ADOPTION OF CLARIFIED INTERNATIONAL STANDARD OF AUDITING (ISA) AND INTERNATIONAL STANDARD OF QUALITY CONTROL (ISQC) AMONG SMALL AND MEDIUM PRACTICE (SMP) IN MALAYSIA

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ABSTRACT

Recently, adoption of the Clarified International Standard of Auditing (Clarified ISAs) and International Standard of Quality Control (ISQC) have gain steady attention from various accounting practitioners and academicians. This Clarity project began in 2004 and was completed in February 2009. After 2 years of adoption of Clarified ISAs and ISQC, it is time for the practitioners to provide the feedback to the International Auditing and Assurance Standard Board (IAASB) on post implementation review of Clarified ISAs and ISQC. The study seeks to survey the internal resource preparedness of the Small and Medium Practice (SMP) for adoption of Clarified ISAs and ISQC by applying resource-based view theory. Further, impact of Clarified ISAs and ISQC on timeliness on audit report had been investigated. Survey method has been used and descriptive analysis had been performed to assess the profile of respondent company and research variables. The result reflected that moderate high mean scores of the human resources and organizational resources preparedness lead to the adoption of Clarified ISAs and ISQC among SMP in Malaysia. In term of financial resource and intellectual resource, the mean score showed that the responding firms neither agree nor disagree that the firms have appropriate intellectual resources and financial resources for the firm to adopt the standard. The mean score for perceived level of adoption is high and timeliness of audit report is relative low after adoption of Clarified ISAs and ISQC. In conclusion, it indicated that human resources and organizational resources plays a vital role in adoption of Clarified ISAs and ISQC in Malaysia. The paper marks a starting point on the auditing literatures on the Clarified ISAs and ISQC and may be of interest to the resource based view scholar or auditing scholar focuses on the application of resource based view theory.

Keywords: Clarified International Standard of Auditing, International Standard of Quality Control, small and medium practice
1. INTRODUCTION

The harmonisation of auditing standards is main issue discussed among audit practitioner in Malaysia. In the context of auditing, harmonisation is referred as setting international standards that have been as a way to enhance the comparability and credibility of auditing (Mennicken, 2008). On 1 November 1977, International Federation of Accountant (IFAC) was established to promote the professionalism of accountants. As a significant committee of IFAC, International Auditing and Assurance Standard Board” (IAASB) has developed a set of International Standard of Auditing (ISA) to be followed by the audit practitioner worldwide. These efforts indicates a significant milestone for the audit harmonisation practice as the auditor in the various edge of the world will carried out the similar audit procedure and methodologies and thus it improve the reliability and comparability of the audit report and financial statement worldwide. Unfortunately, the increasing of corporate scandals such as Enron, WorldCom, Xerox, Parmalat and economic crisis in South East Asia on 1997 clearly pointed out significant deficiency of the current ISA. Therefore, International Assurance and Auditing Standard Board (IAASB) began a comprehensive programme to enhance the clarity of International Standard of Auditing in 2004. This programme involved redrafting and revising the ISAs to reflect the new conventions and matter of clarity. Subsequently, the final set of the clarified ISAs and ISQC have been issued which comprises of a new standard addressing the communication deficiency of internal control, 16 revised and redraft ISAs and 20 redraft ISAs which include the redraft International standard of Quality Control (Nazatul, 2011). Some of the major changes in the new redraft ISAs include

1. ISA 230, Audit Documentation which required auditors to be meticulously document his thought and audit process to enable the experienced auditor who does not have connection with the audit engagement to understand nature, timing and extent of the audit procedure;
(2) ISA330, The Auditor's Responses to Assessed Risks that required auditors’ documentation on the overall responses to assess risk of material misstatement at financial statement level and link back the risk to the overall audit plan;

(3) ISA 540: Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures which required auditor to identify the management bias in developing the accounting estimate;

(4) ISA 600, Special Considerations-Audits of Group Financial Statements (Including the Work of Component Auditors) that required group audit to be managed in top down approach instead of bottom up approach (Nazatul, 2011).

In Malaysia, Audit Oversight Board (AOB), Companies Commission of Malaysia (CCM), Malaysian Institute of Accountant (MIA) and Malaysian Institute of Certified Public Accountant (MICPA) played a crucial role in enforcing the adoption of Clarified ISA and ISQC (Nazatul, 2011). From IAASB pre-implementation monitoring report, the findings revealed there is anxiety about the application of ISAs to the audit of smaller entities, especially whether there are able to be implemented in the cost effective manner (International Auditing and Assurance Standard Board [IAASB], 2012). The smaller entities referred to the Small and Medium Practice firm which was normally have small capital, less audit income, made up by 2 to 3 audit partners. International Federation of Accountant (IFAC) further define Small and Medium Practice (SMP) as practices that exhibit the characteristic such as client are mostly Small and Medium Enterprise (SME), require external resource to supplement in-house technical resources, lack of professional staff, crucial in supporting the prosperity of the SME Sectors (International Federation of Accountant [IFAC], 2011). While some literature indicate that implementation of Clarified ISAs and ISQC will lead to the practical issues such as review on audit methodologies, impact on manual
auditing and software usage, amendment on the audit programmes and procedures training and development for the audit staffs (Weaver, 2008/2009), other argued the impact of Clarified ISAs and ISQC is minimal as in theory, nothing have changed. (Walsh, 2009). Nevertheless, it was undeniable that these create challenge to the SMP to adopt the Clarified ISAs and ISQC due to SMP always associated with issue on lack of resources. Accordingly, this warrants the further study to be carried out to assess the level of adoption of Clarified ISAs and ISQC and impact of resources preparedness toward the implementation of Clarified ISAs and ISQC which is the main objective of this paper.

The paper contribute on research in number of ways First, it mark the starting point on the ISA literatures which focus on the internal resources rather than external factor in influencing the adoption of Clarified ISAs and ISQC. Prior researches in academic have focussed mainly on the adoption of International Standard of Auditing (ISA) in general and have identified several external factors influencing the adoption of International Standard of Auditing in the countries such as pressure from stakeholders (Dellaportas, Senarath & Sivakaran, 2008), law and legislations, size of shareholding companies, foreign investment, cost of issuing the national standards, experiences of policy makers, economize size of countries (Qasim, 2010).

Second, the implication of adoption of Clarified ISAs and ISQC on audit report timeliness also rarely caught the attention from the scholar compare to other regulation such as IFRS convergence (Najihah & Ayoib, 2012), Malaysian Code of Corporate Governance (MCCG) (Mohamad Naimi Mohamad-Nor, Rohami Shafie & Wan Nordin Wan-Hussin, 2010). This understanding is rather critical for the practitioner to arrange their workload, particularly SMP.
In view of lack of evidence of the above matter, this paper aim to reduce the gap in the previous studies to investigate empirically resource preparedness of SMP in responses with the IAASB requirement to adopt the Clarified ISAs and ISQC in Malaysia as well as determines the impact of Clarified ISAs and ISQC on the timeliness of audit report in Malaysia by using the resources based view theory. The internal resources owned by the SMP are classified into 4 categories namely intellectual resources, human resources, financial resources and organizational resources as adapted from the Newbert (2008) resources' typology.

The findings of this paper provide useful insight to IAASB on timely basis as the post-implementation review was carried out in year 2012 after 2 years adoption of Clarified ISAs and ISQC. In addition, it was expected that the result might be generalized to other developing countries or the countries which is similar to the Malaysian context such as Singapore, Thailand, Indonesia and Filipina. This information may provide valuable insight and input to accountancy bodies such as MIA and MICPA, accounting regulators such as Securities Commission (SC), Bursa Malaysia, and audit practitioner in assessing the further assistance to be provided to the auditor.

2. LITERATURE REVIEW

2.1 Background of Resource Based View Theory

Historically, resource based view theory had evolved over the time since it was first introduced by Penrose (1959). According to him, firm is described in bundle of resource, and the growth of the firm are due to the management of the available resource owned by the firm (Penrose 1959). Barney (1991) further explained that the resources comprise of assets, capabilities, process, attributes, knowledge and know-how that possessed by the firm which will provide competitive advantage of the firm. Peteraf (1993) illustrated that variation of the performance of the firm within the same
industry are due to their internal idiosyncratic capabilities. It means that in order for the firm to achieve the competitive advantages, the resources owned by the firm must heterogeneity (Mata, Fuerst, & Barney, 1995) and immobility (Barney, 1991).

With regard to the classification of the resources, earlier typology introduced by the Barney (1997) made up by four categories of resources: financial, human, organizational, physical resources. It further improved in the research undertaken by Newbert (2008) by adding intellectual resources to the typology in order to suit to micro and nano-technology industry which was target respondent in the research. This paper classifies the resources into 4 categories by adapting the Newbert model: Intellectual resources, human resources, organizational resources and financial resources.

In the audit industry, resource based view theory have been applied in various study carried out previously. Phua, Adeline and Peter (2011) have used the resource based view theory in examining the resources preparedness of the small audit firm in adopting IFRS convergence. Similarly, in the move toward Clarified ISAs and ISQC among the audit firm in Malaysia, resource preparedness is crucial issue need to be rectified. According to Ahaya (2012), audit transition due to the Clarified ISAs requires the firm to revise it audit guidance, audit methodology, audit training. Clearly, adoption of Clarified ISAs and ISQC required audit firm to have strong background in resources.

2.2 Intellectual Resources

Intellectual resources referred to the technologies used in business. It comprises all effort in the research and development, technological infrastructure (information and telecommunication system), intellectual and industrial property (Patents, prototypes,
trade secrets, design rights, registered trademarks, licenses) (Martí´n-de-Castro, Delgado-Verde, Lo´pez-Sa´ez & Navas-Lo´pez, 2011).

In the context of audit industry, audit technology basically encompasses full set of tools that available for the auditor in order for them to gather the audit evidence (Fischer, Michael, McAllister & John, 1993). It basically made up by two categories, namely technologies automate the existing established audit procedure, and technologies that introduce the new approach for auditing (Fischer et al 1993). Example of audit technologies include groupware (Winograd, Gerson & Berlin, 2000), computerized decision aids (Bell & Carcello, 2000), Generalized Audit Software (GAS) (Lovota, 1988), Computer Assisted Audit Technique (CAATs). Other non-audit technologies include social networking (Moses, 2011), intranet, internet, email computer software and hardware (Phua et al 2011)

Latour (1993) research claimed that audit technologies will change in responses with the cultural, economic and social environment. For instance, Clarified ISAs and ISQC required auditor to be more meticulous on the risk assessment procedure (Nazatul, 2011) By relying on the new audit software which assist the auditor to document the risk assessment procedure, it was easier for the auditor to transform to Clarified ISAs. In conclude, the revision of audit regulation (social changes) demand the changes in audit technologies. In Slovenian, lack of ISA-compliant software within integrated audit methodologies caused the impediment to Clarified ISAs and ISQC (Metka, 2011) which further support the significant of intellectual technologies.

2.3 Human Resources

Human capital is referred to tacit or explicit knowledge which employees possess and their ability to generate the knowledge, which is useful for the firm. This includes values and attitudes, aptitudes and know-how. Hsu & Fang (2009) further highlighted
that human capital is knowledge embedded in employees and it may be taken away by employees, such as competence, experience, knowledge, skills, attitude, commitment, and wisdom.

IAASB suggested the national professional accountancy bodies and firm provide training programme to the staff to implement the Clarified ISAs and ISQC (IAASB 2012). Possibly, this signals how crucial the human capital quality on successful adoption of Clarified ISAs and ISQC. In Malaysia, MIA has provided several Continual Professional Education (CPE) training program for member to learn the specific aspect of Clarified ISAs such as ISA600, Audit of Group Financial Statement. According to Metka (2011), education level of the employees plays critical role in adoption of ISAs.

While there is dead of empirical evidences in the prior period between the human capital capabilities with the convergence of International Standard of Auditing, the empirical evidences found on the IFRS convergence can be used as reference. The results of PricewaterhouseCoopers survey of more than 300 European companies showed that just 10% of respondents are confident they have the right people and skills in place to complete the transitions to IFRSs in the Europe Union on time. It reflected the shortfall of the knowledge impede the IFRS adoption in the countries and firm. (as cited by Wong 2004). It may be presumed human resource is important in increasing the adoption of Clarified ISAs and ISQC.

2.4 Financial Resources

In Europe, Kohlers (2009) study articulated that the adoption level of Clarified ISAs and ISQC result in increase of first time cost of engagement. It means transformation to Clarified ISA and ISQC is cost demanding and it exerts pressure to the audit firm to build up its financial resource. Thus, the audit firm with strong financial background
will adopt Clarified ISAs and ISQC easily than financially weak firm. The financial resources of the audit firm are influenced by several factors such as audit fee and revenue received from the audit firm, firm size, profitability of the firm and type of the audit client.

The lower audit fee or significantly lower audit fee will create a doubt on the ability of Public Accounting Firms in applying the professional audit standards. This is because the audit time budget is reduced due to insufficient audit fee charged by the audit firm (Ely 2012). The auditor will become depressed and tend not to apply the auditing standard in proper manner when the time budget is limited (Cook, Ellen & Timothy, 1991). In the other hand, Gin, Gurau, and Calin (2011) implied that the adoption of ISAs required large portion of their budgets in conducting training, sending staff for CPE, paying higher premium insurance on audit liabilities, maintaining the working, the paper. In this case, no doubt that firm’s financial resources need to be strong in order to implement Clarified ISAs.

The size of audit firm is also serves as proxies of the financial background of a firm. The big audit firm tends to enjoy economic of scales which has lower operating cost and adopt the International standard more easily than small firm (Phua et al, 2011).This is because most of the big audit firm’s client are made up from listed companies and multinational companies who could contribute the large portion of the firm revenue as compared to the small companies (Phua et al, 2011). In Korea, Big Six auditors charged higher audit fees than non-Big Six audit firm. (Seok & Rhob 2004).

Valathi and Iatridis (2007) study evidenced that the firm with high profitability tend to comply with IFRS disclosure requirement (as cited in Rodiel & Glenda 2011). It explained that profitability is main indicator of the financial resources owned by the
firm. By having strong financial resources, the firm can easily transform to Clarified ISAs and ISQC regime.

2.4 Organizational Resources

According to Ferna´nde, Montes, & Va´zquez (2000), organizational resources are referred to the organizational context for the employee to work with and communicate to each other. It should not be static in nature and will change in responses with the environment. Organizational resources include organisational routine, culture and strategic alliances. An organisational routine is defined as a normal, predictable pattern of activity which is put in practice when the organisation faces a specific problem or stimulus (Nelson & Winter, 1982), while the organisational cultures are defined as a way of doing things in the organization. Strategic alliance is cooperation agreement between the firm with the outsider such as customers, suppliers and competitors (Hall, 1992).

In audit industry, Clarified International Standard of Quality Control (ISQC) required the audit firm to change the organisational norm and guideline which referred to audit firm methodologies, process and procedure, quality control policies (Englund & Gidlund, 2012). Such revision is crucial in preparing the firm for the adoption of Clarified ISAs and ISQC. Therefore, good organizational policies, audit methodologies will ease the adoption of Clarified ISAs and ISQ.

According to the research literature from Mennicken (2008), the firm will be recognised to adopted the ISAs when the firm joined the large international audit network (Mennicken, 2008). Liu, Ke, Kwok, Gu and Chen (2010) articulated that the control orientation type of the organizational culture will increase the level of adoption of the internet based supply chain system. Therefore, firm culture will lead to the high level of adoption. Besides, the survey done in Sweden by Englund and Gidlund
(2012) revealed that the change of audit methodologies and audit process are essential in adopting the Clarified ISAs and ISQC

2.5 Timeliness of Audit Report

Timeliness is one the important qualitative characteristic of financial information which has been stressed in Malaysia Financial Reporting Conceptual Framework. Paragraph 29 mentioned that timeliness of the financial information is able to influence the decision of the user of the financial information (Malaysia Accounting Standard Board [MASB] 2007). Most audit report timeliness studies focus on large developed countries such as the United States, Canada, Australia, Hong Kong, New Zealand, and China (Courtis 1976; Gilling 1977; Davis & Whittred 1980; Garsombke 1981; Ashton, Willingham, & Elliott, 1987; Ashton, Graul & Newton, 1989; Carslaw & Kaplan, 1991; Ng & Tai 1994; Simnett, Aitken, Choo & Firth, 1995; Jaggi & Tsui 1999; Wang & Song 2006). Several factors were analysed in previous research on audit report timeliness which included size of the audit firm (Givoly & Palmon 1982), qualification of audit opinion (Davis & Whittred, 1980; Whittred, 1980), Financial year end (Davis & Whittred 1980; Garsombke, 1981), operational complexity (Givoly & Palmon 1982), internal control quality (Givoly & Palmon 1982), company industry (Ashton et al, 1987), management discretion (Givoly & Palmon 1982), non-audit service provided by the auditor (Lee, Vivek & Son, 2009), and auditor industry specialization (Ahsan & Md Borhan, 2011).

Until today, no study have been done to analyse relationship between the Clarified ISA and ISQC and timeliness of audit report, therefore, the relationship between the timeliness of audit report and other regulatory framework change would be used as supportive bases. For instance, prior researches had been performed in Malaysia to determine the impact of adoption of FRS 138 on the audit delay based on 2,440 company year observations in Malaysia. The available information based on the main
board and second board of Bursa Malaysia supported the hypothesis that there is significant increase of audit delay after the adoption of FRS138, Intangible asset in the financial report (Najihah & Ayoib, 2012). Ettredge, Li and Sun (2006) study on impact of introduction of section 404 of Sarbanes-Oxley Act 2002 (SOX) which mandate the quarter review of the financial statement increased the burden of the auditor. Subsequently, result revealed that the new requirement would lengthen quarterly earnings announcement by three days. In Malaysia, introduction of Malaysia Corporate Code of Governance (MCCG), 2001 also affects the timeliness of audit report. The studies carried out by the Mohamad et al (2010) articulated that new requirement to increase member of audit committee and frequency of audit committee meeting has negative relationship with the audit delay. Nevertheless, the requirement of independent directors by MCCG 2001 prolongs the audit report lag.

According to Nazatul (2011), the Clarified ISAs and ISQC impose further requirement on the areas of audit documentation, auditing of accounting estimates, evaluation of misstatements, using the work of expert, audit of related party, communication to those charged with governance and group audits. These add the burden of the auditors, and it is observed that it will cause the audit delay. Thus, the adoption of Clarified ISAs and ISQC will expect to lengthen the audit delay.

3. METHOD
In this study, self-administration mail survey method has been used to investigate the impact of various resources preparedness on adoption of Clarified ISAs and ISQC by using the research based view theory. Apart from that, the impact of adoption of Clarified ISAs and ISQC are also being examined. The sample size for this questionnaire comprises of all selected members of Malaysia Institute Certified Public Accountant (MICPA) and Malaysia Institute of Accountants (MIA) in Malaysia exclude the Big 4 as our target respondent is SMP. The questionnaire with University
Malaya letter head which is made up of Section A, B, C, D, E, F were sent to managing partners, directors, principal or audit Manager of the firm. Each Section would be used to measure the variable such as Section A for resources preparedness, Section B for timeliness of audit report, Section C for perceived level of adoption of Clarified ISAs and ISQC. Overview, we received 115 replies which were made up of 10.21% of the total respondents. The responses rate was low as the audit firm was typically very busy and reluctant to participate in mail survey. The preliminary research framework is shown below:

Figure 1: Research Framework

<table>
<thead>
<tr>
<th>Intellectual Resources</th>
<th>Adoption of ISAs and ISQC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Resources</td>
<td>Timeliness of Audit Report</td>
</tr>
<tr>
<td>Financial Resources</td>
<td></td>
</tr>
<tr>
<td>Organizational Resources</td>
<td></td>
</tr>
</tbody>
</table>

Note: The research framework comprises of four independent variables derived from Barney (1991) & Newbert (2008) resources’ typology, namely human resources, organizational resources, financial resources and intellectual resources. The level of adoption of Clarified ISAs and ISQC is mediating variable and timeliness of audit report is dependent variable.
4. RESULT

Descriptive analysis was performed to analyses the data. Two descriptive analyses had been performed: characteristic of the responding firms and descriptive analysis of the research variables.

4.1 Characteristic of Responding Firm

Table 1: Profile of the Responding Firm

<table>
<thead>
<tr>
<th>Variables</th>
<th>Frequency (n =115)</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Turnover</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than RM5,000,000</td>
<td>103</td>
<td>89.6</td>
</tr>
<tr>
<td>RM5,000,001-RM10,000,000</td>
<td>6</td>
<td>5.2</td>
</tr>
<tr>
<td>RM10,000,001-RM50,000,000</td>
<td>3</td>
<td>2.6</td>
</tr>
<tr>
<td>RM50,000,001-RM100,000,000</td>
<td>3</td>
<td>2.6</td>
</tr>
<tr>
<td>Number of employee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than 50</td>
<td>94</td>
<td>81.7</td>
</tr>
<tr>
<td>50-99</td>
<td>13</td>
<td>11.3</td>
</tr>
<tr>
<td>100-249</td>
<td>3</td>
<td>2.6</td>
</tr>
<tr>
<td>250-500</td>
<td>2</td>
<td>1.7</td>
</tr>
<tr>
<td>Greater than 500</td>
<td>3</td>
<td>2.6</td>
</tr>
<tr>
<td>Ownership Structure</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sole Proprietorship</td>
<td>61</td>
<td>53.0</td>
</tr>
<tr>
<td>Partnership( 2-5 partners)</td>
<td>47</td>
<td>40.9</td>
</tr>
<tr>
<td>Partnership(6-9 partners)</td>
<td>3</td>
<td>2.6</td>
</tr>
<tr>
<td>Clientele Structure</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Small &amp; Medium Enterprise</td>
<td>113</td>
<td>98.3</td>
</tr>
<tr>
<td>Variables</td>
<td>Frequency (n=115)</td>
<td>Percent (%)</td>
</tr>
<tr>
<td>---------------------------</td>
<td>------------------</td>
<td>-------------</td>
</tr>
<tr>
<td>Multinational Organization</td>
<td>1</td>
<td>.9</td>
</tr>
<tr>
<td>Public Listed Company</td>
<td>1</td>
<td>.9</td>
</tr>
<tr>
<td><strong>Year of operation</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than 10 years</td>
<td>20</td>
<td>17.4</td>
</tr>
<tr>
<td>11-20</td>
<td>32</td>
<td>27.8</td>
</tr>
<tr>
<td>21-30</td>
<td>33</td>
<td>28.7</td>
</tr>
<tr>
<td>31-50</td>
<td>23</td>
<td>20.0</td>
</tr>
<tr>
<td>More than 50 years</td>
<td>7</td>
<td>6.1</td>
</tr>
</tbody>
</table>

Based on the table 1, variables such as annual turnover, the clientele structure and the number of employee in the firm have been analyzed, it was found that the majority of the firms are come from a category, with annual turnover (less than 5,000,000, 89.6%), Clientele structure (Small and medium Enterprise, 98.3%) and number of employees (less than 50, 81.7%). This was not surprise as the target respondents for the study were Small and Medium Practice (SMP). This was consistent with the International Federation of Accountant (IFAC) definition of SMP which defined that SMP is the entity which most of its client are small and medium enterprise and its lack of audit staff (IFAC, 2011). In term with the ownership structure, majority of the responding firms were sole proprietorship (53%), it was followed by the partnership with 2 to 5 partners (40.9%). Both made up 93.9%. In addition to that, in term of years of operation, most of the responding firms have operated between 21-30 years in the industry (28.7%). The years of operation was normally distributed between “less than 10 years operation” to “more than 50 years”
operation reflected that the respondents are drawn from the new and old firm which enhance the confidence of the result of the analysis.

4.2 Descriptive Analysis of The Research Variables.

Table 2: Summary of Descriptive of Research Variables

<table>
<thead>
<tr>
<th>Variables</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intellectual Resource</td>
<td>1.00</td>
<td>5.00</td>
<td>2.7948</td>
<td>1.05547</td>
</tr>
<tr>
<td>Human Resource</td>
<td>1.25</td>
<td>5.00</td>
<td>3.5130</td>
<td>.78838</td>
</tr>
<tr>
<td>Financial Resource</td>
<td>1.00</td>
<td>5.00</td>
<td>2.3609</td>
<td>.87747</td>
</tr>
<tr>
<td>Organization Resource</td>
<td>1.00</td>
<td>5.00</td>
<td>3.4841</td>
<td>.83157</td>
</tr>
<tr>
<td>Timeliness of Audit Report</td>
<td>1.00</td>
<td>5.00</td>
<td>2.3420</td>
<td>.81916</td>
</tr>
<tr>
<td>Adoption level of Clarified ISAs</td>
<td>1.00</td>
<td>3.00</td>
<td>2.3107</td>
<td>.42812</td>
</tr>
<tr>
<td>and ISQC*</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note:* 3 point numerical scales

Based on the descriptive analysis in table 2, the moderate high mean scores of the human resources preparedness (µ=3.51) and organizational resources preparedness (µ=3.48) in the 5 point likert scales showed that human resources and organizational resources are the main resources contributing to the high level of adoption of Clarified ISAs and ISQC. No doubt, this is consistent with the IAASB suggestion to provide more training programme to auditor to adopt the Clarified ISAs and ISQC)
On the perspective of financial resources and intellectual resources, the mean score is 2.36 and 2.79 respectively. In the 5 point likert scales, it reflected that the responding firms neither agree nor disagree that the firms have appropriate intellectual resources and financial resources for the firm to adopt the Clarified ISAs and ISQC. The mean score of adoption of Clarified ISAs and ISQC is 2.31 in a 3 point numerical scales indicated that the perceived adoption level is high. However, it was based on self-assessment of the respondents themselves, Finally, the timeliness of audit report after the implementation of Clarified ISAs and ISQC is relatively low ($\mu= 2.34$).

5. DISCUSSION

Over the year, the adoption of Clarified ISAs and ISQC formed the new trend in the auditing field in Malaysia. The findings revealed that the human resource preparedness and organizational resources preparedness has significant highest mean score in predicting the adoption of clarified ISAs and ISQC. This indicated how significant of human resources and organizational resources in adopting clarified ISAs and ISQC. This is consistent with Metka (2011) study indicated that education level of the employees plays critical role in adoption of ISAs. Likewise, organizational resource preparedness such as the organizational culture, networking with the international affiliate, updated audit methodology eases the adoption of Clarified ISAs and ISQC. This is consistent with survey done in Sweden by Eglund and Gidlund (2012) which the respondents explicitly express that the change of audit methodologies is necessary in Sweden once the auditing standard transit to Clarified ISAs and ISQC.

On the other hand, although respondent neither agrees nor disagree that financial resource preparedness leads to adoption of clarified ISAs and ISQC. However, further descriptive analysis revealed that audit firm which have more audit partner will
have higher financial resources which lead to adoption of Clarified ISAs and ISQC. Some argued that financial resources do not affect the adoption, instead other resources plays as a main contributor. This is consistent with result performed by Englund & Gidlund, 2012 which articulated that the cost of adoption does not being passed over by the SMP to the client due to mandatory requirement of adoption in Sweden which is also applicable in Malaysia, therefore, even the financially weak SMPs are compulsory to adopt the Clarified ISAs and ISQC by bearing the increase of the cost itself. Presently, most of the SMP in Malaysia perceived that they have high level of adoption of Clarified ISAs and ISQC even though they does not earn higher profit and charge higher audit fee than other competitor in the industry. Similarly, intellectual resources preparedness is not an important factor. Perhaps there is no audit software which incorporate the Clarified ISAs and ISQC available in the market.

Finally, the results showed that the high adoption of Clarified ISAs and ISQC will significantly affects the timeliness of audit report. This is consistent with previous related timeliness literatures such as the adoption of IFRS and audit report timeliness (Najihah & Ayoib, 2012), Sarbanes Oxley Act and audit report timeliness (Ettredge et al 2006), Code of Corporate Governance and Audit report timeliness (Mohamad et al 2010).

In the nutshell, the SMP’s human resource preparedness and organizational resources preparedness are significant factors lead to the adoption of Clarified ISAs and ISQC. Nevertheless, the high adoption of Clarified ISAs and ISQC caused the audit delay.

The findings of this study mark a starting point on the auditing literatures on the Clarified ISAs and ISQC. This study may be of interest to the resource based view
scholar or auditing scholar focuses on the application of resource based view theory on adoption of Clarified ISAs and ISQC which is different from previous literature that focused on the impact of IFRS convergence on audit firm using the resource based view theory (Phua et al, 2011). Apart from it, quantitative approach which uses general statistical method had been used to measure the resource variables in predicting the level of adoption of Clarified ISAs and ISQC.

From a practical standpoint, this study provides implication to accounting professional bodies (MICPA, MIA), accounting regulators, auditing standard setter (IAASB), audit firm and auditee. It provides timely feedback to the IAASB on the post implementation review of Clarified ISAs and ISQC after 2 years adoption of the Clarified ISAs and ISQC. These feedbacks provided will assist them in setting or amending the Clarified ISAs and ISQC in future to suit the need of SMP.

Given the adoption of Clarified ISAs and ISQC caused the audit delay, accounting regulators such as Bursa Malaysia, Securities Commission and Companies Commission in Malaysia may issue some guidance to the audit firm on the way to expedite the audit process. Technical pronouncement and guidance on the top down approach in group audit should be provided to the audit firm to ease the change of audit methodologies. As there is significant influence on the human resources on the Clarified ISAs and ISQC, these results deserve the audit firm to collaborate with Malaysia Institute of Accountant and Malaysia Institute Certified Public Accountant in redesign the audit training programme to incorporate the Clarified ISAs and ISQC.

Although the result is motivating, however, the finding is limited in several ways. First, the data is collected based on the small sample size which is based on 115 samples out of the 1,127 selected MIA and MICPA member. The responses rate of 10.2% is
low. Therefore, the results are facing the difficulty to be generalized to reflect the situation in Malaysia.

Second, using questionnaire survey method and rely on the respondent self-report may lead to the respondent bias. The perceived level of adoption of Clarified ISAs and ISQC are tend to be high based on the member firm self-responses in order for the firm to be recognised as accountable to the public. Nevertheless, the actual adoption is only could be verified by further on-site investigation such as read the SMP’s audit methodologies, working papers and observe the audit work performed by the auditors.

In conclusion, future research could be done in detail by looking at specific Clarified ISAs and ISQC such as, ISA600, Special Considerations-Audits of Group Financial Statements (Including the Work of Component Auditors) has substantially change after the Clarity project. Similarly, the study could be done in other countries or big 4.
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