

# **Audit Oversight Board**

## **Conversation with Audit Committees**

*Presentation by  
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Head, Audit Oversight Board*

16 May 2016

## **Agenda**

1. About the Audit Oversight Board
2. Global Developments
  - Independence
  - Technology Impact
  - New Auditors' Reporting
3. Financial Reporting Functions – Shared Responsibilities

- The Securities Commission Malaysia has been given the power by Parliament to undertake these functions:
  - Promote and develop an effective and robust audit oversight framework in Malaysia;
  - Promote confidence in the quality and reliability of audited financial statements in Malaysia; and
  - Oversight over any person who prepares a report in relation to financial information of PIE or schedule funds in relation to capital market activities
- The AOB was established on 1 April 2010 to discharge the above functions

**Types of Public Interest Entities – Part 1, Schedule 1, SCMA**

**Public Listed Companies /  
Corporations**

**Capital Market Services License Holders**

carrying on the regulated activities of:

- Dealing in Securities
- Dealing in Derivatives
- Dealing in Fund Management

**Financial Institutions**

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

**Capital Market Institutions**

- Exchange holding company
- Exchange
- Central depository
- Clearing house
- Self-regulatory organisation
- PRS administrator
- Trade repository
- Capital Market Compensation Fund Corporation

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

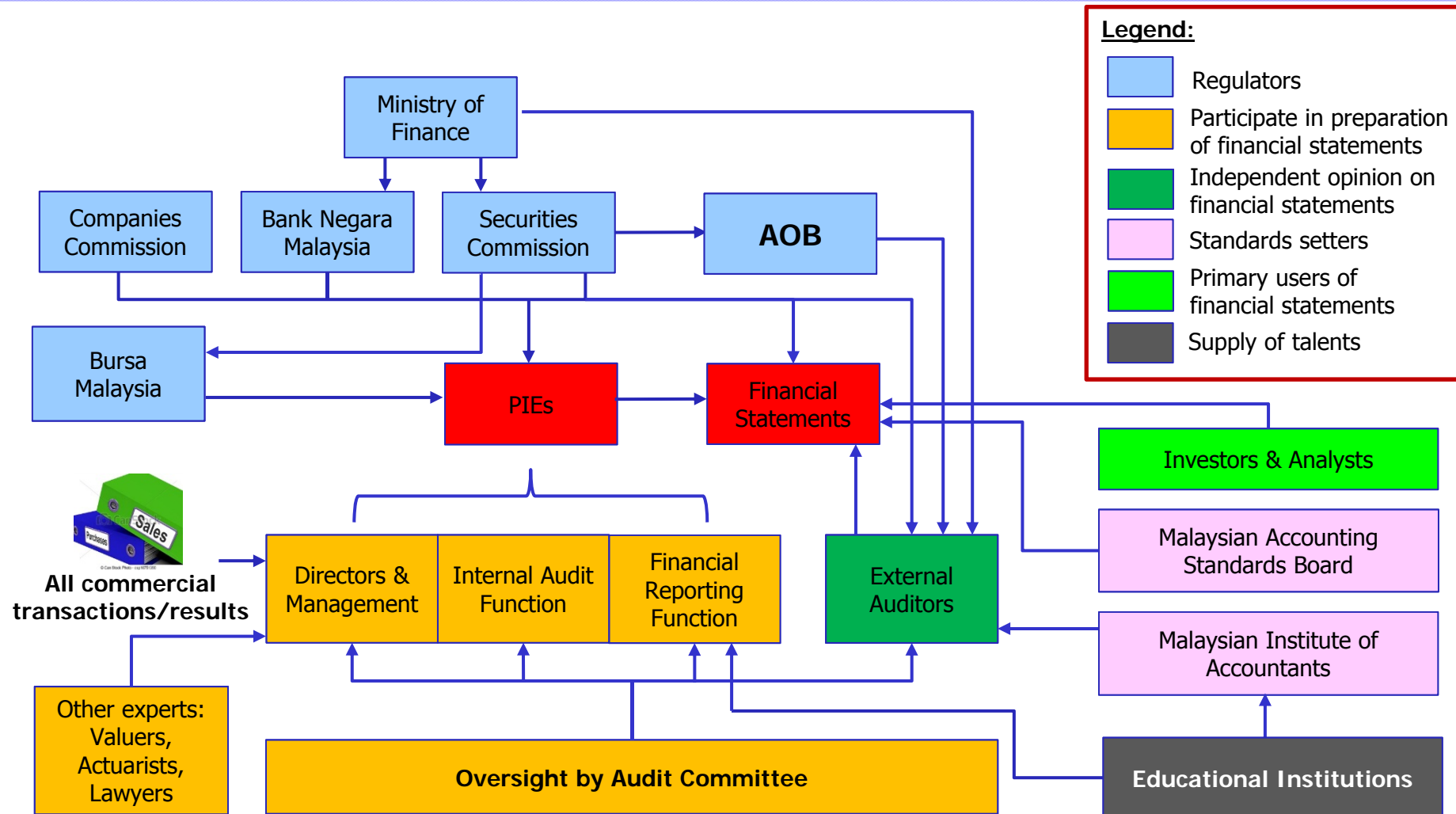
**Types of Schedule Funds – Part 2, Schedule 1, SCMA**

**Unit Trust Schemes**

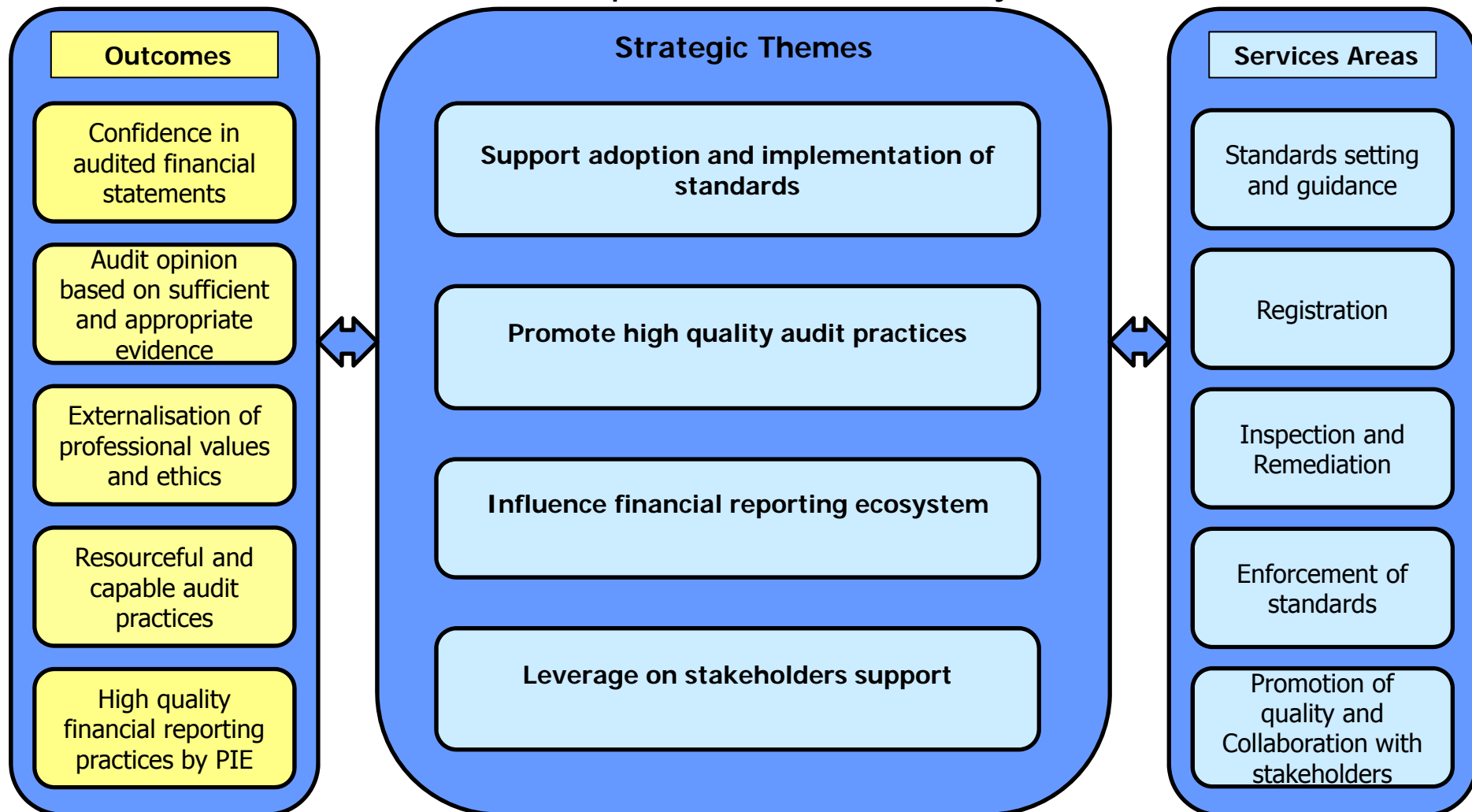
- Business Trust Fund
- Closed-End Fund
- Exchange Traded Fund
- Real Estate Investment Trust
- Unit Trust Fund
- Wholesale Fund

**Private Retirement Schemes**

And any capital market funds as may be specified by the SC.



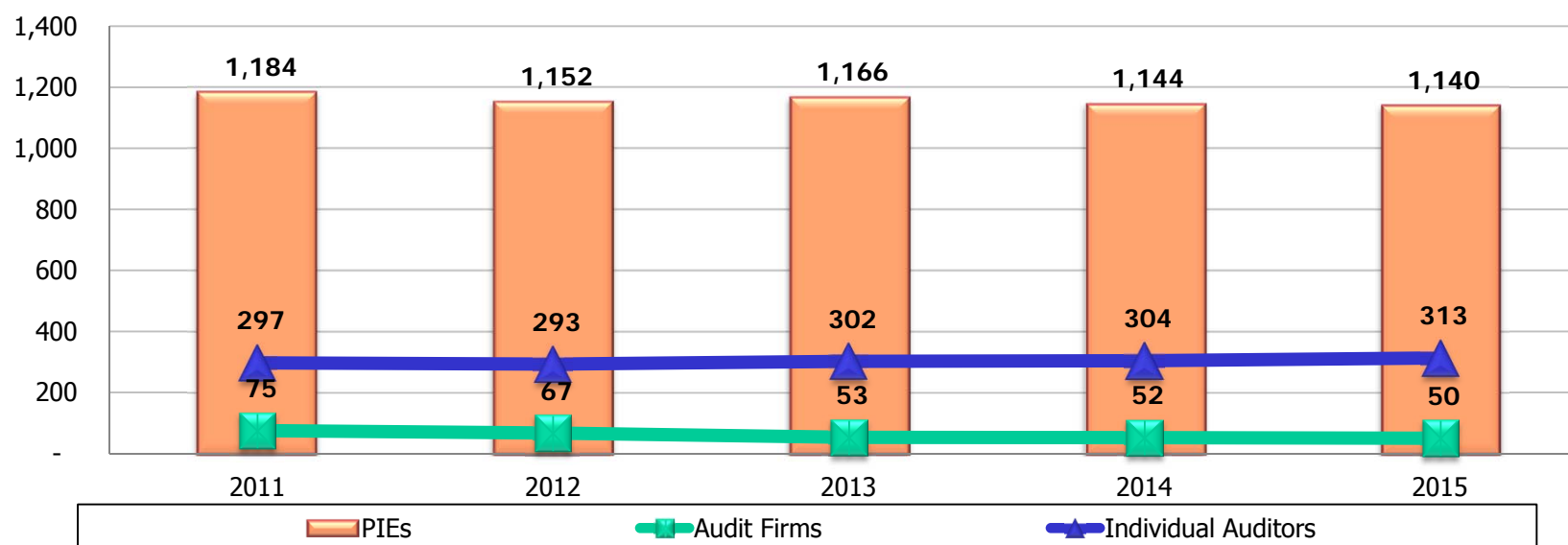
**“Fostering high quality independent auditing to promote confidence in the quality and reliability of audited financial statements of public interest entities in Malaysia”**



Profile of audit firms	No. of audit firms	No. of individual auditors	No. of PIEs	% of Market Capitalisation	No. of Schedule Funds	% of Fund Size
≥10 partners	8	191	922	95.64%	872	99.30%
5 – 9 partners	7	32	88	0.68%	7	0.20%
2 – 4 partners	35	90	130*	3.57%	18*	0.51%
<b>TOTAL</b>	<b>50</b>	<b>313</b>	<b>1,140</b>	<b>99.89%</b>	<b>897</b>	<b>100.00%</b>

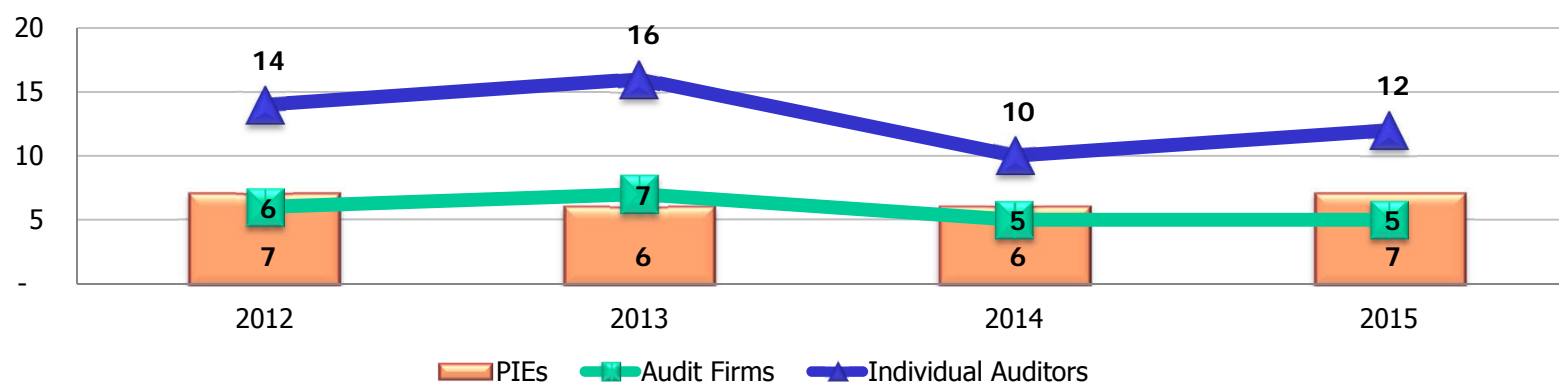
\* 3 firms are not registered with the AOB; intention to resign as auditors

# 2 PIEs & 84 Schedule Funds are subject to appointment of auditor

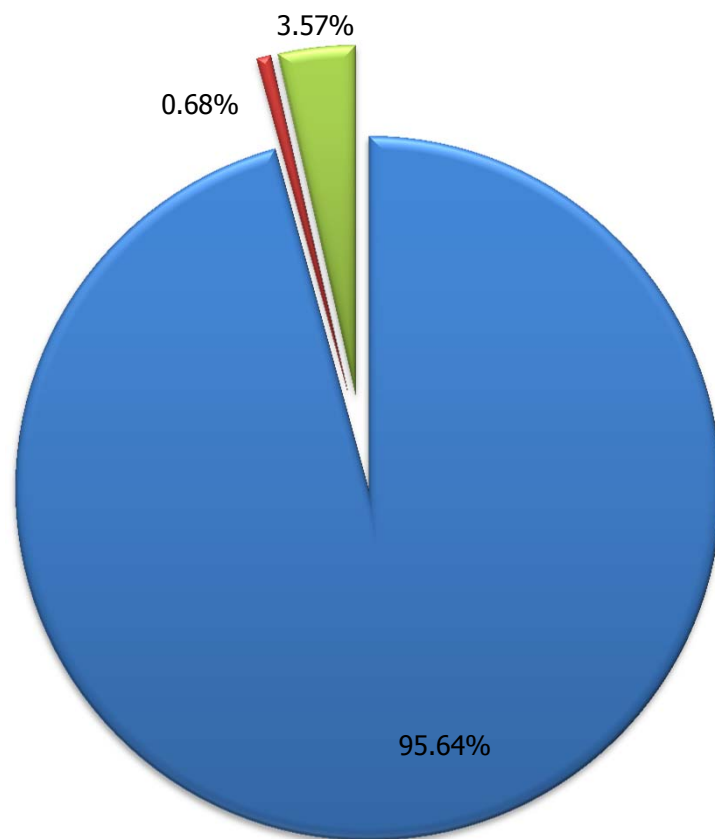




Profile of audit firms	No. of audit firms	No. of individual auditors	No. of PIEs	% of Market Capitalisation
Singapore	3	8	5	0.02%
UK	1	2	1	0.06%
Hong Kong	1	2	1	0.02%
<b>Subtotal</b>	<b>5</b>	<b>10</b>	<b>7</b>	<b>0.10%</b>

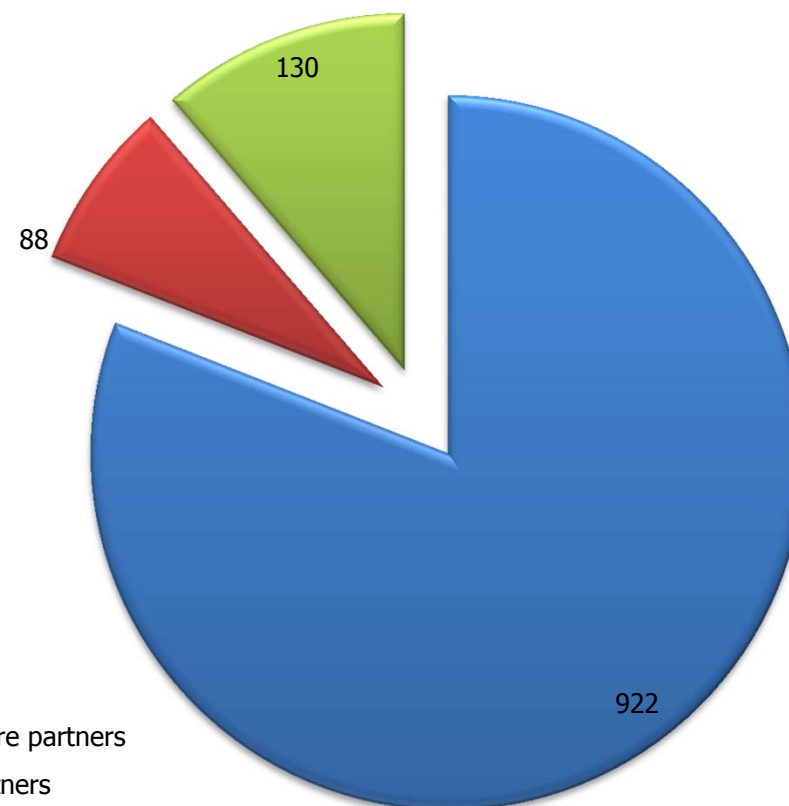


**PIE Market Capitalisation by Profile**



Total PLCs = 903

**No. of PIEs by Profile**

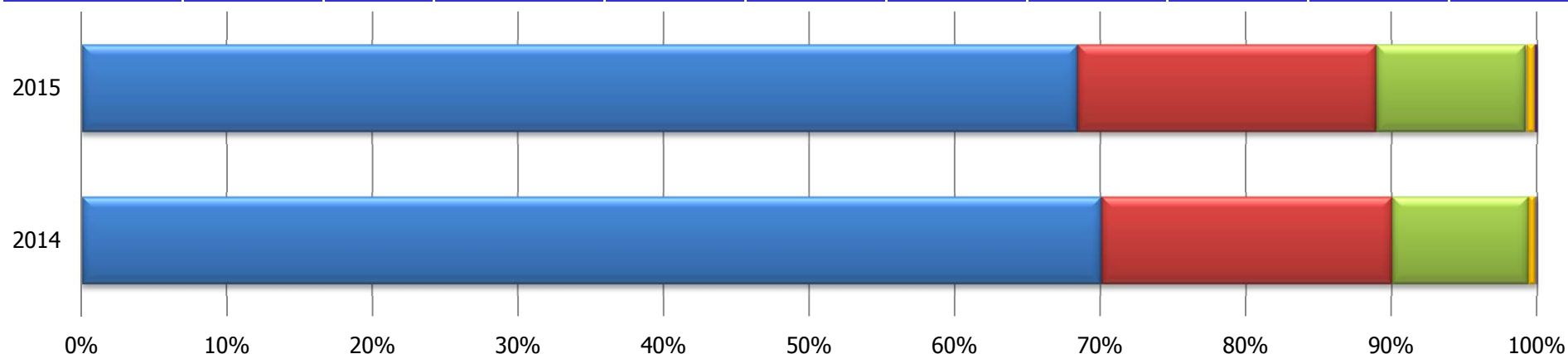


- 10 or more partners
- 5 - 9 partners
- 2 - 4 partners

Total Market Capitalisation  
= RM1,636,574 million

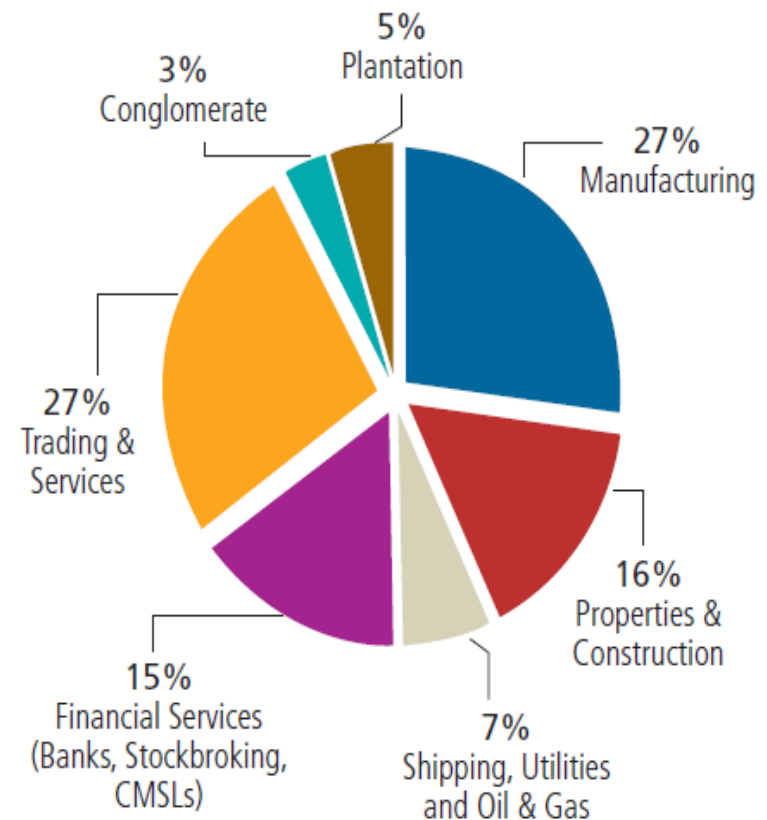
### PIE Client Movement by Firm Size

Firm Size	2014	New	Delisted/ Removed/ Profile Change	# PIEs incoming from			# PIEs outgoing to			2015
				Big 6	Med	Small	Big 6	Med	Small	
Big 6	806	17	(19)		7	-		(22)	(3)	786
Medium	230	5	(8)	22		2	(7)		(8)	236
Small	108	-	1	3	8		-	(2)		118
Foreign	6	1	-	-	-	-	-	-	-	7
PIE Without Auditor	1	1	-	-	-	-	-	-	-	2
<b>Total</b>	<b>1,151</b>	<b>24</b>	<b>(26)</b>	<b>25</b>	<b>15</b>	<b>2</b>	<b>(7)</b>	<b>(24)</b>	<b>(11)</b>	<b>1,149</b>



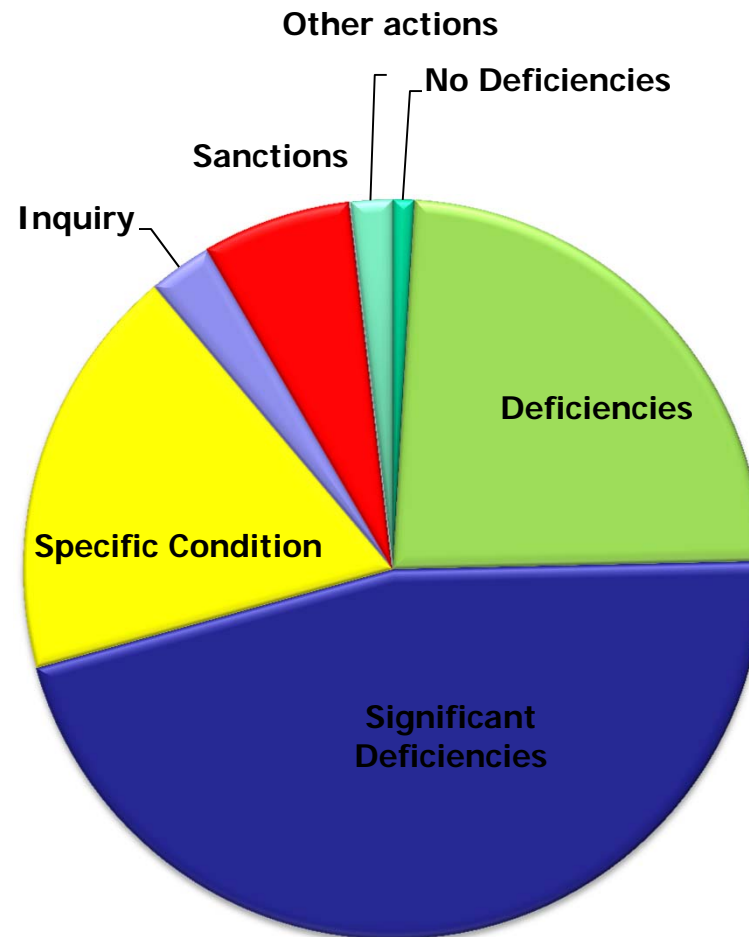
- The AOB conducts regular and special inspections of audit firms and auditors determined on a risk-based approach
- Regular inspections are routine inspections to cover firms based on AOB's annual audit plan
- Special inspections and inspections of the work of reporting accountants are industry or event-driven

Analysis by sector based on number of audit engagements inspected to date (2010 to 2015)



Observations	Remarks
Changes of audit opinions	<ul style="list-style-type: none"> <li>• Change in audit opinions subsequent to its regulatory activities. These changes in audit opinions were mainly in areas affected or highlighted in inspection findings as follows: <ul style="list-style-type: none"> <li>✓ Change in unqualified audit opinion to a qualified or disclaimer opinion;</li> <li>✓ Change in unqualified audit opinion to one with added emphasis of matter paragraphs; and</li> <li>✓ Enhanced disclosure of areas included in the emphasis of matter</li> </ul> </li> </ul>
Changes in audit team composition	<ul style="list-style-type: none"> <li>• Changes in audit team composition subsequent to its inspection which include: <ul style="list-style-type: none"> <li>✓ Change of audit engagement partners;</li> <li>✓ Change of key audit team members including the Engagement Quality Control Reviewer (EQCR); and</li> <li>✓ Resignation as auditors</li> </ul> </li> </ul>
Changes in audit procedures	<ul style="list-style-type: none"> <li>• Improved audit procedures or more reliable audit evidence obtained by audit teams</li> <li>• Subsequent improvement on evaluation and documentation of formal technical consultation in the working papers</li> </ul>

## 2010 – 2015 Engagement Level Inspection Result



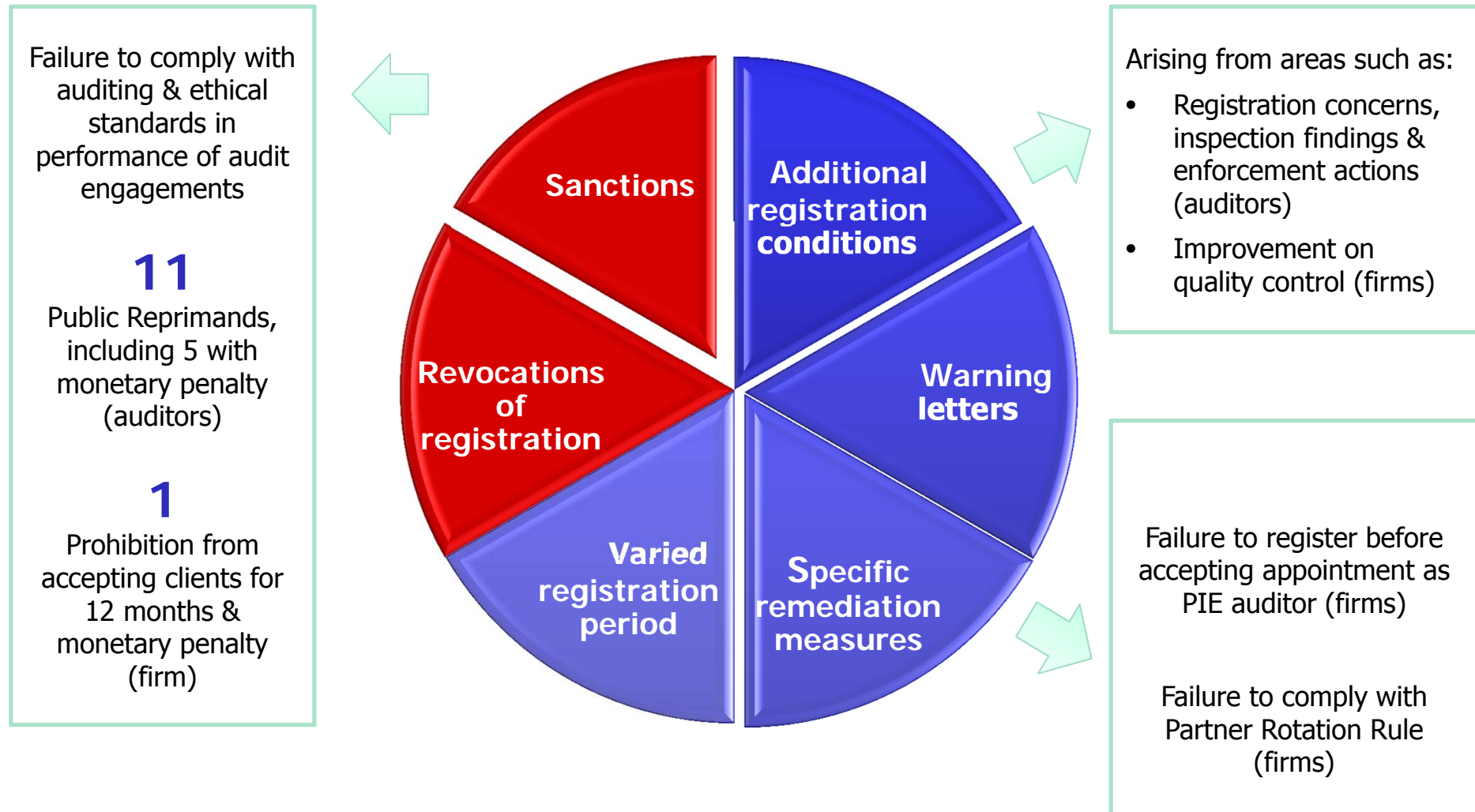
## 2015 Top 4 Engagement Findings – PIE Audits

**Global  
2015 IFIAR Survey**  
*(results from up to 6 GPPC firms  
per member jurisdiction)*

- 1** Internal Control Testing
- 2** Fair Value Measurement
- 3** Risk Assessment
- 4** Revenue Recognition

**Malaysia  
2014 AOB Findings**  
*(submitted for 2015 IFIAR Survey,  
results from 5 GPPC firms)*

- 1** Audit of Allowance for Loan Losses and Loan Impairments
- 2** Group Audits
- 3** Use of Experts/Specialists
- 4** Revenue Recognition





### **AOB is the member of:**

- International Forum of Independent Audit Regulators (IFIAR)
- ASEAN Audit Regulators Group (AARG)

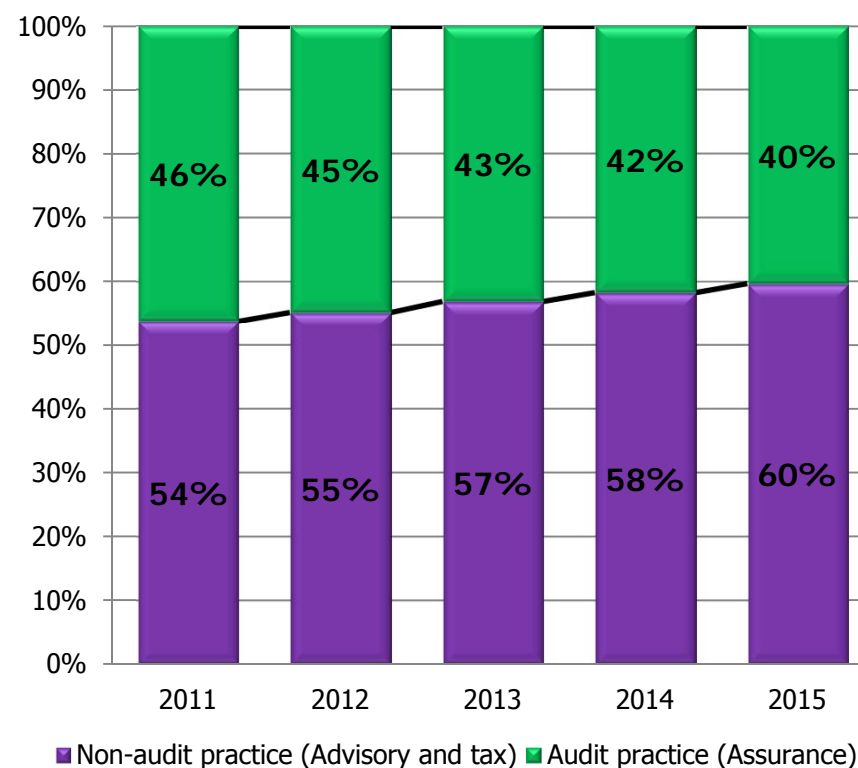
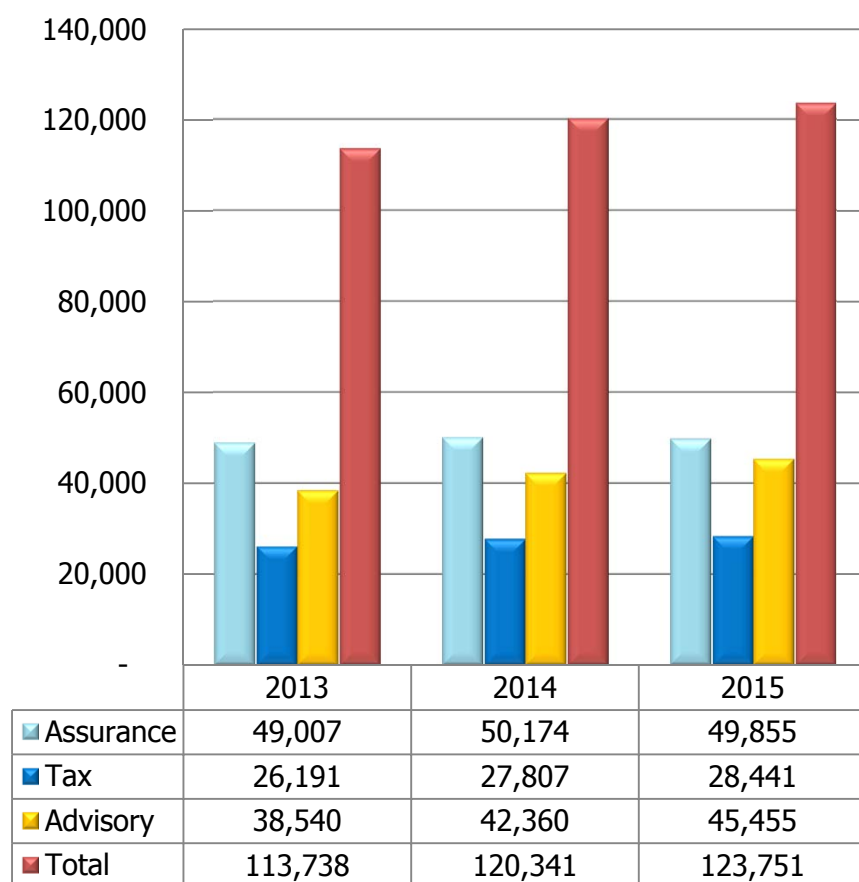
**AOB also involved in hosting and participating in various kind of international events, such as:**

- IFIAR Plenary Meeting and Inspection Workshop
- AARG Annual Inspection Workshop
- Annual Discussion with Global and Regional Leaders



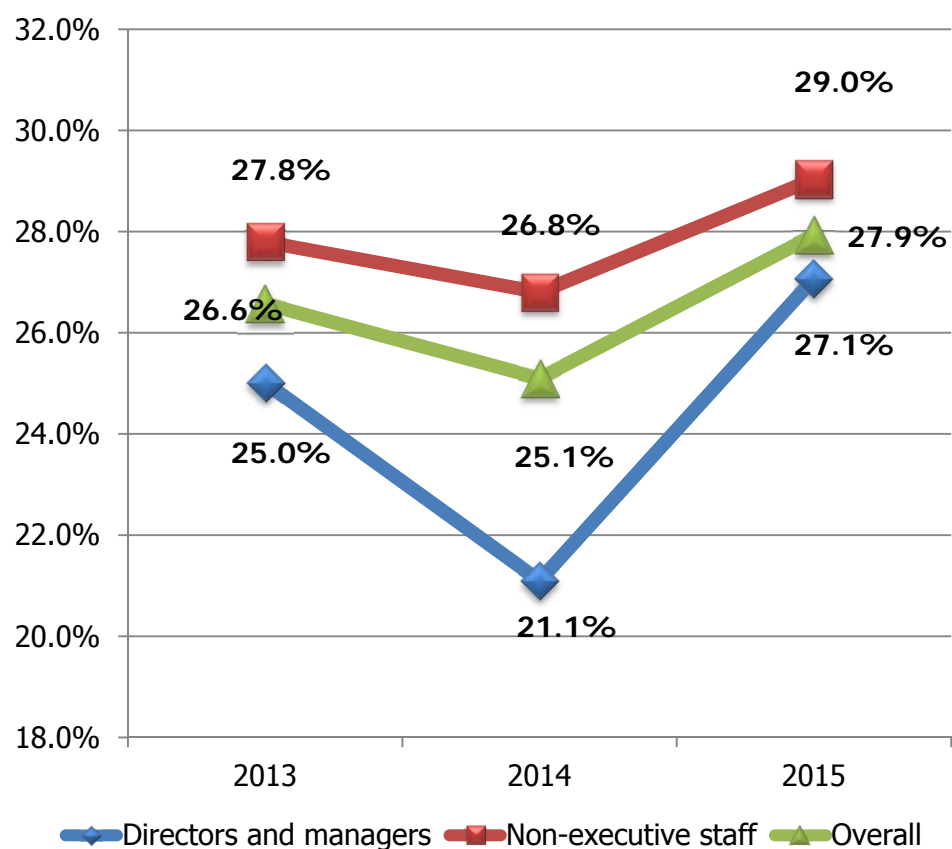
# Global Developments

## Financials – Big 4 Global Network Summary of Revenue (US \$ Millions)

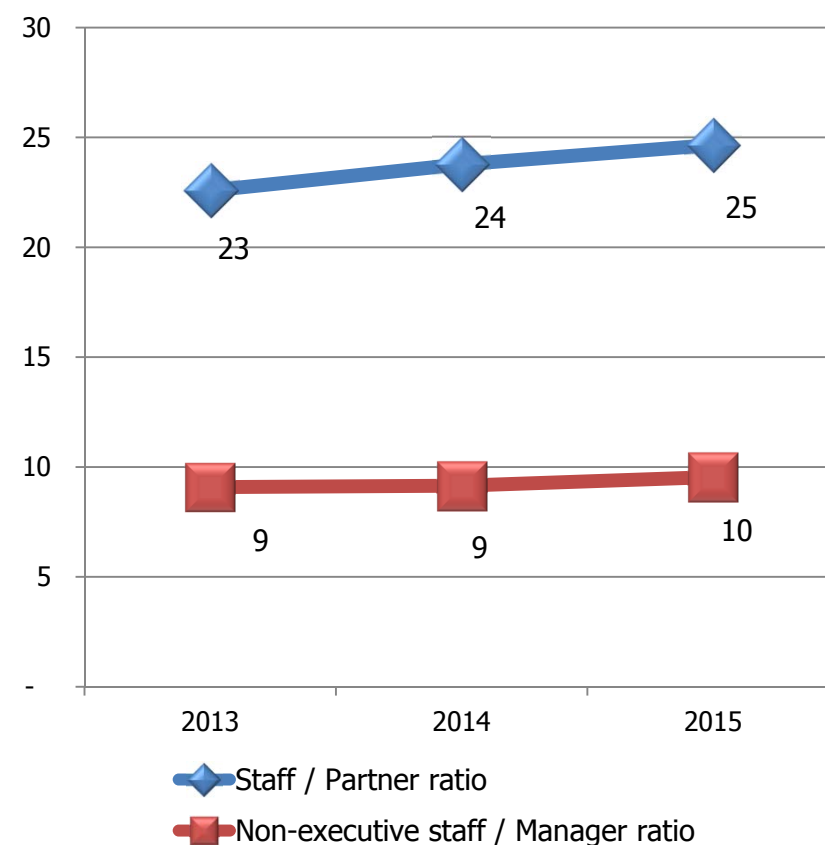


Sources: EY news release "EY reports 2015 global revenues up by 11.6%", Deloitte 2015 Global Report, 2015 KPMG International Annual Review, PwC Global Annual Review 2015

**Turnover rate**



**Staff / Partner ratio and Non-executive staff / Manager ratio**



## IMPORTANCE OF IT

**Drive business growth via new sales channels:**

- Company website
- E-commerce websites
- Social media
- Mobile devices

**Drive efficiency**

- Automated processes
- Straight through processing
- Paperless transactions

**Supports business operations**

Sales, payroll, inventory management, production

**Supports decision making**

## IMPLEMENTATION OF NEW SYSTEMS / TECHNOLOGY

- Web application and payment systems
- Data analytics (e.g. sales trends)
- Outsourcing of IT services and hardware (e.g. web hosting)

- Standalone business support systems ( Finance / Accounts, HR, Manufacturing)
- Integrated systems (e.g. ERP systems)

## IT RISKS

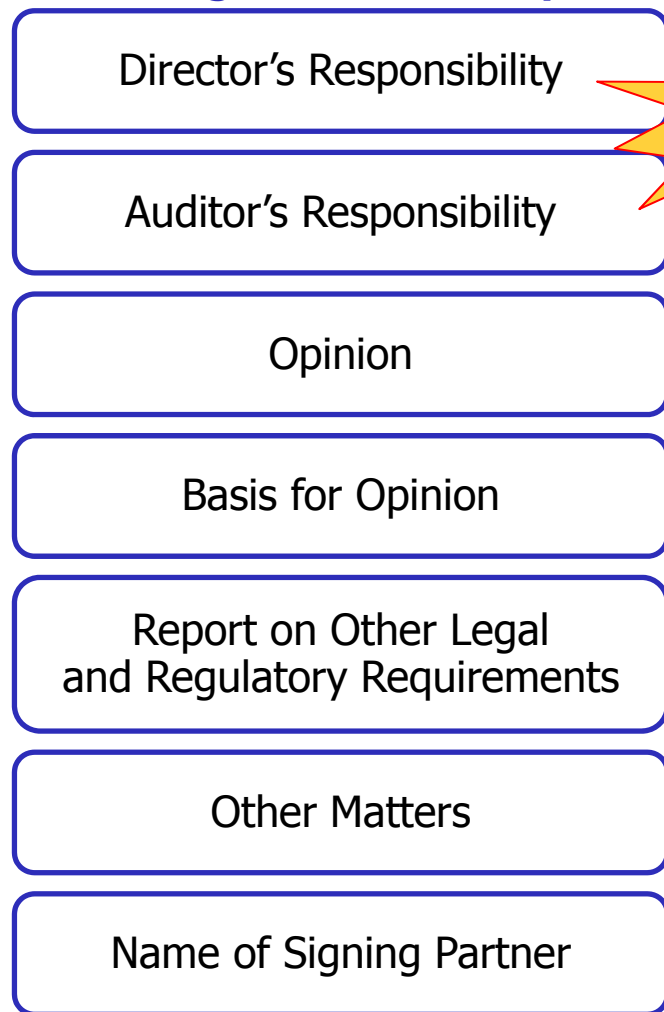


## IS YOUR ORGANISATION DOING ENOUGH TO MANAGE IT RISKS ?

- IT Governance
- Controls / Processes

- IT Resource and Skills
- Assurance

### Existing Auditor's Report



### New Auditor's Report




Effective  
15 Dec 2016

} Greater prominence

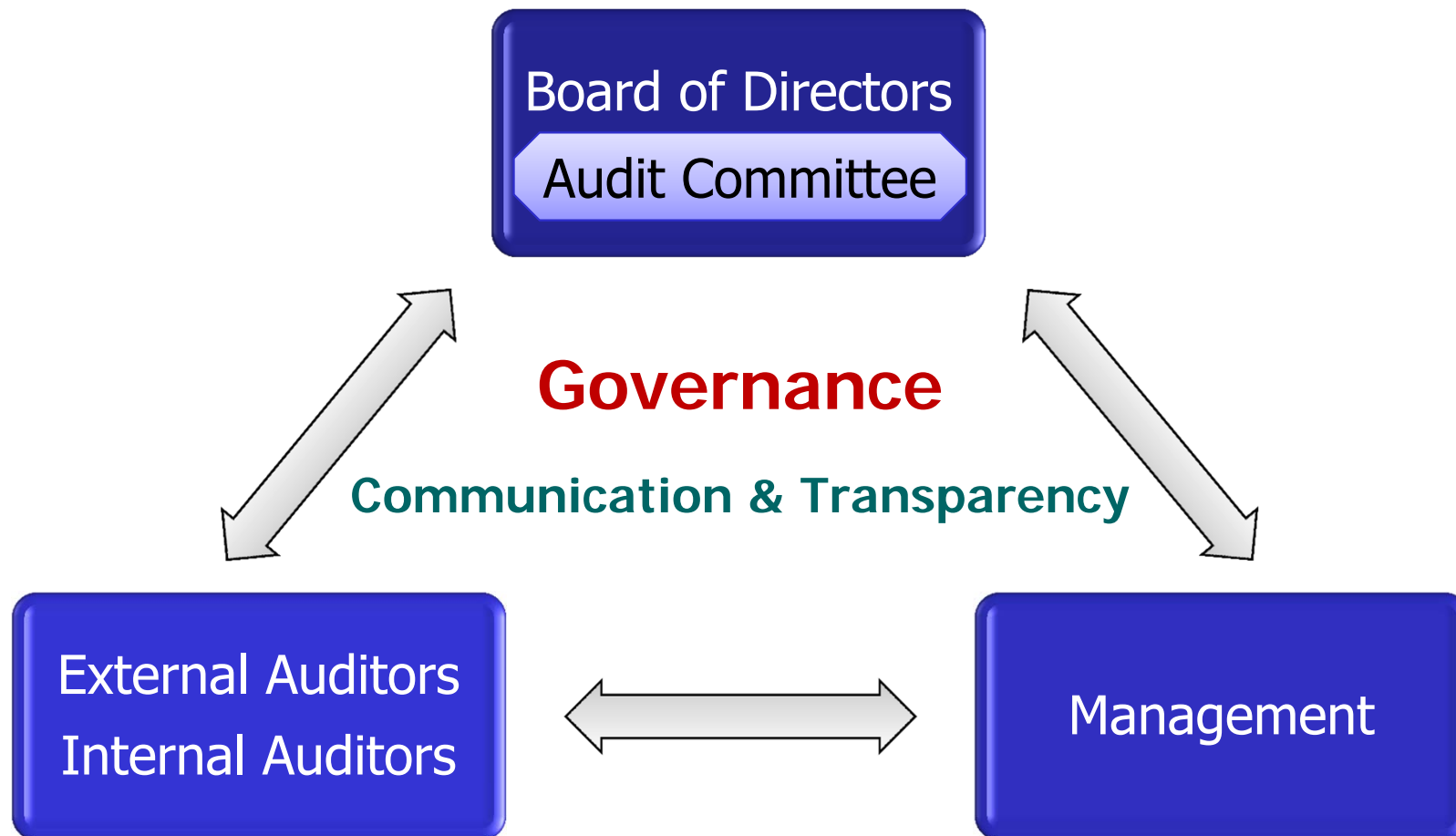
→ Mandatory for PLCs

} May be in an appx/website/etc.

 New/revised reporting requirements

 Enhanced reporting requirements

# **Financial Reporting Functions - Shared Responsibilities**







- Ensuring company's strategy keeps track with fast-changing business and risk environment
- Cross border transactions
- Weak financial reporting function – what does it mean to audit committee
- Quality of information



- Rapid development of accounting standards
- Business model and IT complexity
- Talent issue – capacity and skills
- Managing last minutes surprises, need to have ongoing, informal communications
- Understanding challenges faced by auditors
- Changing auditors for the sole purpose of reducing audit fee risks lower quality audits

- Independent
- Professionally sceptical
- Understand the industry and business
- Has adequate resources
- Committed to provide attention from the appropriate level
- Price their services appropriately so that real value delivered



**Address material risks in financial reporting  
and provide comfort to AC**

- Risks to auditor's independence and how they were mitigated
- Quality of the finance function and management's cooperation
- Key risks and how they were mitigated
- Key assumptions and estimates and how the auditors obtained comfort that they were robust and reasonable
- Sufficiency and appropriateness of evidence in key judgment areas
- Related parties transactions



## Financial reporting function

- Finance function assist AC in oversight activities
- Understand the quality and state of the financial reporting function of the company
- Assess the financial reporting function of the company
- Investment in financial reporting function of the company



## Auditors

- External Auditors assist AC in oversight activities
- More engagement with the external auditors

## Risks

- Understanding business issues that lead to financial figures
- Understanding key risks to cross border transactions
- Impact of technology advancement







