Suruhanjaya Sekuriti
Securities Commission
Malaysia

Audit Oversight Board Conversation with Audit Firms
Firm Level Inspections

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17 August 2023

Confidential

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Agenda

Firm level inspections

➢ Background

➢ Inspection focus for 2023

➢ Common inspection findings

➢ Key reminders

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Background

In September 2020, the International Auditing and Assurance Standards Board (IAASB) approved **two new standards** to **manage the quality of engagements** performed by the audit firms.

Implementation Deadline: 15 December 2022

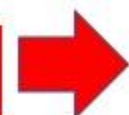| International Standard on Quality Management 1 (ISQM 1)	International Standard on Quality Management 2 (ISQM 2)
▪ Replaces ISQC 1 ▪ Introduces a risk-based approach to achieve audit quality that was developed based on the COSO framework.	▪ Appointment and eligibility of the engagement quality reviewer ("EQR") and ▪ The EQR's responsibilities relating to performing and documenting an engagement quality review.

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Inspection focus for 2023

New Focus Areas

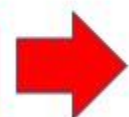| ISQM 1 Components |
|---|

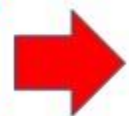1. **Firm's risk assessment process (New)**
2. Governance and Leadership
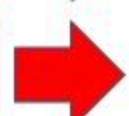3. Relevant Ethical Requirements
4. Acceptance and Continuance
5. Resources
6. Engagement Performance
7. **Information and Communication (New)**
8. Monitoring and Remediation

➤ Review of the firm's risk register
- identification of risks
- evaluation of risks (i.e. likelihood and impact)
- design of controls

➤ Implementation of key controls

➤ IT resources, intellectual resources and service providers

➤ requirements of ISQM 2

➤ Policies and procedures to address:
- exchange of information within the firm
- external communication with regulators and the firm's clients (e.g. management and TCWG)

Common Inspection Findings

1. Firms' risk assessment process

a)   Certain key risks impacting the ISQM 1 quality objectives have not been identified

ISQM1 Components	Examples of risk matters not considered in the risk register
Governance and Leadership	▪ leadership responsibility and accountability for quality ▪ culture of quality within the firm ▪ financial resilience of the firm being impacted by lawsuits
Relevant ethical requirements	a) Provision of prohibited non-audit services b) Non-identification of ethical breaches involving the firm's personnel
Acceptance and continuance	a) Inappropriate judgement to accept a client or engagement due to pressure to meet financial targets

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Common Inspection Findings

1. Firms' risk assessment process (cont'd)

a) Certain key risks impacting the ISQM 1 quality objectives have not been identified (cont'd)

ISQM1 Components	Examples of risk matters not considered in the risk register
Resources	**Human resources** a) Loss of experienced audit personnel due to high staff turnover b) Sufficiency of personnel to enable the operation of firm's system of quality management **Technological resources** a) Reliability of audit software (system errors) b) Disruption over the use of audit software due to server outage c) Loss of audit engagement files d) Data confidentiality

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Common Inspection Findings

1. Firms' risk assessment process (cont'd)

a) Certain key risks impacting the ISQM 1 quality objectives have not been identified (cont'd)

ISQM1 Component	Examples of risk matters not considered in the risk register
Engagement Performance	a) Audit personnel workload b) Integrity of audit work papers (e.g. modification of the audit working papers after file assembly c) Loss of hardcopy audit files d) Inappropriate destruction of audit engagement files
Information and Communication	a) External communications when required by law and regulations.

Common Inspection Findings

1. Firms' risk assessment process (cont'd)

b) Evaluation of risks not performed (i.e. likelihood of risk occurrence and impact)

c) Mandatory specified responses have not been included in the firm's risk register

d) Certain responses that have been documented in the risk register were not implemented

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Common Inspection Findings

2. Shortcomings in the firm's policies and procedures

ISQM1 Components	Shortcomings in the firm's policies and procedures
Relevant ethical requirements	➢ **Non-audit services** The firm's acceptance procedures did not include a requirement for concurrence to be obtained from TCWG of a PIE audit client as required by the MIA By-Laws. ➢ **Partner rotation policy** The firm's policy did not consider relevant past roles undertaken by an audit partner prior to becoming a key audit partner when calculating the length of this individual's involvement with an audit engagement as required by the MIA By-Laws. ➢ **Appointment of Engagement Quality Reviewers ("EQR")** Cooling-off period of 2 years for the appointment of an EQR who was previously the audit engagement partner was not defined in the firm's policy as required by ISQM 2.

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Common Inspection Findings

2. Shortcomings in the firm's policies and procedures

ISQM1 Components	Shortcomings in the firm's policies and procedures
Resources	➢ Basic password controls such as minimum password length, password expiration and password history have not been implemented on the laptops of the audit personnel to safeguard confidentiality of audit engagement documentation that are residing within these laptops. ➢ For firms that uses audit software, there was no restriction imposed to prevent modification of date and time settings at the laptops of the audit personnel
Monitoring	➢ Retention policy for documentation relating to the firm's system of quality management was not defined

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Key Reminders

1. Firm's risk assessment process

➢ The firm's risk register should be periodically assessed, at least quarterly, with involvement of the firm's leadership

➢ Firm's risk assessment process should also consider results of the firm's monitoring reviews when evaluating whether implemented controls are sufficient to address the identified risks

2. Information and Communication

➢ Information technology should be utilised to strengthen information sharing, reporting and monitoring of risks and compliances

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Key Reminders

3. Monitoring

➢ Evaluation of the firm's system of quality management is required to be performed by 15 December 2023.

➢ For network firms, do ensure that undue reliance is not placed on the network
  - The local member firm should obtain an understanding of the controls and monitoring activities undertaken by the network and evaluate the results of testing performed by the network

➢ Sufficient documentation should be maintained by the firm to facilitate monitoring reviews

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Thank You