

K H GOH & CO

AF: 1287

□ **Chartered Accountants** □ *Phone* : (603) 7880 3028
J-1-19, Jalan PJU 1/43, *Fax* : (603) 7880 3009
Aman Suria Damansara, *E-mail* : gkh2001@
47301 Petaling Jaya, tm.net.my
Selangor, Malaysia

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**CORPORATE POLICY, PLANNING AND
DEVELOPMENT DEPARTMENT
COMPANIES COMMISSION OF MALAYSIA,
17TH FLOOR, PUTRA PLACE,
100 JALAN DUTA,
50622 KUALA LUMPUR**

**by fax 4047 6317 ,
email & post**

ATTN : NOR AZIMAH ABDUL AZIZ

**RE : COMMENT ON CLRC CONSULTATIVE DOCUMENT NO. 7 ON
QUESTION 7 : DO YOU AGREE THAT THE PRESENT MANDATORY
AUDIT RULES SHOULD BE RETAINED?**

Firstly I appreciate the opportunity to provide my personal comment and view as a practitioner on the question of whether the current mandatory audit rules for all companies should be changed so that smaller private companies should be exempted from compulsory audit.

CLRC has decided that the current mandatory audit rules which have been practiced in Malaysia for many years should be one of the many areas to be reviewed under the reform of corporate law. After a few years and having kept many people especially the accountants and auditors hanging there with uncertainty, CLRC finally issued this consultative paper which addressed the question of mandatory audit. CLRC's initiative and effort should be commended.

Like many other accountants(I believe), I was looking forward to read CLRC's recommendation on the subject matter and its argument for it. Obviously, we were disappointed because CLRC did not after all state its recommendation. CLRC also did not give its reasons for not giving any recommendation. I can only assume that CLRC has not done all the necessary work to enable it to derive at a recommendation on such important matter.

Assuming I am right and that being the case, then the obvious suggestion I have is for CLRC to complete what is necessary for it to complete its job of coming out with a recommendation that is best for the future of our country. The decision made will definitely have a far reaching implication on the economic development and also the accountancy profession of the country.

I am of the opinion that CLRC should engage in an in-depth and active consultation with the relevant stakeholders such as the business community, the financial institutions and the accounting profession before it arrives at any recommendation. The public's comment should only be sought on the recommendation made by CLRC consistent with other areas reviewed by CLRC. For instance, CLRC recommended in the same consultative document that the current compulsory company secretary system should be retained. The way of getting the public to sort of voting which of the two options put forward by CLRC is better can be misleading or meaningless. The fact that CLRC despite not stating its recommendation, went ahead or rather jumped the gun to discuss the Consequential Law Reform Should the Mandatory Audit Requirement be Abolished For Private Companies may indirectly suggest that CLRC is nevertheless in favour of audit exemption for smaller companies. Is this the case?

Changing a system of this nature is a policy decision rather than anything. The 6 members of the Working Group responsible for this are easily more than qualified and capable to deliberate this issue and come out with a solution. The only shortcoming is they only represent their own selves instead of any represented groups. In a way, it is also not fair to the 6 members to shoulder the responsibility of making such important recommendation. I would like therefore suggest that CLRC consider setting up a Task Force comprising representatives from all the stakeholders for the purposes of coming out with a consensus as to which of the 2 alternative systems is the best for our country and the resultant criteria and rules.

I am also of the view that the accounting professional bodies should be at the forefront of this issue. Audit exemption is without doubt an accountant's issue. I think it will be useful and timely for the accountancy profession with the support of the government to come out with a master plan for the industry akin to the Capital Market Plan and Financial Market Plan. We should come out with a 5 or 10 years industry master plan and this issue can be one of the many issues to be addressed. The lack of interest shown by the leading accounting professional bodies in Malaysia on this issue is rather sad. It may however be not surprising as this issue has no effect on the big boys who are the main driving forces behind the professional bodies.

In addition, I am of the view that any decision on audit exemption should not be made based on cost beneficial factor or so called conducive business environment alone. We need to consider many other related matters and issues including the effect on the accounting practices and education. For instance, do we know how many accounting professionals and staffs are employed by smaller practitioners and how the audit exemption may affect them? We need a comprehensive study of the possible implication to the accounting profession if audit exemption were to be implemented.

In fact the top priority to create a conducive business environment is to improve the public delivery system including those under the jurisdiction of SSM. For instance, it should not take 2 weeks or more to register a new company. Another example is to give tax incentive to business start-up and entrepreneurship. Most of the existing tax incentives are meant for big investment project. For instance a big and listed company like AirAsia was given 5 years tax incentive by the Government. As a comparison, a person who decided to quit his job and take the risk to start a new business will have to pay taxes as soon as he makes profit although at a lower rate

(6% lower from 2008 onwards). I do not think audit exemption and hence some cost saving arising therefrom is the top priority in terms of creating a conducive business environment and encouraging innovation and entrepreneurship.

At the same time, smaller practitioners who are essentially part of SMEs and who are arguably the key source of business and financial advice to SMEs also need a lot of support and assistance from the government to stay competitive and relevant.. Never mind that they are not forthcoming, the last thing we want to hear is for the mandatory audit rules to be taken away without any compensating source of revenue. Having said that, I believe over long run, audit exemption may turn out to be a blessing in disguise to the practitioners as goods purchased based on demand will generally fetch a better price. One of the issues currently faced by smaller practitioners is the decreasing margin in audit jobs. Unhealthy margin has the danger of comprising the quality of work. However we need to know what is in stored for us if and assuming that the decision is to do away with mandatory audit. We need a clear direction and a comprehensive solution and plan.

Whether or not the mandatory audit rules will stay, I personally think that a study should be carried out to address many industry issues such as the quality of audit, audit fee, audit independence, staffing qualification, quality of accounting graduates, accounting & professional qualification, 'migration' of accountants, lack of industry statistics, lack of quality accounting research and publication, roles of various professional bodies and institutes, compliance with financial reporting standards and the Companies' Act, the lack of enforcement by SSM, the non-filing of annual return and accounts, dormant companies and the whole list.

I hence look forward to a fully concerted and coordinated effort between the government and the accounting professional bodies to embark on a new chapter in the accounting and auditing discipline and practices in our country as we move towards achieving Vision 2020. As said, we need a Master Plan.

Thank you

Goh Kean Hoe

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1. Malaysian Institute of Accountants
2. Malaysian Institute of Certified Public Accountants