



Suruhanjaya Sekuriti
Securities Commission
Malaysia



AUDIT OVERSIGHT BOARD ANNUAL REPORT 2023

**AUDIT OVERSIGHT BOARD
ANNUAL REPORT
2023**

MISSION STATEMENT

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

CHAIRMAN'S MESSAGE



It is my privilege to present the Audit Oversight Board's (AOB) Annual Report for the year ended 31 December 2023. This is my maiden report having been appointed as the Non-Executive Chairman of the AOB on 5 January 2024.

I am privileged to join the AOB at a time where Malaysia continues to rank first for quality of auditors and audit regulators in the Corporate Governance (CG) Watch 2023 issued by the Asian Corporate Governance Association (ACGA). This is the third consecutive time that Malaysia has held this position. I am happy to report that we did so with an increase of six points from the previous score. The increase in score highlights Malaysia's continued efforts to continue to push the bar and set the standard in audit oversight.

OVERSIGHT OF AUDITORS OF PUBLIC INTEREST ENTITIES AND SCHEDULE FUNDS

Oversight of auditors include registration, inspection and enforcement. The AOB's oversight activities include strengthening ongoing monitoring efforts by issuing guidelines and influencing the financial reporting ecosystem via the AOB's Conversation series with auditors, audit committees (ACs) of public-listed companies (PLCs) and investor groups. The AOB also continues its collaborative efforts with professional bodies to set the tone for regulatory expectations and address any collective concerns of its registered auditors, where possible.

In 2023, we issued the *Guidelines on Continuing Obligations for Registered Auditors* to strengthen our oversight framework over registered auditors and ensure better monitoring and supervision of our registered auditors.

As in prior years, to allow for more in-depth information to be shared, inspection findings and observations on audit firms and auditors will be presented separately in the 2023 Annual Inspection Report (AIR). In an effort to facilitate meaningful communication between the ACs of PLCs and their auditors, the AIR will continue to be distributed to ACs members of PLCs and other key stakeholders.

The AOB has been transparent and clear with its expectations on audit quality. Audit quality applies to all audit firms regardless of their size and any non-compliance with standards and regulation will result in enforcement actions against any delinquent registered auditors. In 2023, there were enforcement actions, ranging from reprimands, prohibitions and monetary penalties taken against auditors.

CONVERSATIONS AND ENGAGEMENTS ON AUDIT QUALITY

In 2023, we organised our inaugural engagement with the members of the Institutional Investors Council Malaysia (IICM) to create awareness of the audit oversight function of the SC in Malaysia and seek views from investor groups on matters regarding auditors and audit quality. The aim of the engagement was to open communication lines with the investors groups to understand their expectations of auditors and audit regulators.

The first *AOB Alert for Audit Committees* was issued during the year with the aim of providing updates on our efforts to promote audit quality and key development affecting the financial reporting ecosystem. The AOB's Conversations with Audit Committees and AOB Alerts for Audit Committees are designed to ensure that ACs are sufficiently informed on the relevant information to effectively carry out their oversight responsibilities.

Sustainability of AOB-registered audit firms is paramount to upholding audit quality. We take cognisance of the firms' efforts to address staff turnover issues. Nevertheless, the AOB urges the auditors and public-interest entities (PIEs) to invest in and take advantage of technological developments to help mitigate resourcing concerns in the short-term. Auditors and PIEs should also explore long-term technological solutions and expedite efforts to embed technology into the financial reporting ecosystem.

The AOB is closely monitoring developments in sustainability reporting and assurance while concurrently putting in the necessary efforts to upskill our team as sustainability reporting and its assurance gain global prominence.

ACKNOWLEDGEMENT

I would like to acknowledge the contributions and support of the AOB's previous Chairman, Dato' Anantham Kasinather and one of our non-executive members, Dato' Darawati Hussain who concluded their terms on the Board in 2023. In 2023, we welcomed Dato' Noorazman Abd Aziz who joined the Board.

The recognition received from the CG Watch 2023 reinforces the AOB's position as a trusted and respected audit regulator in the region. This recognition would not have been possible without the steadfast leadership of all our board members and unwavering commitment of our management team to uphold audit quality.

Further, I wish to also thank fellow regulators, professional accountancy bodies and other stakeholders for their ongoing support. I look forward to working with my fellow board members and our talented team to build on our progress and execute our mandate effectively.



Tan Sri Abu Samah Nordin



HIGHLIGHTS

KEY HIGHLIGHTS OF THE AUDIT OVERSIGHT BOARD’S CORE FUNCTIONS IN 2023



REGISTRATION

REINFORCING REGULATORY EXPECTATIONS

- Introduced ***Guidelines on Continuing Obligations for Registered Auditors*** to ensure better monitoring and supervision of registered auditors
- Issued **AOB Alerts to Audit Committees (ACs)** on audit quality related matters to assist the ACs with their oversight responsibilities on auditors
- **Registered** and recognised **34** new individual auditors, **1** new audit firm and **1** new foreign individual auditors
- Strengthened the financial reporting ecosystem through the **AOB’s Conversation series with Auditors, ACs and Investors**
- Built capacity and capabilities of AOB-registered auditors by facilitating **targeted training programmes**



INSPECTION

STRENGTHENING THE FOCUS ON RISK-BASED INSPECTIONS

- **Inspected 15** audit firms, **50** partners and **50** audit engagements
- **22** referral cases were closed off



ENFORCEMENT

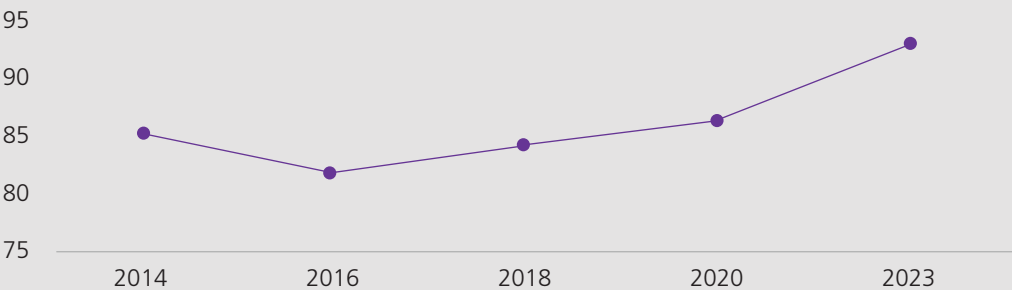
FOCUSED AND IMPACTFUL ENFORCEMENT OUTCOMES

- **Setting the tone for quality through enforcement actions**
– **3** audit partners were reprimanded, **prohibited** to accept public-interest entities (PIEs) and schedule fund audit clients **and a total of RM75,000** monetary penalty imposed
- **Enhancing transparency in communication** – additional information on enforcement actions provided in the press releases to facilitate better understanding of the breaches and justification of sanctions imposed

Malaysia Ranked First in the Category of Auditors and Audit Regulators in CG Watch 2023

Malaysia continued to rank first for quality of auditors and audit regulators in the Corporate Governance (CG) Watch 2023 issued by the Asian Corporate Governance Association (ACGA). This marks the third consecutive assessment that Malaysia holds the title, with an increase of six points from the previous score.

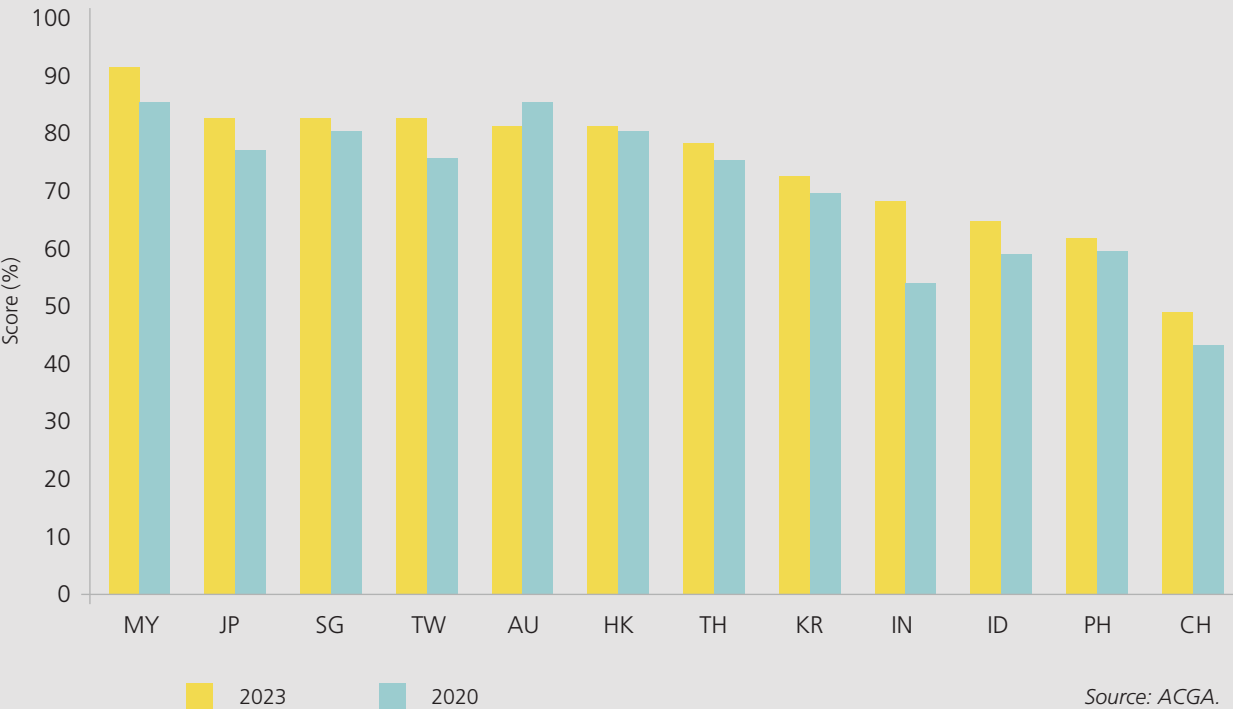
CHART 1
Previous Scores for Auditors and Audit Regulators



Source: The AOB.

The CG Watch 2023 is the result of a biennial survey by the ACGA and CLSA Ltd of 12 Asian countries including Australia. The countries are assessed on categories such as government and public governance, enforcement, corporate governance rules, investors and auditors as well as audit regulators. Malaysia's score of 92 in the category of auditor and audit regulators was well above the average score of 74 by the 12 regional markets.

CHART 2
Auditors and audit regulators: Scores by market



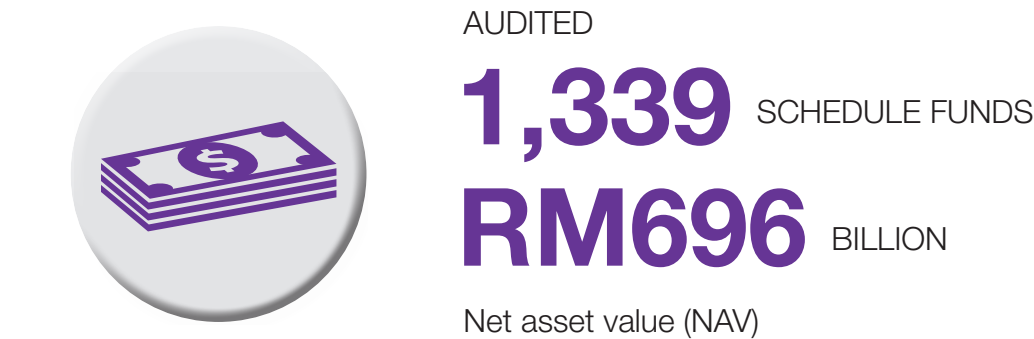
Source: ACGA.

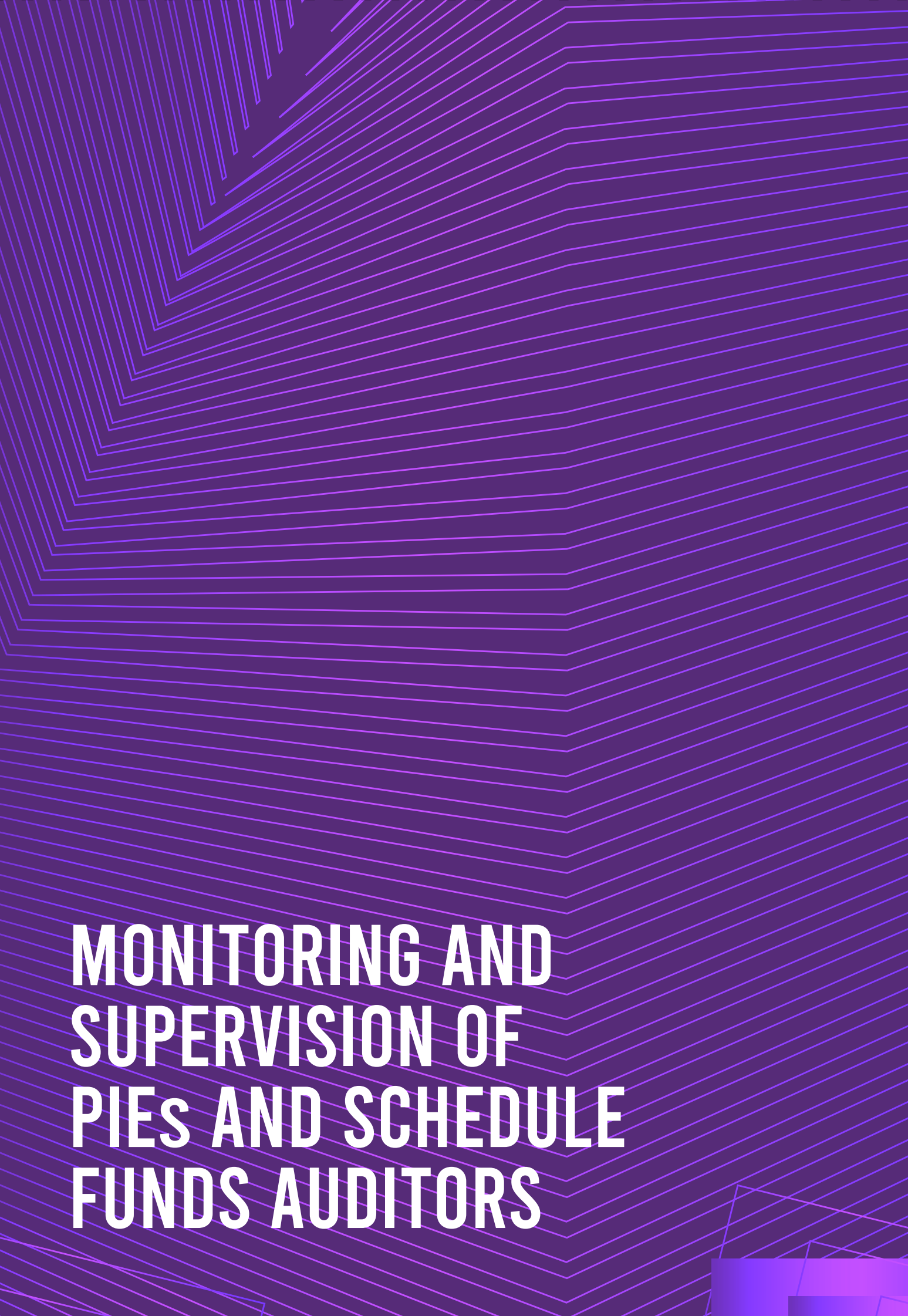
The ranking is a recognition of the AOB's efforts and effectiveness of the audit oversight framework in Malaysia.

Profile of the AOB’s Registered and Recognised Audit Firms and Individual Auditors as at 31 December 2023



AUDITED





MONITORING AND SUPERVISION OF PIEs AND SCHEDULE FUNDS AUDITORS

MONITORING AND SUPERVISION OF PIEs AND SCHEDULE FUNDS AUDITORS

REGISTRATION AND RECOGNITION OF AUDIT FIRMS AND INDIVIDUAL AUDITORS

The AOB’s oversight over auditors of PIEs and schedule funds are done through its registration, inspection and enforcement functions.

The AOB has registered and recognised 41 audit firms and 387 registered and recognised individual auditors.

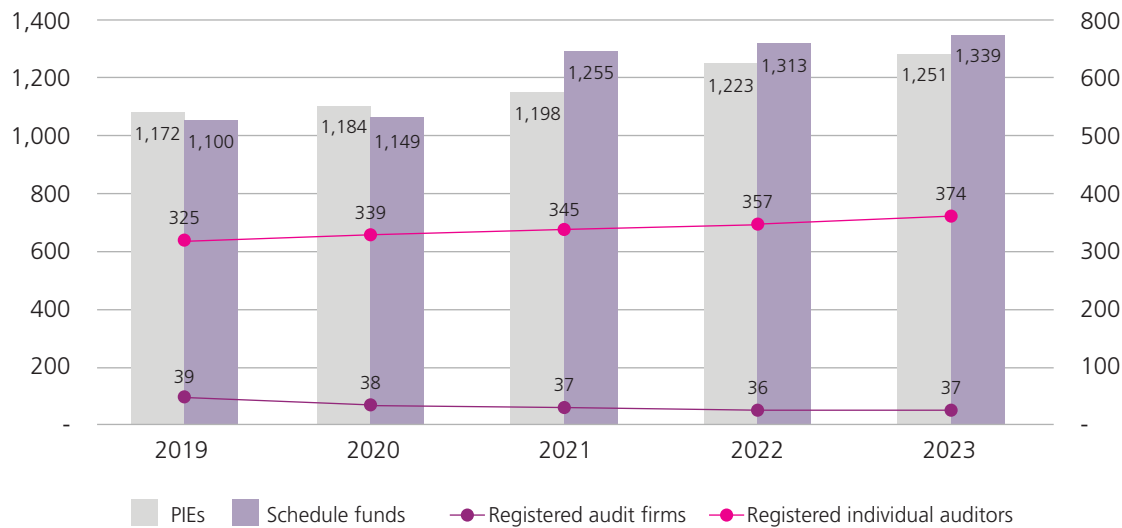
The table below provides the breakdown of the number of PIE and schedule fund clients of these registered and recognised auditors.

Profile of audit firms	No. of audit firms	No. of individual auditors	No. of PIE audit clients	% of total PLCs market capitalisation	No. of schedule funds audit clients	% of total NAV
Registered audit firms						
Partnership with 10 and more audit partners	11	263	1,027	95.6%	1,293	98.5%
Partnerships with 5 - 9 audit partners	17	84	187	4.0%	45	1.5%
Partnerships with fewer than 5 audit partners	9	27	37	0.3%	1	-
Sub-total	37	374	1,251	99.9%	1,339	100.0%
Recognised foreign audit firms	4	13	5	0.1%	-	-
TOTAL	41	387	1,256	100%	1,339	100.0%

Source: The AOB.

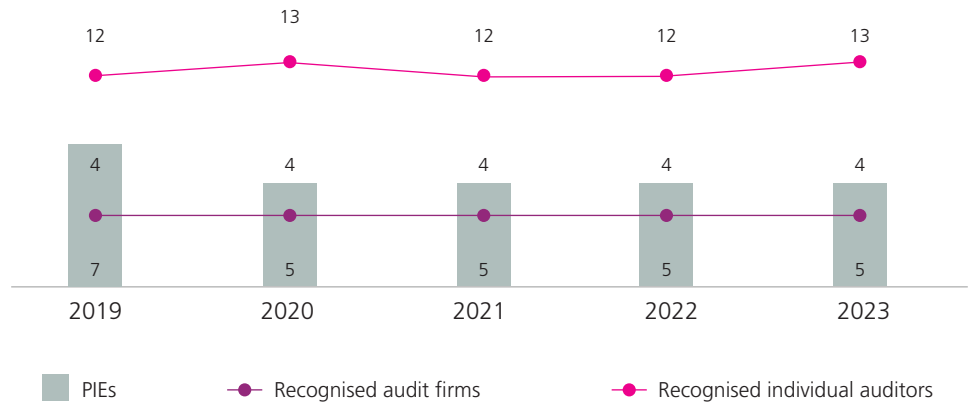
Chart 1 further depicts the number of audit firms and individual auditors registered with the AOB as well as the number of PIEs audited for the last five years. The number of AOB-registered auditors has increased by 15.1% over the years, a positive trend indicating continuous commitments by audit firms to build capacity.

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



Source: The AOB.

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



Source: The AOB.

Currently, the four recognised audit firms are from Singapore, UK and Hong Kong. Recognised audit firms must be an internationally affiliated network firm, with effective technical support and robust quality control from its network firm. The AOB relies on the oversight frameworks of the recognised auditors’ home jurisdictions to determine whether they are fit and proper to audit PIEs. Audit firms have to comply with international quality management, auditing, ethical and other assurance standards. Further, they have to be subjected to regular inspection by their home audit regulators.

GUIDELINES ON CONTINUING OBLIGATIONS FOR REGISTERED AUDITORS

The *Guidelines on Continuing Obligations for Registered Auditors* (Guidelines), which set out the obligations that must be adhered to by a registered auditor, was issued in 2023. This is pursuant to section 31E(1)(a) of the *Securities Commission Malaysia Act 1993* (SCMA), where the responsibilities of the AOB include implementing policies which contribute to an effective audit oversight system in Malaysia.

The objective of these Guidelines is to strengthen the framework for registered auditors and ensure better monitoring and supervision of the registered auditors.

The Guidelines also consolidate the annual reporting obligations mandated via circulars on the registered auditors. The Guidelines set out, among others, the following requirements:


Part 1 of the Guidelines

(a) Annual Transparency Reporting

Issuance and publication of the *Annual Transparency Report* by audit firms (only firms that meet the reporting criteria) on its website to provide information on the governance structure of the audit firm, measures taken by the audit firm to uphold audit quality, and information on the audit firm’s audit quality indicators.


(b) Statistics Gathering and Analysis Exercise

Submission of the Statistics Gathering and Analysis (SGA) Form as prescribed by the AOB containing financial, client, human resources, and training information.




Part 1:
Existing Disclosure Requirements

Issued and effective on 26 June 2023



Annual Transparency Reporting
A Relevant Audit Firm* must issue and publish an *Annual Transparency Report* on its website four months from the end of its financial year.

* Relevant Audit Firm means an AOB-registered audit firm that has more than 50 PIE audit clients and total market capitalisation of the firm’s PLC audit client is more than RM15 billion for two consecutive years as at 31 December.



SGA Exercise
An AOB-registered audit firm, other than a Relevant Audit Firm, must submit the SGA Form as at 30 June to the AOB by 15 August of each calendar year.


Part 2 of the Guidelines

(c) **Change of Auditor**


Professional clearance by the outgoing auditor to the incoming auditor when there is a change of auditor.

(d) **Resignation and Removal of Auditor**

Submission of a written notification by the auditor on reasons relating to its resignation and removal as an auditor to the AOB.



Part 2:
New Requirements
Effective on 1 July 2024



Change of Auditor

Before accepting the appointment as a PIE's auditor, the **incoming auditor** must–


- **seek professional clearance** from the outgoing auditor; and
- **complete the evaluation** for the **acceptance** of a new audit engagement

The **outgoing auditor** must provide a **written reply** to the incoming auditor within **14 business days** from the receipt of the request

If **consent is not provided by the PIE audit client** for disclosing additional information relating to the professional reason, the **outgoing auditor** must–

- **inform** the incoming auditor of the non-consent in the **written reply**; and
- **submit** a copy of the written reply to the **AOB** concurrently

NEW



Resignation and Removal of Auditor

Upon giving a **notice of resignation** as a PIE auditor, the **outgoing auditor** must submit the following to the **AOB**:

- a written notification setting out–
 - the **specific reasons and circumstances** that gave rise to the resignation
 - any **key audit concerns** that relate to the PIE audit client's annual financial statements within 5 business days; and
- a copy of the professional clearance letter

NEW

If a registered auditor is **removed** by a PIE audit client, the registered auditor must **notify the AOB** of such removal and the **reasons** of the removal if known to the registered auditor, **within 5 business days** upon receipt of the notice of removal from the PIE audit client

NEW

Auditors must ensure–

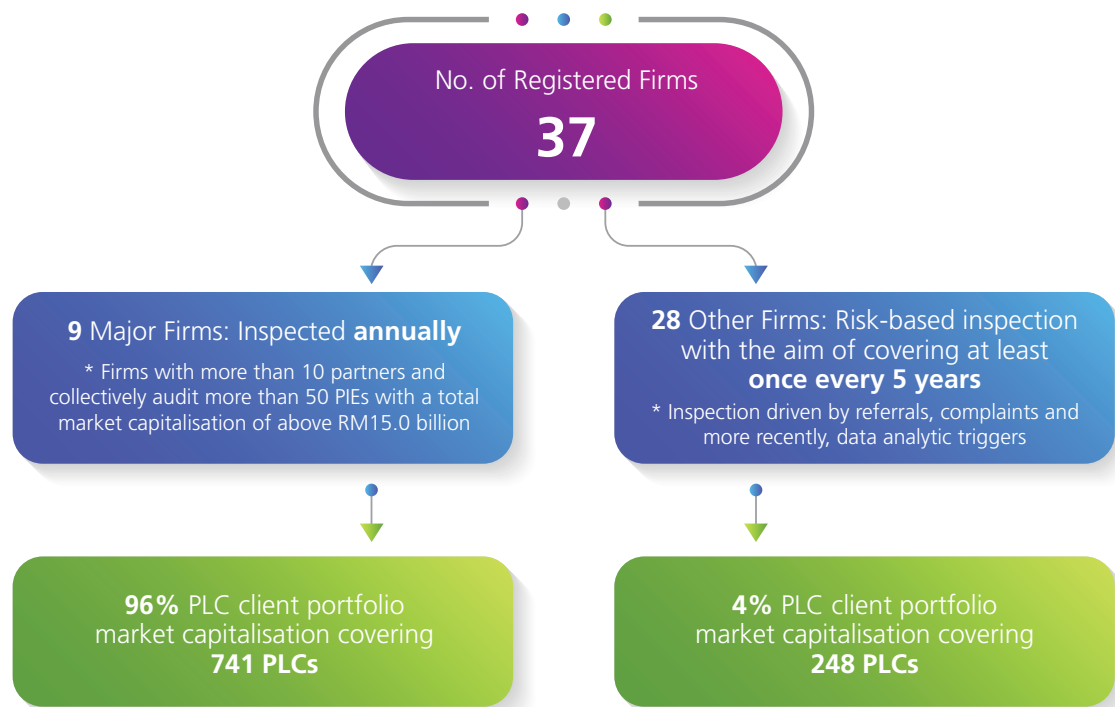
- continuous compliance with the AOB's guidelines throughout the validity of the registration and/or recognition; and
- that information disclosed or submitted to the AOB is true, complete, and accurate.

Failure to comply with any conditions will result in actions being initiated under section 31Z and/or 31Q of the SCMA or any other action deemed necessary.

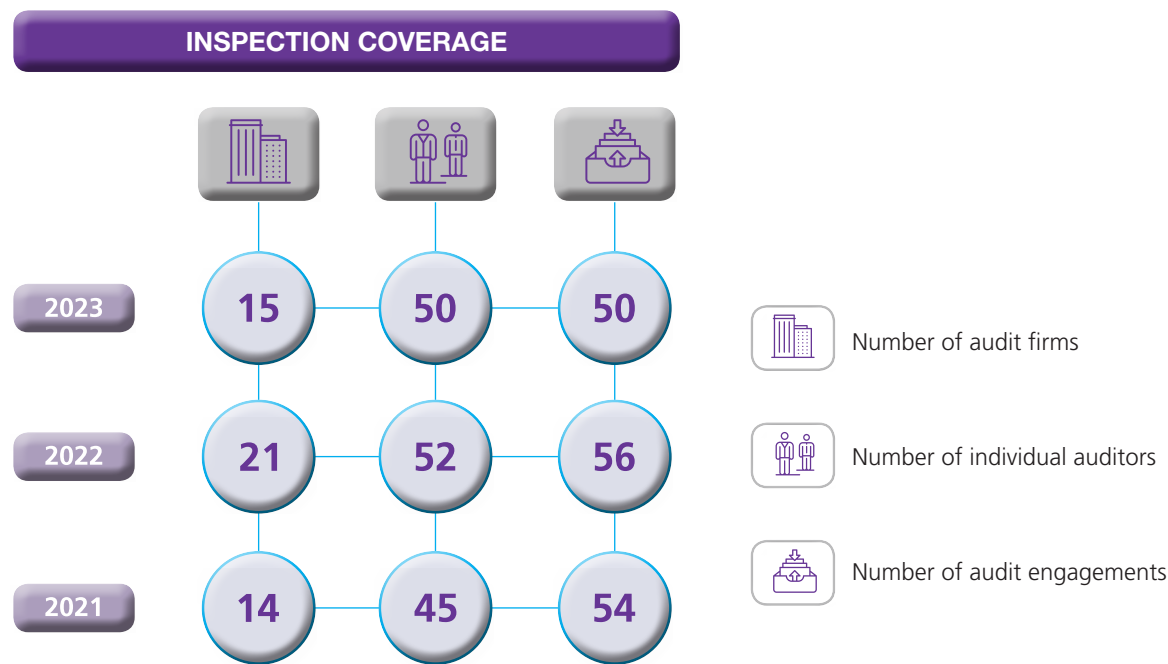
INSPECTION OF AUDIT FIRMS AND INDIVIDUAL AUDITORS

The AOB conducts inspections on auditors of PIEs and schedule funds to promote high quality audits and reliable audited financial statements.

CHART 3
Inspection snapshot

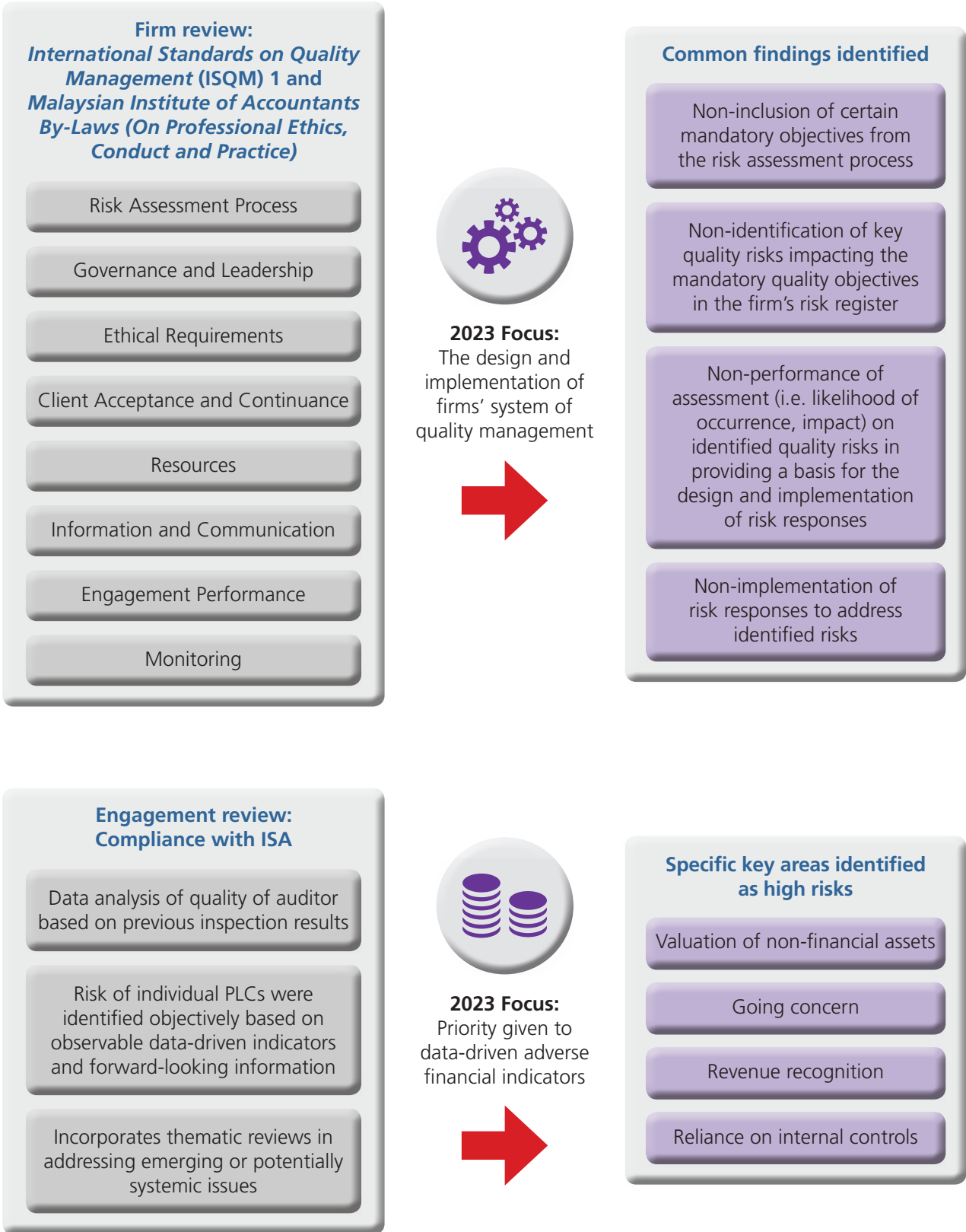


In-depth information on the inspection programme, including common inspection findings, results of reviews, trends analysis and remediation efforts taken by inspected audit firms will be presented separately in the AOB’s *Annual Inspection Report 2023* (AIR).



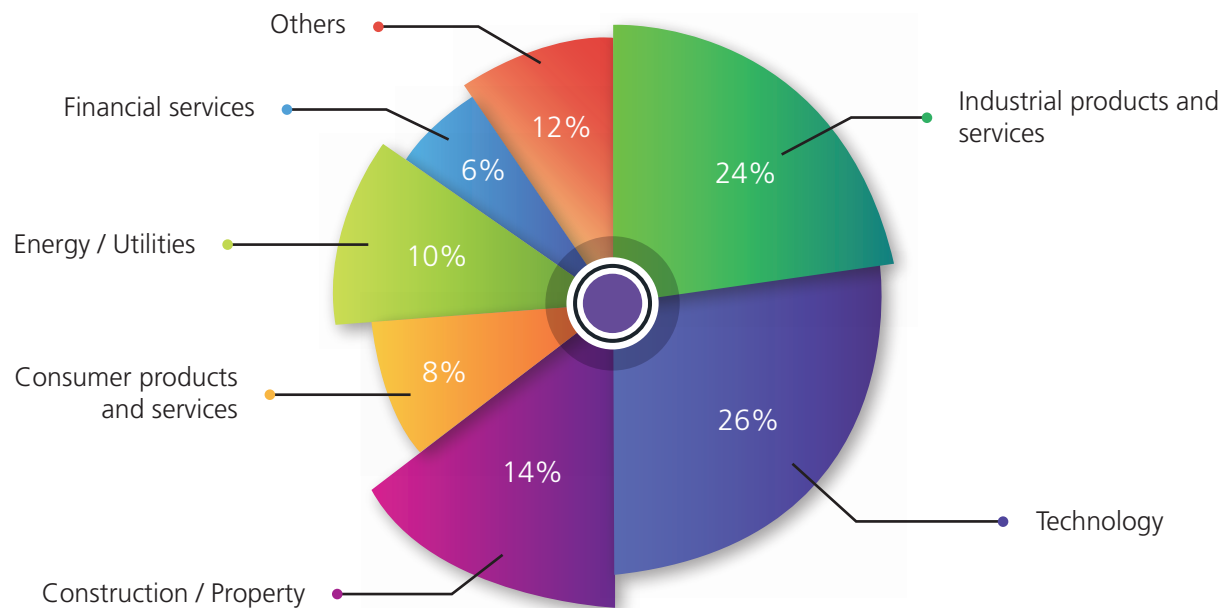
Inspection Highlights for 2023

(A) Scope



(B) Industries

Industries covered in engagement-level reviews in 2023



(C) Actions

To mitigate the risk of future failure arising from serious audit quality concerns, the following actions have been imposed on audit firms and individual partners:

- (a) Mandatory technical consultation to be obtained from the firm’s global network in addressing the appropriate accounting treatment for certain classes of transactions and balances.
- (b) Requirement to demonstrate the firm’s efforts to increase competencies and professional scepticism of engagement partners, engagement team members and the Engagement Quality Review (EQR) partners in key areas.
- (c) Obligation to reperform specific audit procedures to address the inspection findings and/or to immediately rectify any potential impact on the financial statements of the financial year(s) in question.
- (d) Referrals of certain inspected audit firms and individual auditors including EQR partners to the AOB’s Enforcement Department depending on the severity of inspection findings.

ENFORCEMENT ON AUDIT FIRMS AND INDIVIDUAL AUDITORS

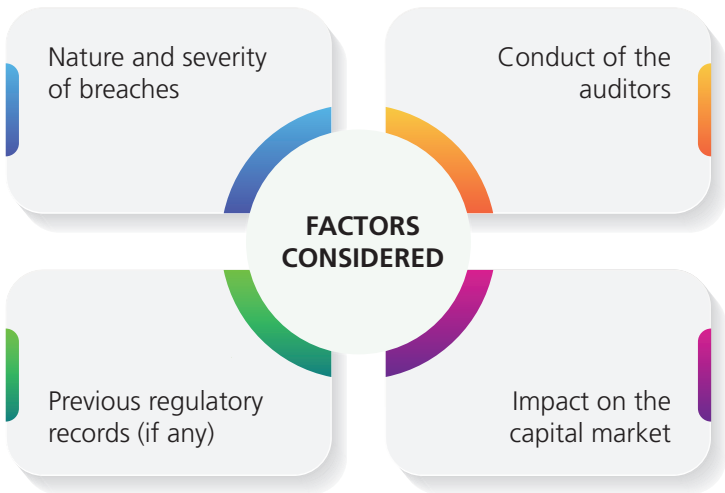
The AOB’s enforcement actions are focused to achieve high level of compliance among the AOB’s registrants.

Responsibilities

- Conduct inquiries into possible non-compliance with auditing and ethical standards
- Assess non-compliance based on facts obtained from inquiries performed
- Impose proportionate enforcement sanctions based on the nature and severity of the breach

Achieving a Fair and Balanced Decision

In determining the decision to be reached, there are several factors considered:



Highlights from the AOB’s 2023 Enforcement Activities

Enforcement Actions Taken in 2023



In 2023, three enforcement actions were taken for non-compliances with the relevant ISA, as shown above. Two audit partners were prohibited from auditing and accepting PIEs and schedule funds as audit clients for a period of one year and monetary fines totalling RM75,000 were imposed. One other audit partner was reprimanded.

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

Number of Cases Completed since 2021

Year	No. of referrals for enforcement proceedings	No. of cases completed prior to 2023	No. of cases completed in 2023	No. of cases-in-progress as at 31 December 2023
2021	1	1	-	-
2022	4	-	2	2
2023	7	-	-	7
TOTAL	12	1	2	9

The AOB's Enforcement Observations



AUDIT EVIDENCE

- Non-existent, incomplete or inadequate documentation



AUDITOR'S INDEPENDENCE

- Over-reliance on information provided by clients
- Failure to verify reliability of information provided by clients



EQR ROLE

- Failure to sufficiently review significant areas or judgements
- Absence of robust review



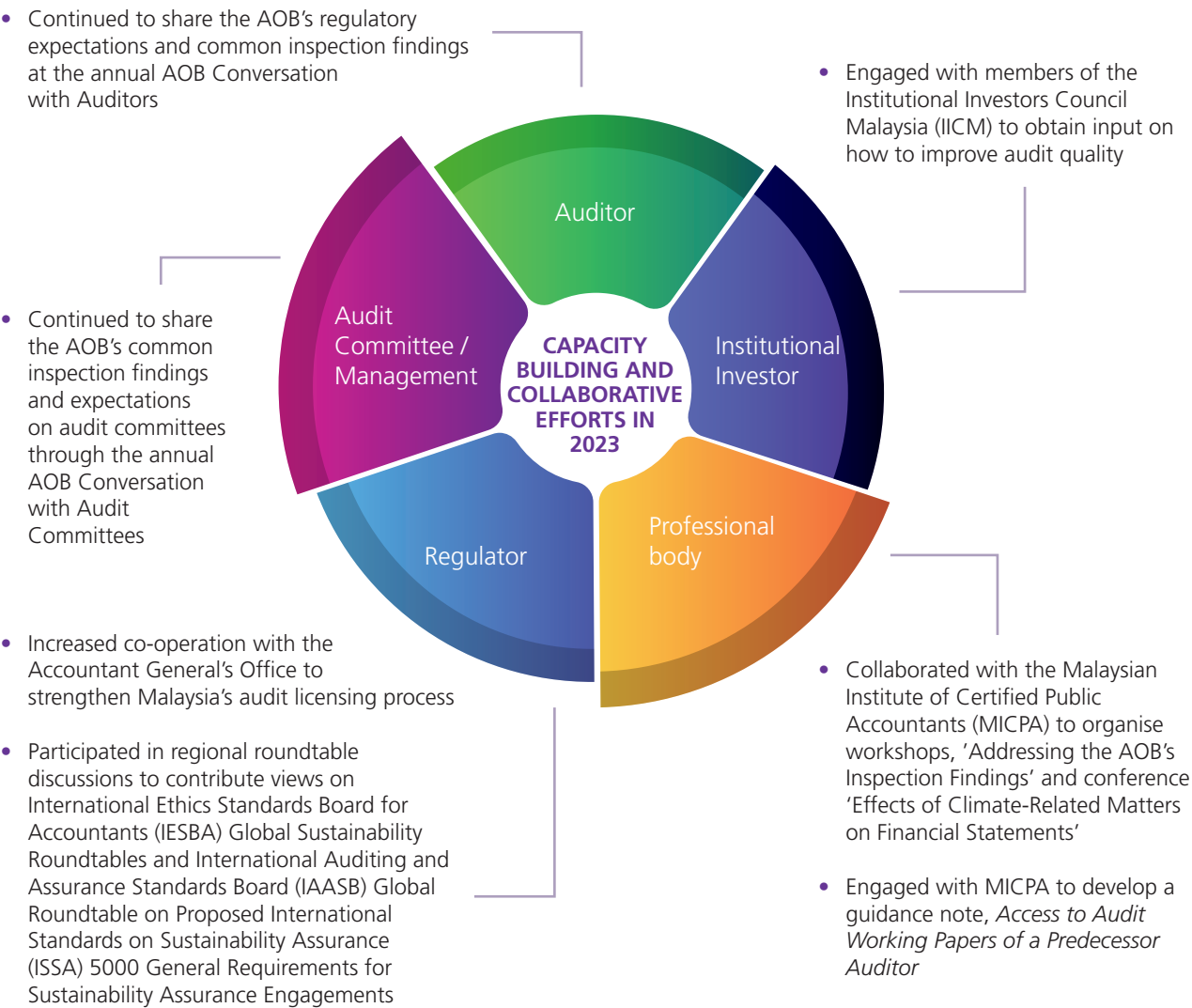
STAKEHOLDER ENGAGEMENTS AND CAPACITY-BUILDING INITIATIVES

STAKEHOLDER ENGAGEMENTS AND CAPACITY-BUILDING INITIATIVES

ENGAGEMENTS AND CONVERSATIONS ON AUDIT QUALITY

Proactive engagements with key stakeholders including auditors, preparers of financial statements, audit committees, investors and fellow regulators are important to promote high quality financial reporting and audit practices. These engagements help the AOB to better understand the needs and expectations of these stakeholders and align efforts for maximum impact.

The AOB's Capacity Building and Collaboration Efforts in 2023



Maintaining Consistency on Audit Oversight among Fellow Regulators

The AOB continues to be involved at both global and regional levels through its membership with the International Forum of Independent Audit Regulators (IFIAR) and the ASEAN Audit Regulators Group (AARG). Mutual sharing of valuable insights on regulatory best practices promotes greater consistency on audit oversight among fellow audit regulators.

IFIAR and AARG annual workshops and plenary meetings provide an opportunity to–

- gain deeper insights into current regulatory regimes globally and regionally;
- share inspection techniques; and
- discuss common findings.

It also serves as a platform for regulators to engage with global and regional leadership of the six Global Public Policy Committee (GPPC) firms on audit quality issues and initiatives.

IFIAR

IFIAR is the global forum for audit regulators and comprises 54 audit regulators from jurisdictions in Africa, North and South America, Asia-Pacific, Europe and the Middle East. IFIAR provides a forum for independent audit regulators to share among each other their knowledge and experiences, with a focus on inspection of auditors and audit firms.

AARG

AARG is a group of audit regulators consisting of regional regulators, namely the AOB, Indonesia's Center for Supervision of the Financial Service Profession (PPPK Indonesia), Accounting and Corporate Regulatory Authority of Singapore (ACRA Singapore), Securities and Exchange Commission, Thailand (SEC Thailand) and Securities and Exchange Commission Philippines (SEC Philippines).

Key IFIAR and AARG Sessions Held in 2023

Global

IFIAR's 17th Inspection Workshop

Hosted by PPPK Indonesia, the workshop was held in Bali from 7 to 9 March 2023. The AOB's Inspection officers attended the workshop with more than 45 attendees from 39 jurisdictions. Topics discussed included:

- Global trends and possible implications to audit regulators arising from environmental, social, and governance (ESG) reporting and assurance
- Inspection approaches and challenges in relation to the new IQSM 1
- Inspections of bank audits and IT audits

IFIAR's 2023 Plenary Meeting

Held in Washington DC from 25 to 27 April 2023, the session was attended by members, observers, and other key stakeholders from 44 IFIAR Member jurisdictions. Discussions focused on:

- Key developments and emerging trends in the audit industry including progression of audit quality
- Emerging requirements over sustainability reporting and assurance
- Concerns over the attractiveness of the profession

Regional

AARG Workshop

Hosted by ACRA Singapore from 25 to 27 September 2023, it was the first face-to-face workshop since 2019. AARG member countries (ACRA Singapore, AOB Malaysia, SEC Thailand, PPPK Indonesia and SEC Philippines) together with non-AARG members, i.e. Cambodia and Hong Kong, took this opportunity to share knowledge and experience on audit regulation, inspection and enforcement.

Promoting Effective Oversight of Auditors and the Audit Process

Audit Committees (ACs) play an important role in the financial reporting process through their oversight of auditors and the audit process. Effective oversight by strong, knowledgeable, and independent ACs are important to enhance audit quality.

The AOB’s Conversation with ACs is a platform to share the AOB’s oversight activities and observations on the quality of audit. The session covered the financial reporting implications of climate-related matters. There were discussions on the disclosure of climate-related risks and its potential impact on the financial statements of PLCs. Examples of the potential impact to the financial statements of specific industries such as banking, agriculture and real estate was also shared with the ACs. ACs were urged to ensure that there are adequate governance structures in place to monitor climate-related matters and engage management and auditors in a timely manner.



Session held on 27 November 2023



Attended by 278 ACs from 249 PLCs

AOB ALERT

TO AUDIT COMMITTEES

NOV 2023

Introduction

The Audit Oversight Board (AOB) was established under Part 8A of the Securities Commission Malaysia Act 1993 (SCMA). The AOB's mandate is to foster high quality independent auditing to promote confidence in the quality and reliability of audited financial statements of public interest entities (PTEs) and schedule funds in Malaysia.

As of 30 September 2023, the AOB's registered and recognised audit firms and individual auditors collectively audit the financial statements of 1,247 PTEs and 1,323 schedule funds.

41

368

12

1,247

1,323

The AOB's Inspections

An inspection includes an assessment of the degree of compliance by auditors with auditing and ethical standards applicable in Malaysia, and the quality of the auditors' reports of PTEs and schedule funds. An inspection may involve either a firm level review or engagement level review or both.

A firm level review assesses a firm's compliance with the requirements of the International Standard on Quality Management (ISQM 1).

An engagement review involves an assessment of the auditor's compliance with the International Standards on Auditing (ISAs) and relevant ethical standards at the audit engagement level. The engagement review also seeks to determine whether sufficient appropriate audit evidence has been obtained to support the conclusion reached on the audit of PTE or schedule fund.

INSPECTIONS

	Number of audit firms	Number of audit engagements	Number of audit reports
2021	14	44	44
2022	21	52	56
2023	14	45	54

CONTENTS

- Introduction
- The AOB's Inspections
- The Role of Audit Committees in the AOB's Process
- Annual Transparency Reporting
- Spotlight Questions by Audit Committees

Why is this alert important to Audit Committees?

- To provide updates on the AOB and its effort to promote audit quality
- To assist Audit Committees in engaging meaningful conversation with key stakeholders

In November 2023, the first AOB Alert for ACs was issued. The aim of the AOB Alert is to—

- provide updates on AOB efforts to promote audit quality and key development affecting the financial reporting ecosystem; and
- facilitate the ACs to have meaningful conversation with key stakeholders.

The AOB's Conversations with ACs and AOB Alerts are designed to ensure that ACs are sufficiently informed on the relevant information to effectively carry out their oversight responsibilities.

Read the AOB Alert at <https://www.sc.com.my/aob/aob-alert>

Engaging the Leadership of the Audit Firms

Engagements with the leadership of the AOB-registered audit firms enable the AOB to support quality audit work. These engagements provide a platform for the AOB to listen to the views and challenges faced by auditors and to make decisions if any regulatory intervention is required. Areas of discussion included inspection findings, observations, and regulatory updates.



The AOB's Conversation with Major and Other Firms held in August 2023



Attended by 74 senior auditors

Seeking Input from Investors and Other Stakeholders

In addition to being a member of IFIAR, the AOB also serves in IFIAR’s Investor and Other Stakeholders Working Group (IOSWG). Involvement in the IOSWG provides the AOB with an avenue to understand investors and other stakeholders’ expectations of auditors and audit regulators.

The AOB has been leveraging the experience and knowledge from other jurisdictions on matters relating to investor protection and improving audit quality. Earlier this year, as part of IOSWG’s consultation, the AOB sought feedback on stakeholders’ assumptions for reasons behind audit failures. The feedback will assist the IOSWG to design activities to improve audit quality.

In this regard, the inaugural engagement with the members of the IICM was held on 23 November 2023 to seek views from the investor group on matters regarding auditors and audit quality.

The session was attended by representatives of some of the largest institutional investors in Malaysia such as Employees Provident Fund, Kumpulan Wang Persaraan (Diperbadankan), Lembaga Tabung Angkatan Tentera and Lembaga Tabung Haji.



WORKSHOPS TO ADDRESS COMMON INSPECTION FINDINGS

In 2023, AOB collaborated with MICPA to organise workshops for AOB-registered auditors to address the common findings noted during the inspection of audit firms and audit engagements.

These workshops are part of a continuous series of capacity-building initiatives undertaken by the AOB to assist the audit profession.

These sessions assist audit firms in enhancing audit quality by providing case studies on audit best practices in key audit areas such as sampling and accounting estimates. The workshop which was facilitated by representatives of Major Audit Firms provided an avenue for auditors to share experiences on key audit challenges.




Three sessions held within October and November 2023



176 auditors and audit personnel attended the sessions

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SUPPORT ADOPTION AND IMPLEMENTATION OF STANDARDS

SUPPORT ADOPTION AND IMPLEMENTATION OF STANDARDS

DEVELOPMENT AND IMPLEMENTATION OF STANDARDS AND REGULATIONS

Development of accounting and auditing standards and their ensuing implementation are critical to raise the bar on audit quality.

In line with its efforts to influence audit quality by strengthening the accounting profession, the AOB participates as an observer in meetings held by the Auditing and Assurance Standards Board (AASB) and the Ethics Standards Board (ESB) of the Malaysian Institute of Accountants (MIA).

The AOB helps to bridge the gap between the industry and profession in understanding different challenges arising from current accounting and auditing issues, and also contribute its views on areas of concern.

To support the implementation of the *IFRS Sustainability Disclosure Standards* (ISSB Standards) and sustainability assurance standards in Malaysia, the Advisory Committee on Sustainability Reporting (ACSR) was established. The ACSR is chaired by the SC, and comprises representatives from BNM, Bursa Malaysia, the Companies Commission of Malaysia (SSM), the Financial Reporting Foundation and the AOB.

In October 2023, the SC hosted a global roundtable on the IAASB exposure draft, Proposed International Standard on Sustainability Assurance (ISSA) 5000 General Requirements for Sustainability Assurance Engagements. The ISSA 5000 global roundtable was participated by preparers of sustainability information, sustainability reporting standard-setters, assurance practitioners, professional bodies and regulators from the Asia-Pacific region. During the event, the AOB has shared perspectives on the adoption of sustainability assurance standards.

During the year, the AOB has also shared comments on various draft pronouncements as shown in Table 1.

TABLE 1
AOB comments on draft pronouncements

Comments submitted to	Draft Pronouncements
SSM	Proposed Review of Audit Exemption Criteria for Private Companies in Malaysia
IAASB	Proposed Part 10, Audits of Group Financial Statements of the Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE) and Proposed Conforming Amendments
International Organization of Securities Commissions (IOSCO)	IOSCO’s Consultation on Goodwill

IOSCO Consultation on Goodwill

In June 2023, IOSCO issued a consultation paper on goodwill to collect views from issuers, audit committees, investors and auditors.

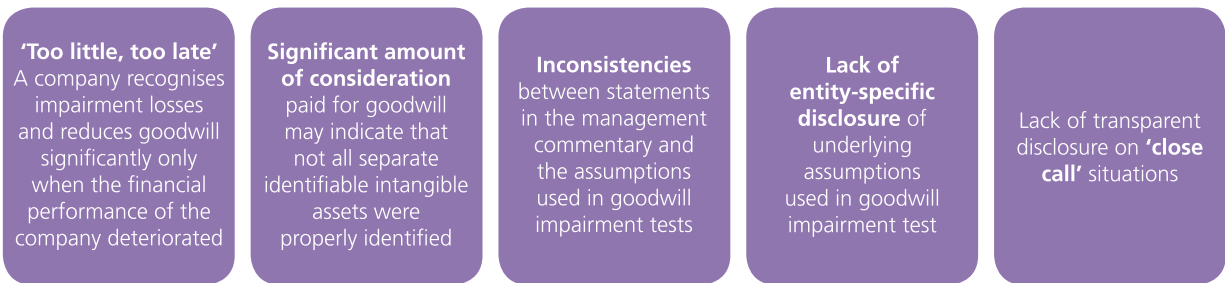
It was observed that since the financial crisis, the total balance of accumulated goodwill of the S&P 500 has more than doubled from US\$1.6 trillion in 2008 to US\$3.7 trillion in 2021, and the accumulated goodwill of listed companies in the European Union is also having the same increasing trend. The rise was because of active merger and acquisition activities with high acquisition prices.

Goodwill is subject to an impairment test annually and no amortisation under the current global accounting standard. Goodwill is impaired when its recoverable amount is lower than its carrying amount. Some stakeholders were concerned that optimistic assumptions were used in estimating the recoverable amount and resulted in impairment loss not being recognised adequately and timely.

While supporting the IASB’s plan to enhance disclosure requirements on acquisition and its subsequent performance, IOSCO is of the view that goodwill impairment could be further improved. IOSCO’s observations on issues surrounding goodwill are depicted in Figure 1.

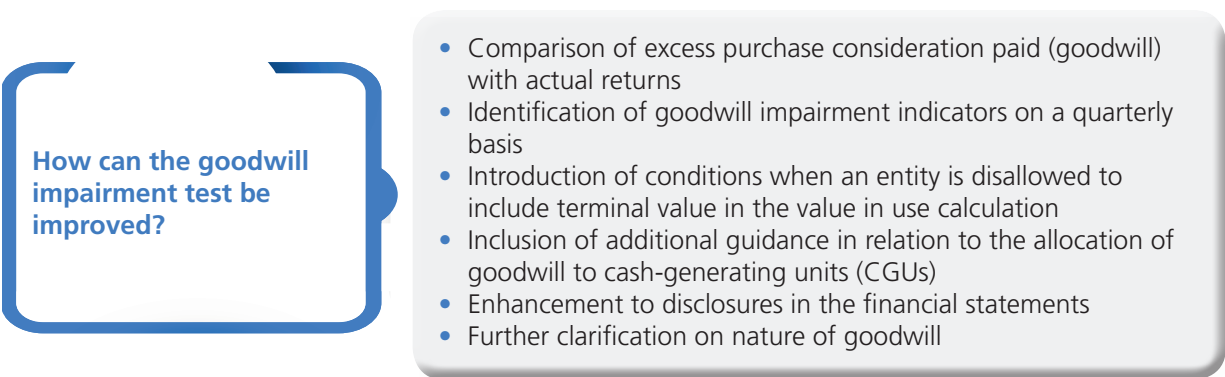
During the AOB’s Annual Conversation with Major Audit Firms, the AOB provided brief backgrounds on IOSCO’s Consultation on Goodwill and sought views on questions related to auditors. The consolidated auditors’ responses to IOSCO’s Consultation on Goodwill – Questions for Independent Auditors are summarised in Figure 2.

FIGURE 1
IOSCO’s observations on issues surrounding goodwill



Source: IOSCO’s Consultation on Goodwill.

FIGURE 2
Compiled auditors’ responses to IOSCO’s Consultation on Goodwill – Questions for independent auditors



What challenges have you experienced when testing the reasonableness of management's assumptions used in the goodwill impairment test?

The main challenge is that management tends to be over-optimistic in its estimates of future cash flows and outlook of business and auditors have also faced the following challenges:

- Use of complex models in prediction of future cash flows in an uncertain macroeconomic environment
- Limited publicly available or comparable information when an entity is operating in a niche or novel market
- Management's assumption that the impairment assessment would be performed by the auditors
- No engagement of appropriate experts to assist in the goodwill impairment assessment due to cost factor

How do you maintain and demonstrate your professional scepticism when auditing the management's estimates used in the goodwill impairment test?

- Assign audit personnel with the appropriate knowledge, experience, and skills
- Perform stand-back to identify and assess the completeness and consistency of methods, assumptions and data
- Perform sensitivity analysis to identify and challenge key assumptions and data
- Perform break-even analysis to identify headroom for key assumptions and data
- Perform subsequent events review to identify information which supports or contradicts management's estimates
- Use of industry experts and auditors' specialists, especially in complex areas

Does management's documentation adequately support the reasonableness of their assumptions and judgments made?

- Dependent on management's experience and knowledge, involvement and level of documentation required by those charged with governance (TCWG) and maturity of the industry
- Larger PIEs with robust internal controls and competent personnel would have more detailed documentation of the assumptions and judgments made
- Some auditors highlighted inadequate documentation by management and information only provided upon further prompting by auditors

Does management give objective consideration to both corroborative and contradictory information when setting assumptions?

Management is generally biased towards corroborative information and tend to be over-optimistic in their key assumptions. Unconscious bias may be presented in:

- Anchoring to assumptions made prior to COVID-19 that may no longer reflect current market conditions
- Halo effect on marketability of new products or services predicated on past success
- Status quo bias on forecast cash flows that were made in previous years
- Survivorship bias arising from headroom of performing CGUs as compared to non-performing CGUs
- Lack of proper justification in discount rate used



STATEMENTS

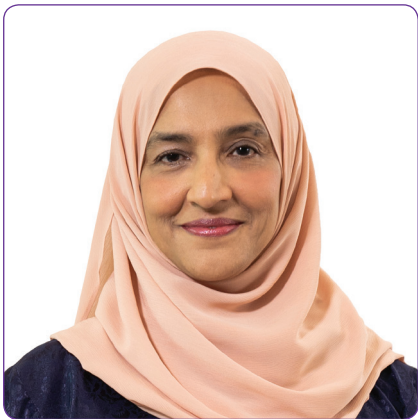
MEMBERS OF THE AUDIT OVERSIGHT BOARD



TAN SRI ABU SAMAH NORDIN



ALEX OOI THIAM POH



SALMAH BEE MOHD MYDIN



HONG CHIN PHENG



DATUK NOR AZIMAH
ABDUL AZIZ



DATO' SERI AHMAD JOHAN
MOHAMMAD RASLAN



DATO' NOORAZMAN
ABD AZIZ

Read more on the Audit Oversight Board <https://www.sc.com.my/aob/about-audit-oversight-board>



Tan Sri Abu Samah Nordin

Appointed Non-Executive Chairman on 5 January 2024

Tan Sri Abu Samah brings with him more than 40 years of experience in various capacities in the government agencies and judicial services.

Tan Sri Abu Samah was appointed as Judicial Commissioner at the Commercial Division of Kuala Lumpur High Court in 1994, before becoming the High Court Judge of the Commercial Division in 1996.

He then served as the High Court Judge in Kuantan, Shah Alam and Melaka between 1997 and 2003. He later became the Judge at the Criminal Division of Kuala Lumpur High Court in 2007. He was elevated to the Court of Appeal in the same year and the Federal Court in 2013 before retiring from judicial service in 2018.

Tan Sri Abu Samah holds a Bachelor of Law LLB (Hons) from the University of Malaya and Master of Law from University College London.



Alex Ooi Thiam Poh

Appointed Executive Officer on 24 November 2017

Alex Ooi is currently the Executive Director of the SC who is responsible as the Executive Officer of the AOB.

Alex is currently involved in the Auditing and Assurance Standards Board, the Ethics Standards Board and the Education Board of the Malaysian Institute of Accountants (MIA). Alex serves as an Adviser to the Malaysian Accounting Standards Board and also represents the SC as a member in the Audit Licensing Committee of the Ministry of Finance Malaysia. He was a former Council Member of MIA.

He is a member of the International Forum of Independent Audit Regulators' Investor and Other Stakeholders Working Group. He is also currently a member of the CPA Australia Ethics and Professional Standards Centre of Excellence. He was previously the Malaysia Divisional President of CPA Australia in 2013 and 2014. He was a former member of the Public Practice Advisory Board of CPA Australia in Melbourne, Australia.

Alex is a Chartered Accountant of the MIA, Fellow of CPA Australia, a member of the Institute of Chartered Accountants in England and Wales (ICAEW) and the Malaysian Institute of Certified Public Accountants (MICPA). He holds a Bachelor of Economics (Accounting) from Monash University, Australia.



Salmah Bee Mohd Mydin

Appointed Non-Executive Member on 1 January 2020

Salmah Bee Mohd Mydin is the Executive Director of Market Development at the SC responsible for policy formulation in the areas of sustainability, corporate governance, investment product development along with the securities and derivatives development.

An important focus of the SC’s agenda is the development of a capital market that is inclusive and sustainable and Salmah leads a team that is responsible for formulating initiatives to enhance market efficiency, vibrancy and competitiveness. Salmah’s previous experiences within regulatory function include investigation, supervision and authorisation.



Hong Chin Pheng

Appointed Non-Executive Member on 11 October 2022

Hong Chin Pheng holds a degree in accounting and is a member of the MIA and the MICPA. She has more than 25 years of supervisory experience in BNM. In her current role as the Director of the Financial Conglomerates Supervision Department, she is responsible for the prudential supervision of the domestic banking groups. She also serves as a member of the Financial Stability Committee of the Labuan Financial Services Authority (Labuan FSA) and the Working Group on Banking Supervision of the Executives’ Meeting of East Asia-Pacific Central Banks. She represents BNM in the Supervision Workstream of The Network of Central Banks and Supervisors for Greening the Financial System. Previously, she co-chaired the Risk Management Committee of the Joint Committee on Climate Change (JC3) from September 2019 to April 2022 and was involved in the development of the *Climate Change Principle-based Taxonomy*.



Datuk Nor Azimah Abdul Aziz

Appointed Non-Executive Member on 1 January 2020

Datuk Nor Azimah Abdul Aziz is the Chief Executive Officer (CEO) of the Companies Commission of Malaysia (SSM). Prior to her appointment as CEO on 1 May 2020, she was the Deputy Chief Executive Officer (DCEO) of Regulatory and Enforcement and thereafter, DCEO of Corporate Services between 2016 and 2020. She joined SSM as General Manager of the Corporate Policy, Planning and Development Department in 2003. She started her career in 1992 as an Advocate and Solicitor and from there on served as a Law Lecturer at the Accounting Department, Faculty of Business and Management, Universiti Kebangsaan Malaysia (UKM). During her tenure with UKM, in July 2000, she was seconded to the Regulatory and Standards Department of the MIA.

She has extensive experience in law reform initiatives and oversaw the passing of significant pieces of legislations under the purview of SSM, among others, the *Companies Act 2016*, *Interest Schemes Act 2016*, *Limited Liability Partnership Act 2012* and *Companies (Amendment) Act 2007*. She is currently a Board Member of the AOB, Board Member for the Integrity Officer Accreditation Board (LPIB), Board Member of the Financial Reporting Foundation (FRF), Member of the Approval and Implementation Committee of the Iskandar Regional Development Authority (IRDA), Board Member of the Labuan Financial Services Authority (Labuan FSA), Executive Committee member of the Corporate Registers Forum (CRF) which is an association of international corporate registries and was recently appointed as an Adjunct Professor at UKM.

She obtained her law degree from Institut Teknologi MARA (now Universiti Teknologi MARA or UiTM) and her Master of Laws (LLM in Business Law) from Aberystwyth University, United Kingdom.



Dato' Seri Ahmad Johan Mohammad Raslan

Appointed Non-Executive Member on 1 December 2020

Dato' Seri Ahmad Johan Mohammad Raslan was Executive Chairman of PwC Malaysia from 2004 to 2012, when he retired from the firm.

Dato' Seri Johan has held several government appointments, including Chairman of the FRF from 2003 to 2009, membership of BNM's Financial Stability Executive Committee from 2009 to 2012, and membership of the International Advisory Panel of the Labuan FSA from 2004 to 2012.

In corporate governance, Dato' Seri Johan helped the SC to roll-out the first Malaysian Code on Corporate Governance (MCCG) to the market in the year 2000. Since then, he has assisted with drafting certain later versions of the MCCG.

Currently, Dato' Seri Johan is an Independent Non-Executive Director of Sime Darby Property Bhd (Sime Darby Property). He also serves as Chairman of the Audit Committee and Board Sustainability Committee of Sime Darby Property. He has been a board member of two other PLCs in the past. He is currently a board member of the Institute of Corporate Directors Malaysia.

Dato' Seri Johan holds a Bachelor of Economics (Honours) in Economics and Accountancy from the University of Hull, UK. He is a Fellow of the ICAEW and a member of the MIA and MICPA. Dato' Seri Johan served as MICPA President from 2011 to 2012.



Dato' Noorazman Abd Aziz

Appointed Non-Executive Member on 1 August 2023

Dato' Noorazman Abd Aziz has over 37 years of experience in banking, financial markets, treasury and investments. He has experience as a Board member from a wide range of sectors and organisations.

Dato' Noorazman was previously Executive Director, Investments in Khazanah Nasional Bhd, Co-founder and Managing Director of Fajr Capital Ltd (a Khazanah investee company) and held key positions in Citibank Bhd, Bank Islam Malaysia Bhd, Kuala Lumpur Stock Exchange Bhd and the Labuan FSA.

In 2005, Dato' Noorazman was named as the winner of the first Asian Banker Achievement Award for Islamic Finance.

Dato' Noorazman is currently Chairman of the Board of Trustees of Yayasan UEM, the philanthropic arm of UEM Group, and Chairman of the Board of Trustees of International Centre for Education in Islamic Finance (INCEIF).

He also serves as Director and Chairman of the Boards of Sun Life Malaysia Assurance Bhd and Sun Life Malaysia Takaful Bhd, MUFG Bank (Malaysia) Bhd and CTOS Digital Bhd. He is a Director of Kumpulan Perangsang Selangor Bhd and a member of the Investment Panel of Kumpulan Wang Persaraan (Diperbadankan).

Dato' Noorazman is a member of the Institute of Chartered Islamic Finance Professionals, Australian Institute of Corporate Directors and member of Institute of Corporate Directors, Malaysia.

Dato' Noorazman graduated with a Bachelor of Science (Honours) degree from Louisiana State University.

STATEMENT ON GOVERNANCE

Board Members

The Board of the AOB comprises a Non-Executive Chairman, an Executive Officer, and five other Non-Executive Members who are appointed by the SC. The Non-Executive Members are representatives from the regulators, namely BNM and SSM, the legal profession, accounting profession and the private sector. The Executive Officer is responsible for the day-to-day administration of the AOB.

The Non-Executive Chairman of the AOB is appointed for a term not exceeding three years and the Non-Executive Members of the Board are appointed for a term not exceeding two years. Both the Non-Executive Chairman and Non-Executive Members are eligible for reappointment upon the completion of their term.

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 the 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 is included in Figure 1.

FIGURE 1
Board responsibilities



Board Meetings

There were nine Board meetings held in 2023. The quorum required three members to be present, one of whom shall be the executive officer or the officer of the SC. The attendance record of the Board members is set out in Table 1.

TABLE 1
Attendance at Board meetings

Board Members	Number of Meetings Attended
Dato’ Anantham Kasinather ¹	9/9
Alex Ooi Thiam Poh	9/9
Salmah Bee Mohd Mydin	8/9
Hong Chin Pheng	8/9
Datuk Nor Azimah Abdul Aziz	8/9
Dato’ Darawati Hussain ²	3/3
Dato’ Seri Ahmad Johan Mohammad Raslan	8/9
Dato’ Noorazman Abd Aziz ³	2/3

Committee of the AOB

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

The following are members of the Registration Committee:

- Tan Sri Abu Samah Nordin⁴
- Alex Ooi Thiam Poh
- Hong Chin Pheng

There were two Registration Committee meetings held in 2023. The Chairman of the AOB chairs the meetings of the Registration Committee. In his absence, a member of the Board who sits on the Registration Committee can be tasked to take on this responsibility.

¹ Completed his term as Non-Executive Chairman on 30 November 2023.
² Completed her term as Non-Executive Member on 31 March 2023.
³ Appointed as Non-Executive Member on 1 August 2023.
⁴ Appointed as Non-Executive Chairman and Chairman of the Registration Committee on 5 January 2024.

The attendance record of the members of the Registration Committee is set out in Table 2.

TABLE 2
Attendance at registration committee meetings

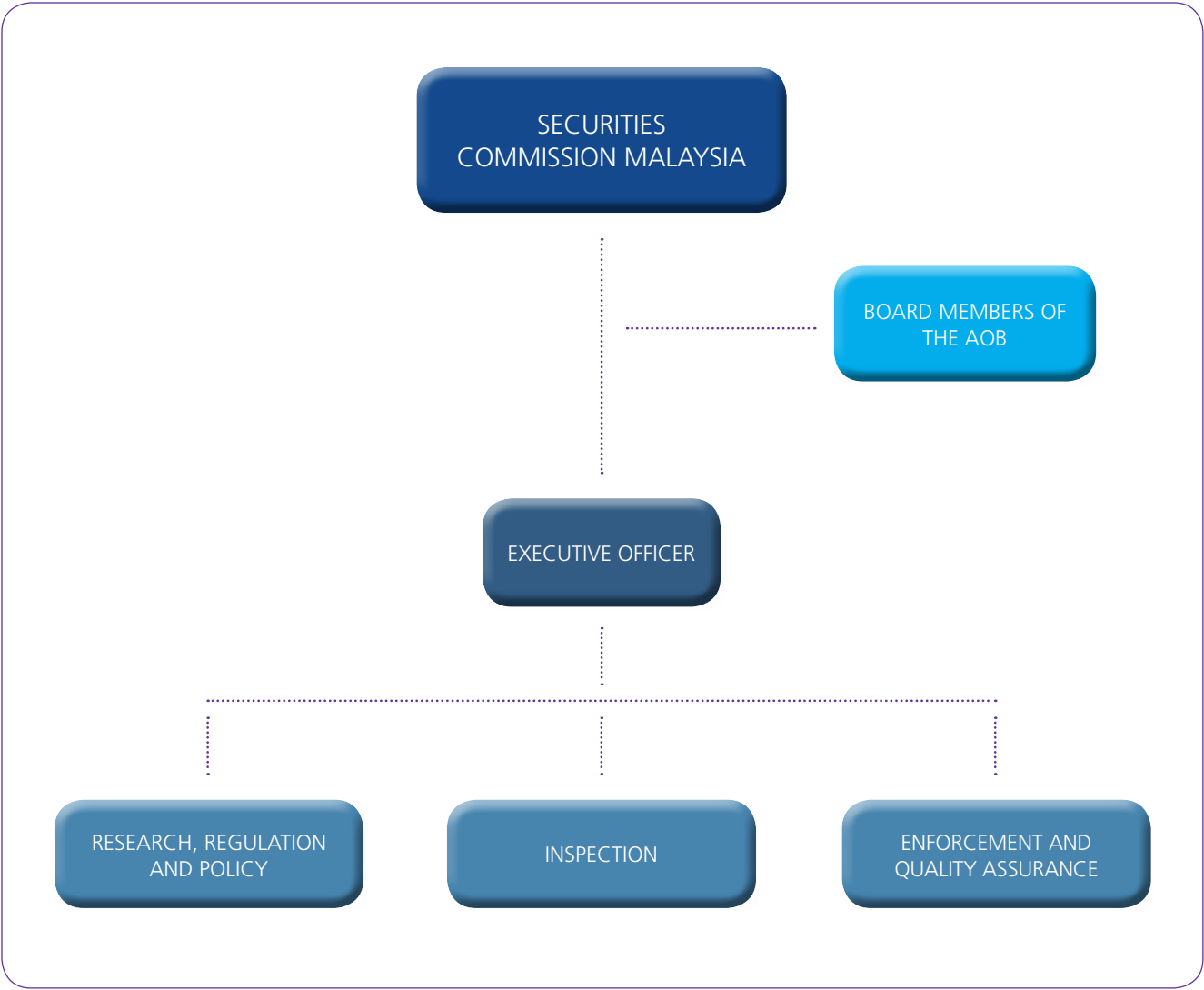
Members of the Registration Committee	Number of Meetings Attended
Dato’ Anantham Kasinather ¹	2/2
Alex Ooi Thiam Poh	2/2
Dato’ Darawati Hussain ²	1/1
Hong Chin Pheng ³	1/1

External Auditors

The consideration and recommended appointment of external auditors of the AOB is decided and approved by the independent non-executive members of the SC. The Chairman and Executive Officer of the AOB are excluded from decisions relating to the review and appointment or reappointment of external auditors.

¹ Completed his term as Non-Executive Chairman on 30 November 2023.
² Completed her term as Non-Executive Member on 31 March 2023.
³ Appointed to the Registration Committee on 19 May 2023.

Organisation Structure





FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2023

	Notes	2023 RM	2022 RM
CURRENT ASSETS			
Other receivables	4	38,191	105,841
Other investments	5	3,125,772	2,894,466
Cash and cash equivalents	6	441,917	231,789
		3,605,880	3,232,096
LESS: CURRENT LIABILITIES			
Other payables and accruals	7	(645,597)	(363,459)
NET CURRENT ASSETS		2,960,283	2,868,637
REPRESENTED BY:			
Funds from the Securities Commission Malaysia		42,516,438	38,016,438
Accumulated deficit		(39,556,155)	(35,147,801)
		2,960,283	2,868,637

The notes on pages 52 to 60 are an integral part of these financial statements.



AWANG ADEK HUSSIN
CHAIRMAN
SECURITIES COMMISSION MALAYSIA

30 January 2024



OOI THIAM POH
EXECUTIVE OFFICER
AUDIT OVERSIGHT BOARD

STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023

	Notes	2023 RM	2022 RM
Registration fees		3,144,000	3,104,000
Finance income from fixed deposits		117,033	65,530
Penalty income		75,000	1,014,500
Other income		-	90,898
		<u>3,336,033</u>	<u>4,274,928</u>
Administrative expenses	8	(7,744,387)	(7,329,073)
Deficit before tax		<u>(4,408,354)</u>	<u>(3,054,145)</u>
Tax expense	9	-	-
Deficit and total comprehensive loss for the year		<u>(4,408,354)</u>	<u>(3,054,145)</u>

The notes on pages 52 to 60 are an integral part of these financial statements.

STATEMENT OF CHANGES IN ACCUMULATED FUNDS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023

	Funds from the Securities Commission Malaysia RM	Accumulated deficit RM	Total RM
At 1 January 2022	34,516,438	(32,093,656)	2,422,782
Funds from the Securities Commission Malaysia	3,500,000	-	3,500,000
Deficit and total comprehensive loss for the year	-	(3,054,145)	(3,054,145)
At 31 December 2022/1 January 2023	38,016,438	(35,147,801)	2,868,637
Funds from the Securities Commission Malaysia	4,500,000	-	4,500,000
Deficit and total comprehensive loss for the year	-	(4,408,354)	(4,408,354)
At 31 December 2023	42,516,438	(39,556,155)	2,960,283

The notes on pages 52 to 60 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023

	2023 RM	2022 RM
CASH FLOWS FROM OPERATING ACTIVITIES		
Deficit before tax	(4,408,354)	(3,054,145)
Adjustment for: Finance income from fixed deposits	(117,033)	(65,530)
OPERATING DEFICIT BEFORE WORKING CAPITAL CHANGES	(4,525,387)	(3,119,675)
Changes in working capital: Other receivables	83,200	(13,360)
Other payables and accruals	282,138	(99,967)
NET CASH USED IN OPERATING ACTIVITIES	(4,160,049)	(3,233,002)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	101,483	55,039
Placement in fixed deposit with licensed banks	(3,125,772)	(2,894,466)
Receipt of fixed deposits upon maturity	2,894,466	2,191,477
NET CASH USED IN INVESTING ACTIVITIES	(129,823)	(647,950)
CASH FLOWS FROM FINANCING ACTIVITY		
Funds from the Securities Commission Malaysia	4,500,000	3,500,000
NET CASH FROM FINANCING ACTIVITY	4,500,000	3,500,000
NET MOVEMENT IN CASH AND CASH EQUIVALENTS	210,128	(380,952)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	231,789	612,741
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	441,917	231,789

The notes on pages 52 to 60 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023

1 GENERAL INFORMATION

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 (PIE) 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 the *Malaysian Financial Reporting Standards* (MFRS) and *International Financial Reporting Standards* (IFRS).

- (i) Amendments to published standards that are effective

The AOB has applied the following amendments to published standards for the first time for the financial year beginning on 1 January 2023:

- MFRS 17 'Insurance Contracts'
- Amendments to MFRS 112 'Deferred Tax related to Assets and Liabilities arising from a Single Transaction'
- Amendments to MFRS 101 'Presentation of Financial Statements' and MFRS Practice Statement 2 'Disclosure of Accounting Policies'
- Amendments to MFRS 112 'International Tax reform – Pillar Two Model Rules'
- Amendments to MFRS 108 'Definition of Accounting Estimates'

- (ii) Amendments to published standards that have been issued but not yet effective

New amendments to published standards and annual improvements that are effective for financial year beginning after 1 January 2024 are set out below:

- Amendments to MFRS 16 'Lease Liability in a Sale and Leaseback' (effective 1 January 2024)

(ii) Amendments to published standards that have been issued but not yet effective (*continued*)

- Two amendments to MFRS 101 'Presentation of Financial Statements'
 - The first amendment, 'Classification of liabilities as current or non-current'
 - The second amendment, 'Non-current Liabilities with Covenants'
- Amendments to MFRS 107 and MFRS 7 'Supplier finance arrangements' (effective 1 January 2024)
- Amendments to MFRS 121 'Lack and Exchangeability' (effective 1 January 2025)

The amendments shall be applied retrospectively

These amendments to published standards and annual improvements will be adopted on the respective effective dates. The AOB has started a preliminary assessment on the effects of the above amendments to published standards and annual improvements and the impact is still being assessed.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis other than those as disclosed in Note 3.

(c) Functional and presentation currency

These financial statements are presented in Ringgit Malaysia (RM), which is the AOB's functional currency. All financial information is presented in RM, unless otherwise stated.

(d) Use of estimates and judgements

The preparation of the financial statements in conformity with MFRS 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 MATERIAL ACCOUNTING POLICIES

The AOB adopted amendments to MFRS 101 ‘Presentation of Financial Statements and – Disclosure of Accounting Policies’ from 1 January 2023. The amendments require the disclosure of ‘material’, rather than ‘significant’, accounting policies. The amendments also provide guidance on the application of materiality to disclosure of accounting policies, assisting entities to provide useful, entity-specific accounting policy information that users need to understand other information in the financial statements.

The material accounting policy information is disclosed in the respective notes to the financial statements where relevant.

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.

(a) Financial instruments

(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.

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 related to the economic characteristics and risks of the host contract and the host contract is not 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.

(ii) Financial instrument categories and subsequent measurement

Financial assets

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. Finance income and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Finance 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.

(ii) Financial instrument categories and subsequent measurement (*continued*)Financial liabilitiesAmortised cost

Financial liabilities not categorised as fair value through profit or loss are subsequently measured at amortised cost using the effective interest method.

Finance expense is recognised in the profit or loss. Any gains or losses on derecognition are also recognised in the profit or loss.

(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 are 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) Offsetting

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 licensed 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 its short term commitments.

(c) Impairment

Financial assets

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 bank balances 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.

(c) Impairment (*continued*)

Financial assets

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.

(d) Other Income

(i) Registration fees

Registration fees are recognised at a point in time upon submission of registrations by registrants.

(ii) Finance income

Finance income is recognised as it accrues using effective interest method in profit or loss.

(iii) Penalty income

Penalty income is recognised at a point in time pursuant to Section 31Z of the SCMA where the AOB imposes monetary penalty on auditors for failure to comply with the AOB's registration conditions. The penalty amount is restricted and shall be utilised for planning and implementing capacity building programmes in relation to the accounting and auditing profession.

(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, contribution to social security contributions (SOCSSO), Employees Provident Fund (EPF) or Private Retirement Scheme (PRS) 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.

4 OTHER RECEIVABLES

	2023 RM	2022 RM
Other receivable	-	83,200
Accrued finance income	38,191	22,641
	<u>38,191</u>	<u>105,841</u>

5 OTHER INVESTMENTS

Other investments represent deposits placed with licensed banks with maturity terms of more than 3 months and interest income earned at a rate of 2.30% - 3.05% per annum (2022: 2.30% - 2.80% per annum).

The deposits arose from monies received from penalty income imposed by the AOB. The monies are reserved for planning and implementing capacity building programmes in relation to the accounting and auditing profession.

6 CASH AND CASH EQUIVALENTS

	2023 RM	2022 RM
Cash and cash equivalents	<u>441,917</u>	<u>231,789</u>

7 OTHER PAYABLES AND ACCRUALS

	2023 RM	2022 RM
Registration fee received in advance	608,000	336,000
Other payables and accruals	37,597	27,459
	<u>645,597</u>	<u>363,459</u>

8 ADMINISTRATIVE EXPENSES

	2023 RM	2022 RM
The administrative expenses consist of:		
Auditors' remuneration	28,287	24,597
Non-executive members' allowance	254,500	278,000
Other miscellaneous charges	416,941	694,555
Capacity-building programmes	34,030	5,580
Staff costs:		
Remuneration, bonus, staff medical, staff training and overtime	6,082,170	5,423,743
Defined contribution plan	726,657	688,408
Other employees benefits	201,802	214,190
	<u>7,744,387</u>	<u>7,329,073</u>



9 TAX EXPENSE

The AOB is a unit of the SC and is not a tax entity.

10 FINANCIAL INSTRUMENTS

10.1 Categories of financial instruments

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

	Carrying amount RM	AC RM
<u>2023</u>		
<u>Financial assets</u>		
Other receivables	38,191	38,191
Other investments	3,125,772	3,125,772
Cash and cash equivalents	441,917	441,917
	<u>3,605,880</u>	<u>3,605,880</u>
 <u>Financial liabilities</u>		
Other payables and accruals*	<u>(37,597)</u>	<u>(37,597)</u>
 <u>2022</u>		
<u>Financial assets</u>		
Other receivables	105,841	105,841
Other investments	2,894,466	2,894,466
Cash and cash equivalents	231,789	231,789
	<u>3,232,096</u>	<u>3,232,096</u>
 <u>Financial liabilities</u>		
Other payables and accruals*	<u>(27,459)</u>	<u>(27,459)</u>

* Exclude non-financial instruments.

10.2 Financial risk management

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.

10.3 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 payables.

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
2023			
Financial liabilities			
Other payables and accruals	37,597	37,597	37,597
2022			
Financial liabilities			
Other payables and accruals	27,459	27,459	27,459

10.4 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.

10.4.1 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:

	2023 RM	2022 RM
<u>Fixed rate instruments</u>		
Financial assets	3,125,772	2,894,466

Interest rate risk sensitivity analysis

Fair value sensitivity analysis for fixed rate instruments

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.

10.5 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.

Fair value hierarchy has not been presented as there are no financial instruments carried at fair value nor those not carried at fair value for which fair value is disclosed as at the end of the financial year.

11 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.

12 AUTHORISATION OF FINANCIAL STATEMENTS

The financial statements for the year ended 31 December 2023 were authorised by the SC for issuance and signed by the Chairman of the SC and Executive Officer of the AOB on 30 January 2024.

STATUTORY DECLARATION

I, **Nur Fatin binti Abdul Aziz**, 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 48 to 60 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 Nur Fatin binti Abdul Aziz, NRIC No. 770108-14-5000, at Kuala Lumpur in the Federal Territories on 30 January 2024.



NUR FATIN BINTI ABDUL AZIZ
OFFICER

Before me:



No. 23, 2nd Floor,
Jalan Medan Tuanku,
50300 Kuala Lumpur.

INDEPENDENT AUDITORS' REPORT TO THE AUDIT OVERSIGHT BOARD, SECURITIES COMMISSION MALAYSIA

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of the Audit Oversight Board (AOB) give a true and fair view of the financial position of the AOB as at 31 December 2023, and of its financial performance and its cash flows for the financial year then ended in accordance with the *Malaysian Financial Reporting Standards and International Financial Reporting Standards*.

What we have audited

We have audited the financial statements of the AOB, which comprise the statement of financial position as at 31 December 2023, and the statement of comprehensive income, statement of changes in accumulated funds and statement of cash flows for the financial year then ended, and notes to the financial statements, comprising material accounting policy information and other explanatory information, as set out on pages 48 to 60.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and the *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 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' *International Code of Ethics for Professional Accountants* (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Responsibilities of the Board Members for the financial statements

The Board Members of the SC are responsible for the preparation of the 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 of the SC are also responsible for such internal control as the Board Members of the SC 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 the *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.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for the audit of the financial statements (continued)

As part of an audit in accordance with approved standards on auditing in Malaysia and the *International Standards on Auditing*, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- (a) 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.
- (b) 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 AOB's internal control.
- (c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board Members of the SC.
- (d) Conclude on the appropriateness of the Board Members of the SC's 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 AOB's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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.
- (e) Evaluate the overall presentation, structure and content of the financial statements of the AOB, including the disclosures, and whether the financial statements of the AOB represent the underlying transactions and events in a manner that achieves fair presentation.

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 MATTERS

This report is made solely to the Board Members of the SC, as a statutory body and for no other purpose. We do not assume responsibility to any other person for the content of this report.



PRICEWATERHOUSECOOPERS PLT
LLP0014401-LCA & AF 1146
Chartered Accountants

Kuala Lumpur
30 January 2024



MAHESH A/L RAMESH
03428/04/2025 J
Chartered Accountant

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OTHERS

ACRONYMS AND ABBREVIATIONS

AARG	ASEAN Audit Regulator Group
AASB	Auditing and Assurance Standards Board
AC	Audit Committees
ACGA	Asian Corporate Governance Association
ACRA	Singapore Accounting and Corporate Regulatory Authority of Singapore
ACSR	Advisory Committee on Sustainability Reporting
AIR	<i>Annual Inspection Report</i>
AOB	Audit Oversight Board
BNM	Bank Negara Malaysia
CGUs	cash-generating units
ESB	Ethics Standards Board
ESG	environmental, social, and governance
EQR	Engagement Quality Review
IASB	International Accounting Standards Board
IAASB	International Auditing and Assurance Standards Board
IESBA	International Ethics Standards Board for Accountants
IFIAR	International Forum of Independent Audit Regulators
IFRS	<i>International Financial Reporting Standards</i>
IICM	Institutional Investors Council Malaysia
IOSCO	International Organisation of Securities Commissions
IOSWG	Investor and Other Stakeholders Working Group
ISA	<i>International Standards on Auditing</i>
ISQM	<i>International Standards on Quality Management</i>
ISSA	<i>International Standards on Sustainability Assurance</i>
ISSB Standards	<i>IFRS Sustainability Disclosure Standards</i>
MIA	Malaysian Institute of Accountants
MICPA	Malaysian Institute of Certified Public Accountants
NAV	net asset value
PIE	public-interest entity
PLC	public-listed company
PPK Indonesia	<i>Pusat Pembinaan Profesi Keuangan Indonesia</i>
SC	Securities Commission Malaysia
SCMA	<i>Securities Commission Malaysia Act 1993</i>
SEC Thailand	Securities and Exchange Commission of Thailand
SEC Philippines	Securities and Exchange Commission of Philippines
SGA	Statistics Gathering and Analysis
SSM	Companies Commission of Malaysia
TCWG	those charged with governance

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.
Major Audit Firms	Major Audit Firms are audit firms that have more than 50 PIE audit clients with a total market capitalisation of above RM15 billion.
Other Audit Firms	Audit firms other than Major Audit Firms.
Public-interest entity	<p>Entity specified in Part 1 of Schedule 1 of the SCMA—</p> <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	<p>Fund specified in Part 2 of Schedule 1 of the SCMA—</p> <ul style="list-style-type: none"> (a) a private retirement scheme approved by the SC under the <i>Capital Market and Services Act 2007</i> (CMSA); (b) a unit trust scheme approved, authorised or recognised by the SC under the CMSA; and (c) any other capital market funds as may be specified by the SC.

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