

## AUDITING STANDARDS IN MALAYSIA

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### SYNOPSIS

*The audit profession in Malaysia today faces many problems; the most urgent of which is the apparent lack of professional standards by some auditors in the conduct of their audits. The problem is further aggravated by the lack of legal or professional sanction on the auditors in the face of massive audit failures. This is no blessing to the image of the audit as well as the accounting profession as a whole, as the audit function forms the very backbone of the accounting profession. It is the audit function that has given the accounting profession the prestige and the professional status that it currently enjoys and it is the independent audit function which has distinguished the accounting profession from the other related professions in the fields of information systems such as management consultants, computer experts and statisticians.*

*In this article, the writer has proposed a framework for the formulation and enforcement of a codified set of auditing standards by the profession itself, for the regulation of the audit profession in the Malaysian environment. It is the view of the writer that the regulation of the accounting profession should be entrusted to the profession itself and should not be left in the hands of legislators who do not understand fully the significance of the accounting concepts and principles involved.*

*In formulating his proposals, the writer has carried out a survey and made comparative studies of the audit professions in the developed countries.*

### What are auditing standards

Auditing standards are basic principles governing the auditor's professional responsibilities which he must exercise in the course of his audit and in reporting the results thereof. Professional accounting firms and professional bodies of accountants around the world have made great progress in constructing and agreeing upon a host of auditing procedures to deal with specific issues and problems in auditing. However only three English-speaking countries namely Australia, Canada and U.S have so far come up with a set of auditing standards.

Confusion sometimes arises in the use of the term 'audit standards' partly because of the use of the term 'accounting standards' in the field of accounting. 'Accounting standards' are in fact the equivalent of auditing procedures in the field of auditing. Above the accounting standards relating to specific problems and issues there are the 'objectives' which form the highest level of generalisations in the field of accounting. Thus auditing standards are related to auditing procedures in the same way that accounting objectives are related to accounting standards. It is unfortunate that the word 'standard' applies to the lower level of generalisation in the case of accounting and to the higher level in the case of auditing.

Auditing standards are general in nature while auditing procedures deal with such specific matters as the verification of inventories, attendance at stock-take, circularization of debtors, verification of fixed assets and depreciation charges, the audit of post-balance sheet

events, the audit of holding companies, the review of internal control, the use of statistical methods in auditing, the audit of computer-based accounting system, and so on. Auditors may from time to time in the exercise of their professional judgement, decide not to use certain auditing procedures if circumstances warrant it. But no auditor should have the discretion to suspend or ignore the requirements of auditing standards.

### Experience of Developed Countries

In Malaysia the professional bodies of accountants have not come out with any auditing standards nor any recommendations on auditing procedures.

The professional bodies in United Kingdom have not issued any auditing standards, but all the four major professional bodies<sup>1</sup> recognised under the U.K. Companies Act, 1976 have published extensively recommendations on auditing procedures for the guidance of their members. The Institute of Chartered Accountants in England and Wales has published some twenty-three auditing statements (known as the 'U' series). However these recommendations do not seek to be comprehensive and have generally been directed towards various ad hoc matters. The authority of the various professional institutes in U.K. does not encompass procedures whereby such auditing standards can be enforced. In 1977 the Auditing Practices Committee was formed in U.K. to formulate proposals for auditing standards which eventually will supersede the existing guidelines.

The auditing standards issued by the professional bodies in Australia, Canada and the United States are more or less identical in content. The Australian and the Canadian auditing standards were apparently based on the U.S. example which has been in existence for the last three decades.

The American Institute of Certified Public Accountants (AICPA) adopted the first set of auditing standards in 1948. The contents of the Australian Statement of Auditing Stan-

dards are reproduced below as a typical example of the standards issued by three countries.

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### The Need for Auditing Standards

In the developed countries auditors are currently being criticized for inadequate auditing and not doing enough to protect the public.

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<sup>1</sup>*Institute of Chartered Accountants, Scotland. Institute of Chartered Accountants, England & Wales. Institute of Chartered Accountants, Ireland. Association of Certified Accountants.*

Most of these criticisms are justified and many of the audit firms are taken to court on allegations of negligence. In Malaysia auditors have rarely been criticized by the public nor sanctioned by the professional bodies even in the face of massive audit failures. This is no blessing to the whole accounting profession as the lack of legal or professional sanction will not help to improve the credibility and professional image of the auditors who form the backbone of the accounting profession in this country. The most important function of auditing is to lend credibility to the financial statements on which an audit has been conducted. An auditor cannot lend credibility to the accounts if he himself is not credible and it is the function of auditing standards to lend credibility to auditing itself. The users of accounting information who rely on the audit opinion must be confident that the auditor has discharged his duties according to very high standards.

The Malaysian Association of Certified Public Accountants (MACPA) which is the only active professional body in the country has issued accounting standards and adopted most of the accounting standards issued by the International Accounting Standards Committee, but has not considered it necessary to introduce any auditing standards. The MACPA's effort in the field of accounting standards should be commended. However no accounting standards can be successful unless it is accompanied by a properly enforced set of auditing standards. Auditors have to play the important role of enforcing the application of accounting standards. If the financial statement user is to be able to rely on an auditor's report he must have confidence in the standards used by the auditor in performing his audits. Thus auditing standards and accounting standards are mutually reinforcing in establishing the users' confidence.

#### **Towards A Set of Auditing Standards in Malaysia**

From the analysis of the existing auditing standards of other countries, it will be seen that auditing standards in the following areas are urgently required in Malaysia:

1. Independence, integrity and objectivity of auditors
2. Skill and competence
3. Performance standards dealing with evidence and the collection and evaluation of evidence
4. Reporting standards
5. Enforcement of standards

#### **1. Independence, Integrity and Objectivity**

Independence is the most important standard of auditing. It is independence that distinguishes the auditing profession from the other professions and specialists such as the computer experts, statisticians, financial controllers, management accountants, internal auditors, management consultants etc. In the legal profession, the lawyers are not expected to be independent of their clients and they will be failing in their duty if they do not press the client's case as far as possible. It is the judges who have to be impartial and independent in the legal profession.

Unlike the legal profession, an auditor must maintain an independent outlook and allow nothing to impair his independence and independent attitude calls for integrity and objectivity on the part of the auditors. The very survival of the audit profession depends on the public confidence on the credibility of his opinion. Thus he should not only be independent in fact but should also avoid situations that may lead others to doubt his independence. As in law justice must not only be done but must be seen to be done.

The question of audit independence has raised many controversial issues in accounting-developed countries. Among them are the requirement for rotation of auditors, the rendering of services other than auditing such as book-keeping, secretarial, consultancy and taxation services; shareholdings in client companies; blood-relations; corporate directorship; nominee shareholding by auditors, overdependency over large audit clients; dependency over clients' audit fees and 'closeness' to the clients.

The company law in Malaysia has made

provisions to ensure independence of auditors. Section 9 of the Malaysia Companies Act, 1965 prohibits the following persons from acting as auditors of a company:

- (a) if he is indebted to the company or related company for more than two thousand five hundred dollars.
- (b) if he is
  - (i) an officer of the company
  - (ii) a partner, employer or employee of an officer of the company; or
  - (iii) a partner or employee of an employee of an officer of the company; or
- (c) if he is responsible for or if he is the partner, employer or employee of a person responsible for the keeping of the register of members or register of holders of debentures of the company.

The Minister of Finance who is charged with the responsibility of approving audit licence has in addition to the provisions of Section 9 prescribed the following conditions pursuant to Section 8 (4) of the Act:

- (a) The auditor shall not hold shares or act as secretary of the company.
- (b) The auditor shall not have his office in the same registered office of his client.
- (c) The auditor shall not directly or indirectly write-up or keep the books of accounts and records of his client.

It is interesting to note that the law in Malaysia has prohibited the rendering of secretarial and accounting services but not taxation and management consultancy services by the auditors. This is another instance where laws affecting accountants are made by legislators who do not appreciate the full significance of the accounting concepts and principles involved. The same criteria of independence which have been used against the writing-up of books and secretaryship of the client companies, have not been applied to other related areas such as the rendering of management consultancy and taxation services.

Coincidentally only the bigger companies require and are able to afford such services.

It is not the intention here to suggest that auditors be prohibited from performing management consultancy and taxation services. On the other hand it is only logical and rational that the audit firms be allowed to perform secretarial and accounting services of their clients for the very same reasons that they are allowed to perform management consultancy and taxation services. It has been argued by the audit firms that the management consultancy and taxation services are performed by separate departments of the firm and therefore would not impair the independence of the auditors. Cannot the same argument be used in favour of book-keeping and secretarial services for the smaller companies who cannot afford to engage a full-time accountant or secretary? Auditors are the most appropriate and convenient people to turn to for such services by virtue of their training, expertise and their familiarity with the client affairs.

Audit independence is a very important standard of auditing. Failure to come out with an appropriate standard on audit independence by the profession itself may result in government intervention through legislations which may not be in the best interest of the profession. The legislators normally do not possess the specialised knowledge of auditing and accounting to enable them to design appropriate rules for the accounting profession.

### **Skill and Competence**

If the auditor is to perform his function effectively he must be at least as expert in financial accounting matters as the most expert of his clients, since he has to judge the quality of such clients' accounting. Moreover he must have a very high degree of professional expertise in the field of auditing itself, along with considerable knowledge and expertise in other related areas such as economics, company and commercial law, taxation and computers.

The specialised skills and competence re-

quired of an auditor can only be acquired by a combination of general education, formal courses to obtain particular technical knowledge and practical experience under proper supervision.

The profession must administer a system of evaluation to ensure that only those who are really qualified are admitted to the profession. However it is not enough to ensure that the new entrants are adequately qualified, it is also essential to see that the existing members of the profession keep up to date with current developments and new knowledge which evolved since they first qualified.

The accounting profession in Malaysia has performed very well in its business of filtering the new entrants, and in certain instances the requirements are more stringent than that of the accounting-developed countries. However the profession has lagged far behind in its effort if any, to up-date the technical competence of its existing members. This is evident by the inadequacies shown by some of the existing practitioners.

Practising accountants in Malaysia are required to be registered with the Malaysian Institute of Accountants (MIA). Section 22 of Accountants Act, 1967 provides that no person shall hold himself out as public accountant or auditor or tax consultant unless he is registered as a Public Accountant with the Malaysian Institute of Accountants.<sup>2</sup> Section 26 provides that any person contravening Section 22 shall be liable to a fine not exceeding one thousand dollars or to imprisonment for a term not exceeding one year and on a second or subsequent conviction to a fine not exceeding two thousand dollars or to imprisonment for a term not exceeding two years.

Sections 14 and 15 of the Act stipulate the examination and practical experience required for membership of the M.I.A. In order to qualify as member of the M.I.A. a person must have:

- (a) passed the examinations specified in Part I of the First Schedule of the Act or if

he is a member of one of the association of accountants specified in Part II of that Schedule;<sup>3</sup> and

<sup>2</sup>S. 22. No person shall unless he is registered as a public accountant under this Act and has his principal or only place of residence within Malaysia —

- (a) practise or hold himself out as a public accountant, auditor, tax consultant, tax adviser or any other like description;
- (b) adopt, use or exhibit the terms "public accountant", "auditor", "tax consultant", "tax adviser" or any other term of like description; or
- (c) adopt, use or exhibit the term "accountant" or any other term of like description in such circumstances as to indicate or to be likely to lead persons to infer that he is a public accountant or that he is qualified by any written law to practise the profession of or is in practice as a public accountant.

*Provided that nothing in this section shall operate to prevent an advocate or any person authorized under any other law for the time being in force in Malaysia from carrying on the work of a tax consultant or a tax adviser.*

<sup>3</sup>FIRST SCHEDULE  
(Sections 14 and 15)

Part I

*The final examinations of the Malaysian Institute of Accountants shall be recognised examinations for the purposes of Section 14(1) (a).*

Part II

*The associations recognised for the purposes of Section 14(1) (a) are:*

- (a) Malaysian Association of Certified Public Accountants;
- (b) Institute of Chartered Accountants of Scotland;
- (c) Institute of Chartered Accountants in England and Wales;
- (d) Institute of Chartered Accountants in Ireland;
- (e) Association of Certified Accountants (United Kingdom);
- (f) Institute of Chartered Accountants in Australia;
- (g) Australian Society of Accountants;
- (h) New Zealand Society of Accountants;
- (i) Canadian Institute of Chartered Accountants;
- (j) Institute of Chartered Accountants of India;

- (k) *Institute of Cost and Management Accountants (United Kingdom);*
  - (l) *Diploma in Accounting, Universiti Malaya;*
  - (m) *Bachelor of Accounting, Universiti Malaya and*
  - (n) *Bachelor of Accounting, Universiti Kebangsaan Malaysia.*
- (b) acquired not less than five years' experience. In the case of university graduates and graduates of professional bodies listed in Part II of First Schedule. The period is reduced to three years and in the case of holders of higher school certificate the period is reduced to four years.

The requirements for membership of M.I.A. is comparable with those of the developed countries. Among the developed countries only the United States and Canada have a similar system of licencing practising accountants. In the United States, the designation of Certified Public Accountant (CPA) is conferred by all fifty states, the District of Columbia, the Virgin Islands, Puerto Rio and Guam. Each of these fifty-four jurisdictions has a 'state board of accountancy' to administer the law governing the licencing of CPA. A licence to practise as a CPA is granted by one of the State Boards of Accountancy and does not require membership of any professional organization. The American Institute of Certified Public Accountants (AICPA) is a voluntary membership organisation, open to anyone licensed as a CPA.

To qualify for a CPA licence from the State Board, the applicants normally are required to have;

- (a) a bachelor's degree with a major in accounting.
- (b) passed a written examination consisting of four areas (accounting theory, accounting practice, commercial law and auditing) covered in eighteen hours of examination questions spread over 3 days conducted by the AICPA.
- (c) two years of experience with a CPA firm.

About half of the 54 US jurisdictions permit

a foreigner who is qualified in his own country to be registered to practise. This is similar to the recognition by M.I.A. of foreign-trained accountants listed in the First Schedule of the Accountants Act, 1967. Canada also has a similar system of licencing Chartered Accountants in Canada. Unlike U.S.A and Canada, the other two accounting developed countries, United Kingdom and Australia do not have a similar system of licencing accountants.

The United Kingdom, Australia, as well as Malaysia have however all adopted the British system of registering accountants who wish to practise as auditors under the Companies Acts of the respective countries.

In Australia, requirements for registration with Companies Auditors Board are satisfied by membership in either the Institute of Chartered Accountants or the Australian Society of Accountants. Registration is also open to anyone who is a member of an accounting body outside of Australia recognized by the Board. The Institute of Chartered Accountants in Australia was established in 1928 by Royal Charter and has about 10,000 members of whom about three quarter are in public practice. The Institute is patterned on those of the Institutes in U.K. and was the first Institute of Chartered Accountants to be established outside the United Kingdom. The requirements for membership of the Institute of Chartered Accountants in Australia are:

- (a) a bachelor's degree in accounting or passing the alternative intermediate examination conducted by the Institute comprising of five stages to be completed over a minimum period of five years.
- (b) completed the professional year of study and a thesis.
- (c) passing the open-book final examination comprising of two papers of three hours each covering all areas of accounting, auditing, taxation and company laws.
- (d) three years of experience with a firm of Chartered Accountants.

The Australian Society of Accountants has about 45,000 members and requires for membership a bachelor's degree in accounting and three years of experience with a qualified accountant in either industry, commerce, government or practice. Recently the Society has also introduced the professional year of study as a pre-requisite for membership but does not conduct a final examination.

In the United Kingdom, only members of the three Institutes of Chartered Accountants, namely that of England and Wales, Scotland and Ireland and members of the Association of Certified Accountants are permitted to act as auditors under the U.K. Companies Acts. Even though the Scottish Institute has developed earlier (1854) the English Institute (1880) is the largest and most influential of the four bodies recognized by the U.K. Companies Acts and has a membership of about 65,000. The other three combined totalled about 30,000.

The requirements for membership of the Institute of Chartered Accountants in England and Wales are:

- (a) passing the foundation examination, and two professional level examination. The foundation examination may be waived if certain educational requirements at university or college level have been met.
- (b) having obtained three (in the case of graduates) or four years (in the case of non-graduates) in a firm of Chartered Accountants.

The Scottish Institute requires in addition to the above a university degree as a prerequisite. The Association of Certified Accountants requires the passing of three professional level examination but the requisite experience need not be gained in a firm of practising accountants. The Association also grants full exemptions from examination to candidates who have completed an accounting course in an accredited college in U.K.

The MACPA is apparently a cross-breed of the Institute of Chartered Accountants in England and Wales and the American CPAs. The examinations are patterned on those of the English Institute. But unlike the English Institute which is established by a Royal Charter and recognized by the Companies Act, the MACPA is a voluntary organization like AICPA. However, the MACPA is dissimilar to the American and the English Institutes in many respects:

- (a) The AICPA accepts as members all accountants licenced as CPA by the laws but MACPA does not accept as members all accountants licenced under the Malaysian Accountants Act.
- (b) The State Boards of Accountancy in U.S. require the candidates for CPA licence to pass the final examination conducted by the AICPA. The M.I.A. requires candidates for registration to pass its own examinations.
- (c) Unlike the I.C.A. in England and Wales the MACPA is only a voluntary organisation and not specifically recognised by the Companies Act for purpose of granting the audit licence.
- (d) The MACPA does not accept as members foreign accountants who are recognised in the countries in which they were trained.

It is interesting to note that the MACPA, in contrast with MIA, requires foreign accountants to sit for its examinations before admitting them as members. This requirement is more stringent than those of the more respected professional bodies in the accounting-developed countries. Even the English and the Australian Institutes of Chartered Accountants which were the 'parent' organisation of the MACPA accepts for membership certain foreign accountants without imposing further examinations. The standard of entrance requirements of the M.I.A. are therefore no inferior to professional bodies and licencing bodies in accounting-developed countries. Other than the I.C.A. in England and Wales and the I.C.A. in Australia as mentioned above, the practice

of registering certain foreign-trained accountants are also being practised by the Australian Companies Auditors Board, the Board of Trade in U.K., the Australian Society of Accountants, the New Zealand Society of Accountants and the State Boards of Accountants in U.S responsible for the licencing of CPA.

The MACPA requirements for every new entrants to sit for its examination appear to be far too excessive and restrictive. The MACPA being the only private-sector organisation in accounting could contribute a great deal in the progress of the profession in the country. The MACPA should therefore relax its entrance requirements and revert back to the system of admission adopted prior to December 1975, perhaps with some modification. Prior to December 1975 the MACPA accepted for membership certain foreign qualified accountants without imposing any additional examination requirements. Perhaps the MACPA should adopt the ICA (Aust.) and ICA (EW) system by imposing a one year residential requirement in lieu of further examination. In fact a substantial proportion of the existing members of the MACPA are made up of members of foreign accounting bodies.<sup>4</sup> The existing entrance requirements of the MACPA has unfortunately restricted the growth of the Association which is the only active private-sector professional body in the country. The total membership of the Association has hardly grown since 1975. Most of the members of the M.I.A. do not see the necessity of sitting for further examinations conducted by the MACPA. As pointed out earlier the entrance standards of the M.I.A. are more than adequate in comparison with professional bodies in accounting-developed countries. The inadequacies of the M.I.A. members, if any, as perceived by the MACPA may be compensated by imposing additional requirements on practical experience instead of formal examinations. This is based on the accepted belief in the profession that inadequacies in formal training in professional knowledge may be compensated by practical experience. The same principle is adopted by the AICPA and Canadian Institute of Chartered Accountants by requiring one additional year of practical experience for candidates who do not

possess postgraduate qualification.<sup>5</sup>

In order for the profession to function effectively as a whole in the country, the MACPA which is the only private-sector professional body in Malaysia should explore the possibility of admitting most of the practising members of the M.I.A., thereby expanding the organization and increasing its influence and impact on the profession as a standard-setting body.

In the interest of the audit profession and the development needs of the nation, the M.I.A. and the MACPA would do more good by channelling their efforts to update the professional knowledge of their existing members instead of raising the entrance requirements of new members.

### 3. Performance Standards

A set of performance standards are badly needed in this country. The profession neither has a codified set of standards nor recommendations in auditing procedures for the guidance of the practitioners. The current practice in the country vary from 'no-audit' to the highest standards of field-work as practised by practitioners in the accounting-developed countries. This is especially so in the audits of local com-

<sup>4</sup>*Distribution of MACPA membership by parent organisation (permembership record as at 18th November, 1980).*

CPA Graduates	169
ACA (Australia)	175
AASA (Australia)	375
ACA (Canada)	5
ACA (England & Wales)	356
ACA (India)	9
ACA (Ireland)	12
CA (New Zealand)	26
CA (Scotland)	4
ACCA (U.K.)	90
<i>Total</i>	<i>1,221</i>

<sup>5</sup>*New York State Board of Accountants requires two years' experience in the case of first degree holders and one year for holders of postgraduate degree. The Canadian Institute of Chartered Accountants require three years for holders of first degrees and two years for holders of postgraduate qualification.*



panies. In the case of foreign companies and branches of foreign companies auditors are expected to comply with the standards of the country of origin. The lack of legal and professional sanction against inadequate standard of field-work has resulted in some practitioners resorting to unethical practices and brought disrepute to the profession. It is not the intention here to quote cases of inadequate audits or audit failures, but the examples are common in this country.

The standards of field-work are concerned with the collection and evaluation of audit evidence. The process of collecting the evidence must be properly planned, supervised and controlled, and the results must be adequately reviewed by the senior people responsible for giving audit opinion on behalf of the auditing firm. In the first place the auditor has to decide what kind of evidence he needs in order to form an opinion. A competent auditor, adequately educated and trained, will know what kind of evidence is required. In cases where the best evidence is inaccessible to the auditor, he may have to be satisfied with something less. Whether he can rely on something less is a more difficult matter, often calling for the exercise of a high level of professional judgement.

Ultimately it is the society and layman, through the operation of law courts, who will decide whether the auditors have exercised due care in obtaining the evidence and making the professional judgement. Therefore the profession must formulate a codified set of standards to serve as a guide to the members as well as the judges who are called upon to assess the work of auditors. In the absence of a codified set of standards and procedures formulated by the profession itself, the process of standard setting may fall in the hands of judges and legislators who may be lacking in the specialised knowledge of auditing.

#### 4. Reporting standards

The voluminous audit work performed by the auditors will ultimately end up with a report from the auditors. The audit report

forms the only and the most important communication between the auditors and the users of financial statements. The profession therefore should have a set of standards governing the expression of an audit opinion.

The auditor's report should contain an expression of opinion regarding the truth and fairness of the accounts taken as a whole. The auditor shall be satisfied that adequate disclosure has been made in the accounts of all matters which are pertinent to a true and fair presentation, as well as ensuring compliance with the Companies Act and accounting standards where applicable. He should be satisfied that the accounting methods have been applied on a basis consistent from one year to another, or that the effect of a change in basis, if material, is adequately disclosed. The auditor should also state in his report that the audit reports in Malaysia make no reference to auditing standards and procedures. It is assumed that readers of audit reports have knowledge of the complicated audit process involved.

It has also been suggested by some accountants that the audit report should state that the accounts are prepared in accordance with accepted accounting standards. In the United States and Canada (despite the judgement in the Continental Vending case) there is strong current of professional opinion that a general standard of 'truth and fairness' should not override accounting standards. However it must be realized that it is the layman, through the operation of the courts, who will determine whether the accounts are true and fair. Therefore the auditor should comply with the spirit rather than the letter of accounting standard. The ultimate criteria is still the truth and fairness of the presentation.

#### 5. Enforcement

No matter how impressive the auditing standards are, they will have no practical value to the profession if they are not seen to be observed by the members. There are basically two methods of enforcing the standards. The Government, through legislation and statutory bodies such as M.I.A, may take a hand in the pre-

paration and enforcement of standards. The alternative is for the profession, through a private-sector voluntary organization such as MACPA, to handle the function itself. It has been the strong opinion of the professional bodies overseas that the society is better served if the profession shows itself capable of handling the task of self regulation. It is felt that the profession is, or can be, above politics; it is far better therefore for the profession to regulate itself than to have the auditor made subordinate to political influence. In United Kingdom, United States of America, and Australia the standards are set and enforced upon the members by the respective professional bodies themselves.

Malaysia is fortunate in that the profession already possesses the mechanism and framework for the preparation and enforcement of professional standards. The MACPA has been active in the preparation of accounting standards and there is no reason why it cannot extend its efforts to auditing standards. The MACPA however has no power of enforcing these standards on non-CPA members. The M.I.A. on the other hand has the power of enforcement under the provisions of the Accountants Act but does not appear to have the resources required to formulate these standards. A logical solution to the problem appears to be a joint-venture between M.I.A. and the MACPA; the M.I.A. will provide the power of enforcement while the MACPA shall be charged with the responsibility of formulating the standards which are acceptable to M.I.A. for implementation. However it will not be appropriate in the present circumstances for M.I.A. to delegate the responsibility of standards-setting completely to MACPA as MACPA is not representative of all the practising members of M.I.A. The MACPA under its existing regulation cannot accept all the members of the M.I.A. because its entrance requirements are more stringent than that of the M.I.A. Therefore the standards formulated by the body cannot represent the opinion of all the accountants who are licenced by M.I.A.

The solutions to the present problem are

three-folds:

- (a) The M.I.A. raises its entrance requirements to a level acceptable to MACPA. For instance the entrance requirements for members of certain acceptable foreign accounting bodies may be raised by imposing one or two additional years of residential requirement in lieu of CPA examination. (This is practised by the Australian as well as the English Institutes of Chartered Accountants). The requirements of practical experience for accounting graduates of local universities may be raised say, to four or five years instead of three years. While university graduates who have successfully completed the CPA examinations will require only say two to three years to qualify as members of M.I.A.
- (b) The MACPA accepts as its members all the accountants licenced as Public Accountants under the M.I.A. This will ensure that the MACPA and whatever standards formulated by the MACPA are representative of the whole audit profession in the country.
- (c) The M.I.A. delegates the function of standard-setting and the power of enforcement completely to MACPA while MACPA hands over to M.I.A. the function of admitting new entrants to the profession.

The effect of the proposed system is that MACPA will develop and grow as a voluntary, private-sector organisation of the audit profession, similar to the A.I.C.P.A. in the United States. The A.I.C.P.A. admits as its members all accountants licenced by the State Board of Accountancy to practise as CPAs. Similarly the MACPA shall admit all the members of M.I.A. who are licenced to practise as public accountants. The proposed system will also resemble the Canadian profession where the governmental body administers the process by which an individual is admitted into the

profession through the use of legislation. The task of standard-setting is delegated to the Canadian Institute of Chartered Accountants through the Canada Business Corporation Act.<sup>6</sup>

The system of segregating the function of standard-setting and enforcement between the MACPA and MIA respectively will be most effective, as each party is given the function which it can perform most effectively. The AICPA which is modelled on a similar system has developed into one of the most respected professional bodies in the world. It is hoped that the MACPA as well as the audit profession in Malaysia as a whole will also develop into a respectable profession in the region under the proposed system.

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<sup>6</sup> Paragraph 44 of Regulations made under the Canada Business Corporation Act states:

*The financial statements referred to in Section 149 of the Act and the auditor's report referred to in Section 163 of the act shall, except as otherwise provided by this Part, be prepared in accordance with the recommendations of the Canadian Institute of Chartered Accountants set out in the C.I.C.A. Handbook.*