



MALAYSIAN INSTITUTE
OF ACCOUNTANTS



7 August 2014

Mr Ken Siong
Technical Director
The International Ethics Standards Board for Accountants
The International Federation of Accountants
545 5th Avenue, 14th Floor
New York, NY 10017

Dear Sir,

Comments on the Exposure Draft entitled “Proposed Changes to Certain Provisions of the Code Addressing Non-Assurance Services for Audit Clients”

The Malaysian Institute of Accountants (the Institute) appreciates the opportunity to provide comments on the Exposure Draft titled “Proposed Changes to Certain Provisions of the Code Addressing Non-Assurance Services for Audit Clients”. We applaud the IESBA’s effort in strengthening the Code of Ethics (the Code).

In general, the Institute supports IESBA’s proposal to provide clear guidance to professional accountants for addressing non-assurance services for audit clients. We suggest the IESBA in conjunction with the implementation of the provisions of this draft, impose a requirement on the firm to establish a set of policies and procedures that require others within the firm, when considering whether to accept a potential engagement to provide a non-audit service to an audit client or its related entities pursuant to paragraph 290.160, to communicate details of the potential engagement to the audit engagement partner on a timely basis. We believe that this will help the others within the firm avoid inadvertent provision of a non-audit service to an audit client.

Specific Comments:

Emergency Provisions:

1. Are there any situations that warrant retention of the emergency exceptions pertaining to bookkeeping and taxation services?

We agree with the withdrawal of the emergency exceptions pertaining to bookkeeping and taxation services to avoid potential misuse of the provisions. In fact, the emergency exceptions pertaining to bookkeeping and taxation services were removed from the Institute’s By-Laws (equivalent to the IESBA Code) many years ago due to the subjectivity of the terms in nature. For your information, paragraph 290.173 was also not adopted in Malaysia.

Paragraph 290.172

The preparation of accounting records or financial statements creates a self-review threat when the firm subsequently audits the financial statements. We suggest that it should be clearly stated in paragraph 290.172 that a firm should not be allowed to provide such services to a public interest entity that is an audit client and its related entities pursuant to paragraph 290.27. The treatment should be consistent with the requirements for an audit client that is a listed entity.

Paragraph 290.185

The same should also apply to tax services under paragraph 290.185, the provision of tax calculations of current and deferred tax liabilities (or assets) should be prohibited to a public interest entity and its related entities. Hence, we suggest that it should be specified in paragraph 290.185 that a firm should not be allowed to provide such services to a public interest entity that is an audit client and its related entities pursuant to paragraph 290.27.

Management Responsibilities:

2. Does the change from “significant decisions” to “decisions” when referring to management responsibilities (paragraph 290.162) enhance the clarity of a management responsibility?

Removal of the term ‘significant’ appears to be appropriate.

3. Are the examples of management responsibilities in paragraph 290.163 appropriate?

The examples in 290.163 provide greater clarity as to what are management responsibilities.

4. Are there any challenges in understanding and applying the prerequisite set out in paragraph 290.165 for non-assurance services that should be considered?

It would be clearer if the IESBA could clarify that where informed client management is absent, the threats created would be so significant that no safeguards can eliminate or reduce the threats to an acceptable level.

Whilst we agree with the provision under paragraph 290.165 requiring existence of informed client’s management, we feel that the last sentence of paragraph 290.165 “the individual is not required to possess the expertise to perform or re-perform the services” adds little value and may give rise to confusion for the users of the Code. Thus, we suggest it be removed.

In addition to the above, we suggest expanding paragraph 290.165 to not just “an individual” but also “individuals” to cater to situation whereby companies have officers with joint responsibilities.

5. Will the enhanced guidance assist engagement teams to better meet the requirement of not assuming a management responsibility?

Paragraph 290.169

We feel that paragraph 290.169 may erode the distinction between the audit client and the firm and its independence may be perceived to be impaired, especially in the case of 'proposing adjusting journal entities', if the client management does not possess skill and knowledge for making decision on the subject matter. We believe that threats to independence can be reduced so long as the dialogue held with a 'suitable' individual of the management of the audit client.

Paragraph 290.171

We believe that 'preparing financial statements based on information in the client-approved trial balance' may not be considered as routine or mechanical, because the term 'financial statements as defined in IAS1 covers not just primary financial statements, but also the notes to the financial statements. Input data for the notes to the financial statements cannot be ordinary obtained from the trial balance and covers key areas of management judgment and estimates, for which its preparation by the firm involves more than just little to no professional judgment. We therefore suggest this example to be removed in its entirety.

6. Does the relocation of the guidance pertaining to administrative services into its own subsection provide greater clarity?

We agree with the enhanced guidance pertaining to administrative services.

Routine or Mechanical:

7. Does the proposed guidance on "routine or mechanical" clarify the term, or is additional guidance needed?

It clarifies the term and we have no further comment on this.

8. Is the meaning and identification of source documents sufficiently clear, taking into account documents that may be generated by software?

We have no further comment on this.

Section 291:

9. Do the changes proposed to Section 291, specifically the additional requirements to proposed paragraph 290.146, enhance the clarity of a management responsibility?

Please refer to item number 4.

In addition, we suggest that the term 'significant' in paragraph 291.143 should be removed to be consistent with Section 290.

10. Are the examples of management responsibilities in paragraph 291.44 appropriate?

We have no further comment on this.

11. Does the relocation of the guidance pertaining to administrative services provide greater clarity?

We agree with the enhanced guidance pertaining to administrative services.

We trust the above would be helpful to the IESBA. The Malaysian Institute of Accountants looks forward to strengthening the dialogue between both organizations.

Yours faithfully,

MALAYSIAN INSTITUTE OF ACCOUNTANTS

A handwritten signature in black ink, consisting of a vertical line on the left, a small dot above it, and a long horizontal line extending to the right with a slight upward curve at the end.

JOHAN IDRIS
President