

Enhancing Audit Quality

The quality of financial statements is the primary responsibility of the Board of Directors and management. Auditors are the external party appointed by the shareholders to conduct an independent audit on the financial statement and to offer a professional opinion on the true and fair view of the state of affairs and results of the company. Although the responsibilities of auditors has not changed, the operating environment has grown complex over the years.

Audit quality is viewed as one of the important factors that affect the credibility of financial statements. Users are more likely to demonstrate a high level of confidence on the information presented in the financial statements if the audit of the financial statement is perceived to be of high quality. Hence, the auditors are expected to demonstrate the highest possible regard to due process in discharging their responsibilities.

With the introduction of ISQC 1 in July 2006, audit firms in Malaysia have been mandated to adopt this international standard to enhance their operations so that they can be benchmarked against the international requirements.

Although the cost of audit has risen somewhat since then, it is nevertheless seen as a positive development within the profession. A recent study by some Malaysian firms has shown that fees payable to auditors is still the lowest in the Asean region.

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

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

The adoption of ISQC 1 standards is expected to shift the audit firms' traditional focus on building individual competency towards the entire organization. It is the team that delivers the quality reports.

Recently, a seminar was organised by the Universiti Teknologi

Mara (UiTM) to introduce an audit quality assessment portal called Audit Quality Rating "AQUR". Developed by a research team from the university's Accounting Research Institute (ARI) and the Faculty of Accountancy, the system helps audit firms self assess their quality control mechanisms, based on criteria from ISQC 1.

The Deputy Vice-Chancellor of UiTM, Professor Dr. Mustaffa Mohamed Zain, expressed hope that AQUR would help raise the bar on audit quality in Malaysia.

Meanwhile, Public Accounts Committee Chairman Datuk Seri Azmi Khalid, who launched the AQUR system, stressed the need for high quality audits in order to enhance investor confidence.

He reminded the auditors to remain focused on the integrity and quality of the audit process to enhance public confidence in their work.

"To me, audit quality has many contributing factors including good leadership, experienced judgment, technical competence, ethical values and appropriate client relationships, proper working practices, effective quality control and the monitoring of review processes.

"Thus, high quality audits should be a priority to avoid more unexpected financial scandals which eventually lead to a further erosion of public trust in the profession", he said.

Datuk Seri Azmi added that more stringent audit regulations are expected when the Audit Oversight Board (AOB) announced in the 2008 Budget is set up.

MIA President Nik Mohd. Hasyudeen Yusof, who was also present at the launch, called on members in the auditing profession to be committed to quality. In addition, he reminded members that new procedures have been put in place that MIA members renewing their audit licences must comply with prior to the Institute issuing the support letter to the Ministry of Finance to allow them to

renew their audit licences.

The AQUR system was launched at the opening ceremony of the *Audit Quality : Towards Enhancing Public Trust* seminar organised by UiTM and the Malaysian Accountancy Research and Education Foundation (MAREF). MIA played a supporting role in the seminar, which was attended by about 170 participants.

