

**This attachment to The Malaysian Institute of Certified Public Accountants response to the IFAC Member Body Compliance Program questionnaire, “Assessment of the Regulatory and Standard-Setting Framework,” provides additional information relevant to the questions noted.**

### **General Background**

The MICPA was formed as a company limited by guarantee under the Companies Ordinances 1940 - 1946. It is a private sector professional body whose main object is to advance the theory and practice of accountancy and to promote the status and interest of the accountancy profession and of its members. In carrying out its objects, MICPA conducts a programme of education and training leading to the CPA qualification, develops and issues standards/guidelines on financial reporting, auditing, ethics and other technical areas, and provides technical updates to members.

The MIA is established under the Malaysian Accountants Act 1967 and its functions are prescribed in the Act. Thus, MIA is a statutory body and its functions include determining the qualifications of persons for admission as members according to the requirements set out in the Act, and regulating the practice of the accountancy profession.

The Accountants Act prescribes a list of qualifications which are approved for admission as members of MIA:

- accredited Bachelor of Accountancy degrees from Malaysian universities;
- membership of recognised professional bodies, of which MICPA is the only Malaysian body;
- MIA Qualifying Examination, conducted by higher education institutions prescribed in the Act or the MICPA.

Members of MIA are entitled to use the designation "chartered accountant". In accordance with the provisions of the Accountants Act, registration with MIA as a chartered accountant is mandatory in order to engage in public accounting practice. In other circumstances, for example in employment or in business, registration with MIA is required if a person holds himself out or infers that he is a chartered accountant. Thus, not all CPAs or holders of accredited Bachelor of Accountancy degrees register with MIA.

As MICPA is a recognised professional body under the Accountants Act, all the members of MICPA are eligible for registration with MIA as a chartered accountant. However, members of MIA are not eligible for membership of MICPA unless they have satisfied MICPA's examination and practical experience requirements.

It should also be noted that auditors are licensed by the Ministry of Finance, not MIA.

## **Q45 – Q48 & Q53**

### Status of Auditing Standards in Malaysia

Approved auditing standards in Malaysia are issued by the Malaysian Institute of Certified Public Accountants (MICPA) and the Malaysian Institute of Accountants (MIA).

Since MICPA and MIA became members of IFAC in 1977, International Auditing Guidelines (IAG), and subsequently International Standards on Auditing (ISA) and International Auditing Practice Statements (IAPS), has been adopted as the basis for Malaysian approved auditing standards/guidelines. Where an ISA / IAPS contain requirements which are significantly different from Malaysia's statutory requirements, guidance on such differences will be provided in an explanatory foreword to the ISA / IAPS.

Malaysian auditing guidelines are also developed in areas of relevance to Malaysia which are not covered by existing ISA / IAPS or where particular features of the Malaysian environment warrant guidelines to be prepared specifically to address those features.

Approved auditing standards / guidelines are to be applied in audits of financial statements, review engagements and related services that are performed by members of MICPA and MIA.

### Due Process for Setting Auditing Standards

The MICPA Council appoints an Accounting and Auditing Technical Committee (AATC) to be responsible for research, development and review of auditing standards / guidelines and to make recommendations to the Council. The AATC currently consists of 17 members who are drawn from accounting firms, commerce, industry, regulatory bodies and academic institutions. Members of the AATC serve on a voluntary basis and there is no fixed term of appointment.

The AATC determines the projects to be undertaken and assigns each project to a project group established for the purpose.

Where the project involves the review of a new ISA / IAPS for adoption in Malaysia, the project group undertakes a comprehensive review of the ISA / IAPS, taking into consideration national statutory requirements, and prepares an explanatory foreword highlighting the statutory reporting requirements where relevant and any exceptions to the ISA / IAPS. Illustrative examples of local reporting requirements are also provided where relevant, as an appendix to the ISA / IAPS. The original text of ISA / IAPS is not changed. The project group submits its comments/recommendations to the AATC for consideration.

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The AATC submits the ISA / IAPS accompanied by the explanatory foreword to the MICPA Council for consideration. When approved by the Council, it will be issued as a Malaysian exposure draft to members and other interested parties for comment. The exposure period is typically 3 months, which may be extended to 6 months if it is felt that the standard is complex or contentious.

The comments and suggestions received during the exposure period are considered by the AATC. Where appropriate, the explanatory foreword to the ISA / IAPS is revised. The AATC determines and recommends to the Council whether re-exposure is necessary.

When the ISA / IAPS accompanied by the final explanatory foreword is approved by the Council, it is issued as approved auditing standard or guideline respectively.

Where the project involves the development of auditing guidelines in an area of relevance to Malaysia which is not covered by existing ISA / IAPS, the project group is responsible for undertaking research, consultation with appropriate interested parties and regulators, and preparation of a draft guideline. The project group submits the draft guideline to the AATC for consideration and refines the draft incorporating the AATC's comments.

The AATC submits the final draft guideline to the Council for consideration. When approved by the Council, the proposed guideline will be issued as an exposure draft for comment. The same due process of public exposure and approval as that for the adoption of a new IAS / IAPS is followed.

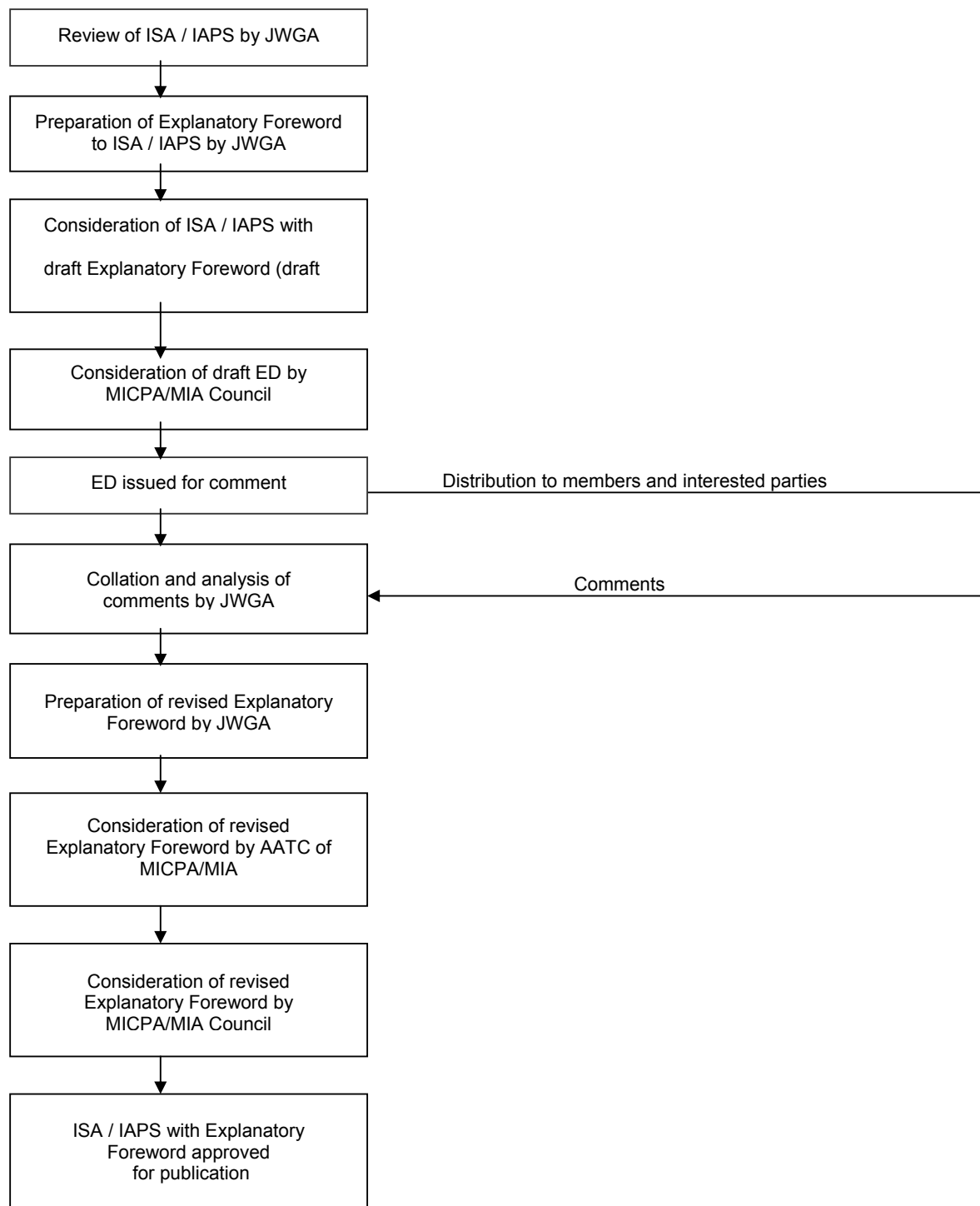
To forge greater collaboration between MICPA and MIA in setting auditing standards, the two bodies have recently formed a joint working group to undertake the standard setting responsibility. The due process for adoption of IAS / IAPS for application in Malaysia is illustrated in Appendix 3A, which is similar to the process adopted by MICPA described above.

#### Approval Process

The MICPA is a company limited by guarantee incorporated under the Companies Ordinances 1940 – 1946. The MICPA is governed by a Council of 30 members, who are elected by members at general meetings. Each elected Council member serves for a term of 3 years and is eligible for re-election.

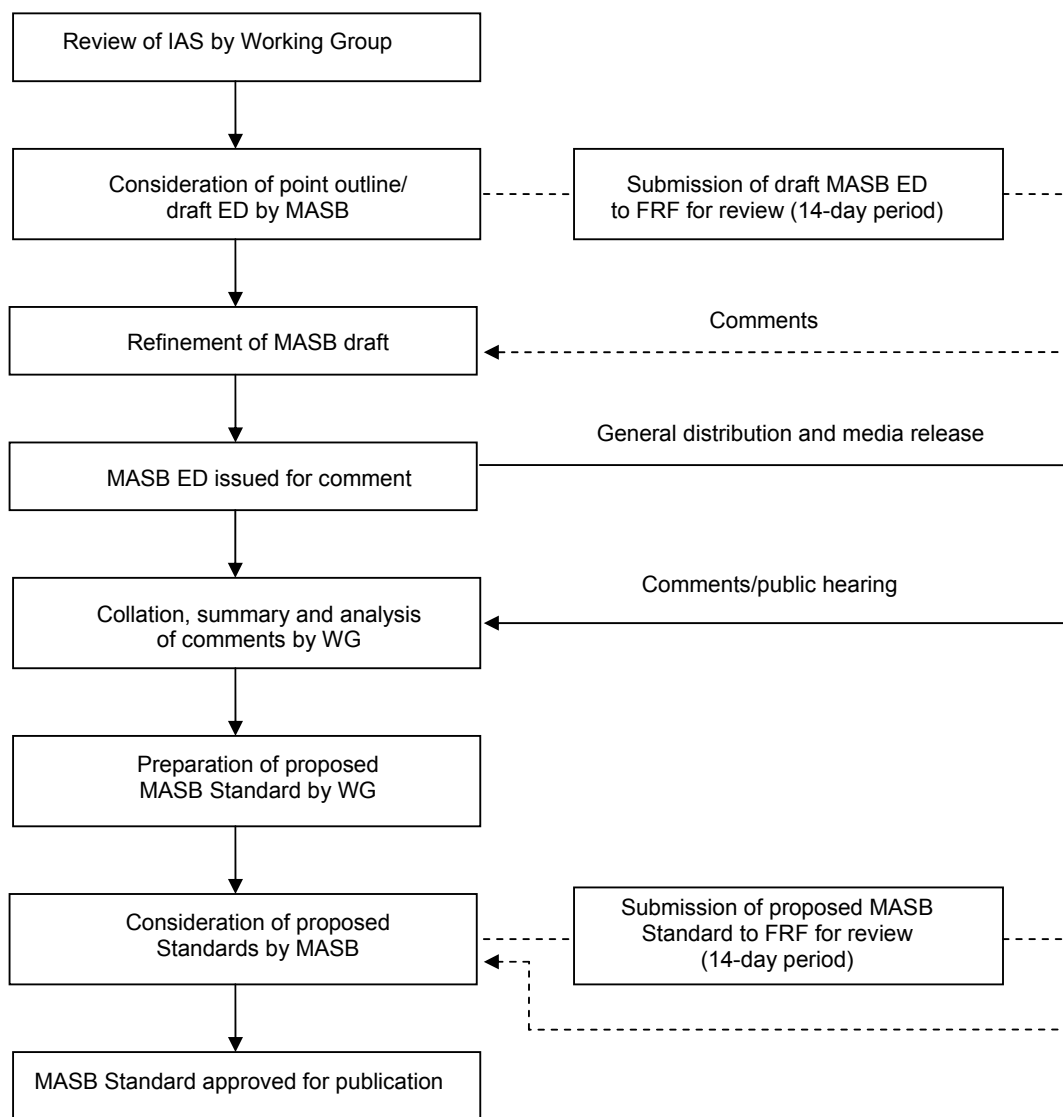
At all meetings of the Council, the presence of at least one-third of the members of the Council (i.e. 10 members) shall form a quorum. The vote of the bare majority of the members present at a meeting is required to approve exposure drafts, the adoption of ISA / IAPS and Malaysian auditing guidelines.

**Q53 Due Process for Adoption of International Standards on Auditing and International Auditing Practice Statements**



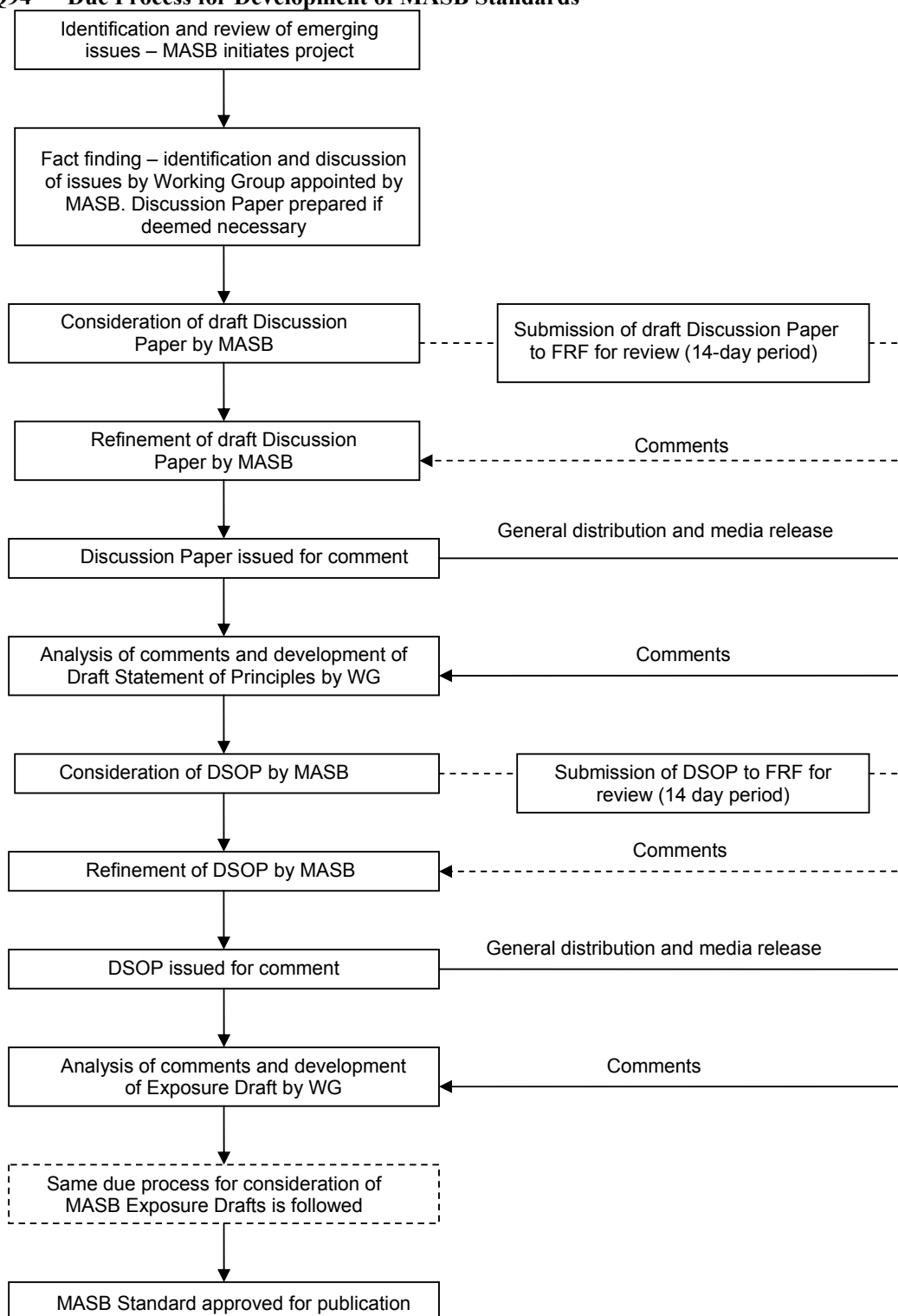
JWGA – MIA-MICPA Joint Working Group on Auditing  
AATC – Accounting and Auditing Technical Committee

**Q94 Due Process for Adoption of International Accounting Standards**



MASB – Malaysian Accounting Standards Board  
 WG – Working Group  
 FRF – Financial Reporting Foundation

**Q94 Due Process for Development of MASB Standards**



MASB – Malaysian Accounting Standards Board  
 FRF – Financial Reporting Foundation

WG – Working Group  
 DSOP – Draft Statement of Principles

**Q112, Q113 and Q114 (c) & (d)**

The Central Bank of Malaysia is empowered under the Banking and Financial Institutions Act (BAFIA) 1989 to regulate institutions carrying on banking, finance company, merchant banking, discount house and money-broking businesses (licensed financial institutions). Such institutions are required to comply with the following financial reporting requirements:

Section 41 of BAFIA: A licensed financial institution is required to submit to the Central Bank:

- (i) within 3 months after the close of each financial year, the following statements:
  - its latest audited annual balance sheet, profit and loss account and a statement setting out the sources of its funds, the purposes for which, and the manner in which, such funds have been utilised;
  - the report of the auditor; and
  - the report of the directors under section 169(5) of the Companies Act 1965.
- (ii) Any additional information as may be required by the Central Bank in relation to the statements mentioned above.

Section 43 of BAFIA: Every licensed financial institution is required to submit to the Central Bank:

- (i) a statement showing the assets and liabilities of the institution at its principal place of business and at each other office of the institution in Malaysia respectively; and
- (ii) such further information, documents, statistics or returns as the Central Bank may specify.

Pursuant to section 169(19) of the Companies Act 1965, all licensed financial institutions are required to comply with the provisions of the Act relating to the form and content of the report of the directors and the annual balance sheet and profit and loss account. Thus, all licensed financial institutions are required to prepare their financial statements in accordance with approved accounting standards issued by the Malaysian Accounting Standards Board. (See Appendix 1)

In addition, licensed financial institutions are required to comply with the guidelines issued by the Central Bank on accounting and financial reporting.

Licensed financial institutions are also required to submit certain information to the Central Bank for statistical compilation purposes on a monthly basis. Reconciliation of certain key figures in the statistical compilation and the relevant disclosures in the annual statutory financial statements is required to be included in the year end submission to the Central Bank.

As auditors of licensed financial institutions are members of MIA and MICPA, audits are performed in accordance with approved auditing standards issued by MIA and MICPA.

Licensed financial institutions are required to submit the draft audited annual financial statements together with the schedules prescribed by the Central Bank, including financial highlights and an overall assessment of the institution's financial performance, to the Central Bank for approval. Meetings may be held between the Central Bank and the auditors to address any specific matters identified. As provided in section 40(13) of BAFIA, the Central Bank may require the auditor of the financial institution to submit such additional information in relation to his audit, to enlarge or extend the scope of his audit of the business and affairs of the financial institutions in such manner or to such

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extent as the Central Bank may specify, to carry out any specific examination or establish any procedure in any particular case, or to submit a report on any of the aforesaid matters.

The financial statements of licensed financial institutions, including the unaudited quarterly reports, must be approved by the Central Bank before being released. It is the understanding that whilst the Central Bank places reliance on the auditors in ensuring compliance with approved accounting standards, the Central Bank normally performs its own detailed review, and issues its own reports in accordance with CAMEL framework.

**Q120 (c) and (d)**

The Central Bank of Malaysia is empowered under the Insurance Act 1996 to regulate the insurance business. Insurance companies are required to comply with the following financial reporting requirements under the Insurance Act.

Section 87: Insurance companies are required to:

- (i) Submit the following statements to the Central Bank within 90 days after the end of each financial year:
  - audited revenue account together with supporting statements;
  - audited profit and loss account and balance sheet together with supporting statements;
  - a report by the board of directors on the company's operations in the financial year;
  - a statutory declaration by the chief executive officer and one of the non-executive directors in respect of the above matters; and
  - a certificate by the auditor.
- (ii) Ensure that the revenue account, profit and loss account and balance sheet laid before the general meeting of the company or submitted to the Registrar of Companies are in such form as the Central Bank may specify.
- (iii) Submit to the Central Bank within 60 days from the date of the auditor's report:
  - a copy of any report made by the auditor to the board of directors following the audit of the company's annual accounts; and
  - a report on the action taken by the board of directors on the auditor's report.

Section 89: Insurance companies are required to submit to the Central Bank quarterly returns containing:

- a revenue account together with supporting statements;
- a profit and loss account and balance sheet together with supporting statements; and
- a certificate signed by the chief executive officer and the employee responsible for the financial management of the company.

In addition, insurance companies are required to submit:

- monthly returns containing similar accounts and statements as that for quarterly returns, for every calendar month on a cumulative basis;
- statistical returns containing certain information specified by the Central Bank; and
- an internal audit report.

Section 90: Insurance companies are required to maintain their accounts in compliance with accounting standards approved by the Central Bank subject to such modifications as the Bank may specify.

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In this regard, insurance companies are required to comply with approved accounting standards issued by the MASB and the guidelines issued by the Central Bank on accounting and financial reporting.

As auditors of insurance companies are members of MIA and MICPA, audits are performed in accordance with approved auditing standards issued by MIA and MICPA. Meetings may be held between the Central Bank and the auditors to address any specific matters identified. As provided in section 81 of the Insurance Act, the Central Bank may require the auditor to submit such additional information in relation to his audit or to enlarge or extend the scope of his audit of the business and affairs of the insurance company in such manner or to such extent as the Central Bank may specify.

Insurance companies are required to submit to the Central Bank within 90 days after the end of the financial year, the audited annual financial statements together with a DGI (Director General of Insurance) return, containing detailed analysis of the accounts. It is the understanding that whilst the Central Bank places reliance on the auditors in ensuring compliance with approved accounting standards, the Central Bank normally performs its own detailed review.