



Are directors responsible for the preparation and fair presentation of financial statements in accordance with International Financial Reporting Standards (IFRS)?

IN THE CONTEXT OF THE MALAYSIAN CORPORATE LAW FRAMEWORK, DIRECTORS ARE RESPONSIBLE FOR THE FINANCIAL STATEMENTS OF A COMPANY AND THIS SHALL BE CITED ACCORDINGLY IN THE AUDITOR'S REPORT.

A key question is frequently debated: “Who is responsible for the financial statements of the company?” Should the responsibility for the financial statements lie with the directors of the company, the management or both?

DIRECTORS' DUTIES AND RESPONSIBILITIES UNDER THE LAW

In the context of the Malaysian corporate law framework, the duties and responsibilities of the company directors in Malaysia are clearly stated in the Malaysian Companies Act 1965 (Act). Under the Act, company directors are responsible for the management of their companies and have a fiduciary duty to act in the best interest of their companies.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS UNDER THE COMPANIES ACT 1965

The Act expressly imposes the responsibility for the preparation and fair presentation of financial statements on directors. However, management is not defined in the Act and such impositions have not been made on them.

- Sections 166A(3), 166A(4), 166A(5), 167(1), 167(1A), 169(1), 169(3), 169(5), 169(15), 169(16) of the Companies Act are some of the key references that state that company directors are responsible for the maintenance of accounting and other records, as well as the tabling of the audited financial statements at a general meeting of members of a company.
- Sections 166A(3), 166A(4) and 166A(5) state clearly that the directors of a company shall ensure that the accounts of the company (including consolidated accounts, where applicable) laid before the annual general meeting are in accordance with the applicable approved accounting standards.
- Section 167(1) requires the company directors and managers to ensure proper maintenance of accounting and other records to enable them to be conveniently and properly audited. Section 167(1A) requires accounting entries and other records to be properly documented within sixty days of the completion of the transaction.
- Sections 169(1) and 169(3) require the directors of a company to table at the annual general meeting a profit and loss statement for the period and a bal-

ance sheet to which the profit and loss account relates. Section 169(5) requires directors of each company to prepare a resolution signed by no fewer than two of the directors attesting to the profit or loss of the company for the financial year and the state of affairs of the company's affairs as at the end of the financial year. Section 169(15) on the director's statement requires directors to state that the profit and loss account and the balance sheet (including consolidated accounts, where applicable) give a true and fair view of the results and state of affairs of the company and that the accounts of the company are in accordance with applicable approved accounting standards. A director or where the director is not primarily responsible for the financial management of the company, the person responsible is required by Section 169(16) to state his opinion in the statutory declaration on the correctness or otherwise of the balance sheet and the profit and loss account (including the consolidated accounts, where applicable).

Apart from the above-mentioned key sections, there are other references in the Act which indicate or imply that directors

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are responsible for the financial statements. Other paragraphs in the Companies (Amendment) Act 2007 further elaborate on the powers, duties and liabilities of directors as officers of the company.

There is a general statement in Sections 131B(1) and 131B(2) as to the functions and powers of directors. For the purpose of Section 132, Section 132(6) interprets “director” to include the chief executive officer, the chief operating officer, the chief financial controller or any other person primarily responsible for the operations or financial management of a company, by whatever name called.

In Section 132(1C), directors, in exercising their duties, may rely on information given by employees or professional advisors or other directors or directors’ committees provided their reliance is made in good faith and the directors have made an independent assessment of the information.

Section 132 (1F) provides for the delegation of powers of the board to officers and others but delegating such management function to others and relying on others does not absolve the directors from being accountable for the affairs of a company.

REQUIREMENTS OF INTERNATIONAL STANDARDS ON AUDITING

The International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) establish high quality auditing, assurance, quality control and related services standards for the use of all professional accountants. The International Standards on Auditing (ISA) issued by the IAASB are adopted as the basis for the Malaysian approved auditing standards which are issued by the Malaysian Institute of Accountants (MIA), the regulatory body overseeing the accounting profession in Malaysia.

The ISA 700 (Revised) “The Independent Auditor’s Report on a Complete Set of General Purpose Financial Statements” effective for auditor’s reports dated on or after 1 July 2008 clarifies, among other things, the duty and responsibility of man-

agement and auditors relating to the financial statements in the auditor’s report.

The following are pertinent extracts of the Malaysian Approved Standards on Auditing ISA 700 (Revised):

Management’s Responsibility for the Financial Statements (paragraph 28, 29 and 31)

PARAGRAPH 28

The auditor’s report should state that management is responsible for the preparation and the fair presentation of the financial statements in accordance with the applicable financial reporting framework and that this responsibility includes:

- Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error;
- Selecting and applying appropriate accounting policies; and
- Making accounting estimates that are reasonable in the circumstances.

PARAGRAPH 29

Financial statements are the representations of management. Management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework. For example, in the case of financial statements prepared in accordance with IFRS, management is responsible for preparing financial statements that fairly present the financial position, financial performance and cash flow of the entity in accordance with IFRSs. To fulfil this responsibility, management designs and implements internal control to prevent or detect and correct misstatements, whether due to fraud or error, in order to ensure the reliability of the entity’s financial reporting. The preparation of the financial statements requires management to exercise judgement in making accounting estimates that are reasonable in the circumstances, as well as to select and apply appropriate accounting policies. These judgements are made in the context of the

applicable financial reporting framework.

PARAGRAPH 31

The term management has been used in this ISA to describe those responsible for the preparation and fair presentation of the financial statements. Other terms may be appropriate depending on the legal framework in the particular jurisdiction. For example, in some jurisdictions, the appropriate reference may be to those charged with governance (for example, the directors).

Although, the reference to “management” in ISA 700 is a generic reference within the ISA definition, appropriate and



due consideration should be given to those ultimately responsible for the preparation of financial statements in the respective jurisdiction, which in Malaysia’s case, are the directors.

To conclude, in the context of the Malaysian corporate law framework, the directors are responsible for the preparation and fair presentation of the financial statements notwithstanding that reliance could be placed by them on information and professional or expert advice provided by any officer of the company. Therefore, the parties responsible for the financial statements are the directors and this shall be cited accordingly in the auditor’s report. ■

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