



**Suruhanjaya Sekuriti**  
Securities Commission  
Malaysia

# **Audit Oversight Board**

## **Conversation with Audit Committees**

### **AOB's Oversight of Auditors of Public Listed Companies**

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*Confidential*

## Disclaimer

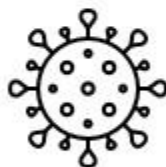
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## Agenda



**Overview of the Inspection Process**



**Audit Considerations in a Post-Covid World**



**Common Audit Committee Concerns**

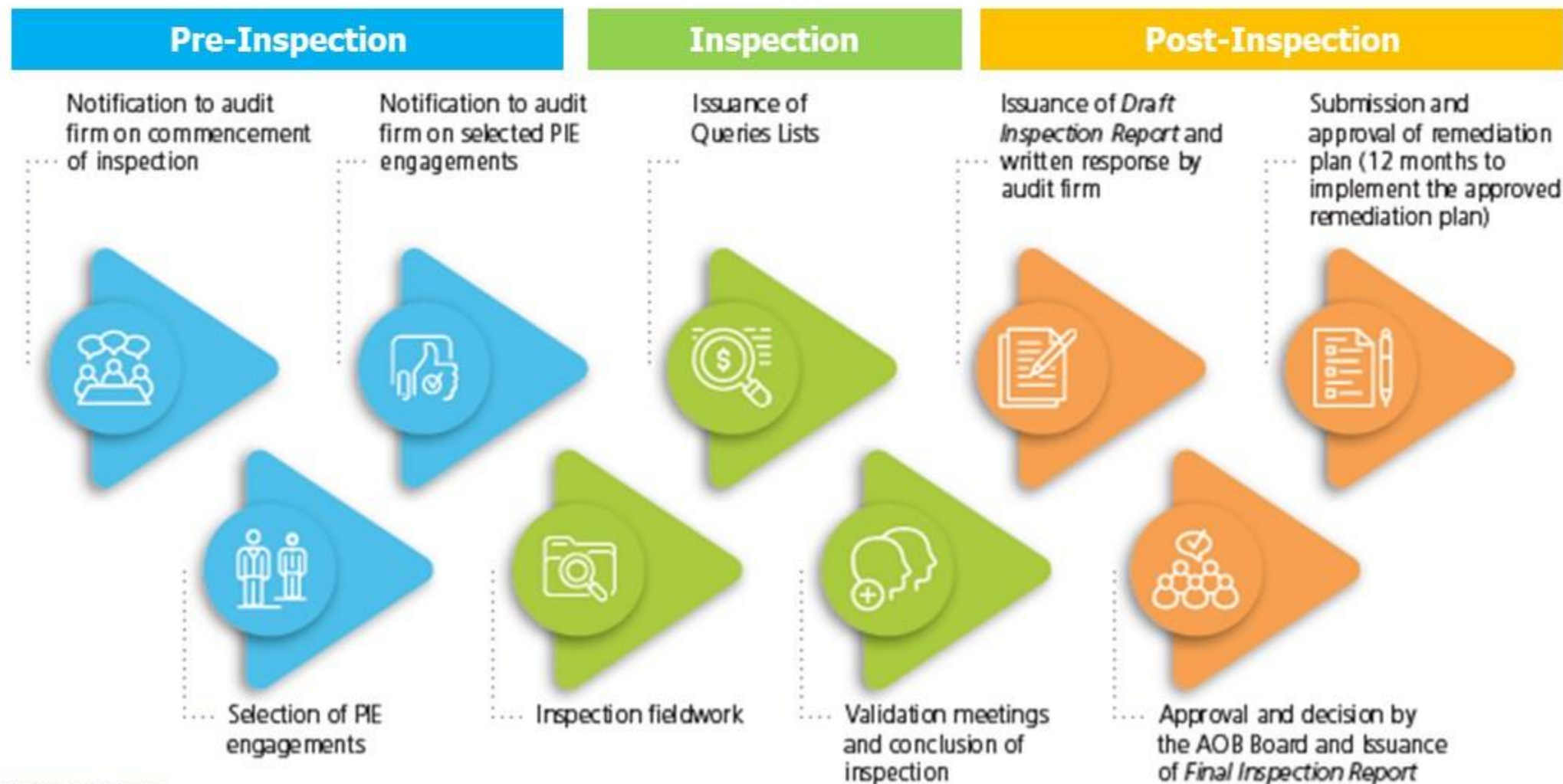




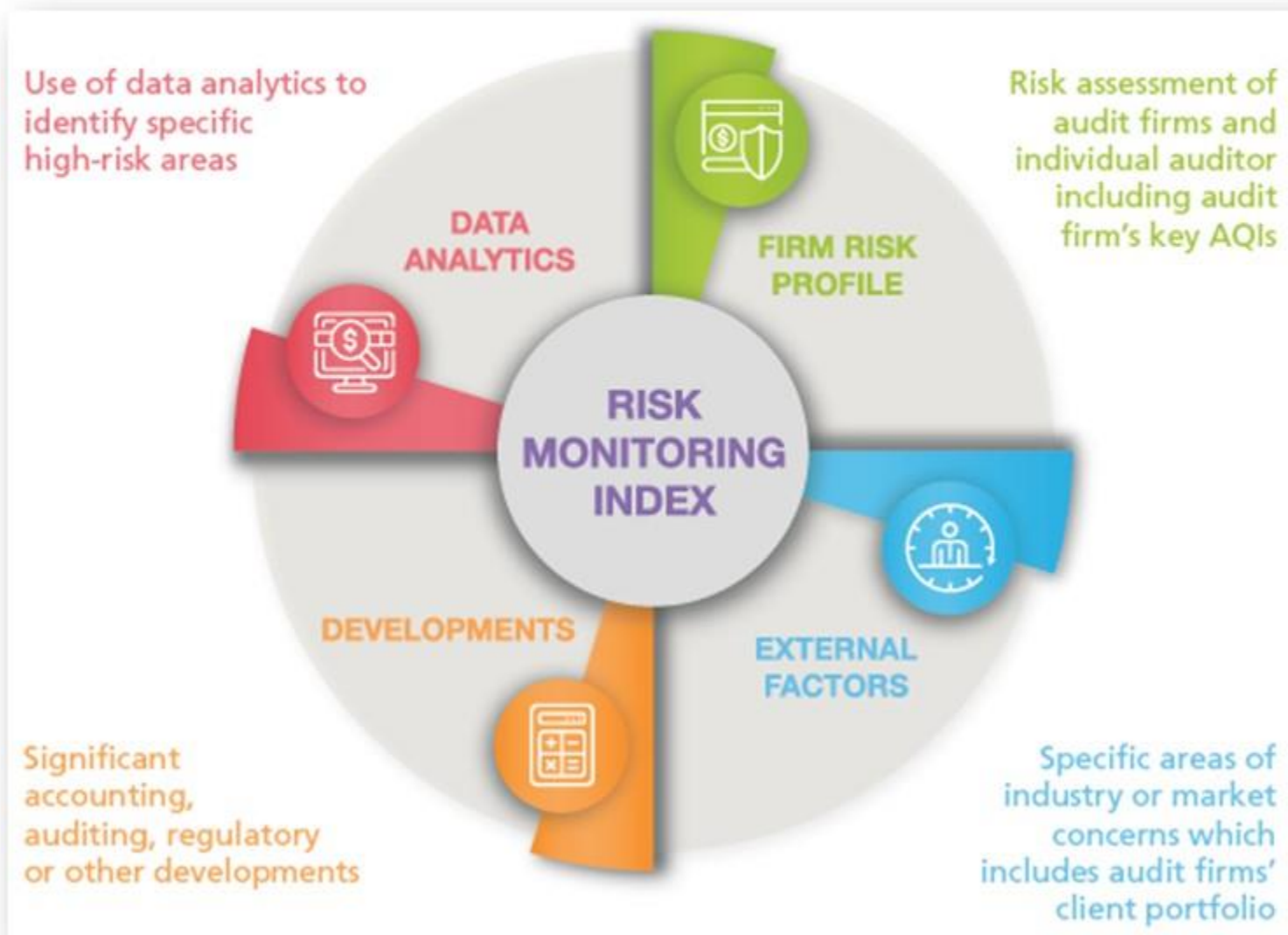
# **Overview of the Inspection Process**

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## The AOB's Inspection Process

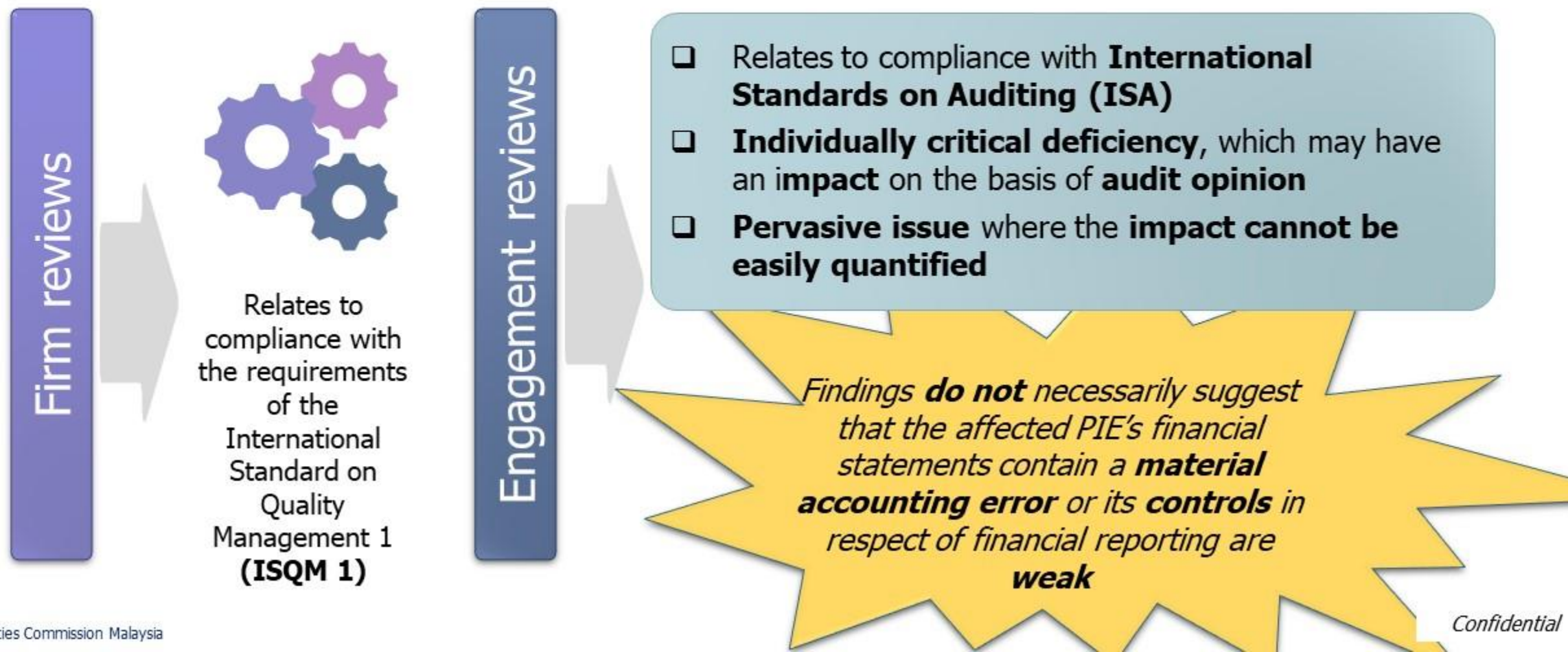


## What does the AOB consider in selecting your Auditor?

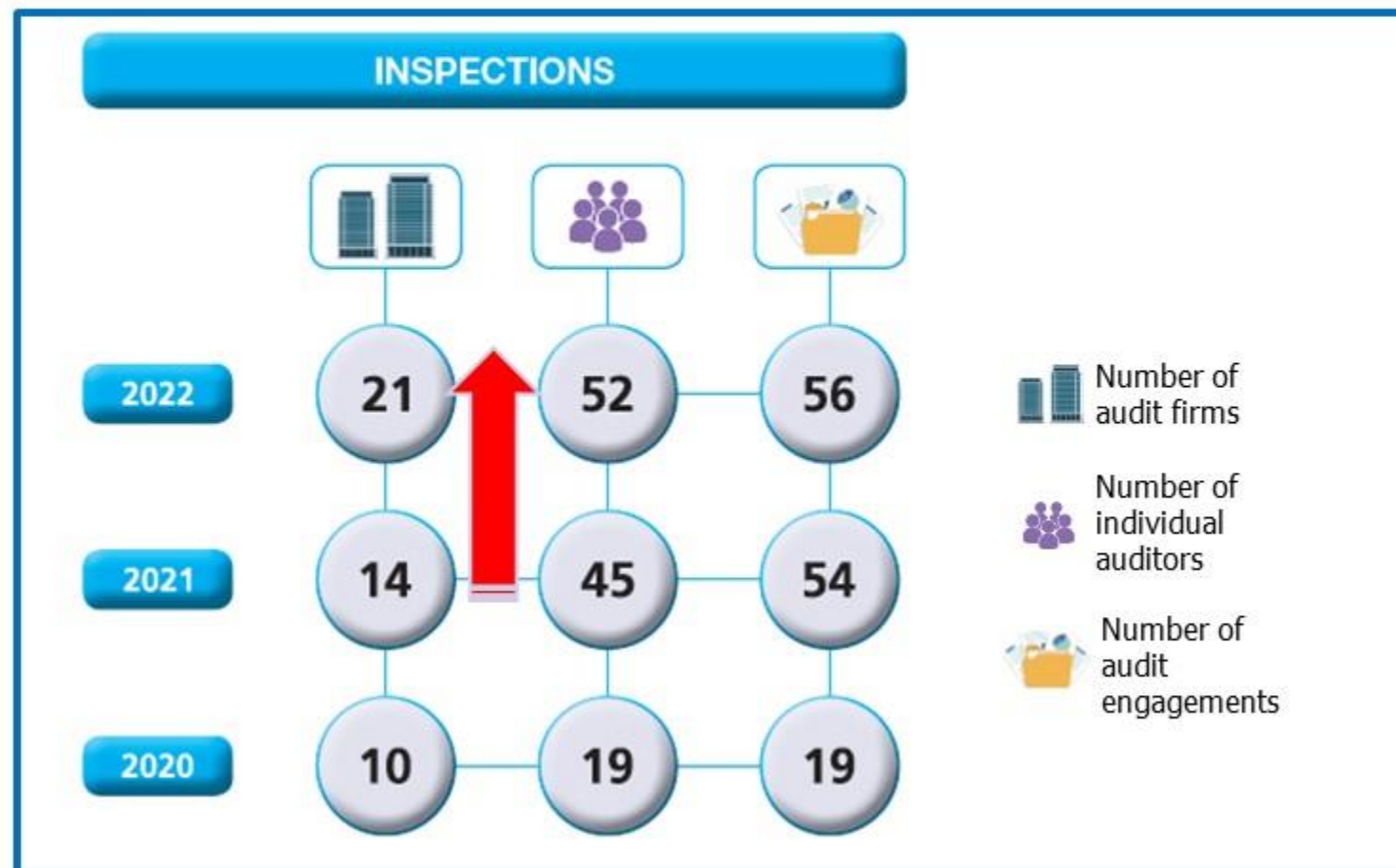
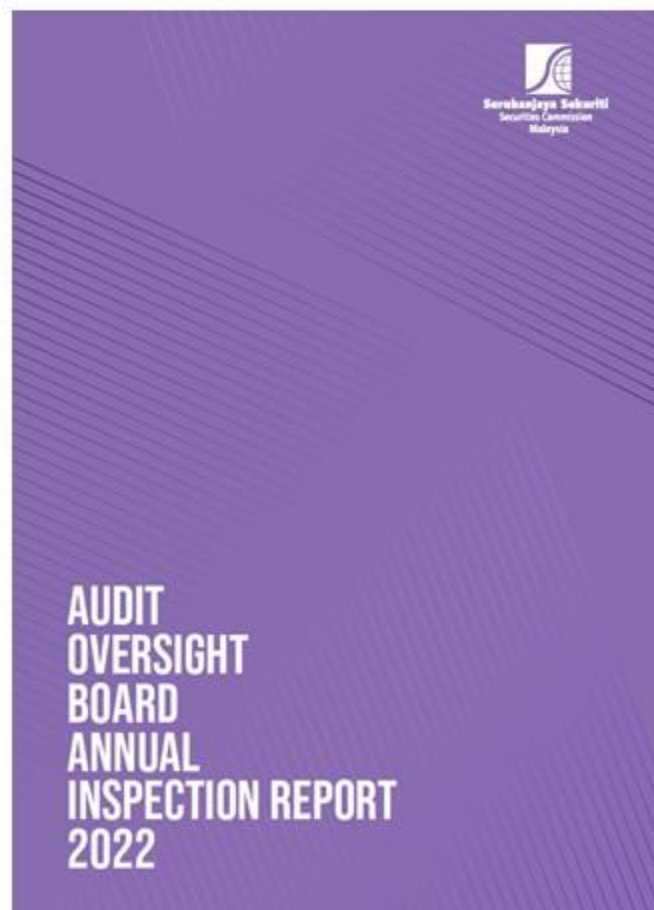




## What are the AOB's findings?



## AOB's Inspection Coverage in 2022





## 2022 Top 5 Common Inspection Findings by Audit Quality Themes<sup>1</sup>

**Sampling**

**Accounting estimates**

**Use of experts/specialists**

**Auditor's report**

**Inventory procedures**



**Your PLCs  
may be  
facing  
similar audit  
issues!**

<sup>1</sup>The categorisations of common findings are consistent with the *IFIAR Survey of Inspection Results for Audit Firms*.



# **Audit Considerations in a Post-Covid World**

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## Case study 1 - Future Cash Flows Projections

- ☐ PLC A primarily operates in the energy equipment and services business in Malaysia.
- ☐ Since the start of the Covid-19 pandemic, PLC A was severely affected as their operations had either halted or had scaled down due to movement restrictions.
- ☐ Management prepared the following future cash flows projections to assess appropriateness of PLC A's going concern assumption.

	Actual					Projection	
	2018	2019	2020	2021	2022	2023	2024
Net cash inflows (RM'mil)	550	580	125	149	367	X	X

**As director, how should the cash flows for FY2023 onwards be determined?**

- A. I can rely on historical data as a basis for FY2023 onwards because they are most reliable
- B. Financial performance for FY2020/2021 was particularly bad and I expect performance to improve exponentially from FY2023 onwards as 2022 already showed signs of improvement
- C. I can use historical data as a basis for FY2023 onwards combined with the latest quarter's results to consider the current market outlook of PLC A

# Audit Oversight Board

## Case Study 2 – Going Concern Assessment

	PLC X	PLC Y	PLC Z
Losses before taxation	✓	✓	✓
Debt to equity ratio >1	✓	✓	✓
<b>Net current liabilities</b>	<b>(248.0)</b>	<b>(458.3)</b>	<b>(27.1)</b>
Projected EBITDA	77.0	78.1	5.4
Unutilised banking facilities	47.4	58.9	4.3
Support from related parties	45.0	-	-
<b>Deficit</b>	<b>(78.6)</b>	<b>(321.3)</b>	<b>(7.4)</b>
<b>Disclosure in the financial statements:</b>			
Basis of preparation	✓	✓	✓
Significant judgements	✓	✓	✗
Material uncertainties	✓	✗	✗
<b>Audit opinion</b>	<b>Unmodified (MUGC)</b>	<b>Unmodified</b>	<b>Unmodified</b>
<b>Key Audit Matter</b>	<b>N/A</b>	<b>✓</b>	<b>✗</b>

Is your PLC still a  
**Going Concern?**

Do you **agree** with  
the **audit opinion?**



## Potential Unaddressed Going Concern Issues

Management's key assumptions took best case **pre-Covid numbers**, without considering **slow market sentiment**

Did not challenge **inconsistent monthly loan repayment**

Did not consider the **renegotiated terms** with loan providers, lessors or customers

No assessment on **feasibility** of support from related parties and no **confirmations** were obtained

Did not **verify** the financing arrangements obtained and assess the likelihood of such financing being **realised in the next 12 months**

**What can audit committees do to ensure root causes are addressed?**



## Common Audit Root Causes

**Lack of professional scepticism** in addressing certain financial outliers

**Heavy reliance** on prior years' auditor work

**Allocation** of **inadequate** and **incompetent staff** to **complex accounting area**

## Key Considerations for Audit Committees

- Not to accept management and auditor explanations at face value
- Consider probing further when responses are vague
- Enquire about work done by Engagement Quality Reviewer (EQR)
- Consider auditor's technical consultation
- In addition to using the information from **Annual Transparency Reports**, Audit Committees can ask **further information** about the assigned audit team, i.e. staff composition, experience, qualifications etc.





# **Common Audit Committee Concerns**

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## Common Audit Committee Concerns



Can the AOB **share findings** from their inspection of auditors and audit firms?

Does the AOB perform its **oversight role on PIEs**?

How does the AOB **address complaints** on auditors?





# Thank you

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