

AUDIT QUALITY ASSESSMENT ON AN AUDIT FIRM: COMPLIANCE AND CHALLENGES

Normah Omar, Accounting Research Institute & Faculty of Accountancy, Universiti Teknologi MARA, Malaysia
Zuraidah Mohd Sanusi, Accounting Research Institute & Faculty of Accountancy, Universiti Teknologi MARA, Malaysia

Nor Azam Yaacob, Accounting Research Institute & Faculty of Accountancy, Universiti Teknologi MARA, Malaysia

Salihuddin Mohamed, Accounting Research Institute & Faculty of Accountancy, Universiti Teknologi MARA, Malaysia

Purpose – Audit firms in Malaysia have been mandated to adopt this international standard to enhance their operations so that they can be benchmarked against the international requirements. However, it can indeed be a big challenge to implement the requirements of ISQC1 especially for small and medium-sized practices (SMP).

Design/methodology/approach - The data collection phase had involved the gathering of two types of information. First, a self-assessment checklist was used to determine the company's compliance with the six ISQC1 requirements. . The second interview stage is important in order to obtain feedbacks on the usefulness and relevance of the ISQC1 information for the company.

Findings - The findings revealed that the main obstacle in running the operations and support the quality control policies and procedures includes limited cost and insufficient resources especially to recruit additional professional staffs, up to date technical material and training cost on professional development which are to be put in place in the firm so that the audit quality control is maintained

Practical Implications - From this research it is established that self-assessment checklist has assisted respondents to enhance understanding and familiarity with and prepare themselves for compliance with ISQC 1 requirements.

Originality / Values - This study contributes to the criteria for determining whether an audit firm meets the minimum standards of compliance of ISQC 1.

Keywords: *Audit, audit Quality, SMP Audit Firms, Audit Competency, ISQC1*

Contact person: Assoc. Prof. Dr Zuraidah Mohd Sanusi, Deputy Director (Postgraduate & Innovation), Accounting Research Institute, Universiti Teknologi MARA, 40450 Shah Alam, Selangor, Email: zuraidahms@uitm.edu.my

1. Introduction

Audit quality is viewed as one of the important factors that affect the credibility of financial statements. The International Standards on Quality Control (ISQC 1), pronounced by the International Auditing and Assurance (IAASB) of the International Federation of Accountants (IFAC) in 2006, requires firms to establish such system of quality control. It consists of policies designed to provide “reasonable assurance that the firm and its personnel comply with professional standards, regulatory and legal requirements, and that report issued by the firm or engagement partners are appropriate in the circumstances (IFAC 2006)”. Similarly, audit firms in Malaysia have been mandated to adopt this international standard to enhance their operations so that they can be benchmarked against the international requirements. The adoption of ISQC 1 standards is expected to shift the audit firms’ traditional focus on building individual competency towards the entire organization. In view of the enormity of audit quality issue, the importance for practice of audit firms in Malaysia to have the system on assessing the quality of audit performed in compliance to the ISQC 1.

The Malaysian Institute of Accountants (MIA) Council has urged all audit firms, including small and medium audit practices, in Malaysia to take the necessary actions to comply with ISQC 1. However, it can indeed be a big challenge to implement the requirements of ISQC1 especially for small and medium-sized practices (SMP). The small and medium practitioners feel that some of the requirements in the ISQC 1 are not suitable to be implemented in their firms. The lack of awareness on the requirements of ISQC 1 as well as the lack of knowledge on how to implement the requirements of ISQC 1 have been cited as among reasons for their non-compliance. The main issue would be whether the existing measurement is too generic or too superficial in nature. This research will critically examine the existing audit quality performance measure vis-à-vis ISQC 1 and AQuR system. Using a case study approach, an audit firm, has been chosen as the subject matter to evaluate the relevance and applicability of the ISQC 1.

Based on the research problem highlighted in the previous section, this study attempts to answer the following research questions: Is this audit firm complies with the ISQC 1 requirements?

What are the challenges faced by the audit firm in trying to adopt ISQC1? What steps should be taken by the audit firm to ensure high quality of service? This study contributes to the criteria for determining whether an audit firm meets the minimum standards of compliance of ISQC 1. Specifically, this study assesses (1) the availability of information and supporting documentation for examination and review used in the completion of the AQuR checklist, and (2) the overall assessment score indicating the firm’s overall assessment of meeting the ISQC 1 requirement.

2. Background of Study

2.1 Audit Quality

Knechel (2007), “the last 20 years have seen rapid and significant changes in audit profession” and “there is now little doubt that the past few years have been a watershed period for the auditing profession”. Although stakeholders often did not really know what an auditor actually does, they have expectations of their services which were clearly not met. The auditing profession is asked to do more and to take more responsibility and there is an increased need for expertise and knowledge among auditors. Even the media is centered on the need for auditors to become more active in detecting fraud, closing expectations gaps and preventing corporate collapses (Robson et al., 2007). According to Power (2003), audit quality can be seen as the efforts of auditors in ensuring that the services they provide for their clients are of high and acceptable quality. The Institute of Chartered Accountants for England and Wales (ICAEW, 2006) depicts that “quality audit is not easy to define and it would depend to a great extent on the quality of the people performing the audits.”

Wade (2005) further claims the fact that since auditors themselves have difficulty in defining “audit quality”, that itself has become a major barrier to effective communication between the auditing profession and everybody else. In an effort to improve audit quality, more standards, procedures and regulations are being introduced and enforced to the audit practitioners. Current developments in the fields of accounting and auditing in Malaysian market place is presenting great challenges to the auditors. Auditors are basically engaged to lend credibility to the financial statements so prepared by expressing their professional opinion on them. In Malaysia, shortly after the financial scandal of Transmile Group Bhd became public knowledge, auditors were criticised on their role in performing their duties (NST, 19 June 2007).

The Securities Commission and Bursa Malaysia have responded that they will take swift action to clamp down hard on those responsible and restore confidence in Malaysian stock market (Zaimie, 2007). However there are opinion that auditors should not be blamed alone or to take that responsibilities solely. There has been disparity in the public’s expectations of the duties of auditors’ and scope of audit, and auditor’s own ideas of their roles (Zaimie, 2007). The formation of Audit Oversight Board (AOB) to oversight the audit of public listed companies in April 2010 has shown that Malaysia is seriously taking initiatives to protect the interest of stakeholders.

2.2 Quality Control

In order to maintain quality, MIA has adopted the ISQC 1 (International Standard on Quality Control 1) in 2006. All the members of MIA who are renewing their audit licenses must comply with ISQC 1 (Bernama, 8 July 2009). This was crucial in order for MIA to be in a better position to assess whether to support members’ application for renewal of audit licenses from the Ministry of Finance. The purpose of this ISQC 1 is to establish basic principles and essential procedures and to provide

guidance regarding a firm’s responsibilities for its systems of quality control for audits and reviews of historical financial information, and for other assurance and related service engagements. At the same time MIA introduced a Practice Review mechanism on audit firms to ensure that all member firms maintain a reasonable standard of auditing. The credibility of the profession, and that of MIA, lies in the performance of the members. Public practice matters (as the works of audit firms are known in the profession) are entrusted to the Public Practice Committee (PPC) under the purview of the MIA Council.

In designing the system of quality control, the Standard mandates policies and procedures addressing each of the following elements (i) Leadership Responsibilities for Quality within the Firm, (2) Ethical Requirements, (3) Acceptance and Continuance of Client Relationships and Specific Engagements, (4) Human Resources, (5) Engagement Performance, and (6) Monitoring. The quality control policies and procedures should be documented and communicated to the firm’s personnel. It is important for the firm to obtain feedback on its quality control system from its personnel. ISQC 1 is applicable to all firms, regardless of size. The quality control policies and procedures are to be documented and communicated to the firm’s partners and staff. The nature of policies and procedures may vary depending on various factors such as size and operating characteristics of a firm, and whether it is part of a network. The firm should also recognize the importance of feedback on its quality control system from its personnel. It can indeed be a big challenge to fully implement the requirements of ISQC 1 especially for small and medium-sized practices (SMP).

In view of the enormity of audit quality issue, research team from Universiti Teknologi MARA (UiTM) together with the Malaysian Institute of Accountants (MIA) and the Malaysian Accounting Research and Education Foundation (MAREF) have collaborated to devise a practical system on assessing the quality of audit performed by audit firms in Malaysia. The study was initially mooted for the purpose of understanding the practice of audit firms in Malaysia in terms of compliance to the International Standards on Quality Control (ISQC 1) (Mohd-Sanusi, 2009). Subsequent stages involved the research team to develop a checklist based on the requirements in ISQC 1 and later on devise a web-based system premised on the questions in the checklist. The system, known as AQuR System, is accessible to all audit firms, where the audit firms would be able to assess their own audit quality based on the range of scores provided by the system.

Basically, the AQuR system is a reflection of the ISQC 1 principles. Audit firms who subscribe to the AQuR System can conduct their own assessment. The system calculates and assesses the firms’ level of compliance of the ISQC. The “result” section demonstrates the score for each ISQC element as well as the firm’s overall score. The score assessment would be weighted according to the importance of each dimension as well as the type of questions (either policies and procedures or practices). Since it is web-based (<http://www.maref.org.my/isqc>), the AQuR portal would be an

attractive mechanism for member firms of MIA to do reality check on their operations way before their audit license renewal process is due.

3.0 Methodology

3.1 Case Study Design

The study focuses on assessing the audit quality control one of audit SMP companies. As quality assessment is a matter involving senior officers of the audit firms, the respondents for the study comprised mainly the audit partners and other management team working at the respective company locations. As such, a case study of this nature would be able to provide rich and quality information to the existing body of knowledge (Yin, 2003).

3.2 Data Collection

The data collection phase had involved the gathering of two types of information. First, is the use of the AQuR system to self-assess the company's compliance with ISQC1 requirements. Second, to be able to explain the effect of audit quality control on audit practice, this study uses close-up, detailed observation of real-life auditing (observation of auditors during the audit process) complemented by interviews with the in-charge auditors as major sources of evidence. The interview stage is important in order to obtain feedbacks on the usefulness and relevance of the ISQC information for the company. In addition, this study will also source for other mechanisms used by the SMP to measure audit quality. Subsequent sub-sections elaborate the data collection process.

4.0 Results

4.1 AQuR System Results

The first component of the AQuR System aims to establish whether or not the SMPs have successfully developed the right policies and procedures for its system of quality control. Table 1 describes the scores for the early implementation stage of ISQC 1 in terms of the setting up of policies and procedures as well as initial effort towards implementing these policies and procedures.

Table 1: Scores for Policy, Procedures & Practices

Element / Dimension	Score (Rating) for each Office									
	Shah Alam		Kuala Lumpur		Ipoh		Kuantan		Kota Bharu	
Respondent	R1	R2	R3	R4	R5	R6	R7	R8	R9	R10
Policy & Procedures	**	**	*	*	*	*	*	*	**	**
Practices	**	*	*	*	*	*	*	*	*	*
Individual self-scores	**	**	*	*	*	*	*	*	*	*
Overall Scores	**		*		*		*		*	

In general all five SMP offices are only rated between "1-2 stars" implicating either no evidence or the officers are in their early stages of implementing ISQC 1 framework. Of that, only the Shah Alam Office is showing some positive development in terms of having set up the quality control policy and procedures and is starting to implement them.

The consistently low scores across the firm stemmed from its beginning as a sole proprietorship whereby formal and documented organizational practices were very minimal. Even after experiencing expansion, all offices are manned by senior management who gained the confidence of the partners. Thus, the firm places heavily reliance on the integrity of the senior management who commonly do less with formal and documented work approach. Some respondents commented that their offices show low scores because they dislike the highly structured environment of the Big Four Firms where they previously gained experience from. It was their intention that such situation should lead to a more conducive work places that are not constrained by regimented and bureaucratic environment. Such attitude however appears to drag the firm's effort in fulfilling the requirements of ISQC 1.

Table 2: Overall Assessment Scores of Audit Quality Control

Element	Score (Rating) for each respondent									
	Shah Alam		Kuala Lumpur		Ipoh		Kuantan		Kota Bharu	
Respondent	R1	R2	R3	R4	R5	R6	R7	R8	R9	R10
Leadership	***	**	*	*	*	*	*	*	**	**
Ethical	*	*	*	*	*	*	*	*	*	*
Acceptance & Continuance	**	**	*	*	*	*	*	*	**	**
Human Resources	**	**	*	*	*	*	*	*	*	*
Engagement Performance	**	**	*	*	*	*	*	*	*	*
Monitoring	**	**	*	*	*	*	*	*	*	*
Documentation	**	**	*	*	*	*	*	*	*	*
OVERALL	**	*	*	*	*	*	*	*	*	*

Table 2 presents the overall AQuR scores for each of the seven elements for the respective five SMP offices. Again, only the Shah Alam Office is showing some positive efforts towards the ISQC initiative with an overall score of between "2-3 stars" for six quality control dimensions. The item "leadership" is being considered as its greatest strength. Ironically, the "Ethical" dimension is receiving the lowest score for all five offices.

During the process of compiling the questionnaires from the ten respondents, the following observations are noted:

- Many respondents are still not aware of ISQC 1 requirements, whereas those who have the awareness did not know how to get on with implementing the requirements. Besides the understanding of audit quality control, a large number of respondents commented that

answering the questionnaires for this research was a difficult task since it took time and understanding of overall operation of the firm.

- Respondents are also concern on MIA use AQuR system as tool for fault things. The respondents believed that if the firm is deemed as not meeting the minimum requirement of AQuR overall score assessment (hence, three stars rating for all elements) where it give rise to unprofessional conduct, a complaint may be lodged to Investigation Committee of MIA. In addition to that, MIA will not support firm member's application for renewal of audit licenses from Ministry of Finance or the audit licenses will be revoked.
- Many respondents noted that certain requirement in the six elements of ISQC 1 may not be applicable to the practice or if not in their firm's quality control. Respondents stated that more time is needed to implement the quality control requirement and making changes to suit the firm's needs. The respondent indicated that in the engagement performance, for example, there are suggested that the firm should change the control to better fit the practice because it is not always applicable depending on the size of the client.
- All the respondents agreed that the ISQC 1 requirements imposed additional responsibilities for the audit firms since there are large numbers of existing standards for them to comply and operate in appropriate manner. The cost of investment forms huge burden for creating and implementing controls within the firm. This includes need for increase human resources, material and time consequently affecting the ability of small and medium firms to remain competitive and client-focused. Most of small and medium enterprise (SME) clients are not aware of ISQC 1 requirement especially in relation to potential increase in audit fees.

The additional findings for each element that were accumulated from observation, formal and informal conversation will be further discussed on the next topic. It is hoped that it will be beneficial and informative to the partner and management of the firm as the guidance for corrective actions to be taken in order to improve and enhance the audit quality.

4.2 An Observation of Actual Practices

Based on the previous discussion, it has been established that the case study approach is the most appropriate to determine the existence of quality control compliance in this study. Though the ISQC 1 framework may not be seen to be complied with in totality (as reflected by the AQuR scores), the SMP Offices chosen for the case study have taken several initiatives to ensure that the services that they rendered to their clients are of acceptable quality. This section discusses these initiatives. The discussion will be based on the stipulated ISQC elements: leadership responsibilities, ethical

requirement, client relationships, human resources, engagement performance, monitoring and documentation.

4.2.1 Leadership responsibilities for quality within the firm

As indicated in ISQC 1, the recognition of quality in the firm's strategy is essential to communicate the firm's commitment to audit quality to partners, employees and clients. Most respondents interviewed in this research mentioned that no written organization chart with clear responsibility is available at the firm. This indicates that there is no delegation of duties to persons with sufficient and appropriate experience and ability with responsibility on quality control issue. Essentially, the audit principal or audit manager of the respective office perform the following procedures, reflecting leadership responsibilities in working papers and forms as follows:

- Signing off all working papers
- Audit planning and audit control sheet review and signing off
- New client and termination checklist approval and signing off
- Staff timesheet and monthly staff performance check

In respect of the above, the audit principal or audit manager report directly to the managing partner of the firm and discuss issues on all complaint and other matters.

In many cases, the messages of performing high-quality professional work are delivered frequently during staff meeting. On the other hand, no documentation or notes of decisions are taken (for example minutes of staff meeting). Without documentation, any issues highlighted by the staff during the staff meeting have the tendencies to be overlooked and proper action may not be taken to resolve the issues.

Being a small organization, the Company has features typically associated with its size. There is very high interaction between members of the organization at all level and bureaucracy is reduced to the minimum i.e. the workers have easy access to the partners and are able to engage them for discussion and problem solving. This reduces the need for written communication although inadvertently leads to less documentation of decisions and actions. In addition, the small size of the firm also enables the partners to get to know the workers well enough to assess and to reward their performance.

The AQuR score for leadership for Shah Alam and Kota Bharu are markedly higher as compared to other offices. This is mainly attributed by the regular presence of the two partners who are based in those two offices enabling to make decisions and resolve conflict or problems at much faster pace.

4.2.2 Ethical requirements

In Malaysia, audit firms should establish policies and procedures so that their personnel comply with ethical requirements included in MIA By-Laws on Professional Conduct & Ethics and the Recommended Practice Guide. The respondents revealed that there was a lack of established policies and procedures designed for the compliance of professional independence requirements as required by ISQC 1 and MIA ethical requirements.

In some cases, the management through verbal communication to the audit staff makes a brief mention on the need to focus on independence. In essence, the independence requirement in the appointment letter appeared to be insufficient. Among the findings, the respondents agreed that certain practices in the firm may have impaired the independence of the statutory audit services. Listed below are examples of such practices:

- *Close business relationship (dealings) with clients.*
- *Too long relationship as client-auditor (familiarity threat).*
- *Clients who are family members, extended family.*
- *Providing non-assurance service.*
- *Significant overdue fees from a client or group of connected clients.*

While the respondents admitted to instances of being aggressive at times when taking risks, they typically insist on getting the relevant facts and information and knowing the risk they are taking prior to issuing their reports. In mitigating the above weaknesses, the respondents mentioned about certain practices as follows:-

- *Awareness of risk attaching to clients' shareholding profile.*
- *Rejection of 'rubber stamp' practices.*
- *Reduction of scope of work.*
- *Unrealistic demand and expectation.*

4.2.3 Acceptance and continuance of client relationships and specific engagement

In compliance with ISQC 1, the firm should obtain such information that includes integrity of the client, competency of the firm and compliance with ethical requirements before accepting an engagement with a new client or when deciding whether to continue an existing engagement and when considering acceptance of new engagement with an existing client. Most respondents mentioned that the decision on acceptance and continuance of client will normally be based on the judgment of partner and this is performed in verbal, for example, informal way. The findings revealed from the interviews and observations are as follows:

- *No formal documentation on evaluation of client for acceptance*

- *Letter of engagement is not issued or the letter of engagement is issued without acknowledgement by the client.*
- *Letter of consent to act issued earlier than the date of obtaining professional clearance letter.*
- *Letter of management representation is not dated, not customized, not signed and management’s responsibilities are not incorporated.*

When considering whether to accept and continue relationships and specific engagement, commercial factor usually serve as a main factor. All respondents agreed that the firm must be adequately rewarded for services rendered and typically, they are concern with the following:

- *Delinquent cases.* The respondents are of the view that with regards to being a business concern, the firm must be able to obtain payment for every work done. Screening of potential clients usually involves the review of their outstanding fees to their present auditors. Inability to settle overdue fees will cause the potential clients being regarded as ‘potentially problematic’ and the firm will likely share the same fate should it agrees to accept such appointment. The same view is taken for deciding weather to continue relationship with the existing auditors when the clients started to becoming delinquents in settling their bills.
- *Time cost not being adequately compensated.* In order to save cost, some clients neglected in hiring competent book keepers and accountants resulting in the books not being kept in such as to enable them to be conveniently and properly audited. Such convenience resulted in more time and resources being incurred until the cost reached to the level that did not commensurate with the fees that the clients were willing to pay. In such cases, if the clients did not heed the advice in hiring competent accountants, all respondents are unanimous in their view that such clients do not deserve to be helped again.

4.2.4 Human resources

ISQC 1 stated that “Firm shall establish policies and procedures designed to provide it with the reasonable assurance that they have sufficient personnel with the capabilities, competence and commitment to ethical principles to perform its engagements in accordance with professional standards and legal requirements and to enable partner to issue report that are appropriate in the circumstances.” As such, auditing is a people business because the field of work relies very heavily on human interaction for its success, and the quality of audit services depend heavily on the quality of all people involved in delivering it.

Findings noted during observation and interview that there were personnel issues that the firm should address to ascertain the quality of the individuals required for the firm’s engagement:

- *The firm does not maintain the recruitment procedure and criteria for recruiting any members of staff and what its requirements are.*
- *The respondents clarified that the firm does not maintain any record on the professional development for professional staff.*
- *There is no documentation on performance evaluation conducted on the staff.*

The findings also shown that there are certain basic practices being practice by the firm such as:

- *Maintenance of personal file.*
- *Fair and effective remuneration package.*

4.2.5 Engagement performance

ISQC 1 says; "Firm to establish policies and procedures and ensure consistency in quality of engagement performance though manuals, template, standardized documentation, industry or subject matter-specific guidance materials. Firm requires establishing supervisory and reviewing responsibilities to ensure consistency of engagement performance."

Auditors always have a large number of standards set for them externally. Nevertheless there are certain important areas which are not covered by the overabundance of standards that govern the auditors, for example sample sizes, the quantity of working paper that a file should contain, and timing for circularizing debtors and creditors.

It is important that standard-setting process must be linked to the firm's objectives. A standard that requires all lead and supporting schedules to show comparative figures makes a great deal of sense. Hence, the planning documentation and developing standard audit programs are essential part of an audit to reduce the audit risk to an acceptable low level. Findings of this research have shown that:

- *No audit planning documentation is prepared that highlighted the expected scope and conduct of the audit.*
- *No standard audit program is used in the execution of audit engagement for all the firm's offices.*
- *Although the audit program is used but there is no cross-referencing to the respective detailed audit working paper where work is performed.*
- *The firm does not put into practice of Engagement Quality Control Review (EQCR) in audit engagement.*

The firm already has standardized communication and correspondence templates and the partners and management has agreed for a new standardized manual and templates for audit work papers.

Accessibility to internet for all staff provides the means for vast pool of information available online. Membership of professional bodies also enables the firm to gain access to further pool of resource. The firm places significant emphasis for having adequate knowledge resource. The Shah Alam office for example, has a library for storing relevant books and reference materials.

4.2.6 Monitoring

The requirement of ISQC 1 requires the audit firm to adopt policies of appointment of audit compliance partner to constant monitoring the firm's procedures are being complied with and that those procedures are being updated and remains relevant. In smaller firms, the firm relies on the partner and staff member at all level to informally monitor and enforce quality, ethic and professional and firm standards. Where this monitoring shall be inherent in every aspect of professional work, deficiencies are noted in monitoring procedures of the firm include:

- *No indication of file review is filed in the audit working papers.*
- *Where any complaints have been received by the firm in respect of audit work, there was no suitable action taken and or filing made in the audit working papers.*

The firm had maintained some practices for ensuring that work is conducted within an environment where quality is monitored.

- Organizational and control
 - filing system is functional and files are stored in separate filing room
 - reminder system is in place for tracking work so that deadlines are not missed
 - correspondence files are maintained for keeping records for significant meetings, discussions and advices given
 - work arrangement is in place for taking over assignment from resigning staff
 - in addition to manual form, all audit work papers are stored in soft format at main server and further secured with backed up storage
- Work recording
 - all significant works are recorded and the related documentation are filed
 - only signed audited accounts are filed in for use as reference for comparative figures
 - procedures identified as necessary at planning stage and included in audit planning memorandum are followed through, indexed and documented at every part of audit section.

4.2.7 Documentation

The audit firm is required to maintain policies and procedures that specify the level and extent of documentation required in all engagements and for general firm use. It also maintains policies and

procedures requiring appropriate documentation to provide evidence of the operation of each element of its system of quality control.

In deciding the method of documentation and how much to document, the respondents identified the following:

- *Getting audit work documented and related evidence in audit file for small companies often consumes time and resources.*
- *Permanent records for of all files stored at site are not appropriately labeled for easy identification and retrieval due to limited storage area.*

5. Conclusion

The number of financial reporting and auditing standards along with the expected level of compliance are constantly increasing. This imposes a greater burden on audit practices that are competing to provide cost-effective audits while maintaining full compliance with audit regulations and standards. The introduction of ISQC 1 applies to all size of audit firms that provide audit services. This study examines whether the requirements of ISQC 1 are too generic or too superficial in nature to be implemented in small and medium practitioners in Malaysia. The results from the observation and inquiry shows that the firm selected critically need improvement on the audit quality of the firm in order to safeguard its integrity and business reputation.

The findings revealed that the main obstacle in running the operations and support the quality control policies and procedures includes limited cost and insufficient resources especially to recruit additional professional staffs, up to date technical material and training cost on professional development which are to be put in place in the firm so that the audit quality control is maintained. It is unavoidable that implementing effective policies and procedures do imposed need to be time and complexities, hence if the firm wants something proper, then the firm need to do something properly.

The findings revealed that based on the result of AQuR system, the case study firms's scores are below the minimum standards of compliance to the ISQC 1. The non-compliance with ISQC 1 that was identified during this research has made the partner and management anxious at the beginning, as the firm has never been assessed on the compliance of ISQC 1. Furthermore this non-compliance will jeopardize the audit license renewal process for the audit partners. Meanwhile, all the respondents agreed that this research is definitely worth it in at the end and understand that the existing operation of the firm cannot continue with the present procedures and need to improve further. It is difficult task, but it is step by step process and it is necessary to the firm to maintain minimum standards if it chooses to remain in the profession.

Most of score rating from the AQuR system for this research showed one star rating which required the firm to exercise significant improvement in many areas. Nevertheless this self-assessment checklist is not meant for a pass-fail test of firm operation. Although the practitioners are concerned

that the MIA as regulatory body may use this self assessment for disciplinary action or may not support member's application for renewal of audit licenses from the Ministry of Finance, the main purpose is to diagnose the current state of member firm audit quality mechanism. From this research it is established that self-assessment checklist with AQuR system has assisted respondents to enhance understanding and familiarity with and prepare themselves for compliance with ISQC 1 requirements.

Many respondents noted that certain requirements in the six elements of ISQC 1 may not be applicable to the practice or if not in their firm's quality control, hence the score assessment could enable firms to pinpoint areas of improvement. Although the implementation of the ISQC 1 might be a burden to small and medium firm especially in term of lacking number of staff in charge of the quality control system and understanding the standards itself, the standards is an effective method towards the improvement of quality control system. This research also confirmed that the audit quality control assessment of AQuR system provides practical implication and contribute to state-of-the-art expectations which guide to enhance professionalism and credibility of audit profession as well as to improve the effectiveness of small and medium audit firm.

The study provides a number of practical implications. First, it is recommended that the small and medium practitioner should terminate those services with high risk audit client on the grounds that the firm may not have the proper resources available to the perform audits for them. Alternatively the small and medium firm may have to embark on other service such as consulting and financial advisory to diversify its revenue and concentrate on low risk audit engagement, for example client with audit fee below RM10,000. This can be essential in order not to compromise the renewal of their audit licenses in the future. Second, small and medium size audit firms may need to merge with other smaller firms in order to build up the size and resources. The Services Sector Capacity Development Fund (SSCDF) under Malaysia Industrial Development Authority (MIDA) was established by the Government of Malaysia to encourage domestic SME, including audit firm to merge with other services providers to become larger entities in order to enhance their productivity, skills and technical capabilities, efficiency and services delivery. The financial assistance will be provided in the form of a matching grant (1:1) on the cost of the merger and acquisition subject to a maximum of RM250,000. This combination will further enhance the capability to invest in advancing audit quality. A larger firm's image can give an edge in a competitive marketplace which may attract large audit assignment with huge fees. This appears to be upward pressure on audit fees and better services.

Third, small and medium audit firm must command a fee commensurate with their duties. Respondents agreed that the cost of compliance with the ISQC 1 requirement will be another expense weighing down on already low audit fees. The small and medium practitioner should be blamed for undercutting practice. As a result audit fees are too low to enable auditors to perform adequately. This unethical practice should be prevented between practitioners and will enable them to deliver a high quality of services that complies with professional standards, regulatory and legal requirements.

Furthermore, the firm should invest in human resources including talent development and establish a system of quality control in their firm. Last, the MIA should assist and monitor the small and medium practices by introducing quality control manual especially for the firm run by only one partner and other appropriate manual for firm with two to five partners. This quality control manual should be designed with close range with AQuR system as guidance and tools for practitioners as guidance for reviewing the quality control system in minimum compliance with ISQC 1. This quality control manual should be accompanied with the soft copy specimen documentation, for example checklist, control sheet, review form and sample letter, are ready-made for implementation. The manual should give small and medium practitioner, a structure for quality control system that a practitioner can tailor to suit the need of the practice, provided it does not fall short of the requirements of ISQC 1.

The nature, extent, and documentation of the quality control policies and procedures that firms develop will vary and depend on many factors, including the size and nature of the firm and its operating characteristics. Implementation of effective policies and procedures can be time-consuming or complex. In a small firm, one or two person may have to perform most of the functions necessary to implement a quality control system, or a firm may decide to retain the services of a qualified person outside the firm to provide this service. This study identified that AQuR system could be used as self assessment review tool for all audit firms in Malaysia especially small and medium-sized practitioner pertaining to the quality control of their audit work. In addition, based on actual practices of selected SMPs, this research also provides small and medium firms with the analysis and some tools needed to effectively and efficiently self assess their own audit firm in audit quality in moving forward cost effective small medium enterprise audits and better serve the public interest. If previously the firm was lacking the motivation for enhancing its quality control mechanism, the research could be used as impetus for the required change in meeting the requirements of ISQC 1. These requirements, being an approach that requires higher level of organizational structure and documentation, can further enhance uniformity of practices and help in promoting shared values and culture across the firm.

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