

PART TWO STATEMENTS



MEMBERS OF THE AUDIT OVERSIGHT BOARD



**DATO'
DARAWATI
HUSSAIN**



**EUGENE
WONG WENG
SOON**



**ALEX OOI
THIAM POH**



**DATO' GUMURI
HUSSAIN**



**DATO' ZAHRAH
ABD WAHAB
FENNER**



**WONG
CHONG WAH**



HEW EE-LU

MEMBERS OF THE AUDIT OVERSIGHT BOARD



DATO' GUMURI HUSSAIN

Appointed Executive Chairman 18 November 2016

Redesignated as Non-Executive Chairman 24 November 2017

Dato' Gumuri Hussain was a Board Member of the SC from 2006 to 2016 and Non-Executive Member of the AOB from 2012 to 2016. He was appointed Executive Chairman on 18 November 2016 and was redesignated as Non-Executive Chairman on 24 November 2017.

Dato' Gumuri has 45 years of experience in the audit, accounting and corporate sectors. He was a Senior Partner and Deputy Chairman of the Governance Board of PricewaterhouseCoopers Malaysia. He was previously the Chairman of SME Bank and Non-Executive Chairman of Sistem Televisyen Malaysia Bhd and Rangkaian Hotel Seri Malaysia Bhd. He was also the Managing Director and Chief Executive Officer of Penerbangan Malaysia Bhd. He also held board positions in various PLCs which included Media Prima Bhd, Malaysian Airline System Bhd and Metrod Bhd.

Dato' Gumuri is a Fellow of the ICAEW, a Chartered Accountant of MIA and a member of MICPA.



ALEX OOI THIAM POH

Appointed Executive Officer 24 November 2017

Alex Ooi Thiam Poh was appointed as Executive Officer on 24 November 2017. Alex has more than 25 years of assurance and advisory experience in the property development and construction, hospitality, manufacturing, trading, media, technology and plantation industries. His experience includes statutory audits of PLCs and multinational companies, initial public offerings (IPO), internal audit, risk management and corporate advisory and reorganisation. Alex was formerly an Audit Partner of BDO Malaysia and Deloitte Malaysia.

Alex was previously the Malaysia Divisional President of CPA Australia from 2013 to 2014, and a member of the Public Practice Advisory Board of CPA Australia. He was also a former Council member of MIA. He was previously involved in MIA Committees such as the Financial Reporting Standards Implementation Committee, Capital Market Advisory Committee and Education Committee. He is currently representing the AOB as an observer in MIA's Auditing and Assurance Standards Board and Ethics Standards Board.

Alex is a Fellow of CPA Australia, a member of ICAEW and a Chartered Accountant of MIA.

DATO' ZAHRAH ABD WAHAB FENNER

Appointed Non-Executive Member 3 June 2015

Dato' Zahrah is the Chief Executive Officer of the Companies Commission of Malaysia (SSM). Dato' Zahrah is experienced in financial and auditing matters and was previously an Advisor Accountant with the Royal Malaysian Customs and Excise Department and Principal Accountant with the Ministry of Foreign Affairs.

Dato' Zahrah is a Board Member for the Certification of Certified Integrity Officers and a member of the Financial Reporting Foundation. Dato' Zahrah is also Board Member of the Labuan Financial Services Authority and the Inland Revenue Board. In 2018, Dato' Zahrah was re-elected as an Executive Committee member of the Corporate Registers Forum (a position she has held since 2016).

Dato' Zahrah graduated with a Bachelor of Accounting (Hons.) degree from Universiti Kebangsaan Malaysia. Dato' Zahrah is a Chartered Accountant of MIA.

**EUGENE WONG WENG SOON**

Appointed Non-Executive Member 1 March 2016

Eugene Wong Weng Soon is the Managing Director of Corporate Finance and Investments, SC and is responsible for matters relating to Corporate Finance and Investments which covers IPOs, Private Debt Issuances, Collective Investment Schemes and Take-overs. He is responsible for accounting matters and also oversees the SC's ASEAN related initiatives and is the Co-Chair of the ASEAN Capital Markets Forum's Green Finance Working Group.

Eugene currently serves as an Adviser to the Malaysian Accounting Standards Board. He was previously a Council Member of MIA and Chairman of its Ethics Standards Board.

Eugene has worked for a merchant bank, a stockbroking firm and in the audit and corporate finance division of international accounting firms.

Eugene is a Chartered Accountant of MIA, a Fellow of Chartered Accountants Australia and New Zealand, as well as a Fellow of CPA Australia. He has an Advance Diploma in Corporate Finance from the ICAEW and holds a B. Comm. from the University of Melbourne.





WONG CHONG WAH

Appointed Non-Executive Member 1 April 2016

Wong Chong Wah is a partner at Wong & Wong. He has more than 40 years of legal experience in areas such as litigation and alternative dispute resolution, corporate and partnership law, tax, custom duties & excise, land acquisition, insurance and defamation. He is a member to the Bar in Malaysia, Singapore and Brunei. He was named as one of the leading commercial litigators by the International Who is Who's of Commercial Litigation for several years.

He acted as counsel for a Federal Court judge in a Constitutional Tribunal.

He formerly served as the sole Malaysian member of the International Court of Arbitration of the International Chamber of Commerce from 2004 to 2012. He is on the panel of arbitrators of the Asian International Arbitration Centre (formerly known as the Kuala Lumpur Regional Centre for Arbitration) and the International Chamber of Commerce Malaysia.

He is a fellow of the Chartered Tax Institute of Malaysia. He is a panel member of the Disciplinary Committee of the Bar Council.



DATO' DARAWATI HUSSAIN

Appointed Non-Executive Member 1 April 2016

Dato' Darawati Hussain is a Director of Syalin Sdn Bhd. She was formerly a Director, Fund and Co-Investor Relations under the Group Strategy and Strategic Investments Division, CIMB Group (Malaysia).

She has over 20 years of experience in corporate finance, asset management and private equity. She was a European equities portfolio manager for a US fund management company with assets under management worth US\$70 billion.

Dato' Darawati serves as Chairman of RHB Private Equity Holdings Sdn Bhd and as an Independent Board Member of Magna Prima Bhd, Malaysia Venture Capital Management Bhd and RHB Investment Bank Bhd. She is also a Director of several private-limited companies.

Dato' Darawati was the former Chairperson of Malaysia Venture Capital and Private Equity Association and committee member of Malaysia Venture Capital Development Corporation under the SC.

She holds a bachelor's degree in Economics and Accountancy from Durham University, UK and a Master in Business Administration from the London Business School, UK. She is also a Chartered Financial Analyst.

HEW EE-LU

Appointed Non-Executive Member 5 October 2018

Hew Ee-Lu has nearly 20 years of regulatory experience in the financial services sector. As a trained actuary in BNM, he was involved in developing capital adequacy frameworks for the insurance sector, implementing reforms in the domestic insurance market and providing technical advice on various policy initiatives.

In his current role as the Director of the Insurance and Takaful Supervision Department, he is responsible for the prudential supervision of insurers and takaful operators in Malaysia.

He is a Fellow of the Institute of Actuaries UK and is a graduate from the London School of Economics, UK and Cass Business School.



STATEMENT ON GOVERNANCE

About the Audit Oversight Board

The AOB was established under Part IIIA of the SCMA and its mandate is to assist the SC in discharging its regulatory function by regulating auditors of PIEs and schedule funds to promote confidence in the quality and reliability of the audited financial statements. The AOB also exercises oversight over any person who prepares a report relating to financial information of PIEs and schedule funds, in relation to capital market activities.

The AOB's responsibilities, powers and authorities are defined in Part IIIA of the SCMA.

Board Members

The SC appoints the Board members of the AOB. The Board of the AOB comprises a Non-Executive Chairman, an Executive Officer and five other Non-Executive Members who are representatives from the regulators, namely BNM and SSM, the legal profession and private sector. The Executive Officer is responsible for the day-to-day administration of the AOB.

Profiles of the Board Members of the AOB are set out on pages 26 to 29.

The Non-Executive Chairman of the AOB is appointed for a term of three years and is eligible for reappointment upon completion of his term whereas the Non-Executive members of the Board are appointed for a term of two years and are eligible for reappointment.

A person is disqualified from holding the office of a Board member of the AOB if he or she is:

- Convicted of an offence under the law;
- Declared a bankrupt;
- Fails to attend three consecutive Board meetings without leave; or
- Not capable of discharging his or her duties.

The SCMA requires a Board member to manage conflict of interest by disclosing his or her interest in any matter under discussion by the Board. Once a disclosure is made, he or she:

- Shall neither take part nor be present in any deliberation or decision of the Board or its committees; and
- Shall be disregarded for the purposes of constituting quorum of the Board or its committees, relating to the matter.

Responsibilities of the Board

The Board is responsible for assisting the SC in discharging its functions under the SCMA.

The responsibilities of the Board include to:

- Implement policies and programmes in ensuring an effective audit oversight system in Malaysia;
- Register or recognise auditors of PIEs or schedule funds for the purposes of the SCMA;
- Direct MIA to establish or adopt, or by way of both, the auditing and ethical standards to be applied by auditors;

- Conduct inspections and monitoring programmes on registered auditors to assess the degree of compliance of auditing and ethical standards;
- Conduct inquiries and impose appropriate sanctions against registered auditors who fail to comply with auditing and ethical standards;
- Co-operate with relevant authorities in formulating and implementing strategies to enhance standards of financial disclosures of PIEs or schedule funds;
- Liaise and co-operate with oversight bodies outside Malaysia to enhance the standing of the auditing profession in Malaysia and internationally;
- Carry out inspection on a person who prepares a report in relation to financial information of PIEs or schedule funds, in relation to capital market activities, as may be required to be prepared under the securities laws or guidelines issued by the SC; and
- Perform such other duties or functions as necessary or appropriate to promote high professional standards of registered auditors and to improve the quality of audit services provided by registered auditors.

Board Meetings

There were eight Board meetings held during the year. The quorum required is three members present.

The attendance record of the Board members is set out in Table 1.

Table 1

Attendance at Board meetings

Board member	Number of meetings attended
Dato' Gumuri Hussain (Non-Executive Chairman)	8/8
Alex Ooi Thiam Poh (Executive Officer)	8/8
Dato' Zahrah Abd Wahab Fenner	3/8
Eugene Wong Weng Soon	7/8
Wong Chong Wah	8/8
Dato' Darawati Hussain	8/8
Marzunisham Omar*	5/6
Hew Ee-Lu**	2/2

* Retired 25 September 2018

** Appointed 5 October 2018

Committee of the AOB

The Registration Committee was established to deliberate on matters regarding the registration or recognition of auditors with the AOB. Where applicable, the Registration Committee will make recommendations to the Board for further deliberation and decision.

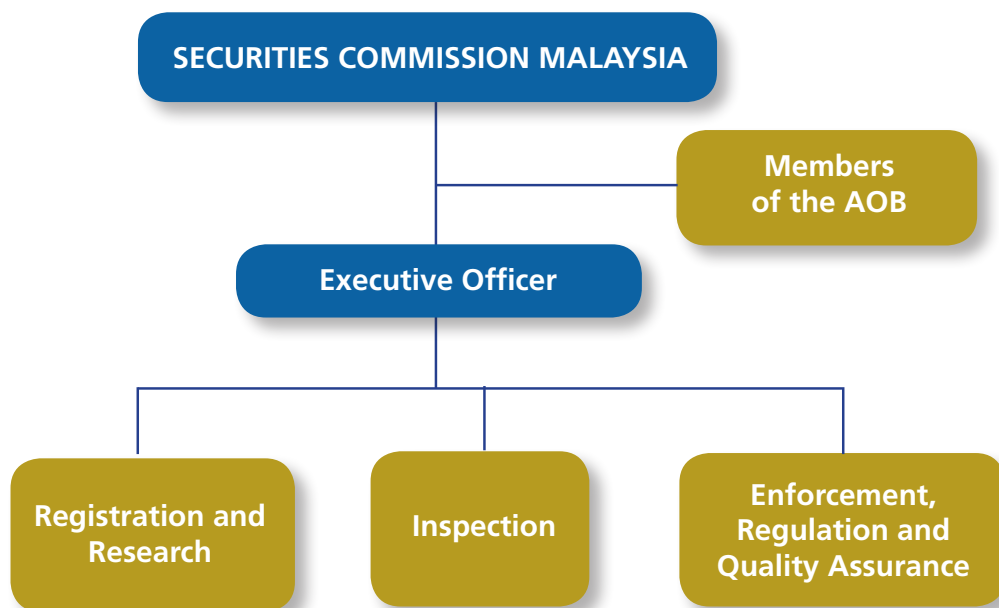
The following are members of the Registration Committee:

1. Dato' Gumuri Hussain
2. Dato' Zahrah Abd Wahab Fenner
3. Eugene Wong Weng Soon

The Chairman of the AOB chairs meetings of the Committee and in his absence, a member of the Board who sits on the Committee can be tasked to take on this responsibility.



ORGANISATION STRUCTURE



AUDIT OVERSIGHT BOARD

**FINANCIAL STATEMENTS FOR THE
YEAR ENDED 31 DECEMBER 2018**

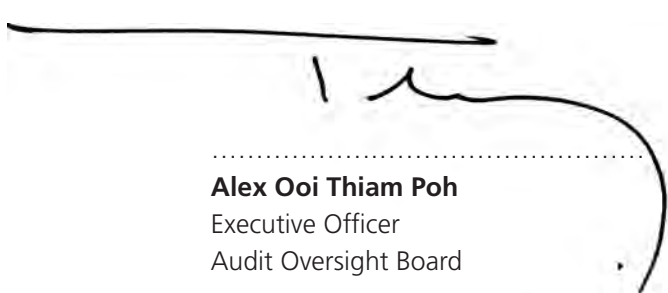
AUDIT OVERSIGHT BOARD

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

	Note	2018 RM	2017 RM
Assets			
Current assets			
Other receivables	4	8,307	159,973
Other investments	5	730,024	190,333
Cash and cash equivalents	6	382,912	546,781
Total assets		<u>1,121,243</u>	<u>897,087</u>
Reserves			
Funds from the Securities Commission Malaysia	7.1	25,516,438	23,516,438
Accumulated deficit	7.2	(24,444,195)	(22,641,351)
Total reserves	7	<u>1,072,243</u>	<u>875,087</u>
Current liabilities			
Other payables and accruals	8	49,000	22,000
Total liabilities		<u>49,000</u>	<u>22,000</u>
Total reserves and liabilities		<u>1,121,243</u>	<u>897,087</u>

The notes set out on pages 38 to 52 are an integral part of these financial statements.


Syed Zaid Albar
Chairman
Securities Commission Malaysia


Alex Ooi Thiam Poh
Executive Officer
Audit Oversight Board

Date: 30 January 2019

AUDIT OVERSIGHT BOARD

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 RM	2017 RM
Registration fees		3,130,200	1,865,000
Finance income from fixed deposit		52,476	31,233
Penalty imposed		533,000	75,000
		<hr/>	<hr/>
		3,715,676	1,971,233
Operating expenditure			
Administrative expenses	9	(5,518,520)	(5,957,836)
		<hr/>	<hr/>
Deficit before tax		(1,802,844)	(3,986,603)
Tax expense	10	-	-
		<hr/>	<hr/>
Deficit for the year/Total comprehensive expense for the year		<hr/> <hr/> (1,802,844)	<hr/> <hr/> (3,986,603)

The notes set out on pages 38 to 52 are an integral part of these financial statements.

AUDIT OVERSIGHT BOARD

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

	Funds from Securities Commission Malaysia RM	Accumulated deficit RM	Total RM
At 1 January 2017	19,016,438	(18,654,748)	361,690
Funds from the Securities Commission Malaysia	4,500,000	-	4,500,000
Deficit and total comprehensive expense for the year	-	(3,986,603)	(3,986,603)
At 31 December 2017/1 January 2018	23,516,438	(22,641,351)	875,087
Funds from the Securities Commission Malaysia	2,000,000	-	2,000,000
Deficit and total comprehensive expense for the year	-	(1,802,844)	(1,802,844)
At 31 December 2018	25,516,438	(24,444,195)	1,072,243
	Note 7	Note 7	Note 7

The notes set out on pages 38 to 52 are an integral part of these financial statements.

AUDIT OVERSIGHT BOARD
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED
31 DECEMBER 2018

	Note	2018 RM	2017 RM
Cash flows from operating activities			
Deficit before tax		(1,802,844)	(3,986,603)
<i>Adjustment for:</i>			
Finance income		(52,476)	(31,233)
Operating deficit before changes in working capital		(1,855,320)	(4,017,836)
Change in other receivables		151,666	(69,339)
Change in other payables and accruals		27,000	(4,200)
Net cash used in operating activities		(1,676,654)	(4,091,375)
Cash flows from investing activities			
Finance income		52,476	31,233
Increase in other investments		(539,691)	(78,491)
Net cash used in investing activities		(487,215)	(47,258)
Cash flows from financing activity			
Funds from the Securities Commission Malaysia		2,000,000	4,500,000
Net cash from financing activity		2,000,000	4,500,000
Net (decrease)/increase in cash and cash equivalents		(163,869)	361,367
Cash and cash equivalents at 1 January		546,781	185,414
Cash and cash equivalents at 31 December		382,912	546,781
Cash and cash equivalents comprise:			
Cash and bank balances	6	382,912	375,820
Deposits placed with a licensed bank	6	-	170,961
		382,912	546,781

The notes set out on pages 38 to 52 are an integral part of these financial statements.

AUDIT OVERSIGHT BOARD

NOTES TO THE FINANCIAL STATEMENTS

1. General

On 1 April 2010, the Securities Commission Malaysia (SC) established the Audit Oversight Board (AOB) under section 31C of the *Securities Commission Malaysia Act 1993* (SCMA). The AOB was established for the purposes set out in section 31B of the SCMA, namely:

- a. to promote and develop an effective and robust audit oversight framework in Malaysia;
- b. to promote confidence in the quality and reliability of audited financial statements in Malaysia;
- c. to regulate auditors of public-interest entities or schedule funds; and
- d. to exercise oversight over any person who prepares a report in relation to financial information, required to be submitted under the securities laws, guidelines issued by the Commission or the rules of a stock exchange, of a:
 - (i) public-interest entity or schedule fund;
 - (ii) non-public interest entity seeking approval to become a public-listed company or a corporation listed on the stock exchange; or
 - (iii) non-schedule fund seeking approval to become a schedule fund.

To facilitate the abovementioned purposes, a fund known as the AOB Fund was established under section 31H of the SCMA. The AOB Fund is administered by the SC. The SC provides administrative and accounting support to the AOB Fund and the accounts are kept separately from the accounts of the SC in accordance with section 31L(5) of the SCMA. The SC will continue to provide the necessary financial support to the AOB for the foreseeable future.

2. Basis of preparation

(a) Statement of compliance

The financial statements of the AOB have been prepared in accordance with Malaysian Financial Reporting Standards (MFRSs) and International Financial Reporting Standards.

The following are accounting standards, amendments and interpretations that have been issued by the Malaysian Accounting Standards Board (MASB) but have not been adopted by the AOB:

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2019

- MFRS 16, *Leases*
- IC Interpretation 23, *Uncertainty over Income Tax Treatments*
- Amendments to MFRS 3, *Business Combinations (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 9, *Financial Instruments – Prepayment Features with Negative Compensation*
- Amendments to MFRS 11, *Joint Arrangements (Annual Improvements to MFRS Standards 2015-2017 Cycle)*

- Amendments to MFRS 112, *Income Taxes (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 119, *Employee Benefits – Plan Amendment, Curtailment or Settlement*
- Amendments to MFRS 123, *Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2020

- Amendments to MFRS 3, *Business Combinations – Definition of a Business*
- Amendments to MFRS 101, *Presentation of Financial Statements and MFRS 108 Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Materiality*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2021

- MFRS 17, *Insurance Contracts*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after a date yet to be confirmed

- Amendments to MFRS 10, *Consolidated Financial Statements* and MFRS 128, *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The AOB plans to apply the abovementioned accounting standards, amendments and interpretations that are applicable and effective from its annual period beginning on or after 1 January 2019 and 1 January 2020, respectively.

The AOB does not plan to apply MFRS 17, *Insurance Contracts* that is effective for annual periods beginning on or after 1 January 2021 as it is not applicable to the AOB.

The initial application of the accounting standards, amendments or interpretations are not expected to have any material financial impacts to the current period and prior period financial statements of the AOB.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis other than as disclosed in Note 3.

(c) Functional and presentation currency

These financial statements are presented in Ringgit Malaysia (RM), which is AOB's functional currency. All financial information is presented in RM.

(d) Use of estimates and judgements

The preparation of the financial statements in conformity with MFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the financial statements.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to the periods presented in these financial statements, and have been applied consistently by the AOB, unless otherwise stated.

Arising from the adoption of MFRS 15, *Revenue from Contracts with Customers* and MFRS 9, *Financial Instruments*, there are changes to accounting policies of:

- (i) financial instruments;
- (ii) revenue recognition; and
- (iii) impairment losses of financial instruments

as compared to those adopted in previous financial statements. There are no significant impact from adoption of MFRS 15. The impact arising from adoption of MFRS 9 is disclosed in Note 14.

(a) Financial instruments

Unless specifically disclosed below, the AOB generally applied the following accounting policies retrospectively. Nevertheless, as permitted by MFRS 9, *Financial Instruments*, the AOB has elected not to restate the comparatives.

(i) Recognition and initial measurement

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the AOB becomes a party to the contractual provisions of the instrument.

Current financial year

A financial asset or a financial liability is initially measured at fair value plus or minus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issuance.

An embedded derivative is recognised separately from host contract where the host contract is not a financial asset, and accounted for separately if, and only if the derivative is not closely measured at fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host.

Previous financial year

Financial instrument was recognised initially, at its fair value plus or minus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that were directly attributable to the acquisition or issue of the financial instrument.

An embedded derivative was recognised separately from the host contract and accounted for as a derivative if, and only if, it was not closely related to the economic characteristics and risks of the host contract and the host contract was not recognised as fair value through profit or loss. The host contract, in the event an embedded derivative was recognised separately, was accounted for in accordance with policy applicable to the nature of the host contract.

(ii) Financial instrument categories and subsequent measurement

Financial assets

Current financial year

Categories of financial assets are determined on initial recognition and are not reclassified subsequent to their initial recognition unless the AOB changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change of the business model.

Amortised cost

Amortised cost category comprises financial assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely for payments of principal and interest on the principal amount outstanding. The financial assets are not designated as fair value through profit or loss. Subsequent to initial recognition, these financial assets are measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Interest income is recognised by applying effective interest rate to the gross carrying amount except for credit impaired financial assets (see Note 3(c)) where the effective interest rate is applied to the amortised cost.

Previous financial year

In the previous financial year, financial assets of the AOB were classified and measured under MFRS 139, *Financial Instruments: Recognition and Measurement* as follows:

Loans and receivables

Financial assets categorised as loans and receivables was subsequently measured at amortised cost using the effective interest method.

All financial assets were subject to review for impairment (see Note 3(c)).

Financial liabilities

Current financial year

The category of financial liabilities at initial recognition is as follows:

Amortised cost

Financial liabilities not categorised as fair value through profit or loss are subsequently measured at amortised cost using the effective interest method.

Interest expense is recognised in the profit or loss. Any gains or losses on derecognition are also recognised in the profit or loss.

Previous financial year

All financial liabilities were subsequently measured at amortised cost.

(iii) Derecognition

A financial asset or part of it is derecognised when, and only when, the contractual rights to the cash flows from the financial asset expire or transferred, or control of the asset is not retained or substantially all of the risks and rewards of ownership of the financial asset are transferred to another party. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) is recognised in the profit or loss.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged, cancelled or expires. A financial liability is also derecognised when its terms are modified and the cash flows of the modified liability are substantially different, in which case, a new financial liability based on modified terms is recognised at fair value. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

(iv) Off setting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the AOB currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and liability simultaneously.

(b) Cash and cash equivalents

Cash and cash equivalents consist of balances and deposits with banks which have an insignificant risk of changes in fair value with original maturities of three months or less, and are used by the AOB in the management of their short term commitments. For the purpose of the statement of cash flows, cash and cash equivalents are presented net of restricted deposits, if any.

(c) Impairment

Financial assets

Unless specifically disclosed below, the AOB generally applied the following accounting policies retrospectively. Nevertheless, as permitted by MFRS 9, *Financial Instruments*, the AOB elected not to restate the comparatives.

Current financial year

The AOB recognises loss allowances for expected credit losses on financial assets measured at amortised cost. Expected credit losses are a probability-weighted estimate of credit losses.

The AOB measures loss allowances at an amount equal to lifetime expected credit loss, except for cash and cash equivalents for which credit risk has not increased significantly since initial recognition, which are measured at 12-month expected credit loss.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit loss, the AOB considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the AOB's historical experience and informed credit assessment and including forward-looking information, where available.

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of the asset, while 12-month expected credit losses are the portion of expected credit losses that result from default events that are possible within the 12 months after the reporting date. The maximum period considered when estimating expected credit losses is the maximum contractual period over which the AOB is exposed to credit risk.

An impairment loss in respect of financial assets measured at amortised cost is recognised in profit or loss and the carrying amount of the asset is reduced through the use of an allowance account.

At each reporting date, the AOB assesses whether financial assets carried at amortised cost are credit impaired. A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

The gross carrying amount of a financial asset is written off (either partially or full) to the extent that there is no realistic prospect of recovery. This is generally the case when the AOB determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the AOB's procedures for recovery of amounts due.

Previous financial year

All financial assets were assessed at each reporting date whether there was any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, were not recognised.

An impairment loss in respect of loans and receivables was recognised in profit or loss and was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset was reduced through the use of an allowance account.

If, in a subsequent period, the fair value of the financial asset increased and the increase could be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss was reversed, to the extent that the asset's carrying amount did not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment was reversed. The amount of the reversal was recognised in profit or loss.

(d) Other Income

(i) Registration fees

Registration fees are recognised as it accrues in profit or loss.

(ii) Finance income

Finance income is recognised as it accrues using effective interest method in profit or loss.

(e) Employee benefits

(i) Short-term employee benefits

Short-term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid if the AOB has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) State plans

The AOB's contributions to statutory pension funds are charged to profit or loss in the year to which they relate. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(f) Fair value measurement

Fair value of an asset or a liability is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

For non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

4. Other receivables

	2018 RM	2017 RM
Deposits	-	82,714
Prepayments	-	75,632
Interest receivable	8,307	1,627
	<u>8,307</u>	<u>159,973</u>

5. Other investments

Other investments are in relation to the deposits placed with licensed bank with original maturity of 6 months or more. The deposits placed with licensed bank earned income at rates ranging from 3.05% to 3.30% per annum (2017: 1.75% to 3.05% per annum).

The deposits arose from monies received from penalty imposed and is restricted to be utilised for planning and implementing capacity building programmes in relation to the accounting and auditing profession.

6. Cash and cash equivalents

	2018 RM	2017 RM
Cash and bank balances	382,912	375,820
Deposits placed with a licensed bank	-	170,961
	<u>382,912</u>	<u>546,781</u>

In the previous year, the deposits placed with a licensed bank earned income at rates ranging from 1.75% to 3.05% per annum.

7. Total reserves

	Note	2018 RM	2017 RM
Funds from the Securities Commission Malaysia	7.1	25,516,438	23,516,438
Accumulated deficit	7.2	(24,444,195)	(22,641,351)
Total reserves		<u>1,072,243</u>	<u>875,087</u>

7.1 Funds from the Securities Commission Malaysia

	2018 RM	2017 RM
Contribution:		
At the beginning of the year	23,516,438	19,016,438
Additions	2,000,000	4,500,000
At the end of the year	25,516,438	23,516,438

7.2 Accumulated deficit

	2018 RM	2017 RM
At the beginning of the year	(22,641,351)	(18,654,748)
Deficit for the year	(1,802,844)	(3,986,603)
At the end of the year	(24,444,195)	(22,641,351)

8. Other payables and accruals

	2018 RM	2017 RM
Accruals	49,000	22,000

9. Administrative expenses

	2018 RM	2017 RM
The administrative expenses consist of:		
Auditors' remuneration	20,000	20,500
Honorarium payment	71,012	98,974
Non-executive members' allowance	278,300	142,100
Other miscellaneous charges	398,419	229,455
Rental of premises	18,363	341,110
Staff costs	4,732,426	5,125,697
	5,518,520	5,957,836

10. Tax expense

The SC was granted approval from the Minister of Finance to be exempted from taxation with effect from Year Assessment (YA) 2007 onwards. Accordingly, the AOB is tax-exempted.

11. Financial instruments

11.1 Categories of financial instruments

The table below provides an analysis of financial instruments as at 31 December 2018 categorised as amortised cost (AC):

	Carrying amount RM	AC RM
2018		
Financial asset		
Other receivables	8,307	8,307
Other investments	730,024	730,024
Cash and cash equivalents	382,912	382,912
	<u>1,121,243</u>	<u>1,121,243</u>
Financial liabilities		
Other payables and accruals	(49,000)	(49,000)

The table below provides an analysis of financial instruments as at 31 December 2017 categorised as:

- (a) Loans and receivables (L&R); and
- (b) Financial liabilities measured at amortised cost (FL)

	Carrying amount RM	L&R /FL RM
2017		
Financial assets		
Other receivables*	84,341	84,341
Other investments	190,333	190,333
Cash and cash equivalents	546,781	546,781
	<u>821,455</u>	<u>821,455</u>
Financial liabilities		
Other payables and accruals	(22,000)	(22,000)

* Exclude non-financial asset

11.2 Gains arising from financial instrument

	2018 RM	2017 RM
Gains on:		
Financial assets at amortised cost	52,476	-
Loans and receivables	-	31,233
	<u>52,476</u>	<u>31,233</u>

11.3 Financial risk management objectives and policies

The AOB is primarily exposed to liquidity risk in the normal course of the AOB's operations. As the AOB is administered by the SC, the AOB is subject to the SC's financial risk management policies.

11.4 Liquidity risk

Liquidity risk is the risk that the AOB will not be able to meet its financial obligations as they fall due. The AOB's exposure to liquidity risk arises principally from its various payable.

The AOB, via the SC, monitors and maintains a level of cash and cash equivalents deemed adequate to finance the AOB's operations and receives financial support from the SC to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they fall due.

Maturity analysis

The table below summarises the maturity profile of the AOB's financial liabilities as at the end of the reporting period based on undiscounted contractual payments.

	Carrying amount RM	Contractual cash flow RM	Under 1 year RM
2018			
Financial liabilities			
Other payables and accruals	49,000	49,000	49,000
2017			
Financial liabilities			
Other payables and accruals	22,000	22,000	22,000

11.5 Market risk

Market risk is the risk that changes in market prices, such as interest rates, that will affect the AOB's financial position or cash flows.

11.5.1 Interest rate risk

The interest rate profile of the AOB's significant interest-bearing financial instruments, based on carrying amounts as at the end of the reporting period was:

	2018 RM	2017 RM
Fixed rate instruments		
Financial assets	730,024	361,294

Interest rate risk sensitivity analysis

Fair value sensitivity analysis for fixed rate instrument

The AOB does not account for any fixed rate financial assets at fair value through profit or loss, and the AOB does not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the end of the reporting period would not affect profit or loss.

11.6 Fair values

The carrying amounts of cash and cash equivalents, other receivables, other payables and accruals reasonably approximate their fair values due to the relatively short-term nature of these financial instruments.

12. Fund management

The AOB's objective is to maintain adequate reserves to safeguard the AOB's ability to perform its duties and functions independently. The reserves are managed by the SC.

13. Authorisation of financial statements

The financial statements for the year ended 31 December 2018 were authorised by the SC for issuance and signed by the Chairman of the SC and Executive Officer of the AOB on 30 January 2019.

14. Significant changes in accounting policies

During the year, the AOB adopted MFRS 15, *Revenue from Contracts with Customers* and MFRS 9, *Financial Instruments* on their financial statements. The AOB generally applied the requirements of these accounting standards retrospectively with practical expedients and transitional exemptions as allowed by the standards. Nevertheless, as permitted by MFRS 9, the AOB has elected not to restate the comparatives. There are no significant impact from the adoption of MFRS 15.

14.1 Accounting for financial instruments

a. Transition

In respect of the adoption of MFRS 9, the following transitional exemptions as permitted by the standard have been adopted:

- (i) The AOB has not restated comparative information for prior periods with respect to classification and measurement requirements. Accordingly, the information presented for 2017 does not generally reflect the requirements of MFRS 9, but rather those of MFRS 139, *Financial Instruments: Recognition and Measurement*.
- (ii) The following assessments have been made based on the facts and circumstances that existed at the date of initial application:
 - the determination of the business model within which a financial asset is held.
- (iii) Loss allowance for receivables is recognised at an amount equal to lifetime expected credit losses until the receivable is derecognised.

b. Classification of financial assets and financial liabilities on the date of initial application of MFRS 9

The following table shows the measurement categories under MFRS 139 and the new measurement categories under MFRS 9 for each class of the AOB's financial assets and financial liabilities as at 1 January 2018:

Category under MFRS 139	31 December 2017 RM	1 January 2018 Reclassification to new MFRS 9 category AC RM
Financial assets		
Loans and receivables		
Other receivables	84,341	84,341
Other investments	190,333	190,333
Cash and cash equivalents	546,781	546,781
	<hr/> 821,455	<hr/> 821,455
Financial liabilities		
Other financial liabilities measured at amortised cost		
Other payables and accruals	(22,000)	(22,000)
	<hr/> (22,000)	<hr/> (22,000)

Reclassification from loans and receivables to amortised cost

Other receivables, other investments, cash and cash equivalents that were classified as loans and receivables under MFRS 139 are now reclassified at amortised cost.



AUDIT OVERSIGHT BOARD
STATUTORY DECLARATION

I, **Vignaswaran A/L Kandiah**, the officer primarily responsible for the financial management of the Audit Oversight Board, do solemnly and sincerely declare that the financial statements set out on pages 34 to 52 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the declaration to be true, and by virtue of the *Statutory Declarations Act, 1960*.

Subscribed and solemnly declared by the abovenamed **Vignaswaran A/L Kandiah**, NRIC No. 561128-10-6171, at Kuala Lumpur in the Federal Territory on 30 January 2019.


.....
Vignaswaran A/L Kandiah
Officer

Before me:



Unit 50-10-1, Tingkat 10
Wisma UOA Damansara
No. 50, Jalan Dungun
Bukit Damansara
50000 Kuala Lumpur.
Tel: +603-2081 3770

INDEPENDENT AUDITORS' REPORT TO THE AUDIT OVERSIGHT BOARD, SECURITIES COMMISSION MALAYSIA

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Audit Oversight Board (AOB), which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 34 to 52.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the AOB as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our auditors' report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Other Ethical Responsibilities

We are independent of the AOB in accordance with the By-Laws (*On Professional Ethics, Conduct and Practice*) of the Malaysian Institute of Accountants (By-Laws), and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Responsibilities of Board Members of the Securities Commission Malaysia for the Financial Statements

The Board Members of the Securities Commission Malaysia (SC) are responsible for the preparation of financial statements of the AOB that give a true and fair view in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards. The Board Members are also responsible for such internal control as the Board Members determine is necessary to enable the preparation of financial statements of the AOB that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the AOB, the Board Members of the SC are responsible for assessing the AOB's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board Members of the SC either intend to liquidate the AOB or to cease operations, or have no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the AOB as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the AOB, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the AOB.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board Members of the SC.
- Conclude on the appropriateness of the Board Members' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the AOB to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements of the AOB or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the AOB to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements of the AOB, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with the Board Members of the SC regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Other Matter

This report is made solely to the Securities Commission Malaysia, as a body, and for no other purpose. We do not assume responsibility to any other person for the content of this report.



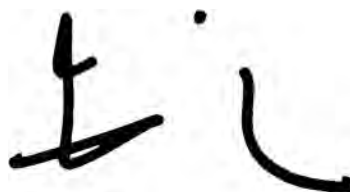
KPMG PLT

(LLP0010081-LCA & AF 0758)

Chartered Accountants

Petaling Jaya, Selangor

Date: 30 January 2019



Loh Kam Hian

Approval Number: 02941/09/2020 J

Chartered Accountant