

# 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**