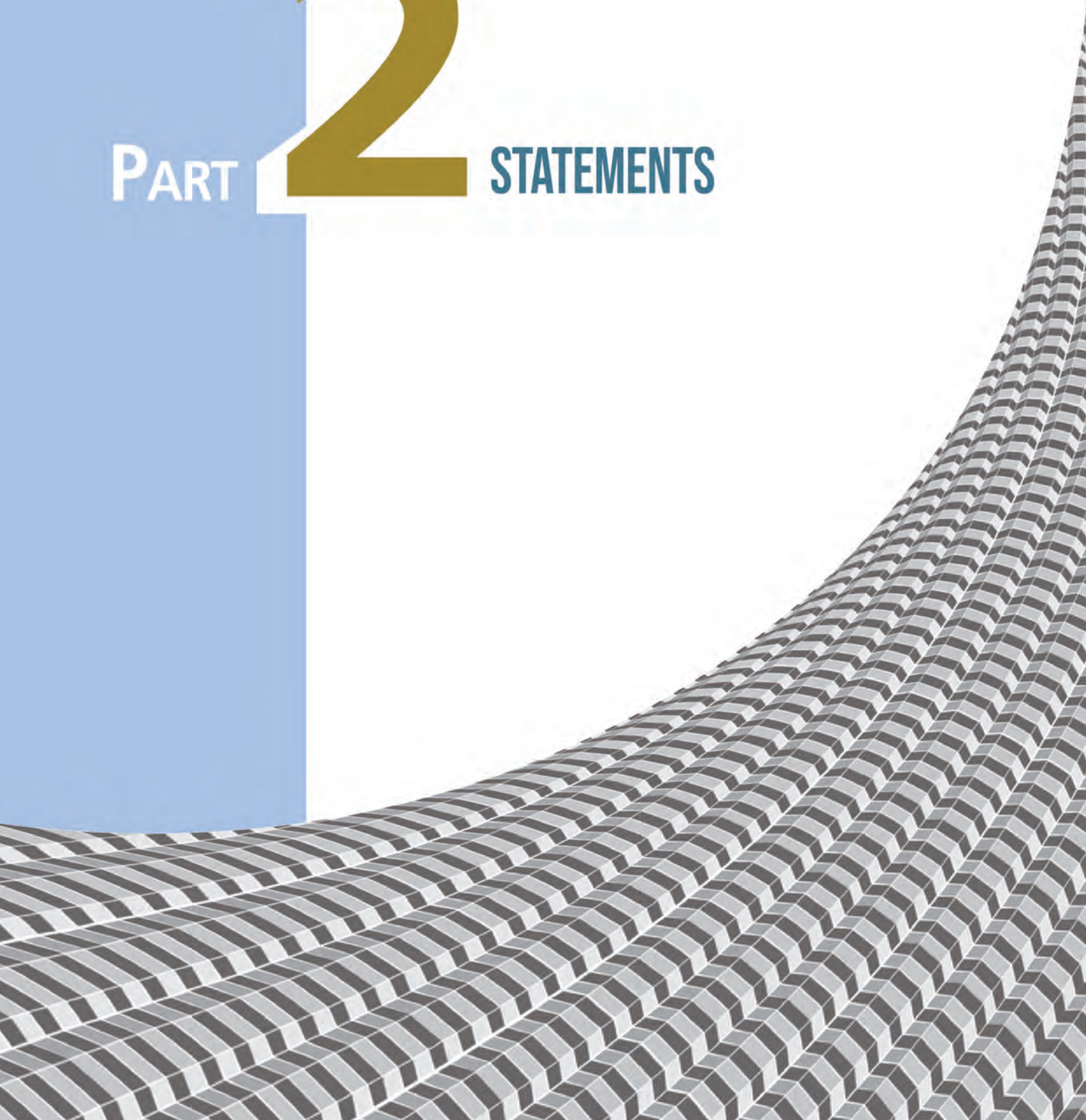


# PART 2 STATEMENTS



## Members of the Audit Oversight Board



## MEMBERS OF THE AUDIT OVERSIGHT BOARD



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### **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.





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### 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.



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### 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 <sup>1</sup>	9/9
Dato' Zahrah Abd Wahab Fenner <sup>2</sup>	1/4
Wong Chong Wah <sup>1</sup>	6/9
Dato' Darawati Hussain	7/9
Hew Ee-Lu	6/9

<sup>1</sup> Ended his statutory term on the Board on 31 December 2019.

<sup>2</sup> Resigned as Board Member on 1 July 2019.

Source: AOB



## COMMITTEE OF THE AOB

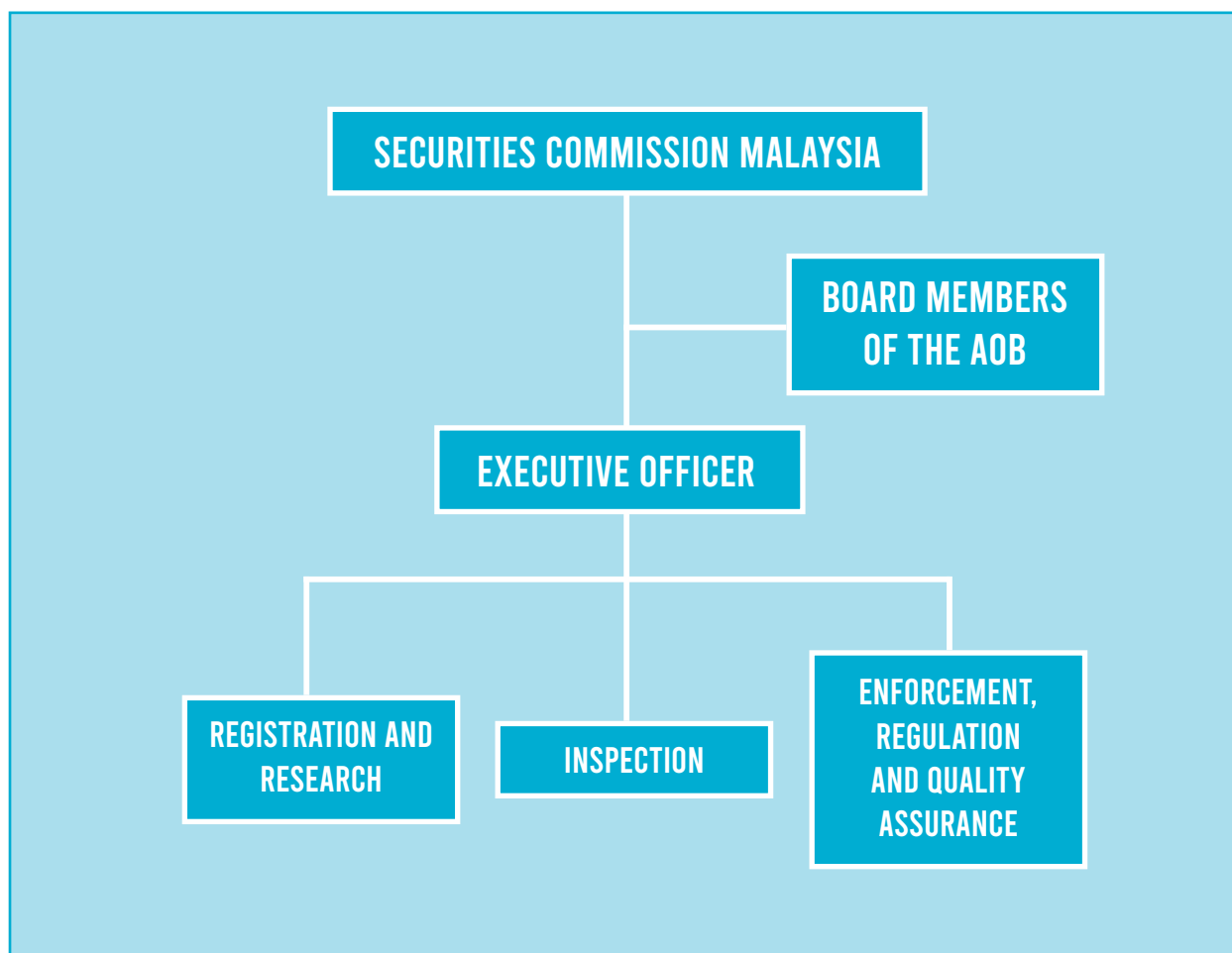
The Registration Committee was established to deliberate matters regarding the registration or recognition of auditors with the AOB. Where applicable, the Registration Committee will make recommendations to the Board for further deliberation and decision.

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**

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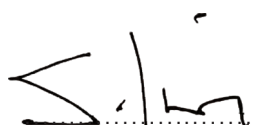
## **FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**

# AUDIT OVERSIGHT BOARD

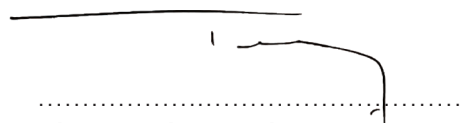
## STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

	Note	2019 RM	2018 RM
<b>Assets</b>			
<b>Current assets</b>			
Other receivables	4	80,596	8,307
Other investments	5	1,611,517	730,024
Cash and bank balances	6	434,577	382,912
<b>Total assets</b>		<u>2,126,690</u>	<u>1,121,243</u>
<b>Reserves</b>			
Funds from the Securities Commission Malaysia	7.1	27,516,438	25,516,438
Accumulated deficit	7.2	(25,769,937)	(24,444,195)
<b>Total reserves</b>	7	<u>1,746,501</u>	<u>1,072,243</u>
<b>Current liabilities</b>			
Other payables and accruals	8	380,189	49,000
<b>Total liabilities</b>		<u>380,189</u>	<u>49,000</u>
<b>Total reserves and liabilities</b>		<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
		<u>4,022,237</u>	<u>3,715,676</u>
<b>Operating expenditure</b>			
Administrative expenses	9	(5,347,979)	(5,518,520)
		<u>(1,325,742)</u>	<u>(1,802,844)</u>
<b>Deficit before tax</b>			
Tax expense	10	-	-
		<u>(1,325,742)</u>	<u>(1,802,844)</u>
<b>Deficit for the year/Total comprehensive expense for the year</b>		<u><u>(1,325,742)</u></u>	<u><u>(1,802,844)</u></u>

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
<b>At 1 January 2018</b>	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)
<b>At 31 December 2018/1 January 2019</b>	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)
<b>At 31 December 2019</b>	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
<b>Cash flows from operating activities</b>		
Deficit before tax	(1,325,742)	(1,802,844)
<i>Adjustment for:</i>		
Finance income	(75,737)	(52,476)
	<hr/>	<hr/>
<b>Operating deficit before changes in working capital</b>	(1,401,479)	(1,855,320)
Change in other receivables	(62,546)	151,666
Change in other payables and accruals	331,189	27,000
	<hr/>	<hr/>
<b>Net cash used in operating activities</b>	(1,132,836)	(1,676,654)
	<hr style="border-top: 1px dashed;"/>	<hr style="border-top: 1px dashed;"/>
<b>Cash flows from investing activities</b>		
Interest received	65,994	52,476
Increase in other investments	(881,493)	(539,691)
	<hr/>	<hr/>
<b>Net cash used in investing activities</b>	(815,499)	(487,215)
	<hr style="border-top: 1px dashed;"/>	<hr style="border-top: 1px dashed;"/>
<b>Cash flows from financing activity</b>		
Funds from the Securities Commission Malaysia	2,000,000	2,000,000
	<hr/>	<hr/>
<b>Net cash from financing activity</b>	2,000,000	2,000,000
	<hr style="border-top: 1px dashed;"/>	<hr style="border-top: 1px dashed;"/>
<b>Net increase/(decrease) in cash and bank balances</b>	51,665	(163,869)
<b>Cash and bank balances at 1 January</b>	382,912	546,781
	<hr/>	<hr/>
<b>Cash and bank balances at 31 December</b>	434,577	382,912
	<hr style="border-top: 3px double;"/>	<hr style="border-top: 3px double;"/>

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**

	<b>2019 RM</b>	<b>2018 RM</b>
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
<b>Related party</b>		
Legal fees	(132,500)	-
	<u>(132,500)</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
<b>2019</b>		
<b>Financial assets</b>		
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>
<b>Financial liabilities</b>		
Other payables and accruals*	<u>(236,189)</u>	<u>(236,189)</u>
<b>2018</b>		
<b>Financial assets</b>		
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>
<b>Financial liabilities</b>		
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
<b>2019</b>			
<b>Financial liabilities</b>			
Other payables and accruals	236,189	236,189	236,189
<b>2018</b>			
<b>Financial liabilities</b>			
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
<b>Fixed rate instruments</b>		
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