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ACCOUNTANTS: MANAGERS OF VALUE

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AFA CONFERENCE

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Dear Sir

INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD ("IAASB") CONSULTATION PAPER ON ENHANCING THE VALUE OF AUDITOR REPORTING: EXPLORING OPTIONS FOR CHANGE

The Auditing and Assurance Standards Board ("AASB") of the Malaysian Institute of Accountants ("MIA") is pleased to provide comments on the International Auditing and Assurance Standards Board ("IAASB") Consultation Paper on Enhancing the Value of Auditor Reporting: Exploring Options for Change.

MIA welcomes and supports IAASB's effort in undertaking a public consultation to establish an appropriate platform to consider future standard-setting initiatives.

As the Consultation Paper seeks to obtain views from various stakeholders, MIA has established a platform to solicit views from stakeholders from various sectors in Malaysia. Accordingly, the comments set forth in this submission reflect the discussions and views from auditors, officers of entities, institutional investors and minority shareholders.

The comments are as follows:

Specific Comments:

Q1. Do respondents have any comments about the issues identified in Section II regarding the perceptions of auditor reporting today?

It is evident that the recent credit crunch and global economic slowdown have changed users' perception of the auditor reporting. While users appreciate the value of audit as it is today, they see possibility of improvements to auditor reporting that would help in their decision making. Users of audited financial statements generally agree that more information should be made available to them to make informed decision. They believe the auditors could enhance its reporting by expanding its report to include key financial reporting risk and how they are being addressed; and key audit risk areas and their resolution.



Specific Comments: (continued)

Some constituents, particularly auditors, attribute the existence of information gap to weaknesses in the financial reporting framework. Some auditors raised concern of including information beyond what is required in the financial reporting framework as it is highly subjective and increase complexity which may not be beneficial. Expectation gap, in the opinion of the auditors, arises due to the lack of stakeholders' awareness on the nature and inherent risk embedded in an audit. Nevertheless, auditors believe that in order for auditor reporting to remain relevant in the global business environment, auditors need to take cognisance of changes in the business environment and refine the role of audit and assurance to keep up with changes. Some of the enhancements proposed in the Consultation Paper is achievable and are worthy of consideration. Of importance is to give due consideration on the possible effects and implications, and to ensure such enhancements align or resonate with the competencies of auditors.

Auditors play a gatekeeper role to contribute towards a robust financial reporting ecosystem. A robust financial reporting ecosystem is underpinned by a proper system of accountabilities and governance. The key thrust to reinforce investor trust and confidence in the capital market requires concerted effort and paradigm shift mindset from all key stakeholders who have a role to play in preserving governance of the capital market.

Q2. If respondents believe changes in auditor reporting are needed, what are the most critical issues to be addressed to narrow the information gap perceived by users or to improve the communicative value of auditor reporting? Which classes of users are, in the view of respondents, most affected by these issues? Are there any classes of users that respondents believe are unaffected by these issues?

The format and structure of the standard auditor's report needs to be revisited to improve the communicative value of auditor reporting, in particular expanding the responsibilities of management and of auditor paragraphs in the auditor's report. Another area would be to increase transparency about the entity, its financial statements and the audit performed to narrow the information gap perceived by users. However, there are significant concerns over the practicalities involved as this may limit the willingness of interaction between management, those charged with governance and the auditors which may inadvertently damage the audit quality. Small business owners may not find this initiative to be of any value to them but in turn, increases the cost of doing business. All classes of users; predominantly the investors will be affected by the issues identified in the Consultation Paper.

Specific Comments: (continued)

Q3. Do respondents believe that changes are needed for audits of all types of entities, or only for audits of listed entities?

There are mixed views among auditors on this area. Whilst some auditors are of the view that changes to auditor reporting shall apply to all types of entities to retain consistency in auditor reporting for all types of entities regardless of the size and nature of the entity, others hold a view that there should be a separate auditor reporting for audits of smaller entities which are less affected by the issues identified in the Consultation Paper as these entities typically have a narrower range of users. Imposing changes on audits of all types of entities will increase the cost of doing business for smaller entities.

Q4. Respondents are asked for their reactions to the options for change regarding the format and structure of the standard auditor's report described in Part A. Do respondents have comments about how the options might be reflected in the standard auditor's report in the way outlined in Appendix 1 of this Consultation Paper?

The format and structure of the auditor's report should be maintained as currently presented to ensure the auditor's opinion is read in the appropriate context and to prevent misinterpretation by users. Having said this, there is support for the suggestion to provide an expanded description on the management and auditor responsibilities paragraphs to breach the expectation gap. The current terminology used in the auditor's report should be maintained as this is necessary from a professional standpoint.

Q5. If the paragraphs in the current standard auditor's report dealing with management and the auditor's responsibilities were removed or re-positioned, might that have the unintended consequence of widening the expectations gap? Do respondents have a view regarding whether the content of these paragraphs should be expanded?

As mentioned in our response in question 4, the positioning of these respective responsibilities as currently presented in the auditor's report is appropriate. It would widen the expectations gap if they were removed or re-positioned. The contents of these paragraphs can be expanded to narrow the expectations gap.

Specific Comments: (continued)

Q6. Respondents are asked for their reactions to the possibility that the standard auditor's report could include a statement about the auditor's responsibilities regarding other information in documents containing audited financial statements. Do respondents believe that such a change would be of benefit to users?

Including a statement about auditor's responsibilities as required by ISA 720 would add credibility on the other information included in a document containing audited financial statements. However, some users feel that this is not appropriate as the subject matter dealt with may not necessary be within the auditor's expertise. Also, to less knowledgeable users, this may create an impression that the other information has been subjected to audit by the auditor. Other information may have little or no relationship to the financial reporting process. Concern was expressed that while it would be more feasible to report on the process adopted, for example on the preparation of Management Commentary rather than the Management Commentary itself, this may limit the value to users.

Q7. If yes, what form should that statement take? Is it sufficient for the auditor to describe the auditor's responsibilities for other information in documents containing audited financial statements? Should there be an explicit statement as to whether the auditor has anything to report with respect to the other information?

The statement can describe the auditor's responsibilities on other information as required by ISA 720 and a conclusion regarding such other information, for example whether there are any material inconsistencies identified by the auditor. Users view that the statement should specify what other information that the auditors have looked at in reaching the auditor's conclusion.

Q8. Respondents are asked for their views regarding the auditor providing additional information about the audit in the auditor's report on the financial statements.

There are strong supports from officers of entities and investors group on auditors providing additional information about the audit in the auditor's report with some concerns over the potential additional audit costs to be incurred. Auditors view that the additional information may not assist the users unless the users have certain level of knowledge in financial reporting and auditing. Further, areas such as critical accounting estimates and significant judgement are currently disclosed in the financial statements and being audited. There is also concern about how much information to disclose which render further guidance required. Above all, it could be detrimental to the auditor client relationship as it could reduce the likelihood of open and honest discussions between them, with a risk of damaging audit quality.

Specific Comments: (continued)

Q9. Respondents are asked for their reactions to the example of use of "justification of assessments" in France, as a way to provide additional auditor commentary.

In line with our response in question 8, officers of entities and investors group support the additional auditor commentary in the auditor's report. However, some auditors caution that the French "justification of assessments" may become standardised over time, detract the readability of the report and will only be understood by knowledgeable users such as analysts and institutional investors instead of benefiting all users of financial statements.

Q10. Respondents are asked for their reactions to the prospect of the auditor providing insights about the entity or the quality of its financial reporting in the auditor's report.

While officers of entities and investors group expressed positive reactions for the auditor to provide insights about the entity or the quality of its financial reporting, the auditors believe that management plays a more significant role. Clear lines of division of responsibility should be maintained between the entity and its auditor. These clear lines are preserved when auditors only audits information attested by management. The auditors also cautioned that the prospect of providing such insights may dilute the audit opinion on the financial statements.

Q11. Respondents are asked for their reactions to the options for change relating to an enhanced model of corporate governance reporting, as described in Section III, Part D.

It is appropriate for those charged with governance to report how it has discharged its responsibility for the integrity of the entity's financial statements and for the oversight of external audit process. Such report will provide users another independent assessment of the credibility of the financial statements (provided there is no inconsistency between such report and the auditor's report) and would not necessarily require another assessment by the auditor.

While it is appropriate to enhance reporting to audit committee to fully understand the judgement involved in reaching the opinion, these information should still be restricted to the audit committee or those charged with governance only. Public disclosure of such information may limit the interaction between the auditor and parties above and result in more bland and rigid reporting.

The investors however expressed support for the enhanced model of corporate governance reporting as this would encourage greater transparency by, and accountability of audit committee or those charged with governance.

Specific Comments: (continued)

Q12. To the extent that respondents support this model, what challenges may be faced in promoting its acceptance? Also, what actions may be necessary to influence acceptance or adoption of this model, for example, by those responsible for regulating the financial reporting process?

A case needs to be made for those charged with governance to accept responsibility to report publicly on how it has discharged its responsibility on the oversight of the financial reporting process and the audit. Such reporting requirements are normally governed by corporate governance framework which differs from one jurisdiction to another.

Q13. Do respondents believe assurance by the auditor on a report issued by those charged with governance would be appropriate?

Assurance by the auditor on a report issued by those charged with governance may not necessarily be required as such move will undermine the direct accountability and responsibility of those charged with governance to the shareholders. There may be a perceived lack of independence in such assurance by the auditor as auditors' quality of performance and reappointments are generally assessed by those charged with governance, namely the audit committee. Further, auditors also cautioned if assurance on the report will in fact enhance the value to users of financial statements.

Q14. Respondents are asked for their reactions to the need for, or potential value of, assurance or related services on the type of information discussed in Section III, Part E.

There are merits to provide assurance or related services on the type of information discussed in Section III, Part E, however some auditors believe that it would not form part of the financial statements audit engagement depending on the statutory requirement of varying jurisdiction. Some auditors raised concern on the required competency and skill set of auditors to perform such engagements as auditors are ordinarily accustomed to the areas of financial reporting.

Q15. What actions are necessary to influence further development of such assurance or related services?

It is critical to understand the reasons, benefits and impacts to users when auditors provide such assurance or related services in an audit and at the same time taking into consideration the professional competency of auditor in meeting those requirements. Any extension to the current audit scope may entail changes to national law or regulations.

Specific Comments: (continued)

Q16. Respondents are requested to identify benefits, costs and other implications of change, or potential challenges they believe are associated with the different options explored in Section III.

The implications of change or potential challenges for different options explored by the Consultation Paper are addressed in the respective responses relating to Section III.

Q17. Do respondents believe the benefits, costs, potential challenges and other implications of change, are the same for all types of entity? If not, please explain how they may differ.

The benefits, costs, potential challenges and other implications of change may differ according to the nature of entity (public or private) and size (small, medium or large) of the entity as well as the relevant governing laws applicable to the industry in which an entity operates.

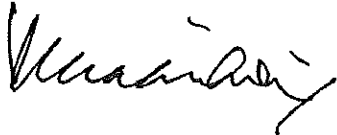
Q18. Which, if any, of the options explored in Section III, either individually or in combination, do respondents believe would be most effective in enhancing auditor reporting, keeping in mind benefits, costs, potential challenges, and other implications in each case? In this regard, do respondents believe there are opportunities for collaboration with others that the IAASB should explore, particularly with respect to the options described in Section III, Parts D and E, which envisage changes outside the scope of the existing auditor reporting model and scope of the financial statement audit?

As noted in the preceding responses, various stakeholders view the options presented and potential challenges differently.

Q19. Are there other suggestions for change to auditor reporting to narrow the "information gap" perceived by users or to improve the communicative value of the auditor's report?

The options presented in the Consultation Paper have well captured possible solutions to narrow the "information gap" perceived by users or to improve the communicative value of the auditor's report. As the existence of information gap is partly resulted from what is presented in accordance with the applicable financial reporting framework and what the users of financial statements believe is needed to make informed decision, further study could be performed or collaboration with International Accounting Standards Board (in response to Q18 above) to revisit the relevancy and usefulness of the International Financial Reporting Standards Framework in addressing the information needs of investors at large.

Yours sincerely,
MALAYSIAN INSTITUTE OF ACCOUNTANTS



DATUK MOHD NASIR AHMAD
President