

AQuR eases ISQC1 Compliance

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BAFFLED BY ISQC 1? THE NEW **AQuR (AUDIT QUALITY RATING)** PORTAL WILL HELP **MIA** MEMBERS COMPLY WITH **INTERNATIONAL STANDARDS ON QUALITY CONTROL (ISQC) 1**, WHICH WILL BE INSTRUMENTAL TO GAINING **MIA'S** SUPPORT WHEN RENEWING AUDIT LICENCES.

Members of the Malaysian Institute of Accountants (MIA) renewing their audit licences must comply with the International Standards on Quality Control (ISQC) 1, a set of standards on quality control that is specific to the audit profession, said MIA President Nik Mohd. Hasyudeen Yusoff.

This is crucial in order for MIA to be in a better position to assess whether to support members' application for the renewal of audit licences from the Ministry of Finance.

With the introduction of ISQC 1 in Malaysia in July 2006, local audit firms have been mandated to adopt this international standard to ensure that their operations are strengthened and can be benchmarked against the international requirements.

In reality, few firms actually abide by ISQC 1 although the standards have been in force for more than three years. Apparently, many practitioners are still not aware of ISQC 1 requirements, whereas those who are aware may not know how to go about implementing the requirements.

Cost is a major constraint for smaller and medium-sized firms when it comes to benchmarking to global standards. "Many feel that ISQC 1, which focuses on creating controls within the firm to strengthen its leadership, involves too much investment. This places a huge burden, especially on firms that are run by one partner alone," said Nik.

Nevertheless, compliance with ISQC1 will underpin the future viability of audit practices. Benchmarking to global standards stands firms in good stead given that audit expectations are rising as investors, regulators and stakeholders demand greater corporate credibility in the wake of accounting and financial scandals. Speaking at a recent seminar on raising audit quality, Datuk Seri Azmi Khalid, Chairman of the Parliamentary Public Accounts Committee, noted that more stringent audit regulations are expected when the Audit Oversight Board (AOB) announced in the 2008 Budget is finally established to monitor and enhance audit quality among PLCs.

If smaller firms are still reluctant to invest in advancing audit quality, other options are to

combine with other practitioners in order to build up their size and resources. Otherwise, they may have to embark on other services such as consulting and financial planning to diversify revenue bases if non-compliance with ISQC 1 compromises the renewal of their audit licenses in future.

On a positive note, compliance with ISQC 1 could provide superior returns on

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ISQC 1 IN BRIEF

ISQC 1 prescribes the quality elements within a practice, starting with the strategic leadership within the firm with emphasis on quality all the way down to how decisions should be properly documented. The elements within the model include:

- Commitment to high ethical conduct;
- Procedures that deal with the client's due diligence;
- Firms' HR practices and the emphasis on continuous learning;
- The need to carry out the assurance engagement based on the approved auditing standards; and
- Creation of quality review circles within the practices.

The ISQC 1 standards were set by the International Auditing and Assurance Standards Board (IAASB), the standard-setting arm of the International Federation of Accountants (IFAC).

investment over the long term. The subsequent enhancement in audit quality can give firms an edge in a competitive marketplace and result in increased fees. "With the ISQC in place, there appears to be upward pressure on audit fees," commented Nik. There is ample room for rates to rise since recent studies revealed that Malaysia's audit fees are still the lowest in the ASEAN region.

SELF-ASSESSING AUDIT QUALITY WITH AQuR

To help audit practitioners gain familiarity with and prepare themselves for compliance with ISQC 1 requirements, firms are encouraged to use the Audit Quality Rating (AQuR) portal to diagnose the current state of their audit quality mechanisms. The AQuR portal was developed by a group of researchers from Universiti Teknologi MARA (UiTM) in collaboration with the Malaysian Accountancy Research and Education Foundation (MAREF).

Accessible at <http://www.maref.org.my/isqc/>, the AQuR System is an online self-assessment tool based on the ISQC 1

to facilitate the audit firm's quality control for accreditation and/or improvement planning efforts. It allows navigation through the ISQC 1 requirements and the system provides results interactively.

As an incentive for member firms to use AQuR and abide by ISQC 1, excellent AQuR scores could be instrumental in the audit licence renewal process. With effect from 1 May 2009, an amended Form M1(A) must be completed by auditors renewing their audit licences. "A conscious effort in obtaining a good score under the AQuR System should validate the declarations to be given to the Jabatan Akauntan Negara Malaysia in relation to the firm's compliance with ISQC 1," declared a statement issued by MAREF. "The AQuR System will assist member firms of MIA to do a reality check on their operations way before the audit licence renewal process is due."

The use of AQuR could also help keep audit firms up-to-date with ever-changing expectations. "Members must be dynamic in responding to new requirements which have been put in place to further enhance audit quality and the AQuR System helps them to do this," noted Nik. ■

UK: Accounting standards 'should not be used to promote prudence'

Accounting standards should not be changed in an attempt to introduce greater prudence in the financial services sector, it has been claimed. Responding to the Turner Review, Ernst & Young warned that changing standards for this reason would make them less suited for their primary tasks - guiding the preparers and users of financial information, according to a report at *GaapWeb.com*. The firm, according to the report, had said: "This would also create obstacles to the adoption of a single set of high-quality standards worldwide, a project which has global support [and was] most recently endorsed by the G20 at the London Summit." Changing standards in an attempt to boost prudence would also make it harder to compare reports from different jurisdictions, the statement added. Ernst & Young praised the Financial Services Authority (FSA) for correctly identifying some areas where action is needed, but warned that there is still more to do. Recently, John Tattersall, chairman of the UK regulatory practice at PricewaterhouseCoopers, urged the FSA to avoid damaging the country's financial services sector when making changes to the way it polices institutions. ■

IRELAND: Accenture moves from Bermuda to Ireland

Global consultancy and outsourcing company Accenture has said it intends to change its place of incorporation to Ireland from Bermuda. Accenture's Board of Directors has unanimously approved the change, reports *Director of Finance Online*. The company's shareholders will now be asked to vote in favour of the proposed move. The report, quoting *The Wall Street Journal*, said the move comes amid a crack-down on tax havens by the Obama

administration and congressional Democrats, who are targeting companies with substantial US operations that are incorporated in tax havens like Bermuda to lower their overall tax burden. It is believed that Ireland and Switzerland are likely to be big winners as companies shift base from places such as Bermuda and the Cayman Islands which are expected to suffer under expected US tax changes, it said. It quoted William D. Green, Accenture's chairman & CEO as saying: "After a careful review, our Board of Directors has determined that changing our place of incorporation to Ireland is in the best interests of Accenture and our shareholders. We believe that incorporating in Ireland will provide Accenture with economic benefits and help ensure our continued global competitiveness." A member of the European Union, Ireland offers a sophisticated, well-developed corporate, legal and regulatory environment. It also has a long history of international investment and long-established commercial relationships, trade agreements and tax treaties with European Union member states, the United States and other countries around the world where Accenture does business. In addition, Ireland offers a stable political and economic environment and has the financial and legal infrastructure to meet Accenture's needs, both today and in the future." ■

PAKISTAN: Corporate sector urged to be more transparent

The Governor of the State Bank of Pakistan, Syed Salim Raza, has urged upon the country's corporate sector to introduce more transparency in governance and decision-making through greater disclosure of financial and non-financial information to the stakeholders, reports *The Daily Times*. Speaking as the chief guest at the Best Corporate Reports Award

Ceremony, jointly organised by the Institute of Cost and Management Accountants of Pakistan (ICMAP) and the Institute of Chartered Accountants of Pakistan (ICAP) Raza said: "There is still a need for fostering a change in the thinking of the corporate sector as the old system of protectionism cannot work in this challenging global environment." He said that these awards would also assist the country's economy, which needs sizeable investments in fixed capital. The government's efforts towards structural reforms and recent geo-political developments in the South Asian Region have once again put Pakistan in a position to attract foreign investments and these awards would serve as a catalyst in augmenting this progress, he added. Raza urged professional accountants to work with renewed zeal to enhance the prestige of the profession in the present global economic slowdown, the report added. Raza opined that the Best Corporate Reports Award would certainly encourage greater transparency in disclosure of annual accounts and to strengthen good governance practices in the corporate sector. These awards would also narrow the credibility gap, which exists between various stakeholders and the management of the companies, he added. He hoped that the level of reliance by all the stakeholders on the corporate reports and annual accounts will significantly grow in the years to come. He said the cross border exposure of the corporate sector, the exposure in new asset forms such as derivatives and accounting for off-balance sheet exposure are all accompaniments of globalisation and liberalisation and they make new demands for progress in the area of accounting and regulatory discipline. He said that in order to maximise dividends from the global opportunity, the

corporate sector has to improve the corporate governance even in tightly held ownership companies. Raza observed that the modern accounting system underpins the continuity and evolution of the joint stock company, which is the base of all developments in the modern economy. He said that from the simple double entry book keeping system, the profession of accountancy has evolved into a qualitative framework of methods and standards that ensure a company's affairs are well understood by all constituencies i.e., shareholders, employees, fiscal authorities, financial stakeholders and prospective investors. Raza said that the accountancy profession has immensely supported and contributed towards the emergence of the modern day economic system and its institutions. ■

CHINA: Higher Tax on Tobacco Products

China has increased taxes on tobacco products and this is expected to "moderately improve" financial revenue, according to the Ministry of Finance and the State Administration of Taxation. China is credited to have the largest population of smokers in the world. In 2008, China had nearly 350 million smokers and estimates indicate about one million tobacco-related deaths each year, reports *RTTNews*. Cigarette cartons costing 70 yuan or more will now attract 56% tax from the 45% tax levied earlier. Tax on cigarette cartons costing less than 70 yuan will now be 36%, up from 30% charged earlier. Tax on cigars have been increased to 36% from 25% previously, the report said.

Tobacco products will also now attract ad-valorem tax of 5%, based on the real value, less inflation factors. This is the first time such a tax has been imposed on tobacco products in China. ■

IOSCO RECOGNISES VALUE OF ISAs

The International Organization of Securities Commissions (IOSCO) has issued a statement welcoming the completion of the Clarity Project by the International Auditing and Assurance Standards Board (IAASB), as well as recognising the important role played by International Standards on Auditing (ISAs) "in facilitating cross-border securities offerings and listings." In the statement, IOSCO also encouraged securities regulators to accept audits performed and reported under the new clarified ISAs. The organisation noted the contributions international auditing standards make to global financial reporting and supporting investor confidence and decision-making. The statement can be accessed at <http://www.iosco.org/library/statements/pdf/statements-7.pdf>. ■

IFAC ORGANISES G-20 ACCOUNTANCY SUMMIT

IFAC will continue to focus on how it can best contribute to strengthening the global financial system at a G-20 Accountancy Summit it is organising in London in July. The goal of the summit is to gather input and discuss detailed positions that can form the basis of further IFAC submissions to the G-20 Working Groups, prior to their September meetings, as well as contribute to the development of the institutes' own positions. ■

REVIEW OF SMP-SUPPORT PROGRESSES

The Small and Medium Practices (SMP) Review Task Force, chaired by Bernadette McGrory-Farrell, is in the process of reviewing the responses to its survey of member bodies and regional accounting organisations on how IFAC can best support SMPs and Small and Medium-sized Entities. Approximately 100 responses from over 80 member bodies were received. The survey, conducted in April, May, and June, polled member bodies and regional organisations about the awareness and usefulness of existing IFAC

SMP-related initiatives and the importance of IFAC undertaking additional activities. The survey is one part of a review process launched in February to explore the issues facing SMEs and SMPs and the strategies by which IFAC can best support them. For more information on the work of the SMP Committee visit: <http://www.ifac.org/SMP/Committee.php> ■

IPSASB REAFFIRMS IFRS CONVERGENCE STRATEGY, EMPHASISING FINANCIAL INSTRUMENTS

During its May meeting in Washington, D.C., the International Public Sector Accounting Standards Board (IPSASB) reaffirmed its commitment to its global convergence programme and the development of standards dealing with financial instruments. The IPSASB stated that it will continue its full consultation on exposure drafts (EDs): ED 37, Financial Instruments: Presentation, ED 38, Financial Instruments: Recognition and Measurement, and ED 39, Financial Instruments: Disclosures. Meanwhile, the IPSASB said that it recognised plans of the International Accounting Standards Board (IASB) to modify aspects of its current standards relating to the measurement of financial instruments. The IPSASB will consider any changes ultimately adopted by the IASB in due course. Comments on EDs 37–39 are requested by 31 July 2009. ■

IFAC ACCEPTS ELECTRONIC SUBMISSIONS OF ED COMMENTS; NEW ONLINE SYSTEM LAUNCHED

IFAC has developed a new system for visitors to electronically submit comment letters for any exposure draft (ED) or consultation paper. With this new process, online users will be able to register on the IFAC website, log in to submit comment letters, and track comments they have submitted. The submission system is accessible through "My IFAC Homepage," where registered users can also access the public areas of the IFAC website, including the Global Financial Crisis and Small and Medium Practices discussion boards,

and the Professional Accountants in Business Dynamic Links page. To register, visit www.ifac.org and click on the Login/Register link located in the left-hand navigation. ■

EC CONSULTS ON ADOPTION OF ISAs

The European Commission (EC) has launched a public consultation to determine whether International Standards on Auditing (ISAs) should be adopted in the European Union (EU). In its consultation paper, the Commission commented on the International Auditing and Assurance Standard Board's (IAASB) governance and due process, stating that "the current governance of the IAASB has matured to a stage where it may be justifiable to adopt ISAs in the European Union." A study undertaken by the University of Duisburg-Essen indicates that "an adoption of the ISAs in the EU would result in quantitative and qualitative benefits for companies, investors, and regulators, stemming from high quality and harmonised audits." The study can be viewed at http://ec.europa.eu/internal_market/auditing/isa/index_en.htm. Interested parties are invited to respond by accessing the EC ISA Consultation Website at http://ec.europa.eu/internal_market/consultations/2009/isa_en.htm. Comments are requested by 15 September 2009. ■

PIOB's FOURTH REPORT FOCUSES ON CONTINUED RELEVANCE OF PUBLIC INTEREST MISSION

The Public Interest Oversight Board (PIOB) has published its Fourth Public Report. The report focuses not only on the PIOB's activities of the past year, including its oversight of the final stages of the Clarity Project and the redrafted IFAC Code of Ethics for Professional Accountants, but also on the continuing relevance of its public interest mission. The report also identifies the importance of coordinated efforts to ensure the full benefits from adoption and implementation of international standards. It can be accessed at http://www.ipiob.org/downloads/INFORME_PIOB_2009.pdf. ■