



Suruhanjaya Sekuriti
Securities Commission
Malaysia

AUDIT OVERSIGHT BOARD ANNUAL INSPECTION REPORT 2024

**AUDIT OVERSIGHT BOARD
ANNUAL INSPECTION REPORT**

2024



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This theme is based on the declaration of the hibiscus as the National Flower by Prime Minister Tunku Abdul Rahman Putra Al-Haj on July 28, 1960. Its five petals symbolise the five principles of the Rukun Negara and also represent unity.

Design was submitted for the Batik Lestari 2024 Showcase.

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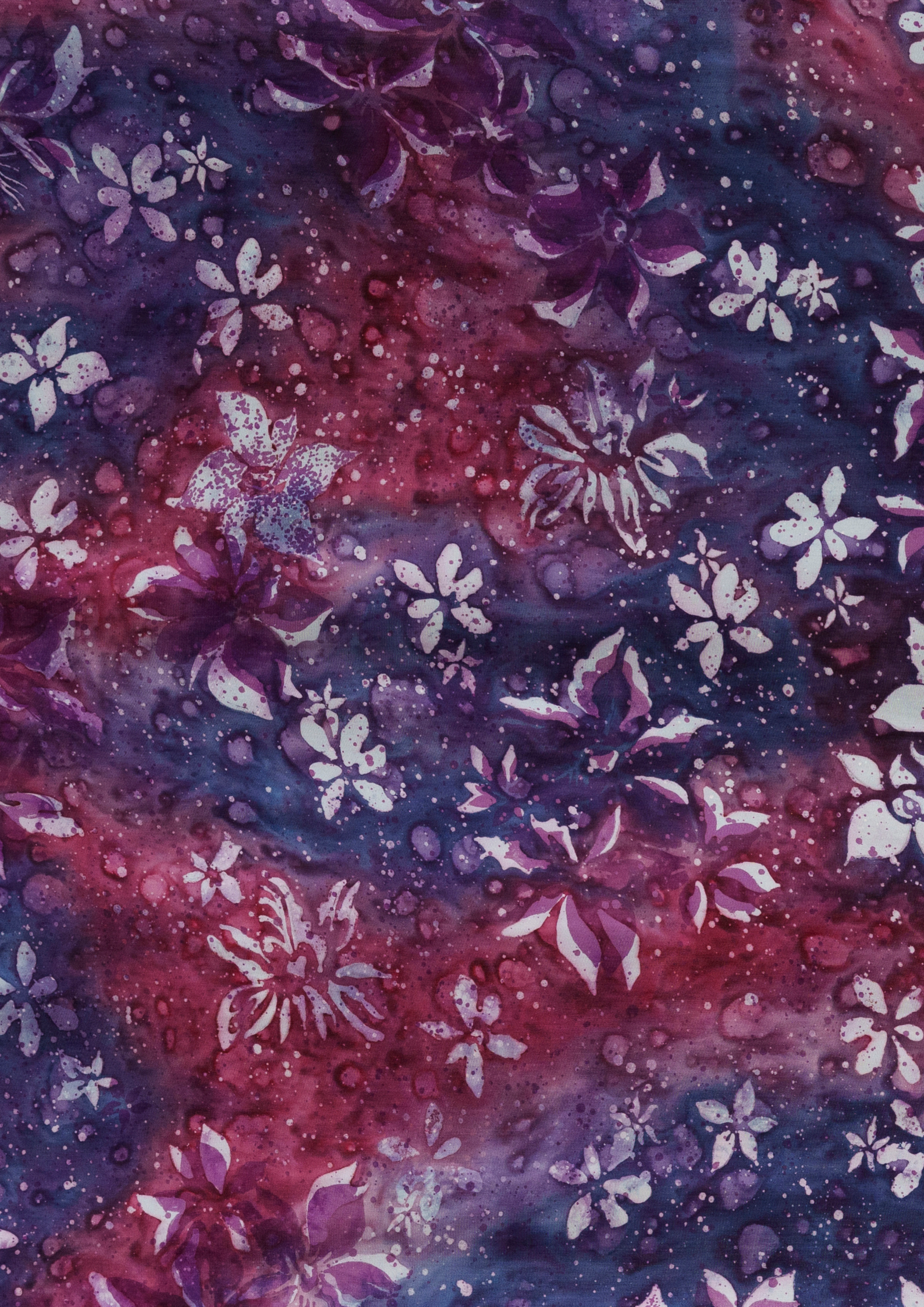
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The cut-off date for the data included in this report was 31 December 2024.

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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INTRODUCTION

STRENGTHENING AUDIT QUALITY TO ENHANCE INVESTOR CONFIDENCE

The Audit Oversight Board (AOB) is committed towards promoting high quality independent audits to safeguard investors' trust and confidence in the reliability of audited financial statements (AFS) for public-interest entities (PIEs) and schedule funds in Malaysia. In carrying out its mandate under the *Securities Commission Malaysia Act 1993* (SCMA), the AOB's key functions include registration, inspection, enforcement and stakeholder engagements with auditors, audit committees, professional bodies and other regulators.

The *Annual Inspection Report 2024* represents a comprehensive summary of the AOB's key findings and observations. The AOB conducted its inspections by leveraging existing resources, including digital tools and collaborative technology platforms.

Overview of registered audit firms and individual auditors provides insights into the audit profession and its current landscape in Malaysia. It presents statistics on the audit environment and data collected on Audit Quality Indicators (AQIs) for both Major and Other Audit Firms, along with descriptions of these indicators.

Strengthening audit quality across the audit profession highlights common findings from firm level and engagement level inspections carried out by the AOB in 2024, along with applicable reminders and considerations for auditors and firms. The section also elaborates on monitoring and remediation process for firms' consideration in ensuring an effective internal quality control.

2024 INSPECTION

The AOB conducts inspections of auditors for PIEs and schedule funds under Section 31V(1) of Part IIIA of the SCMA. These inspections, carried out at both firm and engagement levels, are essential in evaluating an audit firm's ability to deliver high quality independent audits in accordance with auditing and ethical standards. The AOB adopts a risk-based approach to inspection in selecting audit firms (firms) and individual auditors for inspection.

THE AOB'S RISK-BASED APPROACH

The AOB evaluates several factors when selecting firms and individual auditors for inspection, including:

- Risk profiling of registered and recognised firms and auditors, with particular emphasis on past inspection outcomes.
- Application of data analytics, incorporating historical data and financial modelling to detect adverse indicators.
- Risks linked to individual public-listed companies (PLCs), assessed through market capitalisation, structural complexity, governance frameworks, industry characteristics, and operating environments.
- Industry-specific or market-related concerns aimed at identifying emerging trends or potential systemic risks.
- Significant developments in accounting, auditing, or other relevant areas during the year.

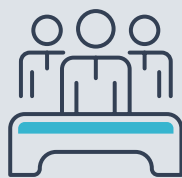
Following the completion of each inspection, a Final Inspection Report is issued to the firms, detailing findings i.e. significant deficiencies which may have an impact on the basis of audit opinion. Firms are then required to address and remediate all identified findings within a specified timeframe. For firms that have undergone prior inspections, subsequent inspections will include a follow-up on the implementation of the firm's remedial actions.

2024 INSPECTION COVERAGE



13

audit firms



40

individual auditors



40

audit
engagements

Inspection Outcome

**Imposed** specific remediation
measures on

5

inspected firms and

15

individual auditors


**Referred**

3

inspected audit engagements
to enforcement proceedings

This *Annual Inspection Report* presents insights from the inspections conducted in 2024, including key observations and findings.

HOW THE ANNUAL INSPECTION REPORT SHOULD BE USED BY AUDITORS AND AUDIT COMMITTEES

REFERENCE	AUDITORS	AUDIT COMMITTEES
<p>Audit Quality Indicators Highlights</p> <p>Included in <i>Audit Quality Indicators: Key Observations and Trends</i> section of this <i>Annual Inspection Report</i>. Further details on the statistics is included in the <i>Appendix</i>.</p>	<p>Firms can use the available data as benchmarks to carry out a self-assessment of its indicators as a comparison to other firms and industry norms.</p>	<p>Audit Committees (ACs) should use the AQI information in this <i>Annual Inspection Report</i> to help evaluate their auditors, especially when deciding on their appointment or re-appointment.</p>
<p>Common Findings and Observations</p> <p>Included in the <i>Strengthening Audit Quality Across the Audit Profession</i> section of this <i>Annual Inspection Report</i>.</p> <ul style="list-style-type: none">• <i>Firm Level Inspection Findings and Observations.</i>• <i>Engagement Level Inspection Findings and Observations.</i>	<p>Auditors should be aware of and give due attention to common findings and recurring themes that may affect their work.</p>	<p>ACs can use the findings to guide their discussions with auditors and ensure that all identified issues are properly addressed.</p>
<div></div> <p>Ensuring high quality AFS is not the sole responsibility of auditors; it is a collective effort involving management, the Board of Directors and ACs - each playing a vital role in maintaining financial integrity and transparency.</p>		

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OVERVIEW OF REGISTERED AUDIT FIRMS AND INDIVIDUAL AUDITORS

REGISTRATION AND RECOGNITION STATISTICS

The number of firms and individual auditors has remained consistent year on year, with a slight increase in the number of registered individual auditors for Major Audit Firms and recognised Foreign Audit Firms.

TABLE 1

Registration and recognition of firms and individual auditors as of 31 December 2024 and 31 December 2023

	No. of audit firms		No. of individual auditors	
	2024	2023	2024	2023
Registered				
Major Audit Firms*	9	9	247	244
Other Audit Firms	28	28	130	130
Sub-total	37	37	377	374
Recognised Foreign Audit Firms#	5	4	16	13
Total	42	41	393	387

* Major Audit Firms are audit firms that have more than 50 PIE audit clients with a total market capitalisation of above RM15 billion.

Foreign auditors who audit foreign incorporated companies which are listed on Bursa Malaysia.

TABLE 2

PIEs and schedule funds audited by AOB-registered and AOB-recognised firms as of 31 December 2024 and 31 December 2023

	% of total no. of PIEs		% of total PLCs' capitalisation		No. of schedule funds		% of total net asset value (NAV)	
	2024	2023	2024	2023	2024	2023	2024	2023
Registered								
Major Audit Firms	75.8	77.8	95.1	95.2	1,319	1,293	99.3	98.5
Other Audit Firms	23.8	21.8	4.8	4.7	61	46	0.7	1.5
Sub-total	99.6	99.6	99.9	99.9	1,380	1,339	100.0	100.0
Recognised Foreign Audit Firms	0.4	0.4	0.1	0.1	-	-	-	-
Total	100.0	100.0	100.0	100.0	1,380	1,339	100.0	100.0

AOB INSIGHTS

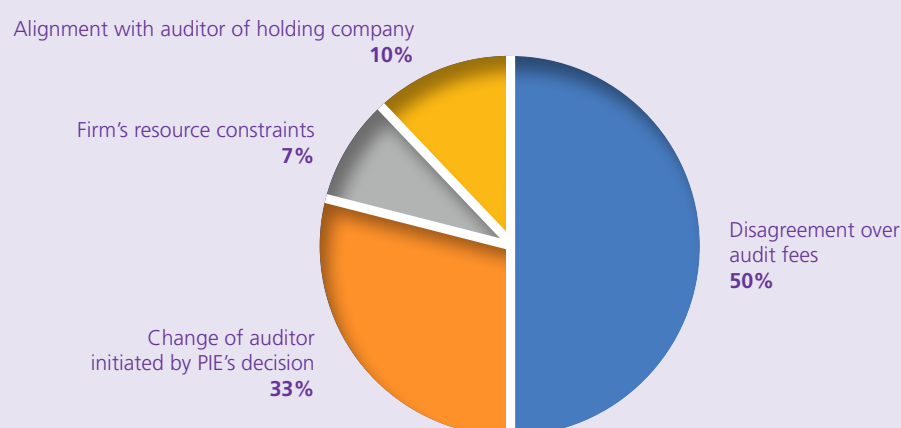
KEEPING A WATCH ON AUDITOR RESIGNATIONS

The reporting obligations relating to auditor resignations as set out in the AOB's *Guidelines on Continuing Obligations for Registered Auditors* (Guidelines) became effective on 1 July 2024. Accordingly, the AOB has started to monitor resignation of auditors after their clients' Annual General Meetings.

From 1 July 2024 to 31 December 2024, there were a total of 30 auditors resignations of which disagreement over audit fees have been noted to be a primary reason for the resignations as depicted in **Chart 1**.

CHART 1

Reasons for auditor resignations from 1 July 2024 to 31 December 2024



Disagreement over audit fees

Client movement between firms due to fee-related disagreements may occur as firms review the pricing of their audit services.

The AOB would like to remind the firms to appropriately price their audit engagements. Audit fees should reflect the time, expertise and professional effort required, while also considering the complexity of engagements and associated risks.

Firms are also reminded to initiate audit fee discussions with those charged with governance early in the audit cycle. This proactive approach helps to avoid resignations near clients' financial year-end, which could disrupt reporting timelines and audit continuity.

Change of auditors initiated by PIE's decision

One of the factors prompting a change initiated by the PIE is a change in the composition of board of directors and/or the ACs during the financial year, leading to a review of the existing audit arrangement and resulting in the appointment of a new auditor.

Resource constraints

Some firms have resigned from engagements due to resource constraints. Firms are reminded to assess their capacity to deliver quality audits before accepting new engagements. Effective manpower planning is essential to ensure sufficient qualified staff are available to support audit work throughout the year.



Resignation and Removal of Auditor

The AOB's *Guidelines on Continuing Obligations for Registered Auditors* requires an outgoing auditor to provide a written notification to the AOB within five business days after the auditor issued the notice of resignation to the PIE audit client. Submission needs to be accurate and transparent, and include specific reasons and circumstances that gave rise to the resignation and any key audit concerns that relate to the PIE audit client's annual financial statements.

AUDIT QUALITY INDICATORS: KEY OBSERVATIONS AND TRENDS

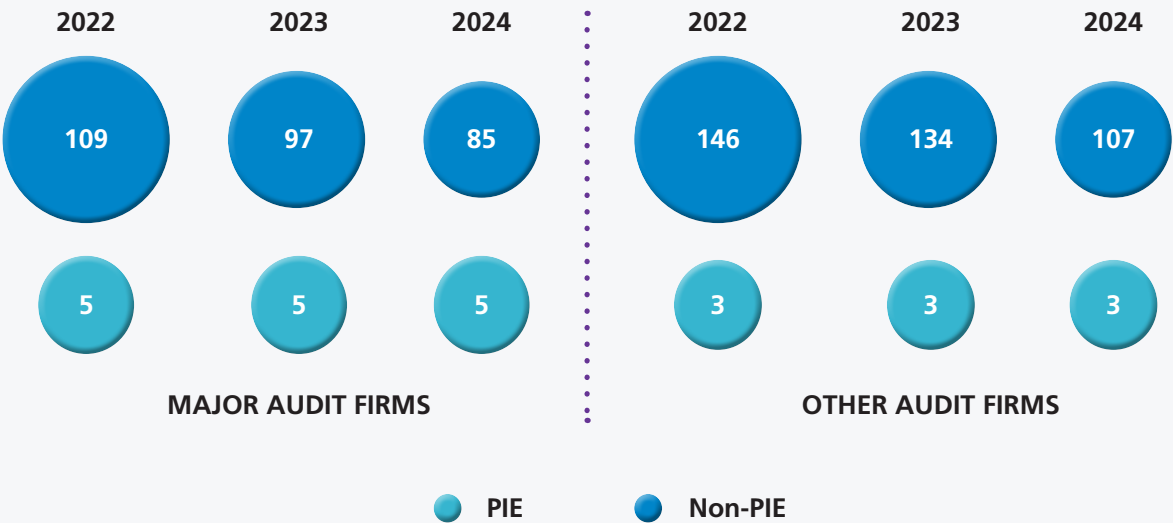
The AQIs submitted by the Major Audit Firms and Other Audit Firms to the AOB annually provide valuable insights into the key indicators that may contribute towards audit quality. Hence, audit committees are strongly encouraged to use the information in this report as a basis to engage their auditors on their AQIs to promote continued focus on audit quality as well to evaluate the appointment and re-appointment of the auditors.

AUDIT PARTNER WORKLOAD

An audit partner’s workload increases in tandem with the number of clients that the partner has to service, which comprises both PIE and non-PIE audit engagements. Over the years, the workload of the audit partners who perform the audits of PIEs has shown reductions.

Between 2022 and 2024, a downward trend was observed in the average number of non-PIE audit clients serviced by these partners. Audit partners from Major Audit Firms recorded an average reduction of 24 non-PIE clients per partner (22%), while those from Other Audit Firms saw a larger reduction, averaging 39 non-PIE clients per partner (27%). These reductions suggest improved workload distribution, enhancing partner focus on higher-risk PIE audit engagements.

Average number of PIE and non-PIE audit clients per partner

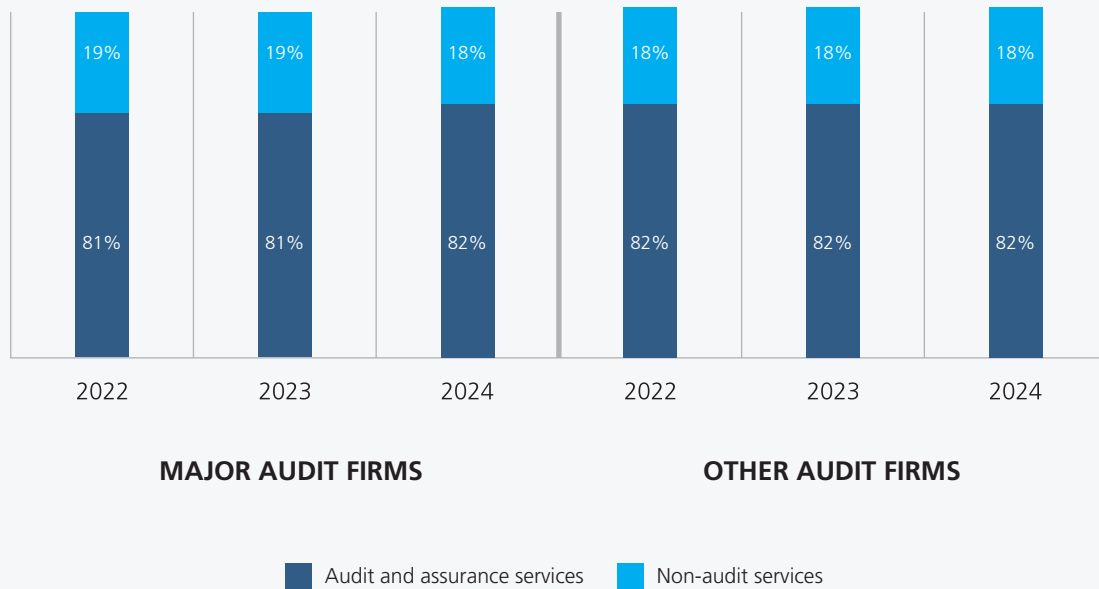


AUDITOR INDEPENDENCE

Firms may provide both audit and assurance services as well as non-audit services to their audit clients. However, when the proportion of fees derived from non-audit services exceeds that of audit fees, it could undermine auditor independence.

In 2024, 82% of the total fees earned from audit clients were attributed to audit and assurance services, as illustrated in the following chart. This suggests that, on average, audit-related fees remain the predominant source of income from audit clients.

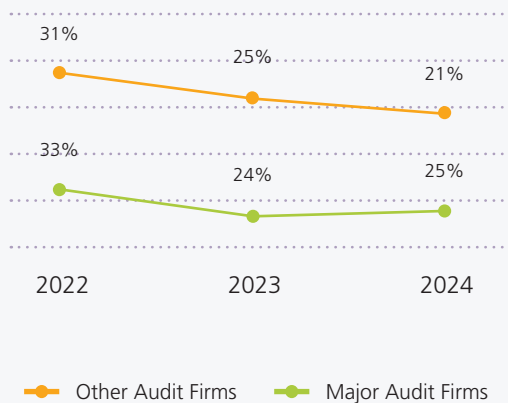
Proportion of fee income derived from audit clients



CAPACITY OF THE AUDIT PRACTICE

Capacity of the audit practice for both the Major Audit Firms and Other Audit Firms have collectively improved over the years. Since 2022, the staff turnover rate for both Major Audit Firms and Other Audit Firms have reduced while the combined total audit staff headcount has increased over the same period.

Staff Turnover Rate

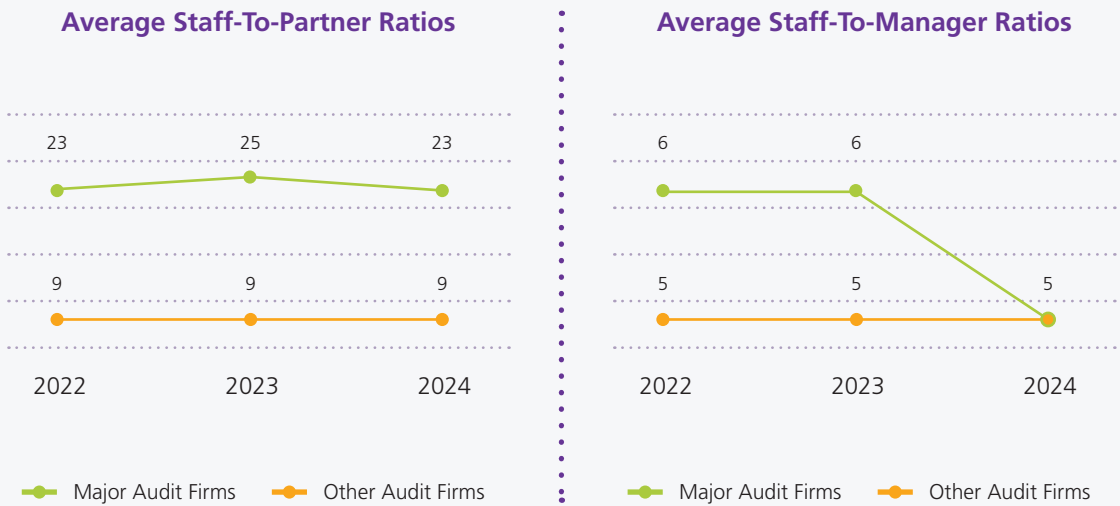


Audit Staff Headcount



AUDIT ENGAGEMENT SUPERVISION

The average staff-to-partner ratio and the average staff-to-manager ratio provide an overview on whether the firm has sufficient partners and managerial staff to supervise less experienced audit team members. A lower ratio would imply that a partner or managerial staff could accord greater attention to supervise audit engagement teams. Both ratios have remained relatively stable over the last three years.



AUDIT FIRM’S INVESTMENT TO PROMOTE AUDIT QUALITY

Firms have continued to invest in training to ensure that its audit personnel remain competent. As shown in the diagram below, there has been an uptrend in the average hours of training provided by the firms to their audit personnel from 2022 to 2024.



Based on these AQIs, there are indications that firms are actively addressing the adequacy of resources and the persistent challenge of high turnover rates, maintaining workforce stability and strengthening operational capacity.

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STRENGTHENING AUDIT QUALITY ACROSS THE AUDIT PROFESSION

FIRM LEVEL INSPECTION FINDINGS AND OBSERVATIONS

The AOB conducted firm level inspections on nine Major Audit Firms and three Other Audit Firms to evaluate their compliance with the International Standard on Quality Management (ISQM), which are ISQM 1 *International Standard on Quality Management 1* (ISQM 1) and ISQM 2 *International Standard on Quality Management 2* (ISQM 2) – which came into effect on 15 December 2022.

Firm's SOQM prescribed under ISQM 1:

1. The Firm's Risk Assessment Process*
2. Governance and Leadership
3. Relevant Ethical Requirements
4. Acceptance and Continuance of Client Relationships and Specific Engagements

5. Engagement Performance^
6. Resources
7. Information and Communication*
8. Monitoring and Remediation Process

* New components that have been introduced in ISQM 1. The other components are pre-existing from the previous quality control standard, ISQC 1, with some enhancements made.

^ Includes requirements stipulated in ISQM 2 for engagement quality reviews.

Common inspection findings and observations identified during the 2024 inspections of the Major Audit Firms and Other Audit Firms are outlined below:

COMMON INSPECTION FINDINGS AND OBSERVATIONS

Major Audit Firms

Acceptance of client relationships and specific engagements



The judgement by a firm on whether to accept a client relationship or specific engagement should take into consideration, among other matters, integrity and ethical values of the client including the management, and, when appropriate, those charged with governance (TCWG).

In assessing the integrity and ethical values of the client, the AOB has observed that the client acceptance procedures for some of the firms were not sufficiently robust. For instance, background checks on the client's principal owners and key management were not performed.



Firms are reminded to ensure that sufficient documentation is maintained on the evaluation performed along with the results of these procedures to support the client and engagement acceptance decisions made.

COMMON INSPECTION FINDINGS AND OBSERVATIONS

Major
Audit FirmsRelevant ethical
requirements

The *Malaysian Institute of Accountants (MIA) By-Laws (on Professional Ethics, Conduct and Practice)* requires a firm to obtain concurrence from TCWG prior to the acceptance of a non-audit service engagement involving PIE audit clients. The purpose of this requirement is to promote effective oversight by TCWG on auditors' independence.

During the inspection, the AOB noted instances where the above requirement was not complied with. In view that auditor independence is critical in fostering trust among investors towards the audit profession, firms are reminded to closely monitor its compliance with relevant ethical requirements.

Resources



Heavy workloads faced by audit staff for prolonged periods may result in burnout and staff attrition. The firms recognise this problem and have taken various measures to address the matter such as conducting periodic reviews of manpower requirements, commencing audits earlier, setting clear reporting deadlines with their audit clients, monitoring of portfolio assignments among audit staff and monitoring of time spent by audit personnel on audit engagements.

However, the AOB has observed during the inspection that while firms typically collate time spent by audit personnel on audit engagements, its intended purpose was primarily focused on identifying audit staff who are underutilised.



Firms are advised to enhance its procedures for the monitoring of staff workload by conducting periodic reviews of overtime hours incurred by audit staff on audit engagements. Audit staff who are frequently reporting high number of overtime hours are likely to face heavy workloads and should therefore be subject to follow-up by the firm to ensure that any heavy workload issues are appropriately addressed.

Other
Audit Firms

Firm's risk
assessment process



Monitoring process



The firm's risk assessment process is intended to facilitate the identification and assessment of any risks that may affect the achievement of audit quality. The process also involves the formulation of relevant controls to mitigate the identified risks.

During the 2024 inspection, the AOB observes that certain key risks have not been identified in the firms' risk register. The risks relate to the financial resilience of the firms when faced with lawsuits, lack of accountability by the firms' leadership for quality and the integrity of audit working papers after the file assembly date. These risks should be assessed and addressed accordingly by the firm.



Firms are also reminded to periodically review its risk register and to ensure proper documentation is maintained on the risk assessment process.

ISQM 1 requires for a firm to implement a monitoring process to enable the firm to assess the effectiveness of its system of quality management annually. During the 2024 inspection, some shortcomings noted are as follows:

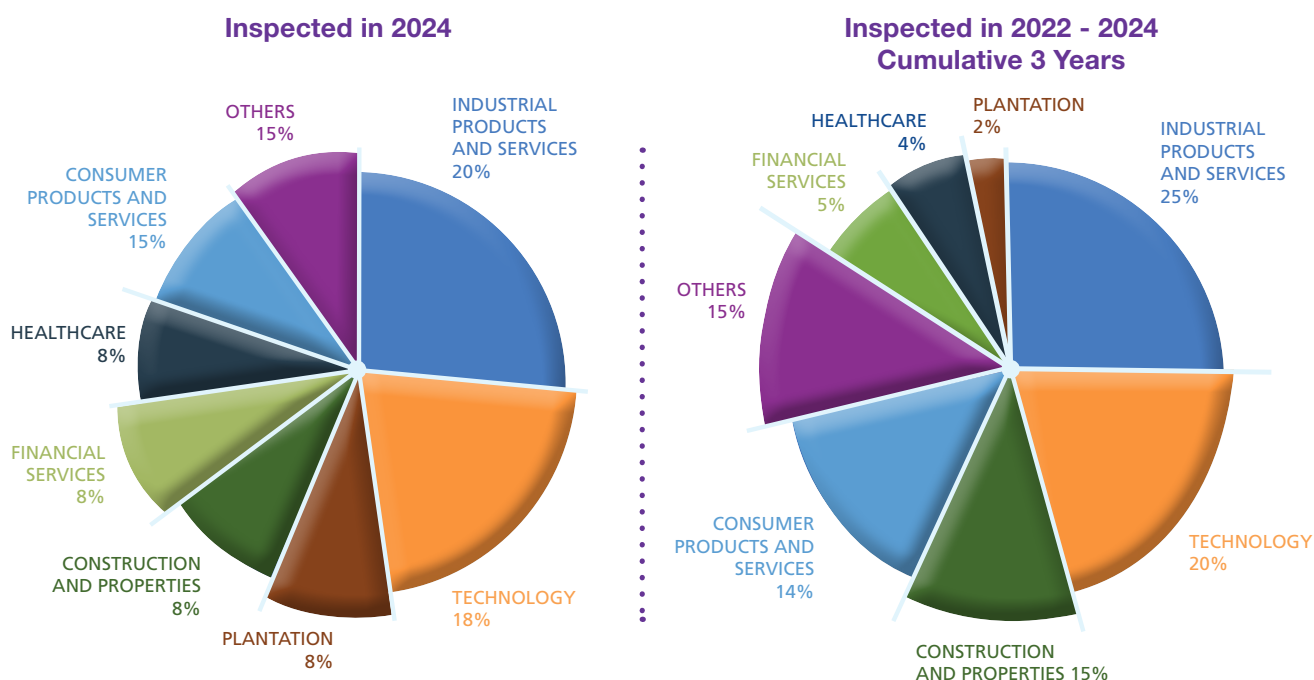
- Some firms did not maintain sufficient documentation to evidence the monitoring activities performed including the nature, timing and extent of the monitoring procedures that have been carried out. This raise concerns over the robustness of the monitoring process of these firms in assessing the effectiveness of their system of quality management.
- Certain firms also did not define a retention policy for documentation relating to their system of quality management although this is a requirement under ISQM 1.

Firms not scheduled for inspection in a given year may be selected for offsite monitoring based on the review cycle. This process focuses on the AQIs submitted. If analyses of the AQIs suggest the need for clarification, the firm is engaged to discuss observations and provide feedback. Based on the outcome, the firm may be considered for inclusion in the next inspection cycle, supporting a risk-based oversight approach and continuous audit quality improvement.

ENGAGEMENT LEVEL INSPECTION FINDINGS AND OBSERVATIONS

In 2024, inspections were carried out on 40 engagements across the nine Major Audit Firms and four Other Audit Firms. The industry distribution across the inspected engagements is summarised below:

INDUSTRIES COVERED BY THE AOB'S INSPECTION



*Others: Telecommunications and Media, Transportation and Logistics, and Energy

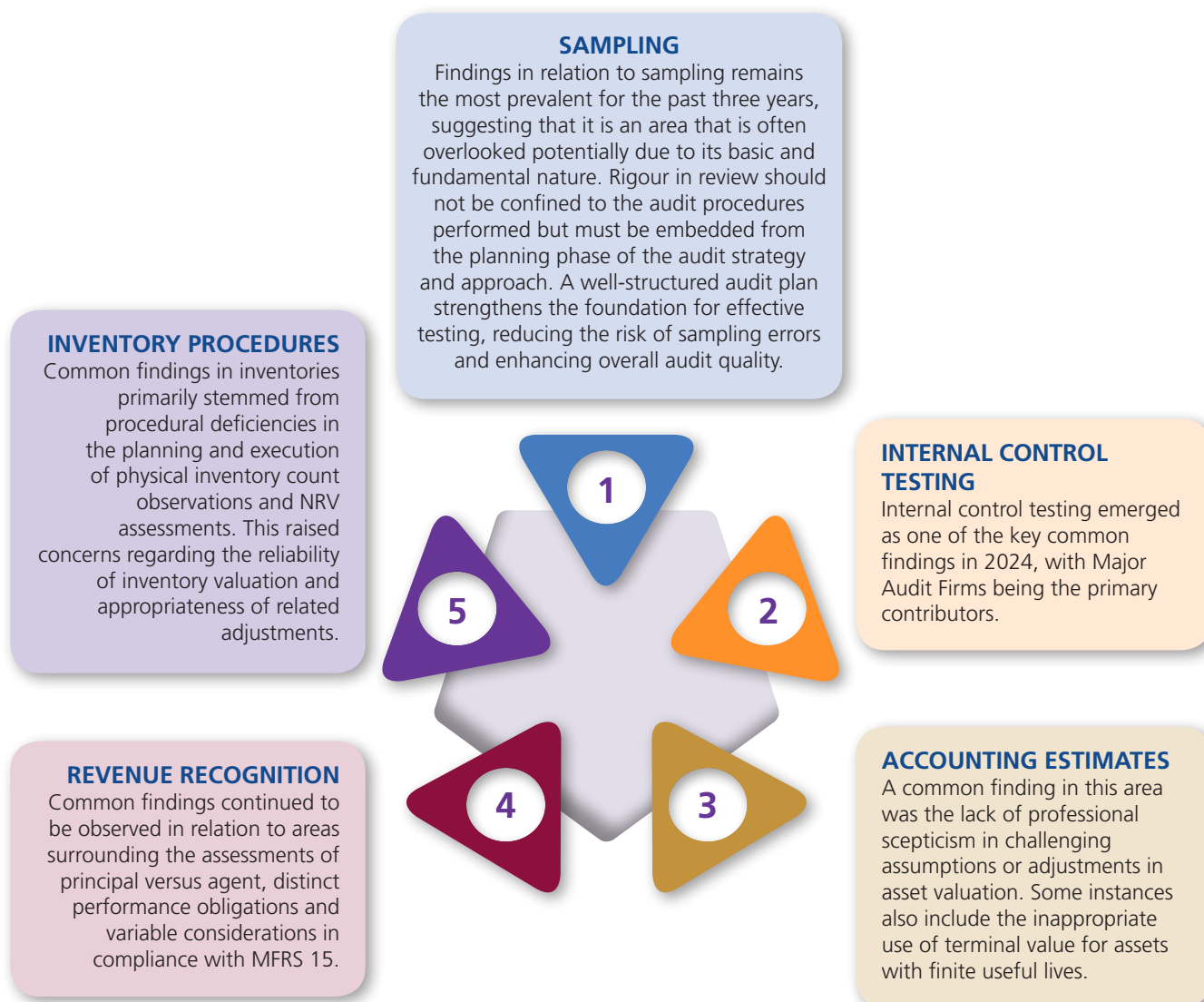
AREAS OF CONCERN BY INDUSTRIES INSPECTED IN 2024

INDUSTRY	AREAS OF CONCERN
Industrial products and services	<ul style="list-style-type: none"> Evaluation of the requirements of MFRS 15 <i>Revenue from Contracts with Customers</i> (MFRS 15), including the assessment of collectability and the review of contractual terms in determining appropriate revenue recognition Sufficiency of procedures performed for physical inventory count, assessment on net realisable value (NRV) and evaluation of slow moving inventories
Consumer products and services	<ul style="list-style-type: none"> Assessment of information technology (IT) application controls and processes surrounding IT systems Verification of the accuracy of key revenue components and compliance with MFRS 15
Technology	<ul style="list-style-type: none"> Assessment on the appropriateness of amortisation for software development expenditure Adequacy of procedures and evidence to support assessment of digital assets and revenue from digital assets trading
Financial services	<ul style="list-style-type: none"> Evaluation of controls effectiveness surrounding loans, advances and financing cycle as well as deposit from customers cycle Review of the appropriateness of expected credit loss (ECL) assumptions Verification of the accuracy of staging and month-in-arrears classifications Assessment of the accuracy and completeness of loan collaterals Evaluation of business arrangements surrounding money lending and financing instruments

COMMON FINDINGS FOR ENGAGEMENT REVIEWS

The common findings, as defined by the *International Forum of Independent Audit Regulators' (IFIAR) Survey of Inspection Results for Audit Firms*, are tracked annually to monitor trends and assess areas requiring further improvements. This section presents the top five common findings from engagements inspected in 2024 by the AOB.

Further elaboration and supporting case studies are also included to enhance understanding and guide remediation efforts.



The AOB observed that firms have made notable progress in reinforcing quality messaging and implementing measures aimed at enhancing audit quality. However, common findings in relation to sampling and accounting estimates continue to persist. Auditors need to consistently apply an appropriate degree of professional scepticism in the conduct of financial statements audits.

- Major Audit Firms are reminded to give due consideration to the inherent complexities of client entities to mitigate the risk of lapses in professional judgement when evaluating accounting estimates and the underlying assumptions.
- Other Audit Firms are reminded of the fundamental need to strengthen technical competencies and enhance the execution of basic audit procedures.

The remaining three most common findings are further elaborated in the following sections.

INTERNAL CONTROL TESTING

Effective internal control testing supports auditors in understanding the entity's risk environment and in determining the nature, timing and extent of audit procedures required. Findings in relation to internal control testing has emerged as one of the top five common findings in 2024.

In the absence of compensating controls and sufficient substantive testing, gaps or failures in performing internal control testing may compromise audit quality. The following are examples of deficiencies in internal control testing and consideration for auditors.

REMINDERS	
COMMON PITFALLS	WHAT SHOULD AUDITORS CONSIDER?
<p>Insufficient understanding obtained in relation to relevant business controls and processes</p> <ul style="list-style-type: none"> Understanding of system controls and processes was limited to documentation of flowcharts Dependence on full substantive audit procedures without performing any risk assessment and understanding of relevant processes 	<p>Understanding of the PIEs control environment and risk assessment process relevant to the preparation of the AFS is a requirement under the ISA 315 (Revised). Observation and inspection should supplement inquiries of management to support and corroborate information provided.</p>
<p>Inadequate testing of IT-related controls; IT general controls (ITGC) and IT application controls (ITAC)</p> <ul style="list-style-type: none"> Lack of IT specialists and expertise in the firm Identified risks insufficiently addressed by IT control testing procedures Reliability of system-generated reports used not tested Manual controls surrounding the system insufficiently identified and tested 	<p>Firms should ensure that it has sufficient capacity and capability to address the complexities of clients' ITGC and ITAC, particularly where the internal control environments and processes are heavily dependent on IT.</p> <p>The use of IT can introduce specific risks related to transaction flows and information processing. Firms should evaluate whether the design of planned audit procedures is adequate in obtaining sufficient appropriate evidence for concluding on the operating effectiveness of the identified controls.</p>



Firms are encouraged to strengthen their firm-wide methodologies, enhance training in relation to ISA 315 (Revised) *Identifying and Assessing the Risks of Material Misstatement*, and develop a thorough understanding of each client's business and the relevant key controls to ensure effective internal control testing.

AVOIDING COMMON FINDINGS: MFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

Although seven years have passed since the implementation of MFRS 15 *Revenue from Contracts with Customers*, the AOB continues to observe findings related to the application of this standard. These findings remain prevalent across inspected industries and have consistently ranked among the top five common findings in recent years.

Areas of Common Findings and Considerations for Auditors

New contracts with customers

What went wrong?

- Continued reliance on prior period's assessment, without sufficient consideration of new, unique or complex contractual terms introduced in the current period.
- The prior year's assessment was applied to newly executed contracts in the current year, potentially overlooking key updates in revenue recognition requirements.

What should auditors consider?

- Assessment should be performed for all new contracts entered during the year, while continuously re-evaluating any modifications to the contractual terms and agreements of existing contracts.
- This ongoing assessment ensures that revenue recognition remains aligned with MFRS 15 requirements, addressing any changes that may impact financial reporting.

Principal vs Agent relationship

What went wrong?

- Audit working papers lacked documentation of principal versus agent considerations and assessments, despite indicators suggesting that such a relationship could be relevant.

What should auditors consider?

- Auditors should evaluate whether the entity has appropriately assessed its role as a principal or agent considering indicators of control, the substance of contractual arrangements, and the implications for revenue recognition and disclosures.

Distinct performance obligations

What went wrong?

- Inadequate procedures performed to identify distinct performance obligations (PO) across various scopes of services in a contract.
- Insufficient understanding of multiple revenue streams within an entity, resulting in deficiencies in substantive procedures performed.

What should auditors consider?

- Auditors should identify all promised goods and services in a revenue contract and assess whether they are distinct and capable of being distinct within the context of the contract.
- Goods or services such as freebies, down payments, warranties, and testing services should be assessed as separate PO, particularly when they are available for purchase as standalone services.

Key estimates in variable considerations

What went wrong?

- Insufficient understanding of the controls and processes surrounding sales returns, discounts allowed, and other variable consideration terms within the contract.
- Auditors placed full reliance on management's estimates of variable consideration without adequately challenging the underlying assumptions.

What should auditors consider?

- Auditors should continuously challenge management's assessment to ensure that estimates of variable consideration adhere to the constraints under MFRS 15.
- Specifically, such estimates should only be recognised if it is highly probable that a significant reversal of revenue will not occur.

Accuracy of percentage of completion (POC)

What went wrong?

- Audit procedures related to budgeted costs were inadequate, particularly where these estimates were relied upon in computing the percentage of completion.
- Lack of procedures to understand the budgeting process, failure to assess the accuracy and completeness of budgeted costs, and the absence of variance analysis between the current and prior year's budgets.

What should auditors consider?

- Auditors should obtain a comprehensive understanding of the entity's budgeting process, including the preparation, review and approval of budgeted costs.
- Auditors should also assess the accuracy and completeness of these budgets, evaluate the reasonableness of key assumptions, and perform analytical procedures such as variance analysis against prior periods or actual results to ensure reliable financial reporting.

Revenue is one of the focus areas to the users of financial statements. Auditors are expected to apply high-level professional scepticism in auditing revenue, a key risk area requiring significant judgement. It is essential that audit procedures are consistently enhanced and that the thought process and intended objectives of procedures performed are well-documented and clearly substantiated by supporting evidence.



Active involvement by the engagement quality reviewer (EQR) in significant and high-risk audit areas should be a focal point within firms, reinforcing a leadership-driven culture that promotes audit integrity and rigorous oversight within firms. EQR contributes to the enhancement of the review process by providing objective and independent assessments in areas requiring significant professional judgement.

CHALLENGES IN AUDITING INVENTORIES

Inventories are considered as one of the key audit areas due to the following reasons:

- **Direct impact on profit:** Inventory valuation affects cost of sales and ultimately an entity's reported profit.
- **Voluminous nature:** In industries such as manufacturing and retail, inventories can be extensive, increasing the risk of misstatement and omission.
- **Fast-moving and perishable:** Without a robust inventory system, tracking real-time movement, obsolescence, and losses become complex with higher risk of misstatement.

Based on the inspections conducted in 2024, findings relating to inventories are most commonly observed for PIEs involved in manufacturing of industrial products such as electronics, semiconductors, steel products, latex and polymer products.

Some of the procedures in verifying the relevant assertions for inventories, such as inventory count and NRV testing, may entail complexities due to the nature and environment that the PIEs operate in. This may require a tailored audit strategy and approach to appropriately address the specific risks associated with the PIEs. Auditors are required to critically assess and consider all relevant assertions when designing these tailored procedures.

Physical Inventory Count Observations



Scenario 1: Complex nature of inventory

PLC A is principally engaged in the manufacturing and trading of high quality fertilisers. The inventory stored at the Company warehouse comprises bulk fertiliser kept in open bays and liquid fertiliser held in storage tanks. During the financial year, Firm Z, being a new auditor of the PLC without any prior experience auditing inventory of this nature, performed a physical inventory count by measuring the bulk and liquid fertilisers using basic measurement tools and dip sticks, with assistance from management. No specialist was engaged to assist them in verifying the existence and valuation of the fertilisers.



Scenario 2: Restrictions during inventory count

PLC B designs and sells semiconductor products and keeps inventory at several locations in Malaysia. For the year ended 31 December 2023, Firm Y attended PLC B's physical inventory count on 30 November. Due to safety and security restrictions, the auditors were unable to access certain locations. Pre-selected samples were provided to management ahead of the inventory count allowing internal arrangements. Consequently, roll-forward procedures were confined to the tested locations only.



Scenario 3: Multiple inventory locations

PLC C owns and operates 15 restaurant branches nationwide. For the audit of the financial year ended 31 December 2023, Firm X attended physical inventory count at only three branches located in the Klang Valley identified as higher risk due to past discrepancies. No rotation of branches had been performed in previous audits, and the remaining 12 branches, including those in other regions, were never visited.



Scenario 4: Differentiation of mixed inventories

PLC D is principally engaged in manufacturing and trading of industrial products. The inventory population comprises a mix of company products and consignment stock, which are stored together in the same area. The only way to differentiate consignment items is by scanning individual product barcodes and verifying their status in the system. This was not performed during inventory count with management. As a result, discrepancies were noted resulted from lack of controls over segregation and separation of inventories.



WHAT SHOULD AUDITORS CONSIDER?

- Obtain sufficient understanding of the nature of inventories and related inventory process including management's inventory count process.
- In addressing inventories of complex nature, ensure dedicated resource team possess the requisite specialised skills and knowledge. Where necessary, consider involvement of specialists.
- Where inventories are situated on offshore platforms in the oil and gas sector, auditors should proactively engage with management to anticipate any access limitations arising from safety or operational constraints. This may include ensuring audit team members have completed the relevant safety training or obtained the necessary certifications. Firms should also consider deploying dedicated resources with the specialised skills required to perform effective procedures.
- Assess the appropriateness of inventory counts conducted at selected locations, ensuring that the sampling methodology provides reasonable assurance over inventory existence and completeness.
- Evaluate whether reasonable alternative procedures can be obtained in addressing untested locations, including testing of inventories system.
- Consider rotation of inventory locations, ensure material inventory locations are appropriately covered and that controls over inventory movements are in place.
- Perform reconciliation on the entire inventory population, rather than limiting the assessment to a particular location, to capture any unrecorded movements between inventory count date and year-end.
- Effective roll-forward/roll-back procedures to account for changes in inventory levels, potential losses, or discrepancies, ensuring a more reliable assessment.

Auditors should remain cognisant that the primary objective of an inventory count is to physically verify the accuracy of inventory records and to identify and resolve any discrepancies. Accordingly, the AOB strongly encourages firms to communicate any pertinent and significant challenges encountered during the inventory count process to the appropriate level of PIE management and TCWG.

NRV assessment

Background

PLC E is principally engaged in the trading of construction materials. In testing the NRV of the inventories for the financial year ended 30 June 2024, a total of 30 samples were selected for testing. Of these, 14 samples did not have subsequent sales invoices, eight samples were compared to quotation lists, six samples were compared against sales invoices during the financial year, and two samples were compared to sales invoices dated after the audit report date.

NRV assessment observations



WHAT SHOULD AUDITORS CONSIDER?

In testing the NRV of inventories, firms often select samples and compare them with subsequent sales invoices without assessing the physical condition of the inventories, potentially overlooking damaged, obsolete or slow-moving items. A thorough physical inventory count observation is a critical input in determining NRV, as direct observation during count procedures help identify signs of damage, obsolescence, slow movement, or deterioration, which may not be evident in accounting records alone.

Sales invoices issued after the financial year-end are frequently used for NRV assessment. However, auditors should ensure that the net selling price - which includes selling costs such as commission, freight, packaging or any other expenses required to complete the sale - is incorporated into the NRV assessment. Auditors should obtain a detailed breakdown of these selling costs and verify their consistency with actual transactions.



When current selling prices are unavailable and management relies on quotation lists or historical sales invoices to estimate NRV, auditors must exercise heightened professional scepticism to ensure these sources reflect current market conditions, especially in volatile or declining markets. Auditors should evaluate the timing, reliability, and comparability of quotations, invoices or other sources used ensuring among others:

- The credibility and relevance of quotation lists and that these reflect actual market value rather than speculative pricing.
- Whether sales invoices reflect arm's length transactions rather than one-off promotional sales.
- Adjustments for completion and selling costs to arrive at net selling price.
- External market data (if available) to validate pricing assumptions.

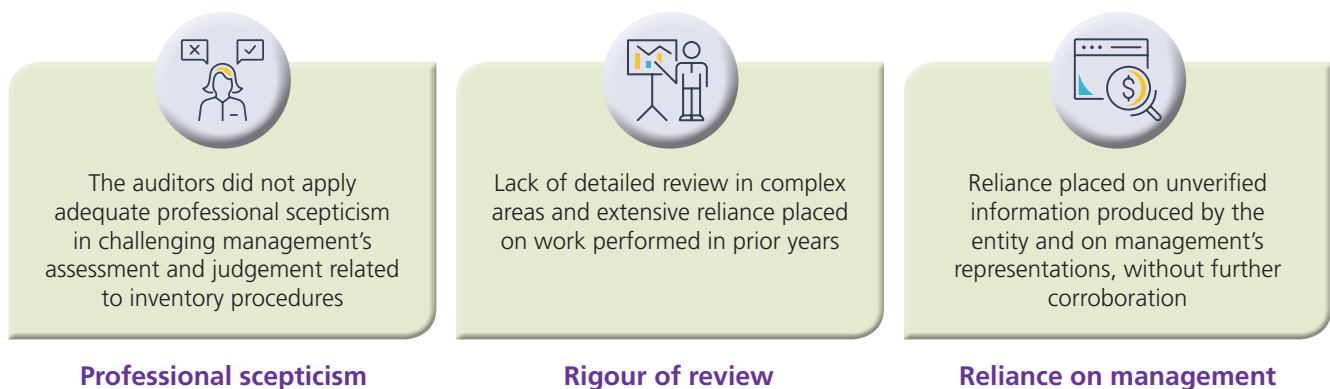
Further, some inventories are assessed in aggregate rather than individually, potentially masking necessary write-downs. Auditors should review management's grouping rationale to ensure items with NRV below cost are individually identified and adjusted.

In conclusion, auditors must rely on credible and relevant data when determining NRV. Supporting evidence such as recent sales data, quotation lists, and post-year-end transactions must be rigorously evaluated and management assumptions challenged when overly optimistic or unsupported.

During the inspection, the AOB noted certain possible root causes on the observations related to inventory as highlighted in Diagram 1 below.

DIAGRAM 1

Common root causes



“Effective inventory audits require auditors to thoroughly understand the PIE’s business operations, prevailing market conditions and other relevant external factors. Additionally, auditors must maintain and enhance professional scepticism by actively challenging management’s assumptions and reinforcing rigorous reviews within audit engagements.”

In addition to the top five findings highlighted above, the AOB continued to observe findings in the areas of loans and receivables as well as multi-location audits, both of which present significant audit complexity. While it did not form part of the top five findings, its recurring nature across engagements highlights the need for continued attention.

EVALUATING CREDIT RISK AND RECOVERABILITY

Assessing the recoverability of the trade receivables often posed significant challenges for auditors, particularly when management relies on common assumptions such as *“this customer is having long term business relationships with us”* or *“we have agreed on a repayment plan with them”* etc. Given that management’s assumptions should always be critically evaluated, what should auditors of PIEs consider, particularly in assessing material long outstanding debts?

The case study below aims to provide an overview and insights into the considerations that the auditors should take into account when assessing the adequacy of receivables’ loss allowances for PIEs.

CASE STUDY

BACKGROUND

PLC F primarily operates in the retail sector, selling goods and merchandise to departmental and specialty stores. As at 31 December 2023, the financial information of PLC F are presented below:



TRADE RECEIVABLES
RM175.6 million



REVENUE
RM230.1 million



TOTAL ASSETS
RM550.4 million



DEBTOR TURNOVER DAYS
279 days

Firm W has identified *‘Recoverability of trade receivables’* as a key audit matter due to the substantial balances involved and significant judgements applied by PLC F’s management in estimating ECL.

The receivables totalling RM175.6 million were primarily attributed to three major debtors. In assessing the recoverability of these customers, the following were noted:

Debtor	Outstanding balances 31 December 2023 RM’ million	Overdue more than a year RM’ million	ECL allowances RM’ million	Net exposure RM’ million
A	43.2	43.2	(3.7)	39.5
B	15.8	12.0	(2.8)	13.0
C	13.1	8.7	(1.9)	11.2
Total	72.1	63.9	(8.4)	63.7

Although PLC F received minimal subsequent payments from the aforementioned debtors, Firm W concluded that no additional loss allowances were necessary, primarily due to the draft repayment plan with Debtor A and the proposed settlement plan with Debtor B.

EXAMPLE SCENARIO 1: WHAT WENT WRONG?



When assessing the recoverability of the material long outstanding debts, auditors are often presented with repayment plans agreed upon by the relevant debtors. However, the AOB has frequently observed that these repayment plans are not independently evaluated by the auditors. In some cases, the repayment terms may be unrealistic or lack supporting evidence, such as a detailed cash flow analysis to substantiate the debtors' ability to meet the repayment schedule. This raises concerns about the enforceability and consequently the credibility of such repayment plans.



WHAT SHOULD AUDITORS CONSIDER?

Auditors should independently assess the creditworthiness of debtors such as obtaining credit risk rating reports from reputable credit rating agencies. When minimal subsequent receipts are observed during the audit, auditors must carefully evaluate the debtors' capability to meet repayment obligations. This includes, *inter alia*, reviewing historical repayment trends and analysing the debtors' financial information/statements to assess their ability to settle the outstanding amounts. Where the debtor is a PLC or a subsidiary of a PLC, their financial information would be readily available, allowing for a more informed assessment of repayment capabilities.

In the context where proposed settlement plans are requested by the debtors, auditors should examine the credit risk controls and governance framework established by the PIE to oversee and approve such arrangements. Additionally, auditors should review the agreed repayment terms, follow up with management on debtor repayments, and **critically assess whether debtors with a history of default are likely to honour the 'agreed' repayment plan.**

As for Debtor C, the management represented that they are currently negotiating and finalising a repayment plan with the debtor and remain confident that the outstanding amount will be fully recoverable in the next financial year.

EXAMPLE SCENARIO 2: WHAT WENT WRONG?



Corroborating management's representation can be challenging. When assessing the collectability of outstanding balances, management may rely on industry experience and customer relationships, which are often informal. In the absence of a formal and committed repayment plan, auditors are faced with a challenging task in substantiating management's assumptions.



WHAT SHOULD AUDITORS CONSIDER?

In circumstances where management asserts that material overdue balances will be collectible despite minimal subsequent receipts, auditors should review and examine official correspondences between the PIE and debtors which would have clearly outlined the terms and conditions of the repayment plan. Obtaining direct confirmation from the debtor is essential to verify the existence and specifics of the repayment plan.

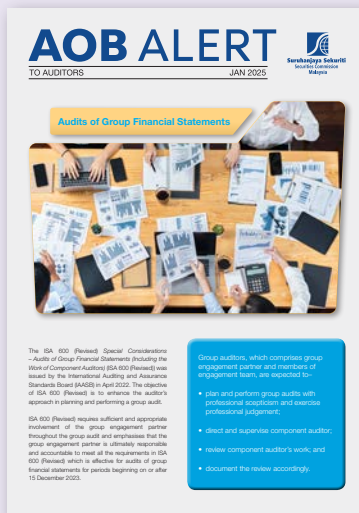
Additionally, auditors should request a written representations from the management regarding the recoverability of loans and receivables, as well as the status of negotiations with the debtor, in line with ISA 580 *Written Representations*. However, it is imperative to note that while written representations serve as audit evidence, management's representation alone do not provide sufficient appropriate audit evidence to substantiate recoverability. Auditors are reminded to exercise professional scepticism and apply judgement in forming their audit conclusion.

Independent directors, particularly AC members, play a vital role in overseeing and challenging management's assumptions on the recoverability of trade receivables. Where repayment plans are in place, AC members should critically evaluate management's documentation including agreed terms with debtors. AC members should also assess the adequacy of controls over collections, and ensure timely follow-up to monitor repayment progress.

AOB INSIGHTS

ISA 600 (REVISED): KEY UPDATES FOR GROUP AUDITS

Another area of common findings observed during engagement level inspections relates to multi-location audits, where the plausible root cause stemmed from insufficient evaluation of component auditors, including the work performed by the component auditors, and over-reliance on information provided by overseas audit clients.



The AOB Alert on ISA 600 (Revised) *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)* was issued in January 2025 to align with the revised standard, effective for group financial statements audits for periods beginning on or after 15 December 2023.

The revised standard aims to enhance auditors' approach to planning and executing group audits. The alert highlights key focus areas, providing guidance to group auditors on its application.



[Read the AOB Alert](#)



Auditors are advised to take into account key focus areas, considering the diverse complexities of group structures, industries and operating environments of PIEs. Additionally, AC members are reminded to remain vigilant about the requirements of the revised standard and ensure that the group structure remains up to date. Any changes should be promptly communicated to facilitate auditors in fulfilling their responsibilities under ISA 600 (Revised).

MONITORING AND REMEDIATION

A robust monitoring and remediation process is crucial towards ensuring that any key risks that would impact audit quality within firm are appropriately mitigated through the implementation of relevant controls. While the monitoring process is intended to enable an audit firm to assess the effectiveness of its system of quality management, the remediation process is focused on ensuring that appropriate and timely measures are taken to address any deficiencies found during the monitoring process.

Given the importance of the monitoring and remediation process, it remains a key area of inspection focus during the year. The AOB would like to encourage firms to further strengthen their monitoring and remediation process.

REMINDERS TO FIRMS ON THE MONITORING PROCESS



Assignment of operational responsibility for the monitoring and remediation process in the firm

Firms are required to identify an audit partner with sufficient experience and authority within the firm to be responsible for the monitoring and remediation process. This individual must be allowed to carry out his or her duties objectively without undue influence.



The firm's leadership accountability for the firm's system of quality management

The performance evaluation and reward for individuals holding leadership positions in the firm should take into consideration the results of the monitoring process. A firm must be able to demonstrate that its leadership is held accountable for significant deficiencies noted from the monitoring activities performed.



Sufficiency and adequacy of resources for the monitoring and remediation process

The effectiveness of a monitoring process is contingent on a firm's ability to deploy sufficient and competent resources to perform monitoring activities.

For smaller firms who may not have sufficient resources internally to perform the monitoring activities, they should consider obtaining external assistance from other firms or from professional bodies such as the Malaysian Institute of Certified Public Accountants (MICPA).



The design and performance of monitoring activities

A firm should take into consideration the results of its risk assessment process when determining the scope and extent of its monitoring activities. For instance, critical controls that have been identified to mitigate key risks affecting audit quality should be evaluated more frequently.

The AOB expects a firm to uphold audit quality across all its audits engagements. Hence, the selection of audit engagement files for monitoring reviews should not be limited only to certain types of audit clients such as PLCs. Non-PLCs that involve public interest should also be given due consideration.

ISQM 1 requires a firm to conclude annually on the effectiveness of its system of quality management in its entirety. Hence, a firm should ensure that the design of its monitoring activities is sufficiently extensive to support any conclusions made.



Evaluation of identified deficiencies

A firm should perform an objective and timely analysis of the root causes that have led to the occurrence of deficiencies noted during the monitoring reviews. Such analysis would help in the identification of appropriate remedial measures. Typically, more effort should be channelled towards addressing deficiencies that are found to be severe or pervasive.

In addition, firms should also determine whether any of the deficiencies noted during the annual monitoring review is recurring in nature. Recurring deficiencies is an indication that existing remedial measures are not effective. This would necessitate a re-assessment of the potential root causes and the identification of any other remedial measures that may be necessary.



Remediation of deficiencies

The AOB has observed instances of firms facing delay in the implementation of its remedial measures to address AOB inspection findings. The AOB would like to remind all firms of their responsibility to monitor and ensure timely remediation of deficiencies arising from both internal and external monitoring reviews including AOB inspections.

Firms are also reminded to provide early indication to the AOB during the firms' quarterly update to the AOB should the firm face difficulties in meeting the agreed timeline to remediate inspection findings. Actions can be taken on firm for failures to remediate AOB inspection findings without due cause.



Documentation relating to the monitoring process

All firms should maintain sufficient documentation relating to the monitoring and remediation process as required under ISQM 1. This includes documentation on the nature, timing and extent of monitoring activities performed, evaluation of deficiencies such as the results of the root cause analysis, remedial actions and their effectiveness and the basis of the conclusions reached in respect of the effectiveness of the firm's system of quality management.

The documentation should be retained for a sufficient period in accordance with the firm's policy.

IMPOSITION OF SPECIFIC REMEDIATION MEASURES

Pursuant to Section 31(V)(5A) of Part IIIA of the SCMA, the AOB may impose specific remediation measures on firms and/or individual auditors following inspection activities.

In 2024, such measures were imposed on 15 individual auditors and five firms to address identified gaps in industry and/or technical knowledge. These measures include the requirement to attend specific approved training programmes targeting relevant accounting standards and ISAs raised in the inspection report, and/or the implementation of internal quality reviews.

The outcomes of these remediation measures are required to be reported to the AOB within a specified timeframe. The AOB will monitor the progress of these remediation measures to ensure timely reporting and verify that the necessary corrective actions have been effectively implemented.

The AOB expects firms to undertake proactive and coordinated efforts to rectify identified deficiencies. This reinforces the timely implementation of corrective actions, supported by a robust internal quality monitoring framework. It also highlights the importance of ongoing reviews of internal procedures to ensure that audit personnel are adequately trained and consistently aligned with evolving accounting and auditing standards.

EFFECTIVENESS OF FIRMS’ REMEDIATION

In 2024, 12 firms were re-inspected by the AOB. The re-inspected firms which had recurring findings involved two Major Audit Firms and one Other Audit Firm. Refer to the chart below for the five-year trend of re-inspected firms with recurring findings.

CHART 4
Re-inspected firms with recurring findings



Recurring engagement review findings in 2024 relates to the following areas:

- Assessment of completeness and reliability of source documents used in selecting samples for testing.
- Assessment and response to the heightened risk of management override of controls.
- Impairment of property, plant and equipment.
- Review of controls and processes surrounding budgeting process and review of budgets.

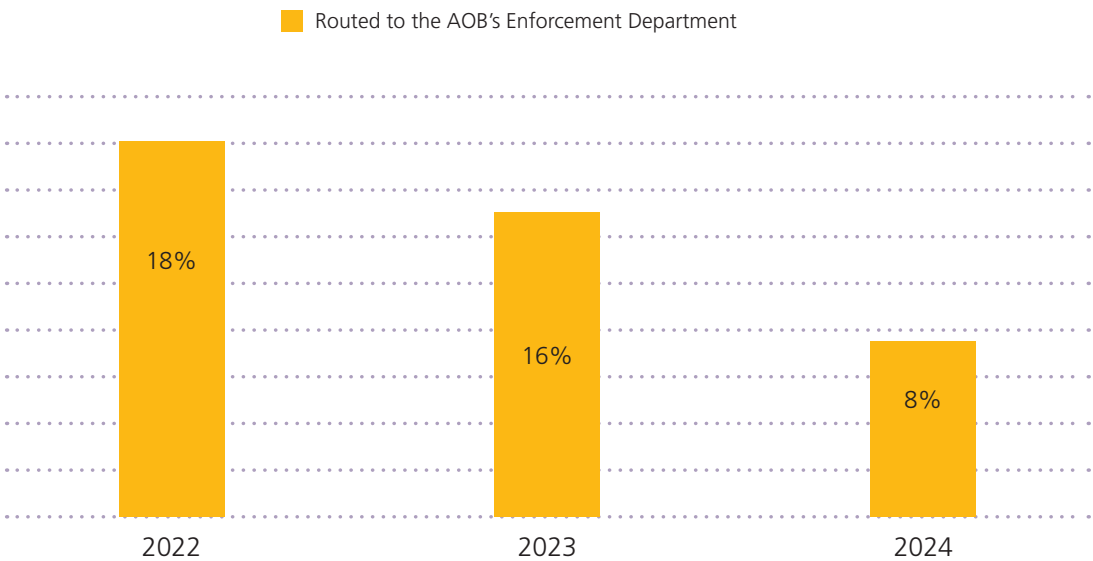
In view of the above, firms are encouraged to incorporate, as part of their monitoring activities, an assessment of the effectiveness of the firm’s remedial measures to address the AOB’s inspection findings. For instance, in performing engagement file reviews, the scope of the review may include audit areas relating to recurring inspection findings.

REFERRAL TO THE AOB’S ENFORCEMENT DEPARTMENT

In instances where significant non-compliance with auditing and ethical standards is identified, the engagement and/or the firm inspected may be referred to the AOB’s Enforcement Department for further assessment to determine on the appropriate enforcement action.

The number of inspected engagements referred to the AOB’s Enforcement Department has decreased by 10% over the past three years, with a significant 8% reduction in 2024, as illustrated in Chart 3.

CHART 3
Breakdown of inspected engagement routed to the AOB’s Enforcement Department



The continued decline in referrals to the AOB’s Enforcement Department reflects an encouraging shift towards improved audit outcomes. Firms are encouraged to build on this momentum by reinforcing quality management practices, strengthening remediation efforts, and fostering a culture of professional accountability.

ENFORCEMENT: DETERMINING APPROPRIATE ACTION

In line with the AOB's mandate to safeguard the integrity and reliability of audited financial statements of PIEs and schedule funds, a measured approach to enforcement is undertaken where sanctions imposed would be commensurate with the severity of the breach.

“Our guiding principle remains clear, to act decisively where there are breaches, while ensuring that our actions are proportionate, fair and transparent. Each enforcement matter is carefully assessed based on the nature, severity, and impact of the inspection findings.”

The nuances of each enforcement case are critical in determining whom the action will be initiated against and the appropriate enforcement action. The decision to initiate enforcement proceedings against individuals and/or firm depends on various factors. For instance, the roles and accountability of each party such as the engagement partner, EQR and firm would be taken into consideration.

Stricter actions are imposed in cases of multiple instances of failures to perform audit procedures, failure in key audit areas, failure to remain fit and proper, failure to comply with ethical standards and repeat offenders.

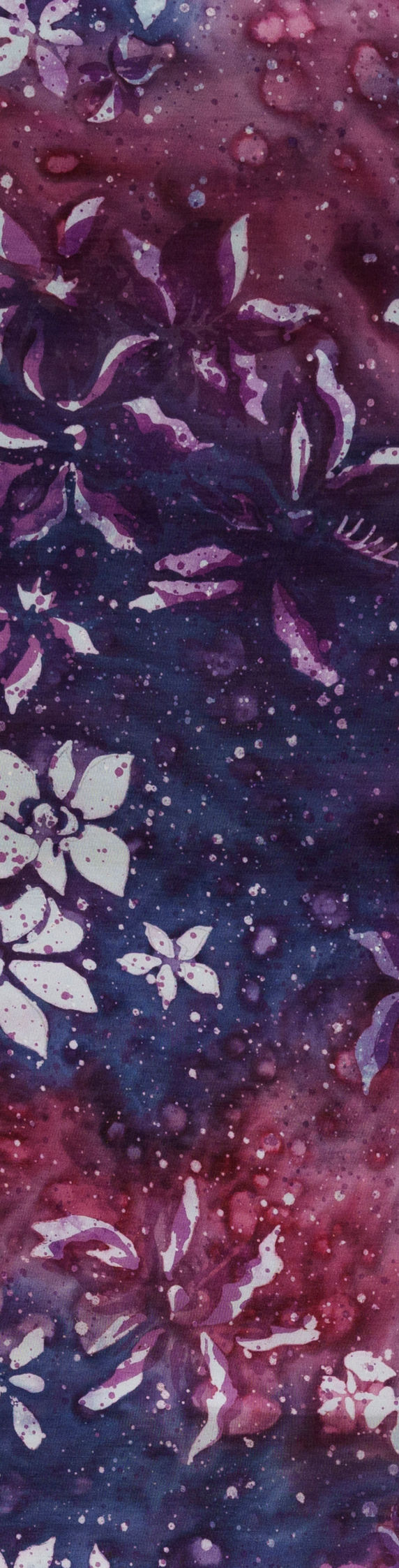
While it is recognised that the auditors can exercise professional judgement when arriving at an opinion, the basis of the audit opinion has to be supported with sufficient appropriate audit evidence. Action is taken in situations where there is no sufficient appropriate audit evidence to support the exercise of professional judgement.

When an enforcement proceeding is initiated against a firm, this often relates to findings that extend beyond an individual/partner's conduct. Some examples include:

- Deficiencies in the firm's ISQM framework, particularly where the findings point to systemic weaknesses in engagement performance monitoring and quality control.
- Repeated or severe engagement performance issues where the firm's oversight mechanisms failed to detect or prevent poor audit quality.
- Involvement of the firm's leadership, such as where a partner consults and takes into consideration consultations from technical or quality review partners, which implicates broader firm processes rather than the individual alone.

With every enforcement action, the AOB also considers the desired outcome it seeks to achieve. In instances where serious audit quality issues are noted due to lack of capacity and capabilities, registered auditors and firms are prohibited from accepting as clients any PIEs and schedule funds and auditing their financial statements. This action is to mitigate any risk of future failures in the capital market. The duration of the prohibition is determined after considering the facts of the case.

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CONCLUSION AND FUTURE DIRECTION

IMPACT OF CLIMATE RELATED DISCLOSURES TO FINANCIAL REPORTING

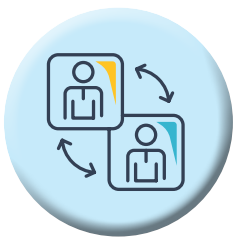
The *National Sustainability Reporting Framework* (NSRF) adopts a phased implementation approach, beginning with large Main Market listed issuers, with a market capitalisation of RM2.0 billion and above, from periods beginning 1 January 2025. This allows companies to progressively align with the *International Financial Reporting Standards (IFRS) Sustainability Disclosure Standards*, supported by transition reliefs and capacity-building initiatives such as the NSRF's PACE. As the framework takes effect, the integration of climate-related disclosures into financial statements represents a key regulatory and audit priority in 2025.

Management, ACs and auditors are expected to consider the reliability and consistency of climate-related assumptions embedded in financial reporting. The following highlights key considerations for these stakeholders in navigating the 2025 expectations and preparing for evolving assurance demands:



Management

- **Data governance:** Establish system for collecting, validating and reporting emissions and ensure traceability of climate-related data used in financial estimates.
- **Scenario analysis:** Integrate climate scenarios into financial planning, impairment testing and going concern assessments.
- **Cross-functional coordination:** Align finance, risk and sustainability teams to ensure consistent assumptions across disclosures.



Audit Committees

- **Oversight of integration:** Ensure climate-related assumptions (e.g. carbon pricing, transition risks) are reflected consistently across financial statements and sustainability disclosures.
- **Internal control review:** Evaluate robustness of internal controls over climate data, especially emission metrics and scenario inputs.
- **Assurance preparedness:** Assess whether disclosures are subject to internal review or external assurance, and whether the AC is equipped to oversee such engagements.



Auditors

- **Professional scepticism:** Challenge management's climate-related assumptions in areas such as asset valuation, provisions and ECL estimations.
- **Consistency of disclosures:** Assess whether climate-related disclosures align with financial statement judgements and estimates.
- **Sector-specific focus:** Tailor audit procedures to industry-specific climate exposures e.g. biodiversity risks in agriculture and supply chain disruptions in manufacturing.

As climate-related disclosures become increasingly intertwined with financial reporting, the audit profession stands at a critical inflection point. Closing the readiness gaps – whether in building climate risk competencies, strengthening climate data infrastructure, or embedding climate assumptions into financial estimates – will be pivotal to maintaining audit quality and reinforcing stakeholder confidence.

Auditors are expected to integrate these considerations into core audit areas such as impairment, provisions, ECL and going concern assessments, while preparing for rigour of reasonable assurance engagements under evolving standards. This shift reflects not only a raised compliance threshold, but also a broader transformation in audit oversight, aligned with Malaysia's sustainability ambition and growing demand for climate-resilient assurance.

The AOB will continue to focus on audit quality where climate-related disclosures intersect with financial reporting. Future inspection activities will place greater emphasis on auditors' evaluation of climate assumptions, application of professional scepticism and documentation of procedures in areas of significant risk. Firms are encouraged to proactively assess their internal capabilities, invest in climate-related upskilling and strengthen engagement with TCWG. These actions would be essential in ensuring that assurance remains fit-for-purpose in an increasingly complex reporting environment.



Other focus areas for management and auditors in discharging their responsibilities with regards to climate-related financial reporting, are included in the March 2024 issue of the AOB Alert to Audit Committees and Auditors on the *'Impact of Climate-Related Risks on Financial Reporting on Public-Interest Entities'*.



[Read the AOB Alert](#)

CONCLUSION: CONTINUED FOCUS ON AUDIT QUALITY

Adaptability and the ability to stay ahead of the curve are crucial for firms to sustain high quality audit services particularly with increasing use of technology by their clients, increased complexity in the business of the clients and new sustainability reporting requirements in Malaysia. Firms must proactively embrace these developments and leverage on the opportunities that they present.

To enhance operational capacity, firms are encouraged to strengthen initiatives such as increasing headcount, reducing staff attrition, and expanding training programs. Firms should continue to invest and leverage on technology to drive audit effectiveness and efficiency.

The 2024 inspection findings reflect ongoing opportunities for firms to enhance the quality of their engagements. Notably, the observations point to areas where further strengthening of governance and monitoring processes can support more consistent and effective audit outcomes.

FOCUS AREAS FOR 2025



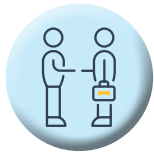
Firm Level Inspection

Focus of review is centred on the firm's governance and the monitoring and remediation processes to uphold audit quality within the firm.



Firm Culture Survey

A survey on the firm's culture will be conducted to evaluate the key cultural characteristics that should be present in firms surrounding the culture of quality, ethical behaviour, compliance, challenge, consultation and trust.



Engagement Level Inspection

The AOB will continue its thematic inspection of audit engagements within the financial sector and financial institutions. Additionally, a key focus will be the audit of companies with significant reliance on IT, particularly in evaluating the effectiveness of IT controls and the accuracy of transactions recorded through IT systems.

The AOB will also review the requirements of the annual transparency reporting to further enhance the accessibility of information on AOB registered firms to external stakeholders.

In addition, the AOB will continue to collaborate with MICPA to develop and deliver training programmes aimed at improving audit quality.

ACRONYMS AND ABBREVIATIONS

AC	Audit Committee
AFS	audited financial statements
AOB	Audit Oversight Board
AQI	audit quality indicator
ECL	expected credit loss
EQR	engagement quality reviewer
GHG	greenhouse gas
IFIAR	International Forum of Independent Audit Regulators
IFRS	<i>International Financial Reporting Standards</i>
ISA	<i>International Standards on Auditing</i>
ISQM	<i>International Standard on Quality Management</i>
ISQM 1	<i>ISQM 1 International Standard on Quality Management 1</i>
ISQM 2	<i>ISQM 2 International Standard on Quality Management 2</i>
ISSB	International Sustainability Standards Board
IT	information technology
ITAC	IT application controls
ITGC	IT general controls
Major Audit Firms	firms that have more than 50 PIE audit clients with a total market capitalisation of above RM15 billion
MFRS	Malaysian Financial Reporting Standards
MIA	Malaysian Institute of Accountants
MIA By-Laws	<i>MIA By-Laws (on Professional Ethics, Conduct and Practice)</i>
MICPA	Malaysian Institute of Certified Public Accountants
NAV	net asset value
NRV	net realisable value
NSRF	National Sustainability Reporting Framework
Other Audit Firms	firms other than the Major Audit Firms
PIE	public-interest entity
PLC	public-listed company
PO	performance obligations
POC	percentage of completion
Recognised Foreign Audit Firms	foreign auditors who audit foreign incorporated companies which are listed on Bursa Malaysia
SC	Securities Commission Malaysia
SCMA	<i>Securities Commission Malaysia Act 1993</i>
TCWG	those charged with governance

APPENDIX

AUDIT QUALITY INDICATORS STATISTICS FOR MAJOR AUDIT FIRMS

AQIs	2024	2023	2022
Workload of the PIE audit partner			
Average number of PIE audit clients per partner	5	5	5
Average number of entities related to PIE audit clients per partner <i>Note: Entities related to PIE audit clients are non-PIEs within the PIE Group, which are audited by Malaysian firms. Examples include, but are not limited to, subsidiaries and associates of PIEs.</i>	53	55	55
Average number of non-PIE audit clients per partner	85	97	109
Auditor independence			
Average proportion of fee income derived from the:			
a) Audit practice	48%	49%	48%
b) Non-audit practice	52%	51%	52%
Average proportion of fee income derived from audit clients segregated by:			
a) Statutory audit	74%	73%	73%
b) Other assurance services	8%	8%	8%
c) Services provided by non-audit practices	18%	19%	19%
Capacity and competence of the audit practice			
Average composition of audit personnel:			
a) Audit partners	5%	5%	5%
b) Managerial staff	17%	15%	15%
c) Non-managerial staff	78%	80%	80%
Average years of audit experience of the audit personnel:	Years	Years	Years
a) Audit partners	24	24	23
b) Managerial staff	10	10	10
c) Non-managerial staff	2	2	2
Professional qualifications of the audit personnel:			
a) Average percentage of personnel with professional qualifications and/or MIA membership	20%	21%	20%
b) Average percentage of personnel who are pursuing professional qualifications and/or MIA membership	66%	65%	65%
c) Average percentage of personnel without professional qualifications and/or MIA membership	14%	14%	15%
Average staff turnover rate	25%	24%	33%
Audit engagement supervision			
Average staff-to-partner ratio	23	25	23
Average staff-to-manager ratio	5	6	6
Audit firm's investment to promote audit quality			
Average hours of training provided by the firms to audit personnel	Hours	Hours	Hours
(a) Partners	92	84	77
(b) Managerial staff	91	86	75
(c) Non-managerial staff	83	79	74
Average ratio of audit staff to one quality control staff <i>Note: Quality control staff are involved in risk management, technical consultations, training and quality assurance functions of the firms either on full-time or part-time basis.</i>	39	43	39

Note: The AQI statistics above are derived from information submitted by the Major Audit Firms based on their financial periods ended 2022, 2023 and 2024 respectively.

AUDIT QUALITY INDICATORS STATISTICS FOR OTHER AUDIT FIRMS

AQIs	2024	2023	2022
Workload of the PIE audit partner			
Average number of PIE audit clients per partner	3	3	3
Average number of entities related to PIE audit clients per partner <i>Note: Entities related to PIE audit clients are non-PIEs within the PIE Group, which are audited by Malaysian firms. Examples include, but are not limited to, subsidiaries and associates of PIEs.</i>	26	25	27
Average number of non-PIE audit clients per partner	107	134	146
Auditor independence			
Average proportion of fee income derived from the:			
a) Audit practice	71%	71%	70%
b) Non-audit practice	29%	29%	30%
Average proportion of fee income derived from audit clients segregated by:			
a) Statutory audit	76%	78%	78%
b) Other assurance services	6%	4%	4%
c) Services provided by non-audit practices	18%	18%	18%
Capacity and competence of the audit practice			
Average composition of audit personnel:			
a) Audit partners	12%	10%	13%
b) Managerial staff	17%	16%	16%
c) Non-managerial staff	71%	74%	71%
Average years of audit experience of the audit personnel:	Years	Years	Years
a) Audit partners	24	22	24
b) Managerial staff	11	11	11
c) Non-managerial staff	2	2	2
Professional qualifications of the audit personnel:			
a) Average percentage of personnel with professional qualifications and/or MIA membership	33%	34%	34%
b) Average percentage of personnel who are pursuing professional qualifications and/or MIA membership	28%	28%	30%
c) Average percentage of personnel without professional qualifications and/or MIA membership	39%	38%	36%
Average staff turnover rate	21%	25%	31%
Audit engagement supervision			
Average staff-to-partner ratio	9	9	9
Average staff-to-manager ratio	5	5	5
Audit firm's investment to promote audit quality			
Average hours of training provided by the firms to audit personnel	Hours	Hours	Hours
(a) Partners	59	58	47
(b) Managerial staff	56	52	39
(c) Non-managerial staff	52	47	35
Average ratio of audit staff to one quality control staff <i>Note: Quality control staff are involved in risk management, technical consultations, training and quality assurance functions of the firms either on full-time or part-time basis.</i>	10	10	10

Note: The AQI statistics above are derived from information submitted by the Other Audit Firms for annual periods ended 2022, 2023 and 2024 respectively.

DESCRIPTION OF THE AUDIT QUALITY INDICATORS

AQIs	DESCRIPTION
Workload of the PIE audit partner a) Average number of PIEs per partner b) Average number of entities related to PIEs per partner c) Average number of non-PIEs per partner	<p>A partner's workload increases in tandem with the number of clients that the partner has to service. The heavier the workload, the lesser amount of time a partner would have to supervise the audit engagements.</p>
Auditor independence a) Average proportion of fee income between audit practice and non-audit practice such as tax, corporate advisory and consulting b) Average proportion of fee income derived from audit clients segregated into statutory audit, other assurance services and services provided by the non-audit practice	<p>The multi-disciplinary model of firms has enabled these firms to provide both audit and assurance services as well as non-audit services to their audit clients.</p> <p>When the proportion of fees derived from the offering of non-audit services to audit clients is relatively higher than the audit fees, there is a risk that the provision of non-audit services by the firm to its audit clients could undermine auditors' independence.</p> <p>Further, when the proportion of fee income from the non-audit practice of the firm is relatively higher than the audit practice, this raises the concern that the firm's focus on audit quality may be overridden by their non-audit business considerations.</p>
Capacity and competence of the audit practice a) Average percentage of audit personnel with professional qualifications and who are pursuing professional qualifications b) Average staff turnover rate for audit personnel c) Average years of experience of audit partners and audit staff	<p>These indicators would provide the ACs with an indication of the firm's ability to manage its talent pool particularly in ensuring that the firm has sufficient and competent talent to carry out quality audits.</p> <p>Talent retention continues to be a challenge faced by the audit profession due to stiff competition for accounting and auditing talent within Malaysia as well as abroad.</p> <p>As certain factors that drive these indicators are beyond the firms' control, it is also important for ACs to gain an understanding of the various mitigating actions taken by the firms to address capacity and competency issues.</p>
Audit engagement supervision a) Average staff-to-partner ratio b) Average staff-to-manager ratio	<p>These indicators provide an overview on whether the firm has sufficient partners and managerial staff to supervise less experienced audit team members.</p> <p>A lower ratio would imply that a partner or managerial staff could accord greater attention to supervise audit engagement teams.</p>
Audit firm's investment to promote audit quality a) Average hours of training provided by the firms to audit personnel b) Average ratio of audit staff to one quality control staff	<p>Training provided by the firm to audit personnel is important to ensure that they remain technically competent and kept up-to date with the latest changes in accounting and auditing standards.</p> <p>In addition, audit quality is also promoted within the firm through various quality control functions comprising training, technical consultations, risk management and quality assurance.</p> <p>A higher ratio of headcount in quality control functions relative to audit personnel headcount would indicate greater firm commitment to allocate resources to support audit quality.</p>

