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Abstract

One of the main concerns of the accounting profession is to provide consistently high quality services. In line with this objective, the current study was conducted for three main purposes: to determine the level of internal quality control and documentation amongst public accounting practices in Malaysia; to examine the role of the Malaysian Institute of Accountants (MIA) in ensuring members' compliance to the International Standards of Auditing (ISA) on Internal quality and documentation, and to explore the potential of using peer review as a tool for monitoring the quality of public practices in Malaysia. The findings implied that the practitioners have satisfactorily adopted quality control policies and procedures as required by the International Auditing Standards. In addition, the public accounting firms were also found to have placed significant attention to the form and content of documentation as stipulated by the ISAs. The potential of using peer review as a quality-monitoring tool has strong support amongst the locally established public practices.

1.0 Introduction

Consistent with the increasingly high expectations from both the public and the government, the accounting profession has come to recognize the need to undertake active measure to improve the quality of audit work (Gill and Cosserrat, 1996). Accordingly, the International Auditing Practices Committee (IAPC) established by the International Federation of Accountants (IFAC) had promulgated International Standards on Auditing (AI) to provide services of consistently high quality in the public interest. The Malaysian Institute of Accountants (MIA) as a member of IFAC has adopted the Codified International Standards on Auditing (AI) to replace existing International Auditing Guidelines (IAG). Among the standards that could help to improve the quality of audit work are AI220 - *Quality Control for Audit Work* and AI230 - *Documentation*. These standards are mandatory for all members to observe in respect of audit commencing 1 July 1998. According to AI220, public practices, are to adopt a comprehensive and suitably designed quality control systems encompassing the firms' organization structure, policies and procedures. Whereas, AI230 requires public practices to ensure audit documentation are sufficiently completed and detailed to provide an overall understanding of the audit.

However, in Malaysia, there is no monitoring process to determine the degree of compliance with AI220 and AI230. According to Zaini (1997), investigation of member firms who failed to comply with the standards is only carried out when complaints are received. In the US, the monitoring process known as peer review has been introduced for the last two decades. Even though Peer Review is very widely practiced in the US, the procedure has not been popular elsewhere except in Australia, Hong Kong and Singapore (Metcalf, 1994, HKSA, Statement 1.400, Seah and Kapardis, 1997). According to the proponents of Peer Review, the purpose of the setting up is both educational and preventive in nature although it carries different names i.e., peer review, quality assurance review or practice review.

Realizing on the need of the accounting profession to continuously provide high quality services, the MIA has issued an exposure draft, Circular 2/93 dated 28 April 1993 on practice review. The basic aim of the circular was to seek the opinion of its members on the viability of implementing practice review in this country. Nevertheless, very few members responded to the draft. Those who responded were very skeptical on at least three important issues. First was on the infringement of clients' confidential information, where information obtained is now subjected to an external review by another third party. Secondly, members were worried of losing their competitive edge as their "peers" are also within the same industry. The third concern was on the credibility of the peer review committee itself. Due to the lukewarm response to the exposure draft, the proposed idea of implementing peer review in Malaysia had to be shelved temporarily.

2.0 Research Objectives

The current study revisits the proposal of implementing a quality monitoring system in Malaysia. Specifically, the use of Peer Review as quality monitoring tool for the accounting profession is suggested. Specifically, this study addresses the following objectives:

Main objective:

To determine whether peer review is feasible as a mean of monitoring the quality control and audit documentation adopted by the locally established public accounting practices.

Specific objectives:

1. To determine whether locally established public practices adopt proper quality control policies and procedures as required by AI220.
2. To determine whether locally established public practices maintain sufficiently complete and details audit documentation as required by AI230.
3. To determine whether the local public practices have knowledge on the exposure draft of peer review enclosed with the MIA circular 2/93 dated 28 April 1993.

3.0 Discussion Of Previous Studies

Peer review is a process whereby the inspection of audit work performed by one practitioner is carried out by another practitioner. The main purpose of this programme is to ensure that members comply with quality control standards. According to Seah and Kapardis (1997) the introduction of peer review in Singapore is to ensure that members of the Institute of Certified Public Accountants of Singapore (ICPAS) maintain high standards in their work as well as to assure users of financial information that the quality control procedures of the Institute's members meet the required standards in generating such information.

Singh, Tucker and Meinhard (1991) described that legitimacy and transparency of audit practices can help to increase the chances for organisational survival. In the US, peer review started as an educational programme but was subsequently made mandatory through a mail ballot received from members of the AICPA (Wallace, 1990). The mandatory requirements on the monitoring process is essential as the role of the profession is seen to be the protector of the public interest (Metcalf, 1995). This was further enunciated by Stamp (1979) that accountants are assumed to safeguard the public interest by dispassionately providing users of accounting information with the quality and reliability of services required to maintain the stability of an economic system.

In Singapore, a study conducted by Seah and Kapardis (1997) indicated that a majority of the practitioners welcome the mandatory review programme initiated by the ICPAS. To boost public confidence and to maintain the standards of the profession, the Hong Kong Professional Accountants Ordinance were amended in 1992 to give power to the Council of Hong Kong Society of Accountants (HKSA) to implement a peer review programme and govern the conduct and procedures of peer review (Hong Kong Government Gazette, 1992). As such, the peer review in Hong Kong is currently made mandatory.

In line with the requirements of a proper peer review procedure, auditors are required to maintain proper *documentation of working papers* - document matters that are important in providing evidence to support the audit opinion. Proper documentation is used as evidence that the audit work was carried out in accordance with standards (AI230). Besides proper documentation, all public practices are also required to implement *quality control policies and procedures* designed to ensure that all audits are conducted in accordance with the standards (AI220).

Several studies have been conducted to determine whether peer review has resulted in a proper audit documentation. An article written by Fogarty (1996) indicated that the program of peer review in the US has resulted in the documentation of a very high quality auditing services. This is supported by a study carried out by Members of Division of CPA Firms (1987) in which members agreed that peer review process has greatly improved the quality of their work. In addition, Seah and Kapardis (1997) indicated that a majority of the practitioners in Singapore feels that the peer review enhance adherence to the standard of audit work including documentation.

In a survey conducted by Wallace and Wallace (1990), the failure of practitioners to document the existence of quality control element was highlighted. They found out that the quality control elements were not enhanced by the practitioners or to a certain extent, was not documented at all. This is consistent with the survey carried out by Evers and Pearson (1989). He noted that the tone set at the top of a CPA firm is the most important determinant of that firm's quality control system.

In the US, a study was conducted by Bremser et al. (1988) to determine whether peer review has indeed improved the quality control of a CPA firm. His research indicated that CPA firms received fewer number of clients' comments after participating in the peer review programme. In support of peer review, Fogarty (1996) proposed that the "rational organization" of the present era is one that can document, benchmark and convincingly claim the achievement of quality. In this context, unless the practitioners are subjected to a formal scrutiny, high quality of audit work is doubtful. Since the accounting profession is widely understood to serve the public interest (Willmott, 1990), the public would perceived that the failure of accounting is basically due to inadequate regulation of the practitioners.

Several studies (e.g. Elsea and Steward, 1995) have also been conducted to examine the attitudes of public accountants toward peer review. Many have indicated that peer review should be continued and agreed that peer review has improved their firms' practice. In a report from the Members of CPA Firms in the United States (1987), practitioners agreed that peer review has made firms practiced procedures that might otherwise be neglected. Furthermore, this process is perceived to be valuable to the accounting profession, and peer review is believed to be the only acceptable measure of quality control.

In contrast, Fogarty (1996) concluded that having peer review does not necessarily ensure the quality of audit because reviewers are normally forced to assume all facts documented in the working papers are correct and reviewers can only verify the general organization and condition of the working papers. Consistent with Fogarty's statement, some practitioners commented that peer review has resulted in minor improvements in their quality control (Members of Division for CPA Firms Report, 1987). In support of this, Elsea and Steward (1995) indicated that some practitioners disagree that peer review has given direct benefit to them.

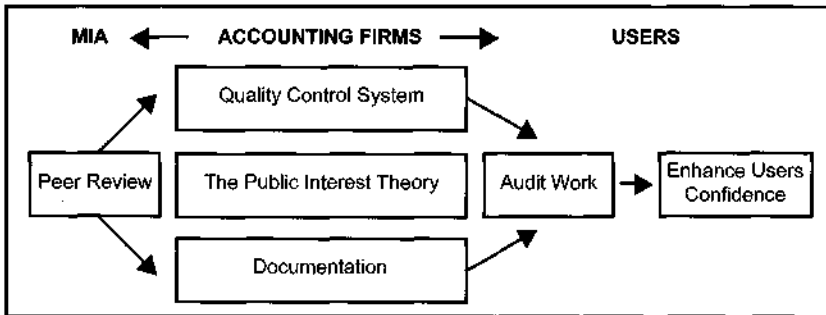
4.0 The Current Research And Conceptual Model

In order to maintain high reputation in the eye of the public, MIA should realize that audit quality should not be compromised by any means. Since the US has concluded that peer/practice review should be continued, MIA should think of implementing it soon to ensure audit firms maintain a high level of audit quality, consequently gaining public confidence. Again, this research is therefore necessary at the outset to determine compliance of quality control elements as required by AI220, and to ensure preparation of working papers are consistent with the standards required by AI230. Secondly, to determine the action taken by MIA to ensure compliance with AI220 and AI230; and finally to study the possibility of implementing peer review in Malaysia.

4.1 Conceptual Model

The main aims of adopting quality control policies and procedures, and standardisation in the form and contents of documentation in audit firms are two fold. First, the implementation of these procedures is expected to increase audit quality. Second, such quality output could enhance users' confidence when using the audited financial statements. In line with these two aims, the current study adopted the 'public interest theory' when evaluating the compliance of quality control and documentation by the firms. Figure 1 provides the schematic presentation of this model.

Figure 1: Conceptual Model of the Current Study



The above model is used to illustrate the relationship between a firm's quality control for audit work, and its extent of documenting evidence in connection to audit quality. The significance on these matters can be found in the approved Auditing Standards i.e. International Standards on Auditing (ISA) - ISA Quality Control for Audit Work (AI220) and ISA Documentation (AI230). The above model also illustrates the importance of these two standards in serving the public interest.

The public interest theory of regulation was implicit in the implementation of peer review. The theory suggests that regulation is the result of the need to reassure the public and the Government that the high standard of accounting profession is being maintained (Scott, 1997). Scott (1997) further mentioned that, in this theory, the central authority, also called the regulatory body or the regulator, is assumed to have the best interest of society at heart. In this research, the central authority is the Malaysian Institute of Accountants. However, one main problem with the public interest theory, is the complexity of deciding on the right level of regulation. This is particularly true for a complex commodity like information. Therefore, an independent review on the compliance of both AI220 and AI230 is objective and practical. The current study will focus only on the quality controls of an audit practice, as well as the form and content of audit documentation.

The review on these two standards will provide evidence and assurance that audits are being conducted by the public practices in an effective manner. It is pragmatic to say that improper or substandard conduct of audit work will prevail if firms do not have adequate quality control policies and procedures, and also from the shortcoming in the form and content of documentation. Therefore, in order to serve the public interest, the implementation of peer review would be necessary. Eventually, audit quality would enhance the user confidence on the audited annual report and the accounting profession as a whole.

5.0 Research Design

This study is designed primarily to determine, from a cross-section of locally established public practices in the Klang Valley, the adoption of AI220 and AI230,

their knowledge on peer review, and the possibility of implementing peer review. All locally established public practices (excluding those affiliated with the Big 5) in the Klang Valley that are currently registered with MIA constituted the study population. From the existing records (excluding those affiliated with the Big 5) there are 561 locally established public practices in this area.

A sample of 300 firms was taken from the population. The 300 sample of public accounting firms is considered as representative of the population. The Sample selection was based on the systematic selection; the first firm was selected at random but subsequent selections were made at an interval of 5.

The questionnaires with covering letters and stamped self-addressed envelopes were sent to the managing partner of the public accounting firms. In order to get support from the managing partners, the covering letter mentioned that the study would be of value to the self-regulating profession in determining the acceptability of practice review. The respondents were requested to return the questionnaire within two weeks from the posting date. The covering letter includes statements that assured the respondents of the confidentiality of the information provided by them; promises of sending results of the study (if they wish to know); and gives them the option of not participating in the study. Follow-up letters were sent to respondents, if reply were not received after 2 weeks; but to ignore if they have already replied.

For the purpose of this paper, only descriptive analysis of the study is being presented. In the actual research conducted, the findings were analyzed using both descriptive and inferential statistics. Interested parties are therefore encouraged to refer to our original research monograph available at the MIA Library.

6.0 Research Findings

From the 300 questionnaires distributed to the locally established public practices in the Klang Valley; only 71 questionnaires were completed and returned. Therefore, the response only represents 23.7% of the sample.

6.1 Adoption Of Quality Control Policies And Procedures As Required By AI220

The 20 variables collected on the adoption of AI220 were tested for their normal distribution. It was discovered that 2 variables of AI220 had skewness outside the normal distribution range of between +1 to -1 (see Table 1). The two skewed variables are "adherence to the fundamental principles of ethics (A1)" and "establish policies and procedures on hiring personnel (A4)". These variables were excluded from inferential statistical test. However, these variables were still included in all the other analyses involving descriptive statistics.

Table 1: Skewed Variables of Quality Control Policies and Procedures

Statements on Quality Control	Level of Agreement			Skewness
	Strongly Agree	Agree	Disagree	
A1. Adhere to the fundamental principles of ethics.	74.2%	25.8%	None	1.163
A4. Establish policies and procedures on hiring personnel.	64.5%	29.0%	6.5%	1.221

Early conclusion from the above 2 variables can be explained as follows. Firstly, with respect to policies and procedures on the fundamental principles of ethics (i.e. independence, integrity, objectivity and confidentiality), the respondents unanimously agreed that they do not compromise the fundamental principles of ethics (74.2% strongly agree; 25.8% agree). Since the principles are the backbone of public practices, it could be concluded at this stage that public accounting firms are generally abide by the ethical guidance of the professional bodies. Worth mentioning here, that a small percentage (3.2%) of the public accounting firms did not agree in establishing policies and procedures related to the code of ethics. Here, it can be deduced that, some public practices do not monitor compliance with the policies and procedures on these matters. Nevertheless, they always have high regard to any factor that might reflect highly upon their level of independence, integrity, objectivity, and their role in safeguarding the clients' information.

Secondly, 93.5% of public practices agreed that they have established policies and procedures on the hiring of personnel. This indicates that the firms maintain programmes designed to obtain qualified personnel. These programmes would include establishing hiring objectives, and setting relevant qualifications at various professional level. Establishing hiring objectives would be based on current need of clientele and the firms' anticipated growth. In addition, hiring results should then be reviewed, in order to determine whether the firm's personnel needs, hiring objectives and qualification were achieved.

In Section A of the questionnaire, the respondents were asked to indicate their level of agreement on the importance of quality control (i.e. professional requirements, skills and competence, assignment, delegation, consultation, acceptance and retention of clients, and monitoring) to their respective firms. When the means of these responses were ranked, the following results were obtained.

Table 2: Ranking of Mean - Quality Control Policies and Procedures

Quality Control Policies and Procedures	Mean	Ranking
Professional Requirements	1.419	1
Skills and Competence	1.522	2
Assignment	1.677	3
Delegation	1.677	3
Monitoring	1.887	5
Acceptance and Retention of Clients	1.903	6
Consultation	1.952	7

Professional requirements were ranked first (mean 1.4194). This strongly implies that personnel in the firm generally abide to the fundamental principles on professional conduct and ethics that include independence, integrity, objectivity, and confidentiality. Independence is adhered at all times when assigning staff to the fieldwork and during the evaluation of clients.

Skills and competencies were ranked second. This is closely followed by *assignment and delegation* at the third place. This signifies that the firms put emphasis on matters that involve the conduct of fieldwork. Skills and competencies relate to the degree of due care. Apart from academic qualification that determines skills and competencies, staffs are exposed to on-the-job training and continuing professional development. Accordingly, this will ensure that staffs do keep abreast of the latest development in accounting and auditing. In relation to the professional requirement that received the highest ranking, the fundamental principles of ethics were also adhered to during the fieldwork.

Based on the first four variables, it could be concluded that they represent the essence of an effective audit. Here, effective audit would mean the work are carried out with integrity and objectivity approach, and due care.

The remaining quality control policies and procedures, arranged according to the level of agreement are monitoring, acceptance and retention of clients, and consultation. Basically, quality control policies and procedures on these matters are related to the responsibility of management of the public practices. Although these groups fall in the last three ranking (i.e. rank 4, 5 and 6), the firms still agree on the adoption of quality control policies and procedures i.e., based on ranking means of less than 2.

Therefore, overall, it was found out that public practices have strong awareness on the need to adopt strong quality control policies and procedures, where most of the means were less than 2. Even though they have adopted strong quality control

policies and procedures, this could not provide an absolute assurance that all procedures as required by AI220 have been implemented by the locally established public practices. Nevertheless, in respect of the first objective of this study, it is sufficient to say that the local public practices do in fact adopt quality control policies and procedures as required by AI220.

6.2 Form and Content of Audit Documentation as Required By AI230

Here, frequency analysis were performed in order to satisfy the second objective, on whether local public practices maintain audit documentation as required by AI230. The eight data collected on the form and content of audit documentation as required by AI230 were tested for their normal distribution. All the variables were found to be normally distributed, hence qualify for the next level of inferential statistics.

Table 3: Ranking of Mean (Audit Documentation)

Form and Content of Documentation (AI230)	Mean	Ranking
Organise, index and cross-reference working papers in standard order	1.484	1
Safeguard and protect the confidentiality of working papers	1.484	1
Obtain a correctly dated letter of representation	1.516	3
Resolve conclusions reached by the assigning personnel	1.645	4
Communicate directions through standard audit programmes	1.710	5
Record the planning process and the changes made	1.774	6
Utilize schedules and analyses prepared by client	1.774	6
Carry out continuous review on working papers	1.903	8

The firms' support toward understanding the clients' information is given the highest rank. Here, the auditors should uphold the fundamental principles of ethics and they should respect the confidentiality of information acquired in the course of their work. In addition, providing understanding across the board is important since the organizational structure of an audit firm consists of various levels (i.e. partners, managers, supervisors, seniors, assistants), and all of them have interest in the information in order to discharge their duty with due care. Therefore, maintaining working papers in a standard order is crucial. Partners will use the information in the working papers to form opinion on the financial statement, whereas the fieldwork staffs need understanding on the working papers in order to understand the nature and extent of work. An auditor shall treat as confidential any information about a client's business affairs acquired in the course of the audit, and neither use nor appear to use that information for his personal advantage or for the advantage of a third party.

Next, the purpose of obtaining a letter of representation is to signify the conclusion of work. The letter need to be correctly dated since the date will indicate that auditors had taken reasonable steps to include all material events that may affect the financial statement subsequent to the balance sheet date. At this stage, all conclusion reached by the staff were resolved.

The remaining ranking on the form and content of working papers is in respect of matters that contribute in expediting the work. This can be achieved if the standard audit programmes was used as a mean of communicating direction. Furthermore, the staff would be able to know their direction and work independently, if planning are properly done and any deviation from the original plan was made known to all staff involved in the work. With regards to the schedules and analyses prepared by client, this would expedite the audit work. Continuous review receives the lowest ranking, possibly due to the fact that the respondent agree toward reviewing of work to determine adequacy of documentation, but sometimes they wait until the work is completed in order to carry out the review.

It is obvious that public practices do place importance on maintaining sufficiently complete and detail documentation. Since audit documentation is a matter of professional judgement, the extent of detail and completeness would very much depend on the judgement of public practices. However, for the purpose of this study, it is sufficient to say that the locally established public practices do have the initiative to provide sufficiently complete and detail audit documentation. In other words, the locally established public practices ensure that substandard documentation is not the norm. Hence these results would sufficiently achieved the second objective of this study.

6.3 Knowledge on the Exposure Draft of Peer Review

Frequency tabulation indicates that 87.1% agreed that peer review would be coherent with the educational thrust of a professional body (see Table 4).

Table 4: Skewed Variables of Knowledge on Peer Review

Knowledge on Practice Review	Strongly agree	Agree	Neutral	Disagree	Strongly Disagree	Skewness
Coherent with educational thrust of a professional body	38.7%	48.4%	6.5%	6.5%	None	1.128
Focus on Quality Control and documentation	38.7%	54.8%	3.2%	3.2%	None	2.103
Enhance quality on audit work	41.9%	45.2%	6.5%	3.2%	3.2%	1.676
Assure compliance with standards	45.2%	35.5%	6.5%	12.9%	None	1.069

This is consistent with the intention of MIA's that a peer review programme is meant for education and professional development (Circular 2/93). Furthermore, it is the aspiration of MIA that peer reviews are able to provide an avenue for the practitioners, through the process of comments and discussion with the reviewers, to evaluate and improve their work procedures, particularly in the area of internal controls. This is also in agreement with the response (93.5%) that peer review should focus on the quality control of audit practices and audit documentation. This response is consistent with the findings of Seah and Kapardis (1997) where 88% of the respondents agreed that practice review is an effective evaluation of the established quality control procedures. In addition, under the same research, the respondents agreed that quality control procedures were essential for maintaining the standard of audit work in their practices. On a similar stance, from this study, 87.1% agreed that peer review would enhance the quality of audit work.

With auditors functioning within an environment in which the accounting profession is constantly changing and facing the ever rising public expectations, it becomes a significant challenge for auditors to cope with the increasing competition. Therefore, rapid development in the accounting profession, and the MIA adoption of International Standards on Auditing that superseded International Auditing Guidelines, provide impetus on practice review. Consistent with this, 80.6% agreed that practice review would provide assurance that the firms comply with accounting and auditing standards required from them.

6.4 Modus Operandi of Peer Review

On the regulating of peer review, an overwhelming response of 93.5% put their trust in the hand of MIA to co-ordinate peer review. Their opinion could be due to the fact that MIA is the country's national accountancy body, established under an Act of Parliament, i.e., the Accountants Act, 1967. Worthy of note, touching on the opinion of the constituency of the peer review committee, 90.3% gives their support to MIA; 54.8% agrees that the constituent of the peer review committee should be among the practicing member from MIA; 35.5% agrees that the review is conducted by full time staff of MIA (see Table 5).

Table 5: Skewed Variables of the Modus Operandi of Peer Review

Knowledge on Practice Review	Level of Agreement		Skewness
	MIA	OTHERS	
Who should co-ordinate peer review?.	93.5%	3.2%	5.477

In addition, from the interview made with the technical officer of MIA, most of the comments received from the practitioners pertaining to Circular 2/93 were on confidentiality. An assurance in the exposure draft that confidentiality shall be maintained is inadequate to protect both members and clients considering the ramifications that may arise from any form of breach of confidentiality.

Consequently, the researchers arrived to the early conclusion that part of the knowledge on peer review among the locally established public practices are in conformance with the MIA's Exposure Draft on Peer Review.

6.5 Benefits and Drawbacks of Peer Review

This was the first attempt by MIA to regulate the public practices through peer review. The support was overwhelming from the outset that MIA should coordinate peer review. This would be consistent with the function of the Institute, namely to regulate the practice of the accountancy profession in Malaysia. Regulating through peer review was viewed as coherent with the educational thrust of MIA. Next, peer review would be beneficial in order to strengthen the public practices' quality control policies and procedures, and their audit documentation. Finally, peer review would provide assurance that the public practices work complies with the approved standards adopted and issued by MIA.

'Peer review should focus on quality control policies and procedures, and form and content of documentation' is given the first rank. Falling under the second ranking is 'peer review would enhance the quality of audit work'. Under the same rank, the respondents viewed peer review not as a threat but as part of education thrust of professional body. 'Peer review would assure compliance with standards' were ranked third, followed by, 'ensure audit are conducted in an effective manner, maintain anonymous and coded report and protection from legal liability' was given the last ranking.

Table 6: Ranking of Mean (Drawback of Peer Review)

Drawbacks	Mean	Ranking
Extinguish auditors credibility	3.032	1
Lead to additional cost	2.258	2
Reveal clients' confidential information	2.000	3

The respondents were also asked on three drawbacks of peer review (Table 6). Mixed responses were received on whether peer review would extinguish auditors' credibility. The mean of 3.0323 implies that there were respondents who were not sure whether the public would question their professionalism if practice review were implemented. With regards to the second drawback on whether practitioners would be burdened with additional costs, the responds provide a mean of 2.2581. This does not seem as a drawback, but an understanding that they need to incur costs on the review.

The issue of confidentiality (mean score of 2.258) suggests that some of the respondents were not sure whether peer review would be able to keep all information

about their practices confidential. Most of the respondents agreed that they are revealing confidential information about their clients, which is in violation of the code of ethics. Similarly, care was taken with the statement on whether peer review decreases the firm exposure to legal liability. The mean of 2.3871 indicates that there were respondents who were not sure whether they would be protected from legal liability once practice review is implemented.

From this test, it can be seen that although the local public practices do have knowledge on the MIA Circular 2/93 dated 28 April 1993, the extent of their understanding on practice review is still questionable. This test also indicates that the locally established public practices agreed on practice review as the best tool to monitor the quality control policies and procedures, and form and content of documentation. Hence, objective 3 and the main objective of this study was achieved.

7.0 Recommendations

7.1 Power of Council

The introduction of the proposed peer review falls within the ambit of Section 7(1)(a) and (o), Accountants Act 1967. The sections state that:

“7 (1) The Institute may at any general meeting make such rules as may be necessary or expedient...and such rules may provide for any of the following matters:

- (a) the regulation of the practice of the profession of accountancy;*
- (o) the regulation and administration of the Institute in all matters within its power;”*

With reference to this section, MIA would need to have members' sanction on the proposed peer review. Consequently, MIA would need to call for a general meeting to obtain members' approval. Upon obtaining the majority decision, therefore, MIA would be empowered to implement the proposed peer review.

7.2 Amendment to the By-law on Confidentiality

The by-law on confidentiality states that:

“A member shall treat as confidential any information about a client's business affairs acquired in the course of professional work and neither use nor appear to use that information for his personal advantage or for the advantage of a third party”

However, the by-law allows a member to disclose or produce such information, documents, or records without the consent of his client. The by-law states that

- “(a) for the purpose of discharging his duties to his client;*
- (b) in accordance with the provisions of any written law or where disclosure is compelled by process of law;*
- (c) where disclosure is reasonably necessary to protect the member’s interest.”*

Under the present by-law, peer review team would be considered to be in a third party position. Therefore, MIA would need to consider amending the by-law, i.e. to include a clause allowing disclosure of clients’ confidential information in the auditors’ custody to the peer review team.

Amendment of the by-laws fall under the specific powers of the Council of MIA given under Section 10(a), Accountants Act, 1967. The section states that:

- “10. ...the Council shall have power*
- (a) to make by-laws to provide for all matters not expressly reserved for the Institute in general meeting...and by-laws for the inculcation of sound practice of the profession of accountancy...;”*

At the outset, MIA would need to obtain the members’ sanction in the general meeting. Then, MIA should proceed with amending the by-law on confidentiality, to include another clause which would enable the members to provide for disclosure of clients’ information to the peer review team.

7.3 Competency and Seniority of Peer Review Manpower

Public practices that were subject to peer review are allowed to make representation and appeal to the Practice Review Committee in cases where issues arise as to competency and seniority of reviewers, or where their independence may be in question.

As a result, a resume of peer review team (e.g. qualifications, experience and level of training) would need to be informed earlier to the notified public practices.

7.4 Review on Audit Fees

A spin-off effect of reviewing audit documentation would be reviewing audit fee especially audit fees for new engagements. In other word, peer review should be conducted together with a check on the By-laws (On Professional Conduct and Ethics) on audit fee.

MIA had issued a Schedule for Determining Minimum Audit Fees. However, the prescribed rates given in the schedule are the minimum audit fees applicable for

draft accounts submitted for audit with proper supporting schedules. Public practices may charge higher fees as compared to the prescribed rate if they have to utilize more skills and knowledge as well as time spent on the assignment. Notwithstanding the minimum audit fees stated in the prescribed rate of audit fees, public practices are allowed to exercise discretion allowing abatement on the said prescribed fees in certain special cases. Therefore, public practices who had charged audit fees below the prescribed minimum fee will be considered to have infringed the By-laws (On Professional Conduct and Ethics). Since MIA had issued a guideline on determining minimum audit fees, it may not be an onerous task for a reviewer to carry out.

7.5 Cost of Peer Review

Cost of peer review of bigger firms should not be borne by smaller firms. If the fees for peer review are charged at a flat rate, it is afraid that the smaller firms may seem to be subsidising larger firms that require longer time to review. Therefore, MIA should not charge the fees at the flat rate but instead utilize other criteria that can provide justification of fees.

8.0 Suggestions For Future Research

The results of this study raise several issues, which will be the result of future forthcoming research. Ever since the idea of peer review mooted by MIA in 1993, peer review was never been implemented. If peer review is going to be implemented in the near future, therefore, future research may be carried out to determine the effectiveness of implementing peer review in promoting audit quality. Basically auditors need to have knowledge of his clients' business in order for them to make an informed judgment on those transactions and other events that may have a significant effect on the financial statements. Auditors exercise of his judgment at all time and in all aspect of audit would depend on his knowledge of clients' business.

Next, audit staff at the fieldwork would find audit manual useful in order for them to carry out and discharge their duties in an effective manner without sacrificing the quality of their work. On top of this, the firm should issue an in-house technical bulletin from time to time. This should be looked as a complement to the Circular issued by MIA or other professional bodies but refine to the context of the firms' clientele.

In addition, it would be important to know the level of staff turnover, especially those at the senior level. High staff turnover would act as a signal of impending problem that the firm may not be able to discharge their duty with due care. Furthermore, it would be appropriate to consider whether firms maintain job descriptions for the various levels of responsibilities.

The above factors, if included as part of practice review, do not interfere with the auditor exercise of his judgement. The matters are of interest with regards to peer

review only as administrative matters within the public practices, but not to probe into the contents.

9.0 Conclusions

The descriptive findings of this study indicate that peer review is generally found to have a strong support among the locally established public practices. As indicated in the Exposure Draft on Peer Review issued by Malaysian Institute of Accountants, the right amount of regulation was found to be significant in two areas: quality control policies and procedures of an audit practice, and its form and content of documentation.

The research implies 4 areas of significance in the implementation of quality control. Firstly, the public practices have high regard over monitoring exercise; secondly, the conduct of audit comprised the satisfactory elements of fieldwork; thirdly, resolve any doubt through adequate source of reference; and finally, update technical knowledge through continuing professional development. Furthermore, on the aspect of form and content of documentation as the evidence to support the auditor's opinion, the analysis indicates 2 salient factors. The important one is that working papers should include sufficiently complete and detailed information for an auditor to obtain an overall understanding of the audit before he decides on the audit opinion.

The next important factor touching on the standardization of working papers and resolving conclusion that lead to timely review. On the possibility of implementing peer review, the response received give rise to consideration. The leading factor is the practitioners' exposure to legal liability would either be lower or eminent. The last one is the practitioners' perception on the drawbacks of peer review. Comments received from the practitioners do not touch on quality control but mostly on the confidentiality of clients' information. An assurance in the Exposure Draft that confidentiality shall be maintained is inadequate to protect both members and clients considering the ramifications that may arise from breach of such confidentiality. In addition, the present MIA By-laws (On Professional Conduct and Ethics), the disclosure of confidential information in the course of a practice review does not appear to fall categorically into any of the stated exceptions. There is a suggestion made on this matter, whereby practice review should maintain only the report of the review (rendered anonymous and coded), and to destroy all the working papers and correspondence both prepared or obtained by the reviewers.

Although, the status of peer review is still in the form of Exposure Draft, it is nevertheless encouraging to find that majority of the public practices provide support to its implementation. It can be concluded from this study that it is timely to implement peer review. The respondents had also given their mandate that the Malaysian Institute of Accountants (MIA) should coordinate the Peer Review.

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