A GUIDE TO UNDERSTANDING AUDITING AND ASSURANCE:

MALAYSIAN LISTED COMPANIES

AUGUST 2021

MALAYSIAN INSTITUTE OF ACCOUNTANTS

CPA AUSTRALIA

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FOREWORD

It's been seven years since CPA Australia and the Malaysian Institute of Accountants first published this guide. In that time, there have been numerous changes to audit and assurance requirements – around the world and here in Malaysia.

In particular, there have been significant amendments to the content of auditor's reports. Most notable is the inclusion of key audit matters for audits of listed entities.

Audit quality and value has been the focus of sustained commentary and examination across the globe. This has included inquiries into topics such as auditor independence, audit market competition and the scope and purpose of audits.

High-quality audits are vital to inspiring trust and confidence in capital markets, serving the public interest, and ultimately building a better and more sustainable global economy.

In order to appreciate and evaluate audit reports, however, shareholders and other readers need to understand reporting and auditing frameworks. The accounting profession is uniquely positioned and motivated to share this knowledge.

CPA Australia and the Malaysian Institute of Accountants are committed to enhancing financial literacy in Malaysia and across the Asia-Pacific. With this in mind, we are delighted to share this updated guide to understanding audit and assurance.

Customised specifically to Malaysian listed companies, and incorporating the perspective of Malaysian auditors and shareholders, this guide addresses all the current requirements in the auditor's report.

It has been developed for readers of financial statements who are not experts in this field. By using plain language to explain the value and purpose of auditing and assurance, we are confident it will assist readers to interpret and make use of this information in their decision-making.

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THE PURPOSE AND SCOPE OF AUDITS AND REVIEWS

WHY ARE AUDITS AND REVIEWS REQUIRED?

Shareholders of listed companies are usually quite separate from those managing and governing the companies they own.[1] They need a reliable and independent source of financial information based on which to assess the company, and the performance of management and of **those charged with governance**. It is the same for other stakeholders of companies, such as creditors, lenders, employees, analysts, prospective shareholders, regulators, governments and communities. Audits, which obtain **reasonable assurance**, enhance the credibility of the information contained within the **financial statements.**

This information enables shareholders and other stakeholders to make assessments and decisions, such as investing, divesting, lending or contracting with the company, with confidence and on a consistent basis.

An audit of a listed company's financial statements is required annually in Malaysia.

WHAT DO USERS NEED TO UNDERSTAND ABOUT FINANCIAL STATEMENTS?

Auditors consider the information needs of users of financial statements when determining what is important (material) to those users, which drives what the auditor will focus on. It is reasonable for the auditor to assume that users of the financial statements:[2] [3]

a) have a reasonable knowledge of business, economic activities and accounting, as well as a willingness to study the information in the financial statements with reasonable diligence;

b) understand that the financial statements are prepared, presented and audited to levels of materiality;

c) recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and

d) make reasonable economic decisions on the basis of the information in the financial statements.

[1]This guide refers to audits of listed companies' financial statements in Malaysia. The concept of audit is also applicable to other types of entities such as private companies, companies limited by guarantee and public sector entities.

[2]See CPA Australia's **A Guide to Understanding Annual Reports: Malaysian Listed Companies**.

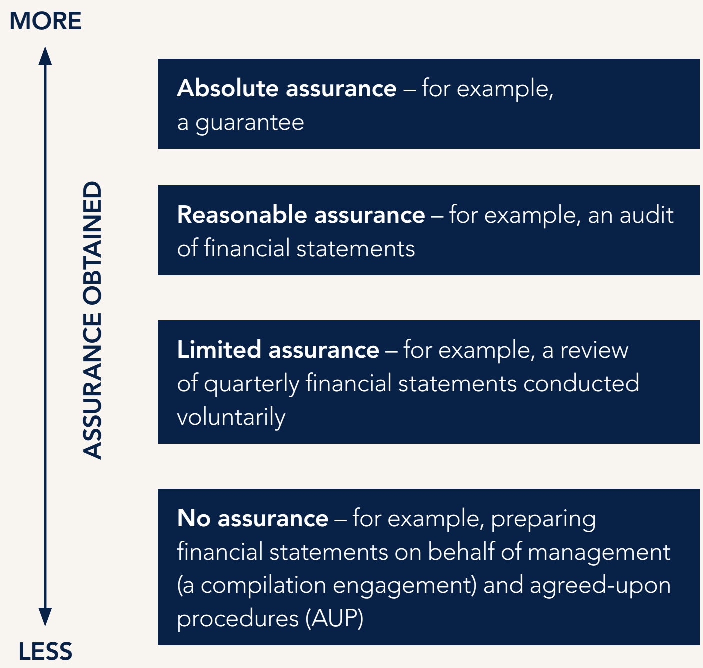
[3]Source: ISA 320 *Materiality in Planning and Performing the Audit*, paragraph 4.

WHAT DOES ASSURANCE MEAN?

The term **assurance** refers to the expression of a conclusion by an **assurance practitioner** that is intended to increase the confidence that users can place in a given subject matter. An audit is a form of assurance engagement which provides an opinion giving **reasonable assurance** on **financial statements**. An auditor is an assurance practitioner who conducts an audit. Therefore, an **auditor's report** provides a conclusion that increases the level of confidence that users can place in a company's financial statements.

There are differing levels of assurance, which result in different types of conclusions, depending on the type of work that the assurance practitioner performs.

The following diagram illustrates different levels of assurance, in some of the different activities performed by accountants:



WHAT IS THE IMPACT OF THE LEVEL OF ASSURANCE?

TYPE OF ASSURANCE	FOR EXAMPLE	NATURE OF KEY WORK PERFORMED	EXAMPLE FORM OF CONCLUSION
Reasonable assurance	An audit of **financial statements.**	Gathering of sufficient appropriate audit evidence based on an assessment of risk and materiality to support the auditor's opinion.	In our opinion, the accompanying financial statements give a **true and fair view** of the financial position of the Company as at [date], 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 and the requirements of the *Companies Act 2016* in Malaysia.[4] This is commonly referred to as positive **assurance**.
Limited assurance	A **review** of interim financial statements.	Primarily enquiries and analytical review, with less detailed procedures, based on an assessment of risk and materiality to support the auditor's conclusion.	Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not give a true and fair view of the financial position of the entity as at [date], and of its financial performance and its cash flows for the period then ended in accordance with MFRS 134 *Interim Financial Reporting* and IAS 34 *Interim Financial Reporting.*[5] This is commonly referred to as negative assurance. No audit opinion is rendered.
No assurance	• Preparing financial statements (compilation engagement).	• Engaged to assist management with the preparation and presentation of historical financial information.	• No conclusion is provided.
	• Agreed-upon procedures.	• Performing an agreed set of procedures.	• Factual findings from performing the agreed-upon procedures reported but no opinion (either positive or negative) is provided to the users on the work that has been undertaken.

[4]International Standard on Auditing (ISA) 700 *Forming an Opinion and Reporting on Financial Statements* provides the requirements for the auditor's report.

[5]International Standard on Review Engagements (ISRE) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* as amended provides the requirements for the review report.

WHAT IS AN AUDIT OF FINANCIAL STATEMENTS?

An audit of a listed company's **financial statements** is a **reasonable assurance** engagement where the auditor provides an opinion about whether the financial statements give a **true and fair view** of the financial position of the company at year end, 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 and the requirements of the *Companies Act 2016* in Malaysia. Full-year financial statements of Malaysian listed companies are required by law to be audited. Many other types of entities are also required to have their financial statements audited, including non-listed companies and societies.

While the reasonable assurance obtained in an audit is a high level of **assurance**, it is not absolute assurance (that is, it is not a certification that the financial statements are completely correct).

Obtaining absolute assurance is not possible in financial statement audits for a number of reasons, including:

- It would be impractical for the auditor to test and audit every transaction or balance.
- Preparation of the financial statements involves judgements and estimates by management and may be contingent on future events, which means that valuation of assets or liabilities in the financial statements often cannot be determined precisely.

WHAT IS A REVIEW OF FINANCIAL STATEMENTS?

A review of interim financial statements is a **limited assurance** engagement where the auditor provides a conclusion to the users of the financial statements as to whether the auditor has become aware of any matter that makes them believe that the financial statements do not give a true and fair view of the financial position of the company in accordance with Malaysian Financial Reporting Standard 134 *Interim Financial Reporting* and International Accounting Standards 34.

RELATIONSHIPS IN FINANCIAL REPORTING

The following diagram illustrates the relationship between shareholders and other stakeholders, management, **those charged with governance** and the external auditor. Those charged with governance are those responsible for overseeing the strategic direction and accountability obligations of the company, including the financial reporting process. In a listed company, this consists of the board of directors, which includes executive members and members of the audit committee.

The board of directors is also responsible for the operational effectiveness of internal controls including IT controls as those controls are necessary to enable the preparation of **financial statements** that are free from **material misstatement**, whether due to fraud or error.

In Malaysia, auditors are required to attend a listed company's Annual General Meeting (AGM) and be available to answer questions about the audit from interested parties that are entitled to participate in the meeting, such as shareholders.[6] This is a useful opportunity for shareholders to clarify specific aspects of the audit.

[6]Required by the *Companies Act 2016*.

WHAT IS THE ROLE OF THE AUDIT COMMITTEE?

The audit committee oversees the appointment or removal of the external auditor, the fees payable for both audit and non-audit work, rotation of the audit engagement partner, the scope and adequacy of the external audit, the independence and performance of the external auditor and the impact of any proposed non-audit services on the auditor's independence.

Audit committees also oversee the corporate reporting processes, internal control framework, the preparation of the financial report, including the appropriateness of the accounting judgements or choices exercised by management in preparing that financial report, and the internal audit function.

Given the importance of an audit committee to the governance structure of a company, the establishment of this committee is mandated for listed issuers by the Bursa Malaysia's Main Listing Requirements.[7] The need for a charter or written terms of reference and minimum functions of the audit committee is set out in the Bursa Malaysia's Main Listing Requirements[8 9] and the Securities Commission's Code of Corporate Governance. Similar provisions are also encapsulated for financial institutions in Bank Negara Malaysia's Policy Document on Corporate Governance.[10]

The audit committee is also responsible for oversight of financial reporting under the Bursa Malaysia's Listing Requirements, which requires the audit committee to review the quarterly results and year-end **financial statements** prior to approval by the board, focusing particularly on:

- changes in or implementation of major accounting policy changes;
- significant matters highlighted, significant judgements made by management, significant and unusual events or transactions (and how these are being addressed); and
- compliance with **accounting standards** and other legal requirements.

In reviewing the quarterly results and year-end financial statements, the audit committee should also be vigilant of significant adjustments arising from the external audit (e.g. impairment of assets) and the appropriateness of the **going concern** assumption used in preparation of the financial statements. The audit committee is encouraged to consult the external auditors on these matters if the need arises, as well as the audit findings, matters to be included as "Key Audit Matters" in the **auditor's report** and other matters relevant to the audit of the financial statements. At the end of the audit, the auditor often provides a more detailed, in-depth confidential report to the audit committee.

The listing requirements enable the audit committee to convene meetings with the external auditor without the presence of management when needed.[11]

[7]Paragraph 15.09 of the Bursa Malaysia's Main Listing Requirements.

[8]Paragraphs 15.11 and 15.12 of the Bursa Malaysia's Main Listing Requirements.

[9]The ACE Market Listing Requirements also have similar provisions in paragraphs 15.09, 15.11 and 15.12

[10]Paragraph 12.1 and Appendix I of Bank Negara Malaysia's Policy Document on Corporate Governance.

[11]Main Market listing requirement Paragraph 15.17(f) [similar paragraph under the ACE Market Listing Requirements]

WHAT INFORMATION IS AUDITED OR REVIEWED?

Only certain sections of a company's annual report are required to be audited or reviewed in Malaysia. The **financial statements** in the company's annual report are required to be audited and the Directors' Statement on Risk Management and Internal Control is required to be reviewed,[12] but the review report is not required to be included in the annual report. In contrast, the Management Discussion & Analysis ("MD&A") and the Sustainability Statement, which are included in the annual reports of listed entities, are not required to be audited or reviewed.

The MD&A provides management's view on their business strategy, financial position, operations and prospects.[13] The Sustainability Statement is management's narrative statement required for listed companies on their material economic, environmental and social risks and opportunities.

Although the information provided in the MD&A and Sustainability Report are not audited, the auditor still needs to consider and report on whether they contain material inconsistencies with the financial statements, or knowledge gained through the audit, or appear to be materially misstated. See section on "The Auditor's Report - Other Information".[14]

The financial statements are presented alongside a variety of other information in the annual report which is usually not audited.

The financial statements may also be published as part of an integrated report,[15] which addresses how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term, by reporting on inputs, outputs and outcomes in relation to six capitals, of which financial capital is one.

ANNUAL REPORT

LEVEL OF ASSURANCE	COMPONENTS OF THE ANNUAL REPORT
Audited **(reasonable assurance)**	Financial statements Notes to the financial statements
Reviewed **(limited assurance)**	Statement on Risk Management and Internal Control
No assurance required*	Management Discussion and Analysis Sustainability Statement Other Information

*The auditor identifies material inconsistencies between the other information and the financial statements and the auditor's understanding of the company only. Whilst no assurance is required, the company may obtain assurance voluntarily on this information, in which case a conclusion is also provided on that information.

[12]Malaysian listed companies are required by the Bursa Malaysia listing requirements to ensure that the external auditor reviews the board of directors' Statement on Risk Management and Internal Control and report the results to the board. See MIA Audit and Assurance Practice Guide AAPG 3 *Guidance on the performance of a limited assurance engagement to report on the Statement on Risk Management and Internal Control included in the annual report.*

[13]The MD&A must include overview of the group's business and operations, discussion and analysis of the financial results and financial condition, review of operating activities, any identified anticipated or known risks and a forward-looking statement. See paragraph 7 in Part A of Appendix 9C in the Bursa Malaysia's Main Market Listing Requirements and paragraph 8 of Appendix 9C in the ACE Market Listing Requirements.

[14]ISA 720 *The Auditor's Responsibilities Relating to Other Information* requires the auditor to obtain the final version of the annual report, if possible before signing their report, and consider if there is any material inconsistency with the financial statements or the knowledge they obtained on the audit.

[15]Integrated reports are prepared using the International Integrated Reporting (<IR>) Framework issued by the International Integrated Reporting Council (IIRC), which merged with the Sustainability Accounting Standards Board to become the Value Reporting Foundation in 2021.

WHAT IS AUDITOR INDEPENDENCE?

Independence is a cornerstone of the auditing profession. An independent auditor is free from external influence or bias and is therefore able to maintain integrity, make objective judgements and exercise appropriate professional scepticism during the audit.

Auditors of companies must comply with The By-Laws (On Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("MIA By-Laws") or equivalent, including maintaining independence of mind and appearance, meaning that auditors must not only act independently, but also be seen to be independent. These requirements are more onerous for public interest entities, including listed companies.

Many of the laws, regulations and professional standards applicable to audits, such as those in the *Companies Act 2016* and the MIA By-Laws set out independence requirements that auditors of relevant companies need to meet. For auditors of listed companies in Malaysia, there are additional requirements including:

- rotation of lead and engagement quality review auditors every seven years;[16]
- three-year cooling off period (where the auditor does not participate in the audit in any way or directly influence the outcome of the engagement) for lead and engagement quality review auditors, increasing to five-year cooling off period for lead auditors for periods beginning on or after 15 December 2023;
- restrictions on auditors holding board positions or employment at companies they have audited;
- prohibitions on contingent fees, financial interests in the client or related entity, loans to or from the client, deposits with the client, close business relationships and offering or accepting inducements, gifts or hospitality;
- prohibitions[17] on the provision of certain services to listed company audit clients, such as:
  - assuming management responsibility;
  - serving as General Counsel;
  - accounting and bookkeeping services, including preparing accounting records and preparing **financial statements**;
  - promoting, dealing in, or underwriting client shares;
  - recruiting services for a director, officer or senior management who will have significant influence over accounting records; and
  - if material to the financial statements, valuation services, preparing tax calculations, internal audit services and designing or implementing IT systems.
- limitation of fees from the company and related entities to no more than 15% of total fees received by the firm over two consecutive years.

[16] See Section 540 of the MIA By-Laws which provides for long association of personnel (including partner rotation) with an audit client.
[17] This list of prohibitions is updated from time to time in the MIA By-Laws.

UNDERSTANDING WHAT EXTERNAL AUDITORS CAN PROVIDE

DIFFERENCE BETWEEN INTERNAL AND EXTERNAL AUDIT

Internal audit is an appraisal activity which may be established within the company and functions usually under the oversight of the company's audit committee. It is a management tool and forms part of the company's internal control structure. In general, the focus of an internal audit is to evaluate the adequacy and effectiveness of the company's internal control.

By contrast, under the *Companies Act 2016*, an external audit is required to be undertaken by an approved company auditor, who is independent of the company, to express an opinion on the annual **financial statements** The *Companies Act 2016* sets the requirements for appointment, removal, and resignation of the auditor. Auditor of public interest entities are required to be registered with the Audit Oversight Board (AOB). Audit firms registered with the AOB which meet certain size criteria are required to share their annual transparency reports with the AOB and the Audit Committees of their Public Interest Entity (PIE, including listed entity) audit clients in 2021. Subsequently, they are required to publish these in their respective websites. In addition, the external auditor needs to comply with specific requirements of professional ethics as stated in the MIA's By-Laws, which include independence and auditor rotation.

ASSURANCE ON NON-FINANCIAL INFORMATION

Assurance reports may provide either reasonable or **limited assurance** and do not necessarily need to be limited to financial information. Assurance reports can be obtained voluntarily by companies to provide stakeholders with confidence in a wide range of information, such as:

- compliance with certain legislation and regulations
- integrated reports
- sustainability reports
- prospectuses
- design, implementation and operating effectiveness of internal controls.

WHAT IS AUDIT QUALITY?

Audit quality is challenging to define, measure and observe as most of the valuable work auditors do happens before a company's financial statements are released to the public (see also "What do auditors do?").

A quality audit involves an effective audit performed efficiently, on a timely basis and for a reasonable fee. The audit fee charged is often seen as a reflection of the skill and experience and the extent of work performed by an audit team.[18]

[18] IFAC Framework for Audit Quality.

HOW CAN FINANCIAL STATEMENT USERS ASSESS AUDIT QUALITY?

As audit quality is difficult to measure and evaluate, shareholders and other stakeholders largely rely on the Board and audit committee to satisfy themselves that the auditor provides sufficient audit quality to give confidence in the **auditor's report**. Sources of information which may be useful in assessing the audit include:

- Information included in the key audit matters, including whether they are relevant to the company rather than being boilerplate.
- Transparency reports,[19] which cover information on the audit firm published on their website annually, including:
  - the audit firm's legal and governance structure,
  - measures taken by the audit firms to uphold audit quality and manage risks; and
  - information about the audit firm's indicators of audit quality.[20]

[19]Transparency reports are compulsory for audit firms that are registered with the Audit Oversight Board (AOB) and have 50 or more public interest entity (PIE) audit clients and the total market capitalisation of the audit firm's PIE clients amounts to above RM10 billion.

[20]See: **Annual Transparency Reporting for Firms that Audit Public Interest Entities in Malaysia.**

WHAT ROLE DO LISTED COMPANIES HAVE IN OBTAINING QUALITY AUDITS?

Audit firms are ultimately responsible for performing quality audits. However, the IAASB's Framework for Audit Quality recognises the importance of the contribution and support of regulators (such as the AOB), audited companies and other stakeholders in achieving quality audits that support reliable **financial statements** in the capital markets.

The quality of financial reporting by the company can have a significant impact on the effectiveness of the audit. Directors and audit committees have an important role in ensuring the company provides a sound basis for a quality audit, including having appropriate governance arrangements, processes and controls, and providing sufficient challenge to management and the auditor.

The directors are responsible for the financial statements and need to be cognisant of their own responsibilities when assessing the information in the financial statements so that they can challenge the accounting treatments as put forward by management, seek explanations from management where necessary and know when to obtain appropriate professional advice. They should not merely rely on the work of the external auditor.

The directors must take reasonable steps to comply with, or secure compliance with, the financial reporting and audit requirements of the *Companies Act 2016*, including the requirement to keep proper books and records. This includes ensuring that the company's records are complete and accurate by adopting appropriate accounting policies and designing and implementing appropriate controls and processes.

Directors need to read and understand the financial statements, in order to ensure that the information they contain is consistent with the directors' knowledge of the company's financial position and affairs, and ensure that material matters known to the directors, or that should be known to them, are not omitted.

In relation to the audit, directors need to:

- provide the auditor with all explanations and information that they require for the audit;
- bring to the auditor's attention transactions, risks and difficult accounting judgements that may affect the financial statements;
- ensure that the independence of the auditor is not compromised in fact or appearance, including a review by the audit committee of non-audit services and whether they affect auditor independence[21];
- ensure that the audit fees are adequate to enable conduct of a quality audit; and
- ensure that adequate time is given to the auditor to complete their work.

[21]Required under Section 600 of the MIA By-Laws.

THE AUDITOR'S REPORT

UNMODIFIED AUDIT OPINIONS

The **auditor's report** contains the auditor's opinion on the **financial statements**, in addition to a range of other information to explain the context in which that opinion has been reached.

An unmodified auditor's opinion for listed companies states that in the auditor's opinion the financial statements give a **"true and fair view"** and comply with the Malaysian Financial Reporting Standards , International Financial Reporting Standards and the requirements of *Companies Act 2016* in Malaysia. This is often referred to as a "clean" audit opinion.

Auditor's reports containing an unmodified auditor's opinion are the most common type of report a user is likely to come across. This is in part because management usually addresses most of the matters which the auditor has raised by adjusting the financial information or including further disclosures when finalising the content of the financial statements before they are issued.

WHAT DOES A "TRUE AND FAIR VIEW" MEAN?

Financial statements which give a "true and fair view" are those which are free from **material misstatements** and faithfully represent the financial performance and position of the entity. This type of opinion is provided under a **fair presentation framework**, in which compliance with the requirements of the financial reporting framework is not enough. A fair presentation framework also requires management to provide disclosures beyond those specifically required by the financial reporting framework as stated in the *Companies Act 2016* or in rare circumstances, depart from a requirement of that framework.

BASIS FOR OPINION

The auditor's report includes a basis for opinion paragraph, which provides important context about the auditor's opinion that:

- states that the audit was conducted in accordance with approved auditing standards;
- refers to the section of the auditor's report that describes the auditor's responsibilities under the approved standards on auditing in Malaysia and International Standards on Auditing;
- includes a statement that the auditor is independent of the company in accordance with the relevant ethical requirements and has fulfilled the auditor's other ethical responsibilities;
- confirms the continued applicability of the independence declaration provided to the directors and included in the annual report; and
- states whether the auditor believes that the audit evidence they obtained is sufficient and appropriate to provide a basis for the auditor's opinion.

When the auditor modifies the opinion on the financial statements, the heading 'Basis for Opinion' is amended in accordance with the type of modified opinion (see *Modified auditor's opinions* below) and within this section, the auditor includes a description of the matter giving rise to the modification.

KEY AUDIT MATTERS

Auditors of listed companies are required under the International Standards on Auditing[22] to report "key audit matters" (KAM). These are matters which are, in the auditor's professional judgement, of most significance in the audit.

KAM are selected from matters communicated with the directors or audit committee that required significant auditor attention in performing the audit. KAM may include areas of higher assessed risk of **material misstatement** or significant risks and significant auditor judgements relating to areas of significant management judgement.

The KAM section includes, at a minimum:

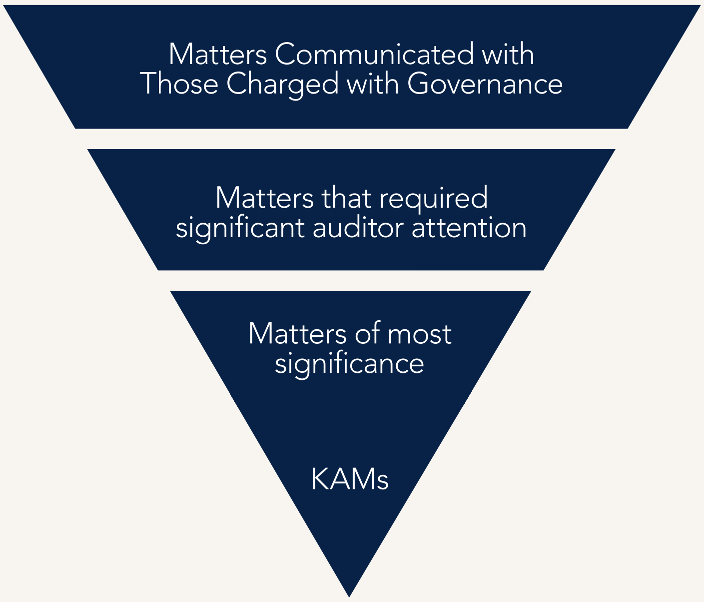
- why the matter was considered to be a KAM
- reference to the related disclosure
- how the matter was addressed in the audit.

Standardised wording, which is used in the rest of the **auditor's report**, is not used in the KAM and the auditor needs to present the KAM in their own style and format.

Some auditors include additional information in their report, such as:

- the outcomes of the audit procedures in response to KAMs.
- the scope of the audit, which may include how materiality and KAMs influenced the scope.
- the materiality benchmark, value or percentage applied.

The provision of this additional information is voluntary to assist users in better understanding the auditor's work. It may be provided because of their firm's policy to ensure consistency in their auditor's reports across jurisdictions.



[22] ISA 700 Forming an Opinion and Reporting on Financial Statements requires key audit matters to be communicated and ISA 701 *Communicating Key Audit Matters in the Independent Auditor's Report* specifies what to communicate in the auditor's report and the form and content of such communication.

EMPHASIS OF MATTER AND OTHER MATTER PARAGRAPHS

In some circumstances, the auditor will include additional wording in the **auditor's report** directing users to information that is not included in KAM, but in their view is fundamental to understanding the **financial statements**. This may be either:

- an "Emphasis of Matter" paragraph drawing the readers' attention to matters included in the financial statements, such as a note disclosure; or
- an "Other Matter paragraph" which draws the readers' attention to matters that are not included in the financial statements.

It is important to note that an Emphasis of Matter or Other Matter paragraph is not a modification to the auditor's opinion (see *Modified auditor's opinions below*).

GOING CONCERN

If a material uncertainty exists relating to events or conditions that may cast significant doubt on a company's ability to continue as a **going concern**, either:

- the auditor's report includes a section 'Material Uncertainty Related to Going Concern' if the uncertainty is adequately disclosed in the financial statements; or
- the auditor issues a qualified or adverse opinion (see Modified auditors' opinions below) if the financial statements does not adequately disclose the matter.

The auditor is required to challenge the adequacy of disclosures for 'close calls' when an event or condition casts a significant doubt on the company's ability to continue as a going concern, but due to mitigating circumstances the company concluded that no material uncertainty exists, so the financial statements can be prepared on a going concern basis. The going concern basis is used when the company is expected to continue in business as usual, meeting its financial obligations as and when they fall due in the normal course of business without any necessary curtailment in scope and there is no obvious threat of liquidation for the foreseeable future. Management is required to assess these conditions for at least the next 12 months, after the end of the reporting period.[23]

OTHER INFORMATION

Although auditors are not responsible for auditing other information in the annual report, which is not in the **financial statements**, they are required to read the other information and consider whether there is a material inconsistency between that "other information" and either the financial statements or the auditor's knowledge obtained in the audit.[24]

If the company refuses to correct a material inconsistency, the auditor describes the inconsistency in an 'Other Information' section of the auditor's report. If the auditor's report has already been issued, then the auditor must bring the inconsistency identified to the users' attention by other means.

[23]IAS 1 *Presentation of Financial Statements*, paragraph 26.

[24]ISA 720 *The Auditor's Responsibilities Relating to Other Information.*

CONTENTS OF PARAGRAPHS FOR SPECIFIC MATTERS IN THE AUDITOR'S REPORT

TYPE OF PARAGRAPH	MATTERS INCLUDED
Key Audit Matters	Matters which required significant auditor attention, selected from matters communicated with **those charged with governance**, which may include:[25] • areas of higher assessed risk of **material misstatement**, or significant risks, such as areas of significant management judgement, significant unusual transactions and material acquisitions • significant auditor judgements relating to areas in the **financial statements** that involved significant management judgement, including accounting estimates that have been identified as having high estimation uncertainty • the effect on the audit of significant events or transactions with related parties or that are outside the normal course of business for the company or that otherwise appear to be unusual, that may have required management to make difficult or complex judgements in relation to recognition, measurement, presentation or disclosure.
Emphasis of Matter	Matters which have been appropriately disclosed in the financial statements and are not included in KAM, which represent: • an uncertainty relating to the future outcome of exceptional litigation or regulatory action • a significant subsequent event that occurs before the **auditor's report** is signed • early application of a new **accounting standard** that has a material effect on the financial statements • a major catastrophe that has had, or continues to have, a significant effect on the company's financial position.

[25] For examples of key audit matters see IAASB website.

CONTENTS OF PARAGRAPHS FOR SPECIFIC MATTERS IN THE AUDITOR'S REPORT (CONT.)

TYPE OF PARAGRAPH	MATTERS INCLUDED
Other Matter	Matters which are not, and are not required to be, reported in the **financial statements** and are not included in KAM, which law or regulation requires to be reported or the auditor considers it necessary to communicate, such as: • the planned scope of the audit • the application of materiality in the context of the audit • an explanation in the rare circumstances where it is not possible for the auditor to withdraw from the engagement despite a pervasive limitation of scope imposed by management • that other financial statements have been prepared by the same company in accordance with another general purpose framework and that the auditor has issued a report on those financial statements • that the **auditor's report** is intended solely for the intended users, and should not be distributed to or used by other parties, if the auditor's report is intended to meet the information needs of specific users • if management amends the financial statements and a new auditor's report is issued, reference to the note in the financial statements that more extensively discusses the reason for the amendment of the previously issued financial statements and to the earlier report provided by the auditor • if the financial statements of the prior period were audited by a predecessor auditor, details of that auditor's report, or if it was unaudited, the fact that the comparative figures are unaudited.
Material Uncertainty relating to Going Concern	A section in an auditor's report, containing an unmodified opinion, about a material uncertainty relating to **going concern** which the company has adequately disclosed in the financial statements. This section: • draws attention to the note in the financial statements that discloses the relevant events or conditions that give rise to the uncertainty and management's plans to deal with those events or conditions • states that these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern but that the auditor's opinion is not modified.

CONTENTS OF PARAGRAPHS FOR SPECIFIC MATTERS IN THE AUDITOR'S REPORT (CONT.)

TYPE OF PARAGRAPH	MATTERS INCLUDED
Other information	A section which: • identifies other information contained in the annual report that is not part of the **financial statements**, such as the directors' report, MD&A[26], Audit Committee Report, Corporate Governance disclosures, Statement of Risk Management and Internal Control, Sustainability Statement and voluntary reporting of non-financial information. • identifies whether that other information was obtained prior to the date of the **auditor's report** or is expected to be received afterwards. • describes any uncorrected **material misstatement** in the other information if information included in an annual report is inconsistent with the audited financial statements (for example, if the figures in the MD&A or in the directors' report are inconsistent with those disclosed in the financial statements).

[26]For listed entities the Bursa Malaysia's Listing Requirements require the annual report to include a statement containing the management discussion and analysis of the group's business, operations and performance (including financial performance) during the financial year (The MD&A).

HOW CAN YOU TELL IF THE AUDITOR'S REPORT IS CLEAN OR NOT?

To determine if an **auditor's report** is "clean" or whether it has been modified, you need to look at the opinion section at the top of the auditor's report. An unmodified or clean auditor's report will state that in the auditor's opinion the **financial statements** are properly drawn up to give a **true and fair view** of the financial position of the company as at period end, and of its financial performance, and its cash flows for the period then ended, in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the *Companies Act 2016* in Malaysia.

If the audit opinion is modified it can be either:

- Qualified opinion: a clean opinion is provided "except for" the matter identified.
- Adverse opinion: because of the significance of the matter, the financial statements do not give a true and fair view of the financial position of the company as at period end, and of its financial performance, and its cash flows for the period then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the *Companies Act 2016* in Malaysia. (See also "Modified auditor's opinions").
- Disclaimer: the auditor cannot provide an opinion because the auditor has not been able to obtain sufficient appropriate audit evidence to provide a basis for that opinion.

Even where there is a clean opinion, it is important to look for and pay attention to the KAMs raised and any Emphasis of Matter, Other Matter or Material Uncertainty relating to Going Concern paragraphs, which can each highlight matters of significance contained in the financial statements

DOES A CLEAN AUDITOR'S REPORT MEAN A CLEAN BILL OF HEALTH FOR THE COMPANY?

Auditor's reports are intended to increase the degree of confidence users have in the information in the financial statements. It is not about the soundness of the business strategies, its future viability or whether it is a safe investment.

An unmodified auditor's opinion means investors or other stakeholders can assess the company based on its financial statements, with more confidence that the information is not materially misstated and is unbiased, than if the report was modified or if there were no auditor's report.

Auditors assess the appropriateness of the **going concern** assumption underpinning the preparation of the financial statements, but this cannot be taken as a conclusion on the future prospects of the company nor does it reflect the business risks which could impact the company's financial performance and outcomes (see "What do auditors do in regard to the going concern assumption?").

The directors address these matters in the MD&A, which is required to contain:

- an overview of the group's business and operations;
- discussion and analysis of the financial results and financial condition;
- a review of operating activities;
- any identified, anticipated or known risks; and
- a forward-looking statement.[27]

However, the MD&A is not required to be audited.

[27] Paragraph 9.25 of the Main Market & Ace Market Listing Requirements and the Appendix 9C.

MODIFIED AUDITOR'S OPINIONS

Modified auditor's opinions are issued when the auditor believes the **financial statements** contains a **material misstatement**, or when the auditor is unable to obtain enough evidence to form an opinion. Such an opinion should be a red flag for readers, as it indicates that part or all of the financial statements cannot be relied upon. The following table sets out the different types of modified auditor's opinions that may be issued in these situations.

BASIS FOR MODIFIED OPINION

The basis for modified opinion section provides greater clarification to the reader of the **auditor's report** about why the auditor expressed a modified opinion. The basis for a qualified opinion due to a misstatement or an adverse opinion describes the misstatement by either quantifying the financial effects of the misstatement, explaining how qualitative disclosures are misstated or by describing the nature of any omitted information and including the omitted disclosures. The basis for a qualified opinion due to insufficient evidence, or a disclaimer provides the reasons for the auditor's inability to obtain sufficient appropriate audit evidence.

TYPE OF MODIFIED AUDIT OPINION	DESCRIPTION	SITUATIONS WHERE THIS TYPE OF REPORT MAY BE ISSUED	EXAMPLES
Qualified or "except for" opinion	The opinion states that except for the effects of the matter described in the Basis for Qualified Opinion, the accompanying **financial statements** give a **true and fair view** in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the *Companies Act 2016* in Malaysia.	A qualified opinion is issued when a specific part of the financial statements contains a **material misstatement** or adequate evidence cannot be obtained in a specific, material area, but the rest of the financial statements is found to give a true and fair view. In this respect, the misstatement (or the lack of evidence) is material but not pervasive throughout the whole financial statements.	The auditor has a different view on the valuation of a material asset than that applied by management in the financial statements, but the rest of the financial statements was found to be free of material misstatements.

TYPE OF MODIFIED AUDIT OPINION	DESCRIPTION	SITUATIONS WHERE THIS TYPE OF REPORT MAY BE ISSUED	EXAMPLES
Adverse opinion	The opinion states that because of the significance of the matter described in the Basis for Adverse Opinion section, the auditor believes the financial statements do not give a true and fair view in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards or the requirements of the *Companies Act 2016* in Malaysia.	An adverse opinion is issued when the auditor identifies misstatements which are both material and pervasive to the financial statements.	No provision has been made for losses expected to arise on certain significant long-term contracts currently in progress, that have been assessed as being onerous, as the directors consider that such losses should be offset against amounts recoverable on other profitable long-term contracts in future periods. Had such losses been provided for the effects would have significantly reduced the profit before tax for the year and the contract work in progress as well as the income tax and net profit reported for the year. The non-provision of these losses had a pervasive impact across the financial statements for the current financial year.
Disclaimer of opinion	The auditor does not express an opinion on the **financial statements**. Because of the significance of the matters described in the Basis for Disclaimer of Opinion, they are unable to obtain sufficient appropriate audit evidence to provide a basis for an opinion.	A disclaimer of opinion is very rarely issued as it indicates that either: • the auditor cannot obtain sufficient appropriate evidence on which to base an opinion on the financial statements overall and the possible effects on the financial statements could be both material and pervasive; or • the auditor cannot form an opinion due to the cumulative effect on the financial statements of potential interaction of multiple uncertainties.	The company's financial reporting information system was corrupted, and key data was lost, such that sufficient appropriate evidence is not available to support the carrying amount and other material disclosures in the financial statements.

THE AUDIT PROCESS

WHAT DO AUDITORS DO?

The audit of **financial statements** involves a systematic process designed to identify instances of **material misstatement** which may require adjustments in the financial statements. *The Companies Act 2016* requires audits to be conducted in accordance with the auditing standards, which are issued by the Auditing and Assurance Standards Board (AASB) of the MIA and comprise a suite of standards for audits of financial statements.

These standards closely follow the international auditing standards so that what auditors are required to do is consistent across many jurisdictions.

The following diagram illustrates at a very high level what is involved in financial statement audits, and the order in which activities usually take place during the year:

Primarily performed prior to period end	Initial assessment and agreement on terms of the engagement	A key part of the initial assessment is whether the auditor will be able to meet independence and other ethical requirements.
	Understanding the entity, including internal control relevant to the audit, and assessing risks of material misstatement in the financial statements	Understanding the entity involves an analysis of internal and external factors. The assessed risks of material misstatement form a basis for design of the audit procedures to be performed. Understanding of the information system under the purview of the management including the related business processes relevant to financial reporting particularly procedures within both information technology and manual system by which transactions are initiated , recorded, processed and reported in the financial statements is increasingly critical as computerisation process is expedited.
	Performing interim procedures to test the operating effectiveness of controls on which the auditor plans to rely and substantive procedures on transactions and balances.	In order to obtain sufficient appropriate audit evidence and meet the reporting deadlines, the auditor conducts procedures during the period which is supplemented after year end to support the opinion.
Period end, e.g. 31 December	Performing procedures to address the risk of material misstatement in the financial statements.	The types of procedures applied involve judgement and will vary significantly depending on the risks of material misstatement and nature of the entity.
Primarily performed after period end	Finalisation and auditor's report signed (Malaysian listed companies: within 4 months of period end date).	For more on auditor's reporting, see the example of an independent auditor's report in Appendix 2.

WHAT IS A MATERIAL MISSTATEMENT?

Auditors' work is concerned with identifying **material misstatements**, rather than any misstatement in the **financial statements**. Material misstatements are those that are significant enough to affect the decisions made by the users of the financial statements. This can be in terms of the quantitative or qualitative significance of misstatements.

QUANTITATIVE	The quantities or balances in the financial statements. For example, quantitatively material misstatements could include: • Impairment of assets • Overstating revenue • Missing/not recorded liabilities • Understating expenses
QUALITATIVE	The nature of items in the financial statements. For example, qualitatively material misstatements could include • Not disclosing certain related party transactions • Not disclosing management's remuneration These disclosures are important in evaluating how the company has been managed, although they may be small quantitatively in comparison to the scale of the company's overall operations.

WHAT DO AUDITORS DO IF THEY FIND NON-COMPLIANCE WITH LAWS AND REGULATIONS?

If an auditor suspects or discovers non-compliance with laws or regulations, other than those which are inconsequential, they must take action and cannot turn a blind eye. Whether the non-compliance is by company staff, management or external parties, auditors must respond in a timely way so that the adverse consequences to stakeholders and the general public are rectified, remediated or mitigated.

The auditor needs to be satisfied that the company has taken appropriate and timely action to address the consequences and deter further non-compliance, or the company has disclosed the matter to an appropriate authority where required by law or regulation or where necessary in the public interest.

If not, auditors are required to follow an escalation process, initially through an appropriate level of management and/or those charged with governance.

If the company's response is inadequate, management is involved or there will be actual or potential substantial harm to stakeholders or the general public, the auditor must take further action. This may warrant disclosing the matter to an appropriate authority, even if not required by law, and/or withdrawing from the engagement.[28] Disclosure to an appropriate authority is not considered a breach of the duty of confidentiality if the auditor is acting in good faith.

[28]In the latter case, this is not a substitute for taking any other actions that might be needed to achieve the objectives under the relevant MIA By-Laws.

WHAT DO AUDITORS DO WITH RESPECT TO FRAUD?

Auditors consider the possibility that fraudulent activities can result in **material misstatement** in the **financial statements** and take this into account in planning and performing their work.

Fraud as defined in the **auditing and assurance standards** is an intentional act by one or more individuals among management, **those charged with governance**, employees or third parties, involving the use of deception to obtain unjust or illegal advantage.

An audit is not an investigation intended to uncover all instances of fraud. However, an auditor is required to treat material fraud risks as significant risks and must obtain an understanding and evaluation of the company's related controls. Therefore, an audit is only likely to detect instances of fraud that result in a material misstatement, although there is no guarantee that an audit will detect any material frauds perpetrated against the company due to the nature of fraud.

As fraud is usually coupled with some form of concealment or deception, the risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error. Fraudsters may employ forgery, deliberately fail to record transactions, or make misrepresentations to the auditor, to conceal fraud which may be even more difficult to detect when accompanied by collusion.

The auditor's ability to detect a fraud depends on factors such as the skill of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated and the seniority of those individuals involved. In addition, frauds which are not material to the financial audit are unlikely to be detected by the external auditor.

WHAT DO AUDITORS DO IN REGARD TO THE GOING CONCERN ASSUMPTION?

The **going concern** assumption is that a company will continue in business for the foreseeable future. The going concern assumption has a significant impact on how a company's **financial statements** are presented (see section "If the going concern basis does not apply").

In preparing the financial statements, management assesses whether the company will be able to continue in business for the foreseeable future, which is at least twelve months from the end of the reporting period.

The auditor performs work to evaluate the appropriateness of management's use of the going concern basis of accounting as part of the audit. When evaluating the going concern basis, the auditor considers a period of at least twelve months from the date of the financial statements.[29]

If the going concern basis does not apply

Companies that are not a going concern, when management intends to liquidate the company or to cease trading, or has no realistic alternative but to do so, need to report on a different basis from companies that are a going concern – for example, assets and liabilities would be recognised at their immediate sale value/ liquidation value rather their value in future use.

The auditor:

- evaluates management's assessment of the company's ability to continue as a going concern, including whether it reflects all relevant information of which the auditor is aware as a result of the audit;
- concludes on the appropriateness of management's use of the going concern basis of accounting;
- concludes on 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; and
- determines whether the financial statements adequately disclose any material uncertainty.

The going concern assumption involves judgements about events taking place in the future, which are inherently uncertain. Where there is significant uncertainty in the company's ability to continue as a going concern and this has been disclosed by management in the notes to the financial statements, the auditor includes wording in the auditor's report to direct users to the applicable note disclosure, in a "material uncertainty related to going concern" paragraph.

If the auditor ultimately does not agree with management's assumptions regarding going concern, the result would be a modified opinion (see "The auditor's report").

[29] IAS 1 *Presentation of Financial Statement*, paragraph 26 and ISA 570 Going Concern, paragraph 13

APPENDIX 1 – GLOSSARY

Accounting standards:
Mandatory standards applied in preparing financial statements. In Malaysia the applicable standards for listed companies are issued by the Malaysian Accounting Standards Board and are formally referred to as "Malaysian Financial Reporting Standards". International accounting standards are issued by the International Accounting Standards Board.

Assurance:
The expression of a conclusion that is intended to increase the confidence of users in subject matter against criteria (see also "What does assurance mean?").

Assurance practitioner:
A professional assurance services provider.

Auditor's report:
The final report that sets out the auditor's opinion (see also "The auditor's report", and an example of an auditor's report in Appendix 2).

Auditing and assurance standards:
Mandatory standards applied by assurance practitioners in audits, reviews and other assurance engagements. In Malaysia, these standards are issued by the Auditing and Assurance Standards Board of the Malaysian Institute of Accountants, and internationally by the International Auditing and Assurance Standards Board.

Fair presentation framework:
Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework. The application of Malaysian Financial Reporting Standards and International Financial Reporting Standards, with additional disclosures when necessary, is presumed to result in financial statements that achieve a fair presentation.

Financial statements:
Four primary financial statements for the current and comparative financial period (statement of profit and loss and other comprehensive income, statement of financial position, statement of changes in equity, and statement of cash flows), plus the notes to the financial statements. See also, "A guide to understanding annual reports: Malaysian listed companies" available on **CPA Australia** and **MIA**'s websites.

Going concern:
An entity that is expected to continue in operation for the foreseeable future, has neither the intention nor the need to enter into liquidation or to cease trading. This is generally taken to be a 12-month period from the date of the end of the financial period for the purpose of the auditor's going concern assessments. (see also "What do auditors do in regard to the going concern assumption?").

Limited assurance:
A level of assurance that is meaningful, but lower than **reasonable assurance** (see also "What does assurance mean?").

Material misstatement:
An inaccuracy or omission in the financial statements that is significant enough to affect the decisions made by users taken on the basis of the financial statements. Judgements about materiality are made in light of surrounding circumstances and are affected by the size (quantitative) and nature (qualitative) of a misstatement or a combination of both.

Pervasive:
Describes the effects on the financial statements of misstatements or the possible effects on the financial statements of misstatements, if any, that are undetected due to an inability to obtain sufficient appropriate audit evidence.

Reasonable assurance:
A high but not absolute level of assurance (see also "What does assurance mean?").

Those charged with governance:
The person(s) or organisation(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. In a listed company, this consists of the board of directors, which includes executive members and members of the audit committee.

True and fair view:
Free from material misstatements and faithfully represents the financial performance and position of the entity.

APPENDIX 2 – EXAMPLE OF INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

Who is the report for?	Wording of the Auditor's Report
The report is addressed to the members or shareholders of the company	To the Shareholders of ABC Company Berhad.

What does the report cover?

This section sets out the basic details of the engagement – the applicable reporting period, name of the company, and what was audited	**Opinion** We have audited the accompanying financial statements of ABC Company 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.

What was the audit outcome?

The auditor sets out their overall finding in the opinion. This is an example of an unmodified or 'clean' audit opinion. **See also "The auditor's report" for information on modified opinions.**	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 (IFRSs) and the requirements of the *Companies Act 2016* in Malaysia.

How did the auditor form their opinion?

The auditor provides important context about the auditor's opinion.	**Basis for Opinion** We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's 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") and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Which matters were significant in the audit?

The auditor outlines the matters most significant in the audit of the financial statements of the current period.	**Key Audit Matters** Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the contexts of our audit of the financial statements 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. Example: Valuation of Financial Instruments The Company's investments in structured financial instruments represent [x%] of the total amount of its financial instruments. Due to their unique structure and terms, the valuation of these instruments is based on entity-developed internal models and not on quoted prices in active markets. Therefore, there is significant measurement uncertainty involved in this valuation. As a result, the valuation of these instruments was significant to our audit.]

What is done on sections of the annual report which are not audited?

The auditor explains the procedures they have conducted with respect to the other information in the annual report.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report for the year ended 31 December 20XX, but does not include the financial statements and our auditor's report thereon.

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

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

What is the Directors' role?

This describes the Directors' responsibilities for the preparation of the financial statements, the internal controls in the company and assessing the company's ability to continue as going concern.

Responsibilities of the Directors for the Financial Statements:

The directors of the Company are responsible for the preparation of the financial statements that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards 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 the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, 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.

What is the Auditor's role?

The auditor sets out their responsibilities for auditing the financial statements and provides a brief description of what this means (see also "What do auditors do?")

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 the 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.

What is the Auditor's role? (cont.)

The auditor sets out their responsibilities for auditing the financial statements and provides a brief description of what this means (see also "What do auditors do?")

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 auditor's 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.

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 auditor's 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.

Restriction of responsibility of the use of the auditor's report

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.

Who is the auditor?

The auditor provides their name and firm.

[Auditor's name and signature]
[Name of Firm]
[Date of the auditor's report]
[Auditor's address]