

# **RECOMMENDED PRACTICE GUIDE 4**

## **Auditor's Reports and Qualification**

**(Revised pursuant to issuance of ISA 700 (Revised))**

ISSUED BY



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JULY 2008

## **Commentary**

The Council has approved the following guidance which sets out samples of auditor's report which incorporate new requirements of ISA 700 (Revised), The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements.

These samples of auditor's report would be effective once ISA 700 (Revised) is effective. ISA 700 (Revised) is effective for auditor's reports issued on and after 1 July 2008. No early adoption is allowed.

# ISA 700 (Revised) – Examples of Auditors’ Reports

## Contents

	Page
Examples Auditors’ Reports.....	2
Unqualified Reports.....	2
Example 1: Companies with no subsidiaries .....	2
Example 2: Companies with subsidiaries – all of which are audited by the reporting firm.....	4
Example 3: Companies with subsidiaries – not all of which are audited by the reporting firm.....	6
Example 4: Companies with associates and/or jointly controlled entities but do not have subsidiaries .....	8
Example 5: Foreign incorporated corporation carrying on a business in Malaysia .....	10
Example 6: Co-Operative Societies .....	12
Emphasis of Matter Reports .....	14
Example 7: Unqualified opinion with emphasis of matter paragraph .....	14
Example 8: Unqualified opinion with emphasis of matter paragraph – Going concern is appropriate but a material uncertainty exists and adequate disclosure is made .....	16
Qualified Opinion Reports .....	18
Example 9: Limitation of scope – Unable to observe physical inventory count.....	18
Example 10: Disagreement – Inappropriate accounting method .....	20
Disclaimer of Opinion Report.....	22
Example 11: Limitation of Scope - Inadequate Accounting Records .....	22
Adverse Opinion Report .....	24
Example 12: Disagreement with management on provision for losses...	24

# Examples Auditors' Reports

## *Unqualified Reports*

### **Example 1: Companies with no subsidiaries**

#### **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF XYZ BERHAD**

##### **Report on the Financial Statements**

We have audited the financial statements of XYZ Berhad, which comprise the balance sheet as at 31 December 20XX, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages AA to ZZ.

##### *Directors' Responsibility for the Financial Statements*

The directors of the Company are responsible for the preparation and fair presentation of these financial statements in accordance with Financial Reporting Standards<sup>1</sup> and the Companies Act 1965 in Malaysia. This responsibility includes: designing, implementing and maintaining internal control 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.

##### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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<sup>1</sup> Financial Reporting Standards is also known as Accounting Standards for Entities Other than Private Entities. Where the entity uses Accounting Standards for Private Entities (or also known as Private Entity Reporting Standards), the words should be changed accordingly to reflect the accounting framework adopted by the entity.

### *Opinion*

In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards<sup>1</sup> and the Companies Act 1965 in Malaysia so as to give a true and fair view of the financial position of the Company as of 31 December 20XX and of its financial performance and cash flows for the year then ended.

### **Report on Other Legal and Regulatory Requirements**

In accordance with the requirements of the Companies Act 1965 in Malaysia, we also report that in our opinion the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

### **Other Matters**

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

(Audit Firm)  
[AF: 8888]  
Chartered Accountants

(Partner)  
[9999/9/99 (J/PH)]  
Chartered Accountant

Date

[Location in the country]

## **Example 2: Companies with subsidiaries – all of which are audited by the reporting firm**

### **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF XYZ BERHAD**

#### **Report on the Financial Statements**

We have audited the financial statements of XYZ Berhad, which comprise the balance sheets as at 31 December 20XX of the Group and of the Company, and the income statements, statements of changes in equity and cash flow statements of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages AA to ZZ.

#### *Directors' Responsibility for the Financial Statements*

The directors of the Company are responsible for the preparation and fair presentation of these financial statements in accordance with Financial Reporting Standards<sup>1</sup> and the Companies Act 1965 in Malaysia. This responsibility includes: designing, implementing and maintaining internal control 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.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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<sup>1</sup> Financial Reporting Standards is also known as Accounting Standards for Entities Other than Private Entities. Where the entity uses Accounting Standards for Private Entities (or also known as Private Entity Reporting Standards), the words should be changed accordingly to reflect the accounting framework adopted by the entity.

### *Opinion*

In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards<sup>1</sup> and the Companies Act 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as of 31 December 20XX and of their financial performance and cash flows for the year then ended.

### **Report on Other Legal and Regulatory Requirements**

In accordance with the requirements of the Companies Act 1965 in Malaysia, we also report the following:

- a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries have been properly kept in accordance with the provisions of the Act.
- b) We are satisfied that the accounts of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.
- c) Our audit reports on the accounts of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

### **Other Matters**

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

(Audit Firm)  
[AF: 8888]  
Chartered Accountants

(Partner)  
[9999/9/99 (J/PH)]  
Chartered Accountant

Date

[Location in the country]

### **Example 3: Companies with subsidiaries – not all of which are audited by the reporting firm**

#### **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF XYZ BERHAD**

##### **Report on the Financial Statements**

We have audited the financial statements of XYZ Berhad, which comprise the balance sheets as at 31 December 20XX of the Group and of the Company, and the income statements, statements of changes in equity and cash flow statements of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages AA to ZZ.

##### *Directors' Responsibility for the Financial Statements*

The directors of the Company are responsible for the preparation and fair presentation of these financial statements in accordance with Financial Reporting Standards<sup>1</sup> and the Companies Act 1965 in Malaysia. This responsibility includes: designing, implementing and maintaining internal control 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.

##### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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<sup>1</sup> Financial Reporting Standards is also known as Accounting Standards for Entities Other than Private Entities. Where the entity uses Accounting Standards for Private Entities (or also known as Private Entity Reporting Standards), the words should be changed accordingly to reflect the accounting framework adopted by the entity.

## *Opinion*

In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards<sup>1</sup> and the Companies Act 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as of 31 December 20XX and of their financial performance and cash flows for the year then ended.

## **Report on Other Legal and Regulatory Requirements**

In accordance with the requirements of the Companies Act 1965 in Malaysia, we also report the following:

- a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.
- b) We have considered the accounts and the auditors' reports of all the subsidiaries of which we have not acted as auditors, which are indicated in note GG to the financial statements.<sup>2</sup>
- c) We are satisfied that the accounts of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.
- d) The audit reports on the accounts of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

## **Other Matters**

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

(Audit Firm)  
[AF: 8888]  
Chartered Accountants

(Partner)  
[9999/9/99 (J/PH)]  
Chartered Accountant

Date

[Location in the country]

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<sup>2</sup> The auditor may also choose to list all the subsidiaries not audited by him in the audit report.

## **Example 4: Companies with associates and/or jointly controlled entities but do not have subsidiaries**

### **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF XYZ BERHAD**

#### **Report on the Financial Statements**

We have audited the financial statements of XYZ Berhad, which comprise the balance sheets as at 31 December 20XX of the Economic Entity<sup>1</sup> and of the Company and the income statements, statements of changes in equity and cash flow statements for the year then ended of the Economic Entity and of the Company, and a summary of significant accounting policies and other explanatory notes, as set out on pages AA to ZZ.

#### *Directors' Responsibility for the Financial Statements*

The directors of the Company are responsible for the preparation and fair presentation of these financial statements in accordance with Financial Reporting Standards and the Companies Act 1965 in Malaysia. This responsibility includes: designing, implementing and maintaining internal control 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.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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<sup>1</sup> This example audit report uses the term "Economic Entity" to describe the financial statements comprising the results of the associates and/or jointly controlled entities. An entity defines the composition of the "Economic Entity" in the financial statements. Other terms may be acceptable provided that they are appropriately defined. The term "Group" is not suitable to describe such financial statements as "Group" is defined in FRS 127, *Consolidated and Separate Financial Statements* to include a parent and its subsidiaries.

### *Opinion*

In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards and the Companies Act 1965 in Malaysia so as to give a true and fair view of the financial position of the Economic Entity and of the Company as of 31 December 20XX and of their financial performance and cash flows for the year then ended.

### **Report on Other Legal and Regulatory Requirements**

In accordance with the requirements of the Companies Act 1965 in Malaysia, we also report that in our opinion, the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

### **Other Matters**

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

(Audit Firm)  
[AF: 8888]  
Chartered Accountants

(Partner)  
[9999/9/99 (J/PH)]  
Chartered Accountant

Date

[Location in the country]

## **Example 5: Foreign incorporated corporation carrying on a business in Malaysia**

### **INDEPENDENT AUDITORS' REPORT TO THE AGENT OF THE MALAYSIA BRANCH OF XYZ LIMITED<sup>1</sup>**

#### **Report on the Financial Statements**

We have audited the financial statements of the Malaysia branch of XYZ Limited, which comprise the balance sheet as at 31 December 20XX, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages AA to ZZ.

#### *Management's Responsibility for the Financial Statements*

The directors and managers of the Branch are responsible for the preparation and fair presentation of these financial statements in accordance with Financial Reporting Standards<sup>2</sup> and the Companies Act 1965 in Malaysia. This responsibility includes: designing, implementing and maintaining internal control 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.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Branch's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Branch's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors and managers, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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<sup>1</sup> Depending on the engagement contract, the auditors' report may be addressed to other parties (for example, the shareholders).

<sup>2</sup> Financial Reporting Standards is also known as Accounting Standards for Entities Other than Private Entities. Note that a foreign branch does not fulfill the definition of private company and hence, it will not be able to apply Accounting Standards for Private Entities (or also known Private Entity Reporting Standards).

### *Opinion*

In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards<sup>2</sup> and the Companies Act 1965 in Malaysia so as to give a true and fair view of the financial position of the Branch as of 31 December 20XX and of its financial performance and cash flows for the year then ended.

### **Report on Other Legal and Regulatory Requirements**

In accordance with the requirements of the Companies Act 1965 in Malaysia, we also report that in our opinion, the accounting and other records required by the Act to be kept by the Branch have been properly kept in accordance with the provisions of the Act.

### **Other Matters**

This report is made solely to you in accordance with Section 336 of the Companies Act 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

(Audit Firm)  
[AF: 8888]  
Chartered Accountants

(Partner)  
[9999/9/99 (J/PH)]  
Chartered Accountant

Date

[Location in the country]

## Example 6: Co-Operative Societies

### INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CO-OPERATIVE XYZ

#### Report on the Financial Statements

We have audited the financial statements of Co-Operative XYZ, which comprise the balance sheet as at 31 December 20XX, and the income statement, statement of changes in net assets attributable to members<sup>1</sup> and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages AA to ZZ.

#### *Board's Responsibility for the Financial Statements*

The board of the Co-Operative is responsible for the preparation and fair presentation of these financial statements in accordance with Financial Reporting Standards<sup>2</sup> and the Co-Operative Societies Act 1993 in Malaysia. This responsibility includes: designing, implementing and maintaining internal control 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.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the board, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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<sup>1</sup> Depending on the terms of the membership and depending on the accounting framework adopted, an entity may also use the term "statement of changes equity".

<sup>2</sup> Financial Reporting Standards is also known as Accounting Standards for Entities Other than Private Entities. Where the entity uses Accounting Standards for Private Entities (or also known as Private Entity Reporting Standards) or other accounting standards, the words should be changed accordingly to reflect the accounting framework adopted by the entity.

### *Opinion*

In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards<sup>2</sup> in Malaysia so as to give a true and fair view of the financial position of the Co-Operative as of 31 December 20XX and of its financial performance and cash flows for the year then ended.

### **Report on Other Legal and Regulatory Requirements**

In accordance with the requirements of the Co-Operative Societies Act 1993 in Malaysia, we also report that in our opinion:

- (a) the accounting and other records have been properly kept in accordance with Section 58 of the Act.
- (b) the receipt, expenditure and investment of monies and the acquisition and disposal of assets by the Co-Operative during the year ended 31 December 20XX are in accordance with the Act, the Co-Operative Societies Regulations 1995 in Malaysia and the regulations and by-laws of the Co-Operative.
- (c) the assets and liabilities, in all material respects, are fairly stated in accordance with the accounting policies.

### **Other Matters**

This report is made solely to the members of the Co-Operative, as a body, in accordance with Section 63 of the Co-Operative Societies Act 1993 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

(Audit Firm)  
[AF: 8888]  
Chartered Accountants

Date

[Location in the country]

## ***Emphasis of Matter Reports***

### **Example 7: Unqualified opinion with emphasis of matter paragraph**

#### **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF XYZ BERHAD**

##### **Report on the Financial Statements**

We have audited the financial statements of XYZ Berhad, which comprise the balance sheet as at 31 December 20XX, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages AA to ZZ.

##### *Directors' Responsibility for the Financial Statements*

The directors of the Company are responsible for the preparation and fair presentation of these financial statements in accordance with Financial Reporting Standards<sup>1</sup> and the Companies Act 1965 in Malaysia. This responsibility includes: designing, implementing and maintaining internal control 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.

##### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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<sup>1</sup> Financial Reporting Standards is also known as Accounting Standards for Entities Other than Private Entities. Where the entity uses Accounting Standards for Private Entities (or also known as Private Entity Reporting Standards), the words should be changed accordingly to reflect the accounting framework adopted by the entity.

### *Opinion*

In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards<sup>1</sup> and the Companies Act 1965 in Malaysia so as to give a true and fair view of the financial position of the Company as of 31 December 20XX and of its financial performance and cash flows for the year then ended.

### *Emphasis of Matter*

Without qualifying our opinion, we draw attention to Note GG to the financial statements. The Company is the defendant in a lawsuit alleging infringement of certain patent rights and claiming royalties and punitive damages of RMXX,XXX,XXX. The Company has filed a counterclaim, and preliminary hearings and discovery proceedings on both actions are in progress. The ultimate outcome of the matter cannot presently be determined and, accordingly, no liability nor receivable has been recognised in the financial statements in respect of these actions.

### **Report on Other Legal and Regulatory Requirements**

In accordance with the requirements of the Companies Act 1965 in Malaysia, we also report that in our opinion, the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

### **Other Matters**

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

(Audit Firm)  
[AF: 8888]  
Chartered Accountants

(Partner)  
[9999/9/99 (J/PH)]  
Chartered Accountant

Date

[Location in the country]

## **Example 8: Unqualified opinion with emphasis of matter paragraph – Going concern is appropriate but a material uncertainty exists and adequate disclosure is made**

### **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF XYZ BERHAD**

#### **Report on the Financial Statements**

We have audited the financial statements of XYZ Berhad, which comprise the balance sheet as at 31 December 20XX, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages AA to ZZ.

#### *Directors' Responsibility for the Financial Statements*

The directors of the Company are responsible for the preparation and fair presentation of these financial statements in accordance with Financial Reporting Standards and the Companies Act 1965 in Malaysia. This responsibility includes: designing, implementing and maintaining internal control 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.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards<sup>1</sup> and the Companies Act 1965 in Malaysia so as to give a true and fair view of the financial position of the Company as of 31 December 20XX and of its financial performance and cash flows for the year then ended.

#### *Emphasis of Matter*

Without qualifying our opinion, we draw attention to Note GG in the financial statements which discloses the premise upon which the Company has prepared its financial statements by applying the going concern assumption, notwithstanding that the Company incurred a net loss of RMXXX,XXX during the year ended 31 December 20XX, and as of that date, the Company's current liabilities exceeded its current assets by RMXXX,XXX, thereby indicating the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern.

#### **Report on Other Legal and Regulatory Requirements**

In accordance with the requirements of the Companies Act 1965 in Malaysia, we also report that in our opinion, the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

#### **Other Matters**

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

(Audit Firm)  
[AF: 8888]  
Chartered Accountants

(Partner)  
[9999/9/99 (J/PH)]  
Chartered Accountant

Date

[Location in the country]

---

<sup>1</sup> Financial Reporting Standards is also known as Accounting Standards for Entities Other than Private Entities. Where the entity uses Accounting Standards for Private Entities (or also known as Private Entity Reporting Standards), the words should be changed accordingly to reflect the accounting framework adopted by the entity.

## ***Qualified Opinion Reports***

### **Example 9: Limitation of scope – Unable to observe physical inventory count**

#### **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF XYZ BERHAD**

##### **Report on the Financial Statements**

We have audited the financial statements of XYZ Berhad, which comprise the balance sheet as at 31 December 20XX, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages AA to ZZ.

##### *Directors' Responsibility for the Financial Statements*

The directors of the Company are responsible for the preparation and fair presentation of these financial statements in accordance with Financial Reporting Standards<sup>1</sup> and the Companies Act 1965 in Malaysia. This responsibility includes: designing, implementing and maintaining internal control 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.

##### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. Except as described in the Basis for Qualified Opinion paragraph below, we conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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<sup>1</sup> Financial Reporting Standards is also known as Accounting Standards for Entities Other than Private Entities. Where the entity uses Accounting Standards for Private Entities (or also known as Private Entity Reporting Standards), the words should be changed accordingly to reflect the accounting framework adopted by the entity.

### *Basis for Qualified Opinion*

We did not observe the counting of the physical inventories as of 31 December 20XX, since that date was prior to the time we were initially engaged as auditors for the Company. Owing to the nature of the Company's records, we were unable to satisfy ourselves as to inventory quantities by other audit procedures.

### *Qualified Opinion*

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the physical inventory quantities, the financial statements have been properly drawn up in accordance with Financial Reporting Standards<sup>1</sup> and the Companies Act 1965 in Malaysia so as to give a true and fair view of the financial position of the Company as of 31 December 20XX and of its financial performance and cash flows for the year then ended.

### **Report on Other Legal and Regulatory Requirements**

In accordance with the requirements of the Companies Act 1965 in Malaysia, we also report that in our opinion, the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

### **Other Matters**

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

(Audit Firm)  
[AF: 8888]  
Chartered Accountants

(Partner)  
[9999/9/99 (J/PH)]  
Chartered Accountant

Date

[Location in the country]

## **Example 10: Disagreement – Inappropriate accounting method**

### **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF XYZ BERHAD**

#### **Report on the Financial Statements**

We have audited the financial statements of XYZ Berhad, which comprise the balance sheet as at 31 December 20XX, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages AA to ZZ.

#### *Directors' Responsibility for the Financial Statements*

The directors of the Company are responsible for the preparation and fair presentation of these financial statements in accordance with Financial Reporting Standards<sup>1</sup> and the Companies Act 1965 in Malaysia. This responsibility includes: designing, implementing and maintaining internal control 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.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Basis for Qualified Opinion*

As discussed in Note GG to the financial statements, no depreciation has been provided in the financial statements which practice, in our opinion, is not in

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accordance with FRS 116, Property, Plant and Equipment. Had depreciation been provided for, the depreciation charge for the year ended 31 December 20XX would be RMXXX,XXX based on the straight-line method of depreciation using annual rates of 5% for the building and 20% for the equipment. In addition, the carrying value of property, plant and equipment and retained earnings would have been reduced by RMXXX,XXX and RMXXX,XXX respectively. The profit for the year ended 31 December 20XX would have been reduced by RMXXX,XXX.

### *Qualified Opinion*

In our opinion, except for the effects on the financial statements of the matter described in the Basis for Qualified Opinion paragraph, the financial statements have been properly drawn up in accordance with Financial Reporting Standards<sup>1</sup> and the Companies Act 1965 in Malaysia so as to give a true and fair view of the financial position of the Company as of 31 December 20XX and of its financial performance and cash flows for the year then ended.

### **Report on Other Legal and Regulatory Requirements**

In accordance with the requirements of the Companies Act 1965 in Malaysia, we also report that in our opinion:

- a) except for the matter as described in the Basis for Qualified Opinion paragraph, the accounting and other records have been properly kept in accordance with the provisions of the Act.
- b) the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

### **Other Matters**

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

(Audit Firm)  
[AF: 8888]  
Chartered Accountants

(Partner)  
[9999/9/99 (J/PH)]  
Chartered Accountant

Date

[Location in the country]

## ***Disclaimer of Opinion Report***

### **Example 11: Limitation of Scope - Inadequate Accounting Records**

#### **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF XYZ BERHAD**

##### **Report on the Financial Statements**

We were engaged to audit the financial statements of XYZ Berhad, which comprise the balance sheet as at 31 December 20XX, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages AA to ZZ.

##### *Directors' Responsibility for the Financial Statements*

The directors of the Company are responsible for the preparation and fair presentation of these financial statements in accordance with Financial Reporting Standards<sup>1</sup> and the Companies Act 1965 in Malaysia. This responsibility includes: designing, implementing and maintaining internal control 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.

##### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

##### *Basis for Disclaimer of Opinion*

As discussed in Note GG to the financial statements, a fire at the Company's computer centre destroyed many of the accounting records and related documents. The financial statements consequently include significant amounts based on estimates. We were unable to carry out appropriate audit procedures to obtain sufficient and appropriate audit evidence over these estimates. We could not determine the effect of adjustments, if any, on the financial position of the Company as at 31 December 20XX, or on its financial performance and cash flows for the year then ended.

##### *Disclaimer of Opinion*

Because of the significance of the matter as discussed in the Basis for Disclaimer of Opinion paragraph, we do not express an opinion on the financial statements.

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<sup>1</sup> Financial Reporting Standards is also known as Accounting Standards for Entities Other than Private Entities. Where the entity uses Accounting Standards for Private Entities (or also known as Private Entity Reporting Standards), the words should be changed accordingly to reflect the accounting framework adopted by the entity.

## **Report on Other Legal and Regulatory Requirements**

In accordance with the requirements of the Companies Act 1965 in Malaysia, we also report that in our opinion:

- a) because of the matter as discussed in the Basis for Disclaimer of Opinion paragraph, the accounting and other records have not been properly kept in accordance with the provisions of the Act.
- b) the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

### **Other Matters**

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

(Audit Firm)  
[AF: 8888]  
Chartered Accountants

(Partner)  
[9999/9/99 (J/PH)]  
Chartered Accountant

Date

[Location in the country]

## ***Adverse Opinion Report***

### **Example 12: Disagreement with management on provision for losses**

#### **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF XYZ BERHAD**

##### **Report on the Financial Statements**

We have audited the financial statements of XYZ Berhad, which comprise the balance sheet as at 31 December 20XX, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages AA to ZZ.

##### *Directors' Responsibility for the Financial Statements*

The directors of the Company are responsible for the preparation and fair presentation of these financial statements in accordance with Financial Reporting Standards<sup>1</sup> and the Companies Act 1965 in Malaysia. This responsibility includes: designing, implementing and maintaining internal control 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.

##### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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<sup>1</sup> Financial Reporting Standards is also known as Accounting Standards for Entities Other than Private Entities. Where the entity uses Accounting Standards for Private Entities (or also known as Private Entity Reporting Standards), the words should be changed accordingly to reflect the accounting framework adopted by the entity.

### *Basis for Adverse Opinion*

As described in Note GG to the financial statements, no provision has been made for losses expected to arise on certain significant long-term contracts currently in progress, as the directors consider that such losses should be off-set against amounts recoverable on other long-term contracts. Provision for foreseeable losses on individual contracts is required by FRS 111, *Construction Contracts*. Had such losses been provided for, the effects would have been to reduce profit before tax for the year and the contract work in progress by RMXXX, income taxes for the year by RMXXX and net profit for the year by RMXXX. Accordingly, retained earnings as of 31 December 20XX would also have been reduced by RMXXX.

### *Adverse Opinion*

In our opinion, because of the significance of the effects of the matter described in the Basis for Adverse Opinion paragraph, the financial statements have not been drawn up in accordance with the Financial Reporting Standards and the Companies Act 1965 in Malaysia and do not give a true and fair view of the financial position of the Company as of 31 December 20XX and of its financial performance and cash flows for the year then ended.

### **Report on Other Legal and Regulatory Requirements**

In accordance with the requirements of the Companies Act 1965 in Malaysia, we also report that in our opinion:

- a) because of the matter as described in the Basis for Adverse Opinion paragraph, the accounting and other records have not been properly kept in accordance with the provisions of the Act.
- b) the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

### **Other Matters**

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of Companies Act 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

(Audit Firm)  
[AF: 8888]  
Chartered Accountants

(Partner)  
[9999/9/99 (J/PH)]  
Chartered Accountant

Date

[Location in the country]