



QUESTIONS AND ANSWERS ON AUDITOR REPORTING

The new and revised Auditor Reporting standards¹ and ISA 720 (Revised)² were issued in April 2015 and July 2015 respectively, and is effective for periods ended on or after 15 December 2016.

This document provides answers to questions that the staff commonly received from auditors on the requirements of the International Standards on Auditing (ISAs) on auditor reporting.

The answers are based on ISAs and should be read in conjunction with the relevant ISAs.

The answers to the following questions have been prepared by the staff of the Institute and are not necessarily the views of the Institute.

Auditors are expected to use professional judgement in determining if the questions are both appropriate and relevant to their circumstances.

Auditors should consider the application of this document for audits of financial statements for periods ending on or after 31 December 2017.

QUESTIONS AND ANSWERS

Q&A 1

Paragraph 5 of ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report* states that ISA 701 applies to:

- **Audits of complete sets of general purpose financial statements of listed entities.**
- **Circumstances when the auditor is required by law or regulation to communicate key audit matters (KAM) in the auditors' report.**
- **Circumstances when the auditor otherwise decides to communicate KAM in the auditors' report.**

¹ The new and revised Auditor Reporting Standards comprise ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*; ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*; ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*; ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*; ISA 570 (Revised), *Going Concern*; ISA 260 (Revised), *Communication with Those Charged with Governance*; and conforming amendments to other ISAs.

² ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*.

(a) If an entity is delisted during the year, is the entity considered a listed entity for the purpose of ISA 701?

If the entity is delisted during the year, the entity is not considered a listed entity for the purpose of ISA 701.

(b) Is an entity considered a listed entity for a particular financial year for the purpose of ISA 701 when the entity is listed subsequent to the end of that financial year but before the auditors' report is issued?

Paragraph 2 of ISA 701 states that the purpose of communicating KAM is to enhance the communicative value of the auditors' report by providing greater transparency about the audit that was performed. Communicating KAM provides additional information to intended users of the financial statements ("intended users") to assist them in understanding those matters that were of most significance in the audit of the financial statements. Communicating KAM may also assist intended users in understanding the entity and areas of significant management judgement in the audited financial statements.

If an entity is listed subsequent to the end of that financial year but before the auditors' report is issued, the entity is considered a listed entity for the purpose of ISA 701 in view of the public interest and importance of KAM from the perspective of users of the entity.

Q&A 2

How are KAM communicated in respect of the audit of the financial statements of the Group and of the Company?

As mentioned in the succeeding paragraph, ISA 701 applies to audits of complete sets of general purpose financial statements of listed entities. Paragraph 8 of ISA 700 (Revised) states that the requirements of the applicable financial reporting framework determine the form and content of the financial statements, and what constitutes a complete set of financial statements.

The determination of whether the communication of KAM is required in respect of the audit of the entity's financial statements depends on whether the entity's financial statements are viewed as a complete set of general purpose financial statements under the requirements of the applicable financial reporting framework.

In the Malaysian context, Section 249 of the Companies Act 2016 requires directors of a company to prepare company's financial statements in addition to the consolidated financial statements. Section 266(2) of the Companies Act 2016 requires the auditor to report on the financial statements of the company and, if the company is a holding company for which consolidated financial statements are prepared, on the consolidated financial statements.

The company's financial statements and consolidated financial statements are presented in a single document by the directors and are prepared in accordance with the applicable financial reporting framework in Malaysia. Both the company's financial statements (defined as separate financial statements in accordance with Malaysian

Financial Reporting Standards (MFRS) 127 *Separate Financial Statements*) and the consolidated financial statements are considered as two complete sets of general purpose financial statements.

The auditor would need to determine the KAM in respect of the audit of the financial statements of the Group, and the KAM in respect of the financial statements of the Company.

If the KAM are relevant to both the financial statements of the Group and of the Company, the description should be tailored to the respective audits.

Where there are no KAM relevant to the Company, the auditors' report should reflect accordingly that there are no KAM to be communicated in respect of the audit of the financial statements of the Company.