



MONITORING AND SUPERVISION OF PIES AND SCHEDULE FUNDS AUDITORS

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REGISTRATION AND RECOGNITION OF AUDIT FIRMS AND INDIVIDUAL AUDITORS

The AOB’s oversight activities include the registration and recognition of auditors of public-interest entities (PIEs) and schedule funds.

In 2024, the AOB processed 29 applications for the registration of individual auditors of which one application was refused due to failure to meet the registration criteria imposed under Section 31P of the *Securities Commission Malaysia Act 1993*.

During the year, 26 individual auditors withdrew their registration with the AOB as they were no longer involved in the audits of PIEs and schedule funds.

The AOB recognises the foreign audit firms and individual auditors of PIEs who are listed in Malaysia but incorporated outside of Malaysia.

In 2024, the AOB processed the new applications for recognition of Ernst & Young LLP (Singapore) and three of the firm’s partners. Currently, the AOB recognises five foreign audit firms from Singapore, Hong Kong and United Kingdom. Collectively, these foreign audit firms audit five foreign incorporated companies, which are listed on Bursa Malaysia.

Registration and Recognition Statistics

As of 31 December 2024, there are a total of 37 audit firms and 377 individual auditors registered with the AOB with another five foreign audit firms and 16 foreign individual auditors being recognised by the AOB.

Table 1 provides the breakdown of the number of PIE and schedule fund clients of these registered and recognised auditors.

TABLE 1
Number of PIE and schedule fund audit clients of AOB registered and recognised auditors as of 31 December 2024

Profile of audit firms	No. of audit firms	No. of individual auditors	No. of PIE audit clients	% of total market capitalisation	No. of schedule funds audit clients	% of total net asset value
Registered audit firms						
Major audit firms	9	247	988	95.1	1,319	99.3
Other audit firms	28	130	311	4.8	61	0.7
Sub-total	37	377	1,299	99.9	1,380	100
Recognised foreign auditors	5	16	5	0.1	-	-
TOTAL	42	393	1,304	100	1,380	100

CHART 1
5-year registration statistics of registered audit firms and individual auditors

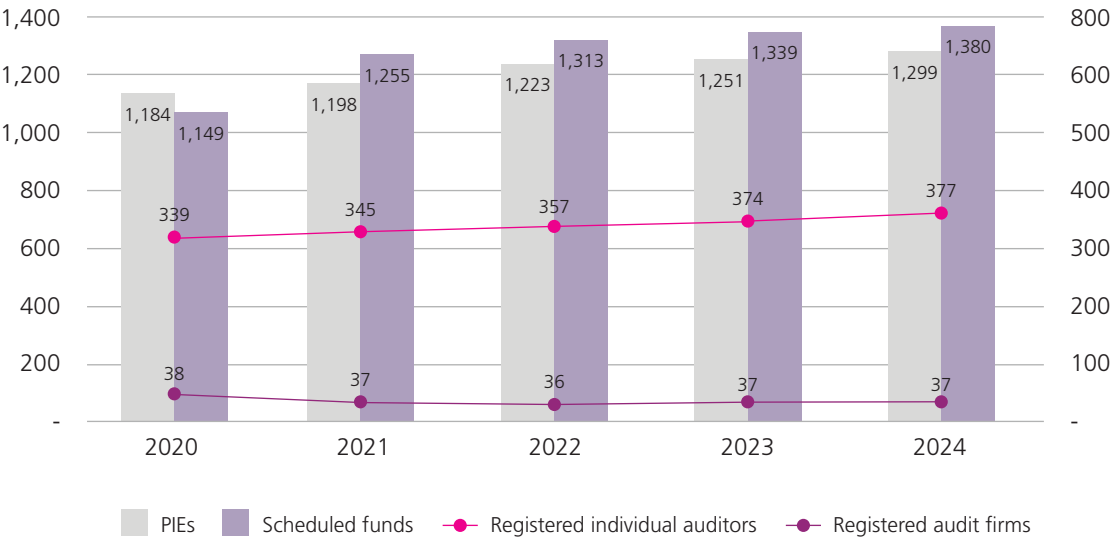
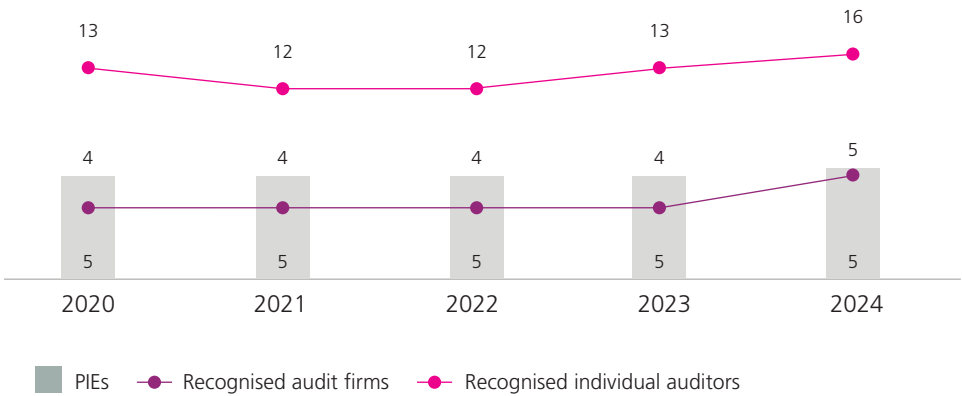


CHART 2
5-year recognition statistics of recognised audit firms and individual auditors



THE AOB’S REVISED HANDBOOKS FOR REGISTRATION AND RECOGNITION

On 13 June 2024, the AOB issued the revised *AOB Handbooks for Registration and Recognition* (the Handbooks). The Handbooks set out among others the registration and recognition criteria and conditions to be met by an audit firm and an individual who audits the financial statements of a PIE or schedule fund.

The Handbooks are issued under section 158 of the *Securities Commission Malaysia Act 1993* (SCMA) and have the effect of a guideline issued by the SC. The AOB can take action against auditors for any non-compliance with the Handbooks.

The key amendments to the Handbooks are depicted in Diagram 1.

DIAGRAM 1
Key Amendments to the revised *AOB Handbooks for Registration and Recognition*



INSPECTION OF AUDIT FIRMS AND INDIVIDUAL AUDITORS

The AOB conducts inspections on auditors of PIEs and schedule funds to promote confidence in the quality and reliability of the audited financial statements in accordance with Section 31V(1) of Part IIIA of the SCMA.

Annual inspections are conducted on the Major Audit Firms* while the Other Audit Firms are inspected at least once in five years, based on risk consideration. As at 31 December 2024, the public listed companies audited by the Major Audit Firms constitute approximately 96% of the market capitalisation of the stock exchange.

DIAGRAM 2
Firm and engagement level reviews



Firm level
Assess firms’ compliance with the requirements of the *International Standards on Quality Management* (ISQM) 1



Engagement level

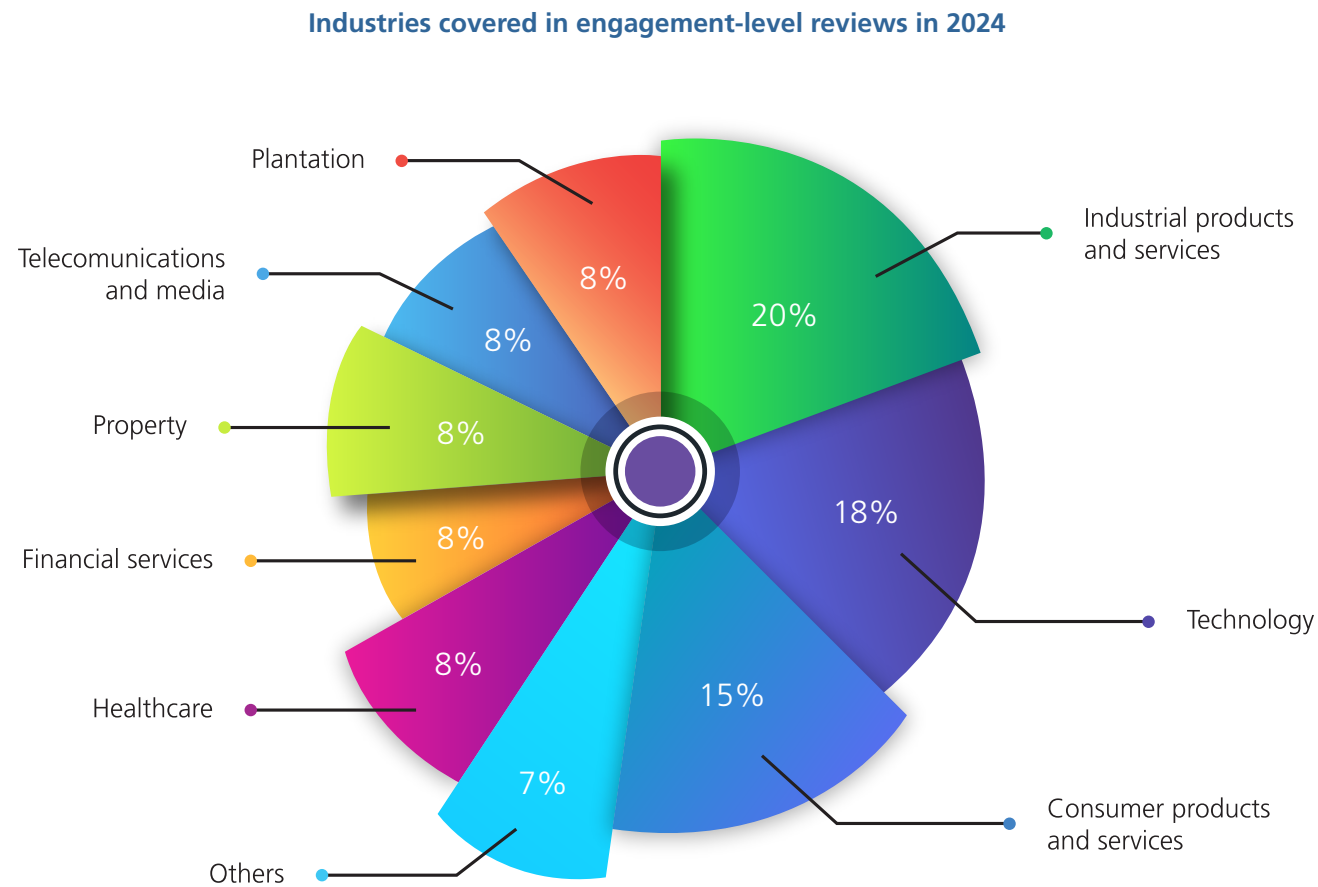
- Assess auditors’ compliance with the *International Standards on Auditing* (ISAs) and relevant ethical standards; and
- Assess whether sufficient and appropriate audit evidence had been obtained in relation to the audit reports of PIEs or schedule funds.

In 2024, the AOB inspected nine Major Audit Firms and four Other Audit Firms including a total 40 audit engagements. As shown in Diagram 3, the audit engagements that have been inspected in 2024 involve audit clients with businesses spanning across various industries.

Note:

* The Major Audit Firms are firms that have more than 10 partners who collectively audit more than 50 PIEs with a total market capitalisation exceeding RM15.0 billion. The Major Audit Firms comprises of Baker Tilly Monteiro Heng PLT, BDO PLT, Crowe Malaysia PLT, Deloitte PLT, Ernst & Young PLT, Grant Thornton Malaysia PLT, KPMG PLT, PriceWaterhouseCoopers PLT and UHY Malaysia PLT. The Other Audit Firms are firms other than the Major Audit Firms.

DIAGRAM 3
Industries covered in engagement-level reviews in 2024



HIGHLIGHTS OF KEY INSPECTION ACTIVITIES IN 2024



Issued twelve inspection reports during the year

The AOB issues inspection reports to the audit firms detailing the deficiencies identified from the firm and engagement level reviews.



Reviewed and approved the remedial plans for fourteen audit firms

The audit firms are required to submit a remedial plan to the AOB to address all deficiencies highlighted in the inspection report. The remedial plan, including the remediation timeframe, is subject to AOB's review and approval. In addition, the audit firms are required to update the AOB every quarter on the implementation progress of the firms' remedial plan.



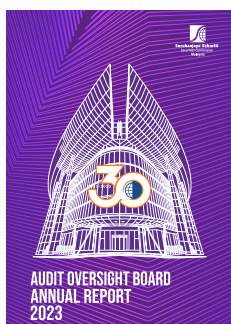
Imposed specific remediation measures on six inspected audit firms and twelve individual auditors

The AOB may impose specific remediation measures on audit firms and individual auditors to mitigate the risks of future failures particularly when there are heightened concerns arising from the inspections.

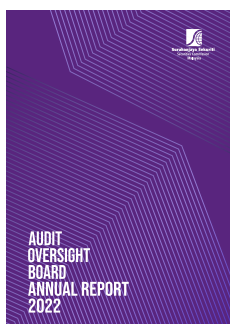


Referred seven inspected audit engagements audited by five audit firms for enforcement proceedings due to the severity of the inspection findings

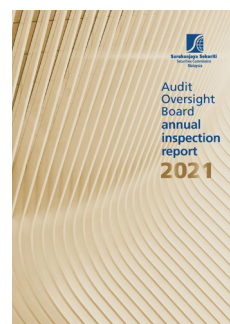
The AOB will be issuing a separate Annual Inspection Report 2024 that would provide details on the inspection programme, the common inspection findings and other observations including the remediation efforts taken by the inspected audit firms. The Annual Inspection Report is intended to generate more meaningful discussions on audit quality between the auditors and the audit committees as well as the management of PIEs and schedule funds.



Annual Inspection
Report 2023



Annual Inspection
Report 2022



Annual Inspection
Report 2021

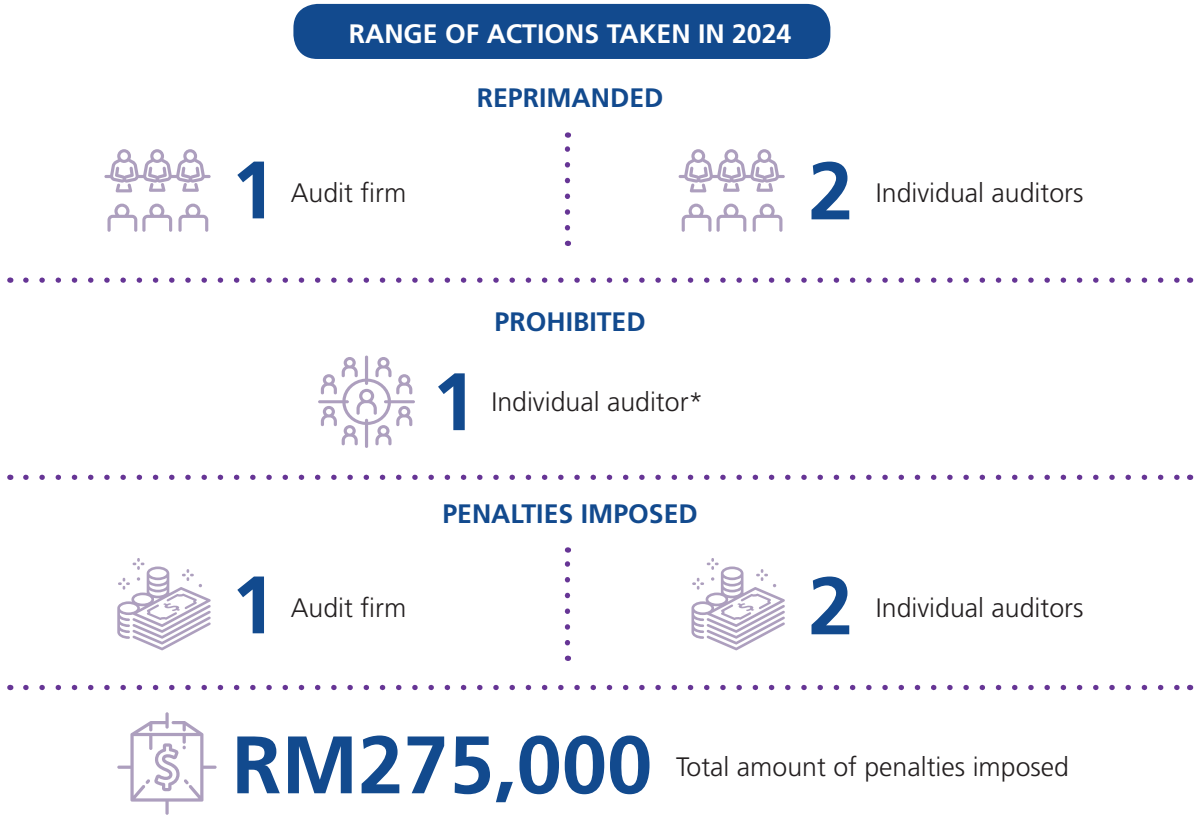
ENFORCEMENT ON AUDIT FIRMS AND INDIVIDUAL AUDITORS

Over the years, the AOB’s enforcement actions have set the regulatory expectations of auditors and sent a strong signal on the importance of upholding audit quality.

The AOB has always been objective and impartial in carrying out its enforcement function. Registered audit firms are treated equally, regardless of their size or network affiliations. The enforcement actions commensurate with the severity and impact of the findings regardless of the size of the audit firms.

Further, the enforcement actions are not restricted to individual auditors involved in the audit engagements but are also intended to hold the respective audit firm and its leadership accountable for the behaviour of their individual partners and engagement performance.

DIAGRAM 4
Range of actions taken in 2024



Note:
* In addition to the prohibition, the individual auditor was also imposed with a monetary penalty.

In 2024, the AOB sanctioned audit firms and individual partners for breaching requirements of the *International Standards on Auditing* (ISA) and the *Malaysian Institute of Accountants By-Laws on Professional Ethics, Conduct and Practice* (MIA By-Laws). The details of the enforcement actions are highlighted in the Diagram 4.

There has been a range of action taken this year with the most severe being prohibition and monetary penalties. Over the years, the AOB has prohibited auditors to allow them sufficient time to reassess and build capacity. The prohibitions include prohibition from accepting as clients and auditing the financial statements of PIEs. Further, to address the issue of capacity, there has been situation where an audit firm was prohibited from accepting any new audit clients for a period of 12 months.

The quantum of monetary penalties imposed by the AOB are reflective of the severity and impact of the findings. Pursuant to the SCMA, the AOB can impose a maximum penalty of RM500,000 on auditors.

Persons aggrieved by the decision of the AOB can appeal to the Securities Commission Malaysia’s (SC) Board. The SC Board has the power to affirm, reverse or substitute the AOB’s decisions. During the year, a firm and two individual auditors had appealed to the Board of the SC in respect of the decision of the AOB on the sanctions imposed. After reviewing and considering the facts of the matters and ground of the appeals, the Board of the SC dismissed the appeal and affirmed the decision made by the AOB.

ENFORCEMENT ACTION IN 2024



Prohibited an engagement partner from accepting as clients and auditing the financial statements of PIEs and schedule funds for 12 months on the account of multiple breaches of the requirements of the ISA. A monetary penalty was also imposed on the engagement partner.



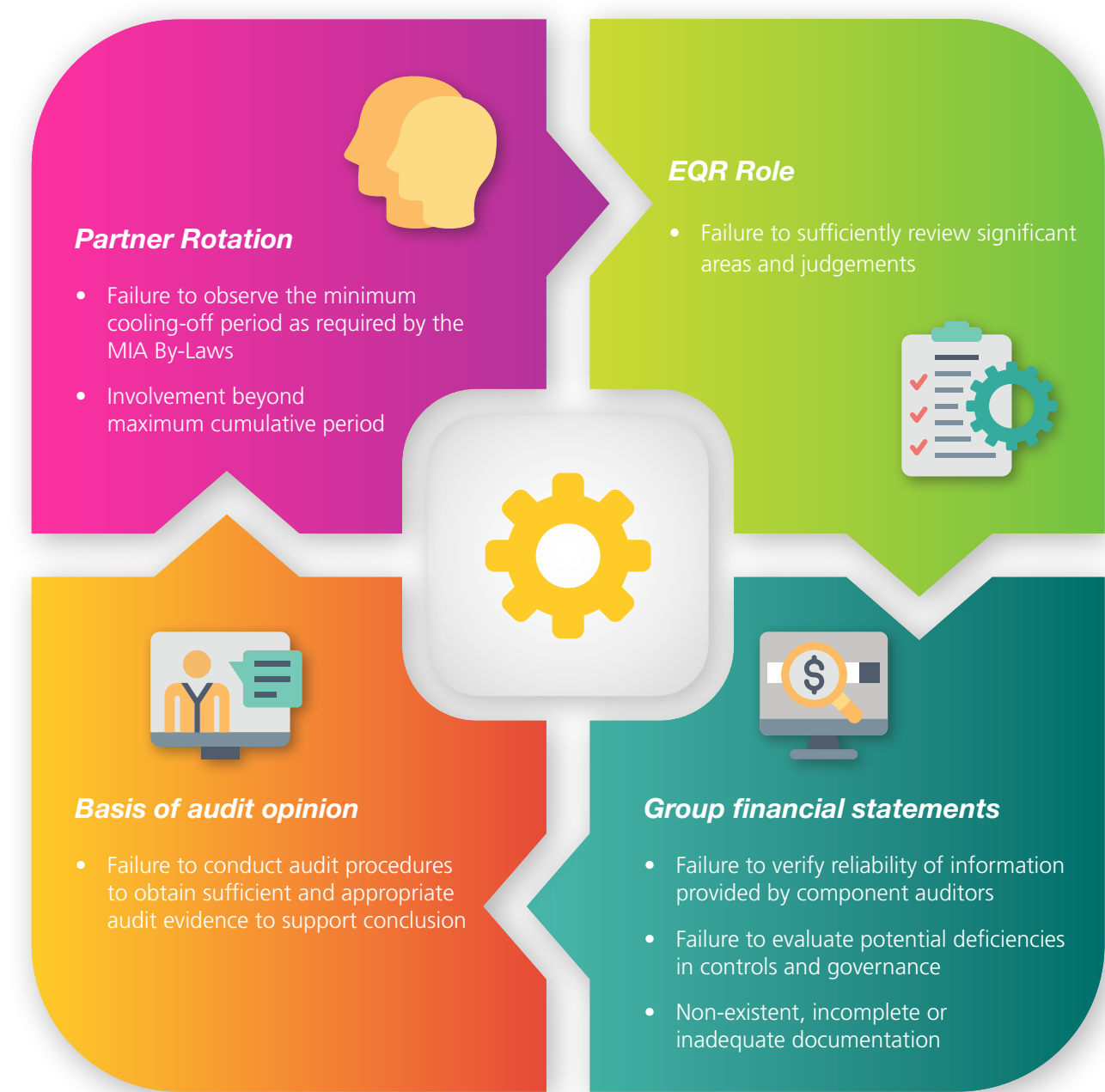
Monetary penalties imposed on an audit firm and an individual auditor for issues relating to the key audit partner rotation requirement of the MIA By-Laws which limits a key audit partner involvement to a maximum of seven cumulative years before serving a cooling-off period.



Reprimanded an audit firm, engagement partner and engagement quality control reviewer for failing to comply with relevant requirements of the ISA and ISQC 1 in the engagement review of a PIE.

ENFORCEMENT OBSERVATIONS

Figure below depicts the observations with respect to enforcement in 2024.



RESPECTING DUE PROCESS

The AOB maintains a comprehensive enforcement framework to ensure that its enforcement actions comply with the principles of proportionality, efficiency and natural justice.

In determining the type of actions to be imposed on any non-compliance, the AOB considers the nature and seriousness of the offence, conduct of the auditors, previous regulatory records, impact of the breach to the capital market and any other mitigating and/or aggravating factors.

The enforcement processes are robust, encompassing various levels of internal challenge to ensure that the enforcement actions are appropriate with its enforcement framework. The internal challenge includes review and approval from the SC’s General Counsel team to ensure consistency to the enforcement framework.

In addition, the principles of natural justice is strongly adhered to and auditors are given numerous opportunities to explain, challenge and provide information to address the AOB’s findings.

The AOB recognises that, for the enforcement action to have the necessary impact and deterrent effect, it must be completed in a timely manner. While the AOB is mindful that enforcement proceedings needs to be swift, the robustness of the enforcement process requires time which in turn has unintended consequences on the completion timelines of these cases. The impact of the actions on the reputation of the auditors necessitate that the enforcement actions are appropriate and able to withstand any challenges. Further, in certain situations, cases are prioritised and fast tracked based on the risk to the capital market. The information on the number of outstanding cases as at 31 December 2024 is presented in Table 2.

TABLE 2
Number of enforcement cases in progress and pending completion

Year	No. of cases for enforcement proceedings received in the respective years	No. of cases completed prior to 2024	No. of cases completed in 2024	No. of cases-in-progress as at 31 December 2024
2022	4	2	1	1 *
2023	7	-	3 #	4
2024	5	-	-	5
TOTAL	16	2	4	10

Note:
* The referral received in 2022 is being assessed together with a referral received in 2023 as it involves the same audit firm.
The AOB had decided on the matter but at the date of reporting, the auditors were still able to appeal therefore the information on action were not made public.

Read more on the AOB’s Enforcement Actions at
<https://www.sc.com.my/aob/aobs-sanctions>

