AOB ALERT

TO AUDITORS AND AUDIT COMMITTEES AUGUST 2026

Suruhanjaya Sekuriti
Securities Commission
Malaysia

From Disclosure to Oversight: How Annual Transparency Reports Empower Audit Committees

Annual Transparency Reports (ATRs) provide stakeholders with insights into the audit firm's internal quality management, governance and measures to uphold audit quality and audit quality indicators (AQIs). They enable the audit committees (ACs) to make informed decisions of the audit firm's commitment to audit quality before appointment or reappointment of auditors.

The AOB in its *Guidelines on Continuing Obligations for Registered Auditors* (Guidelines), revised the requirements of the ATR as follows which **took effect in March 2026:**

Evolution of Annual Transparency Report

2019

The AOB mandated the issuance of ATRs for AOB-registered audit firms that meet the following criteria as at the end of the calendar year over two consecutive years:

a) Audit firms with more than 50 public-interest entity (PIE) audit clients; and

b) The total market capitalisation of the audit firm's public-listed company (PLC) audit clients amounts to above RM15 billion.

Mandatory Disclosures in Audit Firms' ATR

- Audit firm's legal and governance structure
- Measures taken to uphold audit quality and manage risks
- AQI over a three-year period

2026

The AOB reduced the reporting threshold requirement for AOB-registered audit firms that meet the following criteria as at the end of the calendar year over two consecutive years **(31 December 2025 and 31 December 2026):**

a) Audit firms with more than 10 PIE audit clients

Additional Mandatory Disclosures in Audit Firms' ATR

- Organisational structure relating to the audit firm's system of quality management
- Audit firm's use of information technology to enhance audit quality
- Availability of specialised resources to support the audit engagement team
- Audit firm's sustainability risks and opportunities
- For **Major Audit Firms**, a disclosure on how the audit firm has complied with the core principles on independent oversight.

Audit firms that meet the criteria are required to publish their ATR on their website within four months from the end of their fiscal year. For audit firms that do not meet the criteria, publication of an ATR is voluntary.

The AOB will continue to carry out ongoing monitoring to ensure that all relevant audit firms publish their ATR in compliance with the reporting requirements stipulated by the AOB.

Annual Transparency Reporting: A Strategic Resource for Audit Committees

Audit quality is supported by effective collaboration and timely communication among key stakeholders within the financial reporting ecosystem. Information disclosed in the audit firm's ATR provides an important foundation for meaningful and informed dialogue between ACs and their external auditors.

The table below outlines some of the mandatory disclosures including AQIs and considerations for ACs.

Audit Quality Indicators (AQI)	Considerations for ACs
1. Workload of PIE audit partner (a) Average number of PIEs per PIE audit partner (b) Average number of entities related to PIEs per PIE audit partner (c) Average number of non-PIEs per PIE audit partner	A partner's workload increases in tandem with the number of clients that the partner has to service. The heavier the workload, the less time a partner would have to supervise the audit engagements.
2. 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	The multi-disciplinary model of audit firms has enabled them to provide both audit and assurance services as well as non-audit services to their audit clients. 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 audit firm to its audit clients could undermine auditors' independence. Further, when the proportion of fee income from the non-audit practice of the audit firm is relatively higher than the audit practice, this raises the concern that the audit firm's focus on audit quality may be overridden by their non-audit business considerations.
3. 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	These indicators would provide ACs with an indication of the audit firm's ability to manage its talent pool particularly in ensuring that the audit firm has sufficient and competent talent to carry out quality audits. As certain factors that drive these indicators are beyond the audit firms' control, it is also important for ACs to gain an understanding of the various mitigating actions taken by the audit firms to address capacity and competency issues.
4. Audit engagement supervision (a) Average staff-to-partner ratio (b) Average staff-to-manager ratio	These indicators provide an overview of whether the audit 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.

Audit Quality Indicators (AQI)	Considerations for ACs
5. Audit firm's investment to promote audit quality (a) Average hours of training provided by the audit firms to audit personnel (b) Average ratio of audit staff to one quality control staff	Training provided by the audit 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 to carry out quality audits. In addition, audit quality is also promoted within the audit firm through various quality control functions comprising training, technical consultations, risk management and quality assurance. A higher ratio of headcount in quality control functions relative to audit personnel headcount would indicate greater audit firm commitment to allocate resources to support audit quality.
6. Internal and external monitoring reviews (a) Results of monitoring reviews that have been carried out by the audit firm or the audit firm's network; and (b) Results of the AOB inspections and compliance reviews by professional bodies.	Monitoring reviews are conducted to evaluate the audit firms' compliance with quality standards as well as to assess the quality of audit engagements. ACs should evaluate the results of the monitoring reviews disclosed in the ATR and where necessary, engage the auditors to obtain further information on the shortcomings identified and the detailed efforts to remediate them.

ACs should evaluate AQIs in aggregate and within context, with due regard to both quantitative and qualitative factors.

Additional Mandatory Disclosures

Disclosures	Considerations for ACs
Organisational structure relating to the audit firm's system of quality management which includes the assignment of roles, responsibilities and authority.	ACs should ensure that the audit firm's structure supports effective insights and drives compliance with ISQM 1.
Audit firm's sustainability risks and opportunities.	ACs should review the audit firm's strategic initiatives contributing to the achievement of sustainability goals.
How the audit firm uses information technology to enhance audit quality.	ACs should review the audit firm's IT investments and their effectiveness in maintaining and enhancing audit quality.
Availability of specialised resources to support the audit engagement team (some examples are information technology (IT), valuation, tax and actuarial specialists).	ACs should review the audit firm's initiatives in making specialised resources available for the execution of audit engagements, where applicable. Certain PIE audit engagements, such as those in the retail, finance, and digital asset industries, may require the involvement of IT specialists due to the volume and/or complexity of transactions.

The following are existing disclosures required to be made by the audit firms in their ATR:

- Affiliated firms and entities owned or entities in which the audit firm has a beneficial interest.
- Partners with substantial interest in the partnership (i.e. partners with more than 10% equity interest in the partnership).
- Family relationships between partners undertaking leadership roles or holding a substantial interest in the partnership with other partners of the audit firm.
- Litigations currently faced by the audit firm.
- Actions that the authorities or regulators have taken on the audit firm or its audit partners during the year.
- Instances where the total fees from a PIE audit client and its related entities represent more than 15% of the total fees received by the audit firm together with an explanation on how the independence threats posed by the fee dependency is addressed.

Refer **here** for the Guidelines on the other mandatory information to be included in the ATR.

The AOB encourages ACs to engage proactively with their auditors on disclosures to understand root causes and corrective actions, and to support ongoing improvements in audit quality.

In line with ATR requirements, the AOB has issued a set of frequently asked questions (FAQs), which can be accessed via the link below:

Click Here!

AUDIT OVERSIGHT BOARD
SECURITIES COMMISSION MALAYSIA