



Suruhanjaya Sekuriti
Securities Commission
Malaysia

Audit Oversight Board

Conversation with Audit Firms

Annual Inspection Report 2022

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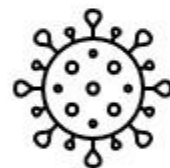
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**AUDIT
OVERSIGHT
BOARD
ANNUAL
INSPECTION REPORT
2022**

Agenda



Inspection Landscape



**Audit Considerations in a
Post-Covid World**



Focus Areas of 2023



Inspection Landscape

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Inspection Landscape



Risk-based Inspection



Firm Level Review – Major Audit Firms



Procedures for Client Acceptance

Certain firms **did not stipulate** the requirement for **prospective audit engagement partners** to **document** the **outcome** of their evaluation of **reply from the predecessor auditor** on the **professional clearance** sought



Monitoring Reviews for Audit Engagements

Audit engagement partners of certain firms have **not** been **selected for quality control reviews within the cycle** as defined by the firm's policy (at least once every two to three years)

Firm Level Review – Other Audit Firms



Rotation of key audit partners

Audit firms did not consider all relevant roles undertaken **prior** to becoming key audit partner (MIA By-Laws)



Independence confirmations

Some audit engagement team members **did not confirm** their independence



Audit sampling methodology

Audit firms' methodologies were **not in full compliance with ISA** requirements



Audit consultations

Audit firms did not clearly define **specific matters** which require **consultation** in the firm's policy



Monitoring reviews

Audit firms did not **evaluate** the effectiveness of **system** of quality controls and quality of **audit engagements**



Audit Considerations in a Post-Covid World

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Case Study – Going Concern Assessment

	PLC X	PLC Y	PLC Z
Losses before taxation	✓	✓	✓
Debt to equity ratio >1	✓	✓	✓
Net current liabilities	(248.0)	(458.3)	(27.1)
Projected EBITDA	77.0	78.1	5.4
Unutilised banking facilities	47.4	58.9	4.3
Support from related parties	45.0	-	-
Deficit	(78.6)	(321.3)	(7.4)
Disclosure in the financial statements:			
Basis of preparation	✓	✓	✓
Significant judgements	✓	✓	✗
Material uncertainties	✓	✗	✗
Audit opinion	Unmodified (MUGC)	Unmodified	Unmodified
Key Audit Matter	N/A	✓	✗

It is important that the **effectiveness** and **feasibility** of **judgements used by the management** in its **going concern assessment** are adequately **disclosed** in the financial statements to **support the audit opinion**

Going Concern Assessment - Potential Unaddressed Audit Issues

Management's key assumptions took best case **pre-Covid numbers**, without considering **slow market sentiment**

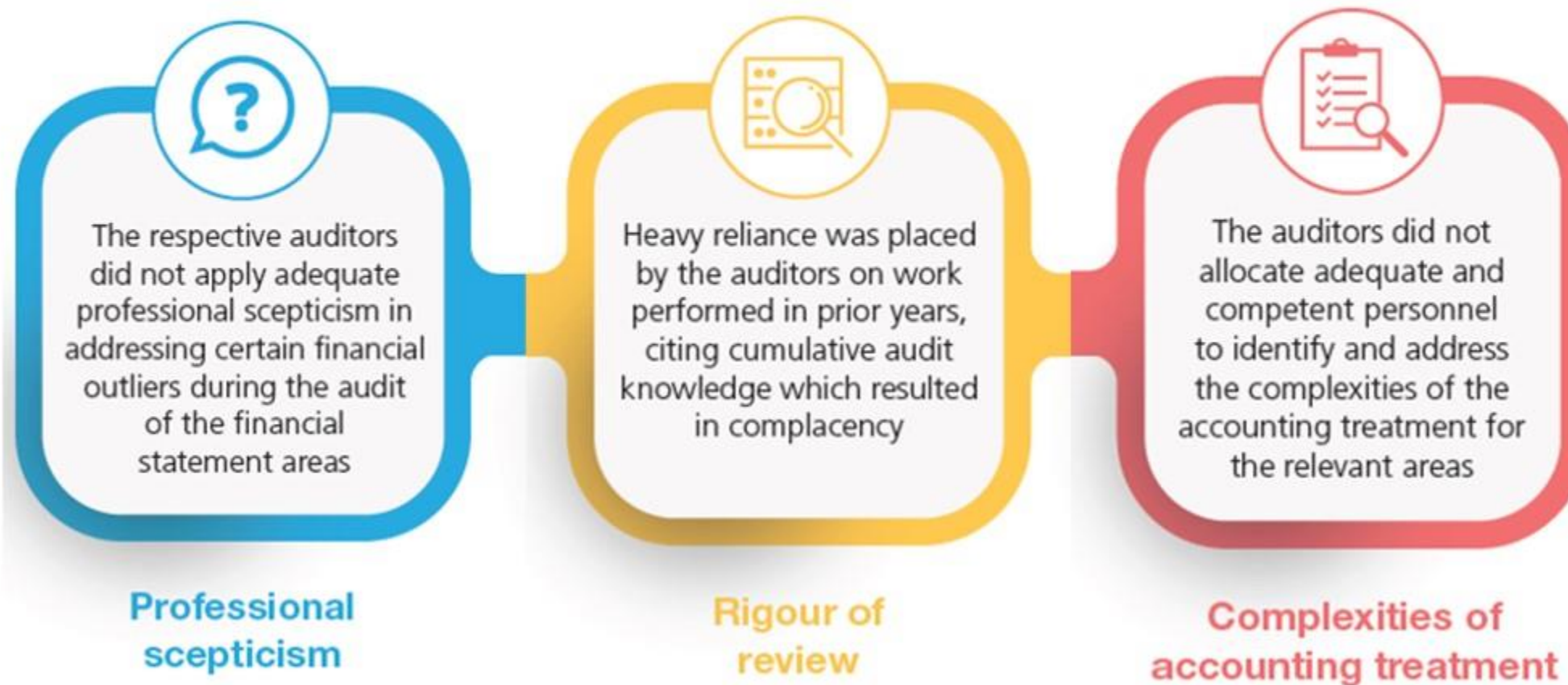
Did not challenge on **inconsistent monthly loan repayment**

Did not consider the **renegotiated terms** with loan providers, lessors or customers

No assessment on **feasibility** of support from related parties and no **confirmations** were obtained

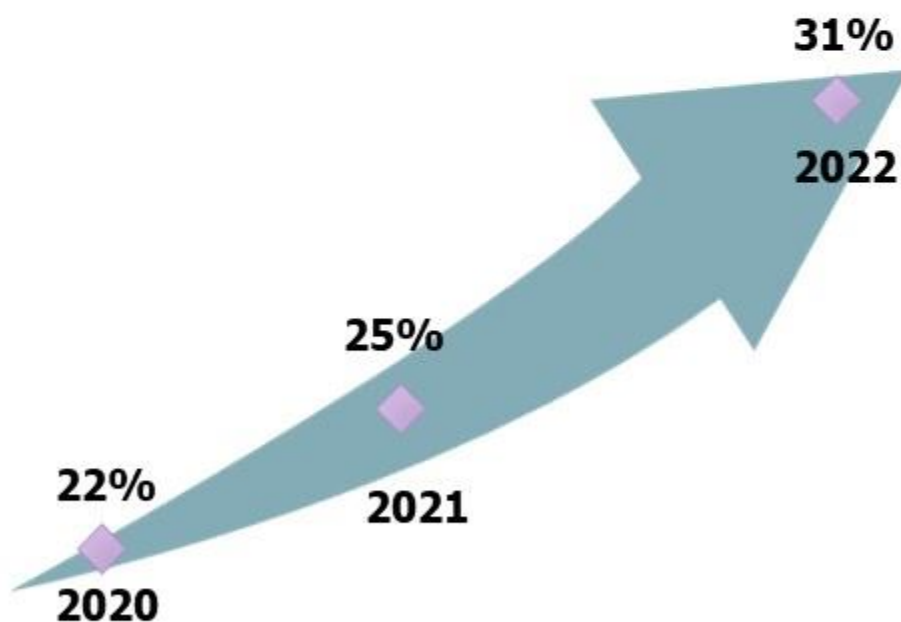
Did not **verify** the financing arrangements obtained and assess the likelihood of such financing being **realised in the next 12 months**

Common root causes of inspection findings



Sustainability of the Audit Workforce

Average staff turnover rate



Heavy Audit Staff Workload



Assess the severity of heavy staff workload by monitor and evaluate the time spent on audit engagements and conduct staff survey/interviews



Set internal firm targets or **introduce key performance indicators** for the firm's leadership and audit partners for the achievement of work-life balance for the audit staff



Implement initiatives (Increase audit staff headcount, agree reasonable reporting deadlines with clients) and **monitor** their **effectiveness** by measuring it or revising it as appropriate



Focus Areas of 2023

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Engage with firm's leadership

- ❑ To understand actions taken in addressing:
 - ❖ Issue of **high attrition rates**; and
 - ❖ Scarcity of individuals with relevant **accounting technical skills** in the existing market



First year implementation of system of quality management

- ❑ Focus on the **design** and **implementation** of firm's system of quality management
- ❑ Assess **operating effectiveness** of firm's system of quality management from **2024 onwards**



Sharing of best practices of firm identified during inspection

Engagement level review

- ❑ Emphasise on audit procedures addressing the risks of material misstatements in **complex** and **significantly judgemental areas** of the financial statements:

- ❖ Identification and assessment of risk of material misstatements due to **error** or **fraud**

- ❖ Assessment of **complex accounting treatments** focusing on **auditors' professional due care** and **heightened scepticism**

- ❖ Audit areas with **recurring significant engagement findings**:
 - Accounting estimates
 - Going concern assessments

- ❖ Companies in **energy** and **information technology** sectors





Thank you

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