



CHAIRMAN'S MESSAGE

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The statutory obligation of the Securities Commission Malaysia's Audit Oversight Board (AOB) is to assist the Securities Commission Malaysia (SC) to promote confidence in the quality and reliability of audited financial statements. In this respect, I am pleased to report on the efforts and activities of the AOB in 2022.

TALENT AND TECHNOLOGY: AUDITING LANDSCAPE

The AOB recognised challenges faced by our registered firms in employing and retaining qualified auditors. The mobility of our accountancy and audit professionals has increased in recent years and options are available to our local talent both regionally and globally. Such shortage of skilled professionals, may have the potential to adversely affect audit quality. Accordingly, it is important that key stakeholders in the financial reporting ecosystem work together to find viable and sustainable solutions to address this issue for the interest of the profession and our capital market. In the shorter term, the AOB urges our registered firms to continue with its efforts to retain talent and start exploring longer-term solutions such as expediting technological adoption plans.

The auditing landscape has gone through significant changes with the introduction of new technologies. As technologies and data driven approach to work become increasingly central to the audit process and business models, auditors are in need for a more diverse range of skills. Capacity and competency of the audit practice needs to be continuously assessed to meet existing and anticipated demands.

STRENGTHENING CONNECTIONS WITH THE WORLD

The AOB's ongoing involvement and contribution at global and regional levels through the International Forum of Independent Audit Regulators (IFIAR) and the ASEAN Audit Regulators Group (AARG) facilitates mutual sharing of valuable insights into audit regulatory best practices. Further, as a member of IFIAR's Investor and Other Stakeholders Working Group, the AOB has been leveraging the experience and knowledge from other jurisdictions on matters relating to investor protection and improving audit quality. The IOSWG is also a key avenue for the AOB to understand investors' and other stakeholders' expectations of auditors and audit regulations.

The strength of the financial reporting system relies on various stakeholders playing distinct but interconnected roles in a process designed to provide investors with high-quality, reliable audited financial statements. Recognising this, the AOB's regular engagements with auditors and key stakeholders provide an avenue to share regulatory expectations and address stakeholders' needs and concern. It also allows the AOB to proactively address issues in a timely manner.

As one of the key stakeholders in the ecosystem, Audit Committees (AC) play an important role through their oversight of financial reporting and the audit process. The AOB believes that effective oversight by strong, knowledgeable, and independent AC are a powerful market force to enhance audit quality. In this respect, the AOB has worked to ensure that the AC are adequately informed and equipped with relevant information to effectively carry out their oversight responsibilities. One mode by which relevant information is conveyed to the Audit Committees is through the publication and distribution of the AOB's *Annual Inspection Report (AIR)*.

The AOB continues to distribute its AIR to all public-listed companies (PLCs) and strongly encourages ACs to understand and discuss the inspection findings, observations and firm-level statistics with their respective auditors.

CONTINUED SUPERVISORY VIGOUR

As at 31 December 2022, there were 40 audit firms and 369 registered and recognised individual auditors who audit public-interest entities (PIEs) and schedule funds.

In 2022, the AOB inspected 21 Audit Firms covering 52 individual auditors for 56 audit engagements. Audit firms that have more than 50 PIE audit clients with a total market capitalisation of the PIE audit clients of above RM15.0 billion continue to be inspected annually by the AOB. As in prior years, the AOB continued with targeted inspections to respond to emerging risks. More in-depth information on the inspection programme for year 2022 which include common inspection findings, results of thematic reviews, trends analysis and remediation efforts taken by inspected audit firms, will be made available separately in the 2022 AIR.

On the enforcement front, the AOB took enforcement actions against auditors for failure to comply with the relevant auditing standards and failure to perform the engagement quality control reviewers' function effectively. An audit firm was also sanctioned for failure to comply with firm quality control standards which led to its failure in detecting audit deficiencies in the audit of a PIE. These enforcement actions against engagement quality control reviewers and audit firm is intended to send a strong signal on the importance of quality control processes in safeguarding the integrity of audit quality and control processes.

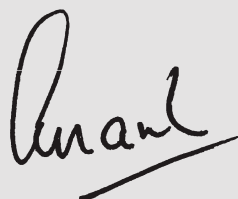
The AOB enforcement actions have been subjected to Judicial Reviews by aggrieved auditors and the AOB has managed to defend its actions and position in the Courts thus far. We have reported in the Annual Report about a landmark decision by the Federal Court that unanimously ruled in favour of the SC and dismissed the application for leave to appeal to the Federal Court by an audit firm and its partners against the AOB's enforcement actions. The Federal Court's decision further reinforces the robustness of the AOB's enforcement framework.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to take this opportunity to thank Hew Ee-Lu of Bank Negara Malaysia (BNM), who concluded his term as a member of the AOB in October 2022, for his valuable contribution to the Board. Hew served as a member of the Board for four years. Further, I would like to welcome Hong Chin Pheng of BNM to the Board in October 2022.

I wish to convey my deepest appreciation to our Board members for their commitment and I thank our fellow regulators, professional accountancy bodies and other stakeholders for their ongoing support and contribution.

To our management team and employees, thank you for your hard work and outstanding efforts particularly during this challenging time. I look forward to reporting the AOB's continued progress in the years ahead.



Dato' Anantham Kasinather