



Suruhanjaya Sekuriti
Securities Commission
Malaysia

Audit Oversight Board

How it Impacts Audit Committee

7 April 2022





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Introduction

- What AOB does with Findings
- What Directors of PIEs should do with Findings



Common Findings and Observations

- Case study 1
- Case study 2



Annual Transparency Report

- AC's role
- Reporting requirements
- Background
- Contents of the Report
- AQIs

Introduction

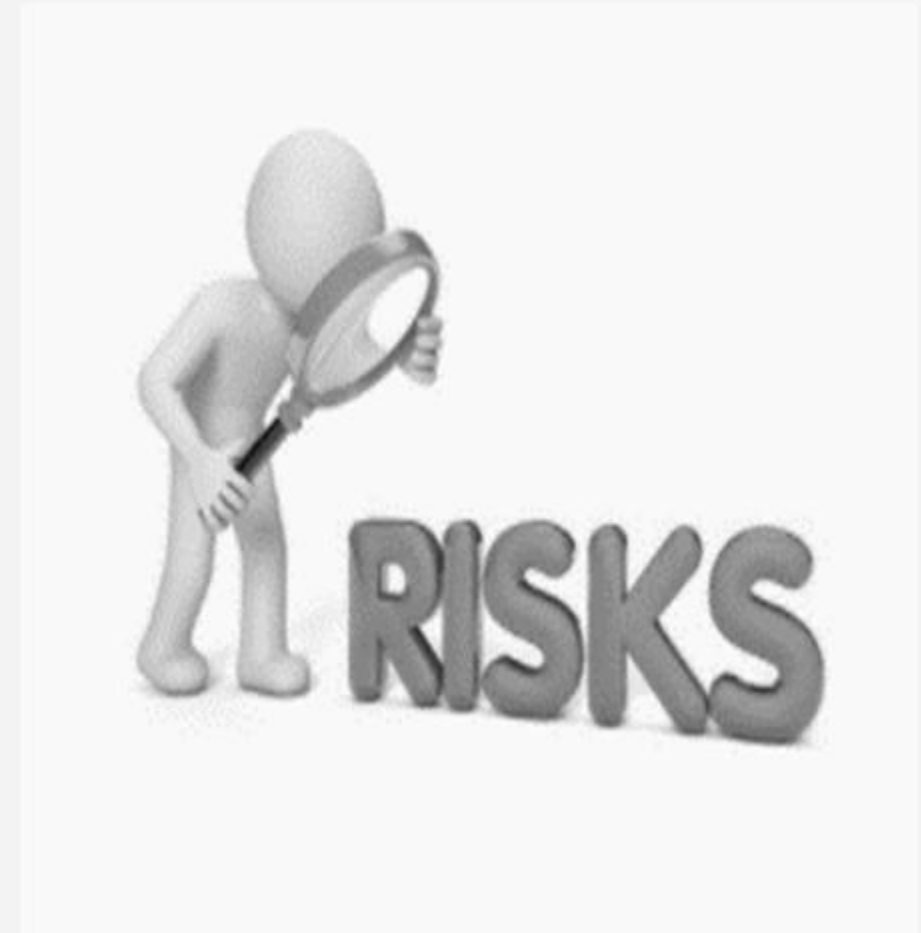
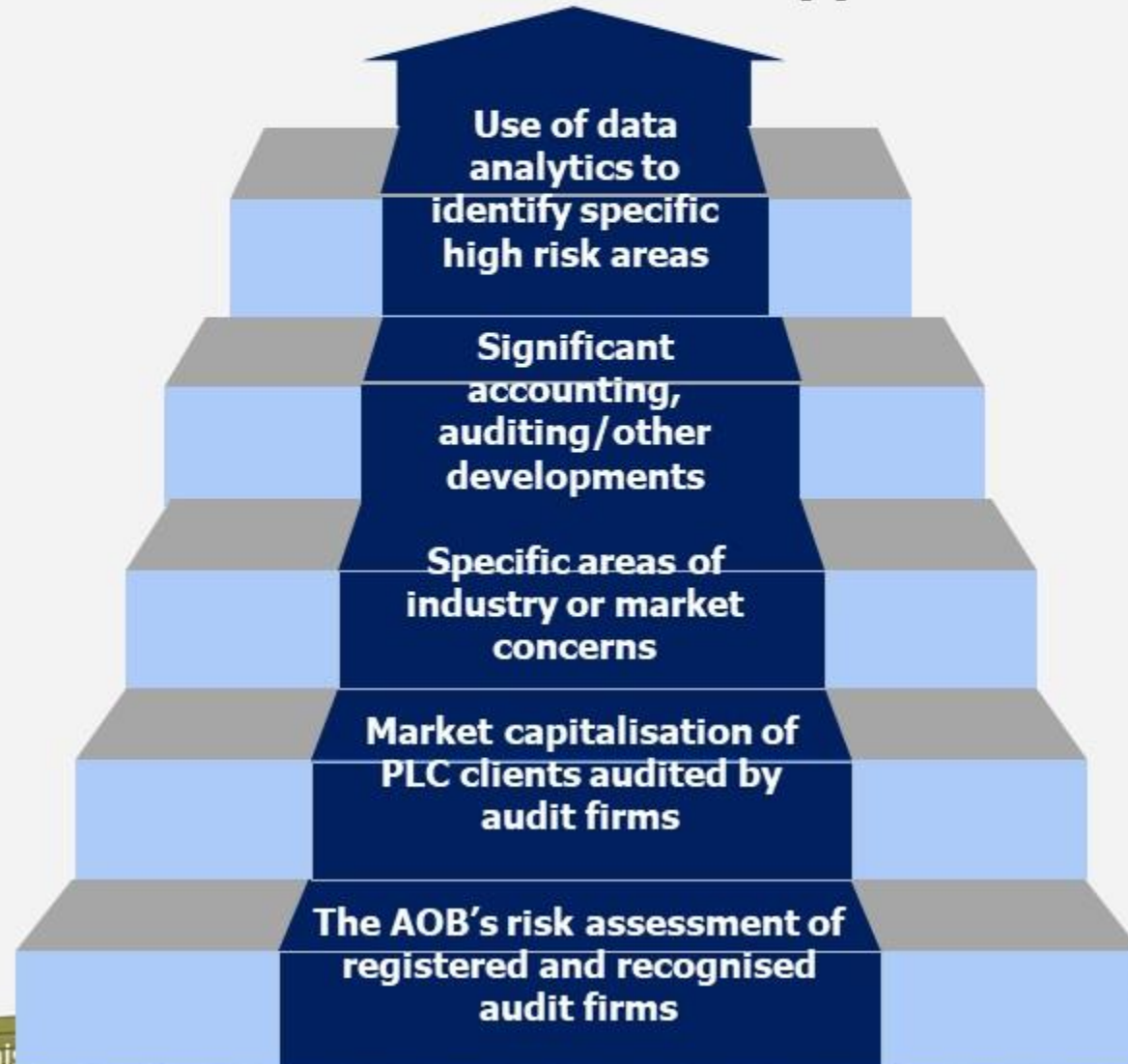


What AOB does with Findings – AOB's Process

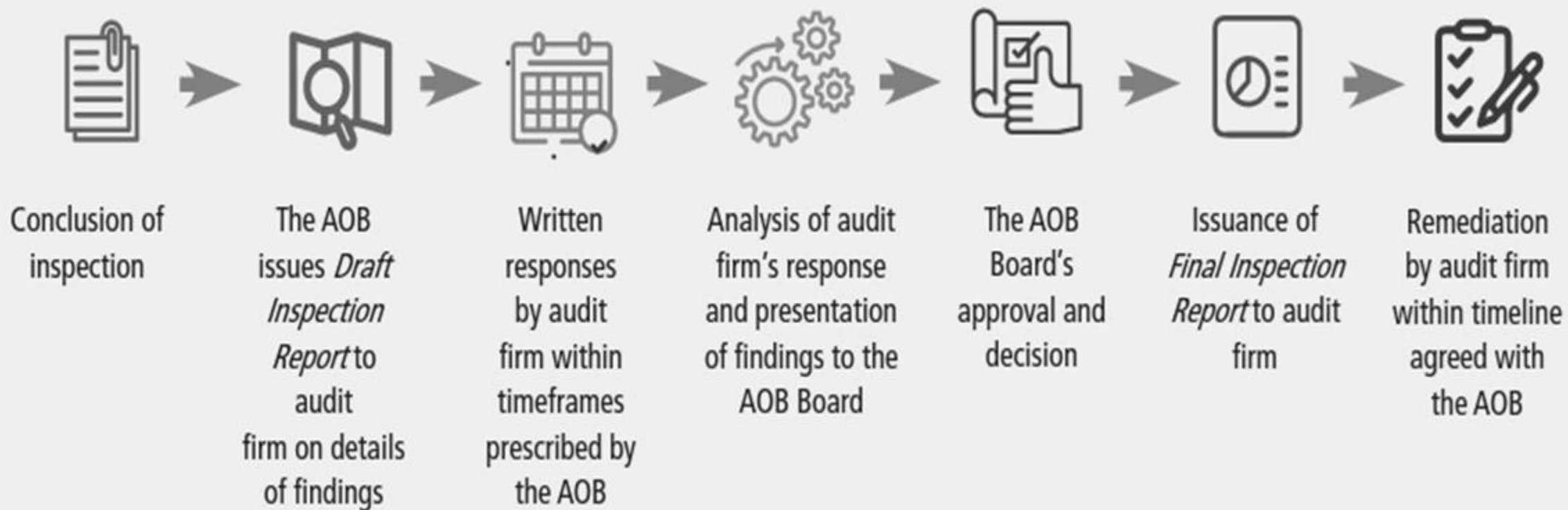


What AOB does with Findings – Before commencement

Risk-based selection approach



What AOB does with Findings – After completion



What AOB does with Findings – What is a Finding?

Firm reviews



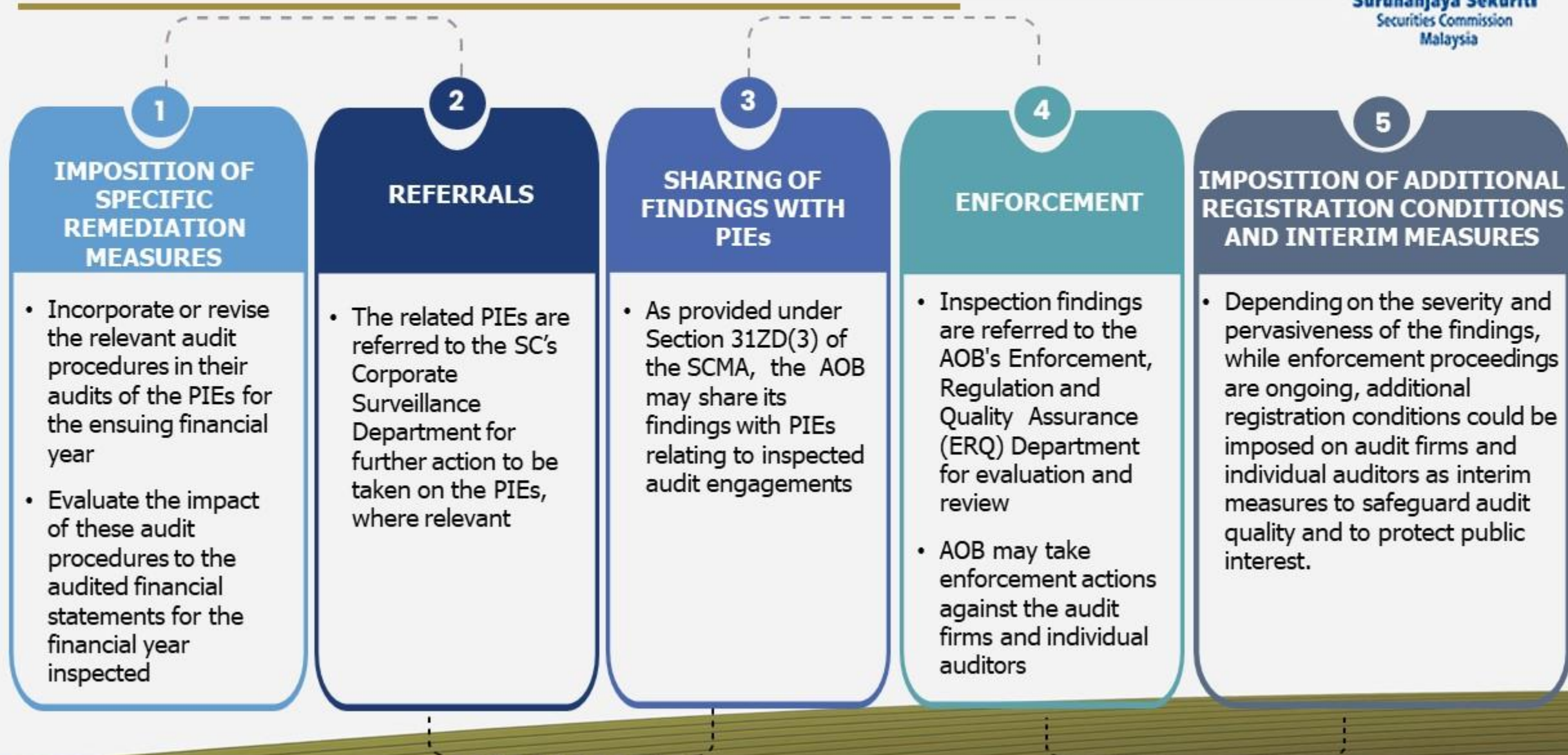
Relates to compliance with the requirements of the International Standard on Quality Control 1 (ISQC 1)

Engagement reviews

- **Relates to compliance with International Standards on Auditing (ISA)**
- **Individually critical deficiency, which may have an impact on the basis of audit opinion**
- **Pervasive issue where the impact cannot be easily quantified**

Findings do not necessarily suggest that the affected PIE's financial statements contain a material accounting error or its controls in respect of financial reporting are weak

What AOB does with Findings – Actions that could be taken



What Directors of PIEs should do with Findings



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01

Directors and Audit Committees have to be vigilant on an expanding range of issues and risks, including those relating to complexities of financial reporting caused by COVID-19

02

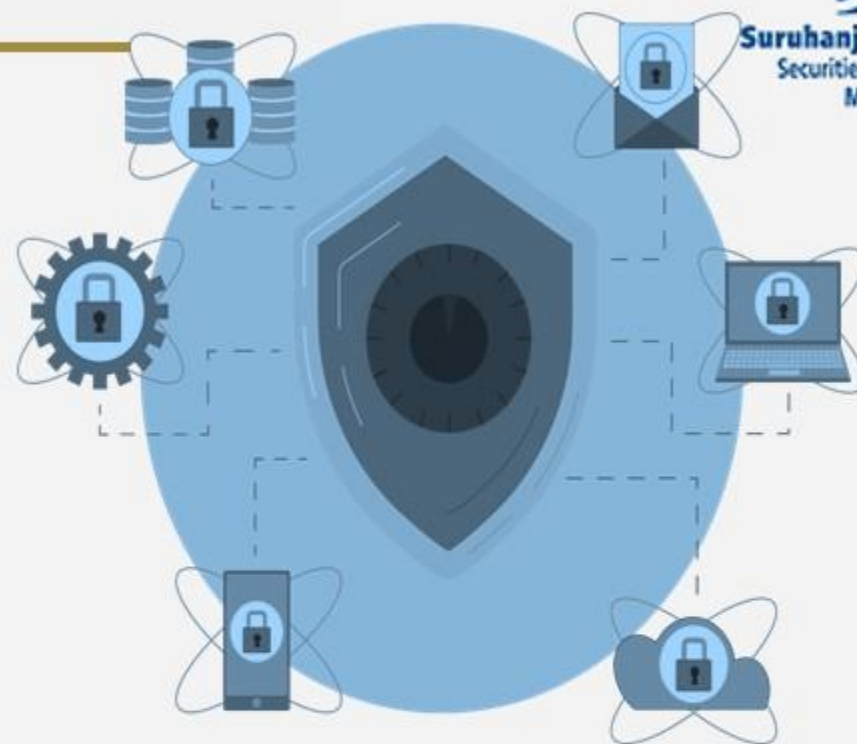
Continuous engagements with their auditors are essential to deal with these issues and to discuss the continuing impact of COVID-19, particularly at the earliest stage of the financial reporting & auditing process

03

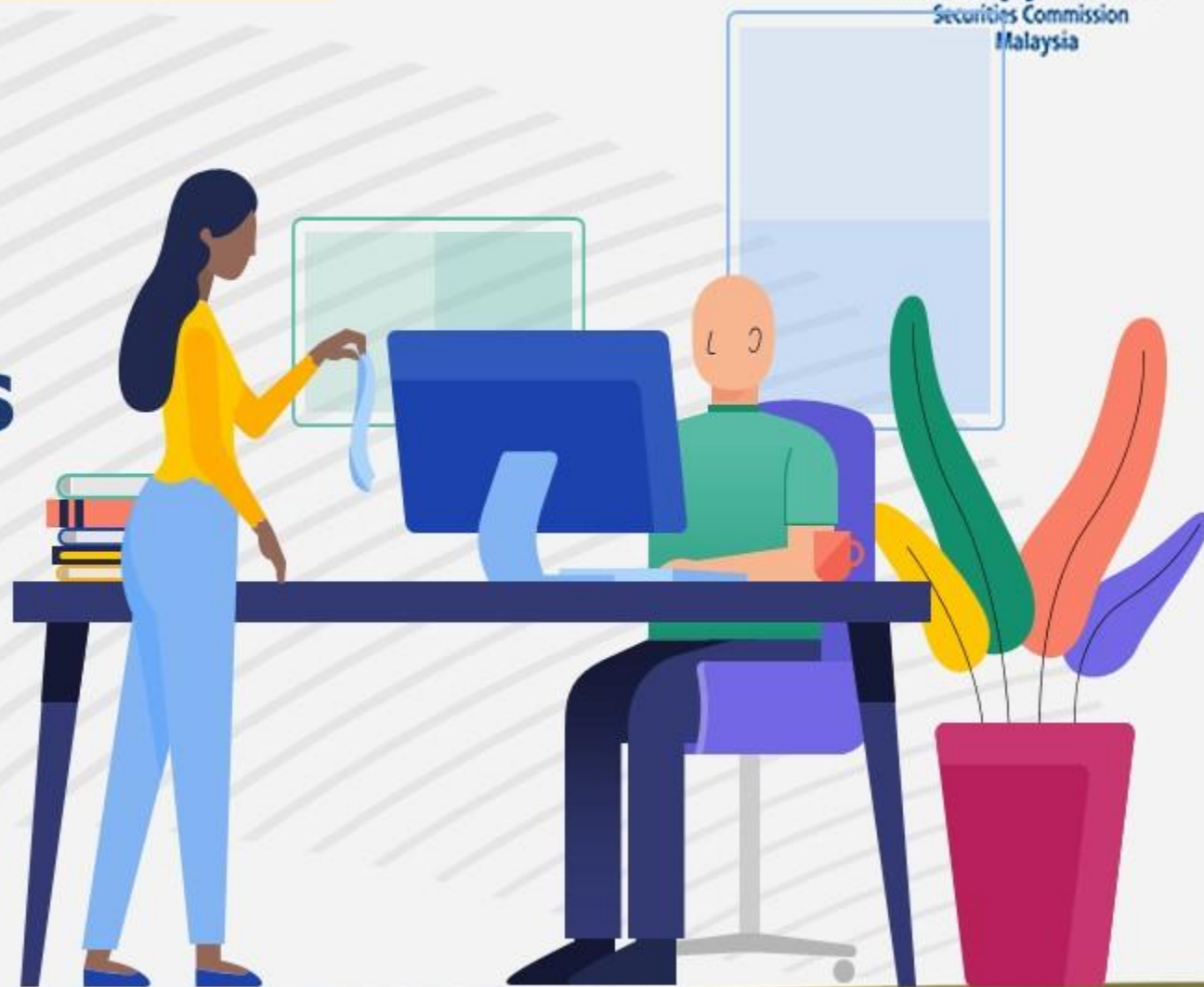
In the area of Going Concern (GC) in particular, directors and Audit Committees must ensure that significant judgements made to reach that conclusion are sufficiently disclosed, as follows:

IFRS EDUCATIONAL MATERIAL

- ❑ Significant doubts about GC but **mitigating actions judged sufficient** to make GC appropriate, with no Material Uncertainty Related to Going Concern (MUGC);
- ❑ Significant doubts about GC but **mitigating actions judged sufficient** to make GC appropriate. However, MUGC remains after considering mitigating actions.



Common Findings & Observations



Common findings & observations

2020

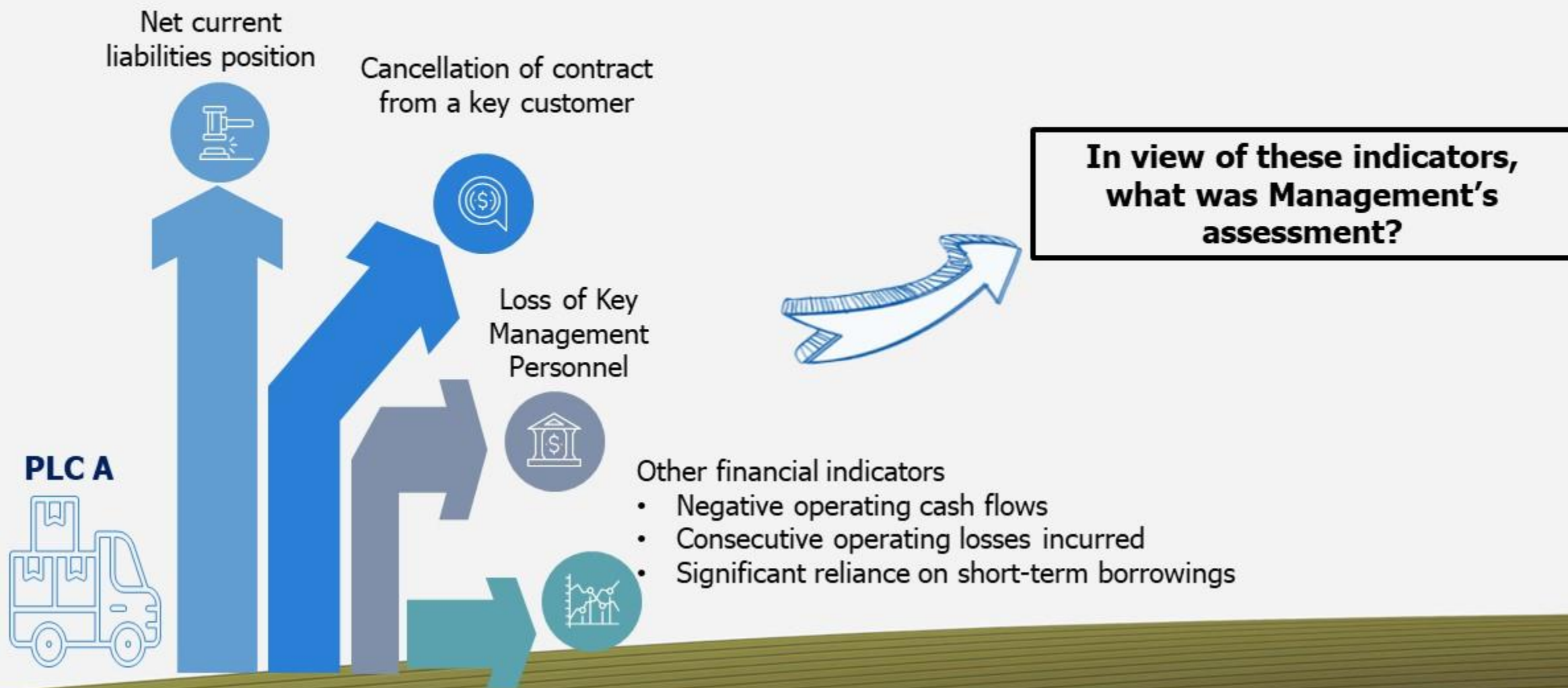
1	Audit Sampling	
2	Accounting Estimates	★
3	Revenue Recognition	
4	Fraud Procedures	★
5	Inventory Procedures	

2019

1	Audit Sampling
2	Accounting Estimates
3	Auditor's Report
4	Fraud Procedures
5	Group Audits

Case Study 1

Accounting estimates (Going Concern): Are They Appropriate?



Case Study 1 (cont.)

Accounting estimates (Going Concern): Are They Appropriate?

Management's Assessment

Proposed issuance of redeemable convertible unsecured loan stocks (RCULS) subsequent to year end

Negotiation with Bank A to refinance its existing term loan

Utilisation of remaining unutilised Revolving Credit (RC) facility granted by Bank B

Financial support from its lenders and major shareholders

Potential candidates to replace the loss of Key Management Personnel will turnaround the PIE

New project in the pipeline for major subsidiary will improve the financial position of the PIE

Matters to be considered by the AC

Yet to be approved by the Board and released to be published as at the date of the auditor's report

No evidence to support management's representation on the status of negotiation

Unutilised RC insufficient to cover the PIE's net current liabilities

No letter of financial support obtained

Assessment performed based on qualitative factors which could not be corroborated

Cash flow projections were not prepared by the management to support the assumption



Common Observations

- Accepting management's representations without obtaining sufficient evidence to support such representations; and
- Insufficient assessment on adequacy of disclosures in the AFS in relation to material uncertainties surrounding the going concern assumption, and whether a modification to the audit opinion should be considered.
- Insufficient audit procedures performed to verify the reliability of the underlying data included in the cash flow projections; and
- Insufficient audit procedures performed to assess the reasonableness of assumptions used by the PIE management.



Case Study 1 (cont.)

What Should the AC Do?



Ensure sufficient challenge on PIE management's assumptions used in the cash flow projections



Ensure proper evaluation of the reasonableness of data source/ inputs used in the cash flow projections



Ensure assessment performed on the reliability of source documents provided by PIE management



Case study 2 - Background

Understanding fraud

What is fraud?

Intentional manipulation of financial statements to create a false appearance of corporate financial health

Why fraud takes place?



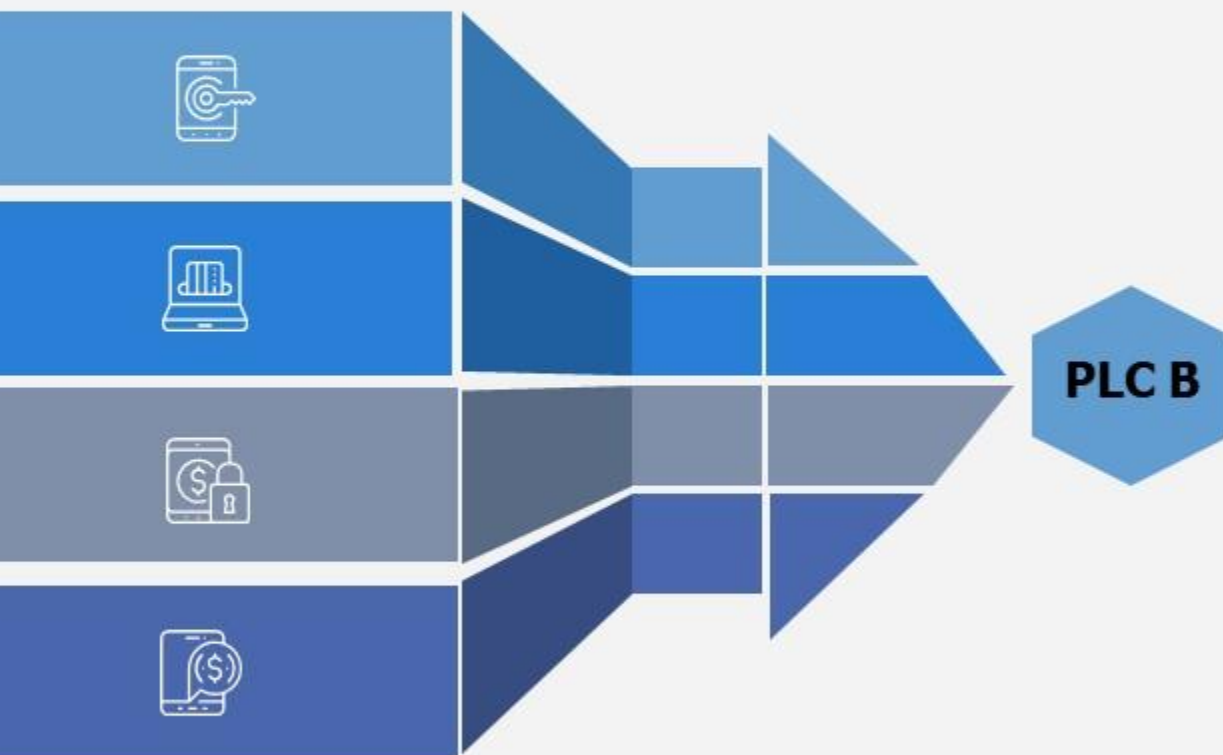
Common types of fraud

- ☐ Misappropriation of Assets
- ☐ Invoicing Fraud
- ☐ Expense Reimbursement

Greenwashing is a practice whereby companies make

Case study 2

How do we detect potential fraud?



Observations

- ☐ 10% of manual journal entries during the year were not approved as the Finance Manager responsible was not aware of the required approval process
- ☐ Documents to support the journal entries were not attached as the Finance Manager did not review the entries posted
- ☐ System access to journal posting was shared with individuals in the procurement department
- ☐ Dual signatories were not obtained on significant \$ payments made to vendors



Audit Oversight Board

What Should the AC Do?



Pay attention to internal control weaknesses in the financial statement close process



Ensure that relevant audit procedures such as management override of controls and journal entry testing have been adequately performed



Ensure constant and open communication with the auditors during the course of the audit



Annual Transparency Reporting



Annual Transparency Report – AC role

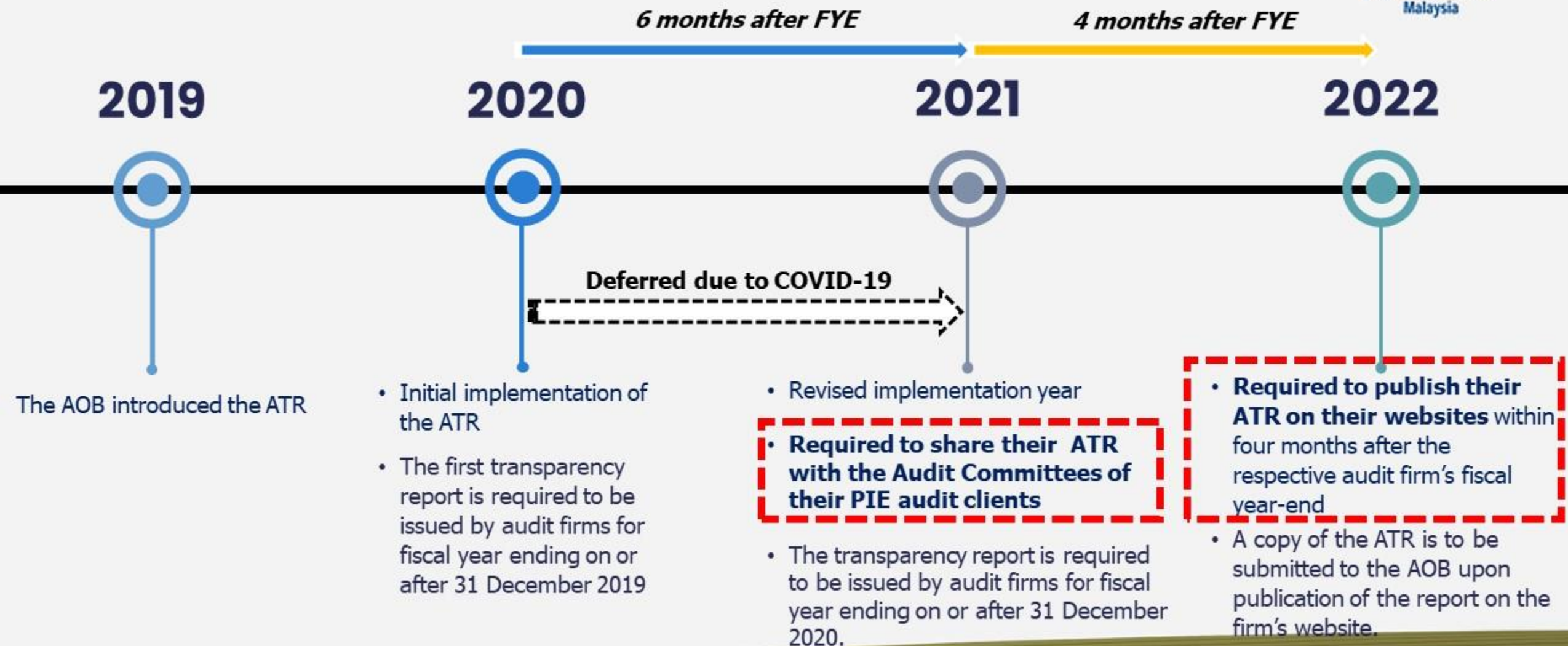


Establish criteria to guide decisions on the appointment and reappointment of the external auditor.



If the audit firm is not required to issue an Annual Transparency Report, the Audit Committee is encouraged to engage the audit firm on matters typically covered in an Annual Transparency Report

Annual Transparency Report – Reporting requirements



Annual Transparency Report - Background



Decision-making

Provide useful information for investors and audit committees to facilitate decision making on the appointment of auditors



Competitive Behaviour

Promote competitive behaviour among audit firms on audit quality



Investor Confidence

Increase investor confidence in the role of the auditors as independent gatekeepers for reliable audited financial statements in Malaysia



Requirements

- Audit firms with > 50 PIE audit clients
- The total market capitalization of above RM10 billion (PIE clients)



Audit Firms*

- PricewaterhouseCoopers PLT
- Ernst & Young
- KPMG PLT
- Deloitte PLT
- BDO PLT
- Crowe Malaysia PLT
- Grant Thornton Malaysia
- Baker Tilly Monteiro Heng PLT

**As at 31 December 2020*

Annual Transparency Report – Contents of the Report



Legal and governance structure

- Legal and ownership structure
- Governance and leadership structure
- Network and structural arrangements
- Disclosure on partners with substantial equity in the partnership
- Disclosure on family relationship between partners undertaking leadership role or holding substantial equity in the partnership with other partners of the audit firm



Measures taken by the audit firms to uphold audit quality and manage risks

- Firm's system of quality controls
- Accountability framework for partners
- Compliance monitoring
- Risk management process



Information about the audit firm's AQI

- Comprises **15** minimum AQIs that must be included in the report
- Audit firms may disclose any other relevant AQIs monitored by the firm in addition to the above
- AQI statistics to cover a 3-year period

Mandatory AQIs for Transparency Report





THANK YOU

