



MALAYSIAN INSTITUTE
OF ACCOUNTANTS

Practice Review Report

2009 - 2013

Assurance • Quality • Accountability

February 2014

Chartered Accountant Malaysia and MIA

Chartered Accountant Malaysia or “C.A.(M)” is a designation conferred by the Malaysian Institute of Accountants (“MIA”) to a professional in accountancy, business and finance with a recognised accountancy qualification and relevant work experience. They are usually the industry captains, corporate leaders and decision makers that play a significant part in nation building.

MIA was established under the Accountants Act 1967 as the statutory accountancy body that regulates, develops, supports and enhances the integrity and status of the profession while upholding public interest.

Working closely alongside strategic business partners and stakeholders, MIA connects its members to a wide range of continuous professional development programmes, updates and networking opportunities. Presently, there are over 30,000 members making their strides across all industries in Malaysia and around the world.

MIA’s Vision

To be a globally recognised and renowned institute of accountants committed to nation building.

MIA’s Mission

To develop, support and monitor quality and expertise consistent with global best practices of the accountancy profession in the interest of stakeholders.

MIA’s Strategic Objectives

- Develop and enhance the competency of accountancy professionals to meet market demand.
- Advance and enhance the status of members and the accountancy profession in Malaysia.
- Regulate the practice of the accountancy profession in Malaysia consistent with global standards and best practices.

Management Core Values

Integrity | Mutual Trust and Respect | Professionalism | Accountability | Commitment | Teamwork

MIA’s Function

Section 6 of the Accountants Act 1967 (the Act) states that the functions of the Institute shall be:

- To determine the qualifications of persons for admission as members;
- To provide for the training and education; by the Institute or any other body, of persons practising or intending to practise the profession of accountancy;
- To approve the MIA Qualifying Examination(QE) and to regulate and supervise the conduct of that Examination;
- To regulate the practice of the accountancy profession in Malaysia;
- To promote, in any manner it thinks fit, the interest of the accountancy profession in Malaysia;
- To render pecuniary or other assistance to members or their dependents as it thinks fit with a view to protecting or promoting the welfare of members; and
- Generally to do such acts as it thinks fit for the purpose of achieving any of the aforesaid objects.

C O N T E N T S

Message from the Chairman	2
1.0 10 YEARS - Leading the Profession towards Audit Quality	4
2.0 Practice Review Framework	6
2.1 The Review Process	6
2.2 The Report	7
2.3 Risk Based Approach Framework	8
2.4 The Regulatory Environment	9
2.5 Views on Practice Review	11
3.0 Highlights	13
3.1 Practice Review Activities	13
3.2 Practice Review Results	13
3.3 Practice Review Survey	13
4.0 Practice Review Committee	15
4.1 Chairman of the Practice Review Committee	15
4.2 Members of the Practice Review Committee	15
4.3 The Practice Review Team	19
5.0 Common Findings of Practice Review	20
6.0 Initiatives for 2014 and Beyond	21
Appendix 1	22
Common Findings	23

Message from the CHAIRMAN



Dear Members,

I am delighted to present the second MIA Practice Review Report for the period of 2009 - 2013. The global business landscape is becoming increasingly challenging for audit firms to navigate, particularly for small and medium practices which make up the majority of the Malaysian audit profession. Tougher regulations have been put in place to ensure that audit quality is enhanced, and audit firms across the spectrum must improve practice management in order to ensure compliance and maintenance of their license to operate.

As in other jurisdictions, practice review is a key tool in the arsenal of Malaysian regulators to enhance quality and governance among audit practices. Defined as a quality assurance programme that covers the provision of audit and other related assurance services by firms, practice review is gaining traction and value in the Malaysian audit environment.

Since the issuance of the first practice review report in July 2009, Malaysia has witnessed the rapid decline of strong economies in the world as the financial and currency crisis in the Western economies took center stage,

leading inevitably to the economic turmoil in the United States and Europe. The ripple effects which have widened are being felt in many economies globally. As the leaders of the affected economies pool their creative talents to search for viable solutions to their financial problems, caused in part by weaknesses in corporate governance, Malaysia has been resilient in the face of tidal waves of uncertainty and despair. Malaysia's diligent manning of her venerable financial institutions and the establishment of a well-integrated regulatory eco-system has contributed to our resilient economy. A maturing culture of corporate governance with oversight responsibilities by our professional and regulatory bodies is embedded into the economic fabric of the country and this has injected fresh doses of public confidence and trust in our financial reporting framework.

The audit profession in our country is not immune to the fallouts of big financial scandals and corporate failures. Keen observers have noted that corporate frauds are not always caused by ingenious fraud schemes that are difficult to detect but are usually attributable to those that spring from the lack of supervisory controls and weakness in the implementation of fundamental internal controls in companies

and other entities which even junior auditors are familiar with. This inevitably raises the question of whether our auditors, as gatekeepers, could have prevented the fraud by early detection through their audit processes.

If the audit quality in the member firm is not maintained and continually enhanced, it is likely that fraud in its many forms will thrive in our midst and will likely remain undetected for some time causing irreparable harm. If the audit quality is continually enhanced, as it should, incidence of fraud and corrupt practices could be deterred from taking root and could reduce accordingly. It should also be emphasised that auditors will not be able to detect and eliminate fraud completely. In the words of a famous judge, “auditors are watchdogs and not bloodhounds”.

In our borderless world, the growth of our profession in Malaysia is now dictated by events that happen far beyond our shores. The internet revolution has succeeded in levelling the playing field for both the bigger and smaller firms. International auditing standards which are applicable to all firms in the profession, share the objective of raising the quality of audit through its implementation and coverage. Increasingly, the advantage of accessibility to technology and knowledge, that at one time appeared to favour the bigger firms with their wide network of firms, is equally now available to the smaller firms. Lessons that we learn from corporate scandals worldwide such as Enron, Worldcom and Tyco are just as relevant to the smaller audit firms in Malaysia as it is to the bigger players.

This Report is issued with the primary aim of disseminating empirical observation and common findings of practice review gathered over a five year period. In the practice review report sent to each member firm reviewed, one can find examples of best practices which would assist our practitioners to overcome their weaknesses and shortcomings in the audit performed. Among the key best practices recommended are to improve documentation

and to establish a firm basis for audit evidence. What is not documented is not done. Firms are also encouraged to comply strictly with procedures and international standards on auditing in order to mitigate risks, because auditing standards when applied in unison are a firewall against risks and hazards.

It is hoped that this report will provide added value to our member firms. The findings of practice review have significant educational content and are beneficial to practitioners. They serve to guide our practitioners in training their staff and alerting them to many pitfalls that may derail them in the course of carrying out the policies and procedures of the firm.

Our integrity will be compromised if we prioritise commercialisation over professionalism in our work. If this happens, auditors must be ready to face the consequences. The Regulators take a serious view of these transgressions and will not hesitate to mete out appropriate measures to deter unprofessional conduct.

In conclusion, the practice review programme forms a critical element in the overall scheme of audit regulation in Malaysia. Practice review can be constructive and helpful to members while effectively fulfilling an important regulatory role. Ultimately, it is MIA’s hope that the common findings and recommendations contained in this Practice Review Report will enable auditors to enhance the quality of their practice and escalate professionalism and audit standards.

Thank you



JOHAN IDRIS
President, MIA
Chairman, MIA Practice Review Committee

10 YEARS

Leading the Profession towards **Audit Quality**

- Practice Review Committee conducted its inaugural meeting after Council approved the By-Laws on Practice Review in December 2002
- Lam Kee Soon was appointed as the 1st Practice Review Committee Chairman
- Practice Review Department was set up in Kuala Lumpur staffed initially with 2 managers
- First summary of common findings was issued to member firms
- Penang office was set up to carry out the review of firms in Northern Peninsular
- Head of Department, Lim Seong On was recruited to head the Practice Review Department
- Practice Review was extended to cover the review of firms in Southern Peninsular with operations based in Johor Bahru
- First external training on ISQC 1 conducted by the Head of Department (HOD)

2003

2004

- Commencement of field review under the Practice Review Programme
- Abdul Rahim Abdul Hamid and Y. Bhg Dato' Nordin Bin Baharuddin were appointed as Co-Chairman of the Practice Review Committee

2005

2006

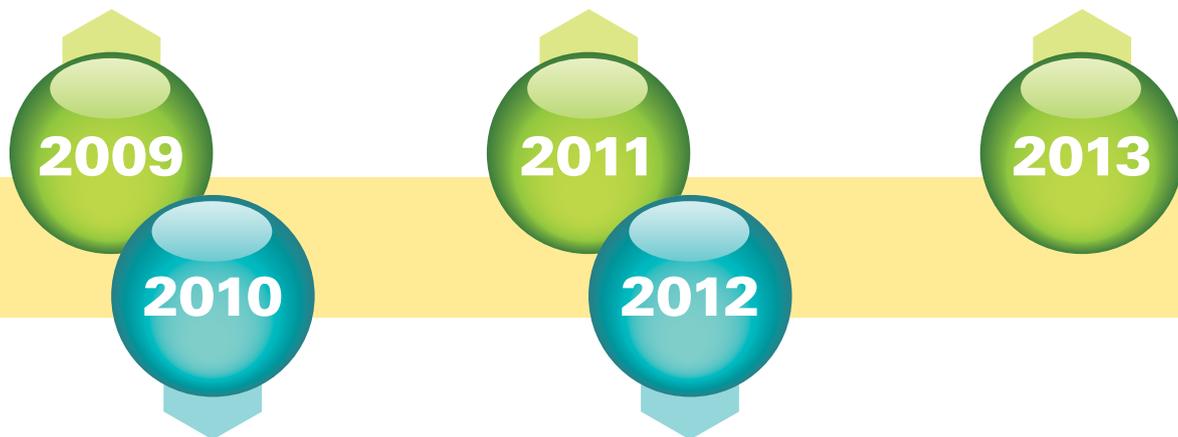
- Commencement of Practice Review activities for firms in Sabah from our Kota Kinabalu office. International Standard on Quality Control 1 (ISQC 1) became an effective Quality Control Standard
- Commencement of follow-up reviews on firms that did not pass the first practice review

2007

2008

- The KL office witnessed an increase in staff strength with the recruitment of 4 new managers
- Commencement of Practice Review in Sarawak led by a manager based in our Kuching office
- Inaugural issue of the Practice Review Report for the period 2004 -2008 incorporating the summary of common findings
- Y.Bhg Datuk Abdul Samad Bin Haji Alias, Dr was appointed as the 5th Chairman of Practice Review Committee

- Internal restructuring of staff in the surveillance and enforcement division to re-align manpower needs as a consequence of the 2007/2008 global financial crisis
- Internal study conducted by a task force of the Institute on ways to enhance the practice review programme, with the Practice Review Department responding accordingly to the recommendations made
- Informal visit to the Audit Oversight Board to discuss areas of cooperation and exchange ideas
- Dialogue sessions with practitioners to create awareness on issues surrounding the implementation of the revised Practice Review Framework
- The risk based approach to select member firm for review was approved by Council, adopted and incorporated into the Practice Review Framework



- Clarified International Standards on Auditing became effective
- Abdul Rahim Abdul Hamid was re-appointed as the 6th Chairman of Practice Review Committee
- HOD and Jenny Chua of Public Practice Department were assigned to assist the delegate from the Chinese Institute of Certified Public Accountants during the World Congress of Accountants
- Survey conducted to gauge the response of member firms reviewed. Results were generally favorable
- Johan Bin Idris was appointed as the 7th Chairman of Practice Review Committee

2.0 Practice Review **FRAMEWORK**

2.1 THE REVIEW PROCESS

The review process is administrated directly by MIA and is undertaken by the Practice Review Department (“PRD”) whose primary function is to implement the Practice Review Programme (“PRP”) entrusted under Part B Section 550: Quality Assurance and Practice Review of the By-Laws (On Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants (“By-Laws”).

- a) A Practice Review Committee (“PRC”) is established to oversee the conduct of practice review. All the committee members are members of MIA and a majority of them hold a valid practising certificate which is issued by MIA and an audit licence which is issued by the Ministry of Finance.
- b) Practice review applies to all member firms which are engaged in audit, irrespective of whether the audit firms are auditors of public listed companies or otherwise. Thus, all firms must submit to practice review except where exemption applies in circumstances as stated in Paragraph 9 of the By-Laws. Audit firms are to be reviewed in cycles of five (5) years each. The cycle of five years may be extended for firms which have not yet been reviewed in any cycle.
- c) The reviewers also evaluate internal quality controls of the member firm with focus on the requirements of International Standard on Quality Control (ISQC 1) in the following principal areas:
 - Relevant ethical requirements including maintenance of the relevant independence requirements on those who are subject to it;
 - Acceptance and continuance of client relationships and specific engagements;
 - Human resource consideration;
 - Engagement performance consideration;
 - Monitoring and documentation.
- d) The reviewers evaluate the work performed by the auditors by reviewing the audit working papers to assess whether the auditors conducted the audit in accordance with applicable professional standards and whether the work performed has been properly documented to provide sufficient appropriate audit evidence to support the audit opinion.
- e) During the review which is carried out at the premises of the member firm, the reviewers and the practitioner will discuss the preliminary issues and other issues relevant to the audit practice at the initial meeting. At the closing meeting, a summary of the review findings is discussed in detail between the reviewer and the practitioner. The review findings will form the basis of a draft review report which is sent to the member firm for comments. A final report incorporating remedial measures and the member firm’s responses will eventually be sent to the member firm.
- f) The Practice Review Report is issued to the member firm after the approval of the Practice Review Committee.
- g) The member firm is given a “21+10 days” timeline whereby it is expected to provide the Institute with its comments to the findings in the review report within 21 days of receiving the draft review report. Upon request by the member firm, an extension of 10 days might be granted if it is supported by a valid reason.
- h) The Practice Review Committee finalises the final practice review report if no comments are received from practitioners after the end of the “21+10 days” timeline.

2.2 THE REPORT



The Practice Review Report (PR Report) issued to the audit firm comprises four (4) main sections namely:-

- Mandatory International Standards on Auditing (“ISAs”) breached
 - Weaknesses detected in the internal quality control system of audit firm
 - Omissions and errors in the disclosures in financial statements
 - Departures, if any, from By-Laws, applicable accounting standards and other financial reporting and statutory requirements
- b) In addition, the report also includes deficiencies identified and specific comments on how quality control policies and procedures can be improved.
 - c) There are three (3) classifications of ratings of review reports which are referred to as follows:
 - Type 1–Satisfactory
 - Type 2–Assurance to be provided
 - Type 3–Follow up review
 - d) Type 1 and Type 2 ratings denote a pass in practice review while a Type 3 rating denotes that a follow up review is required.

- e) A Type 1 firm is considered to have satisfied all key control objectives which are required to maintain professional standards but where further improvement could be made to internal quality control systems.
- f) A Type 2 firm is considered to have satisfied the major key control objectives for rectifying weaknesses in controls and have taken the necessary actions to ensure that all key control objectives are achieved. A follow up meeting (not to be confused with a follow up review) will be conducted after twelve (12) months or if possible, even earlier to enquire about the progress of the implementation of the recommendations.
- g) By contrast, a Type 3 firm is one where a majority of the key control objectives have not been maintained and where the deficiencies are likely to materially affect the overall quality of an audit engagement. In this case, a follow up review (also known as a "second review") is required to ensure that the recommendations made for the improvement of audit quality have been implemented during the follow up review. The follow up review is a normal full scope review.

2.3 RISK BASED APPROACH FRAMEWORK

- a) Circular No 79/2013 dated 11 December 2013 was issued to all member firms following the amendments to Section 550: Quality Assurance and Practice Review and Appendix VI—Statement on Practice Review arising from the revision of the practice review framework approved by Council on 1 November 2013. Commencing 1 January 2014, a risk based approach is adopted for the selection of firms for practice review to replace the random selection approach.
- b) The risk based approach serves to prioritise the selection of firms for practice review so as to ensure that a firm with a higher risk profile is reviewed ahead of a firm with a lower risk profile.
- c) More prominence is placed on the objective of the PRP which is to ensure that every member in public practice complies with all applicable professional standards and legal and regulatory requirements in the conduct of their work.
- d) The Institute may instruct the member firm to furnish an action plan within three months from the date of report to address any non-compliance with professional standards and legal and regulatory requirements as well as other areas of weakness. Remedial measures are introduced in the form of training and education seminars for firms which are rated Type 3 at the first review. The training programme prescribed by the Institute shall assist practitioners in improving the quality control system of their firms.
- e) For full details of the amendments to the By-Laws on Practice Review and Appendix VI, please visit our website at http://www.mia.org.my/handbook/bylaws_net/default.htm

2.4 THE REGULATORY ENVIRONMENT



“Member firms which audit PIEs should be aware that MIA still reserves its right to carry out a practice review whenever a need arises.”

- a) Section 6(C) of The Accountants Act, 1967 (“Act”) provides for the Institute to regulate the practice of the accounting profession in Malaysia. The implementation of the practice review programme (“PRP”) and its process as laid out in Section 550 of the By-Laws of the Institute (“By-Law”) and Appendix VI (Statement on Practice Review) are in line with the regulatory objectives of the Act.
- b) On 1st April 2010 the Audit Oversight Board (“AOB”) was established pursuant to the Securities Commission (Amendment) Act 2010. The AOB is empowered to regulate auditors of public interest entities (PIEs) so as to promote and develop an effective audit oversight framework and confidence in the quality and reliability of audited financial statements in Malaysia.
- c) Notwithstanding the aforesaid, it should be noted that the Malaysian Institute of Accountant’s role of regulating the practice of the accounting profession in Malaysia under Section 6(c)

- of The Accountants Act, 1967 still subsists and therefore member firms which audit PIEs should be aware that MIA still reserves its right to carry out a practice review whenever a need arises.
- d) Practice Review is a core component of the Surveillance and Enforcement division of the MIA. Established in January 2003 by the MIA to improve audit quality in the accounting profession, practice review has been given a clear mandate by members at the annual general meeting to take steps to ensure that public accounting firms in the country are in compliance with professional standards, legal and regulatory requirements whenever audits of financial statements are carried out by the member firms.
- e) Through the review of current engagement files, the PRP will identify areas where a member in public practice and his or her firm may require improvement in order to comply with professional standards.
- f) The establishment of the PRP is a mandatory requirement that forms the substance of the Statements of Membership Obligations (SMOs) of the International Federation of Accountants (IFAC) of which MIA is a member. Accordingly, MIA has to comply with SMOs in its entirety, in particular SMO1 on the requirement to conduct practice review of its member firms.
- g) The Malaysian Approved Standards on Quality Control, Auditing, Review, Other Assurance and Related Services issued by the Institute is based on the international standards issued by the International Auditing and Assurance Standards Board (IAASB) of IFAC. IAASB believes that the issuance of such standards will enhance the quality and uniformity of practice throughout the world and strengthen public confidence in the global auditing and assurance profession.
- h) In the event that a standard contains guidance which is significantly different from Malaysian Law or practice, the explanatory foreword to an approved standard will provide guidance on such differences.
- i) See <http://www.mia.org.my/handbook> guide for more information
- j) PERS and MFRS are accounting standards issued or adopted by The Malaysian Accounting Standards Board (MASB) for application by all private entities and entities other than Private Entities respectively. MASB is established under the Financial Reporting Act 1997 (the Act) as an independent authority to develop and issue accounting and financial reporting standards in Malaysia.
- k) At the second instance of failure of practice review, that is, at the follow up review, the Practice Review Committee may make a complaint to the Investigation Committee.

2.5 VIEWS ON PRACTICE REVIEW



Practice review communicates deficiencies and weaknesses to practitioners in the same manner in which the auditor communicates deficiencies and weaknesses to his client.

- a) Discerning practitioners should be able to appreciate that the thrust and objective of practice review which was introduced by the MIA in 2004 are also quite similar to the thrust of the new clarified auditing standard, ISA 265 Communicating Deficiencies in Internal Control to those charged with Governance and Management, issued in March 2009. We want to communicate findings to member firms to enable them to improve on their audit quality.

To achieve this, the PR Report has to document all weaknesses identified during the review. The PR report however provides comprehensive recommendations on how these weaknesses can be addressed including areas of improvement in the execution of the audit. Despite the latter, certain practitioners are still of the view that practice review is fault-finding. The expression of this sentiment may have arisen because of dissatisfaction and disappointment amongst practitioners over the findings and in particular cases, where a Type 3 rating has been assigned. It must be noted that our review of these Type 3 firms reveal significant qualitative and quantitative findings which warrant substantial and very significant improvements.

- b) A survey carried out in August 2012 by the MIA, revealed that 90% of the respondents indicated that practice review is effective in enhancing the audit quality of their firms as oppose to 49% of practitioners who were of the opinion that practice review is fault-finding. In addition, 80% of the respondents thought that the report would be useful material for training purposes.
- c) It has been alleged that practice review is investigative in nature and owing to this perception, practitioners are wary of submitting their firm to practice review. One of the outcomes of practice review is the increased awareness as to where the practice is positioned in terms of their level of compliance and competence. Should there be any shortcomings or deficiencies in their audit practices, they are advised
- has indicated that there should be certain considerations which are specific to them.
- e) Many sole practitioners are resourceful leaders in their respective firms and have successfully aligned their firms' modus operandi to meet the requirements of ISQC1. In fact, the majority of firms which have passed the test of practice review are from the category of sole-proprietors.
- f) It is pertinent to reiterate here that MIA, as a member of IFAC must comply with all SMOs. Accordingly, the establishment of the PRP is therefore mandatory. The practice review programme must be designed to determine whether there is reasonable assurance that the firm subject to the review has adhered to professional standards and regulatory and legal requirements in performing audits of

“..... the onus is on the firm to ensure adherence to professional standards and where they have been found wanting in this respect, MIA is obligated as the regulatory body to require corrective action to be taken.”

accordingly so that improvements can be made. Firms and practitioners are not penalised at the first instance of failure of practice review. No action is taken against any firms and practitioners if appropriate remediation steps are implemented to correct the weaknesses in the audit practice by the time of their follow-up review.

- d) Because the PRP is predicated on the tenets of ISQC 1, smaller firms and practitioners have expressed their views that they would not be able to comply with ISQC 1 in its entirety due to the lack of resources in their firms. Practice review does not adopt any biased stand against this group and is cognisant of the fact that ISQC 1

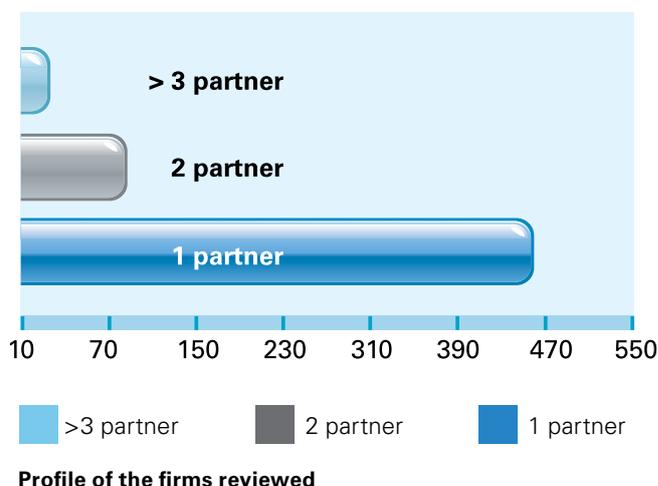
financial statements and where the results of such a review is unsatisfactory, the SMOs requires that corrective action be taken.

- g) Member firms which do not adhere to professional standards in the conduct of their audits not only expose themselves to risk of litigation and loss of reputation, but also erode the credibility of the audit profession in Malaysia as a whole. The onus is on the firms to ensure adherence to professional standards and where they have been found wanting in this respect, MIA is obligated as the regulatory body to require corrective action to be taken. Where such non-compliance persists, MIA has no choice but to initiate disciplinary proceedings.

3.0 HIGHLIGHTS

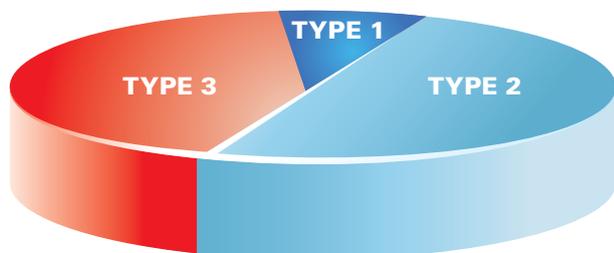
3.1 PRACTICE REVIEW ACTIVITIES

- As at 30 June 2013, a total of 731 firms were notified of review for the first time while 84 firms were notified of follow up reviews. The cumulative number of firms reviewed as at 30 June 2013 was 639.
- As at 30 June 2013, a total of 639 firms were reviewed for the first time. This represented 47% of the 1,363 audit firms registered with MIA.



3.2 PRACTICE REVIEW RESULTS

- The results of the review of 639 firms for the period of 2004-2013 are as follows:
 - 8% was rated “satisfactory” or “Type 1”
 - 48% was rated “assurance to be provided” or “Type 2”
 - 44% was rated “follow up review” or “Type 3”



Results of the review of 639 firms for the period 2004 - 2013

- The results of the second review conducted on “follow up review” or “Type 3” cases showed that 50% of such cases had improved on their audit quality and passed practice review whilst the balance of 50% failed the review and would be referred to the Investigation Committee.

3.3 PRACTICE REVIEW SURVEY

- In August 2012, PR conducted a survey on 150 practitioners whose firms were reviewed and for which final reports were issued. This survey was carried out to gather relevant comments which may be useful for consideration when revising the practice review framework. We received 60 responses or 40% of the total population.

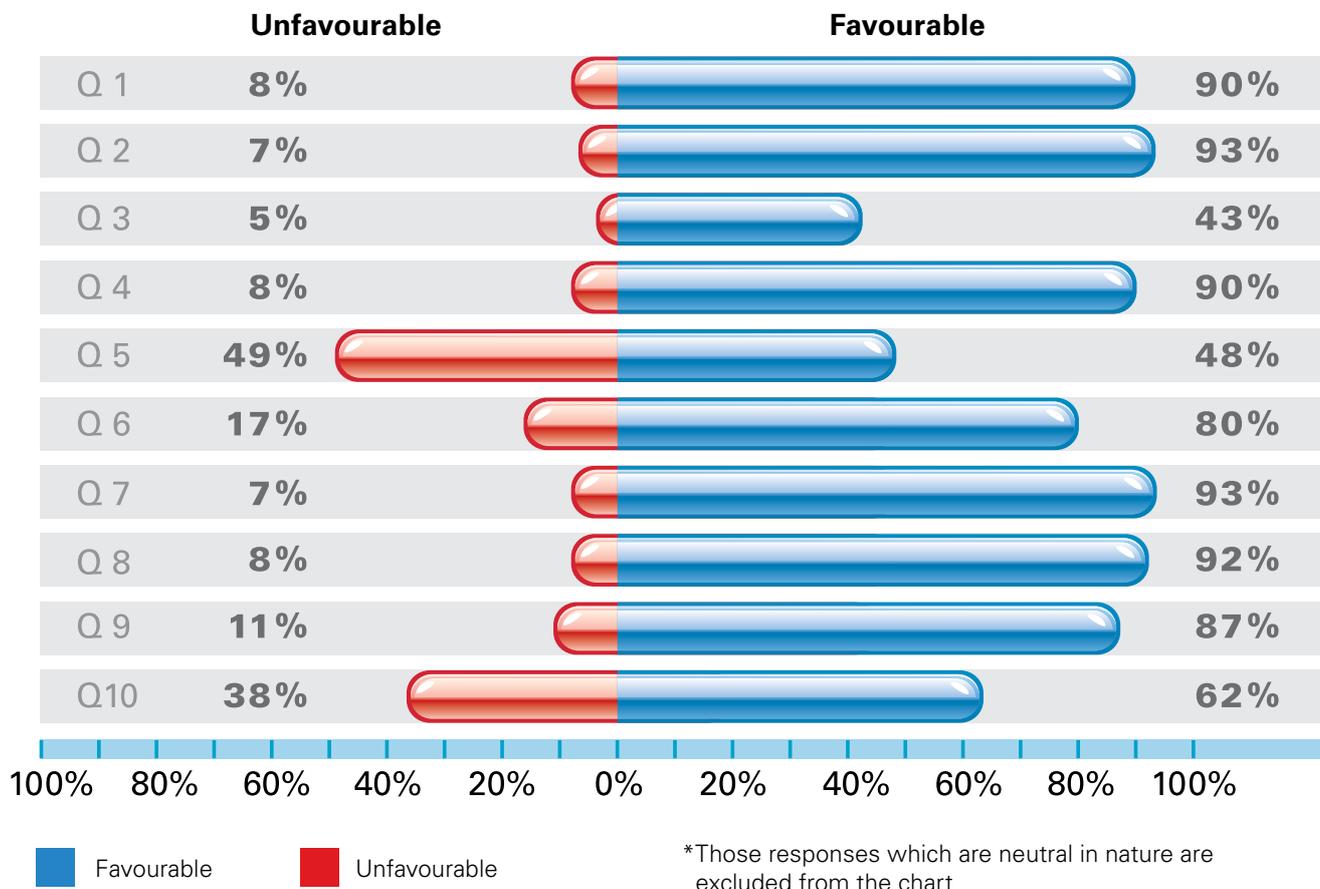
The key findings from the survey are as follows:

- Satisfaction**
90% of the respondents indicated that they benefited from the PRP as the content of the practice review report is comprehensive and 43% of respondents found the findings of practice review very useful in improving the audit quality of their firm. 93% of the respondents were satisfied with the conduct of the closing meeting with the reviewers.
- Was it fault finding?**
49% responded to say that the report was fault finding. This observation was not shared by an almost equal number of respondents (48%) who thought that the report was not fault finding. Only 3% of respondents did not offer any comments.

Highlights

3. Usefulness of the audit related training seminar?

87% of respondents thought the audit related training seminars conducted by the Institute were useful in improving the audit quality of their firms.



Questions of Survey & the results:

- Do you consider the Practice Review Programme to be effective in enhancing the audit quality of your firm subsequent to the review?
(90% Yes, 8% No, 2% no comment)
- Have the reviewer(s) communicated the practice review procedures clearly during the field review?
(93% Yes, 7% No)
- How useful are the practice review findings in improving the audit quality of your firm?
(43% Useful, 52% somewhat useful, 5% Not useful)
- Is the content of the practice review report comprehensive?
(90% Yes, 2 % No, 8% No comment)
- Do you agree with the view of some practitioners that the practice review report is fault-finding?
(49% Yes, 48% No, 4% No comment)
- Would you consider the practice review report a useful reference material for staff training purposes?
(80% Yes, 17% No, 3 % No comment)
- Are you satisfied with the conduct of the closing meeting with the reviewers?
(93% Yes, 7% No)
- Do you consider a closing meeting an effective channel for 2-way communication between the reviewer(s) and the member firm?
(92% Yes, 8% No)
- Do you find the audit-related training/ seminars conducted by the Institute useful in improving the audit quality of your firm?
(87% Yes, 11% No, 2% No Comment)
- Do you consider that the practice review fee charged is high?
(62% Yes, 38% No)

4.0 PRACTICE REVIEW Committee and Team

4.1 CHAIRMAN OF THE PRACTICE REVIEW COMMITTEE

Johan Bin Idris	2012 - present
Abdul Rahim Abdul Hamid	2010 - 2011
Y.Bhg Datuk Abdul Samad Bin Haji Alias, Dr	2008 - 2009
Y. Bhg Dato' Nordin Bin Baharuddin	2007 (June) - 2007 (Dec)
Abdul Rahim Abdul Hamid	2006 - 2007 (May)
Y. Bhg Dato' Nordin Bin Baharuddin Y (Co Chairman) Abdul Rahim Abdul Hamid (Co Chairman)	2004 - 2005
Lam Kee Soon	2003

4.2 MEMBERS OF THE PRACTICE REVIEW COMMITTEE *(As of 31 December 2013)*



Chairman - Johan Bin Idris

Idris Johan was appointed as MIA President on 22 July 2013. He is currently the Managing Partner of KPMG and heads KPMG's Energy and Natural Resources line of business and was previously the CSR (Corporate Social Responsibility) Partner. Backed by his expertise in energy, Johan also serves as the Project Leader of the Extractive Industries for the Malaysian Accounting Standards Board (MASB).

Johan is a product of Universiti Putra Malaysia's (UPM) accountancy programme and an alumnus of the second batch of UPM graduates to qualify professionally through the Malaysian Institute of Certified Public Accountants (MICPA).



Deputy Chairman - Ahmad Zahirudin Rahim

Ahmad Zahirudin Rahim is a Partner in Assurance Services in Ernst & Young (EY). He was elected into the MIA Council on 25 September 2011. He received his Bachelor of Arts in Accounting from the University of Exeter and is a member of the Institute of Chartered Accountants in England and Wales (ICAEW).

He has more than 17 years experience in providing various types of assurance and business advisory services. Among his portfolio of clients are companies in the oil and gas industry, manufacturing and trading concerns, government concession holders, property development and construction and investment holding companies.



Member - Peter Lim Thiam Kee

Peter Lim Thiam Kee was elected into the MIA Council on 28 September 2013. He is the Managing Partner of firm T. K. Lim & Associates, Chartered Accountants. He graduated with a Bachelor of Business degree in accounting from Curtin University, Western Australia. He is a fellow member of The Institute of Chartered Accountants in Australia, Institute of Chartered Secretaries and Administrators (London) and Certified Practising Accountants (Australia). Peter Lim is also the President of the Malaysian Institute of Chartered Secretaries and Administrators (MAICSA), Deputy President of Chartered Tax Institute of Malaysia and a Council member of Malaysian Institute of Certified Public Accountants. At MIA, he served as Chairman of the Tax Practice Committee from 2009 to 2012. Peter Lim is currently a member of the Executive Committee (EXCO), Public Practice Committee and Practice Review Committee in MIA. He is also the current chairman of the Public Practice Committee in MICPA.

Peter Lim was awarded the Meritorious Service Award by The Institute of Chartered Accountants in Australia on March 2013 in recognition of his contributions and services to the accountancy profession, non-profit professional organisations as well as other charitable organisations. He has over 30 years of experience in public practice providing audit assurance, corporate taxation, corporate consultancy and advisory services.



Member - Ooi Chee Kun

C.K. Ooi is the Executive Chairman of the joint firms of Folks DFK & Co and Azman, Wong, Salleh & Co, Chartered Accountants which are members of DFK International.

Ooi is a member of MIA's Practice Review Committee, the Public Practice Committee as well as the MICPA's Accounting and Auditing Technical Committee. He has also been on the audit interview panel and facilitated several of MIA's workshops on quality control, ISQC1 and other workshops under the Public Practice Programme. He is currently the Chairman of DFK Asean Group of DFK International.



Member - David Siew Kah Toong

David Siew joined Sekhar & Tan as its Managing Partner at the beginning of 2009. Prior to that he was a Partner of BDO Binder and has served as its Managing Partner from 1999 to 2007. David is a member of the MIA, the Malaysian Institute of Certified Public Accountants (MICPA) and CPA Australia.

He qualified as a Certified Public Accountant with MICPA in 1977. David started his career in 1974 with Hanafiah Raslan & Mohamad where he qualified as a Certified Public Accountant. He was then sent on an exchange programme to work with Touche Ross & Co in Detroit, USA for 18 months. He then joined Mustapha Law/ Touche Ross & Co. as a partner in 1984. Following the worldwide merger of Deloitte and Touche Ross, he became a partner of Deloitte Kassim Chan. He left public practice in 1990 to work as the Finance Director of a public listed company before joining BDO Binder.



Member - Ayoib Che Ahmad

Dr. Ayoib Che Ahmad was appointed into the MIA Council on 15 October 2013. He is an Associate Professor at the School of Accountancy, College of Business and Universiti Utara Malaysia (UUM COB). He has been in the academic line for more than 22 years and about 7 years in the industry.

Dr. Ayoib Che Ahmad has researched extensively in the areas of Auditing, Financial Reporting and Corporate Governance and, to date, has published more than 25 of his works in academic referred journals. He has presented over 70 papers in both local and international conferences. He is a Treasurer of the Asian Academic Accounting Association (FourA) from 2002 until present.



Member - Sam Soh Siong Hoon

Sam is a practising chartered accountant under Soh and Co and has been managing his own practice for more than 30 years. He holds a Bachelor of Commerce degree from the University of Western Australia and is a Fellow of the Institute of Chartered Accountants in Australia.

Sam's experience includes working in international firms of Chartered Accountants in Perth, Sydney and Singapore covering auditing, accounting, taxation, receivership, company secretarial and management consultancy work. Sam Soh was elected as a MIA Council member from September 2005-2009 and from 2010-2013. He was among members of the Institute who were elected to form the first Council after the Institute's Annual General Meeting in 1987. He set up the Institute's Southern Branch office in Johor Bahru in 1987. He is currently a member of the Auditors & Liquidators Licences Interview panel. He is also a member of the Public Practice Committee, Taxation Committee and Practice Review Committee in MIA.



Member - Pauline Ho

Pauline is the Assurance Leader of PwC Malaysia. She has over 19 years experience in providing assurance services to a wide range of Malaysian and multinational clients of which 2 years were spent in PwC London. She graduated with a Bachelor of Commerce (Accounting & Finance) from University of Western Australia and is a FCPA (CPA Australia) and a member of the MIA and the Institute of Chartered Accountants in England and Wales (ICAEW).



Member - Mohd Afrizan Husain

Mohd Afrizan is a member of the MIA and a fellow member of the Association of Certified Chartered Accountants since 1993. He is also a member of the Malaysian Institute of Certified Public Accountants and the Malaysian Institute of Taxation. Mohd Afrizan has over 16 years experience in audit and corporate finance and business advisory in Malaysia.

Prior to establishing Aftaas, he had 8 years working experience with Coopers & Lybrand and PricewaterhouseCoopers' Business Advisory Services. He is an approved Company Auditor under Section 8 of the Companies Act, 1965 and holds the licence issued by the Ministry of Finance. He also holds a Liquidator/Receivers & Managers licence issued by the Ministry of Finance.



Member - Foong Mun Kong

Foong Mun Kong heads KPMG's Audit Practice and leads the Audit Capital Markets team in Malaysia. He is actively involved in corporate exercises which entails ascertaining compliance to various regulatory requirements for the relevant authorities. He is a member of the MIA and a fellow member of the Malaysian Institute of Certified Public Accountants (MICPA).

He has more than 20 years of audit experience and was seconded to KPMG New York between 1995 – 1997. He specialises in the power, industrial and financial services industries with experience in audits such as HSBC Bank Berhad, OCBC Bank Berhad, Press Metal Berhad and Malakoff Berhad.

4.3 PRACTICE REVIEW TEAM



TEAM MEMBERS (KUALA LUMPUR)

From left : Wong Fong Yee, Teo Lee Ling, Lo See Yee, Lim Seong On (*Head of Department*),
Yeo Ley-Mei , Annie Look (*Director*)



REGIONAL OFFICE MANAGERS

From left : Yeo Ngang Sze (*Sarawak*), Leong Chee Foong (*Johor Bahru*), Serene Tan (*Penang*)

5.0 Common Findings of **PRACTICE REVIEW**

GENERAL OBSERVATIONS

Auditors who diligently take steps to comply with international auditing standards in their work will find that they are suitably cocooned in a safe environment. They will find that these auditing standards when applied in unison will act as firewalls against risk that may arise through the perpetration of fraud, negligence, incompetence, ignorance and inadequacy.

Accordingly, when audit procedures are not performed in accordance with approved auditing standards, the risk of exposure to misstatements in financial statements will increase.

b) The documentation of working papers is still a key factor which is not taken seriously by some practitioners. Our practice reviewers find that inadequate attention is given to writing down audit procedures performed, the findings made by the auditors with respect to the sufficiency and appropriateness of the audit evidence gathered and the conclusions reached by the auditor.

In respect of discrepancies which arose as a result of testing, reviewers were not able to determine the significance of such findings as no impact of such discrepancies to the

financial statements was evaluated. In addition, details on the basis of selection of samples for testing purposes and the coverage achieved by the testing were not documented.

c) Audit evidence is the bedrock upon which the audit opinion should be firmly anchored. In all subsequent deliberations on the conduct of audit by interested parties who had relied on the audited financial statements, it is imperative that the basis and existence of the audit evidence is well-established. A court of law will look at the audit evidence that is documented in the working papers to determine whether

work has been performed by the auditors. In the same vein, practice reviewers look at the source of the evidence, its sufficiency and appropriateness for the same reason. If there is no documentation in this respect, then no work is done.

d) Attached in Appendix 1 is a summary of the common findings which were collated from the reviews of member firms in the country for the past 10 years which mainly comprises review of small and medium size firms. The audit deficiencies that were identified in the common findings had invariably led to a compromise of the audit quality of the firm and in turn had contributed to an unsatisfactory rating for the audit firm at the end of practice review.

With the common findings and the recommended practices to the deficiencies noted, it is hope that this will be beneficial and informative to the member firms and that corrective actions will be taken in order to improve and enhance the quality of audit work.

6.0 Initiatives for 2014 AND BEYOND

The start of 2014 will mark the beginning of a new phase in practice review. Effective 1 January 2014, the Practice Review Programme will adopt the Risk Based approach in its methodology of selection of firms for the purpose of practice review. To this end, the practice review department will embark on various initiatives as follows:

- a) Sending out risk assessment questionnaires to firms to gather relevant information on the practice of the firm. This will enable us to determine the level of risk associated with each firm.
- b) Participating in dialogue sessions with practitioners to create awareness on issues surrounding the implementation of the revised practice review framework. In addition, these dialogues will provide opportunities for practitioners to clarify any negative perception of practice review that they may have.
- c) Drive practitioners' focus on the common findings of practice review so that they can learn to improve on the quality of the internal controls of their firms and avoid a follow up review, that is, been reviewed more than once. This proactive step taken by the practitioners will ensure that the firms are aware of the need to comply fully with professional standards and legal and regulatory requirements.
- d) Strengthening the department through recruitment of more personnel to manage the challenges of practice review in reviewing more firms and facilitating the surveillance and enforcement process.
- e) Collaborating with AOB to address common issues arising from the review of firms.
- f) Participating as speakers in training programmes for practitioners and other courses, such as corporate governance courses for directors which may arise from time to time.
- g) Gaining an understanding amongst practitioners that the Institute, through its Practice Review Programme, has to safeguard the public interest while upholding its obligations to its members and discharging its regulatory responsibilities.

Practice Review Report

Common **FINDINGS**



INDEX OF COMMON FINDINGS

A. Elements of Quality Control - ISA 220(Revised) and ISQC 1	
1. Leadership Responsibilities for Quality within the Sole Proprietor / Member Firm	24
2. Relevant Ethical Requirements	24
3. Acceptance and Continuance of Client Relationships and Specific Engagements	25
4. Human Resources	25
5. Engagement Performance	26
6. Summary of Audit Findings	27
B. Appointment of Auditors	
1. Professional Clearance Letter	28
2. Letter of Engagement	28
3. Letter of Consent to Act as Auditor	28
C. Audit Documentation and Audit Evidence	
1. Property, Plant and Equipment (PPE)	29
2. Investment (Unquoted) / Investment in Subsidiary / Investment in Associate	29
3. Inventory	30
4. Trade and Other Receivables	31
5. Bank Balances	31
6. Trade Payables, Other Payables and Accruals	32
7. Taxation	32
8. Hire Purchase Payables	32
9. Construction Contracts	33
10. Income Statement	33
11. Going Concern	34
12. Consolidation	34
13. Statutory Registers	35
14. Property Development	35
15. Initial Engagements - Opening Balances	36
16. Others	36
D. Others	
1. Management Representation Letter	36

INDEX OF NON-COMPLIANCE WITH DISCLOSURE REQUIREMENTS IN THE FINANCIAL STATEMENTS

A. Omission of Required Disclosure in the Financial Statements	38
B. Common Errors Made in Disclosure in Financial Statements	42
C. Non-compliance of Accounting Standards	43
D. Omission in Directors' Report	44

COMMON FINDINGS	RELEVANT STANDARDS/STATUTES AND RECOMMENDED PRACTICES
<p>A. ELEMENTS OF QUALITY CONTROL - ISA 220(Revised) and ISQC 1</p> <p>1. Leadership Responsibilities for Quality Within the Sole Proprietor/ Member firm</p> <p>1.1 Tone at the Top</p> <p>Partner’s involvement in the audit at the planning stage is not clearly evident. The review of the audit planning memorandum, which would enable the partner to assess audit risks and identify crucial audit areas, was not done.</p> 	<p>The Partner’s involvement in the audit is crucial. The Partner should review the audit planning memorandum at the commencement of audit to provide his valuable inputs for the conduct of audit. In this manner, the partner can demonstrate his leadership qualities and promote a quality assurance culture within the firm.</p> <p>The partner should signify his approval of the Audit Planning Memorandum (“APM”) by initialing on the audit working papers.</p> <p>The managing partner/sole proprietor assumes ultimate responsibility for the firm.</p>
<p>2. Relevant Ethical Requirements</p> <p>2.1 Independence</p> <p>There are no formal policies and procedures on professional independence requirements.</p> 	<p>A formal written policy on professional independence which serves to impress upon professional staff the importance of the independence requirements should be established and disseminated to all staff upon commencement of employment. The practitioner and all staff must be independent both in mind and appearance of their assurance clients and engagements.</p> <p>Periodic written representation from professional staff would facilitate more effective monitoring of compliance with the independence requirements. ISQC 1 (23), which is effective 1 July 2006, provides that the member firm should obtain written confirmation of compliance with its policies and procedures on independence from the professional staff annually.</p> <p>Adherence to this requirement is critical to the independence of the audit.</p>

COMMON FINDINGS	RELEVANT STANDARDS/STATUTES AND RECOMMENDED PRACTICES
<p>3. Acceptance and Continuance of Client Relationships and Specific Engagements</p> <p>There is no formal documentation of the procedures performed during the evaluation and acceptance/continuation of prospective/existing clients.</p> 	<p>Formal documentation should be maintained for the procedures performed to evaluate the acceptance of prospective clients and the continuation of existing clients together with the conclusion as part of the firm's risk management policy. These evaluation procedures must be applied to all significant prospective/existing clients of the firm so as to ensure that the risk profile of the client is acceptable to the firm.</p>
<p>4. Human Resources</p> <p>4.1 Professional Development</p> <p>Member firm does not maintain any record on professional development for professional staff.</p> <p>4.2 Performance Evaluation</p> <p>There is no documentation on performance evaluation conducted on staff.</p>	<p>Record on professional development for professional staff should be maintained to facilitate:</p> <ul style="list-style-type: none"> i) the monitoring of compliance with the requirements of MIA's Continuing Professional Education (CPE) programmes, where applicable; and ii) the evaluation of adequacy and relevance of CPE programmes attended by professional staff. <p>A formal evaluation process would enable a two-way communication between the partner and staff on ways to enhance performance and chart a career path. The appraisal for all staff and their feedback should be properly documented.</p>

COMMON FINDINGS	RELEVANT STANDARDS/STATUTES AND RECOMMENDED PRACTICES
<p>5. Engagement Performance</p> <p>5.1 No audit planning documentation is prepared.</p> <p>5.2 There is no indication of any documentation which show that the auditor had considered the risks of material misstatements in the financial statements due to fraud or error.</p> <p>5.3 Customised audit programme is not used in the execution of audit engagements.</p> <p>5.4 Audit programme is used but there is no cross-reference to the respective detailed audit working papers where work is performed.</p>	<p>ISA 300 (9) states that the auditor should develop and document an overall audit plan describing the scope and conduct of the audit.</p> <p>Matters to be considered by the auditor in developing the overall audit plan include:</p> <ul style="list-style-type: none"> • Knowledge of the client’s business • Understanding the accounting and internal control systems • Risk and materiality • Nature, timing and extent of procedures • Coordination, direction, supervision and review • Other matters <p>Pursuant to ISA 240 (17), the auditor should consider the risks of material misstatements in the financial statements due to fraud. The auditor should make inquiries of management regarding its awareness of any known fraud that has affected the entity or suspected fraud that the entity is investigating and/or whether the management has discovered any material errors.</p> <p>ISA 300 (A17) states that the auditor should develop and document an audit programme setting out the nature, timing and extent of planned audit procedures required to implement the overall audit plan.</p> <p>Customised audit programmes should be used for execution of audit engagements to assist in ensuring the completeness of basic audit procedures for each significant caption of financial statements and to guide audit team on audit procedures to be performed.</p> <p>The relevant audit procedures set out in audit programme should be cross-referenced to the respective detailed audit working papers to evidence the performance of such procedures. Where a standard audit procedure as prescribed by the audit programmes is not performed, an explanation or justification for its non-performance should be duly documented.</p>

COMMON FINDINGS	RELEVANT STANDARDS/STATUTES AND RECOMMENDED PRACTICES
<p>5.5 Materiality level set is not consistently applied.</p> 	<p>ISA 320 (5) states that the concept of materiality is applied by the auditor both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report.</p> <p>In planning the audit, the auditor makes judgments about the size of misstatements that will be considered material. These judgments provide a basis for:</p> <ol style="list-style-type: none"> Determining the nature, timing and extent of risk assessment procedures; Identifying and assessing the risk of material misstatement; and Determining the nature, timing and extent of further audit procedures. <p>The materiality determined when planning the audit does not necessarily establish an amount below which uncorrected misstatements, individually or in the aggregate, will always be evaluated as immaterial. The circumstances related to some misstatements may cause the auditor to evaluate them as material even if they are below materiality.</p> <p>Although it is not practicable to design audit procedures to detect misstatements that could be material solely because of their nature, the auditor considers not only the size but also the nature of uncorrected misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements.</p>
<p>6. Summary of Audit Findings</p> <p>There is no working paper prepared to summarise the significant audit findings that form the basis for the audit opinion. Such working papers should document the firm's decision on any major issues of an engagement to support the audit opinion expressed.</p>	<p>An overall review summary for each engagement should be prepared to record all significant audit findings and conclusion drawn there from, even when an unmodified audit opinion is to be expressed. The basis for the opinion expressed on the financial statements should also be documented in the summary.</p>

COMMON FINDINGS	RELEVANT STANDARDS/STATUTES AND RECOMMENDED PRACTICES
<p>B. APPOINTMENT OF AUDITORS</p> <p>1. Professional Clearance Letter</p> <p>Professional clearance not requested from the outgoing auditors prior to the acceptance of the appointment.</p>	<p>Pursuant to the Institute’s By-Law Section 210.10 : Changes in Professional Appointment, no member in public practice shall accept nomination as auditor without communicating with the existing auditor and enquiring as to whether there is any professional or other reason for the proposed change in appointment before deciding whether or not to accept the appointment.</p>
<p>2. Letter of Engagement</p> <ul style="list-style-type: none"> • No clients’ acknowledgement on the letters of engagement to signify their acceptance of the terms of engagement. • No letter of engagement issued to the client to evidence the acceptance and agreement on the terms of engagement between the client and the auditors. 	<p>It is in the interest of both the client and the auditor that an engagement letter is issued prior to the commencement of audit and the acceptance of the terms of engagement should be clearly established with the authorised representative of the client to avoid any misunderstanding or dispute in future.</p> <p>ISA 210 (9) states that the auditor and the client should agree on the terms of the engagement and the agreed terms would need to be recorded in an audit engagement letter or other suitable form of contract.</p>
<p>3. Letter of Consent to Act as Auditor</p> <ul style="list-style-type: none"> • No letter of consent to act as auditor issued. • Letter of consent to act as auditor issued to the clients prior to the receipt of professional clearance from the outgoing auditors. 	<p>Pursuant to Section 9 (6) of Companies Act 1965, a company should not appoint a firm as auditor unless that firm has before the appointment consented by a notice in writing which is given to the company or to the directors to act as auditor.</p>

COMMON FINDINGS	RELEVANT STANDARDS/STATUTES AND RECOMMENDED PRACTICES
<p>C. AUDIT DOCUMENTATION AND AUDIT EVIDENCE</p> <p>There is no evidence to attest the performance of the following procedures as stated in audit findings from 1 to 16:</p> <p>1. Property, plant and equipment (PPE)</p> <ul style="list-style-type: none"> • Physical sighting of significant plant and equipment to ascertain their existence and condition • Sighting of the original title deeds and car registration cards to ascertain the ownership of properties and motor vehicles as at the reporting date. • Verification of sales proceeds and gain/loss on disposal of PPE • Testing on the reasonableness of depreciation charge • Review of significant repair and maintenance accounts for capital items • Assessment of impairment on carrying value of property, plant and equipment 	<p>Where PPE is material, physical sighting of assets and verification of ownership is both critical and crucial.</p> <p>Where the title of ownership is not yet registered in the company's name, adequate disclosure must be made in the financial statements.</p> <p>In situations where the company refuses to register the PPE into the name of company, the auditor should consider the impact of this to the auditor's report and issue an appropriate audit report.</p>
<p>2. Investment (unquoted)/Investment in Subsidiary/Investment in Associate</p> <ul style="list-style-type: none"> • Sighting of share certificates or alternative documents such as central depository statement to ascertain the ownership of investment • Assessment of the carrying amount of investment and the justification for non-provision in particular when the carrying amount of investment falls short of the net assets value of the investee 	<p>It is imperative to ensure that the titles of ownership of the investments are registered in the name of the company.</p> <p>To ensure that the carrying amount of investment is not overstated, appropriate investment should be made in the financial statements</p>

COMMON FINDINGS	RELEVANT STANDARDS/STATUTES AND RECOMMENDED PRACTICES
<p>3. Inventory</p> <ul style="list-style-type: none"> • Observation of physical inventory count as at the reporting date • Where observation of physical inventory count at the reporting date is impractical or impossible, no alternative procedures used to ascertain the existence of inventory • Communication with the client to determine the date and location of the physical inventory count • Rolled forward/backward test when inventory count was not observed on the financial year end • Test of costing method adopted e.g. FIFO, weighted average • Test on costing of work-in-progress and finished goods to ascertain proper absorption of conversion costs • Test on lower of cost and net realisable value • Assessment on slow moving/obsolete inventories • Sales and purchases cut off tests • Tracing of actual test count items to final inventory listing 	<p>ISA 501 (4) states that when inventory is material to the financial statements, the auditor should attend and observe physical inventory count to obtain sufficient appropriate audit evidence regarding its existence and condition unless attendance is impracticable or impossible.</p> <p>When it is impracticable or the circumstances do not permit the attendance inventories count on the financial year end date, alternative procedures should be considered. For example, observe the physical count on an alternative date and perform tests on intervening transactions, check on purchases made prior to financial year end and subsequent sales of specific inventory items.</p> <p>If the performance of alternative procedures is also not feasible or practicable, the auditor shall modify the opinion in the auditor's report in accordance with ISA 705 (Ref: Para A12-A14)</p> <p>An inventory count memorandum should be prepared and documented to include the following:</p> <ol style="list-style-type: none"> (a) The observations made on the company's inventory count procedures (b) Basis of sample items selected for test count and its level of coverage (c) The percentages of coverage of the test count samples selected in relation to total inventory value (d) Sales and purchases cut off (e) Audit procedures over inventories held by third party (f) Accounting for inventory in transit <p>The availability of staff in carrying out the inventory count should be considered before taking up the engagement. If there are no staff available, the engagement should not be taken up.</p>

COMMON FINDINGS	RELEVANT STANDARDS/STATUTES AND RECOMMENDED PRACTICES
<p>4. Trade and other receivables</p> <ul style="list-style-type: none"> • No request of confirmation from significant receivables to ascertain their existence • Where confirmation is not requested or is requested but with no reply, the alternative procedures e.g. vouching to sales invoices and acknowledged delivery orders and checking of subsequent receipts • Assessment of recoverability of significant receivables through review of past payment pattern and subsequent receipts including the justification for long outstanding receivables without or with minimal subsequent receipts • Assessment of unrealised foreign exchange gain or loss on foreign currency balances 	<p>In accordance with ISA 330 (19), the auditor shall consider whether external confirmation procedures are to be performed as substantive audit procedures. Assistance for the auditor in designing and performing external confirmation procedures is provided by ISA 505. Once the member firm had determined at the audit planning stage to perform external confirmation procedures so as to obtain relevant and reliable audit evidence on trade or non-trade debtors/creditors, then it should follow up closely to obtain all outstanding confirmations before signing of the auditor's report which includes the actual hard copies of faxed confirmations obtained earlier during the course of the audit.</p> <p>The member firm will then evaluate whether the results of the external confirmation procedures provide relevant and reliable audit evidence, or whether further audit evidence is necessary as stipulated in ISA 505 (16).</p> <p>If the results mentioned above are not satisfactory or any debtor/creditor circularised failed to respond, then the member firm shall perform alternative audit procedures to obtain sufficient and appropriate audit evidence on the existence and valuation of debtor/creditors as required by ISA 505 (12). Performance of these alternative audit tests is also necessary when the member firm has decided not to perform external confirmation procedures or when any significant debtor/creditor is not subjected to such procedures performed by member firm.</p>
<p>5. Bank balances</p> <ul style="list-style-type: none"> • No follow up action to obtain confirmations from banks, in particular, those which provide secured credit facilities • Review of bank reconciliation items e.g. check subsequent clearance of unpresented cheques • Verification of fixed deposits with licensed banks 	<p>It is imperative that bank confirmations for significant balances and facilities are obtained from all the company's bankers before the audit report is signed off as such confirmations would provide added assurance of the authenticity and accuracy of the bank balances of the company and other crucial information for disclosure purposes as required by the Companies Act 1965 such as those relating to bank borrowings and details of assets which have been collateralised to secure the respective bank loans, corporate guarantees given, portion of short term and long term instalment payments and interest rates.</p>

COMMON FINDINGS	RELEVANT STANDARDS/STATUTES AND RECOMMENDED PRACTICES
<p>6. Trade payables, other payables and accruals</p> <ul style="list-style-type: none"> • Request of confirmation from significant payables • Alternative procedures for confirmation requested without reply • Search for unrecorded liabilities e.g. perusal of payments made subsequent to balance sheet date, review of unpaid invoices as at reporting date to ascertain the completeness of liabilities • Assessment of unrealised foreign exchange gain or loss on foreign currency balances • Verification of significant other payables and accruals 	<p>Trade payables balances which have remained unpaid in the books for more than a year should be investigated to determine its validity and existence. Significant balances which remain unpaid could pose a risk to the company as this could result in litigation against the company. This could also be an indicator of cash flow problems in the company and going concern uncertainty if major suppliers impose credit restrictions on the company thereby affecting the operations of the company.</p> <p>Auditors should also review the legal files of the company and ascertain from the directors of the company whether the company has been sued by creditors or other third parties which could threaten the operations of the company. The auditor should determine whether unrecorded liabilities are taken up in the books of the company and whether adequate disclosure, if appropriate, has been made in the financial statements.</p>
<p>7. Taxation</p> <ul style="list-style-type: none"> • Verification of tax paid during the reporting period • Review of current and deferred tax computation • Review of the reconciliation of tax expense applicable to accounting profit at statutory income tax rate to effective tax rate • Assessment of the adequacy of tax credit for distribution of retained profits 	<p>Auditors should discuss with the financial controller or director of the company whether there are any tax issues which have not been resolved or settled with the Inland Revenue Department such as an investigation been carried out on the tax affairs of the company for which an appropriate disclosure in the notes to the financial statements may be required or it could be an appeal made by the company against a tax bill which may have significant financial implications to the company.</p>
<p>8. Hire purchase payables</p> <ul style="list-style-type: none"> • Verification of the actual payment of hire purchase installments in addition to the comparison of balances to the repayment schedule of the agreements 	<p>Auditors should ascertain whether the company has complied with MASB 10 (20) and ensure that hire purchase interest is not allocated to the income statement using straight line method as this will not result in a constant periodic rate of charge on the outstanding balance.</p>

COMMON FINDINGS	RELEVANT STANDARDS/STATUTES AND RECOMMENDED PRACTICES
<p>9. Construction contracts</p> <ul style="list-style-type: none"> • Review of the reasonableness of budgeted costs/cost to complete the contracts • Assessment of the need for provision for foreseeable loss • Assessment of the need for provision of liquidated ascertained damages • Verification of progress billings raised during the reporting period • Review of the reasonableness of income recognition in accordance with MASB 7 • Cut off tests for contract costs and progress billings • Verification of contract costs incurred during the reporting period 	<p>Auditors should exercise due care and diligence when auditing construction contracts. The basis of income recognition based on the percentage of completion method must be disclosed in the notes to the financial statements. The working papers must indicate that costs incurred on the contract, as opposed to progress billings is used to determine the basis of percentage of completion of the contract. The costs incurred to date must be based on the architect's certificate and thereafter compared to the budgeted cost of the contract to ascertain the stage of completion of the contract.</p> <p>Ensure that for each contract, the letter of award of contract and any variation orders are carefully scrutinised as to contract sum, completion date and penalties for late completion. Based on the terms of the contract, any provision for liquidated ascertained damages (LAD) should be ascertained and accrued in the financial statements, if any. In addition, the provision for foreseeable loss for the contract should be carefully determined and provided for if deemed necessary.</p>
<p>10. Income statement</p> <ul style="list-style-type: none"> • Verification of significant revenue and purchases • Reasonable test coverage for verification of significant revenue and purchases • Verification of significant expenses including payroll costs and disclosure items • Basis of selection and test coverage for verification of significant expenses 	<p>Auditors should assess the circumstances of the control environment and nature of the transactions of the company to determine whether compliance testing or substantive testing should be used in the verification of revenue and expenses. This assessment is often not indicated in the working papers.</p> <p>It is important to indicate clearly the basis of the selection of samples for testing purposes and the coverage of the field achieved. The documentation of this information is to determine whether sufficient and appropriate audit evidence has been gathered during the course of the audit to enable a reasonable conclusion to be drawn by the auditor.</p>

COMMON FINDINGS	RELEVANT STANDARDS/STATUTES AND RECOMMENDED PRACTICES
<p>11. Going Concern</p> <p>Performance of additional audit procedures in assessing the appropriateness of the going concern assumption despite the existence of indicators of going concern uncertainties, such as net current liabilities, deficit in shareholders' funds and/or net losses recorded for consecutive years were not documented in the working papers.</p>	<p>ISA 570 (1b) requires the auditor to perform the following procedures when material going concern uncertainties exist:</p> <ul style="list-style-type: none"> i) review of management's plans; ii) gather sufficient appropriate audit evidence to confirm or dispel whether or not a material uncertainty exist including consideration of the effect of any management's plans and other mitigating factors; and iii) seek written representation from management regarding its plans for future action. <p>A checklist/standard programme to consider the appropriateness of going concern basis in the preparation of the financial statements could be used to ensure all necessary audit procedures are performed.</p>
<p>12. Consolidation</p> <ul style="list-style-type: none"> • Review of consolidation worksheets is not performed • On inter-firm engagements, adequate consideration should be given to the following: <ul style="list-style-type: none"> - Compliance with professional independence - Use of consolidation questionnaire/group reporting package - Reporting timetables - Review of audit working papers of the significant subsidiaries - Issues/significant findings to be considered at the holding company level • Final audit clearance in particular for those subsidiaries/associates not audited by the Member Firm is obtained • Limited review carried out on subsidiaries/associates's result based on management account 	<p>ISA 600 (32) – (33) states that the group engagement team should obtain an understanding of group-wide controls and the consolidation process, including the instructions issued by group management to components. In accordance with ISA 600 (25), the group engagement team, or component auditor at the request of the group engagement team, tests the operating effectiveness of group-wide controls if the nature, timing and extent of the work to be performed on consolidation process are based on an expectation that group-wide controls are operating effectively, or if substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level.</p> <p>The group engagement team shall design and perform further audit procedures on the consolidation process to respond to the assessed risks of material misstatement of the group financial statements arising from the consolidation process. This shall include evaluating whether all components have been included in the group financial statements.</p>

COMMON FINDINGS	RELEVANT STANDARDS/STATUTES AND RECOMMENDED PRACTICES
<p>13. Statutory Registers</p> <ul style="list-style-type: none"> • Review of statutory registers and minutes • Confirmation from directors on remuneration, shareholding and/or balances 	<p>Section 174 (2)(b) of Companies Act 1965 requires the auditor to report whether the statutory registers required to be kept have been properly kept in accordance with the Act.</p>
<p>14. Property Development</p> <ul style="list-style-type: none"> • Assessment of the need and adequacy for provision for liquidated ascertained damages • Cut off tests for development costs incurred and progress billing raised during the year 	<p>The primary issue in accounting for property development activities is the allocation of property development revenue and costs to the accounting period in which the property development activities are performed. A secondary issue is the classification of land held for future development by property development entities.</p> <p>The following are to be disclosed:</p> <ol style="list-style-type: none"> Method used to determine the stage of completion Revenue and expenses recognised in the income statement For property development costs the carrying value at the beginning of the period, movement during the year and closing balance segregating the land cost from the development cost Excess or deficit of progress billing as compared to the revenue recognised Any money held under statutory requirement For undeveloped land the opening balance, movement (addition, disposal, transfer and impairment) and closing balance The existence and amounts of restriction on titles of land, and Land held for property development and property development projects pledged as security for liabilities

COMMON FINDINGS	RELEVANT STANDARDS/STATUTES AND RECOMMENDED PRACTICES
<p>15. Initial Engagements – Opening Balances</p> <ul style="list-style-type: none"> • Review of predecessor’s audit working papers • Assessment of the professional competency and independence of the predecessor auditor • Ascertain that appropriate accounting policies have been consistently applied in prior period or changes in accounting policies have been properly accounted for and adequately disclosed • Ensuring that additional procedures were performed on items for which audit evidence cannot readily/adequately be obtained as part of current audit procedures or through the review of predecessor’s audit working papers 	<p>ISA 510 deals with the auditor’s responsibility relating to opening balances in an initial audit engagement. In addition to financial statement amounts, opening balances includes matters requiring disclosure that existed at the beginning of the period, such as contingencies and commitments. When the financial statements include comparative financial information, the requirements and guidance in ISA 710 also apply. ISA 300 includes additional requirements and guidance regarding activities prior to starting an initial audit.</p>
<p>16. Others</p> <ul style="list-style-type: none"> • Review of post balance sheet events • Review of contingent liabilities and commitments • Analytical review on the material fluctuation of balances or key ratios 	<p>ISA 560 (4) states that auditors should consider the effect of subsequent events on the financial statements and on the auditor’s report.</p>
<p>D. OTHERS</p> <p>1. Management representation letter</p> <ul style="list-style-type: none"> • No written management representation letter is obtained from the management • The management representation letter is not dated or was dated either earlier or later than the auditor’s report • The management representation letter does not incorporate management responsibilities in a number of circumstances • The management representation letter is not customised to meet the needs of the respective client 	<p>Pursuant to ISA 580, the auditors should obtain written management representation on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist.</p> <p>The date of the written representation shall be as near as practicable to, but not after, the date of the auditor’s report on the financial statements. The written representation shall be for all financial statements and period(s) referred to in the auditor’s report.</p> <p>The member firm should obtain a written representation from management which incorporates the acknowledgement by the management of its responsibility for the fair presentation of the financial statements not just at company level but also at group level if consolidated financial statements are prepared.</p> <p>The management representation letter should be properly modified to incorporate the specific requirements of the respective client.</p>

COMMON FINDINGS	RELEVANT STANDARDS/STATUTES AND RECOMMENDED PRACTICES
<ul style="list-style-type: none"> • The management representation letter did not state the following:- <ol style="list-style-type: none"> (a) Acknowledgement by the management of its responsibility for design and implementation of internal control to prevent and detect fraud (b) It has disclosed to the auditor its knowledge of fraud or suspected fraud involving management/employees with significant role in internal control/ others (c) It has disclosed to the auditor all known actual or possible non-compliance with laws and regulations whose effects should be considered when preparing financial statements 	<p>ISA 240 deals with the auditor's responsibilities relating to fraud in an audit of financial statements whereby ISA 250 deals with the auditor's responsibility to consider laws and regulations in an audit of financial statements.</p>
<p>2. Absence of the record of client's consent on the post audit adjustments effected</p>	<p>The client's approval on post audit adjustments should be recorded in the working papers to reinforce the management's acknowledgement of its responsibility for the fair presentation of the financial statements.</p>
<p>3. The resolution of the directors to authorise the issue of audited financial statements is not obtained</p>	<p>The resolution forms part of the audit evidence for verification of the disclosure requirement under MASB 19 (16). It is also a recommended risk management measure to ensure the auditor's report is dated on the same day as the date of the board resolution.</p>
<p>4. The sole practitioner of the member firm does not have any practice continuation arrangement in place</p>	<p>Pursuant to By-Law Section 520: Incapacity or Death of a Sole Practitioner, a member in public practice who is a sole practitioner shall enter into an arrangement with another member or firm to enable his/her practice to be carried on with minimum interruption upon occurrence of any unfortunate event which disables the practitioner to continue servicing his/her clients.</p>

Preamble: The following common findings on non-compliances with MASB approved accounting standards are extracted from the financial statements for periods ended on or before 31 December 2012 which were selected during the review of member firms. These financial statements are prepared in accordance with standards issued by MASB up to 31 December 2012. Practitioners are reminded that financial statements prepared for financial periods beginning on or after 1 January 2006 have to comply with either Private Entities Reporting Standard or Financial Reporting Standard issued by MASB.

NON-COMPLIANCE WITH DISCLOSURE REQUIREMENTS IN THE FINANCIAL STATEMENTS	Private Entity Reporting Standards ("PERS")	Financial Reporting Standards ("FRS")
A. OMISSION OF REQUIRED DISCLOSURE IN THE FINANCIAL STATEMENTS		
1. A detailed sub-classification of material other payables & accruals and other receivables, prepayments & deposits	MASB 1 (72), (73)	FRS 101 (74), (75)
2. Number of shares authorised and issued	MASB 1 (74)(a)	FRS 101 (76)(a)(i), (ii)
3. Staff costs	MASB 1 (83)	FRS 101 (91), (93)
4. The address of the registered office or principal place of business, domicile and legal form of the enterprise	MASB 1 (102)(a)	FRS 101 (126)(a)
5. Number of employees	MASB 1 (102)(d)	Not applicable
6. Terms of repayment for term loans	MASB 1 (72)	FRS 101 (72)
7. Related party balances included in other payables and other receivables not separately disclosed	MASB 1 (72), (73)	FRS 101 (72), (75)(b)
8. The amount of dividend per share proposed for the period covered by the financial statements	MASB 1 (85)	FRS 101 (125)(a)

9. Amount of additions of property, plant and equipment by way of cash and hire-purchase in the cash flow statement	MASB 5 (44)	FRS 107 (44)
10. Accounting policy on <ul style="list-style-type: none"> • cash and cash equivalents • impairment of assets • borrowing costs • short term employee benefits and defined contribution plan • investment • investment in subsidiary • revenue recognition and other income • tax • foreign currency translation 	<p>MASB 1 (97), (99)</p> <p>MASB 1 (99)(o) MASB 5 (45), (46) MASB 23 MASB 27 (8) MASB 29</p> <p>IAS 25 (55)(a),(b) IAS 25 (55)(a) MASB 11 (47)(c) MASB 1 (99)(a), MASB 9 (36)(a),(b) MASB 1 (99)(k), MASB 25 MASB 1 (99)(n), MASB 6</p>	<p>FRS 101 (103)(a), (108), (110), (111) FRS 107 (45), (46)</p> <p>FRS 136 FRS 1232004 (8) FRS 119</p> <p>IAS 25 (55)(a),(b)</p> <p>FRS 118 (35)(a), (b)</p> <p>FRS 112</p> <p>FRS 121</p>
11. Disclosure on inventories: <ul style="list-style-type: none"> • the basis on which the carrying amount of inventories is stated (i.e. at cost or net realisable value) • the cost method adopted • components of inventory to be disclosed in the accounting policy 	<p>MASB 2 (37)(a), (b), (c) MASB 1 (73)(c) Sch. 9 (2)(1)(k), CA 1965</p>	<p>FRS 102 (36)(a), (b), (c) FRS 101 (75)(c) Sch. 9 (2)(1)(k), CA 1965</p>
12. The treatment of foreign currency monetary/non-monetary items as well as closing rates used in translation is not disclosed in the accounting policy	MASB 6 (11), (42)(d)	FRS 121 (23)
13. Interest paid and received are not separately disclosed in the cash flow statement	MASB 5 (31)	FRS 107 (31)
14. Fixed deposit pledged to secure credit facilities	MASB 5 (48)	FRS 107 (48)
15. Realised/unrealised foreign exchange gain/loss	MASB 6 (42)(a)	FRS 121 (52)(a)
16. Retention sums on contracts included within trade receivables	<p>MASB 7 (44)(c) Sch. 9(2)(1)(l), CA 1965</p>	<p>FRS 111 (40)(c) Sch. 9(2)(1)(l), CA 1965</p>
17. The carrying amount of plant and equipment acquired by means of hire purchase facilities analysed by categories of assets	<p>MASB 10 (26)(a) Sch. 9(2)(1)(i)(v), CA 1965</p>	<p>FRS 117 (31)(a) Sch. 9(2)(1)(i)(v), CA 1965</p>

Appendix 1

<p>18. Reconciliation between the total minimum lease payments at balance sheet date and their present value for each of the following period</p> <ul style="list-style-type: none"> • not later than 1 year • later than 1 year and not later than 5 years • later than 5 years 	<p>MASB 10 (26)(b)</p>	<p>FRS 117 (35)(b)</p>
<p>19. Measurement basis (i.e. at cost) used for determining the gross carrying amount of property plant and equipment</p>	<p>MASB 15 (78)(a)</p>	<p>FRS 116 (73)(a)</p>
<p>20. Carrying amount of properties charged to secure bank borrowings</p>	<p>MASB 15 (79)(a) Sch. 9(2)(1)(i)(iv), CA 1965</p>	<p>FRS 116 (74)(a) Sch. 9(2)(1)(i)(iv), CA 1965</p>
<p>21. Adoption of the transitional provision of IAS 16 for one-off revaluation of properties</p>	<p>Transitional provision of MASB Approved Accounting Standard IAS 16 (Revised)</p>	<p>FRS 116 (74A)</p>
<p>22. Disclosure of the date when the financial statements were authorised for issue and party giving the authorisation</p>	<p>MASB 19 (16)</p>	<p>FRS 110 (17)</p>
<p>23. Disclosure on financial instruments:</p> <ul style="list-style-type: none"> • the group's financial risk management objectives and policies including policies for interest rate risk and currency risk • accounting policies and method adopted for each class of financial asset, financial liability and equity instrument and the basis of measurement applied • significant terms and conditions that may affect the amount, timing and certainty of future cash flows relating to the financial instruments e.g. credit terms for trade receivables and payables • Where financial instruments (including receivables and payables) are denominated in foreign currencies, disclosure of the currency in which receipts or payments are required • exposure to interest rate risk, including contractual repricing/ maturity dates, whichever dates are earlier, and effective interest rates for fixed deposits, hire purchase payables, bank overdraft and term loans 	<p>Not applicable</p> <p>Not applicable</p> <p>Not applicable</p> <p>Not applicable</p> <p>Not applicable</p>	<p>FRS 132 (56)</p> <p>FRS 132 (60)(b)</p> <p>FRS 132 (60)(a)</p> <p>FRS 132 (63)(h)</p> <p>FRS 132 (67)</p>

<p>23. Disclosure on financial instruments (<i>continued</i>):</p> <ul style="list-style-type: none"> • exposure to credit risk, including any significant concentrations of credit risks • fair value of all financial instruments in particular for the long term financial liabilities and assets 	<p>Not applicable</p> <p>Not applicable</p>	<p>FRS 132 (76)</p> <p>FRS 132 (86)</p>
<p>24. Disclosure on income tax:</p> <ul style="list-style-type: none"> • reconciliation of tax expense applicable to accounting profit at statutory income tax rate to tax expense at the effective income tax rate • The components of the deferred tax assets and/or liabilities recognised/unrecognised by type of temporary differences, unused tax losses and tax credit 	<p>MASB 25 (79)(c)</p> <p>MASB 25 (79)(e), (f)</p>	<p>FRS 117 (35)(b)</p> <p>FRS 112 (81)(e), (g)</p>
<p>26. Disclosure on whether there is sufficient tax credit to frank the distribution of retained profits, and if there is insufficient tax credit, the extent of the retained profits not covered</p>	<p>MASB 25 (81) Sch. 9(2)(1)(d), CA 1965</p>	<p>Sch. 9(2)(1)(d), CA 1965</p>
<p>27. Amount recognised as expense for defined contribution plan i.e. EPF-employer's portion</p>	<p>MASB 29 (47)</p>	<p>FRS 119 (46)</p>
<p>28. Distinguishing property between freehold, long term lease and short term lease</p>	<p>Sch. 9(2)(1)(i)(iii), CA 1965</p>	<p>Sch. 9(2)(1)(i)(iii), CA 1965</p>
<p>29. Significant transactions with related corporations</p>	<p>Sch. 9(1)(u), CA 1965</p>	<p>FRS 124 (12)</p>
<p>30. Remuneration paid or payable to directors, distinguishing between:</p> <ul style="list-style-type: none"> • Fees • Other emoluments inclusive of any contribution in respect of them to any pension or retirement benefit scheme 	<p>Sch.9 (1)(o), CA 1965</p>	<p>Sch.9 (1)(o), CA 1965</p>
<p>31. Comparative information for associates disposed off during the year</p>	<p>MASB 12</p>	<p>FRS 128</p>
<p>32. Restriction on distribution of reserves</p>	<p>Sch.9(2)(1)(d), CA 1965</p>	<p>Sch.9(2)(1)(d), CA 1965</p>

<p>33. In respect of acquisition of subsidiaries during the period:</p> <ul style="list-style-type: none"> • the total purchase consideration • the portion of the purchase consideration discharged by means of cash and cash equivalents • the amount of cash and cash equivalents in the subsidiary acquired • the amount of the assets and liabilities other than cash or cash equivalent in the subsidiary acquired, summarised by each major category 	<p>MASB 5 (40)</p>	<p>FRS 107(37)</p>
<p>34. Capital commitment for the acquisition of property, plant and equipment</p>	<p>MASB 15 (79(d) Sch.9(2)(1)(t)(iii), CA 1965</p>	<p>FRS 116 Sch.9(2)(1)(t)(iii), CA 1965</p>
<p>35. The effect of the acquisition of subsidiaries on the financial position at the reporting date, the result for the reporting period and on the corresponding amounts for the preceding period</p>	<p>MASB 11 (47)(b)(iv)</p>	<p>FRS 127</p>
<p>B. COMMON ERRORS MADE IN DISCLOSURE IN FINANCIAL STATEMENTS</p>		
<p>1. Reclassification of comparative figures, without disclosure of its nature and amount of the reclassifications made</p>	<p>MASB 1 (40)</p>	<p>FRS 101 (38)</p>
<p>2. Tax liabilities and tax assets should be shown on the face of balance sheet</p>	<p>MASB 1 (66)(i)</p>	<p>FRS 101 (68)(m)</p>
<p>3. Cash and cash equivalents include fixed deposits pledged</p>	<p>MASB 5 (6)</p>	<p>FRS 107 (6)</p>
<p>4. Interest paid/received was not separately disclosed in the cash flow statement</p>	<p>MASB 5 (31)</p>	<p>FRS 107 (31)</p>
<p>5. Plant and equipment acquired by hire purchase was not excluded from the cash flow statement</p>	<p>MASB 5 (43), (44)</p>	<p>FRS 107 (43), (44)</p>
<p>6. The policy on hire purchase states that finance charges are allocated to the income statement over the period of the respective agreement which implies straight line method and is not in compliance with MASB 10</p>	<p>MASB 10 (20)</p>	<p>FRS 117 (25)</p>

7. The recognition policy on financial instruments states that “financial instruments are recognised in the balance sheet when the company becomes a party to the contractual provisions of the instruments” which neglects the existence of off balance sheet financial instruments	MASB 24 (47)	Not applicable
8. Movement of banker acceptances was presented as part of the working capital changes under operating activities in the cash flow statement	MASB 5 (6), (17)	FRS 107 (6), (17)
9. Temporary differences form part of the reconciliation of statutory tax rate to effective tax rate	MASB 25	FRS 112
10. Accounting policy on deferred tax is outdated and is not in compliance with current standard	MASB 25	FRS 112
11. The policy on impairment of assets does not exclude inventories, deferred tax assets and financial assets (other than investments in subsidiaries, associates and joint venture)	MASB 23 (1)	FRS 136 (2)
C. NON-COMPLIANCE OF ACCOUNTING STANDARDS		
1. The hire purchase interest was allocated to the income statement using straight line method which will not produce a constant periodic rate of charge on the outstanding balance and this is not in compliance with MASB 10 (20)	MASB 10 (20)	FRS 117 (25)
2. No depreciation charge on freehold building/other properties	MASB 15 (51), (54)	FRS 116 (58)
3. Goodwill recognised during the financial year on the business combination is amortised over five years	MASB 11	FRS 3 (2005) (54),(55)
4. Excess of revalued amount on properties over the cost was recognised as revaluation reserve	MASB 15 (43)	FRS 116
5. Absence of consolidation of the subsidiary acquired in prior year was coupled with the lack of explanation for the non-consolidation	MASB 11 (47)(b)(i) MASB 11 (15)	FRS 127 (10)

D. OMISSION IN DIRECTORS' REPORT		
1. Indirect interest in subsidiaries by virtue of the directors' indirect financial interest in the company was omitted	Sec 169 (6)(g)(i), CA 1965	Sec 169 (6)(g)(i), CA 1965
2. Directors' interests in the related corporations and changes in the directors' shareholdings during the reporting period were omitted	Sec 169 (6)(g), CA 1965	Sec 169 (6)(g), CA 1965
3. No disclosure was made in the directors' report on the general nature of transactions entered into by the company with parties related to the directors of the company or with the directors	Sec 169 (8), CA 1965	Sec 169 (8), CA 1965
4. The name of the corporation regarded by the directors as being the ultimate holding company and the country of incorporation, if known	Sec 169 (10), CA 1965	Sec 169 (10), CA 1965
5. Salient features of warrants issued and number exercised during the period/outstanding at end of period	Sec 169 (11), (12), CA 1965	Sec 169 (11), (12), CA 1965

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MALAYSIAN INSTITUTE
OF ACCOUNTANTS

Dewan Akauntan
No. 2, Jalan Tun Sambanthan 3
Brickfields, 50470 Kuala Lumpur
Malaysia

www.mia.org.my

Tel: 03 2279 9200 Fax: 03 2273 5167 Email: practicereview@mia.org.my