to invest money with it. Existing private companies should convert themselves to public companies if they desire to continue to borrow from the public.

Clause 170 requires every company to send copies of the Balance Sheet, Profit and Loss Account, and Auditor's Report to all members of the company before the general meeting, whereas under the existing law private companies are not required to do so.

Clause 181 gives a remedy to minority interests who are being oppressed by the majority. The provisions, which are new, are also applicable to private companies.

The definition of "director" has been widened to include a person in accordance with whose directions or instructions the directors are accustomed to act.

Clause 122 requires every company to have at least two directors, one of whom shall be resident in Singapore.

Clauses 131 and 132 impose upon the directors the duty of disclosing any conflicting interests they might have and prohibit officers of the company from acquiring an advantage because of information gained by virtue of their position.

Clause 133 restricts the right of companies to make loans to their directors or related companies and clause 135 requires a director to inform the company promptly of any matters affecting his position which are required to be known by the company.

Clause 136 prohibits tax-free payments to directors, and clause 137 strictly limits the right of a company to make payments to a director on his retirement.

These provisions will ensure that directors do not take undue advantage of their position in the company and will prevent the company from giving undue preference to them.

Special provisions have been introduced in this Bill to control unit and property trusts and investment companies. The Minister has to grant his approval to a company, acting as trustee for the purposes of a trust deed, and the trust deed is required to contain certain covenants and has to be approved by the Registrar.

Returns have to be made to the Registrar every year containing a list of all persons who are holders of the interests to which the deed relates and containing statements of all purchases and sales of land and marketable security and of all other investments and also of the total amount of brokerage paid or charged by the management company.

As regards investment companies, there are restrictions on borrowing, on investment, on underwriting, etc. They are also required to keep an investment fluctuation reserve.

Foreign companies are regulated by Division 2 of Part XI of the Bill. Every foreign company shall have a registered office in Singapore and shall, if it invites the public to subscribe for its shares, keep a Branch Register in Singapore.

The provisions of Part IX of the Bill, which deals with the investigation of companies are more extensive than the corresponding provisions of the existing Ordinance. Clauses 207 and 209 enable the Minister to investigate actual ownership of the shares of the company. He can restrain dealings in the shares and the exercise of rights attached to the shares if the owner refuses to co-operate in the investigation. There are new provisions. Clause 210 enables the Government to co-operate with other countries having similar legislation with respect to investigations.

Under the existing law the Registry of Companies is little more than a repository for documents required to be lodged with the Registrar. Under this Bill the Registrar's duties and powers are extensive and are basic to any proper control over companies and to the active enforcement of the law.

Clauses 374 to 388 authorise the Minister to make arrangements with Malaysia for the extension to Singapore of Winding-Up Orders made in Malaysia and for the extension to Malaya of Winding-Up Orders made in Singapore. I understand that the Malaysian Government is prepared to enact legislation containing reciprocal provisions.

The Bill proposes to give the investing public adequate protection, but, at the same time, tries not to place an undue or unnecessary burden upon honest business enterprises. It will do much to provide a healthy climate for investment and a sound basis for action against fraudulent and undesirable practices. As this Bill is comprehensive and far reaching in its effects, it is proposed to refer it to a Select Committee.

Sir, I beg to move.

Question put, and agreed to.

Bill accordingly read a Second time.

Resolved, "That the Bill be committed to a Select Committee consisting of eight Members to be nominated by the Committee of Selection." - (Mr Barker).

The Tanjong Pagar Dock Coy. Ltd.  
Singapore, 21<sup>st</sup> September, 1880.

The Registrar  
of Joint Stock Companies  
Singapore

Sir,

In compliance with the requirements of the Indian Companies' Act of 1866, I beg to wait on you with the following Documents, viz:

List of Directors of the Company.

Summary of Capital and Shares.

List of Shareholders in the Company.  
all made up to 14<sup>th</sup> day of September, 1880  
also Balance Sheet and Profit & Loss  
Account for the Half Year ending  
30<sup>th</sup> June 1880.

I am, Sir,

Your Obedient Servant

*W. M. Smith*  
Secretary & General Manager  
The Tanjong Pagar Dock Coy. Ltd.

Singapore, 10. March 1883.

Sir

In compliance with the requirements of  
 the Indian Companies Act XII of 1857, I beg  
 to wait on you with the following Documents viz  
 List of Directors of the Company  
 Summary of Capital Shares  
 List of Shareholders in the Company  
 all made up to 9<sup>th</sup> day of March 1883; also  
 Balance Sheet, and Profit & Loss acc for the  
 half year ending 31<sup>st</sup> December 1882.

I am Sir

Your Obedient Servant.

 Mr. Blair  
 Manager

Sanyong Pagar Dock Co

 To the Registrar  
 of Joint Stock Companies  
 Singapore



## APPENDIX 10-V

Singapore, 1st January 1866.

Secretary and General Manager.

To 31st December, 1865.

Singapore, 1st January, 1866.

Secretary and General Manager.

W. WILLANS,  
H. T. POWELL  
*Auditors.*

(Signed)  
CHAS. H. HARRISON,—*Chairman*.  
P. JOAQUIM,  
J. J. GREENSHIELDS.

*Directors.*

Office of Panjong Paper Press Company Limited  
Singapore.

C. E. Velze Esqrs.  
Registration of Joint Stock Companies.  
Singapore 15<sup>th</sup> May 1876.

Sir,

In compliance with the requirements  
of the Indian Companies Act of 1866.-

I beg to wait on you with the  
following documents viz:-

List of Shareholders in the Company.

Summary of Capital and Shares.

List of Directors of the Company, all  
made up to 31<sup>st</sup> December 1875. Also  
Balance Sheet and Profit & Loss account  
to 31<sup>st</sup> December.

I am Sir  
Yours Obedient Servant

Wm. A.

Secretary and General Mgr. -  
Panyong Paper Press Company Limited.

## DIRECTORS' REPORT.

SINGAPORE, 10TH AUGUST, 1875.

### TO THE SHAREHOLDERS IN THE TANJONG PAGAR DOCK COMPANY, LIMITED.

GENTLEMEN,

Your Directors now have the pleasure of presenting you with the Balance Sheet and Profit and Loss Account for the half year ending 30th June last.

After making allowance for all necessary payments for that period, including depreciation on Property and Plant, as well as \$13,908.62 the cost of maintenance and repairs effected thereon, and depreciation on Tug Boats, there remains \$40,886.08 which added to \$25,426.37 brought forward from last half year, makes \$66,312.45 to be disposed of.

Your Directors recommend that from this sum an *interim* Dividend at the rate of 10 per cent per annum be declared, leaving \$36,312.45 to be carried forward.

The claim against the Company in consequence of the accident to the ship "England" has been settled, the vessel taken over, repaired and sold. The loss on this account amounts to nearly \$50,000 and it is to assist in meeting this contingency that it is recommended to carry so large an amount forward.

Mr. Parkes, the Engineer, engaged to determine the site of, and to make plans and estimates for the New Graving Dock, having completed his surveys, has returned to England, where he will act on the Company's behalf as non-resident Engineer, and Mr. Edward Jackson has been engaged for the actual supervision of the work under Mr. Parkes' directions.

Mr. Jackson is now in Mr. Parkes' office preparing the working plans of the New Dock, and is expected here, to commence work, in October next.

Mr. Parkes estimates that the cost of the New Dock will be about £30,500.

Mr. E. M. Smith returned from his year's leave of absence on 15th May, and resumed charge of your business: Mr. S. A. A. Muggerridge being appointed Assistant Manager and Assistant Secretary.

(Signed) THOS. SCOTT,  
Chairman.

TANJONG PAGAR DOCK COMPANY, LIMITED.

Balance Sheet, 30th June, 1875.

CAPITAL & LIABILITIES.		\$	C.	\$	C.	PROPERTY AND ASSETS.		\$	C.	\$	C.
<b>CAPITAL.</b>						<b>PROPERTY.</b>					
ORIGINAL SHARES.						Freehold Land...					
Total amount received from Shareholders	300,000					Dock, Godowns, and Coal sheds.	461,910	43		67,360	25
Total number of shares	3,000					Wharf ...	241,141	60			
" " issued. All						Machine Shop, Buildings & Plant	39,511	03			
Remaining unissued.	None.					Boiler Sheds ...	9,301	24			
Amount received per share	\$100						755,174	20			
Arrears of calls	None.					Less Depreciation	7,480	24		747,693	96
Shares forfeited	None.					<b>MOVABLE PROPERTY.</b>					
ORIGINAL SHARES NEW ISSUE.						Working Plant...					
Total amount received from Shareholders	300,000					Less Depreciation	510	76		51,952	17
Total number of Original shares New Issue	3,000					Steam Tug "Pilot Fish"	10,964	72			
Total number issued	A					Less Depreciation	548	24		10,416	48
Remaining unissued.	None.					Steam Tug "Weazel"	3,221	07			
Amount received per share.	\$100					Less Depreciation	181	05		3,060	02
Arrears of calls	None.					Barque "Engla"				70,173	
Shares forfeited.	None.			600,000		<b>STOCK IN TRADE.</b>					
<b>LIABILITIES.</b>						Iron ...					
Debentures No. 5 due 1st Sept. 1876	65,100					Steel ...	2,157	60			
Do No. 6 due 19th April 1878	57,100					Copper and Yellow Metal	14,840	65			
Do No. 7 due 10th Oct. 1878	150,000			272,500		Nails and Screws	10,822	18			
Loans at call				42,000		Miscellaneous Stock	33,108	12			
Reserve Fund				67,248		Timber...	8,960	41			
Dividends unclaimed				418		Firewood	51	99			
Interest on Debentures, & Loans due 30th June, &c.				13,158	92	Gunny Bags	115	62		107,721	44
Quit Rent and Assessment to 30th June				2,057	75	<b>ASSETS.</b>					
Directors' fees under Clause 67				1,000		Premiums of Fire Insurance paid, but belonging to next half year				2,045	
Wages and Salaries for June				8,324	98	Goods to arrive from Europe				2,086	78
Coolie Contractors for June				7,453	99	Remittances to London on account of Stores				10,175	23
Payments due under Clause 72				3,411	22	Preliminary Expenses of New Graving Dock				6,027	52
Current Accounts				14,875	65	Current Accounts				74,927	38
Chartered Bank of India, Australia and China				54,477	81						
Profit and Loss, Balance.				66,312	45						
				\$1,154,138	77					\$1,154,138	77

We, the undersigned, have examined the above Balance Sheet with the books of the Company and hereby certify the same to be correct, and to exhibit a fair and correct view of the Company's affairs.

W. W. WILLIAMS, } Auditors.  
JOHN CAMERON, }

We certify that this Balance Sheet contains, to the best of our belief, a true account of the Capital and Liabilities, and of the Property and Assets of this Company.

THOMAS SCOTT,—Chairman.  
J. R. MACARTHUR, } Directors.  
MARTIN SUHL, }

**TANJONG PAGAR DOCK COMPANY, LIMITED.**

Dr. Statement of Profit and Loss Account, 31st December 1874, to 30th June 1875. Cr.

[illegible]

MEMORANDUM.

Balance of Profit and Loss Account as above...	66,312	45
PROPOSED DISTRIBUTION.		
Dividend of 3 % for the half year ending 30th June, 1875. ....	30,000	00
Balance forward ...	36,312	45

Singapore, 4th August, 1875.

E. M. SMITH,  
Maha

Tanjong Pagar Dock Company, Limited  
Profit and Loss Account, 31<sup>st</sup> December, 1895.

Profit and Loss Account, 31<sup>st</sup> December, 1891.

[illegible]

It was examined the above described and

Balance of Profit and Loss A/c, as above

we are offering the following proposal

Dividend of \$ .50 per share for the half-year and  
Directors' remuneration under clause 67

Less amount provided for

Memorandum

The motion that the Senate

how compare to the best of our kind a 1093502 5/11

Account of the capital and liabilities, 1850 of the

7500:

4,000.	3,500.	78,500.
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Forward	✓	15,002	59
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# Tanjong Sagar Dock Company Limited

## Balance Sheet, 31<sup>st</sup> December, 1891.

Capital and Liabilities				Property and Assets			
Capital				Property			
Total amount received from Shareholders			1,500,000	Freehold and Leasehold Land		416,157	19
Total number of Shares	15,000			Permanent Works		703,440	81
— do — issued	All			Victoria Graving Dock		192,000	
Remaining unissued	None			Albert — do —		305,000	
Amount received for share	£100			Bow Record Dock, share of		28,750	
Arrears of calls	None			Wharves		340,000	
Shares forfeited	None			Godowns		221,000	
Liabilities				Coal Sheds		192,000	
Debentures Second Issue New Series, due				Machine Shop Buildings		18,000	
— do — 10 <sup>th</sup> October, 1892	175,000			Foundry		5,000	
— do — Third Issue — do — 10 <sup>th</sup> April, 1893	130,000			House Property		105,000	
— do — Fourth — do — 10 <sup>th</sup> October, 1893	175,000			Dock Store		15,500	
— do — Fifth — do — 1 <sup>st</sup> September, 1894	79,500					2,521,948	
— do — Sixth — do — 30 <sup>th</sup> June, 1895	150,000			Less Depreciation		20,500	
— do — Seventh — do — 31 <sup>st</sup> December, 1896	120,000	909,500		Land at Sandy Point, half share			13,459 51
Reserve Fund		480,000		Singapore Tramways — do —			93,000
Wharf Renewal Fund		60,000		Movable Property			
Steam Tug Insurance Fund		10,000		Dock Working Plant		49,000	
Loans at call and for short terms		207,409	18	Saw Mills		18,500	
Interest on Debentures & Loans due 31 <sup>st</sup> Dec.		18,004	52	Machine Shop Working Plant		23,500	
Wages and Salaries due 31 <sup>st</sup> December		21,517	40	General Working Plant		14,054	29
Directors' Fees		2,000		Steam Winches and Gears		2,000	
— do — London Committee		4989	47	Ford Engines		3,000	
Dividends unclaimed		853	28	Boiler and Mastig Sheers		8,500	
Contributory Payments, Clause 72		3928	12	Steam Tug "Bangkok" half share		4,000	
Current Accounts		64,509	76	— do — "Lunda" —		3,000	
Balance as per Profit and Loss A/c		93,502	59	— do — "Mercury" —		4,000	
Forward			3,293,214 32	Forward		1,025,577	27 262,780 7

Forward		3293.214	87
Company's Capital			
Paid up Capital			
Reserves			
Profit and Loss			
Total		3293.214	87
We have examined the above Accounts and the Title Deeds to the Company's Property, and certify that in our opinion the Balance Sheet is full and fair and properly drawn up in conformity with the law so as to exhibit a true and correct view of the Company's affairs.			
J. S. Thompson			
W. A. Hall			
Auditors			
Company's Capital			
Paid up Capital			
Reserves			
Profit and Loss			
Total		3293.214	87
We certify that this Balance Sheet contains, to the best of our belief, a true account of the Capital and Liabilities, and of the Property and Assets of this Company.			
Wm. Anderson			
Directors			

THE COMPANIES ORDINANCES 1889 to 1909.

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Articles of Association  
OF  
Fraser and Neave  
Limited.

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PRELIMINARY.

1. In these presents, unless there be something in the subject or context inconsistent therewith:— Interpre-  
tation.

“Special resolution” means a resolution passed in accordance with section 80 of the Companies Ordinance, 1889, of the Ordinances of the Straits Settlements, by a majority of not less than three-fourths of such members of the Company for the time being entitled, according to the regulations of the Company, to vote as may be present in person or by proxy at any General Meeting of which notice specifying the intention to propose such resolution has been duly given, and which resolution has been afterwards confirmed by a majority of such members for the time being entitled according to the regulations of the Company to vote as may be present in person or by proxy at a subsequent General Meeting of which notice has been duly given and held at an interval of not less than 14 clear days nor more than one month from the date of the meeting at which such resolution was first passed.

“Extraordinary resolution” means a resolution passed in such manner as would, if it had been confirmed by a subsequent meeting, have constituted a “special resolution.”

“Ordinary Resolution” means a resolution of which no notice has been given specifying the intention to propose such resolution as a Special Resolution or as an Extraordinary Resolution passed by a majority of such members of the Company for the time being entitled to vote as may be present in person or by proxy at any General Meeting of which notice has been duly given.

“Clear days” or “days at least” with reference to a notice convening a meeting or an act to be done means the days intervening between the day on which a notice is to be deemed to be served and the day on which the meeting is to be held or the act done.



"Share" or "Shares" includes preference shares and ordinary shares except where a contrary intention is expressly or impliedly shown and also registered shares and bearer share warrants.

A "member" or "members" shall include the holder of registered share or bearer share warrants.

"Director" or "Directors" means a director or the directors for the time being of the Company.

"The office" means the registered office for the time being of the Company.

"The register" means the Register of Members to be kept pursuant to section 51 of the Companies Ordinance, 1889.

"In writing" and "written" include printing, lithography and other modes of representing or reproducing words in a visible form.

"Financial year" means from the 1st of January to the 31st December unless and until by the Articles of Association some other period is declared to be the financial year.

Words importing the singular number only, include the plural number, and *vice versa*.

Words importing the masculine gender only include the feminine gender.

Words importing persons include corporations.

The marginal notes shall not affect the construction of these articles.

Table A not to apply.

2. The regulations contained in Table A in the first schedule to the Companies Ordinance, 1889, shall not apply to the Company.

### SHARES.

Allotment of Shares.

3 The shares shall be under the control of the Directors, who may allot or otherwise dispose of the same to such persons, on such terms and conditions, and at such times as the Directors think fit.

Shares may be issued subject to different conditions as to calls, etc.

4. The Company may make arrangements on the issue of shares for a difference between the holders of such shares in the amount of calls to be paid and the time of payment of such calls.

Instalments on shares to be duly paid.

5. If, by the conditions of allotment of any share, the whole or part of the amount or issue price thereof shall be payable by instalments, every such instalment shall, when due be paid to the Company by the person who for the time being shall be the registered holder of the share.

Liability of joint-holders of shares.

6. The joint-holders of a share shall be severally as well as jointly liable for the payment of all instalments and calls due in respect of such share.

ting account or book or document of the Company, except as conferred by Ordinance or other law or authorised by the Directors, or by a resolution of the Company in General Meeting.

Annual  
account and  
balance sheet.

131. At each ordinary meeting in every year, the Directors shall lay before the Company a profit and loss account, and a balance sheet containing a summary of the property and liabilities of the Company, made up to a date not more than four months before the meeting, from the time when the last preceding account and balance sheet were made up.

Annual report  
of Directors.

132. Every such balance sheet shall be accompanied by a report of the Directors as to the state and condition of the Company, and as to the amount which they recommend to be paid out of the profits by way of dividend or bonus to the members and the amount (if any) which they intend to carry to the reserve fund or reserve funds according to the provisions in that behalf hereinbefore contained; and the account, report, and balance sheet shall be signed by the Chairman and another Director or by the Chairman and an attorney of an absent Director and countersigned by the Secretary or such other officer as the Directors may from time to time appoint.

Copy to be  
sent to mem-  
bers.

133. A printed copy of such account, balance sheet, and report shall, seven days previously to the meeting, be served on the registered holders of shares in the manner in which notices are hereinafter directed to be served.

#### AUDIT.

Accounts to  
be audited  
annually.

134. The accounts of the Company shall be examined and the correctness of the profit and loss account and balance sheet ascertained by one or more auditors. A firm of auditors may be appointed but such appointment shall be deemed to be the appointment of one auditor only as if such firm consisted of one person—but a member or members of such firm may severally perform the duties of the appointment as the firm may arrange.

Appointment  
and remunera-  
tion of  
auditors.

135. Auditors shall be appointed by the Company at the ordinary meeting in each year. The remuneration of the auditors shall be fixed by the Company in General Meeting. Any auditor quitting office, shall be eligible for re-election.

136. If one auditor only is appointed, all the provisions herein contained relating to auditors shall apply to him.

Provision for case of single auditor.

137. The auditors may be members of the Company, but no person shall be eligible as an auditor who is interested, otherwise than as a member of the Company, in any transaction thereof, and no Director or other officer shall be eligible during his continuance in office.

Who ineligible as auditors.

138. If any casual vacancy occurs in the office of auditor, the Directors shall forthwith fill up the same.

Casual vacancy.

139. The auditors shall be supplied with copies of the profit and loss account and balance sheet intended to be laid before the Company in General Meeting 14 days at least before the meeting to which the same are to be submitted, and it shall be their duty to examine the same with the accounts and vouchers relating thereto, and to report thereon.

Auditors to report on account and balance sheet.

140. The auditors shall make report to the shareholders upon the balance sheet and accounts; and in every such report they shall state whether, in their opinion, the balance sheet is a full and fair balance sheet, containing the particulars required by these regulations, and properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs; and in case they have called for explanations or information from the Directors, whether such explanations or information have been given by the Directors, and whether they have been satisfactory; and such report shall be read, together with the report of the Directors, at the ordinary meeting.

Auditors report how to be framed.

141. The auditors shall at all reasonable times have access to the books and accounts of the Company.

Inspection of books by auditors.

#### SECRETARY.

142. The Secretary shall be appointed by the Directors upon such terms and at such remuneration as they may think fit, and a member may act as Secretary and hold the office of Director at the same time.

Secretary. He may act as Director at the same time.

#### NOTICES.

143. A notice may be served by the Company upon any member, either personally or by sending it through the post in a prepaid envelope or wrapper, addressed to such member

How notice served on members.

## FRASER AND NEAVE, LIMITED.

BALANCE SHEET AS AT 31ST DECEMBER, 1902.

LIABILITIES.	\$	cts.	ASSETS.	\$	cts.	\$	cts.
TAL	225,000	...	LEASEHOLD LAND—	...	...	18,500	...
RESERVE—	...	...	Anson Road	13,000	...	...	...
Ordinary	...	...	Siak Road	5,500	...	...	...
Special	...	...	BUILDINGS—	...	78	...	...
Buildings	\$102,116.37	...	Anson Road (including New Factory)	68,990	...	...	...
Transferred from Reserve Fund, 1901	3,950.00	...	Penang	215	36	...	...
Less—Goodwill written off	\$106,066.37	...	STOCK-IN-TRADE	66,805	04	69,206	14
Bonus	35,000.00	...	PLANT AND MACHINERY—	...	...	...	...
Legal Cost of Conveyance	22,500.00	...	Less Depreciation	58,003	94	...	...
Removal Expenses	508.80	...	FURNITURE AND FITTINGS—	...	...	...	...
	3,275.90	...	Less Depreciation	3,213	59	...	...
DIRECTORS' AND AUDITORS' FEES	...	...	HORSES AND VANS	5,767	46	...	...
DEBT CREDITORS' A/cs. unpaid	...	...	SUNDRY DEPTOS—	...	...	133,790	03
CLAIMED DIVIDENDS	...	...	Less Bad and Doubtful Debts	...	...	91,875	58
FIT AND LOSS balance	...	...	CASH—	...	...	...	...
	...	...	Chartered Bank Dividend Account	350	...	...	...
	...	...	Hongkong Bank Fixed Deposit	30,000	...	...	...
	...	...	Do. do. Current	9,747	17	...	...
	...	...	Do. do. Penang Current	3,007	21	...	...
	...	...	Chartered Bank Fixed Deposit	30,000	68	...	...
	...	...	Do. do. Current	11,230	...	...	...
	...	...	In hand Singapore and Penang	1,199	15	85,534	21
	...	...		...	...	...	...
	...	...		...	...	\$398,905	96

## PROFIT AND LOSS ACCOUNT, 31ST DECEMBER, 1902.

	\$	cts.		\$	cts.
General Charges (lighting, horses, vans, &c.)	22,172	64	By Balance at 31st December, 1901	31,414.02	...
Salaries and Wages	84,716	69	Less 10 per cent. Dividend	\$22,500.00	...
Travelling Expenses	3,772	95	Transfer to Buildings Reserve	3,950.00	...
Printing, Stationery and Advertising	3,133	80	Written off Goodwill	4,500.00	...
Rent	19,490	...	Gross Profit on Sales	30,950.00	02
Discounts and Allowances	4,015	71	Interest	...	75
Legal Expenses	1,160	85	Transfer Fees	...	0
Upkeep of Plant and Machinery	2,266	18	Bad Debts recovered	...	51
Depreciation of Plant and Machinery	6,214	78		...	60
Depreciation of Furniture and Fittings	306	94		...	...
Upkeep of Buildings	65	...		...	...
Depreciation on Buildings	53	84		...	...
Assessment, Quit-rent and Insurance on Buildings	528	97		...	...
Fire and Marine Insurance	871	54		...	...
Bad and Doubtful Debts	246	87		...	...
Loss by Defalcations and Bad Debts after making allowance for old doubtful credit Balances	18,938	01		...	...
Directors' and Auditors' Fees	3,200	...		...	...
Balance	44,358	83		...	...
	\$215,513	60		...	...

FOR FRASER &amp; NEAVE LTD

I, the undersigned, having examined the foregoing Balance Sheet and Profit and Loss Account with the Company's Head Office Books and Vouchers, and with the Audited Balance Sheet and Profit and Loss Account of Penang Branch (which I have accepted as correct) am of opinion that they contain the particulars required by the regulations of the Companies Ordinance 1880, and exhibit a true and correct view of the state of the Company's affairs.

G. A. DERRICK,  
Auditor

10th March, 1903.

ALEX. GENTILE,  
C. SUGDEN,  
Directors.

APPENDIX 10-X

31st December, 1915.

\$	cts.	ASSETS.	\$	cts.	\$	cts.
360,000	..	FREIGHTS LAND	157,814	80	121,133	13
100	..	BUILDINGS	14,970	81	142,841	05
32,626	95	Less Depreciation	135,655	48		
42,530	94	PLANT AND MACHINERY AND MOTORS	32,615	67	103,039	81
220,000	..	Less Depreciation	9,958	73		
		FURNITURE AND FITTINGS	1,522	80	8,435	92
		Less Depreciation				
		SEWEMAN BRANCH--				
		Expenditure to date, less Amount written off			4,144	87
82,112	37	STOCK ON HAND AND ABOARD as certified by Managers			150,477	11
		IN INSTANT			1,000	..
		SEWERY DEBTS after providing for Bad and Doubtful Debts			77,503	85
		CASH AT BANKERS AND IN HAND			128,791	06
737,370	26				737,370	26

and LOSS ACCOUNT for one year to 31st December, 1915.

	\$	cts.
By Balance from Trading Accounts	49,109	28
Interest	2,500	...
Transfer Fees	2,390	...
	116,399	80
\$	170,399	08

We represent as Shareholders that we have examined the above Balance Sheet and related information and have compared them with the Books and Records of the Company at Head Office and also at Yerning, Ipoh, Telukang, Klang, Kuala Lumpur, Klang, Malacca, and Alor Star Branches; and that we have satisfied ourselves that all the information and explanations so far as required, and that in our opinion the Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs according to the best of our information and belief.

We have not examined the accounts of the Branches which have been submitted by Mr. A. H. Dunlaidson, C.A.

SINGAPORE, 15th April, 1946.

Chartered Accountants  
Auditors

Wm. Brewster Esq. }  
Hillsdale Co. } Dir. Co.

*C. J. J.*

# Singapore Cold Storage Co., Ltd.

(Incorporated in the Colony of Singapore)

SINGAPORE, KUALA LUMPUR, PENANG, IPOH, SEREMBAN,  
MALACCA, KLANG, TELUK ANSON, TAIPING, BAGAN LUAR,  
SUNGEI PATANI, KELANTAN, KUANTAN & CAMERON HIGHLANDS.

REGISTERED OFFICE—EMPIRE DOCK, KEPPEL ROAD, SINGAPORE.

## BOARD OF DIRECTORS:

Harry Bertram Roper-Caldbeck (Chairman).

James Maurice Prescott.

Robert Burns.

Norman John Davies.

*General Manager:*

*Secretary:*

Gordon Alan Potts.

James Kerr Hill, C.A.

*Solicitors:*

*Auditors:*

Drew and Napier.

Turquand, Youngs, McAuliffe & Co.

Singapore.

Singapore.

*Bankers:*

Hongkong & Shanghai Banking Corporation,

Singapore.

## DIRECTORS' REPORT

AND

## STATEMENT OF ACCOUNTS

For the year ended 31st August, 1946

NOTICE IS HEREBY GIVEN that the Forty-First Ordinary General Meeting of the Company will be held at the Offices of Boustead & Co., Ltd., Collyer Quay, Singapore, on Saturday, the 21st December, 1946, at 12 Noon.

### BUSINESS.

1. To receive the Directors' Report and Accounts for the year ended 31st August, 1946.
2. To fix the remuneration of Directors.
3. To elect Directors.
4. To appoint Auditors and fix their remuneration.
5. General.

By Order of the Board, *J. K. Hill*, C.A.

Secretary.

Singapore, 14th December, 1946.

# DIRECTORS' REPORT TO THE SHAREHOLDERS.

Singapore, 14th December, 1946.

Gentlemen,

Your Directors have pleasure in submitting the Accounts of the Company for the twelve months ended 31st August, 1946.

The Profit for the year amounts to .. .. .	\$277,791.57
Add Estimated profit for the period 1.7.41-15.2.42 .. ..	175,000.00
Add Excess Income over Expenditure 16.2.42-31.8.45 .. ..	6,194.57
	<u>\$458,986.14</u>
Out of which provision for Directors' Fees has been made	
for 1941/2 .. .. .	\$ 7,500.00
and for 1945/6 .. .. .	12,000.00
	<u>19,500.00</u>
Amount transferred to Profit and Loss Appropriation Account	
against War Losses .. .. .	<u>\$439,486.14</u>

REGISTRATION IN SINGAPORE.—The Company was registered in Singapore on 9th August, 1946, under the Companies (Special Provisions) Ordinance 1946 and was struck off the English Register on the same date.

DIRECTORATE.—Your Directors record with deep regret the death of their colleagues Messrs. W. H. MacGregor and J. I. Dawson.

Messrs. H. B. Roper-Caldbeck, J. M. Prescott, and R. Burns were appointed Directors on 1st August, 1946.

Mr. N. J. Davies was appointed a Director on 10th August, 1946.

The London Directors, Messrs. A. Young, J. B. Young, and D. T. Lewis, resigned on 11th September, 1946, following the Company's transfer to Singapore.

In accordance with the Articles of Association, all the Directors retire and being eligible, offer themselves for re-election.

AUDITORS.—The Auditors, Messrs. Turquand, Youngs, McAuliffe & Co., retire and, being eligible, offer themselves for re-appointment.

  
Chairman.

# SINGAPORE COLD STORAGE CO., LTD.

## CAPITAL AND RESERVES—

### Nominal Capital:

2,000,000 shares of \$2 each .. .. . \$ 4,000,000.00

### Issued Capital:

1,148,438 shares of \$2 each fully paid .. .. . \$ 2,296,876.00

Reserve as at 30th June, 1941 .. .. . \$ 1,450,000.00

Add Transfer from Profit & Loss Account approved at General Meeting, 4th Oct., 1941 .. .. . 50,000.00

\$ 1,500,000.00

Less Transfer to Profit & Loss Appropriation Account .. .. . 1,500,000.00

\$ 2,296,876.00

## CURRENT LIABILITIES AND PROVISIONS—

Sundry Creditors and Credit Balances .. .. . \$ 2,271,999.99

Unclaimed Dividends .. .. . 3,432.50

Staff Reserve Account .. .. . 50,029.49

2,325,461.98

### Statement pursuant to Sec. 127 Companies Ordinance 1940

The profits of one Subsidiary Company have been incorporated in these accounts to the extent of dividends received. The last accounts of the other Subsidiary Company dated 30th September, 1941 showed a debit balance on Profit and Loss Account which was carried forward in its books.

*L. J. Calabrese*  
*Robert Brown*

Directors.

WAR CLAIMS. The Directors have filed claims in respect of war losses but these claims have not been valued in the above accounts.

\$ 4,622,337.93

### To the Members of the Singapore Cold Storage Co., Ltd.

We have audited the above Balance Sheet with the books and vouchers of the Company and have obtained all the information and explanations we have required. The title deeds of the company's properties have been lost during the Japanese occupation, but photostatic copies have been inspected by us. Subject to the above remark, in our opinion, the above Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs, according to the best of our information and the explanations given to us and as shown by the books of the Company.

*Lugward J. H. A. H. H. H.*  
Auditors.

SINGAPORE, 14th December, 1946.

## PROFIT AND LOSS ACCOUNT FOR THE PERIOD

### To Provision for Directors' Fees

1941/2 .. .. . \$ 7,500.00  
1945/6 .. .. . 12,000.00

\$ 19,500.00

Net Profit carried to Profit and Loss Appropriation Account .. .. . 439,486.12

\$ 458,986.12

## PROFIT AND LOSS APPROPRIATION ACCOUNT FOR THE

To war losses of Stock, Debtors, Buildings, Plant, Furniture and Cash, less recoveries and reserves .. .. . \$ 2,462,016.12

\$ 2,462,016.12

NOTE: Directors' Fees paid to Directors of Singapore Cold Storage Co., Ltd., by its subsidiary companies during the year ended 31st August, 1946, were \$3,500.00.

# Balance Sheet as at 31st August, 1946.

## Fixed Assets:

Land, Buildings, Plant, Machinery and Furniture at cost less depreciation and war losses .. .. . \$ 1,332,204.4

## Subsidiary and Associated Companies:

Investment in Subsidiary Companies at cost .. .. . \$198,100.00

Amounts due from Subsidiary Companies .. .. . 58,384.30

\$ 256,484.30

Investment in Associated Company .. .. . 47,600.00

304,084.3

## Current Assets:

Stock in Hand and in transit as valued by the Company's Officials less Reserve .. .. . 701,709.16

Sundry Debtors, Deposits and Payments in advance less reserve for doubtful debts .. .. . 303,286.65

Investments—Government and Municipal Stocks and Sundry Investments .. .. . \$830,103.29

Staff Reserve Fund Investments as per contra .. .. . 50,029.49

880,132.78

Cash At Banks .. .. . \$623,208.49

On Hand .. .. . 50,403.33

673,611.82

2,558,740.4

Profit and Loss Appropriation Account .. .. . 427,308.8

\$ 4,622,337.9

*L. J. Calabrese*  
*Robert Brown*

Directors.

## FROM 1st JULY, 1941 TO 31st AUGUST, 1946.

Estimated Profit for period 1st July, 1941 to 15th February, 1942 .. .. . \$ 175,000.00

Excess Income over Expenditure 16th February, 1942 to 31st August, 1945 .. .. . \$ 6,194.57

Net Profit for the year ended 31st August, 1946 .. .. . 277,791.57

283,986.1

\$ 458,986.1

## PERIOD FROM 1st JULY, 1941 TO 31st AUGUST, 1946.

By Balance as at 30th June, 1941 .. .. . \$ 329,486.82

Less Appropriations voted at General Meeting, 4th Oct., 1941

7½% final dividend on ordinary shares .. .. . \$172,265.70

Transfer to General Reserve .. .. . 50,000.00

Directors' Fees .. .. . 12,000.00

234,265.70

Balance brought down from Profit and Loss Account .. .. . \$ 95,221.12

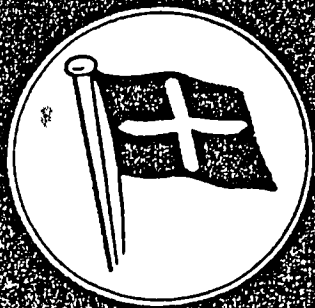
Transfer from Reserve .. .. . 439,486.12

Debit balance as per Balance Sheet .. .. . 1,500,000.00

427,308.8

\$ 2,462,016.1





**ANNUAL REPORT AND  
STATEMENT OF ACCOUNTS  
FOR 1964**

**STRAITS STEAMSHIP**

**COMPANY LIMITED**

**SHARIKAT STRAITS STEAMSHIP BERHAD**  
(Di-Tubohkan Di-Singapura)

# NOTICE OF MEETING

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NOTICE IS HEREBY GIVEN that the Seventy-ninth Ordinary General Meeting of the Company will be held at the Registered Office, Ocean Building, Collyer Quay, Singapore, on Friday, 28th May, 1965 at 11.30 a.m. for the following purposes:—

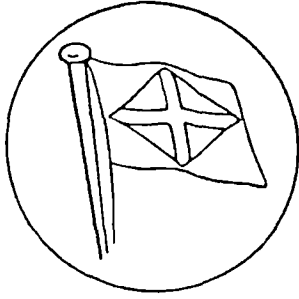
1. To receive the Directors' Report and Accounts for the year ended 31st December, 1964.
2. To sanction the declaration of a Dividend.
3. To elect Directors and to fix the remuneration of the Board.
4. To appoint Auditors and to fix their remuneration.
5. To transact any ordinary business of the Company.

By Order of the Board,

W. E. N. SMAIL,  
Secretary.

Singapore, 14th May, 1965.

*The Dividend if approved will be paid on 7th June, 1965 to Stockholders on the Register of Members on 10th May, 1965.*



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**DIRECTORS:**

H. N. SMYTH (*Chairman*)

T. P. CALDICOTT

WEE CHO YAW

L. E. C. LETTS

YONG PUNG-HOW

TENGGU RAZALEIGH HAMZAH

R. E. L. WINGATE

**REGISTERED OFFICE:**

Ocean Building, Collyer Quay, Singapore.

**SECRETARY:**

W. E. N. SMALL

**AUDITORS:**

Turquand, Youngs & Co., Chartered Accountants, Singapore.

**SUBSIDIARY COMPANIES:**

The Sarawak Steamship Company Limited.

Sabah Steamship Company (1927) Limited.

Sharikat Perkapalan Kris Tanah Melayu Limited.

# DIRECTORS' REPORT

The Directors submit the audited Accounts for the year ended 31st December, 1964.

## ACCOUNTS

The consolidated net profit for the year after providing for Income Tax amounted to	-	-	-	-	\$1,037,092
Less: Proportion applicable to minority interests	-	-	-	-	\$ 360,874
Amounts retained by subsidiary companies	-	-	-	-	45,797
Net profit applicable to Straits Steamship Co., Ltd.	-	-	-	-	406,671
Add: Unappropriated profits brought forward from previous year	-	-	-	-	630,421
Total available for appropriation	-	-	-	-	966,172
From this balance the Directors recommend	-	-	-	-	\$1,596,593
1. That a dividend of 65 cents per \$10 Unit of Stock less 40% Income Tax be paid absorbing	-	-	-	-	\$ 647,147
2. That the balance of - be carried forward	-	-	-	-	949,446
					\$1,596,593

## DIRECTORATE:

It is with the deepest regret that we record the death of Dato Loke Wan Tho, S.J.M.K., P.M.N., in an aeroplane accident on 20th June, 1964.

Sir Ewen Fergusson resigned from the Board on 11th September, 1964.

Mr. Yong Pung-How and Mr. Wee Cho Yaw were appointed to the Board under Article 79 on 30th December, 1964 and 14th January, 1965 respectively. They now retire and being eligible, offer themselves for election.

The Directors retiring by rotation are Mr. L. E. C. Letts and Mr. R. E. L. Wingate who offer themselves for re-election.

## AUDITORS:

The Auditors retiring, Messrs. Turquand, Youngs & Co., Chartered Accountants, being eligible, offer themselves for re-appointment.

Singapore, 14th May, 1965.

H. N. SMYTH,  
CHAIRMAN.

# CHAIRMAN'S REVIEW

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On behalf of the Directors I present the Accounts of the Company for the year 1964.

## FORM OF ACCOUNTS.

Consolidated Accounts have been presented for the first time covering the activities of the Company and also its subsidiary companies. Explanatory notes are provided where necessary.

## APPROPRIATIONS.

It is disappointing that the improvement in trading results in respect of 1963 has not been maintained in 1964. The net Profit after Income Tax amounts to \$630,421. Your Directors, however, feel justified in recommending a declaration of a Dividend of 65 cents per \$10 Unit of Stock, which will permit a carry forward of \$949,446 against \$966,172 for 1963.

If approved, this Dividend will be paid on 7th June, 1965 and will compare with the payment of 60 cents for the previous year.

## CAPITAL AND REVENUE RESERVES OF THE GROUP.

In previous years certain of the existing Reserves were deducted from the value of related assets. These Reserves have now been transferred to either Capital or Revenue Reserves, thus restoring the Assets to their book value. The major adjustment has occurred on the Fleet account. Comparative figures for 1963 have been reconstructed to enable an accurate assessment of the Company's 1964 results to be made.

## FIXED ASSETS OF THE GROUP.

The comments in the preceding paragraph are particularly relevant to the increased valuation placed on the Fleet. A further increase is due to the construction of three new vessels as offset by the sale of three vessels. There has also been an adjustment owing to the revaluation of vessels purchased from The Sarawak Steamship Co., Ltd.: the purchase price was based on an independent valuation report. Straits Steamship Co., Ltd.'s share of the surplus arising from this revaluation has been included under Capital Reserves.

## INTEREST IN SUBSIDIARY COMPANIES.

The value of shares held has increased for the reasons already given in the paragraph under Capital and Revenue Reserves of the Group.

## REPAYMENT OF CAPITAL.

The long-term financial position of the Company and the utilisation of Stockholders' resources have been considered in consultation with financial advisers.

The conclusion reached is that some \$4 M. in liquid resources is surplus to foreseeable requirements and, therefore, a Repayment of Capital of \$2.50 per \$10 Unit of Stock was recommended. Contingent upon the Repayment of Capital being confirmed by the Court, it was

recommended that the Issued Capital of the Company be restored to its existing figure of \$16,593,500 by the Capitalisation of part of the Company's Reserves. Resolutions necessary to implement these recommendations were approved by Members at an Extraordinary General Meeting of the Company held on 9th February, 1965. The High Court in Singapore has confirmed the Special Resolution passed at that Meeting for the reduction of the Company's capital. Repayment will be made on 7th June 1965 to Stockholders on the Register of the Members on 10th May, 1965.

#### REVENUE.

Trading revenue has increased by 10% over the 1963 figure. During the second half of 1964 the Singapore/Sarawak services have produced an additional source of revenue. It should be noted that the Indonesian trades produced no revenue for 1964 whereas such trades contributed some nine months' earnings to the 1963 figures.

Rates of freight on refrigerated cargo have been increased following substantial capital expenditure on additional refrigerated facilities in the ships serving Sarawak, Brunei and Sabah ports.

Certain freight reductions in the Sabah trade were introduced during the first half of the year to encourage inter-Malaysian trade, with particular reference to emerging industrial development. Encouragement was also given to cargo from Sabah to Singapore in an endeavour to reduce the adverse balance in this direction. Some success has been achieved.

#### EXPENDITURE.

Increased revenue has not matched the increase in operating costs. Action continues to be taken to eliminate uneconomic activities and methods, always with the view to increase the profitability of the Company's trading operations consistent with maintaining services of national benefit and importance to Malaysia.

#### FLEET.

"Serampang" and "Sirusa" were recommissioned as harbour craft in mid 1964.

"Renong", "Seremban" and "Temburong", being surplus to requirements, were sold for breaking up in December 1964. Since the end of the year "Sadao", "Sumpitan" and the Syndicate ferry "Kerang" have been similarly disposed of and it is probable that certain other small uneconomical units of the Fleet will be declared surplus to requirements and disposed of before the end of 1965.

The vessels "Rajah Brooke", "Bruas" and "Bentong" were purchased from The Sarawak Steamship Co., Ltd. in July 1964. "Rajah Brooke" now maintains a fortnightly service between Singapore and Sabah ports.

Two new landing-craft type vessels "Temburong" and "Tutong" will be delivered in mid 1965. The vessels will operate in the shallow

## Chairman's Review – Continued

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river ports of Brunei and Sarawak: they have been specially designed to handle heavy development equipment in areas remote from established ports.

A 700-ton tanker which will carry palm and mineral oil in bulk will be delivered in October 1965: this will replace "Relau" which is nearing the end of her economic life.

A new Syndicate ferry to carry 240 persons between Singapore and Pulau Bukom will be delivered in November, 1965.

A Malaysian Register of Ships was opened in June, 1964 at Singapore, Penang, Kuching and Labuan. All the Company's vessels have now been transferred to this Register and fly the Malaysian maritime flag. Standards of maintenance, manning etc. for ships on the Malaysian Register continue unchanged from the requirements of the British Register. The high standard is based on long experience in the interests of safety and has a direct bearing on operating costs: vessels operating in the Malaysian area under 'flags of convenience' enjoy an advantage over the Company's craft in this respect.

### PROPERTY.

The Company's flats and godowns, including technical services offices and workshops, are fully occupied either by the Company and its staff or by tenants paying economic rentals.

Some 5 acres of land surplus to requirements was sold under favourable conditions in mid 1964. The profit on this sale amounting to some \$600,000 has been transferred direct to Revenue Reserve. The possible development of additional surplus land has been abandoned: the land will be retained awaiting favourable market conditions before disposal may be considered.

### TRADING ACTIVITIES.

#### Sabah/Brunei Services.

Cargo carried to and from Singapore has increased following the implementation of economic development programmes in Sabah and the increased importation of Sabah copra by Singapore oil millers. The weekly scheduled service between Singapore and the full range of Sabah ports has been maintained: the service commenced 50 years ago. Facilities are available to meet adequately the growing movement of such cargoes as refrigerated commodities, heavy development machinery, vehicles and chemicals. During the early part of the year it was necessary to augment this service with a number of supplementary sailings which obtained no return cargoes from Sabah to Singapore and, therefore, added considerably to the expense of maintaining the efficiency of the service in general. Towards the end of 1964 it became possible to add an additional weekly scheduled service: this rationalisation has enabled appreciable economies to be achieved. Inter-Malaysian trade has also increased: encouragement has been given by certain freight reductions announced in early 1964. Weekly scheduled services now link Port Swettenham, Singapore, Sarawak, Sabah and Brunei ports.

The cost of operating the small coastal and harbour vessels based at Labuan is exceedingly high: steps have been taken to put these activities on a more profitable basis.

#### Sarawak.

The services between Singapore and Sarawak ports have been included in the Company's operations since July, 1964. In spite of intense competition the initial results are encouraging. There are no less than nine companies serving the Singapore/Sarawak trade. Apart from the effect on rates of freight, the excessive number of ships employed produces berthing delays in Sarawak ports with lengthening of voyage times.

#### States of Malaya.

Coastal general cargo traffic continues to decline due to competition by road and rail services: there is however a demand for transport by sea of low freighted 'bulk' commodities.

The weekly cargo service calling at Port Swettenham, Singapore, Sarawak, Sabah and Brunei ports provides an important inter-Malaysian communication link serving the Petaling Jaya industrial area.

#### Thailand.

Tonnages have been well maintained but results are disappointing. This is particularly so in the case of Bangkok where rice rates of freight are low.

#### Indonesia.

Services to Indonesian ports ceased in September 1963 due to the Indonesian Government's attitude towards Malaysia.

#### Tankers and Bulk Oil Lighters.

A fire occurred on board one of The Straits Towage Syndicate mineral oil lighters in Malacca in March 1964. Extensive damage was caused to the craft and a tug. Following this accident, distribution arrangements in the area have been changed resulting in a serious reduction in revenue. The bulk oil lighter operations have suffered a loss for the year.

Various new items of bulk oil business have been developed and others are under investigation. The Company has operated bulk palm oil craft for more than thirty years. A new dual purpose mineral and vegetable oil tanker is under construction.

#### Passenger Traffic.

Revenue during 1964 represented about 10% of the total revenue from trading.

The proposed modernisation of cabin accommodation in the five large passenger ships has been shelved due to the very high cost which would have been incurred. Berthed accommodation to replace the traditional deck facilities has been introduced in the Singapore/Sabah passenger ships: fares have been increased to cover capital cost.



## Chairman's Review – Continued

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The passenger ferry service maintained under contract by The Straits Towage Syndicate between Singapore and Pulau Bukom continues to operate satisfactorily. A third modern ferry vessel is being built to replace "Kerang" which has been sold.

### SUBSIDIARY COMPANIES.

Sharikat Perkapalan Kris Tanah Melayu Limited  
(The Kris Shipping Company of Malaya)

The Company suffered a loss directly attributable to the shortage of work for the Dockyard. During the year orders have been obtained for three small tugs, a palm and mineral oil tanker (for Straits Steamship Co., Ltd.) a suction dredger, and a passenger ferry (for The Straits Towage Syndicate). This important local industry continues to feel the effect of severe competition particularly from overseas.

The Fleet consisting of four vessels continues to be operated on charter to Straits Steamship Co., Ltd.

The Sarawak Steamship Co., Ltd.

The services operated by The Sarawak Steamship Co. Ltd. between Singapore and Sarawak ports, efficiently maintained for many years, ceased in mid 1964 following the sale of three vessels to Straits Steamship Co., Ltd.

The reorganisation of the Company's method of operation has produced a decided improvement in the financial results.

A recommendation for a Repayment of Capital of \$8 per \$10 Share received the approval of Shareholders on 28th January, 1965. The High Court in Kuching has confirmed the reduction which became effective on 5th May 1965 when the Order of the High Court was delivered to the Registrar of Companies.

Sabah Steamship Company (1927) Limited.

This Company has not carried out any trading activities during the year under review.

### DIRECTORS.

By the tragic death of Dato Loke Wan Tho, S.J.M.K., P.M.N., the Company has suffered the loss of the very considerable assistance which he rendered to Members during seven years of service on the Board.

Sir Ewen Fergusson has resigned from the Board, having served the Company in this capacity since 1947. It would be appropriate to thank Sir Ewen for his services and for the keen interest which he has always taken in the affairs of the Company.

Mr. Yong Pung How and Mr. Wee Cho Yaw have joined the Board.

### STAFF AND TRAINING FACILITIES.

Some seventeen hundred people are employed afloat and ashore in Technical Services departments by Straits Steamship Co., Ltd., ninety-seven per cent of whom are Malaysian persons.

During the past ten years fifty-eight apprentices have been accepted for training as Deck Officers: twenty-five have obtained Second Mate's Certificates and a further six have obtained First Mate's Certificates. One ex-apprentice has obtained a Foreign-Going Master's Certificate (he has since left the Company's service).

It has been unnecessary to recruit Deck Officers from overseas since 1961.

The scope of the training scheme has been extended during the year to accept Singapore Polytechnic students attending pre-sea training courses.

Practical training of Engineer Officers afloat has also been extended.

I would thank all staff both afloat and ashore for the continued loyal and conscientious service to the Company.

It would also be fitting to thank our Agents at the various ports for their service to the Company during the year.

#### PROSPECTS.

Income and expenditure follow an irregular and often unpredictable pattern in a coastal shipping company and, therefore, a satisfactory assessment of the position cannot be made until a year is complete. Additional costs in the many and various items making up expenditure are already apparent. Payroll Tax has become effective as from 1st January, 1965 and clarification of the application of Turnover Tax is awaited. If applied to shipping companies the tax will reduce still further the already small profit margin resulting from operations thus contributing to the necessity to increase revenue. By the continued exercise of streamlining and economy your Directors would hope to be able to recommend a similar Dividend distribution in respect of 1965 — the 75th year of operation of the Company.

The year 1964 has been a very difficult one in many respects: there has been no progress towards a solution of the conflict resulting from Indonesia's attitude. A very heavy burden rests upon the Government and peoples of Malaysia and upon their friends. Let us hope that before long there will be some genuine indication of improvement in the situation.

H. N. SMYTH,  
CHAIRMAN.

Singapore,  
14th May, 1965.

# BALANCE SHEETS

AS AT  
31st DECEMBER,  
1964.

S. S. Co. Ltd.				S. S. Co. Ltd. and Subsidiary Companies	
1963	1964			1964	1963
\$	\$			\$	\$
		<b>AUTHORISED CAPITAL</b>			
<u>35,000,000</u>	<u>35,000,000</u>	3,500,000 Shares of \$10 each -	-	<u>35,000,000</u>	<u>35,000,000</u>
		<b>ISSUED CAPITAL</b>			
16,593,500	16,593,500	1,659,350 Shares of \$10 each converted into Stock -	- - - -	16,593,500	16,593,500
		<b>RESERVES (Note 1)</b>			
648,698	648,698	Capital Reserves -	- - - -	3,877,833	3,177,898
<u>24,190,115</u>	<u>24,520,972</u>	Revenue Reserves -	- - - -	<u>26,727,317</u>	<u>26,350,663</u>
<u>24,838,813</u>	<u>25,169,670</u>			<u>30,605,150</u>	<u>29,528,561</u>
<u>41,432,313</u>	<u>41,763,170</u>	<b>CAPITAL AND RESERVES ATTRIBUTABLE TO MEMBERS OF S. S. CO. LTD.</b>		<u>47,198,650</u>	<u>46,122,061</u>
—	—	<b>CAPITAL AND RESERVES OF MINORITY SHAREHOLDERS IN SUBSIDIARY COMPANY</b>		2,372,556	2,011,682
		<b>CURRENT LIABILITIES AND PROVISIONS</b>			
3,611,891	3,677,365	Creditors and Sundry Provisions -	-	4,212,773	4,253,650
300,000	297,690	Provision for future Taxation -	-	515,085	300,000
<u>597,366</u>	<u>647,147</u>	Proposed Dividend -	- - - -	<u>647,147</u>	<u>597,366</u>
<u>4,509,257</u>	<u>4,622,202</u>			<u>5,375,005</u>	<u>5,151,016</u>
<u>\$45,941,570</u>	<u>\$46,385,372</u>			<u>\$54,946,211</u>	<u>\$53,284,759</u>

The notes on pages 13, 14 and 15 form an integral part of these accounts

STRAITS STEAMSHIP COMPANY LIMITED

S. S. Co. Ltd.			S. S. Co. Ltd. and Subsidiary Companies	
1963	1964		1964	1963
\$	\$		\$	\$
		<b>FIXED ASSETS (Note 2)</b>		
19,630,850	22,210,356	Fleet, Launches and Lighters - -	29,146,895	28,523,276
2,203,344	2,173,048	Land and Buildings - - - -	3,288,697	3,328,838
157,079	186,345	Motor Vehicles, Plant, Furniture and Fittings - - - - -	378,086	378,612
<u>21,991,273</u>	<u>24,569,749</u>		<u>32,813,678</u>	<u>32,230,726</u>
		<b>INTERESTS IN SUBSIDIARY COMPANIES</b>		
2,700,000	2,700,000	Shares in Subsidiary Companies - -	—	—
4,263,219	3,674,624	Amounts owing by Subsidiaries - -	—	—
(411,989)	(508,659)	Amounts owing to Subsidiaries - -	—	—
<u>6,551,230</u>	<u>5,865,965</u>		—	—
		<b>CURRENT ASSETS (Note 4)</b>		
1,089,664	1,033,146	Stocks at cost less Provisions - -	1,305,505	1,527,692
2,251,953	3,585,004	Sundry Debtors and Debit Balances less Provisions - - - -	3,804,597	3,001,338
8,828,635	6,735,987	Government Securities at cost - -	7,804,710	9,904,509
553,751	553,751	Listed Securities at cost less amounts written off - - - - -	553,751	553,751
254,080	5,082	Other Investments at cost less amounts written off - - - - -	7,583	276,480
3,900,000	3,116,030	Short Term Deposits and Treasury Bills	7,309,417	4,950,000
520,984	920,658	Cash at Banks and in Hand - -	1,346,970	840,263
<u>17,399,067</u>	<u>15,949,658</u>		<u>22,132,533</u>	<u>21,054,033</u>
 <u>\$45,941,570</u>	 <u>\$46,385,372</u>		 <u>\$54,946,211</u>	 <u>\$53,284,759</u>

H. N. SMYTH  
 T. P. CALDICOTT } DIRECTORS.

# PROFIT & LOSS ACCOUNTS

FOR THE YEAR  
ENDED  
31st DECEMBER, 1964.

S. S. Co. Ltd.			S. S. Co. Ltd. and Subsidiary Companies	
1963	1964		1964	1963
\$	\$		\$	\$
530,115	18,674	PROFIT FROM TRADING after charging items listed in Note 3 - - -	476,507	351,728
71,436	22,867	SURPLUS ON SALE OF VESSELS	301,694	82,286
		INCOME FROM INVESTMENTS		
248,580	212,750	In Subsidiary Companies - - -	—	—
220,430	230,415	Listed in Malaysia - - -	243,512	233,875
427,992	465,821	Listed outside Malaysia - - -	500,981	463,152
80,657	157,081	Other Income - - -	226,585	140,847
1,579,210	1,107,608	PROFIT BEFORE TAXATION	1,749,279	1,271,888
438,631	477,187	Deduct Provision for Taxation - -	712,187	438,631
1,140,579	630,421	NET PROFIT AFTER TAXATION	1,037,092	833,257
—	—	Deduct Profit of Minority Shareholders (1963 Loss) - - -	360,874	(114,008)
1,140,579	630,421	NET PROFIT FOR YEAR AVAILABLE TO S. S. CO. LTD.	676,218	947,265
622,959	966,172	Unappropriated Profits previous year	1,267,138	855,420
—	—	Reserves written back in books of Subsidiary Company after deducting interest of Minority Shareholders (\$113,181) - - -	—	261,819
1,763,538	1,596,593	AVAILABLE TO S. S. CO. LTD FOR APPROPRIATION	1,943,356	2,064,504
		APPROPRIATIONS AND TRANSFERS FOR YEAR		
200,000	—	General Reserve - - -	—	200,000
597,366	647,147	Proposed Dividend - - -	647,147	597,366
797,366	647,147		647,147	797,366
\$ 966,172	\$ 949,446	UNAPPROPRIATED PROFITS CARRIED FORWARD	\$1,296,209	\$1,267,138

The note on page 15 forms an integral part of these accounts.

# NOTES ON THE ACCOUNTS

## RESERVES

	S. S. Co. Ltd.		Consolidated	
	1963	1964	1963	1964
	\$	\$	\$	\$
Reserves at 31st December, consist of:-				
<b>CAPITAL RESERVES</b>				
Assets Revaluation - - -	648,698	648,698	648,698	1,348,633
Surplus on Consolidation - -	—	—	2,529,200	2,529,200
	<u>648,698</u>	<u>648,698</u>	<u>3,177,898</u>	<u>3,877,833</u>
<b>REVENUE RESERVES</b>				
General - - - - -	23,223,943	23,571,526	25,083,525	25,431,108
Unappropriated Profits - -	966,172	949,446	1,267,138	1,296,209
	<u>24,190,115</u>	<u>24,520,972</u>	<u>26,350,663</u>	<u>26,727,317</u>
Total Reserves - - - -	<u>\$24,838,813</u>	<u>25,169,670</u>	<u>29,528,561</u>	<u>30,605,150</u>

The comparative figures have been adjusted to enable an accurate comparison to be made between the years 1963 and 1964. The actual movements of Revenue Reserves may be summarized as follows:—

	\$	\$
Balance as at 31st December, 1963 - - - -	13,966,172	15,076,993
Additions during year —		
Transfers from Special Fleet Replacement Reserves -	9,301,287	10,351,014
Transfers from Other Reserves	642,876	642,876
Profit on Sale of Land -	627,363	627,363
1964 Profits retained in business - - -	<u>(16,726)</u>	<u>29,071</u>
Balance as at 31st December, 1964 - - - -	<u>\$24,520,972</u>	<u>\$26,727,317</u>

## Notes on the Accounts—Continued

### 2 FIXED ASSETS

	S. S. Co. Ltd.		Consolidated	
	1963	1964	1963	1964
	\$	\$	\$	\$
<b>FLEET, LAUNCHES AND LIGHTERS INCLUDING VESSELS BUILDING</b>				
At 1962 Valuation - - -	—	—	2,701,745	2,701,745
At 1964 Valuation - - -	—	2,420,392	—	2,420,392
At Cost - - - - -	<u>36,341,268</u>	<u>37,680,086</u>	<u>48,050,248</u>	<u>44,769,718</u>
	36,341,268	40,100,478	50,751,993	49,891,855
Less Depreciation - - -	<u>16,710,418</u>	<u>17,890,122</u>	<u>22,228,717</u>	<u>20,744,960</u>
	<u>19,630,850</u>	<u>22,210,356</u>	<u>28,523,276</u>	<u>29,146,895</u>
<b>LAND AND BUILDINGS</b>				
At Book Value 1963 - - -	2,203,344	2,173,048	3,328,838	3,295,329
At Cost - - - - -	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	2,203,344	2,173,048	3,328,838	3,295,329
Less Depreciation - - -	<u>—</u>	<u>—</u>	<u>—</u>	<u>6,632</u>
	<u>2,203,344</u>	<u>2,173,048</u>	<u>3,328,838</u>	<u>3,288,697</u>
<b>MOTOR VEHICLES, PLANT, FURNITURE AND FITTINGS</b>				
At Book Value 1963 - - -	148,531	154,153	370,064	374,967
At Cost - - - - -	<u>41,543</u>	<u>93,203</u>	<u>41,543</u>	<u>97,542</u>
	190,074	247,356	411,607	472,509
Less Depreciation - - -	<u>32,995</u>	<u>61,011</u>	<u>32,995</u>	<u>94,423</u>
	<u>157,079</u>	<u>186,345</u>	<u>378,612</u>	<u>378,086</u>
<b>PER BALANCE SHEETS</b>	<u>\$21,991,273</u>	<u>\$24,569,749</u>	<u>\$32,230,726</u>	<u>\$32,813,678</u>

**3 ITEMS CHARGED AGAINST  
PROFIT FROM TRADING**

	S. S. Co. Ltd.		Consolidated	
	1963	1964	1963	1964
	\$	\$	\$	\$
Depreciation on Fixed Assets -	1,819,785	2,010,745	2,392,290	2,484,407
Directors' Fees - - - -	11,125	16,500	21,625	27,000
Remuneration of Auditors - -	18,500	18,500	26,000	26,000

**4 CURRENT ASSETS**

The aggregate Market Value of Government Securities and listed Securities exceeds the book value.

**5 CONTINGENT LIABILITY**

There is a contingent liability of 150,000 Bahts in respect of Uncalled Capital in the Company's holding in an Associated Company.

**6 DIRECTORS' FEES**

The total amount paid to the Directors of Straits Steamship Co. Ltd., for their services to the Company and its Subsidiaries is \$13,625.

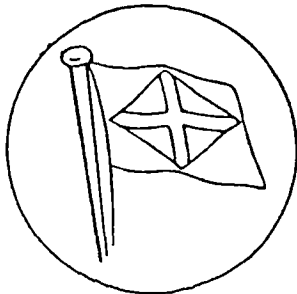
**7 CAPITAL EXPENDITURE**

Contracts for Capital Expenditure not provided for in these Accounts are estimated at \$2,880,000.

**8 TURNOVER TAX**

No provision has been made in these accounts for Turnover Tax.





## SUBSIDIARY COMPANIES

Statement Pursuant to Section 127 of the Companies Ordinance 1940.

The profit of a Subsidiary Company has been carried forward in the books of that Company but has not been taken into account in arriving at the profit shown in the Holding Company's accounts. Losses made by Subsidiary Companies have been set off against profits carried forward in the books of those Companies.

H. N. SMYTH  
T. P. CALDICOTT } DIRECTORS.

## REPORT OF THE AUDITORS

TO THE MEMBERS OF STRAITS STEAMSHIP COMPANY LIMITED.

We have examined the foregoing Balance Sheet and Profit and Loss Account which are in agreement with the books of account of the Company and have obtained all the information and explanations we have required.

We have also examined the foregoing Consolidated Balance Sheet and Consolidated Profit and Loss Account of the Company and its Subsidiaries.

In our opinion and to the best of our information and according to the explanations given to us the said accounts read in conjunction with the notes thereto are properly drawn up so as to exhibit a true and correct view of the state of affairs of the Company and of the Group as at 31st December, 1964.

TURQUAND, YOUNGS & CO.  
Chartered Accountants

Singapore, 13th May, 1965.

Certified Public Accountants (Malaysia)

# FLEET

## STRAITS STEAMSHIP CO., LTD.

Tonnage				Tonnage					
m.v.	"Kunak"	-	-	4,874	m.v.	"Selangor"	-	-	522
m.v.	"Keningau"	-	-	4,856	m.v.	"Semantan"	-	-	522
m.v.	"Kimanis"	-	-	3,189	m.v.	"Semenyih"	-	-	522
m.v.	"Rajah Brooke"	-	-	2,312	m.v.	"Serampang"	-	-	522
m.v.	"Kinabalu"	-	-	2,067	m.v.	"Serdang"	-	-	522
s.s.	"Katong"	-	-	1,908	m.v.	"Sirusa"	-	-	522
m.v.	"Perak"	-	-	1,414	m.v.	"Sumpitan"	-	-	522
m.v.	"Perlis"	-	-	1,414	m.v.	"Tapah"	-	-	402
m.v.	"Bidor"	-	-	1,383	m.v.	"Tronoh"	-	-	401
m.v.	"Bentong"	-	-	1,383	m.v.	"Rawang"	-	-	265
m.v.	"Bruas"	-	-	957	m.v.	"Jerantut"	-	-	241
m.v.	"Lipis"	-	-	949	m.v.	"Jitra"	-	-	228
m.v.	"Larut"	-	-	935	m.v.	"Relau"	-	-	223
m.v.	"Membau"	-	-	746	m.v.	"Rimau"	-	-	214
m.v.	"Sadao"	-	-	522	m.v.	"Danau"	-	-	91
m.v.	"Scudai"	-	-	522	m.v.	"Dusun"	-	-	91
m.v.	"Sedenak"	-	-	522	m.v.	"Temburong"	(Bldg)		
m.v.	"Sedili"	-	-	522	m.v.	"Tutong"	(Bldg)		
m.v.	"Segamat"	-	-	522		Oil Carrier	(Bldg)		

Total gross tonnage 36,807 (excluding vessels building)

Ferries, Tugs and bulk oil Lighters operated by the Company under the name of  
The Straits Towage Syndicate.

Tonnage				Tonnage			
M.L. "Chepat"	-	-	178	M.T. "Mantin"	-	-	94
M.L. "Laju"	-	-	178	S.T.S. 7	-	-	506
M.L. "Kerang"	-	-	139	S.T.S. 6	-	-	487
M.L. "Andrew"	-	-	44	S.T.S. V	-	-	222
M.L. "Kerisi"	-	-	18	S.T.S. IV	-	-	222
M.T. "Malim"	-	-	95	S.T.S. III	-	-	222
M.T. "Mawai"	-	-	95	S.T.S. II	-	-	135
M.T. "Mantis"	-	-	95	S.T.S. I	-	-	135

Total gross tonnage 2,865

## THE SARAWAK STEAMSHIP CO., LTD.

		Tonnage			Tonnage
m.v. "Auby"	-	1,733	m.v. "Rejang"	-	589
		Total gross tonnage			2,322

Total gross tonnage 2,322

## SHARIKAT PERKAPALAN KRIS TANAH MELAYU LIMITED.

Tonnage				Tonnage			
m.v. "Pangkor"	-	-	1,753	m.v. "Trang"	-	-	373
m.v. "Petaling"	-	-	1,359	m.v. "Jarak"	-	-	237

Total gross tonnage 3,722

## APPENDIX 10-XIII

### Chronological Table of Ordinance and Acts relating to Companies in Singapore since 1819

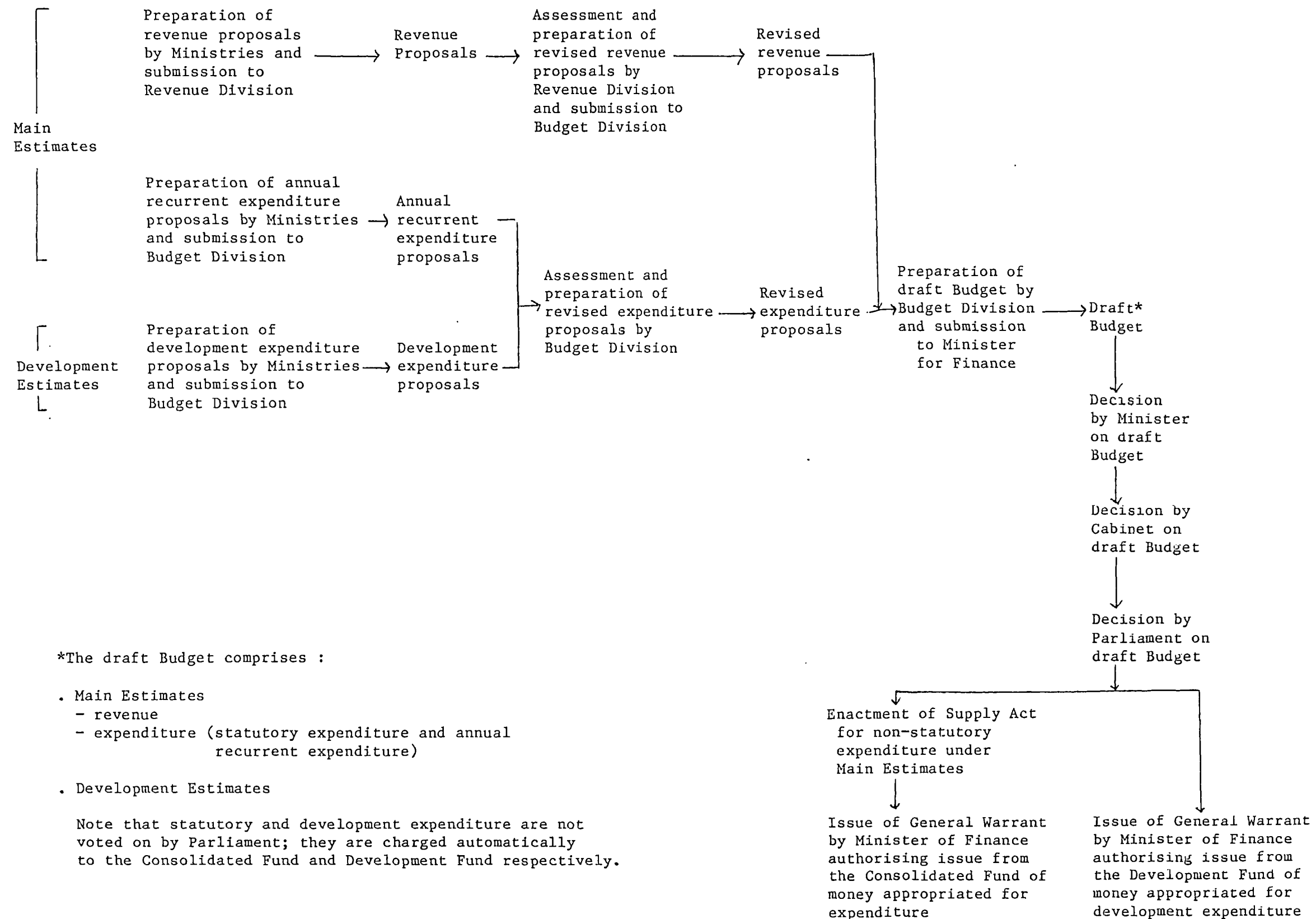
1. No. XIX, Joint Stock Companies Act 1857 (This was an Indian Companies Act)
2. No. VII, Joint Stock Banks Act 1860 (This was an Indian Company Act)
3. The Indian Company's Act 1866
4. No:5 Companies Ordinance 1889 (repealed by Ordinance No:25 1915)
5. No:4 Companies Ordinance 1909 ( " )
6. No:14 Companies (Sub-division of shares) 1909 ( " )
7. No:9 Companies (Amendment) 1914 ( " )
8. No:25 Companies Ordinance 1915 (repealed by No:49 ordinance 1940)
9. The Ordinance No:155 (Companies 1915) ( " )
10. No:8 Companies (Amendment) 1916 ( " )
11. No:22 Companies (further amendment) 1916 ( " )
12. No:13 Companies (Amendment) 1918 ( " )
13. No:13 Companies 1923 ( " )
14. No:27 Companies (Amendment) 1937 ( " )
15. No:49 Companies 1940 (repealed by No:42 Act 1967)
16. No:17 Companies (Special provisions) 1946 ( " )
17. No:32 Companies (Special provisions)(Amendment) 1946 ( " )
18. No:27 Companies (Amendment) 1947 ( " )
19. No:38 Companies (Amendment) 1955 ( " )
20. No:42 Companies 1967
21. No:62 Companies (Amendment) 1970 - not in force until 28/2/71
22. No:49 Companies (Amendment) 1973

23. No:10 Companies (Amendment) 1974
24. No:19 Companies (Amendment) 1975
25. No:39 Companies (Amendment No.2) 1975
26. No:15 Companies (Amendment) 1984
27. The Companies (Amendment) Act 1987.

Sources: 1819-1971 extracted from TABLES OF WRITTEN LAWS OF THE REPUBLIC OF SINGAPORE, compiled by E. Srinivasagam and The Staff of the Law Library of The University of Singapore, (Malayan Law Review, University of Singapore, 1972).

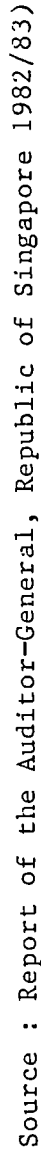
1971 - 1984 extracted from The Singapore Statute - 1984 (Singapore National Printer (Pte) Ltd, 1985), pp 337 - 353.

## CHART ON EVALUATION OF THE ANNUAL BUDGET



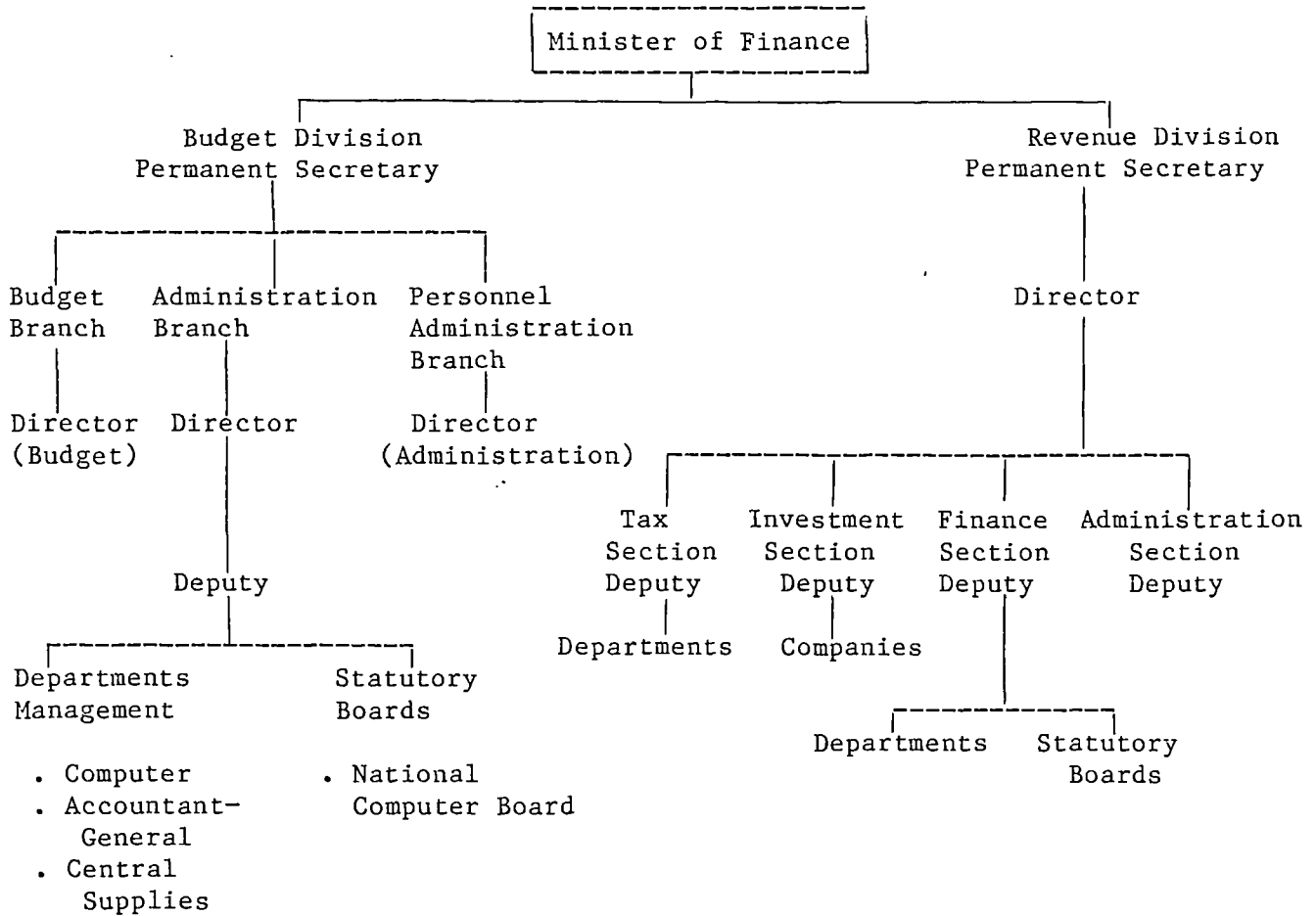
Source : Finance &amp; Accounts, Instruction Manual No.1, Republic of Singapore

## RECEIPTS AND PAYMENTS OF CONSOLIDATED FUND, DEVELOPMENT FUND AND SINKING FUNDS



# APPENDIX 12-III

## MINISTRY OF FINANCE



Sources : Ministry of Finance, Revenue Division, January 1987.

An Outline of Budget Division, Ministry of Finance, 1987.

## APPENDIX 12-IV

### NOTES ON GOVERNMENT ACCOUNTING POLICIES AND TRADITIONS

1. The significant accounting policies of the Republic are to be found in the laws governing the financial affairs of Singapore. The other accounting traditions and practices have been in use for many years even before these laws were introduced.

#### Government of Singapore as an Accounting Entity

2. As an accounting entity the Government of Singapore includes all ministries and organs of state but does not include statutory boards and Government-owned companies.

#### Financial Year

3. A financial year is defined by law as a period of 12 months ending on the 31st day of March in each year.

#### Consolidated Fund

4. The Consolidated Fund was established under the Constitution. All revenues of Singapore not allocated to specific purposes by any law are required to be paid into this Fund. The Minister for Finance, subject to the provisions of the Constitution and the Financial Procedure Act, is empowered to manage the Consolidated Fund and to supervise, control and direct all matters relating to the financial affairs of Singapore not assigned to any minister by any other law.
5. Under the Constitution, the Minister for Finance is required, before the end of each financial year, to prepare annual revenue and expenditure estimates for the public services of Singapore which, when approved by the Cabinet, are laid before Parliament. Only Parliament can authorise the release of moneys from the Consolidated Fund to meet such expenditure. This authority is embodied in a Supply Act or a Supplementary Supply Act.
6. The amount approved for each head of expenditure under the Supply Act and the Supplementary Supply Act is to be spent for the purposes stated in the Main Estimates and the Supplementary Estimates. Under no circumstances is the amount to be exceeded without the authority of Parliament.
7. Approval of Parliament will be required to provide for additional sums by Supplementary Estimates if the amount provided in any financial year for any head of expenditure is insufficient; or if a need has arisen to spend on a new service for which no provision has been made in the Supply Act.



8. If it is necessary to transfer savings from a subhead to supplement shortage in another under the same head of expenditure, or to create a new subhead, the transfer can only be made with the authority of the Minister for Finance by way of Transfer Warrant.
9. Any balance of the annual provisions not spent lapses at the end of the financial year. The law does not permit payments to be made before they are due, nor does it allow for sums to be set aside to meet commitments or to be placed in a deposit or suspense account for use after the close of the financial year.
10. The Consolidated Fund is maintained in two separate accounts. One is the Consolidated Loan Account where all proceeds from loans are accounted for. The other is the Consolidated Revenue Account where all moneys other than loan moneys are accounted for.

#### Revenue

11. Revenue consists of all tax and non-tax receipts. All revenue collections are to be paid into the Consolidated Fund unless it is provided for otherwise in any law.
12. The revenue collections are accounted for on a cash basis i.e. recorded as they are received and revenue due but not yet received in the financial year is not taken into account. All revenue collections are required by law to be paid into the Consolidated Fund in gross.

#### Refunds of Revenue

13. All refunds of revenue are debited against current year's collections irrespective of the year in which such revenue was collected.

#### Expenditure

14. Expenditure consists of all charges to the budgetary appropriations for goods and services and for transfer payments such as contributions to the Development Fund and the Sinking Funds. In certain cases, funds provided to form Government-owned companies are also treated as expenditure.
15. Overpayments recovered in the same financial year are credited to the items of expenditure from which the original payments were made. Those relating to expenditure of previous years are credited to the Revenue or the Development Fund Accounts depending on which Account the payments were made from.
16. Payments are recorded in the books of the Accountant-General :
  - (a) if made by the Accountant-General, immediately;
  - (b) if made out of an imprest or sub-treasury account, when the Accountant-General is advised of the accounts to be charged; and
  - (c) if made by one ministry to another, when the Accountant-General

is advised of the accounts to be adjusted.

#### Statutory Expenditure

17. Where it is stated in any law that an expenditure shall be charged on and paid out of the Consolidated Fund, such expenditure is termed statutory expenditure.
18. Provisions to meet statutory expenditure are included in the Estimates presented to Parliament. Such provisions are required under the Constitution to be disclosed separately as statutory expenditure. They are included only for the information of Parliament. No question or debate can be raised on any provisions for statutory expenditure during the discussion of the Estimates in Parliament. They are also not included in the Supply Bill which Parliament passes at the close of the Budget Session as they do not need annual parliamentary approval before they can be used.
19. In the course of a financial year, should provisions for statutory expenditure be insufficient to meet payments, unlike other expenditure in a similar situation, the Minister for Finance can authorise the release of additional sums from the Consolidated Fund to meet the deficiency without having to seek Parliament's approval.

#### Development Fund

20. This Fund was established by the Development Fund Act, Chapter 65. The main sources of money for this Fund are :
  - (a) loans raised for development;
  - (b) moneys transferred from the Consolidated Fund; and
  - (c) income from Development Fund investments.
21. The Fund may be used for :
  - (a) works and buildings, purchase of machinery etc., required for the economic development of Singapore;
  - (b) purchase of land for development; and
  - (c) loans to and investments in any public authority or corporation.
22. Expenditure (including grants and loans) can be made out of the Development Fund only with the approval of Parliament.
23. The loans outstanding and repayable to Government are not shown in the Statement of Assets and Liabilities as assets. Memorandum records are maintained for these loans which are shown in the Statement of Loans Repayable to Government.
24. In the course of a financial year, should the provisions for development expenditure be insufficient to make payments, the approval of Parliament, as in the case of the Consolidated Fund, is required to provide for additional sums by Supplementary Estimates.

25. The authority of the Minister for Finance is required for a ministry to transfer savings from a subhead to supplement shortage in another under the same head of expenditure or to create a new subhead.

#### Public Debt

26. Public debt consists of all loans raised locally and externally by the Government. The proceeds of loans received are accounted for in the Consolidated Loan Account. Loans raised for development purposes are subsequently transferred from the Consolidated Loan Account to the Development Fund. The balance in the Consolidated Loan account at the end of the financial year represents that part of the public debt in Treasury Bills and advance deposits, if any, which have not been converted into loan stock. This is shown in the Statement of Assets and Liabilities. That part of the public debt arising from loans for the purposes of the Development Fund is not shown in the Statement of Assets and Liabilities. It is listed in the Statement of Public Debt and Sinking Funds.
27. The repayments of loans and interest on the loans are statutory expenditure charged on the Consolidated Fund.

#### Sinking Funds

28. These Funds are required to be established under the Development Loan Act for the redemption of domestic loans. They consist of moneys appropriated from the Consolidated Fund and income received on the Sinking Fund investments.

#### Deposits

29. Moneys held in trust, donations for specific purposes, and moneys received for specific purposes under any law are accounted for in Deposit Accounts. No interest is to be paid on the Deposit Accounts except when it is provided for under the terms of the trust or authorised by the Minister for Finance.

#### Revolving Fund

30. This Fund is set up from moneys appropriated from the Consolidated Fund and is authorised by Parliament for making advances such as housing loans, vehicle loans and salary advances. Repayments of advances are credited to the Fund so that further advances can be made.

#### Investments

31. Public moneys may be invested in deposits, stocks, funds, securities or in other types of investments as authorised by the Minister for Finance, by the President, by law, or by resolution of Parliament.

32. Investments, by law, are shown at their book values on 31 March 1976, if acquired on or before that date and at cost if acquired after that date.
33. When investments are paid for from the Consolidated Revenue Account, the Development Fund and the Sinking Funds, they are shown as Investments in the Statement of Assets and Liabilities. But when investments are paid for from the voted provisions, they are treated as expenditure and are not shown as Investments in the Statement of Assets and Liabilities.

#### Assets and Liabilities

34. Financial claims by the Government such as revenue due but not yet collected by the close of the financial year are not reported in the Statement of Assets and Liabilities. Similarly, financial claims against the Government not paid by the close of the financial year are not reported.
35. Assets such as buildings, motor vehicles, aircraft and vessels acquired by any ministry are treated as outright expenditure and not as assets, in the year in which payments are made. Similarly, stocks in hand at the end of the financial year are not taken into account as assets.

#### Foreign Currency Transactions

36. Receipts in foreign currencies are converted into Singapore dollars at the prevailing market rates at the date of transaction.
37. Payments in foreign currencies (inclusive of remittances to Crown Agents and overseas missions) are converted into Singapore dollars at the prevailing market rates at the date of transaction. However, payments on account of Government overseas investments managed by the Government of Singapore Investment Corporation Private Limited are converted into Singapore dollars at the average exchange rate of the respective foreign currency used at the time of transaction.
38. Payments made through the Sterling Pound Account with the Crown Agents are converted and charged to the accounts at a book rate approved by the Ministry of Finance.

#### Contingencies Funds

39. There are two Contingencies Funds created by law. One is created from moneys appropriated from the Development Fund for meeting urgent and unforeseen development expenditure. The other is created from moneys appropriated from the Consolidated Fund for meeting urgent and unforeseen expenditure on goods and services which are not development expenditure or statutory expenditure.

40. The Minister for Finance is authorised to use these Funds to meet any urgent and unforeseen expenditure for which no other provision exists or no savings are available in the existing provisions. All advances from these Funds have to be repaid. The sum required to repay the advance is to be included in the Supplementary Estimates presented to Parliament for approval.

#### Guarantees

42. No guarantee involving a financial liability will be binding upon Singapore, unless entered into in accordance with law or with the written authority of the Minister for Finance. The guarantees given are contingent liabilities of the Government but are not shown in the Statement of Assets and Liabilities.

(Source : Report of the Auditor-General for the Financial Year 1982/83, Singapore 1983).

# APPENDIX 12-V

## AUDITOR GENERAL'S OFFICE OF SINGAPORE TRAINING SCHEDULE

YEARS OF SERVICE/TRAINING	COURSES/COURSE/TITLE	ORGANISER /COUNTRY	DURATION	PERSONNEL	RATIONALE
<u>GENERAL ORIENTATION COURSES</u>					
New recruits	1) Induction	In-house	3 days	PO, SPO	To introduce and orient the new officer to how the Audit Department operates by letting him learn about the Department's role, functions, structure, policies and procedures so that the officer can quickly see his role in the organisation.
3-6 months	2) Public Accountability Concepts, Scope, Mechanism	In-house	5 days	PO, SPO	To help officers understand the philosophy and conventions of public accountability and administrative framework governing accountability.
<u>FINANCIAL ACCOUNTING &amp; AUDITING COURSES FOR GOVT AUDIT STAFF</u>					
1-2 years	1) Government Accounting Policies and Traditions	In-house	1/2 day	PO, SPO, PL	To learn about the accounting policies and traditions governing the keeping and reporting of the accounts of the Government, including the laws governing the financial affairs of Singapore viz, the Financial Act Procedure Act, the Financial Regulations 1959, and the financial provisions of the constitution.

YEARS OF SERVICE/TRAINING	COURSES/COURSE/TITLE	ORGANISER /COUNTRY	DURATION	PERSONNEL	RATIONALE
1-2 years	2) Auditing Government Financial Statements	In-house	2 days	PO, SPO, PL	To enable participants to carry out an efficient and effective audit of the Government Financial Statements to see whether they have been kept properly, in accordance with generally accepted government accounting principles and the prevailing accounting policies and traditions.
1-2 years	3) Accounting and Internal Control Systems relating to Revenue, Expenditure, Stores, Advances and Deposits	In-house	5 days	PO, SPO, PL	1) To learn about the accounting procedures relating to revenue, expenditure, public stores, advances and deposit.  2) To learn and evaluate the internal controls.
6 months	3) Auditing Methodologies for Government Ministries and Departments a) Development of Govt auditing approach	In-house	1/2 day	PO, SPO	To understand the development of our government auditing approach from "tick and turn" to internal control evaluation, to value for money and program audits.

YEARS OF SERVICE/TRAINING	COURSES/COURSE/TITLE	ORGANISER /COUNTRY	DURATION	PERSONNEL	RATIONALE
6 months	b) Types of Audit	In-house	1/2 day	PO, SPO	To enable participants to learn about (a) the various types of audits that can be carried out in ministries and departments viz., Financial & Compliance audits; Value-for-money audits, and Program audits; (b) the methodology for such audits; and (c) the skills and grade of officers required to perform the various tasks under the methodology.
6 months	c) Looking up of relevant laws, reports	In-house	1/2 day	PO, SPO	To learn how to look up the laws, past legal advice and opinions, past audit reports, and administrative authorities and decisions applicable to the subject under audit examination.
6 months	d) Working Papers Preparation and Filing	In-house	1/2 day	PO, SPO	To learn about the purpose, preparation, indexing and custody of working papers so as to promote uniformity and standardisation of working papers.
1-2 years	4) Income Tax Law & Accounts (Intermediate)	Inland Revenue Dept	165 hours	PO, SPO, PL	To understand the operational aspects of the Income Tax Act and the rationale behind the enactment of certain sections of the Act.



YEARS OF SERVICE/TRAINING	COURSES/COURSE/TITLE	ORGANISER /COUNTRY	DURATION	PERSONNEL	RATIONALE
<u>FINANCIAL ACCOUNTING AND AUDITING FOR STATUTORY BOARDS AUDIT STAFF</u>					
6 months	1) Auditing Statutory Boards and and Government-Owned Companies	In-house	5 days	PO, SPO, PL AD, D (in Stat. Board Division)	1) To enable participants to carry out an effective Financial and Compliance audit of a Statutory Board or government-owned company with the aim to verify the accuracy and creditability of its accounting records and financial statements.
6 months	2) Looking up relevant laws, report	In-house	1/2 day	PO, SPO, PL AD, D (in Stat. Board Division)	2) To learn how to look up laws, past legal advice and opinions, past audit reports, administrative authorities and decisions applicable to the subject under examination.
6 months	3) Working Papers Preparation and Filing	In-house	1/2 day	PO, SPO, PL AD, D (in Stat. Board Division)	3) To learn about the purpose, preparation, indexing and custody for working papers so as to promote uniformity and standardisation of working papers.
1-2 years	4) Development in Accounting Policies, Practices	SSA (Singapore Society of Accts)	1-2 days	PO, SPO, PL	4) To learn about SSA updates
1-2 years	5) Development in Accounting Policies, Practices	SSA, EMS (Extra Mural Studies Dept (NUS)	2-3 days	(For those auditing govt-owned companies)	5) To learn about company taxation and amendments to the Companies Act.

YEARS OF SERVICE/TRAINING	COURSES/COURSE/TITLE	ORGANISER / COUNTRY	DURATION	PERSONNEL	RATIONALE
	VFM AUDITING FOR GOVT AND STATUTORY BOARDS AUDIT				
6 months to 1 year	Operational/VFM Auditing	In-house	5 1/2 days	PO, SPO	To enable participants to apply the office's VFM auditing methodology in VFM audit projects.
6 months	OTHER COURSES				
	1) Flow Charting	In-house	3 days	(Need to learn basis)- PO, SPO, PL	To learn how to use flowcharting techniques to document accounting systems in flowcharts to facilitate understanding and evaluating of the internal controls in conducting system-based audits.
1-2 years	2) Statistical Sampling in Auditing	In-house	3 days	PO, SPO, PL AD, D (all audit staff)	To enable participants to appreciate the use of statistical sampling in auditing; to recognise the situations where statistical sampling can be applied; and to select the appropriate sampling plan and samples required to achieve the audit objectives.
3-5 years	3) Performance and Potential Appraisal	(Yet to be identified)		PL, AD, D (in all divisions)	To enable participants to understand the importance and purpose of appraising staff's performance and purpose of appraising staff's performance and potential in relation to training, career development, motivation and rewards, and to learn and apply the skills required to conduct an appraisal interview.

OVERSEAS ATTACHMENTS/STUDY VISITS/SEMINARS/COURSES

YEARS OF SERVICE/TRAINING	COURSES/COURSE/TITLE	ORGANISER /COUNTRY	DURATION	PERSONNEL	RATIONALE
5-10 years	1) Practical attachment to other audit offices	GAO, USA OAS, Canada, NAO, UK, Sweden	3-12 mths	Director Potential Director	To broaden the outlook of top officers; to identify, evaluate and adopt new approach and methodologies that would benefit the department.
5 years and above	2) Study visits to other audit offices	Depends on purpose	1-2 weeks	Depends on purpose	To upgrade department's capability in computer auditing.
Depends on the subject	3) Seminars/Courses which are job-related	Varies	Varies	Depends on the subject	To keep up-to-date with new technology and methodology that would enhance the effectiveness and productivity of the department.
<u>COMPUTER COURSES</u>					
1-2 years of service	Computer Audit - Level I (Self-study video-assisted training courses and readings on EDP and EDP auditing concepts)	In-house	50 hrs	PL, SPO, PO	To enable the Auditors to appreciate the impact of the computer on the operations they are auditing and to recognise when they need to call upon computer audit expertise in order to carry out their audit effectively and efficiently.
Upon completion of Level I and with the need to be trained at Level II (irregardless of the number of years of service)	Computer Audit - Level II (Self-study video-assisted training courses on Computer Centre General Controls Reviews and Application Systems Audits with on-the-job training)	In-house	100 hrs (self study & 14 days to 2 months depending on project)	PL, SPO, PO	To enable the Auditors to deal with the computer aspects of their audit, except for the more technical areas like computer file retrieval or review of the security of the computer audit expertise in order to carry out their audit effectively and efficiently.

YEARS OF SERVICE/TRAINING	COURSES/COURSE/TITLE	ORGANISER /COUNTRY	DURATION	PERSONNEL	RATIONALE
Upon completion of Level II and with the need to be trained in Level III (regardless of the number of years of service)	Computer Audit-Level III (Selected short specialised technical courses relating to operating systems, data bases, data communications security software in the IBM, HP300 and VAX computer systems as well as courses relating to information systems management)	In-house, ISS, SEC EDPAA, IBM	Depends on the availability of the course	PL, SPO, PO of the Computer Audit Division	To train the Auditors as computer audit specialists in order to provide technical support to other Auditors on more technically complex computer audit projects.
<u>USE-OF MICROS IN AUDIT WORK</u>					
Upon completion of Level I and with the need to be trained in Tech support Function (regardless of the number of years of service)	1) Computer Audit Retrievals 2) Panaudit/Easytrieve Plus 3) Job Control Language 4) Time Sharing Option 5) System Utilities 6) Statistic Sampling	In-house In-house In-house SEC, IBM IBM In-house	100 hours (self study) an 3 days course to the TSO	Officers of the Technical Support Unit of the Computer Audit Div.	To enable officers to carry out audit retrievals and other technical support services to the line auditors.
3 years of service and above	Post-graduate course in EDP Auditing and/or Information Systems	USA	2 years	AD, PL, SPO	To broaden their outlook and groom them for higher responsibilities in the field of computer auditing.
5 years of service and above	Information System Audit Practices and Management	USA, Canada, Australia	2-3 months	AD, PL, SPO	To keep up-to-date on computer audit practices and management skills in computer auditing.
Abbr : PO - Project Officer    SPO - Senior Project Officer    PL - Project Leader    D - Director    AD - Assistant Director					

Source : Training Manual, Auditor General's Office, Singapore, 1987

# APPENDIX 13-I

## Distribution of Sampled Firms in Industry Groups

de No.	Industry Group	No. of Interviewed Firms	No. of Populations Firms
1	Food Manufacturing (Except Beverage)	24	213
2	Beverage	2	27
3	Tobacco	2	11
4	Textiles	7	25
5	Footwear, Wearing Apparel, etc	37	203
6	Rubber Products	4	32
7	Leather & Leather Products (Except Footwear)	3	28
8	Wood & Cork (Except Furniture)	15	157
9	Paper & Paper Products	8	57
10	Printing, Publishing & Allied Industries	11	161
11	Non-Metallic Mineral Products (Except Petroleum & Coal)	14	49
12	Products of Petroleum & Coal	4	9
13	Basic Metal	3	27
14	Metal Products (Except Machinery & Transp. Equipment)	32	148
15	Chemical & Products	32	103
16	Electrical Machinery & Apparatus, Appliance, etc	17	54
17	Machinery (Except Electrical Machinery)	8	112
18	Furniture & Fixture	12	53
19	Transport Equipment	11	107
20	Miscellaneous	43	182
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	Total	289	1,758
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(Source : Yang, G.S., Report on the Survey of Cost Accounting Applied In Singapore Industries, Nanyang University of Singapore, 1971).

# APPENDIX 13-II

## CLASSIFICATION OF COMPANIES BY EMPLOYMENT LEVEL

Level of Employment : No. of Workers Employed	Code No. of Industry Groups																				No. of Companies
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	
1 - 25	11		1	1	11	1		3	2	1	5	1		10	12	2	2	4	2	10	79
26 - 50	4			1	5	1	1	3	4	5	1		1	8	6		4	4		19	67
51 - 100	3			1	2		1	2		1	3		1	8	8	3	2			4	39
101 - 200	2	1	1		6	1	1	2	2	3	1	1		4	3	1		4	1	6	40
201 - 300	2			2	4			1			2				1	3			1	1	17
301 - 400	1				3	1		1						1					2	1	10
401 - 500								1					1		2	2			1		7
501 - 750		1			2			1		1	1			1		1			1		9
751 - 1000				2	3			1			1	1				2			1		11
1001 - 1500												1				3			1		5
1501 - 2000					1																1
2001 - 2500	1																		1	1	3
2501 - 3000+	0																			1	1
Total	24	2	2	7	37	4	3	15	8	11	14	4	3	32	32	17	8	12	11	43	289

(Source : Yang, G.S., Report on the Survey of Cost Accounting Applied in Singapore Industries, Nanyang University, Singapore, 1971).

# APPENDIX 13-III

## CLASSIFICATION OF COMPANIES BY TYPES OF OWNERSHIP

Ownership Groups	Code No. of Industry Groups																			Total No.	%
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	
Local Ownership	13	2	-	1	22	2	1	7	5	6	10	1	2	18	16	5	6	10	5	24	54
Joint Ownership, Local and Foreign	7	0	2	5	10	0	2	3	2	2	2	0	1	7	14	4	1	0	2	12	26
Foreign Ownership	4	0	0	1	5	2	0	5	1	3	2	3	0	7	2	8	1	2	4	7	20
Total	24	2	2	7	37	4	3	15	8	11	14	4	3	32	32	17	8	12	11	43	100

(Source : Yang, G.S., Report on The Suvey of Cost Accounting Applied in Singapore Industries, Nanyang University, Singapore 1971).

APPENDIX 14-I

No. 9

Thursday  
20th September 1962  
(10.30 a.m.)

LEGISLATIVE ASSEMBLY

STATE OF SINGAPORE

SELECT COMMITTEE ON

SINGAPORE SOCIETY OF ACCOUNTANTS BILL

OFFICIAL REPORT

CONTENTS

Clause 1 agreed to  
Clause 2, as amended, agreed to  
Clause 3 to 5 agreed to  
Clause 6, as amended, agreed to  
Clause 7 agreed to  
Clauses 8 and 9, as amended, agreed to  
Clause 10 agreed to  
Clause 11, as amended, agreed to  
Clauses 12 to 16 agreed to  
Clause 17, as amended, agreed to  
Clause 18 to 21 agreed to  
Clauses 22 and 23, as amended, agreed to  
Clauses 24 to 33 agreed to  
Clauses 34 to 37, as amended, agreed to  
Clauses 38 to 48 agreed to  
New Clauses (A) and (B) agreed to  
Bill to be reported  
Reported agreed to



LEGISLATIVE ASSEMBLY  
STATE OF SINGAPORE  
(THIRD SESSION)  
SELECT COMMITTEE ON  
SINGAPORE SOCIETY OF ACCOUNTANTS BILL  
OFFICIAL REPORT

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Thursday, 20th September, 1962

The Committee met at 10.30 a.m.

PRESENT :

Mr. Speaker (Sir George Oehlers, O.B.E.)  
Madam Chan Choy Siong (Delta)  
Dr. Goh Keng Swee (Kreta Ayer), Minister of Finance  
Mr. Lim Cheng Lock (River Valley)  
Mr. Low Por Tuck (Havelock)  
Mr. Ong Eng Guan (Hong Lim)

[Mr. Speaker in the Chair]

Clause 1 agreed to stand part of the Bill

Clause 2 - (Interpretation).

Dr Goh Keng Swee : Mr Speaker, Sir, I beg to move,

In page 2, after line 9, to insert -

^"licensed accountant" means a member of the Society who is registered in accordance with the provisions of this Ordinance as a licensed accountant;^

Sir, we have heard evidence from various persons who made a plea on behalf of persons who are practising as accountants that because they do not have the full qualifications of the profession, they would be put out of business if the Bill is passed in its original form. It is not the intention of the Bill to deprive any person of his livelihood. For this purpose, the neatest way to bring within the ambit of this Bill those persons who have not got the full qualifications would be to define a new category of members of the Society. After discussions with the Member for Hong Lim, we have agreed that the most suitable nomenclature to adopt for these persons is "licensed accountant". Accordingly, I move an amendment to this clause to provide for a new category of members of the Society.

The Chairman : It has been moved as an amendment in page 2, after line 9, to insert "licensed accountant" means a member of the Society who is registered in accordance with the provisions of this Ordinance as a licensed accountant.

Before I ask for a vote, perhaps we could discuss in principle all the other consequential amendments which would of course, include the new clause (B). Clause (B) defines "licensed accountant". Clause 2, clause 32, clause 34 and clause 37 all deal with the expression "licensed accountant". I do not know whether the Minister wishes to say anything further in relation to the new clause (B). It would save us the necessity of coming back to the question of "licensed accountant" if we deal with the whole subject now.

Dr. Goh Keng Swee : Yes.

The Chairman : And when we come to the new clause (B), it could just be a formal proposition.

Dr Goh Keng Swee : Yes. The new clause (B) attempts a definition of these persons. There are several categories of them. Some of them just have a general practice as an accountant. Others again restrict their activities to those of being tax consultants to small firms. Again the Registrar of Companies, under section 134 of the Companies Ordinance, has granted specific rights to act as auditors to certain companies, to persons who do not have the full qualifications of the profession of accountant. Therefore, these are the persons who would be eligible to be registered under this Bill as licensed accountants, and they would have the right to continue their practice under this Bill.

The Chairman : That is provided for by the new proviso to clause 35.

Dr Goh Keng Swee : That is provided for by the new proviso to clause 35.

The Chairman : Does the Member for Hong Lim wish to add to it?

Mr Ong Eng Chuan : I have nothing further to add to this discussion. I am in agreement with what the Minister has said in providing a fourth category of accountants under the Bill.

Amendment agreed to.

Further amendment made : In page 2, line 13 after "member" to add "or licensed accountant". - [Dr. Goh Keng Swee].

Clause 2, as amended, agreed to stand part of the Bill.

11.00 a.m.

Clauses 3 to 5 inclusive agreed to stand part of the Bill.

Clause 6 - (Purposes of the Society).

Dr. Goh Keng Swee : Sir, I beg to move,

In page 3, after line 6, to insert a new paragraph -

"(b) to provide for the training, education and examination, by the Society or any other body of persons practising or intending to practise the profession of accountancy in Singapore and elsewhere".

Sir, I think it is desirable that a Society of this kind, which seeks to regulate professional standards, should have the power to provide for the training, education and examination of persons who are practising or intend to practise the profession in Singapore. I believe some witnesses have pointed out the desirability of such a provision and the Government is in agreement with their submissions.

Amendment agreed to.

Dr. Goh Keng Swee : Sir, I beg to move,

In page 3, line 10, to leave out "issue certificates of membership" and insert "grant or issue diplomas or certificates".

This is really consequential to the previous amendment which empowers the Society to train and examine persons desiring to enter the profession.

Amendment agreed to.

Clause 6, as amended, agreed to stand part of the Bill.

Clause 7, agreed to stand part of the Bill.

Clause 8 - (Rules of the Society).

Dr. Goh Keng Swee : Sir, I beg to move,

In page 4, after line 38, to insert a new paragraph -

"(f) the training, education or examination of candidates for admission as members of the Society and the fees payable therefore;".

This again is consequential to the amendment to clause 6.

Amendment agreed to.

The Chairman : Of course, all the consequential amendments will be made, that is, the re-lettering of paragraphs.

Clause 8, as amended, agreed to stand part of the Bill.

Clause 9 - (Constitution of Council).

Dr Goh Keng Swee : I beg to move,

In page 6, after line 20, to insert a new sub-clause -

"(3) The President and the Vice-President of the Society shall be elected by the Council from amongst its members and in the event of any casual vacancy arising in respect of the office of the President or the Vice-President of the Society, the Council shall at its next meeting or as soon as may be thereafter elect one of its members to fill such vacancy".

Sir, this amendment is necessary because in the original text of the Bill there was some ambiguity on this point namely, whether the President or the Vice-President shall be members of the Council or whether they should be persons outside the Council. The intention is that these two offices shall be held by persons who are members of the Council.

Amendment agreed to.

The Chairman : The consequential amendment will be made to re-number sub-clause (3) as sub-clause (4).

Clause 9, as amended, agreed to stand part of the Bill.

Clause 10 agreed to stand part of the Bill.

Clause 11 - (First elected members).

Dr. Goh Keng Swee : Sir, with the assent of this Committee, I beg to move,

In page 7, lines 11 and 12, to leave out "would be eligible for registration under this Ordinance as registered accountants" and insert "at the appointed day are employed in Singapore as accountants in the public service or in the service of an individual, a firm, a company or any other corporation".

Sir, this amendment is substantially as suggested by you to meet possible objections from members of the profession or the general public who may point out the apparent illogicality in the original text, which refers to groups of people who would be eligible for registration under this Ordinance when, in fact, the qualifications of eligibility have both been drawn up by the Council.

Amendment agreed to.

Clause 11, as amended, agreed to stand part of the Bill.

Clauses 12 to 16 inclusive agreed to stand part of the Bill.

Clause 17 - (Specific powers of the Council).

Dr. Goh Keng Swee : I beg to move,

In page 8, line 30, after "Ordinance", to insert "and subject to the rules of the Society".

This is substantially a drafting amendment to make the general powers of the Council more specific.

Amendment agreed to.

Clause 17, as amended, agreed to stand part of the Bill.

Clauses 18 to 21 inclusive agreed to stand part of the Bill.

Clause 22 - (Register of Accountants).

Dr. Goh Keng Swee : Sir, I beg to move,

In page 11, line 29, after "Ordinance", to insert "and subject to the rules of the Society".

This again is a drafting amendment in keeping with the amendment to clause 17.

Amendment agreed to.

Amendment made : In page 11, after line 32, to add - "(d) licensed accountants". - [Dr Goh Keng Swee].

The Chairman : Consequential amendments\* will be made.

Clause 22, as amended, agreed to stand part of the Bill.

Clause 23 - (Membership).

Dr. Goh Keng Swee : Sir, I beg to move,

In page 12, after line 33, to add a new sub-clause -

"(5) Notwithstanding the provisions of subsection (1) of this section, every person, who on or before the appointed day has been authorised under section 134 of the Cap.174. Companies Ordinance to act as an auditor generally, shall be entitled to be registered forthwith as a public accountant".

Sir, this amendment has been suggested to me by the Member for Hong Lim. He states that the dividing line between the professional accountant and the unqualified accountant is the power to act as an auditor generally, and this eligibility is recognised in law and is exercised by the Registrar of Companies under section 134 of the Companies Ordinance. In other words, the list of accountants authorised under this section of the Companies Ordinance gives us an official list of fully qualified professional accountants. Therefore, in order to make it clear beyond all doubt that persons who are so authorised under the Companies Ordinance shall be automatically entitled to registration as public accountants, this sub-clause has been inserted. This is to remove any doubts that may exist in

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\* In page 11, line 31, to leave out "and"; and  
In page 11, line 32, to leave out the full-stop and insert "and".

the minds of some accountants that they may have to go through a lengthy and perhaps tiresome process of application for registration as a public accountant.

Mr. Ong Eng Guan : Mr. Speaker, the main advantage of this amendment is administrative simplicity. In other words, all accountants who are now qualified to audit companies generally will not have to go through the process of producing their certificates, which some of them might have lost, or getting certificates of good conduct and character which they had already produced to the Registrar of Companies when they applied for their general licence to audit. The subsidiary advantage is that the words "public accountant" will be defined at least in the initial stages. Therefore, I support the amendment moved by the Minister.

11.15 a.m.

Amendment agreed to.

Clause 23, as amended, agreed to stand part of the Bill.

Clauses 24 to 33 inclusive agreed to stand part of the Bill.

Clause 34 - (holding out as provisional member or registered accountant).

Amendments made :

In page 19, line 39, after 'Accountants', to add 'or "licensed accountant". - [Dr. Goh Keng Swee].

Clause 34, as amended, agreed to stand part of the Bill.

Clause 35 - (Holding out as public accountant or auditor).

Dr. Goh Keng Swee : Sir, I beg to move,

In page 20, after line 22, to add -

"Provided further that a person who is registered as licensed accountant shall not be debarred from carrying on any practice in which he was professionally engaged immediately prior to the coming into operation of this Ordinance".

Sir, this amendment seeks to ensure that the class of licensed accountants may carry on any practice in which they were engaged just before the coming into operation of this Ordinance.

Amendment agreed to.

Clause 35, as amended, agreed to stand part of the Bill.

Clause 36 - (Accountancy appointments not to be held except by registered public accountants).

Dr. Goh Keng Swee : I beg to move,

In page 20, to leave from "(1)" in line 23 to the end of line 28 and insert -

"After the appointed day, notwithstanding anything contained in any written law but subject to the provisions of section 35 of this Ordinance, no person shall hold any appointment under the provisions of any written law as accountant or auditor, whether such appointment is honorary or not, unless he is registered under this Ordinance otherwise than as a provisional member".

The Chairman : The amendment does also, I take it, Mr Minister, provide for a new class of licensed accountants and is really consequential also on the new proviso to clause 35?

Dr. Goh Keng Swee : That is so.

Amendment agreed to.

Dr. Goh Keng Swee : Sir, I beg to move,

In page 20, line 38, after "Ordinance", to add "or any other accountant who is approved by the Council".

As the original clause stands, documents will not be recognised unless they are certified by a public accountant registered under the provisions of this Bill. Now this would lead to difficulties in the case of, say, documents relating to foreign companies which are certified by accountants in those foreign countries. Such accountants, of course, would not be registered under the provisions of this Bill. Therefore, it is necessary to make provision for the recognition of such accountants by the Council.

Amendment agreed to.

Clause 36, as amended, agreed to stand part of the Bill.

Clause 37 - (No remuneration recoverable in respect of certain appointments except by public accountants).

Amendment made : In page 21, line 5, after "accountant", to insert "or a licensed accountant". - [Dr. Goh Keng Swee].

Clause 37, as amended, agreed to stand part of the Bill.

Clauses 38 to 48 inclusive agreed to stand part of the Bill.

New clause (A) -

Specific power of first Council.

- (1) Notwithstanding the provisions of section 8 of this Ordinance and without prejudice to the provisions of sections 16 and 17 of this Ordinance, the first Council of the Society constituted under the provisions of sections 9 and 11 of this Ordinance shall have power to make rules to provide for any of the matters mentioned in paragraphs (b), (d), (e), (h), (i) and (k) of subsection (1) of section 8 of this Ordinance.
- (2) All such rules shall be published in the Gazette and shall be presented to the Assembly as soon as may be after publication and shall not come into force unless and until approved by a resolution of the Assembly. The Assembly in approving such rules may make such additions or amendments thereto as the Assembly may deem fit.
- (3) All such rules as approved shall remain in force unless and until altered, amended or revoked at any general meeting of the Society.  
- [Dr. Goh Keng Swee].

Brought up, and read the First time.

Dr. Goh Keng Swee : Sir, I beg to move, "That the clause be read a Second time".

Sir, the original provisions of the Bill do not allow for the Assembly to receive and discuss the rules regulating the powers of the first Council. Since this is a matter in which the interests of a professional class of persons are involved, it would appear desirably that the first set of rules made by the Council should be presented to the Assembly and debated openly by Members of the Assembly.

I believe this is a proposal which has been made by some witnesses and the Government accepts the need for this provision.

Question put, and agreed to.

Clause read a Second time and added to the Bill.

The Chairman : The consequential amendments will be made.

New Clause (B) -

Licensed Accountant.

- (1) Subject to the provisions of subsection (1) of section 23 of this Ordinance, every person on payment of the fee prescribed by the rules of the Society shall be entitled to be registered as a member of the Society as a licensed accountant if he has been in public practice as an accountant or a tax consultant or an auditor or specific companies granted under section 134 of the Companies Ordinance on or before 17th April, 1962.



- (2) A licensed accountant who has been certified by the Council acting on a report by a Committee appointed under the provisions of paragraph (p) of subsection (1) of section 17 of this Ordinance as to his fitness to be registered as a public accountant or a registered accountant, shall be entitled to be registered as such.  
- [Dr. Goh Keng Swee].

Brought up, and read the First time.

Dr. Goh Keng Swee : Sir, I beg to move. "That the clause be read a Second time".

The reasons for moving this new clause have been put forward by me when we discussed the amendments to clause 2. Briefly, this is to enable practising accountants who have not the full professional qualifications to continue their practice. It also provides for licensed accountants who have satisfied the Council as to their fitness to be registered as public accountants, to be registered as such.

Question put, and agreed to.

Clause read a Second time and added to the Bill.

The Chairman : The consequential amendments will be made.

Bill to be reported.

The Chairman : I think Members have had in their possession a draft Report. It is in the usual format except that paragraph 5 should now read:

"Your Committee held five meetings".

Shall we take this draft Report then as a basis for discussion?

Hon. Members indicated assent.

Chairman's Report brought up, and read the First time.

Question put, and resolved,

That the Chairman's Report be read a Second time, paragraph by paragraph.

Paragraphs 1 to 6 inclusive agreed to stand part of the Report.

Question put, and resolved.

That this Report be the Report of the Committee to the Assembly.

The Chairman : We are now functus officio.

Dr. Goh Keng Swee : Sir, before we disperse, perhaps I may express, on behalf of Members of this Committee, our thanks to you for your guidance in our deliberations.

Mr. Ong Eng Guan : I think, Mr. Speaker, Sir, you have spent much time on this Bill and I would suggest to the Minister that you should be appointed one of the first qualified accountants!

Mr Chairman : Thank you, I must thank hon. Members for their very kind comments. I must confess that his Bill interested me quite a lot. Perhaps it was because it was non-political.

I will present the Report when I have the office copy ready. Is that all right?

Dr. Goh Keng Swee : Yes.

The Chairman : Thank you very much.

Committee adjourned at 11.31 a.m.

# APPENDIX 14-II

## NUMBER OF COMMITTEES

YEAR	NO
1964	4
1965	8
1966	8
1967	10
1968	14
1969	15
1970	17
1971	20
1972	23
1973	20
1974	19
1975	19
1976	28
1977	27
1978	33
1979	32
1980	25
1981	19
1982	25
1983	37
1984	38
1985	33
1986	36

## APPENDIX 14-III

FEBRUARY 1978

### COMPLIANCE WITH ACCOUNTING STANDARDS

1. The Council of the Singapore Society of Accountants has recently resolved that in order to enforce compliance with Accounting Standards issued by the Society it will, with effect from 1st January, 1978 be mandatory for all members of the Society to observe the undermentioned Singapore Standards in respect of all accounting periods commencing on or after 1st January, 1977 :-

International Accounting Standards adopted by the Society and issued to members as under :-

I.A.S. - 1 Disclosure of Accounting Policies

I.A.S. - 2 Valuation and Presentation of Inventories in the Context of the historical cost system

I.A.S. - 3 Consolidated Financial Statements

(Subject to compliance by Banks and Insurance Companies with equity accounting requirements being not mandatory)

I.A.S. - 4 Depreciation Accounting

2. The Council has decided to defer the adoption of IAS 5 "Information to be disclosed in Financial Statements" pending a further review of this standard by the Auditing and Accounting Standards Review Committee. This is a reversal of their previous decision to adopt this standard in respect of accounting periods commencing on or after 1st January, 1977. Although compliance with IAS 5 is therefore not mandatory for accounting periods beginning on or after 1st January, 1977 it is recommended that the standard be followed by members for such accounting periods.
3. Singapore Standards shall apply to all Financial Statements intended to give a true and fair view of financial position and profit and loss.
4. As and when further International Standards are issued and approved by the Council, these will be adopted as Singapore Standards.

5. Under the obligations assumed by members of I.A.S.C., the Society has undertaken to use its best endeavours to promote the application of all Accounting Standards and to ensure that, as soon as practicable, appropriate action is taken against auditors whose audit reports do not meet the requirements, and members responsible for the presentation of Financial Statements, as defined in para 7. The Council has ruled that a recent revision (approved in October 1977 for publication in March 1978) to the Preface of the International Accounting Standards on the subject of an auditor's responsibility when a company does not comply with an International Standard will not apply in Singapore.
6. The following should be observed where there has been non-compliance with the Singapore Standards :-
  - (a) Non-compliance fully disclosed and explained in the financial statements
    - (1) Where the result of non-compliance does not affect the 'true and fair view' opinion expressed on the financial statements the auditor is not required to refer to the non-compliance in his audit report.
    - (2) Where the result of non-compliance does not affect the 'true and fair view' opinion expressed on the financial statements the auditor is required to qualify his opinion.
  - (b) Non-compliance not fully disclosed and explained in the financial statements
    - (1) Where the result of non-compliance does not affect the 'true and fair view' opinion expressed on the financial statements the auditor is required to disclose the non-compliance in his audit report. Under these circumstances his opinion will not be qualified.
    - (2) Where the result of non-compliance does not affect the 'true and fair view' opinion expressed on the financial statements the auditor is required to disclose the non-compliance in his audit report and qualify his report accordingly.
7. The Council will enquire into apparent failures by members, including members not in practice who act as a Director or Secretary of a Company or other officer responsible for the accounting records and financial management of a company or any organisation, to observe such Standards or to disclose departures therefrom.
8. If the Council is not satisfied with the members' explanation of the apparent failure, it may take such action as it considers appropriate.

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The Provisions of International  
Accounting Standards adopted by the  
Singapore Society of Accountants need  
not be applied to immaterial items.

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## APPENDIX 14-IV

### REPORT ON FINDINGS OF THE FINANCIAL STATEMENTS REVIEW COMMITTEE

A principal term of reference for the Society's Financial Statements Review Committee is to enhance the standard of financial reporting in Singapore by assisting members in ensuring that their responsibilities with regard to financial statements are discharged in compliance with statutory requirements and with the published recommendations and accounting standards promulgated by the Society from time to time. This is done by a continuous review of financial statements and by drawing the attention of members responsible for their preparation, or for reporting on them, to areas in which the presentation or content falls short of the requirements and recommendations.

The report summarises the areas of non-compliance with statutory accounting requirements, Statements of Accounting Standard (SAS) and statements of Recommended Accounting Practice (RAP) found in financial statements reviewed by the Committee for the three years ended 31 March 1983. It is the intention of the Committee to update the summaries periodically.

All financial statements must comply with statutory requirements and are expected to comply with SAS promulgated by the Society. Non-compliance with or departures from SAS should be disclosed or explained either in the financial statements or in the audit report if the non-compliance has a material effect on the true and fair view of the financial statements. Whilst it is not compulsory for members to adopt the recommendations of best practice set out in RAPs, members should endeavour to follow those recommendations; otherwise, in cases where a member's opinion is questioned, he may find it difficult to support his position.

In order to maintain high standards in financial reporting it may be necessary for the Committee to refer members who persistently do not comply with statutory requirements and accounting standards either for peer counselling or, in more serious cases, to the Society's Investigation Committee.

The schedules attached to this report summarise the Committee's findings under the following headings :

Schedule A : Non-compliance with Companies Act disclosure requirements

Schedule B : Non-compliance with Statements of Accounting Standard

Schedule C : Failure to adopt recommendations of best practice set out in RAP 1.

The Committee finds it necessary to publish this report because some of the instances of non-compliance found relate to basic accounting practices which every member of the Society is expected to be familiar with. The Committee hopes that by publishing this report, the extent of non-compliance will be minimised in future, thereby contributing to a higher standard of financial reporting.

August 1984

## Schedule A

### Non-compliance with Companies Act disclosure requirements

Profit and Loss Account	Companies Act ref
1. Whether dividends received were from	9th Sch. 1(c)
- quoted or unquoted investments	
- investments quoted locally or abroad	
2. Depreciation of fixed assets	9th Sch. 1(d)
3. Interest on fixed term loans	9th Sch. 1(e)(i)
4. Rent for land and buildings	9th Sch. 1(e)(ii)
5. Charges for hire of plant and machinery	9th Sch. 1(e)(iii)
6. Directors' remuneration	9th Sch. 1(l)
7. Auditors' remuneration	9th Sch. 1(m)
8. Withholding tax paid on foreign income	9th Sch. 1(j)
Balance Sheet	
Failure to disclose :	
9. Details of authorised share capital, amount paid on each share and the uncalled amount of shares	9th Sch. 2(1)(a)
10. Provision for doubtful debtors	9th Sch. 2(1)(g)
11. Market value of quoted shares	9th Sch. 2(1)(h)
12. Hire purchase instalments payable after 12 months as long-term liabilities	9th Sch. 2(1)(l)
13. Whether contingent liabilities were secured or unsecured*	9th Sch. 2(1)(r)
14. Cost or valuation of fixed assets separately	9th Sch. 2(2)

## General

### Failure to disclose :

- |  |               |
|--|---------------|
| 15. Comparative figures for certain items        | 9th Sch. 5(2) |
| 16. Holding company and country of incorporation | S.169(10)     |

## Schedule B

### Non-compliance with Statements of Accounting Standard

#### Accounting Policies

#### SAS ref

- |  |                        |
|--|------------------------|
| 1. Non-disclosure of significant accounting policies for the following items :                       | SAS 1, para 18         |
| (a) foreign currency transactions especially treatment of resulting gains or losses in the accounts* |                        |
| (b) recognition of income and losses on long-term contracts and properties under development*        | (also SAS 11, para 48) |
| (c) valuation of investments - including recognition of income and diminution in value*              |                        |
| (d) amortisation of preliminary expenses*  |                        |
| (e) basis of accounting used in the accounts*  |                        |

#### Inventories

- |  |                |
|--|----------------|
| 2. Inventories not classified into major categories* | SAS 2, para 33 |
| 3. Method of valuation of inventories not disclosed  | SAS 2, para 34 |

#### Consolidated Financial Statements

- |   |                   |
|---|-------------------|
| 4. Supplementary notes not given for subsidiary companies not consolidated  | SAS 3, para 48    |
| 5. Failure to disclose whether accounting dates of subsidiaries and associated companies are coterminous with that of the company | SAS 3, para 47(a) |
| 6. Equity accounting not done for results of associated company*  | SAS 3, para 40    |



## Fixed Assets

- |   |                      |
|---|----------------------|
| 7. Each major class of depreciable assets not disclosed*  | SAS 4, para 18       |
| 8. Useful lives or depreciation rates for each major class of depreciable assets not disclosed* | SAS 4, para 18       |
| 9. Depreciation charge for the year of each major class of depreciable assets not disclosed*    | SAS 4, para 18       |
| 10. Depreciation not provided for buildings*  | SAS 4, paras 10 & 13 |

## General

- |  |                |
|--|----------------|
| 11. Summary of interest rates, repayment terms, covenants, subordinations, conversion features and amounts of unamortised premium or discounts of long-term loans not disclosed* | SAS 5, para 14 |
| 12. Statement of Changes in Financial Position not prepared  | SAS 7          |
| 13. Profit on sale of fixed assets and investments incorrectly treated as extraordinary items*   | SAS 8          |
| 14. Immaterial items treated as prior year adjustments*  | SAS 8          |

## Schedule C

Failure to adopt recommendations of best practice set out in RAP 1

RAP 1 para ref

- |  |    |
|--|----|
| 1. Monetary amounts in accounts not rounded up to the nearest dollar   | 5  |
| 2. Nature of capital reserves not disclosed in the accounts  | 16 |
| 3. Reserves not distinguished into distributable and non-distributable reserves*   | 16 |
| 4. Profit or loss on sale of properties taken directly to capital reserve instead of through the profit and loss account | 20 |
| 5. Material transfers in reserves not disclosed  |    |

in the accounts	21
6. Failure to distinguish between current and non-current portion of hire purchase creditors	31
7. Details of contingent liabilities not given	41
8. No breakdown given between commitments for which contracts have been placed and commitments approved by directors for which no contracts have been placed.	42
9. Land and building costs not segregated	48
10. Date and source of valuation of fixed assets not disclosed in the accounts*	49
11. Basis of amortising and valuation of goodwill and deferred expenditure not stated in the accounts*	51
12. Valuation of investments not disclosed in the accounts	52 & 61
13. Material difference between the standard rate of income tax on company's profits and the rate of tax charge to the profit for the year not explained in the accounts	70
14. Effect of change in accounting policy not disclosed in the accounts	76

\*Default more frequently found

(Source : Singapore Accountants, SSA, Sept/Oct. 1984, pp.6-7)

No. of L. 848/47

Singapore,

1947  
1947

Sir/Gentlemen,

I have the honour to acknowledge receipt of your letter dated... 9th June 1947... and to inform you that all our office records were destroyed by the Japanese during the occupation. As your Society was exempted/registered on... 13th May 1948..., it will not be necessary for you to apply for exemption/registration afresh, but I should be grateful if you would fill up the enclosed form and return it to me together with two copies of your rules, so that records may be brought up to date.

I have the honour to be  
Sir/Gentlemen,  
Your obedient servant,



Asst. Registrar of Societies,  
Singapore.

Messrs. Gatty & Bateman,  
Secretaries:  
Malayan Sharebrokers Association,  
Singapore

## MALAYAN SHAREBROKERS ASSOCIATION

22 DEC 1959

Enclosure (24)

to

R. of S. No. 826/47

SECRETARIES:

COOPER BROTHERS &amp; CO.

PHONE: 2818

S. S. S. ACCOUNTANT, SINGAPORE

DENMARK HOUSE.

RAFFLES QUAY.

SINGAPORE 1.

19th December, 1959.

Registrar of Societies,  
Ministry of Home Affairs,  
Singapore.

Dear Sir,

(23)

We thank you for your letter Ref: R. of S. 896/47 dated 15th December, 1959.

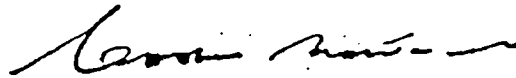
The reason for the change is that the new name more properly describes the activities of the Association. In addition the new name will be readily understood by the general public, and will avoid confusion with Overseas correspondents. The Association is already listed in the London Stock Exchange Year Book as a "recognised Overseas Stock Exchange".

It is not proposed to make any change in the rules and objects of the Association for the time being, apart from purely consequential changes to deal with the change of name.

Any changes made will, it is thought, be designed to further the same general purposes as the present objects of the Association.

The Committee of the Association would be grateful for an early agreement to the change so that it can be advised to publications due to appear in early 1960.

Yours faithfully,



Secretaries.

JC/mba.

## APPENDIX 15-III

SECURITIES INDUSTRY BILL, 1970, Second Reading, Extract from Singapore Parliamentary Debates, 1970, cols. 461-467.

The Minister for Finance (Mr. Hon Sui Sen): Sir, I beg to move. "That the Bill be now read a Second time."

I would like place this Bill in its proper perspective by reminding Members that developments on the Stock Exchange have attracted both public comment and criticism since 1968. In fact, there has been, in this House and outside it, considerable pressure put upon the Government from time to time to intervene in the public interest to protect investors from *unscrupulous manipulation and rigging* on the Stock Exchange.

Recent developments on the Stock Exchange which have resulted in the Committee of the Exchange *suspending* or *limiting* trading in certain shares, as well as the timely study of the Securities Market in Singapore and Malaysia by Mr. George M. Ferris, Jr. (which is commonly referred to as "the Ferris Report") have focused attention on the shortcomings and deficiencies, particularly as they affect the protection to be afforded to the investing public. For there can be no doubt that some form of intervention is necessary to ensure that the Securities Market operates in a fair and open manner and to prevent, as far as possible, certain persons, especially those with "*insider*" knowledge, from manipulating the market by illegal means for their own profit.

Even without the occurrence of the above-mentioned events, it is probably inevitable that the Securities Market in Singapore could not, having regard to the accelerated pace of economic and industrial development and the need to attract private capital investment to support and quicken this development, have continued for long in its *traditional laissez-faire state*.

The experience of Singapore in this respect would not, it is thought, have been unlike the experience of the more economically advanced members of the Commonwealth, for example Australia and the United Kingdom, where the need to exercise some form of control over the Securities Market has in the period 1958-1970 found legislative expression in various Acts of Parliament in those countries. The decision of the Government to legislate to regulate the Securities Market in Singapore can, therefore, be regarded as part of a Commonwealth-wide approach towards investor protection. The form of control adopted in Australia and the United Kingdom takes substantially the same pattern and it is to be noted that in each of these countries the system of self-regulation by the Stock Exchange has been preferred to that of regulation by an independent statutory body along the lines of the Securities and Exchange Commission in the United States of America. And it is this pattern

which has been incorporated in the present Bill.

In reaching the decision that self-regulation was, at least under present conditions prevailing in the stock market, preferable, the Government was influenced by the consideration that the Stock Exchange of Malaysia and Singapore is in a position to exercise close and effective control over the securities industry generally. It was also encouraged to believe that the Committee of the Stock Exchange was seriously attempting, within the limits of its capacity, to exercise this control with rigour. This has to some extent been evidenced by the new Rules and Bye-laws which the Committee have adopted, as well as by action taken by the Committee to deter manipulation. These Rules have incorporated some of the recommendations of the Ferris Report and in some respects the new Rules have gone further along the road to secure investor protection than was contemplated in the Report. No doubt future Rules will incorporate some of the other recommendations made by Mr. Ferris. Indeed, I am persuaded to believe that the spirit of cooperation that has been shown by the Stock Exchange Committee with my Ministry in attaining the common objective of investor protection will continue long after this Bill has passed into law.

With this in mind, it is proposed that meetings will be held periodically between members of the Stock Exchange Committee and Government officers in a Standing Committee whose function will be to review problems arising in the implementation of this proposed legislation and the Companies (Amendment) Bill as well as the application of the New Rules of the Stock Exchange, and to make recommendations on amendments which experience may show to be necessary. The Committee can be assured that the full support of the Government will be given to it in the application of the provisions contained in these two Bills, particularly in regard to those provisions dealing with unlawful share trading and disclosure by shareholders and directors of companies and auditing of accounts of dealers in securities. Since the Committee, in many instances, will be the first to become aware of possible breaches of the provisions in the proposed legislation, it will be one of the *functions of the Committee consider these breaches and, if necessary, to bring them to the attention of the Government for appropriate action to be taken.*

However, the decision not to introduce into Singapore direct centralised control does not mean that other forms of statutory control are undesirable. This is far from being the case, and this has raised the question as to which forms of control are best suited to local conditions. The Bill has answered the question by introducing the following forms of control over the Stock Exchange and its members and other dealers in securities:

(1) Ministerial approval will be needed to establish any new stock exchange.

(2) Any future alteration of the existing rules of a stock exchange may be disallowed by the Minister.

(3) The maintenance of proper trust accounts by brokers and other dealers in securities and the auditing of the same will be given statutory force and the Minister may in special circumstances appoint a special auditor.

(4) The establishment of a fidelity fund by the Stock Exchange has

been placed on a statutory footing and persons who suffer loss as the result of defalcations by brokers may be compensated out of the fund.

(5) Dealers, who are not stockbrokers, will also be required to keep accounts and records and make a deposit of \$100,000.

(6) All dealers in securities, including stockbrokers, will be licensed to deal in securities.

(7) Specific offences are created to deal with dishonest trading in securities.

While the Bill covers the whole of the securities industry in Singapore, I would like to make it clear that the *Bill does not attempt to prevent speculation as such*. Some speculation attends every anticipation or expectation of short or long term price trends which induces trading activity on the Exchange. It is and always must remain the responsibility of the individual investor to decide as to the advisability of any particular investment. What the Bill does do is to attempt to see that the stock market operates in a fair and open way and that people do not manipulate the market by illegal means for their own profit. The Bill, together with the New Rules that have recently been passed by members of the Stock Exchange, will, it is considered, go a long way to achieve these objectives. However, I would like to emphasise again that the *Bill does not merely pay lip-service to but acknowledges the principle of self-regulation of the Exchange by the Committee and is not intended to interfere with the day-to-day control by the Committee of normal share trading on the Exchange, nor with the traditional form of control that the Committee exercises over members of the Exchange except on such matters as the licensing of dealers in securities and the reduction to statutory form of existing Stock Exchange Rules with regard to the maintenance of brokers' trust funds and the fidelity fund*.

The scope of the proposals contained in the Bill as it affects investor protection is therefore *much wider than that contemplated in the Ferris Report*. This is probably inevitable since Mr. G. M. Ferris, in his study of the securities industry, has concentrated, in the main, upon ways in which the Stock Exchange of Malaysia and Singapore could strengthen the basic structure of the member firms of the Exchange, could dampen down excessive speculation and could improve trading facilities. However, he has made useful recommendations with regard to investor protection on such matters as *listing requirements of companies, minimum capital requirements of member firms, etc.*, surprise financial audit of member firms, excessive speculation and disclosure of information to the public some of which have been incorporated in this Bill or the Companies (Amendment) Bill, 1970, while others have been or will be incorporated in Stock Exchange Rules.

The Bill, for the first time in Singapore, proposes to *license dealers in securities and their employees who are engaged in negotiating investment in securities*. The Government believes that a system of control by licensing of dealers in securities is necessary at this time and this is *particularly so as regards dealers in securities who are not stock brokers*. For while stockbrokers have always been subject to certain traditional forms of control by the stock exchange, other *dealers have not been subject to any real form of control*. The provisions in the *Bill should ensure that only persons of good*

*character and in a sound financial position will be permitted to be licensed as dealers in securities under the Act. Licensed dealers will be required to keep trust accounts and have them audited. This will not prove burdensome to stockbrokers for under Stock Exchange Rules they have been required to maintain trust accounts. Again, licensed dealers who are not stockbrokers will be required to enter into a fidelity bond. The reason for this is that fidelity fund provisions in the Bill apply only to stockbrokers who are members of the Stock Exchange. With regard to the latter, they will find little that is unusual about those provisions, for under the existing Stock Exchange Rules a Fidelity Guarantee Fund was created to compensate persons who suffer loss by reason of the default of members. The provision in the Bill therefore merely gives statutory force to the establishment of such a fund. The amount of capital in the existing fund will form the basis of the fund established under this Bill.*

Another significant feature of the Bill is to be found in Part VII, where new offences are created in relation to market dealings. The first offence relates to creating a *false or misleading* appearance of active trading in securities; the second to *market rigging activities*; the third to the use of *fictitious transactions* to affect the stock market; and the fourth to knowingly circulating false rumours with respect to securities. A maximum penalty of \$30,000 or imprisonment for five years is provided for these serious offences. *It may not often be necessary for prosecutions to be launched under these sections, as in the United States similar provisions have been used with great effect to inhibit those wrongful practices which do so much to destroy a true market in securities.* The Government believes that it is important that Parliament should clearly state its abhorrence of such practices and that every effort should be made to stamp them out before they become widespread.

Sir, I do not propose to dwell upon the other provisions of the Bill, as these are dealt with in some detail in the Explanatory Memorandum, or will be clear in the explanations on the amendments I am introducing.

Before concluding, however, I would like to clear up a misunderstanding that has occurred due to an erroneous reference in the Explanatory Statement dealing with clause 13. It is not Government's intention that a remisier should deposit \$30,000 or \$100,000 as security with the Registrar of Companies. This provision will apply only to dealers who are not stockbrokers.

I commend this Bill to the House.

Sir, I beg to move.



# APPENDIX 15-IV

Number of Companies Listed on the Stock Exchange of Malaysia and Singapore  
(Period when Malaysia and Singapore had a joint stock exchange)

	1964	1965	1966	1967	1968	1969	1970	1971	1972
Industrial	53	55	59	67	79	108	124	132	140
Hotel	3	3	3	3	10	15	16	17	16
Property	10	10	10	10	12	13	13	13	13
Tin	51	47	46	44	44	44	44	43	42
\$ Rubber	30	27	26	27	25	25	25	25	24
L Rubber	57	49	33	36	33	30	26	23	21
Oil Palm	-	-	-	-	5	7	8	7	8
Total	204	191	177	187	208	242	256	260	264

Sources : 1964 to 1973 data from Stock Exchange of Malaysia and Singapore,  
Annual Report & Accounts, 1972, p.23.

Number of Companies Listed on the Stock Exchange of Singapore

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Industrial	138	143	149	152	149	154	155	155	158	168	177	182	188	188
Finance	16	16	18	16	16	19	18	21	23	26	30	31	31	33
Hotel	16	15	15	16	15	16	15	14	16	20	20	20	20	20
Property	13	13	14	15	14	14	14	13	15	17	19	20	22	22
Oil Palm	8	8	8	8	8	7	-	-	-	-	-	-	-	-
Tin	42	36	35	34	30	31	-	-	-	-	-	-	-	-
\$ Rubber	24	24	25	25	24	23	-	-	-	-	-	-	-	-
f Rubber	20	8	5	3	2	2	-	-	-	-	-	-	-	-
Mining	-	-	-	-	-	-	29	25	25	24	22	21	19	18
Plantation	-	-	-	-	-	-	33	33	33	33	33	34	36	36
	277	263	269	269	258	266	264	261	270	288	301	308	316	317

Source : 1973 to 1986 data from Stock Exchange of Singapore's Fact Book (Published Yearly)

APPENDIX 15-V

Distribution of Shares, Paid-Up Capital and Market Capitalisation of Local and Foreign Incorporated Companies

	No. of Cos.			No of Shares			Market Capitalisation		
	1986	1985	1984	1984 '000	1985 '000	1986 '000	1984 S\$'000	1985 S\$'000	1986 S\$'000
<u>SINGAPORE STOCKS</u>									
Industrial & Commercial	74	74	74	4,908,986	5,733,775	5,824,354	11,618,209	11,310,586	19,710,541
Finance	20	20	20	2,073,805	2,128,944	2,160,290	11,272,938	8,983,764	12,271,463
Hotel	18	18	18	1,068,804	1,103,939	1,103,939	2,473,425	1,820,544	2,177,973
Property	10	10	9	802,061	1,072,183	1,101,511	1,308,358	1,185,909	1,988,554
Mining	-	-	-	-	-	-	-	-	-
Plantation	-	-	-	-	-	-	-	-	-
Sub-Total	122	122	121	8,853,656	10,038,841	10,190,094	26,672,930	23,300,803	36,148,531
<u>MALAYSIAN STOCKS</u>									
Industrial & Commercial	109	109	104	10,509,397	11,571,706	11,746,603	21,436,982	16,357,316	16,017,997
Finance	11	10	10	1,961,121	1,981,570	2,147,943	4,719,119	3,924,501	3,479,408
Hotel	2	2	2	420,847	420,847	420,847	559,467	331,508	240,205
Property	10	10	9	1,380,969	1,625,771	1,635,971	2,309,824	1,820,488	1,322,306
Mining	17	17	33	623,238	737,353	684,503	1,721,832	1,065,683	1,124,177
Plantation	34	35	18	3,204,333	3,762,543	3,869,456	7,206,676	7,474,144	7,581,050
Sub-total	183	183	176	18,099,905	20,099,790	20,505,323	37,953,900	30,973,640	29,765,143
<u>FOREIGN STOCKS</u>									
Industrial & Commercial	5	5	4	437,370	513,740	526,295	1,100,306	1,010,577	1,162,351
Finance	2	1	1	8,415	8,415	119,502	1,927,143	3,618,652	6,197,094
Hotel	-	-	-	-	-	-	-	-	-
Property	2	2	2	2,437,169	2,454,675	2,515,050	11,484,837	11,571,491	11,870,347
Mining	2	2	3	48,120	47,520	53,400	79,047	59,168	60,638
Plantation	1	1	1	4,125	4,125	4,125	113,438	84,563	84,563
Sub-Total	12	11	11	2,935,199	3,028,475	3,218,372	14,704,771	16,344,451	19,374,993
Total	317	316	308	29,888,760	33,167,106	33,913,789	79,331,601	70,618,894	85,288,667

Sources : Stock Exchange of Singapore, Fact Book, 1985, 1986 & 1987.

# APPENDIX 15-VI

## Analysis of Companies by Country of Incorporation

Year	Incorporated in Singapore	Incorporated in Malaysia	Incorporated Overseas	Total
1973	78 (28.16%)	154 (55.60%)	45 (16.24%)	277 (100%)
1974	82 (31.18%)	153 (58.17%)	28 (10.65%)	263 (100%)
1975	90 (33.46%)	154 (57.25%)	25 (9.29%)	269 (100%)
1976	90 (33.46%)	159 (59.11%)	20 (7.43%)	269 (100%)
1977	85 (32.95%)	157 (60.85%)	16 (6.20%)	258 (100%)
1978	95 (35.71%)	158 (59.40%)	13 (4.89%)	266 (100%)
1979	95 (35.98%)	160 (60.61%)	9 (3.41%)	264 (100%)
1980	97 (37.16%)	156 (59.77%)	8 (3.07%)	261 (100%)
1981	103 (38.15%)	158 (58.52%)	9 (3.33%)	270 (100%)
1982	112 (38.89%)	164 (56.94%)	12 (4.17%)	288 (100%)
1983	118 (39.20%)	172 (57.15%)	11 (3.65%)	301 (100%)
1984	121 (39.29%)	176 (57.14%)	11 (3.57%)	308 (100%)
1985	122 (38.61%)	183 (57.91%)	11 (3.48%)	316 (100%)
1986	122 (38.49%)	183 (57.73%)	12 (3.78%)	317 (100%)

Source : Stock Exchange of Singapore's Fact Book (Published Yearly)

# APPENDIX 15-VII

## Distribution of Paid-up Capital of Ordinary Shares

Sector	1964 %	1970 %	1980 %	1986 %
Industrial & Commercial	48.35	56.98	46.99	53.35
Finance	-	-	12.98	13.06
Hotel	1.30	8.89	3.87	4.50
Property	7.86	6.05	20.98	15.49
Mining	17.31	8.12	2.18	2.18
Plantation	25.18	19.96	13.00	11.42
	100	100	100	100

# APPENDIX 15-VIII

## Distribution of Market Capitalisation of Ordinary Shares

SECTOR	1970 %	1980 %	1986 %
Industrial & Commercial	62.95	45.17	43.25
Finance	-	16.82	25.73
Hotel	4.00	4.57	2.84
Property	2.24	17.85	17.80
Mining	14.50	4.80	1.39
Plantation	16.31	10.79	8.99
	100	100	100

# APPENDIX 15-IX

## NEW LISTINGS

Year	Aggregate No. of Companies				Paid-Up Capital \$
	F	S	M	Total	
1973	1	10	6	17	280,095,872
1974		4	4	8	128,307,163
1975	1	7	4	12	1,402,197,044
1976	1	2	7	10	316,184,549
1977		4		4	273,364,883
1978		12	5	17	300,527,071
1979		3	3	6	480,321,214
1980		4		4	203,000,000
1981	1	7	2	10	1,169,515,287
1982		11	10	21	1,455,242,928
1983		6	7	13	671,360,700
1984		6	5	11	622,975,923
1985	1	1	7	9	1,306,295,265
1986	1			1	14,364,861,(est)*
	6	77	60	143	

Sources : Stock Exchange of Singapore Fact Book (Published Annually)

Note :

S : Companies incorporated in Singapore

M : Companies incorporated in Malaysia

F : Foreign incorporated companies

\* A\$9,975,598 at A\$1 = S\$1.44

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10. Drs. Basuki Siddharta, Registered Accountant, Drs. Siddharta & Co.
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16. Dr Katjep K. Abdoelkadir, Executive Secretary, Co-Ordinating Agency for Accounting Development.
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20. Mr Jimmy Thio, Head, Financial Institution Division, Dharmala Group.
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23. Dr Al Prentice, World Bank Accounting Expert.
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25. Drs. Sudardjat Sukadam, Dean, Faculty of Economics, University of North Sumatra.