

Suruhanjaya Sekuriti
Securities Commission
Malaysia

Audit Oversight Board Annual report 2018

Rationale for Cover Design

The cover design depicts an upward fluid weaving pattern. It represents a facilitative, dynamic, innovative and interconnected ecosystem of the AOB and its stakeholders.



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2019

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The cut-off date for the data included in this report was 31 December 2018.
Unless stated otherwise, all diagrams, tables and charts are sourced from the AOB.



Fostering high quality independent
auditing to promote confidence
in the quality and reliability of
audited financial statements of
public-interest entities and schedule
funds in Malaysia

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Chairman's Message



I am pleased to present the *Annual Report of the Audit Oversight Board (AOB)* for the year ended 31 December 2018.

As part of its mandate to assist the Securities Commission Malaysia (SC) to promote confidence in the quality and reliability of audited financial statements, the AOB continues to reinforce regulatory expectations through its three key functions – registration and recognition, inspection as well as enforcement.

Based on an analysis of its inspection findings in prior years, the AOB initiated an in-depth review of its existing registration criteria. The AOB felt that it was timely that greater measures are introduced to re-establish baseline quality that can better serve the Malaysian capital market in view of developments in

recent years. The New Criteria for Registration with the AOB was introduced in consultation with local professional accountancy bodies.

With respect of its enforcement efforts, the AOB took enforcement actions against 11 individual auditors and three audit firms for failure to comply with laws, regulations and auditing standards. The AOB takes cognisance that the registration criteria and inspections can only go so far in ensuring that auditors comply with the existing requirements. The AOB views its Enforcement function as a key aspect in its role of overseeing the work of auditors. The enforcement actions taken reinforces the AOB's commitment in upholding the integrity of the audit profession.

Maintaining Standards and Further Improvements

The acknowledgement received from the Asian Corporate Governance Association (ACGA) in its *Corporate Governance Watch 2018* (CG Watch 2018) is a recognition of the AOB's recent efforts. The CG Watch 2018 recognised the AOB as "one of the region's most effective audit regulators and probably the best communicator".

This global recognition is an impetus for the AOB to continue its efforts in maintaining standards as an audit regulator and to further improve audit quality.

Managing the Audit Expectation Gap

Auditing continues to play a critical role in the business environment and capital market by

providing assurance on the reliability of financial information to investors who would then be better informed when making investment decisions. However, recent research and observations have shown that auditors are increasingly under pressure, locally and globally, to detect fraud and prevent company failures. This is a clear indication that the gap between the role of an auditor and the market's expectations has not only persisted but has worsened in recent years.

Audit is but one key component towards ensuring the reliability of audited financial statements. It is thus timely for investors, management, directors and stakeholders to develop a better understanding of the scope and remit of an audit and their respective roles in the financial reporting ecosystem.

In this regard, the inaugural *2017 AOB Annual Inspection Report* was distributed to all public-listed companies (PLCs) to facilitate and enhance the directors' and Audit Committees' engagement with their auditors. The AOB will continue to make this a part of its annual practice and strongly encourages boards of directors and their audit committees to gain an understanding and discuss the findings as well as trends shared in the *AOB Annual Inspection Report* with their respective auditors to ensure that the risk areas specific to their entities are adequately addressed. Ultimately, all key components in the financial reporting ecosystem should effectively

play their respective roles in enhancing the quality and reliability of audited financial statements of public-interest entities (PIEs) and schedule funds in Malaysia.

Acknowledgement

On behalf of the Board, I would like to take this opportunity to thank Marzunisham Omar, Assistant Governor of Bank Negara Malaysia (BNM) for his contribution to the Board. I also welcome Hew Ee-Lu, Director, Insurance and Takaful Supervision of BNM to the Board.

I wish to convey my deepest appreciation to our Board members for their commitment and I thank fellow regulators, professional accountancy bodies and other stakeholders for their ongoing support and contribution.

To our management team and employees, thank you for your hard work and outstanding efforts. I look forward to reporting the AOB's continued progress in the years ahead.



Dato' Gumuri Hussain

PART ONE FOSTERING HIGH QUALITY INDEPENDENT AUDITING IN THE CAPITAL MARKET



INTRODUCTION

Audit quality is key in safeguarding public trust and strengthening investor confidence in reliable corporate reporting. One of the vital elements of upholding audit quality is effective audit oversight.

Building on the foundation of its achievements in the past, the AOB remains focused on its mandate to foster high quality independent auditing in the capital market.

While the AOB continues with its core functions, namely registration and recognition, inspection and enforcement, it is mindful and attentive to the increasing complexity of the audit industry. Drivers such as global economic uncertainties, technological disruptions and complexities in developments of global financial reporting standards are regularly monitored to ensure that the AOB's focus is current and relevant.

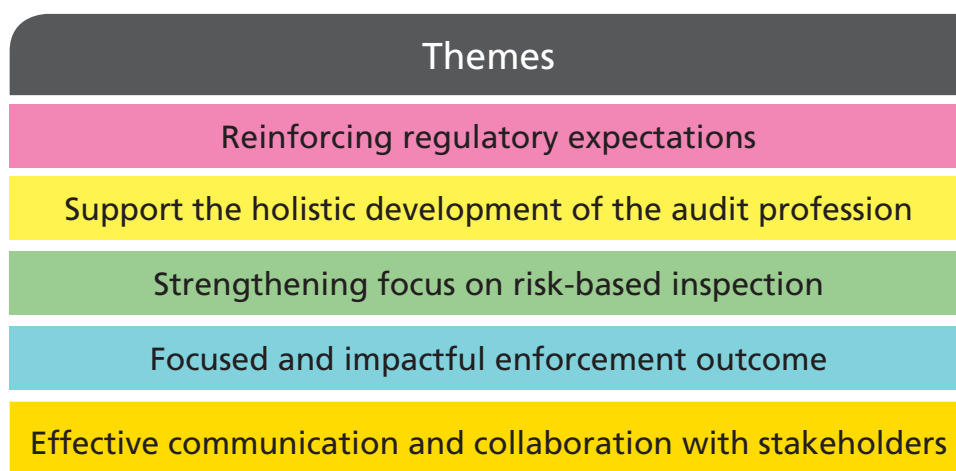
2018 marks the second year of the AOB's Strategic Plan 2017-2020. In an effort to provide more depth and breath to the implementation of the strategic initiatives, priority was given to the following strategic themes:

- Reinforcing regulatory expectations;
- Focused and impactful enforcement outcomes; and
- Strengthening the focus on risk-based inspection.

Highlights of activities in 2018 towards achieving the strategic themes are presented in the following sections.

Diagram 1

The AOB's Strategic Plan 2017 - 2020



Malaysia Ranked Top in the Area of Auditors and Audit Regulators in CG Watch 2018

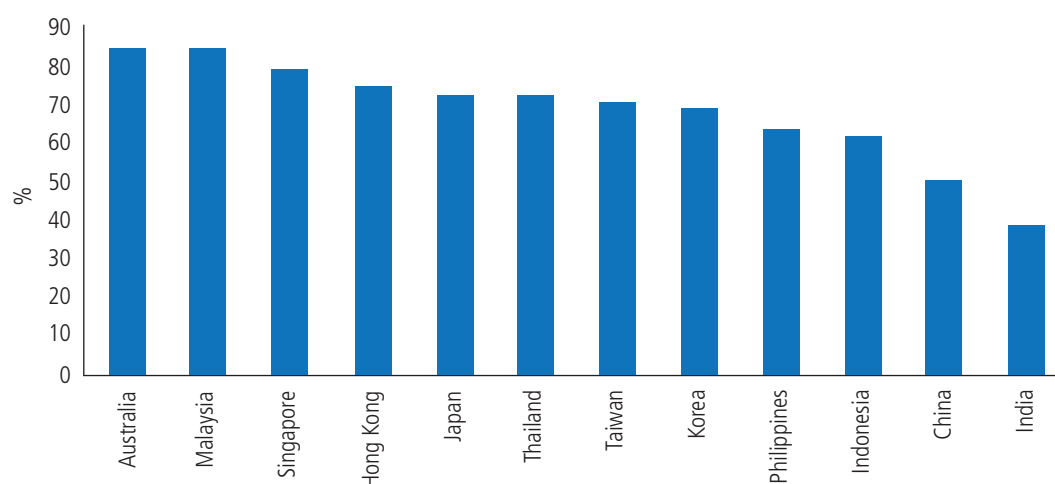
In the recently issued CG Watch 2018 by ACGA, Malaysia emerged as the biggest gainer moving from sixth place in 2016 to fourth in 2018, after Australia, Hong Kong and Singapore. This report is the result of a biennial survey by the ACGA and CLSA Limited (CLSA) of 12 Asian countries including Australia.

Malaysia scored above the regional average in several areas including the strength of its rules for corporate disclosure, governance and enforcement. Malaysia also scored the highest (tied with Australia) for the quality of accounting, auditing standards and practices, and the effectiveness of audit regulation.

The AOB was also recognised as one of the region's most effective audit regulators and probably the best communicator.

Chart 1

Auditors and audit regulators: scores by market



Source: ACGA

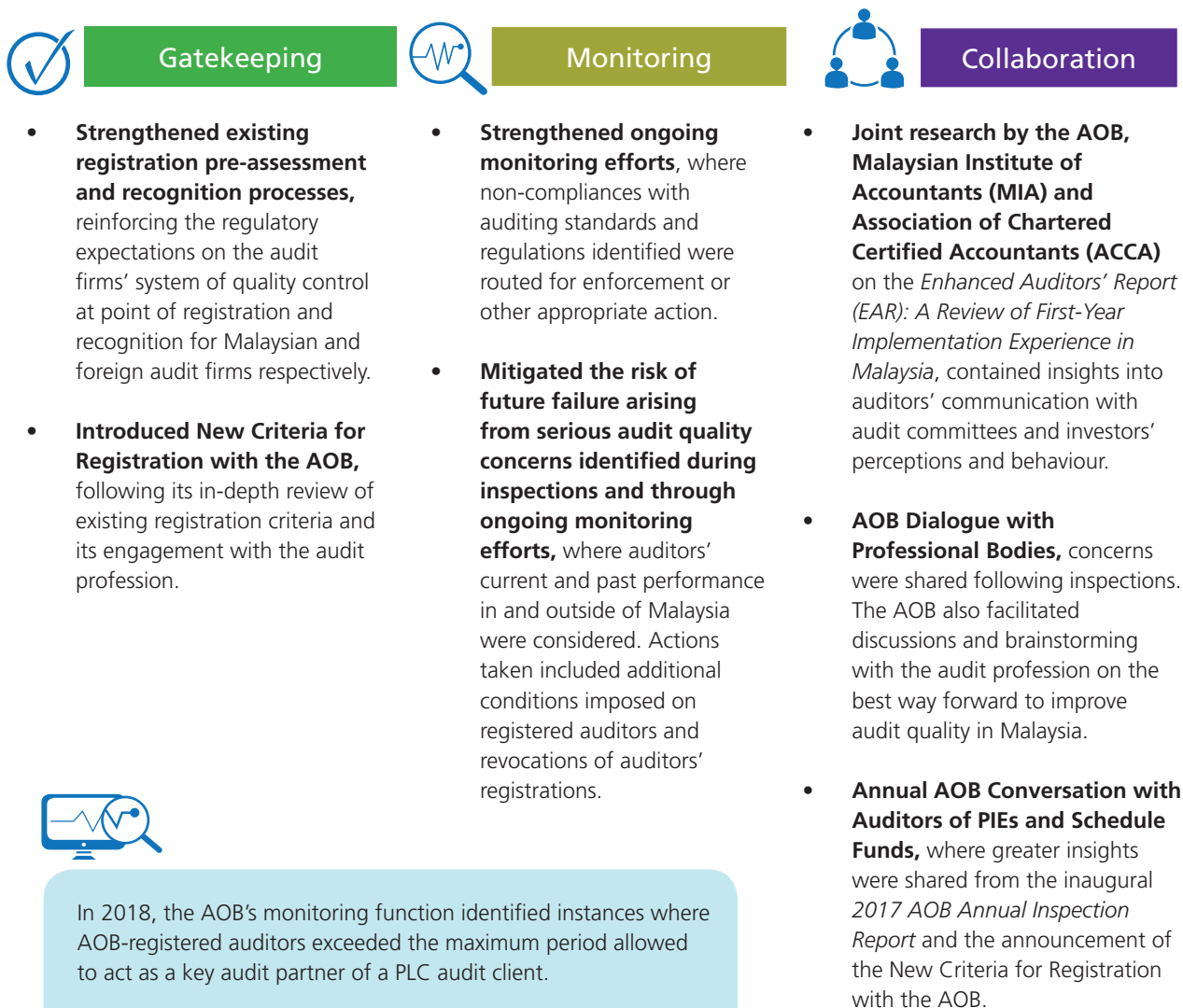
The ACGA commended the AOB on its inaugural *2017 AOB Annual Inspection Report* issued in March 2018, which provided details of its inspection programmes and insights into the structure and practices of the audit industry. The ACGA also noted that the issuance of the inspection report sets a good example for the region.

The AOB's enforcement actions as well as New Registration Criteria for Registration with the AOB were identified as proactive.

This is the ninth edition of the CG Watch.

REINFORCING REGULATORY EXPECTATIONS

The AOB continues to reinforce regulatory expectations through its three key functions – registration and recognition, inspection as well as enforcement. In 2018, this was achieved through the following key efforts:



In 2018, the AOB's monitoring function identified instances where AOB-registered auditors exceeded the maximum period allowed to act as a key audit partner of a PLC audit client.

These breaches of the *By-Laws (On Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants (MIA By-laws)* compromised the auditor's independence when conducting the audits.

The AOB views such ethical breaches seriously, and enforcement proceedings were initiated against the individual auditor as well as the audit firm.

New Criteria for Registration with the AOB

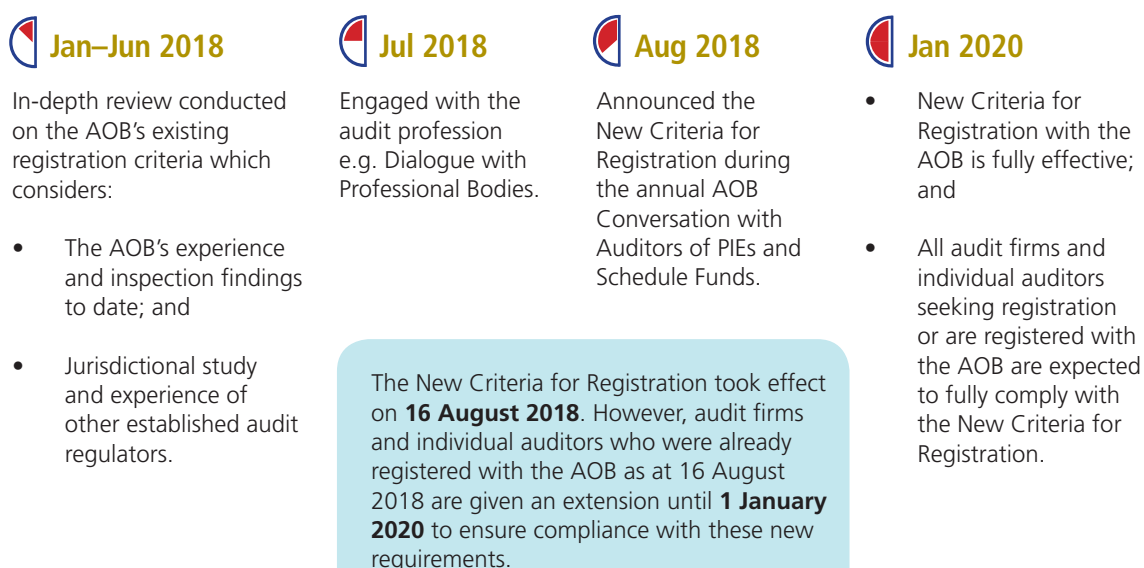
The AOB conducts regular inspections on audit firms and individual auditors to assess their compliance with auditing standards and regulations. Over the years, results of the AOB inspections raised concerns that:

- There were audit firms which lacked sufficient internal capacity at the partner level to effectively carry out audits of PIEs and schedule funds, and comply with partner rotation requirements under the MIA By-Laws;
- There were audit firms legally formed solely for the purpose of accepting PIE audit engagements. However, in substance, these audit firms outsourced the roles and responsibilities of the engagement partner (EP) and/or engagement quality control review (EQCR) partner. Consequently, when audit quality concerns arose, these audit firms were unable to exercise effective oversight and governance over the audit partners carrying out the audits of financial statements of PIEs or schedule funds; and
- There were audit firms registered with the AOB for a number of years which have yet to perform audits of financial statements for any PIEs or schedule funds since their registration. This raised questions whether these audit firms have serious intentions to conduct audits of financial statements of PIEs or schedule funds.

In view of the above, the AOB embarked on an in-depth review of its existing registration criteria in 2018 to ensure that its gatekeeping focus remains current and relevant, in line with the focus areas identified in the AOB's Strategic Plan 2017-2020. Further details on the review will be provided in the *2018 AOB Annual Inspection Report*.

Diagram 2

New Criteria for Registration with the AOB – Project Timeline



Following the review, which incorporated input from the audit profession, the AOB announced the New Criteria for Registration at the annual AOB Conversation with Auditors of PIEs and Schedule Funds on 16 August 2018. To address the above concerns, the criteria below are designed to enable audit firms in Malaysia to further grow and increase their capacity for the purpose of strengthening audit quality and achieving the desired outcomes:

Improvement of the audit firms' internal capacity

A **minimum of three audit partners in the audit firm must be registered** with the AOB for audits of PIEs and schedule funds

Strengthening audit firms' governance over their audit partners

An audit firm registered with the AOB shall ensure that all its **audit partners registered with the AOB are attached to only one audit firm at all times**. A person who applies for registration with the AOB must be an audit partner attached only to one audit firm unless otherwise exempted by the AOB

Greater accountability among audit firms over the EQCR process

The **EQCRs** of PIE and schedule fund audits must be carried out by an AOB-registered partner of the **same audit firm appointed as the auditor** of the PIE or schedule fund

Continued involvement in PIE or schedule fund audit clients

The **continued registration** of an audit firm with the AOB is **subject to the audit firm having at least one PIE or schedule fund audit client in the last 24 months**

STRENGTHENING THE FOCUS ON RISK-BASED INSPECTIONS

In accordance with Section 31V(1) of Part IIIA of the *Securities Commission Malaysia Act 1993* (SCMA), the AOB conducts regular inspections on auditors of PIEs and schedule funds with the objective of promoting high quality audits and reliable audited financial statements.

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

Further details on the inspection programme including common inspection findings, trend analysis and remediation efforts taken by the inspected audit firms will be presented separately in the *2018 AOB Annual Inspection Report*.

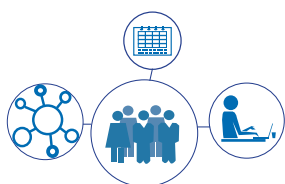
Diagram 3

2018 Inspection Coverage

6 Major Audit Firms



16 individual
auditors

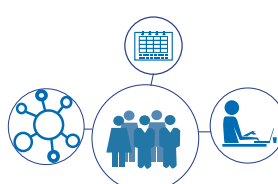


16 audit
engagements

7 Other Audit Firms



11 individual
auditors



13 audit
engagements

2018 Inspection Highlights

- Conducted regular inspections with a focus on the following economic trends, market concerns and developments in audit, accounting and regulatory areas:
 - The second year implementation of the *New and Revised Auditor Reporting Standards* which became effective for audits of financial statements with financial periods ending on or after 15 December 2016;
 - PIEs with going concern issues; and
 - Utilisation of Data Analytics (DA) tools by the Big-Four Audit Firms.
- Increased the number of special inspections to respond to risks that were newly identified during 2018.
- Actions taken in 2018 included:
 - Imposed additional registration conditions on an inspected audit firm and individual auditors, pending the conclusion of enforcement proceedings. This severe action was taken for the first time by the AOB due to the severity of the inspection findings and to mitigate potential risks of failure and potential impact to the capital market;
 - Specific remedial measures imposed on certain inspected audit firms and individual auditors; and
 - Referrals of certain inspected audit firms and individual auditors including EQCR partners to the Enforcement Department due to the severity of inspection findings.
- Issuance of the inaugural *2017 AOB Annual Inspection Report* and subsequently the distribution to all PLCs in an effort to facilitate and enhance the communication and engagement between Boards of Directors and/or Audit Committees and their auditors. The AOB strongly encourages Boards of Directors and their Audit Committees to gain an understanding and discuss the findings as well as trends shared in the report with their respective auditors to ensure that risk areas specific to its entities are adequately addressed.

FOCUSED AND IMPACTFUL ENFORCEMENT OUTCOMES

For the very first time in 2018, the AOB imposed prohibitions against auditors for failing to carry out their role as EQCR partners effectively and withdrew the recognition of a recognised foreign audit firm and individual auditor.

The EQCR partner plays an important role in the quality control process of an audit and is key to safeguarding audit quality. The action on the EQCR partners reinforces the gatekeeping responsibility in an audit engagement.

The enforcement actions imposed commensurated with the nature and severity of the matter. The AOB imposed stricter actions in cases of multiple instances of failures to perform audit procedures, failure in key audit areas, failure to co-operate and provide accurate and timely information to the SC, failure to remain fit and proper, and failure to comply with ethical standards.

In determining the appropriate enforcement action, the AOB considers the desired outcome it seeks to achieve. To mitigate any risk of future failures in the capital market, the AOB imposed prohibition on its registered auditors and audit firms from auditing any PIEs or schedule funds and/or accepting as clients any PIEs and schedule funds. This includes situations where the AOB has observed the lack of capacity and capabilities with the audit firm and/or auditor which may have an impact on the quality of audits of PIEs and schedule funds. The duration of the prohibition is determined by the AOB after considering the facts of the case.

Monetary penalties were imposed as a deterrent to send a strong signal to the auditors and stakeholders that non-compliance with auditing standards, laws and regulations are viewed seriously by the AOB.

Diagram 4

Enforcement actions for 2018



Note: *Out of 6 Prohibitions, 4 included monetary penalty totalling to RM475,000.
#Out of 5 Reprimands, 1 included a monetary penalty of RM225,000.

Diagram 5

The AOB's enforcement observations

Firm Review Findings

- Significant compliance gaps in the International Standards on Quality Control (ISQC) 1 elements that compromised the engagement performance quality
- Lack of commitment by the audit firm's leadership to ensure audit quality

Engagement Review Findings

- Failure to design and perform audit procedures in key audit areas, which included planning and risk assessments, consolidation and multi-location audits
- Lack of professional scepticism during the course of the audit engagement
- Breaches of ethical standards
- EQCR Partner was not effective in the review of the audit engagement

The AOB requires its registrants to remain fit and proper at all times. In 2018, the AOB revoked the registration of an auditor for failing to remain fit and proper. The United States' (US) Public Company Accounting Oversight Board (PCAOB) shared information with the AOB on its enforcement action against the auditor, which among others, included breaches of independence requirement. Independence is fundamental to an audit engagement and the AOB has been very clear with its expectations that breaches relating to ethical standards will not be tolerated.

The recognition of a Singapore-based audit firm and its partner was withdrawn by the AOB for their failure to co-operate with the SC. The audit firm and the partner failed to co-operate with a request for audit evidence in respect of an audit client, a PLC and its subsidiaries, within a prescribed time.

The AOB took to task the audit firm, EP and EQCR partner for findings noted in its engagement

review of three PLCs. The audit firm, EP and EQCR partner were prohibited from auditing the financial statements of a PIE or schedule fund for nine months. In addition, the EP and the audit firm were fined RM81,000 and RM227,000 respectively.

Similarly, enforcement actions were taken by the AOB against another audit firm, EP and EQCR partner for failures noted in its inspection in respect of a PLC. The audit firm, EP and EQCR partner were prohibited from accepting as audit clients any PIEs or schedule funds, and prohibited to audit any PIEs or schedule funds for 12 months. The audit firm and EP were also imposed with a monetary penalty of RM123,000 and RM44,000 respectively.

The AOB imposed five reprimands for failure to comply with certain requirements of the *International Standards on Auditing* (ISAs). One of the reprimands included a monetary penalty of RM225,000.

Strategic Enforcement

The AOB's enforcement function is a vital component of its mission to promote confidence in the quality and reliability of audited financial statements of PIEs and schedule funds in Malaysia. Its enforcement actions are not just about taking registrants to task for non-compliances but also used to deter others from engaging in similar behaviour.

Diagram 6

The AOB's Regulatory Principles

Proportionality

The AOB does not take any action that exceeds what is required to achieve the objective of strategic enforcement

Efficiency

The AOB is mindful that to have the necessary impact, the matter has to be dealt with in a timely manner

Achieving the desired outcome

The AOB focuses on identifying and prioritising efforts in taking enforcement actions that will effectively steer the AOB registered and recognised auditors' behaviour towards its expectations of behaviour and conduct

Enforcement Goals

- Mitigate the risk of future failures
- Send a strong signal that non-compliance with auditing standards, ethical standards, laws and regulation will be taken seriously
- Positively influence behaviour of the firm and individual auditor in breach
- Ensure consistency in the regulatory actions taken by the AOB

EFFECTIVE COMMUNICATION AND COLLABORATION WITH STAKEHOLDERS

The quality of financial reporting is a shared responsibility among directors, management, auditors, and regulators. In 2018, the AOB continued to reach out to a wide cross section of stakeholders.

The AOB's ongoing involvement and contribution at global and regional levels through the International Forum of Independent Audit Regulators (IFIAR) and the ASEAN Audit Regulators Group (AARG) facilitated mutual sharing of valuable insights into audit regulatory best practices. The AOB shared the Malaysian trends and good practices observed from the AOB, MIA and ACCA joint study on the *Enhanced Auditors' Report: A Review of First-Year Implementation Experience in Malaysia* launched in January 2018. The AOB also subsequently shared its experience with fellow regulators interested to conduct similar studies in their respective jurisdictions.

Diagram 7

The AOB's capacity building and collaborative efforts in 2018

Directors and management

- Worked closely with the SC's Corporate Surveillance Department and Bursa Malaysia to engage directors and management of PLCs as well as share key concerns and findings noted during the AOB's inspections

Auditors

- Continued to share the AOB's regulatory expectations and common inspection findings through speaking engagements and at the annual AOB Conversation with Auditors of PIEs and Schedule Funds
- Engaged with the audit profession to identify solutions to address common inspection findings, e.g. through Dialogue with Professional Bodies

Regulators

- Increased co-operation with the Accountant General's Office to strengthen Malaysia's audit licensing process
- Participated in a regional roundtable discussion to contribute views and regulatory concerns from the AOB's experiences in relation to the consultation paper, *Strengthening the Governance and Oversight on the International Audit-Related Standard Setting Boards in the Public Interest*, issued by the Monitoring Group¹
- Shared key audit oversight and regulatory experiences with other foreign authorities such as the Ministry of Finance of the People's Republic of China, the Audit Oversight Board of Pakistan and the Capital Markets Authority of Saudi Arabia

¹ The Monitoring Group consists of the International Organization of Securities Commissions (IOSCO), the Basel Committee on Banking Supervision (BCBS), the European Commission (EC), the Financial Stability Board (FSB), the International Association of Insurance Supervisors (IAIS), the World Bank Group (WBG) and IFIAR.

2018 KEY STAKEHOLDERS ENGAGEMENT AT-A-GLANCE

25 JANUARY 2018

The AOB-MIA-ACCA Joint Study on Enhanced Auditors' Report: A Review of First-Year Implementation Experience in Malaysia

The AOB, MIA and the ACCA jointly issued the *Enhanced Auditor's Report (EAR) – A Review of First-Year Implementation Experience in Malaysia*. The study explored the impact of the first generation of EAR issued in Malaysia, focusing on auditors' communication with audit committees and the perceptions as well as behaviour of investors.

Results of the study were based on the review of the EARs and annual reports of 190 companies listed on Bursa Malaysia with financial periods ended 31 December 2016. It also included survey and focus group feedback from over 170 audit committee members and investors.

Key findings:

- Audit committee discussions on financial reporting risks with auditors and management are more focused and robust, putting audit committees in a stronger position to ensure accountability on behalf of the investors;
- The audit process has been strengthened through more visible audit partner involvement in discussions with audit committees due to the need for in-depth deliberation and discussion of Key Audit Matters (KAMs) in particular;
- Management teams are taking greater efforts to improve disclosures in annual reports, following discussions on KAMs; and
- The EARs have improved the relevance and value of the auditors' report. Investors have gained insights into the financial reporting risks of the companies invested in and the audit process.

The full report is available on the SC website.



30 JANUARY 2018

Monitoring Group Roundtable on the Governance of Audit-Related Standard Setting Boards

The AOB shared its regulatory experiences and views on the Monitoring Group's consultation paper, *Strengthening the Governance and Oversight on the International Audit-Related Standard Setting Boards in the Public Interest*, at a global roundtable discussion hosted by the Singapore's Accounting and Corporate Regulatory Authority (ACRA).

20-22 FEBRUARY 2018

12th IFIAR Inspection Workshop

The AOB facilitated a session and jointly shared insights into the experiences, trends and best practices observed from the first-year implementation experience of EARs in Malaysia and Singapore at the 12th IFIAR Inspection Workshop hosted by the Sri Lanka Accounting and Auditing Standards Monitoring Board. The session also included experience sharing from the UK and Switzerland audit regulators. The annual workshop was attended by over 110 participants representing 40 audit regulators worldwide.

11 APRIL 2018

The AOB's Engagement with MIA

The AOB highlighted common findings and trends during its inspection of audit firms and individual auditors with MIA.

16-19 APRIL 2018

IFIAR Annual Plenary Meeting

During the IFIAR 2018 Plenary Meeting hosted by the Canadian Public Accountability Board in Ottawa, Canada, the AOB co-hosted a session and shared insights into the experiences, trends and best practices observed from the first-year implementation experience of EARs in Malaysia.

19 JULY 2018

AOB Dialogue with the Professional Accountancy Bodies

The AOB organised a dialogue with professional accountancy bodies in Malaysia such as MIA, the Malaysian Institute of Certified Public Accountants (MICPA), Certified Practising Accountant (CPA) Australia, ACCA and the Institute of Chartered Accountants in England and Wales (ICAEW).

The dialogue provided an avenue for discourse on the key observations and concerns from the AOB's inspections among the professional accountancy bodies who were then able to discuss and agree on the best way forward towards improving audit quality in Malaysia. Their views were incorporated into the New Criteria for Registration with the AOB.

The professional accountancy bodies were also urged to consider and convey the AOB's concerns when organising capacity building activities and opportunities for their respective members. The AOB continues to welcome invitations to speak and share its regulatory experiences and expectations at events organised for relevant stakeholders.

31 JULY–1 AUGUST 2018

2018 AARG Inspection Workshop

The AOB shared Malaysia's regulatory updates and EAR implementation experiences and observations, as well as presented and facilitated discussions on challenges in the audits of judgmental and complex areas at the 2018 AARG Inspection Workshop in Jakarta hosted by the Finance Professions Supervisory Centre, Indonesia.

Regulators from 11 countries and representatives from IFIAR, the International Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants attended the annual regional workshop.

31 JULY–1 AUGUST 2018

2018 AARG Meeting with the Audit Firms

Following the AARG Inspection Workshop, the AOB was also involved in the annual 2018 AARG Meeting with the Big-Four Audit Firms. The one-on-one meetings were held between AARG and the leaderships of the Big-Four Audit Firms from Malaysia, Indonesia, Thailand and Singapore. Topics of discussion included key developments of the audit firms and the initiatives to improve audit quality, impact of audit innovations and technology to the firms, and audits of cryptocurrency.

16 AUGUST 2018

AOB Conversation with the Auditors of PIEs and Schedule Funds

The AOB organised the annual AOB Conversation with the Auditors of PIEs and Schedule Funds which was attended by the leadership and representatives from all AOB-registered audit firms.

Insights into the inaugural *2017 AOB Annual Inspection Report* as well as common inspection findings from audit firms and engagement level reviews were shared. Other highlights included sharing of developments in auditing standards and regulations, and an overview of recent enforcement actions taken by the AOB.

The AOB also announced the enhanced AOB registration framework and New Criteria for Registration with the AOB.



19 OCTOBER 2018

Modernising ISA 315 – Key Revisions

As a panellist during the discussion organised by MIA, the AOB shared its views on the proposed ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement*. The session aimed to create awareness and seek feedback from MIA members regarding the proposed key revisions to ISA 315 (Revised).

PART TWO STATEMENTS



MEMBERS OF THE AUDIT OVERSIGHT BOARD



**DATO'
DARAWATI
HUSSAIN**



**EUGENE
WONG WENG
SOON**



**ALEX OOI
THIAM POH**



**DATO' GUMURI
HUSSAIN**



**DATO' ZAHRAH
ABD WAHAB
FENNER**



**WONG
CHONG WAH**



HEW EE-LU

MEMBERS OF THE AUDIT OVERSIGHT BOARD



DATO' GUMURI HUSSAIN

Appointed Executive Chairman 18 November 2016

Redesignated as Non-Executive Chairman 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 45 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 included Media Prima Bhd, Malaysian Airline System Bhd and Metrod Bhd.

Dato' Gumuri is a Fellow of the ICAEW, a Chartered Accountant of MIA and a member of MICPA.



ALEX OOI THIAM POH

Appointed Executive Officer 24 November 2017

Alex Ooi Thiam Poh was appointed as Executive Officer on 24 November 2017. Alex has more than 25 years of assurance and advisory experience in the property development and construction, hospitality, manufacturing, trading, media, technology and plantation industries. His experience includes statutory audits of PLCs and multinational companies, initial public offerings (IPO), internal audit, risk management and corporate advisory and reorganisation. Alex was formerly an Audit Partner of BDO Malaysia and Deloitte Malaysia.

Alex was previously the Malaysia Divisional President of CPA Australia from 2013 to 2014, and a member of the Public Practice Advisory Board of CPA Australia. He was also a former Council member of MIA. He was previously involved in MIA Committees such as the Financial Reporting Standards Implementation Committee, Capital Market Advisory Committee and Education Committee. He is currently representing the AOB as an observer in MIA's Auditing and Assurance Standards Board and Ethics Standards Board.

Alex is a Fellow of CPA Australia, a member of ICAEW and a Chartered Accountant of MIA.

DATO' ZAHRAH ABD WAHAB FENNER

Appointed Non-Executive Member 3 June 2015

Dato' Zahrah is the Chief Executive Officer of the Companies Commission of Malaysia (SSM). Dato' Zahrah is experienced in financial and auditing matters and was previously an Advisor Accountant with the Royal Malaysian Customs and Excise Department and Principal Accountant with the Ministry of Foreign Affairs.

Dato' Zahrah is a Board Member for the Certification of Certified Integrity Officers and a member of the Financial Reporting Foundation. Dato' Zahrah is also Board Member of the Labuan Financial Services Authority and the Inland Revenue Board. In 2018, Dato' Zahrah was re-elected as an Executive Committee member of the Corporate Registers Forum (a position she has held since 2016).

Dato' Zahrah graduated with a Bachelor of Accounting (Hons.) degree from Universiti Kebangsaan Malaysia. Dato' Zahrah is a Chartered Accountant of MIA.

**EUGENE WONG WENG SOON**

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

Eugene currently serves as an Adviser to the Malaysian Accounting Standards Board. He was 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, as well as a Fellow of CPA Australia. He has an Advance Diploma in Corporate Finance from the ICAEW and holds a B. Comm. from the University of Melbourne.





WONG CHONG WAH

Appointed Non-Executive Member 1 April 2016

Wong Chong Wah is a 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 & excise, land acquisition, insurance and defamation. He is a member to 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 Chartered Tax Institute of Malaysia. He is a panel member of the Disciplinary Committee of the Bar Council.



DATO' DARAWATI HUSSAIN

Appointed Non-Executive Member 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 20 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's degree 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.

HEW EE-LU

Appointed Non-Executive Member 5 October 2018

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



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

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

Board Members

The SC appoints the Board members of the AOB. The Board of the AOB comprises a Non-Executive Chairman, an Executive Officer and five other Non-Executive Members who are representatives from the regulators, namely BNM and SSM, the legal profession and 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 26 to 29.

The Non-Executive Chairman of the AOB is appointed for a term of three years and is eligible for reappointment upon completion of his term whereas the Non-Executive members of the Board are appointed for a term of two 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 three 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 to:

- 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 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 in formulating and implementing 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 a person who prepares a report in relation to financial information of PIEs or schedule funds, in relation to capital market activities, as may be required to be prepared 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 eight Board meetings held during the year. The quorum required is three members present.

The attendance record of the Board members is set out in Table 1.

Table 1

Attendance at Board meetings

Board member	Number of meetings attended
Dato' Gumuri Hussain (Non-Executive Chairman)	8/8
Alex Ooi Thiam Poh (Executive Officer)	8/8
Dato' Zahrah Abd Wahab Fenner	3/8
Eugene Wong Weng Soon	7/8
Wong Chong Wah	8/8
Dato' Darawati Hussain	8/8
Marzunisham Omar*	5/6
Hew Ee-Lu**	2/2

* Retired 25 September 2018

** Appointed 5 October 2018

Committee of the AOB

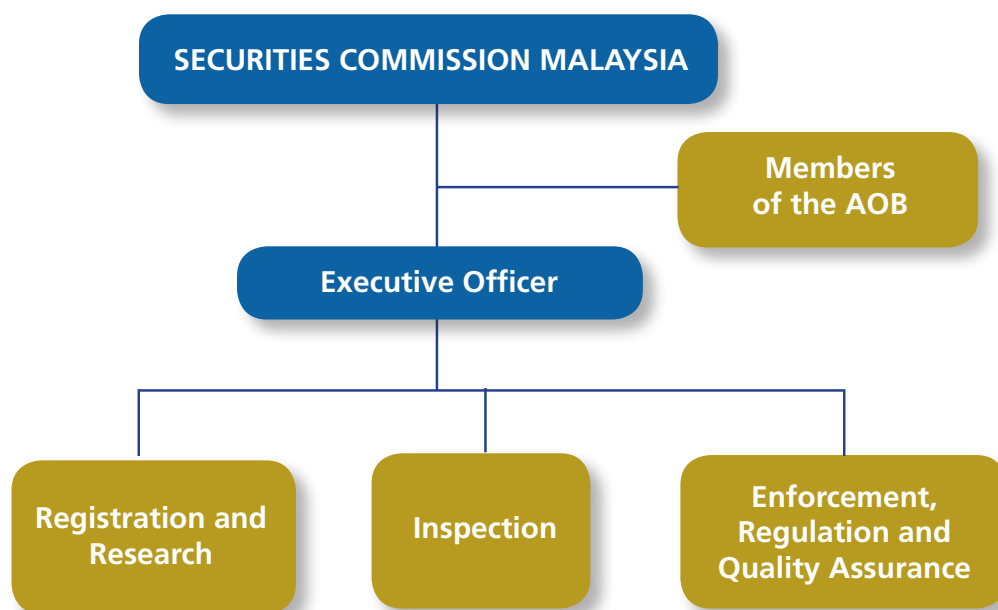
The Registration Committee was established to deliberate on matters regarding the registration or recognition of auditors with the AOB. Where applicable, the Registration Committee will make recommendations to the Board for further deliberation and decision.

The following are members of the Registration Committee:

1. Dato' Gumuri Hussain
2. Dato' Zahrah Abd Wahab Fenner
3. Eugene Wong Weng Soon

The Chairman of the AOB chairs meetings of the Committee and in his absence, a member of the Board who sits on the Committee can be tasked to take on this responsibility.

ORGANISATION STRUCTURE



AUDIT OVERSIGHT BOARD

**FINANCIAL STATEMENTS FOR THE
YEAR ENDED 31 DECEMBER 2018**

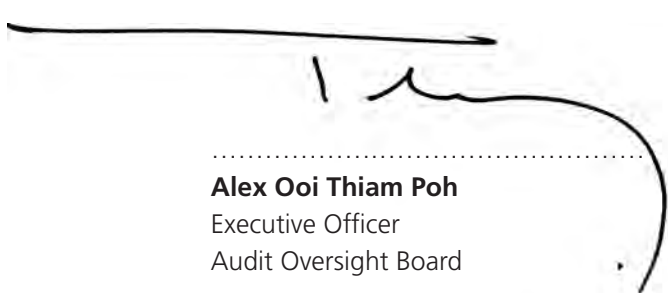
AUDIT OVERSIGHT BOARD

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

	Note	2018 RM	2017 RM
Assets			
Current assets			
Other receivables	4	8,307	159,973
Other investments	5	730,024	190,333
Cash and cash equivalents	6	382,912	546,781
Total assets		<u>1,121,243</u>	<u>897,087</u>
Reserves			
Funds from the Securities Commission Malaysia	7.1	25,516,438	23,516,438
Accumulated deficit	7.2	(24,444,195)	(22,641,351)
Total reserves	7	<u>1,072,243</u>	<u>875,087</u>
Current liabilities			
Other payables and accruals	8	49,000	22,000
Total liabilities		<u>49,000</u>	<u>22,000</u>
Total reserves and liabilities		<u>1,121,243</u>	<u>897,087</u>

The notes set out on pages 38 to 52 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 2019

AUDIT OVERSIGHT BOARD

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 RM	2017 RM
Registration fees		3,130,200	1,865,000
Finance income from fixed deposit		52,476	31,233
Penalty imposed		533,000	75,000
		<hr/> 3,715,676	<hr/> 1,971,233
Operating expenditure			
Administrative expenses	9	(5,518,520)	(5,957,836)
		<hr/> (1,802,844)	<hr/> (3,986,603)
Deficit before tax			
Tax expense	10	-	-
		<hr/> (1,802,844)	<hr/> (3,986,603)
Deficit for the year/Total comprehensive expense for the year		<hr/> <hr/> (1,802,844)	<hr/> <hr/> (3,986,603)

The notes set out on pages 38 to 52 are an integral part of these financial statements.

AUDIT OVERSIGHT BOARD

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

	Funds from Securities Commission Malaysia RM	Accumulated deficit RM	Total RM
At 1 January 2017	19,016,438	(18,654,748)	361,690
Funds from the Securities Commission Malaysia	4,500,000	-	4,500,000
Deficit and total comprehensive expense for the year	-	(3,986,603)	(3,986,603)
At 31 December 2017/1 January 2018	23,516,438	(22,641,351)	875,087
Funds from the Securities Commission Malaysia	2,000,000	-	2,000,000
Deficit and total comprehensive expense for the year	-	(1,802,844)	(1,802,844)
At 31 December 2018	25,516,438	(24,444,195)	1,072,243
	Note 7	Note 7	Note 7

The notes set out on pages 38 to 52 are an integral part of these financial statements.

AUDIT OVERSIGHT BOARD
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED
31 DECEMBER 2018

	Note	2018 RM	2017 RM
Cash flows from operating activities			
Deficit before tax		(1,802,844)	(3,986,603)
<i>Adjustment for:</i>			
Finance income		(52,476)	(31,233)
Operating deficit before changes in working capital		(1,855,320)	(4,017,836)
Change in other receivables		151,666	(69,339)
Change in other payables and accruals		27,000	(4,200)
Net cash used in operating activities		(1,676,654)	(4,091,375)
Cash flows from investing activities			
Finance income		52,476	31,233
Increase in other investments		(539,691)	(78,491)
Net cash used in investing activities		(487,215)	(47,258)
Cash flows from financing activity			
Funds from the Securities Commission Malaysia		2,000,000	4,500,000
Net cash from financing activity		2,000,000	4,500,000
Net (decrease)/increase in cash and cash equivalents		(163,869)	361,367
Cash and cash equivalents at 1 January		546,781	185,414
Cash and cash equivalents at 31 December		382,912	546,781
Cash and cash equivalents comprise:			
Cash and bank balances	6	382,912	375,820
Deposits placed with a licensed bank	6	-	170,961
		382,912	546,781

The notes set out on pages 38 to 52 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 (MFRSs) 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:

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2019

- MFRS 16, *Leases*
- IC Interpretation 23, *Uncertainty over Income Tax Treatments*
- Amendments to MFRS 3, *Business Combinations (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 9, *Financial Instruments – Prepayment Features with Negative Compensation*
- Amendments to MFRS 11, *Joint Arrangements (Annual Improvements to MFRS Standards 2015-2017 Cycle)*

- Amendments to MFRS 112, *Income Taxes (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 119, *Employee Benefits – Plan Amendment, Curtailment or Settlement*
- Amendments to MFRS 123, *Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures*

MFRSs, 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 Materiality*

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

- MFRS 17, *Insurance Contracts*

MFRSs, 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 applicable and effective from its annual period beginning on or after 1 January 2019 and 1 January 2020, respectively.

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 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 MFRSs 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 15, *Revenue from Contracts with Customers* and MFRS 9, *Financial Instruments*, there are changes to accounting policies of:

- (i) financial instruments;
- (ii) revenue recognition; and
- (iii) impairment losses of financial instruments

as compared to those adopted in previous financial statements. There are no significant impact from adoption of MFRS 15. The impact arising from adoption of MFRS 9 is disclosed in Note 14.

(a) Financial instruments

Unless specifically disclosed below, the AOB generally applied the following accounting policies retrospectively. Nevertheless, as permitted by MFRS 9, *Financial Instruments*, the AOB has elected not to restate the comparatives.

(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.

Current financial year

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 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.

Previous financial year

Financial instrument was recognised initially, at its fair value plus or minus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that were directly attributable to the acquisition or issue of the financial instrument.

An embedded derivative was recognised separately from the host contract and accounted for as a derivative if, and only if, it was not closely related to the economic characteristics and risks of the host contract and the host contract was not recognised as fair value through profit or loss. The host contract, in the event an embedded derivative was recognised separately, was accounted for in accordance with policy applicable to the nature of the host contract.

(ii) Financial instrument categories and subsequent measurement

Financial assets

Current financial year

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.

Previous financial year

In the previous financial year, financial assets of the AOB were classified and measured under MFRS 139, *Financial Instruments: Recognition and Measurement* as follows:

Loans and receivables

Financial assets categorised as loans and receivables was subsequently measured at amortised cost using the effective interest method.

All financial assets were subject to review for impairment (see Note 3(c)).

Financial liabilities

Current financial year

The category of financial liabilities at initial recognition is as follows:

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.

Previous financial year

All financial liabilities were subsequently measured at amortised cost.

(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 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) Off setting

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 cash equivalents

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

(c) Impairment

Financial assets

Unless specifically disclosed below, the AOB generally applied the following accounting policies retrospectively. Nevertheless, as permitted by MFRS 9, *Financial Instruments*, the AOB elected not to restate the comparatives.

Current financial year

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 cash equivalents 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.

Previous financial year

All financial assets were assessed at each reporting date whether there was any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, were not recognised.

An impairment loss in respect of loans and receivables was recognised in profit or loss and was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset was reduced through the use of an allowance account.

If, in a subsequent period, the fair value of the financial asset increased and the increase could be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss was reversed, to the extent that the asset's carrying amount did not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment was reversed. The amount of the reversal was recognised in profit or loss.

(d) 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.

(e) 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.

(f) 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

	2018 RM	2017 RM
Deposits	-	82,714
Prepayments	-	75,632
Interest receivable	8,307	1,627
	<u>8,307</u>	<u>159,973</u>

5. Other investments

Other investments are in relation to the deposits placed with licensed bank with original maturity of 6 months or more. The deposits placed with licensed bank earned income at rates ranging from 3.05% to 3.30% per annum (2017: 1.75% to 3.05% per annum).

The deposits arose from monies received from penalty imposed and is restricted to be utilised for planning and implementing capacity building programmes in relation to the accounting and auditing profession.

6. Cash and cash equivalents

	2018 RM	2017 RM
Cash and bank balances	382,912	375,820
Deposits placed with a licensed bank	-	170,961
	<u>382,912</u>	<u>546,781</u>

In the previous year, the deposits placed with a licensed bank earned income at rates ranging from 1.75% to 3.05% per annum.

7. Total reserves

	Note	2018 RM	2017 RM
Funds from the Securities Commission Malaysia	7.1	25,516,438	23,516,438
Accumulated deficit	7.2	(24,444,195)	(22,641,351)
Total reserves		<u>1,072,243</u>	<u>875,087</u>

7.1 Funds from the Securities Commission Malaysia

	2018 RM	2017 RM
Contribution:		
At the beginning of the year	23,516,438	19,016,438
Additions	2,000,000	4,500,000
At the end of the year	25,516,438	23,516,438

7.2 Accumulated deficit

	2018 RM	2017 RM
At the beginning of the year	(22,641,351)	(18,654,748)
Deficit for the year	(1,802,844)	(3,986,603)
At the end of the year	(24,444,195)	(22,641,351)

8. Other payables and accruals

	2018 RM	2017 RM
Accruals	49,000	22,000

9. Administrative expenses

	2018 RM	2017 RM
The administrative expenses consist of:		
Auditors' remuneration	20,000	20,500
Honorarium payment	71,012	98,974
Non-executive members' allowance	278,300	142,100
Other miscellaneous charges	398,419	229,455
Rental of premises	18,363	341,110
Staff costs	4,732,426	5,125,697
	5,518,520	5,957,836

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. Financial instruments

11.1 Categories of financial instruments

The table below provides an analysis of financial instruments as at 31 December 2018 categorised as amortised cost (AC):

	Carrying amount RM	AC RM
2018		
Financial asset		
Other receivables	8,307	8,307
Other investments	730,024	730,024
Cash and cash equivalents	382,912	382,912
	<u>1,121,243</u>	<u>1,121,243</u>
Financial liabilities		
Other payables and accruals	<u>(49,000)</u>	<u>(49,000)</u>

The table below provides an analysis of financial instruments as at 31 December 2017 categorised as:

- (a) Loans and receivables (L&R); and
- (b) Financial liabilities measured at amortised cost (FL)

	Carrying amount RM	L&R /FL RM
2017		
Financial assets		
Other receivables*	84,341	84,341
Other investments	190,333	190,333
Cash and cash equivalents	546,781	546,781
	<u>821,455</u>	<u>821,455</u>
Financial liabilities		
Other payables and accruals	<u>(22,000)</u>	<u>(22,000)</u>

* Exclude non-financial asset

11.2 Gains arising from financial instrument

	2018 RM	2017 RM
Gains on:		
Financial assets at amortised cost	52,476	-
Loans and receivables	-	31,233
	<u>52,476</u>	<u>31,233</u>

11.3 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.

11.4 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 payable.

The AOB, via the SC, monitors and maintains a level of cash and cash equivalents 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
2018			
Financial liabilities			
Other payables and accruals	49,000	49,000	49,000
2017			
Financial liabilities			
Other payables and accruals	22,000	22,000	22,000

11.5 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.

11.5.1 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:

	2018 RM	2017 RM
Fixed rate instruments		
Financial assets	730,024	361,294

Interest rate risk sensitivity analysis

Fair value sensitivity analysis for fixed rate instrument

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.

11.6 Fair values

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

12. 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.

13. Authorisation of financial statements

The financial statements for the year ended 31 December 2018 were authorised by the SC for issuance and signed by the Chairman of the SC and Executive Officer of the AOB on 30 January 2019.

14. Significant changes in accounting policies

During the year, the AOB adopted MFRS 15, *Revenue from Contracts with Customers* and MFRS 9, *Financial Instruments* on their financial statements. The AOB generally applied the requirements of these accounting standards retrospectively with practical expedients and transitional exemptions as allowed by the standards. Nevertheless, as permitted by MFRS 9, the AOB has elected not to restate the comparatives. There are no significant impact from the adoption of MFRS 15.

14.1 Accounting for financial instruments

a. Transition

In respect of the adoption of MFRS 9, the following transitional exemptions as permitted by the standard have been adopted:

- (i) The AOB has not restated comparative information for prior periods with respect to classification and measurement requirements. Accordingly, the information presented for 2017 does not generally reflect the requirements of MFRS 9, but rather those of MFRS 139, *Financial Instruments: Recognition and Measurement*.
- (ii) The following assessments have been made based on the facts and circumstances that existed at the date of initial application:
 - the determination of the business model within which a financial asset is held.
- (iii) Loss allowance for receivables is recognised at an amount equal to lifetime expected credit losses until the receivable is derecognised.

b. Classification of financial assets and financial liabilities on the date of initial application of MFRS 9

The following table shows the measurement categories under MFRS 139 and the new measurement categories under MFRS 9 for each class of the AOB's financial assets and financial liabilities as at 1 January 2018:

Category under MFRS 139	31 December 2017 RM	1 January 2018 Reclassification to new MFRS 9 category AC RM
Financial assets		
Loans and receivables		
Other receivables	84,341	84,341
Other investments	190,333	190,333
Cash and cash equivalents	546,781	546,781
	<hr/> 821,455	<hr/> 821,455
Financial liabilities		
Other financial liabilities measured at amortised cost		
Other payables and accruals	(22,000)	(22,000)
	<hr/> (22,000)	<hr/> (22,000)

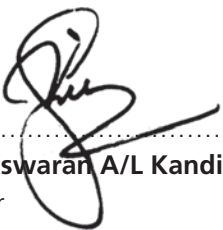
Reclassification from loans and receivables to amortised cost

Other receivables, other investments, cash and cash equivalents that were classified as loans and receivables under MFRS 139 are now reclassified at amortised cost.



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 34 to 52 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 2019.


.....
Vignaswaran A/L Kandiah
Officer

Before me:



Unit 50-10-1, Tingkat 10
Wisma UOA Damansara
No. 50, Jalan Dungun
Bukit Damansara
50000 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 2018, 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 34 to 52.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the AOB as at 31 December 2018, and of its financial performance and its 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.

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.

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, Selangor

Date: 30 January 2019



Loh Kam Hian

Approval Number: 02941/09/2020 J

Chartered Accountant

PART THREE STATISTICS AND OTHERS



REGISTRATION AND RECOGNITION OF AUDITORS IN MALAYSIA

Table 1

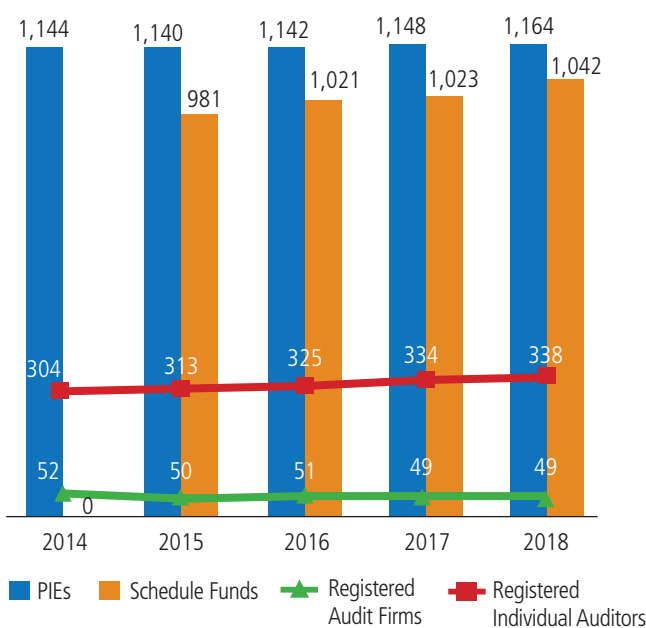
Registered and recognised auditors as at 31 December 2018

Profile of audit firm	No. of audit firm	No. of individual auditors	No. of PIE audit clients	% of total market capitalisation	No. of schedule fund audit clients	% of total net asset value
Registered audit firms						
Partnerships with 10 and more audit partners	9	216	969	96.09	1,007	98.43
Partnerships with 5 – 9 audit partners	15	59	111	0.80	9	0.04
Partnerships with fewer than 5 audit partners	25	63	84	3.07	26	1.53
	49	338	1,164	99.96	1,042	100.00
Recognised foreign audit firms	3	9	7	0.04	-	-
TOTAL	52	347	1,171	100.00	1,042	100.00

Source: AOB

Chart 1

5-year registration statistics

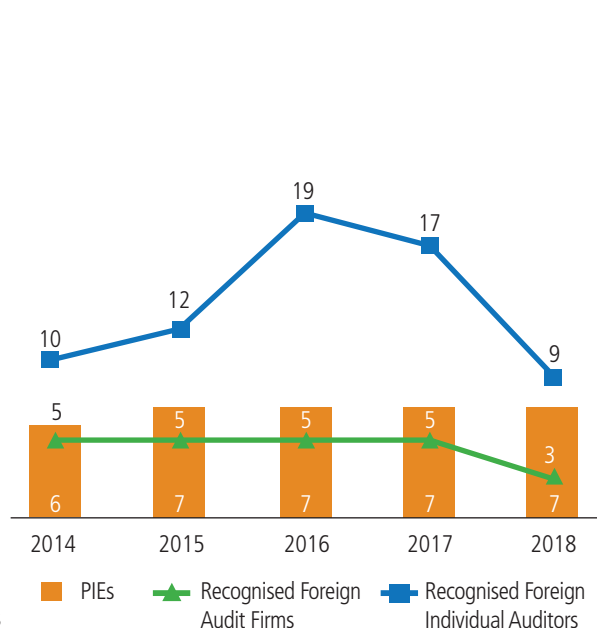


Note: Auditors of schedule funds are subject to the AOB's registration regime with effect from 15 September 2015.

Source: AOB

Chart 2

5-year recognition statistics



Source: AOB

ENFORCEMENT ACTIONS

No.	Auditors	Action taken
Failure to remain fit and proper in accordance with Section 31P of the SCMA		
1.	Tan Chin Huat of STYL Associates.	1. Registration revoked by the AOB.
Failure to comply with a Notice issued under Section 152 of the SCMA		
2.	RT LLP, auditor of a foreign incorporated corporation listed on Bursa Malaysia for the financial years ended 31 December 2015 and 31 December 2016.	1. Recognition withdrawn by the AOB.
3.	Su Chun Keat of RT LLP, engagement partner in the audit of a foreign incorporated corporation listed on Bursa Malaysia for the financial years ended 31 December 2015 and 31 December 2016.	1. Recognition withdrawn by the AOB.
Failure to comply with the requirements of ISQC 1		
4.	McMillan Woods Mea, auditor for a PLC for the financial year ended 31 December 2016.	1. Prohibited from auditing PIEs or schedule funds for 12 months; 2. Prohibited from accepting PIEs or schedule funds as clients for 12 months; and 3. Penalty of RM123,000.
5.	Siew Boon Yeong & Associates, auditor for 3 PLCs for the financial years ended 31 December 2016, 31 January 2017 and 31 March 2017.	1. Prohibited from auditing PIEs or schedule funds for 9 months; and 2. Penalty of RM227,000.
Failure to comply with certain requirements of the ISA in the performance of an audit of a PIE		
6.	Mea Fatt Leong of McMillan Woods Mea, engagement partner in the audit of a PLC for the financial year ended 31 December 2016.	1. Prohibited from auditing PIEs or schedule funds for 12 months; 2. Prohibited from accepting PIEs or schedule funds as clients for 12 months; and 3. Penalty of RM44,000.
7.	Dato' Siew Boon Yeong of Siew Boon Yeong & Associates, engagement partner in the audits for 3 PLCs for the financial years ended 31 December 2016, 31 January 2017 and 31 March 2017.	1. Prohibited from auditing PIEs or schedule funds for 9 months; and 2. Penalty of RM81,000.
8.	Elwyn Tang Boon Hiap of CHI-LLTC, engagement partner in the audit of a PLC for the financial year ended 30 April 2015.	1. Reprimand; and 2. Penalty of RM225,000.
9.	Chuah Soo Huat of PKF, engagement partner in the audit of a PLC for the financial year ended 31 December 2012.	1. Reprimand.

No.	Auditors	Action taken
Failure to comply with certain requirements of the ISA in the performance of an audit of a PIE (Cont'd)		
10.	Gary Yong Yoon Shing of Nexia SSY, engagement partner in the audit of a PLC for the financial year ended 31 December 2012.	1. Reprimand.
11.	Jason Sia Sze Wan of Nexia SSY, engagement partner in the audit of a PLC for the financial year ended 31 December 2012.	1. Reprimand.
12.	Lye Ghee Kang of CAS Malaysia PLT, engagement partner in the audit of a PLC for the financial year ended 30 April 2017.	1. Reprimand.
Failure to comply with certain requirements of the ISA dealing with EQCR		
13.	Wong Joo Hua of McMillan Woods Mea, EQCR partner in the audit of a PLC for the financial year ended 31 December 2016.	1. Prohibited from auditing PIEs or schedule funds for 12 months; and 2. Prohibited from accepting PIEs or schedule funds as clients for 12 months.
14.	Lim Teik Ee of Siew Boon Yeong & Associates, EQCR partner in the audits of 3 PLCs for the financial years ended 31 December 2016, 31 January 2017 and 31 March 2017.	1. Prohibited from auditing PIEs or schedule funds for 9 months.

ACRONYMS AND ABBREVIATIONS

AARG	ASEAN Audit Regulators Group
ACCA	Association of Chartered Certified Accountants
ACGA	Asian Corporate Governance Association
AOB	Audit Oversight Board
CMSA	<i>Capital Markets and Services Act 2007</i>
CPA	Certified Practising Accountant
EAR	Enhanced Auditors' Report
EP	Engagement partner
EQCR	Engagement quality control review
ICAEW	Institute of Chartered Accountants in England and Wales
IFIAR	International Forum of Independent Audit Regulators
ISA	International Standards on Auditing
ISQC	International Standards on Quality Control
KAM	Key Audit Matters
MIA	Malaysian Institute of Accountants
MICPA	The Malaysian Institute of Certified Public Accountants
PCAOB	Public Company Accounting Oversight Board
PIE	Public-interest entity
PLC	Public-listed company
SC	Securities Commission Malaysia
SCMA	<i>Securities Commission Malaysia Act 1993</i>

DEFINITIONS

Auditor	An individual auditor or audit firm who is registered or recognised under section 31O of the SCMA as a registered auditor or recognised auditor of a PIE or schedule fund.
Big-Four Audit Firms	Deloitte, Ernst & Young, KPMG and PricewaterhouseCoopers.
Major Audit Firms	Audit firms with more than 10 partners and audit more than 50 PIEs clients with a total market capitalisation of above RM25 billion.
Other Audit Firms	Audit firms other than Major Audit Firms.
Public-interest entity	Entity specified in Part 1 of Schedule 1 of the SCMA: <ul style="list-style-type: none"> (a) a PLC or a corporation listed on the stock exchange; (b) a bank licensed under the <i>Financial Services Act 2013</i>; (c) an insurer licensed under the <i>Financial Services Act 2013</i>; (d) a takaful operator licensed under the <i>Islamic Financial Services Act 2013</i>; (e) an Islamic bank licensed under the <i>Islamic Financial Services Act 2013</i>; (f) a person prescribed as a prescribed financial institution under section 212 of the <i>Financial Services Act 2013</i> or a person prescribed as a prescribed Islamic financial institution under section 223 of the <i>Islamic Financial Services Act 2013</i>; (g) a developmental financial institution prescribed under the <i>Development Financial Institutions Act 2002</i>; (h) a holder of the Capital Markets Services Licence for the carrying on of the regulated activities of dealing in securities, dealing in derivatives or fund management; (i) an exchange holding company approved under the securities laws; (j) an exchange approved under the securities laws; (k) a central depository approved under the securities laws; (l) a clearing house approved under the securities laws; (m) a self-regulatory organisation recognised under the securities laws; (n) a private retirement scheme administrator approved under the securities laws; (o) a trade repository approved under the securities laws; (p) the Capital Market Compensation Fund Corporation; (q) any other person as the Minister may prescribe by order published in the <i>Gazette</i>.

Schedule fund

Fund specified in Part 2 of Schedule 1 of the SCMA:

- (a) a private retirement scheme approved by the SC under the CMSA;
- (b) a unit trust scheme approved, authorised or recognised by the SC under the CMSA;
- (c) any other capital market funds as may be specified by the SC.

