



Suruhanjaya Sekuriti
Securities Commission
Malaysia

AUDIT OVERSIGHT BOARD ANNUAL REPORT 2022

**AUDIT OVERSIGHT BOARD
ANNUAL REPORT
2022**

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The cut-off date for the data included in this report was 31 December 2022.

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CHAIRMAN'S MESSAGE

CHAIRMAN'S MESSAGE



The statutory obligation of the Securities Commission Malaysia's Audit Oversight Board (AOB) is to assist the Securities Commission Malaysia (SC) to promote confidence in the quality and reliability of audited financial statements. In this respect, I am pleased to report on the efforts and activities of the AOB in 2022.

TALENT AND TECHNOLOGY: AUDITING LANDSCAPE

The AOB recognised challenges faced by our registered firms in employing and retaining qualified auditors. The mobility of our accountancy and audit professionals has increased in recent years and options are available to our local talent both regionally and globally. Such shortage of skilled professionals, may have the potential to adversely affect audit quality. Accordingly, it is important that key stakeholders in the financial reporting ecosystem work together to find viable and sustainable solutions to address this issue for the interest of the profession and our capital market. In the shorter term, the AOB urges our registered firms to continue with its efforts to retain talent and start exploring longer-term solutions such as expediting technological adoption plans.

The auditing landscape has gone through significant changes with the introduction of new technologies. As technologies and data driven approach to work become increasingly central to the audit process and business models, auditors are in need for a more diverse range of skills. Capacity and competency of the audit practice needs to be continuously assessed to meet existing and anticipated demands.

STRENGTHENING CONNECTIONS WITH THE WORLD

The AOB's ongoing involvement and contribution at global and regional levels through the International Forum of Independent Audit Regulators (IFIAR) and the ASEAN Audit Regulators Group (AARG) facilitates mutual sharing of valuable insights into audit regulatory best practices. Further, as a member of IFIAR's Investor and Other Stakeholders Working Group, the AOB has been leveraging the experience and knowledge from other jurisdictions on matters relating to investor protection and improving audit quality. The IOSWG is also a key avenue for the AOB to understand investors' and other stakeholders' expectations of auditors and audit regulations.

The strength of the financial reporting system relies on various stakeholders playing distinct but interconnected roles in a process designed to provide investors with high-quality, reliable audited financial statements. Recognising this, the AOB's regular engagements with auditors and key stakeholders provide an avenue to share regulatory expectations and address stakeholders' needs and concern. It also allows the AOB to proactively address issues in a timely manner.

As one of the key stakeholders in the ecosystem, Audit Committees (AC) play an important role through their oversight of financial reporting and the audit process. The AOB believes that effective oversight by strong, knowledgeable, and independent AC are a powerful market force to enhance audit quality. In this respect, the AOB has worked to ensure that the AC are adequately informed and equipped with relevant information to effectively carry out their oversight responsibilities. One mode by which relevant information is conveyed to the Audit Committees is through the publication and distribution of the AOB's *Annual Inspection Report (AIR)*.

The AOB continues to distribute its AIR to all public-listed companies (PLCs) and strongly encourages ACs to understand and discuss the inspection findings, observations and firm-level statistics with their respective auditors.

CONTINUED SUPERVISORY VIGOUR

As at 31 December 2022, there were 40 audit firms and 369 registered and recognised individual auditors who audit public-interest entities (PIEs) and schedule funds.

In 2022, the AOB inspected 21 Audit Firms covering 52 individual auditors for 56 audit engagements. Audit firms that have more than 50 PIE audit clients with a total market capitalisation of the PIE audit clients of above RM15.0 billion continue to be inspected annually by the AOB. As in prior years, the AOB continued with targeted inspections to respond to emerging risks. More in-depth information on the inspection programme for year 2022 which include common inspection findings, results of thematic reviews, trends analysis and remediation efforts taken by inspected audit firms, will be made available separately in the 2022 AIR.

On the enforcement front, the AOB took enforcement actions against auditors for failure to comply with the relevant auditing standards and failure to perform the engagement quality control reviewers' function effectively. An audit firm was also sanctioned for failure to comply with firm quality control standards which led to its failure in detecting audit deficiencies in the audit of a PIE. These enforcement actions against engagement quality control reviewers and audit firm is intended to send a strong signal on the importance of quality control processes in safeguarding the integrity of audit quality and control processes.

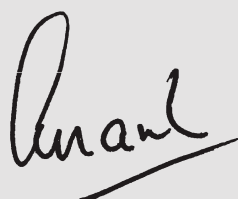
The AOB enforcement actions have been subjected to Judicial Reviews by aggrieved auditors and the AOB has managed to defend its actions and position in the Courts thus far. We have reported in the Annual Report about a landmark decision by the Federal Court that unanimously ruled in favour of the SC and dismissed the application for leave to appeal to the Federal Court by an audit firm and its partners against the AOB's enforcement actions. The Federal Court's decision further reinforces the robustness of the AOB's enforcement framework.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to take this opportunity to thank Hew Ee-Lu of Bank Negara Malaysia (BNM), who concluded his term as a member of the AOB in October 2022, for his valuable contribution to the Board. Hew served as a member of the Board for four years. Further, I would like to welcome Hong Chin Pheng of BNM to the Board in October 2022.

I wish to convey my deepest appreciation to our Board members for their commitment and I thank our 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 particularly during this challenging time. I look forward to reporting the AOB's continued progress in the years ahead.



Dato' Anantham Kasinather

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.



INTRODUCTION

INTRODUCTION

The Audit Oversight Board (AOB) was established under Part IIIA of the *Securities Commission Malaysia Act 1993* (SCMA) to regulate auditors of PIEs and schedule funds for and on behalf of the SC. The AOB also exercises oversight over any person who prepares a report relating to financial information of PIEs and schedule funds in relation to capital market activities.

THE AOB'S CORE FUNCTIONS



REGISTRATION

The AOB is responsible for the registration of auditors of PIEs and schedule funds.

It also recognises foreign auditors who audit the financial statements of foreign corporation listed on Bursa Malaysia.



INSPECTION

The AOB conducts inspection and monitoring programmes on auditors to assess the auditors' degree of compliance with auditing and ethical standards applicable in Malaysia.



ENFORCEMENT

The AOB initiates enforcement proceedings and imposes appropriate sanctions for non-compliance with auditing / ethical standards, regulation and securities laws.

PROFILE OF THE AOB'S REGISTERED AND RECOGNISED AUDIT FIRMS AND INDIVIDUAL AUDITORS AS AT 31 DECEMBER 2022



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Registered individual auditors



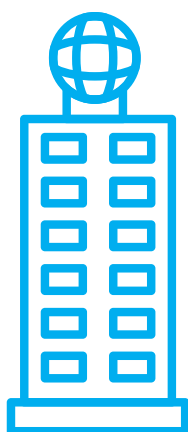
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Recognised individual auditors



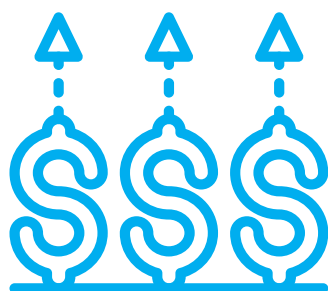
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Registered and recognised audit firms




Audited **1,228** PIEs

RM1,683 billion PLCs market capitalisation



Audited **1,313** schedule funds

RM677 billion net asset value (NAV)



**MONITORING AND
SUPERVISION OF
PIE AND SCHEDULE
FUND AUDITORS**

REGISTRATION AND RECOGNITION

The AOB's key oversight activities such as registration, inspection and enforcement are aimed at promoting high quality audit practices. The AOB encourages that audit firms build capacity and have in place quality framework which enables quality audits to be performed consistently.

The AOB's oversight activities are targeted to:

- Enforce the AOB's Registration Conditions that promotes quality and capacity;
- Drive quality audit practices through inspection and remediation efforts; and
- Set the tone for quality through enforcement actions.

The AOB registers and recognises 40 audit firms and 369 registered and recognised individual auditors.

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

TABLE 1

Registered and recognised auditors as at 31 December 2022

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	10	249	995	96.44	1,272	98.56
Partnerships with 5 - 9 audit partners	14	71	153	2.60	21	1.31
Partnerships with fewer than 5 audit partners	12	37	75	0.83	20	0.13
Sub Total	36	357	1,223	99.87	1,313	100.00
Recognised foreign audit firms	4	12	5	0.13	-	-
TOTAL	40	369	1,228	100.00	1,313	100.00

Chart 1 tabulates the number of registered audit firms and individual auditors for the past five years. The number of registered audit firms has decreased from 49 in 2018 to 36 in 2022. The sharp decrease in the number of audit firms was due to the AOB's condition of registrations introduced in August 2018. The AOB tightened the conditions of registration in 2019 to improve and strengthen the audit firm's internal capacity and governance. The registration conditions provided an avenue for the audit firms to restructure their practices to be better equipped to audit PIEs and schedule funds.

The number of registered individual auditors has steadily been increasing since 2019 as audit firms have been building capacity.

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

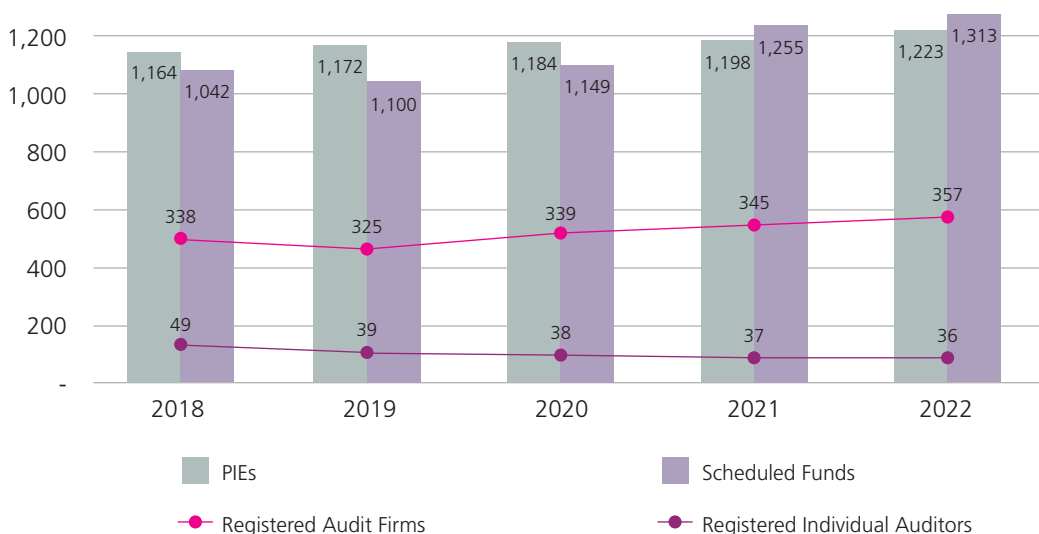
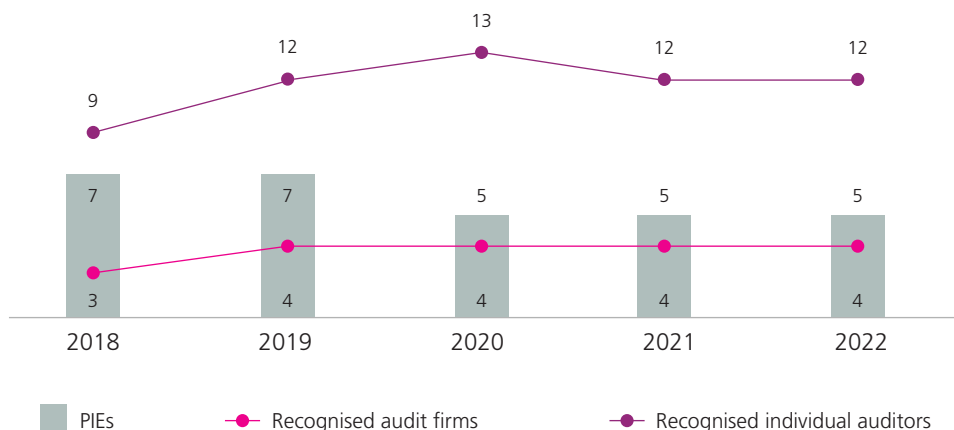


Chart 2 tabulates the number of recognised audit firms and individual auditors for the past five years. Over the years, the number of recognised audit firms and individual auditors have remained steady at four recognised firms and 12 individual auditors.

The recognised audit firms are from Singapore, Hong Kong and the UK. 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. Part of this is ensuring that the audit firms comply with international quality control, auditing, ethical and other assurance standards, and that they are subjected to regular inspection by their home audit regulators.

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



PIE CLIENTS’ MOVEMENTS

Throughout 2022, an additional of two AOB registered audit firms with a total of 162 PIE clients met the criteria of Major Audit Firms. At present, Major Audit Firms in Malaysia consist of eight AOB registered audit firms which collectively audit 95.3% of the total market capitalisation of PLCs in Malaysia. Throughout 2022, there were new additions to the PIE client lists of the registered audit firms. Also, there were PLCs that were delisted and PIEs that were no longer considered PIEs.

As shown in Table 2 below, PIE audit clients continued to move from Major Audit Firms to Other Audit Firms in 2022. The AOB viewed the trends positively as the movement would dilute the market concentration in the audit industry.

While the AOB views this trend positively, Other Audit Firms are reminded to build up their respective firms’ human resources capacity from time to time to so as to uphold their audit quality. Other Audit Firms should keep abreast with the developments in the capital market. This is to ensure that the audit firms have the capable and competent resources to perform quality audits.

TABLE 2

Clients’ movement among registered and recognised audit firms during year 2022

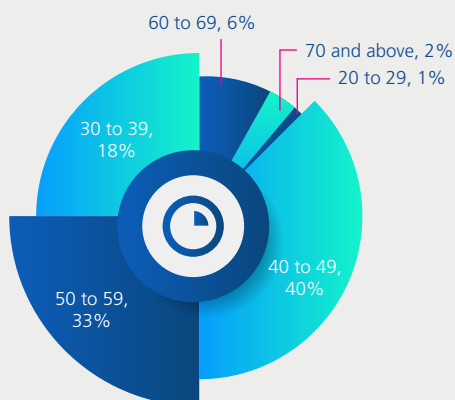
Firm Size	As at 1 Jan 2022	Change in audit firm profile	New PIEs	PLCs delisted and PIEs removed	No. of PIEs incoming from		No. of PIEs outgoing to		As at 31 Dec 2022
					Major Audit Firms	Other Audit Firms	Major Audit Firms	Other Audit Firms	
Major Audit Firms	734	162	32	(10)	-	9	-	(23)	904
Other Audit Firms	464	(162)	9	(6)	23	-	(9)	-	319
Foreign	5	-	-	-	-	-	-	-	5
Total	1,203	-	41	(16)	23	9	(9)	(23)	1,228

AGE PROFILE OF AOB REGISTERED AND RECOGNISED INDIVIDUAL AUDITORS

In 2017, the AOB highlighted the need for audit firms to consider the continuity and sustainability of its audit practice. Succession planning is important to minimise disruption to the practice and allow for a smooth exit and transition of the retiring partners. Audit firms must continuously recruit new talent, develop, mentor and groom their team members for management and leadership roles.

CHART 3

Age profile of registered individual auditors as at 31 December 2022



Based on data in 2022, 41% (2017: 42%) of registered individual auditors are of the age of 50 years and above. Within this group, 20% (2017: 36%) are of the age of 60 years and above. The oldest registered individual auditor is 79 years old. It is encouraging to note that the group with the age of 40 years and below has increased to 19% (2017: 11%), indicating an increase in the number of younger talent in the profession.

INSPECTION OF AUDIT FIRMS AND INDIVIDUAL AUDITORS

In accordance with Section 31V(1) of Part IIIA of the SCMA, the AOB conducts inspections on auditors of PIEs and schedule funds with the objective to promote high quality audits and reliable audited financial statements.

Inspections conducted by the AOB comprise Firm and Engagement level reviews.

A Firm level review focuses on the review of an audit firm's quality control systems and practices as well as the degree of compliance with the requirements of *International Standard on Quality Management 1 (ISQM 1)*



An Engagement level review seeks to assess the degree of compliance by auditors with the relevant auditing and ethical standards including whether sufficient and appropriate audit evidence have been obtained in relation to the audit reports of PIEs and schedule funds.

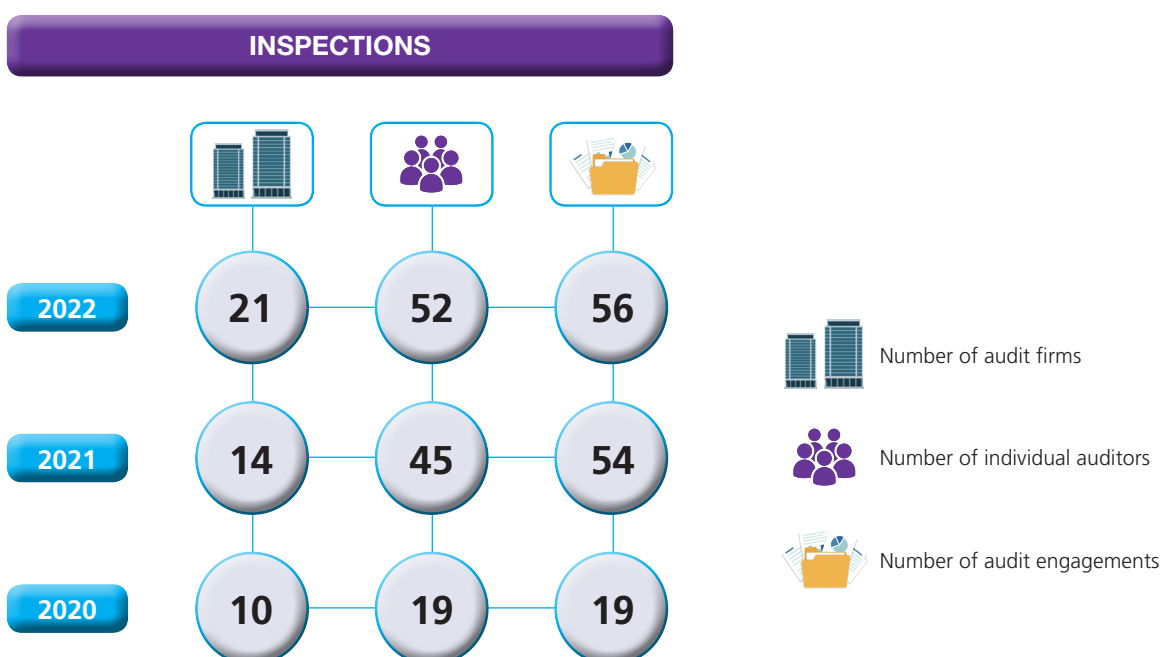
In 2022, the AOB inspected 21 Audit Firms covering 52 individual auditors for 56 audit engagements.

Each year, the AOB conducts inspections on all firms that have more than 50 PIE audit clients with a total market capitalisation of the PIE audit clients of above RM15.0 billion. These eight Major Audit Firms (2021: six Major Audit Firms) collectively audited PLCs that represented 73.5% of the total number of PLCs and 95.3% of the total market capitalisation of PLCs in Malaysia.

The AOB adopts a risk-based approach in selecting other audit firms for inspection under its monitoring programme. The AOB takes into consideration various factors such as:

- Size of the audit firm (including a firm's degree of investment in audit quality);
- Number of registered audit partners with the AOB;
- Results of the auditors' internal and external monitoring reviews;
- Number of PIE and schedule fund clients;
- Market capitalisation of and complexity of the audit firm's audit clients; and
- Financial performance of those clients particularly where there are indicators of potential financial manipulation and/or liquidity concerns.

The AOB also conducted a number of targeted inspections to respond to emerging risks in a timely manner.



At the conclusion of every inspection, the AOB assesses the severity of findings arising from each engagement review. All findings are expected to be remediated by the audit firms within a timeline agreed with the AOB regardless of whether subsequent enforcement action is taken on the individual auditor or his/her firm.

The AOB emphasises the importance of identifying the actual root causes when putting in place a remedial action plan. It is essential that the remediation plan is holistic, relevant, and viable to ensure that any shortfall or weaknesses in audit quality are appropriately and promptly rectified to ensure high quality and reliable audited financial statements of PIEs and schedule funds.

More in-depth information on the inspection programme, including common inspection findings, results of thematic reviews, trends analysis and remediation efforts taken by inspected audit firms will be made available separately in the 2022 AOB AIR.

2022 INSPECTION HIGHLIGHTS

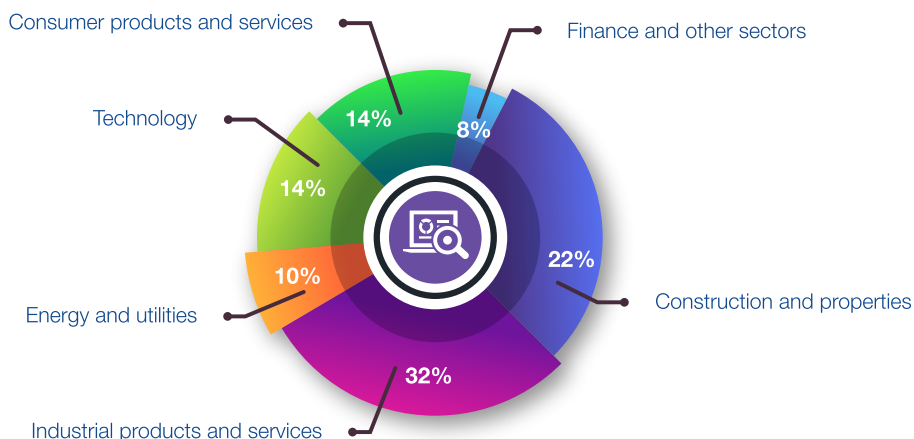
Risk-based approach taken by the AOB in the planning and engagement selection for its inspections and monitoring programmes



Actions taken in 2022 included:

- Imposition of specific remediation measures to incorporate or revise the relevant audit procedures
- Enforcement actions by the AOB pursuant to Section 31Z of the SCMA
- Refer the cases of PLCs to other SC line departments

INDUSTRIES COVERED BY THE AOB'S INSPECTION IN 2022



ENFORCEMENT ON AUDIT FIRMS AND INDIVIDUAL AUDITORS

Achieving the desired outcome

The AOB continued to focus its efforts in taking enforcement actions that instil good behaviour and achieve high level of compliance among the AOB’s registrants.

The desired outcomes that the AOB intends to achieve include:



Proportionality of enforcement action

In determining the type of actions to be imposed, the AOB ensures that enforcement actions are commensurate with the nature and severity of the breach. The AOB would impose stricter actions in cases of multiple instances of failures to perform audit procedures. Other considerations include the conduct of the auditors, previous regulatory record and impact on the capital market.

Nature and severity of breach	Conduct of the auditors	Previous regulatory record	Impact on the capital market
<ul style="list-style-type: none"> Breaches were pervasive and involved failures in many key areas. Breaches involve or reveal serious weaknesses in management systems or internal controls or processes of the firm. Breaches of relevant laws and regulations. Breaches of ethical standards. Contravention is deliberate. Person in breach had benefitted from the breach financially or otherwise. Breaches contributed to the commission of financial crime. 	<ul style="list-style-type: none"> Failure to exercise due care, diligence and professional behaviour. Contravention is deliberate. Person in breach had benefitted from the breach financially or otherwise. Breaches contributed to the commission of financial crime. 	<ul style="list-style-type: none"> Have been sanctioned for non-complying with regulations, guidelines and any other applicable laws. Disciplinary proceedings or actions taken by any relevant regulatory authority in or outside Malaysia. 	<ul style="list-style-type: none"> Breach affected a large number of PIE or schedule fund audit. Breach caused significant loss to PIE or schedule fund and the investors. Breach has impact on the basis of the audit opinion. Breach had an impact on the reliability of the audited financial statements. Breach had impact on the market capitalisation of the PIE or the NAV of the schedule fund.

Mitigating consideration

Enforcement proceedings typically involved long gestation periods before the matter is concluded. The AOB is mindful that for its enforcement actions to be an effective deterrence and mitigate the risk to the capital market, enforcement proceedings need to be completed in a timely manner.

The AOB recognises and considers the auditors efforts in mitigating any non-compliances of the relevant standards which contribute to an early and more timely resolution of the matter. In this aspect, the AOB takes into account the level of co-operation provided by the auditors which include providing a prompt response to the AOB’s requests for information, voluntarily providing information to assist the inspection/enforcement team and self-reporting of any non-compliances. In addition, the AOB favourably views the proactiveness of the auditors in taking actions to remediate, limit and mitigate potential and actual cases of non-compliance.

ENFORCEMENT ACTIONS IN 2022

Sanctions imposed

In 2022, the AOB took six enforcement actions, as shown in Figure 1. The AOB prohibited five audit partners and one audit firm from auditing and accepting PIEs and schedule funds as audit clients for one year. In addition to the prohibition, the AOB also imposed monetary fines on the audit partners and audit firm totalling RM383,500.

Three of the audit partners were sanctioned for failure to comply with the relevant ISA when performing audit of a PIE as the engagement partner. Meanwhile, two other audit partners were sanctioned for failure to perform their role as the Engagement Quality Control Reviewer (EQCR). The AOB views this seriously and reiterates the crucial role of the EQCR in safeguarding the integrity of audit quality and control process.

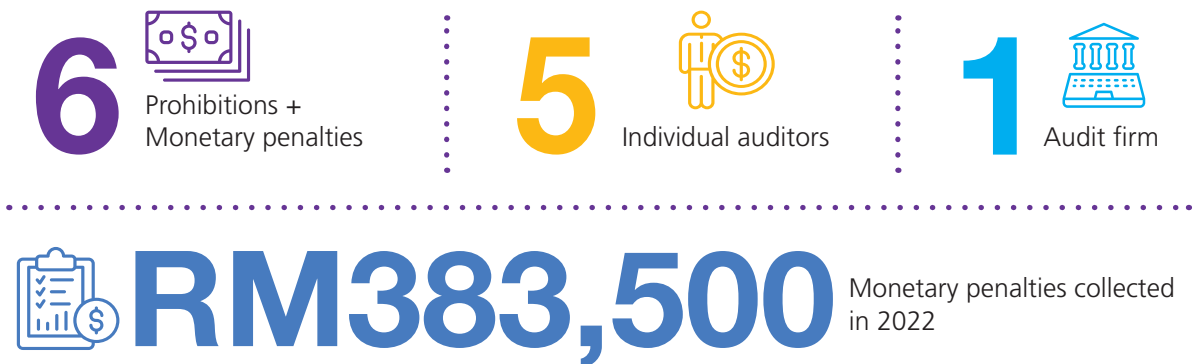
The audit firm was sanctioned for failure to comply with the relevant requirements of *International Standards on Quality Control 1* (ISQC 1). In particular, the firm had failed to ensure that its quality control monitoring system operated effectively, resulting in its failure to detect the audit deficiencies found in the audits of the PIE clients.

The AOB wants to stress the importance of the audit firm’s quality control systems and practices and its compliance with the requirements of ISQC 1. The AOB would not hesitate to take actions against the firm for any weaknesses in the quality control systems and non-compliances to the ISQC 1 and the *International Standard on Quality Management 1* (ISQM 1) (from 15 December 2022 onwards).

The AOB’s actions against the auditors were taken after the due process accorded to them, including the opportunity for them to appeal to the SC against the AOB’s decisions.

FIGURE 1

Enforcement actions taken in 2022



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

Cases under inquiry and concluded

The number of outstanding cases as at 31 December 2022 is shown in Table 3. Details on the movement of enforcement cases since 2018 are shown in Table 4.

TABLE 3

Number of outstanding cases as at 31 December 2022

Cases brought forward from 2021	2
New cases referred to Enforcement in 2022	4
Cases completed in 2022	2
Outstanding cases as at 31 December 2022	4

TABLE 4

Number of cases completed since 2018

Year	No. of referrals for enforcement proceedings	No. of cases completed prior to 2022	No. of cases completed in 2022	No. of outstanding cases as at 31 December 2022
2018	8	8	-	-
2019	4	4	-	-
2020	5	4	1	-
2021	1	-	1	-
2022	4	-	-	4

THE AOB'S ENFORCEMENT OBSERVATIONS



Audit evidence

- Non-existent, incomplete or inadequate documentation in the audit file to support the audit procedures performed, assumptions made and conclusions reached.



Auditor's independence

- The auditor did not have full control over the trade receivables confirmation process where requests were made and received through their clients.
- Over reliance on information provided by the clients without performing further audit procedures.
- Failure to perform audit procedures to verify reliability of information provided by the clients.



Overseas audit

- Lack of understanding and knowledge in performing audits in foreign jurisdictions.
- Not familiar with the laws, regulations and reporting requirements of foreign jurisdictions.



EQCR role

- Failure to sufficiently review the selected audit documentation relating to significant judgements and risk areas of the engagement as well as the basis of the conclusions.
- Absence of a robust review by the EQCR partner affect the oversight and governance over the audit partners in carrying out audited financial statements of PIE or schedule funds.



Professional scepticism

- Accepting clients' explanation without corroborating audit evidence.
- Failure to critically assess audit evidence for potential material misstatement(s).

JUDICIAL REVIEWS

Auditors aggrieved with the AOB's decision can appeal to the SC, and if not satisfied, they may have legal recourse. In 2022, the SC was involved in three judicial reviews brought by audit firm, Afrizan Tarmili Khairul Azhar (AFTAAS) and its audit partners. These judicial reviews involved challenges to the AOB's powers in enforcing its rules and regulations and the manner in which the AOB conducted its enforcement proceedings.

In a landmark decision, the Federal Court, on 17 August 2022, unanimously ruled in favour of the SC and dismissed the application for leave to appeal by AFTAAS and three of its partners against the AOB's decisions to impose enforcement sanctions against the audit firm and its partners. The Federal Court's decision reflects the seriousness of the breaches and reinforces the robustness of the AOB's enforcement framework.

The SC also obtained favourable decisions in the High Court in two other judicial review applications brought by AFTAAS and its partner. The High Court had struck out the judicial review application to challenge the effective date of the prohibition imposed on AFTAAS and its partners on 29 June 2022.

In another judicial review application brought by AFTAAS's partner against the AOB's imposition of addition criteria of registration, the High Court again ruled in favour of the SC and dismissed the judicial review application. AFTAAS's partner has since appealed to the Court of Appeal against the High Court's decision.

Judicial review applications against the AOB's decisions as at 31 December 2022

Judicial Review	Brief Description	Outcomes
Between AFTAAS and three of its partners and the SC	Challenges against the AOB's powers and the manner in which the AOB conducts its enforcement proceedings.	<ul style="list-style-type: none"> The Federal Court had on 17 August 2022, unanimously ruled in favour of the SC and dismissed the application of leave to appeal by AFTAAS and its partners against the AOB's decisions to impose sanctions against AFTAAS and its partners.
Between AFTAAS and its partner and the SC	Challenges against the AOB's notification to AFTAAS and its partners on the effective date of prohibition.	<ul style="list-style-type: none"> The High Court has on 29 June 2022 struck out the judicial review application. On 28 July 2022, AFTAAS and its partner has filed an appeal to the Court of Appeal against the High Court's decision. AFTAAS and its partner had on 14 November 2022 withdrawn their Appeal to the Court of Appeal against the High Court's decision.
Between Datuk Mohd Afrizan Husain and the SC	Challenges against the AOB's Criteria for Registration.	<ul style="list-style-type: none"> The High Court had dismissed Datuk Mohd Afrizan's judicial review application on 18 August 2021. Datuk Mohd Afrizan had filed an appeal at Court of Appeal on 23 August 2021.

Read more on the update of the judicial reviews <https://www.sc.com.my/aob/aobs-sanctions>

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STAKEHOLDER ENGAGEMENTS AND CAPACITY-BUILDING INITIATIVES

STAKEHOLDER ENGAGEMENTS AND CAPACITY-BUILDING INITIATIVES

The AOB conducts, participates and contributes its views through stakeholder engagements to promote capacity building and high quality financial reporting and practices. These engagement sessions on the local, regional and international fronts involve regulators, accounting profession, directors and AC members. In 2022, the AOB actively worked on creating awareness on the audit firm’s *Annual Transparency Reports* and its value to stakeholders.

The AOB’s ongoing involvement and contribution at global and regional levels through the International Forum of Independent Audit Regulators (IFIAR) and the ASEAN Audit Regulators Group (AARG) facilitated mutual sharing of valuable insights into audit regulatory best practices. Further, as a member of IFIAR’s IOSWG, the AOB has been leveraging the experience and knowledge from other jurisdictions on matters relating to investor protection and improving audit quality.

In 2022, the AOB’s Executive Officer, Alex Ooi was invited by the Department of Accounting and Auditing Regulations, Ministry of Finance, Vietnam and the Institute of Chartered Accountants in England and Wales (ICAEW) to share Malaysia’s experience and best practices on audit oversight.

The AOB also continues to contribute views, on areas of concern in relation to audit quality to regulatory and standard-setting bodies which include the IFIAR, the International Federation of Accountants’ International Auditing and Assurance Standards Board, Malaysian Institute of Accountants (MIA)’s Auditing and Assurance Standards Board and Ethics Standards Board.

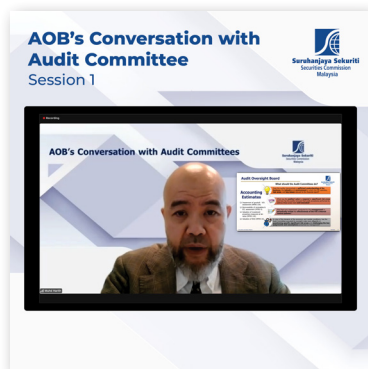


THE AOB’S CONVERSATION WITH AUDIT COMMITTEES

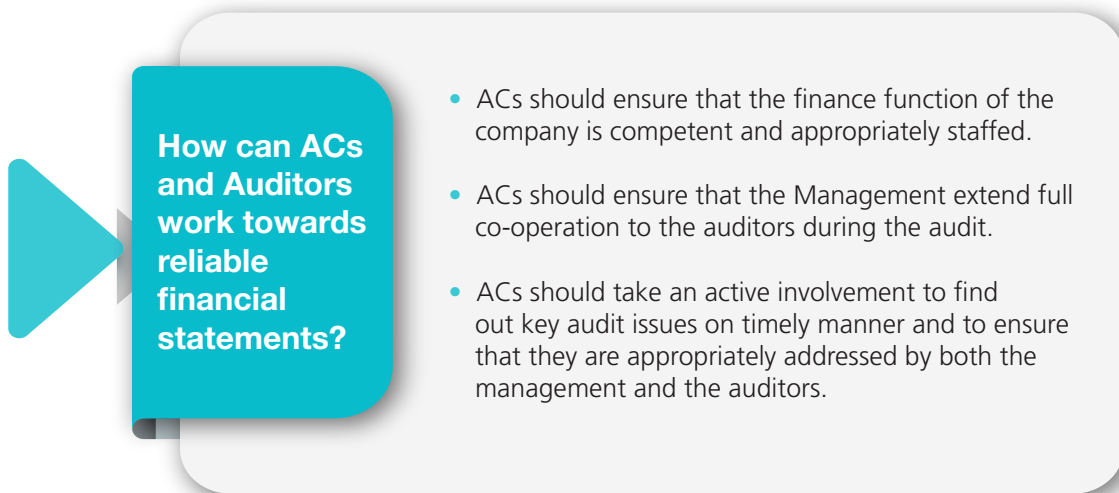
High quality financial reporting and audit quality can only be achieved if key stakeholders in the financial reporting ecosystem are effective in playing their respective roles. In this respect, the AOB continues to engage with the ACs of PLCs to ensure that they are informed and kept updated on developments that would facilitate their oversight role. The AOB strongly believes effective oversight by strong, knowledgeable and independent ACs can enhance audit quality.

Due to the encouraging response received for the AOB’s Conversation with Audit Committee series organised in 2021, the AOB conducted a repeat of the 2021 session in April 2022. The session was attended by 234 ACs from 176 PLCs. In 2022, the AOB had two sessions of its Conversation with Audit Committees. The session was attended by 739 AC members representing 597 PLCs.

ACs are instrumental in setting the right tone for the company’s financial reporting process. In this respect, the session also included a panel discussion with an AC member and auditor titled ‘How can Audit Committee and Auditors Work Towards Reliable Audited Financial Statements’. The discussions centred around the PLC’s financial reporting process, the roles and responsibilities of the ACs and auditors, audit quality indicators and deriving value from the information shared in the firm’s *Annual Transparency Report*.




These sessions were well received by the ACs. In the feedback survey conducted on the sessions, 99% AC members found the topic presented and discussion at the session useful and relevant to their role as an AC and director of PLCs.




How can ACs and Auditors work towards reliable financial statements?

- ACs should ensure that the finance function of the company is competent and appropriately staffed.
- ACs should ensure that the Management extend full co-operation to the auditors during the audit.
- ACs should take an active involvement to find out key audit issues on timely manner and to ensure that they are appropriately addressed by both the management and the auditors.


KEY TAKEAWAYS FOR AUDIT COMMITTEES




ACs should recommend the appointment and reappointment of external auditors based on audit quality considerations as promulgated by the *Malaysian Code of Corporate Governance* (MCCG). Information disclosed in the *Annual Transparency Report* may be utilised by the ACs to make their decision.



ACs are encouraged to make relevant comparisons on the Audit Quality Indicators reported by the firms and by the AOB in its AIR.



ACs should also ensure that the auditors are fairly compensated so that a quality audit could be carried out.



ACs should be mindful that any audit failures would indirectly reflect poorly on the performance of the ACs.

THE AOB’S CONVERSATION WITH AUDIT FIRMS

The AOB held its annual dialogue with the leadership and senior partners of the AOB-registered audit firms over two separate sessions on 18 August 2022 and 9 September 2022. A total of 84 senior partners attended these sessions. These sessions allow for mutual discussions on the challenges faced by the profession and regulatory efforts to improve audit quality. The AOB also shared recent observations, concerns, and emerging risks for 2023.



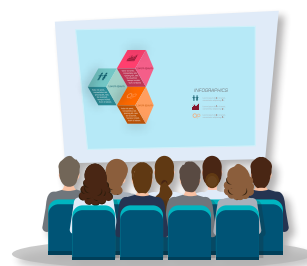
CAPACITY-BUILDING INITIATIVES FOR THE AOB’S REGISTERED AUDIT FIRMS AND INDIVIDUAL AUDITORS

The AOB worked together with the Malaysian Institute of Certified Public Accountants (MICPA) to organise workshops on ISQM 1 which will be effective from 15 December 2022. ISQM 1 is focused on proactively identifying and responding to risks to ensure audit quality. In complying with these standards, the audit firms will need to perform their own risk assessment to ensure that their quality management system is designed specifically to address these risks to audit quality.

These workshops are part of the AOB’s continued effort to build capacity of the audit profession, namely the AOB’s registered auditors. The objective of the workshop was to assist audit firms with the implementation of ISQM. The workshops were facilitated by the MICPA’s ISQM 1 taskforce by using the MICPA’s *ISQM 1 Guide and Illustrative Manual*. The sessions provided practical examples on how the audit firms should craft their system of quality management based on nature and circumstances of the firm and engagements they perform. The session also highlighted key changes from the current standards of quality control.



2 sessions were conducted on 3 October 2022 and 25 October 2022



70 participants attended the workshops



STATEMENTS

MEMBERS OF THE AUDIT OVERSIGHT BOARD



DATO' ANANTHAM KASINATHER



ALEX OOI THIAM POH



SALMAH BEE MOHD MYDIN



HONG CHIN PHENG



**DATUK NOR AZIMAH
ABDUL AZIZ**



DATO' DARAWATI HUSSAIN



**DATO' SERI AHMAD JOHAN
MOHAMMAD RASLAN**

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

MEMBERS OF THE AUDIT OVERSIGHT BOARD



Dato' Anantham Kasinather

*Appointed Non-Executive Member on 1 January 2020
Appointed Non-Executive Chairman on 1 December 2020*

Dato' Anantham Kasinather brings with him more than 40 years of experience in the private sector, having started his career at Skrine & Co practising in various areas of commercial law. He appeared as Counsel in the High Court of Malaya, Sabah and Sarawak, Court of Appeal, and Federal Court of Malaysia. Dato' Anantham is now a consultant for Sree Harry & Co.

Dato' Anantham also served in the judiciary where he was appointed as a Judge of the High Court of Malaya in 2009 and elevated to the Court of Appeal in 2010 before retiring from judicial service in May 2014.

Dato' Anantham was appointed as an Arbitrator with the Asian International Arbitration Centre in 2010. At present, he is one of four Representatives of the Government of Malaysia to the Permanent Court of Arbitration. Dato' Anantham is a Fellow of the Malaysian Institute of Arbitrators. He is also a Board Member of the Financial Reporting Foundation (FRF).

Dato' Anantham holds a Bachelor of Law LLB (Hons) from the National University of Singapore.



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. Prior to joining the AOB, he was an audit partner with BDO Malaysia.

Alex is currently involved in the Auditing and Assurance Standards Board, the Ethics Standards Board, the Education Board, and the Disciplinary Appeal Board of the Malaysian Institute of Accountants (MIA). He is also a member of the MIA – Malaysian Qualifications Agency's Joint Technical Committee. 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 is a current Council Member of MIA.

He is a member of 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 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 sustainability, corporate governance, investment product development along with the securities and derivatives development functions.

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. She is a board member of the Finance Accreditation Agency, the Malaysian Venture Capital and Private Equity Development Council; and Penjana Kapital.

With vast experience in investigation, intermediaries supervision, market surveillance, authorisation and licensing; and development and policy formulation, Salmah has been involved in numerous external engagements including initiatives in public sector transformation, the Attorney-General's Chambers and the Anti-Corruption Agency (now known as the Malaysian Anti-Corruption Commission). She has also served as a member of the SC's Capital Market Compensation Fund Corporation and the Financial Stability Committee of the Labuan Financial Services Authority.

Previously Salmah was a business reporter with *The STAR* Publications. She has a Bachelor of Arts (Management and Business Studies) from the University of Liverpool and a Master in Science (Public Policy and Management) from the University of London.



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 served 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 from 2016 to 2020. 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, National University of Malaysia (UKM). During her tenure with UKM, in July 2000 she was seconded to the Regulatory and Standards Department of the MIA. She joined SSM as General Manager of the Corporate Policy, Planning and Development Department in 2003.

Datuk Nor Azimah has extensive experience in law reform initiatives and oversaw the passing of significant pieces of legislation 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 for the Certification of Certified Integrity Officers and Board Member of the FRF. She is also a member of the Approval and Implementation Committee of the Iskandar Regional Development Authority.

Datuk Nor Azimah obtained her law degree from the Institut Teknologi MARA (now UiTM) and Master of Laws (LLM in Business Law) from the University of Wales, Aberystwyth, UK.



Dato' Darawati Hussain

Appointed Non-Executive Member on 1 April 2016

Dato' Darawati Hussain is a Director of Syalin Sdn Bhd. She was formerly a Director of Fund and Co-Investor Relations under the Group Strategy and Strategic Investments Division, CIMB Group (Malaysia).

She has over 30 years of experience in corporate finance, asset management, and private equity. She was previously a European equities portfolio manager for a US fund management company with assets under management worth US\$70 billion.

Dato' Darawati serves as a Non-Independent Non-Executive Director of Mesiniaga Bhd and as an Independent Board Member of Malaysia Venture Capital Management Bhd. She is also an Independent Director of several of RHB Group's Asset Management subsidiaries and other private limited companies.

Dato' Darawati was the former Chairperson of the Malaysia Venture Capital and Private Equity Association and a committee member of the Malaysia Venture Capital Development Corporation under the SC.

She holds a Bachelor in Economics and Accountancy from Durham University, UK and a Master in Business Administration from the London Business School, UK. She is also a Chartered Financial Analyst.



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 MCCG to the market in 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.

STATEMENT ON GOVERNANCE

BOARD MEMBERS

The Board of the AOB comprises a Non-Executive Chairman, an Executive Officer, and 5 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, auditing 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 of 3 years and the Non-Executive Members of the Board are appointed for a term of 2 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 3 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 9 Board meetings held in 2022. The quorum required 3 members to be present. 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 (Non-Executive Chairman)	9/9
Alex Ooi Thiam Poh (Executive Officer)	9/9
Salmah Bee Mohd Mydin	9/9
Hew Ee-Lu (Completed his term as Non-Executive Member on 5 October 2022)	5/5
Datuk Nor Azimah Abdul Aziz	7/9
Dato' Darawati Hussain	9/9
Dato' Seri Ahmad Johan Mohammad Raslan	8/9
Hong Chin Pheng (Appointed to the Board on 11 October 2022)	2/2

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:

- Dato' Anantham Kasinather;
- Alex Ooi Thiam Poh; and
- Dato' Darawati Hussain.

There were 3 Registration Committee meetings held in 2022. 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.

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

TABLE 2

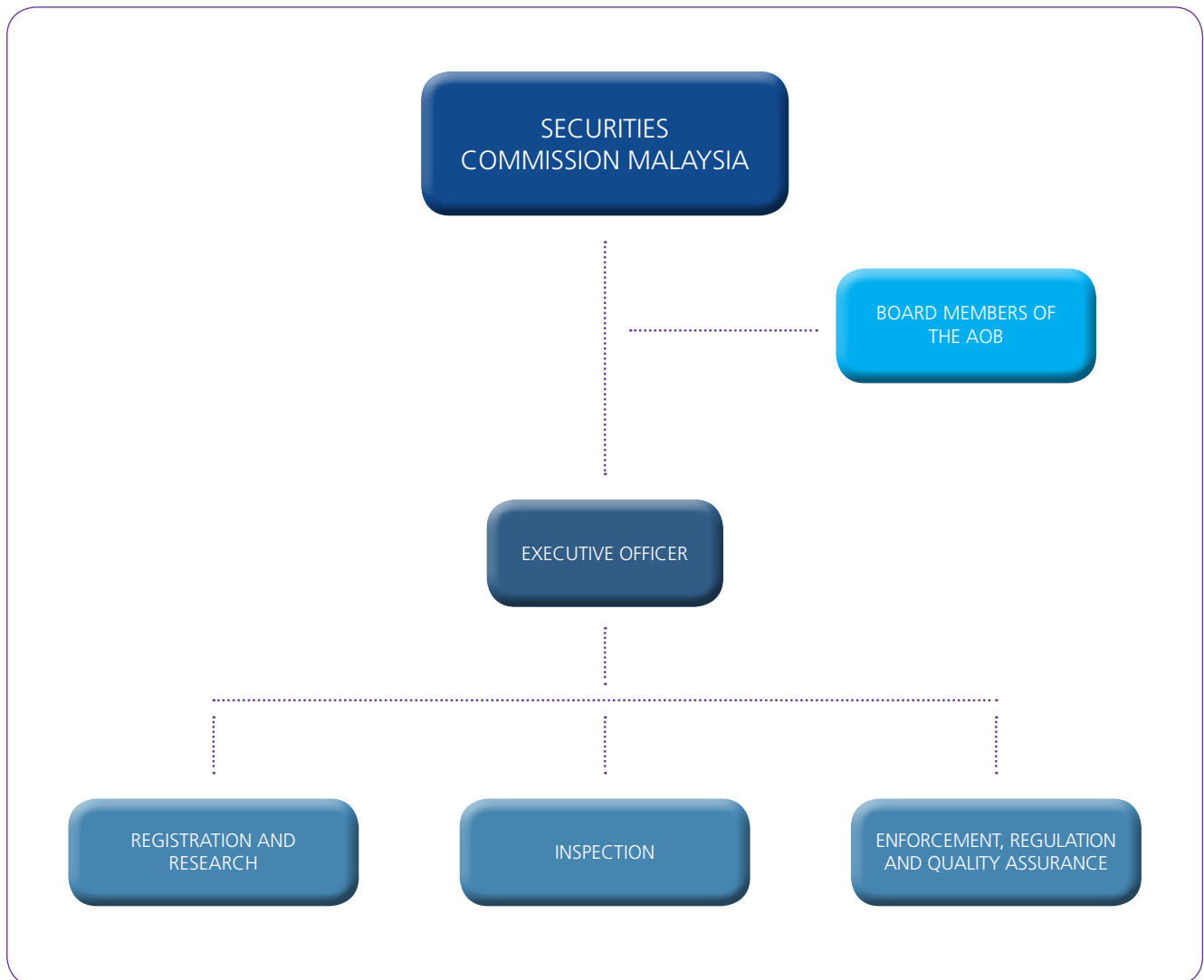
Attendance at Registration Committee Meetings

Members of the Registration Committee	Number of Meetings Attended
Dato' Anantham Kasinather	3/3
Alex Ooi Thiam Poh	3/3
Dato' Darawati Hussain	3/3

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 of external auditors.

ORGANISATION STRUCTURE





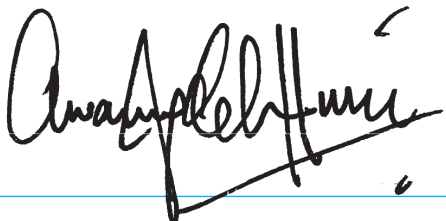
FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2022

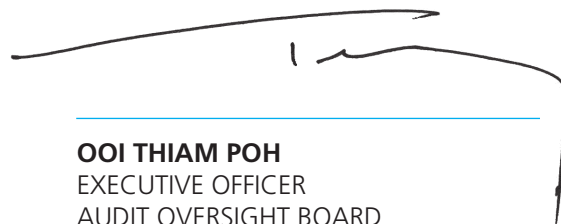
	Notes	2022 RM	2021 RM
CURRENT ASSETS			
Other receivables	4	105,841	81,990
Other investments	5	2,894,466	2,191,477
Cash and cash equivalents	6	231,789	612,741
		<u>3,232,096</u>	<u>2,886,208</u>
LESS: CURRENT LIABILITIES			
Other payables and accruals	7	(363,459)	(463,426)
NET CURRENT ASSETS		<u>2,868,637</u>	<u>2,422,782</u>
REPRESENTED BY:			
Funds from the Securities Commission Malaysia	8.1	38,016,438	34,516,438
Accumulated deficit	8.2	(35,147,801)	(32,093,656)
	8	<u>2,868,637</u>	<u>2,422,782</u>

The notes on pages 40 to 51 are an integral part of these financial statements.



AWANG ADEK HUSSIN
CHAIRMAN
SECURITIES COMMISSION MALAYSIA

7 February 2023



OUI THIAM POH
EXECUTIVE OFFICER
AUDIT OVERSIGHT BOARD

STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2022

	Notes	2022 RM	2021 RM
Registration fees		3,104,000	3,060,400
Finance income from fixed deposits		65,530	52,275
Penalty income		1,014,500	647,500
Other income		90,898	31,388
		<u>4,274,928</u>	<u>3,791,563</u>
Administrative expenses	9	(7,329,073)	(7,048,238)
Deficit before tax		<u>(3,054,145)</u>	<u>(3,256,675)</u>
Tax expense	10	-	-
Deficit and total comprehensive loss for the year		<u>(3,054,145)</u>	<u>(3,256,675)</u>

The notes on pages 40 to 51 are an integral part of these financial statements.

STATEMENT OF CHANGES IN ACCUMULATED FUNDS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2022

	Funds from the Securities Commission Malaysia RM	Accumulated deficit RM	Total RM
At 1 January 2021	30,516,438	(28,836,981)	1,679,457
Funds from the Securities Commission Malaysia	4,000,000	-	4,000,000
Deficit and total comprehensive loss for the year	-	(3,256,675)	(3,256,675)
At 31 December 2021/1 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	38,016,438	(35,147,801)	2,868,637
	Note 8.1	Note 8.2	Note 8

The notes on pages 40 to 51 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2022

	2022 RM	2021 RM
CASH FLOWS FROM OPERATING ACTIVITIES		
Deficit before tax	(3,054,145)	(3,256,675)
Adjustment for: Finance income	(65,530)	(52,275)
OPERATING DEFICIT BEFORE WORKING CAPITAL CHANGES	(3,119,675)	(3,308,950)
Changes in working capital:		
Other receivables	(13,360)	(69,840)
Other payables and accruals	(99,967)	(356,874)
NET CASH USED IN OPERATING ACTIVITIES	(3,233,002)	(3,735,664)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	55,039	47,613
Increase in other investments	(702,989)	(320,522)
NET CASH USED IN INVESTING ACTIVITIES	(647,950)	(272,909)
CASH FLOWS FROM FINANCING ACTIVITY		
Funds from the Securities Commission Malaysia	3,500,000	4,000,000
NET CASH FROM FINANCING ACTIVITY	3,500,000	4,000,000
NET MOVEMENT IN CASH AND CASH EQUIVALENTS	(380,952)	(8,573)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	612,741	621,314
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	231,789	612,741

The notes on pages 40 to 51 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2022

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 PLC 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 *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 2022:

- Amendment to MFRS 16 'Covid-19-Related Rent Concessions beyond 30 June 2021'
- Annual Improvements to MFRS 9 'Fees in the '10 per cent' test for Derecognition of Financial Liabilities'
- Annual Improvements to MFRS 1 'Subsidiary as First-time Adopter'
- Annual Improvements to Illustrative Example accompanying MFRS 16 Leases: Lease Incentives
- Annual Improvements to MFRS 141 'Taxation in Fair Value Measurements'

The adoption of these amendments to published standards did not have any material impact on the current period or any prior periods and is not likely to affect future periods.

- (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 2022 are set out below:

- Amendments to MFRS 112 'Deferred Tax related to Assets and Liabilities arising from a Single Transaction' (effective 1 January 2023) clarify that the initial exemption rule does not apply to transactions where both an asset and a liability are recognised at the same time such as leases and decommissioning obligations. Accordingly, entities are required to recognise both deferred tax assets and liabilities for all deductible and taxable temporary differences arising from such transactions.
- Amendments to MFRS 16 'Lease Liability in a Sale and Leaseback' (effective 1 January 2024) clarifies the seller-lessee shall determine the 'lease payments' or 'revised lease payments' in a way that it does not result in the seller-lessee recognising any amount of the gain or loss that relates to the right of use retained by the seller-lessee.

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

The amendments shall be applied retrospectively to sale and leaseback transactions entered into after the date when the seller-lessee initially applied MFRS 16.

- There are two amendments to MFRS 101 'Presentation of Financial Statements'. The first amendments, 'Classification of liabilities as current or non-current' clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the entity's expectations or events after the reporting date (e.g. the receipt of a waiver or a breach of covenant).

The second amendments, 'Non-current Liabilities with Covenants' specify that covenants of loan arrangements which an entity must comply with only after the reporting date would not affect classification of a liability as current or non-current at the reporting date. However, those covenants that an entity is required to comply with on or before the reporting date would affect classification of a liability as current or non-current, even if the covenant is only assessed after the reporting date.

Both amendments are effective for the annual reporting periods beginning on or after 1 January 2024.

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 SIGNIFICANT ACCOUNTING POLICIES

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.

Financial liabilities

Amortised 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 cash equivalents 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.

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) Leases

(i) Definition of a lease

A contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the AOB assesses whether:

- The contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- As a lessee, it has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- As a lessee, it has the right to direct the use of the asset. The AOB has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the AOB has the right to direct the use of the asset if either the AOB has the right to operate the asset or the AOB designed the asset in a way that predetermines how and for what purpose it will be used.

(ii) Recognition and initial measurement

As a lessee

The AOB has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The AOB recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(e) 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.

(f) 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 (SOCSO), 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.

(g) Contingencies

Contingent assets

When an inflow of economic benefit of an asset is probable where it arises from past events and where existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity, the asset is not recognised in the statements of financial position but is being disclosed as a contingent asset. When the inflow of economic benefit is virtually certain, then the related asset is recognised.

Contingent liabilities

A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the entity or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably. However, contingent liabilities do not include financial guarantee contracts.

(h) Fair value measurement

Fair value of an asset or a liability is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

For non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

4 OTHER RECEIVABLES

	2022 RM	2021 RM
Other receivables	83,200	23,750
Prepayments	-	46,090
Finance income receivable	22,641	12,150
	<u>105,841</u>	<u>81,990</u>

5 OTHER INVESTMENTS

Other investments represent deposits placed with licensed banks with maturity terms of 3 months or more and interest income earned at a rate of 2.3% - 2.8% per annum (2021: 1.8% per annum).

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

6 CASH AND CASH EQUIVALENTS

	2022 RM	2021 RM
Cash and cash equivalents	<u>231,789</u>	<u>612,741</u>

7 OTHER PAYABLES AND ACCRUALS

	2022 RM	2021 RM
Prepaid registration fee	336,000	440,000
Other payables and accruals	27,459	23,426
	<u>363,459</u>	<u>463,426</u>

8 TOTAL RESERVES

	Notes	2022 RM	2021 RM
Funds from the Securities Commission			
Malaysia	8.1	38,016,438	34,516,438
Accumulated deficit	8.2	(35,147,801)	(32,093,656)
Total reserves		<u>2,868,637</u>	<u>2,422,782</u>

8.1 Funds from the Securities Commission Malaysia

	2022 RM	2021 RM
Contribution:		
At the beginning of the year	34,516,438	30,516,438
Additions	3,500,000	4,000,000
At the end of the year	<u>38,016,438</u>	<u>34,516,438</u>

8.2 Accumulated deficit

	2022 RM	2021 RM
At the beginning of the year	(32,093,656)	(28,836,981)
Deficit for the year	(3,054,145)	(3,256,675)
At the end of the year	<u>(35,147,801)</u>	<u>(32,093,656)</u>

9 ADMINISTRATIVE EXPENSES

	2022 RM	2021 RM
The administrative expenses consist of:		
Auditors' remuneration	24,597	22,100
Non-executive members' allowance	278,000	314,000
Other miscellaneous charges	694,555	559,453
Rental of office equipment	-	1,057
Staff costs	6,326,341	5,817,428
Training subsidy	5,580	334,200
	<u>7,329,073</u>	<u>7,048,238</u>

10 TAX EXPENSE

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

11 FINANCIAL INSTRUMENTS

11.1 Categories of financial instruments

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

	Carrying amount RM	AC RM
<u>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*	(27,459)	(27,459)
<u>2021</u>		
<u>Financial assets</u>		
Other receivables*	35,900	35,900
Other investments	2,191,477	2,191,477
Cash and cash equivalents	612,741	612,741
	<u>2,840,118</u>	<u>2,840,118</u>
<u>Financial liabilities</u>		
Other payables and accruals*	(23,426)	(23,426)

* Exclude non-financial instruments.

11.2 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.

11.3 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
<u>2022</u>			
<u>Financial liabilities</u>			
Other payables and accruals	27,459	27,459	27,459
<u>2021</u>			
<u>Financial liabilities</u>			
Other payables and accruals	23,426	23,426	23,426

11.4 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.

11.4.1 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:

	2022 RM	2021 RM
<u>Fixed rate instruments</u>		
Financial assets	2,894,466	2,191,477

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.

11.5 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.

12 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.

13 CONTINGENCIES

In 2019, the AOB imposed sanctions against an audit firm and its partners (the Parties) which include inter-alia a monetary penalty of RM631,000 for breaching the AOB's registration conditions under Section 31O(3) of the SCMA. The Parties appealed to the SC against the AOB's sanctions but were affirmed by the SC.

The Parties applied to the High Court for judicial review on the AOB's and the SC's decisions. The High Court quashed the sanctions imposed by the AOB and the SC against the Parties on 10 August 2020.

The SC/AOB filed an appeal to the Court of Appeal to set aside the High Court's decision on 13 August 2020. The Court of Appeal decided in favour of the SC/AOB where the High Court decision was set aside on 10 December 2021.

On 7 January 2022, the Parties applied to the Federal Court for leave to appeal against the Court of Appeal's decision. On 17 August 2022, the Federal Court ruled in favour of the SC/AOB and dismissed the Parties' leave application.

Subsequently, the Parties paid the monetary penalty of RM631,000 levied by the AOB during the financial year.

14 AUTHORISATION OF FINANCIAL STATEMENTS

The financial statements for the year ended 31 December 2022 were authorised by the SC for issuance and signed by the Chairman of the SC and Executive Officer of the AOB on 7 February 2023.

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 36 to 51 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 Territory on 7 February 2023.



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 (the AOB) give a true and fair view of the financial position of the AOB as at 31 December 2022, and of its financial performance and its cash flows for the financial year then ended in accordance with *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 2022, 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, including a summary of significant accounting policies, as set out on pages 36 to 51.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and 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 of the Securities Commission Malaysia (the SC) 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 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.

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

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 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 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
7 February 2023



MAHESH A/L RAMESH
03428/04/2023 J
Chartered Accountant



OTHERS

ACRONYMS AND ABBREVIATIONS

AARG	ASEAN Audit Regulator Group
AC	Audit Committees
AOB	Audit Oversight Board
BNM	Bank Negara Malaysia
ICAEW	Institute of Chartered Accountants in England and Wales
IFIAR	International Forum of Independent Audit Regulators
IOSWG	Investor and Other Stakeholders Working Group
ISA	<i>International Standards on Auditing</i>
ISQC	International Standard on Quality Control
ISQM	<i>International Standards on Quality Management</i>
JAN	Jabatan Akauntan Negara
MIA	Malaysian Institute of Accountants
MICPA	The Malaysian Institute of Certified Public Accountants
NAV	net asset value
PIE	public-interest entity
PLC	public-listed company
SC	Securities Commission Malaysia
SCMA	<i>Securities Commission Malaysia Act 1993</i>
SSM	Companies Commission of Malaysia

DEFINITIONS

Auditor	An individual auditor or audit firm who is registered or recognised under section 310 of the SCMA as a registered auditor or recognised auditor of a PIE or schedule fund.
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; (c) any other capital market funds as may be specified by the SC.
Major Audit Firms	Audit firms with more than 10 partners and audit more than 50 clients with a total market capitalisation of above RM15 billion.
Other Audit Firms	Audit firms other than Major Audit Firms.

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