



MALAYSIAN INSTITUTE
OF ACCOUNTANTS
ACCOUNTANTS: MANAGERS OF VALUE

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Recommended Practice Guide 11

Auditor's Report on Financial Statements
Prepared in Accordance with the
Malaysian Financial Reporting Standards
(MFRS) Framework

RECOMMENDED PRACTICE GUIDE 11

Auditor's Report on Financial Statements Prepared in Accordance with the Malaysian Financial Reporting Standards (MFRS) Framework

Foreword

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

This RPG should be read in conjunction with the Preface to Malaysian Approved Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements, which sets out the application and authority of RPGs.

This RPG is issued to provide guidance on the auditor's report on financial statements prepared in accordance with the Malaysian Financial Reporting Standards (MFRS) framework.

RECOMMENDED PRACTICE GUIDE 11

AUDITOR'S REPORT ON FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH
THE MALAYSIAN FINANCIAL REPORTING STANDARDS (MFRS) FRAMEWORK

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1.0 AUDITOR'S REPORT ON FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH THE MFRS FRAMEWORK

- 1.1 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. MFRS framework is a fully IFRS-compliant framework.
- 1.2 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 (FRSs) and shall comply with the MFRS framework for annual periods beginning on or after 1 January 2014. A private entity shall comply with either the Private Entity Reporting Standards (PERS) in its entirety or MFRS framework in its entirety for annual periods beginning on or after 1 January 2012.
- 1.3 Illustration 1 to Illustration 3 may be applied when the auditor reports on financial statements prepared in accordance with the MFRS framework.
- 1.4 For audit of entities that apply FRSs and PERS, the auditor may refer to examples of auditor's report in the Revised RPG 4 *Examples of Independent Auditors' Reports* approved by the Council in February 2011.

2.0 RESTATED COMPARATIVE INFORMATION AND ITS EFFECT ON THE AUDITOR'S REPORT ON FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH THE MFRS FRAMEWORK FOR THE FIRST TIME

- 2.1 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 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.
- 2.2 For illustration, when an entity, which has a 31 December financial year end, applies MFRSs for periods beginning on or after 1 January 2012, 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 2012):
 - i. Statement of financial position; and
 - ii. Statement of 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 2011 and 1 January 2011 (opening statement of financial position prepared in accordance with MFRSs); and
 - ii. Statement of comprehensive income, statement of cash flows and statement of changes in equity for the year ended 31 December 2011.
- 2.3 The Companies Act 1965 requires an auditor of a company to report to the members on the profit and loss account for the current period and balance sheet as at period end. 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 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, no auditor would 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.
- 2.4 However, such a statement does not relieve the auditor of the requirement to obtain sufficient appropriate audit evidence that the opening balances 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

2.0 RESTATED COMPARATIVE INFORMATION AND ITS EFFECT ON THE AUDITOR'S REPORT ON FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH THE MFRS FRAMEWORK FOR THE FIRST TIME (CONTINUED)

transition adjustments in accordance with ISA 510 *Initial Audit Engagements – Opening Balances*. Accordingly, the auditor's 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 auditor's responsibilities relating to the restated comparative information.

- 2.5 Illustration 4 may be applied when the auditor reports on financial statements prepared in accordance with the MFRS framework for the first time, taking into account the different situations as illustrated in Illustration 1 to Illustration 3.

ILLUSTRATIVE REPORTS

Illustration 1: Financial Statements Prepared in Accordance with the MFRS Framework for Companies with No Subsidiaries

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF XYZ BERHAD

Report on the Financial Statements

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

Directors' Responsibility for the Financial Statements

The directors of the Company are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 20XX and of its financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia.

ILLUSTRATIVE REPORTS (CONTINUED)

Illustration 1: Financial Statements Prepared in Accordance with the MFRS Framework for Companies with No Subsidiaries (continued)

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act 1965 in Malaysia, we also report that in our opinion the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Other Reporting Responsibilities

The supplementary information set out in Note JJ is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.¹

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act 1965 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: 8888]
Chartered Accountants

(Partner)
[9999/9/99 (J/PH)]
Chartered Accountant

Date

[Location in the country]

¹ Only applicable to the companies listed on Bursa Malaysia.

ILLUSTRATIVE REPORTS (CONTINUED)

Illustration 2: Financial Statements Prepared in Accordance with the MFRS Framework for Companies with Subsidiaries – All of which are Audited by the Reporting Firm

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF XYZ BERHAD

Report on the Financial Statements

We have audited the financial statements of XYZ Berhad, which comprise statements of financial position as at 31 December 20XX of the Group and of the Company, and statements of 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 a summary of significant accounting policies and other explanatory information, as set out on pages AA to ZZ.

Directors' Responsibility for the Financial Statements

The directors of the Company are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Company as of 31 December 20XX and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia.

ILLUSTRATIVE REPORTS (CONTINUED)

Illustration 2: Financial Statements Prepared in Accordance with the MFRS Framework for Companies with Subsidiaries – All of which are Audited by the Reporting Firm (continued)

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act 1965 in Malaysia, we also report the following:

- (a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries have been properly kept in accordance with the provisions of the Act.
- (b) We are satisfied that the accounts of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.
- (c) Our audit reports on the accounts of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

Other Reporting Responsibilities

The supplementary information set out in Note JJ is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.²

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act 1965 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: 8888]
Chartered Accountants

(Partner)
[9999/9/99 (J/PH)]
Chartered Accountant

Date

[Location in the country]

² Refer to footnote 1.

ILLUSTRATIVE REPORTS (CONTINUED)

Illustration 3: Financial Statements Prepared in Accordance with the MFRS Framework for Companies with Subsidiaries – Not All of which are Audited by the Reporting Firm

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF XYZ BERHAD

Report on the Financial Statements

We have audited the financial statements of XYZ Berhad, which comprise statements of financial position as at 31 December 20XX of the Group and of the Company, and statements of 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 a summary of significant accounting policies and other explanatory information, as set out on pages AA to ZZ.

Directors' Responsibility for the Financial Statements

The directors of the Company are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Company as of 31 December 20XX and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia.

ILLUSTRATIVE REPORTS (CONTINUED)

Illustration 3: Financial Statements Prepared in Accordance with the MFRS Framework for Companies with Subsidiaries – Not All of which are Audited by the Reporting Firm (continued)

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act 1965 in Malaysia, we also report the following:

- (a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.
- (b) We have considered the accounts and the auditors' reports of all the subsidiaries of which we have not acted as auditors, which are indicated in note GG to the financial statements.³
- (c) We are satisfied that the accounts of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.
- (d) The audit reports on the accounts of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

Other Reporting Responsibilities

The supplementary information set out in Note JJ is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.⁴

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

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

⁴ Refer to footnote 1.

ILLUSTRATIVE REPORTS (CONTINUED)

Illustration 3: Financial Statements Prepared in Accordance with the MFRS Framework for Companies with Subsidiaries – Not All of which are Audited by the Reporting Firm (continued)

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Chartered Accountant

Date
[Location in the country]

ILLUSTRATIVE REPORTS (CONTINUED)

Illustration 4: Financial Statements Prepared in Accordance with the MFRS Framework for the First Time

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF XYZ BERHAD

Report on the Financial Statements

We have audited the financial statements of XYZ Berhad, which comprise statements of financial position as at 31 December 20XX of the Group and of the Company, and statements of 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 a summary of significant accounting policies and other explanatory information, as set out on pages AA to ZZ.

Directors' Responsibility for the Financial Statements

The directors of the Company are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Company as of 31 December 20XX and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia.

ILLUSTRATIVE REPORTS (CONTINUED)

Illustration 4: Financial Statements Prepared in Accordance with the MFRS Framework for the First Time (continued)

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act 1965 in Malaysia, we also report the following:

- (a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries have been properly kept in accordance with the provisions of the Act.
- (b) We are satisfied that the accounts of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.
- (c) Our audit reports on the accounts of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

Other Reporting Responsibilities

The supplementary information set out in Note JJ is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.⁵

Other Matter

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 directors to the comparative information in these financial statements, including the statements of financial position as at 31 December 20XX-1 and 1 January 20XX-1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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 have, 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 of 31 December 20XX and financial performance and cash flows for the year then ended.

⁵ Refer to footnote 1.

ILLUSTRATIVE REPORTS (CONTINUED)

Illustration 4: Financial Statements Prepared in Accordance with the MFRS Framework for the First Time (continued)

2. This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

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Chartered Accountants

(Partner)
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