



MALAYSIAN INSTITUTE
OF ACCOUNTANTS

CIRCULAR

**AMENDMENTS TO MIA BY-LAWS
SECTION B250 - *QUALITY ASSURANCE AND PRACTICE REVIEW*
AND
APPENDIX VI - *STATEMENT ON PRACTICE REVIEW FOR SECTION B250***

The Amendments

A. Amendment of section B250.1

The paragraph is amended as follows: -

Every member in public practice is required to ensure that his or her audit firm complies with all applicable professional standards **and legal and regulatory requirements** for the purposes of assurance as to the quality of the public practice services provided by the audit firm whether through that member, his or her partner(s) and/or employees. In doing so, every member in public practice has to ensure that the audit firm adopts and applies policies and procedures designed to maintain adherence to professional standards **and legal and regulatory requirements**.

B. Amendment of section B250.4

The paragraph is amended as follows: -

The objective of Practice Review programme is to ensure that all members in public practice comply with all applicable professional standards **and legal and regulatory requirements** in the performance of their work.

C. Amendment of paragraph 1

Appendix VI - Statement on Practice Review for Section B250 Review Procedures and Conduct of Members in Public Practice

1. Paragraph (c) of Section 6 of the Accountants Act, 1967 (the "Act") provides for the Institute, as one of its objectives, to regulate the practice of the profession of accountancy in Malaysia. Paragraph (f) of Section 6 of the Act further states that the Institute shall be generally able to do such acts as it thinks fit for the purpose of achieving its objectives, including that of regulating the profession.

Paragraph 1 above is amended by breaking it into paragraph 1 and paragraph 2 as below: -

1. **Section 6(c) of the Accountants Act, 1967 (the "Act") provides for the Institute, as one of its objectives, to regulate the practice of the profession of accountancy in Malaysia.**
2. **Section 6(f) of the Act states that the Institute shall be generally able to do such acts as it thinks fit for the purpose of achieving its objectives, including that of regulating the profession.**

D. Change of numbering from existing paragraph 2 to paragraph 3

**E. (i) Change of numbering from existing paragraph 3 to paragraph 4
 (ii) Amendment of paragraph 4**

The paragraph is amended as follows: -

3.4. The objective of the Practice Review programme is to ensure that all members in public practice and their audit firms comply with all applicable professional standards **and** legal and regulatory requirements. Commencing with a review of overall quality management system of the firm and review of current audit engagement files, the Practice Review programme will identify areas where a member in public practice and his or her audit firm may require improvement in order to comply with professional standards **and** legal and regulatory requirements.

**F. (i) Change of numbering from existing paragraph 4 to paragraph 5
 (ii) Amendment of paragraph 5**

The paragraph is amended as follows: -

4.5. The Practice Review programme does not set new standards. Rather, the standards that the member in public practice is expected to observe are those already prescribed by the Institute pursuant to the Act, and those prescribed by other regulatory bodies in Malaysia. Details of the standards mentioned above are described in paragraph **12** below.

G. Change of numbering from existing paragraph 5 – 6 to paragraph 6 – 7

**H. (i) Change of numbering from existing paragraph 7 to paragraph 8
 (ii) Amendment of paragraph 8**

The paragraph is amended as follows: -

7.8. Definition of Terms

In this statement and its supporting appendices, the following terms have the following meanings assigned to them, unless the context clearly requires otherwise:

ISQMs	International Standards on Quality Management 1
Member in public practice	a member, other than an associate member, who, as a sole proprietor or in a partnership, provides or is engaged in public practice services in return for a fee or reward for such services otherwise than as an employee, and who holds a valid practising

	certificate issued pursuant to Rule 9 of the Malaysian Institute of Accountants (Membership and Council) Rules 2001.
Practice Review	in relation to an audit firm, means a full scope examination or review of audit engagement files undertaken pursuant to this Statement and the supporting appendices to determine whether applicable professional standards <u>and legal and regulatory requirements</u> are being or have been observed and complied with.
Practice Review Committee	a committee established by the Council of the Malaysian Institute of Accountants (“the Institute”) to conduct practice reviews to determine whether professional standards <u>and legal and regulatory requirements</u> have been complied with by members in public practice.
Audit firm	for the purpose of this Statement, a firm of chartered accountants registered with the Institute where the sole proprietor or all the partners are audit license holders and are members of the Institute.
Professional standards	all those professional standards that are required to be complied with by members in public practice from time to time, and which are for the purposes of this Statement, set out in paragraph 12 below.
Reviewer	a member of the Institute who is engaged as a full time employee by the Institute for the purpose of carrying out practice reviews.
Practising Certificate	the Practising Certificate issued pursuant to Rule 9 of the Malaysian Institute of Accountants (Membership and Council) Rules 2001.
Full scope review	Unrestricted review of ISQMs compliance, audit working paper files and audited financial statements.
Risk based approach	the method adopted by the Practice Review programme in selecting audit firms for review which would consider all risks that are inherent in audit firms, its clients and the environment under which audit firms conduct their professional work. Risk factors, such as those affecting the competence and capability of members in public practice and their firms to perform professional work in compliance with professional standards, are determined from time to time to assess their impact on the firms.

- I. **(i) Change of numbering from existing paragraph 8 to paragraph 9**
(ii) Amendment of paragraph 9

The paragraph is amended as follows: -

8.9. Members in Public Practice subject to Review

All members in public practice offering audit engagements are required to adhere to the standards prescribed by the Institute. All members in public practice and their audit firms so engaged, must submit to practice review, subject to paragraph [10](#) below.

J. Change of numbering from existing paragraph 9 to paragraph 10

**K. (i) Change of numbering from existing paragraph 10 to paragraph 11
(ii) Amendment of paragraph 11(d)**

10.11. Establishment and appointment of Practice Review Committee

The Council of the Institute has mandated the establishment and composition of the Practice Review Committee to oversee the conduct of practice review as follows:

- (d) A person shall not be a member of the Practice Review Committee if his/her audit firm had been rated as Type 3 or Type 4 as a result of practice review as described in paragraph [36](#).

L. Change of numbering from existing paragraph 11 to paragraph 12

**M. (i) Change of numbering from existing paragraph 12 to paragraph 13
(ii) Amendment of paragraph 13**

The paragraph is amended as follows: -

12.13. Scope

The Council has directed the Practice Review Committee to conduct practice reviews pursuant to this Statement and its supporting appendices, in order to determine that the professional standards specified in paragraph [12](#) above are complied with by all audit firms.

N. Change of numbering from existing paragraph 13 to paragraph 14

**O. (i) Change of numbering from existing paragraph 14 to paragraph 15
(ii) Amendment of paragraph 15**

The paragraph is amended as follows: -

14.15. Objectives

Essentially, a practice review entails, among other things, a review of **the overall quality management system of the firm** and review of current audit engagement files and related financial statements to ascertain that the audit firm is adhering to professional standards **and legal and regulatory requirements**.

Practice Review Committee shall determine a rating for the practice review report in accordance to paragraph 36.

Refer “Summary of the Practice Review Process” to meet the above objective.

- P. (i) Change of numbering from existing paragraph 15 to paragraph 16
(ii) Amendment of paragraph 16**

The paragraph is amended as follows: -

15.16. Selection of Audit Firms for Review

The Practice Review Department will select audit firms for review based on a risk-based approach and will determine the order of review.

- Q. Change of numbering from existing paragraph 16 – 17 to paragraph 17 – 18**

- R. (i) Change of numbering from existing paragraph 18 to paragraph 19
(ii) Amendment of paragraph 19**

The paragraph is amended as follows: -

18.19. The identity of the audit firm shall be kept confidential from all parties including the Practice Review Committee and those staff of the Institute not directly involved in practice review, except for those relevant reviewers who are directly involved in the review of that audit firm and those regulatory bodies as mentioned in paragraph 25(3).

- S. Change of numbering from existing paragraph 19 – 20 to paragraph 20 – 21**

- T. (i) Change of numbering from existing paragraph 21 to paragraph 22
(ii) Amendment of paragraph 22**

The paragraph is amended as follows: -

21.22. The reviewer assigned to the audit firm will be responsible for arranging the practice review visit, which will be carried out within four (4) months upon submission of completed Practice Review Questionnaire. The audit firm shall notify the Institute within seven (7) days if they consider the timing of the visit to be inconvenient and shall specify the reasons thereto.

Any further extension is at the reviewer's sole discretion, as guided by the Practice Review Department's Standard Operating Procedures and shall only be granted for valid reasons.

**U. (i) Change of numbering from existing paragraph 22 to paragraph 23
(ii) Amendment of paragraph 23**

The paragraph is amended as follows: -

22.23. The audit firm shall be given reasonable notice of the selection of **audit engagement** files for review. The selection of **audit engagement** files is made by the reviewer from the most current client listing as provided by the audit firm. Such listing must be certified as complete by the audit firm prior to the selection of sample files. The audit firm should always ensure that all current audit engagements which are representative of the operations of the firm should be readily retrievable during the practice review. For the purposes of practice review, such current audit engagement files refer to engagements which have been signed off in the past eighteen (18) months up to the date of the practice review or any other dates that can be reasonably accepted by the reviewer as a practical alternative.

V. Change of numbering from existing paragraph 23 – 24 to paragraph 24 – 25

**W. (i) Change of numbering from existing paragraph 25 to paragraph 26
(ii) Amendment of paragraph 26**

The paragraph is amended as follows: -

25.26. The reviewer will require a copy of the financial statements relating to the **audit engagement file** reviewed. The financial statements will be used as a reference for the Practice Review Committee to assess the adequacy of auditing procedures in relation to the materiality of the items concerned. Before the copy of the financial statements is submitted to the Practice Review Committee for consideration, all references to the client's name or names and references within the financial statements which could reveal the client's or the audit firm's identity will be concealed by the reviewer.

**X. (i) Change of numbering from existing paragraph 26 to paragraph 27
(ii) Amendment of paragraph 27**

The paragraph is amended as follows: -

26.27. Subject to paragraph **25(3)**, where it is considered necessary for the proper completion of the review, a reviewer may request copies of other documentation. In such circumstances, the identity of the client or references which would reveal the identity of the audit firm will be concealed by the reviewer prior to the submission of these copies to the Practice Review Committee for consideration.

Y. Change of numbering from existing paragraph 27 – 32 to paragraph 28 – 33

**Z. (i) Change of numbering from existing paragraph 33 to paragraph 34
(ii) Amendment of paragraph 34**

The paragraph is amended as follows: -

33.34. After completing the draft report process, the reviewer will forward a copy of the draft report, any submissions or representations from the audit firm (suitably summarised and codified) to the Practice Review Committee for its deliberation **and to determine a rating for the review in the report. The rating as determined by the Practice Review Committee shall be deemed final.**

**AA. (i) Change of numbering from existing paragraph 34 to paragraph 35
(ii) Amendment of paragraph 35**

The paragraph is amended as follows: -

34.35. If it is found that any one or more or all the partners in the audit firm subject to practice review have failed to comply with professional standards **and legal and regulatory requirements**, the Practice Review Committee shall lodge a complaint regarding such partner concerned or, in case there is more than one such person concerned, a separate complaint in respect of each of them, with the Registrar of the Institute.

**BB. (i) Change of numbering from existing paragraph 35 to paragraph 36
(ii) Amendment of paragraph 36**

Paragraph 36(c) is amended as follows: -

35.36. The Practice Review Committee shall determine a rating for the report in the following manner:

(c) Type 3 – Remedial Action Plan Required

Where it considers that the audit firm has some significant weaknesses which were pervasive in complying with applicable professional standards and legal and regulatory requirements during the course of carrying out the work of the engagements reviewed in which the work performed and evidence obtained thereon were inadequate and/or inappropriate. Thus the basis needed to form the opinions expressed on those engagements was not adequately supported.

In such case, the practitioner shall be required to:

- (i) submit the audit firm’s remedial action plan annually for a period of 24 months; and**

- (ii) The Practice Review Committee shall also require the practitioner concerned to attend relevant training and educational seminars; and
- (iii) other relevant rectification order as determined by the Practice Review Committee.

A complaint shall be lodged with the Registrar on the audit license holder who fails their practice review subsequently after 24 months.

CC. Deletion of existing paragraph 36

DD. Amendment of paragraph 37

The paragraph is amended as follows: -

37. The Practice Review Committee will make a complaint against an audit license holder where the disregard of applicable professional standards and legal and regulatory requirements, in its findings amounts to unprofessional conduct within the meaning prescribed pursuant to Rule 2 of the Malaysian Institute of Accountants (Disciplinary) (No. 2) Rules 2002.

EE. Deletion of existing paragraph 39 – 42

FF. Change of numbering from existing paragraph 43 to paragraph 39

**GG. (i) Change of numbering from existing paragraph 44 to paragraph 40
(ii) Amendment of paragraph 40**

The paragraph is amended as follows: -

44.40. Every person referred to in paragraph 39 above shall:

- (a) at all times after his/her appointment preserve and aid in preserving secrecy with regard to any matter coming to his/her knowledge in the performance or in assisting in the performance of any function;
- (b) not at any time communicate any such matter to any other person; and
- (c) not at any such time suffer or permit any other person to have any access to any record, document or other thing which is in his/her possession or under his/her control by virtue of his/her being or having been so appointed or his/her having performed or having assisted any other person in the performance of such a function;

Provided that the above provisions do not apply in relation to disclosures made in relation to or for the purpose of any investigation and disciplinary proceedings or criminal

proceedings and subject to the Institute's sole discretion, specific requests from relevant statutory bodies and regulatory authorities.

HH. Change of numbering from existing paragraph 45 – 48 to paragraph 41 – 44

**II. Amendment of paragraph A1.3
Appendix VI - Summary of Practice Review Process**

The paragraph is amended as follows: -

Notification - Enclosure of the **Practice Review** Questionnaire

A **Practice Review Questionnaire** will be sent to the audit firm for completion together with the notification of practice review. The **Practice Review** Questionnaire comprises mainly the requirements of International Standards on Quality Management 1 ("ISQMs").

JJ. Amendment of paragraph A1.4

The paragraph is amended as follows: -

Return of Completed **Practice Review** Questionnaire

The audit firm should complete and return the **Practice Review** Questionnaire within twenty-one (21) days from the date of receipt of the **Practice Review** Questionnaire. Disciplinary action shall be taken on non-return of completed Practice Review Questionnaire **within the stipulated timeline.**

In addition, audit firms are required to prepare a complete list of their audit clients, in a prescribed format, and to provide any other information the reviewer considers necessary to facilitate the selection of a representative sample of audit engagements for review.

KK. Amendment of paragraph A1.5

The paragraph is amended as follows: -

Confirmation of Visit

An initial review date will be **scheduled** by the reviewer. The actual review date will be arranged such that the review will be held within four (4) months **upon submission of the completed Practice Review Questionnaire by the audit firm.** Extension beyond four (4) months will be at the sole discretion of the reviewer, **as guided by the Practice Review Department's Standard Operating Procedures and shall only be granted for valid reasons.**

LL. Deletion of existing paragraph A2

MM. Amendment of paragraph A2.3

The whole paragraph A2.3 is replaced as follows:-

Selection of audit engagements to be reviewed

The selection of audit engagement files is made by the reviewer from the most current client listing as provided by the audit firm. Such listing must be certified as complete by the audit firm prior to the selection of sample files. The audit firm should always ensure that all current audit engagements which are representative of the operations of the firm should be readily retrievable during the practice review. For the purposes of practice review, such current audit engagement files refer to engagements which have been signed off in the past eighteen (18) months up to the date of the practice review or any other dates that can be reasonably accepted by the reviewer as a practical alternative.

NN. Amendment of paragraph A2.5

The whole paragraph A2.5 is amended as follows: -

Closing Meeting

At the end of the review, the factual findings will be communicated to the sole proprietor or partner of the audit firm being reviewed.

At this closing meeting, the reviewer will discuss the significant review findings with the practitioner. However, the discussion may not be exhaustive and consequently certain findings and observations not deliberated upon at the closing meeting may be incorporated in the draft report to be sent later to the practitioner for his/her comments. The reviewer and sole proprietor or partner will sign off on the summary of review findings to confirm on the accuracy of the factual findings of the review. Refusal to sign off on the summary of review findings, without a valid reason, would be considered as non-cooperation and deemed to be unprofessional conduct. A complaint shall be lodged with the Registrar.

OO. Amendment of paragraph A3

The whole paragraph A3 is amended as follows: -

Reporting

The reviewer will prepare a report (the practice review report), incorporating the factual findings as discussed with the audit firm and a dated draft of the report will be sent to the audit firm for comments.

Any comments on the dated draft report made must be submitted in writing within twenty-one (21) days. The reviewer will finalise the report upon the receipt of the submissions. In finalising the report, the reviewer may make changes to the practice review report in light of the submissions. Final draft practice review report will be sent to the Practice Review Committee for consideration.

The audit firm will be allowed the opportunity to make its representations throughout the review process. It is expected that the closing meeting between the reviewer and the firm will provide an appropriate channel for the communication of views concerning the findings and recommendations. In addition, the audit firm has twenty-one (21) days to consider the dated draft report and make its written comments to the Practice Review Committee. A meeting of the Practice Review Committee will be held to consider the practice review report and the audit firm's comments. The Practice Review Committee may issue a final report to the audit firm and instruct the reviewer to perform any follow-up action considered appropriate.

The final rating in the report shall be determined by the Practice Review Committee as provided under paragraph 36.