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## VIEWPOINTS

# Being open with opinions

When views about auditor's report are made public, interesting things surface



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**O**NCE in a while, we get ring-side seats at an industry debate. That happens when the moderator of the discussion has faith in the process and is willing to grant public access to feedback from the various stakeholders.

This was the case when the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting body, initiated in June a dialogue on its proposals to improve the auditor's report on financial statements.

The board did so by issuing a document called an Invitation to Comment (ITC) with the aim of getting stakeholders to respond to the board's ideas and questions on changing the auditor's report.

(The auditor's report is a standard yet integral feature in audited accounts. Through it, the auditor communicates with the users of the financial statements by laying out the respective responsibilities of the organisation's management and auditor, and by expressing an opinion on whether the statements present a true and fair view of the organisation's financial position and performance.)

The IAASB held roundtables in September (in New York and Brussels) and October (in Kuala Lumpur) to solicit additional feedback on the ITC.

However, the main source of views on the ITC are the letters submitted electronically to the board. The deadline for submissions was Oct 8, but the IAASB are accepting late comments. To date, it has received 158 letters from around the world. All of these letters can be read on the website of the International Federation of Accountants, which set up the IAASB and supports its operations.



**Nik Mohd Hasyudeen:** 'The (auditor's) report must be consistently relevant at each time of reporting.'

Of immediate interest to us are the comments from three Malaysian bodies: the Malaysian Institute of Accountants (MIA), Malaysian Institute of Certified Public Accountants (Micpa) and Audit Oversight Board (AOB).

This is an opportunity to compare how three main players in the local accounting scene look at a set of proposals that may have a deep impact on auditor reporting.

Among the improvements mooted in the ITC are:

- Having "Auditor Commentary" in the auditor's report. This refers to additional information to highlight matters that the auditor believes are likely to be most important to users' understanding of the financial statements or the audit. The plan is to make such information a requirement for public interest entities (PIEs). In Malaysia, PIEs are listed companies, banking and financial institutions, insurance companies and takaful operators, and holders of Capital Market Services Licences (such as securities and futures trading firms, and fund management companies);

- Introducing auditor conclusion on the appropriateness of management's use of the going concern assumption in preparing the financial statements and an explicit



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statement as to whether material uncertainties in relation to going concern have been identified;

- Having prominent placement of the auditor's opinion and other entity-specific information in the auditor's report.

## Where they differ

It's interesting that the MIA and Micpa don't see eye to eye on the proposal that auditors' reports of PIEs should include auditor commentary.

In an eight-page letter to the IAASB, MIA president Datuk Mohd Nasir Ahmad agrees that it's appropriate to provide auditor commentary for audits of PIEs.

"As demands for auditor commentary have come primarily from institutional investors and analysts evaluating financial statements of listed or other PIEs, we believe any requirement for auditor to provide an auditor commentary should be imposed for the audits of PIEs and not the other audits," he says.

"The cost-benefit analysis of providing auditor commentary for other audits will likely not justify its inclusion in the auditor's report."

On the other hand, Micpa points out that all audits are supposed to be conducted in accordance with

the International Standards on Auditing.

"On this basis, the auditor's reporting requirements should not be different, and Micpa believes that there should only be a single standard auditor's report to be used for all entities globally, regardless of the type and size of the entity," says the institute.

"Further, Micpa believes that auditor reporting for audits of large entities and small entities is equally affected by specific issues, and that information gap exists in smaller entities too."

As the body that promotes the quality and reliability of audited financial statements of Malaysian PIEs, the AOB naturally has no objections to having audit commentary for audits of PIEs.

"The introduction of auditor commentary provides the opportunity for auditors to communicate more about the audit, especially areas where readers should give more attention," wrote AOB executive chairman Nik Mohd Hasyudeen Yusoff.

At the same time, he cautions that boilerplate reporting should be avoided and that the auditor commentary should evolve "to capture the essence of events that are by nature significant to be communicated to the users of financial statement".

"The (auditor's) report must be consistently relevant at each time of reporting," he adds.

## Mind the gap

However, the MIA and Micpa mostly have similar views on the IAASB proposals. A striking example is what they say about the information gap.

The IAASB defines the information gap as "the divide between what users believe is necessary to make informed investment and fiduciary decisions, and what is available to them through the entity's audited financial statements, the auditor's report or other publicly available information".

Micpa believes that this weakness is caused by inadequate information provided by management of the company. It adds that some of the deficiencies in financial reporting are a result of preparers' behaviour.

"Under such circumstances, Micpa feels that a more effective way to remedy this behavioural deficiency is to impose additional reporting on the preparers via accounting standard requirements," it adds.

It also urges the regulators to "exert pressure on companies to prepare and provide higher quality information via disclosures rather than simply satisfying the minimum reporting requirements".

The MIA has almost identical thoughts on this matter. Says its president Mohd Nasir: "Accounting standard setters play an important role in ensuring users' needs are met through financial reporting requirements."

"Also, some deficiencies in financial reporting are the result of preparers' behaviour to comply with minimum reporting requirements, and as such, would be better addressed by means of additional management reporting requirements, given financial reporting is the primary responsibility of management and not the auditors."

"Regulators can also exert due influence on companies to prepare and provide higher quality information rather than simply complying with minimum reporting requirements."

It's a good thing that the MIA, AOB and Micpa have responded to the IAASB's proposals. It's far better than remaining silent on a matter that potentially has broad implications. And it's a great way for us to appreciate the fact that it's okay - it's important, in fact - to offer opinions publicly, no matter how small the voice.

● Executive editor Errol Oh will soon issue an ITC on what he should do to lose weight. He's not promising that he will heed the comments,