Suruhanjaya Sekuriti
Securities Commission
Malaysia

Audit Oversight Board

Conversation with Audit Committees

Presentation by
Lim Fen Nee
Audit Oversight Board

7 May 2015

Agenda

1. About the Audit Oversight Board
2. Audit Committee Oversight Function
   - Key responsibilities of the Audit Committee
   - Practical cases and the New Auditor's Report
3. Impact of New Accounting Standards

Suruhanjaya Sekuriti
Securities Commission
Malaysia

About the
Audit Oversight Board

About the Audit Oversight Board

- The Securities Commission Malaysia has been given the power by Parliament to undertake these functions:

  - Promote and develop an effective and robust audit oversight framework in Malaysia;

  - Promote confidence in the quality and reliability of audited financial statements in Malaysia; and

  - Regulate auditors of Public Interest Entities (PIE).

- The AOB was established on 1 April 2010 to discharge the above functions.

Mission Statement and Strategic Themes

"Fostering high quality independent auditing to promote confidence in the quality and reliability of audited financial statements of public interest entities in Malaysia"

Outcomes

- Confidence in audited financial statements
- Audit opinion based on sufficient and appropriate evidence
- Externalisation of professional values and ethics
- Resourceful and capable audit practices
- High quality financial reporting practices by PIE

Strategic Themes

- **Support adoption and implementation of standards**
- **Promote high quality audit practices**
- **Influence financial reporting ecosystem**
- **Leverage on stakeholders support**

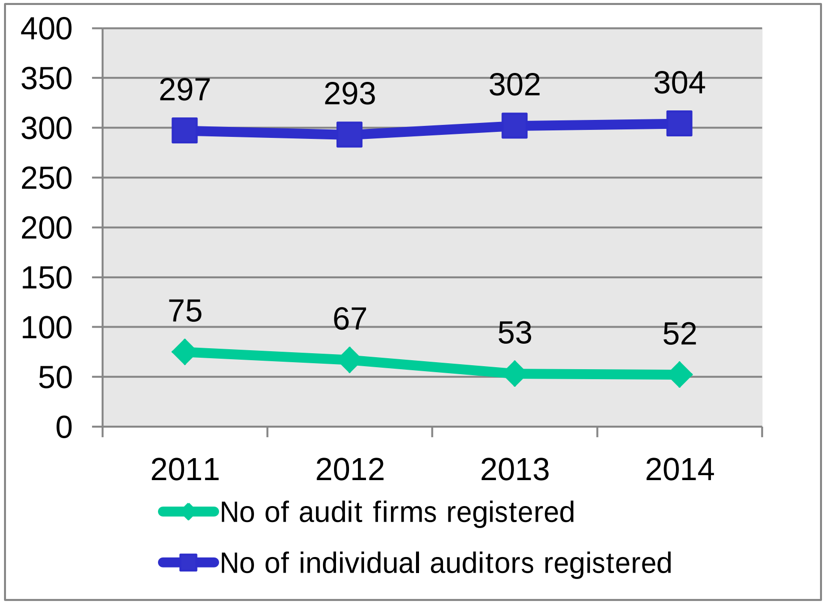
Services Areas

- Standards setting and guidance
- Registration
- Inspection and Remediation
- Enforcement of standards
- Promotion of quality and Collaboration with stakeholders

Registration and Recognition

Registration as at 31 Dec 2014

Profile of audit firms	No. of audit firms	No. of individual auditors	No. of PIEs	% of Market Capitalisation
≥10 partners	8	181	940	95.41%
5 – 9 partners	6	30	75	0.53%
2 – 4 partners	35	90	123	3.93%
Sole proprietor	3	3	6	0.01%
TOTAL	**52**	**304**	**1,144**	**99.89%**



Recognition as at 31 Dec 2014

Profile of audit firms	No. of audit firms	No. of individual auditors	No. of PIEs	% of Market Capitalisation
Singapore	3	6	4*	0.01%
UK	1	2	1	0.08%
Hong Kong	1	2	1	0.02%
Subtotal	**5**	**10**	**6**	**0.11%**

**One PIE subject to appointment of auditor*

2013 Top 5 Inspection Findings

	Global 2014 IFIAR Survey *(results from up to 9 larger firms per member jurisdiction)*		Malaysia 2013 AOB Findings *(submitted for 2014 IFIAR Survey, results from 7 larger firms)*
1	Internal Control Testing	1	Going Concern
2	Fair Value Measurement	2	Adequacy of Financial Statements Disclosures
3	Inventory	3	Inventory
4	Revenue Recognition	4	Substantive Analytical Procedures
5	Substantive Analytical Procedures	5	Use of Experts and Specialists

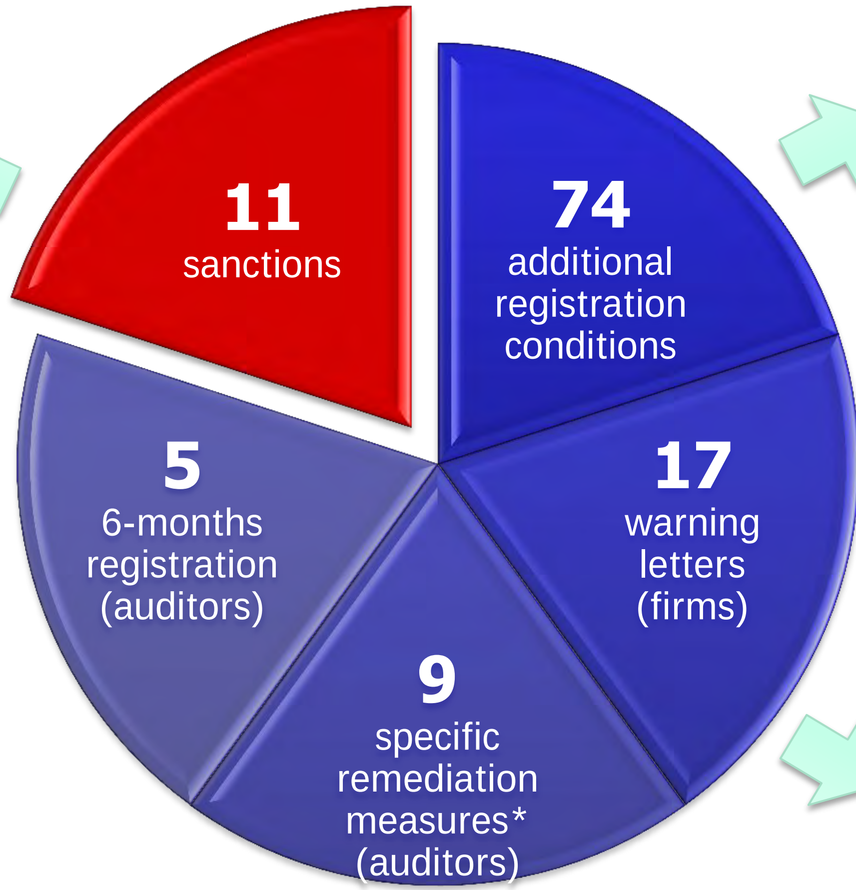
AOB Action

Action Taken by AOB on Audit Firms & Auditors (2010-2014)

Failure to comply with auditing & ethical standards in performance of audit engagements

10
Public Reprimands, including 4 with monetary penalty (auditors)

1
Prohibition from accepting clients for 12 months & monetary penalty (firm)



Arising from areas such as:

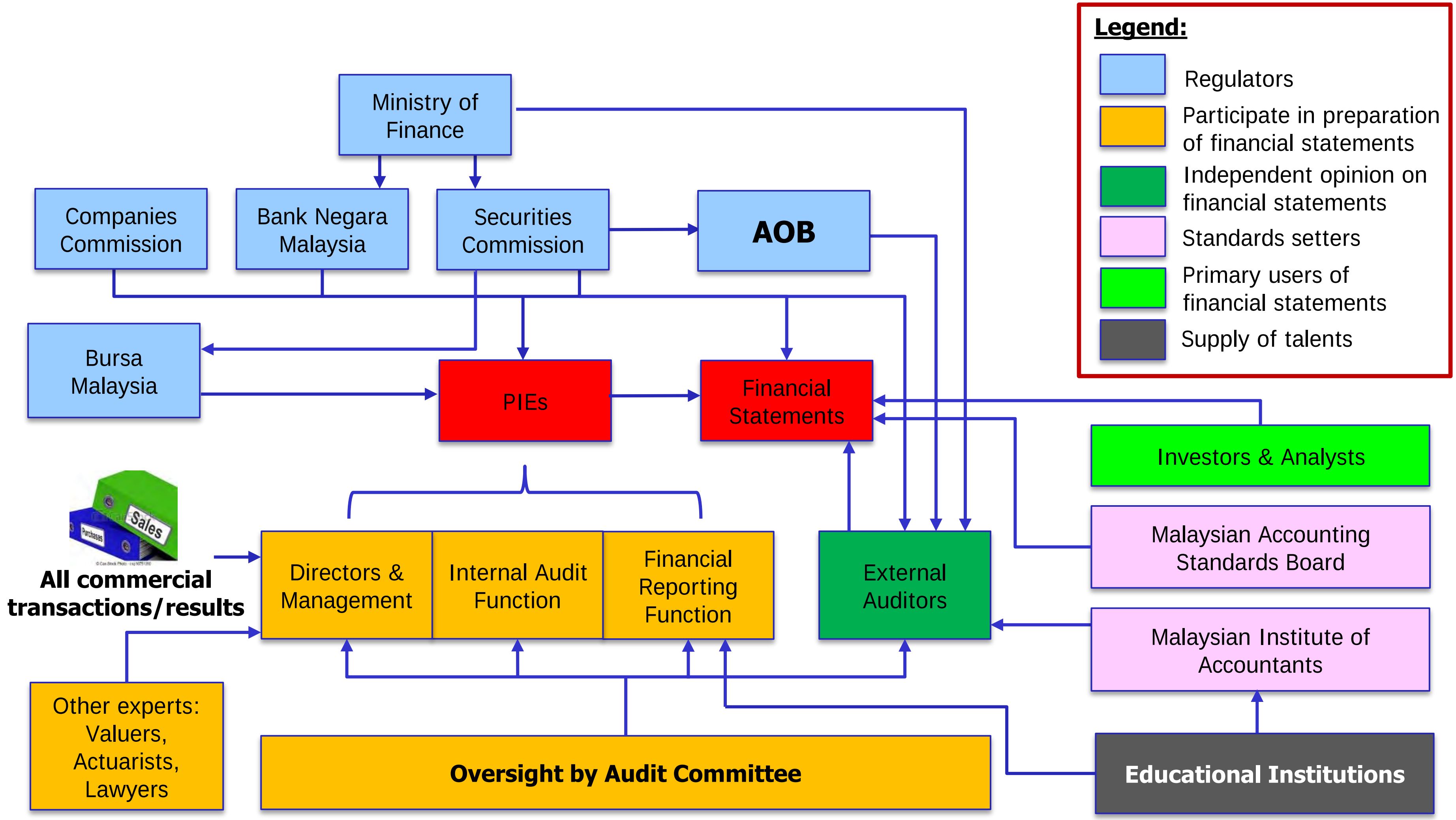
- Registration concerns, inspection findings & enforcement actions (auditors)
- Improvement on quality control (firms)

6
Failure to register before accepting appointment as PIE auditor (firms)

11
Failure to comply with Partner Rotation Rule (firms)

*Note: Specific remediation measures are wef 29 July 2013.

The Financial Reporting Ecosystem



Suruhanjaya Sekuriti
Securities Commission
Malaysia

Audit Committee
Oversight Function

Audit Committee – Key Responsibilities

Key responsibilities of the Audit Committee

- Implementation of policies for risk identification and evaluation.
- Adequate and effective internal controls to address:
  - ✓ Control environment
  - ✓ Risk assessment
  - ✓ Control activities
  - ✓ Information
  - ✓ Monitoring

- Review and report to the Board any (recurrent) related party transactions and conflict of interest situations that may arise in the company or the group.
- Ensure establishment of proper framework.
- Assessment should consider economic and commercial substance over form.

Assess risks and control environment
[may be delegated to another specific committee]

Oversee financial reporting

Review conflict of interest situations and related party transactions

Evaluate the audit process

To ensure:

- Integrity of financial reporting
- Financial statements give a true and fair view of the financial position and results of the company.
- Compliance with all applicable legal and regulatory financial reporting requirements and accounting standards.

Supported by:
- Right personnel
- Adequate resources
- Right infrastructure

- Review competency of internal audit (IA) function e.g. Quality Assurance Review by external parties.
- Review and monitor suitability and independence of external auditors (EA), including consideration of:
  - ✓ Competence
  - ✓ Scope of audit
  - ✓ Audit fee
- Ensure IA and EA maintain an effective relationship and co-ordinate their efforts.

Source:
Corporate Governance Guide (2nd Edition), by Bursa Malaysia

Audit Committee – Key Responsibilities

Key responsibilities of the Audit Committee

- Implementation of policies for risk identification and evaluation.
- Adequate and effective internal controls to address:
  - ✓ Control environment
  - ✓ Risk assessment
  - ✓ Control activities
  - ✓ Information
  - ✓ Monitoring

Assess risks and control environment
[may be delegated to another specific committee]

Oversee financial reporting

Review conflict of interest situations and related party transactions

Evaluate the audit process

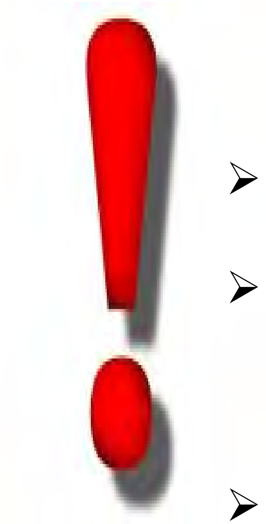
To ensure:

- Integrity of financial reporting
- Financial statements give a true and fair view of the financial position and results of the company.
- Compliance with all applicable legal and regulatory financial reporting requirements and accounting standards.

Source: Corporate Governance Guide (2nd Edition), by Bursa Malaysia

Case Study: Asset Impairment

Key area of focus



- Understanding management's key assumptions, including management's experts where relevant.
- Basis to support the conclusion
- Determination of recoverable amount with appropriate comparison with the asset's carrying amount
- Consideration of sensitivity analysis to evaluate the impact of key assumptions used

Case Study: Asset Impairment (cont.)

Example: Investment in a subsidiary which has been loss-making and in net current liabilities position

	Actual 2012	Projection 2013	Forecast 2014	Forecast 2015	Forecast 2016	Forecast 2017	Terminal value
Revenue	150	350	385	424	466	512	
Cost of sales	(135)	(245)	(270)	(296)	(326)	(359)	
Gross Profit	15	105	115	128	140	153	
GP Margin	*10%*	*30%*	*30%*	*30%*	*30%*	*30%*	
Admin and other cost	(65)	(85)	(94)	(10)	(11)	(12)	
(LBT) / PBT	(50)	20	21	25	27	29	
Tax (20%)	-	(4)	(4)	(5)	(5)	(6)	
(LAT) / PAT	(50)	16	17	20	22	23	1,300

Key assumption 1:
Increase in revenue in FYE 2013 due to one new customer

Key assumption 2:
Constant growth rate (g) of 10% year on year

Key assumption 3:
Calculated based on a growth rate of 11%

Key assumption 4:
WACC (r) of 13%

Value in Use = NPV =	773
Carrying amount of Sub A	100
Goodwill	500
	600
	173

CONCLUSION:
NO IMPAIRMENT ON ASSETS AND GOODWILL

Case Study: Asset Impairment (cont.)

Example: Investment in a subsidiary which has been loss-making and in net current liabilities position

	Actual 2012	Projection 2013	Forecast 2014	Forecast 2015	Forecast 2016	Forecast 2017	Terminal value
Revenue	150	350	385	401	429	459	
Cost of sales	(135)	(245)	(262)	(281)	(300)	(329)	
Gross Profit	15	105	112	120	129	138	
GP Margin	*10%*	*30%*	*30%*	*30%*	*30%*	*30%*	
Admin and other cost	(65)	(85)	(91)	(97)	(104)	(111)	
(LBT) / PBT	(50)	20	21	23	25	27	
Tax (20%)	-	(4)	(4)	(5)	(5)	(5)	-
(LAT) / PAT	(50)	16	17	18	20	22	249

Key assumption 1:
Increase in revenue in FYE 2013 due to one new customer

Supported by a mere "Letter of Intent"

Key assumption 2:
Constant growth rate (g) of 10% year on year

Historical growth of company last 5 years = 5%, Forecasted for next 2 years – 7%

Key assumption 3:
Calculated based on a growth rate of 11%

Basis to higher growth rate?

Key assumption 4:
WACC (r) of 13%

Entire group's average WACC, not specific to Sub A which actual cost of capital = 16%

Value in Use = NPV =	178
Carrying amount of Sub A	100
Goodwill	500
	600
	(422)

If r = 16%, g = 7%

IMPAIRMENT =

~~**CONCLUSION:**~~
~~**NO IMPAIRMENT ON ASSETS AND GOODWILL**~~

Managing Information Technology (IT) Risks

Managing Information Technology (IT) Risks

IMPORTANCE OF IT

Drive business growth via new sales channels:
- Company website
- E-commerce websites
- Social media
- Mobile devices

Drive efficiency
- Automated processes
- Straight through processing
- Paperless transactions

Supports business operations
Sales, payroll, inventory management, production

Supports decision making

IMPLEMENTATION OF NEW SYSTEMS / TECHNOLOGY

- Web application and payment systems
- Data analytics (e.g. sales trends)
- Outsourcing of IT services and hardware (e.g. web hosting)

- Standalone business support systems (Finance / Accounts, HR, Manufacturing)
- Integrated systems (e.g. ERP systems)

IT RISKS

IS YOUR ORGANISATION DOING ENOUGH TO MANAGE IT RISKS ?

- **IT Governance**
- **Controls / Processes**

- **IT Resource and Skills**
- **Assurance**

Audit Committee – Key Responsibilities

Key responsibilities of the Audit Committee

Assess risks and control environment [may be delegated to another specific committee]

Oversee financial reporting

Review conflict of interest situations and related party transactions

Evaluate the audit process

- Review and report to the Board any (recurrent) related party transactions and conflict of interest situations that may arise in the company or the group.
- Ensure establishment of proper framework.
- Assessment should consider economic and commercial substance over form.

To ensure:

- Integrity of financial reporting
- Financial statements give a true and fair view of the financial position and results of the company.
- Compliance with all applicable legal and regulatory financial reporting requirements and accounting standards.

Source: Corporate Governance Guide (2nd Edition), by Bursa Malaysia

Case Study: Fraud - Risk of Management Override of Controls

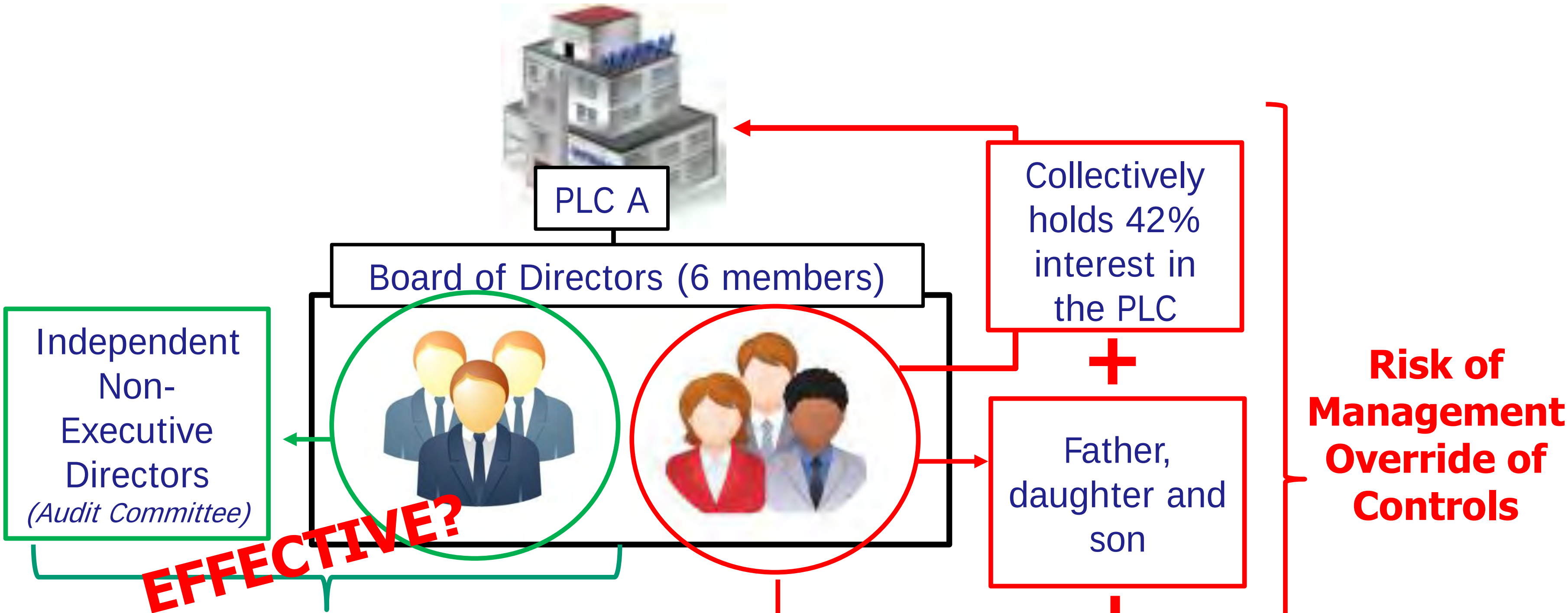
Prevention and detection of Fraud

- Management and TCWG **primarily responsible** for prevention and detection of fraud
- Oversight consideration include:
  - Potential override of controls
  - Potential inappropriate influence over financial reporting

Auditors' responsibility

- To obtain reasonable assurance that financial statements are free from material misstatements whether caused by **fraud** or error
- To maintain appropriate level of professional skepticism throughout the audit
- Relevant procedures include:
  - Inquiry
  - Testing/review

Case Study: Fraud - Risk of Management Override of Controls



KEY RESPONSIBILITIES

- oversight to create and maintain culture of honesty and ethical behavior
- protect other key stakeholders' interests (e.g. minority shareholders, bankers, creditors, etc.)

Case Study: Fraud - Risk of Management Override of Controls

Fictitious sales/Purported invoices

Receivables ← Revenue

CREATION

CONCEAL

Capitalised as NCA after credit term period

Non-Current Assets
- PPE
- Intangible assets

→

Expensed off over period of time

Expenses
- Depreciation
- Amortisation

PREVENTION OF FRAUD

Strong internal control

Effective oversight framework

Audit Committee – Key Responsibilities

Key responsibilities of the Audit Committee

- Assess risks and control environment
  [may be delegated to another specific committee]
- Oversee financial reporting
- Review conflict of interest situations and related party transactions
- Evaluate the audit process

Supported by:
- Right personnel
- Adequate resources
- Right infrastructure

To ensure:

- Integrity of financial reporting
- Financial statements give a true and fair view of the financial position and results of the company.
- Compliance with all applicable legal and regulatory financial reporting requirements and accounting standards.

Source:
Corporate Governance Guide (2nd Edition), by Bursa Malaysia

Shortened Financial Reporting Timeline

Shortening of Financial Reporting Timeline (For PLCs)

(Amendments to Bursa Malaysia Listing Requirements)

Deliverable	Timeline
Annual reports FYE 31 Dec 2014	Within 5 months from close of FY
Annual reports FYE 31 Dec 2015	Within 4 months from close of FY

New Auditor's Report 15 Dec 2016	Impact from MFRS Developments

Are you prepared?

New Auditor's Report

The Auditor's Report – A Comparison

Existing Auditor's Report

- Director's Responsibility
- Auditor's Responsibility
- Opinion
- Basis for Opinion
- Report on Other Legal and Regulatory Requirements
- Other Matters
- Name of Signing Partner

Effective 15 Dec 2016

New Auditor's Report

- Opinion
- Basis for Opinion
- Key Audit Matters
- Going Concern
- Other Information
- Responsibilities of Management / Those Charged with Governance
- Auditor's Responsibilities
- Explicit statement of auditor independence and fulfilment of other ethical responsibilities
- Report on Other Legal and Regulatory Requirements
- Name of engagement partner

Greater prominence

Mandatory for PLCs

May be in an appx/website/etc.

New/revised reporting requirements

Enhanced reporting requirements

Existing Auditor's Report – Illustrative Example

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF XYZ BERHAD

Report on the Financial Statements

We have audited the financial statements of XYZ Berhad, which comprise the balance sheets as at 31 December 20XX of the Group and of the Company, and the income statements, statements of changes in equity and cash flow statements[1] 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 Financial Reporting Standards[2] 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 Financial Reporting Standards[2] and the requirements of the Companies Act 1965 in Malaysia.

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 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]

Source: MIA Recommended Practice Guide 5 (Revised)

New Auditor's Report – Illustrative Example

Suruhanjaya Sekuriti
Securities Commission
Malaysia

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Consolidated Financial Statements

Opinion GREATER PROMINENCE

We have audited the consolidated financial statements of ABC Company and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 20X1, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, (or *give a true and fair view of*) the consolidated financial position of the Group as at December 31, 20X1, and (*of*) its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the consolidated financial statements in [*jurisdiction*], and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated 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 in accordance with ISA 701.*]

KEY AUDIT MATTERS (KAM) DISCLOSURES

[More]

Other Information [or another title if appropriate, such as "Information Other than the Financial Statements and Auditor's Report Thereon"] OTHER INFORMATION

Management[6] is responsible for the other information. The other information comprises the [information included in the X report,[7] 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 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.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

GOING CONCERN (MANAGEMENT/TCWG)

[More]

May include **identification of other information in the annual report** expected to be obtained **after** the date of the auditor's report.

Source: IAASB New and Revised Auditor Reporting Standards and Related Conforming Amendments – At a Glance & ISA 720 (Revised)

New Auditor's Report – Illustrative Example

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements [5]

Our objectives are to obtain reasonable assurance about whether the consolidated 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 ISAs 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 consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

GOING CONCERN (AUDITOR)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's 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 consolidated financial statements 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 auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance 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 those charged with governance 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, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period 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.

KAM DISCLOSURES

Report on Other Legal and Regulatory Requirements

[The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities prescribed by local law, regulation, or national auditing standards. The matters addressed by other law, regulation or national auditing standards (referred to as "other reporting responsibilities") shall be addressed within this section unless the other reporting responsibilities address the same topics as those presented under the reporting responsibilities required by the ISAs as part of the Report on the Audit of the Consolidated Financial Statements section. The reporting of other reporting responsibilities that address the same topics as those required by the ISAs may be combined (i.e., included in the Report on the Audit of the Consolidated Financial Statements section under the appropriate subheadings) provided that the wording in the auditor's report clearly differentiates the other reporting responsibilities from the reporting that is required by the ISAs where such a difference exists.]

The engagement partner on the audit resulting in this independent auditor's report is [*name*].

[*Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction*]

[*Auditor Address*]

[*Date*]

AUDITOR'S RESPONSIBILITIES

May be located either in:

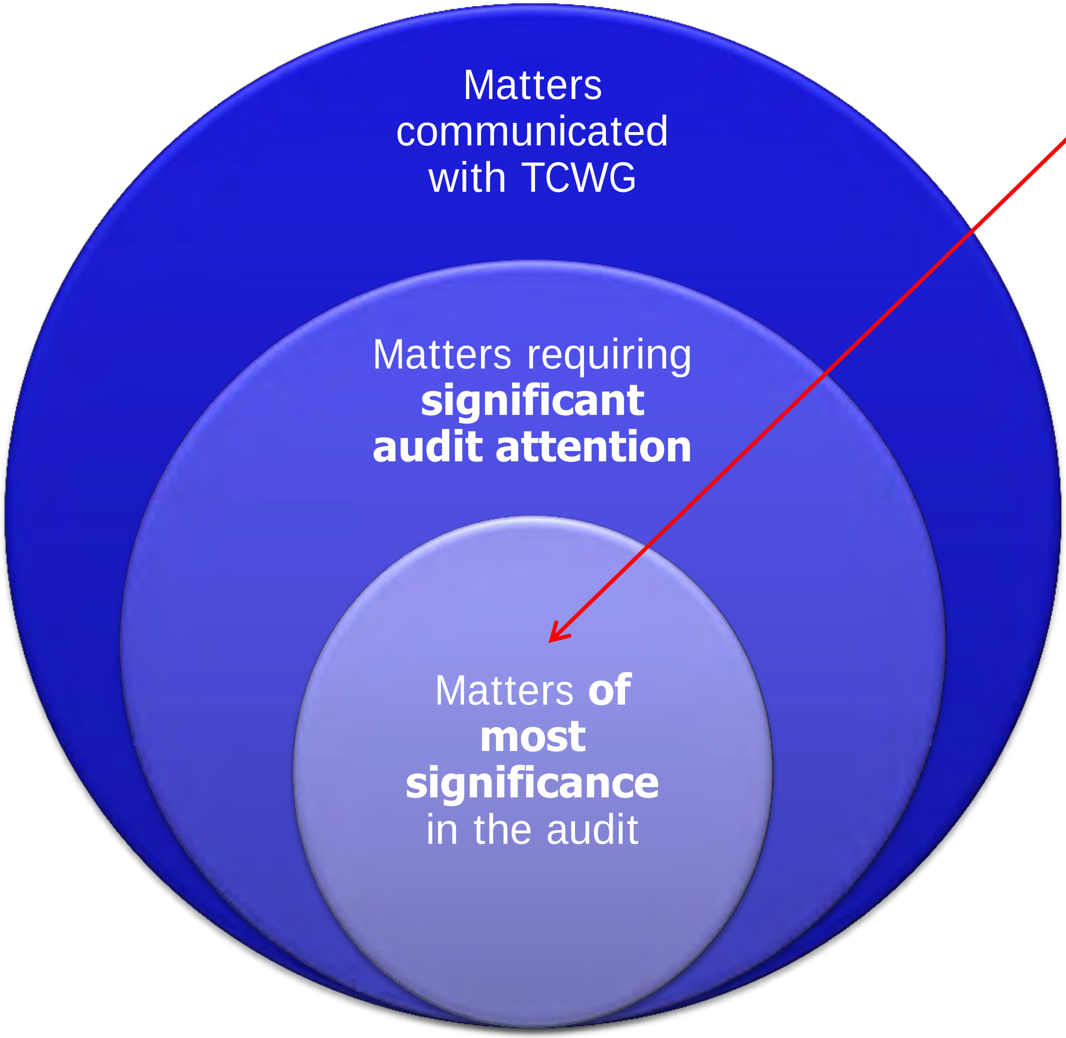
1. *Body of auditor's report; or*
2. *Appendix to auditor's report; or*
3. *A website of an appropriate authority – with ref made to it.*

NAME OF ENGAGEMENT PARTNER (EP)
(Malaysia – EP is also the Signing Partner)

AUDITOR INDEPENDENCE & OTHER ETHICAL RESPONSIBILITIES

Source: IAASB New and Revised Auditor Reporting Standards and Related Conforming Amendments – At a Glance & ISA 720 (Revised)

New Auditor's Report – Key Audit Matters



KEY AUDIT MATTERS (KAM)

Description should:

- Be **entity specific**;
- **Avoid standardised/ technical language**; and
- Shall include:
  1. Why the matter was determined to be a KAM?
  2. How the KAM was addressed in the audit?
  3. Reference to related disclosures.

KAM ≠ Piecemeal Opinion

[Examples]

Source: IAASB Auditor Reporting Toolkit and Slides

New Auditor's Report – KAM (Example)

Suruhanjaya Sekuriti
Securities Commission
Malaysia

Extract from auditor's report on 2014 annual report of Bodycote plc

Risk	How the scope of our audit responded to the risk
Impairment of non-current assets Given the Group's significant asset base and the continued macro-economic uncertainties in certain global territories, this risk concerns the carrying value of intangible (including goodwill) and tangible fixed assets. The Group's assessment of the carrying value of intangible and tangible fixed assets of £172.1m and £434.6m respectively requires significant judgement, as described in note 10 and the key sources of estimation uncertainty within the accounting policies. Particular attention is given to cash flow, growth rates, discount rates and sensitivity assumptions.	We challenged the assumptions used in the impairment model for intangible and tangible assets. As part of our procedures we: ▪ considered the appropriateness of the growth rate assumptions by comparing them to historical trading performance for both revenue and operating profit across the Group's geographical and market segments; ▪ assessed the appropriateness of the assumptions concerning inputs to the discount rate against latest market expectations. In performing our procedures, we used our internal valuation specialists and third party evidence to assess the appropriateness of the discount rate applied; and ▪ considered management's assertions of the future utilisation of assets supporting their carrying value by reviewing the strategic plan for the business by cash generating unit.

1. Why the matter was determined to be a KAM?

2. How the KAM was addressed in the audit?

3. Reference to related disclosures

Audit Oversight Board Malaysia

New Auditor's Report – KAM (Example)

Suruhanjaya Sekuriti
Securities Commission
Malaysia

Extract from auditor's report on 2014 annual report of GKN plc

Area of focus

Western Approach

Refer to pages 44 to 51 (Principal risks and uncertainties), pages 73 to 74 (Audit committee report), note 1 (Accounting policies and presentation), note 11 (Goodwill and other intangible assets) and note 12 (Property, plant and equipment).

We focused on this area because the Directors' assessment of the recoverability of this programme's intangible assets of £120 million and tangible assets of £89 million, inclusive of £15 million of capitalised borrowing costs, involve complex and subjective judgements and assumptions about the progress and future results of this programme. The key judgements and assumptions made by the Directors included the discount rate and the key business drivers of the cash flow forecasts, being the number of aircraft sets to be produced, production and assembly hours, material costs, programme timings which include potential delays and the effects of foreign exchange rates.

How our audit addressed the area of focus

followed an acceptable methodology and was consistent with prior periods.

We challenged the Directors on the discount rate used by comparing this to the cost of capital for the Group and a selection of comparable organisations.

We also challenged the Directors' impairment model around the key business drivers of the cash flow forecasts supporting their recoverability assessment. A range of sensitivities were performed across the different elements of the impairment mode in order to understand which judgements and assumptions were most sensitive in achieving the Directors' recoverability assessment. The most sensitive and judgemental elements are detailed below:

- for production and assembly hours, we considered the Directors' expectations for achieving targeted learning curve improvements and hence reducing the total hours per aircraft set. We challenged the Directors on the historical achievement of learning curve improvement targets on the A350 programme. We also considered how this was balanced against the expected increase in production rates over future years and the implicit challenges that this will bring to achieving the required hours improvements.
- for the number of aircraft sets, we considered the Directors' expectations for the number and timing of sets to be produced and compared this to current industry expectations, past schedules and the latest reported order book from Airbus.

Based on our audit work, the planned levels of production and assembly hour improvements appear achievable, although not without challenge, and the total number of aircraft sets expected to be produced is consistent with current market expectations and production schedules.

As a result of this, we found that the Directors' assessment of the carrying value of intangible and tangible assets relating to the A350 programme at Western Approach to be supportable. However, we consider that a failure to meet target production and assembly hour rates as the supply to Airbus increases, or a significant change in the total number of aircraft sets to be produced could reasonably be expected to give rise to an impairment charge in the future.

"... planned levels of production and ... improvements appear **achievable, although not without challenge**, ..."

"However, ... **a failure to meet target** production and assembly hour rates as the supply ... increases, or a **significant change** in the total number ... to be produced **could reasonably be expected to give rise to an impairment charge** in the future.

1. Why the matter was determined to be a KAM?

2. How the KAM was addressed in the audit?

3. Reference to related disclosures.

New Auditor's Report – KAM (Example)

Extract from auditor's report on 2014 annual report of Pearson PLC

Acquisitions and disposals

Refer to notes 30 and 31 to the consolidated financial statements In February 2014 the Group acquired Grupo Multi for £437m, recognising £240m of goodwill and £254m of intangible assets. This is a significant transaction requiring judgement to identify and value the intangible assets and assess their subsequent recoverability.

As part of the Penguin Random House transaction the Group recorded an estimated £59m provision in 2013 for the cost of transferring the pension liability guarantee for Penguin employees to Bertelsmann. It was concluded during 2014 that Pearson would retain responsibility for this pension liability. The provision has been released within discontinued operations in the current year.

In February 2014 the Group sold Mergermarket for £375m, resulting in a gain on disposal of £245m pre-tax and judgemental classification as discontinued operations.

1. Why the matter was determined to be a KAM?

The Group engagement team visited Brazil and met with local management of Grupo Multi to gain an understanding of the business.

We performed detailed testing over the acquisition accounting, including fair value adjustments such as identification and valuation of intangible assets. Post-acquisition performance and forecasts were assessed to identify potential impairment triggers.

We obtained the communication between Pearson and Bertelsmann confirming that Pearson will retain responsibility for the pension liability of the legacy Penguin employees. We tested the appropriate reversal of the provision within discontinued operations.

We tested the gain on disposal for Mergermarket by agreeing the consideration to sales documents and cash received and agreed the net assets disposed to underlying records. We also evaluated its presentation in the Annual report.

No material misstatements were identified by our testing and we found that relevant disclosures were included in the Annual report.

2. How the KAM was addressed in the audit?

3. Reference to related disclosures.

New Auditor's Report – KAM (Example)

Suruhanjaya Sekuriti
Securities Commission
Malaysia

Extract from auditor's report on 2014 annual report of AstraZeneca PLC

Litigation and contingent liabilities (provisions of $74m)

Refer to page 98 (Audit Committee Report), page 141 (accounting policy), page 182 (financial disclosures) and page 84 (financial risk management)

The risk

In the normal course of business, litigation and contingent liabilities may arise from product-specific and general legal proceedings, from guarantees, government investigations or from environmental liabilities connected with the Group's current or former sites. The amounts involved are potentially material and the application of accounting standards to determine the amount, if any, to be provided as a liability, is inherently subjective.

1. Why the matter was determined to be a KAM?

3. Reference to related disclosures.

Our response

Having made enquires of the Directors to obtain their view on the status of significant legal matters, our principal audit procedures included: testing the Group's controls surrounding litigation and contingent liabilities, assessment of correspondence with the Group's external counsel on all significant legal cases and discussions with external counsel where necessary. In addition we obtained formal confirmations from the Group's external counsel for all significant litigation, used our own forensic and compliance specialists to assess the Group's compliance logs and reports to identify actual and potential non-compliance with laws and regulations, both those specific to the Group's business and those relating to the conduct of business generally. We then analysed correspondence with regulators, reviewed legal expenses incurred during the year, monitored external sources and considered management's assessment of the probability of defending any litigation and the reliability of estimating any obligation. We also assessed whether the Group's disclosures detailing significant legal proceedings adequately disclose the potential liabilities of the Group.

Our findings

Whilst the outcome of these litigation matters is inherently uncertain in each case, we found that the Group applied balanced judgments, on a case by case basis, in assessing whether or not a provision should be recognised. We found that the assumptions used and the resulting liability recorded to be balanced. We found that the Group gives extensive disclosure on the potential liability in excess of that recognised in the Financial Statements and the significant but unquantifiable contingent liability in respect of these litigation matters.

Use of auditor's own experts, e.g. forensic and compliance specialists

Is documentation in place to facilitate audit?

2. How the KAM was addressed in the audit?

New Auditor's Report – KAM (Example)

Extract from auditor's report on 2014 annual report of Rolls-Royce plc

The measurement of revenue and profit in the Civil aerospace business

Refer to pages 101 and 102 (Key areas of judgement – Measurement of performance on long-term aftermarket contracts), pages 104 and 105 (Significant accounting policies – Revenue recognition and TotalCare arrangements) and pages 69 to 71 (Audit Committee report – Financial reporting)

The risk – The amount of revenue and profit recognised in a year on the sale of engines and aftermarket services is dependent, inter alia, on the assessment of the percentage of completion of long-term aftermarket contracts and the forecast cost profile of each arrangement. As long-term aftermarket contracts can extend over significant periods and the profitability of these arrangements typically assumes significant life-cycle cost improvement over the term of the contracts, the estimated outturn requires significant judgement to be applied in assessing engine flying hours, time on wing and other operating parameters, the pattern of future maintenance activity and the costs to be incurred. The inherent nature of these estimates means that their continual refinement can have an impact on the profits of the Civil aerospace business that can be significant in an individual financial year. The assessment of the estimated outturn for each arrangement involves detailed calculations using large and complex databases with a significant level of manual intervention.

1. Why the matter was determined to be a KAM?

3. Reference to related disclosures.

Our response – We tested the controls designed and applied by the Group to provide assurance that the estimates used in assessing revenue and cost profiles are appropriate and that the resulting estimated cumulative profit on such contracts is accurately reflected in the Financial Statements; these controls operated over both the inputs and the outputs of the calculations. We challenged the appropriateness of these estimates for each programme and assessed whether or not the estimates showed any evidence of conscious or unconscious management bias in the context of the heightened pressure on and incentives for management to meet the latest guidance discussed above. Our challenge was based on our assessment of the historical accuracy of the Group's estimates in previous periods, identification and analysis of changes in assumptions from prior periods and an assessment of the consistency of assumptions across programmes, detailed assessments of the achievability of the Group's plans to reduce life-cycle costs and an analysis of the impact of these plans on forecast cost profiles taking account of contingencies and analysis of the impact of known technical issues on cost forecasts. Our analysis considered each significant airframe that is powered by the Group's engines and was based on our own experience supplemented by discussions with an aircraft valuation specialist engaged by the Group. We assessed whether the valuer was objective and suitably qualified. We also checked the mathematical accuracy of the revenue and profit for each arrangement and considered the implications of identified errors and changes in estimates.

Our findings – In 2013, our testing identified weaknesses in the design and operation of controls and we assessed the effectiveness of the Group's plans for addressing these weaknesses. In planning the 2014 audit, we anticipated that the control weaknesses identified in 2013 audit would be remediated. However, our testing identified continuing, albeit reduced, control weaknesses in some areas and so, as in 2013, we increased the scope and depth of our detailed testing and analysis from that originally planned. Overall, our assessment is that the assumptions and resulting estimates (including appropriate contingencies) resulted in mildly cautious *(2013 audit finding: mildly cautious)* profit recognition and we found no indication of conscious or unconscious bias.

2. How the KAM was addressed in the audit?

"... our testing identified **weaknesses in** the design and operation of **controls** ..."

Consistent with Statement of Risk Management and Internal Control?

"... our assessment is that the assumptions and resulting estimates ... resulted in **mildly cautious profit recognition** ..."

New Auditor's Report – KAM (Example)

Extract from auditor's report on 2014 annual report of Rolls-Royce plc

The pressure on and incentives for management to meet revised revenue and profit guidance

Refer to pages 32 to 41 (Business reviews) and pages 69 to 71 (Audit Committee report – Financial reporting)

The risk – The Group published a number of revisions to its revenue and profit guidance during the year with a generally decreasing trend in profit and revenue and there have been significant associated decreases in the Group's share price. The Chief Executive clearly instructed the Executive Leadership Team and the senior finance executives on more than one occasion not to take any account of the pressure to meet forecasts in preparing the financial results and to be alert to how this might affect personnel across the wider Group. Nevertheless, the heightened pressure on and incentives for management to meet the latest guidance increased the inherent risk of manipulation of the Financial Statements. The financial results are sensitive to significant estimates and judgements, particularly in respect of revenues and costs associated with long-term contracts, and there is a broad range of acceptable outcomes of these that could lead to different profit and revenue reported in the Financial Statements. Relatively small changes in the basis of those judgements and estimates could result in the Group meeting, exceeding or falling short of guidance.

1. Why the matter was determined to be a KAM?

3. Reference to related disclosures.

Our response – We have: (i) extended our enquiries designed to assess whether management had applied unconscious bias or had taken systematic actions to manipulate the reported results; (ii) compared the results to forecasts and challenged variances at a much more granular level than we would otherwise have done based on our understanding of factors affecting business performance with corroboration using external data where possible; (iii) applied an increased level of scepticism throughout the audit by increasing the involvement of the senior audit team personnel, with particular focus on audit procedures designed to assess whether revenues and costs have been recognised in the correct accounting period and whether central adjustments were appropriate; and (iv) challenged our entire audit approach based on an independent review by personnel with no other involvement in the audit.

In particular:

- when considering the risk relating to *The measurement of revenue and profit in the Civil aerospace business*, we challenged the basis for changes in the estimated revenues and costs in long-term contracts with a heightened awareness of the possibility of unconscious or systematic bias; and
- when considering the risk relating to *The presentation of underlying profit*, we sought to identify items that affected profit (and/or the trend in profit) unevenly in frequency or amount at a much lower level than we would otherwise have done and to assess the transparency of disclosure of these items.

Our findings – Aside from one transaction which had a very small impact on the Group's profit and which was subsequently corrected by management, our testing did not identify any indication of manipulation of results. We found the degree of caution/optimism adopted in estimates to be broadly consistent with that adopted in the previous year with no indication of conscious or unconscious bias.

2. How the KAM was addressed in the audit?

Risk of Management Override?

"**Aside from one transaction** ... subsequently corrected ... our testing did not identify any **indication of manipulation of results**."

New Auditor's Report – KAM (Example)

Suruhanjaya Sekuriti
Securities Commission
Malaysia

Extract from auditor's report on 2014 annual report of InterContinental Hotels Group plc

Area of focus	How our audit addressed the area of focus	References
Recognition of deferred tax assets relating to losses We focused on this area due to: • the judgement and estimates required to determine the level of future taxable profits that support recognition; and • the size of the recognised and unrecognised deferred tax assets relating to losses at the balance sheet date, \$154m and \$256m, respectively.	We challenged and applied professional scepticism to management's rationale for the re-assessment of forecast models and considered the appropriateness of management's assumptions and estimates in relation to the likelihood of generating suitable future profits to support the recognition of deferred tax assets. We evaluated the historical accuracy of forecasting and the integrity of the forecast models and as a result of these procedures, we formed our own view on the Group's capacity to obtain effective relief for tax losses and other assets over the forecast period. In particular, we considered the interaction between the recognition of tax losses in the UK and overseas jurisdictions to ensure consistency, since these are both impacted by the application of the UK controlled foreign company legislation.	Refer to page 67 (Audit Committee Report), page 113 (Critical accounting policies and the use of estimates and judgements), and pages 122 to 124 (notes).
1. Why the matter was determined to be a KAM?	**2. How the KAM was addressed in the audit?**	**3. Reference to related disclosures.**

How in control is the Audit Committee over cross border activities?

Completeness and accuracy of information?

New Auditor's Report – Going Concern

Enhanced reporting on **Going Concern (GC)** include:

Description of responsibilities for GC

- Management/TCWG
- Auditor

When material uncertainty relating to GC exists

- If disclosures are adequate
  - Separate section **"Material Uncertainty Related to Going Concern"**
- If disclosures are inadequate
  - **"Modified Opinion"** as 1st section of Auditor's Report.

Additional requirement to challenge adequacy of close calls

Illustrative example of impact to the Auditor's Report:

Material Uncertainty Related to Going Concern

We draw attention to Note 6 in the financial statements, which indicates that the Company incurred a net loss of ZZZ during the year ended December 31, 20X1 and, as of that date, the Company's current liabilities exceeded its total assets by YYY. As stated in Note 6, these events or conditions, along with other matters as set forth in Note 6, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context 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. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

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

ADDITIONAL SENTENCE IN KAM SECTION

This illustrative example applies when:

- ✓ The use of Going Concern basis of accounting is appropriate; **and**
- ✓ Material uncertainty exists relating to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern.

Source: ISA 570 (Revised)

Audit Committee – Key Responsibilities

Key responsibilities of the Audit Committee

- Assess risks and control environment [may be delegated to another specific committee]
- Oversee financial reporting
- Review conflict of interest situations and related party transactions
- Evaluate the audit process

To ensure:

- Integrity of financial reporting
- Financial statements give a true and fair view of the financial position and results of the company.
- Compliance with all applicable legal and regulatory financial reporting requirements and accounting standards.

Evaluate the audit process:

- Review and monitor suitability and independence of external auditors (EA), including consideration of:
  - ✓ Competence
  - ✓ Scope of audit
  - ✓ Audit fee
- Review competency of internal audit (IA) function e.g. Quality Assurance Review by external parties.
- Ensure IA and EA maintain an effective relationship and co-ordinate their efforts.

Source: Corporate Governance Guide (2nd Edition), by Bursa Malaysia

Case Study: Understanding of the Auditors' Work

AUDIT COMMITTEE ENGAGEMENT WITH AUDITORS

Audit Planning Stage
- Timing of audit deliverables
- Overall scope and identification of key risks/significant audit areas
- Extent of planned audit procedures

Before Audit Conclusion
- Disagreement with management
- Unresolved significant accounting/auditing issues
- Outstanding items (e.g. confirmation reply, clarification from management, etc.)

Audit Conclusion
- Clearance and conclusion of significant accounting/auditing issues
- Deficiencies in the PIE's internal control

IMPORTANCE OF EFFECTIVE COMMUNICATION

- To understand the scope of works and responsibility of the auditors
- To provide feedback and input on the audit plan

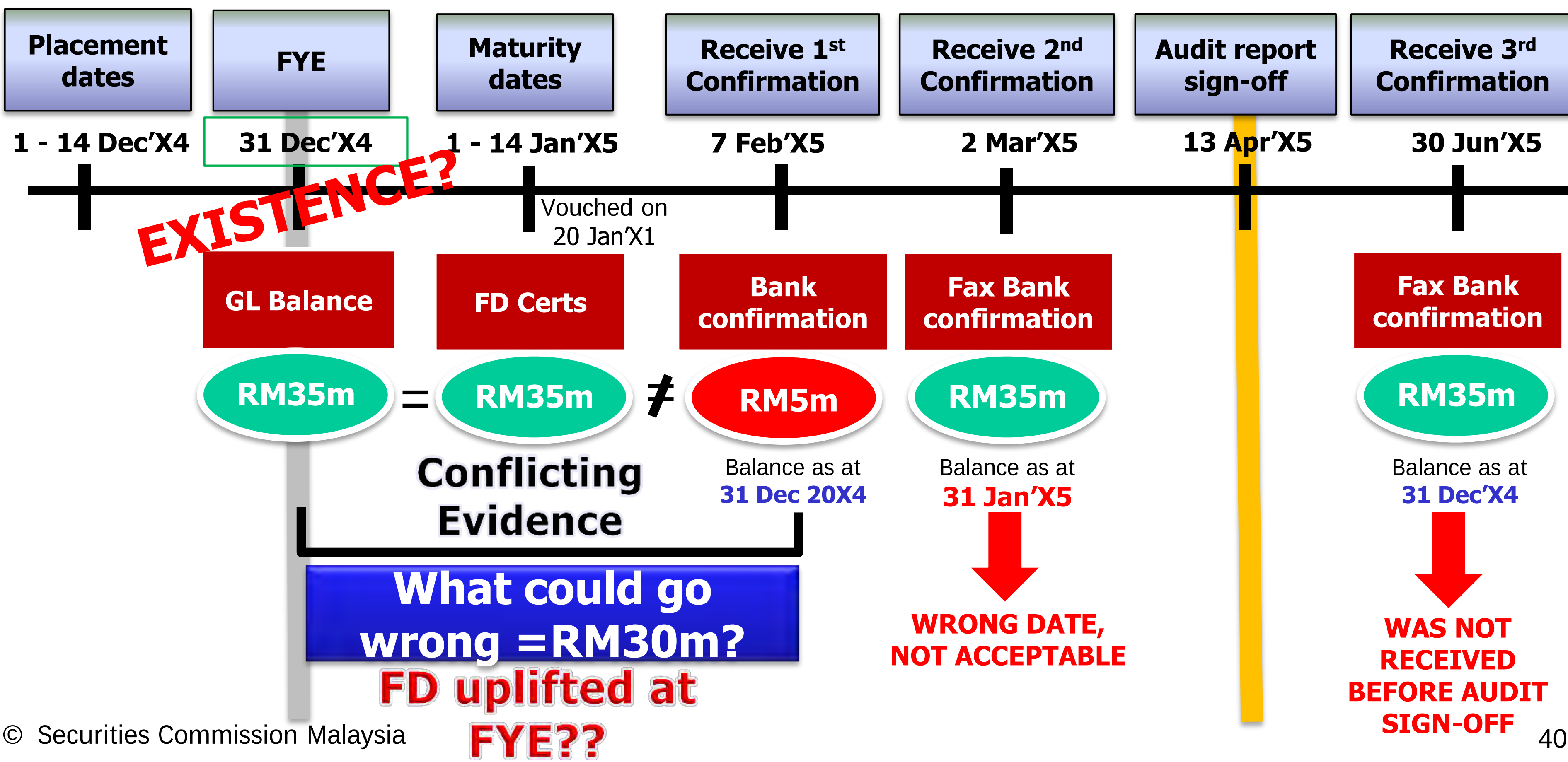
- To prevent last minute surprises
  - untimely escalation of matters
- To evaluate the sufficiency of audit work performed
- To satisfy the clearance of audit matters
- To evaluate/follow-up on control deficiencies identified

Are you effectively communicating with your Auditors?

Case Study: Understanding of the Auditors' Work

<u>Conflicting audit evidence</u>

Included in the company's cash and bank as at 31 Dec 20X4 YE is an FD of RM35 million



Case Study: Understanding of the Auditors' Work

Example: Valuation of properties - Reliability of evidence provided by management

Statement of Financial Position as at 31 December 2014 (in RM'million)	
PPE:	
Leasehold Land (vacant) *(lease expiring: Year 2025)*	15
Freehold Land and building (use as office and factory)	5
Total	20

Management's basis to support valuation

One page fax letter from the valuer's offices
Ascribed Value: RM16 million

CONCLUSION:
"Higher than Carrying Amount, *Hence, no Impairment"*

BUT

1. Fax copy signed by a clerk from the valuer's office – quality and reliability?
2. Contained limitation clause stating that "*...provided lease term is extended another 50 years...".*

Case Study: Understanding of the Auditors' Work

Example: Valuation of properties - Reliability of evidence provided by management

Statement of Financial Position as at 31 December 2014 (in RM' million)	
PPE:	
Leasehold Land B (vacant) *(lease expiring: Year 2025)*	15
Freehold Land and building A (use as office and factory)	5
Total	18

Management's basis to support valuation

Valuation report specific to this property

Date of report: 31.12. **2011**

Ascribed value: RM7 million

CONCLUSION:
"Higher than Carrying Amount, *Hence, no Impairment"*

BUT

1. No evaluation of the continued relevance of the outdated valuation report

Shared Responsibilities in the Financial Reporting Process

Impact of
New Accounting Standards

Presentation by
Tan Bee Leng
Malaysian Accounting Standards Board

MFRS 15 – Revenue from Contracts with Customers

Effective date:
1 Jan 2017

- **Revenue recognition**
  - Progressively (% *of completion)* vs. A Point in Time (*completion* method)
  - May be accelerated or deferred
- **New estimates & judgments required**
- **Additional disclosures requirements**
- **New systems & processes**

Impact?
Depends on
Industries

Case Study 1 – MFRS 15

Step 1: Identify the contract → **Step 2**: Identify performance obligations → **Step 3**: Determine the transaction price → **Step 4**: Allocate the transaction price → **Step 5**: Recognise revenue

Contract with customer

….. 12 months with total amount of RM 1,800

Handset	RM0 *(revenue from the sale of monthly plans recognised in full as the service was provided, and no revenue recognised for handset)*
Services	RM150 / month (per contract)

Step 2: Identify performance obligations

Under MFRS 15

Step 4 Allocate the transaction price

RM' mil	Standalone price	% on total	Revenue
Handset (at initial)	500	25.8%	464.40
Services	1,440 (120/month)	74.2%	1,335.60 (111.30/month)
Total	**1,940**	**100%**	**1,800**

Case Study 2 – MFRS 15

Step 1	Step 2	Step 3	Step 4	Step 5
Identify the contract	Identify performance obligations	Determine the transaction price	Allocate the transaction price	Recognise revenue

Step 5 Performance obligation satisfied over time if:

Which of the three is applicable if the entity is involved in sale of residential properties?

1 of 3

Customer receives and consumes benefits of entity's performance as entity performs **OR**

2 of 3

Entity's performance creates or enhances an asset (e.g. WIP) that customer controls as asset is created or enhanced **OR**

3 of 3

Entity's performance does not create an asset with an alternative use to entity and entity has an enforceable right to payment for performance completed to date

Case Study 2 – MFRS 15

Fact Pattern

- Customer pays a non-refundable deposit and will make progress payments during construction.
- The contract has substantive terms that preclude the entity from being able to direct the unit to another customer.
- The customer does not have the right to terminate the contract unless the entity fails to perform as promised.
- In the event of a default by the customer, the entity can either
  - require the customer to perform as required under the contract or
  - cancel the contract in exchange for the asset under construction and an entitlement to a penalty of a proportion of the contract price.

Sounds familiar?

Entity's performance does not create an asset with an alternative use to entity and entity has an enforceable right to payment for performance completed to date

Met?
Not Met?

Criteria	Criteria met?	Why?
The entity's performance does not create an asset with an alternative use to the entity	✓	Because the contract precludes the entity from transferring the specified unit to another customer
Entity has both an enforceable right to payment for performance completed to date	✓	Because the entity could also choose to enforce its rights to full payment under the contract The fact that the entity may choose to cancel the contract in the event the customer defaults on its obligations would not affect that assessment if the entity's rights to require the customer to continue to perform as required under the contract (i.e. pay the promised consideration) are enforceable.

Peninsular Malaysia

P.U.(A) 58/89
HOUSING DEVELOPMENT (CONTROL AND LICENSING) REGULATIONS 1989

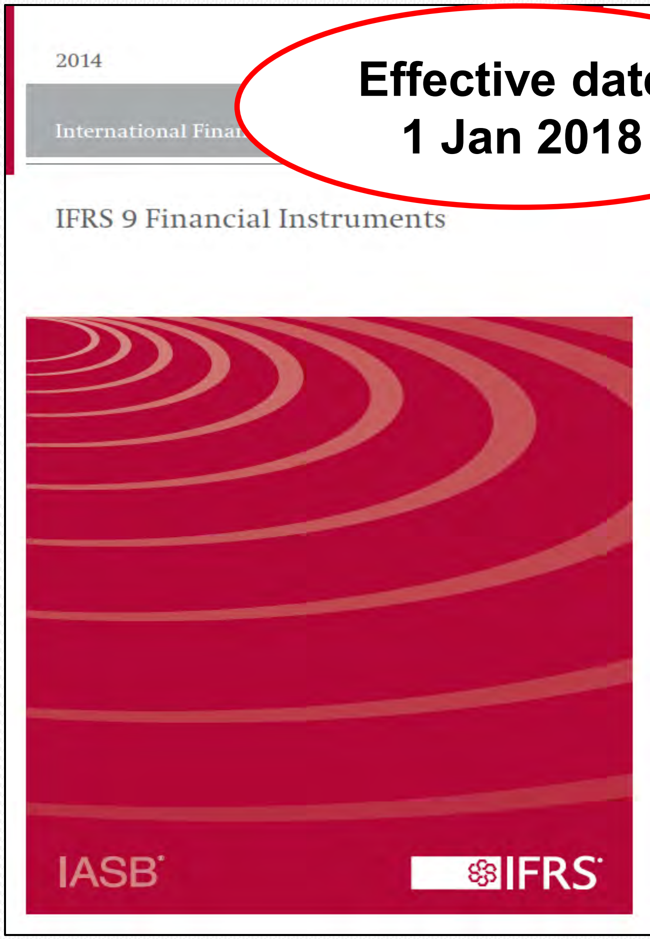
SCHEDULE G - SALE AND PURCHASE AGREEMENT (LAND AND BUILDING)

P.U.(A) 58/89
HOUSING DEVELOPMENT (CONTROL AND LICENSING) REGULATIONS 1989

SCHEDULE H- SALE AND PURCHASE AGREEMENT (BUILDING OR LAND INTENDED FOR SUBDIVISION INTO PARCELS)

Met?
Not Met?

MFRS 9 – Financial Instruments



**Effective date:
1 Jan 2018**

Classification and measurement

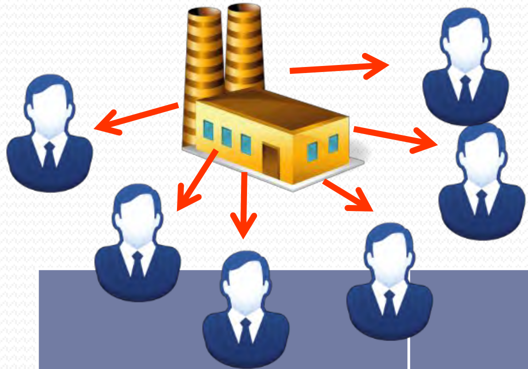
Impact: *Depends on the nature of the financial assets an entity holds and how it measures such assets under MFRS 139*

Impairment - 'expected loss' model

ECLs are cash shortfalls expected over the lifetime of the financial asset that is associated with the likelihood of a loss event.

Hedge accounting

Case Study 3 – MFRS 9



MFRS 139

- **Objective evidence of impairment (*trigger event)***

	Current (Not past due)	1 – 30 days past due	31 – 60 days past due	61 – 90 days past due	> 91 days past due	Bankrupt
Trade Receivables	1,120,008	486,009	376,356	123,857	23,650	11,284
Impairment	0	0	0	2,477 (2%)	1,182 (5%)	11,284 (100%)

Adoption of IFRS 9 – Expected credit loss model

Additional impairment 34,534

Default rate	**0.2%**	**0.5%**	**2.4%**	**15%**	**25%**	**100%**
Impairment provision	2,240	2,430	9,032	18,579	5,912	11,284

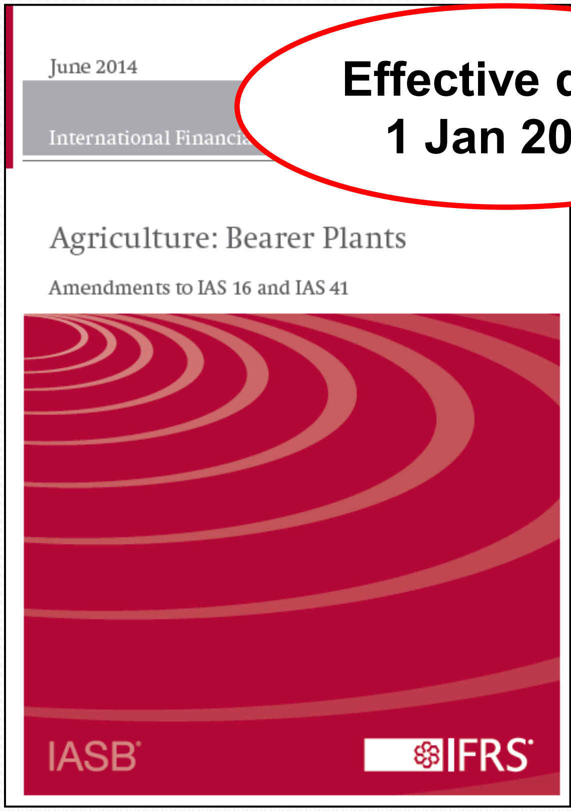
Real-life example

2015 First Quarter Trading Update (February 2015)
Extract

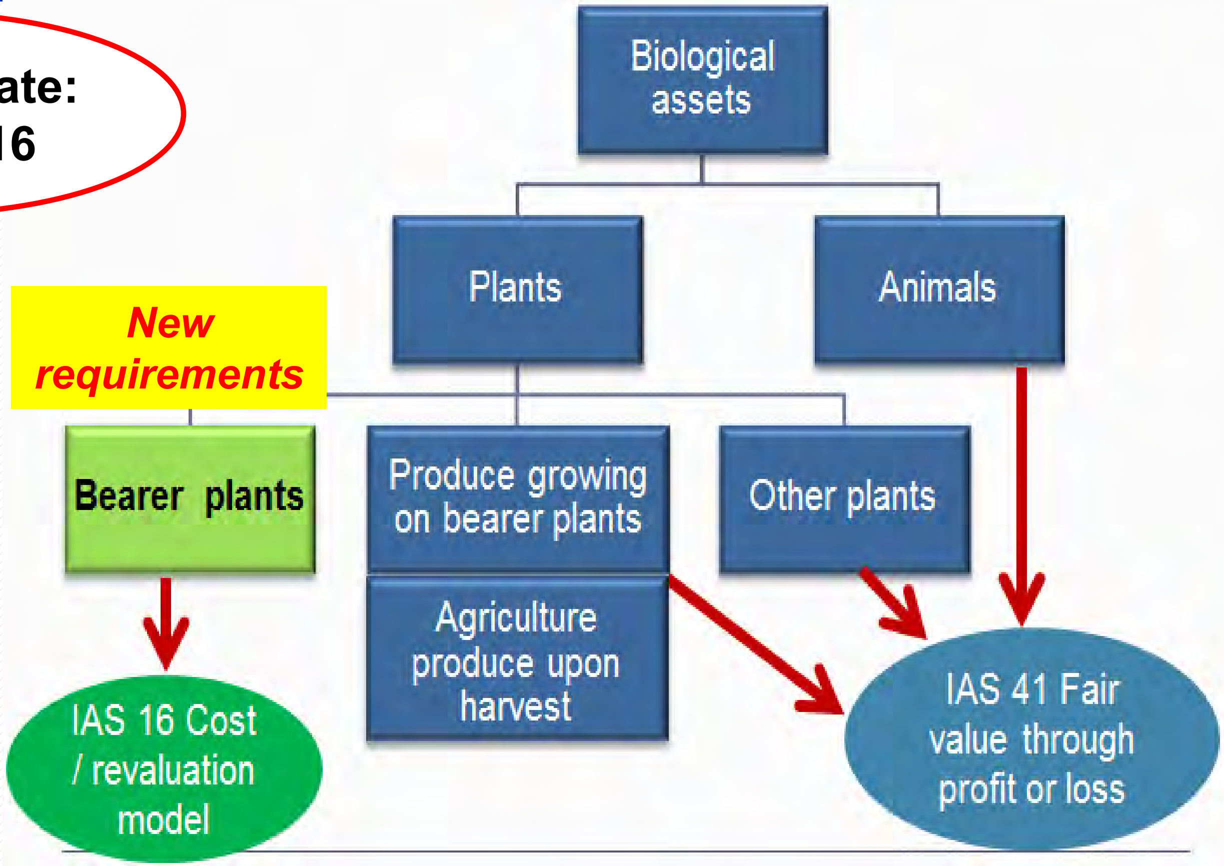
The quarterly average of the September 2014 Half Year results is used for comparison purposes unless otherwise stated. ***First quarter 2015 financials have been prepared incorporating the requirements of AASB 9 , with transitional adjustments reflected in retained earnings***. Prior comparative periods have not been restated. Unaudited cash earnings were approximately $1.65 billion, which is 6% up on the prior corresponding period. ·…

The charge for Bad and Doubtful Debts (B&DDs) for the quarter rose 30% to $227 million, but was stable excluding releases from the Group Economic Cycle Adjustment (ECA) and UK CRE overlay in the September 2014 Half Year.

Amendments to IAS 41 on Bearer Plants - What is your plan?



Effective date:
1 Jan 2016



Capital Maintenance Approach: transition to new Standard, what is your plan?

- to use the '**reconstructed cost**' approach or
- the **deemed cost provision** in IFRS 1, i.e. fair value as surrogate cost (the FV determined either at date of transition or previous GAAP revaluation or FV at an event date) as surrogate of cost)

Disclaimer

The views and opinions expressed herein do not represent the official views of the MASB or necessarily represent the organisations that the participants belong to. Official positions of the MASB on accounting matters are determined only after extensive deliberations and due process. The materials presented are intended to convey the general information only and they should not be taken as the official MASB view.

Neither the MASB nor any member of the MASB Secretariat accepts responsibility or legal liability arising from or connected to the accuracy, completeness or reliability of the materials and information contained herein. Participants are hereby advised that entity specific matters concerning the application of the MFRSs and the appropriate treatment should be addressed by the preparers with their respective auditors and/or their independent accounting advisors.


Q & A


THANK
YOU