



Suruhanjaya Sekuriti
Securities Commission
Malaysia

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Mr James Gunn
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Dear Sir

COMMENT ON IMPROVING THE AUDITOR'S REPORT

In response to your invitation to comment, we are pleased to provide our comments and feedback on the proposed standard, as attached **Appendix I**.

Should you require any further clarification, please do not hesitate to call Lim Fen Nee at +60 3 2091 0608 or at her email FNLim@seccom.com.my.

Thank you

Yours sincerely

NIK MOHD HASYUDEEN YUSOFF
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GENERAL COMMENTS ON AUDITOR REPORTING MODEL

The Audit Oversight Board, Malaysia, supports the efforts of the International Auditing and Assurance Standards Board (IAASB) in improving auditor reporting. Such enhancement would make auditor reports more relevant and provides stakeholders with more information regarding the audit on which the reports are issued.

We believe the enhanced auditor reporting model would further enhance the value of audit as it addresses the information gap between the auditors and the readers of the audit report. However, such enhanced value is only possible provided the audits on which the reports are based on are performed with high quality. It is our view that audit quality and auditor reporting are two distinct matters where the former is about the reliability of the audit opinion while the latter is about how such opinion is communicated.

We support the idea that the enhanced auditor reporting model is about auditors saying more about the audit work that they performed, sufficiency and appropriateness of evidence obtained, key areas of judgments and the overall conclusions of the audit. Auditors should not be reporting on matters relating to reporting entities which are under the preview of those charged with governance.

The reporting model should also be premised on the performance of auditors in compliance with the International Standards on Auditing (ISA) and not on the premise that high quality audit, hence auditor reporting, is subjected to the performance of other stakeholders. It is our view that it is very important to distinguish between the responsibility of auditors to comply with the requirements of ISA and the responsibility of others within the legal and financial reporting framework.

We see the merit of having legal and governance frameworks which support the performance of high quality audit which is the basis of reliable and relevant auditor reports. Other stakeholders, including the investor community should also be more involved to create an environment that high quality audit would be able to be performed.

The introduction of auditor commentary provides the opportunity for auditors to communicate more about the audit especially areas where readers should give more attention. While we do not see the need to be too prescriptive as key issues may differ from one engagement to another, some guidance may be necessary to ensure the matters discussed are relevant and this section would not be filled with boiler plates, which will reduce the value of the enhanced reporting model.

We see the need to have an extensive education efforts post implementation of the revised auditor reporting framework to ensure that all stakeholders understand the objectives and purpose of the changes. This is to avoid further misconception about the changes and to ensure the information gap is reduced.

We trust the IAASB will be focused on ensuring auditor report become more relevant albeit through the provision of consistent relevant information.

We provide the following specific comments in response to the areas as follows –

Auditor Commentary

It is important to appreciate that the proposed changes to auditor reporting is meant to evolve overtime to capture the essence of events that are by nature significant to be communicated to the users of financial statements for better understandability. In capturing these events, boilerplate should be avoided and the auditor commentary should evolve to be relevant overtime. The report must be consistently relevant at each time of reporting.

We support that some form of guidance and framework should be in place to provide a holistic view on what needs to be reported to achieve the intended outcome of the auditor reporting.

Going Concern/Other Information

It is important to ensure that the reporting and language in this section is clear to provide sufficient understanding of management's responsibility and what the auditor needs to report on. It is also important to clarify that the going concern assumption is the basis used to prepare the financial statements and not used to predict the future. Any narration in this section should be carefully drafted to narrow the expectation gap. A common framework on material uncertainties is welcomed to provide a better and consistent understanding to the users of the financial statements.

Clarifications and Transparency

The disclosure on the responsibilities of management, TCWGs and the auditor would close the expectation gap. We support the change, however any disclosure should not unnecessarily increase the liability of the auditors. Any further description of the Group Audit and the primary role of Group Auditor should be in line with ISA600. The disclosure of engagement partner's name in the auditor's report has been in practice in Malaysia since inception.

Form and Structure

The proposed presentation is acceptable. It is important to note that consistency of outcome or intended objective of the value of auditors reporting which is to enhance communication must continuously be the backbone when drafting the auditor report. How and what needs to be done should encompass a mixed view approach that encapsulate both a proposed framework and auditors judgment to achieve a consistent outcome.