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Happy Deepavali to our readers! We trust that you have enjoyed a great holiday!

Our Prime Minister cum Finance Minister announced Budget 2011 on 15 October 2010. We would appreciate your views on how its provisions are likely to affect you, your business and your clients. E-mail us at [support@myAXP.com](mailto:support@myAXP.com).

In **AXP Updates** we are proud to announce that we have completed our move to our **new offices** in Cyberjaya, which now includes a **brand new dedicated training room**. Trainees can now focus on learning without any disturbance and distraction from daily office tasks. We have also highlighted the top scorers from our Audit Express Certification, attended by students from colleges and universities. If you wish to consider recruiting them when they have graduated, please contact us and we shall contact the students on your behalf.

In our **Tips on using Audit Express**, we continue to highlight how our core product, **Audit Express**, helps to improve the efficiency and effectiveness in performing an audit engagement. In this issue, we illustrate how **Audit Express** can quickly identify and eliminate the annoying problem of rounding adjustments, leaving you more time to concentrate on the 'important' aspects of the audit!!

For **Breaking News**, we review how the *proposed* IFRS for Leases will change our traditional way of accounting for leases with the proposed 'abolishment' of the concepts of 'finance leases' and 'operating leases'. For company which

relies heavily on 'operating' leases, the proposals are likely to have a significant impact on their financial ratios, particularly their gearing ratio.

Our **Technical News Update** focuses your attention on those aspects which affect you, your practice and your clients immediately and those which involve longer-term convergence issues.

In **Reviewing Disclosure Requirements**, we review the frequently-omitted disclosures in respect of the Standards on 'revenue' and 'effects of changes in foreign exchange rates'.

In **Experts' Corner**, we shall continue with Part VIII of preparing group accounts, specifically, accounting for an 'associate' in the context of consolidated financial statements, and Part II of intangible assets.

In the second topic of our **System of Quality Control for Audit Practitioners** series, we shall zoom into the requirements of the first element - leadership responsibilities for quality within the firm. We have provided some practical tools in complying with this element of ISQC 1.

We shall continually strive to revise the contents of our e-Newsletter to better suit your needs, thus, we welcome and encourage your feedback or suggestions on **AXP e-Newsletter**. Happy reading!

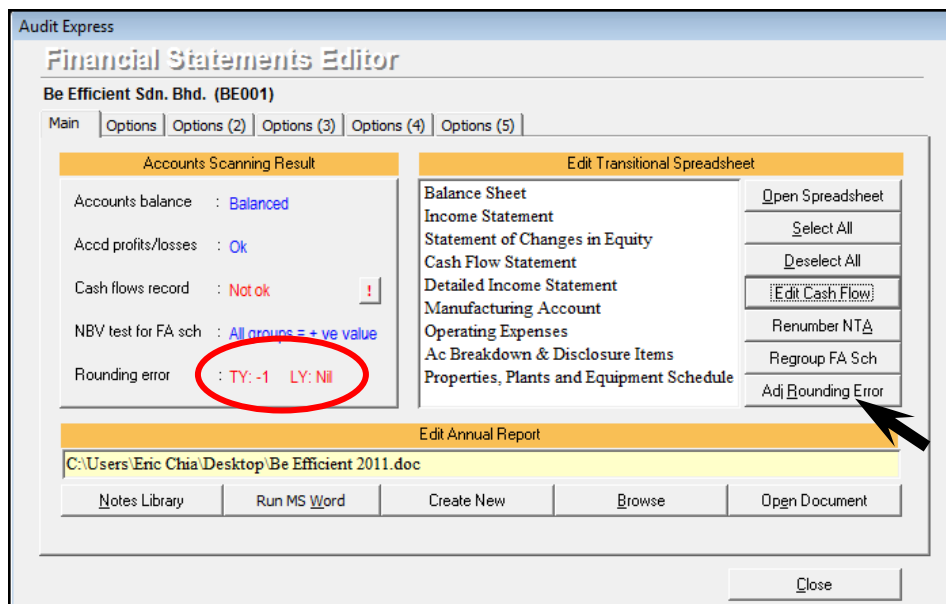


## Tips on Audit Express

*Audit Express* allows users to easily monitor and adjust rounding differences to ensure the accuracy of the financial statements.

Accountants frequently encounter the annoying problem of rounding figures to their nearest ringgit when preparing financial statements. Since all the financial statements must be properly cast to ensure that all individual line items agree to the totals, considerably time often has to be spent to handle rounding differences. Audit Express allows users to quickly and easily monitor and adjust rounding differences to ensure the accuracy of the financial statements.

Firstly, Audit Express highlights to the users when a rounding difference occur:-



By looking at the **Accounts Scanning Result**, users are notified that a rounding difference of RM1 existed after the system rounds all numbers to the nearest ringgit (as circled).

Tips on Audit Express – Handling Rounding Differences with Ease

Secondly, it provides an easy to use platform for users to adjust the rounding differences according to their needs, just click on

Adj Rounding Error

(as pointed) and the following interface appears:

Audit Express

### Rounding Error Adjustment

Be Efficient Sdn. Bhd. (BE001)

			31-12-10		31-12-09	
Class	Nature	Accounts	This Year Bal	Adj Item	Audited Bal (LY)	Adj Item
B/S	EQT	Accumulated profit/loss	(919,688)		-	
B/S	EQT	Share capital	(500,000)		(500,000)	
B/S	NCL	Deferred taxation	(38,865)		(45,587)	
B/S	NCL	Hire purchase creditors (non-current)	(98,852)		(69,268)	
B/S	NCL	Term loan (non-current)	(366,816)		(558,266)	
B/S	CL	Amount due to directors	-		-	
B/S	CL	Directors' Accounts	(594,552)		(1,046,000)	
B/S	CL	Bank overdraft	(152,263)		(1,864)	
B/S	CL	Cash at bank - OCBC (overdraft)	(27,279)		-	
General Group: Accumulated profits/losses			Net Balance :	(1)	-	
Mfg Ac Group: N.A			Rounding Error :	(1)	-	
Abr. Inc Stm Grp: N.A						
Accd Profits/Losses c/f (LY) : (919,688.00) Ok			Bal without adj :	-	(874,920)	
Accd Profits/Losses b/f (TY) : (919,688.00)			Adjusted bal :			

Print Screen      Show Adjusted Account Only      Close

Record: 1 of 156

This interface shows all the balance sheet and income statement items with their 'rounded' figures. To make a rounding difference adjustment, just select the account that you wish to adjust:

Audit Express

### Rounding Error Adjustment

Be Efficient Sdn. Bhd. (BE001)

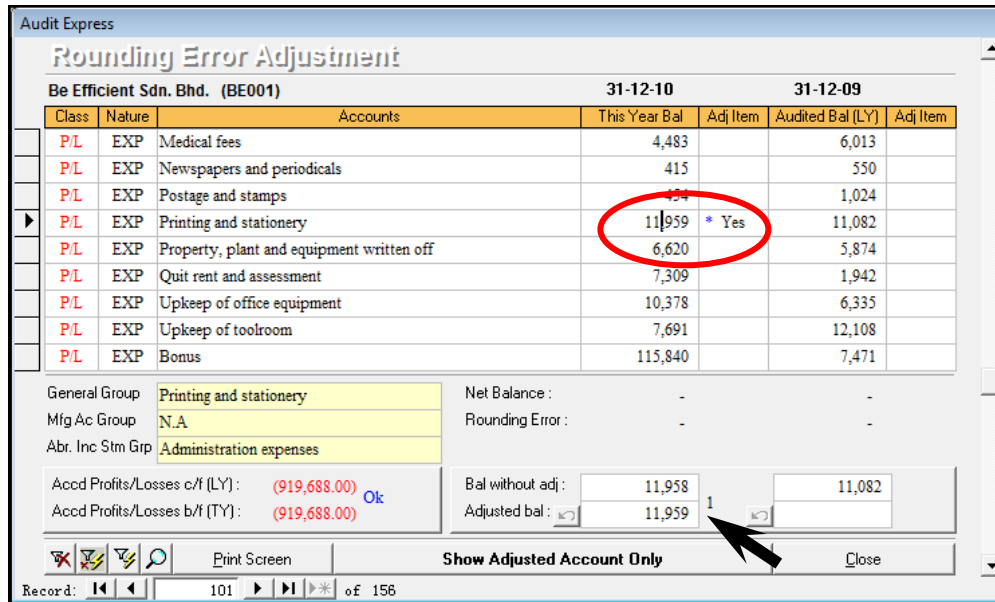
			31-12-10		31-12-09	
Class	Nature	Accounts	This Year Bal	Adj Item	Audited Bal (LY)	Adj Item
P/L	EXP	Medical fees	4,483		6,013	
P/L	EXP	Newspapers and periodicals	415		550	
P/L	EXP	Postage and stamps	454		1,024	
P/L	EXP	Printing and stationery	11,958		11,082	
P/L	EXP	Property, plant and equipment written off	6,620		5,874	
P/L	EXP	Quit rent and assessment	7,309		1,942	
P/L	EXP	Upkeep of office equipment	10,378		6,335	
P/L	EXP	Upkeep of toolroom	7,691		12,108	
P/L	EXP	Bonus	115,840		7,471	
General Group: Printing and stationery			Net Balance :	(1)	-	
Mfg Ac Group: N.A			Rounding Error :	(1)	-	
Abr. Inc Stm Grp: Administration expenses						
Accd Profits/Losses c/f (LY) : (919,688.00) Ok			Bal without adj :	11,958	11,082	
Accd Profits/Losses b/f (TY) : (919,688.00)			Adjusted bal :			

Print Screen      Show Adjusted Account Only      Close

Record: 101 of 156

Tips on Audit Express – Handling Rounding Differences with Ease

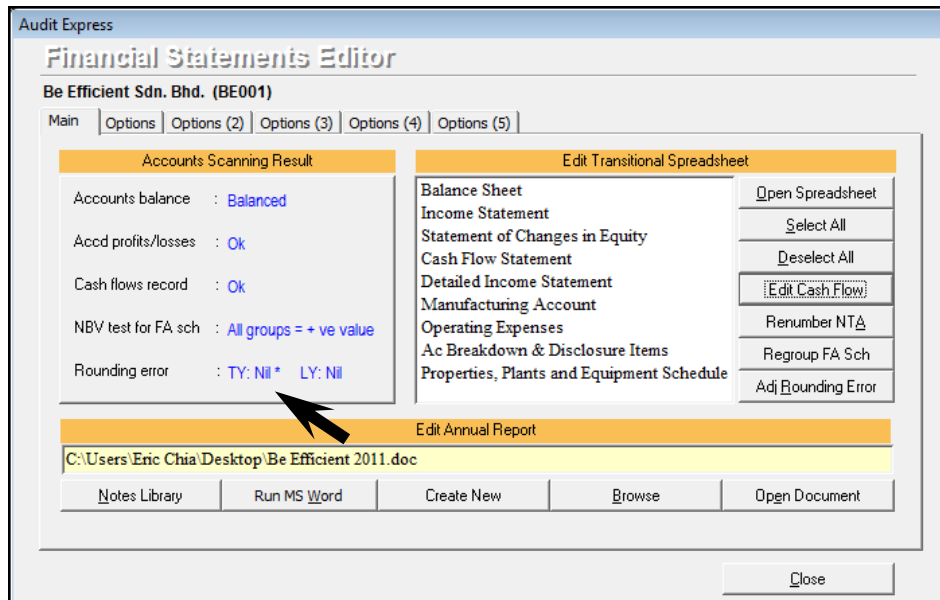
Once selected, you can now directly adjust the figure shown, e.g. from 11,958 to 11,959 like this:



Last but not least, the system leave an audit trail by giving an asterisk '\*' and **Yes** under the **Adj item** column (as shown in the picture above) and this adjustment will take effect when users generate the financial statements.

Also take note that the interface will show the **Bal without adj** and **Adjusted bal** figures (as pointed), and hence users can easily trace back to the original balance and the adjusted balance.

Once completed, click **Close** to exit and you can see that the **Rounding error** under the **Accounts Scanning Result** has been 'corrected':



For more details on how you can exploit **Audit Express** to improve the speed and accuracy of your audit engagement, kindly contact our Customer Service at [support@myaxp.com](mailto:support@myaxp.com).

# Breaking News

The exposure draft proposes recognising **ALL** leases on the Statement of Financial Position and is expected to provide users of the financial statements with a more complete, understandable picture of the leasing activities, and present a more faithful representations of the leasing arrangements of an entity.



## Future Development of Lease Accounting

### Introduction

On 17 August 2010, the International Accounting Standards Board ('IASB'), jointly with the United States Financial Accounting Standards Board ('FASB') published an exposure draft on **Leases**. The exposure draft is open for comment until 15 December 2010, and the target date as IFRS is June 2011.

In this Article, we shall focus on analysing the changes that will affect a 'lessee'.

### Existing Standards for Leases and its Problems

Leasing is one of the most important and frequently used sources of finance. Under the current standards, leases are divided into two categories: **finance** lease and **operating** lease. In accordance with FRS 117 (and MASB 10), a '**finance**' lease is a lease that transfers substantially all the risks and rewards associated with the ownership of an asset across to the lessee. Title may or may not eventually be transferred. An '**operating**' lease is any lease **other than** a finance lease.

If a lease agreement is accounted for as a **finance** lease, the associated underlying assets and liabilities are presented on the lessee's statement of financial position ('SFP'). However, for an **operating** lease, the lessee simply recognises lease rental as an expense in the statement of comprehensive income ('SCI') as and when lease payments are due for payments, thus, assets and liabilities are **not** presented on the lessee's SFP, nor is a finance cost recognised in the SCI. Hence, under current requirements, transactions which have very similar economic implications are accounted for very differently depending upon whether they are classified as **operating** or **financing** leases.

**Breaking News – Future Development of Lease Accounting**

A brief summary of the major differences between *finance* lease and *operating* lease is as follows:

	<b>Finance Lease</b>	<b>Operating Lease</b>
<b>Definition</b>	A lease which transfers substantially all the risks and rewards associated with the ownership of an asset across to the lessee.	A lease <b>other than</b> finance lease.
<b>Initial recognition</b>	Recognise an asset and an associated liability in the SFP at the <b>lower of</b> the fair value of the asset, <b>or</b> , the present value of the minimum lease payments.	None.
<b>Subsequent payments</b>	Reduce the liability recognised in respect of the finance lease and recognise a finance cost in the SCI.	Recognised as an expense in the SCI over the lease terms (normally on a straight line basis).
<b>Depreciation</b>	Recognise a depreciation charge in respect of the leased asset as an expense over the <b>shorter of</b> its useful life, <b>or</b> , the lease term.	None.
<b>Finance charge</b>	Allocate over the lease term (on an effective rate basis) and recognise as an expense in the SCI.	None.

**Salient Points of the Exposure Draft on Leases**

Unfortunately, since the distinction between a ‘finance’ lease and an ‘operating’ lease involves an element of judgement, there is often a tendency for lessees to classify what are *probably* ‘finance’ leases as ‘operating’ leases, and thereby avoiding recognition of assets, the associated obligations to pay future rentals, and a finance cost. This leads to an ‘understatement’ of the assets and liabilities of the lessee, meaning that readers of financial statements are unable to make fair comparisons between similar entities, and unable to fully understand the impact of leasing activities on the financial position and performance of an entity. Furthermore, under the accounting framework (‘Framework’), assets and liabilities are defined by reference to ‘rights’ and ‘obligations’, and **ALL** leases contain ‘rights’ and ‘obligations’. Hence, there is currently a conflict between the ‘Framework’ and the existing Standard.

To eliminate both the judgemental element and the conflict with the ‘Framework’, the IASB and the FASB are proposing to eliminate the distinction between ‘operating’ and ‘financing’ leases and replacing the current accounting treatment with a **‘right-of-use’** accounting model for **ALL** leases. In simple terms, the proposals require that **ALL** leases shall be accounted for in the **SAME** manner.

**Breaking News – Future Development of Lease Accounting**

Under a **'right-of-use'** model for **ALL** leases:

- ✓ **Asset recognised in the SFP:** a lessee acquires a **right-to-use** of the underlying asset, and hence records the right-to-use of the underlying asset as an asset.
- ✓ **Liability recognised in the SFP:** a lessee's obligation is to **pay for the right** with the lease payments, and hence records the obligation as a liability.
- ✓ **Initial recognition:** the **right-to-use asset** shall be recorded at the present value of the lease payments.
- ✓ **Subsequent measurement:** the **right-to-use asset** shall be depreciated or amortised over the lease term and tested for impairment in the same way as 'owned' assets. Revaluation of the **right-to-use asset** is allowed.
- ✓ **Presentation:** the **right-to-use asset** shall be presented within the property, plant and equipment on the SFP but disclosed separately from assets that the lessee owns.
- ✓ **'Expected' lease term:** a lessee shall recognise the assets and associated liabilities on the basis of the longest possible lease term, including options to extend or terminate, that is more likely than not to occur, and review the position annually. Currently, the lease term is determined using a **'minimum'** lease term.
- ✓ **Cash flows:** a lessee shall include all payments expected to be made over the **expected** lease term in the **right-to-use asset**, including any estimated contingent rentals.

**Moving Forward**

The exposure draft proposes recognising **ALL** leases on the SFP and is expected to provide users of the financial statements with a more complete, understandable picture of the leasing activities, and present a more faithful representations of the leasing arrangements of an entity.

Although lessees will not be required to distinguish between finance and operating leases under the exposure draft, preparers will need to carefully consider how contingent rentals and/or optional lease periods, if any, shall be accounted for. This introduces a 'new' judgemental area in accounting for leases by lessees!



# Technical News Update

In response to comments and views received, we have divided our Technical News Update into 3 sections. Section 1 is of particular interest to SMEs and SMPs. Section 2 focuses on FRS and convergence with IFRS. Section 3 includes other technical news and updates.

## **Section 1 – Special Interests for SMEs and SMPs**

### ***Training Materials for IFRS for SMEs***

The trend for globalisation is inevitably, including the adoption of IFRS, and most likely, IFRS for SMEs. Are you ready to adopt IFRS for SMEs? The International Accounting Standards Board (IASB) provides a set of comprehensive training materials for interested parties, for non-commercial purposes.

Each module includes the followings:

1. Introduction and an overview of the module.
2. Requirements of IFRS for SMEs with added notes and worked examples.
3. Discussion of significant estimates and judgements in accounting for transactions and events.
4. Comparison with full IFRSs.
5. A collection of multiple-choice questions designed to test the learner's knowledge of the requirements.
6. A collection of case studies designed to develop the learner's ability to account for transactions and events.

For more information on these training materials, please visit <http://www.ifrs.org/IFRS+for+SMEs/Training+material.htm>.

## **Section 2 – Development of FRS and Convergence with IFRS**

### *Technical News from the International Accounting Standards Board ('IASB')*

Since **1 September 2010**, the IASB and the IFRS Interpretations Committees have published the following:

- ✓ Amendment of one aspect of accounting for deferred tax
- ✓ IASB and US FASB: completion of the first stage of a revised conceptual framework
- ✓ Severe Hyperinflation amendment to IFRS 1
- ✓ Finalises enhanced derecognition disclosure requirements for transfer transactions involving financial assets
- ✓ IASB and US FASB: consultation on effective dates for convergence of accounting standards
- ✓ IASB issues additions to IFRS 9 for financial liability accounting

For more information on the above technical news, please visit [www.ifrs.org/Home.htm](http://www.ifrs.org/Home.htm).

## **Section 3 – Other Technical News and Updates**

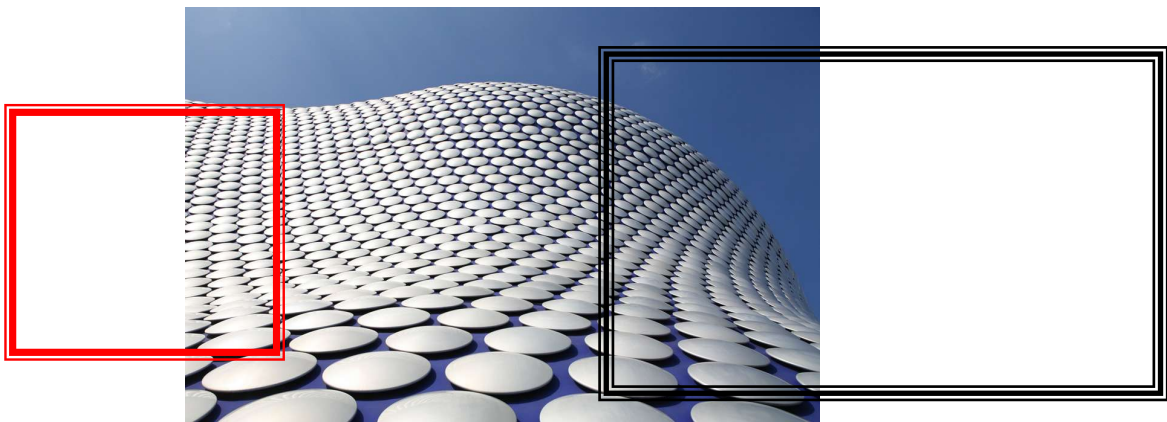
### *Technical News from the Investor Resources section of the IASB*

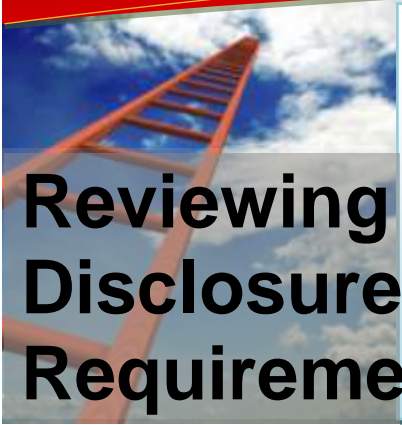
The IASB recognises that investors and other users of financial statements have an important stake in the development of IFRSs, and hence, has set up a new section in its web page – 'Investor Perspectives', to provide regular updates for investors. It is written by former analysts who are now IASB members.

On **10 September 2010**, Ms. Patricia McConnell, Board Member of IASB, analysed the exposure draft on financial statements presentation (Note: in Breaking News Section of AXP e-Newsletter – September/October 2010 Issue, we have compared some of the major differences between current FRS 101 and this proposed standards). If you are interested to find out more and provide your feedback on this topic, please visit the following web page:

<http://www.ifrs.org/Investor+resources/2010+perspectives/September+2010+perspectives/FSP.htm>

*Note: the above URL is provided with the consent and agreement of IASB's Investor Liaison unit.*





# Reviewing Disclosure Requirements

## About Reviewing Disclosure Requirements

As a value-added service, AXP provides a complimentary service to assist in reviewing annual financial statements audited by our clients during the implementation and customisation stage of **Audit Express**. Any recommendations for improvements in disclosure requirements will be issued for their considerations.

In this section, we shall highlight common disclosure “faults” which have been observed during our review, and hope that it will help our client practitioners to better understand the disclosure requirements of prevailing reporting standards.

In this issue, we shall focus on **MASB 8 / FRS 118 Revenue** and **MASB 6 / FRS 121 The Effects of Changes in Foreign Exchange Rates**.

<u>Reference</u>		<u>Observations</u>	<u>Recommendations or sample disclosures</u>
<u>PERS</u>	<u>FRS</u>		
8.14	118.13	The accounting policies for the recognition of revenue arising from sale of goods, rendering of services and other sources are incomplete.	<p><b>Example:</b></p> <p>118.35(a) <i>Revenue</i> 118.9 Revenue is measured at the fair value of the consideration received or receivable, net of discounts and indirect taxes applicable to the revenue.</p> <p>Revenue is recognised in the statements of comprehensive income based on the following:</p> <p>118.14 <i>i) Sales of Goods</i> Revenue from sales of goods is recognised when the following conditions are satisfied:</p> <ul style="list-style-type: none"> <li>- the Group and the Company have transferred to the buyer the significant risks and rewards of ownership of the goods;</li> <li>- the Group and the Company retain neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;</li> <li>- the amount of revenue can be measured reliably;</li> <li>- it is probable that the economic benefits associated with the transaction will flow to the Group and the Company; and</li> <li>- the costs incurred and to the incurred in respect of the transaction can be measured reliably.</li> </ul> <p>118.20 <i>ii) Rendering of Services</i> Revenue from rendering of services is recognised by reference to the stage of completion of the transaction.</p>
8.15	118.14		

For details, please refer to AXP’s **Model Financial Statements for FRS 2010**, page 42, or AXP’s **Model Financial Statements for PERS 2009**, page 23.

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8.36 (b)	118.35 (b)	Amount of each significant category of revenue recognised during the period are not disclosed.	<p><b>Example:</b></p> <table border="1"> <thead> <tr> <th colspan="2" rowspan="2"></th> <th colspan="2">The Group</th> <th colspan="2">The Company</th> </tr> <tr> <th>31.12.10 RM'000</th> <th>31.12.09 RM'000</th> <th>31.12.10 RM'000</th> <th>31.12.09 RM'000</th> </tr> </thead> <tbody> <tr> <td>118.35(b)(i)</td> <td>Sales of goods</td> <td>202,548</td> <td>278,170</td> <td>-</td> <td>-</td> </tr> <tr> <td>118.35(b)(ii)</td> <td>Rendering of services</td> <td>786,938</td> <td>734,376</td> <td>-</td> <td>-</td> </tr> <tr> <td></td> <td>Management fee revenue</td> <td>-</td> <td>-</td> <td>89,949</td> <td>54,609</td> </tr> <tr> <td>111.39(a)</td> <td>Contract revenue</td> <td>1,591,278</td> <td>1,172,589</td> <td>-</td> <td>-</td> </tr> <tr> <td>201.50(b)</td> <td>Property development revenue</td> <td>10,013,736</td> <td>6,932,479</td> <td>-</td> <td>-</td> </tr> <tr> <td>118.35(b)(iii) 7.20(b)</td> <td>Interest revenue from financial assets not at 'fair value through profit or loss':</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>- 'available-for-sale' financial assets</td> <td>306</td> <td>290</td> <td>-</td> <td>-</td> </tr> <tr> <td></td> <td>- 'held-to-maturity' investments</td> <td>2,750</td> <td>2,680</td> <td>17</td> <td>20</td> </tr> </tbody> </table> <p>For details, please refer to AXP's <b>Model Financial Statements for FRS 2010</b>, page 88, or AXP's <b>Model Financial Statements for PERS 2009</b>, page 52.</p>			The Group		The Company		31.12.10 RM'000	31.12.09 RM'000	31.12.10 RM'000	31.12.09 RM'000	118.35(b)(i)	Sales of goods	202,548	278,170	-	-	118.35(b)(ii)	Rendering of services	786,938	734,376	-	-		Management fee revenue	-	-	89,949	54,609	111.39(a)	Contract revenue	1,591,278	1,172,589	-	-	201.50(b)	Property development revenue	10,013,736	6,932,479	-	-	118.35(b)(iii) 7.20(b)	Interest revenue from financial assets not at 'fair value through profit or loss':						- 'available-for-sale' financial assets	306	290	-	-		- 'held-to-maturity' investments	2,750	2,680	17	20
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6.11	121.23	The accounting policies on foreign currency transactions for monetary and non-monetary items are not disclosed separately.	<p><b>Example:</b></p> <p><i>At the end of each reporting period, foreign currency monetary items are translated using the closing rate. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates at the date of the transactions. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.</i></p>																																																										

<u>Reference</u>		<u>Observations</u>	<u>Recommendations or sample disclosures</u>
<u>PERS</u>	<u>FRS</u>		
N/A	121.53	The fact, together with functional currency and the reason, when the presentation currency is different from the functional currency, are not disclosed.	<p><b>Example:</b></p> <div style="border: 1px solid black; padding: 5px;"> <p><i>If the presentation currency is different from the functional currency:<sup>1</sup></i></p> <p>121.39 The financial statements of the Group and the Company are presented in Ringgit Malaysia as the 121.53 shareholders of the Company are primarily residing in Malaysia. Assets and liabilities for each statement of financial position presented are translated from the functional currency, Singapore Dollar, into Ringgit Malaysia at the closing rate at the end of the reporting period. Income and expenses for each statement of comprehensive income presented are translated at exchange rates approximate the exchange rates at the</p> </div> <p>For details, please refer to AXP's <b>Model Financial Statements for FRS 2010</b>, page 24.</p>
N/A	121.54	The fact and the reason for a change in functional currency are not disclosed.	

# Disclosure Requirements

# Preparation of Group Accounts - Consolidation (Part VIII)

• • •  
**About Experts' Corner**

Our Technical Adviser, Mr. Keith Farmer, will review and illustrate recognition and measurement issues of prevailing accounting standards in an interesting manner.

• • •

This is the eighth part of a series of articles concerning the preparation of **consolidated** financial statements in accordance with FRS 3: 'Business Combinations' and FRS 127: 'Consolidated and Separate Financial Statements' and FRS 128: 'Investments in Associates'.

In our previous article, we considered the definition of an associate and the accounting treatment in the **separate** financial statements of an investor and any **consolidated** or **additional** financial statements prepared by the investor. In this article, we shall demonstrate the accounting treatment of an associate in the context of an investors' **separate** and **consolidated** financial statements.

**Example**


The following are the income statement [**I/S**], statement of changes in equity [**SOCE**] and statements of financial position [**SFP**] of '**P**', '**S**' and '**A**' for the year ended 31/12/X6 (RM'000's). '**P**' acquired 60,000 of the ordinary shares in '**S**' on 1/1/X4 when the retained earnings of '**S**' were RM120,000 and 25,000 of the ordinary shares in '**A**' on 31/3/X4 when the retained earnings of '**A**' were RM85,000.

Consolidated goodwill was impairment tested at 31/12/X6 but no impairment loss was evident.

<u>Income Statement</u>	<u>P</u>	<u>S</u>	<u>A</u>
Revenue	990	640	410
Cost of sales	<u>(340)</u>	<u>(120)</u>	<u>(130)</u>
Gross profit	650	520	280
Aggregate expenses	<u>(180)</u>	(130)	(80)
	470		
Dividends receivable (see 'tutorial notes')	<u>29</u>	—	—
PBT	499	390	200
Tax	<u>(90)</u>	<u>(120)</u>	<u>(40)</u>
<b>Profit for the period [= TCI]</b>	409	270	160
	====	====	===



Experts' Corner – Consolidation (Part VIII)

	<b><u>Statement of Changes in Equity (extract)</u></b>	<b><u>P</u></b>	<b><u>S</u></b>	<b><u>A</u></b>
	Retained b/f	350	190	115
	Profit for the period [= TCI]	409	270	160
	Ordinary dividends paid/ declared	<u>(100)</u>	<u>(40)</u>	<u>(20)</u>
	Retained c/f	659	420	255
		====	====	===
	<b><u>Statement of Financial Position</u></b>	<b><u>P</u></b>	<b><u>S</u></b>	<b><u>A</u></b>
	Sundry net assets	629	520	355
	<u>Investments</u>			
	60% OSC of 'S' at cost	160		
	25% OSC of 'A' at cost	70		
		====	====	====
	Ordinary RM1 NV shares	200	100	100
	Retained earnings	659	420	255
		====	====	====

**Required:** Prepare a working schedule for the consolidated income statement [**CIS**], the published **CIS**, consolidated statement of changes in equity [**CSOCE**] and consolidated statement of financial position [**CSFP**] for the year ended 31/12/X6 incorporating the results of 'A' using the equity method.

*Tutorial notes:*

- 1) If you look at the **SFP** of 'P', you can see the accounting treatment of the investment in the associate in the context of P's own **SFP**. Under FRS 127 it is carried at cost (but may be re-stated at **fair value** annually if 'P' chooses to do so. If so, the restatement will need to be **eliminated** prior to consolidation).
- 2) If you look at the **CSFP** in the answer, you can see the accounting treatment of the investment in the associate in the **CSFP**. Under FRS 128 it is carried on an '**equity**' basis, ie. at original cost **plus** all **post** acquisition reserve movements.
- 3) The dividends receivable figure in 'P' represents the dividends received or receivable from both 'S' (ie. 60% x 40 = **24**) and 'A' (ie. 25% x 20 = **5**). These both need to be **eliminated** prior to consolidation, and then dealt with as '**intra-group**' dividends when preparing the **CIS** working schedule.

**Answer**

**Working schedule for CIS figures**

	<b>P</b>	<b>S</b>	<b>A</b>	<b>Publish CIS</b>
	(100% x 12/12)	(100% x 12/12)	(25% x 12/12)	
Revenue ( <i>Turnover</i> )	990	640	<del>                    </del>	1,630
Cost of sales	<u>(340)</u>	<u>(120)</u>	<del>                    </del>	<u>(460)</u>
Gross profit	650	520	<del>                    </del>	1,170
Aggregate expenses	<u>(180)</u>	<u>(130)</u>	<del>                    </del>	<u>(310)</u>
Profit B4 finance cost and tax			<del>                    </del>	860

Experts' Corner – Consolidation (Part VIII)

<b>1) Share P/L of 'A': 25% x 160</b>			<b>40</b>	<b>40</b>
<b>PBT</b>	470	390		900
Tax	<u>(90)</u>	<u>(120)</u>		<u>(210)</u>
<b>P/L for the period [= 'TCI']</b>	380	270		690
Minority interest [40% x 270]		<u>(108)</u>		<u>(108)</u>
		162		
I. G. <b>ordinary</b> dividends:				
S to P: 60% x 40	24	(24)		
<b>A to P: 25% x 20</b>	<b>5</b>		<b>(5)</b>	
	<b>409</b>	<b>138</b>	<b>35</b>	<b>582</b>
	=====	=====	=====	=====

Published CIS

**Consolidated Income Statement of the P group for the year ended 31/12/X6 (RM'000's)**

*(Based on the figures in the 'published' column on the previous page.)*

Revenue	1,630
Cost of sales	<u>(460)</u>
Gross profit	1,170
Aggregate expenses	<u>(310)</u>
	860
<b>Share P/L of associate</b>	<b>40</b>
PBT	900
Tax	<u>(210)</u>
Profit for the period [= 'TCI']	690
	===
Attributable to:	
Minority interest	108
	===
Owners of the parent	582
	===

**Consolidated Statement of Changes in Equity of the P group for the year ended 31/12/X6**  
**(RM'000's)**

Attributable to the owners of the parent:

	OSC	Working Sch. 'RE'			RE	GR	Total	MI	Total Equity
		P	S	A					
B/f: P	200	350							
<b>P in S: 60% x (190 – 120)</b>			42		399.5	nil	599.5	116 ①	<b>715.5</b>
<b>P in A: 25% x (115 – 85)</b>				7.5					
P/L [= 'TCI']		409	138	35	582		582	108 ②	690
<u>Appropriations:</u>									
Dividend (ordinary)		100)			(100)		(100)	(16)③	(116)
Transfer to reserves		(nil)	(nil)	(nil)	(nil)	nil	-	n/a ④	-
C/f	200	659	180	42.5	881.5	nil	1,081.5	208 ⑤	<b>1,289.5</b>
	===	=====	=====	=====	=====	===	=====	===	=====

① MI balance at 1/1/X6:

OSC of 'S'	100
Retained earnings B/f (see S's SOCE)	190
	290 x 40% = <b>116</b>
	===

② The MI share of the 'TCI' is **RM108,000** (seen in the CIS). Insert this figure into the MI column.

③ Look in S's SOCE, has 'S' paid or declared an ordinary dividend for the current year? The answer is 'yes'. 'S' has paid or declared an ordinary dividend of RM40,000 in respect of X6, hence the MI's share of the 'P/L' (and the net assets of 'S') has been **reduced** by their share, ie. 40% x RM40,000 = **RM16,000**. This acts to **reduce** their CSFP balance. Put this into the MI column.

④ 'S' has not made a transfer to reserves in the **current** year. Even if it had, it would **NOT** affect the MI since it is a bookkeeping entry and has **no impact** on the underlying net assets of 'S'.

⑤ MI balance at 31/12/X6:

OSC of 'S'	100
Retained earnings C/f (see S's SOCE)	420
	520 x 40% = <b>208</b>
	===

**Observation:** P's share of the **post** acquisition retained earnings of 'A' – 'equity' based – is **RM42,500**. The CV of the investment in the associate in the CSFP will similarly be **increased** by **RM42,500** and hence the CSFP will cast – see later.

**Consolidated Statement of Financial Position of the P group as at 31/12/X6 (RM'000's)**

Sundry net assets (629 + 520)	1,149
Goodwill on consolidation [Wk 1]	28
<b>Investment in 'A' equity based</b> [Wk 4]	<b>112.5</b>
	=====
OSC RM1 NV (per question)	200
Group retained earnings [Wk 3]	881.5
Minority interest [Wk 2]	208
	=====

**WK 1: GOODWILL RECOGNISED ON CONSOLIDATION**

Cost to 'P' of investment in 'S'	[60%]	160
<u>Less: ADFV of the net assets of 'S':</u>		
OSC of 'S'	100	
<b>ALL</b> reserves of 'S'	<u>120</u>	
= 100% net assets of 'S'	220	x 60% (132)
	===	-----
<b>Original goodwill on consolidation</b>		<b>28</b>
		===


**WK 2: MINORITY INTEREST AT REPORTING DATE**

<u>Net assets of 'S' at the current reporting date:</u>		
OSC of 'S'	100	
Retained earnings	<u>420</u>	
= Net assets at reporting date	520	
	===	x 40% =
<b>MI per CSFP (separate component of equity)</b>		<b>208</b>
		===

**WK 3: GROUP RESERVES**

Retained earnings of 'P' (as a separate entity)	659
'Post' acquisition RE of 'S': 60% x (420 - 120)	<u>180</u>
	839
<b>Post in associate: 25% x (255 - 85)...see below</b>	<b>42.5 Cr.</b>
<b>Group RE per CSFP</b>	<b>881.5</b>
	===

Tutorial note: Note the 'double-entry' in the CSFP context.

→  next page

**Wk 4: EQUITY BASED ACCOUNTING**

Cost of 'A'	70
Add: Post acquisition reserves ( <i>ALL of them</i> ):	
<b>Retained earnings: 25% x (255 – 85)...see above</b>	<b>42.5 Dr.</b>
<b>CV of the investment in the associate in the CSFP (equity based)</b>	<b>112.5</b>
	=====

There are a few other issues to consider:

**'FAIR VALUE' AT THE ACQUISITION DATE**

FRS 128 states that 'many of the procedures appropriate for the application of the equity method are similar to the consolidation procedures described in FRS 127', and hence, **YES**, the investor is required to undertake a '**fair value**' [FV] review at the date significant influence is acquired. The **FV's** (together with any resultant adjustments, eg. additional depreciation charges) will then be used as the basis for applying the equity method.

**TRADING WITH ASSOCIATES**

Since an associate is **not** part **of** the group (*associated **with** the group, but not part **of** the group*), there is **no** such concept as deleting 'intra-group' trading when applying the equity method. However, FRS 128 requires that any 'unrealised' profit [**URP**] arising from 'upstream' (*associate to a group member*) or 'downstream' (*group member to an associate*) transactions between the respective entities needs to be eliminated. There are, however, two differences between how this is accounted for in respect of group members and associates:

- 1) Group members are **fully** consolidated, hence the entire URP **in full**, whereas associates are equity accounted (*ie. group share*), and hence only the **group share** (*eg. 30%*) is eliminated.
- 2) The accounting entry to eliminate the URP has to be **modified** in the context of **equity** accounting:

**'Upstream'** transactions (*ie. **from** the associate **to** a group member*):

	<u>Dr</u>	<u>Cr</u>
Share of profit of associate shown in the <b>CIS (and the 'RE' working in the CSFP)</b>	xx	
Inventory (company holding the inventory – <b>group member</b> )		xx
	==	==

**'Downstream'** transactions (*ie. **from** a group member **to** an associate*):

	<u>Dr</u>	<u>Cr</u>
I/S (company making the profit – <b>group member</b> )	xx	
<b>Investment in the ASSOCIATE</b>		xx
	==	==

**ELIMINATION OF TRADING OR LOAN ACCOUNT BALANCES WITH ASSOCIATES**

Once again we need to remember that an associate is equity accounted and **not** fully (*or proportionately !!*) consolidated. Hence, there is no such concept as eliminating 'intra-group' balances because they are **not** 'intra-group' !! Quite simply, any balances in the investors **separate SFP** will cross-cast into the **consolidated SFP**.

**RECOGNITION OF GOODWILL IN RESPECT OF ASSOCIATES**

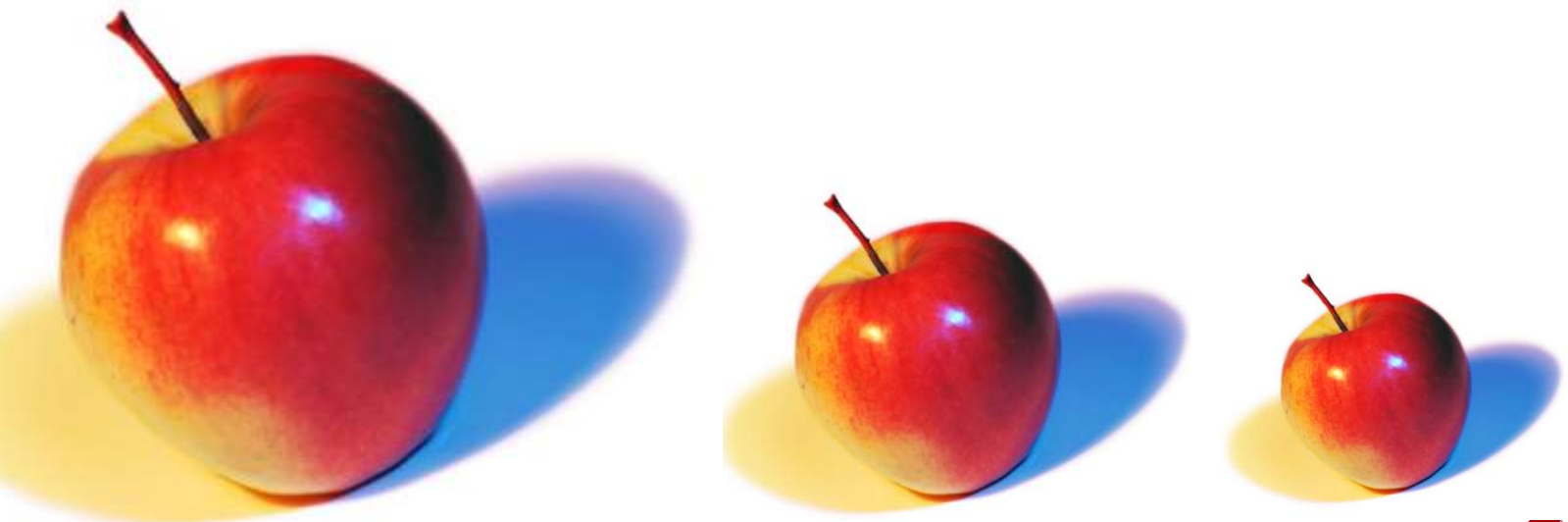
The **group** carrying value of an investment in an associate comprises the original cost **plus/ minus** and movements in **all** of the associates' reserves since the date significant influence was acquired. As with a subsidiary, the original cost comprises **two** elements: the investors share (**FV based**) of the underlying net assets of the associate at the date significant influence was acquired **and a goodwill component**. In the past, the goodwill component **was** identified separately, however, the current FRS 128 requires that 'goodwill relating to an associate is included in the carrying amount of the investment', and hence the goodwill component is **NO LONGER** recognised separately.

**IMPAIRMENT LOSSES IN RESPECT OF ASSOCIATES**

Following on from the above point, since goodwill is **NOT** separately recognised, it cannot be tested for impairment ! Instead, an investor is required to test the 'carrying value' [**CV**] of the associate, and any impairment loss identified acts to **reduce** the carrying value. For example, assume the group based CV of an associate in which an investor holds 30% of the ordinary share capital is RM30m. If the value of the associate is RM100m (*or more*), the investors' share is **not** impaired. However, if the value of the associate is only (*say*) RM90m, then the investors' share is RM27m (30% x RM90m) and hence the CV **is** impaired. An impairment loss of RM3m would be recognised, and the CV **reduced** to:

Carrying value (before impairment loss recognised)	RM30m
Less: Impairment loss recognised	<u>(RM3m)</u>
Carrying value (after recognition of impairment loss)	RM27m
	=====

***we shall build these aspects into one final example in our next issue !***



# Intangible Assets (Part II)

This is the second part of a series of articles concerning the 'recognition' and 'measurement' aspects of **intangible assets [IA]** subject to FRS 138: 'Intangible Assets'. In this article, we shall consider the circumstances giving rise to the recognition of intangible assets (*there are 5 !*) and their **initial** measurement (or 'cost').

## CIRCUMSTANCES LEADING TO THE 'INITIAL' RECOGNITION OF AN INTANGIBLE ASSET

FRS 138 identifies **5** circumstances in which an intangible asset *may* be acquired.

- 1) Acquired **separately**. (*ie. 'purchased'*).
- 2) Acquired as part of a **business combination**.
- 3) '**Granted**' (*ie. 'given' to the entity for no or a nominal cost – generally this would only be the case where the IA is 'granted' by a government.*)
- 4) **Generated 'internally'**. (*This relates to 'development costs' – hence the reason why the old Standard on R&D – FRS 109<sub>2004</sub>: 'Research and Development Costs' – was withdrawn.*)
- 5) '**Exchanged**'.

## INITIAL MEASUREMENT ('COST')

If acquired '**SEPARATELY**' (*ie. 'purchased'*), 'cost' comprises:

**Firstly** – the amount of cash or cash equivalents paid or the fair value of other consideration given, at the date of acquisition, *ie. the 'purchase price' !!* This will **INCLUDE** (*where relevant, and for example*) any import duties and non-refundable purchase taxes but **EXCLUDE** (*where relevant*) **trade** discounts and rebates.

### Example 1

An entity acquired the patent rights to a newly developed microchip for RM1 million from a foreign developer. Import duties are levied at a rate of 8% based on the purchase price, and there are two local purchase taxes. The first is levied at 10% based on the actual cost to the entity (excluding import duties) which is not refundable. The second is a form of 'goods and services' tax at 5% which is based on the purchase price (including import duties). This tax is refundable to the entity on a quarterly basis. The entity settled the cost immediately but was not entitled to a settlement discount.

**Required: What is the initial 'cost' of the patent rights ?**

**Answer 1 ('000's)**

Purchase price	1,000
Add: Import duties (8% x 1,000)	80
Add: non-refundable purchase tax (10% x 1,000)	100
Add: refundable purchase tax (5% x 1,080)	<u>n/a</u>
<b>The initial 'cost' is</b>	<b>1,180</b>
	====

**Secondly** – any **further** costs incurred by the entity which are **directly attributable** to preparing the asset for its intended use such that it is in a condition necessary for it to be **'capable of operating in the manner intended by management'** are also capitalised as part of the **'cost'** (eg. legal fees, professional valuation fees, consultancy fees and registration fees, direct employee costs, pre-operating testing costs, etc.).

Note that these are 'in addition to' the 'cost of buying' the patent rights, **but** necessarily incurred before the asset is in a position where it is **'capable'** of generating income. Note, however, that once **'capable'**, any **further** costs would be **expensed**. Thus, if the asset is **'capable'**, but **not** currently being used – for **whatever** reason – any **further** costs will be **expensed**. The basic rule is very simple: **stop capitalising costs when the asset is 'capable of operating in the manner intended by management'**. You should **also** note that this is the point from which amortisation **starts !!** Please remember: **capitalisation STOPS** when **'capable'**.....**amortisation STARTS** when **'capable'**.

**Example 2**

Assume the patent rights in example 1) above incurred the following additional costs ('000's):

Finders' fees for locating the developer	25
Legal fees to negotiate the purchase	40
Fees paid to a consultant valuer	35
Registration fees with the patent authorities	150

**Required: What is the initial 'cost' of the patent rights ?**

**Answer 2 ('000's)**

Cost of purchase [from example1]]	1,180
<b>Add:</b>	
Finders' fees for locating the developer	25
Legal fees to negotiate the purchase	40
Fees paid to a consultant valuer	35
Registration fees with the patent authorities	<u>150</u>
<b>The initial 'cost' is now</b>	<b>1,430</b>
	====

Experts' Corner – Intangible Assets (Part II)

Note that if settlement of the purchase price is *deferred*, the 'cost' figure recognised is the 'cash price equivalent' (ie. what the IA *would have cost if* payment had been made *immediately*). Any *further* amount paid is recognised as an **interest expense**.

If acquired as part of a **BUSINESS COMBINATION**, 'cost' is the '**fair value**' at the acquisition date (in accordance with FRS 3) so long as it meets the '**definition**' of an intangible asset (ie. '**identifiable**') and satisfies the '**recognition tests**'.

In part 1) of this series (in the last e-Newsletter), we considered these aspects in detail. Remember that there is a **PRESUMPTION** that the '**probable inflow**' test will **ALWAYS** be satisfied and the '**measured reliably**' test will **NORMALLY** be satisfied (by reference to an '**active market**', best information of the amount that would have been paid *if* acquired separately, *or* by a professional valuation). Also remember that the Standard *further* states that if the intangible asset has a '**finite**' life, there is a '**rebuttable presumption**' that the '**measured reliably**' test **WILL BE SATISFIED**.

**Example 3**

'P' acquired 80% of the ordinary share capital of 'S' on 31/12/X4. At that date the following intangible assets were identified:

- 1) A fishing quota of 15,000 tonnes per annum in territorial waters. The quotas are traded regularly on a fishing exchange and the price per tonne of these fishing quotas at the date of acquisition was RM1,600. Fishing quotas are issued by the government and have an indefinite life.
- 2) A brand name called "Instashine" in respect of a floor washing liquid. A rival brand name thought to be of a similar reputation and value to "Instashine" had recently been acquired for a disclosed figure of RM10 million.
- 3) A government licence to extract minerals from a mine for the next five years. The licence is difficult to value as there was no fee payable for it and 'S' is the only company that can mine the minerals. A professional licence valuer has estimated the fair value of the licence to be RM7 million.
- 4) A highly skilled and professional work-force which the management of 'P' has valued at RM4 million.

**Required:**

**Which of the above intangible assets are capable of separate recognition at the date of acquisition of 'S' ?**

**Answer 3**

	<u>Active market</u>	<u>'Best information'</u>	<u>'Techniques developed by professionals'</u>	<b>Recognise ?</b>
Fishing quota	yes	n/a	n/a	YES
Brand name	no	yes	n/a	YES
Licence	no	no	yes	YES
Work-force	n/a	n/a	n/a	NO (cannot 'control')

**Example 4**

'P' acquired 75% of the ordinary share capital of 'S' on 1/1/X4 at a cost of RM1,800,000 when the share capital and reserves of 'S' were:

OSC RM1 NV	100,000
Retained earnings	450,000
	=====

The fair value review undertaken at the date of acquisition identified the following:

- 1) The fair value of the underlying tangible assets was approximately equal to their carrying values with the exception of some land which was worth RM50,000 more than its carrying value.
- 2) A brand name developed internally. Based on a professional valuation the name was worth RM500,000 at the date of acquisition.
- 3) A licence which had been granted by the government at no cost to operate a land fill site for 10 years from 1/1/X1. By reference to two similar licences which had recently been sold on the open market, it was estimated to have a fair value of RM250,000.
- 4) 'S' had incurred substantial expenditure on research activities prior to 1/1/X1 which had been expensed as incurred. The knowledge gained as a result of the expenditure was assessed by a professional valuer to be worth RM300,000. 'P' intends to continue the research activities and is confident that it will generate substantial revenues in the future.
- 5) A supply contract for 6 more years to a major customer. It was not currently recognised in the F/S of 'S' but was estimated to have a fair value of RM120,000 at the date of acquisition.
- 6) A skilled workforce of trained engineers which had benefited from attending a substantial number of training courses at the initiative of the directors of 'S'. All training costs had been expensed as incurred. The directors of 'P' have assessed the fair value of their skills to be RM190,000.

No fair value adjustments had been reflected in the financial records of 'S'.

**Required: Calculate the goodwill on consolidation figure.**

**Answer 4**

**WORKINGS**

Revaluation at the date of acquisition – 'fair value' ('000's)

	<u>Carrying</u> <u>value</u>	<u>Fair value</u>	<u>Revaluation surplus</u>
Land	xxx	xxx	<b>50</b>
Brand	nil	500	<b>500</b>
Licence	nil	250	<b>250</b>
Research costs	nil	300	<b>300</b>
Supply contract	nil	120	<b>120</b>
Skilled workforce	nil	nil	<b>n/a</b>
<b>Reval'n (aggregate)</b>			<b>1,220</b>
			=====

*Tutorial notes:*

- 1) Whilst FRS 138 allows recognition of 'in-process research costs' if they satisfy the definition and can be measured reliably, any **further** costs have to be dealt with in accordance with the 'normal' rules, ie. **research** costs are **expensed** as incurred.
- 2) The '**skilled workforce**' cannot be recognised as an intangible asset since '**P**' is unable to control the benefit flows.

**ANSWER**

**GOODWILL RECOGNISED ON CONSOLIDATION ('000's)**

Cost to ' <b>P</b> ' of investment in ' <b>S</b> '	<b>[75%]</b>	1,800	
<u>Less: ADFV of the net assets of '<b>S</b>':</u>			
OSC of ' <b>S</b> '		100	
Retained earnings of ' <b>S</b> '		450	
<b>Revaluation Surplus of '<b>S</b>'</b>		<b>1,220</b>	
= 100% net assets of ' <b>S</b> '		1,770	x <b>75%</b>
			(1,327.5)
		=====	
<b>Goodwill on consolidation</b>			<b>472.5</b>
			=====

If '**GRANTED**', '**Cost**' is *either*:

- 1) At '**fair value**' (if it can be measured reliably) with recognition of an associated **grant** (which would be treated in accordance with FRS 120), or,
- 2) A '**nominal**' amount.

In *either* case, capitalise any further expenditure incurred which is **directly** attributable to preparing the asset for its intended use.

**Example 5**

An entity was successful in applying for a government licence to operate a radio station for popular music lovers for an initial period of 5 years. The licence was granted to the entity at no cost. The government operates a continual monitoring system to ensure that radio stations comply with the terms of the licences, and also requires new stations to supply programme details upon being issued a licence. Costs incurred in supplying the necessary information amounted to RM20,000 and a registration fee of RM50,000 was levied by the Radio Providers Association.

Shortly after acquiring the licence, before the additional costs were incurred, a competitor offered the entity RM500,000 for the licence. The licence is transferable.

**Required: What is the initial 'cost' of the licence ?**

**Answer 5**

If stated at '**fair value**' [FV] with recognition of an associated grant:

<b>'Cost'</b>	FV	500,000
	<b>Add:</b> Cost of regulation compliance	20,000
	Registration fee	<u>50,000</u>
	<b>The initial 'cost' is</b>	<b>570,000</b>
		=====
<b>'Grant'</b>	(equal to the FV of the licence)	<b>500,000</b>
		=====

The accounting entries are as follows:

Dr.	Intangible assets	570,000	
	Cr.	Government grant	500,000
	Cr.	Bank	70,000

If stated at '**nominal**' amount *plus* any expenditure *directly* attributable to preparing the asset for its intended use.

<b>'Cost'</b>	<b>Nominal amount</b>	1
	<b>Add:</b> Cost of regulation compliance	20,000
	Registration fee	<u>50,000</u>
	<b>The initial 'cost' is</b>	<b>70,001</b>
		=====

In our next article, we shall consider how to determine the *initial 'cost'* of '**internally generated**' and '**exchanged**' intangible assets, *subsequent* measurement principles and the '**revaluation**' rules. Before we do, you might like to review our previous articles on (tangible) non-current assets (ie. FRS 116: 'Property, Plant and Equipment') so that you can draw some conclusions about the similarities and differences between the two Standards.



In this series of *System of Quality Control for Audit Practitioners*, we shall illustrate the steps that audit practitioners can take to ensure compliance with ISQC 1.



# *System of Quality Control for Audit Practitioners*

## *– Leadership Responsibilities for Quality*



### Introduction

In our previous Issue, we summarised the 6 elements of a quality control system. In this Issue, we shall start to study how the Firm shall implement the first element – leadership responsibilities for quality within the Firm.

The Firm's chief executive officer, managing partner or equivalent bear ultimate responsibility for the Firm's quality control system, and shall create a culture that emphasises quality. The 'tone at the top' influences attitudes throughout the Firm. Thus, the following is a summary of some of the policies that the Firm shall consider to adopt:

- a. The Firm's leadership shall establish clear, consistent, fully understood communication channels and frequent actions and messages from all level of the Firm's management.
- b. Persons with operational responsibility for the quality control system should have appropriate experience, ability and authority to assume the responsibility.
- c. Quality shall be emphasised over commercial considerations.
- d. Performance evaluation, compensation, and advancement shall demonstrate a commitment to quality.
- e. Sufficient resources shall be devoted to developing, communicating, and supporting the quality control system.
- f. Active involvement by the Firm's leadership.
- g. Clear priorities for building target clientele.

### Application of ISQC 1 – Leadership Responsibility for Quality within the Firm

The Firm's personnel shall be informed that failure to adhere to the Firm's policies and procedures regarding performance quality and commitment to ethical principles may result in disciplinary action. The partner(s) responsible for quality control shall maintain the Firm's quality control manual and all other necessary practical guidance.

The Firm's partners shall continually evaluate client relationships and specific engagements so that commercial considerations do not override the objectives of the system of quality control. Also, emphasise to all personnel that fee considerations and scope of services shall not infringe upon quality work.

**System of Quality Control for Audit Practitioners  
– Leadership Responsibilities for Quality**

The Firm's leadership shall stress the importance of filling all positions of responsibility with highly qualified individuals, since the Firm's reputation is directly affected by the actions of individual partners and senior staff, both internally and externally.

Some of the quality elements of job descriptions are as follows:

- Formally documented job descriptions.
- Strong emphasis on quality.
- Technical competency.
- Continuing professional development.
- Sufficient and appropriate experience.
- Necessary authority.
- Ability to recognise problems and reach appropriate conclusions.

The Firm's leadership shall design and implement a performance evaluation and advancement system that rewards both partners and staff for the quality of their work and their compliance with professional standards. The Firm may also establish a compensation system that provides incentives to partners and senior-level employees for the quality of their work. The compensation system shall consider the following points:

- Consider the Firm's feedback based on monitoring results and peer reviews of the work performed.
- Reward partners and personnel on a timely basis.

The Firm's leadership commitment to quality shall be communicated, both internally and externally on a regular basis. Internal communications encourage reinforcement of the quality control system while external communications impact the Firm's reputation.

Prominence can be given to audit quality issues in internal communications from the leadership team. These communications address the concepts of integrity, objectivity, independence, professional scepticism, and accountability to the public. Messages are typically positive, constructive, and refreshed frequently. The form, content and type of internal communications depend on the size of the Firm but quality messages shall generally be communicated through the training and technical update, staff outing activities, performance appraisal system, partner updates, email alerts, office meetings, intranet system, conventions, web updates, and newsletters.

**System of Quality Control for Audit Practitioners  
– Leadership Responsibilities for Quality**

*Excerpt I – ISQC 1 Compliance Checklist on ‘Leadership responsibilities for quality within the Firm’ developed by AXP for its customers*

OBJECTIVES OF THIS ELEMENT:					
To ascertain whether the Firm establishes policies and procedures:					
(a) designed to promote an internal culture recognising that quality is essential in performing engagements; and					
(b) such that any person or persons assigned operational responsibility for the system of quality control has sufficient and appropriate experience and ability, and necessary authority to assume that responsibility.					
COMPLIANCE CHECKLISTS:					
No.	Procedures and Checklists	X-Ref	Yes	No	N/A
1.1	Are the policies and procedures designed to promote an internal culture recognising that quality is essential in performing engagements? Consider the points below.		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1.1.1	Does the Firm’s CEO, Managing Partner or equivalent assume ultimate responsibility for the system of internal control?		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1.1.2	Does the Firm have clear, consistent and frequent actions and messages (such as training, mission statements, newsletters) from all level of the Firm’s management that emphasise the quality control policies and procedures?		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Moving Forward**

In order to achieve the objective of a quality-focused internal culture, the Firms need policies and processes to establish, maintain and provide evidence of their commitment to quality. This requires that the Firms develop and implement relevant policies and procedures as well as a system of rewards and sanctions in areas relevant to the performance of audit engagements and the overarching system of quality control.




*Leadership  
Quality*









# AXP UPDATES

Milestones achieved, and events participated and sponsored by AXP since 1<sup>st</sup> September 2010 are as follows:

<u>Date</u>	<u>Events / Milestones</u>	<u>Organisers / Details</u>
28/10/2010	<p>First <b>Audit Express</b> Refresher Course at <b>AXP Training Centre</b></p> 	<p>This was the first <b>Audit Express</b> refresher course conducted in AXP's brand new training centre attended by 30 trainees.</p> <p>Our next refresher course will be held on Tuesday, 30 November 2010. If you wish to attend, mark your diary and reserve your place.</p>
20/10/2010	<p>Table display at CTIM Budget Talk</p> 	<p>Organised by Chartered Tax Institute of Malaysia (CTIM).</p> <p>The annual CTIM Budget Talk analysed and highlighted its implications for the business community.</p> <p>The event was held on 20 October 2010 at Berjaya Time Square, Kuala Lumpur. It was also held in other states in Malaysia at various dates in October.</p>

Date	Events / Milestones	Organisers / Details
<p>8 &amp; 15/10/2010</p>	<p>Audit Express Workshop &amp; Certification – International Islamic University Malaysia (IIUM)</p>  <p>Mohammed Abdullah Ali Al-Dailami</p>  <p>Syuhaidah Bt Soaib</p>	<p>The <b>top 2 scorers</b> of Audit Express Certification in IIUM are:</p> <ol style="list-style-type: none"> <li>1. Mohammed Abdullah Ali Al-Dailami</li> <li>2. Syuhaidah Bt Soaib</li> </ol> <p>AXP clients may contact us if you wish to recruit the above students; we shall contact the students on your behalf.</p>
<p>6/10/2010</p>	<p>Evening Talk on IT for Audit Firms</p> 	<p>This event was organised by Malaysian Institute of Accountants (MIA), Kuching branch, with the aims to create awareness among members of MIA the importance of IT investment, and showcase IT software programmes available in the market for audit practitioners.</p> <p>AXP, as one of the leading audit software providers, is proud to have been invited to showcase our core products, <b>Audit Express</b>, to the participants.</p>
<p>30/9/2010</p>	<p>Audit Express Workshop &amp; Certification – TAR College Kuala Lumpur</p>	<p>The workshop and certification was attended by Advanced Diploma –Year 2 students. The <b>top scorers</b> of Audit Express Certification are:</p> <ol style="list-style-type: none"> <li>1. Yeap Kok Hoe</li> <li>2. Timothy Ng Han Lin</li> <li>3. See Gee Kit</li> <li>4. Chin Jung Wei</li> </ol>

Date	Events / Milestones	Organisers / Details
	 Timothy Ng Han Lin   See Gee Kit   Chin Jung Wei	<p>The name of other students who obtained <b>Grade A</b> are:</p> <ol style="list-style-type: none"> <li>1. Foo Kwong Long</li> <li>2. Tan Eng Hui</li> <li>3. Tan Kar Mun</li> <li>4. Tang Yuh Ching</li> <li>5. Wong Siao Men</li> <li>6. Yap Tse Syum</li> <li>7. Yvonne Tan Pik Jin</li> </ol> <p>AXP clients may contact us if you wish to recruit the above students; we shall contact the students on your behalf.</p>
22/9/2010	<p>AXP New Office!</p> 	<p>In view of our business expansion and the setting up of AXP Training Centre to serve our customers better, we have relocated our office in Cyberjaya to <b>A-3-03 &amp; A-3-05, SME Technopreneur Centre 2 Cyberjaya, 2260, Jalan Usahawan 1, 63000 Cyberjaya, Selangor Darul Ehsan.</b></p> <p>Our new offices incorporate a brand new training centre. With a spacious and comfortable training room, trainees can <b>focus on learning without any disturbance and distraction</b> from daily office tasks.</p> <p>Cyberjaya provides a perfect location, with ample parking space (parking is free of charge!) and no heavy city traffic!! It is indeed an ideal venue for <b>quality training</b>.</p>

Date	Events / Milestones	Organisers / Details
		
<p>14/9/2010</p>	<p><b>Publication of ISQC 1 Compliance Checklists.</b></p> <div data-bbox="298 793 808 1003" style="border: 1px solid black; padding: 5px;"> <p><b>ISQC 1 COMPLIANCE CHECKLIST</b></p> <p><b>OVERALL OBJECTIVES:</b></p> <p>To ascertain whether the Firm establishes and maintains systems of quality control which is compliant with the ISQC 1 Quality Control for Firms that Perform Audit and Review of Financial Statements, and Other Assurance and Related Services Engagements to provide it with reasonable assurance that:</p> <p>(a) the Firm and its personnel comply with professional standards and applicable legal and regulatory requirements; and</p> <p>(b) reports issued by the Firm or engagement partners are appropriate in the circumstances.</p> </div>	<p>In response to our customers' needs, AXP Technical Support Team embarked on a project to develop ISQC 1 compliance checklists with the aim of assisting our customers to better understand and implement ISQC 1. These checklists have been distributed to our customers.</p>
<p>6/9/2010</p>	<p>Publication of 4 books by our Technical Adviser, <b>Mr. Keith Farmer</b>.</p> <div data-bbox="298 1150 808 1423" style="border: 1px solid black; padding: 5px;"> <p>Distributed in Malaysia by:</p> <p>EduSkill Resources. E-mail: <a href="mailto:eduskill@live.com">eduskill@live.com</a></p> <p>AXP Solutions Sdn. Bhd. Webpage: <a href="http://www.myaxp.com">www.myaxp.com</a> E-mail: <a href="mailto:support@myaxp.com">support@myaxp.com</a></p> <p>ISBN: 978-981-08-6551-1</p> <p>AUTHOR: KEITH E. J. FARMER BA FCA</p> </div>	<p><b>Mr. Keith Farmer</b> has finished 4 books and they are marketed under the brand of <b>'MingPieMa' Accounting Series</b>. These books are distributed in Malaysia through AXP Solutions Sdn. Bhd. for AXP customers. Furthermore, AXP customers have the privilege to own these books at 10% discount from normal price.</p>

For more information on the above events, kindly visit AXP's web page [www.myAXP.com](http://www.myAXP.com).

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**Contributions & Comments**

AXP e-Newsletter welcomes your contributions on contemporary issues encountered by the profession. We also wish to hear from you on how this e-Newsletter can be improved for more timely and useful information.