



MALAYSIAN INSTITUTE
OF ACCOUNTANTS

AAPG 1
(Revised June 2021)
February 2018

(Previously
RPG 13
March 2017)

Audit and Assurance Practice Guide 1

Auditors' report on financial statements
prepared in accordance with
the Malaysian Financial Reporting Standards
(MFRS) framework
and Companies Act 2016

AAPG 1 is previously RPG 13. No changes have been made to the original approved text other than as mentioned below:

On 29 November 2017, Bursa Malaysia Berhad issued amendments to the Main Market Listing Requirements and ACE Market Listing Requirements which included amendments arising from the codification of certain disclosure requirements pursuant to the removal of directives dated 25 March 2010 and 20 December 2010 on disclosure requirements relating to implementation of FRS 139 and disclosure of realised and unrealised profits/losses (“Codification of Financial Disclosures”).

With the amendments relating to the Codification of Financial Disclosures, the reporting responsibility within the auditors’ report on the financial statements under a separate sub-title of “Other Reporting Responsibilities” is no longer applicable.

There are conforming amendments to the International Standards of the International Auditing and Assurance Standards Board (IAASB) as a result of the revised Code of Ethics by the International Ethics Standards Board for Accountants (IESBA) in 2019. These conforming amendments became effective as of 1 August 2020.

Consequently, there is a change in term from “International Ethics Standards Board for Accountants’ *Code of Ethics for Professional Accountants*” to “International Ethics Standards Board for Accountants’ *International Code of Ethics for Professional Accountants (including International Independence Standards)*” and refinement in the wording of the illustrative auditors’ report regarding provision and communication to the directors of the reporting entity on compliance with relevant ethical requirements regarding independence.

The Independence and Other Ethical Requirements Section is presented with a subheading in the Basis for Opinion Section with the header in italics in order to be more aligned with paragraph 28 of ISA 700 (Revised) *Forming an Opinion and Reporting on Financial Statements*. The only exception is when a disclaimer of opinion is being issued in which case, paragraph 28(c) of ISA 705 *Modifications to the Opinion in the Independent Auditor’s Report* shall apply. Please refer to Illustration 7 for such an example.

RECOMMENDED PRACTICE GUIDE 13

Auditors' report on financial statements prepared in accordance with the Malaysian Financial Reporting Standards (MFRS) framework and Companies Act 2016

Foreword

The Malaysian Institute of Accountants has approved this Recommended Practice Guide (RPG) for issuance to members for guidance.

This RPG shall be read in conjunction with the Preface to Malaysian Approved Standards on Quality Control, Auditing, Review, Other Assurance and Related Services.

RPG 11 (Revised 2016), *Auditors' report on financial statements prepared in accordance with the Malaysian Financial Reporting Standards (MFRS) framework*, which was issued in November 2016 contains illustrations of auditors' reports on financial statements prepared in accordance with Malaysian Financial Reporting Standards (MFRS) framework and the requirements of the Companies Act 1965 in Malaysia arising from the new and revised auditor reporting and related auditing standards which are effective for audits of financial statements for periods ending on or after 15 December 2016.

On 31 January 2017, the Companies Act 2016 came into operation except for certain provisions relating to (1) the company secretary's registration with the Registrar of Companies (section 241) and (2) the corporate rescue mechanisms (Division 8 of Part III). With the coming into force of the Companies Act 2016, the Companies Act 1965 is repealed. The change in the Companies Act necessitates a revision in the auditors' report.

In general, section 266(2) of the Companies Act 2016 has retained the requirements of section 174(2) of the Companies Act 1965 except for the auditors' duty to report in relation to the consolidated financial statements and the accounting and other records, including registers.

This RPG contains illustrations of auditors' reports where:

- the financial statements are for the period/year ended on or after 31 January 2017 and are prepared in accordance with the requirements of the Companies Act 2016 in Malaysia;
- the financial statements are prepared in accordance with MFRS; and
- the auditors' report is prepared in accordance with the new and revised auditor reporting and related auditing standards which are effective for audits of financial statements for periods ending on or after 15 December 2016.

This RPG includes the Institute's decisions on the following areas:

1. Dual Compliance

In August and September 2016, the Institute approved for the assertion in the auditors' report for compliance with:

- (a) The International Standards on Auditing in addition to the approved standards on auditing in Malaysia; and
- (b) The International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* in addition to the *By-Laws (on Professional Ethics, Conduct and Practice)* of the Institute.

The assertion of dual compliance provides clarity that an audit of a company incorporated under the Companies Act 2016 in Malaysia is in accordance with globally accepted standards.

This decision is applicable to the auditors' reports in this RPG.

2. Key Audit Matters

The communication of key audit matters will be required for the audits of financial statements of complete sets of general purpose financial statements of listed entities.

The illustrations of auditors' report in this RPG therein include a placeholder to describe each key audit matter and do not provide examples of key audit matters.

3. Key Audit Matters – Close Call

In some circumstances, matters relating to going concern, which include situations where events or conditions were identified that may cast significant doubt on the entity's ability to continue as a going concern but no material uncertainty exists (i.e., "close call" situations), may be determined to be key audit matters and communicated in the auditors' report.

The illustrations of auditors' report in this RPG do not provide an example of a key audit matter relating to a close call situation.

4. Responsibilities of Directors for the Financial Statements

The auditors' report is required to identify those responsible for the oversight of the financial reporting process when they are different from those who fulfil the responsibilities for the preparation of the financial statements and for assessing the ability of the entity to continue as a going concern. For a company incorporated under the Companies Act 2016 in Malaysia, the directors have a statutory responsibility for the preparation of the financial statements, including the oversight of the financial reporting process. Accordingly, no reference to oversight responsibilities is required in the auditors' report.

5. Auditors' Responsibilities for the Audit of the Financial Statements

In August 2016, the Institute resolved not to provide the option for part of the description of the auditors' responsibilities to be included within an appendix or on a website of an appropriate authority. Accordingly, auditors are required to include the description of their responsibilities within the body of the auditors' report.

This decision is applicable to the auditors' reports in this RPG.

RECOMMENDED PRACTICE GUIDE 13**AUDITORS' REPORT ON FINANCIAL STATEMENTS PREPARED IN
ACCORDANCE WITH THE MALAYSIAN FINANCIAL REPORTING STANDARDS
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1. AUDITORS' REPORT ON FINANCIAL STATEMENTS FOR PERIODS ENDING ON OR AFTER 15 DECEMBER 2016

- 1.1 In April and July 2015, the Malaysian Institute of Accountants adopted the following new and revised auditor reporting and related auditing standards which are set to enhance the communicative value of the auditors' report as Malaysian Approved Standards/Conforming Amendments:
- (a) ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*;
 - (b) ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*;
 - (c) ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*;
 - (d) ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*;
 - (e) ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*;
 - (f) ISA 570 (Revised), *Going Concern*;
 - (g) ISA 260 (Revised), *Communication with Those Charged with Governance*; and
 - (h) Conforming Amendments to Other ISAs.
- 1.2 The new and revised auditor reporting and related auditing standards are effective for audits of financial statements for periods ending on or after 15 December 2016.
- 1.3 Conforming amendments to the IAASB International Standards as a result of the revised IESBA Code are effective as of 1 August 2020. Early adoption is permitted.

2. AUDITORS' REPORT ON FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH MFRS

- 2.1 The MFRS framework was issued by the Malaysian Accounting Standards Board (MASB) in November 2011 in conjunction with its plan to converge with International Financial Reporting Standards (IFRS) in 2012. The MFRS framework is a fully IFRS-compliant framework.
- 2.2 Entities Other Than Private Entities shall apply the MFRS framework for annual periods beginning on or after 1 January 2012, with the exception of entities subject to the application of MFRS 141 *Agriculture* and/or IC Interpretation 15 *Agreements for the Construction of Real Estate* ("Transitioning Entities"). The Transitioning Entities may in alternative apply Financial Reporting Standards (FRS) and shall comply with the MFRS framework for annual periods beginning on or after 1 January 2018. Private entities, other than those that have applied FRS, shall apply either the Malaysian Private Entities Reporting Standard (MPERS) in its entirety or MFRS framework in its entirety for annual periods beginning on or after 1 January 2016. Private entities that have applied FRS shall apply MFRS or MPERS for annual periods beginning on or after 1 January 2018.
- 2.3 For audit of entities that apply MPERS and comply with the requirements of the Companies Act 2016, the auditor refers to illustrations of auditors' reports in RPG 14, *Auditors' report on financial statements prepared in accordance with Malaysian Private Entities Reporting Standard (MPERS) and Companies Act 2016*, which was issued in March 2017.

3. RESTATED COMPARATIVE INFORMATION AND ITS EFFECT ON THE AUDITORS' REPORT ON FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH MFRS FOR THE FIRST TIME

3.1 MFRS 1 *First-time Adoption of Malaysian Financial Reporting Standards* requires that for compliance with MFRS 101 *Presentation of Financial Statements*, an entity's first MFRS financial statements should include at least three statements of financial position, two statements of profit or loss and other comprehensive income, two separate income statements (if presented), two statements of cash flows and two statements of changes in equity and related notes, including comparative information.

3.2 For illustration, when an entity, which has a 31 December financial year end, applies MFRS for periods beginning on or after 1 January 2016, the entity's first financial statements prepared in accordance with the MFRS framework at a minimum include the following statements:

(a) Current period (31 December 2016):

- I. Statement of financial position; and
- II. Statement of profit or loss and other comprehensive income, statement of cash flows and statement of changes in equity for the year ended.

(b) Comparative information:

- I. Statements of financial positions as at 31 December 2015 and 1 January 2015 (opening statement of financial position prepared in accordance with MFRS); and
- II. Statement of profit or loss and other comprehensive income, statement of cash flows and statement of changes in equity for the year ended 31 December 2015.

3.3 The Companies Act 2016 requires an auditor of a company to report to the members on the financial statements. Accordingly, there is no statutory requirement for the auditor to audit and report on the restated comparative information. Ordinarily, the financial statements that were published before the financial statements prepared in accordance with the MFRS framework for the first time were audited and the audit opinions given by the auditor on those financial statements would not have been prepared based on the MFRS framework. Unless the auditor is separately engaged to report on the restated comparative information in the financial statements prepared in accordance with the MFRS framework, the auditor would not have expressed an audit opinion on the restated comparative information. The comparative information, hence, is unaudited. ISA 710, *Comparative Information – Corresponding Figures and Comparative Financial Statements* requires the auditor to state in an 'Other Matter' paragraph that the comparative information is unaudited.

- 3.4 However, such a statement does not relieve the auditor of the requirement to obtain sufficient appropriate audit evidence that the opening balances and comparative information do not contain misstatements that materially affect the current period's financial statements. It is very unlikely that the auditor can obtain sufficient appropriate audit evidence regarding the current period's financial statements if the auditor has not also obtained sufficient appropriate audit evidence on the opening statement of financial position and the MFRS 1 transition adjustments in accordance with ISA 510, *Initial Audit Engagements – Opening Balances*. Accordingly, the auditors' responsibilities in respect of the work done on the opening balances as part of the audit of the current financial statements may be included in an 'Other Matter' paragraph to assist users' understanding of the auditors' responsibilities relating to the restated comparative information.
- 3.5 The auditor refers to Illustration 3 when reporting on financial statements prepared in accordance with the MFRS framework for the first time.

4. APPENDIX: ILLUSTRATIONS OF INDEPENDENT AUDITORS' REPORTS ON FINANCIAL STATEMENTS

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Illustration 1: Financial statements prepared in accordance with the MFRS framework for companies with no subsidiaries

For purposes of this illustration, the following circumstances are assumed:

- The audit is not a group audit (i.e., ISA 600, *Special Considerations-Audits of Group Financial Statements (Including the Work of Component Auditors)* does not apply).
- Key audit matters have been communicated in accordance with ISA 701.
- The auditor has obtained all of the other information prior to the date of the auditors' report.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF XYZ BERHAD

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of XYZ Berhad, which comprise the statement of financial position as at 31 December 20XX, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages XX to XX.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 20XX, and of its financial performance and its cash flows for the year then ended in accordance with [Malaysian Financial Reporting Standards, International Financial Reporting Standards]¹ and the requirements of the Companies Act 2016 in Malaysia.

Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing (*Ref: Note (a)*). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Other Ethical Responsibilities

We are independent of the Company in accordance with the *By-Laws (on Professional Ethics, Conduct and Practice)* of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* ("IESBA Code") (*Ref: Note (a)*), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Key Audit Matters (*Ref: Note (b)*)

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Company for the current year. These matters were addressed in the context of our audit of the financial statements of the Company

¹ When the applicable financial reporting framework is Financial Reporting Standards, the words should be changed accordingly to refer to the financial reporting framework.

as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[Description of each key audit matter in accordance with ISA 701.]

Information Other than the Financial Statements and Auditors' Report Thereon

The directors of the Company are responsible for the other information. The other information comprises the [information included in the annual report],² but does not include the financial statements of the Company and our auditors' report thereon.

Our opinion on the financial statements of the Company does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Company, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. [We have nothing to report in this regard.]/[As described below, we have concluded that such a material misstatement of the other information exists.

Description of material misstatement of the other information.]

Responsibilities of the Directors for the Financial Statements (Ref: Note (c))

The directors of the Company are responsible for the preparation of financial statements of the Company that give a true and fair view in accordance with [Malaysian Financial Reporting Standards, International Financial Reporting Standards]¹ and the requirements of the Companies Act 2016 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Company, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements (Ref: Note (d))

Our objectives are to obtain reasonable assurance about whether the financial statements of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

² A more specific description of the other information, such as "Chairman's Statement and Directors' Report," may be used to identify the other information.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements of the Company, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.³

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the Company for the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.⁴

³ Applicable to audits of financial statements of listed entities (Ref: Para. 40(b) of ISA 700 (Revised)).

⁴ Applicable to audits of financial statements of listed entities and any other entities for which key audit matters are communicated in accordance ISA 701 (Ref: Para. 40(c) of ISA 700 (Revised)).

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

[Audit Firm]
[AF XXXX]
Chartered Accountants

[Partner] (*Ref: Note (e)*)
[99999/99/9999 (J)]
Chartered Accountant

[Date]
[Location in the country]⁵

⁵ The auditors' report shall name the location in the jurisdiction where the auditor practices (Ref: Para. 48 of ISA 700 (Revised)).

Illustration 2: Financial statements prepared in accordance with the MFRS framework for companies with subsidiaries

For purposes of this illustration, the following circumstances are assumed:

- The audit is a group audit (i.e., ISA 600 applies).
- Key audit matters have been communicated in accordance with ISA 701.
- The auditor has obtained all of the other information prior to the date of the auditors' report.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF XYZ BERHAD

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of XYZ Berhad, which comprise the statements of financial position as at 31 December 20XX of the Group and of the Company, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages XX to XX.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 20XX, and of their financial performance and their cash flows for the year then ended in accordance with [Malaysian Financial Reporting Standards, International Financial Reporting Standards]¹ and the requirements of the Companies Act 2016 in Malaysia.

Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing (*Ref: Note (a)*). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Other Ethical Responsibilities

We are independent of the Group and of the Company in accordance with the *By-Laws (on Professional Ethics, Conduct and Practice)* of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* ("IESBA Code") (*Ref: Note (a)*), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Key Audit Matters (*Ref: Note (b)*)

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Company for the

¹ When the applicable financial reporting framework is Financial Reporting Standards, the words should be changed accordingly to refer to the financial reporting framework.

current year. These matters were addressed in the context of our audit of the financial statements of the Group and of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[Description of each key audit matter in accordance with ISA 701.]

Information Other than the Financial Statements and Auditors' Report Thereon

The directors of the Company are responsible for the other information. The other information comprises the [information included in the annual report],² but does not include the financial statements of the Group and of the Company and our auditors' report thereon.

Our opinion on the financial statements of the Group and of the Company does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. [We have nothing to report in this regard.]/[As described below, we have concluded that such a material misstatement of the other information exists.

Description of material misstatement of the other information.]

Responsibilities of the Directors for the Financial Statements (Ref: Note (c))

The directors of the Company are responsible for the preparation of financial statements of the Group and of the Company that give a true and fair view in accordance with [Malaysian Financial Reporting Standards, International Financial Reporting Standards]¹ and the requirements of the Companies Act 2016 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Company, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements (Ref: Note (d))

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could

² A more specific description of the other information, such as "Chairman's Statement and Directors' Report," may be used to identify the other information.

reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and

other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.³

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Company for the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.⁴

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act 2016 in Malaysia, we report that the subsidiaries of which we have not acted as auditors, are disclosed in note GG⁵ to the financial statements.⁶

Other Matters

[See illustration 1.]

[Audit Firm]
[AF XXXX]
Chartered Accountants

[Partner] (Ref: Note (e))
[99999/99/9999 (J)]
Chartered Accountant

[Date]
[Location in the country]⁷

³ Applicable to audits of financial statements of listed entities (Ref: Para. 40(b) of ISA 700 (Revised)).

⁴ Applicable to audits of financial statements of listed entities and any other entities for which key audit matters are communicated in accordance ISA 701 (Ref: Para. 40(c) of ISA 700 (Revised)).

⁵ The auditor may also choose to list all the subsidiaries not audited by him in the audit report.

⁶ Applicable to companies with subsidiaries – not all of which are audited by the reporting firm.

⁷ The auditors' report shall name the location in the jurisdiction where the auditor practices (Ref: Para. 48 of ISA 700 (Revised)).

Illustration 3: Financial statements prepared in accordance with the MFRS framework for the first time

For purposes of this illustration, the following circumstances are assumed:

- The audit is a group audit (i.e., ISA 600 applies).
- Key audit matters have been communicated in accordance with ISA 701.
- The auditor has obtained all of the other information prior to the date of the auditors' report.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF XYZ BERHAD

Report on the Audit of the Financial Statements

Opinion

[See illustration 2.]

Basis for Opinion

[See illustration 2.]

Independence and Other Ethical Responsibilities

[See illustration 2.]

Key Audit Matters (Ref: Note (b))

[See illustration 2.]

Information Other than the Financial Statements and Auditors' Report Thereon

[See illustration 2.]

Responsibilities of the Directors for the Financial Statements (Ref: Note (c))

[See illustration 2.]

Auditors' Responsibilities for the Audit of the Financial Statements (Ref: Note (d))

[See illustration 2.]

Report on Other Legal and Regulatory Requirements

[See illustration 2.]

Other Matters

1. As stated in Note BB to the financial statements, XYZ Berhad adopted Malaysian Financial Reporting Standards on 1 January 20XX with a transition date of 1 January 20XX-1. These standards were applied retrospectively by the directors to the comparative information in these financial statements, including the statements of financial position of the Group and of the Company as at 31 December 20XX-1 and 1 January 20XX-1, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year ended 31 December 20XX-1 and related disclosures. We were not engaged to report on the restated comparative information and it is unaudited. Our responsibilities as part of our audit of the financial statements of the Group and of the

Company for the year ended 31 December 20XX, in these circumstances, included obtaining sufficient appropriate audit evidence that the opening balances as at 1 January 20XX do not contain misstatements that materially affect the financial position as at 31 December 20XX and the financial performance and cash flows for the year then ended.

2. This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

[Audit Firm]
[AF XXXX]
Chartered Accountants

[Partner] (*Ref: Note (e)*)
[99999/99/9999 (J)]
Chartered Accountant

[Date]
[Location in the country]¹

¹ The auditors' report shall name the location in the jurisdiction where the auditor practices (Ref: Para. 48 of ISA 700 (Revised)).

Illustration 4: Qualified opinion due to a material misstatement of the financial statements

For purposes of this illustration, the following circumstances are assumed:

- The audit is not a group audit (i.e., ISA 600 does not apply).
- Inventories are misstated. The misstatement is deemed to be material but not pervasive to the financial statements (i.e., a qualified opinion is appropriate).
- Key audit matters have been communicated in accordance with ISA 701.
- The auditor has obtained all of the other information prior to the date of the auditors' report and the matter giving rise to the qualified opinion on the financial statements also affects the other information.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF XYZ BERHAD

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the financial statements of XYZ Berhad, which comprise the statement of financial position as at 31 December 20XX, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages XX to XX.

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 20XX, and of its financial performance and its cash flows for the year then ended in accordance with [Malaysian Financial Reporting Standards, International Financial Reporting Standards]¹ and the requirements of the Companies Act 2016 in Malaysia.

Basis for Qualified Opinion

The Company's inventories are carried in the statement of financial position at RMXXX at 31 December 20XX. The directors have not stated the inventories at the lower of cost and net realisable value but has stated them solely at cost, which constitutes a departure from Malaysian Financial Reporting Standards. The Company's records indicate that, had the directors stated the inventories at the lower of cost and net realisable value, an amount of RMXXX would have been required to write the inventories down to their net realisable value. Accordingly, cost of sales would have been increased by RMXXX and income tax, net income and shareholders' equity would have been reduced by RMXXX, RMXXX and RMXXX, respectively.

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing (*Ref: Note (a)*). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

¹ When the applicable financial reporting framework is Financial Reporting Standards, the words should be changed accordingly to refer to the financial reporting framework.

Independence and Other Ethical Responsibilities

[See illustration 1.]

Information Other than the Financial Statements and Auditors' Report Thereon

The directors of the Company are responsible for the other information. The other information comprises the [information included in the annual report],² but does not include the financial statements of the Company and our auditors' report thereon.

Our opinion on the financial statements of the Company does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Company, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the *Basis for Qualified Opinion* section above, the directors have not stated the inventories at the lower of cost and net realisable value but has stated them solely at cost, which constitutes a departure from Malaysian Financial Reporting Standards. We have concluded that the other information is materially misstated for the same reason with respect to the amounts or other items in the [annual report]² affected by the failure to state the inventories at the lower of cost and net realisable value.

Key Audit Matters (Ref: Note (b))

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Company for the current year. These matters were addressed in the context of our audit of the financial statements of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for Qualified Opinion* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

[Description of each key audit matter in accordance with ISA 701.]

Responsibilities of the Directors for the Financial Statements (Ref: Note (c))

[See illustration 1.]

Auditors' Responsibilities for the Audit of the Financial Statements (Ref: Note (d))

[See illustration 1.]

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act 2016 in Malaysia, we report that in our opinion, the accounting and other records for the matter as described in the *Basis for Qualified Opinion* section have not been properly kept by the Company in accordance with the provision of the Act.³

² A more specific description of the other information, such as "Chairman's Statement and Directors' Report," may be used to identify the other information.

³ In accordance with section 266(3) of the Companies Act 2016, the auditor shall state in his report the particulars of any deficiency, failure or shortcoming in respect of any matter referred to in this subsection.

Other Matters

[See illustration 1.]

[Audit Firm]
[AF XXXX]
Chartered Accountants

[Partner] (*Ref: Note (e)*)
[99999/99/9999 (J)]
Chartered Accountant

[Date]
[Location in the country]⁴

⁴ The auditors' report shall name the location in the jurisdiction where the auditor practices (Ref: Para. 48 of ISA 700 (Revised)).

Illustration 5: Qualified opinion due to inability to obtain sufficient appropriate audit evidence

For purposes of this illustration, the following circumstances are assumed:

- The audit is a group audit (i.e., ISA 600 applies).
- Investment in associates are accounted for in the financial statements of the Group using the equity method.
- The auditor was unable to obtain sufficient appropriate audit evidence regarding an investment in a foreign associate. The possible effects of the inability to obtain sufficient appropriate audit evidence are deemed to be material but not pervasive to the financial statements of the Group and of the Company (i.e., a qualified opinion is appropriate).
- Key audit matters have been communicated in accordance with ISA 701.
- The auditor has obtained all of the other information prior to the date of the auditors' report and the matter giving rise to the qualified opinion on the financial statements also affects the other information.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF XYZ BERHAD

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the financial statements of XYZ Berhad, which comprise the statements of financial position as at 31 December 20XX of the Group and of the Company, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages XX to XX.

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 20XX, and of their financial performance and their cash flows for the year then ended in accordance with [Malaysian Financial Reporting Standards, International Financial Reporting Standards]¹ and the requirements of the Companies Act 2016 in Malaysia.

Basis for Qualified Opinion

The Company's investment in ABC Pte. Ltd., a foreign associate acquired during the year and accounted for by the equity method, is carried at RMXXX on the statement of financial position as at 31 December 20XX, and XYZ Berhad's share of ABC Pte. Ltd.'s net income of RMXXX is included in XYZ Berhad's income for the year then ended. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of XYZ Berhad's investment in ABC Pte. Ltd. as at 31 December 20XX and XYZ Berhad's share of ABC Pte. Ltd.'s net income for the year because we were denied access to the financial information, management, and the auditors of ABC Pte. Ltd.. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

¹ When the applicable financial reporting framework is Financial Reporting Standards, the words should be changed accordingly to refer to the financial reporting framework.

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing (*Ref: Note (a)*). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Independence and Other Ethical Responsibilities

[See illustration 2.]

Information Other than the Financial Statements and Auditors' Report Thereon

The directors of the Company are responsible for the other information. The other information comprises the [information included in the annual report],² but does not include the financial statements of the Group and of the Company and our auditors' report thereon.

Our opinion on the financial statements of the Group and of the Company does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the *Basis for Qualified Opinion* section above, we were unable to obtain sufficient appropriate audit evidence about the carrying amount of XYZ Berhad's investment in ABC Pte. Ltd. as at 31 December 20XX and XYZ Berhad's share of ABC Pte. Ltd.'s net income for the year. Accordingly, we are unable to conclude whether or not the other information is materially misstated with respect to this matter.

Key Audit Matters (*Ref: Note (b)*)

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Company for the current year. These matters were addressed in the context of our audit of the financial statements of the Group and of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for Qualified Opinion* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

[Description of each key audit matter in accordance with ISA 701.]

Responsibilities of the Directors for the Financial Statements (*Ref: Note (c)*)

[See illustration 2.]

Auditors' Responsibilities for the Audit of the Financial Statements (*Ref: Note (d)*)

[See illustration 2.]

² A more specific description of the other information, such as "Chairman's Statement and Directors' Report," may be used to identify the other information.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act 2016 in Malaysia, we report that:

- (a) the subsidiaries of which we have not acted as auditors, are disclosed in note GG³ to the financial statements.⁴
- (b) in our opinion, we have not obtained all the information and explanations that we required.

Other Matters

[See illustration 1.]

[Audit Firm]
[AF XXXX]
Chartered Accountants

[Partner] (*Ref: Note (e)*)
[99999/99/9999 (J)]
Chartered Accountant

[Date]
[Location in the country]⁵

³ The auditor may also choose to list all the subsidiaries not audited by him in the audit report.

⁴ Applicable to companies with subsidiaries – not all of which are audited by the reporting firm.

⁵ The auditors' report shall name the location in the jurisdiction where the auditor practices (Ref: Para. 48 of ISA 700 (Revised)).

Illustration 6: Adverse opinion due to a disagreement with directors on provision for foreseeable losses

For purposes of this illustration, the following circumstances are assumed:

- The audit is not a group audit (i.e., ISA 600 does not apply).
- There was no provision made for foreseeable losses expected to arise on certain significant long-term contracts in progress. The misstatement is deemed to be material and pervasive to the financial statements (i.e., an adverse opinion is appropriate).
- ISA 701 applies; however, the auditor has determined that there are no key audit matters other than the matter described in the Basis for Adverse Opinion section.
- The auditor has obtained all of the other information prior to the date of the auditors' report and the matter giving rise to the adverse opinion on the financial statements also affects the other information.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF XYZ BERHAD

Report on the Audit of the Financial Statements

Adverse Opinion

We have audited the financial statements of XYZ Berhad, which comprise the statement of financial position as at 31 December 20XX, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages XX to XX.

In our opinion, because of the significance of the matter described in the *Basis for Adverse Opinion* section of our report, the accompanying financial statements do not give a true and fair view of the financial position of the Company as at 31 December 20XX, and of its financial performance and its cash flows for the year then ended in accordance with [Malaysian Financial Reporting Standards, International Financial Reporting Standards]¹ and the requirements of the Companies Act 2016 in Malaysia.

Basis for Adverse Opinion

As explained in Note GG to the financial statements, no provision has been made for losses expected to arise on certain significant long-term contracts currently in progress, as the directors consider that such losses should be off-set against amounts recoverable on other long-term contracts. Provision for foreseeable losses on individual contracts is required by MFRS 111 *Construction Contracts* of Malaysian Financial Reporting Standards. Had such losses been provided for, the effects would have been to reduce profit before tax for the year and the contract work in progress by RMXXX, income taxes for the year by RMXXX and net profit for the year by RMXXX. Accordingly, retained earnings as at 31 December 20XX would also have been reduced by RMXXX.

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing (*Ref: Note (a)*). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements*

¹ When the applicable financial reporting framework is Financial Reporting Standards, the words should be changed accordingly to refer to the financial reporting framework.

section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

Independence and Other Ethical Responsibilities

[See illustration 1.]

Information Other than the Financial Statements and Auditors' Report Thereon

The directors of the Company are responsible for the other information. The other information comprises the [information included in the annual report],² but does not include the financial statements of the Company and our auditors' report thereon.

Our opinion on the financial statements of the Company does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Company, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the *Basis for Adverse Opinion* section above, the Company should have made provision for losses expected to arise on certain significant long-term contracts currently in progress. We have concluded that the other information is materially misstated for the same reason with respect to the amounts or other items in the [annual report]² affected by not making provision for losses expected to arise on certain significant long-term contracts currently in progress.

Key Audit Matters (Ref: Note (b))

Except for the matter described in the *Basis for Adverse Opinion* section, we have determined that there are no other key audit matters to communicate in our report.

Responsibilities of the Directors for the Financial Statements (Ref: Note (c))

[See illustration 1.]

Auditors' Responsibilities for the Audit of the Financial Statements (Ref: Note (d))

[See illustration 1.]

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act 2016 in Malaysia, we report that in our opinion, the accounting and other records for the matter as described in the *Basis for Adverse Opinion* section have not been properly kept by the Company in accordance with the provision of the Act.³

² A more specific description of the other information, such as "Chairman's Statement and Directors' Report," may be used to identify the other information.

³ In accordance with section 266(3) of the Companies Act 2016, the auditor shall state in his report the particulars of any deficiency, failure or shortcoming in respect of any matter referred to in this subsection.

Other Matters

[See illustration 1.]

[Audit Firm]
[AF XXXX]
Chartered Accountants

[Partner] (*Ref: Note (e)*)
[99999/99/9999 (J)]
Chartered Accountant

[Date]
[Location in the country]⁴

⁴ The auditors' report shall name the location in the jurisdiction where the auditor practices (Ref: Para. 48 of ISA 700 (Revised)).

Illustration 7: Disclaimer of opinion due to inability to obtain sufficient appropriate audit evidence about multiple elements of the financial statements

For purposes of this illustration, the following circumstances are assumed:

- The audit is not a group audit (i.e., ISA 600 does not apply).
- The auditor was unable to obtain sufficient appropriate audit evidence about multiple elements of the financial statements, that is, the auditor was also unable to obtain audit evidence about the company's inventories and accounts receivables. The possible effects of this inability to obtain sufficient appropriate audit evidence are deemed to be both material and pervasive to the financial statements.

Note: Unless required by law or regulation, when the auditor disclaims an opinion on the financial statements, the auditors' report shall not include a Key Audit Matters section in accordance with ISA 701 or an Other Information section in accordance with ISA 720 (Revised)(Ref: Para. 29 of ISA 705 (Revised)).

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF XYZ BERHAD

Report on the Audit of the Financial Statements

Disclaimer of Opinion

We were engaged to audit the financial statements of XYZ Berhad, which comprise the statement of financial position as at 31 December 20XX, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages XX to XX.

We do not express an opinion on the accompanying financial statements of the Company. Because of the significance of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

We were not appointed as auditors of the Company until after 31 December 20XX and thus did not observe the counting of physical inventories at the beginning and end of the year. We were unable to satisfy ourselves by alternative means concerning the inventory quantities held at 31 December 20XX-1 and 20XX, which are stated in the statements of financial position at RMXXX and RMXXX, respectively. In addition, the introduction of a new computerised accounts receivable system in September 20XX resulted in numerous errors in accounts receivable. As of the date of our report, the directors were still in the process of rectifying the system deficiencies and correcting the errors. We were unable to confirm or verify by alternative means accounts receivable included in the statement of financial position amounting to RMXXX as at 31 December 20XX. As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded inventories and accounts receivable, and the elements making up the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows.

Responsibilities of the Directors for the Financial Statements (Ref: Note (c))

[See illustration 1.]

Auditors' Responsibilities for the Audit of the Financial Statements (Ref: Note (d))

Our responsibility is to conduct an audit of the Company's financial statements in accordance with approved standards on auditing in Malaysia and International Standards on Auditing (Ref: Note (a)), and to issue an auditors' report. However, because of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Independence and Other Ethical Responsibilities

[See illustration 1.]

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act 2016 in Malaysia, we report that in our opinion:

- (a) the accounting and other records for the matter as described in the *Basis for Disclaimer of Opinion* section have not been properly kept by the Company in accordance with the provision of the Act.¹
- (b) we have not obtained all the information and explanations that we required.

Other Matters

[See illustration 1.]

[Audit Firm]
[AF XXXX]
Chartered Accountants

[Partner] (Ref: Note (e))
[99999/99/9999 (J)]
Chartered Accountant

[Date]
[Location in the country]²

¹ In accordance with section 266(3) of the Companies Act 2016, the auditor shall state in his report the particulars of any deficiency, failure or shortcoming in respect of any matter referred to in this subsection.

² The auditors' report shall name the location in the jurisdiction where the auditor practices (Ref: Para. 48 of ISA 700 (Revised)).

Illustration 8: Going concern - unmodified opinion when a material uncertainty exists and disclosure in the financial statements is adequate

For purposes of this illustration, the following circumstances are assumed:

- The audit is not a group audit (i.e., ISA 600 does not apply)
- The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate based on the audit evidence obtained.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty exists related to events or conditions that may cast significant doubt on the company’s ability to continue as a going concern. The disclosure of the material uncertainty in the financial statements is adequate.
- Key audit matters have been communicated in accordance with ISA 701.
- The auditor has obtained all of the other information prior to the date of the auditors’ report.

INDEPENDENT AUDITORS’ REPORT TO THE MEMBERS OF XYZ BERHAD

Report on the Audit of the Financial Statements

Opinion

[See illustration 1.]

Basis for Opinion

[See illustration 1.]

Independence and Other Ethical Responsibilities

[See illustration 1.]

Material Uncertainty Related to Going Concern

We draw attention to Note GG in the financial statements, which indicates that the Company incurred a net loss of RMXXX during the year ended 31 December 20XX and, as of that date, the Company’s current liabilities exceeded its current assets by RMXXX. As stated in Note GG, these events or conditions, along with other matters as set forth in Note GG, indicate that a material uncertainty exists that may cast significant doubt on the Company’s ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters (Ref: Note (b))

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Company for the current year. These matters were addressed in the context of our audit of the financial statements of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

[Description of each key audit matter in accordance with ISA 701.]

Information Other than the Financial Statements and Auditors' Report Thereon

[See illustration 1.]

Responsibilities of the Directors for the Financial Statements *(Ref: Note (c))*

[See illustration 1.]

Auditors' Responsibilities for the Audit of the Financial Statements *(Ref: Note (d))*

[See illustration 1.]

Other Matters

[See illustration 1.]

[Audit Firm]
 [AF XXXX]
 Chartered Accountants

[Partner] *(Ref: Note (e))*
 [99999/99/9999 (J)]
 Chartered Accountant

[Date]
 [Location in the country]¹

¹ The auditors' report shall name the location in the jurisdiction where the auditor practices (Ref: Para. 48 of ISA 700 (Revised)).

Illustration 9: Unmodified opinion with emphasis of matter paragraph

For purposes of this illustration, the following circumstances are assumed:

- The audit is not a group audit (i.e., ISA 600 does not apply).
- The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate based on the audit evidence obtained.
- Between the date of the financial statements and the date of the auditors’ report, there was a fire in the Company’s production facilities, which was disclosed by the Company as a subsequent event. In the auditors’ judgement, the matter is of such importance that it is fundamental to users’ understanding of the financial statements. The matter did not require significant auditor attention in the audit of the financial statements in the current year.
- Key audit matters have been communicated in accordance with ISA 701.
- The auditor has obtained all of the other information prior to the date of the auditors’ report
- The directors had disclosed in the Directors’ Report that there was a fire in the Company’s production facilities between the date of the financial statements and the date of the auditors’ report, in accordance with the requirement of paragraph 1(o) of the Fifth Schedule of the Companies Act 2016.

INDEPENDENT AUDITORS’ REPORT TO THE MEMBERS OF XYZ BERHAD

Report on the Audit of the Financial Statements

Opinion

[See illustration 1.]

Basis for Opinion

[See illustration 1.]

Independence and Other Ethical Responsibilities

[See illustration 1.]

Emphasis of Matter¹

We draw attention to Note X of the financial statements, which describes the effects of a fire in the Company’s production facilities. Our opinion is not modified in respect of this matter.

Key Audit Matters (Ref: Note (b))

[See illustration 1.]

Information Other than the Financial Statements and Auditors’ Report Thereon

[See illustration 1.]

¹ An Emphasis of Matter paragraph may be presented either directly before or after the Key Audit Matters section based on the auditor’s judgement as to the relative significance of the information included in the Emphasis of Matter paragraph (Ref: Para. A16 of ISA 706).

Responsibilities of the Directors for the Financial Statements (*Ref: Note (c)*)

[See illustration 1.]

Auditors' Responsibilities for the Audit of the Financial Statements (*Ref: Note (d)*)

[See illustration 1.]

Other Matters

[See illustration 1.]

[Audit Firm]
[AF XXXX]
Chartered Accountants

[Partner] (*Ref: Note (e)*)
[99999/99/9999 (J)]
Chartered Accountant

[Date]
[Location in the country]²

² The auditors' report shall name the location in the jurisdiction where the auditor practices (*Ref: Para. 48 of ISA 700 (Revised)*).

Other Illustrations of the *Information Other than the Financial Statements and Auditors' Report Thereon* section

ill1. Auditors' report of a listed entity containing an unmodified opinion when the auditor has obtained part of the other information prior to the date of the auditors' report, has not identified a material misstatement of the other information, and expects to obtain other information after the date of the auditors' report

The directors of the Company are responsible for the other information. The other information comprises the [X report] (but does not include the financial statements of the Company and our auditors' report thereon), which we obtained prior to the date of this auditors' report, and the [Y report], which is expected to be made available to us after that date.

Our opinion on the financial statements of the Company does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Company, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

[When we read the Y report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors of the Company and *[describe applicable actions]*.]¹

ill2. Auditors' report of an entity other than a listed entity containing an unmodified opinion when the auditor has obtained part of the other information prior to the date of the auditors' report, has not identified a material misstatement of the other information, and expects to obtain other information after the date of the auditors' report

The directors of the Company are responsible for the other information. The other information obtained at the date of this auditors' report is [information included in the X report], but does not include the financial statements of the Company and our auditors' report thereon.

Our opinion on the financial statements of the Company does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Company, our responsibility is to read the other information and, in doing so, consider whether the other

¹ This additional paragraph may be useful when the auditor has identified an uncorrected material misstatement of the other information obtained after the date of the auditors' report and has a legal obligation to take specific action in response.

information is materially inconsistent with the financial statements of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Notes to the illustrations

Dual Compliance

- (a) ISA 700 (Revised) contains requirements when an auditor is required to conduct an audit in accordance with the auditing standards of a specific jurisdiction but may additionally have complied with the International Standards on Auditing as issued by the International Auditing and Assurance Standards Board (IAASB) in the conduct of the audit.

In August and September 2016, the Institute approved for the assertion in the auditors' report for compliance with:

- (a) The International Standards on Auditing in addition to the approved standards on auditing in Malaysia; and
- (b) The IESBA Code in addition to the *By-Laws (on Professional Ethics, Conduct and Practice)* of the Institute.

The assertion of dual compliance provides clarity that an audit of a company incorporated under the Companies Act 2016 in Malaysia is in accordance with globally accepted standards.

This decision is applicable to the auditors' reports in this RPG.

Key Audit Matters

- (b) ISA 701 applies to audits of complete sets of general purpose financial statements of listed entities and circumstances when the auditor otherwise decides to communicate key audit matters in the auditors' report. ISA 701 also applies when the auditor is required by law or regulation to communicate key audit matters in the auditors' report.

Glossary of Terms defines "listed entity" as follows:

Listed entity – 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.

Responsibilities of the Directors for the Financial Statements

- (c) ISA 700 (Revised) requires the auditor to identify those responsible for the oversight of the financial reporting process in this section of the auditors' report, when they are different from those who fulfil the responsibilities for the preparation of the financial statements and for assessing the ability of the Company/Group to continue as a going concern.

For a company incorporated under the Companies Act 2016 in Malaysia, the directors have a statutory responsibility for the preparation of the financial statements, including the oversight of the financial reporting process. Accordingly, no reference to oversight responsibilities is required in the auditors' report.

Auditors' Responsibilities for the Audit of the Financial Statements

- (d) ISA 700 (Revised) requires the description of the auditors' responsibilities to be included in one of the following ways:
- (a) Within the body of the auditors' report;

- (b) In an appendix to the auditors' report, in which case the auditors' report shall include a reference to the location of the appendix; or
- (c) By a specific reference within the auditors' report to the location of such a description on a website of an appropriate authority, where law, regulation or national auditing standards expressly permit the auditor to do so.

In August 2016, the Institute resolved not to provide the option allowed under ISA 700 (Revised) for part of the description of the auditors' responsibilities to be included within an appendix or on a website of an appropriate authority.

Accordingly, auditors are required to include the description of their responsibilities within the body of the auditors' report.

This decision is applicable to the auditors' reports in this RPG.

Partner

- (e) ISA 700 (Revised) requires that the name of the engagement partner to be included in the auditors' report for audits of complete sets of general purpose financial statements of listed entities. Although ISA 700 (Revised) does not specify the manner in which this inclusion should be made in the auditors' report, the illustrative reports contained in the appendix to ISA 700 (Revised) suggested the following: "The engagement partner on the audit resulting in this independent auditor's report is [*name*]".

The auditor is required, in accordance with section 265(5) of the Companies Act 2016, to sign the auditors' report in the name of the firm and in his own name as a partner of the firm who is an approved company auditor and to include the firm number and the approval number of the partner either under or alongside the signature of the firm and the partner respectively.

Auditors are not precluded from including the illustrative wording suggested in the illustrative reports contained in the appendix to ISA 700 (Revised) in their auditors' report, in addition to the signing convention contained in this RPG.



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