



Suruhanjaya Sekuriti
Securities Commission
Malaysia

Audit Oversight Board

Conversation with Audit Committees

Survey with the Audit Committees on
Transparency Reporting by
Audit Firms

17 November 2022 and 6 December 2022

Restricted

Audit Oversight Board

Disclaimer



These slides and their contents are not to be cited, copied or circulated without the express permission from the SC's Audit Oversight Board.

The views expressed are those of the speakers and do not necessarily reflect the views of the audit regulator, its members, or staff.





Suruhanjaya Sekuriti
Securities Commission
Malaysia

Audit Oversight Board

Agenda

1

Overview of the survey

2

Survey results

3

Audit Quality Indicators

Audit Oversight Board



Suruhanjaya Sekuriti
Securities Commission
Malaysia

Overview of the Survey





Suruhanjaya Sekuriti
Securities Commission
Malaysia

Audit Oversight Board

Survey with the Audit Committees on Transparency Reporting by Audit Firms

Objectives of the Survey

- To understand how Audit Committees (AC) make use of the audit firm transparency reports
- To identify any areas for improvement



Survey Period: 21 April to 30 June 2022

- Circulated to **715** AC members from **338** public listed companies

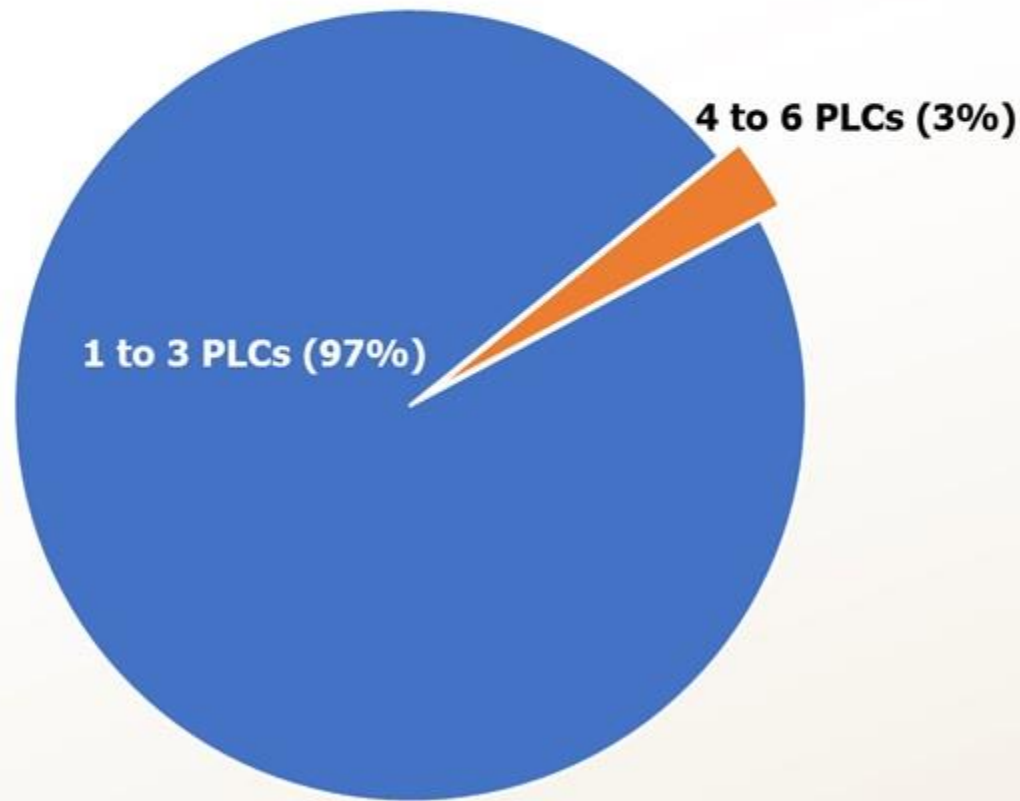


**Received
151
responses**

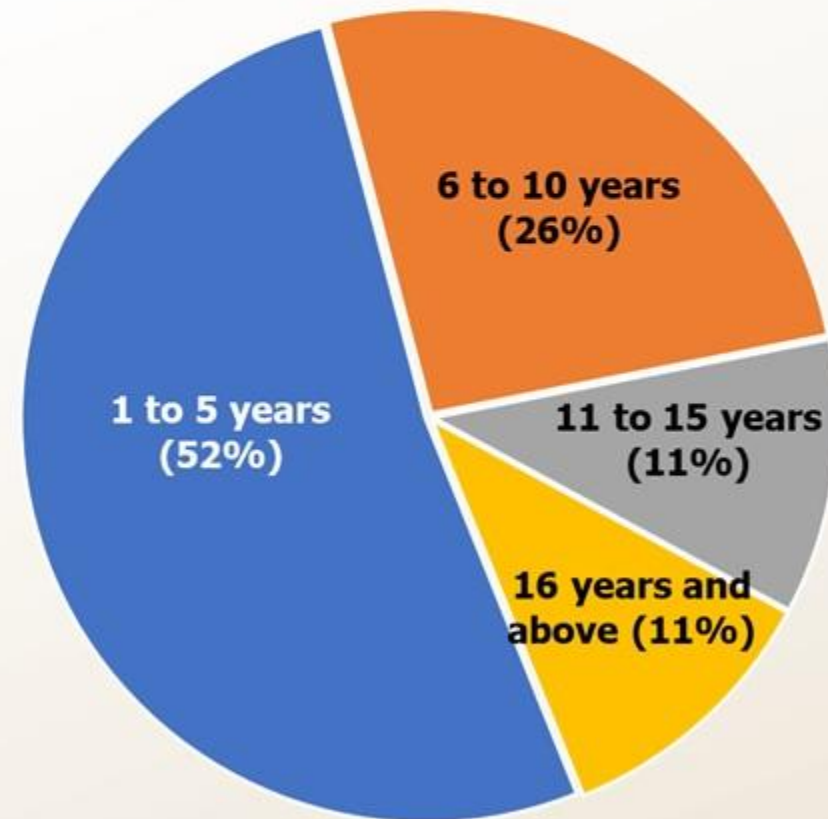
Audit Oversight Board

Profile of the Survey Respondents

Audit Committee Representation



Years of experience as an AC member



Audit Oversight Board



Suruhanjaya Sekuriti
Securities Commission
Malaysia

Survey Results





Suruhanjaya Sekuriti
Securities Commission
Malaysia

Audit Oversight Board

Respondents' Awareness of the Transparency Reports Produced by Audit Firms

**Respondent is aware of the
reporting criteria applicable to
auditors of PIEs ***

Yes (89%)

No (11%)

Respondent has read the report

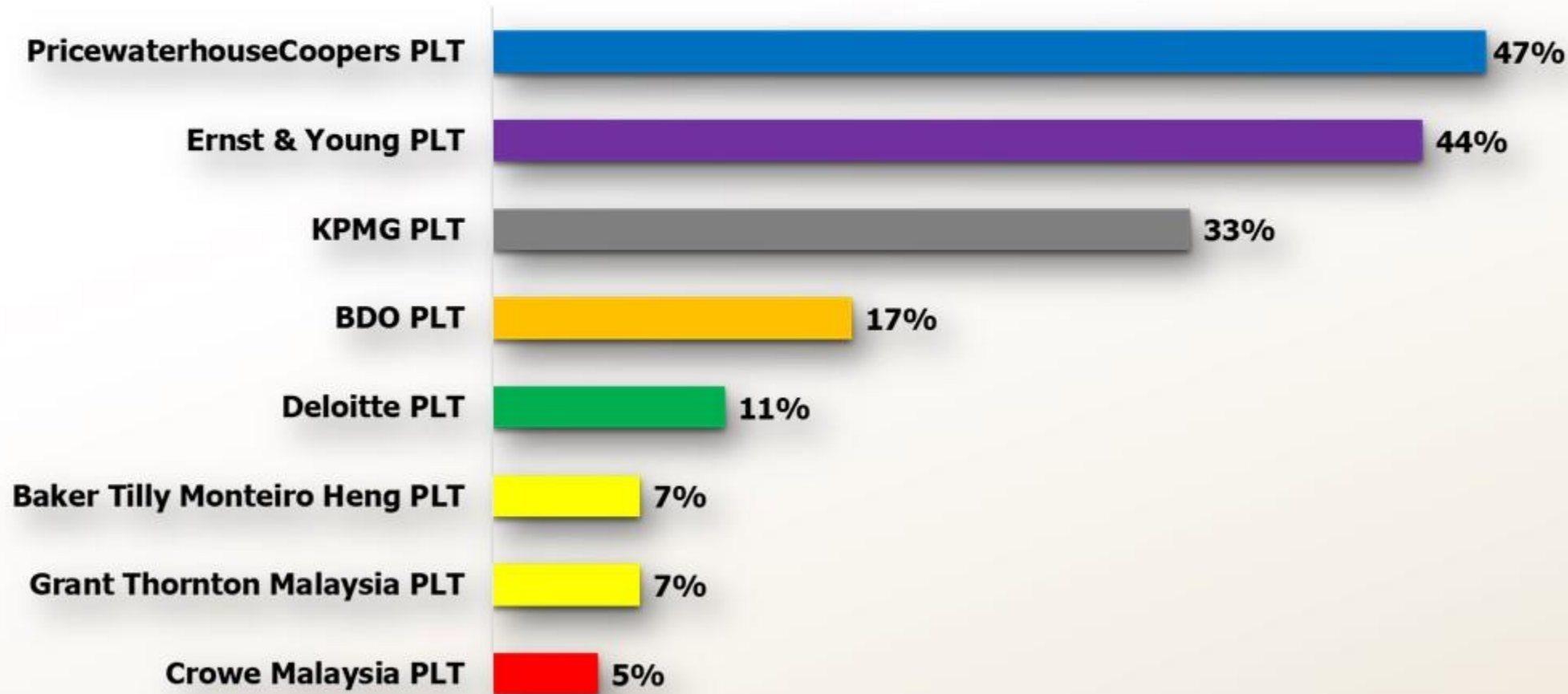
Yes (68%)

No (32%)

** Audit firms are required to produce an annual transparency report if they have more than 50 PIE audit clients and the total market capitalisation of the audit firms' PIE clients exceeds RM10 billion for two consecutive years*

Audit Oversight Board

Transparency reports that have been read by the respondents

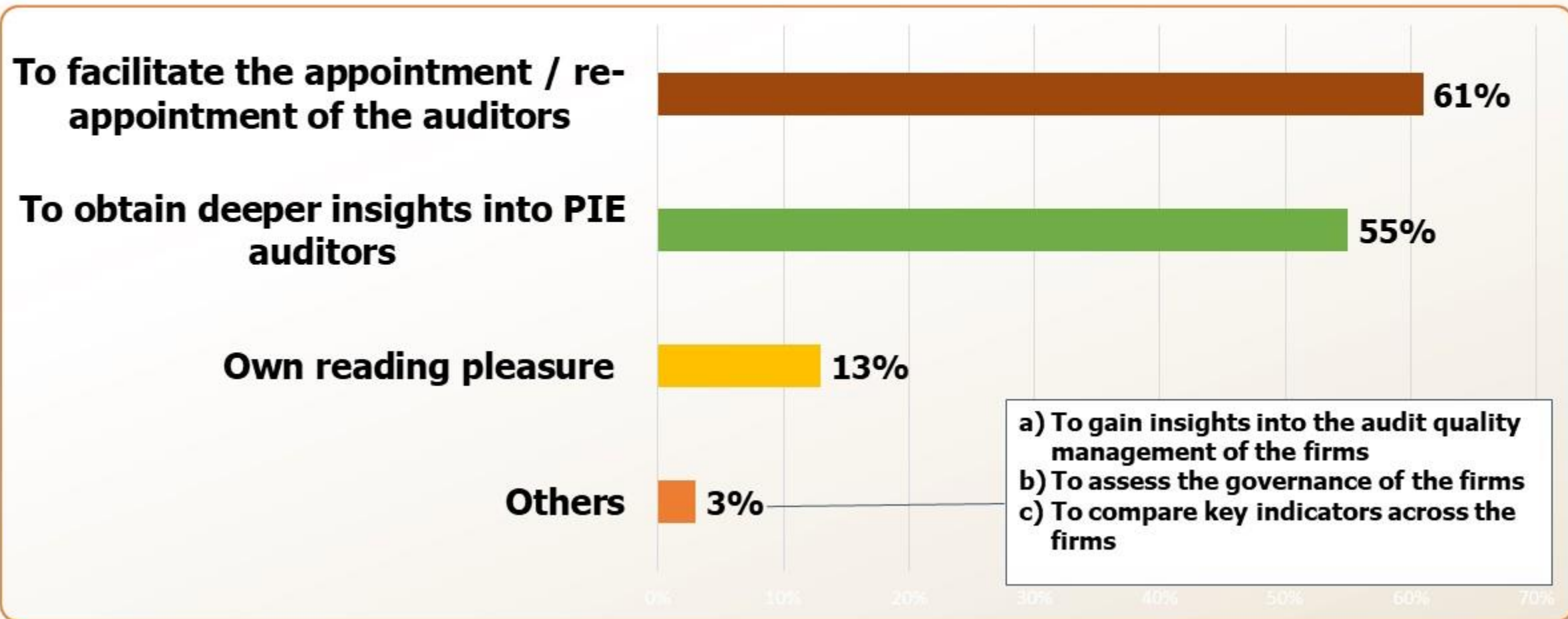


Audit Oversight Board



Suruhanjaya Sekuriti
Securities Commission
Malaysia

Respondents' Purpose for Reading the Transparency Reports





Suruhanjaya Sekuriti
Securities Commission
Malaysia

Audit Oversight Board

Evaluation of the Contents of the Transparency Reports

Respondents were asked to indicate their agreement on a scale of
1 = "strongly disagree" to 5 = "strongly agree"

1. The report provided the respondents with a good understanding of:

- a) the audit firm's legal and governance structure
- b) the measures taken by the audit firm to uphold audit quality
- c) how the audit firm manages its risks

2. The report is fairly presented and not oriented towards marketing or selling of services

3. Sufficient explanation has been provided by the firm on the firm's audit quality indicators ("AQIs")

Audit Oversight Board



Suruhanjaya Sekuriti
Securities Commission
Malaysia

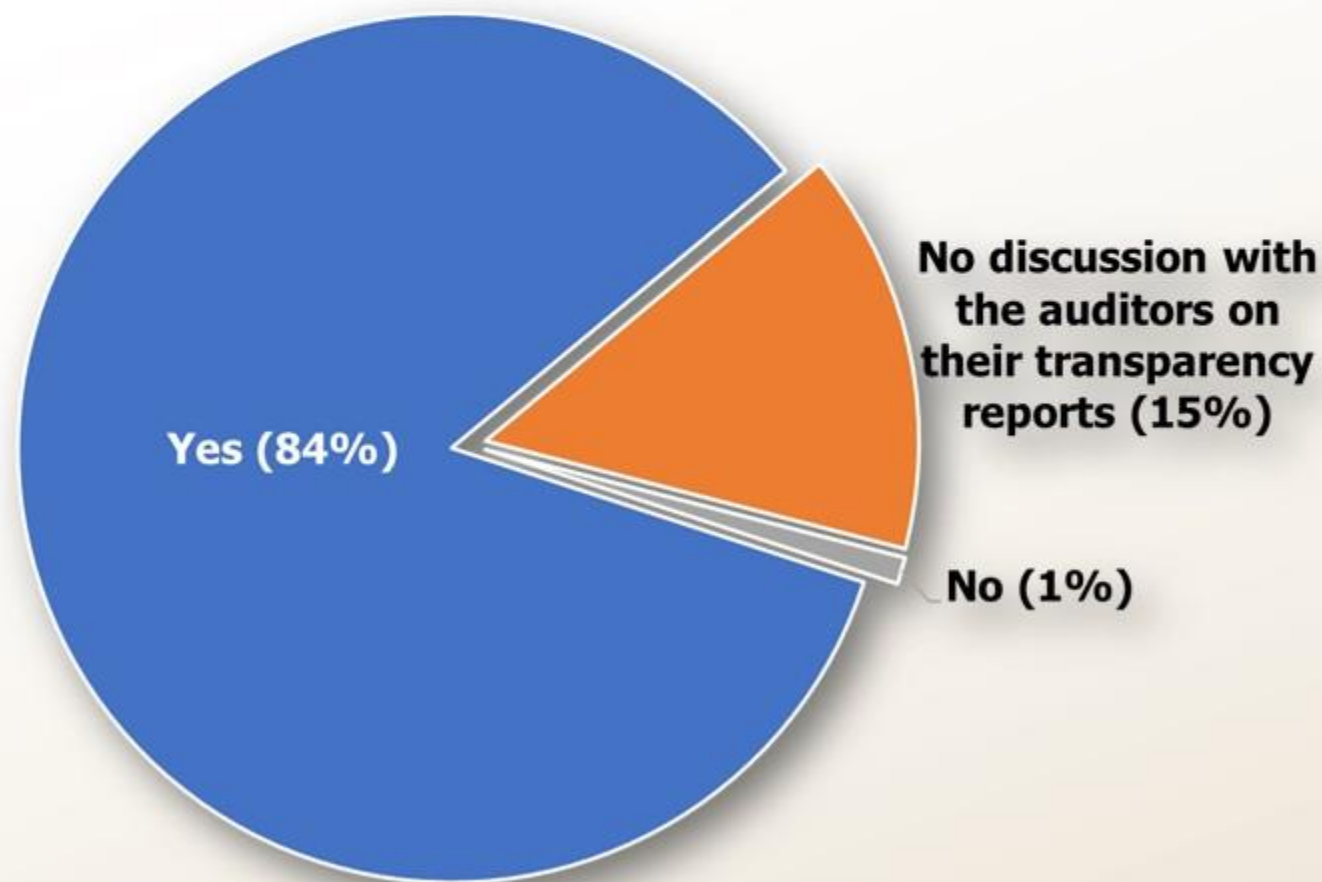
Evaluation of the Contents of the Transparency Reports (Cont'd)

Audit Firms	A	B	C	D	E	F	G	H
1. The report provided me with a good understanding on:								
a) the audit firm's legal and governance structure	4.3	4.4	4.3	4.0	3.9	3.6	3.2	3.5
b) the measures taken by the audit firm to uphold audit quality	4.4	4.4	4.3	4.1	4.0	3.7	3.4	3.1
c) how the audit firm manages its risks	4.4	4.3	4.3	3.9	3.9	3.8	3.3	3.1
2. The report is fairly presented and not oriented towards marketing or selling of services	4.2	4.3	4.2	4.2	3.9	3.4	3.4	3.3
3. Sufficiency of the explanation on the AQI	4.1	4.2	4.1	4.0	4.0	3.6	3.5	3.0
Total Average Score	4.3	4.3	4.2	4.0	3.9	3.6	3.4	3.2



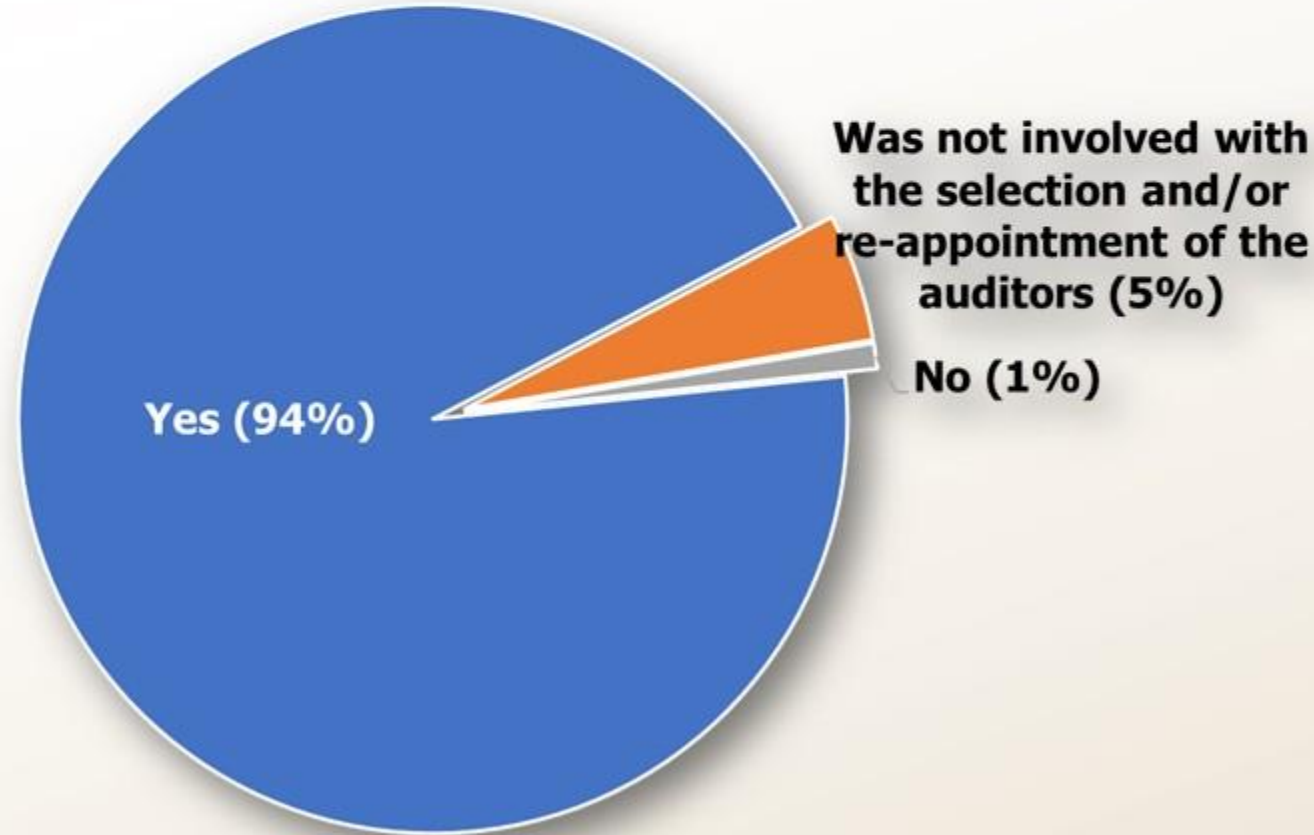
Audit Oversight Board

Whether the queries raised by the AC in relation to the transparency reports were satisfactorily addressed by the auditors?



Audit Oversight Board

Whether the information disclosed in the transparency reports were useful to facilitate the selection and/or re-appointment of the auditors?



Audit Oversight Board

Areas for Improvement Based on Survey Feedback

1. Increase disclosure in the annual transparency reports

- | | |
|---|--|
| a) Litigations faced by the firm * | e) Training program and support given to staff to pursue professional qualifications |
| b) Any actions taken by the regulators and authorities * | |
| c) Fee dependency on audit clients * | f) Client profile (e.g. number of clients by industry) |
| d) Internal and external monitoring review findings including remediation efforts | g) ESG initiatives including initiatives to address employee well-being |

** Consideration to include this in the reporting guidelines*

Audit Oversight Board



Suruhanjaya Sekuriti
Securities Commission
Malaysia

Areas for Improvement Based on Survey Feedback

2. Audit Quality Indicators

- a) AQI statistics should be presented in a **standardised format** and benchmarked to peers to facilitate comparison
- b) Firms to provide **more explanation** on the AQI presented in their reports

Audit Oversight Board



Suruhanjaya Sekuriti
Securities Commission
Malaysia

Audit Quality Indicators





Suruhanjaya Sekuriti
Securities Commission
Malaysia

Audit Oversight Board

Background

AOB mandated 15 common AQIs to be reported in the Audit Firm's Annual Transparency Reports (ATR)

- | | |
|---|---|
| ▪ Audit partner workload | ▪ Audit engagement supervision |
| ▪ Auditor independence | ▪ Firm's investment to promote audit quality |
| ▪ Capacity and competence of the audit practice | ▪ Results of internal and external quality monitoring reviews |



The AQIs reported in the ATR are subject to **verification by the AOB** to ensure reliability



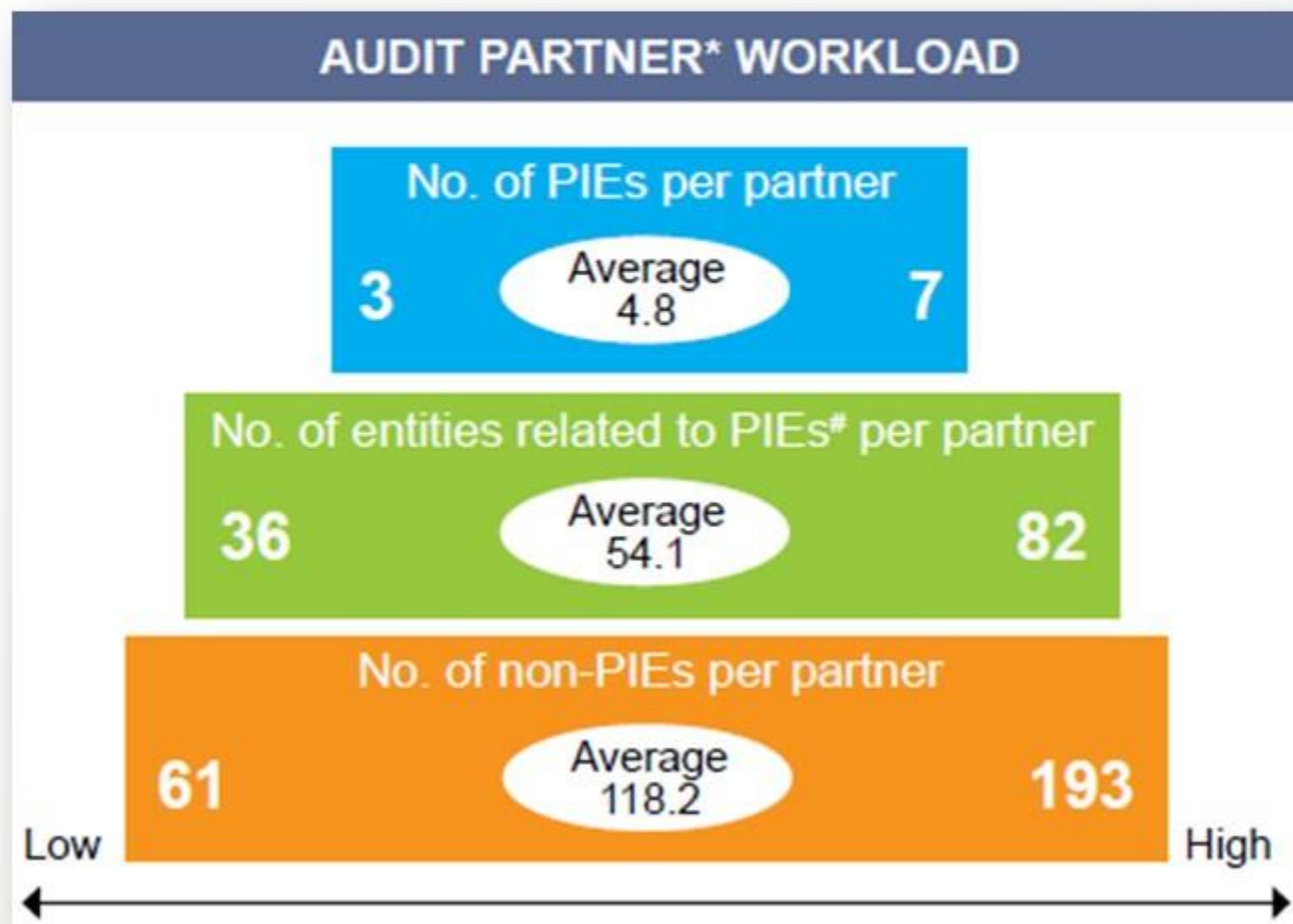
The average AQIs statistics have been included in **AOB's Annual Inspection Report** to facilitate comparisons between the firms

Audit Oversight Board

Key highlights of the AQIs presented in the 2021 AOB Annual Inspection Report



Suruhanjaya Sekuriti
Securities Commission
Malaysia



A partner's workload increases in tandem with the number of clients that he has to service.

The **heavier the workload**, the **lesser the amount of time** for a partner to effectively supervise the audits

* Auditor of PIEs





Suruhanjaya Sekuriti
Securities Commission
Malaysia

Audit Oversight Board

Key highlights of the AQIs presented in the 2021 AOB Annual Inspection Report (cont'd)

AUDITOR INDEPENDENCE

Proportion of fee income between the audit practice and non-audit practices



49%

Audit practice



51%

Non-audit practices

Proportion of fee income derived from audit clients



72%

Statutory audit



8%

Other assurance services



20%

Services provided by non-audit practices

Auditor independence may be **undermined** when:

- the proportion of fee income from the **non-audit practice** of an audit firm is **significantly higher** than the audit practice
- Non-audit fees for audit clients** are **significantly higher** than audit fees

Audit Oversight Board

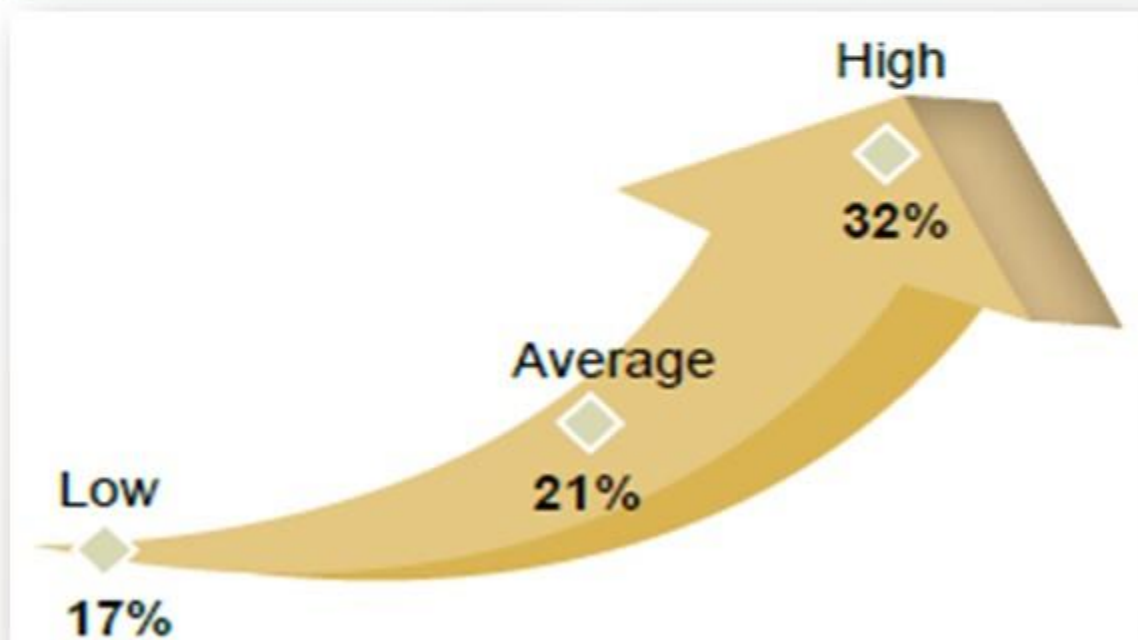
Key highlights of the AQIs presented in the 2021 AOB Annual Inspection Report (cont'd)



Suruhanjaya Sekuriti
Securities Commission
Malaysia

CAPACITY AND COMPETENCE OF THE AUDIT PRACTICE

Staff turnover rate



Talent retention continues to be a **challenge** faced by the audit profession due to **stiff competition** for accounting and auditing talent within Malaysia as well as abroad.



Suruhanjaya Sekuriti
Securities Commission
Malaysia

Audit Oversight Board

Key highlights of the AQIs presented in the 2021 AOB Annual Inspection Report (cont'd)

CAPACITY AND COMPETENCE OF THE AUDIT PRACTICE

Audit staff composition and years of audit experience

Staff role	Partner	Managerial staff	Non-managerial staff
Staff composition	4%	17%	79%
Average years of experience	23 years	10 years	3 years

Professional qualifications of the audit staff

23%	64%	13%
With professional qualifications and/or MIA membership	Pursuing professional qualifications and/or MIA membership	Without professional qualifications and/or MIA membership



Suruhanjaya Sekuriti
Securities Commission
Malaysia

Audit Oversight Board

Key highlights of the AQIs presented in the 2021 AOB Annual Inspection Report (cont'd)

AUDIT ENGAGEMENT SUPERVISION

Staff to partner ratio



Staff to manager ratio



◆ Low ▲ Average ✕ High

These indicators provide an **overview** on whether the audit firm has **sufficient partners and managerial staff** to **supervise less experienced audit team members**.

A **lower ratio** would imply that a partner or managerial staff could accord **greater attention to supervise** audit engagement teams.



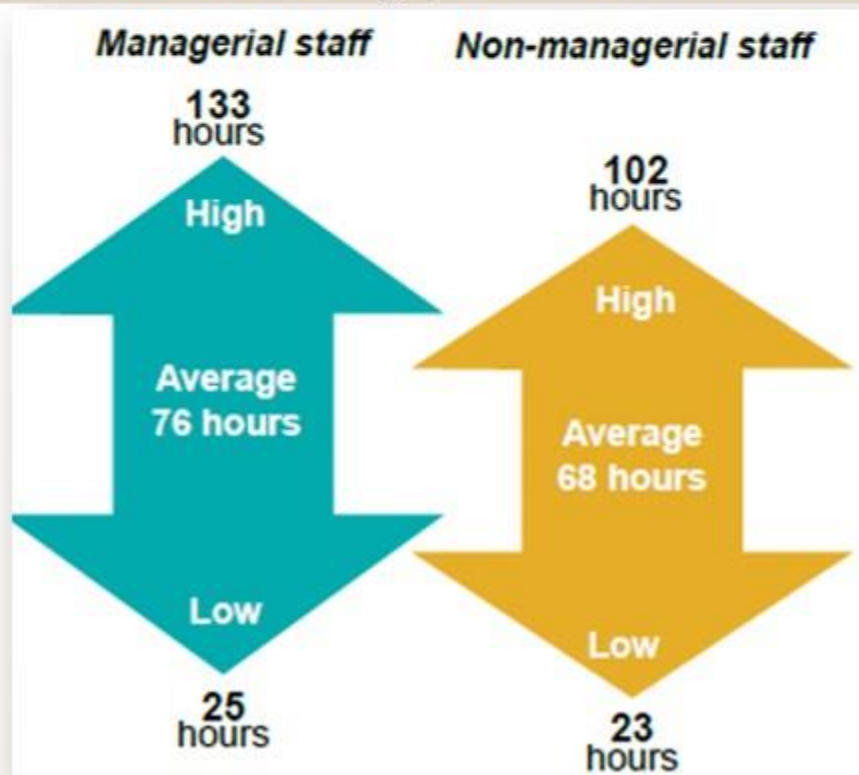
Suruhanjaya Sekuriti
Securities Commission
Malaysia

Audit Oversight Board

Key highlights of the AQIs presented in the 2021 AOB Annual Inspection Report (cont'd)

AUDIT FIRMS' INVESTMENT TO PROMOTE AUDIT QUALITY

Average hours of training provided to audit staff



Training provided by the audit firm to audit personnel is **important** to ensure that they **remain technically competent and kept up-to-date** with the latest changes in accounting and auditing standards



Audit Oversight Board

Key highlights of the AQIs presented in the 2021 AOB Annual Inspection Report (cont'd)

AUDIT FIRMS' INVESTMENT TO PROMOTE AUDIT QUALITY

Ratio of audit staff to one quality control staff#



A **lower** ratio of headcount in audit personnel relative to quality control headcount would indicate **greater audit firm commitment** to allocate resources to support audit quality

Quality control staff are staff who are involved in risk management, technical consultation, training and quality assurance functions of the audit firms.

Audit Oversight Board



Suruhanjaya Sekuriti
Securities Commission
Malaysia

What should the Audit Committees do with the AQIs?



Compare the Audit Quality Indicators (AQI) information disclosed in the audit firm's transparency reports with the **average AQIs disclosed** in the AOB's Annual Inspection Report

Engage with the auditors in meaningful discussions on the audit firm's AQIs to drive continued focus and improvements on audit quality

The auditors would be in the best position to explain their firm's AQIs and efforts undertaken to address any shortcomings

Audit Oversight Board



Suruhanjaya Sekuriti
Securities Commission
Malaysia

Thank you