



Suruhanjaya Sekuriti
Securities Commission
Malaysia

Reference No: AOB/IAASB/RnR/LFN/2013

22 November 2013

Mr James Gunn
Technical Director
International Auditing and Assurance Standards Board
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Dear Sir

**COMMENTS ON IAASB EXPOSURE DRAFT
REPORTING ON AUDITED FINANCIAL STATEMENTS: PROPOSED NEW AND
REVISED INTERNATIONAL STANDARDS ON AUDITING (ISAs)**

We thank you for being provided the opportunity to comment.

In response to your exposure draft, we are pleased to provide our comments and feedback on the proposed new and revised standards, as attached in **Appendix I**.

Should you require any further clarification, please do not hesitate to contact Lim Fen Nee at +603 2091 0608 or at her email FNlim@seccom.com.my.

Thank you.

Yours sincerely

NIK MOHD HASYUDEEN YUSOFF
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AUDIT OVERSIGHT BOARD

Comments on

International Auditing and Assurance Standards Board

Exposure Draft

Reporting on Audited Financial Statements:

Proposed New and Revised International Standards on Auditing (ISAs)

The Audit Oversight Board, Malaysia, (AOB) supports the efforts of the International Auditing and Assurance Standards Board (IAASB) in improving auditor reporting thus far, and welcomes the overall proposed form and content of the proposed auditor's report.

AOB is of the view that the proposed enhancements would increase the relevance of auditor reports whilst providing stakeholders with more information and a better understanding regarding the audit on which the reports are issued.

In this regard, our comments on the proposed new and revised ISAs are as follows:

Significant Proposals

Key Audit Matters: Proposed New ISA 701

1. 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?

Yes.

2. Do respondents believe the proposed amendments 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 judgements about what matters are determined to be the key audit matters? If not, why?

Yes.

However, AOB wishes to draw attention to Paragraph A37 of the proposed ISA 701 which states that it is appropriate for the auditor to seek to avoid the description of key audit matters inappropriately providing original information about the entity that is the responsibility of the entity's management and those charged with governance unless, in the auditor's judgment, the additional information that the auditor may provide is critical to the auditor's description of the key audit matter and providing such information is not prohibited by law or regulation.

AOB further wishes to highlight that Paragraph 11 of the proposed ISA 701 elaborates that a matter giving rise to a qualified or adverse opinion in accordance with proposed ISA 705 (Revised), or the existence of a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with proposed ISA 570 (Revised), is by its nature a key audit matter.

Considering that auditors have been able to elaborate on matters giving rise to a qualified or adverse opinion thus far, AOB is of the view that such concerns regarding the disclosure of original information, as briefly addressed in Paragraph A37 of the proposed ISA 701, should not arise in the elaboration of key audit matters. AOB is thus of the view that the explanation set out in Paragraph A37 of the proposed ISA 701 may instead create confusion, and recommends that IAASB reconsider the value of including Paragraph A37 in the proposed ISA 701.

In the event that Paragraph A37 of the proposed ISA 701 is retained, AOB recommends that further clarity and guidance should be provided on what would be considered as "original information" and the extent of how judgment can be exercised in this area in order to avoid ambiguity.

3. 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?

Yes.

4. 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.

AOB is of the view that the proposed illustrative examples, as a whole, are sufficiently detailed, more relevant and aligned towards being an auditors' commentary rather than a management commentary.

AOB is thus pleased to note that the proposed illustrative examples are consistent with AOB's earlier comments that:

- (i) The enhanced auditor reporting model is about auditors saying more about audit work performed, sufficiency and appropriateness of evidence obtained, key areas of judgement, and overall conclusions of audit; and
- (ii) Auditors should not report on matters relating to reporting entities which are under the purview of those charged with governance.

However, AOB wishes to caution that whilst advocating a principle-based guidance, care must be exercised continuously to avoid boilerplate disclosure, particularly at the implementation stage, in order to ensure continued relevance of the “key audit matters” section so as to have the desired impact on stakeholders.

5. 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?

In the event that key audit matters are communicated on a voluntary basis, AOB agrees that the requirements set out in the proposed ISA 701 should be adhered to and that this intent must be signalled in the audit engagement letter.

6. 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?
- (a) If so, do respondents agree with the proposed requirements addressing such circumstances?
 - (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 judgement, that there are no key audit matters to communicate?

Yes, as it is possible that there may be no key audit matters for communication.

7. 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?

Agree.

Relationship between Key Audit Matters and Emphasis of Matter Paragraphs and Other Matter Paragraphs: Revision to ISA 706, as a Result of Proposed ISA 701

8. 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?

Agree.

In this regard, AOB wishes to highlight that the proposed additional examples of circumstances in Para A4 of the proposed ISA 706 (Revised) are already embedded in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (Paragraphs 30-31) and IAS 10 *Events after the Reporting Period* (Paragraphs 19-22) for disclosure in the financial statements.

Whilst AOB has no objection to the reproduction of information already disclosed in the financial statements, AOB recommends that IAASB should exhort auditors to manage the information to be included in the auditor's report in order to ensure that the content remains at a reasonable volume.

Going Concern

9. 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 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.

Agree.

10. 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 indicated in our earlier response to the IAASB Invitation to Comment on *Improving the Auditor's Report*, AOB wishes to reiterate that the going concern assumption is a basis for preparation and is not meant to predict the future.

Taking into consideration that, historically, certain stakeholders had felt that it was implied that a clean auditor's report guaranteed the going concern status of an organisation, AOB is thus in support of the introduction of an explicit statement in the auditor's report that the auditor cannot guarantee the entity's ability to continue as a going concern, so long as this statement is factual in nature.

However, AOB recommends that the reference to management in the aforementioned explicit statement should be removed as this would tantamount to auditors making a representation on behalf of the management, which should not be the case.

Compliance with Independence and Other Relevant Ethical Requirements

11. 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?

AOB is in support of this form of declaration which addresses potential conflict of interest as it would be of value to stakeholders.

Disclosure of the name of the Engagement Partner

12. 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?

AOB is in support of the proposal to require disclosure of the name of the engagement partner for audits of financial statements of listed entities and the inclusion of a "harm's way exemption".

Other Improvements to Proposed ISA 700 (Revised)

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

AOB welcomes the proposed amendments to the section explaining auditor's responsibilities for the audit of consolidated financial statements, in particular the proposed explanation with regard to misstatements. AOB anticipates that the greater transparency advocated in these proposed amendments would assist significantly in narrowing the current expectation gap.

AOB is also in support of relegating the remaining disclosures on the auditor's responsibilities to an appendix to the auditor's report or the website of an appropriate authority. However, AOB wishes to caution that the placement of the appendix must be considered, particularly if presented separately from the main auditor's report, as it may affect the communicative value of those disclosures.

14. 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 Illustrative Examples show the Opinion paragraph being positioned at the beginning of the auditor's report which, according to Para A17 of the proposed ISA 700 (Revised), makes it more prominent to users of the financial statements. However, this specific ordering is not mandated.

AOB further notes that this proposed amendment was prompted by responses to the earlier May 2011 consultation conducted by IAASB, where respondents highlighted that there is value in the pass / fail nature of the auditor's opinion, and that the Opinion paragraph is the focal point of the report.

In this regard, AOB is concerned that the non-mandatory ordering of the auditor's report may inadvertently contradict IAASB's intention for more prominent placing of the Opinion paragraph. It should be noted that the freedom to order the auditor's report – including the placement of the Opinion paragraph – may instead result in reduced prominence and a potential misalignment of the message communicated to stakeholders. It may also be important to consider that certain international network firms or jurisdictions may arbitrarily decide on their preferred ordering which may or may not be in accordance with the illustrative examples in the proposed ISA 700 (Revised).

It may thus be advisable for additional guidance to be embedded in the standard to address how appropriate ordering of the auditor's report may be determined without losing sight of the intended message to all stakeholders.

With regard to comparability, AOB is of the view that the flexibility of the proposed new and revised ISAs would not significantly affect the comparability of ISA auditor's reports on a global basis. This is in view that ISA auditor's reports currently issued globally are relatively comparable despite the similar amount of flexibility embedded in the existing ISAs.

Matters on Which Feedback is Sought

Other matters on which feedback is sought which were not covered in the "Significant Proposals" section are addressed as follows:

Translation Issues

Translation issues are not applicable for Malaysia as the final standards are adopted in English.

Effective Date

The Exposure Draft suggests that, assuming the proposed new and revised ISAs are issued as final standard in the fourth quarter of 2014, a possible effective date for the standards may be for audits of financial statements for periods beginning on or after 15 December 2015.

AOB has no objection with regard to permitting or encouraging early adoption of the proposed new and revised ISAs. However, AOB wishes to caution that the decision to early adopt should only be made after gauging market readiness.