Suruhanjaya Sekuriti
Securities Commission
Malaysia

AUDIT OVERSIGHT BOARD
ANNUAL INSPECTION REPORT 2025

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2025

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The cut-off date for the data included in this report was 31 December 2025.

MISSION STATEMENT

Fostering high-quality independent auditing to promote confidence in the quality and reliability of audited financial statements of public-interest entities and schedule funds in Malaysia.

CONTENTS

INTRODUCTION

NAVIGATING CHANGE WITH CONFIDENCE: UPHOLDING AUDIT QUALITY

The Audit Oversight Board (AOB) is committed to promoting high-quality independent audits that support investor confidence in the audited financial statements (AFS) of public-interest entities (PIEs) and schedule funds in Malaysia. In line with its mandate under the *Securities Commission Malaysia Act 1993* (SCMA), the AOB conducts the registration of auditors of PIEs, performs inspections of AOB-registered audit firms and individual auditors, takes enforcement actions against errant auditors and carries out stakeholder engagement activities. Since its establishment in 2010, the AOB has continued to evolve and steadily advance its mission. Below is a summary of its key milestones over the last 15 years.

ROADMAP OF THE AOB'S GROWTH AND PROGRESSION

AOB Officially Established

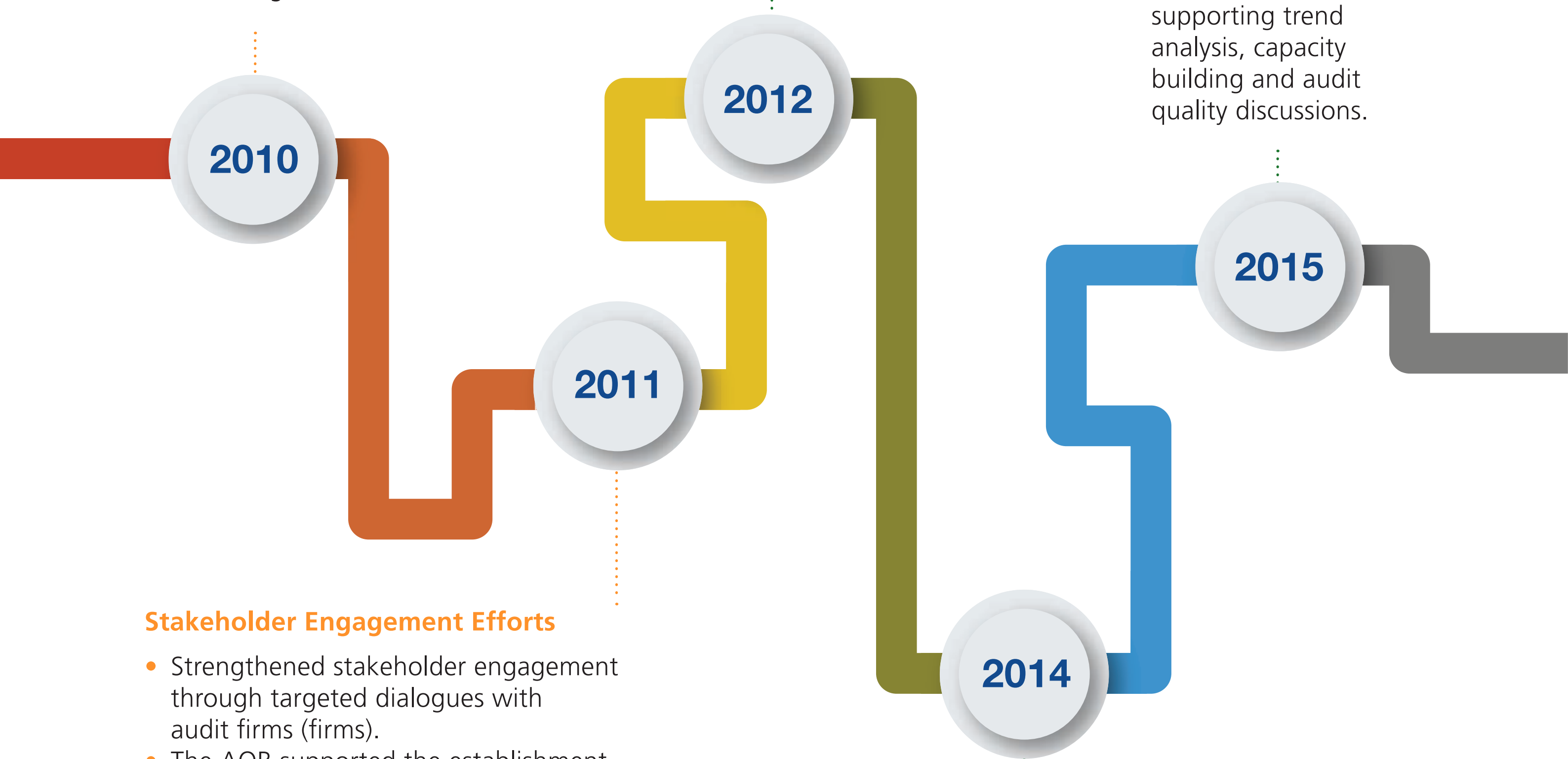
- The AOB was established under the SCMA to regulate auditors, conduct inspections and align Malaysia's audit oversight with international best practices through its membership with the International Forum of Independent Audit Regulators (IFIAR).

Regulatory Enhancement Efforts

- Enhanced the regulatory framework to allow recognition of qualified foreign auditors, subject to oversight by equivalent foreign authorities.

Enhancing Oversight via Statistical Analysis

- Statistics Gathering and Analysis (SGA) was introduced as a structured approach to data collection, supporting trend analysis, capacity building and audit quality discussions.



Stakeholder Engagement Efforts

- Strengthened stakeholder engagement through targeted dialogues with audit firms (firms).
- The AOB supported the establishment of the Association of Southeast Asian Nations (ASEAN) Audit Regulators Group (AARG) to strengthen regional cooperation and audit quality.

Hosted the 8th IFIAR Inspection Workshop in Kuala Lumpur

- The inspection workshop was held for the first time in the ASEAN region and was attended by over 100 delegates representing 35 IFIAR member jurisdictions.
- Involvement in the IFIAR working groups enables the AOB to leverage the experience of other audit regulators at the global level and help drive policy changes in Malaysia.

Phase 1 (2010-2012): Establishment & Foundational Framework

Phase 2 (2014-2015): Stabilisation & Risk-based Supervision

Capacity-Building Initiatives

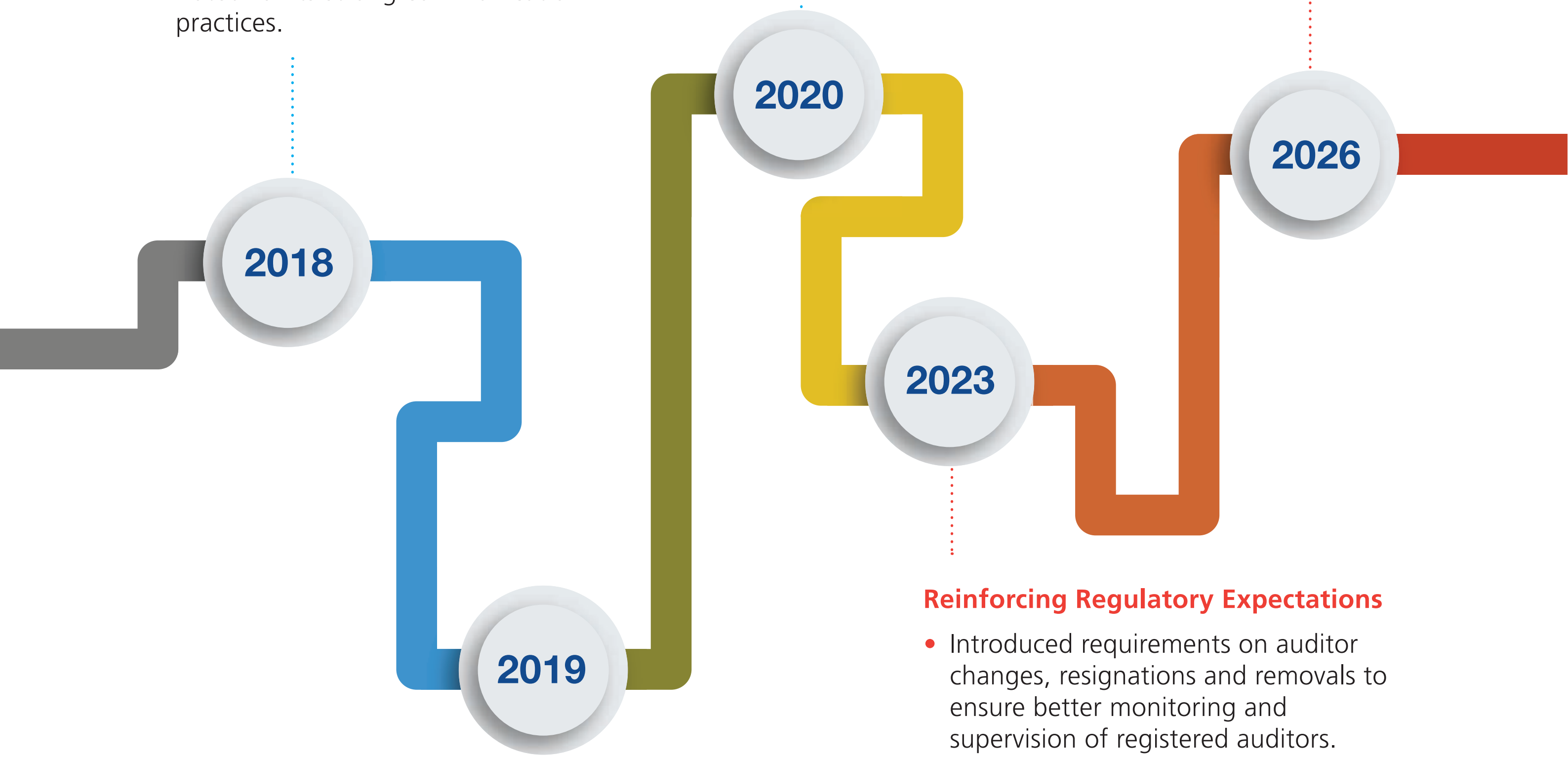
- Provided a one-off training subsidy of RM30,000 to smaller AOB-registered firms with fewer than 10 audit partners.
- Collaborated with the Malaysian Institute of Certified Public Accountants (MICPA) to deliver targeted training addressing common audit weaknesses, funded using penalties collected by the AOB.

First Recognition by the Asian Corporate Governance Association (ACGA)

- Malaysia scored the highest (tied with Australia) for the quality of accounting, auditing standards and practices, and the effectiveness of audit regulation.
- The AOB was also recognised as one of the region's most effective audit regulators and noted for its strong communication practices.

Further Regulatory Enhancements

- Reduced the ATR reporting threshold, increasing the number of firms required to prepare ATRs and broadening the scope of mandatory ATR disclosures.
- Introduced a set of core principles on independent oversight applicable to Major Audit Firms to promote stronger and more effective governance.



Reinforcing Regulatory Expectations

- Introduced requirements on auditor changes, resignations and removals to ensure better monitoring and supervision of registered auditors.

Annual Transparency Report (ATR) Framework

- The framework for the ATR was introduced and announced to all AOB-registered firms.
- The ATR was only required to be issued by Major Audit Firms, with the first ATRs eventually issued in 2021.

Phase 3 (2018-2020): Capacity Building & Transparency Enhancement

Phase 4 (2023-2026): Regional Leadership & Regulatory Maturity

DRIVING AUDIT QUALITY: SHARED RESPONSIBILITY

What is Audit Quality and Why is it Important?

Audit quality is viewed as the factor that influences the auditor's ability to:

- Obtain reasonable assurance that the financial statements, taken as a whole, are free from material misstatements;
- Ensure that any material deficiencies identified are properly addressed or communicated through the audit report; and
- Robustly challenge significant accounting estimates, judgements and treatments that could materially affect the entity's reported financial position and performance.

ISA 220 (Revised): Quality Management for an Audit of Financial Statements underscores the critical responsibilities involved in ensuring audit quality. The standard places particular emphasis on the engagement partner's role in providing effective leadership, upholding ethical requirements, exercising sound supervision, maintaining robust documentation and applying professional scepticism throughout the audit process.

Further, sustaining high-quality audits is essential to strengthening public trust in audited financial statements and enhancing the overall credibility of financial reporting.

Audit quality is strengthened when all stakeholders in the financial reporting ecosystem – preparers, audit committees (ACs), firms and regulators – fulfil their responsibilities effectively. Each stakeholder's role supports a strong environment where accounting and auditing matters are addressed promptly and confidence in financial reporting is sustained.

01 PREPARERS AND MANAGEMENT OF PIES

Management plays a crucial role in supporting audit quality by ensuring that the information provided to auditors is accurate, complete and well-supported.

How Can Management Contribute to Audit Quality?

1 Competent Finance Function

A competent finance function supports audit quality through the preparation of accurate financial information and timely, effective engagement with auditors.

2 Strengthen Internal and Governance Process

Management can help the audit process by implementing and monitoring clear and strong internal controls and processes. Management is required to uphold integrity, professional scepticism and compliance which will improve accountability on the quality of the information prepared for the auditors.

3 Improve Joint Planning Between Management and the Auditor

Effective planning establishes clear expectations and enables auditors to gain a thorough understanding of the business and any significant changes during the year. Management should ensure that all documents and information required by the auditors are provided on a timely basis, to support an efficient audit process and avoid reporting delays.

4 Enhance Communication Throughout the Audit

Preparers and management are expected to foster open and transparent dialogue with auditors. Regular communication will assist both parties to stay aligned in responding to audit queries and requests promptly. This collaborative approach not only streamlines the audit process but also promotes efficiency and enables both parties to identify opportunities for future improvement.

02 AUDIT COMMITTEE

ACs serve as a cornerstone of corporate governance, ensuring that the audit process is conducted with independence, rigour and accountability. By overseeing both management's financial reporting practices and the external auditor's performance, ACs help to safeguard the integrity of financial information and reinforce stakeholders' confidence in the reliability of disclosures.

Factors contributing to an effective AC function

- Independent and Competent
- Financial Expertise
- Strong Chair Leadership
- Clear Mandate
- Engaged and Informed
- Transparent
- Continuous Engagement with Auditors
- Accountable
- Diligent and Strategic

How can ACs promote audit quality?

- Ensure a competent auditor is appointed
  - Conduct audit tender independently
  - Consider information presented in the ATR
- Maintain open and constructive communication
  - Flag any concerns or identified risks early in the audit process
  - Inform auditors of any inquiries or concerns raised by regulators
- Safeguard auditor independence
  - Monitor fees earned from non-audit services
  - Develop independent views on significant accounting policies and estimates

03 AUDITORS AND AUDIT FIRMS

As the key pillar of the financial reporting ecosystem, auditors play a vital role in safeguarding the reliability, integrity and transparency of financial statements. Auditors provide independent assurance that the financial reports reflect an entity's true financial position and help maintain trust in the capital market.

What High-Performing Firms Have in Common?

- Strong firm culture focused on audit quality and professional scepticism
- Sufficient and appropriately skilled resources
- Effective supervision and review mechanisms
- Strong accountability and governance structures
- Timely identification of audit risks
- Effective remediation and root cause analysis
- Consistency in audit execution across engagements

What Can Firms Do to Improve Audit Quality?

Enhance Governance and Accountability

- Improve oversight, monitoring processes and partner accountability to reinforce responsibility for audit outcomes.

Promote a Strong Quality Culture

- Reinforce professional scepticism, ethical conduct and a mindset that prioritises audit quality across all levels.
- Monitor the firm's cultural health by having a pulse check and identify areas for improvement.

Improve Supervision and Review Discipline

- Strengthen direction, supervision and review of high-risk areas to ensure rigorous evaluation and proper documentation.
- Apply robust structured systems for monitoring, reviewing and improving audit processes.

Use Audit Quality Indicators (AQIs)

- Monitor partner workload, staff capacity and supervision levels to identify pressure points and manage quality risks.
- Provide ongoing technical and industry training to improve audit competence and readiness.

Strengthen Staffing and Expertise

- Review team structure and ensure the firm has the right capacity, skills and technical knowledge of accounting standards, industry practices and regulatory requirements.
- Leverage technology and innovation and consider engaging information technology (IT) specialists and auditor experts where necessary.

04 AOB INSPECTION APPROACH

One of the key activities of the AOB is audit inspection where firms are assessed on their quality practices and compliance with the relevant professional standards.

Inspection Programme

An inspection involves an assessment of the degree of compliance by auditors with auditing and ethical standards applicable in Malaysia and the quality of the auditor's reports relating to the AFS of PIEs and schedule funds.

An inspection may involve either a firm-level review or engagement-level review or both.

What is the AOB's Regulatory Outreach?

Public-Interest Entities (Part 1, Schedule 1, SCMA)

Public-Listed Companies/Corporations

Other Capital Market Institutions
- Exchange holding company
- Exchange
- Central depository
- Clearing house
- Self-regulatory organisation
- Private Retirement Schemes (PRS) administrator
- Trade repository
- Capital Market Compensation Fund Corporation

Financial Institutions
- Bank
- Insurer
- Takaful operator
- Islamic bank
- Development financial institution
- As prescribed by Minister

Capital Markets Services Licence Holder (CMSL)
- Dealing in Securities
- Dealing in Derivatives
- Dealing in Fund Management

And any other person as the Minister may prescribe by order published in the Gazette.

Scheduled Funds (Part 2, Schedule 1, SCMA)

Unit Trust Scheme
- Business trust fund
- Closed-end fund
- Exchange traded fund
- Real estate investment trust
- Unit trust fund
- Wholesale fund

PRS

And any capital market funds as may be specified by the Securities Commission Malaysia (SC).

What are the Selection Criteria?

Using a risk-based approach, the following are included as part of the AOB's considerations in selecting firms:

- Firms' risk assessment
- Market capitalisation of audited public-listed companies (PLCs)
- Specific industry or market concern
- Significant accounting, auditing or other developments

What is a Finding?

Findings identified during inspections are:

- Individually critical deficiencies that may, on their own, have an impact on the basis of audit opinion; or
- Pervasive issues where the impact cannot be easily quantified.

Although the findings highlighted by the AOB are individually critical or pervasive, these findings do not necessarily suggest that the affected PIE's financial statements contained a material error or its internal controls in financial reporting are materially weak.

What happens if there is a finding?

The AOB assesses the severity of findings to determine the appropriate actions to be taken. Actions may not be restricted to the individual partners involved, but the AOB will also consider the need for further measures to be imposed on the firms if necessary.

Enforcement action by the AOB's Enforcement, Regulation and Quality Assurance (ERQ) Department

Referrals to the SC's Corporate Surveillance department for further action on the PIE

Imposition of specific remediation measures for immediate rectification

2025 INSPECTION HIGHLIGHTS

2025 Inspection Coverage

14 Firms

40 Individual Auditors

41 Audit Engagements

Firms inspected:
• Al Jafree Salihin Kuzaimi PLT • Baker Tilly Monteiro Heng PLT • BDO PLT • Crowe Malaysia PLT • Deloitte Malaysia PLT • Ecovis Malaysia PLT • Ernst & Young PLT • Grant Thornton Malaysia PLT • KPMG PLT • Morison LC PLT • PKF PLT • PricewaterhouseCoopers PLT • TGS TW PLT • UHY Malaysia PLT

INSPECTION OUTCOME

Referred 6 inspected audit engagements to **enforcement proceedings**

Imposed specific remediation measures on **2** inspected firms and **5** individual auditors

This Annual Inspection Report (AIR) sets out the AOB's observations and insights arising from inspection findings and other relevant matters noted during the year.

What should the ACs do with the AOB's Inspection Findings?

- Set expectations for transparent communication with the auditors. This allows a platform for the auditors to highlight any complex financial reporting matters as well as any differences in opinions with management.
- Ensure that their entities have appropriate controls and processes in place to address complex accounting issues, including having appropriate accounting records to support the management's assumptions on significant key judgements and relevant appropriate accounting treatments.
- Policies should be in place to alert ACs as early as possible whenever complex or highly subjective transactions are performed. This will help facilitate the decision-making process and avoid last-minute setbacks. Consequently, any challenges that arise from disruptions such as added costs and loss of reputation could be identified, addressed and mitigated in advance.

AOB INSIGHTS: COMPLAINTS MANAGEMENT: TURNING CONCERNS INTO STRONGER AUDIT CONFIDENCE

The AOB occasionally receives complaints concerning auditors and firms as part of its oversight responsibilities. Each complaint is examined to assess its relevance, determine whether further inquiries are required and identify appropriate follow-up actions.

The AOB's Complaint Handling Process

1. Conduct a preliminary assessment to evaluate the nature of allegations, sufficiency of evidence and whether standards or regulatory requirements were breached.
2. For complaints with more credible information and substantive allegations, the AOB may contact the complainant for further information.
3. Further assessment may involve direct engagement with the firms concerned to obtain relevant explanations, documentation and clarifications.
4. A formal approval is sought from the AOB Board prior to the closure of cases, ensuring accountability and appropriate regulatory oversight.

Members of the public are encouraged to identify themselves when submitting complaints, as doing so facilitates a more thorough and effective assessment process. The availability of contact details enables the AOB to seek further clarification, obtain additional supporting information and verify facts where necessary.

Contact for Queries and Complaints

For queries or complaints relating to the conduct of firms or individual auditors registered with the AOB, stakeholders may contact:

aduan@seccom.com.my

For matters concerning the registration and recognition of firms and individual auditors, AOB guidelines, or other AOB-related enquiries, please write to:

aob@seccom.com.my

INSIGHTS INTO THE AUDIT PROFESSION

REGISTRATION AND RECOGNITION STATISTICS

The number of firms and individual auditors has remained consistent year-on-year, with a slight increase in the number of registered individual auditors for Major Audit Firms and recognised Foreign Audit Firms.

TABLE 1
Registration and recognition of firms and individual auditors as at 31 December 2025 and 31 December 2024

	No. of firms		No. of individual auditors	
	2025	2024	2025	2024
Registered				
Major Audit Firms*	9	9	248	247
Other Audit Firms	27	28	133	130
Sub-total	**36**	**37**	**381**	**377**
Recognised Foreign Audit Firms#	5	5	16	16
Total	**41**	**42**	**397**	**393**

* *Major Audit Firms are firms that have more than 50 PIE audit clients with a total market capitalisation of above RM15 billion.*
\# *Foreign auditors who audit foreign incorporated companies which are listed on Bursa Malaysia.*

TABLE 2
PIEs and schedule funds audited by AOB-registered and AOB-recognised audit firms as at 31 December 2025 and 31 December 2024

	% of total no. of PIEs		% of total PLCs' capitalisation		No. of schedule funds		% of total net asset value (NAV)	
	2025	2024	2025	2024	2025	2024	2025	2024
Registered								
Major Audit Firms	73.4	75.8	95.0	95.1	1,299	1,319	98.5	99.3
Other Audit Firms	26.2	23.8	4.9	4.8	64	61	1.5	0.7
Sub-total	**99.6**	**99.6**	**99.9**	**99.9**	**1,363**	**1,380**	**100.0**	**100.0**
Recognised Foreign Audit Firms	0.4	0.4	0.1	0.1	-	-	-	-
Total	**100.0**	**100.0**	**100.0**	**100.0**	**1,363**	**1,380**	**100.0**	**100.0**

The AOB emphasises the importance of timely submission of registration matters in accordance with the *Guidelines on Continuing Obligations for Registered Auditors.* Firms are expected to have adequate processes in place to ensure ongoing compliance with these requirements.

Following the overview above, the subsequent sections outline the AOB's requirements on the resignation and removal of auditors, together with the revised *Guidelines on Continuing Obligations for Registered Auditors*, including updates relating to firm governance and the requirements for issuance of ATRs.

AOB INSIGHTS: RESIGNATION AND REMOVAL OF AUDITORS

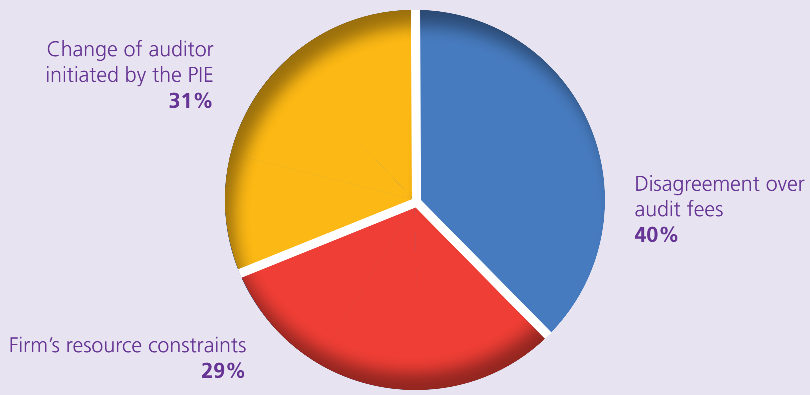
The AOB's *Guidelines on Continuing Obligations for Registered Auditors* requires the firm to notify the AOB in writing on the specific reasons and circumstances that gave rise to the resignation and any key audit concerns that relate to the PIE audit client's AFS within five business days after the issuance of the notice of resignation to the PIE audit client.

It is important for the firm to notify the AOB and the incoming auditor of the specific reasons particularly in monitoring:

- the conduct of the auditor and the firm's client acceptance and continuance processes;
- the conduct of the PIE's management; and
- the incoming auditor to appropriately assess client risk and focus on higher-risk areas of the audit engagement.

In 2025, the AOB noted an increase in resignations from the previous year with the primary reasons for the resignations depicted in Chart 1.

CHART 1
Reasons for auditor resignations from 1 January 2025 to 31 December 2025



A significant proportion of auditor resignations during the year occurred within three months of the PIE's financial year end.

Change of auditors at a later stage may also indicate underlying issues in the PIE's financial reporting process, including disagreements over significant judgements and limitations in access to information that may not have been adequately addressed. Such timing may give rise to concerns over whether the change in auditor is driven by 'opinion shopping', particularly where there are unresolved accounting or auditing matters. These circumstances warrant close attention, as they may affect the ability of the incoming auditor to properly assess engagement risks and complete the audit on a timely basis.

The AOB continues to monitor resignation patterns and engage with relevant parties where necessary.

REASONS OF RESIGNATIONS

It was noted that most of the reasons submitted for auditors' resignations primarily related to disagreements over audit fees and firms' resource constraints, followed by changes of auditor initiated by PIEs.

AOB Observations	Key Reminders
Disagreement over audit fees • Audit fee discussions took place during the audit planning phase and not during client acceptance/continuance phase of the audit engagement. • Audit fees of the incoming auditor were higher than those of the outgoing auditor.	• Audit fees should be discussed and agreed earlier to avoid disruptions in reporting timelines and ensure audit continuity. • If disagreement over fees arises from a change in scope or is due to possible audit and accounting issues, the audit partner should resolve the issues with those charged with governance (TCWG). • Audit fee proposals should reflect the time, expertise and professional effort required, while also considering the complexity of engagements and associated risks.
Firms' resource constraints • Firms continue to accept new PIE audit clients with the same financial year end despite their resource constraints.	• Firms' assessment of resource sufficiency before accepting new engagements should be rigorous to ensure the availability of sufficient staff and experts. • In line with the audit resource-related risks addressed under the International Standard on Quality Management 1 (ISQM 1), it is essential for the firms to perform the assessment on a continuous basis to ensure the delivery of quality audit engagements.

In addition to the above, the firm is also expected to notify the AOB on a timely basis in the following circumstances:

- If the firm identifies opinion shopping and/or suspects potential misconduct by a PIE; and
- If the firm is unable to continue an engagement as a result of insufficient expertise to address complex accounting matters.

AOB UPDATE: GUIDELINES ON CONTINUING OBLIGATIONS FOR REGISTERED AUDITORS

01 Audit Firm Governance Code

Importance of Oversight Function

An independent oversight function within the firm, similar to the role of the AC, drives better governance among the management and leadership of the firm by enhancing transparency and reinforcing accountability.

Given the size of the partnership and the PIE audit market share of the Major Audit Firms who play a significant role in the Malaysian audit market, strong governance within these firms that focus on upholding audit quality and public interest is of utmost importance.

As at 31 December 2025	Major Audit Firms	Other Audit Firms
PIE market share	RM1,895 billion (95%)	RM97.8 billion (5%)
AOB-registered audit partners	248	133

Independent Oversight Function for Major Audit Firms

The AOB has introduced the Core Principles on Independent Oversight for Major Audit Firms to strengthen governance, accountability and audit quality of the firms. These principles form part of the revised *Guidelines on Continuing Obligations for Registered Auditors* and apply to Major Audit Firms, reflecting their partnership structures, multidisciplinary practices and concentration of PIE audits.

Core Principles on Independent Oversight for Major Audit Firms

- Establish a governance structure that is independent from the firm's executive management team; and
- Members of the governance structure must:
  - Exercise independent oversight over the Major Audit Firm's executive management team for both audit and non-audit functions; and
  - Have appropriate authority and influence in executing their responsibilities.

Chapter 8 of the revised *Guidelines on Continuing Obligations for Registered Auditors* outlining the core principles on independent oversight for Major Audit Firms will be **effective for financial years ending on or after 31 December 2026.**

02 Annual Transparency Report

Objective of the Annual Transparency Report

The ATR provides external stakeholders with insights into the firm's quality management system, governance arrangements, measures to uphold audit quality and ethical compliance.

ATRs support ACs and investors in making informed decisions on the appointment of auditors, while enhancing investor trust and confidence in auditors' ability to deliver reliable audited financial statements.

Evolution of the Annual Transparency Report

2019

The AOB mandated the issuance of the annual transparency reports for AOB-registered audit firms that meet the following criteria as at the end of the calendar year over two consecutive years:

a) Firms with more than 50 PIE audit clients; and

b) The total market capitalisation of the firm's PLC clients amounts to above RM15 billion.

2026

The AOB reduced the reporting threshold requirement for AOB-registered audit firms that meet the following criteria as at the end of the calendar year over two consecutive years **(31 December 2025 and 31 December 2026)**:

a) Firms with more than 10 PIE audit clients

Additional Mandatory Disclosures in Firms' ATR

- Organisational structure relating to the firm's system of quality management (SoQM)
- Firm's use of information technology to enhance audit quality
- Availability of specialised resources to support the audit engagement team
- Firm's sustainability risks and opportunities
- For Major Audit Firms, a disclosure on how the firm has complied with the core principles on independent oversight

The firms which meet the criteria are required to publish their ATR on their website within four months from the end of their fiscal year. For firms that do not meet the criteria, publication of an ATR is voluntary.

NON-COMPLIANCE WITH ANNUAL TRANSPARENCY REPORTING REQUIREMENTS

During the inspection, instances of non-compliance with the disclosure requirements of the ATR were identified, where some firms omitted mandatory disclosures due to reliance on outdated guidelines and inaccuracies in the reporting of certain mandatory AQIs.

KEY REMINDERS

1

Firms

- All firms should implement a robust review and verification process to ensure the completeness, reliability and accuracy of data supporting the AQIs reported in the ATR.
- Audit engagement partners should also take the initiative to engage and provide updates to ACs on the firm's ATRs and AQIs.
- Use the updated *Guidelines on Continuing Obligations for Registered Auditors* (revised on 2 March 2026) to ensure full compliance with ATR requirements.

Access the revised *Guidelines on Continuing Obligations for Registered Auditors* here

2

Audit Committees

- ACs are encouraged to discuss disclosures relating to the leadership's commitment to audit quality, results of monitoring reviews, staff training programmes and the firm's AQIs when evaluating the firm's measures in upholding audit quality.
- ACs are encouraged to use information disclosed in the ATR and engage auditors in discussions, especially on audit resources including staff specialisation and competency when considering the appointment or reappointment of firms.

The AOB has issued a list of frequently asked questions (FAQ) on the updates to the revised *Guidelines on Continuing Obligations for Registered Auditors*, particularly in relation to the firm's Governance Code and ATR.

AUDIT QUALITY INDICATORS: KEY OBSERVATIONS AND TRENDS

The annual AQIs submitted by all AOB-registered firms provide insights into firm contributions towards audit quality and transparency on their ongoing efforts to uphold its quality. ACs are encouraged to leverage these indicators to evaluate the quality of audit services received and to support decisions regarding the appointment or reappointment of auditors.

Audit Partner Workload

Audit partner workload increases in line with the number of both PIE and non-PIE audit clients assigned to the partner.

Chart 1a: Number of PIE per audit partner for Major Audit Firms

Chart 1b: Number of non-PIE per audit partner for Major Audit Firms

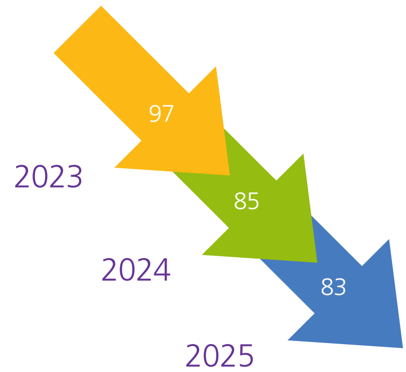
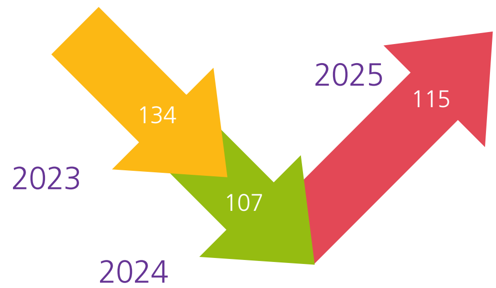


Chart 2a: Number of PIE per audit partner for Other Audit Firms

Chart 2b: Number of non-PIE per audit partner for Other Audit Firms



For Major Audit Firms, the number of PIE audit clients per audit partner has remained stable at five over the past three years. At the same time, the number of non-PIE audit clients per audit partner has been decreasing, suggesting that more time is being allocated to supervising higher-risk PIE audit engagements.

While the number of PIE audit clients per audit partner remains the same at three over the past three years for Other Audit Firms, the number of non PIE audit clients per audit partner increased by 8% in 2025 compared to 2024. The upward shift in 2025 raises concerns about partner workload distribution, which may reduce their ability to focus on higher-risk PIE audit engagements. Sustaining audit quality under such conditions could be compromised, as partner supervision and involvement in audit engagements may decline, potentially resulting in unsatisfactory audit outcomes.

Capacity and Competence of the Audit Practice

The AOB observed a consistent proportion of audit personnel holding and pursuing professional qualifications throughout the three-year period.

Chart 3: Professional qualification for Major Audit Firms

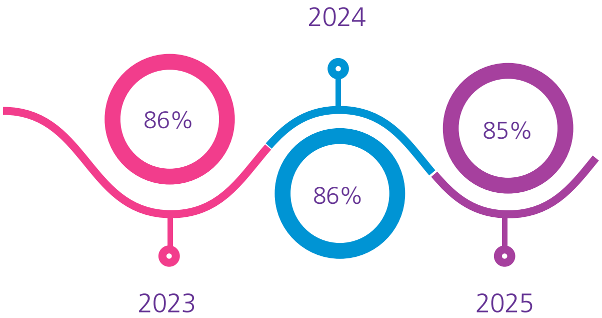
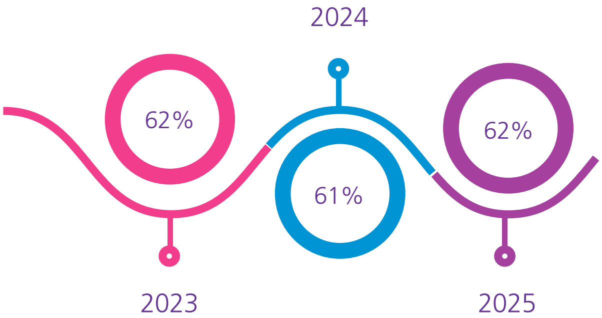


Chart 4: Professional qualification for Other Audit Firms



The AOB highlights the importance of continuous professional development, expects a higher percentage of audit personnel to be professionally qualified and encourages auditors with more than three years of auditing experience to apply for professional membership. It is important to note that professional qualifications demonstrate professional competence and enhance stakeholder confidence in the delivery of quality audits.

Firms' Investment to Uphold Audit Quality

Firms have continued to invest in training as a strategic priority, ensuring that audit personnel not only remain competent but also stay current with evolving standards, technologies and regulatory expectations.

Chart 5: Training hours for Major Audit Firms

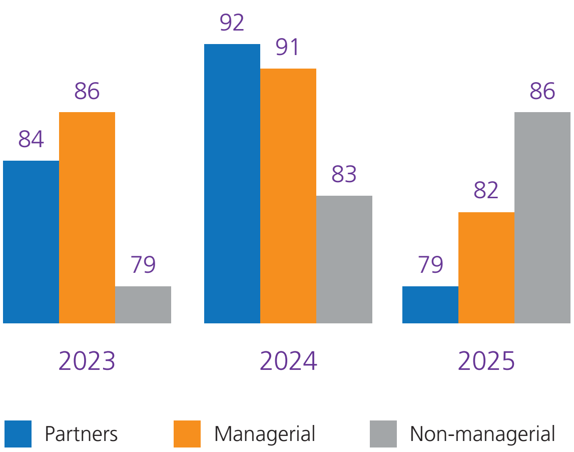
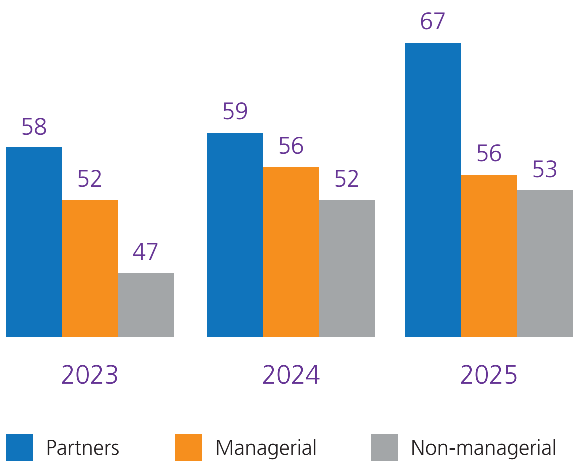


Chart 6: Training hours for Other Audit Firms



The AOB observed that in Other Audit Firms, average training hours have been increasing over the past three years. However, for Major Audit Firms, there was a slight decline in training hours in 2025, especially for partners and the managerial level. The AOB reiterates that investment in personnel competency is crucial, and the reporting of structured training hours remains a valuable indicator of firms' commitment to competency development.

While the above highlights certain AQI areas, firms and ACs should leverage the full set of AQIs provided in the *Appendix* to drive meaningful dialogue in assessing firms' positioning and support decisions for continuous improvement. The AOB continues to monitor and analyse firms' AQIs as part of its risk-based oversight approach.

STRENGTHENING AUDIT QUALITY ACROSS THE AUDIT PROFESSION

FIRM-LEVEL INSPECTION FINDINGS AND OBSERVATIONS

The AOB conducted firm-level inspections on nine Major Audit Firms and three Other Audit Firms to evaluate their compliance with ISQM 1 and ISQM 2.

The following key areas for firm-level inspections are discussed in detail in the subsequent sections:

COMMON FINDINGS FROM FIRM-LEVEL INSPECTIONS

In 2025, common inspection findings related to the firms' risk assessment process and monitoring function were identified as follows:

A. Risk Assessment Process

Common Findings	Key Concerns/Risks	Key Reminders for Firms
The AOB noted that several key risks were not captured in some firms' risk registers, particularly in the following areas: i. Governance and Leadership • Lack of accountability by the firm's leadership for quality • Financial resilience of the firm being impacted by lawsuits ii. Engagement Performance • Managers and seniors are faced with heavy workloads that may affect their ability to effectively supervise and review the work of less experienced team members • Loss of hardcopy audit files iii. Resources • Tight or unrealistic deadlines affecting the ability to perform a quality audit	Firms may not have adequately considered the following key concerns: i. Governance and Leadership • The absence of a formal accountability framework may result in the firm not evaluating leadership actions and behaviours that impact audit quality • The firm's consideration of the sufficiency of financial coverage may be inadequate to mitigate potential exposure arising from client litigation ii. Engagement Performance • Insufficient workload monitoring may adversely affect audit staff's capacity to deliver audit work efficiently on a timely basis • The absence of file retrieval and monitoring procedures may result in audit documentation being compromised	Firms are reminded to assess their risk registers at least quarterly with involvement from firm leadership. • The firm's risk assessment process should take into account the results of its monitoring reviews

Common Findings	Key Concerns/Risks	Key Reminders for Firms
	iii. Resources • Inadequate monitoring of audit engagement timelines may result in disruption to agreed deadlines, with no appropriate escalation mechanism to reassess or revise timelines	

Good Practice

- Regular and iterative assessment of the risk register should take into account organisational and structural changes, including their impact on firm culture, the consistency of audit quality across branch offices and the role of leadership in supporting audit quality.

B. Monitoring Process

Common Findings	Key Concerns/Risks	Key Reminders for Firms
• ISQM 1 requires a firm to conclude annually on whether its SoQM provides the firm with reasonable assurance that the objectives of the SoQM are being achieved. However: i. Some firms did not conduct monitoring reviews across all ISQM 1 components ii. Some firms did not evaluate the controls that have been identified and documented in the firm's risk register to address the significant risks • Some firms had not established a retention policy for documentation relating to its SoQM as required by the ISQM 1 standard	Firms may not be able to sufficiently conclude the effectiveness of the SoQM as a whole, given that only selected ISQM components and controls were included in the monitoring review.	• Firms should consider the results of their risk assessment in determining the controls to be evaluated • Firms are reminded to maintain comprehensive documentation that sufficiently enables the firm to monitor the design, implementation and operation of the firm's SoQM

Good Practices

- Ongoing monitoring activities performed by dedicated experienced personnel which provide reliable and timely information about the firm's SoQM.
- Communication of monitoring findings to audit staff, with leadership reinforcing audit quality.

AOB INSIGHTS: AUDIT FIRM CULTURE

AUDIT FIRM CULTURE REMAINS A KEY DRIVER OF AUDIT QUALITY

Quality management is often integrated with the firm culture that demonstrates commitment to quality in accordance with the firm's strategy, operational activities and business processes. In the context of quality management, an effective culture reflects the collective behaviours, values and attitudes demonstrated by firm leadership and engagement teams. These are reinforced through:

- Setting the right tone at the top
- Establishing a clear governance framework
- Encouraging ethical behaviour
- Fostering openness to new ideas and diverse perspectives
- Committing to continuous improvement and professional conduct

Designing an SoQM that is integrated with a well-defined culture promotes a cohesive approach to running the firm and strengthens the effectiveness of its quality management efforts.

Global Perspective: AOB-IESBA Roundtable Discussion

In parallel, the International Ethics Standards Board for Accountants (IESBA) has convened a series of roundtables in New York, Melbourne, Brussels and Kuala Lumpur, with additional virtual sessions for Africa and Latin America, to develop a culture and governance framework that promotes, supports and reinforces a high standard of ethical behaviour by a firm's leadership, other partners and staff across all of the firm's services.

On 29 April 2025, the AOB participated in the IESBA roundtable session held in Kuala Lumpur. Discussions focused on eight core elements of an ethical firm culture: ethical leadership, oversight and governance, provision of independent input, accountability, incentives and rewards, open discussion and challenge, continuous education and training, and transparency about ethical performance.

These roundtables form part of IESBA's ongoing efforts to ensure its decision-making reflects balanced, broad-based input from all relevant stakeholders and its mandate to serve the public interest by setting global ethics and independence standards for the accounting profession.

AUDIT FIRM CULTURE ASSESSMENT

In 2021 and 2022, the AOB conducted the Audit Firm Culture Assessment. Building on the observations resulting from the assessment, actions have been taken by firms to reflect on their cultural practices, conduct their own internal surveys and implement improvement measures. Following these developments, the AOB undertook a refreshed culture assessment in 2025-2026 involving a significantly larger respondent population.

2021-2022

Interview with audit staff

Inspected firms during the year

12 statements
(1 - Very Poor to 5 - Very Positive) and
feedback to support rating

2025-2026

Web-based survey on an anonymous basis

All firms (all audit staff excluding Partners)

28 statements
(1 - Strongly Disagree to 5 - Strongly Agree) and
one open-ended question

Note: In 2025, the survey was conducted across all nine Major Audit Firms.

CULTURAL TRAITS ASSESSED

- **Culture of Ethical Behaviour**
  Emphasis by the firm's leadership to uphold ethical behaviour and staff awareness of the firm's process for reporting of ethical issues.
- **Culture of Trust**
  Staff willingness to report ethical issues without fear of negative consequences.
- **Culture of Quality**
  Tone at the top on audit quality, sufficiency of training, time and resources to carry out audit work, reward for quality work, provision of feedback on audit work, partners' involvement on audits and supervision of audits.
- **Culture of Compliance**
  Leadership by example, compliance monitoring by the firm and actions taken on non-compliance.
- **Culture of Consultation**
  Staff awareness of the firm's consultation policy, support provided by the firm's technical function and encouragement to consult by audit engagement partners.
- **Culture of Challenge**
  Application of professional scepticism during audits, training on professional scepticism and critical thinking.
- **Work Environment**
  Staff well-being, workload, stress level, teamwork and remuneration.

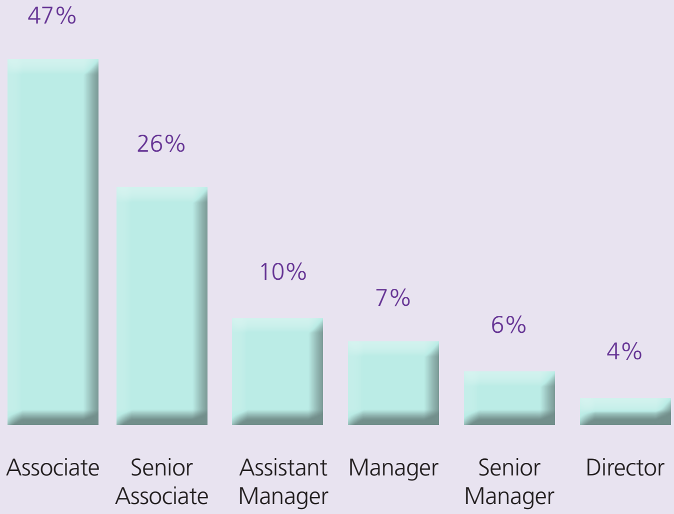
RESULTS

4,092

Respondents

57%

RESPONDENT DEMOGRAPHIC



MAJOR AUDIT FIRM RATINGS

	Firm A	Firm B	Firm C	Firm D	Firm E	Firm F	Firm G	Firm H	Firm I
Culture of Ethical Behaviour	4.0 and above	4.0 and above	4.0 and above	4.0 and above	4.0 and above	4.0 and above	4.0 and above	4.0 and above	4.0 and above
Culture of Trust	3.5 to 3.9	4.0 and above	4.0 and above	4.0 and above	3.5 to 3.9	3.5 to 3.9	4.0 and above	4.0 and above	4.0 and above
Culture of Quality	3.5 to 3.9	4.0 and above	4.0 and above	3.5 to 3.9	3.5 to 3.9	3.5 to 3.9	3.5 to 3.9	3.5 to 3.9	3.5 to 3.9
Culture of Compliance	4.0 and above	4.0 and above	4.0 and above	4.0 and above	4.0 and above	4.0 and above	4.0 and above	4.0 and above	4.0 and above
Culture of Consultation	4.0 and above	4.0 and above	4.0 and above	4.0 and above	4.0 and above	3.5 to 3.9	4.0 and above	4.0 and above	4.0 and above
Culture of Challenge	4.0 and above	4.0 and above	4.0 and above	4.0 and above	4.0 and above	4.0 and above	4.0 and above	4.0 and above	4.0 and above
Work Environment	3.4 and below	3.5 to 3.9	3.4 and below	3.4 and below	3.4 and below	3.5 to 3.9	3.5 to 3.9	3.5 to 3.9	3.5 to 3.9

● 4.0 and above ● 3.5 to 3.9 ● 3.4 and below

The results showed strong ratings for ethical behaviour, consultation, compliance, and professional challenge, indicating a strong quality-oriented culture within the audit firm. Personnel are more likely to adhere to professional and regulatory requirements, seek timely guidance on complex matters, and make well-informed judgements, contributing to reduced risk of audit deficiencies. In addition, a strong culture of challenge encourages professional scepticism, constructive questioning, and timely escalation of concerns, contributing to better audit judgements. It underpins the firm's efforts to achieve and sustain high audit quality. However, the survey also highlighted persistent concerns relating to:

- Workload pressures and staff shortages.
- Remuneration not reflecting responsibilities and stress levels.
- High staff turnover, particularly among younger professionals.
- Inclusiveness and respectful communication within teams.

KEY HIGHLIGHTS

Learning and Professional Excellence

Audit staff acknowledged that firms provide meaningful opportunities for professional growth through exposure to audits across various industries, underpinned by a clear emphasis on audit quality in the operation of their audit practice. Audit staff also suggested enhancing training programmes, particularly through the use of real case studies and scenario-based training, to better demonstrate the practical application of professional scepticism and challenge on audit engagements.

Remuneration and Workload

Remuneration and workload emerged as areas of significant interest among respondents across Major Audit Firms. AOB analysis shows that more than half of the respondents who raised concerns about remuneration and workload are from the non-managerial level. Some respondents cited generational differences as a contributing factor, noting that dissatisfaction with rewards is contributing to higher staff turnover. This, coupled with poor resource allocation, requires audit staff to manage backlogs alongside fieldwork. Respondents indicated that remuneration may not adequately reflect the level of responsibility and effort required. As a result, many professionals choose to leave the audit profession for opportunities in commercial organisations or overseas.

The AOB's inspections revealed that high staff turnover has driven continuous recruitment, leading some firms to adjust compensation and reward packages in response to market pressures.

Inclusiveness

Several respondents identified inclusiveness as a key factor shaping firm culture. Concerns were raised that the language and tone used within teams can influence staff willingness to engage openly with senior personnel. In particular, the use of inappropriate or discouraging language was perceived as demotivating and was viewed as contributing to an unhealthy working environment.

AOB EXPECTATION AND THE WAY FORWARD

The AOB continues to monitor the trends in firm culture and audit quality as reflected in the survey. To support sustainable audit quality, firms are expected to demonstrate clear communication, accountability in decision-making and responsiveness to staff concerns, ensuring a healthy working environment taking into consideration the following:

Governance and Leadership

- The tone at the top should emphasise the importance of ethics, values and attitudes, including inclusiveness, fairness and respectful communication in shaping firm culture and behaviour.
- Leadership is encouraged to foster inclusive engagement practices by establishing opportunities that promote contribution from all team members and support open communication and professional challenge.

Resources

- Firms are encouraged to monitor staff workload and ensure sufficient time is allocated to prevent overburdening employees and to safeguard audit quality.
- Audit staff should be appropriately recognised and rewarded such as in the form of ad hoc rewards and praise from the senior leadership for their commitment to audit quality, taking into account the workload and level of responsibility assigned, so as to support engagement quality and mitigate staff attrition risks.

AOB UPDATE: MONITORING RISK OF TECHNOLOGY

Firms are increasingly reliant on IT to support the operation of their SoQM and the performance of audit engagements. While there are numerous benefits from the use of technology, firms should also be mindful that the use of technology introduces unique risks that must be properly identified, assessed and addressed.

TECHNOLOGY-RELATED RISKS APPLICABLE TO FIRMS

Confidentiality of audit engagement information being compromised

Loss of audit engagement files

Disruption over the use of audit software due to server outage

Audit software facing system bugs or not operating as intended

IT issues may not be reported, tracked and resolved in a timely manner

INCREASING USE OF ARTIFICIAL INTELLIGENCE

With increasing emphasis on artificial intelligence (AI), several Major Audit Firms have begun leveraging AI in the performance of audit procedures, including but not limited to the following areas:

- Analysis of documents such as contracts, internal audit reports and invoices, extracting key data points and generating structured tabular outputs.
- Financial reporting standard compliance checklists derived from automated analysis of uploaded financial statements.
- AI analysis tool for audit documentation embedded within audit software to generate suggestions to enhance the quality of audit documentation.

However, the use of AI does not diminish the auditor's responsibility to obtain sufficient appropriate audit evidence and exercise professional scepticism.

Global Developments: IAASB Initiatives

The International Auditing and Assurance Standards Board (IAASB) recognises that emerging technologies such as AI are reshaping audits and assurance engagements. In 2025, the IAASB conducted a series of eight global roundtables, one of which was co-hosted by the SC and Association of Chartered Certified Accountants (ACCA). Arising from the global roundtables, the IAASB will be developing non-authoritative guidance to clarify how quality management standards such as ISQM 1 and ISA 220 (Revised) *Quality Management for an Audit of Financial Statements* apply to emerging technologies and the quality management of AI-enabled tools.

In view of the growing risk, the AOB has issued a reminder to firms on 19 December 2025 encouraging them to consider the relevant principles and requirements outlined in the *Guidelines on Technology Risk Management* for capital market entities issued by the SC when developing or strengthening firms' technology risk management framework.

Access the Guidelines on Technology Risk Management here

Focus Area of the AOB Inspection

In 2026, one of the focus areas of the inspection will be on how a firm manages its technology risks. Firms are expected to demonstrate strong governance, perform comprehensive risk assessments and implement effective measures to mitigate technology risks.

As the profession embraces new technologies, firms must be proactive in strengthening their governance and risk management practices to uphold audit quality.

ENGAGEMENT-LEVEL INSPECTION FINDINGS AND OBSERVATIONS

In 2025, the AOB continued to adopt a risk-based approach in selecting engagements for inspections and explored emerging industries which may pose complex audit challenges.

41

Engagements
Inspected during the year

32

Major Audit Firms

- Firms that have more than 50 PIE audit clients with a total market capitalisation of more than RM15 billion
- Collectively audited 73% of total number of PLCs and 95% of market capitalisation

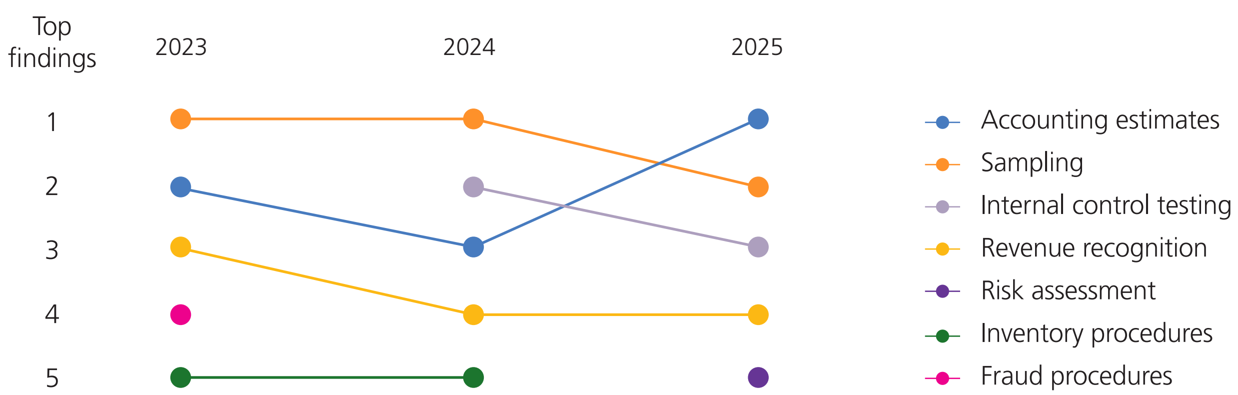
9

Other Audit Firms

- Firms not categorised as Major Audit Firms and inspected at least once every five years
- Collectively audited 27% of total number of PLCs and 5% of market capitalisation

19% — **Engagements requiring significant improvement** — **55%**

COMMON FINDINGS FOR ENGAGEMENT REVIEWS



The common findings, as defined by the IFIAR's *Survey of Inspection Results for Audit Firms*, are tracked annually to monitor trends and assess areas requiring further improvement.

The AOB acknowledges firms' continued strong cooperation and commitment to enhancing audit quality, including the implementation of meaningful remediation measures to address gaps in auditors' technical knowledge, particularly in the application of key auditing standards.

Nevertheless, a recurring trend of common engagement findings similar to previous years continues to be observed, notably in sampling and the auditing of accounting estimates. This may have been driven by insufficient professional scepticism, gaps in the firms' audit methodology, and persistent weaknesses in auditors' understanding and execution of more complex audit procedures.

Deficiencies surrounding risk assessment emerged as one of the top common findings identified from engagement reviews during the year. Gaps were noted in relation to auditors' understanding of the design and implementation of controls over key processes of PIEs.

In addition, deficiencies were observed in the assessment of compliance with applicable laws and regulations governing the operations of PIEs, including mandated policies and guidelines that have a direct impact on amounts reported in the audited financial statements.

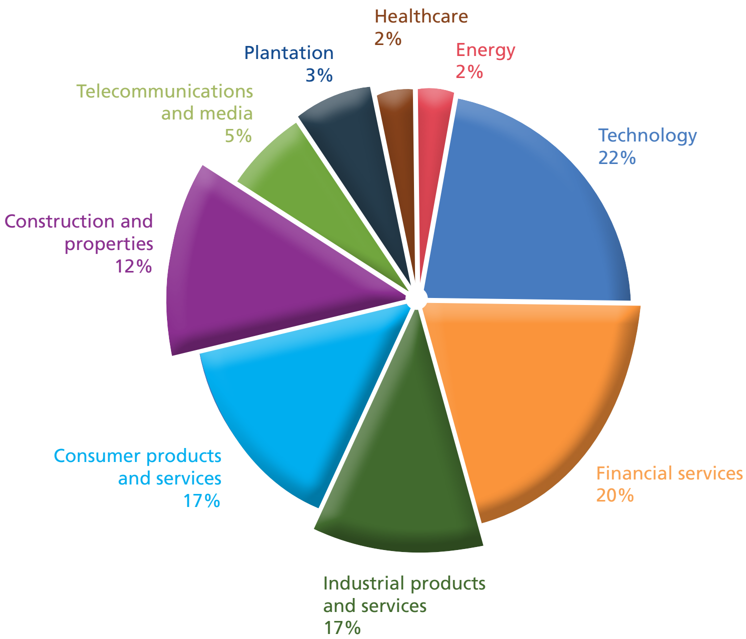
As a result, audit risks were inappropriately assessed or not identified, which in turn had a cascading effect on the nature, timing and extent of control testing and/or substantive procedures performed.

Auditors are reminded that a robust risk identification and assessment under ISA 315 (Revised 2019) *Identifying and Assessing the Risks of Material Misstatement and Conforming and Consequential Amendments to Other International Standards Arising from ISA 315 (Revised 2019)*, including the consideration of risks of non-compliance with laws and regulations that have a direct impact on the financial statements under ISA 250 (Revised) *Consideration of Laws and Regulations in an Audit of Financial Statements,* is a fundamental element of audit quality and should not be approached as a mechanistic or checklist-driven exercise.

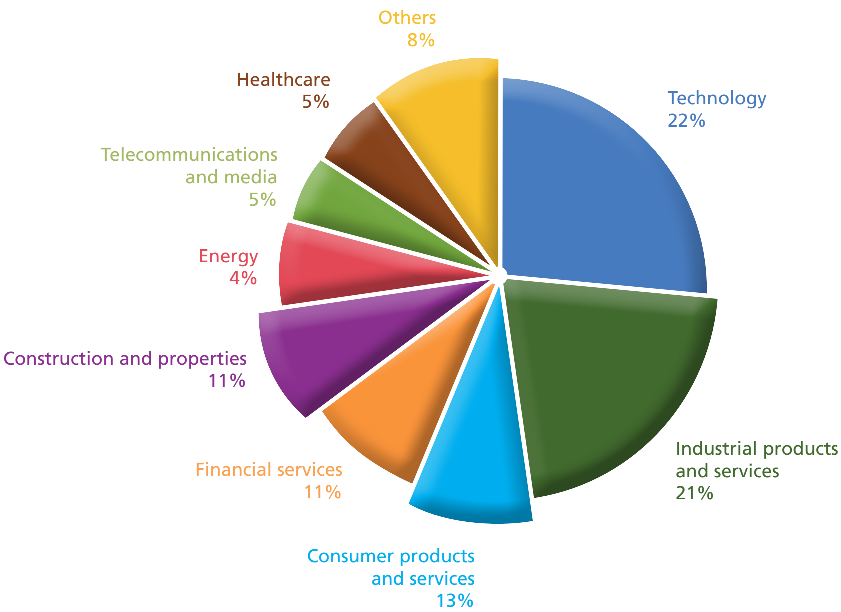
The engagements covered by the inspection spanned various industries, each with distinct risk profiles and challenges. The AOB continues to adopt a primarily risk-based approach to engagement selection, complemented by thematic assessments which include periodic industry-specific thematic scopes.

INDUSTRIES COVERED BY THE AOB'S INSPECTION

Inspected in 2025



Inspected in 2023 - 2025
Cumulative 3 Years



**Others: Transportation and logistics, plantation and utilities*

As part of its thematic focus in 2025, the AOB continued its review of financial services entities. Based on inspection trends in 2025 and over the past three years, inspected engagements were primarily concentrated in the technology, industrial products and services, consumer products and services, and financial services sectors.

Further details on engagement findings, observations, key audit concerns, best practices and recommendations of these three main industries covered by inspection are provided in the sections that follow.

INDUSTRIES IN FOCUS: TECHNOLOGY

The technology sector on Bursa Malaysia comprises a diverse range of companies involved in the provision of digital services, manufacturing of semiconductors, software development, and the manufacturing and distribution of technology equipment. Over recent years, AOB inspections have identified common findings across the technology industry. The following section highlights the key audit concerns observed during this period.

Key Audit Concerns and Best Practices

Common Key Audit Concerns

Impairment of Technological Assets

- Overly optimistic cash flow forecasts or discount rates without applying adequate scepticism.
- Risks of rapid technological change and platform obsolescence were not considered.
- External signals of impairment were overlooked, as the declining market was dismissed as typical volatility within the technology sector.
- The basis in determining the cash-generating units (CGUs) for shared platforms or customer networks was not appropriately assessed.
- Absence of comparable inputs to benchmark assumptions, especially when comparing new innovations with mature products or platforms.
- Assumptions on significant cost savings from new technology or AI tools without robust supporting evidence, benchmarking or post-implementation review.

Capitalisation of Development Costs

- Costs that should be expensed (unsupported early-stage research phase) are incorrectly capitalised as intangible assets.
- Unclear evidence of technical feasibility obtained, with heavy reliance placed on management's representations at the point of capitalisation.
- Management's assertion of 'future economic benefits' was not challenged with robust feasibility testing.
- Routine maintenance/bug fixes were included as development costs.
- Lack of professional judgement in assessing the stage of completion of a development project and its corresponding amortisation periods.

Revenue from IT-Related Contracts

- Bundling hardware, software, implementation, customisation and support into one performance obligation without adequate assessment.
- Risk of exposure to cyberattacks and data breaches due to heavy reliance on digital systems were not considered.
- Verification of revenue using invoices without reviewing contracts which contain essential terms (delivery obligations, performance criteria, licence periods) that determine the point of recognition.

Best Practices and Recommendations

- Obtain sufficient understanding of the following:
  - The nature of the entity and its industry and consider long-term industry expectations, market saturation, pricing pressure and obsolescence risk.
  - Details of any research activities and development projects of the entity by reviewing feasibility assessments, project roadmaps, relevant agreements and board of directors meeting minutes.
- Consider engaging experts in assessing alternative valuation approaches when market input is not available.
- Perform periodic assessments of capitalised development costs for impairment indicators, including project delays, cost overruns, technical failures or any changes in scope.
- Obtain external evidence of development stage completion such as technical sign-offs, testing results, or prototype releases, to validate management's conclusion on the status of assets i.e. whether they are ready for use.
- Assess the design and operating effectiveness of IT general controls (ITGCs) and application controls to address cybersecurity and data integrity risks.

Auditors are advised to obtain a complete and well-documented understanding of the entity's business, its technology offerings and the industry in which it operates. This understanding is essential for identifying areas of heightened risk, assessing management's judgements and applying professional scepticism.

A sound grasp of the business model and industry practices would also support more effective audit procedures and contribute to higher audit quality, particularly in complex revenue arrangements commonly found within the technology sector.

AOB FOCUS: STRENGTHENING CRITICAL PROCEDURES ON DIGITAL CURRENCIES

The evolvement of digital currencies and reliance on blockchain technology present unique challenges for auditors. Pre-existing audit approaches must be adapted to address these complexities which may include leveraging blockchain verification and utilising IT control assessments.

Some examples of critical procedures to address the audit of digital currencies are as follows:

Matters for Auditors' Consideration

What is the specific risk assessment and the corresponding identified key risks surrounding digital currencies?

- Does the firm have sufficient expertise and knowledge or consider involving subject matter specialists during various stages of the audit?
- Any detailed assessment of related fraud/technological risks and cybersecurity on the underlying crypto-asset transactions?

Any understanding of the specific operational and business risks associated with digital currencies?

- Are the digital currencies being used for investment, trading and/or custodial services?
- Are the procedures designed to be performed aligned with the intended objective of testing?
- Was there an assessment on the appropriateness of the valuation method used on the digital currencies?

How are the accuracy, existence and ownership of these assets verified?

- Any third-party confirmations obtained from custodians, exchanges or wallet service providers?
- Any usage of blockchain explorers to verify ownership of wallet?
- Any verification of transactions to the appropriate evidence from blockchain rather than reliance on internally generated documents?

Was there consideration on the internal controls over digital currencies?

- Any considerations to evaluate the ITGC, encryption, multi-signature wallets, review safeguarding policies for private keys and/or test segregation of duties?
- Any controls over storage and transactions involving these assets?
- Assessment of controls surrounding IT security, system access and governance?

Were the following procedures considered in assessing the rights and obligations and valuations over these assets?

- Thorough assessment of any contracts or documentation linking wallet addresses to the entity.
- Check for any restrictions, pledges or encumbrances on digital currencies.
- Perform fair value testing to avoid misstatement due to volatility or incorrect pricing.

INDUSTRIES IN FOCUS: CONSUMER AND INDUSTRIAL PRODUCTS

The consumer and industrial products and services sector has remained one of the top three most inspected engagement areas by the AOB in recent years. For this sector, given the high volume and fast-moving nature of its inventory, the AOB commonly identifies findings in the areas of inventories, internal control testing and information technology.

Common Pitfalls	AOB Recommendations
Inventories - Stock Count	
• Inadequate coverage of significant inventory locations, especially for PIEs with a large number of outlets/branches. • Roll-forward procedures performed were limited to reliance on inventory movement from the system. • Inventory transfers between outlets were not properly assessed and verified.	• Ensure the firm's sampling methodology provides reasonable assurance over inventory existence and completeness. • Design suitable alternative procedures to address risks from untested locations. • Test inter-outlet transfers, including reviewing transfer documentation, timestamps, receiving confirmations and investigating discrepancies.
Inventories - Valuation	
• Production costs were inaccurately allocated. • Inventory ageing used for assessment of slow-moving inventories was not verified. • Inconsistencies between costing method applied in audit testing and the method disclosed in the accounting policy.	• Obtain sufficient understanding of the nature and its related inventory processes, including the inventory costing method. • Any information provided by the entity or management should be tested for reliability and completeness.
Internal Control Testing	

• Sufficient understanding was not obtained on the controls and processes surrounding significant business processes such as:
  • Sales to cash cycle
  • Cash count process
  • Inventory movement flows
• IT-dependent controls were not properly identified and assessed.
• Exceptions noted on controls were not properly resolved.
	• Perform robust walkthroughs for each significant business process by tracing transactions from initiation to reporting.
	• Reinforce the requirement for IT specialists' involvement when dealing with complex IT environments.
	• Consider expanding the sample size when control exceptions are identified and assess any implications on overall control effectiveness.

AOB FOCUS: IT AS AN EMERGING RISK AREA

The subsequent scenarios illustrate the extent to which IT is embedded in the operations of entities within the consumer and industrial goods industry, which are often characterised by high-volume, fast-moving inventories and large volumes of sales transactions.

Scenario: Uncontrolled pricing overrides and weak receivables monitoring

PLC A sells beverages and snacks mainly through distributors and major retail chains. Sales are processed through an Enterprise Resource Planning (ERP) system, with pricing, rebates and discounts largely automated. However, staff can override prices at the sales order stage without proper approval or documentation.

Additionally, customer credit limits are not enforced for repeat customers with overdue balances. Although aged receivables reports are generated, they are not consistently reviewed or followed up.

Scenario: Incomplete recording of inter-warehouse transfers

PLC B produces and sells personal care and hygiene products. Inventory is distributed from central warehouses to regional depots before sale, with movements recorded in a warehouse system integrated with the ERP.

However, warehouse transfers require manual confirmation and there is no automatic matching of goods sent and received. Although reports on unconfirmed transfers are generated, they are not reviewed or followed up promptly.

Scenario: Decentralised cash handling without independent verification

PLC C sells and distributes cleaning products through a direct-to-retail model. Sales representatives collect cash daily and deposit it at temporary depots, with collections recorded manually and later uploaded into the system.

However, there was no segregation of duties where the same staff handled cash collection, counting and recording. There was also no system-enforced reconciliation between sales invoices, cash collected and amounts deposited.

Scenario: Unauthorised changes to master data and automated reports

PLC D operates as a household goods retailer. It relies heavily on its ERP system to produce sales, inventory and margin reports for management and financial reporting.

However, user access rights are not regularly reviewed, and some users with super user access can still modify key master data (e.g. pricing, bill of materials). In addition, automated reports are used without validating the integrity and accuracy of the underlying data.

Auditors should carefully consider the reliability of relevant IT systems and controls in designing and performing their audit procedures.

Common Pitfalls

- The audit design did not incorporate testing of the IT system, as the auditors did not consider the complexity and high volume of transactions within the industry.
- Insufficient coordination between IT and financial statements auditors caused certain procedures to be omitted.
- Unrestricted privileged access to core systems was not identified as a control deficiency.
- Audit procedures were limited to understanding the design and implementation of IT controls, without extending to test their operating effectiveness.
- Reliance was placed on key reports generated from ERP systems without testing report logic, report parameters and user access to report configuration settings.
- Automated controls used for revenue, inventory, or purchasing processes were tested without validating the completeness and accuracy of system-generated data and reports used by the controls.

Key Considerations for Auditors

- For IT environments with higher complexity, auditors should consider involving team members with specialised IT expertise to:

  (i) identify the IT applications and other components within the IT environment;

  (ii) assess the risks associated with the use of IT; and

  (iii) determine the relevant ITGCs needed to address those risks.

- When evaluating the design and implementation of ITGCs, a mere inquiry process is not sufficient. The auditor should also observe how the controls operate in practice and review supporting documentation and system-generated reports.
- If the auditor plans to rely on IT application controls or system-generated reports, testing ITGCs alone is not adequate without performing the relevant testing on IT application controls.
- Maintain robust communication with the IT specialist team to ensure alignment of expectations and to confirm that all identified risks have been appropriately mitigated.

INDUSTRIES IN FOCUS: FINANCIAL SERVICES

The Malaysian financial services sector is regulated under key legislation such as the *Financial Services Act 2013, Islamic Financial Services Act 2013, Capital Markets and Services Act 2007* and extensive Bank Negara Malaysia (BNM) and SC guidelines. This framework ensures oversight of both conventional and Islamic institutions to promote financial stability and consumer protection.

During the year, the AOB continued targeted inspections of engagements within the financial services sector, focusing on banks and CMSL entities while addressing emerging challenges faced by auditors.

Common Areas of Observation

Credit Risk Assessments

- Ongoing credit risk monitoring activities, including transaction monitoring, updates of customer information and risk rating or profiling were not given sufficient emphasis or were inadequately assessed.
- Insufficient understanding and audit evidence were obtained to support credit risk staging assessments (Stage 1, Stage 2 and Stage 3).
- Going concern assessments, including the evaluation of solvency and liquidity positions, were not sufficiently robust or responsive to underlying credit risks.
- Audit risk identification and procedures were not appropriately scaled to reflect portfolio risk levels, observed credit deterioration trends or emerging risk factors.

Expected Credit Losses (ECL) Modelling

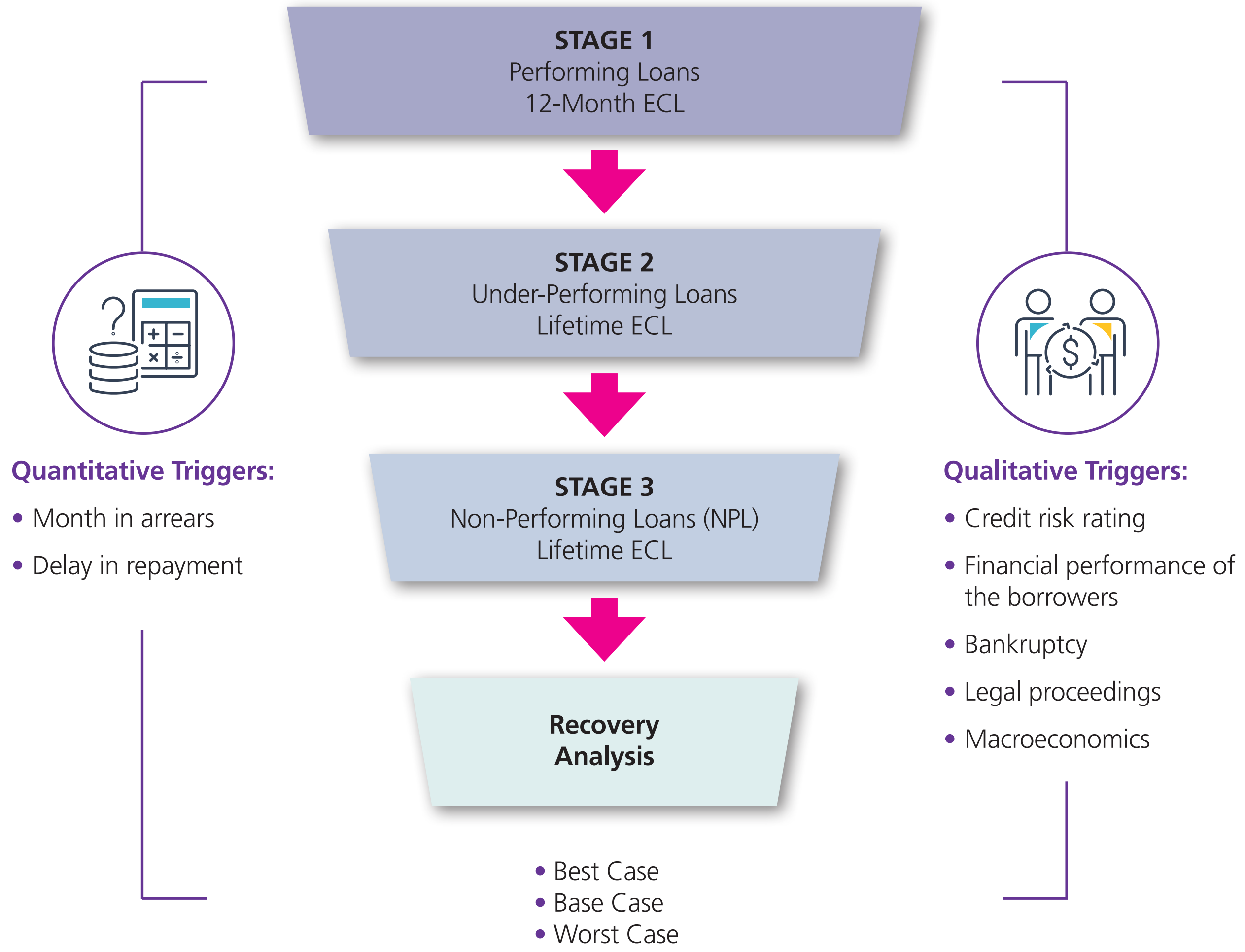
- Insufficient challenge of management's forward-looking assumptions, including macroeconomic variables and scenario weightings.
- Inconsistencies in the application of economic assumptions, particularly where assumptions used for ECL differed from those applied in cash flow projections and other forward-looking assessments.
- Inadequate testing of key data inputs and critical assumptions underpinning ECL model outputs.

Accounting Estimates

- Loan loss provisioning and valuation uncertainties were not sufficiently challenged, including potential valuation bias arising from management judgement.
- Fair value measurements of collateral relied upon for loan recovery, and the resulting impact on provisioning, were not adequately assessed or corroborated.
- Management overlays and other judgemental adjustments were accepted without sufficient challenge, including inadequate evaluation of their rationale, quantification methodology and historical accuracy.
- Over-reliance on management's internal policies and frameworks was observed, without adequate independent challenge or corroboration.

AOB FOCUS: DEEP DIVING INTO LOAN STAGING AND ECL FOR FINANCIAL INSTITUTIONS

For financial institutions, loan staging and ECL are more than just compliance testing. They serve as an early warning detection and 'health check' on borrowers' loan performance.



The flow chart from Stage 1 to Stage 2 (upon a Significant Increase in Credit Risk (SICR) and Stage 3

A newly originated loan typically carries a lower default risk and is classified under Stage 1. However, when the borrowers' credit risk increases over time, this may indicate an SICR since the loan origination i.e. the borrower starts to become delinquent in loan repayments, resulting in the loan being classified as Stage 2, and subsequently when the loan is in default or credit impaired, classified as Stage 3.

The loan staging essentially aims to ensure that provisions and ECL allowances were adequately recognised progressively as credit risk deteriorates, rather than being recognised at default.

This will also enhance the transparency and quality of disclosures, allowing the users of financial statements to better assess the asset quality of financial institutions' loan portfolios in determining credit exposure.

The following case study aims to provide considerations and insights to auditors particularly when assessing the appropriateness of the loan staging and ECL for financial institutions:

CASE STUDY

BACKGROUND

PLC E is a financial institution which primarily offers retail and corporate loans and advances to its customers.

As at 31 December 2024, individual ECL assessments were performed by Firm D to evaluate the credit risk of PLC E's borrowers with large outstanding account balances.

Borrower	Gross outstanding amount RM' million	ECL allowances RM' million	Net amount RM' million	Staging	Month in arrears
A	150	10	140	1	0
B	85	35	50	3	3

RESTRUCTURED AND RESCHEDULED PROGRAMME

PLC E has two-year loan receivables from Borrower A with a gross outstanding amount of RM150 million and an interest rate of 5.5% per annum payable on a monthly instalment.

In performing the individual ECL assessment, it was observed that Borrower A's financial performance deteriorated over the past two years with delays in several monthly instalments. Firm D concurred with management's assessment that in view of Borrower A's Rescheduling and Restructuring (R&R) programme, the loan is therefore 'upgraded' and classified under Stage 1.

Potential Audit Risk

A financial institution may undertake an R&R programme from time to time for borrowers who are experiencing financial difficulties in meeting their repayment obligations. Firms are reminded that R&R measures do not automatically result in an upgrade to Stage 1. Sustained repayment performance should be demonstrated before staging is improved e.g. six months of consistent payments. Further, firms need to ensure the effectiveness of the controls and processes surrounding the approval of the loans' restructuring and the monitoring of the continuous repayment are sufficiently evaluated. This is to ensure the appropriateness of loan restructuring approvals and to avoid any potential risk of delayed impairment recognition or inappropriate staging classification.

Audit Consideration

Auditors are required to identify and evaluate the effectiveness of the controls and policies of the financial institution in defining the circumstances and conditions under which a loan may undertake an R&R programme in line with the requirements of ISA 315 (Revised 2019) *Identifying and Assessing the Risks of Material Misstatement and Conforming and Consequential Amendments to Other International Standards Arising from ISA 315 (Revised 2019)* and ISA 330 *The Auditor's Responses to Assessed Risks.*

In this context, the auditor's considerations should include but are not limited to:

- evaluating the viability of the assessment made by the management prior to granting R&R arrangements to borrowers to address the potential risk of 'ever-greening';
- reviewing the adequacy of follow-up procedures and continuous monitoring of the repayments made by borrowers in accordance with the financial institution-defined observation period;
- assessing whether controls over the approval, modification and monitoring of restructured loans are properly designed and effectively implemented; and
- assessing the impact of modification gains or losses arising from changes in contractual cash flows.

These procedures are essential to ensure that the auditor appropriately identifies, assesses and responds to risks of material misstatements associated with loan restructuring activities, particularly in areas involving significant judgements.

ECL ASSESSMENT FOR NON-PERFORMING LOANS

As at the reporting date, Borrower B has defaulted on the loan receivable of RM85 million and accordingly, the loan has been classified as a non-performing loan i.e. Stage 3. In determining the ECL amount, a recovery analysis was performed in which the present value of expected proceeds arising from the realisation of collateral pledged was compared against the gross outstanding loan. This resulted in the recognition of RM35 million of ECL.

Potential Audit Risk

As part of the credit recovery process, financial institutions can recall the extended loan facilities, initiate legal proceedings against defaulted borrowers or their guarantors, or foreclose pledged collaterals or securities etc. in mitigating potential losses arising from the borrower's default.

In assessing the ECL for NPLs, financial institutions typically consider the expected proceeds from the recovery analysis, taking into account probability-weighted scenarios that incorporate economic conditions, realisation period and collateral valuations.

The estimation of ECL surrounding NPLs involves significant management judgement, particularly in determining expected future cash flows of collaterals and timing of recoveries.

Audit Consideration

Given that Stage 3 exposures involve defaulted or credit-impaired assets, the risk of material misstatement is heightened, particularly due to subjective assumptions around recoveries and classification. Accordingly, auditors are required to design and perform procedures to address the risk of material misstatements. This includes critically assessing key assumptions such as expected recovery amounts, timing of recoveries and collateral valuations, as well as inspecting supporting documentation such as the latest valuation reports and legal documentation.

Additionally, auditors can consider performing sensitivity analysis over the key assumptions made by the management such as recovery rates, reasonableness of haircuts applied on collaterals, timing of the realisation period etc. and determine whether the management estimate falls within the reasonable range of outcome.

Areas for Auditors' Consideration

- Demonstrate robust challenge of management judgements, including overlays, key assumptions and forward-looking adjustments.
- Validate models and estimates through appropriate testing, backtesting, benchmarking and assessment of governance over model development and use.
- Ensure data integrity and control reliability, including effective evaluation of ITGCs and IT application controls supporting financial reporting.
- Apply a risk-responsive audit approach, reflecting the complexity of the financial services sector and the nature of credit, market, liquidity, operational and regulatory risks.
- Maintain appropriate technical competence and industry expertise, including access to specialised skills for complex valuations, ECL, actuarial and emerging regulatory matters.
- Remain abreast of relevant regulatory developments and consider their impact on financial reporting.
- Exercise professional scepticism throughout the audit, supported by independent corroborative evidence.
- Communicate significant audit findings to TCWG, including qualitative matters relating to accounting policies, estimates and disclosures.

Reminders to ACs

ACs of financial services entities are expected to exercise strong and independent oversight over audit quality and financial reporting, recognising the heightened complexity, judgement and regulatory sensitivity inherent in the financial services sector.

ACs are also expected to ensure the robustness of governance arrangements, internal controls and data integrity supporting financial reporting, including oversight of complex model-driven processes, IT systems and reliance on the expertise of specialists. This includes monitoring the timely remediation of control deficiencies, responsiveness to internal and external audit findings, and consideration of regulatory developments and supervisory observations.

In addition, ACs should maintain active engagement with the external auditors on matters relating to audit quality, independence, competence and resourcing, as well as key risks affecting the entity's going concern, liquidity, solvency and resilience, and ensure that financial disclosures provide a clear, balanced and entity-specific representation of material risks and judgements.

MONITORING AND REMEDIATION

Monitoring and remediation are integral to strengthening audit quality. Through ongoing monitoring activities, firms are expected to identify weaknesses and assess the effectiveness of their quality controls. These insights must then be translated into timely and effective remediation to address deficiencies and root causes highlighted through both internal monitoring and the AOB's inspection process.

ENHANCING FIRMS' MONITORING PROCESS

The AOB acknowledges firms' continued efforts to strengthen their monitoring processes, including enhancements to internal inspections and reviewer capabilities. However, the AOB's inspections continue to reveal shortcomings in the monitoring of quality control policies and procedures of the firms.

Therefore, in designing and performing monitoring activities, firms may consider the following:

Governance and Leadership

- Has the firm appointed an individual with appropriate authority and competence to undertake ultimate responsibility for the SoQM?
- Does leadership actively promote a culture of audit quality?

Risk-Based Monitoring

- Are the firm's monitoring activities tailored to its specific quality risks rather than relying on generic or template-driven processes?
- Has the firm considered changes in its client portfolio, operations, environment, or prior monitoring results when determining the nature, timing and extent of its monitoring activities?
- Does the firm incorporate insights from the AOB's inspection results and other external sources when designing its monitoring activities?

Reviewer Competence and Independence

- Does the firm assign reviewers with adequate technical expertise, professional scepticism and independence to effectively evaluate engagement quality?
- Has the firm ensured that personnel assigned to reviewer roles are appropriate and free from conflicts in line with professional expectations?
- Has the firm considered whether external expertise is required for review of a more complex engagement?

Regardless of the outcomes of the AOB inspections, firms are expected to implement meaningful and sustainable remediation measures to maintain audit quality and uphold their responsibilities as AOB registrants.

Firms demonstrating stronger practices typically exhibit the following characteristics:

Risk-Aligned Monitoring

Monitoring activities are tailored to the firm's quality risks, prior inspection findings and engagement profile, and are periodically reassessed to reflect changes in risks and regulatory expectations.

Clear Evaluation of Deficiencies

Deficiencies are systematically assessed for severity and pervasiveness, with a clear distinction between isolated engagement issues and systemic quality management weaknesses.

Robust Root Cause Analysis

Root causes are analysed in depth, considering engagement and firm levels, and behavioural factors and involving appropriate stakeholders beyond the engagement team.

Targeted and Sustainable Remediation

Remediation actions are designed to address underlying causes rather than symptoms, moving beyond reminders or training to include changes to methodologies, tools, workflows, resourcing or governance where necessary.

Clear Accountability and Monitoring of Actions

Remediation plans are documented, responsibilities assigned, timelines defined and progress reported regularly to quality leadership or governance bodies.

Assessment of Remediation Effectiveness

Firms perform follow-up reviews, thematic inspections or trend analyses to evaluate whether remediation actions have been embedded in practice and whether similar deficiencies continue to arise.

Firm-wide Communication and Learning

Lessons learned from monitoring and remediation activities are communicated across the firm to reinforce quality objectives and support continuous improvement.

ENGAGEMENTS REQUIRING SIGNIFICANT IMPROVEMENTS

Section 31V(5A) of Part IIIA of the SCMA provides the AOB with the authority to impose specific remediation measures on firms and/or individual auditors as a result of inspection findings.

The AOB imposes specific remediation measures to ensure that audit quality deficiencies are addressed at their root cause, proportionate to their severity and remediated in a timely and sustainable manner. Such measures reinforce accountability, strengthen firms' SoQM under ISQM 1, and support continuous improvement in audit quality in the public interest.

Firms are reminded that identified deficiencies must be remediated through proactive and coordinated actions, with clear accountability and timely completion. Firms are expected to implement corrective measures supported by a robust internal quality monitoring framework and to demonstrate, through follow-up reviews, that remediation actions have been effectively executed and embedded in practice.

Ongoing reviews of internal policies, procedures and training programmes are required to ensure that firms and their audit personnel remain competent and aligned with evolving accounting and auditing standards. Sufficiency of the right resources is another area of focus for auditors to align with the complexities and needs of their clients and emerging risks that may arise.

During the year, six of the 41 engagements inspected were referred to the AOB's Enforcement, Regulation and Quality Assurance (ERQ) Department for further assessment. The AOB noted that these engagements were in relation to complex and judgemental areas, which were also identified as key audit matters for certain engagements.

The AOB expects auditors to place greater emphasis on audit quality across all phases of the audit, including risk assessment, audit strategy, the design of audit procedures and their execution, particularly in areas identified as key audit matters.

AOB INSIGHTS: REFERRAL TO THE AOB'S ERQ DEPARTMENT

The AOB's ERQ Department forms an integral part of its oversight framework in promoting high-quality independent audits of PIEs and schedule funds. Matters will be referred to the AOB's ERQ Department where inspection findings reveal significant audit deficiencies, serious non-compliance with applicable auditing and ethical standards, or other conduct warranting further regulatory scrutiny.

The principle of proportionality, efficiency and achieving the desired outcome continues to be essential to the strategic enforcement approach adopted by the AOB.

The AOB considers the nature, extent and circumstances of the identified deficiencies, including whether there were shortcomings in professional scepticism, audit documentation, execution of key audit procedures, supervision and review, or compliance with independence requirements. Referrals may also arise where deficiencies indicate broader concerns relating to a firm's SoQM. This enables the AOB to respond in a manner that is proportionate, risk-based and aligned with its public interest mandate.

Where a matter is referred for enforcement, the AOB assesses the available evidence and relevant facts to determine the appropriate action. In determining the type of sanction that is imposed on any contravention or breach by the auditors, the AOB considers the nature and seriousness of the offences, previous regulatory records and other aggravating and mitigating factors. Among the matters considered by the AOB in determining the appropriate sanction were the impact of the contravention on the integrity of the profession, the capital market as a whole and the impact on the reliability of the affected PIE's AFS.

Enforcement outcomes may include reprimands, prohibitions, suspension of registration and monetary penalties, depending on the facts and seriousness of the breaches identified. Such outcomes are intended not only to address specific instances of misconduct, but also to reinforce accountability and set a clear tone for quality for AOB-registered auditors.

CONCLUSION AND FUTURE DIRECTION

BUSINESS RISK: IS YOUR BUSINESS SUSTAINABLE?

The operating environment for PIEs continues to evolve amid increasing climate-related risks, geopolitical uncertainties and broader economic volatility. These developments raise important considerations on the long-term sustainability and resilience of businesses, which in turn place heightened expectations on the roles of ACs and auditors.

In this context, the ACs and auditors play a critical role in overseeing how such risks are identified, assessed and reflected in the financial statements and related disclosures. Effective oversight helps ensure that sustainability risks are properly recognised and clearly linked to their current financial impact.

KEY RISKS IMPACTING BUSINESS SUSTAINABILITY

Climate-Related Risks

Extreme weather events, transition policies and changing stakeholder expectations may disrupt operations, impair assets, increase costs and affect long-term viability.

Geopolitical Shifts

Trade restrictions, sanctions, regional conflicts and policy uncertainties can disrupt supply chains, pressure liquidity and increase operational and credit risks.

Commodity Price Volatility

Fluctuations in energy, raw material and input prices heighten margin pressure, forecasting uncertainties and valuation sensitivities.

Collectively, these risks increase the complexity of financial reporting, placing greater reliance on management forecasts and assumptions that are inherently judgemental and sensitive to external conditions. They can significantly affect areas such as valuations, impairments and going concern assessments, increasing the risk of overly optimistic assumptions or delayed recognition of adverse impacts. This highlights the need for robust oversight to ensure assumptions are reasonable and reflect current financial conditions.

WHAT SHOULD ACs CONSIDER?

ACs are uniquely positioned to ensure that sustainability-related risks are appropriately integrated into financial reporting and risk governance frameworks.

Key areas of focus include:

- **Identification and assessment of risks:** Whether management has adequately identified and assessed material sustainability-related risks.
- **Integration across the organisation:** Whether these risks are consistently reflected across strategy, risk management and financial reporting.
- **Judgements and estimates:** The robustness of significant judgements and estimates, particularly those involving long-term assumptions, scenario analyses and sensitivity to external changes.
- **Consistency of disclosures:** Consistency between narrative disclosures and financial outcomes, ensuring that risks discussed in annual reports, sustainability statements or management commentary are supported by corresponding financial impacts where relevant.
- **Engagement with auditors:** Engagement with auditors on areas of elevated risk, inspection focus areas and how audit responses have been tailored to address emerging sustainability challenges.

Effective AC oversight goes beyond identifying risks and focuses on whether their financial reporting effects are properly supported and clearly communicated.

WHAT SHOULD AUDITORS CONSIDER?

Auditors are expected to respond to sustainability-related risks with a proportionate and risk-focused audit approach grounded in professional scepticism and sound judgement.

Areas warranting particular attention include:

- **Risk assessment:** Assess whether climate, geopolitical and price volatility give rise to new or higher risks.
- **Management bias and optimism:** Increased uncertainty may lead to overly optimistic assumptions in forecasts, impairments and going concern assessments. Auditors should enhance professional scepticism and challenge these assumptions accordingly.
- **Use of specialists and data:** Although management may rely on specialists in areas involving significant estimation, auditors retain responsibility for assessing the reliability of underlying data and key judgements applied.

CONCLUSION: BUILDING A MORE ROBUST AUDIT ECOSYSTEM

The 2025 audit landscape continues to evolve, driven by enhancements in regulatory guidelines aimed at strengthening firm governance, the increasing use of technology in audits and the heightened inherent risks arising from transformation within capital market entities. Amid these developments, the AOB remains firmly committed to upholding high standards of audit quality.

The 2025 AIR and its inspection findings provide an important avenue for all key stakeholders to build on these developments and continue strengthening the quality of audit engagements. The AIR outlines key observations, encouragements and considerations not only for auditors but also for AC members and PIE management. To sustain a resilient and robust audit ecosystem, all stakeholders must proactively embrace the changing risk landscape and respond effectively to new and evolving challenges.

FOCUS AREAS FOR 2026

Firm-Level Review

ISQM review will be targeted based on the specific risks posed by each firm and assessment of the firm's governance framework, culture, IT risk and monitoring function.

In 2026, the firm culture survey will be expanded to include the remaining firms that were not covered in 2025.

Engagement-Level Review

Thematic inspections will be carried out at the engagement level, with a focus on PIEs exhibiting higher risk characteristics such as complex accounting treatments and risk areas which require heightened scepticism.

The AOB will also place greater emphasis on IT audit, in line with the growing risk surrounding IT systems used in businesses.

Capacity Building

The AOB will continue to issue AOB Alerts on developing topics and evolving issues.

Additionally, the AOB will continue to collaborate with professional bodies and industry players to develop and deliver training programmes aimed at improving audit quality.

The AOB will continue to engage with the auditors of affected PIEs where significant matters arise, including those highlighted through public disclosures or media reports. Annual conversations with key stakeholders will also continue to be held to facilitate communication and collaboration with the AOB, providing a structured platform for stakeholders to share perspectives and raise relevant matters.

ACRONYMS AND ABBREVIATIONS

AARG	ASEAN Audit Regulators Group
AC	Audit Committee
ACCA	The Association of Chartered Certified Accountants
ACGA	Asian Corporate Governance Association
AFS	audited financial statements
AI	artificial intelligence
AIR	Annual Inspection Report
AOB	Audit Oversight Board
AQI	audit quality indicator
ASEAN	Association of Southeast Asian Nations
ATR	Annual Transparency Report
BNM	Bank Negara Malaysia
CGU	cash generating units
CMSL	Capital Market Services Licence
ECL	expected credit loss
ERP	Enterprise Resource Planning
ERQ	Enforcement, Regulation and Quality Assurance
FAQ	frequently asked questions
IAASB	International Auditing and Assurance Standards Board
IESBA	International Ethics Standards Board for Accountants
IFIAR	International Forum of Independent Audit Regulators
ISA	*International Standards on Auditing*
ISQM 1	ISQM 1 *International Standard on Quality Management 1*
ISQM 2	ISQM 2 *International Standard on Quality Management 2*
IT	information technology
ITGC	IT general controls
Major Audit Firms	audit firms that have more than 50 PIE audit clients with a total market capitalisation of above RM15 billion
MIA	The Malaysian Institute of Accountants
MIA By-Laws	MIA By-Laws (on Professional Ethics, Conduct and Practice)
MICPA	The Malaysian Institute of Certified Public Accountants
MO	management overlay
NAV	net asset value
NPL	non-performing loans
Other Audit Firms	firms other than the Major Audit Firms
PIE	public-interest entity
PLC	public-listed company
PRS	Private Retirement Schemes
Recognised Foreign Audit Firms	foreign auditors who audit foreign incorporated companies which are listed on Bursa Malaysia.
R&R	Rescheduling and Restructuring programme
SC	Securities Commission Malaysia
SCMA	*Securities Commission Malaysia Act 1993*
SGA	Statistics Gathering and Analysis
SICR	Significant Increase in Credit Risk
SoQM	System of Quality Management
TCWG	those charged with governance

APPENDIX

AUDIT QUALITY INDICATORS STATISTICS FOR MAJOR AUDIT FIRMS

AQIs	2025	2024	2023
Workload of the PIE audit partner Average number of PIE audit clients per partner	5	5	5
Average number of entities related to PIE audit clients per partner *Note: Entities related to PIE audit clients are non-PIEs within the PIE Group, which are audited by Malaysian firms. Examples include but are not limited to, subsidiaries and associates of PIEs.*	51	53	55
Average number of non-PIE audit clients per partner	83	85	97
Auditor independence Average proportion of fee income derived from the: a) Audit practice b) Non-audit practice	 46% 54%	 48% 52%	 49% 51%
Average proportion of fee income derived from audit clients segregated by: a) Statutory audit b) Other assurance services c) Services provided by non-audit practices	 74% 8% 18%	 74% 8% 18%	 73% 8% 19%
Capacity and competence of the audit practice Average composition of audit personnel: a) Audit partners b) Managerial staff c) Non-managerial staff	 5% 18% 77%	 5% 17% 78%	 5% 15% 80%
Average years of audit experience of the audit personnel: a) Audit partners b) Managerial staff c) Non-managerial staff	Years 25 10 2	Years 24 10 2	Years 24 10 2
Professional qualifications of the audit personnel: a) Average percentage of personnel with professional qualifications and/or MIA membership b) Average percentage of personnel who are pursuing professional qualifications and/or MIA membership c) Average percentage of personnel without professional qualifications and/or MIA membership	 21% 64% 15%	 20% 66% 14%	 21% 65% 14%
Average staff turnover rate	26%	25%	24%
Audit engagement supervision Average staff-to-partner ratio	22	23	25
Average staff-to-manager ratio	5	5	6
Audit firm's investment to promote audit quality Average hours of training provided by the firms to audit personnel (a) Partners (b) Managerial staff (c) Non-managerial staff	 Hours 79 82 86	 Hours 92 91 83	 Hours 84 86 79
Average ratio of audit staff to one quality control staff *Note: Quality control staff are involved in risk management, technical consultations, training and quality assurance functions of the firms either on full-time or part-time basis.*	43	39	43

Note: The AQI statistics above are derived from information submitted by the Major Audit Firms based on their financial periods ended 2023, 2024 and 2025 respectively.

AUDIT QUALITY INDICATORS STATISTICS FOR OTHER AUDIT FIRMS

AQIs	2025	2024	2023
Workload of the PIE audit partner Average number of PIE audit clients per partner	3	3	3
Average number of entities related to PIE audit clients per partner *Note: Entities related to PIE audit clients are non-PIEs within the PIE Group, which are audited by Malaysian firms. Examples include, but are not limited to, subsidiaries and associates of PIEs.*	26	26	25
Average number of non-PIE audit clients per partner	115	107	134
Auditor independence Average proportion of fee income derived from the: a) Audit practice b) Non-audit practice	 72% 28%	 71% 29%	 71% 29%
Average proportion of fee income derived from audit clients segregated by: a) Statutory audit b) Other assurance services c) Services provided by non-audit practices	 77% 6% 17%	 76% 6% 18%	 78% 4% 18%
Capacity and competence of the audit practice Average composition of audit personnel: a) Audit partners b) Managerial staff c) Non-managerial staff	 13% 17% 70%	 12% 17% 71%	 10% 16% 74%
Average years of audit experience of the audit personnel: a) Audit partners b) Managerial staff c) Non-managerial staff	Years 24 11 3	Years 24 11 2	Years 22 11 2
Professional qualifications of the audit personnel: a) Average percentage of personnel with professional qualifications and/or MIA membership b) Average percentage of personnel who are pursuing professional qualifications and/or MIA membership c) Average percentage of personnel without professional qualifications and/or MIA membership	 34% 28% 38%	 33% 28% 39%	 34% 28% 38%
Average staff turnover rate	26%	21%	25%
Audit engagement supervision Average staff-to-partner ratio	9	9	9
Average staff-to-manager ratio	4	5	5
Audit firm's investment to promote audit quality Average hours of training provided by the firms to audit personnel (a) Partners (b) Managerial staff (c) Non-managerial staff	 Hours 67 56 53	 Hours 59 56 52	 Hours 58 52 47
Average ratio of audit staff to one quality control staff *Note: Quality control staff are involved in risk management, technical consultations, training and quality assurance functions of the firms either on full-time or part-time basis.*	9	10	10

Note: The AQI statistics above are derived from the information submitted by the Other Audit Firms for annual periods ended 30 June 2023, 30 June 2024 and 30 June 2025 respectively.

DESCRIPTION OF THE AUDIT QUALITY INDICATORS

AQIs	DESCRIPTION
Workload of the PIE audit partner a) Average number of PIEs per partner b) Average number of entities related to PIEs per partner c) Average number of non-PIEs per partner	A partner's workload increases in tandem with the number of clients that the partner has to service. The heavier the workload, the less time a partner would have to supervise the audit engagements.
Auditor independence a) Average proportion of fee income between audit practice and non-audit practice such as tax, corporate advisory and consulting b) Average proportion of fee income derived from audit clients segregated into statutory audit, other assurance services and services provided by the non-audit practice	The multi-disciplinary model of firms has enabled these firms to provide both audit and assurance services as well as non-audit services to their audit clients. When the proportion of fees derived from the offering of non-audit services to audit clients is relatively higher than the audit fees, there is a risk that the provision of non-audit services by the firm to its audit clients could undermine auditors' independence. Further, when the proportion of fee income from the non-audit practice of the firm is relatively higher than the audit practice, this raises the concern that the firm's focus on audit quality may be overridden by their non-audit business considerations.
Capacity and competence of the audit practice a) Average percentage of audit personnel with professional qualifications and who are pursuing professional qualifications b) Average staff turnover rate for audit personnel c) Average years of experience of audit partners and audit staff	These indicators would provide the ACs with an indication of the firm's ability to manage its talent pool particularly in ensuring that the firm has sufficient and competent talent to carry out quality audits. 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. As certain factors that drive these indicators are beyond the firms' control, it is also important for ACs to gain an understanding of the various mitigating actions taken by the firms to address capacity and competency issues.
Audit engagement supervision a) Average staff-to-partner ratio b) Average staff-to-manager ratio	These indicators provide an overview of whether the 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.
Audit firm's investment to promote audit quality a) Average hours of training provided by the firms to audit personnel b) Average ratio of audit staff to one quality control staff	Training provided by the 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. In addition, audit quality is also promoted within the firm through various quality control functions comprising training, technical consultations, risk management and quality assurance. A higher ratio of headcount in quality control functions relative to audit personnel headcount would indicate greater firm commitment to allocate resources to support audit quality.