

**MONITORING AND  
SUPERVISION OF  
PIE AND SCHEDULE  
FUND AUDITORS**

## REGISTRATION AND RECOGNITION OF AUDIT FIRMS AND INDIVIDUAL AUDITORS

As at 31 December 2021, there were 41 audit firms registered and recognised by the AOB, which audited 1,203 PIEs and 1,255 schedule funds. There were four foreign audit firms and 12 foreign individual auditors recognised by the AOB. Collectively, they audited five foreign incorporated companies listed on Bursa Malaysia.

Table 1 shows the profile of the audit firms and individual auditors registered and recognised with the AOB as of 31 December 2021. The number of registered individual auditors has increased from 339 in 2020 and 345 in 2021.

The number of audit firms and individual auditors registered with the AOB, and the number of PIEs audited in the last five years are shown in Table 2.

Table 1 Registered and recognised auditors as at 31 December 2021						
Profile of audit firms	No. of audit firms	No. of individual auditors	No. of PIE audit clients	% of total PLCs market capitalisation	No. of schedule funds audit clients	% of total NAV
<b>Registered audit firms</b>						
Partnerships with 10 and more audit partners	8	228	898	96.07%	1,215	98.67%
Partnerships with 5 – 9 audit partners	18	84	239	3.32%	40	1.33%
Partnerships with fewer than 5 audit partners	11	33	61	0.44%	-	-
<b>Sub Total</b>	<b>37</b>	<b>345</b>	<b>1,198</b>	<b>99.83%</b>	<b>1,255</b>	<b>100%</b>
<b>Recognised foreign audit firms</b>	<b>4</b>	<b>12</b>	<b>5</b>	<b>0.17%</b>	<b>-</b>	<b>-</b>
<b>TOTAL</b>	<b>41</b>	<b>357</b>	<b>1,203</b>	<b>100%</b>	<b>1,255</b>	<b>100%</b>

Table 2 Registered and recognised auditors from 2017 to 2021					
	2017	2018	2019	2020	2021
Registered audit firms	49	53	43	38	37
Registered Individual auditors	334	366	337	339	345
Recognised foreign audit firms	5	3	4	4	4
Recognised foreign individual auditors	17	9	12	13	12
No. of PIEs	1,155	1,171	1,179	1,189	1,203
No. of schedule funds	1,023	1,042	1,100	1,149	1,255

## INSPECTION OF AUDIT FIRMS AND INDIVIDUAL PARTNERS

In 2021, the AOB conducted inspections on 14 audit firms covering 45 individual auditors for 54 audit engagements. The AOB adopted a risk-based inspection approach in its planning and engagement selection process and specific key areas in the selected audit engagements. The risk-based approach considers various factors, as highlighted in Figure 1.

The AOB took the opportunity to enhance its data analytics driven approach in its inspection taking into consideration the complexity of the PIE's structures, industries, situations and operating environments. This continuous enhancement will ensure that the AOB's inspection programme is sufficiently agile to identify key economic trends and market concerns effectively. In-depth utilisation of data analytics by the

AOB allowed for a more targeted inspection approach, thereby enabling the AOB to focus on critical key areas.

In view of continuous uncertainties arising from the pandemic, the AOB explored various options or arrangements with audit firms to perform off-site monitoring reviews and/or virtual inspections to ensure that its inspection programme is not entirely disrupted. As a result, the AOB was able to conduct a total of 11 out of its 14 planned inspections remotely throughout 2021.

To further strengthen its monitoring process, the AOB conducted off-site monitoring reviews by analysing auditors' reports and disclosures made within Annual Reports and Audited Financial Statements of the respective PIEs, focusing on the financial position of the PIEs and various significant risk indicators.

FIGURE 1

### RISK-BASED APPROACH TAKEN BY THE AOB



**Risk assessment  
of audit firms  
and individual  
auditors**



**Market  
capitalisation  
of PLC clients  
audited by audit  
firms**



**Specific areas of  
industry or market  
concerns**



**Significant  
accounting,  
auditing / other  
developments**

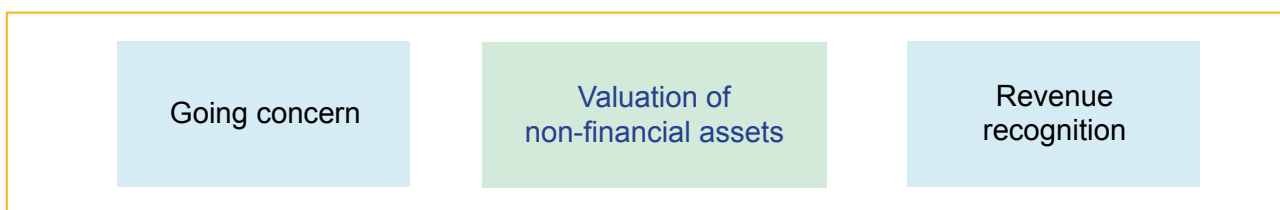


**Use of data  
analytics to  
identify  
specific high  
risk areas**

Driven by specific concerns arising from the off-site monitoring review, the AOB was able to identify engagements with potential risk areas for thematic inspections in 2021. Thematic inspection emphasised the audit procedures performed by auditors to address the heightened risks in relation to the critical key areas, as highlighted in Figure 2.

FIGURE 2

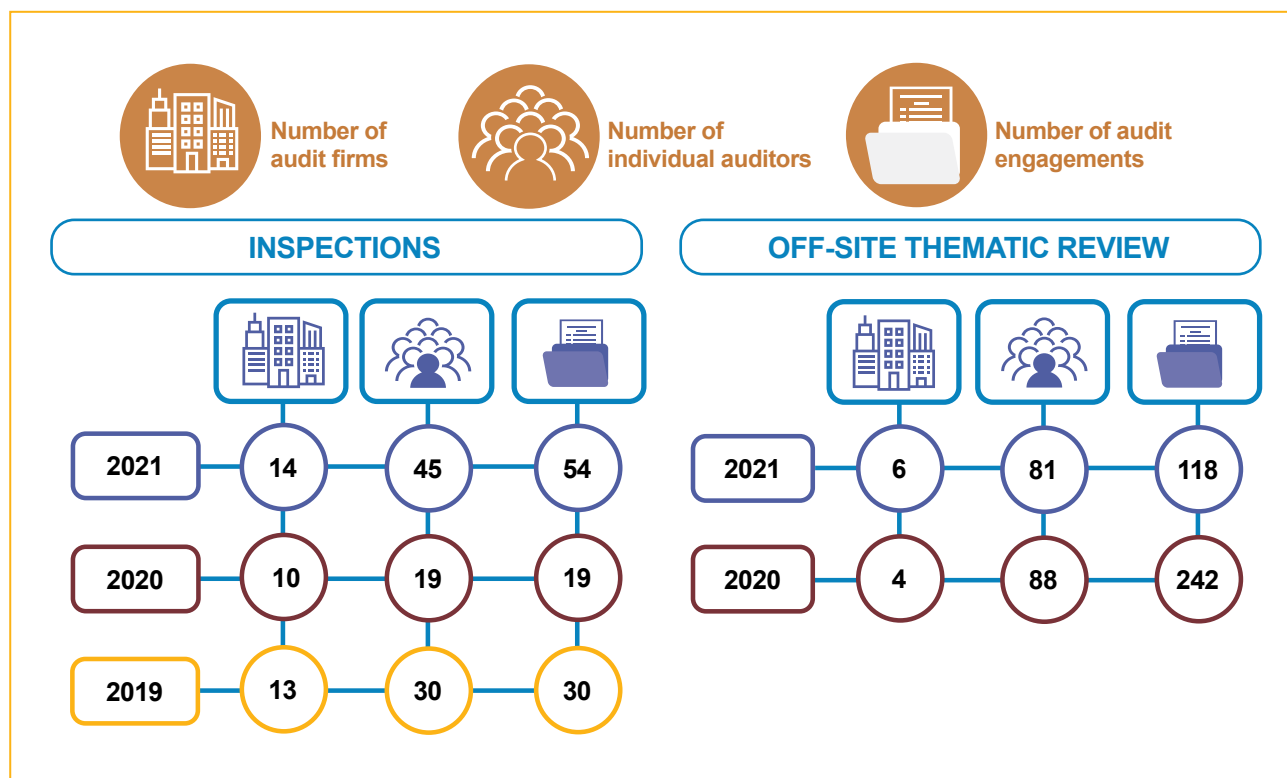
### SPECIFIC KEY AREAS IDENTIFIED AS HIGH RISK SUBJECTED TO THE AOB'S INSPECTION



The above approach taken by the AOB in 2021 contributed to a significantly higher number of audit engagements inspected, as presented in Figure 3.

FIGURE 3

### INSPECTION AND OFF-SITE THEMATIC REVIEW COVERAGE



At the end of every inspection, the AOB assessed the severity of findings arising from each engagement reviewed. For engagements where significant improvements are required, the AOB will take action against the individual auditors involved and consider the need for further measures to be imposed on the firms, if necessary.

The following actions in Figure 4, can be taken by the AOB depending on the results of the assessment performed.

Details on the inspection programme, such as common inspection findings, results of thematic reviews, trends analysis and remediation efforts taken by inspected audit firms were presented in the 2020 AOB *Annual Inspection Report (AIR)* published in 2021. For the 2021 inspection programme, the results will be shared separately in the 2021 AOB AIR at a later date.

FIGURE 4

## ACTIONS THAT COULD BE TAKEN BY THE AOB

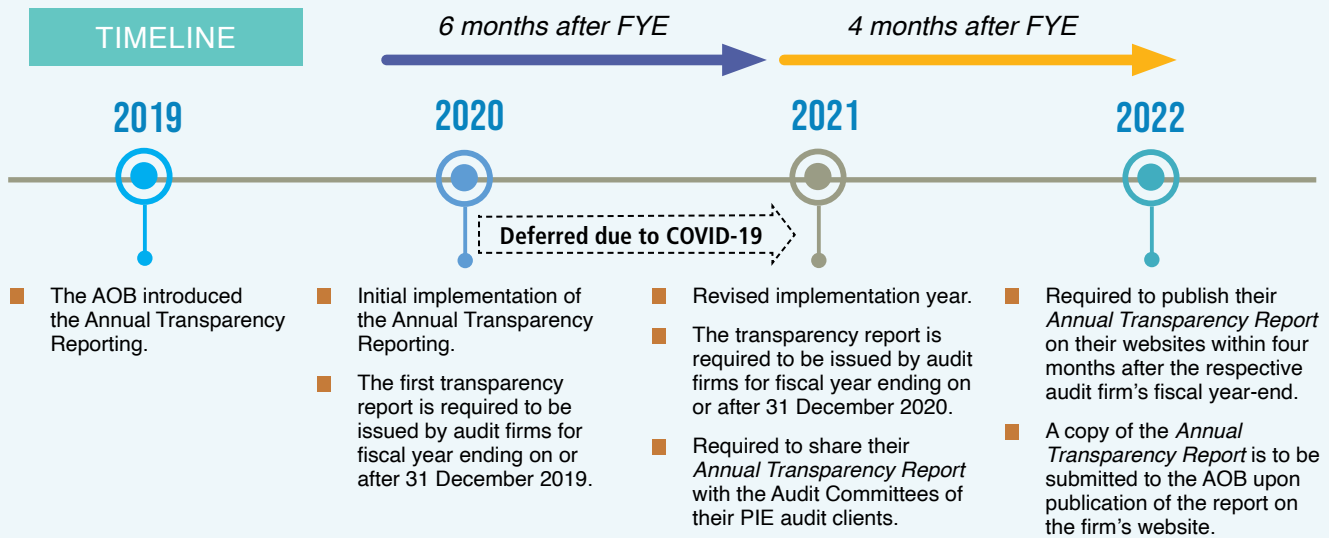
Imposition of specific remediation measures to incorporate or revise the relevant audit procedures

Referred to other SC's line departments or sharing of findings with respective PIE

Enforcement actions by the AOB

Imposition of additional registration condition and interim measures

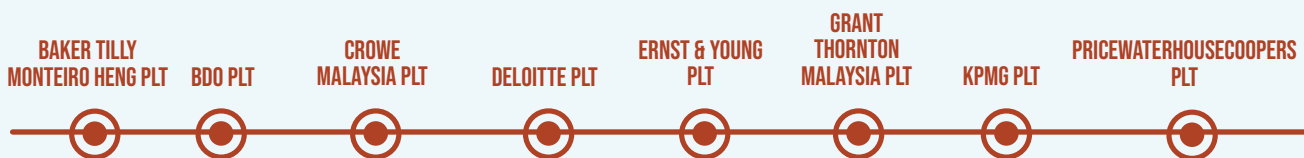
# ANNUAL TRANSPARENCY REPORTING



In 2019, the AOB introduced the framework for Annual Transparency Reporting.

- Audit firms with more than 50 PIE audit clients and total market capitalisation of the audit firms' PIE clients of above RM10 billion for two consecutive years are required to produce an *Annual Transparency Report* commencing from the year 2021.
- If the audit firm is not required to issue an *Annual Transparency Report*, the Audit Committee is encouraged to engage the audit firm on matters typically covered in an *Annual Transparency Report*.

In 2021, eight audit firms registered with the AOB had met the criteria set to produce an *Annual Transparency Report* based on the audit firm's fiscal year-end. The eight audit firms were:

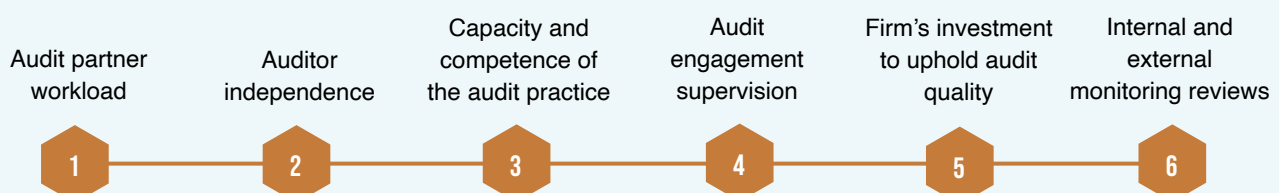


These firms were required to share their *Annual Transparency Report* with the Audit Committees of their PIE audit clients. As part of this process, the AOB reviewed the relevant firms' reports and provided relevant feedback to ensure that the reporting requirements stipulated by the AOB had been met.

As the *Annual Transparency Report* would provide useful information for investors and audit committees to facilitate decision-making on the appointment and reappointment of auditors, the Audit Committee members are reminded to obtain a copy of the report from their respective auditors.

The AOB views that this represents the first step in making more information available to Audit Committees to assist them in assessing their auditors. Plans are in place to gather feedback from Audit Committees and other stakeholders in the capital market to further improve the existing framework.

## Mandatory Audit Quality Indicators to be highlighted in the Annual Transparency Report

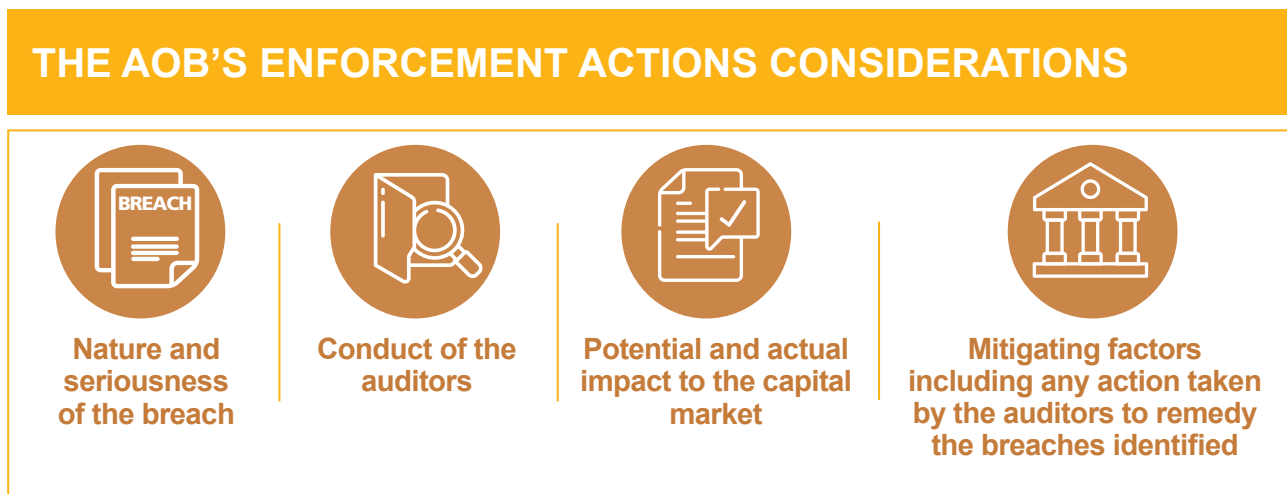


## ENFORCEMENT ON AUDIT FIRMS AND INDIVIDUAL AUDITORS

The AOB utilises a diverse range of enforcement tools and powers to achieve its desired outcome. The AOB may impose administrative actions on auditors for various misconducts as follows:

TYPE OF ACTIONS IMPOSED	
Directive to comply	Section 31Z of the SCMA
Public reprimand	
Remedy the breach according to directive of the AOB	
Undertake relevant professional education	
Assign reviewer to oversee audit	
Prohibitions from auditing and accepting PIEs and schedule funds as audit clients	
Monetary penalties	
Revoke, withdraw, or suspend the registration or recognition of auditors	Section 31Q of the SCMA

In imposing the above actions, the AOB applies the principle of proportionality in determining the appropriate enforcement sanction(s). To ensure that the sanctions imposed serve as an effective deterrence, the AOB takes into account the following considerations:

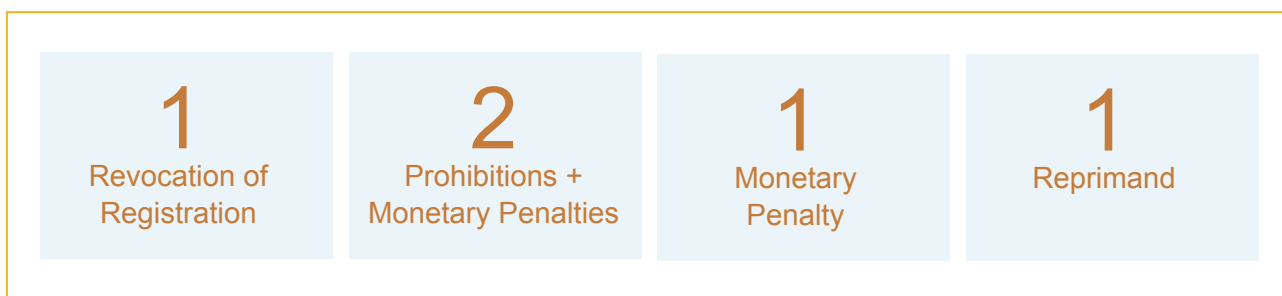


In 2021, the AOB took five enforcement actions, as shown in Figure 5. The AOB revoked the registration of an audit partner and imposed a monetary penalty of RM400,000 on an audit firm for failing to comply with the relevant ethical standards relating to the auditors' independence. The audit firm is also prohibited from accepting and auditing any PIE or schedule fund for a period of 12 months.

Both the audit partner and audit firm were found to have breached Section R601.6 of the Malaysian Institute of Accountants (MIA) By-Laws for providing prohibited services to its audit clients. The AOB views this non-compliance of ethical standards as a serious offence as it undermines the auditor's independence and poses a self-review threat.

FIGURE 5

### ENFORCEMENT ACTIONS TAKEN IN 2021





In addition, the AOB also imposed a monetary penalty of RM150,000 and RM50,000 on the same audit firm and its audit partner respectively for breaching the relevant requirements of the *International Standards on Auditing* (ISA). A prohibition for a period of 12

months was also imposed on the audit firm. The severity of the enforcement action reflected the gravity of the offence, and serves as a strong reminder to auditors to ensure compliance with the ISA and other regulatory requirements at all times.



[Read more on the AOB's Enforcement Actions](#)

Table 3 Number of outstanding cases as at 31 December 2021	
Cases brought forward from 2020	4
Add: New cases referred to Enforcement in 2021	1
Less: Cases completed in 2021	(3)
Outstanding cases @ 31/12/2021	2

The AOB is mindful that, to have the necessary impact and deterrent effect, the enforcement proceedings must be completed in a timely manner. The number of outstanding cases as at 31 December 2021 is shown in Table 3. Details on the movement of enforcement cases since 2017 are shown in Table 4.

Table 4 Number of cases completed since 2017				
Year	No. of referrals for enforcement proceedings	No. of cases completed prior to 2021	No. of cases completed in 2021	No. of outstanding cases as at 31 December 2021
2017	1	1	-	-
2018	8	8	-	-
2019	4	4	-	-
2020	5	1	3	1
2021	1	-	-	1
<b>TOTAL</b>	<b>19</b>	<b>14</b>	<b>3</b>	<b>2</b>

## AOB's Enforcement Observations

Auditing standards stress the importance of audit evidence, where the auditor is required to prepare, on a timely basis, work papers that support the audit work performed and the conclusions reached.

However, in many instances, the AOB observed that the audit procedures and the audit evidence in the audit file are either non-existent, incomplete, or inadequate. Figure 6 depicts the observations with respect to enforcement in 2021.

FIGURE 6

### THE AOB'S OBSERVATIONS OF 2021 ENFORCEMENT ACTIONS

<b>Auditor's independence</b>	<ul style="list-style-type: none"> <li>■ Lack of will to say 'No' or inability to reject client's request for non-audit work which are prohibitive in nature based on By-Laws (On Professional Ethics, Conduct and Practice) of the MIA.</li> </ul>
<b>Audit evidence</b>	<ul style="list-style-type: none"> <li>■ Non-existent, incomplete, or inadequate documentation in the audit file to support the audit procedures performed, assumptions made, and conclusions reached.</li> </ul>
<b>Going Concern</b>	<ul style="list-style-type: none"> <li>■ Failure to assess the reasonableness and appropriateness of the assumptions made.</li> <li>■ Failure to challenge the viability of the proposed funding / projects and its likelihood of success.</li> <li>■ Failure to perform quantitative assessment on the company's financial position (liquidity test or ratios assessment) based on the assumptions made.</li> </ul>
<b>Asset Impairment</b>	<ul style="list-style-type: none"> <li>■ Lack of understanding and knowledge on the relevant accounting and auditing standards.</li> <li>■ Failure to challenge the assumptions and assessment made by management.</li> <li>■ Insufficient audit procedures performed to ensure the reliability of the underlying data and the reasonableness of the assumptions made in cash flow projections.</li> </ul>

## Securing Judicial Precedents

In 2021, the SC was involved in three ongoing judicial reviews against the enforcement actions imposed by the AOB. These judicial reviews involved challenges to the AOB's powers in enforcing its rules and regulations and the manner in which the AOB conducted its

enforcement proceedings. In all the judicial review applications, the SC obtained favourable results, which further reinforced the robustness of the AOB's enforcement framework and its processes.



[Read more on the update of the judicial reviews](#)

## JUDICIAL REVIEW APPLICATIONS AGAINST THE AOB'S ENFORCEMENT DECISIONS AS AT 31 DECEMBER 2021

Judicial Review	Brief description	Outcomes
Between Afrizan Tarmili Khairul Azhar (AFTAAS) and three of its partners and the SC	Challenges against the AOB's powers and the manner in which the AOB conducts its enforcement proceedings.	<ul style="list-style-type: none"> <li>The Court of Appeal (COA) had on 10 December 2021, ruled in favour of the SC and set aside the High Court's decision on 10 August 2020 to quash the sanctions imposed against AFTAAS and its partners.</li> <li>On 31 December 2021, AFTAAS and its partners applied to the COA for a stay of execution of the sanctions imposed until the disposal of their leave application to appeal against the COA's decision dated 10 December 2021 to the Federal Court.</li> </ul>
Between RSL PLT and two of its partners and the SC	Challenges against the AOB's powers and the manner in which the AOB conducts its enforcement proceedings.	<ul style="list-style-type: none"> <li>The High Court had on 26 October 2021, dismissed RSL's judicial review application against the SC.</li> </ul>
Between Andrew Heng and the SC	Challenges against the AOB's powers and the manner in which the AOB conducts its enforcement proceedings.	<ul style="list-style-type: none"> <li>On 28 October 2021, the COA had ruled in favour of the SC and dismissed Andrew Heng's appeal against the High Court's decision on 25 August 2020, dismissing his judicial review application to inter alia set aside/quash the AOB's decision and the SC's appeal decision.</li> </ul>