



MALAYSIAN INSTITUTE  
OF ACCOUNTANTS

# Practice Review Annual Report 2020/2021

# About the Malaysian Institute of Accountants

Established under the Accountants Act 1967, MIA is the national accountancy body that regulates, develops, supports and enhances the integrity, status and interests of the profession in Malaysia. MIA accords the Chartered Accountant Malaysia or C.A. (M) designation to a professional in accountancy, business and finance with a recognised qualification and relevant work experience.

Working closely alongside businesses, MIA connects its membership to a wide range of information resources, events, professional development and networking opportunities. Presently, there are more than 36,500 members making their strides in businesses across all industries in Malaysia and around the world.

MIA's international outlook and connections are reflected in its membership of regional and international professional organisations such as the ASEAN Federation of Accountants (AFA) and the International Federation of Accountants (IFAC).

## MIA's Functions

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 practice 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 profession of accountancy in Malaysia;
- To promote, in the manner it thinks fit, the interest of the profession of accountancy 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 objectives.



**To regulate and develop the accountancy profession to support economic growth and nation building**



**To be a globally recognised Professional Accountancy Organisation (PAO) in regulating and developing the profession for nation building**



**Integrity, Mutual Trust & Respect, Professionalism, Accountability, Commitment, Teamwork, Sustainability**

# Contents

<b>Foreword from Peter Lim Thiam Kee, Chairman of Practice Review Committee (PRC)</b>	4
<b>1.0 Overview of MIA Practice Review</b>	5
<b>2.0 Practice Review Statistics</b>	8
<b>3.0 Practice Review Findings</b>	12
3.1 Findings and Observations from Firm level Review	14
3.1.1 New Quality Management Standards – ISA 220 (Revised), ISQM 1 & ISQM 2	22
3.2 Findings and Observations from Engagement Level Review	23
3.3 Available Resources	30
<b>4.0 Observations from Monitoring Reviews</b>	31
<b>Appendix</b>	34
Appendix 1 – Practice Review Framework	35
Appendix 2 –Cumulative Reviews Results	38

# Foreword from Peter Lim Thiam Kee, Chairman of Practice Review Committee (PRC)

Dear Stakeholders,

The past year has been a challenging one, whereby the pandemic and the subsequent resulting economic downturn caused several predicaments for the audit profession. However, on a positive note, the challenges have induced tremendous changes and improvements in how we work and the outcomes of our work. The method and approach of audit, the means of communication, and the audit supervision and review are some areas that have experienced notable changes.

Going forward, audit firms should continue to be agile and abreast of the latest trends, including the use of technology to assist with the audit process, while at the same time being cautious about associated risks such as cyber security threats. The current developments also present a timely opportunity for us to embed digital transformation into the audit practice.

This is also an opportune time to focus on enhancing quality. Based on the latest Practice Review results, as depicted in the statistics within this report, the practitioners are urged to ensure that their firms comply with the necessary requirements, be it at the firm-wide level or respective engagement level. The audit firms need to gain familiarity and understand the relevant International Standard on Auditing (ISA), International Standard on Quality Control 1 (ISQC 1), Companies Act 2016 (CA 2016), MIA By-Laws, and other professional standards and regulations. Firms should also make advanced preparation to comply with new standards which will be effective, namely ISQM 1 and 2.

As part of efforts to create awareness among the practitioners, various initiatives have been undertaken by the Practice Review Department (PRD). Other than the timely publication of articles relevant to the practice review findings and the PRD's active involvement in MIA seminars such as the Public Practice Programme and Audit Quality Enhancement Programme, the PRD has included some of the pertinent and common findings noted from the reviews conducted over the past year within this report. Common findings and some of the significant findings are shared in the hope that practitioners can better uphold the standard for audit quality and understand the necessary actions or audit procedures to be taken to achieve this.

## Acknowledgements

I would like to extend my appreciation to the PRC members for their commitment and valuable guidance throughout the year, as well as to the PRD for their diligent work in conducting the practice reviews. I would also like to thank all the stakeholders, especially our co-regulators, audit firms and audit practitioners, for collaborating with MIA in ensuring audit quality and the continuing relevance of the audit profession.

# 1.0

## Overview of

## MIA Practice Review

## 1.0 Overview of MIA Practice Review

In order to uphold integrity, trust and accountability in the audit profession, the PRD is given the mission and mandate by the MIA to carry out surveillance activities on audit firms (AFs) registered with the Institute to ensure that audit practitioners adhere to International Auditing Standards (ISAs), professional standards, legal and regulatory requirements when they perform their audit work.

### The Practice Review Programme (PRP)

Established under Section B250: Quality Assurance and Practice Review of the By-Laws of MIA. PRP is a process where the standards and procedures of members' audit practice are assessed to ensure that they are in compliance with professional standards, legal and regulatory requirements.

As MIA is an IFAC member, the PRP is a mandatory requirement that forms the substance of the Statements of Membership Obligations (SMOs), in particular SMO 1 – Quality Assurance on the requirement to conduct practice review of its member firms.

### The Objectives of PRP are 3-pronged

To confirm members' obligation to maintain, apply and observe the standards promulgated by the Institute.

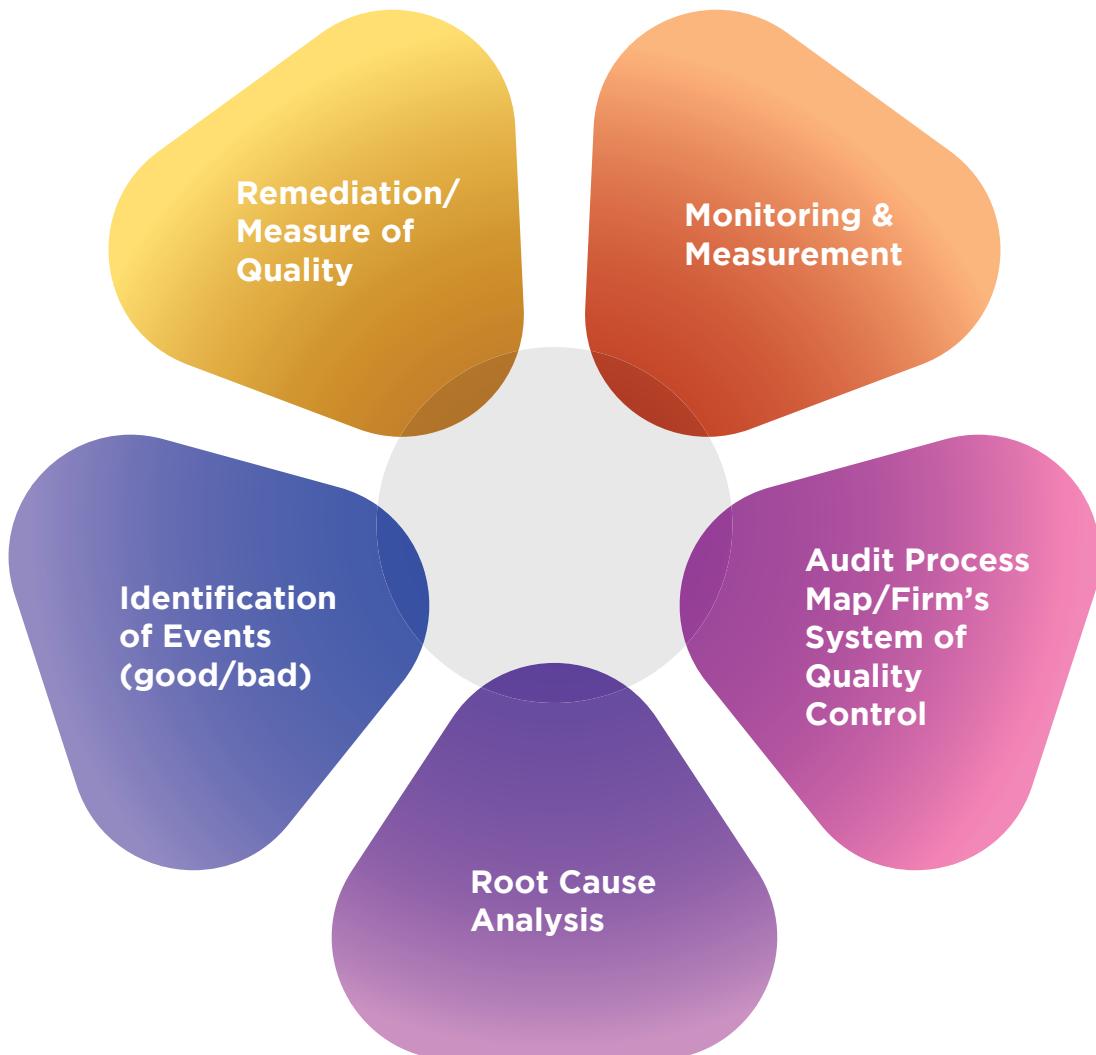
To undertake the regulatory role as provided under the Accountants Act 1967, as well as to align with some of the latest international developments.

To enhance the confidence of the business community in our members' standard of professional work.

### Practice Review Framework

PRD conducts its surveillance activities as guided by its Practice Review (PR) Framework. The implementation of the revised PR framework in July 2017 was a gamechanger in the Institute's surveillance and regulation of AFs. Going forward, the framework will be subjected to further review in order to assess its appropriateness and effectiveness given the evolving business landscape. The assessment will take place at the end of the third year of implementation, taking into consideration changes in business complexity and evolving audit delivery models.

For the purposes of the year under review, the current framework was deemed effective based on the recent monitoring review results and the subsequent submission of remedial action plans (RAP) by the respective AFs which lay out a clear direction and the actions to be taken in the rectification process.



For full details of the Section B250 and Appendix VI of the By-Laws of MIA on Practice Review, please visit our website [here](#).

Please refer to **Appendix 1** for further details on the firm selection approach, scopes of review, and types of ratings.

## 2.0 Practice Review Statistics

## 2.0 Practice Review Statistics

In Malaysia, there are currently a total of 1,482 audit firms registered under MIA.

Since the establishment of Practice Review in 2004, a total of 1,063 reviews have been conducted and finalised, involving 856 audit firms. Since the implementation of the new practice review framework in July 2017, a total of 225 reviews have been performed, involving 147 audit firms. Out of the total 225 finalised reviews, these included 38 reviews which were conducted under the old practice review framework during the transition period.

		Number of Finalised Reviews	Number of Audit Firms
<b>(a)</b>	<b>Old Framework (2004 - 30 June 2017)</b>	<b>838</b>	<b>709</b>
<b>(b)</b>	New Framework (w.e.f 1st July 2017)	<b>187</b>	<b>118</b>
<b>(c)</b>	Reviews finalised under transitional period	<b>38</b>	<b>29</b>
<b>(d)=(b)+(c)</b>	<b>Total Reviews since 1st July 2017</b>	<b>225</b>	<b>147</b>
<b>(e)=(a)+(d)</b>	<b>Total Finalised Reviews</b>	<b>1,063</b>	<b>856</b>

For the current financial year of 2020/2021, a total of 61 reviews were conducted. Out of this, 37 reviews had been finalised, 14 firms were granted exemption from practice review after being assessed to meet the criteria for exemption<sup>1</sup> and 10 reviews are in progress.



For the 37 finalised reviews, the summary on the details of reviews finalised as below:



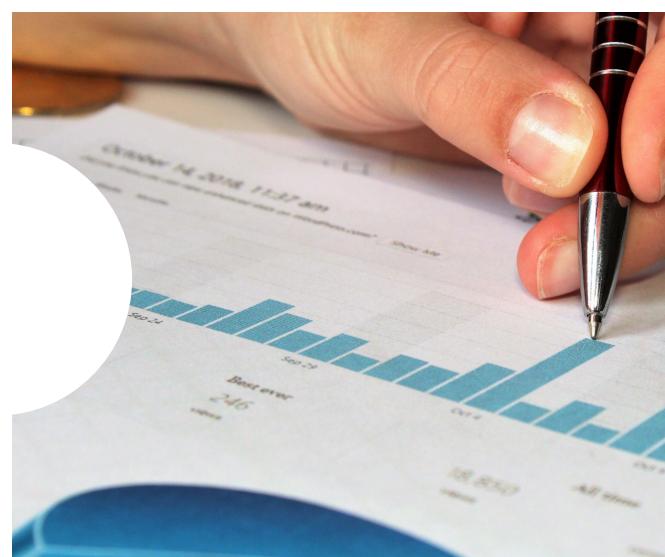
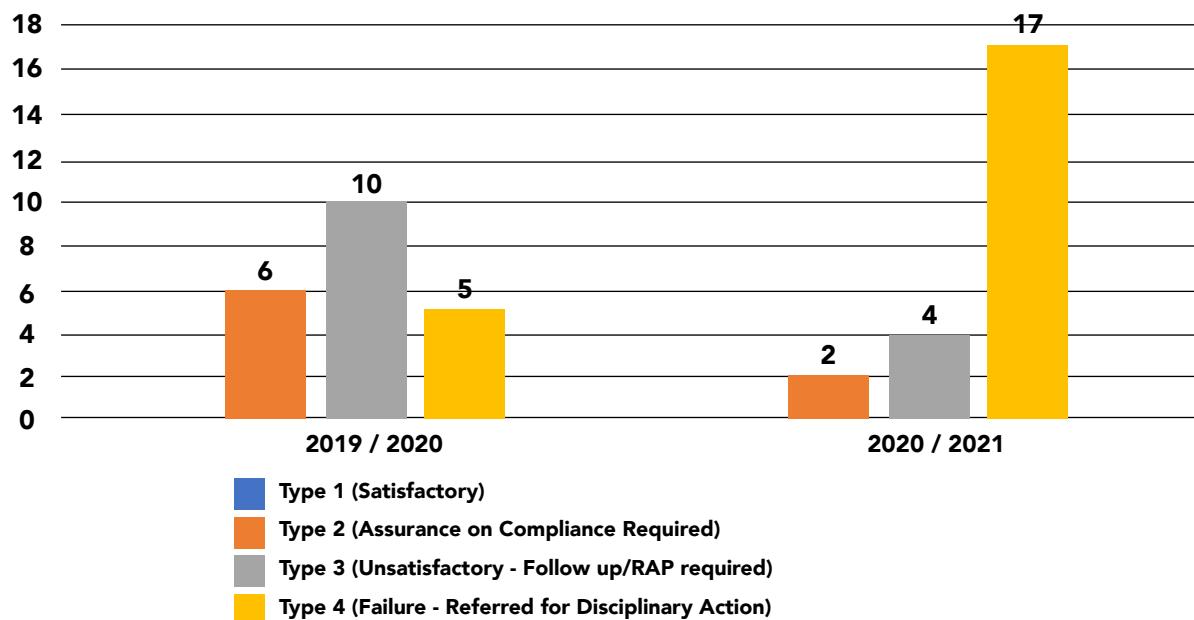
<sup>1</sup>Pursuant to the criteria set out in paragraph 9 of the Appendix VI Statement on Practice Review for Section B250 of the MIA By-Laws, exemption may be granted at the discretion of the PRC.

In addition, during the year, 7 Remedial Action Plans (RAPs) were submitted and reviewed. From the total 7, the PRC approved 6 RAPs and rejected 1.

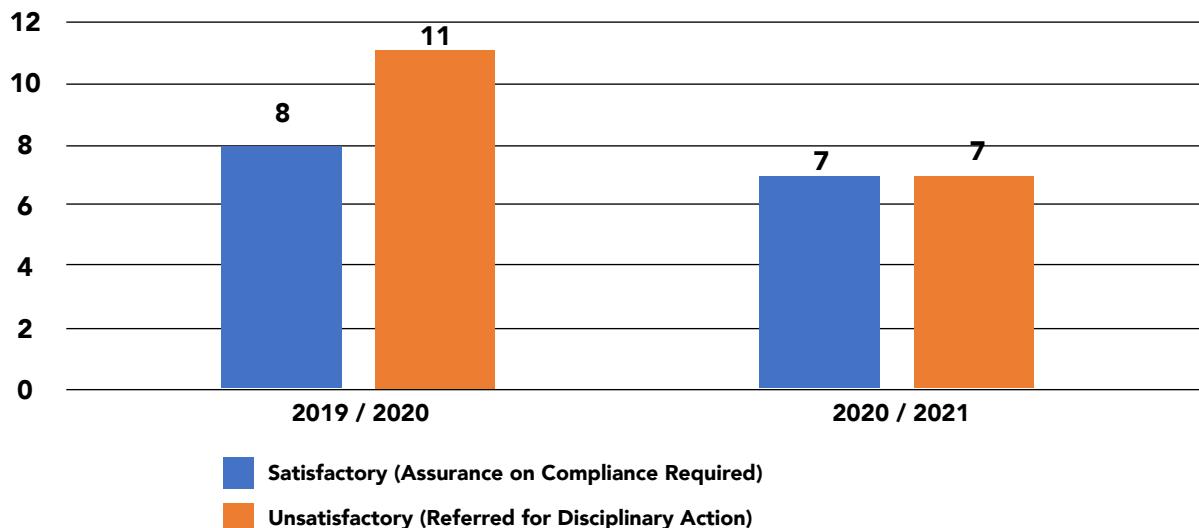
The following are the results for the finalised reviews for the financial year 2019/2020 and 2020/2021:

Financial year	2019/2020	2020/2021
First Review	21	23
Exemption from PR	-	14
Monitoring Review	19	14
<b>Total</b>	<b>40</b>	<b>51</b>

## First Review

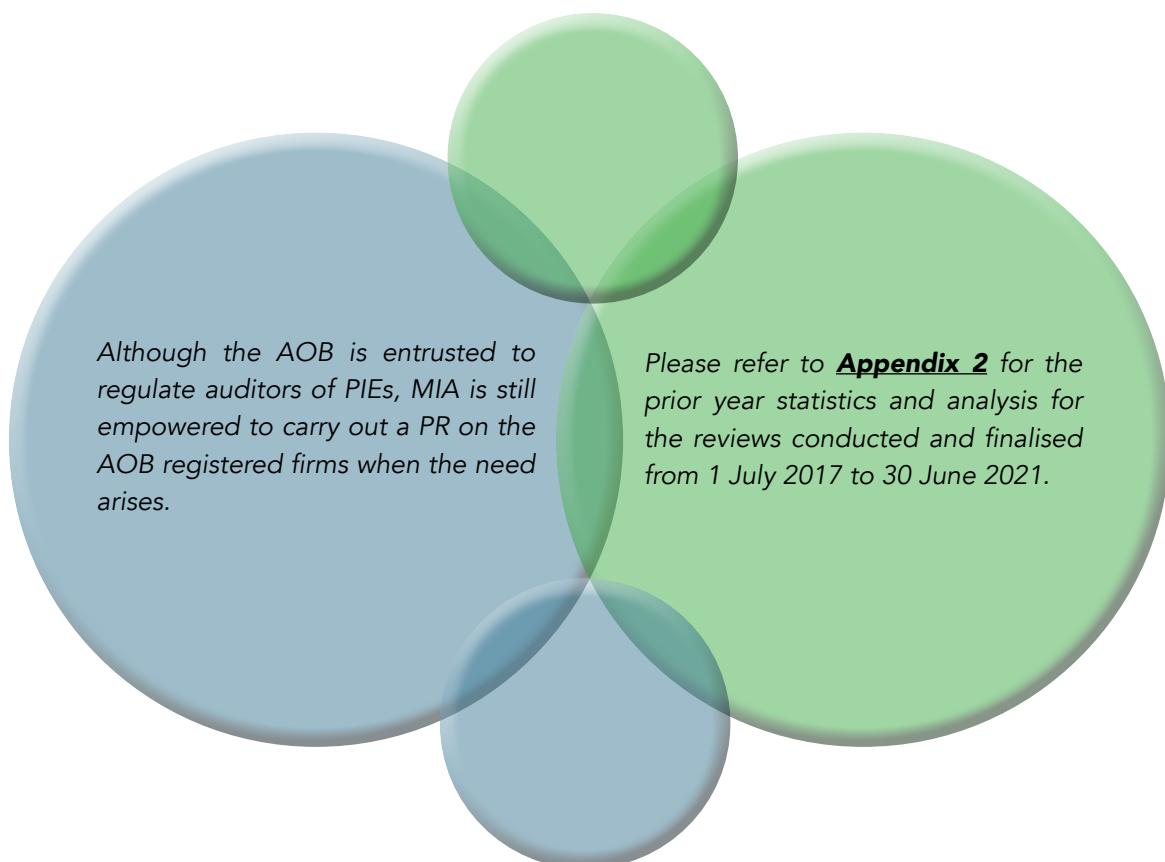


## Monitoring Review



The above statistics represent high-risk firms selected based on a risk-based approach and are NOT representative of the audit profession as a whole. The selection of firms assessed as higher risk would naturally result in selection of firms that are prone to more deficiencies being identified during the review and hence leading to the likelihood of being rated as unsatisfactory from the practice review.

Referring to the above statistics, the slight decrease in the number of reviews finalised during the year was due to the 6 months moratorium period on new reviews introduced by the Institute last year, in view of the COVID-19 circumstances.



# 3.0

# Practice Review

# Findings

### 3.0 Practice Review Findings

This section provides a summary of the pertinent and common findings gathered and observed during the financial year, from both firm level and audit engagements review. This includes the findings that in the PRC's view, requires immediate attention from the audit firms.

Based on the findings noted from the reviews, it was observed that there was a transition in the types of deficiencies, from more basic and fundamental deficiencies to an increasing degree of complexity in the areas of non-compliance or inadequacy in regards to the relevant professional standards. These indicated a rise in the level of maturity and understanding of the standards among audit practitioners.

Section 3.1 lists out key findings related to ISQC 1 elements through the firm level reviews. Meanwhile Section 3.2 sets out the Top 8 ISAs derived from

the most findings noted via the engagements level reviews. For both sections, selected improvement and recommendation points are included for the reference of the practitioners in creating an environment conducive to the performance of a high-quality audit and ensuring compliance with the respective professional standards.

Further, a brief introduction on the new quality management standards, namely ISA 220 (Revised), ISQM 1 and ISQM 2 are also highlighted in Section 3.1.1 of the report, together with the significant changes arising from the said standards.

Lastly, Section 3.3 provides some reference materials for the practitioners, in the hope that this will be beneficial and informative to the audit firms in the process of rectification or enhancement of quality of audit work within the firms.



### 3.1 Findings and Observations from Firm level Review

Below are the findings noted from the practice review, in order to assist the practitioners in understanding and appreciating the aspects of the ISQC 1:

ISQC 1 Elements	Findings noted	Recommendations
<b>Leadership Responsibilities for Quality within the Firm</b>	<p>1. No formal system of quality control in place and there was no indication that the firm had established policies and procedures designed to promote a culture emphasising that quality is essential in performing audit engagements.</p> <p>2. The engagement partner's involvement in and review of each engagement to ensure that the firm's quality standards were met were not evident, including the partner's supervision of critical audit areas and contentious matters identified.</p> <p>3. The audit firm had established a Quality Control Manual in relation to the quality control policies and procedures of the firm. However, the following findings were identified based on our review:</p> <ul style="list-style-type: none"> <li>- Evaluation criteria set out in the partner evaluation form may not reflect the key performance indicators of the partners laid out in the group partnership agreement;</li> <li>- Confirmations from staff to indicate that they have read and understood the firm's policies and procedures were not obtained;</li> <li>- No indication of review or update to the Manual since its issuance. Several annexures (i.e. templates, checklists or forms) were enclosed in the Manual but were not cross-referenced to the corresponding policy and procedures to ensure that audit staff are aware of the expected documentation required for each element of ISQC 1;</li> <li>- No documentary evidence on management meetings or internal communication to staff in communicating the importance of audit quality within the firm;</li> <li>- Partnership agreement and partner evaluation forms were not put into practice.</li> </ul>	<p>a) According to ISA 220, the engagement partner shall take responsibility for the overall quality of each audit engagement.</p> <p>b) ISQC 1 requires that the firm's leadership should assume ultimate responsibility for the firm's system of quality control. The 'tone at the top' is a significant influence on the creation of a firm's desired culture.</p> <p>c) The firm shall establish policies and procedures designed to promote a culture recognising that quality is essential in performing engagements.</p> <p>d) The importance of quality control should be consistently emphasised, communicated and demonstrated by those in a leadership position to the personnel to promote quality in engagement performance.</p> <p>e) Policies and procedures in respect of various elements in the system of quality control should be developed, documented and maintained by means of a standard quality control manual. This manual should be made available to all staff so as to ensure that audit quality is consistently maintained for all the firm's audit engagements conducted. Compliance with these policies and procedures should provide the firm with reasonable assurance that engagements are performed in accordance with professional standards and applicable legal and regulatory requirements, and to enable the issuance of auditors' reports that are appropriate.</p> <p>f) The compliance with the firm's policies and procedures should also be documented to facilitate the monitoring of the system of quality control.</p>

ISQC 1 Elements	Findings noted	Recommendations
<b>Relevant Ethical Requirements</b>	<p>1. The consolidation working papers were prepared by the audit firm's staff who was also involved in the audit of the same engagement.</p> <ul style="list-style-type: none"> <li>- The above constitutes a self-review threat as stipulated in the Institute's By Laws 120.6 A3(b) which defines self-review as "the threat that a professional accountant will not appropriately evaluate the results of a previous judgement made; or an activity performed by the accountant, or by another individual within the accountant's firm or employing organisation, on which the accountant will rely when forming a judgement as part of performing a current activity".</li> <li>- A self-review threat might be created when the firms provide to an audit client that is not a public interest entity accounting and bookkeeping services including preparing financial statements on which the firm will express an opinion or financial information which forms the basis of such financial statements, if the conditions of R601.5 and 601.5 A1, Part A of the MIA By-Laws, were not fulfilled.</li> </ul>	<p>a) According to R120.10 of the Institute's By Laws, if the professional accountant determined that the identified threat to compliance with the fundamental principles is not at an acceptable level, the accountant shall address the threats by eliminating them or reducing them to an acceptable level. The accountant shall do so by:</p> <ul style="list-style-type: none"> <li>i) Eliminating the circumstances, including interests or relationships, that are creating the threats.</li> <li>ii) Applying safeguards, where available and capable of being applied, to reduce the threat to an acceptable level; or</li> <li>iii) Declining or ending the specific professional activity.</li> </ul> <p>b) According to R601.5 of the Institute's By Laws, a firm or a network firm shall not provide to an audit client that is not a public interest entity accounting and bookkeeping services including preparing financial statements on which the firm will express an opinion or financial information which forms the basis of such financial statements, unless:</p> <ul style="list-style-type: none"> <li>- The services are of a routine or mechanical nature; and</li> <li>- The firm addresses any threats that are created by providing such services that are not at an acceptable level.</li> </ul>
	<p>2. The company secretary of the auditee is a close family member of the signing audit partner. This may constitute a threat to professional independence as the Institute's By-Laws 290.13 (a) states that threat to independence is created when a close family member of a member of the audit team is, inter-alia, an officer of the audit client.</p> <p>3. The company secretary shares the same contact numbers, and email address of the audit firm.</p> <p>4. The audit manager who oversees one of the office branches, also acted as the company's secretary for one of the engagements reviewed.</p>	<p>c) The findings are deemed to undermine the audit firm's independence, including independence in appearance as provided for in the Institute By-Laws and Section 264 of the CA 2016.</p> <p>d) The significance of the threat shall be evaluated, and safeguards applied when necessary, to eliminate the threat or reduce it to an acceptable level, as stipulated in By-Laws 290.130 (c).</p>

ISQC 1 Elements	Findings noted	Recommendations
<b>Acceptance and Continuance of Client Relationships and Specific Engagements</b>	<p>1. The firm has no formal written policies for acceptance and continuance of client relationships and specific engagements.</p> <p>2. The policy and procedures to ensure the firm fulfils its obligations as a reporting institution with respect to the requirements imposed under the Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001 ("AMLA") were also not established.</p> <p>3. The firm has formal policies and procedures relating to the acceptance and continuance of client relationships, but the following findings were noted:</p> <ul style="list-style-type: none"> <li>- no evidence of review by the engagement partner on the acceptance and continuance procedures;</li> <li>- engagement letters were not dated;</li> <li>- professional clearance was not obtained from the previous auditors;</li> <li>- no evidence that letter of consent to act was issued;</li> <li>- the firm documented the conclusion of client continuance assessment, but the details of procedures performed were not documented;</li> <li>- client continuation assessment checklist was completed during the performance of the audit instead of the completion of the last audit; and</li> <li>- the client continuance assessment was not dated and therefore, there was no clear evidence when the said assessment was completed.</li> </ul> <p>4. For group audit engagements (as per ISA 600), there was no evidence of consideration during the client acceptance and continuance process that the group engagement partners had determined whether sufficient appropriate audit evidence can reasonably be expected to be obtained in relation to the consolidation process and the financial information of the components on which to base the group audit opinion.</p>	<p>a) As per ISQC 1 (26), the firm shall establish policies and procedures for the acceptance and continuance of client relationships and specific engagements, designed to provide the firm with reasonable assurance that it will only undertake or continue relationships and engagements where the firm:</p> <ul style="list-style-type: none"> <li>i) Is competent to perform the engagement and has the capabilities, including time and resources to do so;</li> <li>ii) Can comply with relevant ethical requirements; and</li> <li>iii) Has considered the integrity of the clients and does not have information that would lead it to conclude that the client lacks integrity.</li> </ul> <p>b) As per required under the By-Laws, no member in public practice shall accept nomination for the engagement without enquiring from the existing auditor as to whether there is any professional or other reason for the proposed change of which he should be aware before deciding whether or not to accept the appointment and, if there are such reasons, requesting the existing auditor to provide him with all the details necessary to enable him to come to a decision.</p> <p>c) Failing to perform diligent and timely client and engagement acceptance assessment not only leads to the possibility of an unplanned relationship termination but also leads to significant professional liability disputes and concerns.</p> <p>d) ISA 600 (13) states, if the group engagement partner concludes that:</p> <ul style="list-style-type: none"> <li>i) it will not be possible for the group engagement team to obtain sufficient appropriate audit evidence due to restriction imposed by group management; and</li> <li>ii) the possible effect of this inability will result in disclaimer of opinion on the group financial statement, the group engagement partner shall either:</li> </ul>

ISQC 1 Elements	Findings noted	Recommendations
	<p>5. Also, where component auditors will perform work on the financial information of such components, there was no indication of evaluation by the group engagement partner whether the group engagement team will be able to be involved in the work of those component auditors to the extent necessary to obtain sufficient audit evidence.</p>	<ol style="list-style-type: none"> <li>1) In the case of a new engagement, not accept the engagement, or, in the case of a continuing engagement, withdraw from the engagement, where withdrawal is possible under applicable law and regulations: or</li> <li>2) where law or regulation prohibits an auditor from declining an engagement or where withdrawal from an engagement is not otherwise possible, having performed the audit of the group financial statements to the extent possible, disclaim an opinion on the group financial statements. (refer: Para A13-A19)</li> </ol>



ISQC 1 Elements	Findings noted	Recommendations
<b>Human Resources</b>	<ol style="list-style-type: none"> <li>1. The firm engaged person other than the staff or member of his/her firm to perform audit.</li> <li>2. The firm has no formal policies and procedures developed for the purpose of training.</li> <li>3. Records on training and continuing professional development for the staffs were not collected and maintained by the firm.</li> <li>4. No minimal continuing professional development (CPD) hours was set in the policies and procedures that the staff must fulfil annually (including for staff who are non-MIA member).</li> <li>5. The firm has no formal policies and procedures developed for the purpose of performance evaluation.</li> <li>6. The firm did not implement or there was no documentation to evidence that performance evaluation has been carried out on a periodic basis.</li> </ol>	<p>a) Pursuant to the MIA By-Laws Section B200.3, a member in public practice should not report or express an opinion on financial statements examined for the purpose of such report or opinion by a person other than a staff or member of his or her firm, unless such other person is also a member in public practice, except for entities which are incorporated or operating outside Malaysia.</p> <p>b) Pursuant to the ISQC 1, the policies and procedures shall address the following on training and CPD:</p> <ul style="list-style-type: none"> <li>- The firm shall emphasise in its policies and procedures the need for continuing training for all levels of firm personnel and provides the necessary training resources and assistance to enable personnel to develop and maintain the required capabilities and competence.</li> <li>- The partner and staff must meet the minimum continuing professional development requirements as defined in local jurisdiction or member body requirements and any additional identified training needs which are appropriate for their level and responsibilities.</li> <li>- The partner and staff are responsible for maintaining their own professional development records (and, where applicable, adhering to the firm's guidelines). The partner collects and reviews these records annually to ensure the required training and CPD have been undertaken and, if relevant, to determine appropriate actions to address any shortfalls.</li> </ul> <p>c) Pursuant to the ISQC 1, the policies and procedures shall address the following on performance evaluation, compensation and promotion:</p> <ul style="list-style-type: none"> <li>- The firm's performance evaluation, compensation and promotion procedures give due recognition and reward to the development and maintenance of competence and commitment to ethical principles.</li> </ul>

ISQC 1 Elements	Findings noted	Recommendations
<b>Engagement Performance</b>	<p>1. There was no audit working paper or review summary prepared to summarise the significant audit findings that form the basis of the audit opinion.</p>	<p>a) The audit firm should consider preparing an overall review summary for each engagement that will record all the significant audit findings and the conclusion drawn therefrom, in particular when a non-standard/modified audit opinion is to be expressed. The basis for the opinion expressed on the financial statements should also be documented in the abovementioned summary.</p>
	<p>2. The firm has no written policies and procedures for the completion and assembly of audit files.</p> <p>3. There was no evidence on the implementation of the completion and assembly of the audit files.</p>	<p>b) Pursuant to ISQC 1 (45) &amp; (A54), the audit firm is required to complete the assembly of the audit file on a timely basis which would not normally later than 60 days after the audit report.</p> <p>c) The completion of the assembly of the final audit file after the date of auditor's report is an administrative process that does not involve the performance of new audit procedures or the drawing of new conclusions. Changes may, however, be made to the audit documentation during the final assembly process if they are administrative in nature (ISA 230 (A22)).</p> <p>d) Pursuant to ISA 230 (15), after the final audit file has been assembled, auditors are prohibited from deleting and discarding audit documentation of any nature before the end of its retention period.</p>
	<p>4. There was a lack of supervision and review by the more experienced team member, especially by the engagement partner, in ensuring the work performed met the quality audit requirement.</p>	<p>e) Pursuant to ISQC 1 (32) (ref. A34 – A35), the supervision and review should include the following:</p> <ul style="list-style-type: none"> <li>- Tracking the progress of the engagement;</li> <li>- Considering the competence and capabilities of individual members of the engagement team, whether they have sufficient time to carry out their work, whether they understand their instructions, and whether the work is being carried out in accordance with the planned approach to the engagement;</li> <li>- Addressing significant matters arising during the engagement, considering their significance and modifying the planned approach appropriately;</li> </ul>

ISQC 1 Elements	Findings noted	Recommendations
		<ul style="list-style-type: none"> <li data-bbox="965 256 1435 399">- Identifying matters for consultation or consideration by more experienced engagement team members during the engagement;</li> <li data-bbox="965 406 1435 550">- The work has been performed in accordance with professional standards and applicable legal and regulatory requirements;</li> <li data-bbox="965 557 1435 723">- Significant matters have been raised for further consideration and appropriate consultations have taken place and the resulting conclusions have been documented and implemented;</li> <li data-bbox="965 729 1435 797">- There is a need to revise the nature, timing and extent of work performed;</li> <li data-bbox="965 804 1435 905">- The work performed supports the conclusions reached and is appropriately documented;</li> <li data-bbox="965 911 1435 979">- The evidence obtained is sufficient and appropriate to support the report; and</li> <li data-bbox="965 985 1435 1053">- The objectives of the engagement procedures have been achieved.</li> </ul> <p data-bbox="922 1091 1451 1338">f) The firm can promote consistency in the quality of engagement performance through its policies and procedures. This is often accomplished through written or electronic manuals, software tools or other forms of standardised documentation, and industry or subject matter-specific guidance materials.</p>

ISQC 1 Elements	Findings noted	Recommendations
<b>Monitoring</b>	<ol style="list-style-type: none"> <li>1. The firm did not establish written policies and procedures on the monitoring process.</li> <li>2. The firm has no monitoring process to review the firm's overall quality control policies and procedures.</li> <li>3. There was no record to evidence the performance of monitoring, including for cold file review.</li> </ol>	<ol style="list-style-type: none"> <li>a) Pursuant to ISQC 1 (48), the firm shall establish a monitoring process designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate and operating effectively.</li> <li>b) The monitoring process should cover a firm's overall review of policies and procedures and it is important for firms to consider and evaluate the firm's system of quality control on an on-going basis. This should also include a periodic review of a selection of completed engagements by firm's personnel who are not involved in performing the engagement or engagement quality control review.</li> </ol>

*These are a compilation of the common and significant findings observed from the practice review for the past year, and are not meant to be used as an exhaustive guidance in implementing and maintaining the firm's system of quality control. Practitioners are advised to familiarise and understand the requirements of the respective ISQC 1 elements and ensure these are being complied with accordingly.*



### 3.1.1 New Quality Management Standards – ISA 220 (Revised), ISQM 1 & ISQM 2

The International Auditing and Assurance Standards Board (IAASB) has approved three (3) new quality management standards, which will be effective from 15 December 2022. The standards, namely International Standards on Quality Management, ISQM 1, ISQM 2, and the International Standard on Auditing, ISA 220 Revised, aimed at a more robust System of Quality Management for firms using the IAASB's standards, and marks an evolution from a traditional, more linear approach to quality control. The new standards introduce a robust, scalable, and proactive approach to audit quality management which is central to ensuring trust and sustainability in the audit profession.

Recognising that considerable time and effort will need to be deployed into understanding, analysing, designing and implementing a system of quality management that is in compliance with quality management standards, firms and practitioners are advised to start early to avoid any last-ditch attempt or even worse, not complying with the standards when they come into effect.

Please refer below for the **significant changes** arising from the new Quality Management Standards:

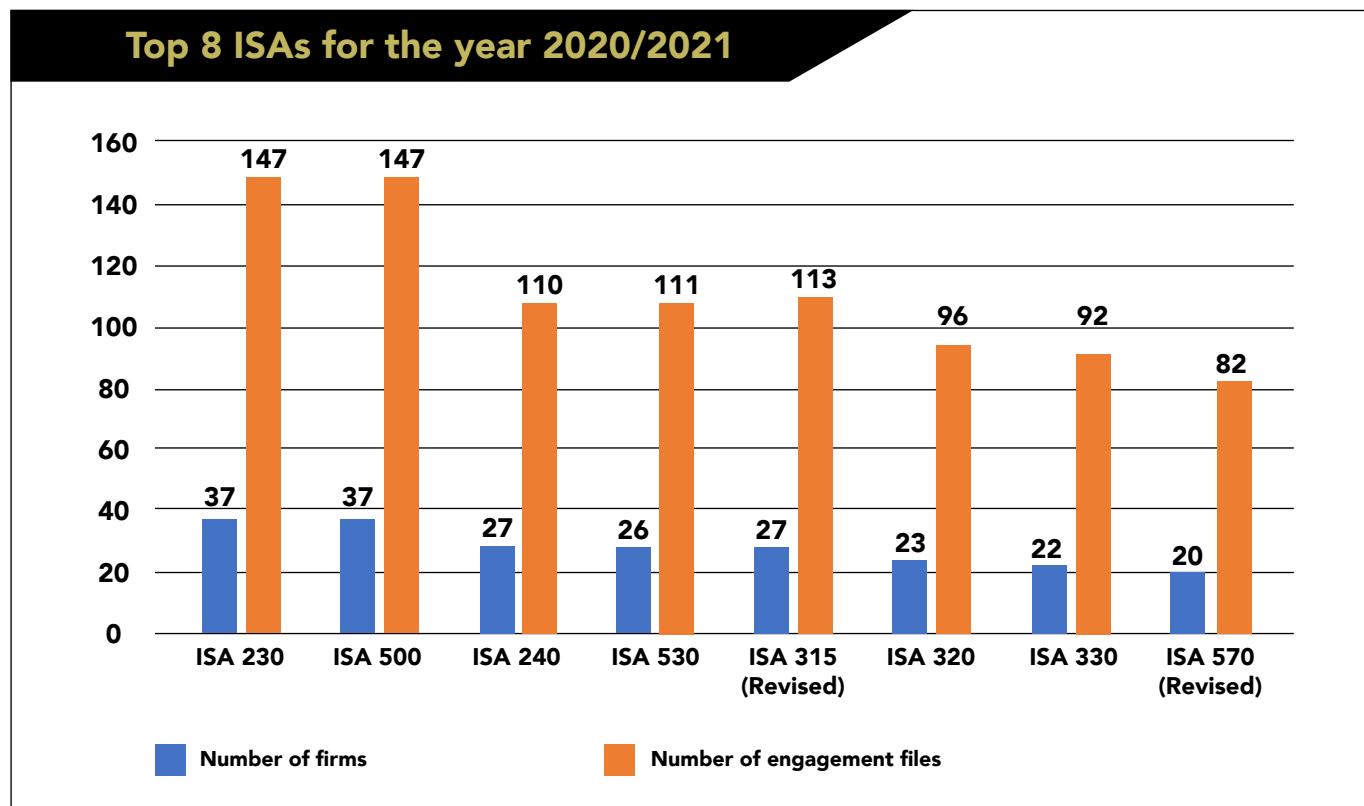
ISQM 1					
Introducing a risk-based approach focused on achieving the quality objectives	Improving information and communication			Proactive monitoring of the system as a whole, and timely and effective remediation	Evaluating the system of quality management on an annual basis
					Addressing the use of networks
ISQM 2					
Extended scope of engagements subject to EQ reviews	Enhanced eligibility criteria for EQ reviewers			More robust performance and documentation requirements	
ISA 220 (Revised)					
Modernising ISA 220 for an evolving environment	team may depend on the firm's system of quality management	Clarifying engagement partner responsibilities	Managing and achieving quality at the engagement level	Professional skepticism is central to quality management	Resources
Engagement					

\* All 3 standards include consideration for scalability to cater to firms of all sizes.

## 3.2 Findings and Observations from Engagement Level Review

The Top 8 ISAs with the most findings noted in the past year are:

- ISA 230 Audit Documentation
- ISA 500 Audit Evidence
  - i) Findings are inclusive of both below ISAs:
    - a) ISA 501 Audit Evidence – Specific Considerations for Selected Items
    - b) ISA 505 External Confirmations
- ISA 240 The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements
- ISA 315 (Revised) Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment
- ISA 530 Audit Sampling
- ISA 320 Materiality in Planning and Performing an Audit
- ISA 330 The Auditor's Responses to Assessed Risks
- ISA 570 (Revised) Going Concern



Below are the common findings noted from the practice review, in order to assist the practitioners in understanding and appreciating the aspects of the respective ISAs:

ISA	Findings noted	Improvement points
<b>ISA 230</b> <b>Audit</b> <b>Documentation</b>	<p>1. Inadequate documentation in the working papers, for example:</p> <ul style="list-style-type: none"> <li>- The nature, timing and extent of the procedures.</li> <li>- Results of the procedures performed, before arriving at the conclusion.</li> <li>- The identifying characteristics of the items selected for testing, and the details of the supporting documents verified to.</li> <li>- Checklist or procedures in audit program were completed without the supporting evidence on the audit work performed in regards of the procedures.</li> <li>- Certain audit procedures were represented to have been performed by the firm and that sufficient and appropriate audit evidence has been obtained, but these were not documented in the working papers.</li> </ul>	<p>a) <b>What is not documented is considered not done.</b></p> <p>b) The documentation must be sufficient enough to enable an experienced auditor, having no previous connection with the audit to understand:</p> <ul style="list-style-type: none"> <li>- Nature, timing and extent of the procedures performed</li> <li>- Results of the procedures performed (including the identifying characteristics of the items selected for testing)</li> <li>- Evidence obtained</li> <li>- Findings or issues</li> <li>- Conclusion, including professional judgement in reaching the conclusion</li> </ul> <p>c) More documentation is needed subject to the following factors:</p> <ul style="list-style-type: none"> <li>- Risk</li> <li>- Judgement</li> <li>- Need of analysis</li> <li>- Conclusion is less apparent</li> <li>- Significance of the evidence</li> </ul>
<b>ISA 500</b> <b>Audit Evidence</b>  <u><b>Inclusive of:</b></u> <b>ISA 501</b> <b>Audit Evidence – Specific</b> <b>Considerations for Selected Items</b>	<p>1. Generally, the absence of documentation on the audit procedures performed and audit evidence obtained, especially when the subjects are of such significance that they may affect the audit opinion expressed, constitutes a breach of ISA 230 and ISA 500.</p> <p>2. Insufficient audit evidence was obtained due to:</p> <ul style="list-style-type: none"> <li>- Lack of technical expertise and industry knowledge on the areas of audit, especially on specialised industries such as biological assets, property development and construction contracts.</li> <li>- Inappropriate sampling methodology was used for testing (please refer to the findings on ISA 530 Audit Sampling).</li> <li>- The audit procedures performed did not address the level of evidence required, and/or did not address all the relevant financial statements assertions.</li> </ul>	<p>a) Pursuant to ISA 230 (8) and ISA 500 (4), all audit procedures performed, the results thereof and the conclusions drawn should be duly recorded in the working papers so as to provide sufficient appropriate evidence to support the audit opinion issued.</p> <p>b) ISA 500 (A55) stated that while selective examination of specific items from a class of transactions or account balance will often be an efficient means of obtaining audit evidence, it does not constitute audit sampling. The results of audit procedures applied to items selected in this way cannot be projected to the entire population; accordingly, a selective examination of specific items does not provide audit evidence concerning the remainder of the population. In this case, when selective or key items testing is used, the firm shall test the remaining population based on appropriate sampling methodology; or to be supplemented by the test of controls (must be relevant to assertions to be addressed) and substantive analytical review.</p>
<b>ISA 505</b> <b>External</b> <b>Confirmations</b>		

ISA	Findings noted	Improvement points
	<p><b>ISA 501</b></p> <p>3. Observation of physical inventory count was not performed, which includes the following procedures:</p> <ul style="list-style-type: none"> <li>- Evaluate management's instructions and procedures for recording and controlling the results of the entity's physical inventory counting;</li> <li>- Observe the performance of management's count procedures;</li> <li>- Inspect the inventory; and</li> <li>- Perform test counts.</li> </ul> <p>4. For non-performance of the physical inventory count, no documentation to justify why the procedure is impracticable, nor suitable alternative procedures were performed to obtain sufficient appropriate audit evidence about the existence and condition of the inventory.</p> <p>5. Gaps or inadequacies were noted in the performance of the following procedures:</p> <ul style="list-style-type: none"> <li>- No tracing of the actual test count items to the final inventory listing</li> <li>- Rolled backward/forward test was not performed for inventory count that was not observed on the financial year end</li> <li>- Testing of the costing method adopted</li> <li>- Testing on the costing of work-in-progress and finished goods to ascertain the proper absorption of conversion costs</li> <li>- Testing on the lower of cost and net realisable value</li> <li>- Assessment on the slow moving or obsolete inventories</li> </ul>	<p><b>ISA 501</b></p> <p>c) ISA 501 (4) requires the auditor to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory by attendance at physical inventory counting and performing audit procedures over the entity's final inventory records to determine whether they accurately reflect actual inventory count results. When observation of inventories count is adequately performed, sufficient audit working papers must be prepared to document the procedures performed and the findings on deficiencies (which includes information like date and location of count, samples counted, basis of sampling adopted and reconciling or tracing to the final inventories listing). Besides, pursuant to ISA 501 (A7), performing test counts, for example, by tracing items selected from management's count records to the physical inventory and tracing items selected from the physical inventory to management's count records, provides audit evidence about the completeness and the accuracy of those records.</p> <p>d) Matter of general inconvenience to the auditor is not sufficient to support a decision by the auditor that attendance is impracticable. Further, the matter of difficulty, time, or cost involved is not in itself a valid basis for the auditor to omit an audit procedure for which there is no alternative or to be satisfied with audit evidence that is less than persuasive.</p>

ISA	Findings noted	Improvement points
	<p><b>ISA 505</b></p> <p>6. Lack of follow-up actions on the confirmations sent, to ensure they are received before or by signing date.</p> <p>7. Alternative procedures were not performed by the firm for confirmations not received from the counterparties.</p> <p>8. For confirmations not received, the firm performed sample testing upon the counterparty balance selected for testing (sample upon sample testing). This resulted in a lack of audit evidence obtained over the balance.</p>	<p><b>ISA 505</b></p> <p>d) Once the audit 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 receivables/payables, 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. The auditor would 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>e) If the results mentioned above were not satisfactory or any receivable/payable that was circularised but failed to respond, then auditor shall perform alternative audit procedures to obtain sufficient and appropriate audit evidence on the existence and valuation of receivables/payables as required by ISA 505 (12).</p>



ISA	Findings noted	Improvement points
<b>ISA 240</b> <b>The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements</b>	<ol style="list-style-type: none"> <li>1. No documentation on the understanding of the entity and its control environment including the process for identifying and responding to risk of fraud as well as the mitigating controls.</li> <li>2. No evidence of inquiries of management, internal audit and others to determine if they have knowledge of actual/suspected/alleged fraud.</li> <li>3. Lack of evidence on the following procedures: <ul style="list-style-type: none"> <li>- Testing of the appropriateness of journal entries recorded in general ledger and other adjustments</li> <li>- Review of accounting estimates for biases</li> <li>- Review of unusual significant transactions.</li> </ul> </li> </ol>	<ol style="list-style-type: none"> <li>a) Pursuant to ISA 240 (10), the auditor shall consider the risks of material misstatements in the financial statements due to fraud. The auditor also needs to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate procedures. In addition, the auditor shall respond appropriately to fraud or suspected fraud identified during the audit.</li> <li>b) Pursuant to ISA 240 (17) to (24), the auditor shall perform procedures to obtain information for use in identifying the risks of material misstatement due to fraud. For instance, the auditor shall consider whether fraud risk factors are present and whether any unusual/ unexpected relationships have been identified in performing analytical procedures. The auditor shall also make inquiries of management of those charged with governance and others as appropriate to obtain an understanding of the process for identifying and responding to the risks of fraud and the internal control that management has established to mitigate these risks.</li> </ol>
<b>ISA 315 (Revised)</b> <b>Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment</b>	<ol style="list-style-type: none"> <li>1. There was a lack of assessment of the understanding of control environment and control activities related to audit (the cycle and the related control) through documentation of system notes and observation (walkthrough test).</li> <li>2. When performing the understanding of internal controls of client or walkthrough test, the firm merely use inquiry method.</li> <li>3. No assessment of the risks of material misstatement at the financial statement level and assertion level and its related audit procedures.</li> <li>4. Control risk was concluded as low/moderate risk without performing any test of control to support the lower risk assessment.</li> </ol>	<ol style="list-style-type: none"> <li>a) With regards to ISA 315 (Revised) (5), the auditor shall perform risk assessment procedures to provide a basis for the identification and assessment of risks of material misstatement at the financial statement and assertion level.</li> <li>b) When obtaining an understanding of controls that are relevant to the audit, the auditor shall evaluate the design of those controls and determine whether they have been implemented, by performing procedures such as inspection and observation in addition to inquiry of the entity's personnel.</li> <li>c) Walkthrough test are particularly important in understanding the implementation of controls and ISA 315 (Revised) does not permit the auditor to base their understanding of the design and implementation of controls on inquiries alone.</li> </ol>

ISA	Findings noted	Improvement points
<b>ISA 530</b> <b>Audit Sampling</b>	<ol style="list-style-type: none"> <li>1. Basis of sampling, including the sample size derived and sampling methodology was not documented, hence it is uncertain if the firm has considered the requirements under the ISA, and raised doubt on the adequacy of the audit evidence obtained.</li> <li>2. The sample selection was biased towards high value items or items above a specific threshold. This caused the samples selected for testing to not be representative of the entire population, and hence the results cannot be projected accordingly (in the event such key items testing was performed, additional procedures should be carried out on the remaining population to ensure the adequacy of the audit evidence obtained).</li> </ol>	<ol style="list-style-type: none"> <li>a) The sampling methodology should provide a reasonable basis for the auditor to draw conclusions about the population from the samples selected.</li> <li>b) When designing an audit sampling, the auditor shall consider the purpose of the audit procedure and the characteristics of the population from which the sample will be drawn.</li> <li>c) Sample(s) selected must be representative of the entire population.</li> <li>d) The auditor must ensure the sample size is sufficient to reduce the sampling risk to an acceptably low level.</li> </ol>
<b>ISA 320</b> <b>Materiality in Planning and Performing an Audit</b>	<ol style="list-style-type: none"> <li>1. The rationale or justification for benchmark used in determining the overall materiality was not documented.</li> <li>2. Performance materiality for the purpose of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures was not set or was not applied consistently throughout the audit.</li> </ol>	<ol style="list-style-type: none"> <li>a) Materiality levels shall be established for all audit engagements with their basis clearly documented and once determined, it shall be strictly applied as otherwise the overall risk of the engagement concerned may not be properly addressed. Consequently, the overall opinion expressed on the financial statement may not be appropriate.</li> <li>b) Performance materiality shall be set and applied consistently throughout the audit.</li> </ol>



ISA	Findings noted	Improvement points
<b>ISA 330</b> <b>The Auditor's Responses to Assessed Risks</b>	<ol style="list-style-type: none"> <li>1. The audit procedures designed and performed by the firm do not address accordingly the assessed risks of material misstatement, either/both at the financial statement level and/or at the assertion level.</li> <li>2. The audit procedures performed do not address all the relevant assertions, hence insufficient audit evidence was obtained for the auditor to conclude on the opinion.</li> <li>3. Lack of audit procedures performed by the firm to assess the presentation and disclosure of the financial statements.</li> <li>4. Erroneous or omissions in the presentation and disclosure of the financial statements, in accordance with the applicable financial reporting framework.</li> </ol>	<ol style="list-style-type: none"> <li>a) As an overall, the auditor shall design and implement overall responses to address the assessed risks of material misstatement at the financial statement level.</li> <li>b) After identifying and assessing the risk of material misstatements, ISA 330 (6) required the auditor to design and perform further audit procedures whose nature, timing and extent are based on and are responsive to the assessed risks of material misstatement at the assertion level.</li> <li>c) As per ISA 330 (24), the auditor shall perform audit procedures to evaluate whether the overall presentation of the financial statements is in accordance with the applicable financial reporting framework.</li> <li>d) The auditor shall conclude whether sufficient appropriate audit evidence has been obtained. In forming an opinion, the auditor shall consider all relevant audit evidence, regardless of whether it appears to corroborate or to contradict the assertions in the financial statements.</li> </ol>
<b>ISA 570 (Revised)</b> <b>Going Concern</b>	<ol style="list-style-type: none"> <li>1. No going concern assessment was performed or evidenced, to identify any event or condition that may cast significant doubt on the entity's ability to continue as a going concern.</li> <li>2. No further procedure was performed by the firm, in assessing the appropriateness of the going concern assumption despite the existence of indicators of going concern uncertainties.</li> <li>3. No additional disclosure about the material uncertainty is made in the financial statements, although there were events or conditions that may cast significant doubt on the entity's ability to continue as a going concern identified, and an unmodified opinion was rendered.</li> </ol>	<ol style="list-style-type: none"> <li>a) In accordance with ISA 570 (Revised), the auditor is required to obtain sufficient appropriate audit evidence regarding the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements, and conclude whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.</li> <li>b) Pursuant to ISA 570 (Revised) (22), if adequate disclosure about the material uncertainty is made in the financial statements, the auditor shall express an unmodified opinion and the auditor's report shall include a separate section under the heading "Material Uncertainty Related to Going Concern" ("MUGC").</li> </ol>

These are a compilation of the common and significant findings observed from the practice review for the past year, and are not meant to be used as an exhaustive guidance in complying with the respective ISAs and maintaining the firm's audit quality. Practitioners are advised to familiarise and understand the requirements of the respective professional standards and ensure these are being complied with accordingly.

### 3.3 Available Resources

- (i) The practitioners are also encouraged to refer to the links below for the respective articles issued by PRD during the year on the respective elements of the ISQC 1:
  - **Practice Review: Key Findings on Leadership Responsibilities for Quality within the Audit Firm**
  - **Practice Review: Key Findings on Relevant Ethical Requirements**
  - **Practice Review: Key Findings on Acceptance and Continuance of Client Relationships and Specific Engagements**
- (ii) Practitioners can also refer to the below publications by MIA and IFAC on carrying out the implementation of the respective ISQC 1 elements and ensure that a system of quality control is established and maintained in the firms.
  - **Audit Sole Practitioners: Stepping Up Your Game**
  - **Guide to Quality Control for SMPs**
- (iii) **COVID-19 Considerations**

Despite the multiple challenges faced in the current pandemic, auditors are still expected to conduct the audit in accordance with the ISAs. Therefore, auditors are expected to ensure that they have sufficient time and resources to perform the affected audit engagements. Where necessary, auditors may need to communicate with management and/or those charged with governance to consider applying for extension of time to lodge financial statements and reports in accordance with Section 259(2) of the Companies Act 2016 or other applicable regulations.

Auditors will need to consider the impact of the COVID-19 outbreak on audit work performed in accordance with the ISAs. The below publications serve to provide some guidance in navigating through the crisis as well as some considerations in the performance of the audit work:

- **COVID-19: Frequently Asked Questions on Auditing**
- **Navigating Towards a New Normal After COVID-19**

#### (iv) **Embracing Technology in the Profession**

The profession is poised to play a critical role in the nation's ongoing journey of digital transformation towards becoming a digitally driven nation<sup>2</sup>. To help accountants manage the changes arising from the digital economy and Industrial Revolution 4.0 (IR4.0), MIA has launched the MIA Digital Technology Blueprint<sup>3</sup>.

The Blueprint lays out the landscape of IR4.0 and how it impacts MIA members, in preparing the profession for the digital economy. Please refer to the following link for the details:

- **MIA Digital Technology Blueprint - Guiding Your Tech Transformation**

The above is essential in driving the adoption of technology among the profession<sup>4</sup>, and encourage the implementation and operationalisation of the digital transformation.

<sup>2</sup> The MyDIGITAL vision was launched with the aim to achieve digital transformation and digital inclusivity for all segments of society and economy. Please refer to the following for further details:  
<https://www.at-mia.my/2021/02/26/mydigital-how-accountants-are-crucial-to-malaysias-digital-transformation/>

<sup>3</sup> Please refer to the following link for the Blueprint:  
[https://www.mia.org.my/v2/downloads/resources/publications/2018/07/12/MIA\\_Technology\\_Blueprint\\_Spreads\\_format.pdf](https://www.mia.org.my/v2/downloads/resources/publications/2018/07/12/MIA_Technology_Blueprint_Spreads_format.pdf)

<sup>4</sup> For the results of the survey conducted on the adoption of technology, please refer to the below link:  
<https://www.at-mia.my/2020/04/15/technology-adoption-by-the-accountancy-professional-in-malaysia/>

## 4.0 Observations from Monitoring Reviews

## 4.0 Observations from Monitoring Reviews

Since the implementation of the new practice review framework in July 2017, a total of 69 audit firms have been subjected to monitoring review, out of which 14 reviews were conducted during the year.

From the 14 monitoring reviews conducted during the year, 7 reviews were assigned a Satisfactory rating by the PRC, with the remaining 7 reviews being rated Unsatisfactory.

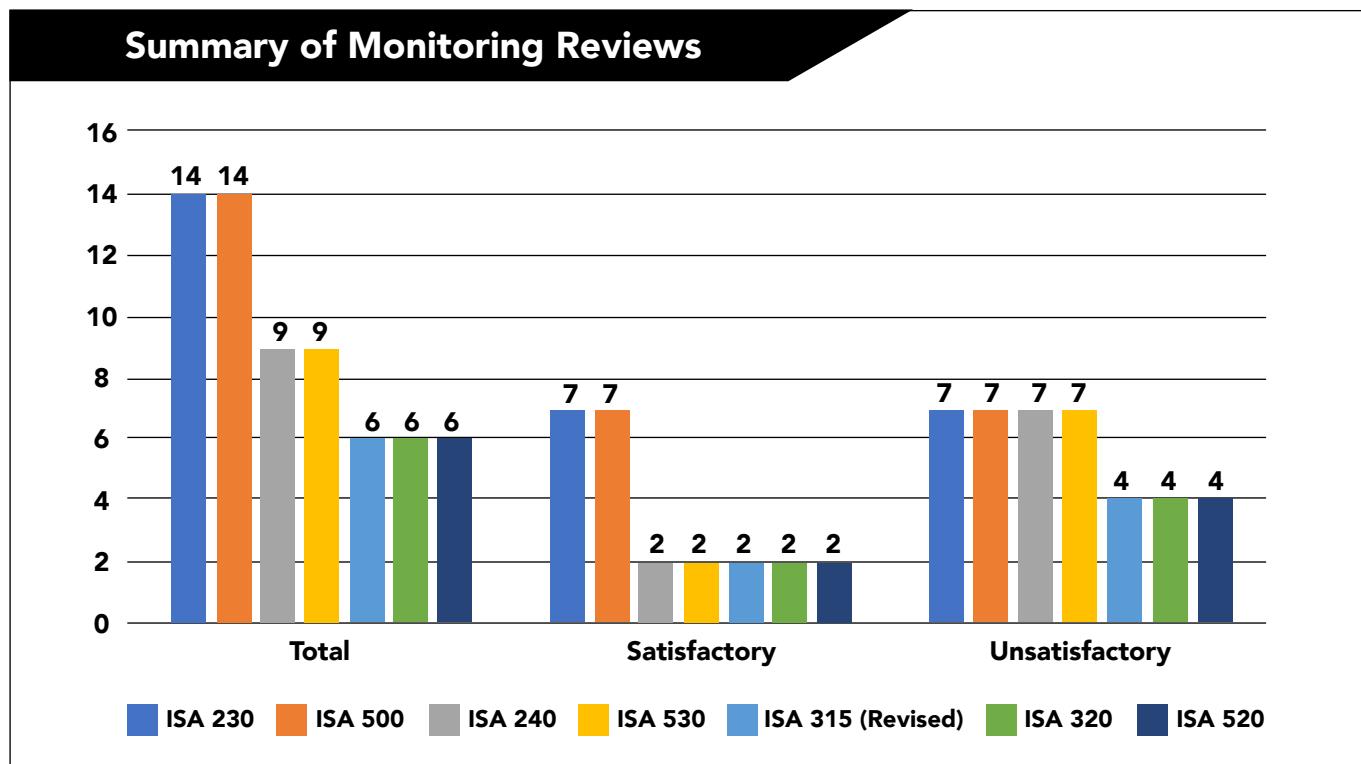
Monitoring review is applicable to all firms which have been rated Type 3 in the first review. Under the current framework, audit firms with Type 3 rating need to submit the remedial action plan (RAP) one month after receipt of the final practice review report approved by the Practice Review Committee (PRC).

Upon the approval of the RAP by the PRC, the audit firms must ensure that all action plans and the timelines as stated in the approved RAP are strictly implemented and adhered to. The core focus of the monitoring review is to determine that the weaknesses identified in the practice review report are adequately rectified and the firm has adhered to professional standards, legal and regulatory requirements. Any new findings noted shall also be included in the report.

For further details on the monitoring review process, members are encouraged to refer to the following article:

- [Continuous Quality Monitoring for Type 3 Audit Firms](#)

Based on the monitoring reviews, the following are the summary on the areas of findings:



Referring to the graph above as well as the monitoring reviews conducted, several observations were noted:

- i) For the firms rated as satisfactory, there were significant improvements noted in the audit quality, as evidenced by the reduced number of ISAs with findings. For the remaining ISAs with findings noted, the findings were neither material and pervasive nor deemed as significant deficiencies that might result in the auditor being unable to obtain sufficient appropriate audit evidence to conclude and support the basis of opinion rendered. Moreover, the firms have implemented marked improvements in the system of quality control of the firm.

ii) For the firms rated as unsatisfactory, it was observed that recurring findings from the first review were still being identified in the monitoring review. Furthermore, the progress made by the firms in the system of quality control and overall audit quality, were in the view of the PRC, not sufficient to meet the requirements of the applicable professional standards.

The major factor observed in contributing to the firm's ability to meet the standard requirement and satisfying the monitoring review lies in the approach of the firm in formulating an effective action plan. In order to achieve it, firms are encouraged to embrace the following:

#### **Do not merely resolve the symptoms**

What firms need to do is to understand, at a very fundamental level, the firm-wide underlying deficiencies and what is hindering the realisation of an effective system of quality control.

#### **Addressing the root cause**

This is critical in ensuring that firms are able to formulate remedial plans that are targeted to address the relevant underlying deficiencies in the practice.

#### **Do not seek to establish a blame culture**

The responsibility/ownership over the operation of the firm and the way how audit is conducted ultimately lies with the partners/practitioners. Hence, other parties should not be blamed for poor quality.

#### **Long-term focus**

Avoid temptation of settling on a cursory "quick fix" answer which does not address the more difficult underlying issues.

Firms can also refer to the publications below for further information on the RAP as well as the root cause analysis (RCA), which is essential and not limited only to the practice review, but the firm's overall approach in improving audit quality.

- [\*\*Formulating an Effective Remedial Action Plan\*\*](#)

- [\*\*Root Cause Analysis \(RCA\) - An Essential Process to Improve Audit Quality\*\*](#)

# Appendix

## Appendix 1 – Practice Review Framework



### Firm Selection Approach

- MIA uses a risk-based approach for selection of audit firms for practice review, which has been streamlined under the Practice Review Framework, to select firms based on a risk profiling system using information extracted from the Annual Return submitted by Audit Firms.
- Audit firms may also be selected for review based on referrals from other regulatory bodies in Malaysia or other committees of the Institute.
- The identity of the audit firm is kept confidential at all times from all parties who are not directly involved in the practice review of the firm, including the PRC and staff of the Institute.



### Scopes of Review

- **Firm level Inspections** - Practice Review inspects the audit firm's system of quality control (firm-level inspections) to ensure that they are in compliance with the requirements of ISQC 1.
- **Engagement Inspections** - Practice Review's approach in performing inspections of individual engagements comprises detailed engagement inspections of audit firms to assess whether the audit work is conducted in compliance with relevant professional standards. The sample of files selected for practice review should be reflective of the firms' overall operations and size.



### Types of Ratings

- At the conclusion of the practice review, the reviewer is required to table a report to the PRC.
- Before the deliberation of the report, the reviewer will delete any reference to audit firm's identity to preserve confidentiality.
- The PRC shall determine a rating for the report in the following manner, taking into consideration the practice review report and the audit firm's comments.

## Types of Rating

### TYPE 1

The firm complies with ISQC 1 and applicable professional standards, legal and regulatory requirements. No breach of mandatory auditing standards noted. It signifies a comfortable pass and no further action is required.

### TYPE 2

Minimal, non-pervasive weaknesses are noted in compliance with ISQC 1 and mandatory auditing standards. Weaknesses are noted in some engagement files but not in others. It requires a written assurance and commitment from audit firms that remedial action and improvement shall be implemented.

### TYPE 3

Where it considers that the audit firm has some severe weaknesses which were pervasive in complying with applicable professional standards, legal and regulatory requirements during the course of carrying out the engagement in which the work was performed, and evidence obtained thereon was inadequate and/or inappropriate. Thus, the basis needed to form the opinions was not adequately supported. This requires the audit firm to submit a RAP to rectify all areas of weakness.

Monitoring review on the implementation of the approved RAP will be imposed on the audit firms within the specific time period as prescribed in the MIA By-Laws.

### TYPE 4

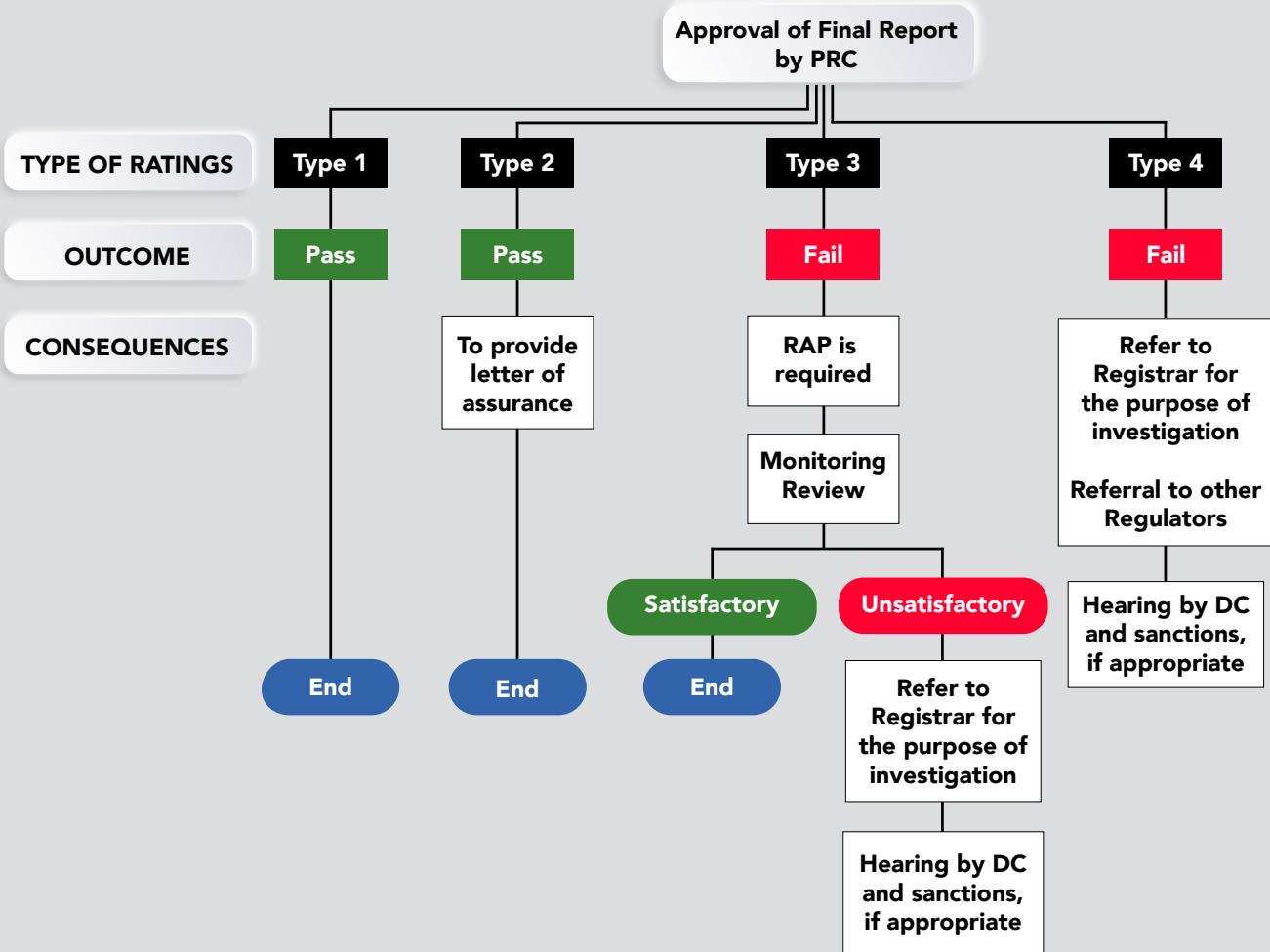
A situation where an audit firm has committed an offence or a breach against the laws and regulations of the country and MIA's regulations or the basis needed to form the opinions expressed on the engagement reviewed was not supported for reasons as stipulated in the MIA By-Laws.

If the firm is rated as Type 4, a complaint shall be lodged with the Registrar.

"A practice review report should not be understood to provide any assurance that the firm's audits, or the audit firm's clients' financial statements, are free of any deficiencies not specifically described in the practice review report. Also, the practice review reports are not intended to serve as balanced score cards or overall rating tools."

Practice Review Framework

## 4 Types of Ratings

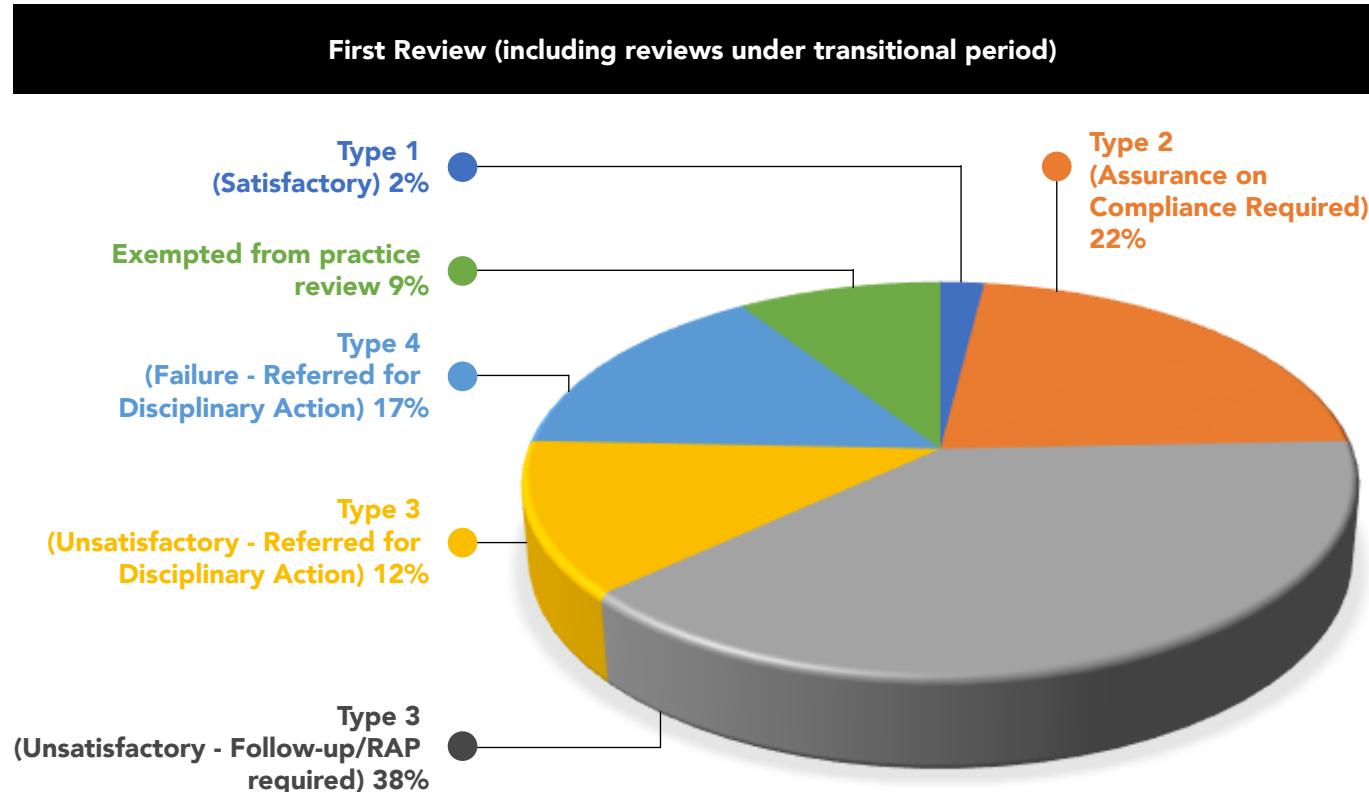


## Appendix 2 – Cumulative Reviews Results

(a) Below are the statistics and analysis for the reviews finalised (ratings determined by PRC) from 1st July 2017 to 30th June 2021.

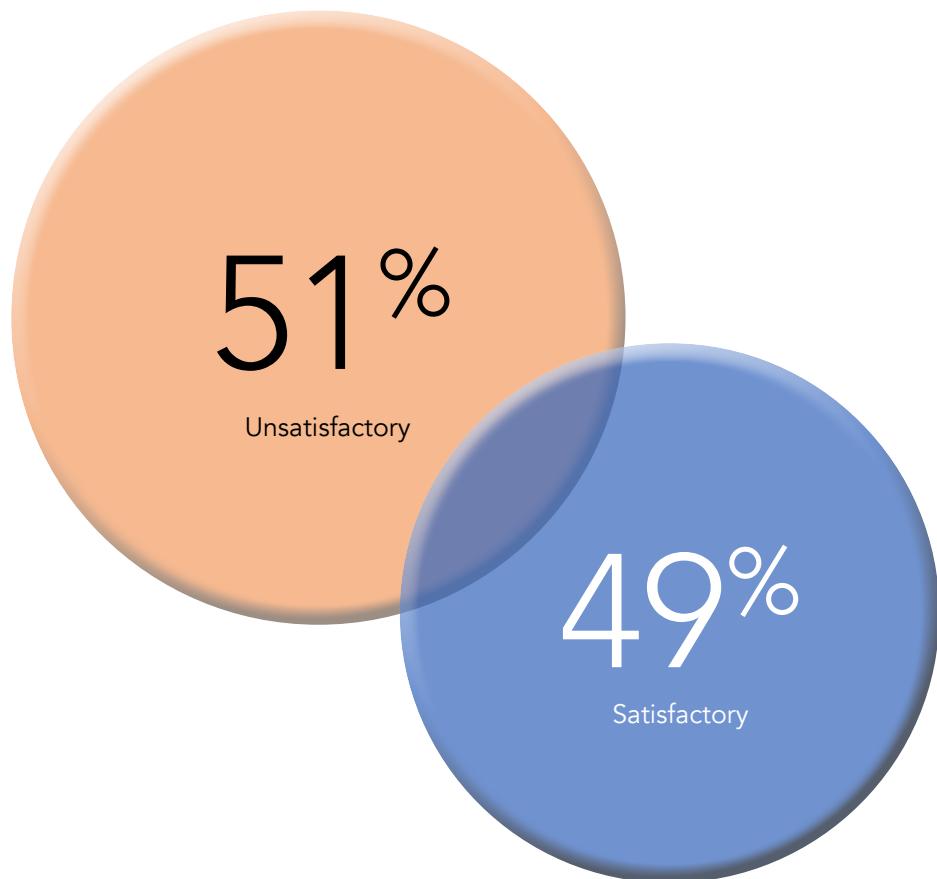
Financial year		2017/2018	2018/2019	2019/2020	2020/2021	Total Finalised Reviews
(a)	First Review	27	33	21	37 <sup>5</sup>	118
(b)	Reviews under transitional period	29	8	1	0	38
(c)=(a)+(b)	Total Reviews	56	41	22	37	156
(d)	Monitoring Review	0	36	19	14	69
(e)=(c)+(d)	<b>Total</b>	<b>56</b>	<b>77</b>	<b>41</b>	<b>51</b>	<b>225</b>

(b) Reviews Results (Ratings determined by PRC)



<sup>5</sup> Figures included number of firms exempted from practice review.

## Monitoring Review

**Note:**

Under the transitional provisions of the old PR framework to the new practice review framework, the audit firms under the on-going reviews have the option of proceeding under the old framework of follow-up review. This has been completed in FY2019/2020.

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