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The role of accounting in the developing economy of the Kingdom of Tonga

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NOTE

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THE ROLE OF ACCOUNTING IN THE DEVELOPING ECONOMY OF THE KINGDOM OF TONGA

A thesis submitted in fulfilment of the requirements for the award of the degree

Doctor of Philosophy

from

UNIVERSITY OF WOLLONGONG

by

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Department of Accounting and Finance

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Declaration

I hereby declare that this thesis has never previously been submitted for any other degree and is the result of my own independent research.

Sione Leimoni Taufu‘i
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At completion, the study bears this author’s name. However, it is more than customary, it is an obligation to acknowledge those whose sincere efforts and cooperation made this study possible. Realising that words can only partially express my gratitude to many individuals who have helped to make it possible, I wish to extend my appreciation to:

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Abstract

The island Kingdom of Tonga has been facing a difficult problem in trying to achieve sustained economic growth through the formulation and implementation of development plans. Such development plans are dependent, among other things, upon the availability of relevant and reliable economic information. However, the availability of accounting information to help implement economic decisions have been widely criticised as deficient, irrelevant and often lacking credibility. This has been due to the absence of well-defined reporting practices and procedures whereby such requirements, whether statutory or legal are strictly followed and enforced.

Accounting and auditing practices are not formalised in Tonga nor is the role of accounting and accountants in providing the data necessary for decisions relevant to economic development well defined. As a result financial reporting of firms provides little information needed for allocation of resources and investment decisions. As a consequence, investors are disinclined to provide the capital necessary to expanding economies. These allegations have prompted this research study.

Therefore, an attempt at improving the quality of accounting in Tonga, as a source of information function, would require a research study to accurately determine the country's needs, and the role of accounting in the country's economic development process. This is very important because there is a lack of awareness in all sectors of the economy of the role and the potential contribution that accounting can offer in the economic development effort. The purpose of this study is to explore the role of accounting and accountants in the economic development process of Tonga. This analysis will not prove that accounting is the most important element, however, it will show that accounting has a positive role to play in this process.

An ethnographic approach was used for this research which involved participant-observation. Interviews were conducted with accountants, managers, executives, and public officials in Tonga. Documentations and financial reports were also collected from businesses, statutory boards and government departments.

The study revealed that accounting development in Tonga is a direct product of its environment with cultural influences as the major contribution to the prolonged non-existence of any accounting and auditing standards. It was also revealed that accounting has a positive role to play in the economic development of Tonga which is evident in the need for reliable and timely data for the preparation of financial statements, allocation of resources, and improvement in the use of existing resources. Full realisation of this role is dependent upon the ability of the government and accountants to develop accepted national accounting and auditing standards that are fully recognised and enforce by law.
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CHAPTER ONE

INTRODUCTION

Abstract
Progress is a temporal notion. The claim for progress necessitates comparison over time. Moreover, it requires some acceptable basis for evaluation: on what basis can progress be claimed? Nevertheless, it probably is safe to claim that progress has been the rationale for a considerable part of all human action: what would life be like without the wheel? (Gaffikin 1984, 7)

Introduction

In most developing economies, accounting is not adequately developed to serve the contemporary function recognised in developed countries as providing useful information to users. Indeed, the accounting function in these developing countries does not go beyond the basic-entry bookkeeping system. This and other characteristics that constitute the gap between the countries that acquire accounting knowledge and the countries that do not, have widely attracted a lot of interest among countries themselves, the international community and accounting researchers.

Accounting performs a critical function in any economy. Since the information it generates serves society by allowing for increases in the efficiency of resource allocation among competing interests. This function is performed in market-oriented economies, as well as in centrally planned economies. Accounting has played a significant role in their economic development. However, the lack of a well-developed accounting function will necessarily result in the misallocation and suboptimization of available resources. The complexity of the developed economy requires the kinds of economic information provided by accounting. In fact, different economic systems may place greater or lesser emphasis on different facets of accounting, but in no case is the need for information eliminated.
In recent years, developing countries have paid increasing attention to the various aspects of economic development. The efforts of these countries to achieve their economic goals have attracted considerable international and regional support. Agents in the international and regional community, such as the United Nations, World Bank, Asian Development Bank, Australian International Development Bureau, etc., have conducted many studies and assisted in planning and implementing economic development progress in these countries in Asia, Africa and the South Pacific.

History has also shown that the development process in the advanced countries has been revolutionary and has required several hundreds of years. Most of the developing countries, at the present time are attempting to avoid this long evolutionary process in their economic development process. As Al-Shuaib states:

A critical problem contributing to the success or failure of this endeavour will depend on the ability to mobilize domestic economic resources which largely dependent on the availability of sound economic information. (1974, 3)

The island nations of the South Pacific are continuously striving to achieve sustained economic growth through the formulation and implementation of development plans. However, the ability to formulate plans and to implement them is largely dependent on the availability of accurate economic information. Enthoven recognises the importance of accurate accounting information, as a subset of economic information, for developing countries, when he wrote that:

Accurate economic information is necessary for every nation; certainly as necessary for developed as for developing countries. And since accounting statements, drawn up in the right way, cover the entire field of economic analysis, the necessity is felt throughout the economy. (1969, 129)

The study of economic development in developing economies, which connotes a social and cultural as well as an economic evolutions, is a complex area of study, and the fact that in recent decades some developing countries have progressed much more rapidly than others necessitates explanations, research and understanding of the factors that contribute to the economic development process. Such necessity
develops from the need for accustoming the decision makers in the developing countries with policies and techniques that have proved to be successful in accelerating economic development in more advanced developing countries.

Research Problem

Accounting and auditing practices are not formalised in the Kingdom of Tonga. The current practices are based mainly on an outdated piece of legislation and authoritative framework as well as on discretionary opinions of the accountants. In fact the government officials and the accountants envision an active role of adequate accounting information to meet the needs of the developing economy of Tonga. However, the role of accounting in providing the information necessary for decisions relevant to the acceleration of the process of economic development is not well defined or nonexistent. Interestingly, the need for formalising the principles and practices used in arriving at such information have not been fully acknowledged by the government and accountants.

Indeed, the literature in the field of economic and business practices in Tonga is negligible. Even though the government is trying its best to create an attractive business environment, its bookkeeping and accounting practices do not seem to be part of this development effort. There seem to be a lack of awareness of the role of accounting and its potential contribution to economic growth. Therefore, this research problem is the assessment of the role of accounting in the developing economy of Tonga.
Objective of the study

The title of this research study may seem ambiguous. Read in one way it might be taken to imply an assertive defence of accounting in developing economies. Alternatively, the title may be interpreted as promising the discussion of some serious problems faced by developing countries in their endeavour to promote and encourage economic development. This methodological approach is intentional. It is intended to capture the interest of what is called by Hammersley “ethnography’s ambivalent status” (1992, 1) at these countries at the present time.

The purpose of this study is to explore the role of accounting in the Kingdom of Tonga which is a developing country. The study will be mainly concerned with the existing condition of accounting. Discussion of aspiration levels or desired goals of accounting will be kept to a minimum in order not to lose sight of current accounting problems. This analysis will not prove that accounting is the most important element in the process of economic development. It will, however, show that accounting has a positive role to play in the development process and will explore that role.

The researcher anticipates that the results of this study will achieve the following objectives that:

1. The accounting practice is a product of its environment.
2. Accounting has a positive role to play in the economic development process.
3. The present accounting system is irrelevant to the changing economy and economic development of Tonga.

It is envisaged that the study would explain that present accounting practice in Tonga is a direct product of its environment. It should also exhibit that accounting has a positive role to play in the country’s endeavour to promote and encourage economic development when similar studies are being referred to as research study guides. When compared with more advanced developing countries that have well-developed accounting and auditing standards and professional bodies (referring to
developed nations such as Australia, Japan etc.,) then it should explain that the present accounting practices in Tonga are irrelevant to its changing economy.

This study will limit its scope to discussing the role of accounting, only in certain areas of economic development—the commercial and industrial development. The role of accounting will be explored along its services in the areas of the financial, management and auditing functions.

Furthermore, this study will focus on the inter-relation between the business environment and accounting and how the environment affects accounting’s role in the economy and demands for its services.

**Significance of the Study**

Accounting has a vital role in present day economics. Almost every segment of any society needs and uses financial information, directly or indirectly. Accounting has a responsibility to provide the essential information for financial planning and control.

With the fairly recent increase in commercial activities and industrialisation of the developing countries, attention should also be focussed on the role of accounting in the economic development. Even though most individuals and governments, as well as international economic organisations, recognise the need for capital and its efficient utilisation for achieving rapid industrialisation, little attention has been given to the potential contributions of accounting toward the fulfilment of economic development plans. As Perera agrees that:

A systematic attempt at improving the quality of accounting in a developing country, as a source of information, would require research studies to accurately determine a country’s particular accounting needs, and the role of accounting in the country’s economic development process. This is important because in the majority of developing countries, there is a lack of awareness of the potential contribution that accounting could make in the economic development effort. (1987, 14)
Chapter I: Introduction

The selection of the topic came into light as a desire to understand why Tonga does not have an accounting and auditing standards, an accounting profession, why accounting and accountants have low status, and the reasons for prolonged existence of the Companies Act 1912 that regulates accounting reporting requirements. The researcher’s interest in this area was developed while working at the Ministry of Labour, Commerce and Industries as Assistant Secretary responsible for the Prices and Wages Control Division, Registration of Companies Division, and Trade Division. The divergence of responsibilities really helped in understanding the major problems that are critical to the growth and development of the organisation. Indeed, one of the crucial problems is the lack of reliable and useful financial information on which decisions could be justifiably based.

Upon the understanding of the need to develop the accounting establishment in Tonga, His Majesty’s Cabinet granted approval for my research study, (Cabinet Decision No. 745 of 29 May 1991) to be undertaken not only for the assessment for my Doctoral degree, but also to be used as a study framework for the development of accounting in Tonga. The examining and exhibiting of the accounting problems in Tonga would enable the relevant authorities (government, businesses, accounting profession, educational institutions, and accountants) to understand and be aware of the role of accounting and its potential contribution to the growth and development of the economy.

Concept of Role

Human actions are meaning actions. They acquire meaning by their association with some human purpose. The understanding of any human action, or activity, requires an understanding of the purpose, or purposes, with which it is associated. Such understanding allows us to comprehend what function a particular activity performs. Given an understanding of the function and purpose of the function, action can be evaluated for its consistency with and its contribution to that purpose. If purpose is not understood then there exists a basis for evaluation for its understanding (Jackson 1972; Dahrendorf 1973; Gilling 1981).
Role is one of the most used words in the English language (Gilling 1981). For everyday usage it is often associated with theoretical connotations (Jackson 1972), and is normally used in a loose and ambiguous way to ask a number of quite different questions concerning the nature, purpose and function of some activity. In its social science usage, role is an attempt to impart conceptual precision to an explanation of social behaviour. As Jackson explains:

The concept of role has been central to the development of knowledge about, and measures of, the normative context which mediates between the individual and society. (1972, 2)

Moreover, Dahrendorf (1973) discusses role as the basic unit of sociological analysis. He argues that role is the vexatious fact of society; vexatious because we cannot escape it. For every position in society that an individual can occupy, whether it is defined in terms of age, occupation, class or nationality, society has defined certain acceptable modes of behaviour. So the person occupying any social position must decide whether or not, he/she will behave as society says he/she must. If he/she behaves according to society’s demands, he/she loses his/her individuality, but gains society’s approval. On the other hand, if he/she resists society’s demands, he/she preserves his/her individuality and independence, but only at the expense of incurring society’s wrath and sanctions (Gilling 1981).

In view of the central importance of the concept of role within the social sciences, it has been widely used and applied, and subjected to many different interpretations. Because of its interdisciplinary nature, sociologists, psychologists and anthropologists have all used the concept in their writings and have naturally tended to define and clarify those aspects of the theory that are relevant to the problems of their respective disciplines. Yet despite the variety of interpretations, there exists a common emphasis on, and consensus about the definition of role. Linton stated the most quoted definition of role as:
A status, in the abstract, is a position in a particular pattern ... . A status, as distinct from the person who may occupy it, is simply a collection of rights and duties ... . A role represents the dynamic aspect of a status. The individual is socially assigned to a status and occupies it with relation to other statuses. When he puts the rights and duties which constitute the status into effect, he is performing a role. Role and status are quite inseparable, and the distinction between them is of only academic interest. There are no roles without statuses or statuses without roles. (1936, 114)

Furthermore, Linton modified the above definition and describe role as “the sum total of culture patterns associated with a particular status” and elaborated by emphasising that it consists of “attitudes, values and behaviour ascribed by the society to any or all persons occupying this status” (1945, 77).

The uses of the concept of role as a means of articulating the philosophical foundations of accounting inevitably gives rise to the basis of this research to define the role of accounting and accountants in the economic development process in the Kingdom of Tonga. In seeking to explore the role of accounting and accountants in its economic development process, two critical elements that are expected to be found in the definition of role are: 1) the function, and 2) the status of accounting and accountants in the Tongan society.

Definition of Accounting

The accounting literature encompasses a variety of definitions of accounting. The reason for such variety might be attributed to its [accounting’s] dynamic nature which defies the long-time captivity of a single static definition. The American Institute of Certified Public Accountants (AICPA) issued an official statement describing accounting practice as:

... a discipline which provides financial and other information essential to the efficient conduct and evaluation of the activities of any organisation. (1966, 61)
Chapter 1: Introduction

Accounting, as a discipline and a profession, has an unusual position within the cultural structure of civilisation. It has been an early factor, indeed a contributor, in the growth of civilised behaviour and commerce. An example of this early appearance is the record keeping which accompanied tax collections in Ancient Rome. The position of the discipline of accounting within the structure of scientific knowledge is more nebulous, however. Since accounting is not based on natural laws, but on conventions accepted by people, it is not accepted as a natural science. It deals with people, though, and therefore may be considered an integral part of recording and facilitating human behaviour and human interaction.

Weber Dictionary (1972) defined ‘art’ as “creative work generally, or its priniciples; making or doing of things that have form and beauty” (83), and ‘science’ as “systematized knowledge derived from observation, study, and experimentation carried on in order to determine the nature or principles of what is being studied … ” (1305). Social science, however, is “the study of people and how they live … the structure of society and the activity of its members” (1384). Accounting contains elements of art because, at times, it requires a level of creativity. It also contains some elements of science, such as observation and systematised knowledge. The primary realm of accounting deals with people and their activities within society.

Given that accounting can probably be defined as a social science, it has a function within society to serve people and the society. It must serve a purpose or it would not remain a viable part of civil action. While there are many definitions of accounting, and because it is concerned with information and treats this information systematically, it is best viewed as an information system (Gaffikin 1993). This information has been recorded and put into useful and meaningful context and transmitted to interested users. In order for the information to be useful to decision-makers, it must possess all aspects of qualitative characteristics. Such information should be understandable, relevant, reliable, and in time for the needs of the users. Indeed, if such information is to maintain its required characteristics, it should develop well-defined procedures for recording and reporting of the financial information to users. Gaffikin defines accounting as:
A systematic method of retrospective and contemporary monetary calculation, the purpose of which is to provide a continuous source of financial information as a guide to future actions in markets. Alternatively, accounting is the process of recording, classifying, reporting and interpreting the financial data of an organisation. (1993, 940)

For the purpose of this study, accounting is being defined as ‘an information function that provides financial information and other information for rationalising economic decisions concerning an economic entity made by decision makers who are insiders or outsiders to the economic entity’. The emphasis of this definition is placed on its purpose as an information function or accounting information system (Gaffikin 1990, 1993) that it should provide reliable and useful information to users regarding the operation and performance of the economic entity. It is the intention of the author to acknowledge that accounting has got a function to perform and, that is, to provide reliable and useful information to users, rather than just to provide information to comply with the laws, as the case in Tonga.

The Significance of Economic Development in Developing Economies

The study of economic development is one of the most recent, most exciting, and most challenging branches of the broader disciplines of economics and political economy (Hogendorn 1987; Todaro 1989, 1992). Although development economics often develops on relevant principles and concepts from other branches of economics either a standard or modified form, however, for the most part it is a field of study that is rapidly evolving its own distinctive analytical and methodological identity. Todaro refers to economics in its traditional sense as:

... is concerned primarily with the efficient, least-cost allocation of scarce productive resources, and with the optimal growth of these resources over time so as to produce an ever-expanding range of goods and services. (1992, 7)
On the other hand, *development* is more than an economic process (Belkaoui 1994). In addition to being concerned with the efficient allocation of existing scarce (or idle) productive resources and with their sustained growth over time, it must also deal with the sources and with the economic, social, political, and institutional mechanisms, both public and private, necessary to bring about rapid and large scale improvements in levels of living for the masses of population. Again Todaro refers to development economics as:

... concerned with the economic, cultural, and political requirements for affecting rapid structural and institutional transformations of entire societies in a manner that will most efficiently bring fruits of economic progress to the broadest segments of their populations.

(1992, 7)

Economics is a social science (Hogendorn 1987; Todaro 1989, 1992; Brown 1993). It is concerned with human beings and the social systems by which they organise their activities to satisfy basic material needs (food, shelter, clothing) and non-material wants (education, knowledge, etc.). In economics there can only be ‘tendencies’, and even these are subject to great variations in different countries and cultures and at different times. Many so-called general economic models are in fact based on a set of implicit assumptions about human behaviour and economic relationships that may have little or no connection with the realities of developing economies (Todaro 1987, 1992). To this extent, their generality and objectivity may be more assumed than real. Economic investigations and analyses cannot simply be isolated from their institutional, social, and political context, especially to understand why some nations are poorer than others.

Planning systems for economic development have been adopted by many countries (in more or less sophisticated forms) as a means of formalising national objectives, allocating scarce resources to achieve those objectives, and judging the relative merits of development policies.

Recent literature in development economics stresses that ‘economic development’ involves more than achieving a satisfactory growth of conventionally measured per capita incomes: it also requires a reduction in unemployment and a reduction in the degree of inequality of income distribution. The challenge laid down
to planners by the new development economics is to incorporate explicit mechanisms for dealing with these issues in their planning frameworks. It is necessary, therefore, that governments, institutions, and organisations should recognise the important role of economic information and its potential contribution to an effective planning process. The very concepts of economic development and modernisation represent implicit as well as explicit value premises about desirable goals for achieving what Mahatma Ghandi once called the "realisation of the human potential".

The proper role of the government in promoting economic development is an issue that has attracted the attention of an unusual range of individuals and institutions with a professional interest in economics (Brown 1993; Belkaoui 1994). Economic development theory emerged as a separate field of academic inquiry early in the post-war period. Its point of departure from other economic disciplines was an attempt to understand why some nations were poorer than others and what their respective government could do to rectify the situation. Governments failure may result as a consequences of the chosen economic strategy. A lack of information or suitable control instruments can cause policy to have unexpected or perverse consequences.

The role of accounting in economic development has been looked at from different angles. For example, when the capital market was discussed as an obvious way of tapping domestic savings, the need for financial reporting was emphasised. In discussing taxation for economic development, bookkeeping was considered an important factor for the success of the income tax system.

But, when accountants and accounting researchers discussed the subject, they envisioned a more extensive role for accounting in developing countries when Enthoven stated that:

Government look at the aggregates to decide fiscal, monetary, and other foreign and domestic economic policies. All these types of data have a common denominator—the accounting statement; and the question is how such information can most accurately serve these economic needs . . . .

Corporate reporting and disclosure of information to the financial community plays an important role in instilling confidence and interest in investors and in simulating the development of capital markets . . . .
... A modern accounting system ... will facilitate the evaluation of efficiency, productivity, and growth. Such evaluation is vital for both operational and planning purposes; it provides the true role of modern managerial accounting. (1965, 211-16)

The economic development is also important to the development of accounting in general and reporting and disclosure in particular. As discussed earlier, economic development consists of economic growth and various structural and social changes. One of these structural and social changes is the need for financial and reporting devices to measure the performance of each sector of the economy in terms of efficiency and productivity. As Lowes (1967) notes, according to history, accounting development is an evolutionary process dependent upon and interwoven with economic development. In addition, Elliot, Larrea and Rivera discuss that the “social function of accounting, to measure and to communicate economic data, cannot be considered a valuable tool for promoting the development process” (1968, 71).

However, economic development may be achieved by various forms of economic policies, depending on the type of economic system chosen, the level and growth of income, the extent of government assistance and interferences, and the level of exports. Each of these factors may imply a specific impact on accounting development.

Research Methodology

The design of a study begins with the selection of a topic and a paradigm. Paradigms in the social sciences helps us understand phenomena. They advance assumptions about the social world, how science should be conducted, and what constitutes legitimate problems, solutions, and criteria of ‘proof” (Kuhn 1970; Gioia and Pitre 1990; Hammersley and Atkinson 1995).
Ethnographic research is today widely used and accepted as an approach to social research, yet disagreement exists as to whether ethnography’s distinctive features is the elicitation of cultural knowledge (Spradley 1980), detailed investigation of patterns of social interaction (Gumperz 1981), or holistic analysis of societies (Lutz 1981). Others have considered ethnography as essentially descriptive, or as a form of story-telling (Walker 1981), and increasing interest on the development and theory testing (Glaser and Strauss 1967).

In qualitative approaches the human and social sciences offer several traditions. These traditions may be method types for data collection, analysis, and report writing, or several designs that include all phases in the research process. Ethnographic research, as a qualitative method, is associated with anthropology and particularly with the structural-functional theoretical perspective (Kaplan and Manners 1972). Therefore, ethnographies are analytic descriptions or reconstructions of intact cultural scenes and groups (Spradley and McCurdy 1972). The researcher is required to study an intact cultural setting during a prolonged period of time by collecting, primarily, through interview and participant-observation. The research process is flexible and typically evolves contextually in response to the lived realities encountered in the field setting.

An ethnographic approach was favoured for this study. Ethnographic research generates descriptive accounts that are valuable and also greatly facilitates the process of theory development. A positivistic approach was out of contention because of the lack of available and reliable data in the country for empirical analysis. In view of the general purpose of the research is to assess the role of accounting in Tonga which provide a framework for the development of accounting in the country, it was intended not to appear too academic, but rather to establish an interpretive basis of what actually happens in the setting. As Stephenson and Greer (1981) maintain, ethnographic research is frequently favoured for the study of small social groups because it produces a richness of detail and dept of understanding often lacking in other forms of social research.
While some ethnographers explore the workings of culture different from their own, the author considers joining the others (Sinivas 1968; Stephenson and Greer 1981; Harker and Schonhausen 1982) in doing the study of my culture. While the author considers himself as still an ‘amateur’ ethnographer, this approach was being favoured because it has the substance and merits of being able to understand the social behaviour and interactions of the individual in my culture. Ethnographic writing requires, at a minimum, some understanding of the language, concepts, categories, rules, beliefs, etc, used by members of the research settings. So, a thorough understanding of the culture is an advantage, especially as the Tongan culture is a highly stratified society and “outsiders” would be at a disadvantage.

The ethnographer’s task is to observe, record and interpret the meanings and experiences of social actors, a task that can only be achieved through participation with the individuals involved in the settings. The researcher was required to gather data by participating in the daily activities of the group and organisation that was studied. In addition, the researcher had to collect various documentations, such as financial reports, investment appraisal reports, economic policy papers, various legislations, Development Plans, statistical abstracts, and inter-departmental meeting papers from the Ministry of Labour, Commerce and Industries, Ministry of Finance, Central Planning Office, major businesses and other enterprises. Apart from conducting interviews, the researcher also attended various executive meetings, social club meetings and economic policy meetings and observe how individuals understand the role and function of accounting in their respective groups.

Getting access to the research setting and research data involve negotiation and renegotiation. Indeed, gaining access for a researcher in his/her own culture usually was not a problem, especially if the research proposal was granted approval from the highest authority, in this case, by His Majesty’s Cabinet.

The purpose of ethnographic analysis is to produce exciting models that could allow people to see events as they are seen by the researcher. Therefore, the value of these models is to be determined by others in terms of how useful they find them. They are not intended to be theories in the conventional sense of the term, allowing prediction and control, or to represent information of any kind (Hammersley, 1992).
Rather, they are simply contributions to knowledge or public dialogue. There is no general requirements that theories and concepts being progressively developed to inexact correspondence with reality. However, models are used as and when they are found to be appropriate.

Scope and Limitations

The role of accounting in the developing economy in general is examined in this study with special reference to the Kingdom of Tonga. That is, the scope of the study is limited to the accounting functions, regulation and profession in that country. Further, the study is restricted to discussing the role of accounting, only in the most crucial area of economic development, such as commercial and industrial development. The role of accounting is widely stressed in the study, however, it refers to its services in financial, management and auditing functions.

The limited or nonexistence of research studies in this area in Tonga and other South Pacific nations forced the researcher to use the available studies in other developing countries in Asia and Africa as a literature guide for this study. While these studies concern accounting in developing countries and, therefore, help in understanding the problems involved in economic development they cannot be applied to the Tongan situation because they differ significantly in their economic situations, political and cultural beliefs and dimensions. Hence, the researcher had to rely heavily on the available materials and data collected on the field study to develop the framework for this study.

The complexity and sensitivity of the country's cultural dimension had to be carefully observed and highly respected. In fact, it has placed an implicit effect on the level of critical analysis and presentation of the present accounting practice in Tonga.

The limited financial assistance for this research has placed enormous constraint on the study methodology. The study was originally planned to examine and compare Tonga with other developing countries, such as Fiji where accounting and auditing standards and the profession have been well-developed. Unfortunately, the sponsor, (Australian International Development assistance Bureau) covers only the
return airfare to the research setting. Therefore, the researcher had to be responsible for all other cost of accommodation, internal travels and other miscellaneous costs. This arrangement has placed enormous pressure on this research to be completed within the limited available funds raised by the researcher.

Presentation of the Study

The study is presented in eight stages. Chapter One deals with the general nature and purpose of the study while Chapter Two provides an overview of the accounting issues based on literature studies that have been carried out in other developing countries. It also deals with the accounting establishment and its environment, and the role of accounting information in the economic development process of developing countries.

Chapter Three examines the business environment in Tonga. The environmental factors—political, legal and social, and economic background are provided to determine the economic characteristics in Tonga. Certain aspects and problems of economic development of the country are emphasised.

Chapter Four deals with the methodological approach in [re] construction of the research setting. It focuses on telling the story of how the researcher successfully gained access to the settings, and came to terms with various ethical dilemmas in conducting and writing ethnographic research.

Chapter Five examines the nature and scope of the accounting regulation and the profession in Tonga. It discusses the current accounting reporting procedures and institutional requirements. This chapter provides information on the backgrounds of the accountants, development of accounting, accounting education, profession, and accounting legislations and regulation.
Chapter Six focuses on the understanding of why Tonga does not have accounting and auditing standards, an accounting profession, why accountants have a low status and reasons for the prolonged existence of the outdated piece of legislation that governs the accounting reporting requirements.

Chapter Seven deals with how accounting contributes to the economic development, through its external role as to investors and creditors, while Chapter Eight deals with the summary, conclusions, recommendations, and presenting directions for further research.
CHAPTER TWO

ACCOUNTING IN DEVELOPING ECONOMIES
AN OVERVIEW

Abstract
Developing countries cannot afford to wait for accounting to evolve as it has in developed countries because the influences that shaped accounting in the developed countries are unlikely to occur in developing countries by the same degree. Instead, a carefully designed strategy for the development of accounting as an effective tool for the economic development process must be adopted by each country in view of its own specific environment (Mirghani 1982, 68).

Introduction

Accounting has long been perceived as a customary ingredient of the developed economy, but its contribution to the growth of a developing economy has been less widely recognised. The accounting in developing countries has been widely criticised (Enthoven 1965, 1967, 1969a, 1973, 1977; AAA 1978; Needles 1976, Scott 1970; Belkaoui 1988, Berry and Holzer 1993; Wallace 1990; Wallace and Briston 1993) as weak, deficient, irrelevant, unreliable and lacking credibility. It has been characterised as being faced with a series of technical, educational and operational problems (Engleman 1962; Linowes 1969).

The problems of accounting systems in developing countries can be justifiably traced to historical, cultural, political and educational factors (Seidler 1967; Nair and Frank 1980; Nobes 1983, 1984; Perera 1987). Most of the accounting practices currently in use in some developing countries originated from developed countries through colonisation, or powerful foreign investors (Radebaugh 1975; Perera 1980; Chandler and Holzer 1984), or through the influence of multinational companies, foreign aid, and education (Ghartey 1978; Hove 1986; Agami and Alkafaji 1987). They were imposed in unmodified form, and therefore are
inappropriate to the society’s needs (Mirghani 1982). The transplantation of institutions and legal (including corporate reporting) systems from the imperial countries to the then politically dependent developing nations have been widely criticised as they are inappropriate to the country’s needs.

However, in the 1960s, the differences in the accounting and reporting practices of businesses in the developed countries and the developing countries had become noticeable in respect of development plan of these countries. The most conspicuous weaknesses have been in the financial accounting and reporting systems, with poor internal control, lack of management accounting concepts, incomplete, inaccurate, very late reports and lack of credibility in the financial report.

This chapter is aimed at providing an overview of the accounting issues in developing countries based on the literature studies that have been carried out by academia, professions and researchers. It also focuses on the accounting establishment and its environment, and the role of accounting information and practices in the economic development process of developing countries.

A Literature Search

As accounting researchers begin to devote more of their resources to international accounting, they invariably become more concerned for accounting in developing countries. This has grown from a normative interest in the contribution of accounting to economic development to empirical study in accounting regulation, profession, education and practice in these countries.

The purpose of this literature search is basically to 1) gain an inside understanding of research approaches and methodology in order to develop a framework for establishing the importance of this study with other findings, 2) search for a similar study and/or any study of accounting in Tonga, and the South Pacific countries and 3) it relates this study to the ongoing dialogue in the literature about this topic and filling in the gaps and extending prior studies.
According to this literature search, there have been three study reviews so far. The first study review was conducted by Jaggi (1973); followed by Samuels and Piper (1985); and recently by Wallace (1990). According to Jaggi’s account, little had been committed to this area of research by 1973. While Samuels and Piper (1985) reported that many descriptive studies had been conducted on various developing countries, since the 1973 review, however, very little on conceptual or empirical research existed.

In his assessing of accounting literature studies relating to developing countries, Jaggi (1973) classified the studies into three types—descriptive, conceptual, and hypothesis-testing. The descriptive studies are basically concerned with descriptions of accounting practices of each country focussing on the accounting deficiencies, and highlighting the importance and prospect of accounting development in these countries. The nature of these studies are exploratory with the attempt of examining the status of the accounting function in that particular country. Most of these researchers undertook their research studies by being actually present in the country for a period of time. Juchau (1973, 1981) discussed the role of accounting services and education in the South Pacific, Engleman (1962) discussed accounting problems in expanding local business and industry in Asian countries, Seidler (1967), Enthoven (1969) and Scott (1970) accounting status and function, Scott (1968, 1970), Radebaugh (1975) and Carmony (1987) accounting and its environment, and Elliot (1968) accounting practices and their economic implications.

Jaggi categorised conceptual studies as those with a particular focus on the role of accounting in the economic development in these countries. Seidler (1967) examined the success of accounting’s contribution to the economic development process in Turkey’s economy. Schoenfeld (1970) carried out a similar study in Germany, Taylor (1973) in Libya, Shinawi (1970) in South Arabia, and Jain and Cheng (1973) in South Korea. Enthoven (1965) tended to define and conceptualise the role of accounting in the economic development of developing economies, by emphasising the need for accurate financial information, sound organisational structures and accounting principles at the micro level. Scott (1970) examined the role of accounting as an aid to economic development in developing countries. He
identified the importance of understanding the nature of the accounting environment for its accounting improvements.

Hypothesis-testing studies, on the other hand, identify and compare results from analysing and observing data in developing countries. These studies reveal accounting principles and measurement and the level of disclosure of financial items in the financial reports of developing countries. Singhvi (1967) analysed the financial reports of various firms in India to test the level of adequate disclosure using hypothesis-testing.

The second study review conducted by Samuels and Piper (1985) followed the same pattern as Jaggi's review. However, he emphasises the element of comparison and classification with descriptive studies. He maintains that descriptive studies can be interesting and useful. Therefore, there is a need to organise our knowledge of accounting through comparison and classification in order to make meaningful observations. Seidler (1967) explains how it is possible to use examples taken from around the world to illustrate unresolved accounting problems in a particular country. Samuels and Piper maintain that grouping research studies as an element of classification would help the developing countries to be able to understand better the available accounting systems and determine which one would be the most appropriate to a particular country (Nobes and Parker 1981).

According to Samuels and Piper (1985), conceptual studies were limited in nature and scope to the relationship between accounting and economic development. Hypotheses-testing were also scarce and often criticised as too advanced in relation to classification of influence on accounting rather than classification of actual accounting systems. However, they maintain that it is easy to criticise any empirical research but these studies using "factor analysis" are a step forward from the descriptive type of comparative study and do contribute to the knowledge of international accounting.

In his review, Wallace disagrees with Jaggi's classification as some studies are a "mixture of descriptive and conceptual, while others contain descriptive, conceptualisation and hypothesis-testing, therefore, it is not feasible to classify the literature along the same lines" (1990, 5). He, then developed four study patterns as: 1) country studies - studies that are descriptive covering accounting practice,
education and certification; 2) developing countries in a world context - studies that are conceptual covering harmonisation and international standardisation; 3) comparative accounting studies; and 4) improving accounting in developing countries - studies covering the issues of transferring accounting technology and know-how from developed to developing countries.

Wallace (1990) further sub-divided the country studies into general international surveys, and general country surveys. The international surveys cover a general descriptive evaluation of the state of accounting in each country which enable a better understanding of its accounting problems. These surveys (Elliot 1968; Enthoven 1977) enable an analytical understanding of the common accounting deficiencies in these countries, and the need to move towards a greater degree of harmonisation. While these surveys revealed inadequacies in the accounting practices, the relevance of such analysis has often been questioned, (Nobes 1981) as the data contains a mixture of “exaggeration of differences” between the countries.

The general country surveys cover general descriptive analyses of the accounting profession and practice, and surveys of accounting education in a country. These surveys tend to reveal the level of accounting and trace the historical evidence of the existence of such system in a country (Jaggi 1970; Radebaugh 1975). In summary, Wallace (1990) discusses the characteristics of accounting issues obtained from the country surveys as: only a few countries have accounting professions; accounting functions have been ignored in the development process of many countries; and there is evidence that the development of accounting has structural, cultural and historical complications.

The study of developing countries in a world context are considered conceptual when covering the relevance of accounting techniques practiced in developed countries to developing countries’ needs (Mensah 1981), accounting regulation (Briston 1978), the use of accounting information in micro and macro-level decision processes (Enthoven 1981). Under comparative studies, Wallace considers this approach essential as the comparisons of accounting systems of one developing country against another could be an useful analytical tool (Holzer and Tremblay 1973; Enthoven 1977) to determine the scope and level of accounting improvements
required (Nobes and Parker 1981). Juchau (1978) revealed in his survey of the accounting practices in the South Pacific nations that there is an acute shortage of qualified accountants, the unavailability of accounting information for operational decisions, untimely and/or when available it was unreliable, and inadequate and the non-existence of financial reporting and auditing standards was considered crucial for accounting improvements of these island countries.

The final study patterns of improving accounting in developing countries noted by Wallace (1990) covered those studies that directed their attention to the evolution of methods by which the developing countries can be assisted in their endeavour to develop their accounting infrastructure. There were three common approaches proposed by researchers along this study pattern as (1) the transfer of accounting knowledge used in developed to developing countries (Engleman 1962; Enthoven 1967, 1973; Lowes 1967; Needles 1976); (2) develop a user-oriented accounting framework (Scott 1970); and (3) the developing of accounting systems relevant to the country’s need (Briston 1978; Samuels and Oliga 1982).

The different approaches of study are undoubtedly helpful to the understanding of the accounting problems in developing countries. The country by country study, for example, can be extremely helpful to those who actually want to make comparisons of the accounting systems in one country with those in another country (Beeny 1976; Beeny and Chastney 1978). These studies have educational values, making readers aware of the differences in the reporting methods in country by country. It should also assist in the training of accountants and auditors to understand the available accounting systems and which one would be most appropriate (by studying) to the country’s need. It makes a country be aware and anticipate problems and consider possible solutions by observing what has happened in other countries with similar features.

The research studies in developing countries not only exhibit the problems of accounting establishments but also provide proposals to improve accounting in these countries. Most research studies suggest accounting education, referred to by Tipgos (1987) as “Economic Development Accountancy”, as a starting point (Scott 1970; AAA Committee Report 1980; Enthoven 1981; Tipgos 1987; Wallace 1990, 1993).
Researchers propose that a developing country should apply its existing and potential accounting systems, techniques, procedures, and data to enhance economic development within the country. It should integrate all branches of accounting to serve both micro and macro socio-economic decisions. Therefore, a developing country is required to take an inventory of the quality of accountants, the availability of manpower, and the functional educational developments in accounting areas and formulate an "Accounting Development Plan" (Tipgos 1987).

Several researchers propose a user-oriented accounting framework referred to as "Economic Evaluation Accounting" (EEvA) (Enthoven 1965, 1977, 1981; Scott 1967, 1970; Tipgos 1987). This requires structuring the accounting system to provide information that will facilitate the economic evaluation of enterprises and the activities of managements, investors, and the government (Scott 1970). The fundamental proposition is that accounting generated information should have maximum economic utility for users in the country. Therefore, accounting information should have maximum economic principles of both a micro and macro nature rather than on business practice or legislation requirements (Scott 1970; Jaggi 1975; Perera 1987).

Others suggest a seemingly uncordinated transfer of accounting technology and know-how by transfer agents such as transnational accounting and auditing firms, international agencies or regional agencies (Lowes 1967; Seidler 1969; Enthoven 1973; Needles 1976; Tang and Tse 1986). While others suggest the application of International Accounting Standards in the absence of a national accounting standards.

While the different approaches of study have got a lot to offer to the development of accounting in developing countries, there are also cautions. It should be of concern that most studies tend to take a static view of a country's accounting system. Researchers tend to look at the system at a particular point in time and try to establish a pattern. Often the patterns are explained in terms of historical and economical influences (Watt, Hammer and Burge 1977). The problem is that the accounting system of a country is usually changing as it comes under different influences. So the pattern or groupings obtained at one point in time might not be the same as the pattern found at another time.
In the AAA’s 1974-75 Committee Reports on International Accounting, it is pointed out that there is always a danger in making comparative studies as it tends to make value judgements. The danger is that the changes suggested will be those that would benefit users in the writer’s own country, rather than users in the country being studied (Elliot 1968).

Wallace (1990) also noted that assuming that all developing countries are homogeneous and all possess inadequate, weak, outdated and irrelevant accounting systems is very much a generalisation. He, therefore, argues that what is needed is a methodological approach to be evolved to describe and understand the accounting systems that could be developed within the context of the country’s socio-economic development.

Therefore, study emphasis should be re-directed and focus upon the cross-cultural aspects of the operation of accounting in its environment (Beazley, 1968; Radebaugh 1975; Samuels and Oliga 1982). It seems that the greatest obstacles to the development of accounting in the developing countries may well be the general lack of appreciation of the accounting function on the part of the indigenous decision makers (Wallace 1990; Berry and Holzer 1993). Therefore, significant research is needed to identify the variety of factors in the environments surrounding accounting that shaped its character. This would enable us to understand the prospects for improvement in the perceived status of the accounting function in developing countries. This was needed in 1968 (Beazley 1968), it is needed now (Berry and Holzer 1993), and this is what the author envisages to pursue in this research.

Based on the literature search, surprisingly research studies in accounting in the South Pacific island countries are very scarce and limited in nature. A very brief descriptive study visit conducted by Juchau (1973) covered Fiji, the Kingdom of Tonga, Gilbert and Ellice Islands, Solomon Islands, and New Hebrides. Again Juchau (1981) conducted another study which provides an inside assessment of the accounting education in these islands, published by Enthoven. Hardman (1982, 1983) and Briston (1990) conducted a study in the Solomon Islands, Gibson and White (1983), and Pok (1993) in the accounting education in Papua New Guinea. In fact, there has
been no comprehensive study in Tonga apart from the brief study visit by Juchau in 1973.

Developing Countries Defined

It is important to explain the meaning given to the phrase ‘developing countries’ for the purpose of this study, as it is capable of being defined in a variety of different ways. The countries referred to here as developing countries are those in the so-called Third World. ‘Developing countries’ and ‘low-income countries’ are not exactly identical, although their stages of development may overlap to a great extent. Caiden and Wildavsky in their book, *Planning and Budgeting in Poor Countries*, in particular, point out:

... By definition, being poor signifies lack of money. But the reason poor countries have trouble getting rich is that they lack more than money; they lack capable manpower, useful data, and government capacity to mobilize existing resources. Less able to cope with the unexpected, poor countries suffer more uncertainty of an extreme kind, like political instability, than do rich ones. In all these respects rich countries posses what the poor countries miss: the redundancy of men, money, and institutions which let organizations function smoothly and reliably in performing complex tasks.

... Low-income countries are poor for reasons other than lack of money. Their poverty extends to information, trained manpower, and public institutions. The poor nation is not one that finds itself in temporarily straightened circumstances, like German and Japan after World War II, which needed only the chance to get going again. Rather, the poor country finds it hard to increase its wealth rapidly because its population lacks skills, its information base is bad or non-existent, and its governments are unable to mobilize resources. The whole life of the society is affected by scarcity. (1980, 46-47)

Furthermore, between the very poor and the advanced countries there are many countries which, although relatively poor, are at various stages of the transformation and expect to be more productive economies such as Singapore, Korea and Taiwan which are industrialising rapidly.
Developing countries refers to indistinct and heterogeneous group of countries mostly found in Africa, Asia, Latin America, the Middle East, and Oceania. These countries are not a homogeneous group (Perera 1987; Wallace 1990). Each country is different in terms of GDP, population growth, culture, literacy and education system, political systems and level of economic development. A common characteristic of this group is the presence of poverty (Scott 1970; Perera 1987; Wallace 1990), low levels of productivity, high rate of population growth, and unemployment and significant dependence on agricultural production (Belkaoui 1985). There are countries rich in natural resources, such as Nigeria and Indonesia, whose lack of development has to do with the colonial legacy, and difficulties in maintaining a good and accountable government (Belkaoui 1988).

The classification of specific developing countries into appropriate positions with respect to development, is a very complicated process, which involves the measure of economic achievement, economic potential and cultural level of the country. Complications would arise because countries vary greatly in the nature and extent of their development.

For the purpose of this study, the notion of developing countries is viewed in the context of development, utilisation and allocation of available resources in poor and unfortunate countries. Developing countries are referred to as those countries that may be poor and/or unfortunate in economic distribution of natural wealth which maybe reflected in the country’s standards of living. And despite the scarcity in the factors of productions, there is still a significant emphasis to be placed on effective utilisation of existing resources and their equitable allocation to improve the standards of living.

These countries may be poor in terms of natural distribution of wealth, and unfortunate because of an uneven allocation of the available resources such as employment, business activities, government involvements etc; they still have potential prospects for development that are neglected. Public and private organisations require a financial information base that enables them to assess the effectiveness of past and present resource utilisation, as well as controlling and planning future dispositions of available resources.
Scott (1970) discusses the characteristics of these countries as being attributed to the following; 1) even though the countries may be poor in economic well-being they are not the poorest countries; 2) these countries have potential for economic growth, and are striving to achieve sustained economic growth through formulation and implementation of development plans; and 3) even though their economies are based on agricultural production they are in a process of transformation to industrial production.

For the past few decades, the developing countries of the world have been striving to achieve rapid economic development. Despite their effort, global distribution of wealth and income still remains very unequal. However, the current developments and historical patterns of growth indicate that industrialisation is a prerequisite for sustained economic growth. This is evidenced by the growing role of the industrial sector in the national output of the more advanced developing nations. This has led developing countries to adopt industrialisation as an important part of their national development strategies.

**Accounting and its Environmental Factors**

Various accounting researchers such as Mueller (1967); Scott (1970); Zeff (1971); Radebaugh (1975); Choi and Mueller (1984); Arpan and Radebaugh (1985); Nobes and Parker (1985); Carmony (1987); Hofstede (1987); Alhashim and Arpan (1992) have provided an enhanced awareness of the influence of environmental factors on accounting development. These studies have contributed to a growing realisation that fundamentally different accounting structures exist as a result of environmental differences. For example, the general purpose of accounting is to provide financial information to users in order to assist them with their decision-making process. However, one may find that accounting is done differently in various countries because the users and preparers of such accounting information are themselves different (Scott 1970; Radebaugh 1975; Samuels and Oliga 1982; Carmony 1987). In his paper “Establishing and Applying Standards in Diverse Economic and Social Environments” SyCip (1981) state that:
Accounting principles, standards, and practices are usually a direct product of the circumstances and influences of their environment and are most meaningful if viewed against such factors. Accordingly, accounting methods and applications originating in one country have probably the greatest utility in that country or in one with a similar environment. They could be quite inappropriate or may work undue hardships in countries of dissimilar environments.

In the development of international accounting standards it is therefore essential that the diverse and differing environments where such standards are intended to be applied are first understood and appreciated. Failure to consider environmental differences or circumstances will likely deter the acceptance of any established international standards. (1981, 85)

Accounting is, therefore, a direct product of its environment, and a particular environment is unique to its time and locality. The type of accounting in existence, and the basic element of its accounting structure, are both influenced by the country's environmental factors, such as political, legal, economic, sociocultural, and educational forces. In this regard it has been widely suggested that the identification and understanding of the environmental forces that helped shape the accounting structure within a country is fundamental, in order to appreciate its existence and evolution. This will permit a better understanding of the potential for improvement given any change in environmental factors.

While some researchers (Mueller 1967; Seidler 1967; Nobes 1984; Previts 1975) have made the attempt to link environmental factors to the national accounting practices, others have analysed the accounting practices with reference to a variety of economic, social, political and cultural factors (AAA 1977; Frank 1979; Nair and Frank 1980). According to Gray (1985) the former is a deductive approach while the latter is an inductive approach to the international classification of accounting systems.
Historical Influences

The spread of Western accounting to the developing countries has for a long time been the result of colonisation, or foreign investors, foreign aid, and education. Thus we may find that most countries that were formerly British colonies have been greatly influenced by British models of accounting regulation, education, financial reporting, and government accounting. A similar influence can be found in countries that were formerly part of the French colonial empire. Wilkinson argues that:

The accounting principles of one country have never been “sold” to another country on the basis of convincing arguments in support of those principles. Accounting principles of one country have moved to another country when two conditions have existed:

1. The second country had no organized body of accounting principles in the first place, and

2. Large amounts of capital from the first country were invested in business in the second country, with the consequent ability on the part of those investors to impose their own accounting requirements on the businesses. (1965, 11-12)

In a number of countries, the British influence is of very long standing as it is reflected in the prolonged existence of the British Companies Act that was imposed upon them with the usual reporting and auditing requirements. To some extent, the British had no option but impose the British model as there was no standards or organised accounting body at the time. Hove (1982) notes that the way accounting is practiced in most developed countries is perhaps the most important cause of the country’s failure to meet economic and social objectives. This maybe due to the fact that most of the accounting practices currently in use in these countries originated from developed countries, and were imposed in unmodified form, and are inappropriate.
Government Involvement

In most countries, the government has a very direct impact on accounting structures and processes, that is, the government formulates and enforces them (Radebaugh 1975; Samuels and Oliga 1982). Its influence is through legislating or dictating what accounting procedures that must be followed. In most countries, this practice takes place because the national accounting body is either unorganised or non-exist to perform such role. If the national accounting body is well organised and technically capable of undertaking such a role to meet the needs of the users, the government may not be involved very much (Radebaugh 1975; Carmony 1987; Alhashim and Arpan 1992). Where the government is the main user of financial accounting and feels that the accounting body does not achieve the need of meeting the needs of the users, the government will probably take an active role in determining or influencing the development of accounting principles, procedures, and practices.

However, there has been a great debate over government involvement in legislating the accounting procedures and practices. Hawkins (1975) argues that a government's involvement is to achieve political objectives and enhance its revenue collecting capabilities. Also its active involvement would likely to hinder any effort by the accounting body to play an active role. Tweedie (1985) states five reservations about government regulation of accounting information as:

First, such control may tend to be over-bureaucratic and be administered by those who do not have to deal either with the day-to-day practical problems in business which require new forms of reporting. Such bureaucracy could well lead to insensitivity to practical problems.

Second, legislation tends to be inflexible and may fail to result in speedy action to deal with immediate reporting difficulties as by nature it focuses on form and not on substance.

Third, since compliance is mandatory for a range of enterprises, laws tend either to be broad leading to diversity in application or to be set at a minimum level.

Fourth, a transfer of standard setting from the professional's constant striving for improvement in practice, and lead more to a role of advocacy of certain policies on behalf of the profession's clients.
Fifthly, the government and its agencies are by no means immune from pressure groups and consequently may be arbitrary in their rulings especially as the nature of governments may change. (1985, 20)

Tax law in developing countries is of crucial importance for two reasons; (1) as a mechanism which enables the government to collect funds to finance regular public services and much needed investments; and (2) as a source of an evaluative proceeding of the effect of different taxes on private incentives to work, save and invest (Meier 1964). The tax structure of most developing countries is characterised by a heavy dependence on indirect taxes and custom duties. Therefore, direct taxation requires not only satisfactory accounting measurements and reporting practices at the enterprise level, but also qualified accountants in the public service for the evaluation, collecting and administration of direct tax revenues. In addition, the reliability of such accounting measurement and reports depends, inter alia, on the existence of an underlying body of accounting fundamentals and practices. Elliot (1968) reveals that there is evidence that in countries where tax evasion and tax inequalities are prevalent, the deficiencies in accounting practices in the business community are important contributory factors. Therefore, accounting has a direct impact upon the efficiency of the tax administration system which in turn leaves its impact on the government’s revenue and hence capacity to engage in economic activities.

Economic conditions

Perhaps the most influential of all environmental forces is a country’s economic condition. Fundamentally, the complexity of the economy is reflected in the accounting complexity. In an agricultural based economy, it requires only a rudimentary accounting system, but as industrialisation occurs, it is imperative for a more advanced accounting system to be developed. As an economy becomes more industrialised and complex, so too the types of economic transactions to monitor the flow and utilisation of the business economic resources.
In an economically complex economy, multi-national business activities become more important. As the economy becomes more involved in international trade activity, then the country begins to worry about balance of payments and foreign exchange. Therefore, the government must also consider developing its accounting systems to monitor trade flows, observe foreign currency and to assess import duties (Alhashim and Arpan 1992). The importance of multi-national business in an economy will in turn, attract international auditing firms to establish offices in that country. Their involvements will be a driving factor influencing the adoption and establishment of any accounting procedures.

Although it can be argued that financial information is required for all businesses regardless of type of ownership structures or size of the organisation, the nature and extent of that information may be quite different. In most developing countries, family-owned businesses are the predominant form of business activities (Choi 1979). This form of business enterprise usually does not require extensive accounting information because of its size, centralised decision making, trust, and attitude toward the objective of business establishment - as for social rather that economic responsibility of maximising profit for the owner(s).

In most developing countries, the government provides industrial incentives to promote the development of its industrial sector. Under such government protection, the importance of developing and implementing accepted accounting practices are being disregarded as it may contradict the concept of an "attractive business environment" (Carmony 1987; Alhashim and Arpan 1992).
Sociocultural factors

In the accounting literature, the impact of sociocultural influence upon accounting has yet to be fully explored though it has attracted some interest among researchers in recent years (Hofstede 1980, 1983, 1985, 1987; Jaggi 1975; Violet 1983; Gray 1988; Mathew and Perera 1990; Baydoun and Willet 1995). However, several researchers such as Beazley (1968); Alhashim (1973); Jaggi (1975); Wallace (1990); Berry and Holzer (1993) have revealed that cultural factors should be explored as it is crucial in determining the attitudes of the preparers and users of accounting information which in turn reflect the accounting patterns.

In his study the “Impact of Cultural Environment on Financial Disclosure”, Jaggi (1975) develops the idea of value orientation of individuals in a society to be a product of the cultural environment of that society. He also used the concept developed by Parson and Shils (1950) to develop the notions of Universalism (as a value orientation towards institutionalised obligation to society) and Particularism (as a value orientation towards institutionalised obligation to friendship), to affirm his thesis that the value orientations of managers are an important factor affecting disclosure decision. In his attempt to classify countries on the basis of the value orientation of individuals, he stressed that economically developed countries are predominantly universalistic oriented while developing countries are identified as particularistic value oriented.

Hofstede (1983, 1987) develops the commonly accepted, and well-defined four dimensions which he considered reflected the cultural orientation of a country. Hofstede (1987) identifies these four dimensions of national value patterns as:

1. **Power Distance**, from large to small. It is defined as the extent to which members of a society accept that power in institutions and organizations is distributed unequally. Fundamentally, it describes a society’s way of handling inequality: from institutionalizing and accepting it to minimizing it. It identifies some societies as more and others as less unequal.
2. **Uncertainty Avoidance**, from strong to weak. It is defined as the level of anxiety within members of a society in the face of unstructured or ambiguous situations - expressed in aggressivity and emotionality, in institutions promoting conformity, in beliefs promoting certainty. Fundamentally, it describes a society’s intolerance for ambiguity: from trying to control it at all cost, to accepting to live with it. It identifies some societies as rigid and others as flexible.

3. **Individualism** with, as its opposite, **Collectivism**. On the Individualist side, individuals are supposed to take care of themselves and of their immediate families only. On the Collectivist side, individuals throughout their lives remain emotionally integrated into in-groups which protect them in exchange for unquestioning loyalty. It opposes “I, alone” societies to “We, together” societies. Please note that the term “Collectivism” in this sense does not refer to any political system: it operates at the level of the group, like the extended family.

4. **Masculinity** with, as its opposite, **Femininity**. On the Masculine side, we find strongly differentiated social sex roles: the masculine role implies achievement, assertiveness, sympathy for the strong, and material success. On the Feminine side, we find overlapping social sex roles: both imply warm relationships, modesty, care for the weak, and quality of life. It opposes tough, competitive societies to tender, solidarist societies. (1987, 4-5)

Hofstede’s survey results clearly demonstrate that there are significant cultural differences between Anglo-American countries and many developing countries. These differences are most easily identifiable in the areas associated with the dimensions of individualism/collectivism and power distance.

The identified characteristics of these dimensions raise some important issues in regard to accounting issues and development. For example, the transfer of accounting technology and know-how from one country to the other usually do not work because it may be culturally irrelevant or dysfunctional in the receiving country’s context (Hofstede 1983). To the extent that accounting skills are culturally specific, these differences are certain to create gaps in virtually any such transfer which includes accounting standards and practices (Mathews and Perera 1993).
In general, developing countries usually are more collective oriented and with a large power distance. This indicates a relatively low degree of professionalism in the accounting subculture. As a result, there will be little regard for adequacy or accuracy of the published accounting information. Therefore, governments may be forced to provide legal authority in order to attest credibility and provide a higher reliability of published financial information. This is crucial for creating public confidence and trust in business enterprises, and for creating an attractive atmosphere where industrialisation can progress in these countries.

Gray (1985) identifies a mechanism by which societal level values are considered related to the accounting subculture which directly influences accounting practices. Using Hofstede’s cultural based societal value dimensions as the basis of his analysis, he identifies four dimensions. They are professionalism, uniformity, conservatism and secrecy.

Arpan and Radebaugh (1985) discussed another set of specific cultural values which are considered to be directly associated with accounting practices. These societal values are: conservatism, secrecy, attitudes toward business, and attitude toward the accounting profession. Again, Alhashim and Arpan (1992) also identified people's attitude toward secrecy, time, fate, and business to be influencing accounting practice in a country.

As it has been argued the lack of consensus across different countries on what represents proper accounting methods is because their purpose is cultural not technical (Hofstede 1985). The content of reports depends on local history and convention. This is probably why the product of accounting, financial statements and reports, sometimes have a shareholder’s orientation, and other times a creditor orientation and occasionally it serves the interests of national planners (Mueller 1985).
Educational influences

The accounting educational system of a country is in itself an element of a larger educational system of the country it develops to serve. The educational system, therefore, is affected by and also affects the economy, as well as the country’s social and cultural environment. Consequently, an effective educational system of one country is practically ineffective in serving the educational needs of another country because of differences in economic, social and cultural settings (Perera 1975; Radebaugh 1975; Enthoven 1981; Agami and Alkafaji 1987).

Political interference can also play a vital role in shaping and forming accounting education in a country. In some countries, the transfer of accounting education from one country to another (Holzer and Tremblay 1981; Enthoven 1981; Agami and Alkafaji 1987) occurs when one country has strong political ties with another or is influenced heavily by economic interests and international trade. Generally, the operation of a good accounting system depends on the availability of people adequately trained to design, instil, use and maintain them.

In most developing countries, accounting education is characterised as deficient and, to some extent irrelevant for the country’s needs (Perera 1975; Radebaugh 1975; Juchau 1981; Enthoven 1981; Parker 1984). The deficiencies of such a system is traced to two factors: (1) the acute shortage in supply of adequately trained accountants; and (2) the shortage of clerical support personnel. Juchau (1981) notes in his study of accounting education in the South Pacific countries that there is a critical shortage of qualified accountants both internally and those who received their training in overseas countries. In some countries with no established accounting courses offered, the students are forced to undertake their studies through correspondence with selected overseas institutions. This system usually create problems as to the relevancy of some of the course content to the needs of developing country, and the problems of high failure rates (Parker 1984; Juchau 1981).
Where countries have established accounting courses in their universities, they are still faced with difficulties of attracting well trained staff to undertake the teaching role. A well designed accounting education system needs qualified and well trained clerical personnel to assume the role of teaching. The problem of attracting well qualified accountants can be traced to unattractive salary packages, continual tribal and political unrest, and inaccessibility to international travel routes. As a result, these institutions have no option but to plough back those local inexperienced graduates to assume the teaching role (Holzer and Tremblay 1973; Radebaugh 1975; Briston 1975, Parker 1984).

Such system usually runs the risk of producing accountants whose skills are considered to be short-lived and out-of-touch with reality. This is because the courses offered may have been either introductory or traditional (Holzer and Tremblay 1973; Abayo and Roberts 1993) and technical in focus, while conceptual and theoretical issues have been largely neglected. As such accountants will be inadequately prepared to cope with the demands of new standard development brought about by new industry developments and government and statutory policies.

Despite the difficulties, some countries have taken a more typical approach of importing accounting educational systems of developed countries and drafted into the educational system without adapting to the local, environment, social, and cultural environments. The resulting situation is impractical, as described by Briston:

As a consequence of this evolution, the Indonesian profession is Dutch in its qualification structure, but the training (which is exclusively undertaken in universities) and philosophy are American. Neither, however, is the least relevant to the needs of Indonesia, a country with no companies act, no capital market, a massive public sector, and an economic and cultural environment totally dissimilar to that of the Netherlands or of the United States. (1978, 113)

Basically, the imposition of such approach fails to produce graduates with the ability to develop innovative approaches to meet the challenges of their societies. Hence, if the level of accounting education is poorly designed and implemented in a given country, it cannot be expected that qualified accountants would exercise mature judgements in accounting matters.
Chapter Two: Accounting in Developing Countries: An Overview

The Accounting Profession

In many developing countries, except India and Pakistan (Quereshi 1974; Perera 1975) either no accounting profession exists or the profession is unorganised and suffers from many shortcomings. In some countries, the accounting profession suffers from insufficient professional interest from its local accountants, its contention to secure social recognition (Radebaugh 1975; Juchau 1978; Ogan 1978) and has to struggle with the problematic options of operating with no accounting and auditing standards (Juchau 1978). As a result, the reliability of accounting data then is questionable or nonexistent. As Jennings reveals:

In some countries, particularly in Asia, Africa and Latin America, the accounting profession is still in the rudimentary stages of development, and elementary problems of growth preclude a concern with sophisticated questions of accounting standards. Thus the chief concern is to create a public accounting profession and, where it already exits, to nurture its growth, to strengthen standards of admission to practice and to develop a national society to represent the profession and to advance its interests. (1962, 39)

The lack of appreciation of the status and function of financial reporting in developing countries may be caused by the lack of demand. In this regard, the Arthur Andersen study states that in such countries:

...particularly where informative financial reporting has not been demanded by a broad investing public, the profession is virtually nonexistent and has taken little, if any, action to upgrade local accounting practices. (1974, 5)

In most developing countries there is still a sign of very weak and inactive accounting body (Jaggi 1975; Lelievre and Lelievre 1977; Parker 1984; Belkaoui 1988) to whom the government and statutory authorities, industry, commerce and the public can turn to for advice on financial issues. Under such circumstances, the profession is not in a position to effectively regulate accounting and financial reporting, and it may not be sensible to depend on professional regulation. If the accounting profession is not effective and technically incapable, it is natural that government interference is expected to safeguard the public interest. The regulation of accounting in the public interest, by the government authority with the establishment
of accounting principles and the enforcement of their application should then be given serious consideration.

Apparently, developing countries should be aware that it is highly unlikely that an accounting profession will develop as it did in developed countries, without strong government involvement. Jaggi (1975) maintains that the conditions under which accounting operates in developing countries suggest that the reliability of financial disclosure is not likely to reach any significant level unless legal disclosure standards are fixed.

The Accounting Function in Developing Countries

The accounting function was generally described by Wesley Mitchell as a process which makes possible the rational direction of economic activity (Mitchell 1913). In economically advanced countries, accounting contributes substantially to gathering, organising, and measuring the efficiency of the utilisation of economic resources. The allocated resources are accounted for by monitoring, controlling and reviewing appropriate records, functions and activities to evaluate and report on the effectiveness and efficiency of resource utilisation.

The function of financial accounting and managerial accounting developed from the original function of bookkeeping - stewardship function. In financial accounting, the emphasis is being placed on financial reporting to users external to the economic entity while management accounting generally provides financial information to management in order to facilitate and assist it with its decision-making. Kohler discussed accounting function as:
Accounting has an assortment of functions other than providing the components of financial statements. Among these are its contributions to the development of modern ideas of shared management: better operating-policy formation and the improvement of controls at top levels of management; clearer delegations of management authority; operable budgets, from their inception to their administration and enforcement at all management level; COST CONSCIOUSNESS throughout an organization; the provision of cost alternatives at basic operating points; and in other ways establishing improved conduits for extraorganizational information. Without the techniques supplied by accounting in the orderly direction and coordination of the intricate affairs of today’s commercial enterprises, it has often been noted that the growth and successful administration of the modern business corporation would be impossible. (1970, 8)

In developed countries, accounting accomplish three major roles as: 1) it helps allocate capital by measuring rates of return, and providing investors with financial information to assist them with their investment decisions; 2) it provides the information required by management for decision-making and efficient operations; and 3) it provides information required by the governments to facilitate their generation and gathering of funds and utilisation of public sector economic resources (Scott 1970; Perera 1985).

In developing countries, accounting does not provide these services to any degree as in the case in developed nations (Scott 1970; Enthoven 1977; Briston 1978). They are faced with a vast array of development problems, most importantly the decisions concerning the allocation of resources. The difficulties with developing indigenous accounting functions in developing countries, therefore, have attracted considerable attention among researchers (Seidler 1969; Scott 1970; Gibson 1975; Needles 1976; Enthoven 1965, 1973, 1977). It is widely noted that developing countries generally have low levels of accounting expertise, a fact that contributes greatly to their often inefficient use of their available resources. As Enthoven (1967) maintains that the significance and function of accounting and auditing in all sectors of the economy is not (yet) sufficiently recognised and in many countries has a low status.
The external reporting of firms in most developing countries usually provides little reliable information needed for investment decisions. As a consequence, investors are reluctant to reinvest in the firm. Internal reporting to management also provides little more than just verification of past transactions, and, therefore management may not realise the potential of accounting as a managerial tool. In his article “Accounting and Development Programming”, Enthoven states that:

Unfortunately, in most developing economies accounting is still not viewed as a tool for such purposes as realistic comparison, evaluation, and decision making. Its primary objective is still the accumulation of (historical) data for financial statement and auditing purposes. (1967, 109)

Scott also points out that:

...there are wide divergences in the nature, extent, and reliability of accounting information generated in firms of similar size and complexity in various nations. With respect to the accounting information generated for both external financial reporting and within-firm managerial needs, accounting in the firms of developing nations is deficient.

External reporting in developing nations often provides little information relevant to investment decisions, and investors are uncertain about the reliability of the information given. (1970, 8-9)

In fact, most developing countries do not realise the function of accounting in business management, and to some extent have not made an effort to make use of it (Enthoven 1965; Scott 1970; Mirghani 1982). Most importantly, there is insufficient awareness of the value of accounting and the information it may provide as an instrument of management and financial control. The insignificant role played by accounting as a source of relevant information for decision making is described by Dominguez of the Inter-American Development Bank as follows:

Many sectors do not properly recognize the part that accounting has played in enterprise management, and they have not made appropriate use of it. Among entrepreneurs and managers, including those from the public sector, there is insufficient awareness of the value of accounting and of the information it may provide as an instrument of administrative and financial control. Business ownership, even of large-scale enterprises, is often concentrated among a few individuals. There may be no capital market; if there is
one, its field of actions is quite limited. This system of broadly based ownership faces a variety of difficulties, and the climate of trust and confidence needed to make it viable is, for several reasons nonexistent. Lacking broadly based investment by numerous minority shareholders, the need for the protection afforded by the regulation of enterprises of this kind has not been felt, and this extends even to the accounting aspects. (1976, 13)

On the other hand, financial accounting is often limited to the deficient recording of transactions, it is rudimentary and not kept up to date. In most countries, it is maintained solely for the purpose of satisfying the formalities required by law and tax authorities. It has been widely recognised that the information provided by such reports is consequently of little value in assessing the performance of the enterprise. Again, in most countries, accounting methods and practices are usually outdated, and have been long overdue for major improvements (Jaggi 1973; Enthoven 1969, 1976, 1977). In summary, accounting is not organised in such manner as to provide useful information. To some extent, most countries have not adopted, or have not made the efforts to adopt a body of accounting standards to govern the recording of transactions and the presentation of financial statements.

Accounting and Economic Development

Economic development deals with a country's capability to raise the levels of economic and social welfare of its population. Kindleberger states that economic development "implies both more output and changes in technical and institutional arrangements by which it is produced" (1965, 8). He emphasises that the social factor is in many ways the "strategic element" in economic development. He argues that where private enterprise bears the responsibility of development, the sociocultural conditions are determining factors of capital formation and technical change. Even where the government takes the initiative and commitments for development, the acceptance of change is vital for change and development. Kindleberger states that:
The open society, with social mobility, opportunities for workers with energy to rise to the middle class, and for the upper classes to achieve distinction in ways which are socially productive, provides incentives for savings and for innovation (1965, 385).

Enthoven also refers to economic development as “a transitional process between economic stagnation and economic progress and is achieved through the execution of a series of structural social and economic changes and improvements” (1973, 138). The economic development of a country depends mainly on improving the effectiveness and efficiency with which the country’s available economic resources are effectively utilised.

However, there is a diversity of explanations concerning economic development. One of these explanations ascribes economic development to capital accumulation and its efficient utilisation, particularly in the transition to industrialisation of a country. This explanation focuses on raising the low rate of saving of the people and encouraging foreign borrowing and investment (Abdeen 1974). Another explanation ascribes economic development to investment in human resources. This explanation regards human capital and investment in education as areas of greatest need to acquire the necessary skills for speeding the economic development process (Harbison and Myers 1964). Furthermore, other explanations emphasise that effective planning and implementation of economic development programs are the key to economic development (Waterson 1969).

Natural resources play an important role in economic development, although their presence is not indispensable to development (Enthoven 1973). Some countries, such as Japan have experienced economic development and growth without the availability of extensive domestic natural resources. As Hagen noted that “a country can compensate for natural resource scarcity by superior technical capability” (1968, 198). In fact, the productive utilisation of available resources will help generate the necessary savings and domestic capital formation for economic development.
Human resources are considered possibly the most vital element in spurring economic growth and development (Scott 1970; Enthoven 1981; Belkaoui 1988). Human resource elements in the form of accumulated stocks of knowledge, skills and know-how, usually are referred to as human capital. Various writers, such as Kuznets (1966), Dension (1967), Schultz (1971) have discussed that a large fraction of the rate of income growth is due to qualitative inputs of education, increased knowledge and skills of the people. In fact, the acquisition abilities of people constitutes a major source of economic growth although it may not be reflected in economic growth models. Investment in human capital is drawing increasing attention from developing countries. As Myint states that:

It is now increasingly recognized that many underdeveloped countries may be held back, not so much by a shortage of savings as by a shortage of skills and knowledge resulting in the limited capacity of their organizational framework to absorb capital in productive investment. (1966, 173)

Capital formation is another essential commodity that is considered vital for a country’s economic development. An important factor in economic development is to acquire a high rate of accumulation of capital - capital formation (Scott 1968, 1970; Enthoven 1973; Mckee and Garner 1992). As Rostow indicated in his study capital formation is needed for the “take-off toward self sustained growth” (1956, 10), and defined the transition from stagnancy to take-off as the period during which the rate of effective investment and savings rises from 5% of national income to 10% or more.

However, there are usually many reasons for the low level of economic development in developing countries. These ranges from distribution of natural wealth to social characteristics and traditions that are not valuable to the functioning of a complex industrial economy. The most crucial characteristic to most developing countries is that the available natural and human resources are not used to good advantage. In most countries, these resources are not efficiently gathered and put to appropriate productive use.
In many developing countries, the major problem is the lack of adequate and reliable information upon which to base decisions concerning the allocation of the available resources. Mirghani (1982) agrees that one of the major roadblocks for the effective economic development process in developing countries is the lack of information. He uses the term "lack of information" to denote both "unavailability of reliable information" and "unreliability of available information". Mirghani also discusses the adverse effects exerted by lack of information upon a country's developmental efforts as:

First, selection of a development model would be made on no realistic basis, and the selected development model could very well be one which is completely incompatible with the economic realities of the particular developing country.

Second, lack of information could lead to the selection of a development model that covers certain parts of the economy, not because of their importance for future development but because information about them was available.

Third, lack of information concerning the interdependencies of the major economic sectors could lead to an internally inconsistent development plan and, therefore, is rather impossible to make operational.

Fourth, lack of information regarding the relative scarcity of the resources available for development would misguide the resource allocation process in the economy.

Fifth, lack of information about the progress being made toward the achievement of developmental objectives would make it impossible to revise the plan in view of changing conditions (1982, 60).

Enthoven has done perhaps more than any other writer to draw attention to the accounting needs of Third World countries, the role of accounting in the economic development and the importance of accounting education relevant to the country's needs (1965, 1967, 1969a, 1969b, 1977, 1981). He emphasises that in most countries, accounting is normally thought of only as it applies to business, and industries. The importance of accounting systems in respect of government activities and their use in national planning activities is neglected. Usually the government and its planning authority determine the direction in which the economy should expand and develop. It is accomplished with the assistance of a development plan which is characterised by a specific set of social aims and the resources to be employed to achieve those aims. In
fact, the only way planning can be made effectively is through the availability of adequate and reliable information to the central planning authority.

Accounting information is particularly important in the areas of economic planning and development. Cassele (1979) discusses three areas where accounting is vital to economic planning and development as: (1) the evaluation of existing available resources, as they limit the available alternatives in selecting a course of action; (2) the prediction, as accurately as possible, of future economic trends in order to control economic cycles; and (3) the measurement and assessment of actual results at the end of each planning period, so that they may be used as feedback in making further decisions. Linowes revealed that leaders in developed countries he visited agree that:

... envision a more extensive role for accounting than exists in the United States. They feel that accounting should be an integral part of the central planning process which they regard as essential to the desired growth (1969, 18).

In the case of Pakistan, Quereshi (1974) states that the relevancy of financial reporting to economic development with social justice, cannot be over-emphasised. For investment decision process, the credibility of the financial report is vital as it is the basis of generating investors' confidence and their decisions on what to do with their savings. At a later stage the financial report is required as it is the basis for evaluating the success and appraisal of the management performance. Quereshi again maintains that financial reports in most countries are deficient and unreliable.

Since accounting is concerned with the financial management and performance of economic activities, the relationship between accounting and economic development revolves mainly around those aspects of the development process which are of financial nature. The major area of economic development where accounting information is of particular importance in a developing country are economic planning, capital formation, and taxation.
Accounting and Economic Planning

Accounting, as part of the information system has an important role to play in the economic development process. An improved accounting information systems resulting from improved education and training of accountants could effectively appease the planning process by enabling the economic planners to formulate their economic decisions on relevant and reliable data (Enthoven 1965; Jaggi 1975). Reliable accounting information also facilitates decision-making at the micro-level, by enabling a more efficient utilisation of available resources.

Accounting promises great potential for assisting the economic development process of developing countries. It is one of the tools conditionally available to improve the functioning of the development process. If development consists of a more efficient allocation of resources, the use of accounting procedures and techniques may improve both the allocation process and the efficiency of the resources. Unfortunately, this potential is not widely recognised by some countries as to encourage the development of accounting as an effective economic development tool. The prolonged delay in the recognition of and developing accounting as a development tool appears to be attributed to several factors. Staats states that:

The absence of effective financial management is a major obstacle to optimum use of resources, both internal and external, that are available to improve the standards of living in Third World countries. Effective financial management is essential because anything less dissipates available resources and thwarts development. To improve financial management developing countries must:

1. Develop effective accounting and auditing practices.
2. Insure the presence of skilled personnel to effectively run their financial management systems.
3. Develop a comprehensive and up-to-date training program at both the national and regional level ...
4. Increase their commitment to the realization of an effective training development program. (1979, 1)
External reporting in most developing countries often provides little information relevant to investment decisions, and investors are uncertain about the reliability of the information provided. As a consequence, investors are reluctant to provide the capital needed in an expanding economy. Mahon discusses that in developing countries:

"The credibility of financial statements has not been generally established - the public simply not being conditioned either to expect or to demand reliable statements. Needless to say, market mechanisms under which widely dispersed private capital accumulations can be placed at the disposal of emerging industry are limited. (1965, 35)"

There has been evidence in the literature of the movement towards an increased establishment of locally relevant accounting system suitable for the country’s needs and for economic development. This movement has caused by the fact that the lack of a well-defined accounting systems suitable to its environment would, to some extent, affect the countries’ economic development process. (Seiler 1966; Choi 1974; Briston 1978; Lee 1987). Seiler states that:

"... the strength and extent of a nation’s information system determines in large part the rate at which economic development will progress, and that accounting systems thus assume an important role in the development of emerging nations. (1966, 652)"

These views are also expressed by many other writers, including Enthoven (1965, 1969b, 1977), Choi (1974), Briston (1978), Lee (1987), Belkaoui (1988), Chaderton and Taylor (1993). However, the evidence, either from theoretical analysis or empirical research, to justify the claim that accounting systems matter for economic growth is scattered and limited.

Surprisingly, Talaga and Ndubizu (1985) reveals in their research that they could find no reference in economics literature that discussed the role of accounting in the economic development. They maintained that since no developed (capitalist) country is without a developed accounting system, economic development and accounting development exist concurrently. It may be presumed that the relationship may be that the economy demands the accounting systems it requires. In other words,
the supply of accounting services in developed countries, is a response to the demand from economic activities. In this regard, Needles added that:

... many planners involved with economic development tend to assume that if economic actions are taken to speed economic development, accounting development will somehow automatically follow. (1976, 46)


Accounting has a dual effect on economic development. On one hand, it is the basis for generating sufficient investor confidence to stimulate the flow of investment capital and restrict unproductive savings practices. On the other hand, effective accounting techniques are a necessary prerequisite to the efficient use of capital. Both aspects are important and will play a role in a nation's economic programming and in the national accounting on which it is based (1965, 31).

The availability, formation and use of capital are important factors in the economic development process. However, the decision to reinvest, redistribute, increase savings as sources of capital formation depends mainly on the availability of reliable financial information. In developing countries, domestic savings for long-term or equity investment are generally in short supply. The inadequacies in savings may be caused by: low income, unattractive investment opportunities, and social and cultural activities.
Capital Formation

The major problem of economic development of most developing countries has been traced mainly to the lack of capital for investment. The rate of development of a country depends not only on how much capital it has for investment, but also on how investments are made. The two common source of capital formation in a market economy are savings and investment. In developing countries the capacity to save is limited and has been cited as the main cause of capital shortages. Biven explains this problem in developing countries as:

Somebody must save and somebody must invest. These two steps may be taken by one person, as when a farmer drains a field, or they may be taken by different people, as when workers pay money into a provident fund and the government uses the fund to build a railway line. The difficulty in developing countries is that both savings and investment tend to be in short supply, though for different reasons (1970, 4).

The major cause of the insufficiency of capital creation is attributed to the low percentage of national savings as a result of population increases and high levels of consumption (Seidler 1967). A moderate rise in population provides a stimulus to economic growth, but increases as rapid as those in most developing countries intensify the inadequacy of capital formation. Also the slower growth per capita incomes reduces the capacity to save, while the propensity to consume is always on the increase. Another cause is the traditional social and religious customs, as well as the cultural “mentality” of the people. The persistence of traditional customs and failure to develop new understanding of the worth of savings and invested capital are attributed to a lack of general understanding and education (Bivens 1970).

In some developing countries, the most deeply rooted obstacles to savings can be found in the collective way of life that are still prevalent. In these areas the traditional custom beliefs imposed by the family traditions, tribes, hierarchical custom, and religious beliefs have been responsible for severing the savings initiative of the individual. As Bivens writes that:
Moreover, poverty is not the only obstacle to growth of savings in a form which can be used for investment purposes. In nearly all third world countries, there are a variety of religious and social practices which have to be combated. This relates, for example, to out-dated systems of land tenure and the practice of saving in the form of cattle, jewelry, or gold, to big expenditure for ceremonies such as weddings and funerals, to tribal customs affecting dowries (1970, 8).

In some developing countries, the problem is not confined to the individual inability to save, but to a large extent the unwillingness to invest in productive enterprises. There seems to be a weak link between savings and investment because of the political and unattractive economic atmosphere; private enterprise is unattractive, calculative risk is high, financial systems are weak, and government involvement is ineffective (Seidler 1967; Shinawi 1970; Abdeen 1974). Again Bivens writes that:

The basic problem of developing countries is, in my opinion, not so much an absolute shortage of capital due to shortage of savings. Rather it is a problem of channeling existing savings because of the existing gap in technological and managerial know-how.

Capital may not be scarce, in relative terms, but often it is not efficiently used due to the narrowness of the capital market and to the absence of well organized financial institutions. A developing country, even if it could raise the required capital, is usually lacking in the knowledge, skill, and experience to manage it. (1970, 9)

In most developing countries, the problem is not only the lack of investment opportunities, but also entrepreneurs' skills and expertise to assume the risk and management of business operation. The lack of adequate and effective financial institutions has been another drawback for developing countries' industrial development. The prolonged existence of price controls also indirectly impede capital formation.

Apparelly, to overcome the problem of lack of capital and create local capital, developing countries should implement various measures such as, a calculative control of the population growth and consumption increases, creating an attractive business incentive packages, social attitude of individual towards business and saving should be re-addressed in a positive social interaction, and create an effective capital market and financial reporting procedures and practices.
Developing countries should be fully aware that the effective mobilisation of capital is greatly aided by accounting information which, with reasonable accuracy represents the wealth and progress of enterprises. In creating a capital market, a country provides the means and incentives for investing voluntary savings and with a larger volume of savings is placed at the disposal of businesses with available choices to invest in productive enterprises. Hence, the inadequacy of financial information on the performance and position of different enterprises has been a contributory factor to the nonexistence of capital markets in many developing countries. In most developing countries, the establishment of a stock market is unlikely to emerge due to various constraints in the society and, therefore, the loan market is particularly necessary for the short-term credit requirements of the businesses (Enthoven 1965; Seidler 1967; Perera 1985). However, as business becomes increasingly impersonal, loan markets tend to request that financial information required be supplied in support of loan applications. Therefore, good accounting procedures and practices are normally regarded as the key to economical methods of evaluating request for funds, supervising borrowers, and identifying means of improving the efficiency of their operations (Davenport 1967; Perera 1985).

Taxation

The aspirations of developing countries can be summed up by Heller as “economic betterment and stability to provide the material soil within which human dignity and freedom can grow” (1967, 5). Toward this destiny, the question that always is posed by researchers is to what role the tax system can play in economic development (Shinawi 1970; Scott 1970; Abdeen 1974; Jaggi 1975). This role can be very significant, and could be very trivial.

The lack of capital has been cited as a major hindrance to economic development. Apparently, taxation can play active roles in the economic development. Firstly, the tax system tries to promote saving and capital formation by reducing "nonessential" consumption, especially of luxury goods. In that case, the individual is faced with the decision of either spending on consumption and consequently paying
tax or refraining from high consumption and thus increases savings. Secondly, the tax system may also direct investment toward certain projects more preferable for economic development. This is done through the introducing of government industrial development incentives such as tax holiday periods, investment allowance, etc.

Taxation in developing countries can play a more positive role in the process of capital formation and technology change (Abdeen 1974). But the problem is the extremely low levels of income and savings which serve as the source of capital formation. As Heller states that:

These countries are caught in the vicious circle of extreme poverty, a circle providing from low incomes to high consumption propensities to low savings to low rates of capital formation to a continuation of low levels of income. To break out of this circle, apart from foreign aid, calls for vigorous taxation and government development programmes; on this point, expert opinion is nearing a consensus (1967, 7).

However, taxation as a source of financing is usually conceded to be more effective in promoting economic development. In developing countries, improved company accounting permit the government to effectively assess and collect company taxes from private enterprises to finance the country’s economic development programs. Scott agrees that an “improvement in accounting methods is closely related to reform of the tax system ... including the standards of tax enforcement that are applied in practice” (1970, 41). Thus, accounting and accounting professions in developing countries have very important contributions towards the economic development process. In establishing some of the requisites of an effective income tax, Kindleberger states that:

Personal and business income taxes require a money economy, high standards of literacy among, taxpayers, the prevalence of accounting records honestly and reliably maintained, a large degree of voluntary compliance, and an honest and efficient administration. (1965, 241)

The area of income taxation is one of the areas in which the government’s use of private enterprise accounting information is most crucial and invaluable to national economic development. The revenue from direct and indirect taxation should enabled the governments of developing countries to participate significantly in the economic development process. However, the ability of governments to sustain
economic development programs is determined by their ability to finance these programs either from taxation or from government creation of money, which would inevitably causes inflation (Scott 1970; Jaggi 1975).

However, collection of taxes is a vexatious component of development in most developing countries. In a developed economy with well organised accounting standards and practices and effective tax system, the government is likely to decide on the level of government expenditures and then adjusted its taxes accordingly. In contrast, in most developing countries with an unorganised accounting profession and outdated accounting practices, the government usually determines the taxes that can be collected before determining the level of expenditures (Shinawi 1970). This is due to the inability of the government to rely on the information supplied by the business enterprises in order to determine the taxes that have to be collected. So the unreliability of accounting information from the business sector is the major obstacle to the government’s tax collection ability. Due to the difficulties in tax collection, most developing countries concentrate on taxes that are easier to collect, which are usually in the form of consumption taxes.

So the dominance and reliability of accounting records in business enterprises, despite its nature and size, depend on an adequate supply of accountants and well established accounting and auditing standards and practices. If trained accountants are lacking, businessmen in developing countries are more inclined to minimise record keeping with unskilled clerks. Then the vicious cycle associated with the problem of tax assessments and collection would never be overcome.
Summary

Comparative accounting study is an essential part of education and development in developed countries where accountants are increasingly becoming involved in transactions and events of different accounting dimensions. In order to be successful in understanding accounting issues in developing countries, it is necessary not only to know the accounting practices adopted in different countries, but also to understand why sometimes different countries adopt different approaches to similar situations. In general these differences can be explained in terms of the environmental needs and circumstances prevailing in these countries.

Furthermore, comparative analysis of accounting systems and practices in developing countries also leads to an identification of patterns of accounting development in these countries. This in turn results in an enhanced awareness of the influences of national differences in terms of history, culture and economic development. The identification of patterns of accounting development should also be helpful in permitting a better understanding of the potential for change, given any change in environmental factors.

A clear understanding of the environmental factors which determine the nature of the accounting standards in individual countries is fundamental in any attempt to understand the role and functions of accounting in the economic process. There are good reasons for the country differences in accounting practices and standards, and unless these reasons are properly understood there is little chance of success in improving the role of accounting in economic development.

One of the greatest obstacles to the development of accounting in developing countries may well be the general lack of understanding and appreciation of the value of accounting. It has been identified by various writers that the major problem with accounting development in developing countries is the general lack of awareness and appreciation by local decision-makers of the potential contribution that accounting could offer to the growth of the organisation. The attitudinal behaviour of individual toward business and accounting ought to be re-addressed so that individuals could become more aware of accounting’s value.
Chapter Two: Accounting in Developing Countries: An Overview

The real value of accounting can be seen when it is used as an economic planning and/or management tool in continuously monitoring the business position and in anticipating the future. Regular position analysis provides a valuable benchmark against which to forecast and subsequently measure performance.

Developing countries should be aware of the importance of accounting in the economic development process as information functions. Accounting information is very important not only to make decisions with regard to a single organisation or firm, but also to make comparison between firms. But, in the absence of specific principles and guidelines to regulate accounting practices, there would be no incentive for a single firm to conform to any particular model for the sake of comparability. Users of accounting information particularly in developing countries are generally considered unsophisticated and their capacity to interpret and use information is limited. Under these circumstances, if there is no organised accounting body and accepted accounting and auditing standards and practices, the government is required to apply legal authority to safeguard the public interest.

According to Scott (1970) accounting and accountants should perform three primary functions in developing countries. These are external reporting, internal reporting and business advising to management. The function of external reporting must be conceived of more broadly than as reporting only to capital sources. Indeed, the perspective should be one of considering the overall needs for accounting information in the light of national economic development. Accountants should also be trained to understand the value of accounting information for management decision-making. So accounting training should include an established widespread implementation of sound basic accounting systems and understanding of elementary accounting techniques useful for managerial decision making. Accountants should also be trained to provide management with a broad range of advisory services which relate to financial processes and to broadly defined information and control systems.
CHAPTER THREE

THE ECONOMIC AND BUSINESS ENVIRONMENT IN TONGA

Abstract

... the strength and extent of a nation's information system determines in large part the rate at which economic development will progress, and that accounting systems thus assume an important role in the development of emerging nations (Seiler 1966, 68).

Introduction

The South Pacific region may be described as a single geographic area consisting of small island nations scattered over thousands of square kilometres of ocean. That is where the geographic similarities of the islands' end and the uniqueness of the various countries starts. These countries vary greatly in size, population and ethnicity, resources and the general level of economic development.

The Kingdom of Tonga's economy is largely based on agriculture with dominant subsistence operations. Smallholder agriculture is the principal economic activity absorbing over 50 percent of the labour force and supplying an average of 80 percent of the bulk of Tonga's exports. While the manufacturing and tourism industries are still fledgling, they also play a major part in the country's economic development and have become an important source of new employment. Tonga's economy is also heavily dependent on foreign aid and remittance income from overseas countries.
This chapter is aimed at describing the political and social framework, and the economic and business environment in Tonga. It is envisaged that an examination of the economic environment in Tonga would provide enlightenment to the study of accounting and economic development in this country.

Geographic and Historical Background

The Polynesian Kingdom of Tonga, *the Friendly Islands* as Captain Cook called it, is located between latitudes 15° and 23° 30' south and the longitudes between 170° and 177° west, placing it just west of the International Dateline, south of Western Samoa and southeast of Fiji. Nuku’alofa, the capital of Tonga is 2,000 miles direct from Sydney, and 1,100 miles to Auckland, New Zealand (Wood 1932).

The Islands group consist of an archipelago of 150 islands with a total area of 269 square miles. The islands of Tonga run north and south in two parallel chains, a western largely uninhabited chain consisting of high volcanic islands, and the eastern chain consisting of low-lying coral islands of limestone. Only 36 islands of the archipelago are inhabited, and they are clustered in three main island groups: 1) the Tongatapu group, including the single largest island of the kingdom, Tongatapu (99 square miles), on which the port capital of Nuku’alofa is located. This island has historically been the most densely populated area of the kingdom and been its political and cultural centre, 2) the Ha’apai group, consisting of widely scattered small low-lying coral islands, and 3) the northern or Vava’u group, consisting of a number of high volcanic islands.

Archaeological evidence suggests that the Tongan islands were settled as early as 1140 B.C. (Marcus 1978). According to the history, Tonga was first sighted by Europeans on 16 May 1616 by the Dutch navigator, J. Le Maire, as part of the Schouten and J. Le Maire expedition although another Dutch explorer, Abel Tasman, was the first known European actually to land on the islands on 27 January 1643 (Rutherford 1977). Other explorers followed, including Wallis in 1773, Captain Cook, who visited Tonga in 1773, 1774 and 1777 and gave it the name, “the Friendly Islands”, and Captain Bligh in 1789 and 1792. These contacts between Europeans and
the Tongans were sporadic and lasted for periods of a few days to a few weeks. The accounts written by these voyagers, and the individuals connected with the voyages, made Europeans aware of Tonga and placed it on Europe’s map of the world. However, the Europeans were not too keen to settle or trade in the area except the missionaries, interested to stay with the locals and convert them to Christianity. The first missionaries of the London Missionaries Society (LMS) arrived in Tonga on 10 April 1797 (Wood 1932; Benson 1960). The Wesleyan Missionaries proved successful and eventually succeeded in converting the King, many nobles and their ‘kaingas’ to Christianity (Latukefu 1974).

A combination of Tonga’s political independence and stability, and the fact that it had developed a national government by the time the colonial powers were seeking Pacific island territory, allowed it to be the only Pacific country that was never colonised and retained its local government largely intact from the 1700s. For example, Tonga introduced its first written Code of Law in 1839, and the Constitution it adopted in 1875 is still largely in use today. The Government also introduced the system of land tenure whereby every male over the age of sixteen (16) is entitled to not more than eight and a quarter (8 3/4) acres of bush land, called ‘api tukuhau, ‘tax allotment’, to grow food and make copra for his family, and a small ‘api kolo ‘town allotment’, on which to build a house. According to the Constitution, no land in Tonga can be sold to foreigners, however, leasing is permitted under government control.

Tonga’s political independence was sufficient to conduct its own foreign policy by the late 1800s. During the 1800s, Tonga signed a number of foreign treaties, with Germany in 1876, Britain in 1879 and the United States in 1888 (Benson 1960; Rutherford 1977). These treaties acknowledged the friendship between Tonga and each country and, more importantly, recognised Tonga’s political independence. The treaties also helped ensure that each of the colonial powers would seek to protect Tonga from losing its independence to a rival country. Tonga also signed a Treaty of Friendship and Protection with the British in 1901, which provided for British assistance in foreign affairs and other matters. Initially this protectorate agreement was intended to provide only military protection and the conduct of
Tonga’s foreign relations. However, the continual accusation directed at the government for being fraught with scandal led to a Supplementary Agreement in 1905 that allowed the British to nominate the key government officials and required the King to accept the local British agent’s advice on all matters of importance (Rutherford 1971, 1977).

The country’s internal political position was assisted over the protectorate period by an extreme degree of political stability. Queen Salote Tupou III, who gained much publicity for the Kingdom through her overseas visits, ruled Tonga from 1918 to 1965. Her eldest son, the present King Taufa’ahau Tupou IV, who succeeded her had served as the country’s Prime Minister since 1949. The importance of the King and the Royal family in both political and commercial life cannot be overstated, and under the current three-tiered political system of the ‘the King, nobles and matapule, and commoners’, the King is seen to retain considerably more direct power and influence than most other constitutional monarchs.

**Political Framework**

The form of government adopted is an adaptation of the British Parliamentary (Westminster) system and consists of three (3) divisions: 1) the King, the Privy Council and the Cabinet, 2) Legislative Assembly, and 3) Judicial (1875 Constitution, Section 33). The Legislative Assembly comprised of nine (9) nobles elected by Tonga’s thirty-three (33) nobles, nine (9) members elected by the people (matapules and commoners), and the Ministers of the Crown. Representatives to Parliament are elected every three (3) years.

In the Tongan political system, there are no political parties and, therefore, no official distinction between “government” and “loyal opposition”. Cabinet Ministers are appointed directly by the King from outside parliament, and become Members of Parliament on appointment as Ministers. There is thus no requirement, either formal or informal, that the government should have the confidence of parliament, and motions of no-confidence do not occur.
Since the establishment of the legislature during the time of King George Tupou I, the role of Parliament has usually been regarded as being to endorse the actions of the government. The Parliament discusses the Bills in the House, though, it shall be presented to the King in Privy Council for his pleasure, and if he approves and affixes his name to it then it shall become law. The King therefore has enormous power to initiate legislation and to veto proposals initiated elsewhere. Indeed, initiatives of the Parliament itself take the form of proposals rather than bills, and the Privy Council decides whether they should be taken up to become law. Interestingly, there is no constitutional impediment to the Parliament initiating law or policy, but it is contrary to long-standing tradition.

Since the 1970s, however, signs of growing discontent among the people's representative in Parliament with the issue of 'unequal representation' became evident. Parliament was the main forum for the expression of opposition. The problems of land shortage, unemployment and accountability in the government became the focal point of the discussions. The People's Representatives maintained their concern for economic development of the country, in which each of the three groups (government, nobles and peoples) in Parliament should have "equal representation" to maintain trust and a balance of authority in the discussion of developmental programs. The intention of applying pressure in this way has itself become an issue in Tongan politics and has raised new questions for Tonga about political principles (Campbell 1992a).

**Population and Labour**

The population of Tonga has been increasing at a diminishing rate with: 34,130 in 1939, 56,838 in 1956, 77,429 in 1966, 90,085 in 1976, and 94,649 in 1986 (reflecting an annual rate of increase of 6.7 percent between 1939 and 1956, 3.6 percent between 1956 and 1966, 1.6 percent between 1966 and 1976, and 0.5 percent between 1976 and 1986 censuses). The Tongan population is predominantly "young", the proportion of the population under 15 years comprises of 43.9 percent in 1956, 46.1 percent in 1966, 44.4 percent in 1976, and 41 percent in 1986 censuses (Tonga Government Printer 1993).
Between the census years 1976 and 1986, total employment grew by an annual average of 4.7 percent while unemployment (seeking work) rates were 13.1 percent and 9.0 percent respectively. Employment in agriculture, forestry and fisheries increased by 1.1 percent per annum during this period which compares with much higher growth rates achieved by other industry groups, such as financial services, electricity and water, wholesale and retail trade, and manufacturing. The mere constant growth in agricultural employment has led to a decline in the overall importance of this sector as a source of employment with 44.5 percent in 1976 and 44.7 percent in 1986.

Furthermore, heavy emigration has been responsible for the decreasing growth rate in Tonga’s population growth. A corollary of this trend is low growth of the labour force. Labour shortages has become a notable problem in agriculture, and building and construction which forces an upward movements in wages rates. This trend seems likely to persist and is bound to have significant effects on both the rate and pattern of economic growth.

According to Section 5 of the 1875 Constitution, everyone is free to choose whichever religious denomination that he/she wishes to join according to the dictates of his/her own conscience. Consequently, Section 6 also explains that Sunday shall be kept sacred in Tonga for ever. There shall not be any work, sport, trading, and even aircraft or ships arriving on Sunday. Given the provision of freedom of religion, there were among twelve (12) to fifteen (15) religious denominations in Tonga during the 1986 census. The Free Wesleyan Church had the largest share of the total population with 44 percent, followed by the Roman Catholic 16 percent, Free Church of Tonga 12 percent, Latter Day Saints 12 percent, Church of Tonga 8 percent, and the rest shared among the minor denominations (Tonga Government Printer 1993).

The basic needs of the population are reasonably well met from subsistence activities, and the government and churches provide more than adequate health and educational services. The education system provides compulsory schooling for all children between the age of six (6) and fourteen (14). The country’s adult literacy rate is high, however, some technical skills are lacking, and in short supply.
Economic and Business Environment

As with other South Pacific countries, Tonga's economy is dependent on agricultural production, with much of this conducted on a subsistence basis. Its exports are, therefore, dependent on a few agricultural products, such as, squash, vanilla, ginger, kava, root crops and coconuts. Unfortunately, its major traditional export products of copra, bananas and watermelons have been severely affected by the low prices of copra at the international markets, while bananas and watermelons have declined to minor importance due to a combination of frequent storms, disease, strict quarantine requirements and tough price competition in the international markets.

The economic growth in the Kingdom of Tonga has been moderate as from the 1986 census, resulting in the rising levels of income per capita. The real GDP has been rising by an average of 2.5 percent per annum, and population has been growing by 0.5 percent per annum. This performance is considered to be fairly impressive, given the many physical and economic difficulties that Tonga faces. Despite these difficulties, however, Tonga has potential to achieve favourable growth rates through determined efforts of planning.

Based on Bollard's (1977) detailed analysis of the history and development of the modern Tongan economy with special focus on monetisation, Marcus arranges Tongan economic development into three (3) phases:

Phase I covers the period of 1850s-90s. The activities of church, government, and traders all contributed to early monetisation; Tongans earned money enthusiastically for noncommercial payments.

Phase II (1890s-1960s) brought a reaction: European influence in church, government, and commerce weakened. Tongans responded by withdrawing labour from commercial production. Incomes and expenditure were low. Their disinterested attitudes were reflected in the very limited role of money.

Phase III (1960s on) is a new period of enthusiastic market participation. It is characterised by new money injections: tourist receipts, church transfers, migrant remittances, and aid flows. These are large and bring substantial benefits as well as hidden costs. They bring strong feedback effects on other monetised sectors (e.g., a decline in cashcropping), but have not affected subsistence activities much. (1978, 14)
In addition to those in Bollard's study (which ends in 1974), a further development phase can be subjoined in this study to indicate the on-going economic development in Tonga. The country has long recognised the need for developing another sector of the economy to complement the development of its traditional sector (agriculture and fishing). Therefore, Phase IV (1970s on) is a period of determined diversification of the economy through industrialisation and trade. The Ministry of Labour, Commerce and Industries in 1973, Bank of Tonga in 1974, Tonga Development Bank in 1977, Industrial Development Incentives Act in 1978, and the Small Industries Centre Project in 1980 were all established during this period. The Tonga Commodities Board was also established in 1973 to market and promote the sale of the local produce at the international markets. At the time of the Board's formation the export of copra and bananas accounted for in excess of 80 percent of the total exports of the Kingdom. Unfortunately, these exports have now declined substantially to the point where coconut oil and banana exports are no longer in existence. And to make matters worse, the country is now importing copra from the Christmas Islands. Also the Board was forced into liquidation and then re-structured into Holding Companies in 1990. The failure of the Board's establishment was highly political and to a large degree of financial mismanagement.

Up until the 1960s, the economic situation in Tonga has been marked by a high degree of stability but this has been recently threatened by the inability of the government to contain fiscal deficits, high rate of inflation, high level of domestic liquidity, and the continuing pressure on the balance of payments, largely resulted from inflationary import demands. However, the future prospects for the economy looks reasonably favourable with the demand for pumpkin (squash), watermelon and vanilla from international markets being remarkably strong. The tourism and light industries are expanding slowly at a favourable rate. Also the receipts from remittances and external aid continues to play its part in the economic development (refer Appendix 1).
Agricultural Sector

Agriculture, as the basic industry of Tonga accounted for 82.2 percent of the total export value in 1987, 74.0 percent in 1988, 72.2 percent in 1989, 79.5 percent in 1990, 88.7 percent in 1991, and 87.7 percent in 1992 (Tonga Government Printer 1993). Even though it is still widely conducted on a subsistence operation, the increased prosperity of the people and the ability to raise their standard of living depends on the promotion and growth of this industry. Therefore, careful planning of all phases of agricultural production, availability of technical knowledge and skill, and the necessary funds are basic elements for their success in productivity and profitability of agriculture.

Over the last decade, the agricultural sector has changed from an industry based on coconuts and subsidised banana exports to an independent and vibrant industry competing directly on the World market. Pumpkin (squash) has become a new leading source of income for this sector. Vanilla production has slowly developed during the last five (5) years, however, the regular visits by tropical hurricanes and disease have always been an economic disaster for the country.

The importance of agriculture stems from the fact that it supplies food products for domestic consumption and raw materials for industry and export. So the continual productivity and profitability of the agricultural sector depend to a large degree on government policies and protection related to distribution to growers and lending practices, extension of industrial incentives to include farmers, and commitments to marketing of local produce in overseas markets.

The growth of the co-operative movement that comprised multipurpose activities, such as, agricultural, fishing, savings, handicraft, village development, and secondary wholesaling and retailing business has indicated great potential for expansion. It has recently become an important contribution to the capital market because most of the members deposit their saving with their individual co-operatives, which are owned and run by the local members. The Tonga Co-operative Federation Limited (TCF) is now well established and has an average annual turnover of T$16 million. The cooperatives make investments and provide trading services that
formerly were offered by overseas companies, such as Morris Hestrom Limited and Burns Philp (South Seas) Limited. The Friendly Island Marketing Co-operative (FIMCo) is responsible for marketing and promoting the sale of its members' agricultural and marine products, vanilla, bananas, vegetables, as well as handicraft items.

Nevertheless, the co-operative sector faces many administrative, technical, and financial problems. Lack of control over the activities of the officials who run the village co-operatives and the central management is the primary reason. According to research and interviews for this study, the problem of control over the cooperatives management activities was attributed to the lack of qualified accountants and auditors, whose jobs are important to the prevalence of healthy and trustful relations between the administrators and the members of the co-operatives.

As with many other Pacific island countries, Tonga faces many constraints arising from smallness, remoteness in geographical location and vulnerability to natural hazards - constraints that severely reduce the range of development options at Tonga's disposal. Tonga also faces difficult socio-economic problems, including those associated with vulnerability to external market forces and loss of skilled labour through emigration. Nevertheless, Tonga has achieved much in the way of social and economic development. Real GDP per capita is well above that of many other developing countries, basic infrastructure is relatively well developed and educational and health services are fairly advanced.

Despite the many difficulties discussed above, Tonga has the potential to achieve accelerated growth, and with it, rising living standards. The main potential lies in a more intensive exploitation of the country's agricultural and fisheries resources, tourism, light industry and selected services. Through appropriate policy and related measures, the government can play a key role in realising this potential. Critical areas for attention include the identification of priority projects in the productive sectors, stronger efforts to mobilise national savings, and greater encouragement of private sector development.
Manufacturing and Tourism

Even though Tonga’s manufacturing and tourism sectors are small and still at a young stage they have significant potential for expansion. Along with agricultural sector, both manufacturing and tourism are viewed as integral for realising Tonga’s economic development objectives, particularly accelerated economic growth and a more diversified economic structure (World Bank 1990). Tonga’s commitments to human resource development provides a firm basis for further growth of manufacturing and tourism industries.

The Ministry of Labour, Commerce and Industries is the government arm responsible for implementing policies and coordinating programs relating to the industrial development of the country. The government’s main role in this sector’s development process is to create an environment conducive to investment through the provision of adequate infrastructure, incentives and technical assistance.

Manufacturing activities established are in small-medium firms and dominated by import-substitute industries, although several export-oriented operations are of large industrial enterprises, such as knitwear and garment, leather jackets, engineering, and boat-building industries. Since the drastic eradication of copra production by growers, there have been marked decline in production of coconut related industries, such as desiccated coconut factory, soap-making, and oil mill factory.

The manufacturing’s contribution to the economy is considered modest, accounting for 17.6 percent of total export receipts in 1987, 25.5 percent in 1988, 28.5 in 1989, 21.4 in 1990, and a drastically declined 11.2 percent in 1991. In terms of the amount of labour utilised, manufacturing activity contributes proportionately more to GDP and exports than agriculture which implies that labour efficiency is greater in manufacturing.
As with other Pacific island nations, manufacturing development in Tonga faces difficulties stemming from the small domestic market, high transportation costs and an increasingly tight labour situation, particularly for skilled labour. However, Tonga also offers many advantages which, in large measure, have been responsible for the recent industrial growth. Among these complimentary features are a stable macroeconomic environment, low labour costs, attractive fiscal incentives including a tax holiday of up to 15 years, duty free entry of capital equipment and raw materials, access to development finance, preferential access to the Australian and New Zealand markets (under SPARTECA Agreement), and the availability of developed industrial sites and factory spaces at the Small Industries Centre Project.

The tourism industry in Tonga is largely undeveloped but it has the potential for significant expansion based on the country’s distinctive culture, recreational attractions, and chiefly and ceremonial lifestyle. Tourist arrivals are small but have increased steadily in recent years with an annual average of 32,000s visitors as from 1987 through 1991 (Tonga Government Printer 1993). The Tonga Visitors Bureau and the National Reserve Bank of Tonga have estimated that annual average gross receipts from tourism accounted to T$30 million (National Reserve Bank of Tonga Report 1990).

While growth in this sector is not anticipated, future development can be facilitated by government commitments to improve international air links to major tourist destination, continual improvement of tourist infrastructural facilities, undertake overseas promotion, and encourage private sector investment in tourist related facilities.
Development Plans

Throughout the reign of late Queen Salote Tupou III (1918-1965) the country was economically independent in the sense that economic policies and development decisions had been determined by Tongan politicians and employees of Tongan civil services. Tonga paid its way with budget surpluses and a balance of trade surpluses throughout the protectorate period from 1905 until the 1960s. Since World War II the government had been planning and spending more on development in a drive to raise living standards, paying the development expenditure of the 1950s out of either current revenue or accumulated reserves (Bollard 1977).

Tonga’s experience with foreign aid began in 1957 with the World Health Organisation sharing the cost and supplying the technical expertise for an environmental sanitation scheme. The first bilateral aid was a loan of £514,000 from Britain under the Colonial Development and Welfare Act for the first stage of the construction of the Queen Salote Wharf in 1965 (Campbell 1992a).

The history of development planning in Tonga commenced in 1966, at the beginning of the reign of the present King Taufa’ahau Tupou IV. Accordingly, the First Five-Year Development Plan, 1965-1970, was drawn up, with particular emphasis on improving agricultural productivity, roads and harbour, and health and educational facilities (Tonga Development Plan I 1966). During this time, growth in foreign aid was neither expected nor envisaged, and the recognition of and aspiration for self-reliance was clearly evident in the Development Plan. However, according to Campbell (1992a), the implementation of this Plan began with the hope that aid would become available.

The Second Development Plan, 1971-1975, was conceived as a continuation of the first Plan, undertaking capital works and public health projects that could not be encompassed or accomplished in the First. The Second Development Plan was drawn up with emphasis shifted, with a substantially increased provision for economic services. This Plan envisaged that about 52 percent of the necessary funds would be raised from overseas, but, the preamble stated, “It is expected ... that the successful implementation of the present plan will make Tonga less dependent on foreign aid in the future” (Tonga Development Plan II 1971, 2). It suggests that the government
believed that with this Plan it would have “caught up” and achieved the infrastructure Tongan society needed. Unfortunately, the aims of this Plan were not achieved; indeed, the amount allocated was not even spent (Tonga Development Plan III 1976). The failure was attributed to inexperience in development planning, failure to define responsibility and monitor implementation, and the absence of a central planning authority (Tonga Development Plan III 1976, 36).

The Third Development Plan, 1976-1980, proved to be a mixed success. The construction and replanting targets were not attained, and the provision of services and capital expenditure on infrastructure did not lead to significantly increased levels of private sector business activity. The reasons were the same as causes for the failure of Plan II, and to which were added the difficulties of drought and declining export prices. Campbell discusses that “one lesson learned from the shortfall of this plan was that development on this scale required a more numerous, and more skilled, administrative staff” (1992a, 68). It becomes evident that the failures of the Plans were mainly attributed to lack of skilled staffs in development planning, and lack of appropriate measures for prioritising and coordinating of the development planning process. A problem that could only be improved by improved mechanism for collecting, compiling, and disseminating economic information.

It has long been recognised that the Kingdom’s economy cannot solely rely on agricultural pursuits. Therefore, diversification of the economy through industrialisation was chosen as an important economic option. The Ministry of Labour, Commerce and Industries was then established during the Second Development Plan period, inter alia, to promote, develop and regulate the industrial sector in the Kingdom.

The Fourth Five-Year Development Plan, 1981-1985, surprisingly kept quiet as to the aspirations of economic independence as highlighted in the Development Plan III, but, rather expended on how much aid could be attracted. The projected five-year expenditure for this Plan was placed between T$65 million and T$80 million, depending on the level of off-shore funding that could be obtained. However, the actual amount spent on this Development Plan was T$89 million, of which 90 percent (or T$81 million) was made up of foreign components. This Plan was aimed
more at improving the standards of living as compared to the Development Plan I that was devised to improve the quality of a sustainable, traditional way of life (Tonga Development Plan IV 1981).

The Fifth Development Plan, 1986-1990, re-directed the emphasis to encouraging the private sector development as a basis for a more rapid social and economic transformation. The principal objectives of the Industry Sector for this Plan period were to:

- Encourage and motivate entrepreneurship in the private sector thereby accelerating the growth of the sector to boost output; employment, income and foreign exchange earning of the Kingdom and reduce dependence on import of manufactured products.

- Establish viable industries based on local resources, both material and human, so also optimize the domestic value added of the resources.

- Encourage the development of “Cottage Industries” at the rural level, especially the Handicrafts industry. (Tonga Development Plan V 1987, 222)

The compiling and assessment of the performance of individual sectors and targets during the Development Plan IV period were reported as “tediously unfortunate”. Reliable information was unavailable and the available information was considered unreliable and technically inaccurate. Accordingly, the Development Plan V clearly states that:

The forecasts for production, income and capital formation for DPIV were based on national accounts data. Towards the end of DPIV serious inconsistencies and errors were discovered in the national accounts which made the series for 1980/81 onwards unsuitable for planning purposes, or for inter-country comparisons.

Reliable national accounts data are not available for 1979/80 and 1980/81 so it is not possible to assess performance over the full period of DPIV. (1987, 9)
Again the forecasts for DPV also envisaged similar problems because the lack of reliable and adequate economic information would undoubtedly impede the selection of a suitable development model to be supervened. The government (Central Planning Department) clearly admit the crucial problems that they are facing which emphasises the economic planning process. The government’s failure to realise the role of accounting information in the economic development process becomes evident when they again failed to identify the appropriate means of solving the problem. The Development Plan V again clearly identifies the obvious problem as:

Tonga lacks an adequate statistical framework for the development of a model for the economy. Forecasts of growth in production, consumption and savings cannot therefore be made with any degree of accuracy. In particular the absence of capital/output ratios makes it particularly difficult to gauge likely changes in the levels of production in response to the planned capital investment programme. (1987, 17)

The Sixth Development Plan, 1991-1995, aimed at generating economic growth and employment opportunities. The emphasis was placed on the export and tourism sectors, where certain competitive advantages are likely to perceived. Apparently, the trend of the economic growth showed that it has been declining over the DPIII (1975-1980), DPIV (1981-1985) and DPV (1986-1990) periods, with average annual rates of 3.7 percent, 3.4 percent, and 0.2 percent respectively (Tonga Development Plan VI 1991).

During the DPV (1986-1990) period the overall performance of the economy was far less sustained as compared to the previous years. The performance of the agricultural sector was “disappointing”. The severe drought during the year 1987 resulted in a reduced output of many commodities, including coconuts, bananas, and vanilla. The restriction on exports to New Zealand imposed by the New Zealand Quarantine Authority resulted in the termination of watermelon exports in 1986. The performance of the manufacturing sector was also “poor” (with negative growth) (Tonga Development Plan VI 1991, 8). This been largely attributed to government’s policy to encourage manufacturing which are not economically appealing to investors. There were also thirty (37) industries reported to cease operations during the periods
as a result of competitiveness in the overseas markets and “financial
mismanagement”.

Nevertheless, the impact of aid and remittances on the economy continues to
play a key role. The real value of these transfers grew significantly, and, therefore
allowed the “disposable income per capita to have grown by an estimate of more than
4 percent” (Tonga Development Plan VI 1991). However, it is also noted that the
flows of aid and remittances usually form an important source of exogenous demand,
and variations in its size has significant consequences for domestic activity (Ahlburg

Financial Sector

The first banking institution in the Kingdom of Tonga was the Government
Savings Bank, established under the Savings Bank Act of 1936. This institution was
solely government owned and operated, and in practice there was little difference
made between the Government Savings Bank and the Treasury Department that
operated this activity. This banking institution, combined with the government’s
activities of the Treasury Department operated until the part-government-owned, Bank
of Tonga Limited, established under the Bank of Tonga Act of 1972, opened for
business in 1974. The Bank of Tonga is a joint venture between the Government of
Tonga, which holds 40 percent of the shares, and the Westpac Banking Cooporation
and the Bank of Hawaii International Inc., each holding 30 percent. The services
offered by the Bank include savings account, term deposits, loans facilities, overdraft
facilities and overseas drafts and money transfers.

The Tonga Development Bank (TDB) was later established in 1977 to
contribute to the expansion of the economy for the benefit of the people by providing
financial and advisory assistance to enterprises operating in or prepared to operate in
the Kingdom. The National Reserve Bank of Tonga (NRBT) was also established
under an Act of Parliament in 1988, and commenced operation in July 1989. The
National Reserve Bank of Tonga was established to regulate the issue of currency and
international exchange of money, manage the external reserves of the Kingdom,
promote monetary stability and a sound financial structure, and induce credit and
exchange rate conditions allowing balanced economic growth in the Kingdom Tonga (Tonga Development Plan VI 1991). In recognition of the increasing needs for more banking facilities and to allow competition to exist, a branch of ANZ Banking, and an off-shore banking, MBF were established in 1993.

The establishment of these banking facilities, however, does not reflect favourable incentives for the savings and investment of the country. Tonga faces a large resource gap, indicating a wide disparity between gross domestic savings and investment. Apparently, the situation reflects the generous supply of external savings, in the form of private remittances, external aid grants and government loan from international financial agencies. Domestic capital inflows have not helped in this regard and, in fact, large amounts of private capital funds have flowed out of the country. Overseas investors operating businesses in Tonga took advantage of the failure of the Industrial Development Incentives Act of 1978 to incorporate provisions demanding the expatriation of proceeds of sales to overseas countries. Once the locally produced products are sold in the overseas markets, the investors would either deposit or invest the proceeds in that country rather than repatriating it back to Tonga.

According to the Asian Development Bank Report, the Gross domestic savings have been negative with -5.7 percent in 1980 and -6.0 percent in 1990 (Asian Development Bank 1991, 1992), reflecting the fact that private consumption exceeds GDP. This poor savings performance can be largely attributed to the private sector, particularly to the prevalence of high rates of personal consumption. The reasons for high personal consumption are believed to be related to cultural and religious obligations that tend to weaken the savings motive, and low per capita incomes. Public sector savings have been negligible with the government relying on external grants and loans for funding public sector development projects.

While Tonga’s effort to boost economic growth calls for high rates of investment, the present savings-investment gap implies a significant dependence on external savings. In order for the country to reduce this heavy dependency on external savings, it must make a more determined effort to increase domestic savings, both private and public. Several measures need to be initiated such as: 1) the need to ensure positive real attractive interest rates over to act as a motivational incentive for
increased personal savings, 2) to introduce educational enlightenments on the value of savings, 3) to encourage institutional measures and facilities, and 4) to ensure overall stability in the financial sector.

Summary

The economic affairs of a country have always required government initiative and participation. Experience in developing countries, has indicated that unless government initiate and participate in a determined effort to improve the economic and business environment of the country, unnecessary exploitation and abuse of the accessible economic resources would certainly exist. As Myrdel states:

... the function of the price system itself is dependent upon the integrating influence of government legislation, administration, and policy. The price system could not operate so well, and be so effective in corresponding to our generally accepted values and objectives unless it was for the interferences of the government.... (1957, 49)

The concept of laissez faire that literally acknowledges to “let things proceed without interference” may not be appropriately referred to cases in developing economies. Government’s initiative and participation is vital to the economic development process of these countries. Such involvement would certainly motivate the private sector to join hands with the government in its effort to promote the country’s economic development programs.

Since Tonga has traditionally adopted a cautious approach towards the conduct of it development policy, its implementation and assessment has always been a cause of frustration and re-assessment. The government’s initiative in the adoption of the Development Plans has been welcomed. However, the fundamental of planning in Tonga will not be feasible unless all factors—natural, economic, social, financial and importantly technical are taken on board and coordinated within the framework of the plan. In essence, the availability of statistical economic information is crucial to the economic planning process. The government has made the initiative to promote economic development, but, its failure to realise the need to develop its economic
information data base has caused the Plans’ performances declared “unsuitable for planning purposes, or for inter-country comparison”.

The government should also recognised the need to strengthen the productive sectors, notably agriculture, fisheries, tourism and related services, and small-scale manufacturing, and to encourage export-oriented activities. In developing the agricultural potential, the emphasis should continue to be on the development of high-value products, such as pumpkin, vanilla, watermelon, and root crops, that can bring a good financial return to farmers. While efforts to develop tourism and manufacturing are being supported by a range of industrial incentives, there is also a need to encourage export-oriented activities and re-design an adequate set of incentives to achieve a balanced and rapid economic growth. Because of its vital “linkage effects”, industrialisation is needed to ensure continued growth in the agricultural sector, and in this regard agro-industries and industries meeting the demand of rural population have to be promoted.

Even though private sector development in Tonga is well under way, a major thrust of government economic policies is to further encourage private sector activity as a means of achieving Tonga’s growth and related objectives. Also, there is a need to coordinate programs to emphasise and demonstrate the concept and value of “entrepreneurship” and “savings” to accumulated economic prosperity.

Although, Tonga is thus demonstrating an ability to diversify through exports which can be expanded and consolidated through increased foreign and domestic investment, more market-oriented interest rates are required to promote savings, improve resource allocation, and promote new private investment.

Effective planning and efficient resource allocation are areas needing special government attention. A sound data base, coordination between planning, economic, finance departments and growth of the capacity within key agencies to develop and implement projects would contribute toward a more dynamic development process. Dynamic progress in these areas, and improvements in the framework for planning and the criteria for selecting among investment alternatives would certainly strengthen economic management in Tonga.
CHAPTER FOUR

DOING RESEARCH AT HOME:
AN ETHNOGRAPHIC RECONSTRUCTION OF THE RESEARCH SETTINGS.

Abstract

To produce an ethnography requires decisions about what to tell and how to tell it. These decisions are influenced by whom the writer plans to tell it to. Ethnographies are written with particular audiences in mind and reflect the presumptions carried by authors regarding the attitudes, expectations, and backgrounds of their intended readers (Van Maanen 1988, 25).

Introduction

Ethnographic research is frequently favoured for the study of small groups such as communities, tribes, associations, or organisations because it provides a richness of detail and depth of understanding often lacking in other forms of social research (Srinivas 1968; Burgess 1984; Lofland and Lofland 1984; Ely 1991). The ethnographer's task is to balance an external, objective report with an insight into the subjects’ own view of the world that can only be obtained through the somewhat intimate knowledge ethnography provides.

While some ethnographers explore the workings of cultures different from their own, others have “gone home” and do ethnographic research in their society and in settings with which they are familiar with (Srinivas 1968; Young 1971; Cohen 1972; Dingwall 1977; Fletcher 1974; Atkinson 1981; Burgess 1982a, 1982b; Cavendish 1982; Devereux and Hoddinott 1993). When more and more ethnographic researchers are “coming home” to do research, it is important to examine the fashions in which the task of the native ethnographer differs from that of the ethnographer working outside his or her own culture (Srinivas 1968; Harker and Schonhausen 1982; Jenkins 1984).
Do native ethnographers have any special advantages not enjoyed by an outsiders in conducting an investigation? Conversely, are there disadvantages for native ethnographers that are less likely to be encountered by ethnographers working in cultures other than their own? Drawing from my own field experiences as ethnographer in Tonga, I have come across advantages and problems of doing ethnographic research in my own culture.

The purpose of this chapter is to introduce the research settings wherein my research investigations were conducted. The intention here is to tell a story on how I [the researcher] have successfully gained access to and been accepted in the settings, and have come to terms with various ethical dilemmas in conducting and writing this research.

The Research Settings

Ethnographic writing requires at a minimum some understanding of the language, concepts, categories, practices, rules, beliefs, etc, used by the members of the researched settings. The familiarity with one’s culture and setting can be considered an obvious advantage. Such familiarity with the subject at hand enables the researcher to proceed through to the next level without having to go through the necessary preliminary requirements, such as finding a suitable research assistant or interpreter and establish a level of understanding and trust, learning the native language and culture, and developing a level of comfort within the environment being studied. Working entirely without help is not feasible unless the researcher fully comprehends the local language, and has a good understanding of the local culture. Landau maintains that:

Studying the familiar can be a boon rather than a liability since the ‘insider’ expertise, provided it is continually validated in the field, can really move the work along. Having past experience to guide the flow is extremely helpful. (1991, 124)
Other researchers, such as Heilman (1976), Thorne (1975), Wiseman (1979), and Lopata (1980) provide a holistic view of the qualitative research process by maintaining that the social researcher should use their present or past activities as an area of interest for research. Lofland and Lofland agree that “qualitative social research encourages you to start where you are - to use your current situation or past involvement as a topic of research” (1984, 2). Accordingly, selecting a topic of research study based on the researcher’s current or past related activities would inevitably means that such research be conducted in a setting familiar to the researcher.

As mentioned in Chapter One, the selection of this research topic came into light while undertaking the responsibilities of Companies Registration, and secretary for Prices and Wages Control Regulation Committee, known as “Competent Authority Committee” at the Ministry of Labour, Commerce and Industries in 1988 - 89. So the advantages of undertaking this research at my own society, and in particular in my Department had been favourably honoured. Doing research in my own culture was an added bonus because the Kingdom of Tonga in the South Pacific is a highly stratified society.

Various writers such as Beaglehole (1941), Cook (1961), and the basic ethnography of Gifford (1929), although an excellent ethnography of its kind, do not really explain how the social and political system worked (Bott 1981). Social stratification is particularly complex in the Tongan society and ‘outsiders’ will be at a disadvantage unless they stayed in the country for a longer period of time to really understand the forms and contexts of its social stratification and its overlap. For example, the context of ‘power’ and ‘rank’ in the Tongan society is a very complex combination to completely understands unless you a local. Also, ‘outsiders’ have to understand how political, economic, educational and religious development in the 19th and 20th centuries have changed the Tongan systems of stratification which now resembles a system of social classes.
Chapter Four: Doing Research at Home

Gaining Entry and Acceptance of the Church and School Establishment into Tonga

The establishments and acceptance of the work of the London Missionaries into Tongan life was not an isolated transition but rather a slow and dramatic process. Gaining entry and acceptance by the missionaries into Tonga was more of a miracle than historical. However, the convincing power and accomplishments of the new religion slowly worked into the Tongan way of life. The acceptance of the doctrines and concepts of the new establishments were brought about by several factors. Firstly, it was certainly the consistent impact of the mission efforts and teaching on the mind of some Tongans, especially the high chiefs that led to the breakthrough. According to Davidson (1970), when Lawry left Tonga in 1823 a number of Tongans had expressed regret and disappointment because they had been attracted by his teaching of the new religion. The impact of the teaching of the new religion had led few chiefs to request for a missionary specifically for themselves.

Secondly, the growing experience of the missionaries in other cultures was an added bonus for them in dealing with the Tongan culture. One of the missionaries, Reverend N. Turner, a well educated man with great experience with the Maoris of New Zealand, with whom he had worked for several years, seems to have given him several advantages (Latukefu 1974). Latukefu notes that his sound educational knowledge and experience helped him develop “a sympathetic understanding of the customs and traditions of the people, and gave him a crude familiarity with the fundamentals of the language, which enabled him to learn Tongan quickly and thoroughly. It was he who developed the Tongan alphabet which, with some modification by the present King of Tonga in the 1940s, is still being used in Tonga today” (1974, 51).

Thirdly, the translation of the Holy Bible into the Tongan language was regarded as a driving factor to the understanding and acceptance of the new religion. The locals could then learn to read the Bible in their own language. Fourthly, the establishment of schools in order to enable their converts to read the Bible and communicate with others in writing. The first school opened in Tonga was on the 17 March 1828, with 150 students (Latukefu, 1973). Fifthly, the goods or articles of
trade brought by the missionaries were highly valued by the locals. These goods captured the imagination of the locals and, therefore, helped turn their interest towards the missionaries and their work. This led the locals to believe, quite genuinely, that the only way to achieve their ambitions of acquiring the wealth, knowledge and power of the white people was to adopt their religion.

Finally, the decision by the King, Tu‘i Kanokupolu and his family, and some of the chiefs to accept and support the missionaries probably was the most significant factor in the acceptance of the new religion. The conversions of the chiefs, clearly had a significant influence in turning their own people from heathenism to Christianity. The decision by King George Tupou I, [known as Taufa‘ahau, the Tu‘i Kanokupolu] to accept Christianity, and later on to instruct one of the missionaries, Mr Baker, to draft the Constitution in 1875 was the greatest achievement of the missionaries to gain access and establish Christianity and the school in Tonga.

While the effort and determination of the missionaries in the initial conversion of the Tongans to Christianity is undisputed, one must acknowledge their commitments and degree of getting access and acceptance by the people holding the highest power (King and chiefs). They knew that once accepted by those people at the top of the hierarchy, then their people (clan, kainga) would also follow. So the missionaries’ closeness to the chiefs was an obvious advantage. Ultimately, the acceptance of the work of the missionaries in Tonga came about because the chiefs and their people believed that Christianity fulfilled certain important needs of the society - both individually and collectively.
History and Modern Tongan Society

In studying the conditions of modern Tongan society, the customs and practices observed and recorded by Captain Cook and Mariner (Gifford 1929; Beaglehole 1941; Cook 1961) can hardly be imagined. It may be necessary that a systematic enquiry of the historical perspective is needed; which incorporates the perspective of Tongan culture as constantly changing, adapting, and redefining in response to varying intensities of contact with the Western world that has also been undergoing major changes. The Tongan institutional transformation to a society was systematically aided and organised by the missionaries and the state appears to have been rapid, and the rise of the King George Tupou I dynasty. In fact, there was at least a half-century of intensive contacts with foreign institutions through the church missions, European explorers, and British, German and French merchants. During the 1870's, a well-organised church establishment, protected and supported by the powerful indigenous political interests, had reached great numbers of Tongans throughout the islands. Surprisingly, there was no protest against the church establishment because most of the chiefs supported King Tupou I when he instituted this new arrangements. Perhaps the lack of protest maybe because the changes took a long time to work into the fabric of Tongan life.

During King George Tupou I’s reign, the basic imported institutions and innovations, such as the state, law, church, and the land tenure system, were implanted into the Tongan society. According to history, King Tupou I was greatly influenced by his Australian adviser, Shirley Baker, a former missionary who had fallen out with the Wesleyan mission in Tonga (Rutherford 1977). Upon the King’s request, Baker designed the constitution and framework for the new government, and worked to promote their implementation and acceptance among the chiefs. Baker was then appointed Premier in 1880, and Minister of Lands and was presumably responsible for the design of the land tenure system. He continued to have great influence in the political affairs of the country until he was forced to leave Tonga, at British insistence, in 1890. When Tupou I died in 1893, he was succeeded by a great-grandson, George Tupou II. The reign of King George Tupou II (1893-1918) was characterised with fraught, instability and scandal in government. Fearing German
and French influences in Tonga, the British continued to maintain an interest in Tongan affairs. A Treaty of Friendship with Great Britain was signed in 1901, placing Tonga under English Protectorate, but leaving intact the sovereignty of the monarchy and the government formation that Tupou I had previously established. This protectorate arrangement with Great Britain was removed in 1970.

The reign of Queen Salote Tupou III (1918-1965), was characterised by a legacy of peace, prestige and political stability. Queen Salote came to the throne at the age of eighteen. The Queen believed that modernisation and progress should be subservient to the continued vitality of Tongan tradition. She wanted the country to have improved standards of living - better health and better education - within a conservative social, cultural and political framework. The changes during this period and the contacts with the Western world were rather minimal (Marcus 1978; Wood 1971).

However, in the 1960’s and since the death of Queen Salote, the momentum and quality of contact with the Western world have changed tremendously. When King Taufa’ahau Tupou IV came to the throne in 1965, he favoured the prospects of improved international communications with the outside world to the economic development of the country. The breaking down of Tonga’s isolation through international communication has undoubtedly opened it to foreign influences. This intensive contact with the outside world has tenaciously challenged and integrated the Tongan culture with a version of Western culture. Marcus (1978) refers to this period of transition as a period of “compromise culture” (between Tongan and Western cultures) which is being considered as the historical starting point and background for the present turbulence as King Taufa’ahau brings Tonga into the era of modernisation. This era is characterised by the opening of Tonga to tourism and industrialisation, the outflow of Tongans to overseas countries for education and employment, the growing population and subsequent shortage of land, the increasing importance of sea and air transport and telecommunications, and the increased flow and use of cash (Campbell 1992a; Lamour 1992).
Social System

Tonga has an internally stratified social system and is very conscious of rank at all levels. The complexity of the social concept of power and rank, is perhaps the main factor in holding the society together at its higher levels. The traditional social class structure subdivided the society into four levels:

1. Tu'i = The King,
2. hou'eiki = nobles; chiefs,
3. matapule = chief’s ceremonial attendant, and
4. tu'a = commoners.

In passing the 1875 Constitution, it transferred much of the chiefs’ power to the Central Government in the form of King and ministers in Council, judiciary, and legislative assembly which fundamentally altered the basis of traditional political power. King Tupou I then designated 30 chiefs into “nobles” and assigned a hereditary estate (tofi’a) to each of them. This number has recently been increased to a total of 33. Also, six matapule were also given special recognition and estates though they were not made nobles. These nobles were supposed to grant hereditary leases of eight and one-quarter acres of land to each adult male over the age of 16 years of age in return for an annual rent and the Government was to pay the estate-holder. All these noble titles and the matapule titles who were given estates were to be inherited according to fixed British rules of succession. Under this Constitutional [re]construction, nobles are no longer dependent on their local people (kainga) for political support, though the local people (kainga) remain dependent on their chief for land, at least in practice.

Apparently, the matapule titles have never been considered of chiefly status in Tonga, except those titles associated with legally defined hereditary estates. In fact, the matapule are conferred by noble-title holders to serve as middlemen and ceremonial attendant in ceremonial occasions, such as a kava ceremony. Matapule titles are hereditary, yet provisional at the discretion of the appointing chiefs. The noble can confer as many matapule titles as he wants.
The complexity of the social stratification does not end in the context of its social classes but also extends to linguistic distinctions used to address and refer to persons of different social ranking. There are three different types of vocabularies used in Tonga as: - 1) for addressing the King, 2) nobles and Hon Ministers of the Crown, and 3) conversing among the people (commoners). In speaking or referring to the King and the nobles, special terms are used. Apparently, individuals of the same rank, such as nobles use terms for the commoners when conversing among themselves. This simple illustration would clearly explain some of the different vocabularies used:

<table>
<thead>
<tr>
<th>English</th>
<th>commoners</th>
<th>nobles</th>
<th>King</th>
</tr>
</thead>
<tbody>
<tr>
<td>go</td>
<td>'alu</td>
<td>me'a</td>
<td>ha'ele</td>
</tr>
<tr>
<td>return</td>
<td>foki</td>
<td>me'a atu</td>
<td>liuaki</td>
</tr>
<tr>
<td>eat</td>
<td>kai</td>
<td>'ilo</td>
<td>taumafa</td>
</tr>
<tr>
<td>study</td>
<td>ako</td>
<td>me'a ako</td>
<td>maa'imoa ako</td>
</tr>
<tr>
<td>accept</td>
<td>tali</td>
<td>laumalie</td>
<td>mokoi</td>
</tr>
<tr>
<td>stay</td>
<td>nofo</td>
<td>me'a</td>
<td>'afio, etc ,</td>
</tr>
</tbody>
</table>

In recent decades, access to Western lifestyle has expanded greatly throughout the island group. The rank of commoner elite has gained tremendous establishment through the educational system (instigated by the present King when he was the Minister for Education), and through the remittances from families in overseas countries. Offices in the hierarchies of church organisation and in government bureaucracies provided new arenas for social mobility in “compromise culture”, allowing wider access to Western lifestyle and material goods. The aspirations of the Tongan in the 20th century have moved broadly in two directions: 1) to be successful in education and occupy a respectable position in the government, churches or the Statutory Board, and 2) to be successful as a farmer or entrepreneur, producing food or goods and services to the public which in turn enhanced the public recognition and community support.
The importance of education has to some extent a calculative step in gaining political power. Some of the highly educated and successful commoners tend to marry aristocratic girls and their offspring gradually get absorbed into the ruling elite. In contrast to the traditional system, however, there is no inducement under modern conditions, for aristocratic men to marry down in rank but up in power, for there is no way in which an aristocratic man can make use of his wife’s education for political purposes. In the modern system, it is commonly found that a highly educated man will marry a woman of the aristocratic nobility. Hence, the complex system of stratification of the traditional system, with its independent but interpenetrating and overlapping bases of stratification is changing into a class system in which rank, power in the form of access to the Government, economic resources and education are tending to coincide.

In the last few decades, the traditional stratification system has changed with commoners tending to develop another level in the hierarchy between the nobles and the commoners. This layer appears to establish as a result of well educated commoners being married to nobles’ children and are holding key positions in the government. Including in this level are well educated commoners who also hold respectable positions, such as Peoples’ Representative to Parliament, magistrates, police inspectors, lawyers, medical practitioners, and entrepreneurs. Placing value on education was the common feature, but in other respects this middle class was heterogeneous and did not think of itself as a power group. Interestingly, the transformation of this middle class is far from complete. It is encouraged by economic, political, educational and religious change.

Despite these changes, the indigenous concept of “honour” through fulfilment of obligation (fatongia and fua kavenga) toward the King, nobles and family (kainga) and “respect” (faka’apa’apa) for those in authority, whether chiefly or not, is still strongly valued by Tongans in the “compromise culture”. The principle of “power” and “rank” within the Tongan society is also still strongly respected and valued by the Tongan.
The basic principle of rank acknowledges that sisters have a higher rank than brothers. Apparently, the rank of the father’s sister (mehikitanga) is even greater than that of the sister. The father’s sister has ritual mystical power over her brother’s children. She is required to name her brother’s children, and even choose their spouses. She is the honoured guest (fahu) at their funerals, weddings and first or twenty first-year(s) birthdays. Funerals and weddings are formal occasions where one sees clearly the expressions of power and rank. Relatives who are higher in rank than the dead person or the bridegroom and bride sit in the house or at the front table as the honoured guests (fahu) of the ceremony, meaning the one of highest rank. Relatives who rank lower to the dead person bring food, stay outside and work in the kitchen. Even the noble who holds high political power would still stay outside and work in the kitchen if the dead person is his father’s sister, or his sister, or one of his father’s sister’s children. So, the principle of rank and the indigenous concept of honour and respect are still very much respected and valued in the modern Tongan society. Even in the recent decades where the importance of education has been the framework for gaining political power, these cultural attributes are still respected and valued.

The Ministry of Labour, Commerce and Industries

The Ministry of Labour, Commerce and Industries was established and opened its office on the 5 April 1973. His Majesty’s Cabinet during that time appointed Hon Baron Vaea, who had just returned from London after completion his term as Tonga’s first High Commissioner, the Minister. The Ministry was officially opened with 6 staff members, including the Hon Minister. After having successfully taken charge of the Ministry for 16 years, Hon Baron Vaea was then again appointed by His Majesty Privy Council as Prime Minister for Tonga in 1990 when the former Prime Minister retired from office. Hon Kinikinilau T. Fakafanua, eldest son of a noble, and Governor of Ha’apai, Hon. Fakafanua was then appointed as Minister for Labour, Commerce and Industries, and Deputy Minister for Finance. Hon Kinikinilau T. Fakafanua graduated with a Bachelor of Commerce, and LLM degree from New Zealand and worked in the Crown Law Department before being appointed to the
Ministerial position. He is married to one of the daughters of the King’s younger brother, Fatafehi Tu'ipelehake.

It is twenty (20) years since the establishment of the Ministry, and each year has added new staff to its management and operation, due to the increased volume of works and organisational development, and it has also moved into an organisational hierarchy. The staff members have now increased to 57 staff members. This number excludes the Small Industries Centre, Department of Tourism, and the Co-operatives Department which are all under the jurisdiction of the Hon. Minister for Labour, Commerce and Industries.

The overall running and management of the Ministry is under the supervision of the Secretary for Labour, Commerce and Industries. He is responsible for overseeing the identification of the Ministry’s goal and objectives, the effective formulation of trade and marketing policies and strategies, and its successful implementations in achieving those goal and objectives. This position is held by Mr Bill Harris, who holds a Bachelor of Arts (Hons) and a Master of Education (Hons) from the United States. The Secretary is responsible to the Hon. Minister.

The three (3) Divisions: Labour/Administration, Commerce, and Industries are each headed by a Deputy Secretary. These Deputies are responsible to the Secretary. The Industries Division’s main functions are promoting and encouraging; entrepreneurship in viable manufacturing activities, the development of export-oriented industries, and the local “cottage industries” in the rural areas and outer islands. It was through the government’s endeavour to promote the growth of industries and trade that an Industrial Development Incentives Scheme was approved through legislation in 1978. It was established to provide industrial incentives to entrepreneurs operating businesses in Tonga. The vetting and issuance of development license to business operators is undertaken by this Division. The Division is headed by Mr Falekava Kupu who holds a Bachelor of Arts degree in economics from Fiji, and a Master of Business Administration from Bradford University, Great Britain.
The *Labour/Administration* is responsible for the implementation of Labour legislation to provide appropriate terms and conditions of employment for the labour force, and oversees all administrative matters pertaining to staffing and budgeting. This Division is headed by Mr Uasi 'Ahokovi who holds a Bachelor of Education from the United States. The *Commerce Division* is responsible for the implementation of appropriate trade and marketing strategies; to improve and diversify export trade in agriculture, manufactured and processed goods in order to increase foreign exchange earnings; registration of companies and business licenses; and the control of wages and prices of goods. This Division is headed by Mr Sioeli Matoto who holds a Bachelor of Arts degree in economics from the University of the South Pacific, Fiji.

As part of the Commerce’s function, the registration of companies and non-profit entities is being designated to one of the Assistant Secretary who is responsible to the Deputy Secretary, Commerce Division. The Assistant Secretary’s function is to screen all necessary applications whether complied with the provisions of the Companies Act 1912, and other related Acts before making a submission to His Majesty’s Council for their consideration and approval. The officer is also required to provide his/her financial assessment and interpretations of the last two (2) years’ financial performance of the business to assist the Hon Members in their deliberation. The officer is also responsible for assessing and filing of annual returns from registered companies as per required by the Act. The officer who is currently undertaking these responsibilities holds a Bachelor of Arts degree in Sociology from the University of Otago, New Zealand. It is the particular function of this Division that is of great interest to this research study.
Chapter Four: Doing Research at Home

The Research Task

Field research takes place in social situations in which the researcher participates. Therefore, it is the task of the researcher to observe, record and interpret the meanings and experiences of social actors, a task that can only be achieved through participation with the individuals involved.

Although social scientists have a range of approaches for studying the social world such as experimental methods, statistical analysis and survey research; none of these methods can fully capture the subjective element of social life (Schutz 1954; Becker 1958; Anderson and Lee 1982; Emmett and Morgan 1982). Accordingly, researchers have turned to observation and participant observation in order to get access to the meanings which participants assign to social situations. Becker discuss the tasks associated with participant observer as:

The participant observer gathers data by participating in the daily life of the group or the organization he studies. He watches the people he is studying to see what situations they ordinarily meet and how they behave in them. He enters into conversation with some or all of the participants in these situations and discovers their interpretations of the events he has observed. (1958, 652)

In adopting mainly the methodology of participant observation, the researcher attempts to record the ongoing experiences of those observed in their symbolic world. As Blumer puts it:

...getting closer to the people involved in it, seeing it in a variety of situations they meet, noting their problems and observing how they handle them, being party to their conversations and watching their way of life as it flows along. (1986, 37)

In theory, my research developed out of an interest and desire to understand whether the nature and status of accounting in Tonga is a product of its environment. It is also a desire to understand the role of accounting in the economic development process of Tonga. The desire and curiosity developed while working at the Ministry of Labour, Commerce and Industries, as it seems to suggest that the role and function of accounting may not exist in Tonga. The prolonged existence of the outdated 1912 Companies Act, and the absence of accounting and auditing standards were the most striking and driving factors to this study.
In this research, the basis of participant observation was preferred for the collection of data on social interaction, that is, on situations as they occur rather than on artificial situations. I set out to be a participant observer in a full range of activities which ranges from formal Board meetings, interdepartmental policy and planning committee meetings, conferences and seminar, interview/conversation arrangements, casual work sessions in various office, and participate in the customary gathering of kava sessions. The value of using participant observation lies in the opportunity that was available for me to collect rich detailed data based on observations while appreciating the cultural characteristics of the research settings. In order to achieve this aim, I typically supplement participant observation with additional methodological techniques in field research such as semistructured interviews, life histories from national archives, document analysis, and various interdepartmental correspondence. McCall and Simmons agree that participation observation is less a single method and more, when they maintain that:

... a characteristic blend or combination of methods and techniques that ... involves some amount of genuinely social interaction in the field with the subjects of the study, some direct observations of relevant events, some formal and a great deal of informal interviewing, some systematic counting, some collection of documents and artifacts, and open-endedness in the direction the study takes. (1969, 1)

Working within my own culture has many advantages besides the obvious and crucial one of language. I found it easier to interpret the meanings attached to words and acts by the participants as it was conducted in my language. My relationship with the people, especially the government officials I studied were surprisingly close and friendly. I believed this had a lot to do with our cultural affinity. The knowledge that I acquired over the years at the University came in very handy in the field, especially since I was only a novice. It helped to understand people not only by the words they used, but by their tone of voice, the way they reacted, their gestures which reflected their attitude toward the subject. Having this better understanding enabled me to behave and react more respectfully, appropriately, and with greater sensitivity. In that sense, I did approach each setting very carefully, with
considerable understanding (verstehen) and respect of the cultural world of the research setting.

Researchers have made the attempt to distinguish different styles of participant-observer. Distinctions have been made between active and passive roles (Schwartz and Schwartz 1955), open and closed roles (Burgess 1984), known and unknown participant observers (Schwartz and Jacobs 1979), the complete participant, the participant-as-observer, the observer-as-participant and the complete observer roles (Gold 1958). Whatever distinctions are made between various role, the basic typology that classified this research is that devised by Wolcott (1988) in which he distinguished three ideal styles of participant-observer as: the active participant, the privileged observer, and the limited observer. The active participant has a job to do in the setting in addition to the research; the privilege observer is someone who is known and trusted and given easy access to information about the context; and the limited observer merely observes, asks questions, and builds the element of trust over time, but does not have a public role other than researcher (Wolcott 1988; Ely 1991).

The style of writing favoured for this ethnographic [re]construction of the research settings is that described by Van Maneen (1988) as impressionist tales using first person "I". The idea is to draw the attention of the audience into the unfamiliar story of the behaviour of the individuals, through social interaction, when confronting or working with the subject (accounting). This would allow the audience to see, hear, and feel as I [the researcher] saw, heard, and felt. It is the pre-condition of impressionist tales that interpretation be reserved and stick to the telling of the story. As impressionists are saying, in effect, "here is this world, make of it what you will" (Van Maneen 1988, 103).

In choosing the type of participant-observer, I planned to play the role of a privilege participant because of my familiarity with the people working in the research settings. When I arrived in the research settings, I was very fortunate to have highly respectable contacts at each setting. It was either that I had come to know them while working with the Ministry of Labour, Commerce and Industries or had known them from high school or university. Getting access to information and participating in meetings at the Auditors Department and the Ministry of Finance was not problematic
because I was in the same class at Tonga High School with the acting Government Auditor-General, and at the University of the South Pacific in Suva together with the Secretary for Finance and the Accountant General. Therefore, I was given unlimited access to financial and investment information, pricing policies, policy papers, country reports and Cabinet submissions and decisions. In addition, my position as assistant secretary for the Ministry of Labour, Commerce and Industries was also an advantage because of its seniority within the government ranking system.

As I continued through with the role of privileged observer with no problem, I started to realise that management frequently requested my contribution, independent assessment and evaluation of their accounting practices and reporting procedures. The management did not suggest such request as a means for compensating their involvement rather it reflects their acceptance of my existence. I did not see this as though I have to be an active participant but rather as part of the participant concept and exercise to understand their practical understanding of accounting practices.

Consequently, I also wanted to understand through symbolic interaction the attitude and behaviour of the individuals toward accounting and accountants. The knowledge of attitude would enable us to forecast the kind of action which would take place if the attitude were to be activated. The use of a concept of attitude to explain behaviour is conceived to be a tendency, a state of preparation, or a state of readiness, which lies behind action, directs action, and mould action (Blumer 1969).

It is through self-observation that I would understand and disclose human action and the use of images as a means of facilitating role-taking in characterisation of the experiences of the individuals. To understand a people’s thought “one has to be able to think in their symbols” (Evans-Pritchard 1974, 79), and data must be collected “within the mediums, symbols, and experiential words which have meanings to [their] respondents” (Vidich 1955, 354). Therefore, the understanding of Tongan ways of thought, different vocabularies, culture, and images which is difficult for an outsider to attain even over many years, gives me a scientifically valuable advantage and objective account of the attitudinal behaviour of the Tongan community.
The interviews were carried out without using a formal questionnaire. Rather, a series of topics was introduced from a prepared checklist, and discussed in any order that seem natural. The interview procedure was planned to be a discussion type data collection. In which I introduced my research topic, explained the importance, and imperatives of selecting such research areas important to the country’s economic development as a whole. This approach stimulated the respondent to talk on the bearing of the research area to the growth and development of his organisation and the country as a whole. The most interesting features of the interview was the reaction from the respondent when I explained that Tonga does not have accounting and auditing standards for corporate reporting and auditing practices. In addition, the country is still using the financial reporting requirements stipulated by the 1912 Companies Act. The respondents reacted surprisingly with emotional gesture of ‘oiau e (Oh no), meaning that he/she could not believe it that the country had no accepted accounting and auditing standards, and was still using an outdated piece of company legislation. The reactions reflect a sense of emotional disbelief and concern.

I always think of myself as an ordinary commoner (tu’a) in our cultural hierarchy, and have used this humble attitude advantageously in my field research. As I have no desire to be at the center of discussions as the first local to do PhD in accountancy, and have learned to exercise patience before approaching people for an interview. At the same time I try to be friendly, polite, engaging, and act respectably when addressing someone. I seem to understand when it is appropriate to engaged people for interview and conversation, and when it is best to leave them alone. I always tried to come up at interview as calm, relaxed, and confident.

A tactic that I found especially useful during the interview was to be humble and downplay my academic status. This was to not mention about my university and doctorate degree but to understand the right time to acknowledge it during the interview. I preferred to use the term “research study” rather than my “PhD research” when addressing and explaining to people the reason for my requesting an interview. I could see the advantage of my understanding the culture here, because as one tends to be humble then people tend to be come forthright and very helpful. However, if ones tend to be pretentious then local people usually are reluctant to help.
Getting Access

Essentially, gaining access involves gaining permission to conduct research in a particular social setting. It is not a straightforward procedure unless being commissioned by that particular organisation to undertake research in that particular setting. Getting access to research settings involve negotiation and renegotiation, influences the type of research investigation that can be completed, and occurs throughout the research process. Fundamentally, it is an essential phase of the research process and a prerequisite for the research to be conducted. Apparently, approaches and the nature of gaining entry and being accepted vary with the fieldworker and its environment. As Gans discusses that:

Despite my success in gaining entry, the process is one of great anxiety. ...Until I feel that I have been accepted, the research process is nerve-wracking; I lack the personal security to banish rejection or anxieties, to feel free to observe fully, and to take in as much data as possible. (1968, 310)

Although the basic problems of gaining access are merely the same in all research situations, Hughes's observation that "the situations and circumstances in which field observation of human behaviour is done are so various that no manual detailed rules would serve" (1960, xii) is particularly relevant to the entry phase. And despite the expectation that research settings are equally accessible, successful entry is influenced by the possible combinations of researcher familiarity and relationship to the setting (Lofland and Lofland 1984). Burgess (1982a) also maintains that gaining access is a process occurring throughout the research process. This illustrate that access can be shaped by the social and political context within which the research is evaluated by others, as well as by the nature of the relationships established between the researcher and researched.

The chances of getting permission to undertake the research are increased when the researcher is familiar and known to the research settings, known and trusted by the gatekeeper. The sudden presence of a stranger naturally raises suspicion as motives are always questioned. Access will also be shaped by the cultural and ascriptive differences between the researcher and the researched. Where these cultural differences are minimal or non-existent, access and even acceptance are likely to be
enhanced, but where the differences are large, participation opportunities may be constrained severely and even eliminated. For example, the influences of gender on field research are increasingly well documented, with a focus on how being female influences the roles assigned the researcher that may affect access to particular situations (Wax 1979; Golde 1986; Warren 1988).

Gurney (1985) focuses on the influence of gender and duration of the study on the conduct of the research and getting access and accepted. Distinguishing between short-term and long-term fieldwork he suggests that short-term has a better chance of getting accepted and access as compared to longer-term fieldwork. For example, the researched settings usually preferred to accommodate fieldwork on a short-term basis because of the time and organisational resources provided for the researcher. She also maintains that from her experience, the disadvantages of being female in conducting short-term research are relatively minimal and that being a female even facilitates easy access. In contrast, however, the long-term experiences of being a female in a male-dominated setting proved to be a more significant source of discomfort and anxiety.

Although such cultural and identity categories affect access, they must not be overemphasised, as one study need not be identical to those other studies. As Van Maanen (1988) indicates, the ability to conduct research is not entirely dependent on the cultural and ascriptive characters of the researcher. He, therefore, emphasises the reciprocal relationship that evolves between the researcher and the researched, and contends that the success of the research endeavour is connected intimately with the reactions and responses of those we study to our presence among, and involvement with, them.

In general, the organisation of the research setting may also influence the effort to secure access. In formal settings such as public departments, Statutory Boards, business corporations, permission typically is granted by those with authority and power. Whereas less formally organised settings, usually lack such authoritative positions and the researcher is less dependent on entering the community with the gatekeepers’ blessings. As Whyte has observed, the entry strategy depends to a large degree on the study’s specific focus, “whether you plan to study a whole community
with all of its social classes, ethnic groups, associations, neighbourhoods, and so on, or whether the study is more narrowly focused to gain a more intimate view of the particular segment of that community” (1984, 37).

My requesting permission to undertake this research study at the doctorate level was really without any problem. Initially, the proposed research study was recommended by my academic supervisor and Head of Department, Professor Michael Gaffikin to my Ministry for their consideration and approval. Another contributing factor, is that I am one of the senior officer of the Ministry who at that time was undertaking the Master of Commerce (Hons) program. Also, my sponsor, the Australia International Development Assistance Bureau (AIDAB) had given their unconditional support as the findings would be of great use to them and other developing countries within the region.

The request was favoured and supported by the Hon Minister, Baron Vaea who was also the Acting Prime Minister during that time, but felt that it would be necessary to submit it to His Majesty’s Cabinet for its consideration and approval. Surprisingly, our submission was approved by the His Majesty’s Cabinet on the 23 May 1991. The approval was granted for me to undertake this research study subsequent to my completion of the Master of Commerce (Hons) program in 1992. The Cabinet Decision was then circulated by the Secretary to Government and Cabinet to all Government departments for their information and filing. So the permission to undertake this study and obtain access to government departments and statutory bodies was then granted by the highest authority - His Majesty’s Cabinet. Apparently, I managed to get over my first hurdle of getting the approval for gaining access, with great authority. The Cabinet Decision was my official entry pass for my gaining entry and access. However, my next hurdle was to be accepted by the administration and accounting sections of government departments and Boards under studied.

I arrived back in Tonga on Saturday night 19 March 1994 on a Qantas/Air Pacific flight via Suva, Fiji. When I walked out of the plane I could feel the warm easterly breeze touch me, but it was rather strangely warm as though I had not experienced the warm tropical climate of Tonga before. This was rather strange to
me, and started to get me worried and concerned, especially getting-off in a new terminal that was opened while I was away in Australia. Upon entering the terminal, I felt as though I was a “stranger” in this new structural setting, and in my own country. Apparently, I could see similar faces on the other side of the Immigration counter but the new structural arrangements and improvements around the terminal exaggerated this strange feeling.

On Monday morning, I arrived at the office 15 minutes late. From experience, every Monday morning all the staff, including senior officers must joined the Hon Minister in a 15-20 minutes morning prayer before retiring to start the day’s work. So, I wanted to arrive at the office when they had started working. Unexpectedly, I arrived while they were still having their morning prayer. The Deputy Secretary (Administration) came out smiling and showed me inside. I went inside, bowed down as I shook hands with the Hon Minister before sitting on a chair next to him. The Hon. Minister introduced me to the new staff members before giving a brief welcome speech in our language. He expressed that the Ministry is very proud that one of its staff member is the first Tongan to continue to do a PhD in accountancy. He continued to emphasise the importance of my research study to the function of the Ministry in its contribution to economic development of the country. He then invited me to say a few words on the objective of my research and whether there was anything that they could do to help.

I stood up, acknowledged my profound respect of fakatapu (respect) using the vocabularies for the nobles, and started by thanking the Hon. Minister for the high degree of assistance that he and his staff had been graciously giving me. Also for his continual support despite the fact my study arrangements were approved by the former Minister, who is the present Prime Minister. After explaining the objective of my research study, I observed from cultural experience that I did not have to take advantage of this opportunity and ask for more assistance. So I did not ask for anything more than his blessing. I could tell from his reaction and facial expression that he was surprised and pleased with my approach. He, then asked everyone to close our eyes and bow our heads while he led us in a prayer. It was a very emotional moment in which he asked the Almighty God for his forgiveness, love, help, and
guidance. He emphasised in his prayer that it is “only” through God that everything could be easily achieved. After saying the prayer, he announced that whatever information and resources that I may need must be provided. He then requested full cooperation from all staff members so that I would be able to successfully obtained the required information within the limited time allocated. He then asked all the senior officers if anyone wanted to say something before closing the prayer session - the time twenty-three minutes to ten (9.37) am.

At quarter to ten (9.45), I was again called to join in a senior officers meeting with the Hon. Minister. It was a short meeting at which he wanted to check on the status of the policy papers that were required of every Division to prepare and present to the Industrial, Commercial and Labour Policy Planning and Promotion Conference to be held on the 22 - 23 March 1994. I was also invited to attend and participate in that conference.

When I came out, I was directed by the Deputy Secretary (Administration) to my room and the new computer room. This was a different room from my usual room that I used to occupy but which is now occupied by the Assistant Secretary responsible for the registration of companies. He also informed me that one vehicle had been specifically allocated for me to use whenever needed.

At quarter to eleven (10.45), I was again called inside the Hon. Minister’s office. This time the Minister wanted to discuss few developments in the Ministry with me. He then started talking about the role of the Ministry in the economic development process by emphasising the importance and need for re-assessing the Ministry’s planning and market policies on agricultural produce and marine resources. He then moved on to talk about the Companies Act that is currently being revised by Slater & Gordon Solicitor from Australia. He has requested that the Act be revised using the New Zealand Companies Act 1993 as a guide. He suggested that the approval of companies registration to be registered in the Kingdom will no longer be given to His Majesty’s Privy Council but rather handled by the Registrar of Companies in our Ministry. Under, the Act the Registrar of Companies is the Hon. Minister himself. He then requested whether I could see any problem with the new arrangement since I had been handling that particular responsibility before leaving to
undertake this study. Again, he quickly changed the topic and talked about the internal management problems within the Ministry, then moved on to religion and Christianity in Tonga. The topics covered in our discussion were very diverse and general and which he initiated most of the talking. Our meeting ended for lunch at 12.45 afternoon.

The afternoon session was spent mostly with the Deputy Secretary (Commerce), Mr Sioeli Matoto going over the Revised Company Bill that was received from Slater & Gordon Solicitor and organising my interview schedules to start on the 24 March, because of the conference on the 22 - 23 March. The interviews were arranged mostly through the telephone. Surprisingly, I was given a warm welcome on the telephone by all concerned, and the timing of appointments started to roll on my diary. When the afternoon session was over, I went home feeling happy, excited, and confident that my profound welcomed and meetings with the Minister had signalled my acceptance to those concerns. My status as an *indigenous researcher* was significantly recognised more than as a returning scholar of the Ministry.

In summation, gaining access to a research site is not a one-off event; it is instead a social process that occurs throughout the research study. Indeed, the access that a researcher obtains influences not only the physical accessibility but also the development of the design, collection, and analysis of the research study. Although I have outlined the procedures that I followed in procuring my approval and access, my experience suggests that entry can be easily facilitated if the researcher can provide a credible and plausible account justifying his/her research interests, and it is endorsed with approval by those holding the highest power and authority in the research settings. Access also is based upon the relationship between the researcher and the researched.
Summary

When doing the field research, I was essentially interested in the reconstruction of the traditional culture of Tonga in a modern society. When analysing the modern Tongan society, the significance of Westernisation and its linkage with economic development became clear. The importance of education has been the framework for acceptance of Westernisation and gaining political power, while the cultural attributes are still very much respected and valued. In Tonga, Westernisation is becoming broader, and more powerful as years go by, and, therefore will necessitate a continuous examination of the dynamic relationship between it and the “compromise culture”.

Doing ethnographic research at home undoubtedly has many advantages. Besides the obvious and crucial one of language, the familiarity with the culture would be made even easier to an insider than to an outsider to interpret the meaning attached to words and acts by the participants. It is easier to understand people not only by the words they used, but by their tone of voice, the way they make jokes, slang, their gestures and so on. While confidentiality and issues of cultural sensitivity were always problem, great care and respect was always observed. Having this better understanding enabled me to behave and react more appropriately and with greater sensitivity. I treated the cultural characteristics of the researched settings with respect, valued, and trust.

Another advantage of familiarity with the culture is economy, that is, considerably less time is required in the field to become acclimatised and “learn the territory”. It can also prevent misunderstandings and embarrassment. A person new to Tonga could be expected to misunderstand the intent behind several phrases and words, and even use inappropriate vocabularies. For example, an outsider may mistakenly addressed a tu’a (commoner) using noble’s vocabularies thinking that he is one of the noble and will undoubtedly cause him (that commoner) embarrassment. In Tonga, if an outsider addressed a tu’a by mistake in a similar fashion, obviously the outsider is causing that person a lot of embarrassment or ridiculing his/her low societal status. Therefore, the tu’a (commoners) would tend to keep away from that researcher(s), afraid of being ridiculed or embarrassed in front of other people.
Working within your culture, gives the researcher some kind of confidence and physical security with the investigation. For example, my familiarity with the culture and the settings gave me some kind of confidence and security which always accompanies the feeling of “at-homeness”, which encourages me to move around the research settings without encumbrance. Also my knowledge of geographical location of the settings was an economical advantage. However, while a general knowledge of an area or culture is an advantage in developing entrée and rapport, particular knowledge of and by the community and people being studied may cause problems. Whether the previously established contacts work to the advantage or disadvantage of the researcher will depend heavily on the personal characteristics of the researcher.

However, it is often argued that being an insider erodes your objectivity and ability to analyse. Especially, when entrée and rapport are relatively easy, one will become persuaded that he or she understands more than is actually the case. Also the questions of ethical, value and role conflicts may all be affected by the degree to which the researcher has prior knowledge of the culture. It is also argued that the more intimate that knowledge is, the more likely its possessor will identify with the points of view and values of the people being studied. But it should be argued that, even when anthropologists work in their own societies, they are rarely complete insiders.
Even if you study your own sub-culture, the criticism that insiders are not objective is always open to question. My experience suggests that being an insider is a problem for those who hold the positivist view that there should be a distance between the subject and the object, to allow 'objective' analysis. Today, few anthropologists would maintain this view, as the virtues of verstehen, participation and feeling are advocated, and the pertinence of 'objectivity' to social science is questioned. As maintained by Giddens that if, within a phenomenological or interpretive frame of reference, the purpose is somehow "to think and feel oneself into the minds and emotions of one's subjects" (1974, 22), then being an insider should enhance one's understanding of the researched community. In my experience, the more of an insider you are the better your understanding becomes.
CHAPTER FIVE

ACCOUNTING REGULATION AND THE PROFESSION

Abstract

What does change, and change radically, is the content of those functions and the environment in which they are to be performed. The new content—the information to be measured and communicated—and the new environment are no longer responsive to the traditional accounting tools of measurement and communication. In sum this is the heart of the accounting crisis. (Ghandi 1976, 48)

Introduction

Accounting and auditing are professions which exist on the derived demand for their services. They thrive on the public's perception of the integrity and the high competence level of their members. Accounting and auditing are, nevertheless, indispensable for providing data to users and also creating public confidence in the integrity of the information provided. However, most developing countries, such as Tonga, have often experienced problems in framing and enforcing legislation for the keeping of corporate and business records and reporting of financial results. In a number of countries, legislation has been limited in scope and detail or is otherwise non-existent. During the 1910's, in Tunisia (Holzer and Tremblay 1973) and Panama (Chu 1973) there was no law required for published financial statements and no prescribed minimum audit standards and qualifications. Financial statements prepared under such limited requirements of the law, usually fall far short of providing sound, uniform and understandable financial information.

Accounting regulations have long been recognised as a means of enhancing the reliability of accounting reports. They help to eliminate abuses and injustices in the accounting process. Taylor and Turley define the regulation of accounting as:
... the imposition of constraints upon the preparation, content and form of external financial reports by bodies other than the preparers of the reports, or the organisation and individuals for which the reports are prepared. (1986, 1)

However, regulation of accounting varies from country to country. In some countries such as, Canada (Zeff 1972) the accounting profession has taken the responsibility for the preparation of authoritative statements on accounting practice, while in others, Germany (Beeny 1976), France (Collins and Pham 1983), regulations are imposed upon the accounting profession by legislative bodies. In other countries, such as the Netherlands (Nobes and Parker 1983) both the accounting profession and governmental agencies work together. So, the determining factors as to who actually establishes accounting regulations may depend on (1) the status and the size of the accounting profession in the country, and (2) the degree to which the government seeks to control the economic activities.

In Tonga, accounting and auditing are not adequately established to provide relevant, timely, and reliable information useful to users. This is mainly because accounting and auditing are not yet legalised in Tonga. There is no legislation that would provide a power base for accounting and auditing despite the Companies Act requirements that every company has to prepare a balance sheet and have them audited by an auditor every year. In the absence of such legislation, most businesses suffer from faulty accounting and inadequate financial reporting. Unless legislation and enforcement are imposed, businessmen will misuse their freedom of action. As Wilcox argues that:

It is not always safe to leave business to its own devices; experience has shown that its freedom will sometimes be abused .... These abuses have not characterized all business at all times, but they have occurred with sufficient frequency to justify the imposition of controls. Regulation is clearly required, not only to protect the investor, the worker, the consumer, and the community at large against the unscrupulous businessman, but also to protect the honest businessman against his dishonest competitors. (1966, 8)
The need for accounting and auditing services has emerged with the changes in the economic activities in Tonga. The gradual influx of commercial farming the country's agricultural subsistence based economy in the 1960's led to the establishment of the Tonga Commodities Board Act in 1973 to regulate the processing and marketing of the local produce to overseas markets. However, the continual decline in copra prices in the overseas market and the frequent visits of hurricanes to the region affected the banana and vanilla production, caused the government to explore other economic options to complement the agricultural products. The establishment of the Ministry of Labour, Commerce and Industries and Tourism in 1973 was also given the responsibilities to promote and explore marketing opportunities for the country's products both locally and in overseas markets.

The growing importance of the traditional industries, such as cart assembling, boat-building, motor and bicycle repairs, and handicrafts prompted the government to develop and expand its industrial sector. The government realised the importance of creating an attractive macro economic environment aimed at fostering industrial investment. The approval of an Industrial Development Incentives Act in Parliament in 1978 was an economic boost as it provided investment incentives in the form of tax incentives, institutional facilities and infrastructures. The influx of both foreign and local investors to the Kingdom prompted the government to seek funding from the Asian Development Bank for the establishment of the Small Industries Centre Project in 1980. The Small Industries Centre Project is a particularly important facility to the country's industrial development by providing serviced factory space at modest rental to investors.

The incorporation of commercial and industrial development into the government's agenda of economic development tends to develop greater awareness of the needs to develop accounting infrastructure. With new movement to industrialisation (entrepreneurship), accounting supposedly assumed the role of supplying relevant economic and financial data for a number of concerned parties. Corporate management needed information for planning purposes and for controlling the use of economic resources entrusted to it, as well as discharging its stewardship
responsibility to shareholders. Shareholders were interested in management performance and how it contributed to the well-being of their investment.

Moreover, creditors were concerned with the solvency of the enterprise and its ability to pay its debts. Employees had a vested interest in the enterprise and wanted to know of their long-term employment prospects based on the ability of the enterprise to pay their wages and salaries. Customers do not want to be cheated or overcharged. Furthermore, government is concerned with the protection of the public and, therefore, need accurate and reliable information on the business financial performance of the enterprise for its share of taxes. Potential investors had particular interest on the financial performance of the enterprise before making commitments to invest in that particular enterprise and, therefore, have called for improved accounting and auditing services in Tonga.

At this juncture, two important questions may be raised. First, are there accounting skills available to call upon to assume this significant role? Second, are these concerned parties really aware of the accounting services and sophisticated enough to demand information provided by accounting and do they understand how to use it? The first question is dealt with here. The second question will be dealt with in the succeeding chapters.
Accounting Education

As discussed in Chapter 4, Tonga’s formal education was introduced by the European missionaries in 1823. This mission activity led to the establishments of pastoral schools (*ako teu*) in villages with the main purpose of teaching students to read, write and think in their own language, so that they can learn the Scriptures and become Christians (Gannicott 1990). The early pastoral schools provided the foundation for an extensive system of primary education in Tonga. This early achievement in basic education led to the formation of policy documents that typically led to the establishment of primary education that became compulsory at the remarkably early date of 1876 (Latukefu 1974). The first missionary secondary school (*Kolisi ko Nafualu*) was established in 1868. According to Latukefu (1974) mathematics (*matimatika*) was the main subject taught together with Scripture studies at this school. The government secondary school, Tonga College was established in 1882 and Tonga High School in 1947. However, surprisingly the accounting related subjects, such as economics, commercial studies, bookkeeping and accounting were not introduced into the teaching curriculum until the early 1970s.

Commercial studies subject was introduced to the Tonga High School as optional in 1974, and later changed to basic bookkeeping in 1977. Accounting was then introduced to the national teaching curriculum, and for the New Zealand School Certificate and University Entrance Examinations in 1978. Commerce subjects, such as economics and accounting are still scheduled as optional subjects at all teaching levels. While the introduction of accounting subjects have yet to attract a lot of interest from students, efforts have been contributed as a motivational basis for students in both government and church colleges and high schools. Ex-students and businesses have donated cash prizes for top and outstanding student in accounting at Form Six level at church colleges while the Crown Prince and Hon Minister for Foreign Affairs and Defence, Prince Tupouto’a donated an annual cash prizes of T$1,000 each to top student(s) in accounting at Tonga College and Tonga High School.
While, Tonga does not have a national university it is one of the Member countries of the South Pacific that formed the University of the South Pacific in Suva, Fiji. This university was established in 1968 and all member countries contribute annual financial grants to the running of the university. The accreditation of the three years full degree programme in accounting at the University was introduced in 1975. The introduction of the degree program was seen as an opportunity for the government to send scholars to pursue studies in accounting and economics at the university. While the numbers of graduates in accounting from this university have been disappointing the government is not giving up on its human resource planning for more graduates in accounting and economics. Students were complaining that the content of the accounting courses were too advanced and irrelevant to the needs of the developing countries of the South Pacific. However, the author is one of the graduates in accounting and economics from this University in 1987.

The small number of graduates in accounting from Fiji together with the fact that only a few have decided to return home after graduating from New Zealand and Australian universities is reflected in the prolonged lack of enthusiasm and inactivity of the accounting profession in Tonga. However, one has to congratulate the efforts and commitments of those graduates that have contributed to the establishment and registration of the Tonga Society of Accountants Incorporated (TSA) under the Incorporated Society Act 1986, in 1992.
Regulation of Accounting

The accounting reporting requirements under the Companies Act 1912 and Company Rules 1918, contain the minimum disclosures to be made in the balance sheet only of registered companies. They came into effect on the 12 September, 1912 and 23 April 1918 respectively, and were the first piece of legislation to have a direct impact on Tonga financial reporting. These requirements remain unchanged to date. The Tongan company law is based on and mainly derived from the English law.

This legislation was drafted during the time the country was declared a British Protectorate in 1900. The regulations came about in response to scandals and business failure in the Kingdom, and were introduced at the time when the government was in turmoil because of growing concern in the financial management of the Tonga Ma'a Tonga Kautaha (The Tonga for the Tongans Association). As a result, the Kautaha was forced into liquidation due to financial mismanagement (Rutherford 1981).

The Tonga Ma'a Tonga Kautaha was a ‘native trading company’ or primitive cooperative formed by the local copra growers. It was founded in 1909 with the aim of eliminating or preventing the commercial exploitation of the local copra growers by the European middle men. Within a year it had become the centre of controversies and protest directed at the European commercial interest and dominance in Tonga. This 'cooperative concept' was introduced by an European, named Alister Donald Cameron and he himself was the chairman of this Kautaha. In the light of this protest, Cameron himself presented the balance sheet for the first year trading of the Kautaha to a general meeting in Vava'u in 1910 (Rutherford 1981). This is the first time that financial reporting was introduced to the public life in Tonga.

The balance sheet and books of the Kautaha were then requested by the Premier and were to be audited by the Government Auditor, T.V. Roberts. The Auditor's report was then submitted to the Privy Council on 26 August 1910. The report said that the "business was in a very bad way, it had been run on a system of bounce and bluff and concluded, the whole of the books are without doubt faked" (Rutherford 1981, 29). Following the auditor's report the Kautaha was forced into
liquidation. The government then called for the drafting of a company legislation requiring a proper articles of association to be lodged with the government and that annual audits be carried out.

An examination of the said Act and Rules reflect two very important features. First, the substance of the Act reflects the nature of the business atmosphere during the time of its drafting. The controversies and protests during the liquidation of the Kautaha is evident in the framing and arrangement of the provisions. The Act covers a wide range of legal requirements such as Memorandum and Articles of Association with 11 sections; Distribution of Share Capital with 7 sections; Management and Administration with 14 sections; requirements as to companies established outside Tonga, and Legal proceedings and offences with 7 sections, and winding-up with 32 sections. This reflects the government's concern over the possibility of business failure and protection against fraud with little or no concern with the accountability process.

Surprisingly, only 2 sections refer to the auditors' power and duties, and out of the 21 sections of the Company Rules only one section refers to the filing of an annual report. Therefore, it is evident that the failure of the Kautaha and the European commercial dominance during that time had a sounding influence on the framing of the said. It reflects the anger and agonising frustration with the lack of trust in the European commercial involvement. The government was more concerned with eliminating the European business dominance rather than a response to a demand "in the public interest". Section 75 of the said states;

It shall not be lawful for any British subject or foreigner to be a member of or hold shares in any company registered under the provisions of this Act and of which the persons applying for registration are wholly Tongan, without the consent of and subject to the conditions imposed by the Privy Council. (1988, 28)

Second, the Act reflects the British Companies Act regulation in respect of accounting disclosures. The dominant objective of accounting regulations under the British Companies Act, 1901 (Sutherland, 1990) was to show that the stewardship function had been performed by management. The emphasis was on protection for shareholders with little or no concern for the public interest. There was no
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requirement that the accounts be available for public inspection. For example, the Company Rules 1918 required the filing of annual returns only with the office of the Registrar of Companies. Section 18.2(a) states that:

no person is entitled to a copy of or an extract from the register, return or summary relating to the affairs of a private company except a member of that company. (1988, S-7)

The filing of an annual return was required to be in the form of a balance sheet while the statement of profit and loss was not required. Section 13(c) also requires that;

a statement in a form of a balance-sheet made up to a date not earlier than 10 days before the date of the return audited by the auditors or auditor of the company and containing a summary of the company's share capital, its liabilities and assets giving such particulars as will disclose the general nature of those liabilities and assets and how the values of the fixed assets have been arrived at but the balance need not include a statement of profit and loss; ... (1988, S-5)

Although an examination of the legislation indicates the British influence, it is evident the adoption of a British system of regulation was inevitable. Tonga was deemed to have no legal system in operation at the time so those laws of England were then applied. This does not suggest all features of the British regulatory system, but it was a reflection of the times.

During Britain's dominance period, (Sutherland 1990) the public interest theory of regulation was prominent. In the case of Tonga, the substance of the phrase "in the public interest" was never given as a reason for the regulation of financial disclosure (Rutherford 1981). Rather the obvious reason for such limited requirements was that the assets of the absentee owners in the local businesses were being looked after (stewardship function). Also, the expatriate British accountants and Government Auditor were familiar with such requirements - the familiarity concept. There were no debates on its function and suitability to the local business environment.
The major concern of such disclosure requirements under the economic development of Tonga is a complete lack of interest in the function of such statements in the area of providing information within the spheres of business management and economic planning. Such accounting requirements simply suggest that the reliability of financial disclosures is not likely to reach any significant level of usefulness unless legal disclosure standards are set. Therefore, in order to provide needed professional services, the development of accountancy has to be prompted through appropriate laws and regulations.

The underlying philosophy of the British accounting regulation remains (Taylor and Turley 1986) that the Act should establish the broad framework and the accounting profession should then develop detailed procedures and rules which assist in the practical implementation of such framework to suit the ongoing changes in the business environment.

However, it took 80 years before the accounting profession was formed in Tonga and the government to call for the revision of the Companies Act. Under the terms of the Revised Bill in 1994, the Tonga Society of Accountants is to be given the responsibilities of setting "approved accounting standards" to be approved by the government. What is surprising is the prolonged existence of the present accounting disclosure requirements considering the economic transition in the economic base of the country. In this research, an attempt was made to explore the possible reasons that contributed to the prolonged existence of the present accounting regulation in the country.

First, there has been an extreme shortage of suitably trained and qualified accountants for the servicing of information systems in both the public and private enterprises. Roger Juchau (1984) conducted a survey throughout the Pacific region in 1973 and indicates that there were only 9 fully qualified accountants, and 24 sub-professional (certificate/diploma) in Tonga in 1973. Out of the total 9 fully qualified accountants, three were working in the government departments, two in the Statutory Bodies, and four in the private sector.
Secondly, the majority of the businesses were predominantly family owned. Tonga Statistical Abstract (1987) indicates that family-owned business accounted for 87 percent of the business sector, mostly retail outlets and service industries. Therefore, in the absence of a broad based ownership structure of the family business, undoubtedly there was no pressure coming from shareholders and investor groups for financial reporting. The lack of pressure from shareholders or investors for financial report under the family-based ownership structure prolonged the development of accounting infrastructure. In fact, there was also a pervasive reluctance in the locals to invest outside of one's family business because of lack of confidence in the information available. As SyCip agrees that:

In developing economies, particularly, lack of confidence in an unknown management or in the economy itself has often resulted in hesitancy on the part of prospective domestic investors to entrust their funds to an enterprise. (1967, 42)

Thirdly, the business managers in the 1950's to early 1970's were mostly nonprofessional, in the sense that they were likely to lack formal education and training in management. Their lack of formal training is reflected in their attitude towards disclosure requirements of financial information. There was no demand for improved or adequate disclosures. It is generally believed that professional managers (Perera 1987) are more likely to disclose information than nonprofessional managers, because they would be more conscious of their professional and social responsibility.

Fourthly, the banking practices of over-reliance on client reputations rather than the conventional practice of financial appraisal. This practice of evaluating the client on the basis of cultural status and reputation rather than assessing the financial performance on the basis of ability to repay, closes out the audit function for independent professionals. This is a common phenomena in developing countries with a stratified chiefly system.
Fifthly, the government’s commitment to creating only an attractive macroeconomic environment without improving micro accounting information services in the 1970’s. Such commitment should cover macroeconomic aspects and the appraisals necessary in the micro sphere, thus covering the project cycle. The government failed to comprehend the need for improving micro accounting information as a means of generating investors confidence. As Enthoven agrees that:

... corporate reporting and disclosure of information to the financial community plays an important part in building investor confidence and interest and stimulating the development of capital markets ... many countries have no proper capital market precisely because there is no financial reporting of a nature to generate investor confidence. (1965, 33)

From the investor's point of view, accounting information fulfils the role of providing useful information to assist them in allocating funds to their most efficient and economic use. Without an adequate accounting information system, investors have little information with which to forecast profitability and the firm’s investment alternatives. The lack of adequate, reliable and timely accounting information, may well force the investor to not choose to reinvest in the business at all.

Sixthly, the society’s attitude toward accountants affects the status and perception of, and establishment of the accounting profession. This attitude also affects the individual choice of interest, its credibility, and the type of work that accountants could perform. In Tonga, accounting is not conceptually regarded as a low-status occupation, however, the societal attitudes are still haunted by the unfortunate psychological image created by the early European businessmen, that accountants and businessmen are thieves and cunning. This societal perception affects the individual choice of interest to pursue accountancy as a career.

Seventhly, the tendency of individuals to suppress financial discrepancies, such as shortfalls, debts, and inaccuracies that resulted from wrong decisions. In Tonga, there is a high likelihood that managers would be unlikely to report such information for fear of being ridiculed or stripped of social and economic privileges. The high level of non-disclosure of such information makes it more difficult to implement an improved system of control and performance evaluation that may result in a call for a drastic revision in the accounting disclosure requirements.
Eighthly, the lack of multinational firms that could have attracted international auditing firms into the country. The establishment of international auditing firms could have called for a drastic revision of accounting disclosure at a very early stage.

Effective accountancy needs a good institutional set-up but countries such as Tonga are still burdened with weak and outdated frameworks in this respect. What is needed is some form of economic planning with which to effectively allocate scarce human, financial and material resources desirable to enhance the economic growth and development of the country. However, in order to enable such planning processes to function effectively and efficiently, accounting activities may need extensive formalisation and systematisation in the form of accountancy plans and planning. This would involve institutional and professional, legislative and regulatory, and educational and training aspects that ought to be implemented in order to stimulate growth and development.

Audit Law

In Tonga, the role and function of the auditor are quite different, for example, from those in Fiji and other developing countries. The main function of the auditor under this legalistic approach is to certify that the balance sheet is properly drawn up, in accordance with the law.

The dissatisfaction with the present state of company and public auditing has been widely publicised in the media, financial institutions and the political arena during the last decade. The criticism has been concentrated on three issues as: 1) the question of auditors responsibility and liability, 2) doubts about the independence of reporting auditors, and 3) the credibility of the audit reports. These issues are very important and the anxiety about the present practice with regard to them is fully justified. But, if acceptable solutions were to be found to these criticisms, the investment community would still protest that the auditors were not fulfilling their functions adequately. For there still remain the question of the scope of the auditor's examination and report.
One of the reasons for requiring the attestation of financial statements, by an independent auditor, in the British Companies Act (Sutherland, 1990) is to protect any possible conflict of interest between the company providing the information and those using it. Users (absentee owners) have been particularly concerned about a potential conflict of interest between themselves and the management of the entity. This apprehension is that the financial report which management has been providing may be intentionally or unintentionally biased by the provider. Therefore, users seek assurance from outside independent experts that the data are free from the perceived conflict of interest.

The Tonga Companies Act is no exception as it was drafted from the British Companies Act. There are two statutes that have had provisions relating to auditing services in the Kingdom. They are, (1) the Companies Act 1912, which deals with auditing of company accounts, and the (2) Public Audit Act 1988 which deals with auditing of public accounts.

Company Audit

The Companies Act 1912, sections 30 and 31, deals with the appointment, and powers and duties of company auditors. The Act requires the shareholders at each general meeting to appoint an auditor to hold office. And if the annual general meeting fails to appoint an auditor due to a lack of consensus or for any other reason, then any member of the company upon application to the Privy Council may appoint and fix the remuneration to be paid to the company's auditor for his/her services.

A director or an officer of the company cannot be appointed an auditor. However, the first auditor may be appointed by the directors before the statutory meeting until the first general meeting. Section 30 states that:

(1) Every company shall at each annual meeting appoint an auditor or auditors to hold office until next annual general meeting.

(2) If an appointment of auditors is not made at the annual general meeting the Privy Council may on the application of any member of the company appoint an auditor of the company for the current year and fix the remuneration to be paid him by the company for his services. (1988, 13)
The company auditor has the right of access at all times to the books, accounts and vouchers. The auditor shall make a report to the shareholders based on the examination of the company's account. Such report would be based on the auditor's opinion as to whether the balance-sheet exhibit a "true and correct view" of the state of affairs of the company. Section 31 states that:

(1) Every auditor of a company shall have a right of access at all times to the books and accounts and vouchers of the company and shall be entitled to require from the directors and officers of the company such information and explanation as may be necessary for the performance of the duties of the auditors.

(2) The auditors shall make a report to the shareholders on the accounts examined by them and on every balance-sheet laid before the company in general meeting during their tenure of office and the report shall state-

(a) whether or not they have obtained all the information and explanations they have required; and

(b) whether in their opinion the balance-sheet referred to in the report 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 their information and explanations given to them and as shown by the books of the company. (1988, 13-14)

The above detailed description of the function of the auditor inevitably creates several problems for the investment community. First, the Act fails to prescribe who can become an auditor by not stating the required qualification or experience, and does not prescribe his/her responsibility and liability. Therefore, anybody can sign as an auditor regardless of whether he/she knows what to do.

Clearly, what is needed is a comprehensive definition of who can be an auditor and their duties, clearly defining their responsibility and liability. As SyCip writes from first-hand experience:

...The auditor, through his independence, competence, and integrity, supplies the needed credibility to financial reports. (1967, 42)
Hence, the prescribing of the qualification and experience of auditor under the Act would assure that only competent persons would be willing to perform and sign an audit report as the law would sanction any negligence. In addition, the auditor is not merely lending credibility to the audit report, the auditor provides a protection against inefficiencies and managerial malfunctions.

Secondly, the auditor’s examination and opinion are based on the examination of the balance-sheet only. The limiting of the auditor’s examination to the balance-sheet, usually referred to as a “balance sheet audit”, does no more than certify that the balance sheet as a true copy. The reason behind this approach is to protect the absentee-owners, as the income statement is confidential and should not be released to outsiders.

The measurement of periodic income is perhaps the most important step in the accounting process, and the figures for annual earnings are of great interest to investors, government, bank, etc. The auditor’s opinion on the fairness of the net income reported for the period is just as important as his/her opinion on the fairness of the balance-sheet. Interested parties cannot form an accurate assessment of the efficiency, profitability and the accountability of the company’s management simply from the balance-sheet figures only. Within a planning activity, sound data and measurements are necessary, including accounting tools and techniques such as project return measurements, financial balance sheet and income statement preparation, source and application of funds statements, system of control, etc.

Thirdly, the Act gives the shareholders the exclusive right and duty of appointing and removing the company auditors, receiving their report and determining their fees. In addition, the balance sheet shall be signed by two directors of the company and the auditors report shall be attached to that balance sheet. Therefore, the auditor is required to report to the directors first before submitting that report to the shareholders’ meeting. So, any formal relationship between the auditor and the directors serves to prejudice the auditor’s appearance of independence in the conduct of his/her professional judgement.
Fourthly, the auditor does not express an opinion on balance-sheet without performing an audit. The assertion in the report that the auditor has made an examination precludes the possibility that an auditor might issue an opinion merely on the basis of having to certify that the balance-sheet is properly drawn up. Section 31.2 (b) states:

The auditors shall make a report to the shareholders on the accounts examined by them and on every balance-sheet laid before the company in general meeting during their tenure of office and the report shall state-

(a) whether or not they have obtained all the information and explanations they have required; and

(b) whether in their opinion the balance-sheet referred to in the report 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 their information and the explanations given to them and as shown by the books of the company. (1988, 14)

Fifthly, the non-existence of auditing standards. Standards are authoritative rules for measuring the quality of performance. The existence of generally accepted auditing standards is evidence that auditors are much concerned with the maintenance of a uniformly high quality of audit works by all independent public accountants. If the auditor has adequate technical training and performs audits with skill, care, and professional judgement, the prestige of the profession will rise, and the public will attribute more and more significantly.

The auditor’s report should indicate whether the examination was in accordance with generally accepted auditing standards and included all auditing procedures that owed to be followed. As Meigs, Larsen and Meigs contend, such report should read as follows:

Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. (1973, 18)

In the absent of auditing standards the auditor’s opinion would then be based on explanation and information given to them by the management. Section 31.2(b) states:
...to exhibit a true and correct view of the state of the company’s according to the best of their information and explanation given to them and as shown by the books of the company. (1988, 14)

Auditing standards are criteria for the quality of audit performance. They are quality guides (Porter and Burton 1971) that not only guide the auditor in performing his/her examination but also evaluate the auditor’s performance. Therefore, the examination has to be carried out by a person or persons having adequate technical training and proficiency as an auditor, and that due care has to be exercise in the performance of the examination and the preparation of the report.

Public Audit

Under the Public Audit Act 1988, section 3 deals with the appointment and removal of Auditor-General. The provision calls for such person to be a qualified chartered or certified accountant with respectable conduct.

(1) The Prime Minister with the consent of Cabinet shall appoint an auditor, who shall be a qualified chartered or certified accountant, to be the officer called Auditor-General to hold office during good behaviour and shall be removed by Cabinet on the recommendation of the Prime Minister. (1988, 2)

Sections 5 and 6 deal with duties, and examination of financial statements by Auditor-General. The Auditor-General is entitled to free access at all times to all information that relates to the performance of his/her duties.

The Auditor-General is the auditor of the Public Accounts, and as such shall make such examinations and inquiries as he considers necessary to enable him to report to the Prime Minister for subsequent submission to Privy Council.

The Auditor-General shall examine the several financial statements required to be included in the Public Accounts and express his opinion as to whether they present fairly information in accordance with recognised government accounting policies. (1988, 2-3)

Section 7 deals with the Auditor-General’s report. The Auditor-General is to conduct the audit functions and report back to the Prime Minister. Such report shall not be a critical evaluation of the government policy.
(1) The auditor-General shall report annually to the Prime Minister—
(a) on the work of his office;
(b) on whether, in carrying on the work of his office, he received all the information and explanations he required.

(2) Each report of the Auditor-General under subsection (1) shall express his opinion as to whether or not—
(a) accounts have been properly maintained or public money has been fully accounted for or paid, …
(b) records have been maintained or the rule and procedures applied have been sufficient in accordance with the Public Revenue Act, the Public Finance Administration Act, and Regulations thereunder;
(c) money has been expended only on purposes for which it was appropriated by Legislative Assembly …
(d) satisfactory procedures have been established to monitor and report the proper expenditure on development projects.

(3) Each report of the Auditor-General under subsection (1) shall draw attention to any failure to observe the requirements of section 7(2) but the report shall contain no criticisms concerning government policy. (1988, 2-3)

Section 13 allows the Auditor-General to audit any other organisation upon request and with approval of Cabinet. Pursuant to such approval from Cabinet, the Auditor-General may assist any individual or firm of chartered or certified accountants in the conducting of audit functions of any Statutory Body for which government controls its establishment and Board of Management.

The major criticism of the Public Audit Act is the element of auditor's independence. The principal danger inherent in this requirement lies in the fact that the Auditor-General is appointed and reports back to the Prime Minister. Therefore, the Auditor-General is not independent in making judgements and expressing his/her opinion for fear of his/her appointment being terminated. Also he/she is required by the law to not criticise government policy.

Independence is the cornerstone of the auditing profession. An opinion by an independent auditor as to the fairness of a financial statements is of no value unless the auditor is truly independent. Statement of Auditing Standards AUS 1, paragraph 16, requires auditors to be:
...straightforward, honest and sincere in their approach to their professional work. They must be fair and they must not allow prejudice or bias to override their objectivity. They shall maintain an impartial attitude and both be, and appear to be, free of any interest which might be regarded, whatever its actual effect, as being incompatible with integrity and objectivity.

One important element of independence involves the characteristic of professionalism as the professional’s acceptance of social responsibility by recognition of professional status by society (Woolf 1979). Society, the public at large, expects independent auditors wants to lend credibility to financial communications. Only if the auditors are perceived as truly independent can the public continue to grant social recognition to professional status. Therefore, auditors have to adopt an attitude of impartiality as to their concerns with the audit function and their concerns over the needs of society over the financial communication. The auditors should not let any feelings of loyalty to their appointment interfere with their obligation to report fully and fairly.

The accounting and auditing practices are influenced by a variety of factors (Enthoven 1969a; Scott 1970; Perera 1987; Belkaoui 1988), most of which are directed toward the fulfilment of local needs and are not solely confined to the commercial, tax, or other government laws and regulations. The American Institute of Certified Public accountants states that:

A nation’s business, political and fiscal practices, and public attitudes toward them are undoubtedly more influential in determining the stage of development of the accounting profession in each of such areas than are formal requirements of Companies Act or professional society pronouncements. (1964, ix)

It should be important to understand that knowledge of the accounting and auditing practices facilitates the operations of the domestic enterprises and capital markets, which are crucial factors for the economic development of Tonga. Timely, reliable, informative, and understandable financial reports help lenders and investors form a reasonable judgement of the financial position and earning capacity of the business enterprise.
Chapter Five: Accounting Regulation and the Profession

Tax Law

The level of expenditures in most developing countries, such as Tonga makes heavy demands on the ability of the tax system to generate the required revenues and put them at the disposal of the government. The size of the development program of the government then depends in large measure on the economic and administrative capacity of its tax system to generate the necessary resources.

In the development program of an economy with a growing public sector, the revenue system constitutes the principal instrument for the mobilisation of domestic financial resources. The principal sources of revenue in Tonga are taxes, surpluses of the public sector's enterprises, and foreign loans. The revenue system, as part of overall fiscal policy, is part of a scheme for enhancing economic development and redistributing income.

The Income Tax Law No. 17 was promulgated in 1976 (Tonga Government Printer Act 1988). The law stated that all business registered under the Business Licences Act 1922 shall pay income tax, according to its net profit (sect 40). The types of company specified by the law required to pay income tax (other than those exempted under the Industrial Development Incentives Act of 1978) are 'resident' and 'non-resident' company. The Act defines 'resident company' as any corporate body whether registered under the Companies Act or not who is deemed to be a resident in the Kingdom of Tonga while 'non-resident company' is any corporate body who carries on business activities who is not deemed to be a resident in the Kingdom.

Section 5(1) of the First Schedules states the basic rate to be charged as:

... the basic rates of tax for any income derived by a company (other than income within clause 2 or clause 3 or clause 4 of this part of this Schedule) shall -

(a) in the case of a resident company, be a rate of 15 seniti (cents) for every T$1.00 for the first T$100,000 net profit and a rate of 30 seniti (cents) for every T$1.00 for the amount above the first T$100,000 net profit;

(b) in the case of a non-resident company be a rate of 37½ seniti (cents) for every T$1.00 for the first T$50,000 net profit and a rate of 42½ seniti (cents) for every T$1.00 for any amount above the first T$50,000 net profit. (1988, 60)
Section 39(5) states that every company is required to prepare and submit the company’s annual return to the Commissioner, not later than two (2) months from the date of the end of its fiscal year. Unfortunately, the Act fails to prescribe any procedure for such reporting and method of valuation of its assets. It also fails to declare that such financial report should be accompanied with an auditors report. Moreover, the annual returns can be signed by anyone employed in the business, and as follows:

(5) The return in the case of a company, corporation, association, partnership or other body whether corporate or not shall be made and signed by the managing director, local manager, agent, secretary or treasurer having a personal knowledge of the affairs of such company ... or in any case by person or persons employed in the business .... (1988, 38)

A subsidiary legislation was also passed in 1978 to provide the rates to be allowed for deductions of depreciations on certain fixed assets as follows:

<table>
<thead>
<tr>
<th>Asset</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting machine</td>
<td>10%</td>
</tr>
<tr>
<td>Bicycles</td>
<td>Replacement</td>
</tr>
<tr>
<td>Buildings</td>
<td>5%</td>
</tr>
<tr>
<td>Buses, motor</td>
<td>20%</td>
</tr>
<tr>
<td>Commercial Aircraft</td>
<td>25%</td>
</tr>
<tr>
<td>Electronic Computers</td>
<td>50%</td>
</tr>
<tr>
<td>Furniture &amp; Fittings</td>
<td>10%</td>
</tr>
<tr>
<td>Lorries, motor-powered</td>
<td>25%</td>
</tr>
<tr>
<td>Motor Cars and Taxi</td>
<td>25%</td>
</tr>
<tr>
<td>Plant &amp; Machinery (general &amp; not otherwise)</td>
<td>10%</td>
</tr>
<tr>
<td>Refrigerators</td>
<td>10%</td>
</tr>
</tbody>
</table>

... (1988, S - 1)

Section 39 states that every person liable to tax under the Act is required to file an income declaration and deliver to the Commissioner, not later than two (2) months after the end of the financial year. Section 6 (a) and (b) of the First Schedule states the rate of tax to be charged as:

(a) On all income the basic rate of tax for every T$1.00 of the taxable income shall in the case of all taxpayers, other than companies, be the rate of 10 seniti (cents).
(b) For the purpose of calculating tax deductions by employers from payments of salary or wages where the payment is for a weekly pay period or pay periods longer than a week, the basic tax deduction shall be at the rate of 10 seniti for every T$1.00 of taxable income after allowing for declared dependents ... (1988, 60)

The income tax system also provides adequate incentives for entrepreneurs, expansion, and other operations conducive to economic development. The benefits of these incentives are realised in the total domestic product in the short run. However, their effects on income taxes are of a long-range nature.

The purpose of discussing the tax system in Tonga is to assess the role of accounting and accountants in the success of income taxation and compliance of taxpayers. Unfortunately, the Act fails to recognise the role of accountants and accounting in this revenue collection process. However, it is envisaged that this study would provide awareness and appreciation of the role of accounting in this process.

In their (accountants) association with business operations, accountants are involved directly or indirectly with most taxes. However, the determination of income derived from business activities is one of their major tasks. The relationship between income taxation and the field of accounting stems from the necessity of keeping adequate records for the determination of business income. The importance of keeping adequate accounting records is derived from the benefits accruing to the business owners in facilitating the business operations conducted with others. From the investor’s perspective, the importance of maintaining adequate record keeping are:

1. The records should exhibit the financial position and the business performances.
2. In case of tax disputes, the records could be used as evidence of proof in courts.
3. Proper and adequate records show the good intent of the businessman in conducting honest business transactions. Moreover, in case of business failure, the records may save the business from bankruptcy.
4. The records reveal the true net profit before tax and, therefore, appropriate tax are charge accordingly. In the case of incomplete records, the
Commissioner have the power make necessary tax assessment that might result in excess charges.

**Accounting Profession**

The term ‘profession’ is an evasive term difficult to define without using a list of examples or criteria. The Concise dictionary (1989) defines a profession as “an occupation requiring special training in the liberal arts or sciences, especially ... the learned professions of law, theology, or medicine”. Kohler also refers to a profession as:

A vocation, (a) generally recognized by universities and colleges as requiring special training leading to a degree distinct from the usual degrees in arts and sciences, (b) requiring principally mental rather than manual or artistic labour skill for its successful prosecution, (c) recognizing the obligations of public service and the public interest, and having a code of ethics generally accepted as binding upon its members. (1970, 345)

Despite the difficulty in presenting a brief definition of a profession, there are certain characteristics which are common to fields of law, theology, and medicine, which are traditionally respected as learned professions.

The well-established professions have common characteristics: the rendering of important services to society; the existence of a body of specialised knowledge; a high degree of competence on the part of those practicing in this field, both in terms of formal training and general personnel practice; the subjection of this field to a code of ethical principles; and formal recognition of the group under state law or other authority (Roy and MacNeill 1967; Carey 1968).

In addition, Roy and MacNeill (1967) suggest that there are several subjective criteria which must be included if the term ‘profession’ is to be understood in the context of its proposed development anticipation. These subjective criteria can be divided into two general categories. First, that there must be a sufficient level of public understanding and respect of the field; and second, there should be continuing
growth and development within the field to ensure that it will continue to be of service to society.

The accounting profession in Tonga currently does not to any degree meet the criteria stated above. For example, accountants are still without a code of professional ethics. Furthermore, the accounting profession does not have a prescribe accounting and auditing standards which its members could use for rendering their services. The Tonga Society of Accountants Incorporated (TSA) was formed and registered in December 1992, after an unsuccessful attempt in 1991. The foundation members were mostly local qualified accountants from overseas universities, and a few expatriates employed by Statutory Boards and private auditing firms. The ten page Constitution and Rules of the Society was no doubt produced for the sake of being registered (refer to Appendix 2). The Constitution covers the objects for which the Society is established and membership qualifications. One of the objects for which the Society is established is:

  to maintain and to promote the status of the profession of Accountancy, to uphold and require from its members a high standard of efficiency and professional conduct in the interests of the profession and the public generally; … (1992, 4)

The Society established different categories and qualifications for membership admission ranging from accountants with full membership of a recognised overseas Institute or Society of Accountancy to persons who held a senior post in government departments or Statutory Boards involving accountancy for at least two years. While such membership structure and lack of qualifying examination would be a drawback in terms of international recognition, it is the intention of the Council to impose restrictions on membership categories at a later stage. Although it is too early for an evaluation of the extent to which the Society has achieved its objectives, under the terms of the 1994 Company Draft Bill, the Act shall give the Tonga Society of Accountants Incorporated (TSA) the power and responsibility to formulate “approved financial reporting standards” to be approved by the Hon Minister of Labour, Commerce & Industries by notice in the Government Gazette.

Beginning in the late 1960's, the influx and expansion of business operations led to an increase in the number and size of enterprises; owners became separated
from management and the detail of operations became more intricate. This created the necessity of finding someone who could attest to the creditability of the financial data. The accountant has become the professional person who attests to the creditability of the financial statements, let alone designing a system for collecting and recording financial data to be used by the enterprise. In order to meet this new demand for accounting services, Tonga has had to import accounting skills mostly from Great Britain, New Zealand and Australia, either through technical assistance scheme or as part of the aid programs. During the 1960’s the post of accountants in all Statutory Boards, large wholesaling and retailing businesses, banks, church organisations and Accountant-General at the Treasury Department were held by expatriates. These post were held by expatriates until the late 1980’s when Tongan counterparts were then trained to take over the posts. Until now all the posts of accountants at both public and private sector and church organisations are held by locals.

Although the need for accounting firms to be established in Tonga was necessary, the need for qualified accountants was also highly demanded. However, the Statutory Boards and major hotels were using the auditing services of the Audit Department for audit works while the banks and major businesses were using the international auditing firms, such as Price Waterhouse for auditing their books and accounts. Not until the number of local graduates increases will they decide to establish accounting firms in Tonga. Although there is no statutory requirements and the non-existence of the accounting profession to monitor such activity, the registration of accounting firms was granted under the Business Licences Act 1922.

Again the Act does not specify any reference to accounting qualifications or experience because the Act is for the registration of businesses to operate in Tonga. So anybody can be issued a licence to undertake such activity in the eyes of the law despite lacking the knowledge and expertise. Interestingly, the people who registered their accounting firms, provided in Table 2, have permanent jobs in the private sector and have opened their businesses at home and in offices in the city. The list of accounting firms registered under this Act through the Ministry of Labour, Commerce and Industries was compiled while the researcher was undertaking this study at the beginning of 1994.
### TABLE 2: ACCOUNTING FIRMS REGISTERED UNDER THE BUSINESS LICENCE ACT 1922 - KINGDOM OF TONGA

<table>
<thead>
<tr>
<th>NAMES OF FIRM</th>
<th>FOREIGN/LOCAL</th>
<th>DATE OF REGISTRATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Albin Johansson</td>
<td>L</td>
<td>NA</td>
</tr>
<tr>
<td>2. S. T. Nakao &amp; Associates</td>
<td>L</td>
<td>NA</td>
</tr>
<tr>
<td>4. Wycliffe &amp; Associates</td>
<td>F/L</td>
<td>16-12-1987</td>
</tr>
<tr>
<td>5. Geraldine Kalman Adair</td>
<td>F</td>
<td>09-05-1990</td>
</tr>
<tr>
<td>6. ‘Aisake Tu’iono</td>
<td>L</td>
<td>30-05-1990</td>
</tr>
<tr>
<td>11. Hasiloni Fungavai</td>
<td>L</td>
<td>30-06-1992</td>
</tr>
<tr>
<td>12. Smith/Sanft Public Accounting Firm</td>
<td>F/L</td>
<td>30-10-1992</td>
</tr>
<tr>
<td>13. Karl Taufateau</td>
<td>L</td>
<td>01-01-1993</td>
</tr>
<tr>
<td>16. Timani Tonga</td>
<td>L</td>
<td>16-02-1994</td>
</tr>
</tbody>
</table>
Although the number of local qualified accountants has increased in recent years, this did not mean all of them practice public accounting, but at least it gives some indication that accounting skills have been increasing and are available to meet the demand in the future. Even though the profession is not well organised and not as active as it should be, there is no reason to believe that it will not become more active in the near future in trying to improve and develop accounting thought and practice in Tonga. For the time being, the government must assume the responsibility of regulating accounting and auditing for the sake of public interest and protection, and when the profession is structurally strong and technically capable then they can take over from there.

It became evident during the research study that there is a need for continued study and self-improvement by accountants in order that they may increase their competence to perform the services required by their clients in Tonga and cater for the changing economy of its surrounding neighbour countries, such as New Zealand and Australia. This could be done by encouraging continuing professional programs to be conducted by the Tonga Society of Accountants, as the case in other developed countries. Apparently, the government should encourage the accountants to develop and improve accounting standards and interfere when it is necessary. It seems evident that with the help and cooperation of the government, the accountants should be able to develop and determine accounting principles and auditing standards. The government should not mastermind the exercise, but rather initiate and encourage the accountants to develop the accounting and auditing standards and then have them legislated to become legally binding.

While the stature of the accounting profession is largely dependent upon the quality of the daily work being performed by its members, a uniformly high quality of work by a professional group is possible only when there is general recognition and acceptance of specific standards. In developed countries, the development of generally accepted accounting and auditing standards has been one of the major accomplishments of the accounting profession. Without these standards, accounting could hardly be considered a profession.
Summary

The standards and practice of accounting in Tonga have continued to reflect the influence of the colonial past and traditional and social obligations with the prolonged existence of the out-dated Companies Act that regulates accounting disclosures. The problem of financial statements is not the level of disclosure but compliance with the law. Financial statements prepared under such legal requirements, usually fall far short of providing sound uniform and understandable financial information. Yet no attempt has been made to formulate accounting standards which recognise the special needs of the country that is now seeking economic stability and prosperity.

Accounting education and the training of nationals have not kept pace with contemporary needs. The private and public sectors are characterised by a shortage of accountants, which is evident at both professional and support levels. Although the supply of accountants at the support level can be expected to increase through in-service training and overseas short term attachments, no long term planning has been devised for accounting education and training at the professional level. In the absence of appropriate strategies for professional formation, the profession will continue to encounter both technical and conceptual problems.

It is necessary to raise the status of accountants, to establish and maintain the high standards of conduct and practice of accounting and auditing functions. These functions are required of professional associations. Therefore, the functions of the TSA should include (1) to regulate accounting and reporting practices; (2) to regulate auditing practices; (3) to regulate accountants' conduct; (4) to examine and admit members to the accounting profession; and (5) to advise and consult with government about accounting and accounting—related legislation. Regulation of accounting practices by the TSA should deal primarily with the appropriateness of accounting and reporting practices to the country's needs.

As accountants are held in somewhat low esteem at present, all accountants who are well qualified should join in a concerted effort toward establishing high standards and achieving appropriate professional recognition.
Regulation of auditing by TSA should involve promulgation of standards for audit scope and performance. The standards should provide as much detailed guidance as to determine audit scope, the extent of testing, and the exact audit techniques to be employed in a given audit situation. Of great importance is the fact that, where establishment of the credibility of auditors’ reports is desperately necessary, investors should be well convinced that audits are professional and independent.

The discussion in this chapter has centred on accounting legislation, accounting education, and the accounting profession in Tonga. It was evident that the laws have affected accounting development and hindered accounting thought with their (laws) lack of recognition’s of the role of accounting and accountant in these processes. It should then be noted that accounting in Tonga is not adequately established to provide relevant, timely and reliable information because there are no laws that would provide the power base to provide and establish measures of quality. In the absence of such legislation, accounting’s role in the country’s economic development process would still be critically handicapped. Therefore, it is necessary that these laws be revised to fit with the changing economy of Tonga.
CHAPTER SIX

CULTURAL DETERMINISM IN ACCOUNTING

Abstract

... an understanding of certain groupings can be useful in determining how different one country's system is likely to be from another's and, hence, what degree of caution and further study is advisable when analyzing accounting information generated in another country. (Arpan and Radebaugh 1985, 15)

Introduction

Accounting systems differ among countries. Indeed, nearly every country of the world has particular characteristics that distinguish accounting practice and reports generated in that country from accounting in others. Study analyses of similarities and differences in national accounting models have focused primarily on economic and political variables. Classification research, although extensive, has failed to answer some important questions, as not all differences in accounting can be explained by economic or political phenomena. Recently, research generally supportive of "culture" as having strong influence on accounting development has emerged.

Consequently, considerable attention has been devoted in the accounting literature to the influence of culture on accounting policy and practice (Beazley 1968; Alhashim 1973; Jaggi 1975; Radebaugh 1975; Bromwich and Hopwood 1983; Hofstede 1983, 1987; Smircich 1983; Violet 1983; Schreuder 1987; Gray 1988, 1989; Perera 1989; Perera and Mathews 1990; Belkaoui 1983, 1985; Belkaoui and Picur 1991; Hamid, Craig and Clarke 1993; Kitley 1994; Secord and Su 1994; Baydoun and Willett 1995; Pok 1995). In recent years, increasing attention has been given to the identification of culture influencing the manner in which accounting develops and is regulated within national boundaries.
Since then, culture has been widely considered as one of the many important environmental factors influencing the accounting system of the country (Nobes 1983, 1984; Violet 1983; Hofstede 1987; Perera and Mathews 1990; Secord and Su 1994). Numerous factors have been identified, such as, education level and policies, structure of the accounting profession, economic and political conditions, legal system, level of government interference in business activity, and level of business ownership etc., to have influenced the nature of accounting and auditing systems of the country (Previts 1975; Radebaugh 1975; Mueller 1968; Choi and Mueller 1978; Nair and Frank 1980). It was also argued that accounting systems in a country is in fact determined by culture (Violet 1983; Belkaoui and Picur 1991).

Interestingly, there was a lack of consensus across different countries as to what constitutes proper accounting methods because their individual purpose is cultural, not technical (Hofstede 1985; Gray 1989; Baydoun and Willett 1995). The argument here is that because accounting is a sociotechnical activity it involves dealing with both human and nonhuman resources or techniques as well as with the interaction between the two (Perera and Mathews 1990). Although the technical aspect of accounting is less culture-dependent than the human aspect, since the two interact, accounting cannot be culture-free. In addition, Belkaoui and Picur also maintain that “these arguments represent an acceptance of a cultural determinism in accounting whereby the culture of a given country determines the choice of its accounting techniques and perception of its various accounting phenomena” (1991, 118).

The aim of this chapter is to argue that accounting development and practices in Tonga are determined by cultural factors. The investigation into the prolonged existence of the out-dated Companies Act, 1912 and the lack of enthusiasm for the development of an accounting profession and practice in Tonga has revealed to be the result of cultural dimensions.
Culture and Accounting

Anthropologists have long since noticed a great diversity of cultures and cultural developments in various civilisations. A culture grows and develops in response to environmental stimuli. As Violet explains:

The diversity of cultural development proceeds from a foundation of satisfying wants and needs. To satisfy these insatiable wants, mankind and society evolve a culture which defines and establishes an economic system to allocate scarce resources efficiently for the satisfaction of human wants. Culture is the system which encompasses and determines the evolution of social institutions, social phenomena and mankind itself. In turn, these elements formulate culture. A constant evolutionary state exists. (1983, 5)

Kluckhohn provides an anthropological definition as:

Culture consists in patterned ways of thinking, feeling and reacting, acquired and transmitted mainly by symbols, constituting the distinctive achievements of human groups, including their embodiments in artifacts; the essential core of culture consists of traditional (ie. historically derived and selected) ideas and especially their attached values. (1951, 86)

While there is still no consensus on the definition of culture (Belkaoui 1988), most discussions of culture often refer to the fact that members of a given culture tend to share common frameworks of meanings, social understandings, values, beliefs, and symbols (Perera 1987). Culture is often regarded as an expression of norms, values and customs which reflect typical behavioural characteristics. Hofstede defines “culture” as “the collective programming of the mind which distinguishes one category of people from another” (1980, 25). He also found three different cultures that can influence an individual’s perception about work related values. The three different cultures are: 1) national culture which is the shared mental programming of most members of a nation, 2) organisational culture which is the additional programming shared by most members of an organisation, and 3) occupational culture which is the programming acquired by those exercising a distinct occupation (Hofstede 1987). In addition, Hofstede noted:

One of the useful side-effects of studying national culture differences is that it open our eyes to the differences that exist in organisational and occupational cultures. (1987, 9)
According to Smircich (1983) each of the concepts of “culture” from anthropology developed different metaphors and ends in organisational research. For example, Malinowski’s concept of functionalism, which focussed on culture as an instrument serving human biological and psychological needs, motivated cross-cultural or comparative management research (Malinowski 1944). The concept of structuralism developed by Radcliffe-Brown (1968), with its view of culture as an adaptive regulatory mechanism that unites individuals in social structures, motivated research on corporate culture.

Goodenough’s concept of ethnoscience, with its view of culture as a system of shared knowledge where the human mind generates culture by means of finite number of rules, tend to motivate research on organisational cognition (Goodenough 1971). Geertz’s concept of interpretive anthropology, with the view of culture as a system of shared symbols and meanings where symbolic interaction needs to be interpreted in a fashion to be understood, again motivated research on symbolic interaction and organisation (Geertz 1973). Also Levi-Strauss’s concept of structuralism, which focussed on the idea of culture as a projection of mind’s universal unconscious infrastructure, again motivated research on unconscious processes and organisation. Levi-Strauss employed structuralism to search for relationships between social institutions and social behaviour (Levi-Strauss 1983). Belkaoui and Picurs’s perceive culture as shared cognition or a system of knowledge and beliefs (Belkaoui and Picur 1991).

The interest of this study is in-line with that of Belkaoui and Picur (1991), however, focuses on concept perception and values, with its view on culture as shared symbols and meanings, and beliefs. The intention is to provide understanding as to the social interaction and attitudinal behaviour of the individual to the researched phenomena.
In recent years there has been an increased interest in cross-cultural research, which has led to the present efforts to determine which aspects of psychological theorising are truly universal, which may be modified by cultural variables, and which may be valid only in a particular culture. It is essential, therefore, that analysing the impact of culture upon the behaviour of the members of any particular sub-culture, a researcher must select the cultural components or dimensions most pertinent to the particular facet of cultural behaviour being studied.

Culture has attracted much interest in recent discussions of the factors influencing the accounting development of a country (Perera 1989; Mathews and Perera 1993). Hence, consensus is lacking as to the accounting system that would best suit each country, but there does seem to be general agreement that Western accounting systems are deficient to some extent in meeting the requirements of users in developing countries. In many developing countries, the content of financial reports depends on local history and conventions. This can rightfully suggest why the product of accounting, that is, financial statements and reports, sometimes has a shareholder or absentee-shareholder orientation, a creditor orientation or occasionally serves the interests of national planners.

Since the impact of culture on accounting became intensively researched, the assumed effect of many cultural variables on accounting also became widely documented. Researchers tend to establish the relationship between culture and accounting generally by identifying a set of specific societal values or cultural factors likely to be directly associated with accounting practice (Arpan and Radebaugh 1985; Gray 1985).

In his thesis, Jaggi (1975) claims that universalistic value orientation is more common in developed countries, where objective external evaluation is expected and information flow is more open to facilitate such process, while, particularistic value orientations tend to be more prevalent in developing countries where the concept of "extended family" is an important factor in business organisation and evaluation may be more subjective. Accordingly, external disclosure of financial information is rather minimal and likely to be less reliable. Jaggi emphasised that value orientations and reliability of information will vary among countries even within clusters.
sense, culture clearly emerges as a factor which shapes accounting and, especially, disclosure practices.

Given the discussion in Chapter 2 of cultural orientations (Hofstede 1980, 1983), value orientations (Jaggi 1975), and societal-values and accounting values (Arpan and Radebaugh 1985; Gray 1985, 1988; Perera 1989) it is important to relate those frameworks to my research findings in Tonga.

Culture and Accounting in Tonga

Culture, as defined by Tylor, "is that complex whole which includes knowledge, belief, art, morals, law, custom and other capabilities and habits acquired by man as a member of society" (1981, 1). It includes, therefore, everything that is learned and shared and passed on to subsequent generations by members of the same society. Therefore, culture is a social inheritance; it consists of ideas that have developed long time ago. In Tonga, we are born into families and the culture shared there becomes central to our way of thinking. Belief is encouraged by the fact that cultural inheritance is important to our identity, to our meaning as individuals.

Given the inherited nature of culture, the cultural factors, such as, language, religion, attitudinal behaviour and perception of the individual, and traditional functions and gift-givings are being discussed to determine its impact on the development of accounting in Tonga.

Language

Languages are created, developed, and evolved within the framework of cultural postulates established by a particular society. Hence, language reflects the postulates established by the society which employs it (Violet 1983). The impact of language on our culture and its importance in formulating perceptions and interpretations of causal events is great. As Belkaoui explains:
Accounting can be viewed as a language, which embodies both lexical and grammatical characteristics. Within the linguistic relativity school, the role of language is emphasized as a mediator and shaper of the environment; this would imply that accounting language may dispose "users" to a given mode of perception and behavior. This explanation is congruent with the "Sapir-Whorf Hypothesis".... (1978, 362)

Throughout my field research, it was surprisingly difficult to interview informants (school-leavers before 1970s) concerning their understanding of the function of "accounting" in business planning and evaluation because the terminology is rather new or exotic to most of them. The terminology that is widely known and used is "bookkeeping" (tauhi tohi) which means 'keeping the books' in the Tongan language. This happened because the accounting subject was recently introduced to the educational syllabus in 1977. While the understanding and using of the words 'accounting' and 'accountant' are slowly making itself into the context of business and social organisation other technical terms, such as, balance sheet, assets, liabilities, retained earnings, depreciation, trading accounts, interest, etc, have yet to find suitable word(s) in the Tongan language.

The traditional function of "bookkeeper" literally refers to officer(s) responsible for collecting the monies coming in and paying out authorised bills, and most importantly to keep records of every transaction undertaken. This function of bookkeeper as custodianships is the central inheritance understanding of the function of bookkeeper within the community. With the exception of qualified accountants, managers, executives, trained accountants, and secondary students the majority of the people have such perception of the function and meaning of bookkeeper and bookkeeping.

When interviewing family-owned business owners and ordinary people concerning their understanding of the concept of "business profit" (tupu 'a e pisinisi), their understanding reflected the nature of the traditional philosophy of a collectivism culture. To them, the concept of profitability (tupu 'a ha pisinisi) is based on the volume of stock being physically displayed on the shelves or the number of vehicles displayed on the car-yard, and the level of involvement by the owner in the community and religious affairs, despite the fact that the physical display may have caused liquidity problem to the business is beyond their interest. Such traditional
evaluation usually affixes social status to the owner and his/her family in that particular village or community. Unfortunately, such practice usually develops social competition among village members which usually resulted in economic disaster to the owner, community and to the economy. Interestingly, the profitability concept of a business to untrained business-owners and ordinary people, is based on a "counting" concept (physical numbers) rather than on a mainstream accounting evaluation concept. It was very hard to convince these people that such an approach is not acceptable because most of them have little understanding of how to manage and run a business.

**Attitudinal Behaviour and Perception**

The use of the concept of attitude to explain behaviour rests on a simple logic (Blumber 1969). It is established to be a state of preparation, or a state of readiness, which lies behind action, directs action, and moulds actions. Hence, the attitude to act is used to explain and account for the given type of human action. Human act is a construction built up by the actor. In the process of individual acts, the defining process indicates things to himself or herself, defines them, judges them, prepares plan for action, chooses between them, and makes decisions (Blumber 1969; Hewitt 1991). In the case of a group or collective conduct it is in the form of social interaction wherein individuals define the acts of one another and mobilise themselves for collective action (Berger and Luckmann 1991; Hewitt 1991). Since the act, whether individual or collective, is ‘fashioned’, constructed, and directed by the process of definition, it is this process that is the central object of this study in trying to understand the attitudinal behaviour of the individual or collectively in such situation in Tonga.

The attitude and perception of Tongans toward accounting and accountants can be summarised as ‘psychologically unfortunate and degraded’. This psychological influence or “shared mental programming” (Hofstede 1987, 1) is considered unfortunate because of the inherited perception on the minds of the Tongans as a result of the dishonesty and economic manipulations caused by European accountants in their handling of the financial affairs of the “Tonga Ma’a Kautaha” and other local
co-operative businesses during the 1900s. The unfortunate instance that happened created a shared mental image of bookkeeper (accountant) which suggest that "bookkeepers" are crooks, dishonest and corrupt people.

When interviewing parents concerning their wish or career choice for their children, however, the majority were reluctant to encourage their children on such choice because of the mental inherited attitudes and perceptions toward the function of bookkeeper. People are afraid of the potential humiliation that such occurrence could bring to the family as a result of corruption and dishonest behaviour. Parents tend to admit that because a bookkeeper's function is heavily involved with money everyday, the tendency to be caught by the temptation of unethical borrowing and manipulation is usually high. They are more concerned with the family tradition (name) than economic benefits. Even though they have agreed that "money is the root of all evil", they did not see that as an issue but pointed at the inexperience of the individual to handle the pressures and demands of being a bookkeeper as the major problem. When asked the question of "whether Tonga still needs bookkeepers considering the circumstances", they all agreed that Tonga needs more, but, "honest, humble, and qualified bookkeepers".

When observing a social group meeting, such as, a women development group, a growers co-operative group, and village social-saving club, the attitude and perception of the individual towards the bookkeeper (accountant) became distinct. In all of the social group meetings that I attended and observed the discussion of financial affairs usually took more than eighty-five (85) percent of the total meeting time. This is in contrast to the formal executive business meetings at government and business level which normally took less than thirty-five (35) percent of the total time.

However, the financial reports presented at social groups meetings were usually through oral presentation by the "treasurer" (tauhi pa'anga). The format of presentation was merely a presentation of cash position where the receipts and payments during the month were being called out. Members tend to follow every expense called out and usually questioned the authorisational procedure of such payments. In fact treasurers are not normally called by their names but by other names, such as, Honourable Minister for Finance, Taufa, Peni etc . I learned from
other members that those were names of former treasurers in other social groups in other villages that had misused the group’s money before. However, these people could not be prosecuted because of family connections within the village community. Apparently, the humiliation caused to their family is enormous. People tend to use the name of the Honourable Minister for Finance because he has been regularly accused in the Parliament for the lack of accountability for certain government expenditures.

During the meeting, and while the “treasurer” was presenting the financial report, some of the members were mumbling and making facial expression which indicated that there is growing discontent with the accountability of the treasurer. However, they cannot speak out because of family connections or respect for elders and family members of the treasurer in the meeting. Those corrupt treasurers normally got away with it without paying back the group’s money but the humiliation and distrust cursed upon him and his family by the society will be a telling story for a long time. To a large degree, the increasing corruption of treasurer(s) and bookkeeper(s) contributed to the continuing unfortunate attitude and perception of the Tongans towards accountants and accounting. Interestingly, the accountant is known and called as “treasurer” (tauhi pa’anga) at the social level while he/she is known and called as “bookkeeper” (tauhi tohi) at the public and business level.

Again, in contrast, when observing government policy and planning, and business management meetings the time spent on discussions of financial affairs tells the story. With all the meetings that I attended and observed, the discussion of financial affairs usually took less than thirty-five (35) percent of the total meeting time. When the financial statement and reports were discussed and while the secretary for the committee meeting was discussing the reports, the members were flipping the pages of the reports to the end. Several members were highlighting various items as they were flipping through the pages as though questions or queries would eventually be raised. Unfortunately, when the secretary finished his presentation there were only few questions raised before a motion was moved to approve the financial reports. In contrast, there were long and sometimes heated discussions on policy and planning funding while the assessment and evaluation of the planning process were again neglected.
In summation, the social behaviour and interaction of the individual in social, public and business level, not only acknowledge the attitude and perception of the individual towards accountant and accounting but also shaped the accounting practice in Tonga.

**Religion**

For an anthropologist, the significance of religion lies in its capacity to serve, for an individual or a group, it is a source of general conceptions of the world, the self, and the relations between them. And from these cultural functions flow; it develops social and psychological beliefs. However, the concepts of religion spread beyond their specifically metaphysical contexts to provide a framework of general ideas in terms of which a wide range of experience—intellectual, emotional, moral—can be given meaningful meaning (Geertz 1973). In addition, Geertz emphasises that the anthropological “study of religion is in two-stage operation” (1973, 125). First, an analysis of the system of meanings embodied in symbols which makes up the religion proper, and secondly, the relating of these systems to social-structural and psychological processes. In fact, Geertz was rather dissatisfied with so much anthropological work in religion as it tends to be concerned more with the second stage and neglects the first stage.

As mentioned earlier, this study viewed culture as being a “shared symbols and meanings, and beliefs” in all those social, political and other factors that influence individuals’ behaviour. As such, religion is admissible as a cultural factor. While, its influence upon the development of accounting and business structures have not been explored in great depth; it enjoys the potential to have a less than universal acceptance within the national boundaries yet the capacity to transcend them (Hamid, Craig and Clarke 1993). In order to understand the influences of religions on accounting thought and practice, it is necessary to provide an explicit analysis based on its cultural characteristics.
Since the Tongans were convinced that sacred ritual and knowledge were essential to all effective action, they were ready to see Christianity as a very practical key to European achievements (Urbanowicz 1977). From this perspective, it was not the beliefs so much as ritual that stood out as important. The traditional religions never had sharply defined beliefs; it conveyed its benefits not through believing certain things but through doing certain things (Latukefu 1974). Truth lay in the act, and Christian acts were regarded more than Christian beliefs (Forman 1982).

A more highly visible influence of religion in Tonga was the introduction of the practice of ‘reading and writing’. The first school that opened in Tonga in 1828 was entirely the work of the missionaries. To the islander the reading-writing ritual was to be mastered, as always, for the gain that it would bring. As noted by Forman concerning one of the boy’s reason for entering the school was “surely not the desire for instruction but for acquiring European goods” (1982, 90).

Although a ritual for material gain may have been the first picture of Christianity, there were various rather deeper views of it (Latukefu 174). As the old traditional Tongan religion had provided the framework and rationale for the traditional life, Christian religion commended itself as a way of accounting for the new.

King George Tupou I had become sceptical of the Tongan gods and had doubt about his family gods, for they had failed to protect his back when another chief speared him from behind during the battle of Velata (Gifford 1929; Latukefu 1974). His increasing contact with Europeans and the superiority of their weapons also helped to undermine his beliefs in the traditional gods. As a man of action, the King wanted to test the validity and power of the old gods and to discover by experience whether Jehovah was the only true God. He began destroying a large part of the traditional heathen gods, however, nothing happened to him. And by way of testing the power of the Christian God, whilst on a canoe voyage, he threw his spear at a shark in a shark infested area. He then threw Pita Vi, one of the first Tongans to be baptised in Tonga (Gifford 1929), and another man to fetch the spear and bring it to shore while he continued his trip to land. His reason was that if Jehovah were really God, he would save Pita Vi and his companion from the shark. Fortunately for the
mission, Pita Vi and his companion arrived safely on shore with the spear (Collocott 1921). Convinced by what he had learned and by the results of his tests that the Christian God was the only God, the King accepted the new religion and wasted no time in demonstrating to his people to follow.

Apparently, a new dimension seems to emerge as a compromise between the acceptance of the new religion and the Tongan traditional way of life. While the Tongans have faith and accepted the Christian belief, they were still eager to observe the traditional disposition of respect and sacrifice for the chiefs. This was because, it was the King that led the way in accepting the new religion so their philosophy for accepting the new religion was through reinforcing the cultural symbols of respect and obedience to the chiefs. Much of the traditional way of life remained inside the new, as would naturally have to be truly appropriated by the Tongan people, and true with their heritage. Even though the 1875 Constitution gave the people their freedom to their property, religion and speech; religion has been moulded together with traditional culture. However, the recognition of one creator, the Almighty God through whom all people were bound together was a major change, bringing peace and cooperation and a sense of meaning.

Every Tongan belongs to a religious denomination that is headed, run and administered by locals. And because of their operational costs, the members themselves have to cater for almost all the required financial contributions. The members’ collective financial contributions have always deliberated in the biblical teachings of “the more you give is the more you’ll get”. These religious gift-offering ceremonies (misinale or katoanga-'ofa) are considered of ultimate importance to the life of the Tongan people. People would rather save money for these religious donations than for investment purposes. They considered this an eternal investment that is of significant importance to the individuals’ endeavour in life. Hence, it was amazing to learn that some people can contribute more than his/her annual income to the church. They would never think of tomorrow when it comes to religious obligations. People never take records of their gift-offerings (misinale) because of the religious belief that what you have given is a symbol of appreciation of what God has done and given you.
When a farmer harvests his crops, the best crops would have to be given as a gift to the land-owner (noble), religious minister of his denomination, and his sister(s) before he could use them for his family or to sell, (if any) surpluses. People are also required to provide religious sacrifices in the form of traditional-offering (fakaafae) by providing food and the church members are invited. Such religious sacrifices are usually to celebrate birthdays and marriage ceremonies. These activities usually are very costly, however, the islanders are reluctant to see it that way, but, as a spiritual blessing.

Reddy (1992) presented his findings for his doctorate thesis on the impact of (national) culture on managerial behaviour of managers in the South Pacific countries and found that the occupation of priest is undisputedly ranked high in the status group (refer Table 1). For example, the profession of priests is ranked in the high status group in Fiji and Samoan culture while in the medium group in Tonga. These clearly suggest the significant influence of religion in the culture of the Pacific nations where people tend to look up to religious occupations as a means of significant importance. Not surprisingly, the occupation of accountant is not even on the status group that also suggest that accountant has a very low status or is non-existent, according to Reddy’s (1992) ranking’s in these societies.
Chapter Six: Cultural Determinism in Accounting

Table 1: Occupational ranking by various South Pacific culture groups

<table>
<thead>
<tr>
<th></th>
<th>Fiji (indigenous)</th>
<th>W. Samoa</th>
<th>Tonga</th>
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<tbody>
<tr>
<td><strong>Group 1</strong></td>
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<td></td>
<td></td>
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<tr>
<td>(High status)</td>
<td>civil servant</td>
<td>priest</td>
<td>doctor</td>
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<td></td>
<td>doctor</td>
<td>politician</td>
<td>lawyer</td>
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<tr>
<td></td>
<td>teacher</td>
<td>doctor</td>
<td>manager</td>
</tr>
<tr>
<td></td>
<td>priest</td>
<td>lawyer</td>
<td>politician</td>
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<tr>
<td><strong>Group 2</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Medium status)</td>
<td>politician</td>
<td>manager</td>
<td>priest</td>
</tr>
<tr>
<td></td>
<td>lawyer</td>
<td>teacher</td>
<td>teacher</td>
</tr>
<tr>
<td></td>
<td>manager</td>
<td>civil servant</td>
<td>civil servant</td>
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<tr>
<td></td>
<td>shopkeeper</td>
<td>shopkeeper</td>
<td>shopkeeper</td>
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<tr>
<td><strong>Group 3</strong></td>
<td></td>
<td></td>
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<tr>
<td>(Low status)</td>
<td>fisherman</td>
<td>housewife</td>
<td>farmer</td>
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<td></td>
<td>farmer</td>
<td>farmer</td>
<td>housewife</td>
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<td>housewife</td>
<td>fisherman</td>
<td>fisherman</td>
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<tr>
<td></td>
<td>labourer</td>
<td>labourer</td>
<td>labourer</td>
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</tbody>
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Note: 1. Other groups, such as Indo-Fijian, Kiribati, and Solomon Islands have been excluded as they are not relevant to this study.
Traditional functions and gift-giving's

Tonga is widely known in the South Pacific nations as a "ceremonial oriented society". Every traditional activity, such as, welcoming of overseas Heads of states, marriage ceremonies of the Royal family, birthdays of the King and Crown Prince, annual Religious Conferences have to be conducted in ceremonial type functions. It requires a lot of preparation of food, shelters and decorations, and singing and dancing for each function. Those preparations are normally given by the Government to nobles, who in turn called upon his people (kainga) to provide accordingly. It also requires much money by the individual families to provide such requirements for food (pola) preparations.

Interestingly, those costs involved would all be borne by the individual families. Quite amazingly the islanders accepted those financial requirements without hesitation. Their attitudes towards traditional ceremonies are evident in their willingness to provide such requirements at their expenses. The satisfaction of current activities of their community and current consumption is of prime importance to the islanders. There is little reluctance and focus on the nature of the expenses.

Therefore, each family has to grow root crops and raise pigs, chickens and cows in his farm to cater for those ceremonial activities. A lot of pigs have to be slaughtered and roasted, food from the farm has to be cooked in a ground-oven ('umu), prepared and presented in a pola. Depending on the nature and importance of the traditional ceremony, the costs for each family to provide such requirement normally reaches thousands of dollars (including the monetary value of pigs, chickens and food from his own farm). Considering the personal income level in Tonga, families are relying on remittances from relatives and friends working in overseas countries to be able to provide for both traditional activities and religious contributions.
In his thesis, Reddy (1992) also explained various cultural areas and factors that may have an impact on managers, management and businesses in the South Pacific. He identified the cultural factors, such as, time management, nepotism, business status, financial management, gift-giving, change in society, expression of disagreement and planning horizon. The ranking scale of five (5) points scale was used, with point (3) as neutral, point (4) as positive impact, and point (5) as extremely positive impact. While on the negative side of the scale with point (2) as negative impact, and point (1) as extremely negative impact.

In his findings, the Tongan cultural factor of business status was ranked at point (4) as having positive impact while gift-giving was ranked at point (5) as having extremely positive impact on managers, management and business in Tonga. In the Tongan culture, the society’s expectation of the individual’s obligation and level of contributions is further increased as the individual’s personal (either in business or academic) achievements are socially identified. This seems to be a socially acceptable act in the society that developed from the Christian belief of obedience and loving-care. People usually do not feel easy in giving ‘no’ as an answer. This largely results from the traditional cultures which require individuals to help members of the community.

On the other cultural factors, the Tongans were ranked neutral when it comes to envisaging for possible changes in society. Managers seem to be silent when it comes to the issue of desire for change. This is evident because having made it to the top managers tend to have the greatest investment in the organisation. Their goals, values, and identities will be tied to it. It is easy to complain about conservatism at the bottom but they are transformed by the new status position as they rise in the hierarchy. Thus, the nature of social structure itself works against individuals having great impact. Therefore, those with the most power are usually least willing to change the social organisation while those at the bottom have most to gain with change, but are least able.

Moreover, financial management indicated a negative impact, that is, managers and management are not affected by financial activities as a result of cultural obligations, and limited understanding of the role of financial management
and planning. Also, the expression of disagreement had an extremely negative impact on managers, management and businesses in Tonga. It means that the individual tends to agree with every decision that affects them made by his/her superiors at work. The cultural dimension of respect and obedience at the national level is being transformed into the organisational level.

Hofstede’s Theoretical Framework

The theoretical framework used by Hofstede (1980, 1983) to explain the effect of cultural values on accounting practices was again used by Gray (1988, 1989) in an attempt to relate his defined accounting variables to Hofstede’s dimensions. Arpan and Radebaugh (1985) also identify a set of specific societal values that made a useful contribution to the development of such framework. While these theories, however, have yet to be empirically tested (Baydoun and Willett 1995), Hofstede’s, frameworks is being adopted and applied in this study to analyse its relevancy in the case of Tonga. As Gray maintains that:

If Hofstede has correctly identified Individualism, Power Distance, Uncertainty Avoidance, and Masculinity as significant cultural value dimensions then it should be possible to establish their relationship to accounting values. If such relationship exists then a link between societal values and accounting systems can be established and the influence of culture assessed. (1988, 6)

Collectivism: This dimension relates to the degree of integration of society amongst its members, or the relationship between an individual and his/her fellow individuals. According to Hofstede a collectivism dimension has characteristics for a tightly knit social framework in which individuals can expect their relatives or other in-group to look after them in exchange for unquestioning loyalty. In contrast, Mathews and Perera (1993) are still questioning the validity of these identified characteristics to economic theory based on self-interest and psychological theories based on self-actualisation and achievement. Hofstede concluded that developed and
industrialised countries tend to be individualistically oriented, while developing countries tend to be more collectivistically oriented.

The norms of Tongan society are predominantly collectivist. In the indigenous culture of Tonga the interest of the community is paramount. Individual interests are subordinated to group and community interests. Generally, the individual is expected to help other members of the family, and the community. Kinship and communalism, respect for elders, religious observation, helping relatives and others in the community, and observing traditional obligations are the central features of Tongan culture. People are living in extended families and all are required to care for their immediate, and other family relatives. Those in the family that achieve a better position in government, church organisations, and private sectors are being looked at, to provide and help other family members that are not so financially capable.

The success of a businessman depends, to a large extent, on the nature and extent of his/her capacity to be involved in community obligations and actively participate in religious activities and programs. While the financial commitments in this respect will become a significant liability, in the long term, the community support will be an asset for survival. For example, if a businessman failed to become involved in community activities like raising funds for building local schools, health-care centre etc, the community (existing and potential customers and clients) would definitely decline to do business with him. Such businesses would be forced out of the market and operation not by the increasing competition in the market, but, by the operator’s lack of involvement in community and religious activities. Family-owned retail businesses are usually vulnerable under this situation. This aspect of cultural norms and values to some extent, accounts for the lack of participation and success by indigenous people in business. As a result of community and traditional obligations there is little surplus for capital investment, which brings it back to the beginning of the cycle: that the crucial problem in “developing economy is lack of capital for investment”.

Apparently, one should wonder how these people could survive under such a significant resource constraint being imposed due to traditional and religious obligations. While doing the field-study I had the opportunity to observe the
individuals’ preparations for the one-week 1994 Free Wesleyan Church Annual Conference. Every household that belongs to this denomination is required to provide one pola (12 feet long food stall). Since it is an annual event that is being rotated around the three (3) main groups of Tongatapu, Ha’apai and Vava’u it has a significance because one (household member) has to have a turn in every three years.

The monetary value of the preparation of every food stall would exceed thousands of dollars. These activities and obligations are being looked at as a ‘privilege’ and ‘blessing’ to be given the opportunity to show your appreciation of what God has been graciously giving you and your family. Therefore, every member, including Hon Ministers of the Crown and nobles, has to provide the best selection of food for this occasion. Other relatives and family members belonging to other denominations would be culturally moved to join the preparation because when their turn comes then others would also join. It is quite amazing to see how an individual could afford to provide such ‘pola’ (considering its monetary value) which may well exceeds his/her annual personal income (salary or wages). When asked about their feelings toward the cost of preparations (in monetary value), all those interviewed agreed that according to the biblical teaching that whatever you have given in the Name of Jesus Christ because of His work (church), your house and days will be filled with blessings.

Furthermore, there are some indigenous entrepreneurs who are commercially successful and have also fulfilled their community and religious obligations (Ritterbush 1986; Fairbairn 1988; Hailey 1990). When interviewing Mr Lipoi Tupou, one of the local successful merchandising traders, he maintains that he has to balance between the traditional and religious obligation the motive of doing business. However, a lot of sacrifice has to be made, the owner has to work harder and use his/her salaries for such obligations rather than draw monies from the business. Others have employed their relatives, family members and even friends at a reduced wages rate. While others have opted to depart from their religious beliefs and illegally increase the prices of the products so that the illegal margin would cover for such involvements.
It is evident that these local indigenous entrepreneurs who are commercially successful have realised that their business cannot be viable if they were to respond freely (to community and traditional obligation). Nor can they be successful by totally denying those obligations for fear of being cut off from their community whose support they need. The successful entrepreneurs appear to have worked out a fine balance between the two requirements.

**Large Power Distance:** Power distance dimensions relate to the extent to which the members of a society accept that power in institutions and organisations is distributed unequally. In a large power distance society, consultations are not that important as in a small power distance society because there is a tendency for its members to accept a hierarchical order in which everybody has a place which needs no further justification.

As mentioned in Chapter 3, Tonga is a highly stratified society where the interplay of ‘rank’ and ‘power’ in the traditional political and social system plays an important role in everyday Tongan life. Therefore, the Tongan culture is highly characterised as having a large power distance in the society.

In her study of power and rank in Tonga, Bott defined ‘rank’ as a “quality commanding respect and deference, and inherited from one’s parents; it cannot be altered either by one’s own achievements or by one’s failures”; ‘power’ refers to the “de facto capacity to lead a group and direct its activities”, and ‘authority’ refers to “legitimate, institutionalised power” (1981, 10). While I agree with the definition, I would add that ‘rank’ is an inherited system of recognising one’s ceremonial prestige and status in the Tongan society. For example, in the domain of domestic kinship, fathers and elder brothers have authority and control over one’s access to land but in the principle of rank, sisters have higher rank than brothers. However, sisters have no authority over brothers even though they have the higher rank. Moreover, both fathers and sisters are respected but the basis of the respect is different. Fathers have the right to command, and to give while sisters have the right to ask to be given what their brothers produce.
In the hierarchal system, the King has a supreme power over the affairs of the country. Under the 1875 Constitution, the King has the power to select and appoint noble titles (section 48), and appoint Ministers of the Crown and they shall hold their position at his pleasure (section 55). A Bill cannot become an Act until presented to the King in Council for his pleasure, and if he approves and fixes his name then it shall become law (section 60). Section 7, prescribes the rights and freedom of the individual to speak, write, and print their minds and opinions, but, it shall not be against the King and the Royal Family. Also the composition of the Legislative Assembly again clearly reflects the concept of large power distance in the traditional institutional structure. The House comprises the Hon Ministers of the Crown appointed by the King, nine (9) Nobles Members representing the total thirty-three (33) nobles, and only nine (9) Members representing the rest of the 100,000s people in Tonga. So the form of representations in such an important institutional arrangement demonstrates that significant inequalities in the distribution of power exist in the society.

However, there were also guarantees of certain fundamental rights of the individual, including freedom to religion (section 5), freedom to possess and acquire property, and do whatever they like with the fruit of their hands, and using their own property (section 1), and no one shall be obliged to work as a servant to another, except that he/she is willing to do so (section 2). Even though the political intention of the provisions were to grant freedom to the individual from a cultural concern that serve the nobles, it may be interpreted as an obvious attempt to lower the level of power distance in the Tongan society.

Hofstede’s reading of power distance seems to rely upon two basic characteristics, as: 1) that the significant inequalities in the distribution of power exist, and 2) that the members of society accept the inequalities. While the magnitudes of the first characteristic have been revealed, the absence of the second characteristic has been long overdue. However, it has become evident that through better education of the individuals, increased exposure to enhanced democratic philosophy through overseas visits, and the increasing interest of businessmen to balance the interest of
the business with the traditional obligations, in the last two decades, it has become ardent to the question of the distribution of political power.

Since the late 1970’s, the People’s Representatives in Parliament have been continuingly protesting against their inability to provide opposition to government because of unequal representations. In 1988 the People’s Representatives staged a ‘walkout’ during the morning session in protest at the equal representation. They boycotted the Parliament session for ten (10) days before returning. They even wrote petitions signed by thousands of people to the King. The walkout caused a furore in which the nobles and the Hon Ministers made their own protest by quickly passing eleven (11) bills in the absence of the People’s Representatives. While this issue has been the centre of a political campaign and discussions at the social level, the King and the government are still silent about the issue.

However, the government is now becoming very concerned about the prospect of the significant erosion in its political power, as well as that of the nobles. During the last two decades, the government has had to subsidise the cost of preparations of pola (food) by the people for official occasions. Such financial assistance was never done before, but now they are aware that through better understanding and learning, the individual would start to question the economic cost/benefits of the continual observations of traditional customary power of the government and the nobles. Money and consumer goods are becoming increasingly important as land gets scarcer and money flows from overseas workers. There is a considerable conflict between the more affluent and well educated families, over how money should be used. Should it be saved for the education of one’s children, or should it be continued to cater for traditional obligations?

It has become evident that the traditional hierarchal system is beginning to developed into a class system (Bott, 1981). A middle class seems to have developed which consists of teachers, doctors, lawyers, government employees, and church employees. This places a value on education as the identified feature in such a class development. However, this class did not think of themselves as a power group, but it indicates a move toward an enhanced democratic society.
The norms which characterise Tongan communities are complex with a large power distance. The significant effects of education, an attractive business environment for entrepreneurship and employment opportunities, and the increasing reliance of locals on remittances from relatives from overseas countries has helped improve the standard of living of the majority of the people. People no longer rely on the land tenure system and the nobles to be granted land for their framings.

The government and the nobles are aware that the validity and the long-term existence of their traditional power and prestige, to a large degree, depends on how they re-address the issue of inequality and accountability. During the 1970’s, Prince Ma‘atu, the King’s second son and Prince Mailefihi, one of the King’s nephew requested to be relinquished from their rights to the throne, to marry commoners. The King reluctantly gave his consent for the ceremonies to take place. Therefore, it is evident that the extent of the nature and the characteristics of power distance in Tongan society, is severely tattered, and as a result this middle class has developed.

**Strong Uncertainty Avoidance:** This dimension of uncertainty avoidance refers to the extent to which the members of a society feel uncomfortable with uncertainty and ambiguity (Gray 1988; Perera 1989; Mathews and Perera 1993). The fundamental issue of uncertainty focuses on how society reacts to the fact that the future is unknown. In weak uncertainty avoidance societies “people have the natural tendency to feel relatively secure” (Perera 1989, 45) whereas in strong uncertainty avoidance people maintain a rigid belief towards the future and behave accordingly.

The general norms of traditional Tongan society can be characterised as weak uncertainty because the people have relied on their agricultural land as a means of living and surviving. Land is not for sale, but inherited and entitlement earned through the land tenure system when people feel secure that their land is enough to produce food for family consumption and copra for export. The closely knit family ties and communal living are significant assets for the people to feel secure about their future. The religious belief and faith within the society also creates a feeling of security about their future.
In modern Tongan society, however, the population has grown and there is now not enough land for every adult male to have a registered allotment. People are becoming conscious of their children and their future, and have now turned to other means for better opportunities. As a result, a large portion (approximately more than 20,000 Tongans) of the population has moved out of the country looking for greener pastures. The government has introduced intensive Five Yearly Development Planning for the economic development of the country. They also have introduced development incentives packages to attract investors both foreign and local to establish businesses in the Kingdom that might create employment’s opportunities to compliment the agricultural sector. The government has been continuously relying on foreign aid and loans for the infrastructural and economic development of the country. The government has attempted to go through this economic planning process because of the uncertainty of the future.

While the traditional Tongan society has been characterised as weak uncertainty avoidance, the modern Tongan society has grown to be a strong uncertainty avoidance. People have moved out of the country because of their uncertainty consciousness, the government has gone out to the international markets because of its consciousness toward the uncertainty of the future. As the arable land has become scarce people have become concerned and uncertain of their future. As the traditional export products have been forced out of the markets the government has been promoting industrialisation and tourism because of the continual uncertainty in the markets for the country’s export products.

Masculinity: As is typical of the Polynesian culture, the role of the sexes is typically more clearly differentiated than in the Western nations. This may be due to family size, which is larger than it is in Europe. However, there is no preference as to the value of sexes because of the societal-value of rank and power. The male children have grown up to know that they are to do the farming while the female would do the house works.
While the society still values people relationships, care for the elders, and helping others, societal-values have also proudly recognised personal pride through achievement and heroism. King George Tupou I was particularly recognised because of his heroism and was crowned the King of Tonga (which has since come down to the present King). The late Queen Salote Tupou III was recognised because of her outstanding leadership. Traditionally, the King used to appoint his Ministers from the nobles. During the last two decade, the appointments to Ministerial level included three (3) commoners because of their educational achievements. Therefore, while the society value its social tradition of relationship and communal interest, it has also recognised the achievements and heroism of the individual.

The analysis of Tongan society in terms of Hofstede’s cultural values has been of necessity to demonstrate that there are significant cultural differences between Anglo-American countries and many developing countries, such as Tonga. These differences raise some important issues relating to the proposed improvement of the accounting function in Tonga. For example, the cultural relevance of accounting systems—the technology transfer from Anglo-American countries may not work because they are culturally irrelevant in the Tongan society’s context.

However, Tongan society has undergone substantial changes during the last three decades in the characteristics described and will presumably continue to do so in the future. Aspects of power distance have noticeably changed in the last decade. Again, religion is a key factor in the Tongan society and it is intertwined with cultural values. In this case the evidence is sufficiently clear for a reasonably strong conclusion to be drawn about the Tongan society that it is collectivism, large power distance, strong uncertainty avoidance and a masculine culture.
Summary

This chapter analyses and discusses the possible impact of culture on the development of accounting in Tonga. It is undoubtedly that culture determines the level of development and has helped shape accounting practice in Tonga. The prolonged existence of the outdated Companies Act as from 1912 is the result of the traditional obligations of serving the customary dimensions and religious belief. The unbearable cost of those traditional obligations has made it very difficult for the individual to save for the investment purposes that would give rise to a gradual initiative for development of accounting systems in Tonga.

In communal living there are perennial demands and obligations to meet from one’s income; as a result people would either spend all their income or overspend and even go into debt. Consequently, most people would have little if any income left for capital accumulation and investment. This help explain why businesses are lagging behind and are not doing well financially when compared to foreign-owned companies. So, this cultural requirement of contributing to perpetual demands and obligations is the determining factor in the history of accounting development in Tonga.

The unfortunate historical accusation of ‘bookkeepers’ determine the attitude and perception of the individuals toward accounting. People are very conscious of their family history (name) and, therefore, are reluctant to pursue an interest in accounting as a chosen career. The intertwining of traditional custom with religious belief has helped intensify the biblical ideology of “love thy neighbours as you loved yourself” which demonstrates the interplay between cultural and religion obligations.
History has shown that the rate of growth and the development of a nation's economy is tied to a certain extent to the adequacy of the accounting system and the accounting development process in that country. The existence of traditional and religious obligations in the Tongan society had an adverse effect on accounting development because it inhibits the growth of savings and investment. While a cultural inheritance is important to one's identity and value, the development of the accounting process is urgently needed in Tonga. It is now appropriate, however, to note that the natural erosion of the traditional political power and the subsequent development of a middle class is a new dimension more favourable to economic and accounting development in Tonga.
CHAPTER SEVEN

ACCOUNTING AND THE PRIVATE SECTOR

Abstract

In the developing countries, the private sector must justify its existence; it must satisfy
the government that it is contributing to economic development. The accounting reports
required, therefore, from the public and private sectors are not necessarily those that
would just satisfy shareholders and bankers. (Samuels and Oliga 1982, 80)

Introduction

The basic goal of economic development is to bring about a change from a
system of economic stagnation to a system of dynamic growth. The private sector is
considered as a vehicle for economic growth and development of a country. In
essence, accounting can be of substantial aid to the economic development sphere. As
Bevis maintains "accounting is not merely a contributor, it is an inherent part of a
successful industrialised economy" (1958, 34). Industrialisation, as a synonym for
economic development, is today an economic reality (Harbison and Myers 1964; Scott

Current economic developments and historical patterns of growth indicate that
industrialisation is a prerequisite for sustained economic growth (Kindleberger 1965;
Tinbergen 1979). This is evidenced by the growing role of the industrial sector in the
national output of the more advanced developing countries. This historical experience
has led developing countries to adopt industrialisation as an important part of their
national development strategies. In fact, industrialisation also increases productive
employment, development of skills, discipline, and technological know-how.
Industrialisation is, therefore, sought not merely to raise overall output but also to
attain national self-reliance (Kohli 1982).
However, the evolution of an accounting system in a country usually is a complex process, and comparison between such systems should be qualified. A comparison between economies and technologies must also be qualified. An accounting system, in some stage of development, exists in all societies. As technologies develop and the complexity of economies transactions arise, an accounting system must evolve to interpret and report economic transactions to its society.

Accurate and reliable information is necessary for successful planning and controlling economic activities in both developed and developing countries. It is the function of the accountant to select the relevant aspects of economic events, organise and summarise them, and subsequently report them to interested parties. Efficient management needs accurate and up-to-date financial information for decision making and planning future policy.

However, saving and investment are inevitably the major drawbacks in the developing countries’ endeavour to promote economic development. Accounting can play an important role in this aspect by providing information about the affairs of the business in order to gain investors’ confidence and to aid in the allocation of capital and investment decisions. In order to exhilarate the flow of investment, the ‘credit provider’ must be fully satisfied with all information (including financial) provided by the applicant (investor) before processing the application which could then determine the status for its approval. The financial institutions need reliable and accurate financial information in order to effectively assess the investor’s ability to pay back the loan base on the performance of the investor’s business operation. Enthoven recognised this function when he stated:

The accounting ... in developing nations can thus do much to stimulate confidence in the private sector and to help to mobilize sterile savings. The adoption of economically sound and realistic accounting techniques and auditing procedures for all sectors, as well as cooperation with financial institutions (banks, stock exchanges etc.,) and semi-public agencies, would be a great help toward this goal. Successful private investment will breed more private investment. (1969b, 132)
This chapter focuses on the present role of accounting and the private sector in Tonga—namely, investors and creditors. The term ‘investor’ will refer to individual, institutional investors and governmental agencies. On the other hand, ‘creditor’ will refer to commercial banks, overseas aid donors and international financial agencies, such as, the Asian Development Bank.

**Investor**

In an economic sense, investors are those real, as well as legal person(s), who commit the specific resources required to operate an economic unit. They are concerned with the determination of income because of its effect on the value of their investment and on the amount of dividends distributed (Kindleberger 1965).

The traditional concern of the field of accounting has been to provide historical financial data of economic activities. This has changed in recent years toward emphasising the economic decision-making function because of the utilisation of the accounting data for planning and projecting future economic activities. Adequate accounting is a necessary requisite for partially satisfying investors’ investment decision-making needs. However, in most developing countries, financial reporting of this nature provides little reliable information or data relevant to investment decisions. Mahon recognised this when he stated:

The credibility of financial statements has not been generally established—the public simply not being conditioned either to expect or to demand reliable statements. Needless to say, market mechanisms under which widely dispersed private capital accumulations can be placed at the disposal of emerging industry are limited. (1965, 35)

In developing economies, such as Tonga where capital requirements are crucial for its economic development, accounting information is equally vital to generate investors confidence and fulfil investment requirements necessary to achieve effective and efficient economic development.
Investment Requirements in Tonga

As a result of the continual decline in the major traditional export products during the 1970’s, the government then turned to entrepreneurs and private investors to generate economic growth and develop local resources. The expansion of the business sector has now become an integral part of the country’s development process. The promotion of a buoyant and profitable business sector, however, is one of the major challenges facing Pacific islanders, particularly because business opportunities in the past have been dominated by overseas business interests. Therefore, there are now clear political and economic reasons why investors (entrepreneurs) should play a decisive role in the business sector of Tonga.

According to the Ministry of Labour, Commerce & Industries Annual Report (1992, 1993) the promotion and encouragement of entrepreneurship has been generally recognised as crucial to the industrial growth of Tonga. The government’s policy through the Development Plan III assigns a major and leading role to the “private sector” which reads that “high priority will be given to the development of a strong and expanding private sector; investment by local firms will be encouraged and foreign investments will be welcomed in cases where it provides real benefits to the people of Tonga” (1992, 7). Since then, foreign investment has been regarded to be a constructive investment as it brings positive and substantial economic benefits to the economy of Tonga.

The active participation and heavy involvement of the private sector is an important facet of economic development in Tonga because it provides employment for the unemployed surplus workers in agriculture, raises the standard of living of the masses, and assures the full utilisation of the country’s productive resources. However, there are several constraints placed on private sector development in Tonga as a result of scarcity of capital, technical expertise, foreign exchange, distance from overseas markets, high freight cost, and cultural obligations. These constraints have been considered a ‘concerned’ disincentive in the process of accelerating economic growth in the country. While these disadvantages have been gradually overcome, there are also many positive factors. The economic and political stability of the country has been a great asset to the country’s endeavour to promote entrepreneurship
in the Kingdom. There are also other encouraging factors, such as, the absence of labour unions, relatively low wage structure, existence of government industrial protection's and incentives, and salutary tropical climate.

The government's initiative and commitment to promote the growth of entrepreneurship was highlighted in the Development Plan III and the approval of the Industrial Development Incentives Act in 1978. The Act was established to actively encourage entrepreneurship for the establishment and growth of industries and tourism in the Kingdom through a system of granting relief, such as, exemptions from certain taxes and duties.

Section 7(1) of the said Act, allows exemption for every approved industrial enterprise from payment of any income tax for a duration ranging from five (5) to fifteen (15) years. The maximum duration of tax relief approved by the Industrial Development Incentives (IDI) Act to be granted by the Advisory Committee are as follows:

(i) traditional industries in Tongatapu (the mainland), such as, service industries, furniture and joinery industries, small tourist 5 years
(ii) approved industries located on the outer islands 7 years
(iii) export oriented industries 10 years
(vi) processing of agricultural and marine products 10 years
(v) import substitute industries with a capital investment of over two million pa’angas 10 years
(vi) industries and tourist prime facilities with a capital investment of over five million pa’angas 15 years

(IDI Act (Amendments) 1990, 72).

Section 7(3) also exempts every shareholder of the approved enterprise from payment of any income tax on the income received as dividend on his shareholding in the approved enterprise during and not later than two (2) years after the expiry of the approved tax holiday period. Section 8(1) provides exemption of ‘non-resident’ registered enterprise from payment of “withholding tax” on withholding income relating to the initial tax holiday.
Section 12 provides exemption of approved enterprise from payment of Custom Duty on "capital goods" and "raw materials" for a period of up to two (2) years from the date of issue of the development licence. Moreover, Section 9 provides for depreciation of the assets of the approved enterprise as follows:

(1) An approved industrial enterprise may provide for depreciation of its assets after the expiration of the period of tax holiday ... on the original value of such assets provided further that the amount of depreciation is in accordance with such rates the Commissioner considers reasonable ... . (1988, 6)

Section 10 provides for the carry forward of losses as follows:

Notwithstanding the provisions of Section 6(1) of the Income Tax Act or any other provisions relative thereto, the net losses incurred by an approved industrial enterprise during any tax assessment year(s) may be carried forward and set off against future profits without any monetary limit provided further that such set off shall be against the profit accruing during the year(s) immediately following the year(s) in which such loss(es) has been incurred and accumulated. (1988, 7)

It is very interesting that the annexation of such requirements to reinforce the promotion of an attractive business environment reflects the low level of interest and earnestness of the government toward compliance with accounting requirements. The government’s approved scheme overlooks the compliance with the accounting concept of providing a true value for depreciation and carry forward of losses and set off against future profits without either a time or monetary limit for the purpose of the assessment of tax reflects its position concerning commitment to develop accounting practices in Tonga.

The government’s effort to promote and encourage entrepreneurship in the Kingdom has been hailed with mixed success. According to the Ministry of Labour, Commerce and Industries Annual Report (1993) over 700 industrial enterprises (new and expansions) had been approved and registered since the inception of the policy in 1977. This included tourism related prime facilities, services related industries, manufacturing and processing industries, and commercial farming and fishing for exports. The Report also estimated that the value of industrial production was less than a million in 1977 but estimated to be over T$25 million in 1993, and employed an estimate of over 4,000 people.
There has been a continuous revision of the approved scheme to attract more investors and the economic benefits derived from such scheme have been welcomed, however, there are also reservations of its 'structural justification' that ought to be thoroughly investigated. Since the inception of the said Industrial Incentives package in 1978, there have been few amendments made in 1982, 1990 and 1992. According to an Industrial Development Incentives Policy Paper (1994) for the Standing Advisory Committee (SAC), included in the amendments made in 1992 was the withdrawal of the incentive on depreciation to be charged after the expiration of the period of tax holiday on the historical value of the asset from the Act. The Standing Advisory Committee felt that the commencement of depreciation charges after the tax holiday period would, in fact, mean less assessable income after the tax holiday. It was in fact evident that such action was inevitable because of the absence of an accounting profession and the lack of accounting standards to which the government could turn for advise on such issue.

During my field research, I happened to find out from my interview about a policy paper that was prepared and presented by the Deputy Secretary (Industries Division) in the first SAC Meeting held on the 3 February, 1994. It was a mere coincidence that while doing my research in the Department I happened to learn of the said policy paper. I was told that the matter was discussed in the meeting, but deferred because it lacks analytical depth, clarity and consistency. The purpose of the paper was again to propose several amendments to the Act, and requested the approval of the SAC members.

Unfortunately, when I requested a copy of the policy paper I was told that it had been removed from the file and there was no copy on the flimsy file either. The officer-in-charge of filing said that he remembered seeing the policy paper inside the file but wouldn't know who had removed it. It then became clear to me that the paper was purposely removed by someone after learning of the analytical approach of my research to evaluate the role of economic information in the developing economy of Tonga. I knew from that time that that person might have removed the policy paper so that I would not be able to get access to and analyse it. I have been working in this Ministry for ten (10) years (including overseas study) and have understood how an
individual could save himself/herself from further embarrassment and post-mortems of one's own failure. In fact, I understood that every member of the Committee should each have a copy of the said policy paper and, therefore, asked for the Hon. Minister's copy and studied the paper before raising it in my next meeting with him. What this person had forgotten was that I was not a complete 'outsider' doing research in the Ministry but a researcher doing research at home.

After studying the policy paper which included the previous amendments, it became evident that this cultural process of 'gift-givings' (discussed in Chapter 6) is being transformed into the organisational level. The policy paper recommends a further increased in the tax holiday period from five (5) to thirteen (13) years; income tax holiday for import substitute industries should be removed; and the facilities of duty free import of capital equipment should be allowed during the life of the project. The reason given was that the incorporation of such amendments "would make it in line with incentives offered to such industries in other countries" (Ministry of Labour, Commerce and Industries 1994, 2).

It is obvious that the nature of such policy is merely to "continue to give" rather than provide an analytical evaluation to justify such recommendations. That is the reason why I referred earlier to the fact that there are a few reservations as to the structural justifications of the incentive packages. According to the policy paper, it was revealed that up to July 1993, 702 Development Licences had been issued of which 497 are still in operation. Unfortunately, it failed to continue with the presentation and mentioned that the difference between the total licences and those that are still in operation obviously would be those that have closed down, which equalled 205 enterprises. Instead, it continues and provides a break-down figure on three different statistical tables on the status of the industries in operation. With all the three statistical tables, they exhibited three different figures accounting for those closed down industries. Table 1 reports 123 industries that were closed down, while Annexes 4 and 6 discloses 132, and table 11 reports 116 closed down. Apparently, the report failed to investigate and mentioned the reasons for the increasing numbers of industries being forced to close down. As one of the members of the committee representative from the Central Planning Department noted, these inconsistencies
confuse us and it shows a lack of professionalism on the part of the preparer. However, this type of inconsistency and lack of professionalism on the presentation of the report is no exception in Tonga.

Apparently, the structural weaknesses of the investment incentives lies in the lack of analytical evaluation of the costs and benefits and validity of each provision to their objective and to the country’s economic development. It is surprising that the Department fails to investigate the reason for the increasing numbers of industries that were closed down rather than overwhelmed with the idea of restructuring its investment incentives and creating an attractive business atmosphere that are competitive with other countries. During my field research, I interviewed five (5) accountants who had been assigned as receivers of companies that had been forced to close down and gathered information on 107 industries that were already closed down. This does not include the retail outlets and registered companies.

With all the 112 industries (including those that are on receivership) the common reasons for the close down were mainly due to:

- financial mismanagement,
- unprofitability due to poor sales as a result of the unreliability of the market,
- insufficient finance to inject additional capital for rehabilitation and ‘rescue’ options,
- expiration of the tax holiday period,
- its time to close down as the financial assistance from the government (rural development grant) runs out, and
- increasing pressure of cultural expectation and obligations.

Moreover, among those problems reported the enterprises were encountering one kind of problem or another. One problem which was commonly reported was the acute shortage of skilled manpower: tradesmen, engineers, accountants, computer personnel, and middle managers. There are not enough people trained in these professions and those who are trained and qualified tend to emigrate to the metropolitan neighbours because of attractive salary packages.
The interviews indicated that many of the entrepreneurs had previously worked in the private sector, church organisations and statutory bodies, and their business skills were largely learned by trial and error. Given that the traditional method of learning in most Pacific societies relies on observation and imitation (Hailey 1987), it is perhaps not surprising that many local indigenes chose to start businesses that were already highly visible—businesses that they could easily observe and imitate (Carroll 1986). This 'copy cat mentality' led Ritterbush to suggest that indigenous entrepreneurs have a tendency to be “poor innovators but good imitators” (1986, 76). In fact, such traditional mentality of imitation leads to an overabundance of retail outlets and the downfall of many of them.

The chances of business failure are increased if those involved in the enterprise have limited relevant experience and skills in business management, as was the case with most entrepreneurs interviewed. Given the high rate of business failure in the Tongan business sector, it seems to suggest that entrepreneurs invest in ventures, such as, tourism related activities, petrol service stations, building and construction, and wholesaling and retailing in which they have little experience but because they are genuine entrepreneurial risk takers. This contention is supported by the evidence that the majority of entrepreneurs interviewed used their own money from remittances to finance their new business projects. This picture certainly belies the commonly held perception that the business community in Tonga, and in the Pacific is conservative, unenterprising, and unwilling to take risks (Fairbairn 1988).

As discussed in Chapter 6, the motivation behind such risk-taking behaviour appears diverse. Even though economic security and profit were major motives, they were not necessarily paramount. The majority of those interviewed claimed that they had gone into business to supply the needs of their local community. Others claimed that their commercial endeavours were a way of gaining independence, while others wanted to have a share from the available government financial subsidies. This form of government subsidy is granted from a project fund known as ‘Rural Development Funds’ and administered by the Central Planning Department. However, only the local entrepreneurs are entitled to apply for such financial assistance. If the entrepreneur’s request for such assistance is approved then the total initial cost of the
project will be shared equally between the grant and the entrepreneur. Again some of those interviewed claimed that they saw that as an opportunity to have a share from this financial grant. As a result, personal motives often superseded business logic. Economic motives were rarely paramount because business objectives were often secondary to personal advancement or social obligations. A commonly underlying motive was the perception that through business success an individual could gain status or power in the local community.

The lack of management skills was highlighted as the most contributing factor for business failure in Tonga which was then traced to their limited business experience. It was evident that few had been born into a business family, and most were previously civil servants, farmers, or craftsmen. This lack of exposure was reflected in their ignorance of business ethics and management techniques, an inability to keep accurate records, and general lack of confidence in their business dealings. The resulting inability to assess their business performance or financial position caused them further difficulties in recognising forthcoming problems or planning for the future.

It was evident from the interviews and evaluation of financial reports that most of the entrepreneurs with businesses currently in operation were unable to prepare realistic business plans. This was because the accountants that they have employed were incapable of providing financial statement because they are long-service cashiers who has grown to call themselves accountant, but, in fact are unqualified accountant. Feasibility studies were jeopardised by their inability to assess information accurately or make realistic projections. Rarely were business goals clearly identified or achieved. In that respect, such goals were often confused with personal or social obligations. Their success was threatened by insufficient resources, inappropriate skills, and irrelevant goals.

It was also revealed that the overall lack of planning that resulted in unrealistic expansion appeared to be a common cause of business failure in Tonga. Entrepreneurs need to have the skills to apply effective plans and the resources to marshal and control the necessary resources. For example, many entrepreneurs interviewed were unable to gauge the financial worth of their business. Even when accurate records
were kept, few entrepreneurs had the experience to interpret the data and predict potential problems, let alone evaluate financial ratios or prepare cash flow forecasts. Given the general lack of understanding of, and ability to apply, basic management techniques, there was often a tendency of minimal control over recurrent costs or any use made of a cost-effective mechanism.

Another interesting problem mentioned was the 'over-involvement' by their boards of directors (beyond those in policy) in the actual day-to-day management of their companies. The over-involvement of the boards of directors has led several enterprises into financial difficulties. For example, the board requested that the opening ceremony of the enterprise must be in the form of a traditional ceremony with entertainment. Not only that but the giving of gifts to the Royal families on birthdays and social fund raising activities. These demands by the board were usually very costly and had to be paid for by the enterprise.

The lack of sufficient capital was also identified as a common cause of business failure in Tonga. The problems arise due to the lack of initial start-up funds and insufficient operating funds to ensure long-term survival. The impact of the lack of sufficient capital was reflected in a broad range of detrimental problems, such as, recurrent liquidity problems, a limited range of stock and equipment, minimal promotion and advertising, an inability to finance effective expansion and, more commonly, a recurrent instability.

Apparently, the banks in Tonga have adequate financial resources and there is no shortage of business capital from these credit providers. The problem instead was evident in how the investors obtained access to these funds. The bankers claimed in the interviews that they are willing to lend funds to any viable commercial proposition but that often investors, including overseas investors do not make viable investment proposals. Their loan applications are rarely supported by accurate market projections, effective business plans, or reliable and sufficient financial information. The banks even suggested that investors may have been ignorant of basic bank practices and loan procedures.
However, the entrepreneurs were generally critical of the unsupportive attitude of the banks. Most of the entrepreneurs interviewed assumed that banks favoured the large borrowers and purposely made loan procedures difficult for small indigenous businessmen. This perception was supported by the contention that banks demanded loan guarantees and collateral that small entrepreneurs could rarely afford. Furthermore, most entrepreneurs complained about the high rate of interest of 13.5 percent charged and short pay-back period and the Bank of Tonga was severely criticised. Small entrepreneurs felt that banks discriminated against them. They saw this exercise as a conscious policy that starved them of capital; as a result, they were less able to survive the vagaries of conducting business in Tonga.

Another important aspect that needs to be appraised in the context of costs and benefits analysis of the investment packages is the comparison of economic benefits and the costs to government in allowing incentives under the Act as a loss of revenue by way of income tax, customs duty, port and services tax and export taxes. There is need for a costs/benefits study analysis to determine the real value of its contribution, relevancy and appropriateness of these to the needs of small indigenous businesses. Also such analysis and information would be invaluable to the Standing Advisory Committee members in their assessments and decisions rather than just providing historical events and superficial assumptions.

According to my research investigation, there has not been any attempt to undertake such a study to determine costs/benefits analysis. To some extent, it reflects the positive attitude of the government in their endeavour to encourage economic development by the frequent revisions of the Industrial Development Incentive (IDI) Act. However, it was pretty sad to learn that the important aspects of the economic development process have been severely undermined. This is reflected in the lack of commitments for revising the Companies Act (the Act that governs the disclosure and reporting requirements) since its establishment in 1912 while the IDI Act has been revised three (3) times since its inception in 1978. Therefore, it clearly indicates that the whole concept of economic development is being looked at in its ability to promote and encourage economic activities but this is undermined by the inadequate process of evaluation and reporting of the economic activities.
Furthermore, the incentives are considered structurally weak as they are often inappropriate and irrelevant to the needs of small indigenous businesses in Tonga. For example, the incentives seem to favour overseas investors and export oriented industries. In my documents analysis and interviews, evidence clearly suggests that a large portion of the capital invested by overseas investors is, in fact, raised locally. This fact questions the much-vaunted role of the foreign investor promoted and encouraged through the investment incentives, as an importer of needed venture capital. To make matters worse, several overseas investors have managed to close down their businesses during Christmas holidays and disappeared overseas leaving thousands and thousands of dollars owing to the banks from approved loans that were supported by the Department (unfortunately, due to the confidentiality and sensitivity of the cases the names and amount cannot be disclosed here). Also evidence has been gathered by the researcher of a large amount of money from proceeds of sales of manufactured products exported overseas which were then invested there instead of being returned to Tonga. They have been doing this for the period of their tax holidays, and have taken-off leaving a whole lot of debts back in Tonga. Unfortunately, the Industrial Investment Incentives Act was silent on this matter and the overseas investors took advantage of it.

It was also interesting to learn that the total figures of approved industries used for the policy paper were figures for the Tongatapu (mainland) area only while the figures for the outer islands of Vava'u and Ha'apai group were not mentioned. When questioned, the Industrial Promotion Officer indicated that the figures for the outer islands were not up-to-date and unavailable. So it is presumed that the figures for Tongatapu would exhibit the same result as that of the outer islands. This is a clear example of the typical economic planning problems caused as a result of the ‘lack of information’ for both organisational and national planning. As discussed in Chapter 5, the lack of information would force the planning authority to use the only available figures either from one sector or area of the economy to appraise and presume the same effects in the whole economy. This is a very misleading and unacceptable approach as the problems such as proximity to the market, freight charges, transportation costs, etc, may not be the same with that in the outer islands.
Corruption was another problem that caused some enterprises in Tonga to go bankrupt and be forced to close down. It has became a very serious problem that must be addressed and ways found to combat such an increasing disease, according to concerned entrepreneurs interviewed. Some failed entrepreneurs blame themselves for over-confidence and trust being placed in their accountants only later to find that the enterprise had incurred a lot of unpaid debts. Instead of paying those debts, the accountants had been using those funds for their personal accumulation of wealth. Some entrepreneurs blamed their accountants and management for their inexperience and not continuously appraising them on the financial status of the business.

While corruption is increasing in the business sector it has been a political concern in the government sector. The Audit Department has made every effort possible to fight this disease in the government sector. Corrupt government employees have been the target of the law once they are detected. In fact, detection of corruption always came in very late after a lot of funds had gone missing undetected in the first place. Therefore, the Audit Department has called for regular reports by accountants to Heads of Department in order to try and identify corruption while it is still at a minimal stage. While the effectiveness of such efforts is still yet to be seen, the exercise is seen to focus on attempting to rectify the past mistakes and mal-practices of individuals instead of concentrating on combating institutional factors by demanding an institutional development of accounting practices and reporting procedures. This problem is discussed by Briones as:

There are two parties to corruption: The government sector and the private sector. The latter is the corruptee and the former is the corrupter. Oftentimes they reverse roles. Historically, efforts to eliminate corruption have always been directed towards public servants ... . In order to be effective, efforts to discipline the government should also be directed towards the private sector. (1987, 13)
The issue of accountability has been the main topic in Parliament since the 1970s whereby the People’s Representatives have been accusing the government for a lack of accountability on several issues, including the sales of national passports to overseas citizens. The People’s Representatives call this activity a revenue collection exercise and, therefore, the government should be obliged to provide reports on the financial status of this revenue item. While the government has provided a report on the cash position of the funds collected, the People’s Representatives still felt that the level of disclosure is unprofessionally presented.

Accordingly, this study maintains that unless the government makes an initiative and effort to develop accounting and auditing standards in Tonga, continual failures of businesses and increased corruption in government and the business sector are inevitable and will continue to affect the country’s economic development efforts. In view of the lack of initiative from the accounting profession because they are unorganised and inactive, the government should then make the effort to develop accounting standards in Tonga. While some accounting researchers have rejected the concept of government interference in regulating accounting within a country, it is inevitable that the government should initiate such a move in Tonga because of the issues of cultural values, resource commitments and enforcement demands and the lack of enthusiasm from the profession.

Furthermore, the study also identified the characteristics of accounting deficiencies that causes the failures of business activities and corruption as a result of the prolonged non-existence of developed accounting practices and procedures in Tonga.

1. *Lack of focus and direction for accountability* as a result of cultural and religious values. The absence of generally accepted accounting standards to guide, regulate, and harmonise accounting practice has forced cultural and religious beliefs to re-direct the meaning of accountability from its professional focus to cultural meanings.

2. *Untimely and unreliability of available information systems* as a result of procedural deficiencies due to personal limitations on the part of personnel or the finance division responsible. The inaccurate and incomplete accounting information
has contributed to financial mismanagement, embezzlement, fraud, incompetence and inefficiency.

3. Failure or inability to employ qualified and competent personnel. The concept of communalism has extended to business management where entrepreneurs tend to employ accountants on the basis of family connection and friendship as part of their traditional obligations. Entrepreneurs usually employed relatives and friends not that they are qualified but so that they could be able to help their families with their salaries. The inability of the individual to properly handle such responsibilities required is reflected in ineffective management and accounting information systems; ineffective systems of internal control which has contributed to financial mismanagement.

4. The undertaking of external reporting is only to comply with the law and other institutional requirements. The basis of external reporting is being characterised as only to fulfil the requirements of the law, such as companies law and taxation requirements. Thus, reports lack the substance and conceptual basis for providing useful information to assist interested parties in their decision-making process.

5. Unnecessary bureaucracy involvement leading to long delays and contributing to corruption.

Achieving accountability in Tonga is extremely crucial to its endeavour to promote economic development, both in the business and government sector. As the country suffers from relatively low growth rates, it may be conducive to argue that action in the development accounting process is urgently needed in Tonga. It may also be seen that the presence of bureaucrats in major domestic firms may have an adverse effect on accounting development because of their strong prerogative on inside information which there is no tradition of providing sufficient financial information to the public to facilitate decision making.
Chapter Seven: Accounting and the Private Sector

Creditor - Capital Market

The capital market, in its broad sense, means all the institutional arrangements and instruments through which savings are directed to investments. Since one of the important factors in the economic development is capital, Kindleberger agrees that:

Capital is regarded ... as strategic. In the Harrod-Domar model, which emphasizes capital, the process of capital formation is interacting and cumulative; capital formation increases income which makes possible more capital formation. (1965, 83)

In view of the role which capital plays in the economic development process, there is currently an increasing interest in activities designed to improve the flow of capital funds both within and from overseas institutions. Underlying this interest is the belief that the economic development process and economic welfare would be improved if impediments to the free flow of capital were reduced. In essence, it is reasonable to assume that if capital resources are not provided to those industries which are capable of increasing productivity, economic growth rates will suffer.

In his thesis 'Lending Issues in Developing Economies', Meier explains the process of capital formation in developing countries that it involves mainly three steps:

1. Increasing the volume of savings in the community;
2. Developing mechanisms to collect these savings and allocate them to investors; and
3. The act of investment in physical stock. (1964, 112)

The creation of a capital market will provide the means and incentives for investing voluntary savings in new ways or to existing firms. However, the principle purpose of the capital market is a rearrangement of existing savings into more productive use (Yamey 1964). He also suggested that systematic accounting has been an essential ingredient to large-scale industrial development. Mahon (1965) has apparently extended this theme and speculated that broadly-based capital markets depend, in some measure, upon the presence of well-developed accounting and auditing functions. Newbould recognised the relationship between accounting information and capital market development when he stated:
Increasing disclosure of information by means of general publication must be accepted as the essential prerequisite of the maintenance and further development of any efficient capital market and should be the chief aim of any legal and institutional policy. (1964, 47)

The relationship between accounting and the capital market has motivated an increased interest as Enthoven recognised the need for accounting to perform its functions:

It is needed, indeed to play a double role in economic development. First, effective accounting is a prerequisite to the efficient use of capital invested. Second, accurate and informative accounts create an atmosphere of confidence for the flow of capital investment, and this encourages not only savings, but the effective use of savings. Both roles are important in a nation's economic programming and the national accounting on which that programming is based. (1969b, 130)

The availability of financial information about the firms has promoted the capital markets in most economies (Yamey 1964; Hunter 1964; Lamy 1973). This has led to the establishment of specific requirements for the disclosure of information regarding the economic features and financial policies of borrowing firms. To help assure that such representations are not fraudulent or deceptive, most capital market institutions also require that the authenticity of such information be attested to by an independent and qualified auditor(s). In a capitalist economic system the survival of private enterprises depends not only on the production of goods and services but adequate information mechanism to various interest groups from investors and creditors to the capital market (Belkaoui 1994). Quereshi also explains the relationship among financial accounting, capital formation, and economic development as:

The choice is based on the idea that financial reporting, capital markets, and capital formation interrelate. Capital formation, a strategic formation in economic development, is closely dependent upon financial mechanisms and institutions. Studies by such eminent monetarists such as Kuznets, Goldsmith, and McKinnon provide a convincing evidence of the parallel between the development of capital markets and economic growth. The development and proper functioning of capital markets in turn is intimately related to the availability of financial information which is provided by the accounting function of reporting. (1974, 71)
Information is essential to the formulation of investor expectations and plays an important role in the capital market. In fact, the accuracy and reliability of the financial information (reports) are dependent on the accounting and auditing practices of the profession in that country. However, the need for accepted accounting and auditing practices does not stem from the role they play in the capital market alone, but extends to planning and controlling all economic activities in the country.

**Financial Information and the Capital Market in Tonga**

The realisation of growth targets in any economy depends on the amount of investment in productive factors. To achieve these targets, the private sector should be called upon to provide funds to finance at least part of the gross domestic capital formation. The recognition of the importance of voluntary saving must be accompanied by the development of a financial system whose primary task is to channel savings into investment. Otherwise the unorganised money market will continue channelling the voluntary savings into consumption (Hunter 1964; Kindleberger 1965).

While the loan market was established in the 1970s, there is still no stock exchange market in Tonga. Since then there has been only one commercial bank, the Bank of Tonga, and one development bank, the Tonga Development Bank. So access to funds from these banks has always been a headache for the locals. Undercapitalisation has been claimed by the failed entrepreneurs interviewed as one of the major causes of business failure in Tonga. The underlying reasons are that most businesses are dependent on informal sources of finance. In fact, rarely can sufficient funds be raised through such informal contacts, such as loan from family sources, reliance on remittances, and personal savings.

This continued reliance on informal credit sources were the results of difficulties acknowledged by indigenous investors in raising funds through formal banking institutions, as with the case of most small local investors interviewed. This situation is particularly of great concern because the banks themselves claim to have sufficient investment funds and are willing to lend to viable commercial borrowers.
According to the banks, however, they will lend only to well established operations with suitable guarantees, which rarely includes small indigenous investors. Certainly, most entrepreneurs interviewed complained that both the Bank of Tonga and the Tonga Development Bank neglected the needs of small indigenous businesses and even discriminated against them.

Most of the entrepreneurs interviewed also claimed that the Banks appeared to favour large well-established operations which are in fact, mostly foreign owned operations. They also maintained that the Banks appeared to favour large loans which again favoured medium and large business operations and are foreign investors. The entrepreneurs even criticised the Ministry of Labour, Commerce and Industries as ‘unjustifiably selective’ in its economic policy of continual supportive and favouring export-oriented and large industries while less concerns for small and import substitution-oriented industries.

When interviewing both the bank managers, it was obvious that the banks had sufficient funds and are willing to lend them to interested viable investments, but indicated that the entrepreneurs were unable to provide the required information that is needed by them. The banks maintained that the entrepreneurs’ inability to supply accurate and up-to-date financial data, forecast market projections, as well as the cash flow statement was the main obstacle to the processing of their requests for funds. Each bank has certain procedures to follow, but both agreed that reliable financial information must be supplied by every interested applicant. The banks even step in to defend its employees from criticism of the entrepreneurs as ‘being smart’ (*fie poto*). These entrepreneurs claimed that some employees were responsible for making such procedure complex and difficult to obtain. The bank responded that the employees are just following the banking procedural requirements.

Moreover, the entrepreneurs claimed that the banks made their applications purposely difficult, using complicated banking terminology that was poorly explained and rarely translated into the vernacular. They also claimed that the collateral or security demanded by banks was excessive and inappropriate in relation to the resources available to most indigenous entrepreneurs.
In interviewing bank operations, the study noted that they (banks) have managed to carefully explain what is required by them to the entrepreneurs. The banks have developed brochures that explain what is required in both English and Tongan languages. They explained that they (entrepreneurs) must enclose, together with the application form, the financial statements of the past two (2) years of operation, cash flow projection and forecast market projection for the processing and evaluation of the application. This has always caused a lot of problems because of the availability, reliability and professionalism of the information presented. In fact, the problem lies in the entrepreneurs’ inability to provide and prove the reliability and credibility of the financial information submitted to the banks.

Furthermore, upon investigating the causes of the problem, it was revealed that the inability of the entrepreneurs to provide the necessary information was caused by their lack of appreciation of the importance of financial (accounting) information and how to keep records in an acceptable form, let alone report them. As a result the banks conducted seminars targeting entrepreneurs and interested investors to attend. These seminars were usually conducted with the technical and financial assistance of both international and regional organisations, such as Forum Secretariat, South Pacific Commission, Australian Agency for International Development, World Bank and Asian Development Bank. These seminars cover topics from how to keep records in simple bookkeeping practice, to drawing up trial balances, and reporting procedures. It was developed with the idea to make it as simple as they could for ease of understanding and to create awareness of the role and potential contribution of accounting to the economic growth and development of the business. It then became evident that entrepreneurs showed signs of interest and enthusiasm by their willingness to participate and make the attempt to learn what is required and needed by the banks.

Despite the efforts and encouragement provided by the banks, it was also evident that entrepreneurs were confused and became suspicious as to the form and level of disclosures’ requirements as compared to those requested by the Companies Act 1912. The Companies Act required only the filing of Balance Sheet while the banks and the Taxation Office requested the Trading, Profit and Loss, and Balance
Sheet Accounts. Not only that but the banks usually questioned the qualification of the company’s accountant and auditor, in contrast to the Registrar of Companies who never questioned the credibility of the reports. The entrepreneurs claimed that the banks normally referred to their financial reports as ‘unprofessionally presented’ and lacking credibility which was of great concern to them. Most of the entrepreneurs interviewed explained their frustration and later accused the banks’ processing procedures as too personal rather than acting in a professional fashion.

However, the banks have argued that their major problem with the supplied financial reports is the questionable credibility of the reports. Basically, what the entrepreneurs were providing was additional information (trading and profit/loss accounts) to the already prepared balance sheets that were submitted to the office of the Registrar of Companies as required by the Companies Act. This study noted, that a lot of figures have been created to develop the required level and standard of the banks’ requirements. It was also evident that employing of ‘creative accounting’ was obvious and has become one of the critical factor in business failures in Tonga.

Apparently, this study revealed that the causes of the problem were not entirely the inability of the entrepreneurs to provide the required financial information, but the inability of the Act to prescribe the qualifications of the accountant and company auditor in order to attest some credibility’s to the said reports. It was evident that the banks found it hard to believe and acknowledged the credibility of the reports because the Act is silent on that aspect of qualifications, so anybody can sign for the accountant and auditor then the reports became acceptable in the eyes of the law. So the banks had to undertake its own audit works at its own expense to verify the figures and valuation methods. This exercise usually is very costly and time consuming depending on the extent of the company’s ability to keep proper books and up-to-date records.
Users of Financial Reports in Tonga

Requirements of an efficient economic planning of an enterprise is dependent on well-informed investors. Since the conditions of an enterprise are constantly changing, and the capital markets are dynamic, and the quality of economic planning is said to be dependent on appraisals of company financial position in future, then updated information is continuously required. Hence, one measure of the usefulness of financial reports is the determination of how well they help the investors in appraising the financial conditions of a firm in which they want to invest.

In this study, an effort was made to find out who uses financial reports in Tonga. Interviewing and observation were being preferred to questionnaire because of the cultural dimension of respect. The researcher is fully aware of the sensitivity of using questionnaire questions on this issue. The respondents will in fact, be reluctant to be forthcoming as they feel that responding to questionnaire questions may expose their unsuitability for the job because of their lack or limited level of understanding of accounting. Also the attitude of the people toward the researcher when using questionnaire will be regrettably unfavourable because they are looked at it as exposing their weaknesses and unsuitability rather than the researcher trying to learn from them. Giving questionnaires to people who are higher in social ranking and in the organisational hierarchy is a sign of cultural disrespect and is culturally unacceptable.

It was through interviewing of shareholders, creditors, management, employees, investors, the Ministry of Labour, Commerce and Industries and Taxation Department that revealed the individuals’ understanding and uses of financial reports. Consequently, it was revealed that shareholders, investors and employees appear to lack the sophistication to understand financial reports. Nor can they afford the services of financial experts while management has financial experts to help them understand the financial reports. Surprisingly, the Ministry of Labour, Commerce and Industries lack the appropriate personnel to understand and evaluate financial reports submitted to the Registrar of Companies. The officer who is responsible for the registration of companies and filing of annual returns holds a degree in sociology and
anthropology which is totally out of touch with accounting knowledge, let alone the understanding of the role and function of accounting that is required to be performed.

The major users of financial reports in Tonga are: 1) government, and 2) financial institutions—credit providers, and 3) investors. The government uses financial reports as required by law — by the Registrar of Companies, Commissioner of Revenue and government statistician. The Registrar of Companies needs financial reports to assess the viability of the proposed enterprise’s operation for its registration requirements. Also the law requires every registered companies to file with the office of the Registrar a copy of the company’s annual returns. Likewise, the Commissioner of Revenue needs financial reports from companies to assess its taxable income at the end of each financial year. While the government statistician needs financial reports to compile its statistical abstract on total national product, employments etc, the investors, that include shareholders, sole-proprietors, and potential investors, need financial statements to assess the economic performance of the business and assist in making rational decisions.

It is the responsibility of the accountants in Tonga to improve financial reports to satisfy the needs of all groups of interested users. In the preparation of the financial reports, the accountants should keep in mind the level of education and sophistication of the users of financial reports. Moreover, it was revealed that accountants are using accounting standards of reporting of other countries, such as, New Zealand and Australia depending on the accountant’s familiarity with those particular standards as a result of educational location. However, it is necessary to make the financial statements meet the informational needs of the users in Tonga.

Accuracy of corporate data is achieved through generally accepted accounting principles and an established accounting profession. Unfortunately, the accounting profession is still unorganised and the development of accounting principles is still lacking in Tonga. As a result, disclosure of relevant data in financial statements of Tongan enterprises is less than adequate and there is a need for a sound and immediate improvement.
Chapter Seven: Accounting and the Private Sector

The small capital market in Tonga is attributed to the level of economic activities and the limited number of large enterprises or corporations. However, this market has slowly expanded in recent years because of the increasing number of enterprises formed and established. Given such development, it is necessary to educate the public to invest more in those businesses which directly boosts economic development in Tonga. In order to make this program effective, the public will require some assurance as to the security and profitability of their investment. This assurance is provided by the nature and extent of the enterprise’s financial statements which must attest to and be assured of its qualitative characteristics. Accounting may make substantial contributions in this regard. Accounting can be viewed, as in Chapter 2, as having the functions of: (a) measuring and reporting of the performance of the enterprise, and (b) custodianships function. Seiler notes the following observation:

Investors and prospective investors need information concerning a company’s profits or losses and its financial position. These data provide a basis for judging the safety of owner’s investments and the company’s expected future earnings. Persons who are considering an investment need financial data that will allow them to compare the risks and profitability of alternative investment possibility. Since risk and future profitability can be measured only by long-range trend and projections, financial data covering a number of years is usually necessary. (1963, 4)

When investors are concerned with the safety and the profit of their investment, accounting must provide accurate information about the operation of the enterprise. In order for accounting to produce adequate information for investors, it is necessary to establish sound accounting principles and to create a professional accounting body. At the present time, accepted accounting principles do not yet exist in Tonga and the accounting profession is still unorganised and not active.

Furthermore, an examination of some 500 registered companies’ financial reports revealed that the time of their submission of annual returns to the Registrar of Companies’ office ranged from nine (9) to twenty-seven (27) months after the end of financial year and some have not submitted any since they were registered. While the law requires companies to present financial statements to shareholders, it does not specify any time limit. It should be noted that the unnecessary delay in presenting the
financial report in appropriate time does not permit the necessary data for sound decisions to be available to the investors. It was also noted that even though an accurate and timely financial report is available there are some reservations as to whether most indigenous investors in Tonga know how to use that data for making sound investment decisions.

The ability of an enterprise to meet its promises with regard to the times and amount of future cash payments is dependent upon the enterprise's possession of sufficient cash or equivalent liquid assets on the due dates. The control of cash and credit sales have been an ongoing problem in the business life of most entrepreneurs interviewed, especially in a country where cultural obligations are hard to predetermine, such as funerals and marriages. The banks claimed that indications of the enterprise's capability to pay can be gleaned from past evidence bearing on the enterprise's probable receipts and disbursements of cash and their equivalents in the future. Unfortunately, the enterprise's ability to keep proper records of every transaction is always a problem.

The use of a credit facility is an important factor in the Tongan business community because of the need for the credit to speed up establishment of new enterprises. Since any creditor needs financial information to determine the ability of an enterprise to meet its cash promises, financial reports can be of great help in presenting information about the enterprise's capacity for repaying its loans. Therefore, accountants or the accounting profession in Tonga should be capable of providing this data and financial information to the banker or other credit providers. Bishop agrees that:

There is no other profession on which bankers must rely more heavily, than that of the public accountant. One might argue that this reliance is primarily of an indirect nature, but it still does not change the assertion I have just made, for financial reports by public accountants influence to a very substantial degree financial commitments bankers regular make, with reliance on such reports.

This statement probably comes as no great surprise to a practicing accountant, but many do not know that the bulk of the nation's bank loans, in terms of dollars, are by a wide margin supported by statements prepared by public accountants. (1968, 4)
The bank managers, shareholders and potential investors all shared the same concern that the function of accountants and independent auditors for providing reliable and useful financial information are imperative for their making of rational economic decisions. However, some shareholders and bank managers believe that accountants should furnish not only traditional data but also other quantitative and qualitative data. They feel that internal controls and budgeting should also be supplied to them. In fact, writers such as McGarraugh agrees that:

... there are other areas in the audit process where we feel more attention could be given to the need of third party user-areas like the client’s internal controls, forecasting, social and ecological responsibilities, managerial competency, and overall adequacy of the ‘financial picture’ which a report presents to bankers. (1972, 13)

Generally, awareness of the significance of financial reporting, as a means of providing needed information to government, credit-providers, investors and other interested parties, directed the attention and effort toward continuous improvement of reporting to make it more informative. Financial reporting is significant because it serves as a means towards an end. Carey explained the significant of financial reporting as:

A satisfactory system for communicating financial and other economic data is an essential condition for the accumulations of capital from widespread sources in single enterprise - i.e., for a successful industrial economy. Persons who have an interest in resources are in various stages of remoteness from them and the factors affecting them... . In fact, without assurance of reliable economic data, the remote investor or creditor probably would not supply capital to the enterprise. (1962, 53)

Moreover, as an integral part of financial reporting, auditing assures the reliability of data presented in the financial statements. As Carey explained, “auditing is an integral part of the financial reporting process. Without auditing, degeneration of the accounting process sets in” (1965, 186). An audit is highly significant in creating credibility of financial statements. In countries where the accounting profession has been well established and organised, the profession issued official pronouncements on auditing standards in order to promote and maintain high quality audit work. By doing so, the profession improves its services, protects the interests of those who use the
financial statements, and gain their confidence which is vital for the very existence of the profession.

While the accounting profession in Tonga is still unorganised and inactive in officially adopting the accounting and auditing standards to protect the interest of users of financial statements, the promulgation of such standards could be achieved only by government regulation. Again, this reinforces the claim that was previously stated by the researcher that the public interest is at stake and may be adversely affected if no initiative is taken by the government. Thus, for the time being, accountants should cooperate with the Ministry of Labour, Commerce and Industries in authoring a statement of accounting and auditing standards and have the Ministry promulgate it so it becomes formally binding on all registered accountants in Tonga. When the Tongan Society of Accountants is actively organised, upgrading professional standards would fall within its domain.

Summary

The private sector is seen by island governments, including Tonga as an engine for growth, which fosters self-reliance and balanced development (Hailey 1987). In fact, the private sector can contributed to the economic growth and social stability of a country by creating wealth, generating new employment, and introducing new skills and technology to these island communities. Furthermore, by encouraging new industries and market opportunities, the economy of Tonga can benefit from a reduced dependence on expensive imports.

However, the analysis of private sector development in Tonga reveals that it has not kept pace with economic growth, despite the emphasis on establishing investment incentives to attract investment opportunities to the country. The obvious reason why this is so is because the planning authority (Ministry of Labour, Commerce and Industries) fails to see accounting as an inherent part of the private sector development in Tonga. As the private sectors grows in size and complexity, accounting must evolve toward increasing sophistication to satisfy the more
demanding needs of the economy for financial information and the needs of several kinds of users for this information.

It was evident that the problems faced by the private sector was the unavailability of reliable financial information to investors and loan markets to assist them with their decision-making. Seen from the investors' point of view, accounting information is the means for generating a degree of confidence in the prospects of a healthy return on investment, which in turn helps to elicit a flow of investable savings. From a capital allocation perspective, accounting information fulfils the role of helping to allocate funds to what promises to be most efficient economic use, since the estimated rate of return criterion includes an implicit efficiency factor.

It was also revealed by the research that the development of domestic capital formation cannot be achieved without creating an environment that is conducive to savings and investments. Such an environment would be largely conditioned by the quality, quantity, and comprehensibility of economic data as portrayed in the annual financial reports of every enterprise in Tonga. And, in order to attract foreign capital for accelerating the pace of economic development, financial accountability of a high standard is an essential prerequisite. Also, optimal utilisation of available capital funds requires effective and efficient managerial action which relies heavily on the accounting tools of planning and control.
CHAPTER EIGHT

CONCLUSIONS AND RECOMMENDATIONS

Abstract

... to reinforce the need in our society for tolerance and acceptance of economic innovation and structural change. Without this, we will not remain true to our heritage or be equipped to meet the challenges of the twenty-first century. Whatever else happens in the decades that lie ahead, it is my deepest wish, my vision, that all of us will continue to be proud to say, truthfully and honestly, that Tonga is still Tonga. (His Majesty King Taufa'ahau Tupou IV, King of Tonga 1992, 14)

Introduction

The ability to formulate plans and to implement them is largely dependent on the availability of relevant and reliable financial information. Since the objective of accounting is to provide information to users that is useful for making and evaluating decisions, it follows logically that accounting must have a role in economic development. Accordingly, the study explores the role of accounting in the developing economy of the Kingdom of Tonga.

The study did not seek to prove that accounting was the most important element in the process of economic development. However, it showed that accounting has a positive role in its economic development process. It attempted to analyse and examine the reasons for the prolonged non-existence of and the lack of enthusiasm of accountants to establish the accounting profession and develop approved accounting and auditing standards. The study also revealed that the present recording, reporting procedures and methods in Tonga are products of their environment. In essence, as the environment changes, accounting should adapt to it in an attempt to fulfil user's needs. The study also sought to explore why the present accounting practices are considered irrelevant to the developing economy and economic development of Tonga.
Summary

Accounting and auditing practices are not formalised in Tonga nor is the role of accounting and accountants in providing the needed data necessary for decisions relevant to economic development well defined. Furthermore, the need for formalising the accounting principles and practices used in arriving at such data has not been acknowledged by accountants and government officials. Experiences in developed countries have shown that economic development requires in large part a well-established and monitored planning process. Indeed, the planning process relies on the provision of relevant macro and micro information for a better deliberation of the activities required and the necessary standards of performance.

Within this planning activity sound data and measurements are necessary, including accounting tools and techniques such as: project return measurement; financial balance sheet and income statement preparation; source and application of funds statements; cost benefit studies; systems of internal control, etc. Accounting information and procedures play a major role in planning tools such as making decisions for the allocation of resources to its productive uses. In fact, history has shown that accounting serves an important role in the provision of this information.

Unfortunately, most developing countries, including Tonga do not properly recognised the important role that accounting has to play in the growth and development of the organisation and the economy as a whole. Therefore, financial reporting is often limited to the deficient recording of transactions and maintained solely for the purpose of satisfying the legal requirements of the Companies Act. In fact, an historical perspective of the economic growth of countries has exhibited that the rate of growth and the development of a country’s economy in all sectors relies heavily on the adequacy of the accounting information system (Lelievre and Lelievre 1977; Belkaoui 1994). As the developing countries, such as Tonga, suffer from relatively low growth rates, it is inevitable that action in the development of accounting process is urgently needed in these countries. Therefore, it has become essential then that such effort is not only a matter of economic self-interest but there is
a moral obligation to support and encourage the development of accounting within a country.

According to a United Nation's Economic for Asia and the Pacific: ESCAP Report 1995 there are some Pacific island economies that are of great concern to them. These countries have had slow economic growth rates, lower than their population. In terms of development, this is "going backwards". The report stressed that the resources in these countries have not been used wisely and the quality of investment hasn't been very successful. The report explained that Tonga's Gross Domestic Product (GDP) figures indicate a continuous decline with figures for 1991 was 5.4 per cent; 1992 was 3.5 per cent; and 1993 was 2.8 per cent. This is in spite of "very high aid" from foreign donors and remittances. The major concern is that the developing economy of Tonga depends heavily on aid to finance development projects, but the aid donors have now changed their attitude, they are focussing on other places. What is required is a well-developed information system to provide information relevant for the allocation of the limited resources available in Tonga. Therefore, it is imperative that Tonga should develop its accounting system to provide such information for the allocation of resources and making of appropriate investment decisions.

Tonga has been facing a difficult problem in its attempts to achieve progress in its economic development programs. The evaluations and appraisals of development plans has been misconstrued because of the unavailability of reliable national accounts data and the lack of an adequate statistical framework (Tonga Development Plan V 1987). This has been due to the absence of well-defined reporting practices and procedures whereby such requirements, whether statutory or legal, are strictly followed and enforced. In essence, accounting plays a crucial role in the economic development process by providing the right and useful information necessary to implement planning and project appraisal in particular.

Since Tonga has been adopting a cautious approach in conducting its development policy, its implementation and evaluation has always been a cause of great concern. In fact, while the government's initiative in adopting of the Development Plans has been desirable, fundamentally, its planning will not be
feasible unless all factors, such as natural, economic, social, financial and crucially technical are taken seriously on board and coordinated within the framework of the plan.

Effective planning and efficient resource allocation are areas needing special government attention. A sound data base and approved accounting and auditing standards are urgently needed. Indeed, dynamic progress in these areas, and improvements in the framework for planning and for selecting among investment alternatives would certainly strengthen economic management and planning in Tonga. Given the importance of the role of accounting in development planning, accounting education in Tonga appears to be lacking behind and far from compatible with what should be required for an effective implementation of development planning. As discussed earlier, the on-going problem of accounting practices has resulted from important causes deeply rooted in accounting education. Therefore, there is obviously a need for a systematic approach to accounting education at all levels—academic, institutional, technical and vocational so that greater awareness and understanding of the role of accounting as an information function and its potential contribution to organisational growth and development are fully appreciated.

Doing ethnographic research at home undoubtedly has many methodological advantages. In my experience, the more of an insider you are the better your understanding becomes. The value of using such methodology lies in the opportunity to collect detailed data based on observations while appreciating the cultural characteristics of the research settings. Besides the understanding of my own language, the understanding of the culture made it easier for me to understand and to interpret the meaning attached to words and acts by the participants. Based on the characteristics of the cultural dimensions of the Tongan society, it became obvious that the lack of initiative and enthusiasm to establish accepted accounting and auditing standards has been the result of the traditional commitments and cultural obligations that always requires substantial spending of personal savings and time. In such conditions, communal interest has been valued more than business and personal accumulation of wealth. In addition, the attitude of the society towards accounting and accountants has been an inherited misfortune that contributed to the lack of interest
amongst students to choose accounting as a major career path, which resulted in a severe shortage of qualified accountants in the country.

The traditional Tongan culture is unique and has exceptional values. As mentioned earlier, communal obligations, traditional commitments, and ceremonial exchange are integral to the culture of Tonga. Such reciprocity is inherent in the way of life of the Tongan people. For example, the obligatory contribution (fua kavenga) shared by the Tongan family, is inherent in the nation's social structure. By social convention, this inherent "reciprocity" defines the daily interaction among the individual in the Tongan culture. Therefore, such cultural values cannot be forced to change as it is inherent in the country's social structure. The ethic of "helping others as he/she may do the same later" is strong, having filtered down through years of traditional social obligations and reciprocity. The social values of this inherent reciprocity tends to overshadow the initiatives and values toward the individual to save and accumulate ones' wealth that could have necessitated the development of accounting practices in Tonga.

The level of accounting practices in Tonga has continued to reflect its past history with the prolonged existence of the out-dated piece of legislation that regulates accounting disclosures. Under such requirements, it is noted that the present status of accounting in Tonga is not adequately established to provide relevant, reliable and useful information to interested parties. Financial statements prepared under such requirements, usually fall far short of providing sound uniform and understandable financial information. It was evident that laws in Tonga have affected accounting development and impeded accounting thought. The laws fail to recognise the role of accounting and accountants in the process of organisational growth and economic development.

While the accounting profession is still unorganised and considered structurally weak, it is necessary for the government to promote and encourage its development, in order to raise the status of accountants so as to establish and maintain high standards of conduct and practice of accounting and auditing functions in Tonga. Moreover, in order to provide quality professional services, the development of accounting has to be promoted through appropriate laws and regulations.
The major problem with the economic development in Tonga has been the lack of capital for investment. While the rate of development of the country depends not only on how much capital it has for investment, it also depends on how investments are made and controlled. In fact, where capital requirements are crucial for the economic development of Tonga, a well-developed accounting information is equally vital to generate investors' confidence to fulfil investment requirements necessary to achieve effective and efficient economic growth and development.

While the government initiatives in creating an attractive business environment to attract both foreign and local investors was welcomed, it was unfortunate that the government failed to recognise that an accounting infrastructure is equally important to be developed, not only to generate investors' confidence but also as a necessary prerequisites to the effective use of capital. The study revealed that among entrepreneurs and managers, there was insufficient awareness of the value of accounting and of the information it may provide as an instrument of administrative and financial control. It was also revealed that the government's failure to consider accounting as part of its infrastructure development had paid its toll as large number of businesses had closed-down due to financial mismanagement.

The Ministry of Labour, Commerce and Industries who is supposed to take a leading role in encouraging the development of accounting in the country was found to be ill-prepared for the undertaking of such mandate. Unfortunately, many foreign investors have taken advantage of the Ministry's inability to apprehend and interpret financial reports by requesting the Ministry's support in securing their requests for loan from the banks. This unfortunate exercise has managed to grant additional funding to many foreign investors which later closed-down their businesses and left the country leaving a significant amount of outstanding debt with the banks. While these instances have being considered unfortunate, it was definitely the result of the lack of an established and well-defined accounting system to provide conformity and protection through legislation and regulation. It was evident that many foreign investors, however, had seen the absence of accounting enforcement in Tonga as an opportunity to make easy money and are likely to continue to do so unless the
government takes the initiative to encourage the development of accounting and auditing standards.

While the government involvement in legislating accounting is not always welcomed by the accounting profession in most countries and researchers, it is inevitable that its urgent involvement in this case is fully encouraged because of the status of profession that is unorganised, inactive and incapable of undertaking such requirements. It was evident that without government involvement, encouragement and enforcement, those problems that had been discussed earlier, are there to stay even longer, and the country’s endeavour to promote and encourage economic development will continue to be severely crippled.

In conclusion, this study supports the view that accounting practices of a country is a direct product of its environment (Jaggi 1975; Radebaugh 1975; SyCip 1981; Hofstede 1983; Arpan and Radebaugh 1985; Gray 1988; Belkaoui and Picur 1991; Pok 1995). The accounting practices and reporting procedures in Tonga are direct products of the country’s environment—historical, political, economic, sociocultural, legal and educational factors. The understanding of the environmental influences has made it possible to appreciate and understands the evolution that led to the existence of the present accounting practices and reporting procedures in Tonga.

Even though Tonga was never colonised by any super power, the involvement of the Europeans and missionaries during the Protectorate period had given the British no option but to impose their model through the Companies Act of 1912 as there were no standards or organised professional body during that time. The level of disclosure requirements under the Act may be presumably relevant for that time as its purpose was to serve the interests of the absentee owners. However, as the environment has changed over the decades, with the economy developing its industrial sector to complement the traditional agricultural based economy, accounting practices should have developed and improved accordingly.
Unfortunately, Tonga is still without accounting and auditing standards, the accounting profession is unorganised and using the Companies Act requirements since 1912. Business and trading activities, communication networks, banking facilities, small-medium industries, etc, have been established and expanded in their operations in Tonga and to the international markets over the years but, interestingly, accounting, as an element crucial to the existence, growth and development of those economic activities, is still kept intact as though it does not have a role to play in the developing economy of Tonga.

However, this study revealed that the major reason for the prolonged lack of enthusiasm among accountants and the government to improve the accounting infrastructure and develop accepted accounting and auditing standards was attributed to the traditional social values associated with the traditional social commitments, communal obligations and religious beliefs that are respected and valued by the Tongan people. These cultural requirements of contributing to perpetual demands and obligations were the determining factor in the history of accounting development in Tonga. The traditional obligations of serving the customary dimensions and religious beliefs have made it very difficult for the individual to save for investment purposes that would in turn have caused a gradual initiative for the development of the accounting system in Tonga. The unfortunate inherent accusation of accountants as associated with fraud, dishonesty and manipulation determines the attitude and perception of the society towards accounting and accountants. Consequently, people were very conscious of their religious belief and family name and, therefore, reluctant to pursue an interest in accounting because of the above-mentioned as a chosen career that could have increased awareness and appreciation of the role of accounting and led to an increased number of qualified accountants.

While this study revealed that the environmental influences, such as accounting education, laws, profession, etc, shaped the accounting practices the cultural factor was the major element that prolonged the nonexistent and lack of enthusiasm to develop the accounting system in Tonga. This study does not feel nor recommend that such cultural obligations should be changed, however, it recommends that accounting should be developed to complement the undertaking of such cultural
obligations in the country’s endeavour to fulfil its socioeconomic development. The social values of such cultural obligations are respected and not questionable in this study, but people should be made aware of the value of accounting and its contribution to economic development and how it could assist the society in its social undertakings. The society should be made aware that development of accounting would not act as a mechanism for ‘checks and balances’ of the individual’s cultural and religious obligations, but rather as a mechanism that provides enhancement to the fulfilment of its traditional social obligations.

The growth and expansion of a business or organisation depends to a certain extent on the level of information available for planning and evaluating of its performance and future planning. Accounting plays a very important role in this process. One of the main reasons for the failure of business investment in Tonga has been the result of financial mismanagement and lack of business management experience. This has placed an extra encumbrance on the cost to the individual’s social obligations. The individuals’ income forgone, due to the close-downs of businesses in which they have been employed means that their share of responsibility must be passed to one of his/her relatives to provide for on top of his/her (relative’s) share of social obligations until such time when he/she finds alternative means of supporting his/her responsibilities.

The close-downs of business operations and unprofitability of several investments has placed enormous pressure on the individual’s propensity to undertake his/her cultural obligations. The fulfilment of one’s cultural obligations rely heavily on the individuals’ capabilities in finding the means of obtaining financial returns to support and cater for his/her cultural obligations. Moreover, if one’s financial income or support is being forgone then the social cost to society will be increased. For example, there would be an imbalance in the undertakings of the cultural obligations because only those people that could contribute were able to provide. Hence, the social value of such activity is being discounted because not everyone contributed as they were socially required to. Therefore, the social effectual recognition and effectiveness of undertaking those cultural obligations relies heavily on one’s social
and financial status to cater for such obligations. However, such reliance also depends on the economic growth and performance of the country.

The society must be aware that the country’s economic growth rate is of great concern and cannot continue to depend on foreign aid and remittances forever. International aid donors have changed their attitude and are focusing on other places and unemployment rates in countries like Australia and New Zealand are high which could eventually affect remittances. This study revealed that the economic growth rate of Tonga has been on the decline since the 1960’s and even of greater concern now as stressed by ESCAP’s 1995 Report. The major reason for such occurrences were because the available resources were not being used wisely and effectively, and investment has not been attractive and effectively undertaken. This had been the result of the absence of well-defined accounting practices and reporting procedures in which accounting plays a crucial role in providing information useful for the appropriate allocation of resources, assisting in making rational investment decisions and generating investors’ confidence. In essence, this is what Tonga needs to reverse this current trend in economic growth. Tonga must realise that the role of accounting in the economic development process has been neglected.

This study revealed that the private sector development in Tonga has not kept pace with economic growth. Investment has been unproductive and unprofitable in some operations despite the promotion of investment incentives by the government to attract investment opportunities to the country. It was evident that the obvious reason for the unhealthy investment activities was because the government (Ministry of Labour, Commerce and Industries) has failed to see accounting as an inherent part of the private sector development and investment incentive package.

The private sector has grown in size and complexity over the decades. Accounting should have developed along with the increasing sophistication and the demands for financial information by interested parties. Investors have stressed that accounting information is the means for generating a degree of confidence in the prospects of a healthy return on investment, which in turn helps to elicit a flow of investable savings. Also from a capital allocation role, accounting information fulfils the role of helping to allocate funds to what promises to be the most efficient
economic use. The study also revealed that the development of domestic capital formation cannot be effectively achieved without creating an environment that is conducive to savings and investments. Such environment would be largely served by the quality, quantity, and availability of economic data as exhibited in annual financial reports of every enterprise.

In order to expedite the government’s endeavour to establish an attractive business environment for accelerating the pace of economic growth and development, financial accountability of a high standard is an essential prerequisite. The optimal utilisation of available resources (capital funds) requires effective and efficient managerial fulfilment which relies heavily on the accounting roles of planning, monitoring and controlling. Businesses should look at accounting to provide assistance in setting achievable performance targets including revenue, profit, expenditure and cash flow goals; help in setting up systems to ensure the business is operating efficiently and achieving its financial goals; advice on marketing tactics and strategies to nurture customer and client relationships, and regular meetings for problem solving and helping with all aspects of the business.

Therefore, the development of accounting should not have been ignored. Investors should have taken advantage of its value as an ‘information function’ which adds to the effectiveness of decisions and increases the investor’s understanding of his/her business. Moreover, if investors want to build successful investments they must keep track and monitor the performance of their investment and always be aware of the future opportunities and commitments. In summation, this study again supports the view that accounting and accountants have a positive role and supporting role in the effort to accelerate economic growth of the country. Therefore, Tonga should have made an effort to develop accounting because it is an inherent element of the economic development process. The increase in complexity of industrial operations, the imposition of more government rules and regulations, the growth of the private sectors and the introduction of comprehensive development economic planning illustrate the need for developed and better accounting services.
Many weaknesses have been revealed in this study in the financial accounting and reporting system in Tonga which are basically the result of the out-dated requirements prescribed by the Companies Act of 1912. As a result, various weaknesses were found to be detrimental to the growth and development of the organisations—lack and poor internal controls, lack of use of accounting as a management tool, incomplete records, inaccurate and late reports as well as unauditable accounts, lack of credibility attached to the auditors’ reports, severe shortage of staff, unreliability and inadequacy of financial disclosures, and the non-mandatory requirements of the profit and loss account.

It was undoubtedly unveiled that the weaknesses acknowledged above were caused by the nature and level of the disclosure requirements prescribed by the Companies Act. The Act only requires the filing of the balance sheet with no prescribed form required. Profit and loss accounts were not included in the financial returns to be filed with the Registrar of Companies. There was no direct statutory obligation on the 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. There was no proper classification of a company’s assets, thus making it difficult to ascertain readily the true position of the company. As a result the information given in the balance sheet was very scanty. There was no disclosure requirements as to how the aggregate profits and losses of subsidiaries could be dealt with.

Consequently, companies were not compelled to file a copy of the profit and loss account with the Registrar. While, the Act calls for the balance sheet to be audited, it again fails to enforce any substance to the provision as to qualification or level of experience of the auditor. Accordingly, the auditor was required to undertake the audit works and acknowledge whether the report exhibited a “true and correct view” of the companies’ financial position.

It was also evident from the study that the weaknesses and problems associated with accounting’s role in respect of the present accounting practices and reporting procedures and requirements prescribed by the said Act, are irrelevant and inappropriate to the present developing economy of Tonga. The preparation and filing of the profit and loss account should have been made compulsory. This would make it
mandatory for every company to maintain proper books of account. Among other necessary requirements, the profit and loss account should disclose all sums of money received and expended by the company and the details of the transactions and all sales and purchases of goods by the company. The balance sheet should disclose, among other details and requirements, a summary of authorised and issued capital; liabilities and assets; nature of liabilities and assets; distinction between fixed and current assets; and the method of valuation of fixed assets. Again, the auditors report should explain whether all information and explanations have been obtained satisfactorily, and whether the balance sheet and profit and loss account were properly drawn up to give a 'true and fair view' of the company's financial position. Importantly, the auditor's duties, independence and qualification should rightfully be mandatorily acknowledged so as to attest to the credibility of the reports and obtain public confidence.

In summation, while this study has revealed that traditional and cultural factors have been the major determinant of accounting development in Tonga, the author is not of the opinion that that has to be changed. However, it is vitally important that planning authorities in Tonga should be apprised of His Majesty's acknowledgment that there is a "need to accept economic innovation" because without this, "Tonga will not remain true to its heritage". The present accounting systems are irrelevant to the economic development of Tonga and its development has long been overdue. In order to meet the challenges of economic innovations, its information function needs to be developed and improved to meet those challenges. The development of its accounting infrastructure would undoubtedly be a mechanism to assist in its economic development process and, consequently enhance the individuals' cultural obligations. Therefore, the government, planning authorities, accountants, accounting profession and the society should now rightfully accept that there is a need to accept the development of accounting in Tonga in order to 'accept' and be 'equipped' for economic innovation while "we" continue to value our tradition and heritage and "to be proud to say, truthfully and honestly, that Tonga is still Tonga" (King Taufa'ahau Tupou IV, King of Tonga 1992, 14).
Recommendations

Based on the research findings and conclusions, the following recommendations are made to provide additional ideas to those interested, particularly to individuals and appropriate authorities dealing with information aspects of the economic development process in the Kingdom of Tonga.

1. There is an urgent need for improving corporate financial reporting. In cooperation with the Tonga Society of Accountants (TSA) the Ministry of Labour, Commerce and Industries should issue regulations prescribing the form and content of financial statements to guarantee adequate disclosure. The proposed regulations should provide for, among other things (a) disclosure of sales and cost of sales, (b) profit and loss account, (c) sufficient reference to accounting principles and procedures underlying balance sheet items, (d) uniformity in arrangement of financial statements, and (f) uniformity of the audit report to show 'true and fair view'.

Sufficient time should be given for the preparation of the report, however, prompt financial statements are needed. The Companies Act requires, not earlier than 10 days for audited balance-sheet to be submitted to the Registrar. The Ministry should seek an amendment of the deadlines for the filing of the audited financial statements with the Registrar to make prompt submission mandatory. Furthermore, strict enforcement of the deadlines would contribute to the promptness of the submission of the financial statements.

2. There is also an urgent need for government interference and commitment to reinforce the establishment of the accounting profession, the Tonga Society of Accountants (TSA). As the profession came into existence, it should carry out the task of adopting an official code of professional ethics and developing high technical standards. Unfortunately, since its formation it is still unorganised, weak and inactive in undertaking its required tasks. The present status of the TSA will not improve by its own effort unless other authorities, such as the government, provide commitments in order for such momentum to progress and give authority to its establishment. Therefore, the government should step in and undertake that responsibility in consultation with the TSA for appropriate technical advise and direction.
3. Official pronouncements of accounting principles, auditing standards and procedures, and a code of professional ethics should be established and formalised. The adoption of such official pronouncements was favoured by the majority of the participants interviewed during the field study. Such adoption could easily be accomplished by using the existing official standards from other countries (such as Fiji and Samoa—developing countries which have well-established standards and similar cultural characteristics with Tonga; New Zealand and Australia—major trading partners) and adapting them to the condition of the Tongan environment. The government and the TSA would benefit from such an exercise and the effort put into these sophisticated practices that have proven to be useful and add to the reliability of published financial statements as has happened in other developing countries, such as Fiji and Samoa. As a result, this would encourage domestic and foreign investment and may facilitate foreign borrowing.

4. Accounting education should provide impetus for the application and implementation of existing and potential accounting systems, techniques, procedures, and data to enhance economic development in Tonga. The American Accounting Association 1976-78 Report referred to such a proposal as ‘Economic Development Accountancy’ with the main objective of accounting education the economic development of the country. The main objective of the ‘Economic Development Accountancy’ is to support micro- and macrosocioeconomic decisions more effectively, using the various branches of accounting (Belkaoui 1994, 57). The development in the various branches of accounting, includes the institutional, education and training, legal, and professional aspects. Accounting education should be geared to deal with various factions, such as external financial reporting, internal financial reporting, and business advisory services to management. It is therefore recommended that more emphasis on modern accounting concepts and techniques be placed at the college and high school levels.
5. There is an urgent need to provide amendments to the Taxation Act to incorporate detailed requirements of financial statements required to be filed with the Commissioner of Revenue. It is therefore recommended that the same detail requirements prescribed by the Companies Act be applied to the Taxation Law. Such financial statements must be truly audited statements and not signed by any employee as currently required by the Taxation Law.

6. There is also an urgent need for a structural change to the investment incentives offered by the Industrial Development Incentives package. A comprehensive analysis is required to evaluate the costs and benefit structure of the existing package. The argument for such recommendations has been discussed in Chapter Seven. The development incentives should not have neglected the accounting principles and requirements to become attractive to investors. The submission of financial statements of every enterprise must all be compulsory.

7. There is a need for all accountants and auditors to be registered and licenced before working as accountants and auditors. All accountants must be registered with the Ministry of Finance and then apply for a license to work as an accountant from the Ministry of Labour, Commerce and Industries. There is a need for all accountants to have a license as the Registrar must cross-check with the Ministry’s record and that every company accountant must fully fulfil the licence’s requirements before working and calling themselves an accountant. The license-holders should be in accordance with his/her qualification and experience. The competence and experience of the accountants would acknowledge a high status for accountants.

Auditors must also be registered at the Auditors Department and the license be issued from the Ministry of Labour, Commerce and Industries. Again auditors must fully satisfy all requirements to be prescribed by the License Committee before undertaking such duties and responsibilities. This would make it easier and transferable when the TSA is fully capable of undertaking such a task, then all will be transferred to the profession. The reason for doing this is that there is an urgent need for such recognition of accountants and auditors and admission to be administered by the government while the profession is still unorganised and inactive. It is therefore
crucial for the government to get involved and step in and take the initiative and monitor the implementation and enforcement up to a stage where the profession is structurally and technically capable for taking over such responsibilities.

**Directions for Further Research**

Since this study deals with the role of accounting in respect of the general and broad areas of the complex issues of economic development, it provides the impetus for further research in more specialised areas of accounting. The following appear most significant:

1. *The role of accounting in the allocation of resources in the non-profit organisations, such as the Church.* This could be a very interesting research because quite a lot of money, through religious donations, is given to the church while nobody requests financial reports. However, the allocation of resources is done at two levels (conferences), 1) the village, and 2) the Annual Church Conference. It would be interesting to find out how these two conferences allocate their funds, kept their books, prepare the financial reports and balanced their accounts where the level of education and training may not be the same level as those working in the government and business sectors. Unfortunately, this study did not cover the area of accounting in the non-profit organisation.

2. *The impact of culture on business organisation: what are their priorities and what is the balance between, if any, making profits and helping the community.* People in the Tonga do not feel easy in giving ‘no’ as an answer. This largely results from the traditional culture which requires individuals to help members of the community. It could be interesting to find out, after the accounting and auditing standards are established and complied with, when the individual has to balance between making profit and fulfilling the cultural obligations.
"APPENDIX 1"

TABLE 1: IMPORTS, RE-EXPORTS AND VISIBLE BALANCE OF TRADE

<table>
<thead>
<tr>
<th>YEAR</th>
<th>IMPORTS (1)</th>
<th>EXPORTS (2)</th>
<th>RE-EXPORTS (3)</th>
<th>VISIBLE BALANCE OF TRADE (4=2+3-1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1987</td>
<td>68,460.1</td>
<td>8,805.1</td>
<td>747.8</td>
<td>(58,907.2)</td>
</tr>
<tr>
<td>1988</td>
<td>70,688.9</td>
<td>9,502.7</td>
<td>1,052.6</td>
<td>(60,133.6)</td>
</tr>
<tr>
<td>1989</td>
<td>68,334.2</td>
<td>11,517.6</td>
<td>665.7</td>
<td>(60,133.6)</td>
</tr>
<tr>
<td>1990</td>
<td>78,989.4</td>
<td>14,434.1</td>
<td>864.6</td>
<td>(63,690.8)</td>
</tr>
<tr>
<td>1991</td>
<td>76,817.3</td>
<td>20,610.9</td>
<td>854.3</td>
<td>(55,352.1)</td>
</tr>
<tr>
<td>1992</td>
<td>84,270.5</td>
<td>16,575.6</td>
<td>833.0</td>
<td>(66,861.9)</td>
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</tbody>
</table>

SOURCE: Statistics Department
NOTES: 1. Imports are on cif basis
        2. Exports and Re-Exports are on fob basis

TABLE 2: EXPORT AND IMPORT INDICES AND TERMS OF TRADE FOR THE KINGDOM
(1980 = 100.00)

<table>
<thead>
<tr>
<th>YEARS</th>
<th>EXPORT INDEX (1)</th>
<th>IMPORT INDEX (2)</th>
<th>TERMS OF TRADE (3) = {(1)/(2)} x100</th>
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<tr>
<td>1980</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
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<tr>
<td>1981</td>
<td>123.78</td>
<td>109.89</td>
<td>112.64</td>
</tr>
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<td>1982</td>
<td>126.21</td>
<td>116.63</td>
<td>108.21</td>
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<tr>
<td>1983</td>
<td>139.75</td>
<td>132.53</td>
<td>105.45</td>
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<tr>
<td>1984</td>
<td>146.47</td>
<td>139.21</td>
<td>105.22</td>
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<tr>
<td>1985</td>
<td>150.72</td>
<td>148.04</td>
<td>101.81</td>
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<tr>
<td>1986</td>
<td>148.07</td>
<td>150.64</td>
<td>98.29</td>
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<td>1987</td>
<td>147.58</td>
<td>152.26</td>
<td>96.93</td>
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<td>1988</td>
<td>158.74</td>
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<td>161.96</td>
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<td>1990</td>
<td>167.08</td>
<td>161.22</td>
<td>103.63</td>
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<td>1991</td>
<td>178.50</td>
<td>166.32</td>
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<tr>
<td>1992</td>
<td>na</td>
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TABLE 3: ADJUSTMENT OF VISIBLE TRADE TO A BALANCE OF PAYMENTS BASIS

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<tr>
<th></th>
<th>FOREIGN TRADE FIGURES</th>
<th>FREIGHT AND INSURANCE</th>
<th>COVERAGE ADJUSTMENTS</th>
<th>BALANCE OF PAYMENTS</th>
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<tbody>
<tr>
<td>(A) EXPORTS</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>(4)=(1+3) - 2</td>
</tr>
<tr>
<td>1987/88</td>
<td>8,833.7</td>
<td>-</td>
<td>10.6</td>
<td>8,844.3</td>
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<tr>
<td>1988/89</td>
<td>11,675.8</td>
<td>-</td>
<td>495.8</td>
<td>12,171.6</td>
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<tr>
<td>1989/90</td>
<td>10,858.3</td>
<td>-</td>
<td>805.5</td>
<td>11,663.8</td>
</tr>
<tr>
<td>1990/91</td>
<td>13,440.7</td>
<td>-</td>
<td>31.2</td>
<td>13,471.5</td>
</tr>
<tr>
<td>1991/92</td>
<td>18,489.6</td>
<td>-</td>
<td>241.1</td>
<td>18,730.7</td>
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<tr>
<td>(B) IMPORTS</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>(4)=(1+3) - 2</td>
</tr>
<tr>
<td>1987/88</td>
<td>68,693.7</td>
<td>12,364.8</td>
<td>4,111.2</td>
<td>60,440.1</td>
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<td>1988/89</td>
<td>68,862.5</td>
<td>12,395.3</td>
<td>2,609.0</td>
<td>59,076.2</td>
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<td>1989/90</td>
<td>72,706.8</td>
<td>13,087.3</td>
<td>4,578.5</td>
<td>64,198.0</td>
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<td>1990/91</td>
<td>79,819.6</td>
<td>14,367.6</td>
<td>-</td>
<td>65,452.0</td>
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<tr>
<td>1991/92</td>
<td>80,090.2</td>
<td>14,416.3</td>
<td>1,084.9</td>
<td>66,758.8</td>
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SOURCE: Statistics Department
### TABLE 4: SELECTED KEY STATISTICS & INDICATORS

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<td><strong>1. POPULATION</strong></td>
<td>CY No.</td>
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<td>95,808</td>
<td>96,382</td>
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<td>97,561</td>
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<td>2.1.4 Others incl. services</td>
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<td>2.2 Unemployed</td>
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<td><strong>3. NOT IN LABOUR FORCE</strong></td>
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<td>4.11 Production</td>
<td>FY WH(Mn)</td>
<td>17.4</td>
<td>19.7</td>
<td>20.4</td>
<td>23.6</td>
<td>25.0</td>
<td>25.7</td>
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<td>FY</td>
<td>15.1</td>
<td>15.8</td>
<td>17.8</td>
<td>20.0</td>
<td>20.5</td>
<td>21.4</td>
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<td>4.21 Production</td>
<td>FY al. (Mn)</td>
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<td>342</td>
<td>392</td>
<td>409</td>
<td>443</td>
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<td>4.22 Consumption</td>
<td>FY</td>
<td>280</td>
<td>242</td>
<td>274</td>
<td>283</td>
<td>296</td>
<td>328</td>
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<td>5.1 Exports (fob)</td>
<td>Cy TS('000)</td>
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<td>of which:</td>
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<td>5.11 Domestic Exports (fob)</td>
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<td>5.3 Visible Trade Balance (5.1 - 5.2)</td>
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<td></td>
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<td>5.4 Domestic Exports (fob)</td>
<td>Cy TS('000)</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>of which Composition by SITC (REV) Section</td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>0 - Food &amp; Live Animals</td>
<td>CY TS('000)</td>
<td>5,407</td>
<td>5,658</td>
<td>7,264</td>
<td>10,891</td>
<td>17,575</td>
<td>13,803</td>
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<tr>
<td>1 Beverages &amp; Tobacco</td>
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<td></td>
<td></td>
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<tr>
<td>2 Crude Materials Excl. fuels</td>
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<td>3. Fuels &amp; Lubricants</td>
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<td>4. Oils &amp; Fats</td>
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<td>5. Chemicals</td>
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<td>6. Manufactured Goods</td>
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<td>7. Machinery &amp; Transport</td>
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<td>Equipment</td>
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<td>8. Misc. Manufactured Goods</td>
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<td>9. Other Commodities n.e.s.</td>
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<td>5.5 Re-exports</td>
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### TABLE 5: SELECTED KEY STATISTICS & INDICATORS

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<tr>
<td>7. TOURISM</td>
<td></td>
<td>CY NO.</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>7.1 Air Visitors 1/ (Percentage Change)</td>
<td></td>
<td>%</td>
<td>7.2 12.9 8.1</td>
<td>-0.5</td>
<td>5.2</td>
<td>4.6</td>
<td></td>
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<tr>
<td>7.2 Visitors Composition by Nationality</td>
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<td>TOTAL</td>
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<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>%</td>
<td>100.0 100.0</td>
<td>100.0 100.0 100.0</td>
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<tr>
<td>7.21 United States</td>
<td></td>
<td></td>
<td>%</td>
<td>24.4 21.7 20.1</td>
<td>21.7 22.7 22.2</td>
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<tr>
<td>7.22 Australia</td>
<td></td>
<td></td>
<td>&quot;</td>
<td>17.0 15.3 13.2</td>
<td>16.8 16.1 15.5</td>
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<td>7.23 New Zealand</td>
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<td>23.6 24.4 20.4</td>
<td>23.1 25.3 28.9</td>
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<td>7.24 Germany, West</td>
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<td>6.2 7.2 5.9</td>
<td>5.3 7.0 6.8</td>
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<td>7.25 Fiji</td>
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<td>7.26 Other South Pacific Islander</td>
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<td>7.29 All Other Countries</td>
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<td>7.3 Average length of stay</td>
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<td>7.4 Gross Earnings/day stay</td>
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<tr>
<td>8.14 Other n.e.s</td>
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<td>&quot;</td>
<td>6,525 6,981 6,748</td>
<td>9,521 8,711 9,227</td>
<td></td>
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<tr>
<td>8.2 Expenditure Recurrent: of which</td>
<td></td>
<td></td>
<td>32,017 33,897 34,829</td>
<td>44,487 47,661 51,025</td>
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<td>8.21 General Public Services</td>
<td></td>
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<td>&quot;</td>
<td>11,960 11,591 13,650</td>
<td>19,741 18,606 18,399</td>
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<tr>
<td>8.22 Social &amp; Community Services</td>
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<td></td>
<td>&quot;</td>
<td>8,196 8,793 9,533</td>
<td>10,653 15,149 15,483</td>
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<td>8.23 Economic Services</td>
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<td>8,303 8,383 8,259</td>
<td>8,556 11,209 11,641</td>
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<td>8.24 Other n.e.s</td>
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<td>3,558 5,090 3,396</td>
<td>5,507 2,697 5,502</td>
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"APPENDIX 2"

CONSTITUTION AND RULES OF THE

TONGA SOCIETY OF ACCOUNTANTS

INCORPORATED (TSA).
TONGA SOCIETY OF ACCOUNTANTS INCORPORATED (TSA)

DECLARATION

I, Robert Albin Johansson, hereby declare that a meeting held at the Ramanlal Hotel on Wednesday 11 November 1992, it was unanimously agreed amongst fourteen members present, who have also duly signed for the attached Constitution and Rules as follows:

1. To form an association called the Tonga Society of Accountants Incorporated (TSA).

2. To submit an application to the Registrar of Incorporated Societies for the registration of the Tonga Society of Accountants Incorporated.

   It was also agreed:

3. To adopt a constitution which was approved at that meeting.

4. To elect officers.


R. Albin Johansson.
President

Members present at meeting held on 11 November 1992:

R. Albin Johansson
S. ‘Uhila Liava’a
Hasiloni Fungavai
Tevita Lavemaaau
Mathew Abel
Kunnath Chandrasekharan
Knowlton ‘Ita’aevalu
Taholo Kami
Makahokovalu Pailate
S. ‘Otolouta Poloniati
Richard Prema
Karl Taufaeteau
Dianne Warner

Apologies:

Pohiva Tu’i’onetoa
S. Tsutomu Nakao
TONGA SOCIETY OF ACCOUNTANTS INCORPORATED

CONSTITUTION AND RULES

CONTENTS

A) Name of the Society
B) Objects for which The Society is Established
C) Manner in which Persons Become Members
D) Manner in which Persons Cease to be Members of the Society
E) Procedures for altering the Rules of the Society
F) General Mettings and Voting Rights
G) Appointment of Officers
H) Control and Use of the Common Seal
I) Control and Investment of Funds of the Society
J) Power of the Society to borrow money
K) Disposition of the property of the Society in the event of the winding up of the Society
L) Membership Fees
M) Address of the Registered Office of the Society
N) Financial year end
O) Register of Members
A) **Name of the Society.**

The Society shall be called the **TONGA SOCIETY OF ACCOUNTANTS INCORPORATED (TSA).**

B) **Objects for which the Society is Established.**

The Objects for which the Society is Established are:

1) to maintain and to promote the status of the profession of Accountancy, to uphold and require from its members a high standard of efficiency and professional conduct in the interests of the profession and public generally;

2) to provide a venue for communication among members, to hold conferences and meetings for the acquisition and dissemination of information and to encourage the use of the recognised best methods of bookkeeping, costing, accountancy, auditing and other related functions of accountants;

3) to encourage and promote the study of the profession and arrange, provide, conduct and supervise professional education and training;

4) to form a library for the use of members and to collect, collate and publish information of service or interest to members of the Society;

5) to promote, at an appropriate time, any Act of Parliament or Statutory Instrument with a view to regulating the industry and issuing certificates of public practice.

C) **Manner in which Persons Become Members.**

1) Application for Membership in the Society shall be made to the Council in the prescribed form.

2) Each applicant shall pay the admission fee and certify on the prescribed form that the information given by him therein is true and correct in every detail and shall undertake to observe the rules of the Society.

3) Initially membership shall be open to the following persons:

   a) All accountants with full membership of a recognised Institute or Society of Accountants who are resident in Tonga;

   b) All persons who have completed the prescribed examinations of a recognised Institute or Society of Accountants with at least two years accounting experience;

   c) All persons who have completed a University Degree majoring in Accountancy and who have had at least two years accounting experience;

   d) Any person who holds a Diploma in Accounting from a recognised University, or other Tertiary Educational Institution, with at least two years accounting experience;
e) Any person who is in practice as a public accountant or auditor for at least two years in Tonga;

f) Any person who has held a senior post involving accountancy for at least two years in Tonga;

g) Students who have begun and/or are enrolled in an accountancy programme, who shall be deemed "student members".

4) It is the intention of the Society, at the appropriate time, to establish different categories and qualifications of membership, and thereby restrict membership in these categories, in the interest of upgrading the standards of accountancy and accountants in the Kingdom.

D) Manner in which Persons Cease to be Members of the Society.

1) Any member may resign on giving written notice to the Society.

2) Any member shall ipso facto cease to be a member in the event his annual fees or any other sum or sums payable by him to the Society's being in arrear for three (3) months from the date on which such sums become payable.

3) If any member shall be become bankrupt, he shall cease to be a member.


1) From time to time the Rules of the Society may be altered so as to better suit the continuing development of the Society.

2) All alterations of the Rules of the Society must be put to a vote at a General Meeting of the Society and passed by two thirds of those present.

F) General Meetings and Voting Rights.

1) The first general meeting shall be held at such time, not being less than one month nor more than three months after the formation of the Society, and at such place as may be determined and advised to members.

2) An annual general meeting shall be held once in every year at such time and place as shall be determined. The business at such meetings shall be for receiving the Balance Sheet and Income Statement for the past year, election of officers, appointment of an auditor, and any other business as required from time to time.

3) Other General Meetings shall be called from time to time as required to attend to the business of the Society.

4) Not less than fourteen days notice of every General Meeting, specifying the place, the day and hour of the meeting, and the general nature of the business at hand, shall be given to the members.
5) One-tenth but not less than seven members present personally, shall be a quorum.

6) Every member shall have one vote at every General Meeting, whether on show of hands or on a poll.

7) A majority of votes from members present shall be construed to carry any motion put forward at a General Meeting unless otherwise specified in these Rules.

G) Appointment of Officers.

1) At the Annual General Meeting held in accordance with Rule F(2) above, officers will be elected.

2) Officers must be members of the Society.

3) Initially, posts of Office will be as follows: President, Vice-President, Secretary, Assistant Secretary, Treasurer & Assistant Treasurer.

4) In addition to the Officers, sub-committees will be set up to attend to specific tasks. Each sub-committee will have a Chairman.

H) Control and Use of the Common Seal.

1) A common seal shall be obtained for the execution of documents in relation to the Society.

2) The seal of the Society shall not be affixed to any instrument except by the authority of a resolution of the Officers of the Society.

3) The Secretary of the Society shall hold and execute the use of the seal as outlined above.

I) Control and Investment of Funds of the Society.

1) The control and investment of the Funds of the Society shall rest with the Treasurer who will submit regular reports to the General Meeting, and an Annual Report once a year.

2) The Treasurer shall at all times maintain accounts in the name of the Society with a minimum of two (2) signatories to be required to access the funds.

J) Power of the Society to borrow money.

The Society shall have the power to borrow and raise any money that may be required by the Society upon such terms as may be deemed advisable and in particular by mortgage or charge of all or any part of its property.
K) **Disposition of the property of the Society in the event of the winding up of the Society.**

1) The Society may be wound up voluntarily if, at a General Meeting, a resolution is passed requiring the society to be wound up and the resolution is confirmed at a subsequent general meeting called together for that purpose and held not earlier than 30 days after the date on which the resolution so to be confirmed was passed.

2) If upon the winding up of the Society there remains after the satisfaction of all its debts and liabilities and property or cash whatsoever, the same shall not be paid or distributed among the members of the Society but shall be given or transferred to some other Society having objects similar to the objects of the Society or to a charity to be determined by the members at or before the time of winding up.

L) **Membership Fees.**

1) Membership fees shall be determined from time to time by the members and Rules approved by the Society at General Meeting.

2) Initial membership fees are set at $25 per member, $10 for student membership.

M) **Address of the Registered Office of the Society.**

1) The registered office of the Society shall be situated in Nuku'alofa, Tonga.

2) Initially, the address of the Society shall be Hala Salote, Fasi-moe-afi; P.O. Box 103, Nuku'alofa.

N) **Financial year end.**

The financial year end of the Society shall be the 30th of June each year.

O) **Register of Members.**

1) The Secretary of the Society shall maintain a Register of Members. This Register shall include the following information:

   a) the name of the member,
   b) the address of the member,
   c) the occupation of the member,
   d) the date upon which he became a member,
   e) for those members leaving the Society, a notation to be made of the date the member ceased to be a member.

2) It shall be the duty of each member to inform the secretary of any change of address, place or places of business or employment or, if he begins or ceases to practice.
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