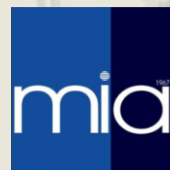


Implementation Issues on Quality Control and Auditing Standards

Merger & Affiliation Seminars 2012

Alor Setar, 22 May 2012



MALAYSIAN INSTITUTE OF ACCOUNTANTS



International Standards on Quality Control 1 ("ISQC1")

Areas of concerns

Subject	Practice review's findings	AOB's findings on Other Audit Firms
Independence and ethics	<ul style="list-style-type: none">•No formal policies and procedures on independence requirements	<ul style="list-style-type: none">•Some of the firms did not have independence compliance system and processes
Acceptance and continuance of client	<ul style="list-style-type: none">•No formal documentation of the acceptance and continuance of client procedures	<ul style="list-style-type: none">•Certain firms did not complete the acceptance and continuance clients policies and procedures
Training needs	<ul style="list-style-type: none">•No record on the professional development for staff	<ul style="list-style-type: none">•No monitoring mechanism to track staff's attendance at training•Lack of training on Clarified ISAs and new/revised FRS/MFRS



International Standards on Quality Control 1 ("ISQC1")

Areas of concerns

Subject	Practice review's findings	AOB's findings on Other Audit Firms
Engagement Quality Control review	N/A	<ul style="list-style-type: none">•AOB concerns about the quality of work and time spent by the EQCR•5 firms withdrew from AOB registration due to inability to comply with EQCR requirement•8 firms appointed EQCR from outside the firm
Monitoring process	N/A	<ul style="list-style-type: none">•Monitoring of the firm's quality control policies and procedures was absent in some firms

Audit documentation

AOB's findings

AOB observed that.....

Nature, timing and extent of work performed



Judgements, decisions on conclusions and analysis



Conclusion on disposition of exceptions noted from testing results



Oral explanation



Audit evidence

Auditing of accounting estimates

AOB's findings

AOB observed that.....

- Lack of professional judgement and understanding of accounting estimates
- Significant accounting estimates were not identified as key risk area
- No documentation evidence

Professional
scepticism
!!!!

AOB observed that.....

- Insufficient audit procedures to review management's process to identify related parties and related party transactions
- Tendency to place reliance on management's representation on related party transactions
- No further audit procedures to verify the related party transactions

Using the works of experts

When using the works of experts

Understanding of the expert's field of expertise, determine the scope of the expert's work and evaluate the results of that work

Evaluate competence, capabilities and objectivity of the expert

Nature, extent and timing of procedures will depend on:

- the significance of the matter to which the expert's work relates
- the auditor's previous experience with the expert

Using the works of experts

AOB's findings

AOB observed that.....

- Insufficient evaluation of the competence, objectivity and terms of engagement of the experts
- Lack of consideration on the risk of an expert's objectivity may be impaired

Group auditors

The group auditor will be able to be involved in the work of component auditors

Understand and identify significant components either due to:
 (1) their financial significance to the group; or
 (2) their specific nature or circumstances they are likely to include significant risks.

To be involved in risk assessment of significant components

To assess appropriateness of further procedures to be performed to address risks for components with identified significant risks

To be involved in setting component materiality levels

Perform procedures on consolidation process

AOB observed that.....

- Insufficient evaluation of other component auditors
- Lack of follow up of post balance sheet reporting by other component auditors
- Lack of minimum audit procedure performed on non-significant components

AOB's findings

Going concern

- Over reliance on audit client's explanations and representations on the assumptions and analytical procedures
- Insufficient challenge on the validity of going concern assumptions in view of the existence of indicators of going concern

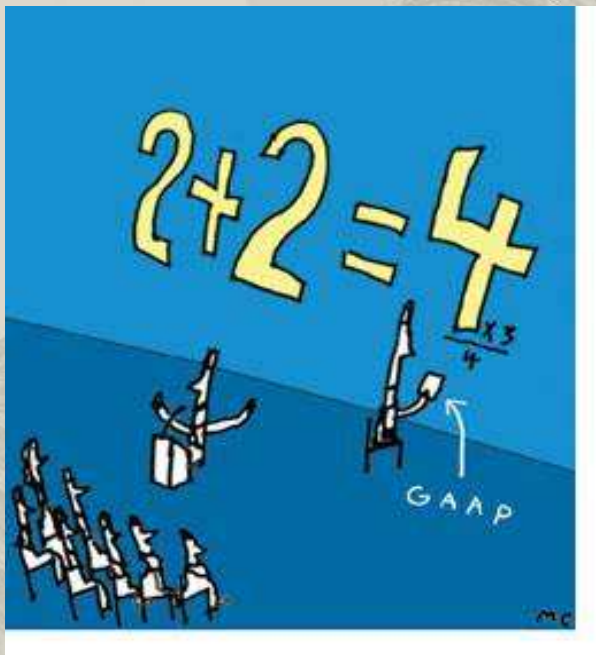


Revenue recognition

AOB's findings

Revenue Recognition

- Lack of understanding of client business
- Audit strategy did not entirely cater to the business model
- Controls reviewed did not demonstrate the direct control related to the assertion



In a nutshell, the audit firms should have:

- **Independence compliance system and process**
- **Policies on acceptance and continuance of audit client**
- **Competent staff**
- **Audit methodologies/programme embedded with Clarified ISAs**

Products available to assist SMPs:

- **Guides (and supporting material)**
- **Practice Notes**
- **Staff Updates, Alerts, FAQs, Q&A, etc**
- **ISA Modules**



Financial Reporting Framework

Merger & Affiliation Seminars 2012

Alor Setar, 22 May 2012

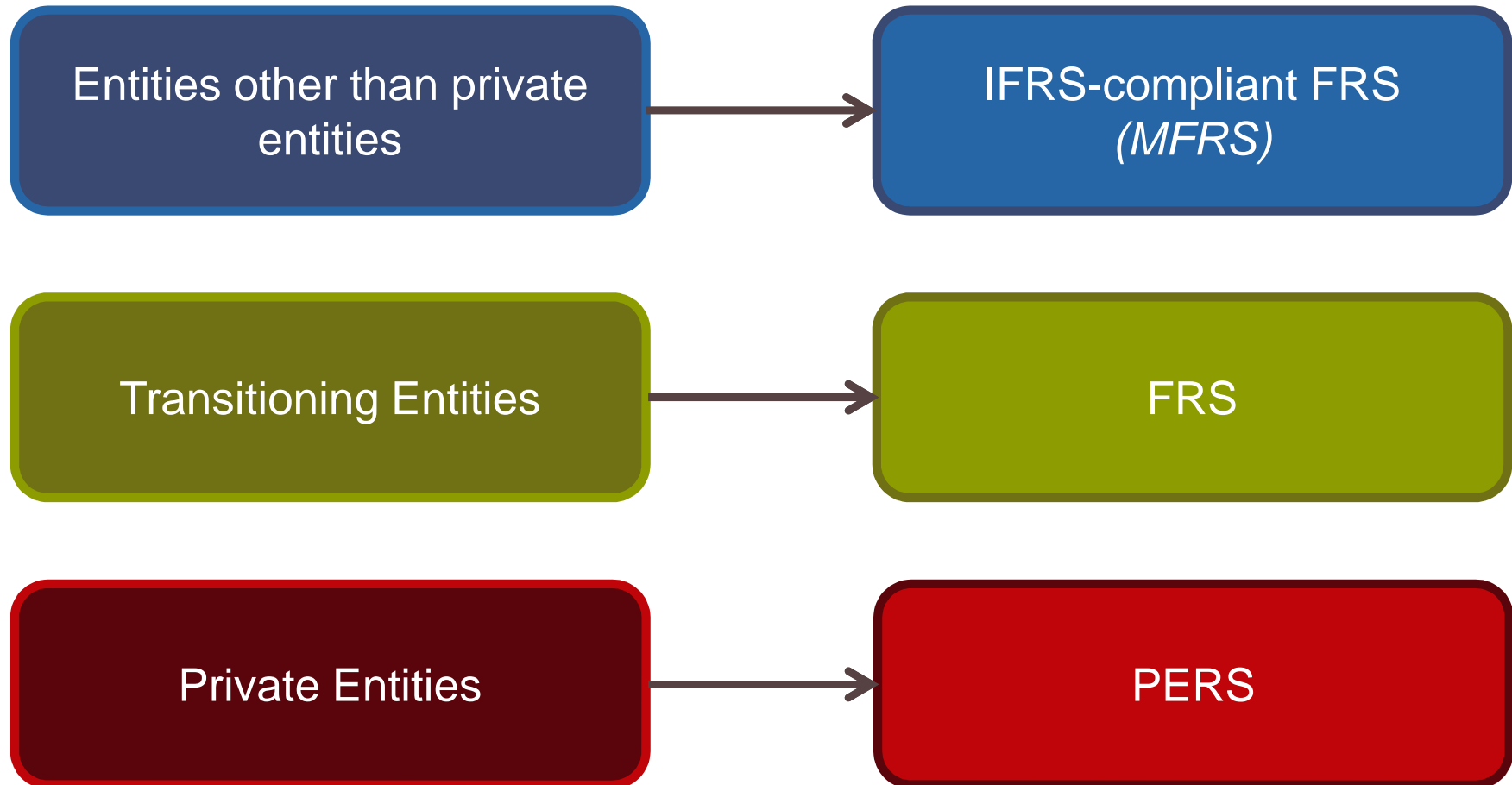


MALAYSIAN INSTITUTE OF ACCOUNTANTS

From 1 January 2012 Malaysia joins the “IFRS Club”



3-tier Financial Reporting Framework



Transitioning Entities (“TE”)

Entities within the scope of:



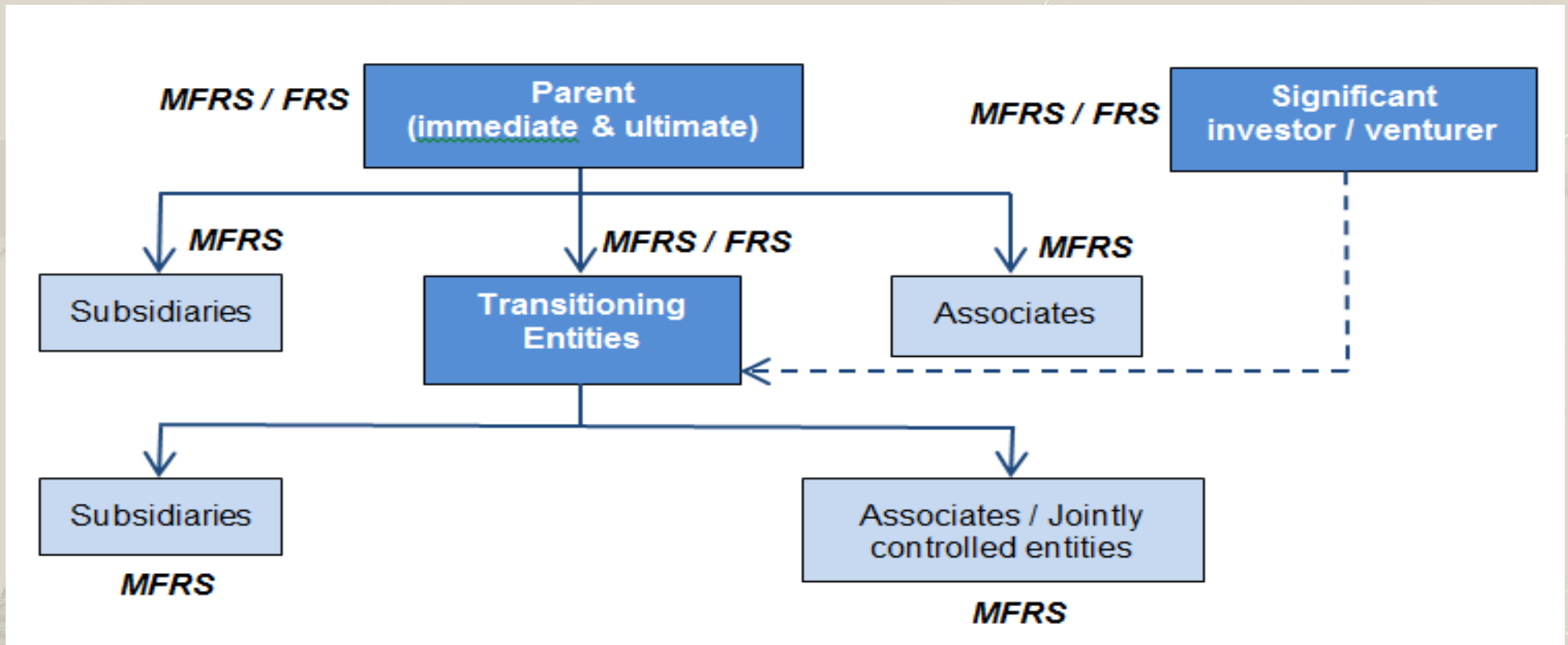
IC Interpretation 15
*Agreements for the
Construction of Real Estate*



MFRS 141 *Agriculture*

Parent / significant investor / venturer of TE

Transitioning Entities (“TE”)



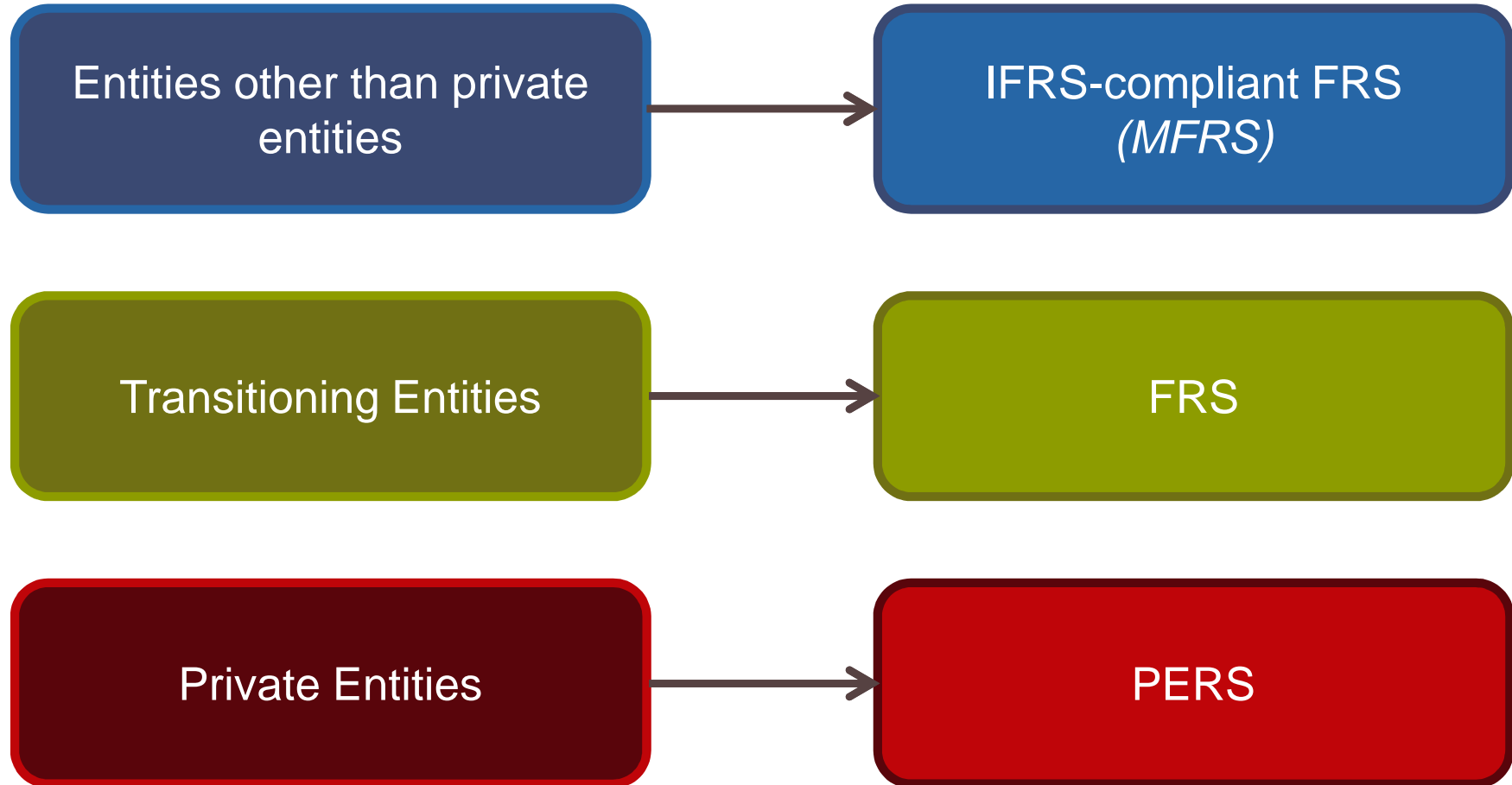
- Option to apply MFRS or FRS
- Mandatory to apply MFRS

Exemption from MFRS

- Due to the short shelf lives of MFRS 141 and IC Interpretation 15.
- **MFRS 141**: future project on limited scope improvement to IAS 41 to address the bearer biological assets issue.
- **IC Interpretation 15**: will be replaced by the new revenue recognition standard, expected to be finalised in Q4 2012 or Q1 2013
- Likely to revert to 2-tier Financial Reporting Framework once the above are resolved.

~~3-tier~~ Financial Reporting Framework

2-tier



Fate of PERS?

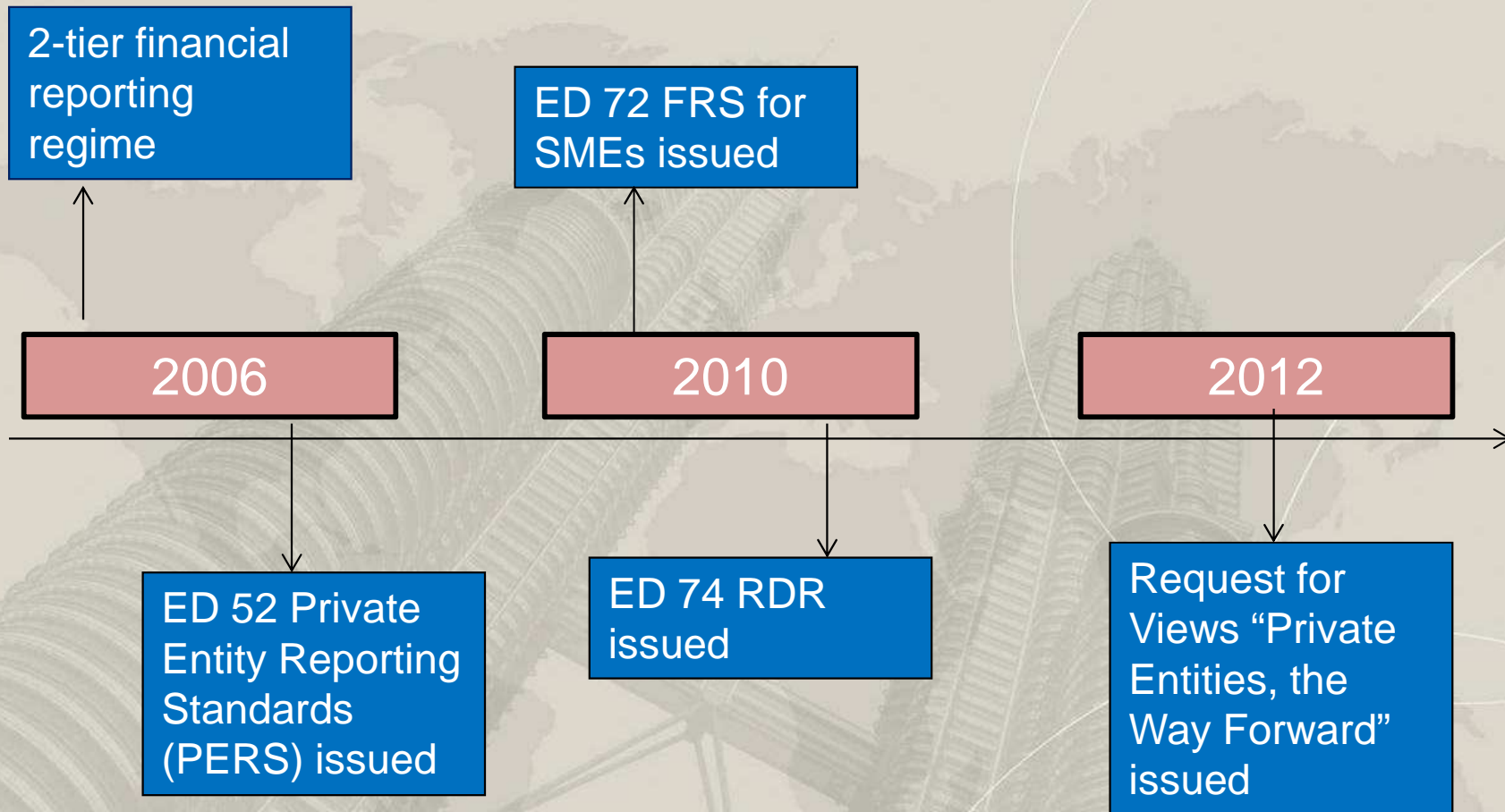
As defined in MASB's Notice of Amendment dated 23 February 2006

A private entity is a **private company**, incorporated under the Companies Act, 1965, that –

Section 15 of
Companies Act, 1965

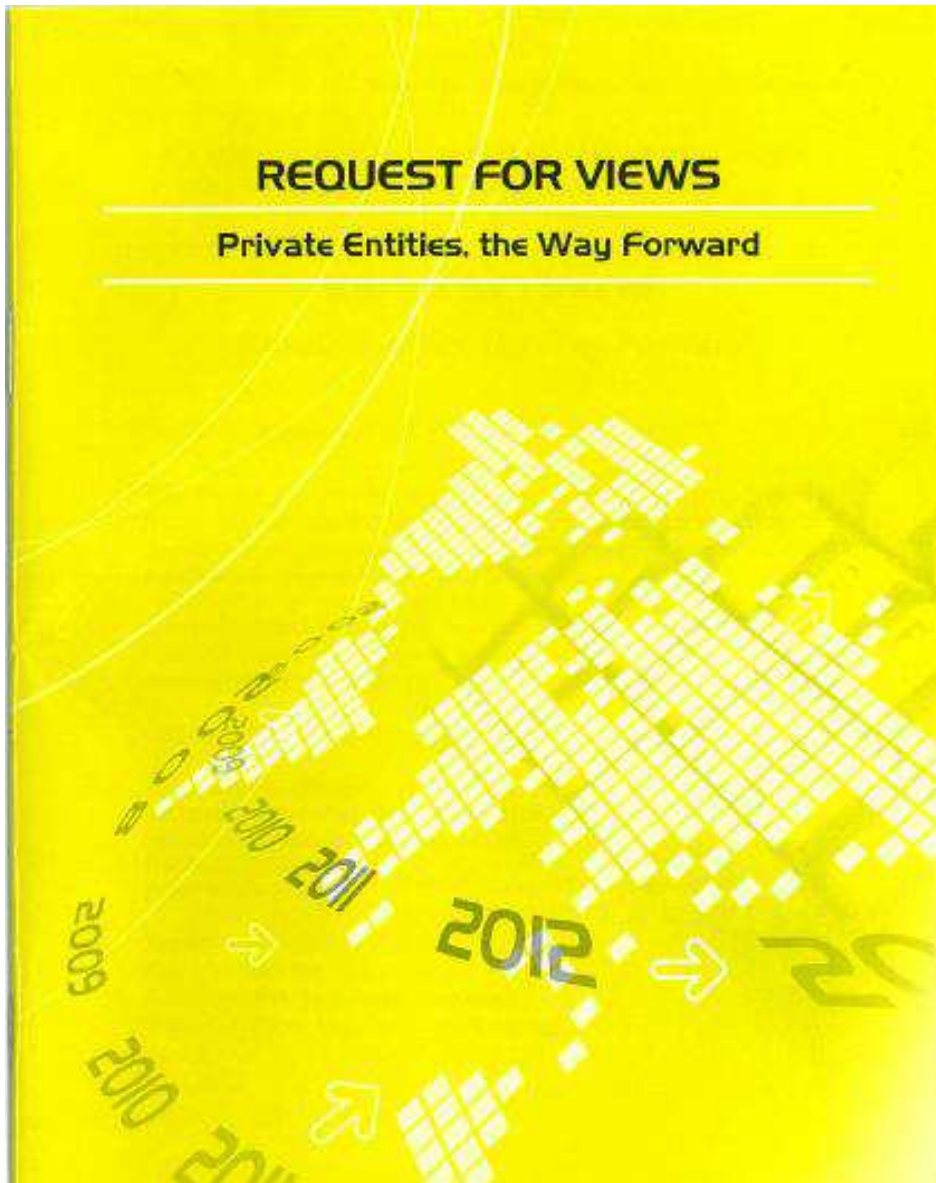
- is not itself required to prepare or lodge any financial statements under any law administered by the Securities Commission or Bank Negara Malaysia; and
- is not a subsidiary or associate of, or jointly controlled by, an entity which is required to prepare or lodge any financial statements under any law administered by the Securities Commission or Bank Negara Malaysia.

Proposed financial reporting framework...



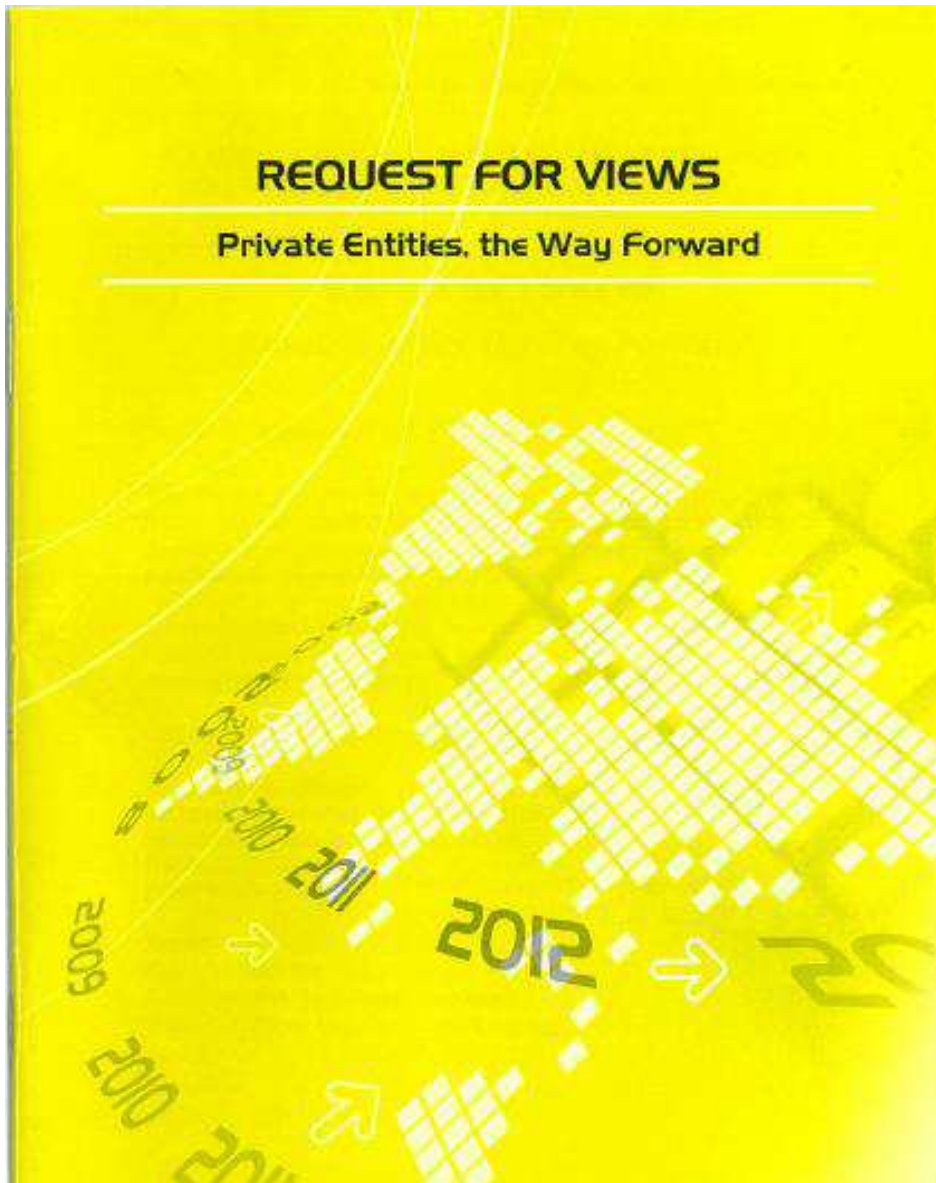
Request for Views

Issued in February 2012



- MASB's 5-year plan
 - replace PERS in 2015 with effective date of 2016
- Which set of standards for private entities
- Due date: **29 June 2012**
- ***Give MASB your feedback!!!***

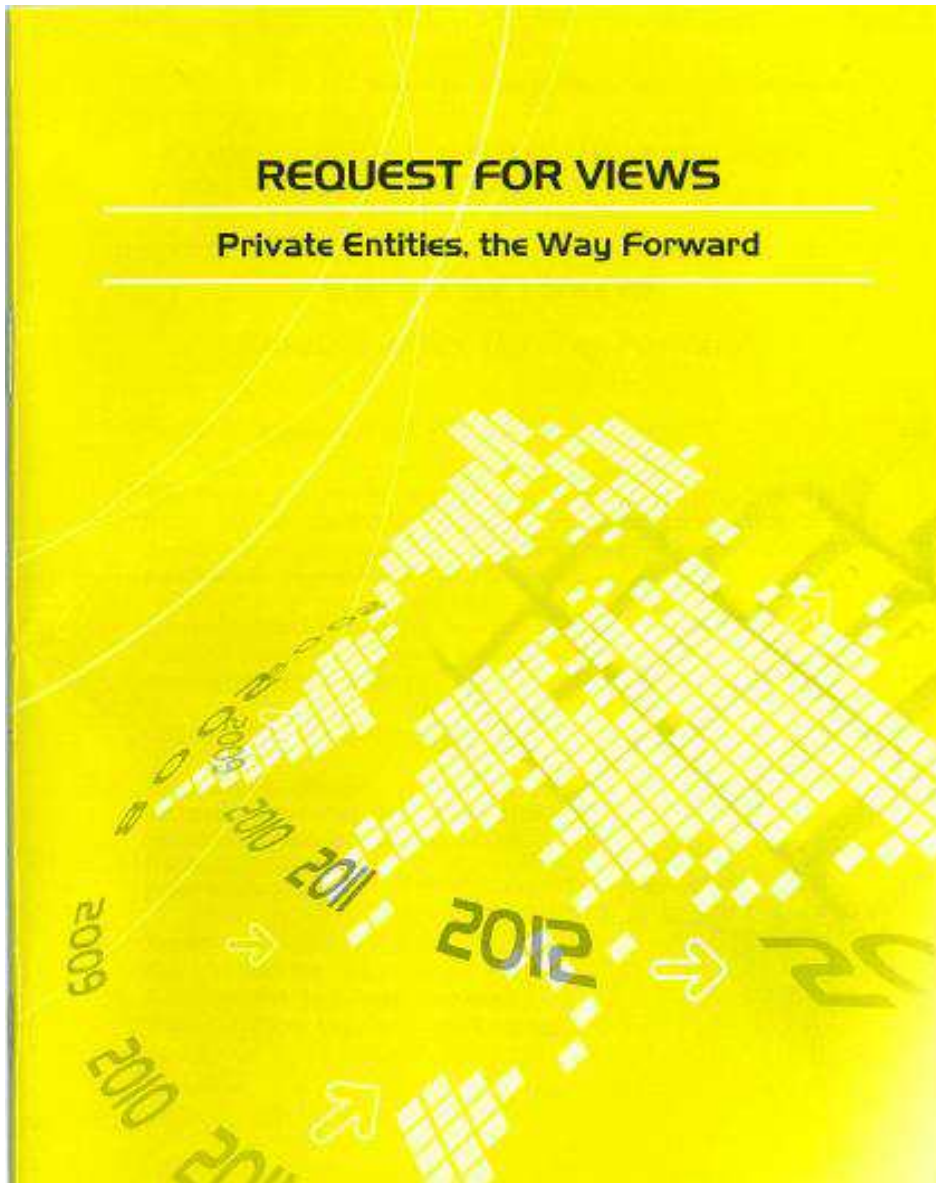
Request for Views



Possible options for Private Entities

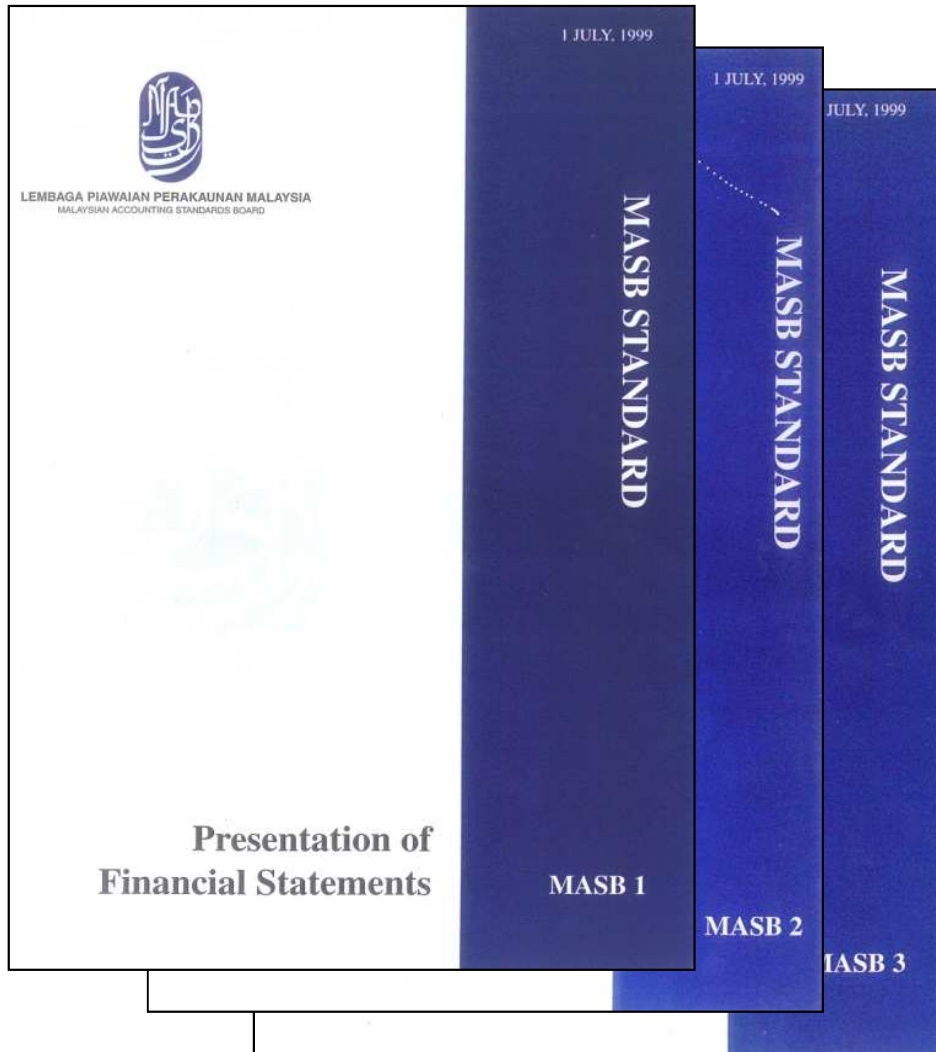
- Option 1: ED 52 PERS
- Option 2: ED 72 FRSs for SMEs
- Option 3: ED 74 Reduced Disclosure Requirements
- Option 4: Upcoming revised IFRS for SMEs

Request for Views



Possible options for Private Entities

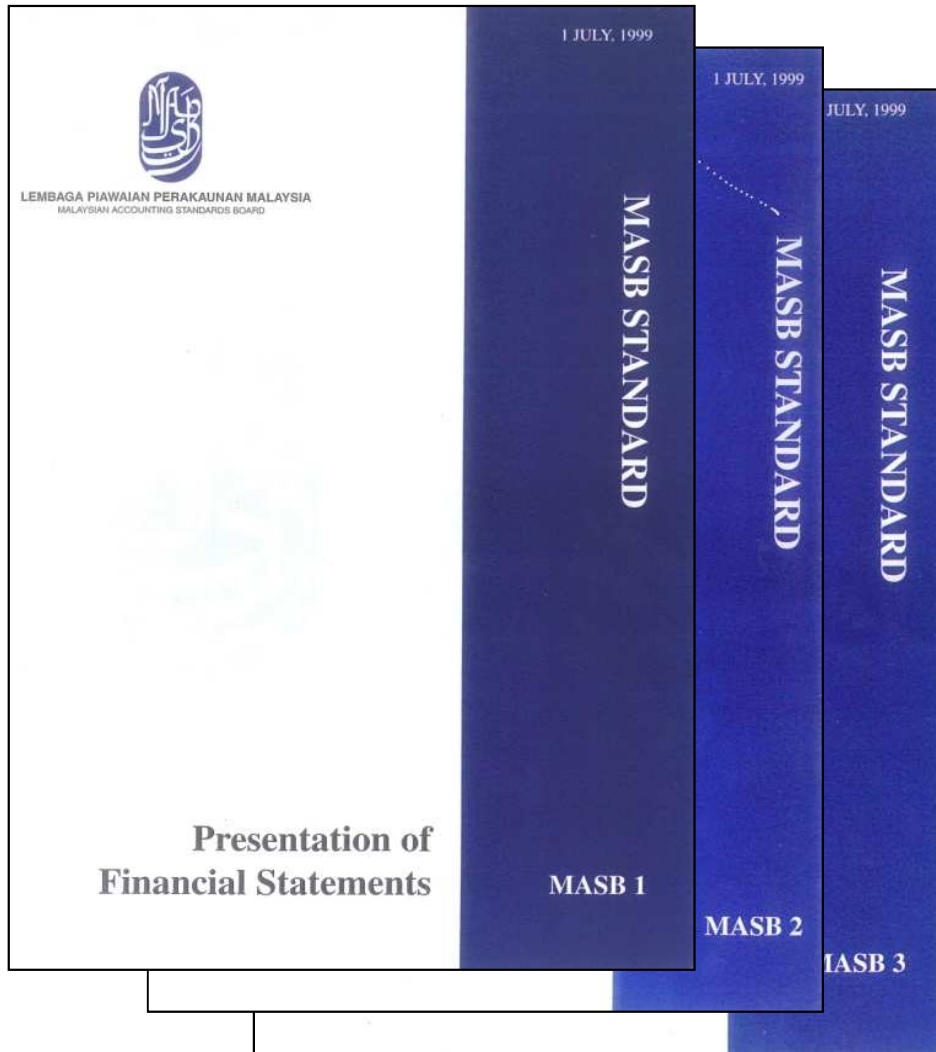
- Option 1: ED 52 PERS
- Option 2: ED 72 FRSs for SMEs
- Option 3: ED 74 Reduced Disclosure Requirements
- Option 4: Upcoming revised IFRS for SMEs



Option 1: ED 52 PERS

Issued in June 2006

- Intended to replace existing PERS
- More suitable for micro entities
- Predominantly cost method
- Mandatory “fall back” to FRS

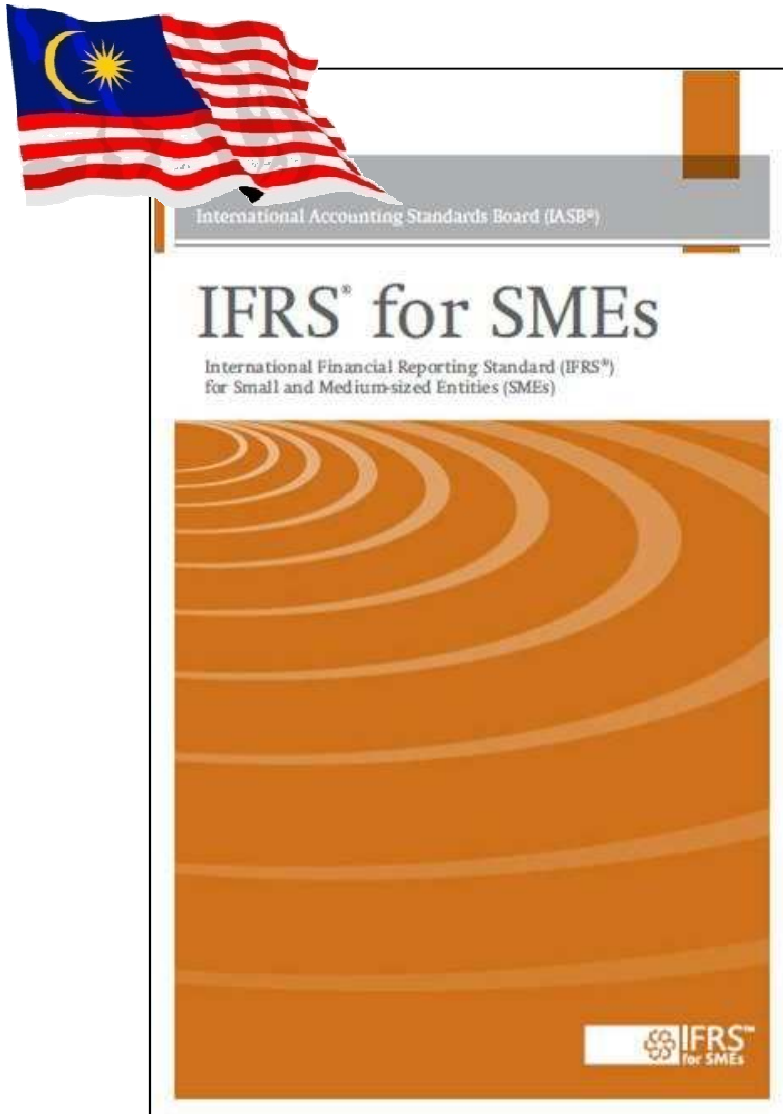


Option 1: ED 52 PERS

Issued in June 2006

- Respondents' preference (2006):
 - MASB ED 52 as new PERS – 21%
 - IFRS for SMEs – 36%
 - Existing PERS – 7%
 - Abstained – 36%
- Locally developed standards may give rise to perception issue
- May be outdated and require major revamp

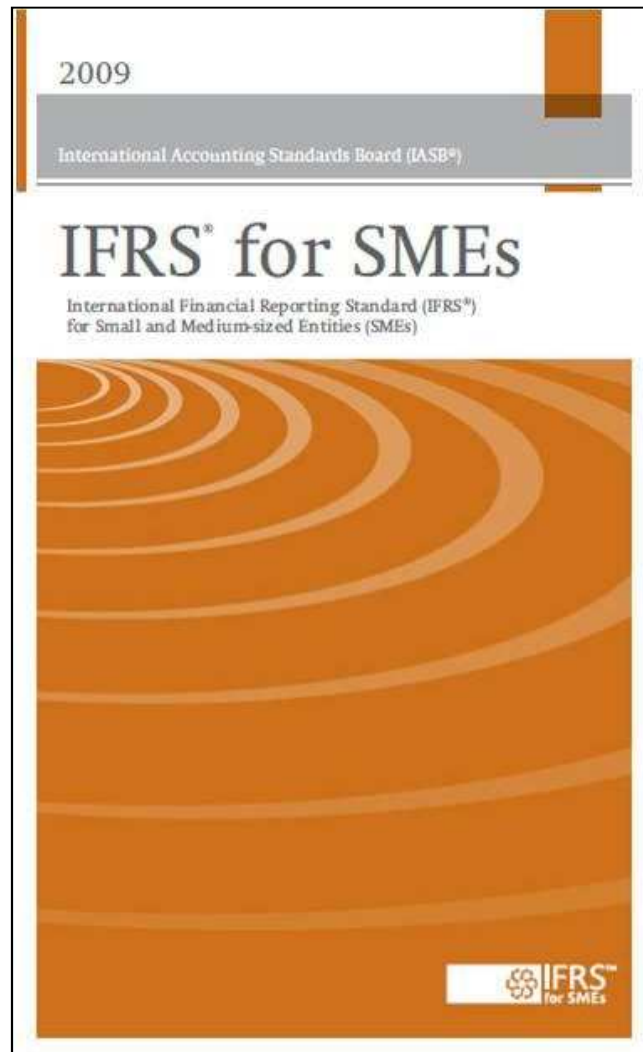
Option 2: ED 72 FRS for SMEs



Issued in March 2010

- Word-for-word identical with IFRS for SMEs
- Suitable for local entities, particularly micro and small entities
- Public forum in major cities between April and July 2010

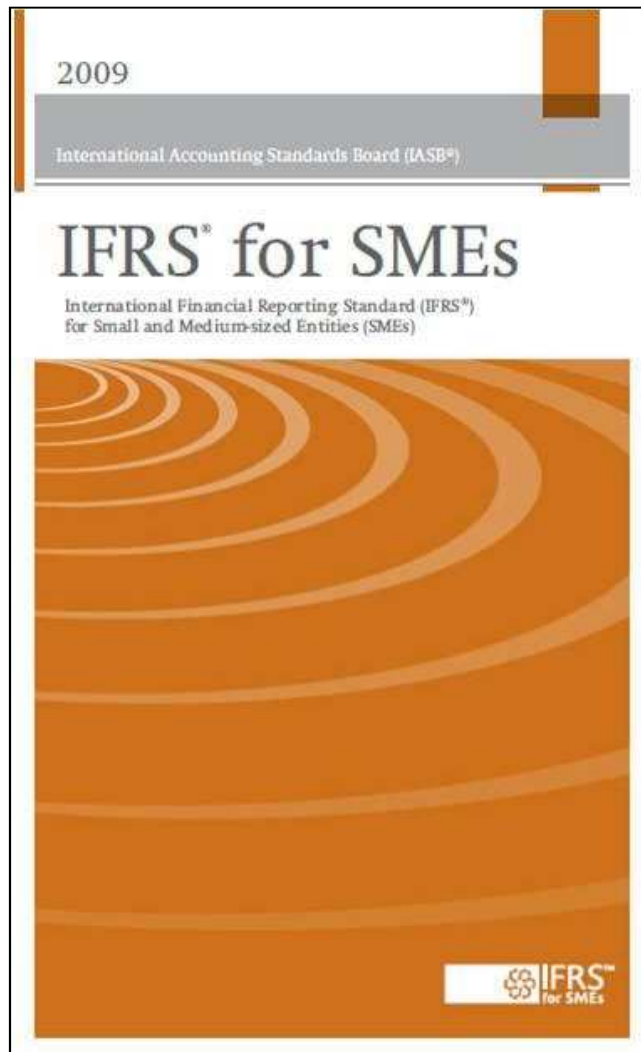
IFRS for SMEs



Issued in July 2009

- For non-publicly accountable entities that produces general purpose financial statements
 - Securities not publicly traded; and
 - Does not hold assets in a fiduciary capacity as a primary business

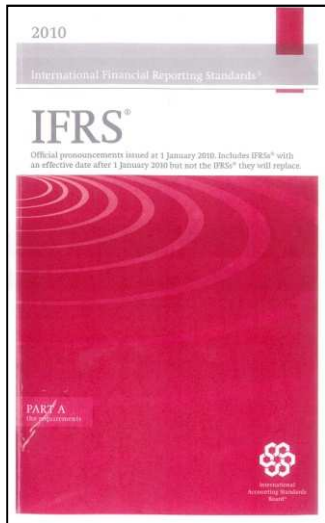
IFRS for SMEs



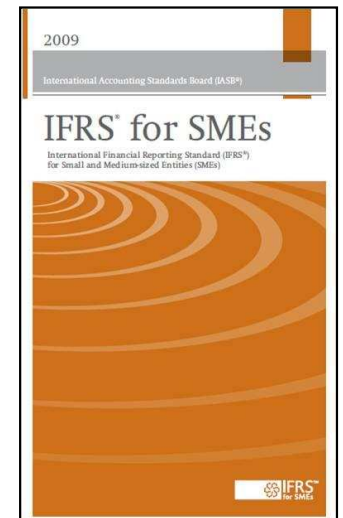
Issued in July 2009

- Completely standalone, self-contained
- No mandatory “fall-back” to IFRS
- However, option available to apply IAS 39 for financial instruments

Simplified for SMEs

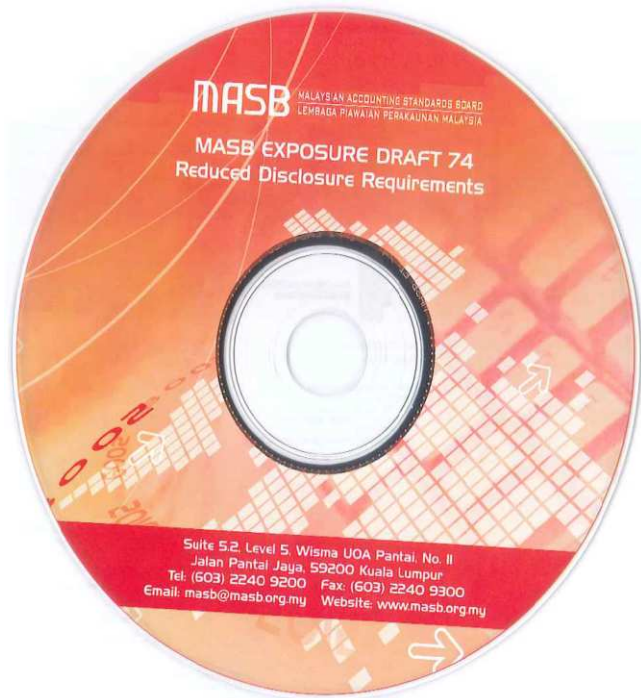


- Recognition and measurement principles simplified from IFRS
- Removal of complex options available under IFRS
- Omission of topics not relevant to SMEs
- Lesser extent of disclosures



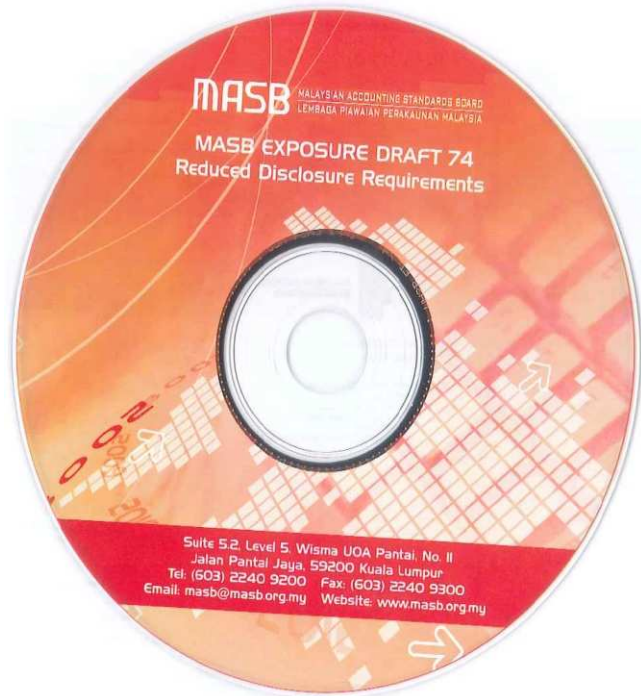
Option 3: ED 74 Reduced Disclosure Requirements

Issued in December 2010



- Intended to reduce reporting burden of certain entities that do not have public accountability but have been mandated to apply MFRS
- Recognition and measurement criteria are identical to MFRS framework
- Provide certain disclosure exemptions

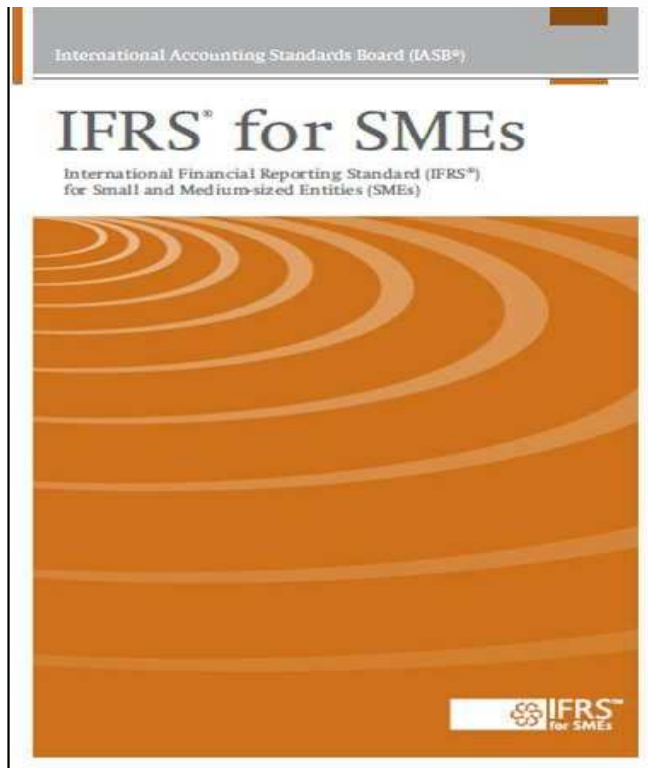
Option 3: ED 74 Reduced Disclosure Requirements



Examples of disclosure exemptions

- Key management personnel compensation disclosed in total
- Not required to disclose the reconciliation of carrying amount at the beginning and end of the reporting period for prior periods
- Not required to disclose credit risk, liquidity risk, market risk – sensitivity analysis, financial assets past due or impaired

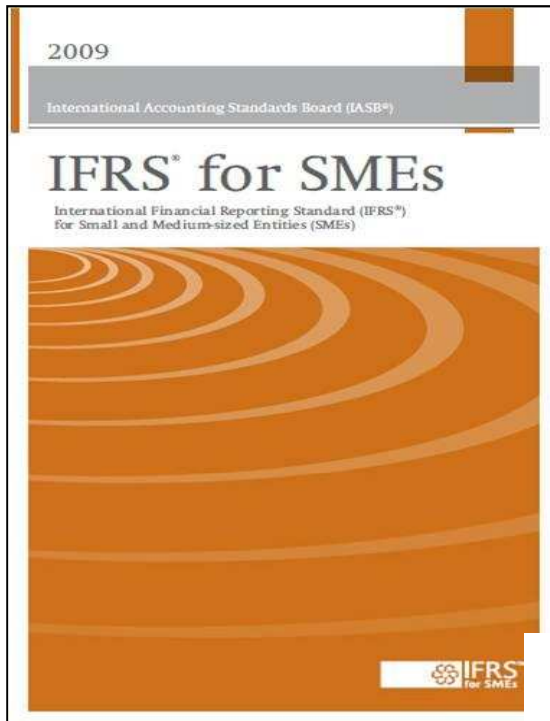
Option 4: Upcoming revised IFRS for SMEs



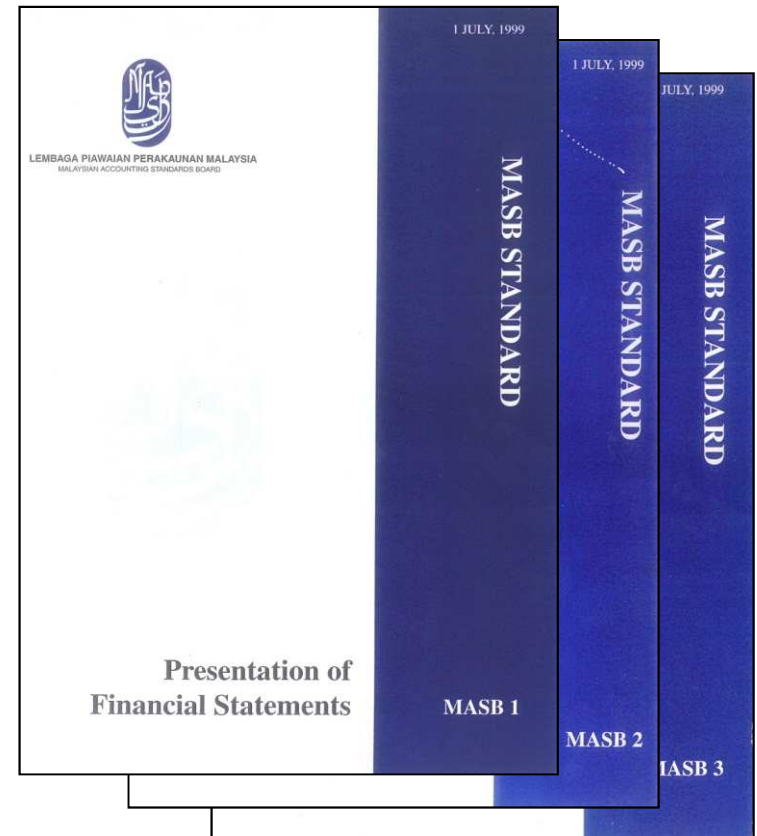
- IASB plans to review IFRS for SMEs on second half of 2012
- Identify implementation issues
- Consider whether new or revised IFRS should be reflected in IFRS for SMEs
- Targeted to finalise in 1Q 2014
- Effective of any changes earliest 2015

FRS for SMEs vs. MFRS vs. PERS

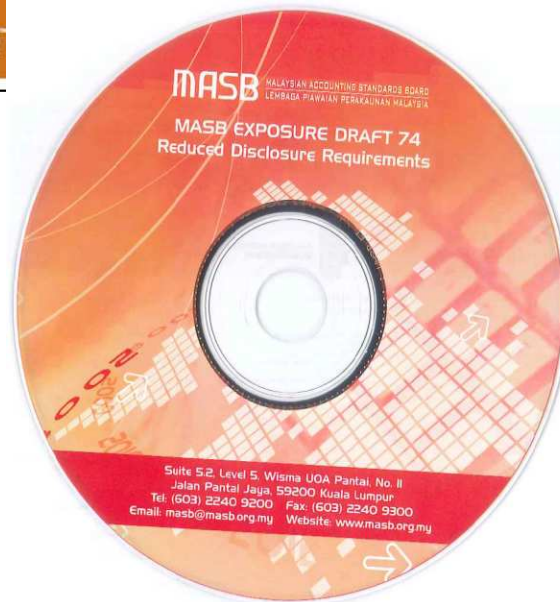
How different?



VS.



VS.



VS.

FRS for SMEs vs. MFRS vs. PERS

Some differences....

Subject	ED 72 FRS for SMEs	ED 52 PERS	Existing PERS	MFRS
Financial statement presentation	2 income statement approach	1 income statement		2 income statement approach
Consolidation	Consolidation shall include all subsidiaries		A subsidiary is excluded from consolidation when: <ul style="list-style-type: none"> •Control is temporary •Operates under severe long-term restriction 	Consolidation shall include all subsidiaries
Property, plant and equipment	Revaluation model is not permitted	Revaluation is allowed		

FRS for SMEs vs. MFRS vs. PERS

Some differences....

Subject	ED 72 FRS for SMEs	ED 52 PERS	Existing PERS	MFRS
Intangible assets	Development costs to be expensed when incurred	Development costs recognised as an asset (subject to criteria)		
Borrowing costs	All borrowing costs to be expensed	Expense when incurred; or capitalised on qualifying asset		<ul style="list-style-type: none"> •Capitalise on qualifying asset •Other borrowing costs to be expensed

FRS for SMEs vs. MFRS vs. PERS

Some differences....

Subject	ED 72 FRS for SMEs	ED 52 PERS	Existing PERS	MFRS
Investment property	<ul style="list-style-type: none"> •Fair value through profit or loss (unless involving undue cost or effort) •Otherwise, cost - depreciation – impairment model 	Cost - depreciation – impairment model	<p>As a property:</p> <ul style="list-style-type: none"> •Cost-depreciation-impairment model; or •Revaluation-depreciation-impairment model <p>As a long-term investment:</p> <ul style="list-style-type: none"> •Cost less permanent diminution; or •Revalued amount 	Cost - depreciation – impairment model or fair value model



**What does it
mean to YOU?**

- Follow MASB's development on the proposed financial reporting framework for private entities
- Keep abreast with latest accounting updates
- Give MASB your feedback on ***request for views*** by ***29 June 2012*** - What is your ***preferred standard*** for private entities???

