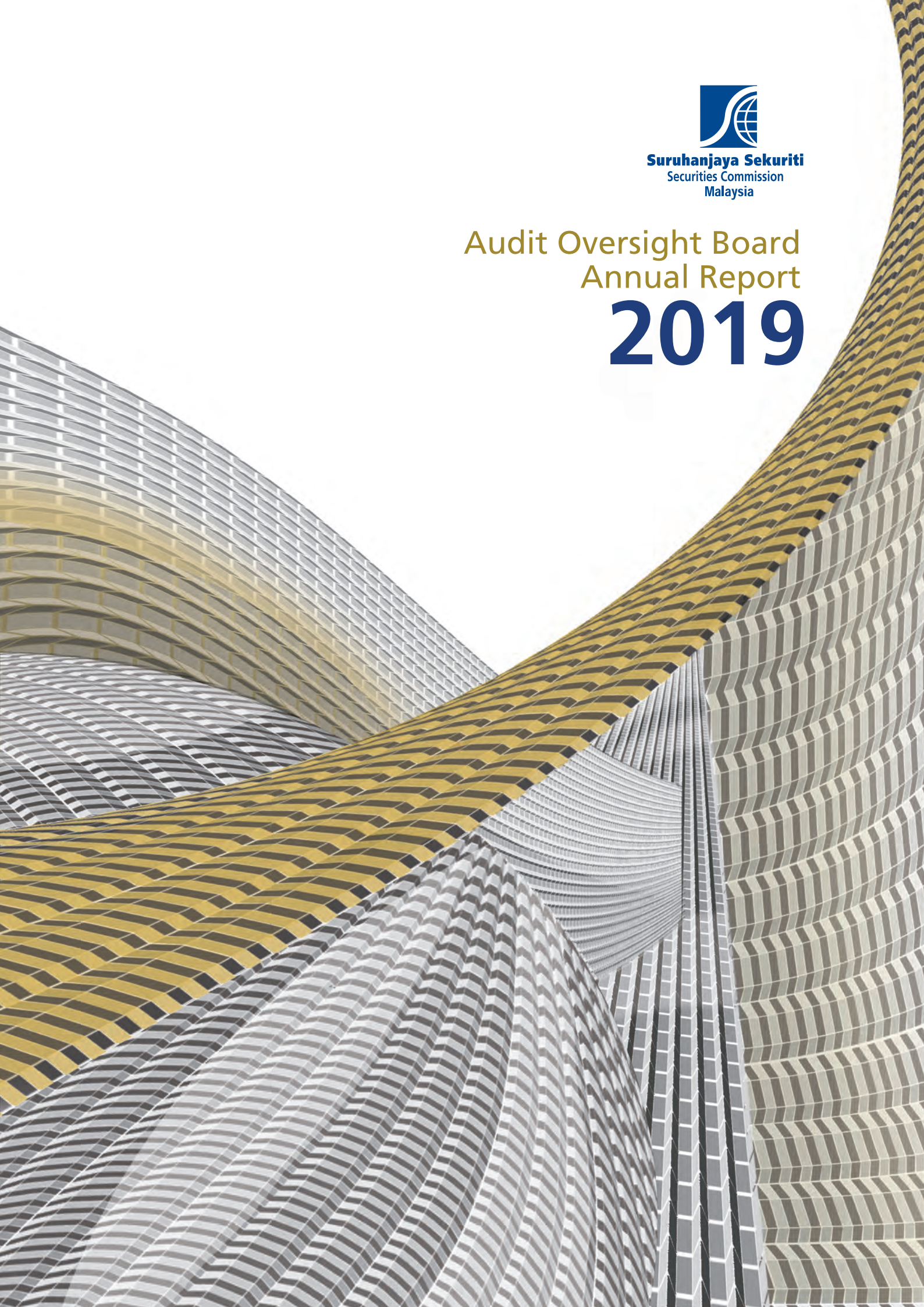




Suruhanjaya Sekuriti
Securities Commission
Malaysia

Audit Oversight Board Annual Report **2019**



Rationale for cover design

The cover design for the *Audit Oversight Board Annual Report 2019* is inspired by the *Securities Commission Malaysia Annual Report 2019*. The fluidity of the weave motif represents the AOB's pursuit in promoting confidence in a capital market that is Accessible, Agile and Accountable.

The Securities Commission Malaysia promotes sustainability practices.
This publication was printed entirely on environment-friendly paper.



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2020

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The cut-off date for the data included in this report was 31 December 2019.
Unless stated otherwise, all diagrams, tables and charts are sourced from the AOB.

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

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Chairman's Message

I am pleased to present the Annual Report of the Audit Oversight Board (AOB) for the year ended 31 December 2019.

This report provides an overview of the AOB's activities and key highlights in respect of its progress in operationalising the AOB's Strategic Plan 2017-2020.

FOSTERING HIGH QUALITY INDEPENDENT AUDITING THROUGH AOB KEY FUNCTIONS

The quality of a company's financial report supported by an independent external audit is key to market confidence. In fulfilling the AOB's mission to foster high quality independent auditing on the financial statements of public-interest entities (PIE) and schedule funds, the AOB conducts inspection on registered audit firms and auditors. The AOB's inspection findings, observations and further analysis will be presented separately in the *2019 Annual Inspection Report (AIR)*.

An effective and independent audit function that is appropriately supported by the company is vital for audit quality. In an effort to facilitate meaningful communication between the Audit Committees of public-listed companies (PLCs) and their auditors, the AIR are distributed to the Audit Committee of PLCs. During the year, the AOB also organised the AOB's Conversation with Audit Committee to share and discuss common inspection findings and regulatory updates.



In 2019, the AOB continued to send strong signals with its enforcement actions, which ranged from revocation of registration, reprimands, prohibitions and monetary penalties. The AOB has a robust enforcement framework to determine its enforcement actions. Audit quality applies to all audit firms regardless of the size of the audit firm, and non-compliance with standards and regulation will result in enforcement action. In addition, it has no tolerance on ethical breaches and such breaches by auditors will tantamount to revocation of their AOB registration.

MOVING FORWARD

In its efforts to keep abreast with the current economic environment and emerging issues, the AOB continues to interact with domestic and international regulators and other stakeholders in the financial reporting ecosystem. The AOB will also continue with its engagement with auditors by conducting the annual dialogue sessions with the auditors of PIEs and schedule funds.

To promote accountability among audit firms and uphold audit quality, the AOB introduced the Annual Transparency Reporting for audit firms who have more than 50 PIE audit clients and the total market capitalisation of the audit firm's PIE clients must be above RM10 billion. Commencing in the year 2020, audit firms are required to disclose its legal and governance structure, measures taken to uphold audit quality and manage risks, and information on their measurement of indicators for audit quality in their transparency reports. Moving forward, the transparency report will provide boards and shareholders with relevant information for consideration in the evaluation and appointment of auditors.

ACKNOWLEDGEMENT

I wish to record my appreciation to the board members for their commitment and guidance in ensuring the AOB continues to progress towards fulfilling its mission.

This year, Dato' Zahrah Abdul Wahab Fenner, Non-Executive board member resigned on 1 July 2019, while Eugene Wong Weng Soon and Wong Chong Wah concluded their statutory terms as Non-Executive board members on 31 December 2019. I would like to take this opportunity to thank the outgoing members for their contribution and guidance, and wish them all the best for their future endeavours.

The AOB's efforts are made possible with the support and assistance from our fellow regulators, professional accountancy bodies and other stakeholders. I wish to thank them for their ongoing support.

In conclusion, I would like to express my sincere gratitude to the existing AOB management and employees who have demonstrated their commitments and dedication to ensure that we progress based on the AOB's adopted strategy.



DATO' GUMURI HUSSAIN

PART 1

PART

1

FOSTERING HIGH QUALITY INDEPENDENT AUDITING IN THE CAPITAL MARKET



INTRODUCTION

The Audit Oversight Board (AOB) was established pursuant to the *Securities Commission Malaysia Act 1993* (SCMA). It supports the Securities Commission Malaysia by regulating auditors of public-interest entities (PIEs) and schedule funds to promote investor protection as well as confidence in the quality and reliability of audited financial statements of PIEs and schedule funds.

The AOB's regulatory oversight is primarily exercised through its core work:

- Registration and recognition;
- Inspecting the audits of PIEs and schedule funds; and
- Enforcement of ethical and auditing standards.

The AOB has adopted a strategic plan which links its core work and activities to achieve its mission. The AOB continues to strengthen its focus on risk-based inspections and take enforcement actions against auditors for

non-compliance with the auditing and/or ethical standards.

The efforts in fostering high quality audit require all stakeholders to play their roles effectively. In this respect, the AOB continues to promote improvement in audit quality and emphasis was placed on effective communication and collaboration with stakeholders through initiatives such as organising engagement sessions with audit committees and managements of PIEs, regulators and auditors.

Highlights of activities in 2019, in line with the strategic themes, are presented in the following sections.

THE AOB STRATEGIC PLAN 2017 – 2020



Source: AOB

STRENGTHENING THE FOCUS ON RISK-BASED INSPECTIONS

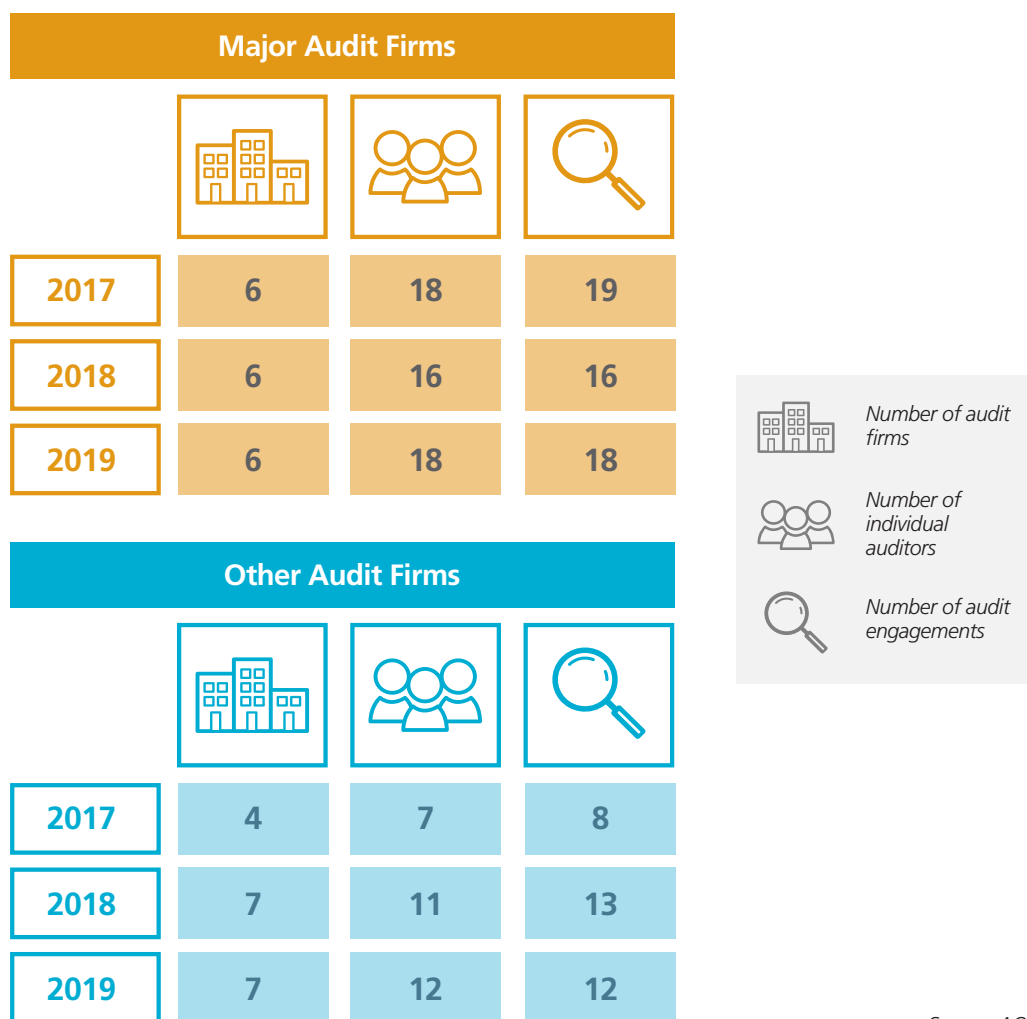
The AOB conducts regular inspections on auditors of PIEs and schedule funds to promote high quality audits and reliable audited financial statements.

In developing and carrying out its inspection programme, the AOB adopts a risk-based approach that takes into consideration the impact of an audit failure on the capital market

and public confidence. The AOB's inspection programme also incorporates thematic reviews on potential areas of concern that require the AOB's immediate attention.

Further details on the inspection programme, including common inspection findings, results of thematic reviews, trends analysis and remediation efforts taken by inspected audit firms will be presented separately in the *2019 AOB Annual Inspection Report (AIR)*.

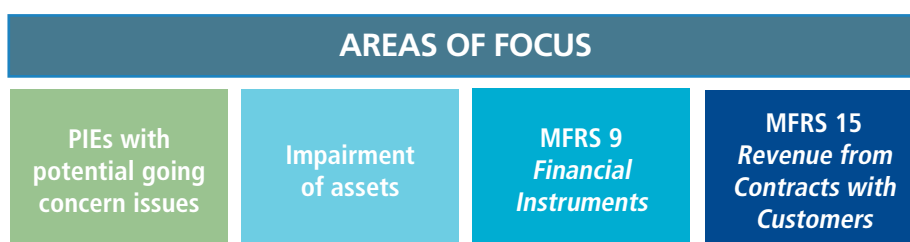
INSPECTION COVERAGE 2019



Source: AOB

Inspection Highlights 2019

- Regular inspections were conducted focusing on the following economic trends, market concerns and developments in audit, accounting and regulatory areas:



Source: AOB

- Increased coverage on the inspections of audit engagements of financial institutions in view of the adoption of *Malaysian Financial Reporting Standards (MFRS) 9 Financial Instruments*.
- Conducted a number of special inspections to respond to emerging risks in a timely manner.
- Actions taken in 2019 included:
 - Imposed conditions on certain inspected audit firms and individual auditors (including Engagement Quality Control Reviewer (EQCR) partners) as interim measures where significant concerns on audit quality were established;
 - Imposed specific remediation measures on certain inspected audit firms and individual auditors;
 - Referrals of certain inspected audit firms and individual auditors, including EQCR partners, to the Enforcement Department due to the severity of inspection findings; and
 - Sharing of inspection findings with relevant PIEs where significant concerns on audit quality were established and needed to be addressed immediately by the PIE.
- With the issuance of the *2018 AOB Annual Inspection Report*, the AOB strongly encourages the Board of Directors and their Audit Committees (ACs) to gain an understanding and discuss the inspection findings as well as trends with their respective auditors to ensure that risk areas specific to their entities are adequately addressed. To ensure that the ACs have the information shared in the *Annual Inspection Report*, the AOB distributed the report to all public-listed companies (PLCs) to facilitate and enhance the communication and engagement between the Board of Directors and/or the ACs and their auditors.

ANNUAL TRANSPARENCY REPORTING

To promote accountability among audit firms and uphold audit quality, the AOB introduced the Annual Transparency Reporting for audit firms who have more than 50 PIE audit clients and the total market capitalisation of the audit firms' PIE clients must be above RM10 billion. Commencing in the year 2020, audit firms are required to disclose, its legal and governance structure, measures taken to uphold audit quality and manage risks, and information on their measurement of indicators for audit quality in their transparency report. This will provide board and shareholders with relevant information for considerations in the evaluation and appointment of auditors.

FOCUSED AND IMPACTFUL ENFORCEMENT OUTCOME

The AOB registrants are required to comply with the relevant requirements of the approved auditing standards in Malaysia, namely, the *International Standards on Auditing* and the *Malaysian Institute of Accountants' (MIA) By-Laws on Professional Ethics, Conduct and Practice* (MIA By-Laws), and relevant laws and regulations.

The AOB continues to send strong signals to its registrants and stakeholders that non-compliance with auditing and ethical standards will be viewed seriously and proportionate action will be taken where necessary. In 2019, the AOB's actions ranged from a revocation of registration to prohibitions and monetary penalties.

The AOB adopts a strategic enforcement approach where the principles of proportionality, efficiency and AOB's desired outcomes are considered before a sanction is imposed on an auditor. To determine the type of sanction that will be imposed for any contravention or breach, the AOB takes into account the nature and seriousness of the offence, previous regulatory records and other mitigating factors.

The AOB has robust internal processes to ensure that enforcement actions are proportionate with the breach and are aligned to its objectives in safeguarding the capital market from the risks of audit failure and improving the quality of audits of PIEs and schedule funds.

The AOB takes cognisance that prohibitions to accept and audit PIE and schedule fund clients have a financial and business impact on the firms, thus it is an enforcement tool that is not wielded lightly, which reflects the severity of the breaches.

ENFORCEMENT HIGHLIGHTS IN 2019



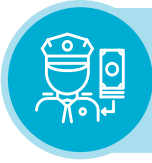
Revoked the registration of an individual auditor for breaching the key audit partner rotation requirement of the MIA By-Laws and prohibited a firm from increasing its PIE and schedule funds clients as well as imposed a monetary penalty. The firm was also required to provide an undertaking to the AOB that it will assess and build capacity within the firm.



Prohibited firms and engagement partners from accepting as clients and auditing the financial statements of PIEs and schedule funds for 12 months for issues such as multiple instances of breaches to the requirements of the *International Standards on Auditing (ISAs)*, recurring findings and evidence of capacity and capability issues.



Prohibited engagement quality control reviewers from accepting as clients and auditing financial statement of PIEs and schedule funds for 12 months for failing to effectively carry out their oversight responsibilities.



Monetary penalties imposed on firms and engagement partners for audit failures.

Source: AOB

Depending on the issues that need to be addressed including capacity versus capability issues, the AOB has the power and discretion to vary the type and period of the prohibitions. For example, firms can be allowed to maintain existing clients but are prohibited from accepting new clients, or firms can be prohibited from accepting and auditing any clients.

The AOB also continues to stress the importance of EQCR partner's in the quality control of an audit. It has taken enforcement actions against EQCR partners who have failed to effectively carry out their oversight responsibilities. Actions against EQCR partners were only taken in cases where significant failures were identified during the course of audit that should have been identified and addressed by any reasonably experienced EQCR partner.

Auditors aggrieved with the AOB's decision can appeal to the SC, and if not satisfied, they may have legal recourse. In 2019, firms and auditors who have been sanctioned have initiated judicial reviews and other legal proceedings against the SC and the AOB for enforcement actions taken. These matters are currently pending hearing in the Courts.

The AOB has always been mindful of the impact of its actions on the reputation and professional lives of auditors. As such, it ensures that the enforcement processes are robust and can withstand any challenges. The AOB also holds strongly to the principles of natural justice and accords the auditors numerous opportunities to defend their position and present their case.

NUMBER OF CASES AND A RANGE OF ACTIONS TAKEN IN 2019

REVOCATED

 **1** INDIVIDUAL AUDITOR

REPRIMANDED


 **1** INDIVIDUAL AUDITOR

PROHIBITED

 **3** AUDIT FIRMS  **5** INDIVIDUAL AUDITORS

PENALTIES IMPOSED ON

 **3** INDIVIDUAL AUDITORS

TOTAL AMOUNT OF PENALTIES IMPOSED IN YEAR 2019  **RM1,312,000**

Source: AOB

As an overview of the AOB's enforcement case management, the table below shows referrals received, completed as well as outstanding cases as at 31 December 2019.

CASE MANAGEMENT: NUMBER OF REFERRALS, COMPLETED AND OUTSTANDING CASES FOR THE RELEVANT YEARS

Year	No. of Referral for Enforcement Proceedings	No. of Cases Completed Prior to 2019	No. of Cases Completed in 2019	No. of Outstanding Cases as at 31 Dec 2019
2016	4	1	3	-
2017	1	-	-	1*
2018	16	10	6	-
2019	12	-	4	8

* The matter is still outstanding due to the discovery of additional facts which warrants the expansion of scope of the enforcement proceedings.

Source: AOB

EFFECTIVE COMMUNICATION AND COLLABORATION WITH STAKEHOLDERS

The AOB expands its past efforts to encourage the improvement of the quality of financial reporting through engagement with a wide variety of stakeholders in Malaysia, the region and globally.



DIRECTORS AND MANAGEMENT

Two sessions were held with ACs to share the AOB's observations through its inspection and how the ACs may play a role in supporting the audit process and improving audit quality. In these sessions, the Association of Chartered Certified Accountants (ACCA) and the Malaysian Accounting Standards Board (MASB) were also invited to share their insights.

The AOB also participated in a roundtable discussion organised by the ACCA with audit practitioners and non-practitioners alike, on closing the expectation gap in audit, which is one of the most cited current challenges for the audit profession.



REGULATOR

The AOB shared Malaysia's regulatory updates and insights at various International Forum of Independent Audit Regulators (IFIAR), ASEAN Audit Regulators Group (AARG), and Organisation for Economic Co-operation and Development (OECD) Asian workshops and meetings throughout the year. These events are important forums for regulators to discuss best practices and common problems, and develop increased consistency in audit regulation across jurisdictions, while fostering greater collaboration between the member countries.



AUDITOR

In 2019, the AOB hosted the AARG Annual Meeting which included a conversation between regulators and regional leaders from a number of major audit firms. This provided a venue for constructive dialogue between regulators and auditors on ways to address the common challenges presented by the auditing landscape.

The AOB introduced the Transparency Reporting framework in 2019, which is intended to place an emphasis on Audit Quality Indicators (AQIs) in assessing audit quality. In formulating the framework, the AOB, together with the larger audit firms, explored how to practically present such information to the public.

KEY STAKEHOLDERS ENGAGEMENT AT A GLANCE IN 2019

MARCH



IFIAR Inspection Workshop 6 to 8 March 2019

The AOB shared Malaysia's regulatory updates and insights into the audit regulators practical experiences at the 13th IFIAR Inspection Workshop in Paris. This annual workshop was hosted by the *Haut Conseil du Commissariat aux Comptes* (H3C), designed and targeted for those involved in inspection activities.

APRIL

AARG Inspection Workshop 1 and 2 April 2019

Key highlights shared at the AARG Inspection Workshop held in Singapore were Malaysia's regulatory updates, the AOB's enforcement framework and data analytics observations as well as the *International Standards on Quality Control* (ISQC) 1 observations. The inspection workshop hosted by Singapore's Accounting and Corporate Regulatory Authority (ACRA) covered knowledge sharing and exchange of inspection experience among regulators in the region.

MAY

IFIAR Annual Plenary Meeting 30 April to 2 May 2019

The IFIAR 2019 Plenary Meeting themed "The Evolving World of Audit" was hosted by the Hellenic Accounting and Auditing Standards Oversight Board and held in Rhodes, Greece.

The discussions were on exploring current issues facing the profession and audit regulators, including lessons by regulators in managing challenges and analysing proposed changes in other jurisdictions.

JULY



AARG Annual Meeting 17 and 18 July 2019

The AOB hosted the 9th AARG Annual Meeting. Over 100 participants attended, which included ACRA Singapore, Securities and Exchange Commission (SEC) Thailand, Pusat Pembinaan Profesi Keuangan Indonesia and SEC Philippines and the regional leaders of the Global Public Policy Committee (GPPC) firms namely, BDO, Deloitte, Ernst & Young, Grant Thornton, KPMG and PricewaterhouseCoopers.

At the AARG, best practices were shared to ensure consistency in the approach to audit regulation within the region. The AARG prides itself in the collaborative work among member countries and regular engagements with the GPPC firms in the region in improving audit quality.

The annual meeting is a platform to share ideas, suggestions, experiences and regulatory updates from the respective jurisdictions, including an introduction of the audit regulatory framework by the AARG's newest member, the SEC Philippines.

AUGUST



AOB Conversation with the Larger Audit Firms 9 August 2019

The AOB engaged eight larger audit firms to introduce the Annual Transparency Reporting for firms that audit PIEs in Malaysia.

OCTOBER



CAANZ-MICPA Audit Forum 17 October 2019

The AOB shared challenging issues currently affecting audit practitioners at the forum themed 'Future of Audit'. The Audit Forum was organised by The Malaysian Institute of Certified Public Accountants (MICPA) and the Chartered Accountants Australia and New Zealand (CAANZ).

NOVEMBER



Conversation with Audit Committees 8 and 22 November 2019

The AOB organised a Conversation with the ACs, which was attended by the ACs of PLCs. The objective of the event was to present the AOB's recent initiatives in the auditing space that will influence the ACs' role in enhancing and improving audit quality in Malaysia.



Forum on the ISQM 11 November 2019

The Forum entitled 'ISQM: Another Tsunami of Change for Auditors?' organised by the MICPA. The AOB shared the overview and expectation of the proposed *International Standard on Quality Management 1* (ISQM) of the International Auditing and Assurance Standards Board.



Closing the Expectation Gap in Audit 20 and 21 November 2019

Views highlighted by the AOB to the audit practitioners and non-practitioners at the roundtable organised by ACCA covered the expectation gap in audit particularly common inspection findings.

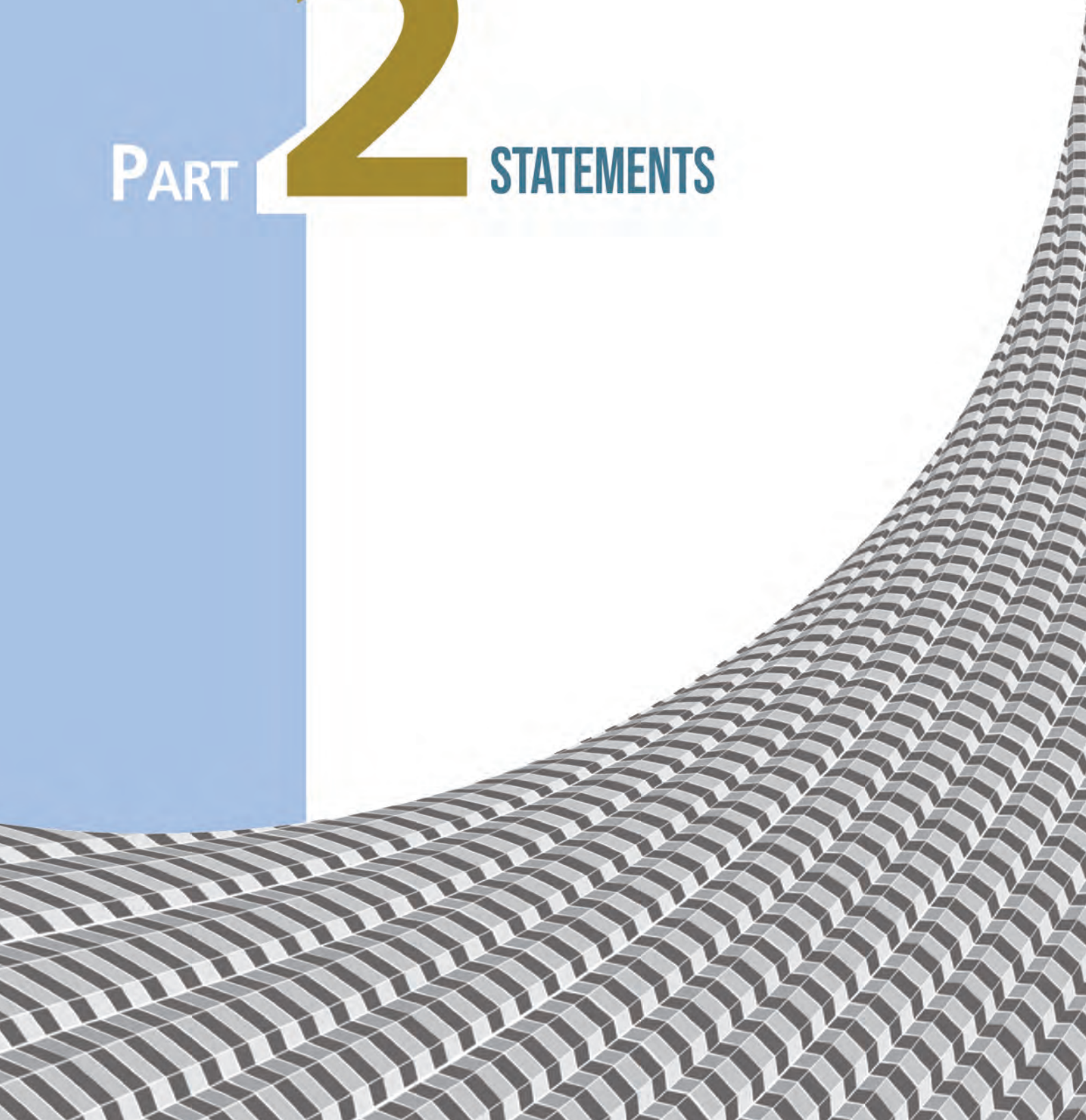


OECD-ASIAN Roundtable 27 and 28 November 2019

At the OECD Asian Roundtable on Corporate Governance, the AOB discussed recent achievements, challenges and future priorities in Malaysia with regards to the corporate governance framework as well as the development of accounting and auditing standards, independence of auditors and regulatory oversight. The Roundtable was organised by the OECD and hosted by the Securities and Exchange Board of India (SEBI) with financial support from the Financial Service Agency of Japan.

PART 2

PART 2 STATEMENTS



Members of the Audit Oversight Board



MEMBERS OF THE AUDIT OVERSIGHT BOARD



Dato' Gumuri Hussain

Appointed Executive Chairman on 18 November 2016

Redesignated as Non-Executive Chairman on 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 46 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 include Media Prima Bhd, Malaysian Airline System Bhd and Metrod Bhd.

Dato' Gumuri is a Fellow of the Institute of Chartered Accountants in England and Wales (ICAEW), a Chartered Accountant of MIA and a member of MICPA.



Alex Ooi Thiam Poh

Appointed Executive Officer on 24 November 2017

Alex Ooi Thiam Poh is currently the Executive Officer of the Audit Oversight Board, SC. Prior to joining the AOB, he was an audit partner with BDO Malaysia.

Alex is currently involved in the Auditing and Assurance Standards Board (AASB) of the MIA and the MFRS Application and Implementation Committee (MAIC) of the MASB. Alex serves as an Adviser to the MASB and also represents the SC as a member in the Audit Licensing Committee of the Ministry of Finance Malaysia. He is a current Council Member of MIA.

He was previously Malaysia's Divisional President of CPA Australia in 2013 and 2014. He was involved in the Financial Reporting Standards Implementation Committee (FRSIC), Capital Market Advisory Committee and Education Committee of MIA. He was a former member of the Public Practice Advisory Board of CPA Australia in Melbourne, Australia.

Alex is a Chartered Accountant of MIA, Fellow of CPA Australia, a member of ICAEW and MICPA. He holds a Bachelor of Economics (Accounting) from Monash University, Australia.



Eugene Wong Weng Soon

*Appointed Non-Executive Member on 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-Over. He is also responsible for accounting matters and oversees the SC's ASEAN related initiatives. He is the Co-Chair of the ASEAN Capital Markets Forum's Green Finance Working Group.

Eugene served as an Adviser to the MASB. He was also 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 and a Fellow of CPA Australia. He has an Advance Diploma in Corporate Finance from the ICAEW and holds a Bachelor of Commerce from the University of Melbourne, Australia.

*Ended his statutory term as Non-Executive Member on 31 December 2019.



Hew Ee-Lu

Appointed Non-Executive Member on 5 October 2018

Hew Ee-Lu has nearly 20 years of regulatory experience in the financial services sector. As a trained actuary in Bank Negara Malaysia (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 and Cass Business School.



Wong Chong Wah

*Appointed Non-Executive Member on 1 April 2016**

Wong Chong Wah is 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 and excise, land acquisition, insurance and defamation. He is a member of 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 Malaysia Institute of Taxation. He is a panel member of the Disciplinary Committee of the Bar Council. He was a member of the Bursa Malaysia's Listing Committee from 2008 to 2016.

*Ended his statutory term as Non-Executive Member on 31 December 2019.



Dato' Darawati Hussain

Appointed Non-Executive Member on 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 30 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 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.

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. In relation to the capital market activities, the AOB also exercises oversight over any person who prepares a report relating to financial information of PIEs and schedule funds.

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

BOARD MEMBERS

The SC appoints the AOB Board Members. The Board of the AOB comprises a Non-Executive Chairman, an Executive Officer and 5 other Non-Executive Members who are representatives from the regulators – namely BNM and Suruhanjaya Syarikat Malaysia (SSM), the legal profession and the 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 24 to 27.

The Non-Executive Chairman of the AOB is appointed for a term of 3 years and is eligible for reappointment upon completion of his term, whereas the Non-Executive members of the Board will be appointed for a term of 2 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 3 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:

- 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 the 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 to formulate and implement 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 persons who prepare reports in relation to financial information of PIEs or schedule funds, as may be required

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 9 Board meetings held during the year. The quorum required is 3 members and 1 of whom has to be the Executive Officer.

The attendance record of the Board members is set out in the table below.

ATTENDANCE AT BOARD MEETINGS

Board Member	No. of Meetings Attended
Dato' Gumuri Hussain (Non-Executive Chairman)	9/9
Alex Ooi Thiam Poh (Executive Officer)	9/9
Eugene Wong Weng Soon ¹	9/9
Dato' Zahrah Abd Wahab Fenner ²	1/4
Wong Chong Wah ¹	6/9
Dato' Darawati Hussain	7/9
Hew Ee-Lu	6/9

¹ Ended his statutory term on the Board on 31 December 2019.

² Resigned as Board Member on 1 July 2019.

Source: AOB

COMMITTEE OF THE AOB

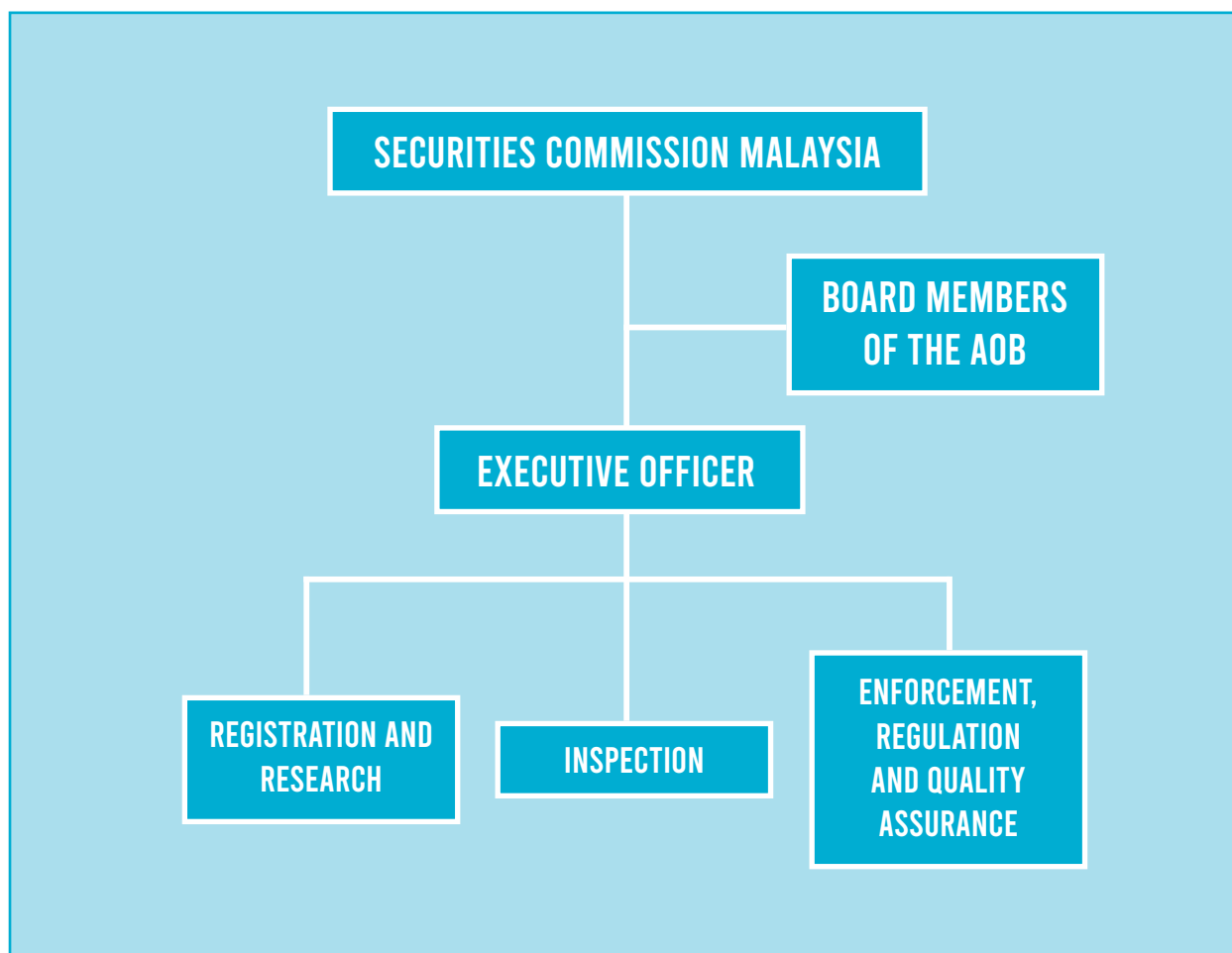
The Registration Committee was established to deliberate matters regarding the registration or recognition of auditors with the AOB. Where applicable, the Registration Committee will make recommendations to the Board for further deliberation and decision.

The following are members of the Registration Committee:

- Dato' Gumuri Hussain;
- Eugene Wong Weng Soon; and
- Wong Chong Wah.

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

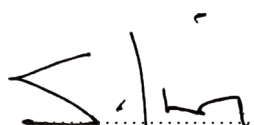
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

AUDIT OVERSIGHT BOARD

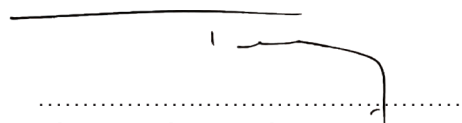
STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

	Note	2019 RM	2018 RM
Assets			
Current assets			
Other receivables	4	80,596	8,307
Other investments	5	1,611,517	730,024
Cash and bank balances	6	434,577	382,912
Total assets		<u>2,126,690</u>	<u>1,121,243</u>
Reserves			
Funds from the Securities Commission Malaysia	7.1	27,516,438	25,516,438
Accumulated deficit	7.2	(25,769,937)	(24,444,195)
Total reserves	7	<u>1,746,501</u>	<u>1,072,243</u>
Current liabilities			
Other payables and accruals	8	380,189	49,000
Total liabilities		<u>380,189</u>	<u>49,000</u>
Total reserves and liabilities		<u>2,126,690</u>	<u>1,121,243</u>

The notes set out on pages 36 to 48 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 2020

AUDIT OVERSIGHT BOARD

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 RM	2018 RM
Registration fees		3,098,500	3,130,200
Finance income from fixed deposit		75,737	52,476
Penalty imposed		848,000	533,000
		<hr/> 4,022,237	<hr/> 3,715,676
Operating expenditure			
Administrative expenses	9	(5,347,979)	(5,518,520)
		<hr/> (1,325,742)	<hr/> (1,802,844)
Deficit before tax			
Tax expense	10	-	-
		<hr/> (1,325,742)	<hr/> (1,802,844)
Deficit for the year/Total comprehensive expense for the year		<hr/> <hr/> (1,325,742)	<hr/> <hr/> (1,802,844)

The notes set out on pages 36 to 48 are an integral part of these financial statements.

AUDIT OVERSIGHT BOARD

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

	Funds from Securities Commission Malaysia RM	Accumulated deficit RM	Total RM
At 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 2018/1 January 2019	25,516,438	(24,444,195)	1,072,243
Funds from the Securities Commission Malaysia	2,000,000	-	2,000,000
Deficit and total comprehensive expense for the year	-	(1,325,742)	(1,325,742)
At 31 December 2019	27,516,438	(25,769,937)	1,746,501
	Note 7	Note 7	Note 7

The notes set out on pages 36 to 48 are an integral part of these financial statements.

AUDIT OVERSIGHT BOARD

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 RM	2018 RM
Cash flows from operating activities		
Deficit before tax	(1,325,742)	(1,802,844)
<i>Adjustment for:</i>		
Finance income	(75,737)	(52,476)
Operating deficit before changes in working capital	(1,401,479)	(1,855,320)
Change in other receivables	(62,546)	151,666
Change in other payables and accruals	331,189	27,000
Net cash used in operating activities	(1,132,836)	(1,676,654)
Cash flows from investing activities		
Interest received	65,994	52,476
Increase in other investments	(881,493)	(539,691)
Net cash used in investing activities	(815,499)	(487,215)
Cash flows from financing activity		
Funds from the Securities Commission Malaysia	2,000,000	2,000,000
Net cash from financing activity	2,000,000	2,000,000
Net increase/(decrease) in cash and bank balances	51,665	(163,869)
Cash and bank balances at 1 January	382,912	546,781
Cash and bank balances at 31 December	434,577	382,912

The notes set out on pages 36 to 48 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* (MFRS) 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:

MFRS, 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 Material*

- Amendments to MFRS 9, *Financial Instruments*, MFRS 139, *Financial Instruments: Recognition and Measurement* and MFRS 7, *Financial Instruments: Disclosures - Interest Rate Benchmark Reform*

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

- MFRS 17, *Insurance Contracts*

MFRS, 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 effective from its annual period beginning on or after 1 January 2020, except for amendments to MFRS 3, which are not applicable to the AOB.

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 the 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 MFRS 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 16, *Leases*, the accounting policy of the AOB for lease contracts was changed during the financial year as compared to that in previous financial statements. There are no significant impact to the financial statements of the AOB from the adoption of MFRS 16 during the financial year.

(a) Financial instruments

(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.

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 related to the economic characteristics and risks of the host contract and the host contract is not 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.

(ii) Financial instrument categories and subsequent measurement

Financial assets

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.

Financial liabilities

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.

(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 are 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) Offsetting

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 bank balances

Cash and bank balances 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 its short term commitments. For the purpose of the statement of cash flows, cash and bank balances are presented net of restricted deposits, if any.

(c) Impairment

Financial assets

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 bank balances 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.

(d) Leases

Current financial year

(i) Definition of a lease

A contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the AOB assesses whether:

- The contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- As a lessee, it has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- As a lessee, it has the right to direct the use of the asset. AOB has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the AOB has the right to direct the use of the asset if either the AOB has the right to operate the asset; or the AOB designed the asset in a way that predetermines how and for what purpose it will be used.

(ii) Recognition and initial measurement

As a lessee

The AOB has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The AOB recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Previous financial year

As a lessee

Operating lease

Leases, where the AOB did not assume substantially all the risks and rewards of ownership were classified as operating leases and, the leased assets were not recognised on the statement of financial position.

Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised in profit or loss as an integral part of the total lease expense, over the term of the lease. Contingent rentals were charged to profit or loss in the reporting period in which they were incurred.

(e) 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.

(f) 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.

(g) Contingencies**Contingent assets**

When an inflow of economic benefit of an asset is probable where it arises from past events and where existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity, the asset is not recognised in the statements of financial position but is being disclosed as a contingent asset. When the inflow of economic benefit is virtually certain, then the related asset is recognised.

(h) 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

	2019 RM	2018 RM
Prepayments	62,546	-
Interest receivable	18,050	8,307
	<u>80,596</u>	<u>8,307</u>

5. Other investments

Other investments are in relation to the deposits placed with licensed banks with original maturity of 6 months or more. The deposits placed with licensed banks earned income at a rate of 3.05% per annum (2018: 3.05% to 3.30% per annum).

The deposits arose from monies received from penalties imposed and are restricted to be utilised for planning and implementing capacity building programmes in relation to the accounting and auditing profession for which RM35,570 (2018: RM nil) were utilised during the financial year.

6. Cash and bank balances

	2019 RM	2018 RM
Cash and bank balances	434,577	382,912

7. Total reserves

	Note	2019 RM	2018 RM
Funds from the Securities Commission Malaysia	7.1	27,516,438	25,516,438
Accumulated deficit	7.2	(25,769,937)	(24,444,195)
Total reserves		1,746,501	1,072,243

7.1 Funds from the Securities Commission Malaysia

	2019 RM	2018 RM
Contribution:		
At the beginning of the year	25,516,438	23,516,438
Additions	2,000,000	2,000,000
At the end of the year	27,516,438	25,516,438

7.2 Accumulated deficit

	2019 RM	2018 RM
At the beginning of the year	(24,444,195)	(22,641,351)
Deficit for the year	(1,325,742)	(1,802,844)
At the end of the year	(25,769,937)	(24,444,195)

8. Other payables and accruals

	2019 RM	2018 RM
Amounts due to Securities Commission	63,689	-
Other payables	144,000	29,000
Accruals	172,500	20,000
	380,189	49,000

9. Administrative expenses

	2019 RM	2018 RM
The administrative expenses consist of:		
Auditors' remuneration	20,000	20,000
Honorarium payment	12,180	71,012
Non-executive members' allowance	250,000	278,300
Other miscellaneous charges	345,279	398,419
Rental of premises	-	12,835
Rental of office equipment	9,440	5,528
Staff costs	4,711,080	4,732,426
	<u>5,347,979</u>	<u>5,518,520</u>

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. Related parties

Identity of related parties

For the purpose of these financial statements, parties are considered to be related to the AOB if the AOB has the ability, directly or indirectly, to control or jointly control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the AOB and the party are subject to common control. Related parties may be individuals or other entities.

Related parties also include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the AOB either directly or indirectly.

Lee Hishammuddin Allen & Gledhill (LHAG) is deemed to be a related party of the AOB by virtue of a Board Member of the SC is also a partner of LHAG.

Significant related party transaction

The significant related party transaction of the AOB is shown below:

	2019 RM	2018 RM
Related party		
Legal fees	(132,500)	-
	<u></u>	<u></u>

The outstanding balance as at 31 December 2019 which arose from the transaction above is included in Note 8.

12. Financial instruments

12.1 Categories of financial instruments

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

	Carrying amount RM	AC RM
2019		
Financial assets		
Other receivables*	18,050	18,050
Other investments	1,611,517	1,611,517
Cash and bank balances	434,577	434,577
	<u>2,064,144</u>	<u>2,064,144</u>
Financial liabilities		
Other payables and accruals*	<u>(236,189)</u>	<u>(236,189)</u>
2018		
Financial assets		
Other receivables	8,307	8,307
Other investments	730,024	730,024
Cash and bank balances	382,912	382,912
	<u>1,121,243</u>	<u>1,121,243</u>
Financial liabilities		
Other payables and accruals*	<u>(20,000)</u>	<u>(20,000)</u>

*Exclude non-financial instruments

12.2 Gains arising from financial instrument

	2019 RM	2018 RM
Gains on:		
Financial assets at amortised cost	<u>75,737</u>	<u>52,476</u>

12.3 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.

12.4 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 payables.

The AOB, via the SC, monitors and maintains a level of cash and bank balances 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
2019			
Financial liabilities			
Other payables and accruals	236,189	236,189	236,189
2018			
Financial liabilities			
Other payables and accruals	20,000	20,000	20,000

12.5 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.

12.5.1 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:

	2019 RM	2018 RM
Fixed rate instruments		
Financial assets	1,611,517	730,024

Interest rate risk sensitivity analysis

Fair value sensitivity analysis for fixed rate instruments

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.

12.6 Fair values

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

Fair value hierarchy has not been presented as there are no financial instruments carried at fair value nor those not carried at fair value for which fair value is disclosed as at the year ended 31 December 2019.

13. 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.

14. Contingencies

The AOB is of the opinion that the recognition of the following penalty imposed and corresponding receivable is not required, as the case is currently still on-going.

Contingent asset

During the year, the AOB has imposed 3 sanctions to an audit firm and its partners amounting to RM631,000 for breaching the AOB's registration condition imposed under Section 31O(3) of the SCMA.

The involved parties have applied to the High Court for judicial review on the AOB's decision and was granted an interim stay to all actions taken by the AOB until the stay application hearing which was adjourned to a date yet to be confirmed.

15. Authorisation of financial statements

The financial statements for the year ended 31 December 2019 were authorised by the SC for issuance and signed by the Chairman of the SC and Executive Officer of the AOB on 30 January 2020.

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 32 to 48 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 2020.


.....
Vignaswaran A/L Kandiah
Officer

Before me:



Unit 50-10-1, Tingkat 10
Wisma UOA Damansara
No. 50, Jalan Dungan
Bukit Damansara
50490 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 2019, 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 32 to 48.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the AOB as at 31 December 2019, and of its financial performance and 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.

Audit Oversight Board (AOB)
Independent Auditors' Report
For the year ended 31 December 2019

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.

Audit Oversight Board (AOB)
Independent Auditors' Report
For the year ended 31 December 2019

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, Malaysia
Date: 30 January 2020



Foong Mun Kong
Approval Number: 02613/12/2020 J
Chartered Accountant

PART 3

PART 3

STATISTICS AND OTHERS



REGISTRATION AND RECOGNITION OF AUDITORS IN MALAYSIA

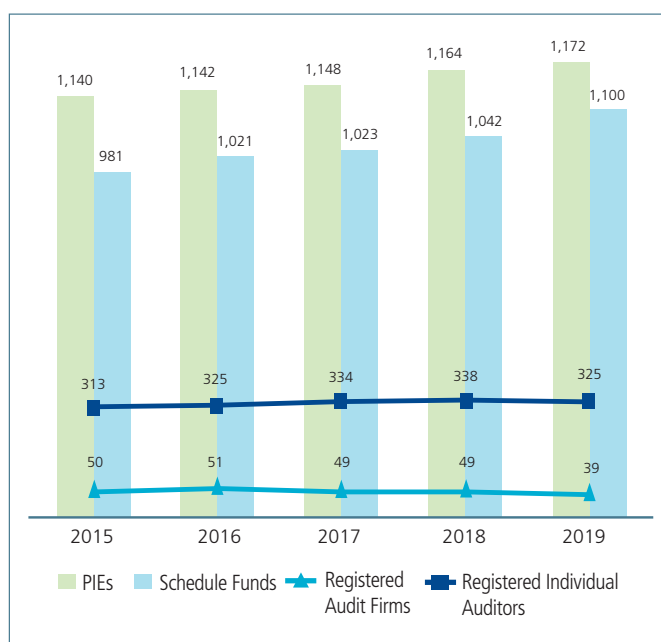
TABLE 1
Registered and recognised auditors as at 31 December 2019

Profile of audit firms	No. of audit firms	No. of individual auditors	No. of PIE audit clients	% of total market capitalisation*	No. of schedule fund audit clients	% of total net asset value**
Registered audit firms						
Partnerships with 10 and more audit partners	8	206	899	96.94	1,064	98.52
Partnerships with 5 – 9 audit partners	16	73	192	1.78	9	0.04
Partnerships with fewer than 5 audit partners	15	46	81	1.21	27	1.44
	39	325	1,172	99.94	1,100	100.00
Recognised foreign audit firms						
	4	12	7	0.06	-	-
TOTAL	43	337	1,179	100.00	1,100	100.00

Source: AOB

*The total market capitalisation as at 31 December 2019 was RM1.66 trillion.

**The total net asset value as at 31 December 2019 was RM636.1 billion.

CHART 1
5-year registration statistics


Source: AOB

CHART 2
5-year recognition statistics


Source: AOB

ENFORCEMENT ACTIONS

No.	Auditors	Actions taken
Actions Against Firms		
1.	UHY (AF 1411) (Firm)	<ol style="list-style-type: none"> Other than the Firm's existing PIE clients, the Firm is prohibited from accepting any PIE or schedule fund as its clients or prepare reports in relation to financial information as may be required under the securities laws or guidelines issued by the SC for 12 months. Provide a written undertaking to the AOB on the following: <ol style="list-style-type: none"> Assess and implement measures to ensure that the Firm's system of quality control is relevant, adequate and operating effectively to monitor and address compliance with audit partner rotation requirements, including: <ol style="list-style-type: none"> Assessment of the capacity required by the Firm to comply with the audit partner rotation requirement; and Building capacity within the Firm. Report to the AOB within 9 months on the result of the above assessment and implementation of the measures identified. Penalty of RM298,000.00.
2.	Chengco PLT (AF 0886)	<ol style="list-style-type: none"> Prohibited from accepting as clients and auditing the financial statements of a PIE or schedule fund for 12 months. Penalty of RM175,000.00.

Actions Against Individual Auditor

3.	Loh Chye Teik of UHY, engagement partner in the audit of a PLC for the financial years ended 31 December 2016 and 31 December 2017.	1. Registration revoked by the AOB.
4.	Chan Jee Peng of UHY, engagement partner in the audit of a PLC for the financial period ended 31 March 2015.	1. Penalty of RM44,000.
5.	Hong Thuan Boon of Chengco PLT, engagement partner in the audit of a PLC for the financial period ended 31 December 2017.	1. Prohibited from accepting as clients and auditing the financial statements of a PIE or schedule fund for 12 months. 2. Penalty of RM57,000.00.
6.	Liew Kwai Choy of Chengco PLT, EQCR partner in the audit of a PLC for the financial period ended 31 December 2017.	1. Prohibited from accepting as clients and auditing the financial statements of a PIE or schedule fund for 12 months.
7.	Yap Peng Boon of Chengco PLT, engagement partner in the audit of a PLC for the financial year ended 31 December 2014.	1. Penalty of RM44,000.00.
8.	Huang Khean Yeong of Deloitte PLT, engagement partner in the audit of a PLC for the financial year ended 31 December 2016.	1. Penalty of RM63,000.00.

Source: AOB

Note: The AOB's enforcement actions in respect of 1 audit firm and 4 individual auditors are pending legal proceedings and therefore are not disclosed.

ACRONYMS AND ABBREVIATIONS

AARG	ASEAN Audit Regulators Group
ACCA	Association of Chartered Certified Accountants
AOB	Audit Oversight Board
AQI	Audit Quality Indicators
EQCR	Engagement Quality Control Review
ICAEW	Institute of Chartered Accountants in England and Wales
IFIAR	International Forum of Independent Audit Regulators
ISA	<i>International Standards on Auditing</i>
ISQC	<i>International Standards on Quality Control</i>
MASB	Malaysian Accounting Standards Board
MFRS	<i>Malaysian Financial Reporting Standards</i>
MIA	Malaysian Institute of Accountants
MICPA	The Malaysian Institute of Certified Public Accountants
PIE	Public-interest entity
PLC	Public-listed company
SC	Securities Commission Malaysia
SCMA	<i>Securities Commission Malaysia Act 1993</i>

DEFINITIONS

Auditor	An individual auditor or audit firm who is registered or recognised under section 310 of the SCMA as a registered auditor or recognised auditor of a PIE or schedule fund.
Big-Four Audit Firms	Deloitte, Ernst & Young, KPMG and PricewaterhouseCoopers.
Major Audit Firms	Audit firms with more than 10 partners and audit more than 50 PIEs clients with a total market capitalisation of above RM30 billion.
Other Audit Firms	Audit firms other than Major Audit Firms.
Public-interest entity	Entity specified in Part 1 of Schedule 1 of the SCMA: <ul style="list-style-type: none"> (a) a PLC or a corporation listed on the stock exchange; (b) a bank licensed under the <i>Financial Services Act 2013</i>; (c) an insurer licensed under the <i>Financial Services Act 2013</i>; (d) a takaful operator licensed under the <i>Islamic Financial Services Act 2013</i>; (e) an Islamic bank licensed under the <i>Islamic Financial Services Act 2013</i>; (f) a person prescribed as a prescribed financial institution under section 212 of the <i>Financial Services Act 2013</i> or a person prescribed as a prescribed Islamic financial institution under section 223 of the <i>Islamic Financial Services Act 2013</i>; (g) a developmental financial institution prescribed under the <i>Development Financial Institutions Act 2002</i>; (h) a holder of the Capital Markets Services Licence for the carrying on of the regulated activities of dealing in securities, dealing in derivatives or fund management; (i) an exchange holding company approved under the securities laws; (j) an exchange approved under the securities laws; (k) a central depository approved under the securities laws; (l) a clearing house approved under the securities laws; (m) a self-regulatory organisation recognised under the securities laws; (n) a private retirement scheme administrator approved under the securities laws; (o) a trade repository approved under the securities laws; (p) the Capital Market Compensation Fund Corporation; (q) any other person as the Minister may prescribe by order published in the <i>Gazette</i>.
Schedule fund	Fund specified in Part 2 of Schedule 1 of the SCMA: <ul style="list-style-type: none"> (a) a private retirement scheme approved by the SC under the <i>Capital Market and Services Act 2007</i> (CMSA); (b) a unit trust scheme approved, authorised or recognised by the SC under the CMSA; (c) any other capital market funds as may be specified by the SC.

