

Greater scrutiny by auditors on the cards

BY SUPRIYA SURENDRAN

KUALA LUMPUR: The International Auditing and Assurance Standards Board (IAASB) is introducing a suite of new and amended auditing standards that will put Malaysian companies under greater auditor scrutiny for audit periods ending Dec 15, 2016 onwards. The new and amended standards include a revision of the auditor's report in the financial statements that will help enhance communication between auditors and investors.

This will be done through the inclusion of a section on "key audit matters" in the audit report which would refer to those matters that, in the auditors' judgement, are of most significance in the audit. The auditors will then be expected to explain how the key audit matters raised are addressed in the audit. The inclusion of the key audit matters will be compulsory for public listed companies.

According to PricewaterhouseCoopers Malaysia assurance leader Pauline Ho, the amendments will make the audit report more informative and insightful.

"[The inclusion of the key audit matters] provides an avenue for shareholders to understand the key areas discussed with the audit committee who represents the board of directors of an entity, and will also prompt companies to provide better disclosure around these key areas discussed to ensure that their perspective is shared clearly with the shareholders," she said in an email response to *The Edge Financial Daily*.

Chairman of the Malaysian Institute of Certified Public Accountants (MICPA) Accounting and Audit-



ing Standards Committee Sukanta Dutt said the amendments will be a game changer for auditor communications with investors.

"The auditors' report has mostly been boilerplate unless there has been a need to issue a qualified report or other form of modified report. The requirement for a key audit matters section will mean that public company auditors will need to communicate on matters of most significance to their audit of financial statements," he said in a March 27 statement by MICPA.

The new and revised auditor reporting standards are set to be effective for Malaysian audits of financial statements for periods ending on or after Dec 15, 2016.

Of late, reports have surfaced questioning the transparency of auditors in their conduct of audits, such as in the case of 1Malaysia Development Bhd (1MDB), in which its former auditors KPMG Malaysia were alleged by some to have failed

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to act with integrity in their audit of the debt-laden firm.

However, KPMG later defended their audit of 1MDB, stating that the conduct of their audit was in compliance with international standards for auditing.

On whether the amended audit report would enhance the transparency of the audit, Ho said new standards will allow auditors to demonstrate more visibly the value and relevance of the audit.

"[In the amended audit report], there is a new description of management's responsibility for assessing the entity's ability to pay its liabilities when due and to continue its operations without interruption known as the 'going concern' basis of accounting.

"The report also includes the auditors' views as to whether the use of the going concern basis is appropriate, as well as disclosing any matters relating to going concern that will enhance transparency in reporting," she said.

However, MICPA president Datuk Abdul Rauf Rashid said the implementation of the revised audit report will not be a straightforward process for auditors, listed companies, and the capital market as a whole.

"There are challenges, and potentially significant implications which will require careful consideration and planning by all parties

and stakeholders, including regulators, directors, financial statement preparers and auditors," he said in the MICPA's statement.

Ho opined that the implementation of the revised audit report will bring both challenges and opportunities for auditors, audit committees and managements of public listed entities.

"Some pressures to companies include the sharing of information which they feel is sensitive — an example would be a legal case involving them and positions taken by the company to support its case.

"Auditors, on the other hand, would have to ensure that key audit matters are articulated clearly so as to not give a wrong impression over a particular issue ... certainly, this will take more time and effort," she said.

Ho added that while shareholders may value the additional information, management or audit committee boards may not necessarily agree and feel that it is an added cost of compliance.

However, she said Malaysia has decided to adopt international standards for accounting and auditing, hence it should respond accordingly to the call for more insight, transparency and readability of auditor reporting, as per the IAASB's practice.

"We should similarly adopt the practice in Malaysia to better communicate the value of the audit," said Ho.

The new and amended auditing standards have been implemented in the United Kingdom where, Ho said from the experience there, investors are keen to hear from auditors the key areas of risk companies face.