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Dear Sir

INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD ("IAASB") EXPOSURE DRAFT ON REPORTING ON AUDITED FINANCIAL STATEMENTS: PROPOSED NEW AND REVISED INTERNATIONAL STANDARDS ON AUDITING (ISAs)

The Auditing and Assurance Standards Board ("AASB") of the Malaysian Institute of Accountants ("MIA or the Institute") welcomes the opportunity to provide its comments on the International Auditing and Assurance Standards Board ("IAASB") exposure draft, *Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing (ISAs)*.

In formulating its response, the MIA has established a platform to solicit views from various stakeholders in Malaysia such as auditors, preparers of financial statements and user groups, where appropriate.

Our views expressed here align with the IAASB's overarching principles in making effective changes to auditor reporting as mentioned in the IAASB's prior consultation paper, "Invitation to comment – Improving the Auditor's Report" ("ITC"), which include but are not limited to the following:

- Changes to the auditor's report must have value to users and be capable of being operationalised internationally.
- Users have asked auditors to enhance their ability to navigate and better understand increasingly complex financial reports.
- More transparency is needed about key matters related to the audited financial statements and the nature of, and work performed in, an ISA audit.
- The current scope of an ISA audit should be maintained (though the IAASB will reconsider this position if responses to the earlier ITC indicate a pervasive need to do so in light of particular options for change in auditor reporting).
- There is a need to preserve the separate responsibilities of management and those charged with governance ("TCWG"), as providers of original information, and the auditor, respectively.

- The need for national auditing standard setters ("NSS") to tailor or further specify requirements based on the national financial reporting regime should be retained.
- A revised auditor reporting standard must be capable of being applied on a proportionate basis to all entities.

General Comments

Effective date

As noted in the exposure draft, a possible effective date for the new or revised International Standards on Auditing ("ISAs") ("the Proposed ISAs") is for audits of financial statements for periods beginning on or after 15 December 2015. The IAASB is also interested in views on whether an earlier effective date would be feasible, for example for audits of financial statements for periods ending on or after 15 December 2015.

The Proposed ISAs represent a significant change in practice. Therefore, the AASB is supportive of an effective date no earlier than for audits of financial statements for periods beginning on or after 15 December 2015. This will give more time to the various stakeholders to implement the new and revised standards. Indeed, an even later effective date may be necessary to provide more time to the various stakeholders to implement the new and revised standards.

Definition of listed entity

The Proposed ISAs would require disclosures about key audit matters ("KAM") and the engagement partner's name in audit reports of listed entities.

The IAASB's glossary of terms defines a listed entity as an entity whose shares, stock or debt are quoted or listed on a recognised stock exchange, or are marketed under the regulations of a recognised stock exchange or other equivalent body.

We recommend that IAASB provide clarification on what is meant by terms "marketed under the regulations" and "other equivalent body" to promote consistency in auditor reporting. For example, it is not clear whether a unit trust or a private company that issues quoted bond are listed entities.

Improvements to corporate reporting eco-system

While the auditor plays an important role to support the quality of financial reporting, there should also be concerted efforts by the regulators and the accounting standards setter to make necessary improvements to corporate and financial reporting to complement the proposed enhancements to auditor reporting. If the IAASB's proposals proceed ahead of desired improvements to the corporate reporting eco-system, the effects will be particularly felt in jurisdictions where such improvements are lacking.

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General Comments (Continued)

Auditor providing original information about the entity

Management and TCWG are the original source of disclosure of information about an entity. It is not the role of the auditor to originate new information about the entity. Management and TCWG's responsibility in this regard should be preserved not to blur the distinction between the roles of the auditor and that of management and TCWG. Therefore, there should also be improvements to corporate reporting where management and TCWG should first provide commentary about the entity. The auditor would then be better placed to report on such commentary to avoid any unintended consequences.

Establishing "safe harbour" for auditors when KAM is communicated

We foresee there may be potential auditor liability implications for jurisdictions where "safe harbour" requirements do not exist. The IAASB is therefore encouraged to influence the establishment of "safe harbour" provisions in those jurisdictions through the IAASB's engagement with key stakeholders, among others the International Organisation of Securities Commissions and World Federation of Exchanges.

Specific comments

Responses to the specific questions on which the IAASB is seeking feedback are set out below.

Q1. Do users of the audited financial statements believe that the introduction of a new section in the auditor's report describing the matters the auditor determined to be of most significance in the audit will enhance the usefulness of the auditor's report? If not, why?

The AASB is supportive of the IAASB's initiative in exploring options to increase the informational value of the auditor's report, and to promote the importance of the audit and the related auditor's report is in the public interest. Communicating KAM will enhance the transparency and value of the auditor's report.

However, the AASB has some concerns regarding the implications of the new requirements for auditor reporting on KAM which are mentioned in our response to question 2.

Q2. Do respondents believe the proposed requirements and related application material in proposed ISA 701 provide an appropriate framework to guide the auditor's judgment in determining the key audit matters? If not, why? Do respondents believe the application of proposed ISA 701 will result in reasonably consistent auditor judgments about what matters are determined to be the key audit matters? If not, why?

The AASB believes that the proposed requirements and related application material in proposed ISA 701 provide an appropriate framework to guide the auditor's judgement in determining the KAM. However, we have some concerns regarding the implications of communicating KAM which are discussed in the following paragraphs.

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Specific comments (Continued)

Risk of auditor providing original information about the entity

Management and TCWG are the original source of disclosure of information about an entity. This raises the question on whether it is appropriate for the auditor to discuss information not otherwise disclosed by management or TCWG.

Paragraph A37 of the proposed ISA 701 suggests that auditor should seek to avoid providing original information about the entity unless the auditor considers it is critical to the description of the audit matter and such information is not prohibited by law or regulation. In such circumstances, the auditor may encourage management or TCWG to make relevant disclosures in the financial statements. We believe as it is not the role of the auditor to provide original information about the entity, the auditor should not be required to disclose such original information. Accordingly, we recommend the IAASB to consider that the criteria for inclusion of KAM be further clarified to only matters which are disclosed in the financial statements.

Striking a balance in providing sufficient and appropriate information on KAM that provide appropriate context to readers versus avoiding unintended consequences

We foresee practical challenges in disclosing KAM, including:

(a) Auditors may 'over-comment' for fear of under-reporting and not meeting the expectations of audit oversight bodies;

(b) Breach of auditor confidentiality;

(c) Auditors being challenged for different positions taken by audit firms due to flexibility allowed in including the discussion of audit procedures and conclusion for similar KAM;

(d) Strong resistance from TCWG when a KAM is viewed as sensitive and TCWG do not want the matter to be disclosed in the financial statements; and

(e) Issues relating to auditor liability and potential legal consequences.

Risk that auditor discussion about the financial statements could differ from the disclosures provided in the financial statements

Auditor discussion about the financial statements could differ from the disclosures provided in the financial statements, and therefore might not convey a consistent communication to users of the auditor's report, which could result in confusion.

Whilst the proposed ISA 701 contains guidance on how to determine KAM for inclusion in the auditor's report (mainly paragraphs 8 to 10), we believe it is likely that there will be inconsistencies in practice given that the determination of KAM requires significant professional judgement. Hence, we believe this is an area for which the IAASB should consider a post-implementation review to assess if there is a need for further clarity and guidance.

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Specific comments (Continued)

Q3. Do respondents believe the proposed requirements and related application material in proposed ISA 701 provide sufficient direction to enable the auditor to appropriately consider what should be included in the descriptions of individual key audit matters to be communicated in the auditor's report? If not, why?

We believe further guidance in the proposed ISA 701 would be helpful to address the following areas:

(a) Situations when law, regulation or ethical standards restrict the auditor's ability to communicate KAM because of investigations, auditor confidentiality or data protection requirements. This is briefly addressed in paragraph A35 of the proposed ISA 701 which suggests that the auditor may consider discussing the situation with TCWG and may consider obtaining legal advice;

(b) How best to describe KAM that are sensitive. This is briefly addressed in paragraph A36 of the proposed ISA 701 which suggests that the auditor may need to consider how best to describe the KAM in order to explain why the matter was one of most significance in the audit; and

(c) Interaction between proposed ISA 701 with group audits, specifically communication between group engagement team and component auditor on matters determined to be KAM especially when a significant component is audited by another firm.

Q4. Which of the illustrative examples of key audit matters, or features of them, did respondents find most useful or informative, and why? Which examples, or features of them, were seen as less useful or lacking in informational value, and why? Respondents are invited to provide any additional feedback on the usefulness of the individual examples of key audit matters, including areas for improvement.

The AASB consider the illustrative examples to be helpful in indicating how KAM may be disclosed in practice. Specifically, the different approaches intentionally taken in developing the illustrations of individual KAM are particularly helpful except as described below.

The AASB is of the view that the description of audit procedures and related results are not useful to users of the financial statements. A description of KAM and reference to related disclosure(s) if any in the financial statements should be sufficient for users to understand the perspectives of TCWG, management and the auditor on these matters. It would be difficult to summarise audit procedures in a way that would be adequate and meaningful to users. Presenting such incomplete information would not enhance, and could confuse users' understanding of the auditor's level of effort, which may in turn increase the expectation gap.

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Specific comments (Continued)

We also recommend that the illustrative examples include the following areas:

(a) Fraud risk specifically identified in the context of the entity;

(b) Significant deficiency in internal control; and

(c) Extensive unexpected effort required to obtain sufficient appropriate audit evidence.

> Q5. Do respondents agree with the approach the IAASB has taken in relation to key audit matters for entities for which the auditor is not required to provide such communication – that is, key audit matters may be communicated on a voluntary basis but, if so, proposed ISA 701 must be followed and the auditor must signal this intent in the audit engagement letter? If not, why? Are there other practical considerations that may affect the auditor's ability to decide to communicate key audit matters when not otherwise required to do so that should be acknowledged by the IAASB in the proposed standards?

The AASB believes that it would not be appropriate to leave the reporting of KAM on a voluntary basis for non-listed entities, which would result in inconsistency in auditor reporting. Users would be left uncertain and confused over when communication of KAM should be expected, and what to conclude regarding the absence of KAM communicated on a voluntary basis.

> Q6. Do respondents believe it is appropriate for proposed ISA 701 to allow for the possibility that the auditor may determine that there are no key audit matters to communicate?
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> a. If so, do respondents agree with the proposed requirements addressing such circumstances?
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> b. If not, do respondents believe that auditors would be required to always communicate at least one key audit matter, or are there other actions that could be taken to ensure users of the financial statements are aware of the auditor's responsibilities under proposed ISA 701 and the determination, in the auditor's professional judgment, that there are no key audit matters to communicate?

The AASB believes that it is appropriate for proposed ISA 701 to allow for the possibility that the auditor may determine that there are no KAM to communicate. In the Malaysian context, pursuant to company legislation, the auditor is required to opine on the financial statements of the group and of the company. Where the company is only an investment holding company, there could be no KAM to communicate. We also agree with the requirement for a statement in the auditor's report that there is no KAM to communicate to signal that the auditor was required to make this determination in accordance with proposed ISA 701.

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Specific comments (Continued)

Q7. Do respondents agree that, when comparative financial information is presented, the auditor's communication of key audit matters should be limited to the audit of the most recent financial period in light of the practical challenges explained in paragraph 65? If not, how do respondents suggest these issues could be effectively addressed?

The AASB agrees that KAM should be limited to the audit of the most recent financial period even when comparative financial statement is presented, primarily because users are interested in the most recent information to make informed decisions and therefore are more likely to value information from the auditor about matters determined as significant in the audit of the current period.

Q8. Do respondents agree with the IAASB's decision to retain the concepts of Emphasis of Matter paragraphs and Other Matter paragraphs, even when the auditor is required to communicate key audit matters, and how such concepts have been differentiated in the Proposed ISAs? If not, why?

For audits of financial statements of entities required to communicate KAM, the AASB is of the view that the co-existence of KAM and EOM will result in confusion to users, as well as posing difficulties for the auditor to determine whether an item should be reported as KAM or EOM. Such challenge is also likely to result in further inconsistencies in the auditor's report. Hence, AASB would like to suggest that the EOM be subsumed into KAM.

Q9. Do respondents agree with the statements included in the illustrative auditor's reports relating to:

a. The appropriateness of management's use of the going concern basis of accounting in the preparation of the entity's financial statements?

b. Whether the auditor has identified a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern, including when such an uncertainty has been identified (see the Appendix of proposed ISA 570 (Revised)?

In this regard, the IAASB is particularly interested in views as to whether such reporting, and the potential implications thereof, will be misunderstood or misinterpreted by users of the financial statements.

The AASB supports auditor statements regarding going concern intended to enhance auditor reporting. However, accounting standards should first include a requirement for management to provide commentary regarding their assessment and conclusion on going concern so that the auditor can make reference to such disclosures in the financial statements.

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Specific comments (Continued)

Accordingly, any discussion on going concern should be deferred until the accounting standard setters have finalised certain concepts such as significant doubt and material uncertainty which require clarification or additional guidance. These are necessary so that the proposed statements about going concern are not misunderstood or misinterpreted by users of the financial statements.

> Q10. What are respondents' views as to whether an explicit statement that neither management nor the auditor can guarantee the entity's ability to continue as a going concern should be required in the auditor's report whether or not a material uncertainty has been identified?

As mentioned in our response to question 9, any discussion on going concern should be deferred until proposed changes to accounting standards have been finalised.

The AASB supports the above explicit statement. However, we recommend that the IAASB remove reference made to management in the above statement as the contents of the auditor's report should only describe matter relating to the audit and responsibilities of the auditor. The auditor should not make a representation on behalf of management.

> Q11. What are respondents' views as to the benefits and practical implications of the proposed requirement to disclose the source(s) of independence and other relevant ethical requirements in the auditor's report?

The title "Independent Auditor's Report" affirms that the auditor has met all of the relevant ethical requirements regarding independence and, therefore, distinguishes the independent auditor's report from reports issued by others.

The AASB is of the view that an explicit statement of compliance with relevant ethical requirements required in all auditors' reports will not enhance usefulness of the auditor's report.

The proposed standard does not explain the extent or scope of sources of ethical requirements. If the requirement to affirm is included in the final standard, then we recommend such disclosure should only make reference to the auditor's ethical code issued by the International Ethics Standards Board for Accountants ("IESBA") or NSS. ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing* indicates that the auditor shall not represent compliance with ISAs in the auditor's report unless the auditor has complied with the requirements of ISA 200 and all other ISAs relevant to the audit. Stating other sources of ethical requirements such as legislation, and a regulator's or stock exchange's requirements may be too lengthy and thereby lack value to the users of the auditor's report.

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Specific comments (Continued)

The IAASB also sought feedback on what such a disclosure would comprise in national environments and in the context of group audit situations. In the Malaysian context, on the premise that such a disclosure should only make reference to the auditor's ethical code issued by the IESBA or NSS, reference to the Institute By-Laws will be made in the audit of financial statements of a Company. For group audit situations, the Institute acknowledges the challenge to require foreign component auditors to adhere to some requirements contained in the By-Laws issued by the Institute which are more stringent that the ethical code issued by the IESBA code. The Institute has taken a position to allow foreign component auditors who are involved in the audit of the group financial statements, to comply at a minimum with the ethical code issued by the IESBA.

Q12. What are respondents' views as to the proposal to require disclosure of the name of the engagement partner for audits of financial statements of listed entities and include a "harm's way exemption"? What difficulties, if any, may arise at the national level as a result of this requirement?

The AASB supports the proposal to require disclosure of the name of the engagement which will encourage greater ownership and responsibility for work performed as well as enhancing overall transparency.

Q13. What are respondents' views as to the appropriateness of the changes to ISA 700 described in paragraph 102 and how the proposed requirements have been articulated?

Improved description of the responsibilities of the auditor and key features of the audit

The AASB supports the enhanced descriptions of the responsibilities of the auditor and key features of the audit to provide users with additional transparency about the audit that was performed.

Provision for the descriptions of the responsibilities of the auditor and key features of the audit to be relocated to an appendix in the auditor's report, or for reference to be made to such a description on the website of an appropriate authority

The AASB is of the view that such information is important to users for a proper understanding of the context within which the audit is conducted. The relocation of such information to a website may result in users not reading such information as most users may not visit the website.

However, we also recognise that this practice is common in other jurisdictions such as, in the United Kingdom where description of the generic scope of an audit can be cross referenced to the applicable version of a ''Statement of the Scope of an Audit'' that is maintained on the Financial Reporting Council's web-site. Therefore, we support the flexibility given to NSS to determine the placement of this information.

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Specific comments (Continued)

Reference to whom in the entity is responsible for overseeing the Company's financial reporting process

The AASB agrees that the inclusion of this reference in the auditor's report acknowledges this essential role in the financial reporting process where management is responsible for the preparation and fair presentation of the financial statements.

Other reporting responsibilities

The AASB agrees with flexibility for NSS to determine how best to place auditor's communication about matters that are supplementary to the auditor's responsibilities under the ISAs as long as this other reporting responsibilities are clearly differentiated from reporting required by the ISAs.

> Q14. What are respondents' views on the proposal not to mandate the ordering of sections of the auditor's report in any way, even when law, regulation or national auditing standards do not require a specific order? Do respondents believe the level of prescription within proposed ISA 700 (Revised) (both within the requirements in paragraphs 20–45 and the circumstances addressed in paragraphs 46–48 of the proposed ISA) reflects an appropriate balance between consistency in auditor reporting globally when reference is made to the ISAs in the auditor's report, and the need for flexibility to accommodate national reporting circumstances?

The AASB's feedback to the IAASB's ITC was to mandate the ordering of elements in the auditor's report to promote consistency and comparability of auditor's report and also to minimise potential confusion. The AASB reconsidered its position acknowledging that there may be jurisdictional reasons why placement of certain elements in the auditor's report is preferred.

Therefore, the AASB agrees for the proposed ISA 700 (Revised) to retain the level of flexibility in auditor reporting that exists in existing ISA 700 which allows the auditor to tailor the wording in the auditor's report to meet legal and regulatory requirements of a particular jurisdiction, or its NSS, while still making reference to ISAs in the auditor's report and complying with the proposed ISA 700 (Revised).

The AASB is of the view that where law, regulation or national auditing standards do not require a specific order of sections of the auditor's report, the auditor's report will most probably mirror the illustrative report in proposed ISA 700 (Revised).

Yours sincerely,
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