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Seeing audit reports with new eyes

WHEN was the last time you read an auditor's report? For most people, probably never. Amid the current economic uncertainty and corporate shocks, shareholders are now paying closer attention, however.

The question is no longer just "Did the auditor pass the accounts?" but "What did the auditor consider most important?".

In the past, the auditor's report was generally short, sometimes less than half a page, and focused on one main question: whether the financial statements presented a true and fair view.

The message was straightforward. The accounts had been audited and, in the auditor's opinion, were fairly presented. Investors looked for one thing. Was the opinion qualified or unqualified? If the opinion was unmodified, they moved on.

But investors are now asking more questions. What exactly is the auditor responsible for? What is management responsible for? What does an audit cover, and what are its limitations?

The collapse of Enron Corporation, a major American energy and commodities company based in Houston, Texas, in 2001, followed by its auditor, Arthur Andersen, became the symbol of failures in corporate governance and financial reporting.

The lesson was not simply that auditors should "find fraud". It also highlighted the need for investors to better understand what an audit opinion means and what it doesn't.

As international auditing standards developed, the audit report became more structured. It increasingly distinguished between management's responsibility to prepare the financial statements and the auditor's role to independently examine them and express an opinion. The report began explaining the nature and limitations of an audit, moving away from a simple "yes or no" form of assurance.

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The biggest change came with the International Auditing and Assurance Standards Board's (IAASB) auditor reporting reforms in 2015, which became effective for periods ending on or after Dec 15, 2016. Malaysia adopted these standards through the Malaysian Institute of Accountants (MIA).

The philosophy shifted significantly. The question was no longer just "What is your opinion?" but "What mattered most in your work?" For listed entities, the International Standard on Auditing (ISA) 701 requires auditors to communicate Key Audit Matters (KAMs). These are matters that, in the auditor's professional judgment, were of most significance in the audit.

The reforms also strengthened reporting on going concern, which means whether a company can continue operating for the foreseeable future.

If a company faces continuing losses, significant debts or cash-flow pressure, the auditor assesses management's assumptions and may highlight a material uncertainty.

An unmodified opinion alone can sometimes provide an incomplete picture.

Is a longer audit report a better report? Not necessarily. The length depends on the company's complexity and the matter arising during the audit.

A multinational with complicated transactions will naturally require more explanation than a small business.

What has truly changed is the expectation of communication. The auditor's report has moved from being primarily a conclusion to becoming a communication tool, providing insight into significant matters, responsibilities and uncertainties.

But there is still a limit. An audit provides reasonable assurance, not absolute assurance. Auditors use sampling and judgment. They do not examine every transaction or guarantee that every fraud will be discovered.

Perhaps the greatest change is that the report now tells us not just "what the auditor concluded" but also "what the auditor considered important and why". That is valuable.

It also means the report deserves to be read. So, the next time you spot that report, read it with care. You might just discover something that truly matters.

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