



CHAIRMAN'S MESSAGE



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Chairman
Audit Oversight Board



I am pleased to report on the Securities Commission Malaysia's Audit Oversight Board's efforts and activities for 2021.

The AOB's mandate is to assist the SC to promote confidence in the quality and reliability of audited financial statements. In this respect, the AOB continues to reinforce its regulatory expectations through its three core functions – registration and recognition, inspection, as well as enforcement.

Despite the ongoing uncertainties and challenges arising from the pandemic, the AOB remains focused on ensuring high-quality independent auditing to promote confidence in the quality and reliability of audited financial statements of public-interest entities (PIEs) and schedule funds.

FOCUSED ON ENSURING HIGH-QUALITY INDEPENDENT AUDITING

Similar to the year 2020, the events surrounding the year 2021 has caused the AOB to review its focus and reassess its oversight functions. This year, the AOB took the opportunity to further enhance the data analytics driven approach in its inspection to ensure the inspection programme is sufficiently agile to identify key economic trends and market concerns effectively. The data analytics driven approach also allowed targeted inspection focusing on key areas. In addition, the AOB explored various options to perform off-site monitoring reviews i.e. virtual inspections to ensure the AOB's inspection programme was not disrupted by the movement restriction during the pandemic.

Since the number of audits being performed remotely are increasing, strict adherence to auditing and ethical standards is even more crucial now. This year, the AOB continued to set the tone by bringing new dimensions to its oversight activities and sending strong signals through enforcement actions when regulatory expectations and professional standards were compromised. The AOB took five enforcement actions against audit firms and individual auditors that had failed to comply with auditing and ethical standards.

The SC continues to face legal challenges from auditors sanctioned by the AOB. The AOB's powers in enforcing its rules and regulations and the manner in which the AOB conducts its enforcement proceedings were the main grounds of challenge. However, the AOB is pleased that the Judicial Review results in favour of the SC further reinforces the robustness of the AOB's enforcement framework and its processes.

During 2021, the AOB also implemented the Annual Transparency Reporting which requires the AOB-registered audit firms that meet the reporting criteria to share their Transparency Reports with the Audit Committees of their PIE clients. Briefly, the audit firms are required to disclose information on their legal and governance structures, measures to uphold audit quality and how they manage risks, as well as the measurements of their audit quality indicators. This information will greatly benefit the investor and the Audit Committees to facilitate decision-making on the appointment and reappointment of auditors.

STAKEHOLDER ENGAGEMENT AND CAPACITY-BUILDING INITIATIVES

Regular engagements with auditors and key stakeholders are beneficial to ensure stakeholders' needs and concerns are translated into the AOB's focus areas. The desired outcome of the AOB's audit oversight activities is for audit firms to deliver consistent quality audits through continuous capacity building and effective audit quality framework.

Capacity-building initiatives have been an important focus area for the AOB. The AOB utilises the monies collected from the penalty imposed to facilitate capacity-building initiatives for the accountancy and auditing profession. In this respect, the AOB worked together with the Malaysian Institute of Certified Public Accountants (MICPA) to build capacity among smaller AOB-registered audit firms by developing training programmes focused on addressing common areas of audit weaknesses noted by the AOB during its inspection of audit firms and auditors. A total of 975 individual auditors and audit firm staff benefitted from the training programme. The AOB will continue to facilitate capacity-building initiatives as part of its mandate to promote confidence in the quality and reliability of the audited financial statements.

In 2021, the AOB was accepted as a member of the International Forum of Independent Audit Regulators' (IFIAR) Investor and Other Stakeholders Working Group (IOSWG). IOSWG is focused on investor protection and improving audit quality based on suggestions by investors and other stakeholders with interest in audit-related matters. The AOB participation in IOSWG will allow it to leverage the experience of other audit regulators at the global level and help drive policy changes locally.

Finally, the efforts of the AOB this year would not have been possible without the steadfast commitment of the Management, coupled with the support and guidance of the Board Members. I look forward to reporting on the AOB's continued efforts in the years ahead.



Dato' Anantham Kasinather