



MALAYSIAN INSTITUTE
OF ACCOUNTANTS

Board of Directors
- Are you ready for the
enhanced auditors' report?

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1.0 **Board of Directors – Are you ready for the enhanced auditors' report?**

1.1 **Enhanced auditors' report – What is this about?**

In 2015, the international body for setting auditing standards, the International Auditing and Assurance Standards Board (“IAASB”), approved a suite of auditing reporting standards effective for audits of financial statements for financial periods ending on or after 15 December 2016. These standards are set to enhance the information value of the auditors' report by providing greater insights into the audit of the financial statements of an entity.

In the same year, the Malaysian Institute of Accountants (“MIA”) issued the same set of auditing standards that fully adopted their international equivalents, with the same effective date.

The implications of these standards are significant and will impact all those involved in the financial reporting ecosystem (investors, regulators, management, those charged with governance (“TCWG”) which are the Board of Directors and other relevant parties) and not just the auditors.

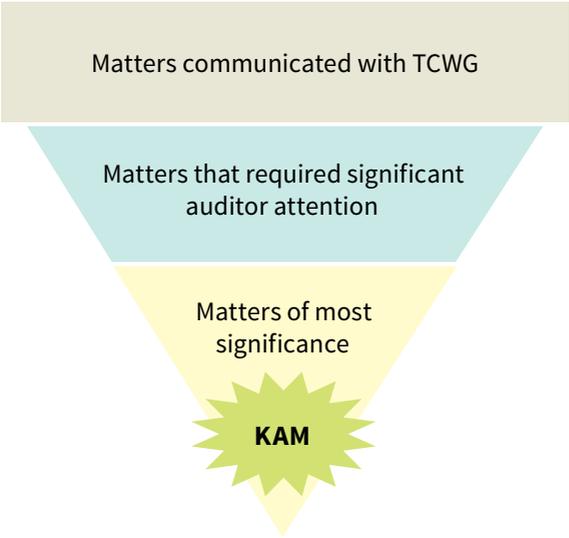
Bursa Malaysia Securities Berhad has in March 2016 issued amendments to the Main Market and ACE Market listing requirements to complement these auditor reporting requirements.

As the Board of Directors have a statutory responsibility for the preparation of the financial statements including the oversight of the financial reporting process of an entity, the Board should proactively engage its auditors on these standards to deliberate on the implications of the changes so as to ensure a smooth transition to the enhanced auditors' report.

1.2 The auditors' report - A comparison of contents and their sequence

Existing auditors' report	Enhanced auditors' report
Directors' responsibility	Opinion
Auditors' responsibility	Basis of opinion
Opinion	Material uncertainty related to going concern (if any)
Report on other legal and regulatory requirements	Key audit matters
Other matters	Information other than the financial statements and auditors' report thereon
Name of engagement partner	Responsibilities of the directors
	Auditors' responsibilities
	Report on other legal and regulatory requirements
	Other matters
	Name of engagement partner

1.3 What are the changes to auditor reporting?

	Listed	Non-listed
<p>Key changes</p> <hr/> <p>Key audit matters (“KAM”) * Commentary on those matters in the auditor’s judgement (and selected from matters communicated with TCWG) that were of most significance in the audit of the current period financial statements.</p>		
		

	Listed	Non-listed
<p>Key changes</p>		
<p>Going concern (“GC”)</p> <p>Enhanced auditor reporting on GC, including:</p> <ul style="list-style-type: none"> • Description of the respective responsibilities of directors and the auditor for GC; and • When a material uncertainty exists and is adequately disclosed, this will be highlighted in a separate section under the heading “Material Uncertainty Related to Going Concern”. Previously, such reporting would have been under the heading entitled “Emphasis of Matter”. <p>Furthermore, the auditor is now required to challenge the adequacy of disclosures for “close calls” situations when event or conditions are identified that may cast significant doubt on an entity’s ability to continue as a GC but due to mitigating factors, it was concluded that no material uncertainty exists.</p>		
<p>Other information (“OI”)</p> <p>Inclusion of a section relating to OI that explains the directors’ responsibilities for OI, identifies the OI obtained or expected to be obtained, explains the auditors’ responsibilities, work effort and outcome from the work performed on the OI.</p> <p>OI is financial or non-financial information (other than financial statements and the auditors’ report thereon) included in an entity’s annual report, for example, the Management Discussion and Analysis Statement and Corporate Governance Statement.</p>		

	Listed	Non-listed
Other changes		
Restructuring of the audit report for readability – in particular, the Opinion section is required to be presented first , followed by the Basis for Opinion section.		
Affirmative statement about the auditors' independence and fulfilment of other ethical responsibilities .		
Enhanced descriptions of the auditors' responsibilities and key features of an audit.		
Disclosure of the name of the engagement partner** .		

Required and level of significance to the entity



* Voluntary application for entities other than listed entities

** Already a requirement in Malaysia for all entities

2.0

What are the amendments to the Bursa Malaysia listing requirements to complement the auditor reporting requirements?

A summary of amendments to the Main Market and ACE Market listing requirements which complement the new auditor reporting requirements is as follows:

<p>Requiring immediate announcement of modified opinion or material uncertainty related to GC (“MUGC”) in the auditors’ report together with all KAM disclosed in the auditors’ report, steps taken or proposed to be taken to address the KAM that relate to the modified opinion or MUGC, and the timeline for the steps taken</p>	<p>Quarterly reports disclosure on modified opinion or MUGC in the auditors’ report in the annual audited financial statements for the preceding financial year, together with the status of the KAM relating to the modified opinion or MUGC and steps taken to address them</p>	<p>Strengthening the role of the audit committee when reviewing financial statements by requiring the audit committee to also focus on significant matters highlighted in the financial statements including financial reporting issues, significant judgements made, significant and unusual events or transactions, and how these matters are addressed.</p>
<p><i>Main Market - paragraph 9.19(37); ACE Market – Rule 9.19(38)</i></p> <p><i>Implementation date: 15 December 2016</i></p>	<p><i>Main Market - paragraph 15 in Part A of Appendix 9B; ACE Market – paragraph 15 of Appendix 9B</i></p> <p><i>Implementation date: Quarterly reports issued subsequent to the issuance of the annual audited financial statements for financial year ending on or after 15 December 2016</i></p>	<p><i>Main Market - paragraph 15.12(1)(g)(ii); ACE Market – Rule 15.12(1)(g)(ii)</i></p> <p><i>Implementation date: 1 July 2016</i></p>

3.0 How can Board of Directors prepare for the change?

These standards will apply to Malaysian incorporated entities with financial years ending on or after 15 December 2016.

A major implication for entities and their directors is that they can expect a more detailed level of scrutiny over the preparation and communication of their financial information.

The table below sets out some of the actions that the Board of Directors can take before the first enhanced auditors' report is issued on their financial statements.

KAM



EARLY ENGAGEMENT BETWEEN THE AUDITOR AND THE AUDIT COMMITTEE IS CRITICAL

- Review processes of communication between the auditor and the audit committee to enable early identification of potential KAM and monitor how they are addressed by management and the auditor to accommodate the audit process and reporting time frame.
- Ensure disclosures in the financial statements adequately and fairly describe the matters to which the KAM relate as the audit report should not be the source of original information about the entity.
- Consider enhancing disclosures in the Audit Committee Report on matters to which the KAM relate.

GC

- Scrutinise the process for assessing the entity's ability to continue as a GC.
- Conclude that the GC basis of accounting used in preparing the financial statements is appropriate.
- Consider the robustness of disclosures around GC, including for "close call" situations.

OI

- Agree with the auditor on timelines when the OI will be available to meet the regulatory reporting requirements and dating of the audit report.
- Review and streamline internal processes for the drafting and finalising of OI to conform to agreed timelines.

Chartered Accountants Malaysia and MIA

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Working closely alongside strategic business partners and stakeholders, MIA connects its members to a wide range of continuous professional development programmes, updates and networking opportunities. Presently, there are over 32,000 members making their strides across all industries in Malaysia and around the world.

Vision

To be a globally recognised and renowned institute of accountants committed to nation building.

Mission

To develop, support and monitor quality and expertise consistent with global best practices of the accountancy profession in the interest of stakeholders.

Objectives

1. Develop and enhance the competency of accountancy professionals to meet market demand;
2. Advance and enhance the status of members and the accountancy profession in Malaysia;
3. Support the practice of the accountancy profession in Malaysia consistent with global standards and best practices; and
4. Regulate the practice of the accountancy profession in Malaysia consistent with global standards.

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