

The background of the image consists of a series of overlapping, wavy lines in shades of purple and blue. The lines are most densely packed in the upper left corner and become more sparse towards the bottom right, creating a sense of depth and movement. The overall color palette is cool and modern.

SUPPORT ADOPTION AND IMPLEMENTATION OF STANDARDS

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DEVELOPMENT AND IMPLEMENTATION OF STANDARDS AND REGULATIONS

Development of accounting and auditing standards and their ensuing implementation are critical to raise the bar on audit quality.

In line with its efforts to influence audit quality by strengthening the accounting profession, the AOB participates as an observer in meetings held by the Auditing and Assurance Standards Board (AASB) and the Ethics Standards Board (ESB) of the Malaysian Institute of Accountants (MIA).

The AOB helps to bridge the gap between the industry and profession in understanding different challenges arising from current accounting and auditing issues, and also contribute its views on areas of concern.

To support the implementation of the *IFRS Sustainability Disclosure Standards* (ISSB Standards) and sustainability assurance standards in Malaysia, the Advisory Committee on Sustainability Reporting (ACSR) was established. The ACSR is chaired by the SC, and comprises representatives from BNM, Bursa Malaysia, the Companies Commission of Malaysia (SSM), the Financial Reporting Foundation and the AOB.

In October 2023, the SC hosted a global roundtable on the IAASB exposure draft, Proposed International Standard on Sustainability Assurance (ISSA) 5000 General Requirements for Sustainability Assurance Engagements. The ISSA 5000 global roundtable was participated by preparers of sustainability information, sustainability reporting standard-setters, assurance practitioners, professional bodies and regulators from the Asia-Pacific region. During the event, the AOB has shared perspectives on the adoption of sustainability assurance standards.

During the year, the AOB has also shared comments on various draft pronouncements as shown in Table 1.

TABLE 1
AOB comments on draft pronouncements

Comments submitted to	Draft Pronouncements
SSM	Proposed Review of Audit Exemption Criteria for Private Companies in Malaysia
IAASB	Proposed Part 10, Audits of Group Financial Statements of the Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE) and Proposed Conforming Amendments
International Organization of Securities Commissions (IOSCO)	IOSCO's Consultation on Goodwill

IOSCO Consultation on Goodwill

In June 2023, IOSCO issued a consultation paper on goodwill to collect views from issuers, audit committees, investors and auditors.

It was observed that since the financial crisis, the total balance of accumulated goodwill of the S&P 500 has more than doubled from US\$1.6 trillion in 2008 to US\$3.7 trillion in 2021, and the accumulated goodwill of listed companies in the European Union is also having the same increasing trend. The rise was because of active merger and acquisition activities with high acquisition prices.

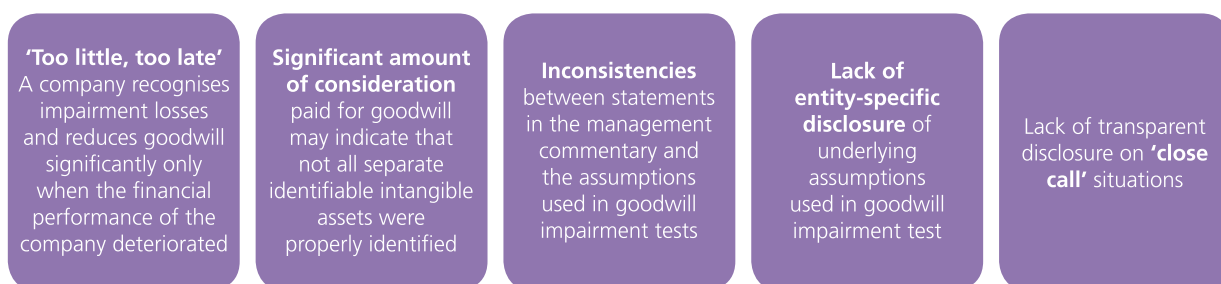
Goodwill is subject to an impairment test annually and no amortisation under the current global accounting standard. Goodwill is impaired when its recoverable amount is lower than its carrying amount. Some stakeholders were concerned that optimistic assumptions were used in estimating the recoverable amount and resulted in impairment loss not being recognised adequately and timely.

While supporting the IASB's plan to enhance disclosure requirements on acquisition and its subsequent performance, IOSCO is of the view that goodwill impairment could be further improved. IOSCO's observations on issues surrounding goodwill are depicted in Figure 1.

During the AOB's Annual Conversation with Major Audit Firms, the AOB provided brief backgrounds on IOSCO's Consultation on Goodwill and sought views on questions related to auditors. The consolidated auditors' responses to IOSCO's Consultation on Goodwill – Questions for Independent Auditors are summarised in Figure 2.

FIGURE 1

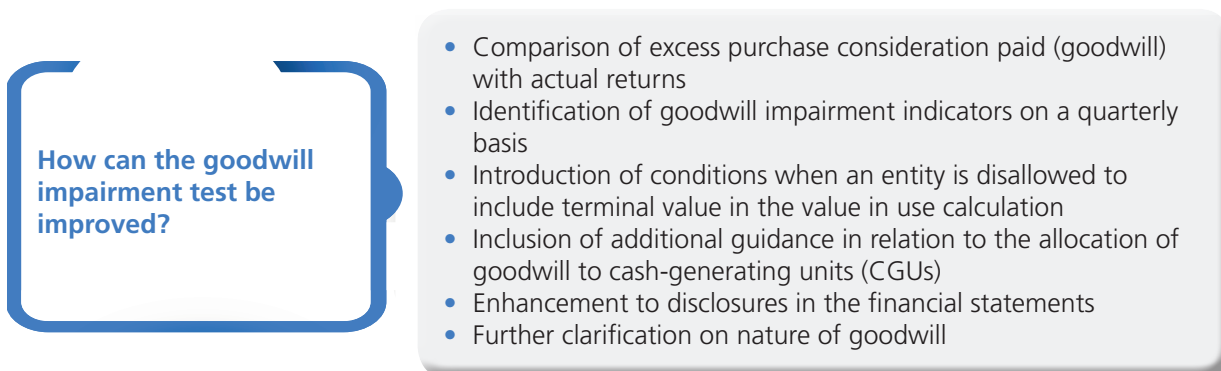
IOSCO's observations on issues surrounding goodwill



Source: IOSCO's Consultation on Goodwill.

FIGURE 2

Compiled auditors' responses to IOSCO's Consultation on Goodwill – Questions for independent auditors



What challenges have you experienced when testing the reasonableness of management's assumptions used in the goodwill impairment test?

The main challenge is that management tends to be over-optimistic in its estimates of future cash flows and outlook of business and auditors have also faced the following challenges:

- Use of complex models in prediction of future cash flows in an uncertain macroeconomic environment
- Limited publicly available or comparable information when an entity is operating in a niche or novel market
- Management's assumption that the impairment assessment would be performed by the auditors
- No engagement of appropriate experts to assist in the goodwill impairment assessment due to cost factor

How do you maintain and demonstrate your professional scepticism when auditing the management's estimates used in the goodwill impairment test?

- Assign audit personnel with the appropriate knowledge, experience, and skills
- Perform stand-back to identify and assess the completeness and consistency of methods, assumptions and data
- Perform sensitivity analysis to identify and challenge key assumptions and data
- Perform break-even analysis to identify headroom for key assumptions and data
- Perform subsequent events review to identify information which supports or contradicts management's estimates
- Use of industry experts and auditors' specialists, especially in complex areas

Does management's documentation adequately support the reasonableness of their assumptions and judgments made?

- Dependent on management's experience and knowledge, involvement and level of documentation required by those charged with governance (TCWG) and maturity of the industry
- Larger PIEs with robust internal controls and competent personnel would have more detailed documentation of the assumptions and judgments made
- Some auditors highlighted inadequate documentation by management and information only provided upon further prompting by auditors

Does management give objective consideration to both corroborative and contradictory information when setting assumptions?

Management is generally biased towards corroborative information and tend to be over-optimistic in their key assumptions.

Unconscious bias may be presented in:

- Anchoring to assumptions made prior to COVID-19 that may no longer reflect current market conditions
- Halo effect on marketability of new products or services predicated on past success
- Status quo bias on forecast cash flows that were made in previous years
- Survivorship bias arising from headroom of performing CGUs as compared to non-performing CGUs
- Lack of proper justification in discount rate used