



# **Audit Oversight Board Conversation with Auditors of Public Interest Entities and Schedule Funds**

11 October 2017

- Registration and Recognition Statistics
- Common findings from AOB inspections (firm and engagement level)
- Common audit risk areas when performing audits of public interest entities with significant operations in People's Republic of China (PRC)
- Regulatory updates

# **Registration and Recognition Statistics**

# Audit Oversight Board Malaysia

## Registration as at 30 June 2017

Profile of audit firms	No. of audit firms	No. of individual auditors	No. of PIEs	% of Market Capitalisation
≥10 partners	9	201	963	95.62%
5 – 9 partners	10	42	63	0.69%
2 – 4 partners	30	79	116	3.61%
<b>TOTAL</b>	<b>49</b>	<b>322</b>	<b>1,142</b>	<b>99.93%</b>



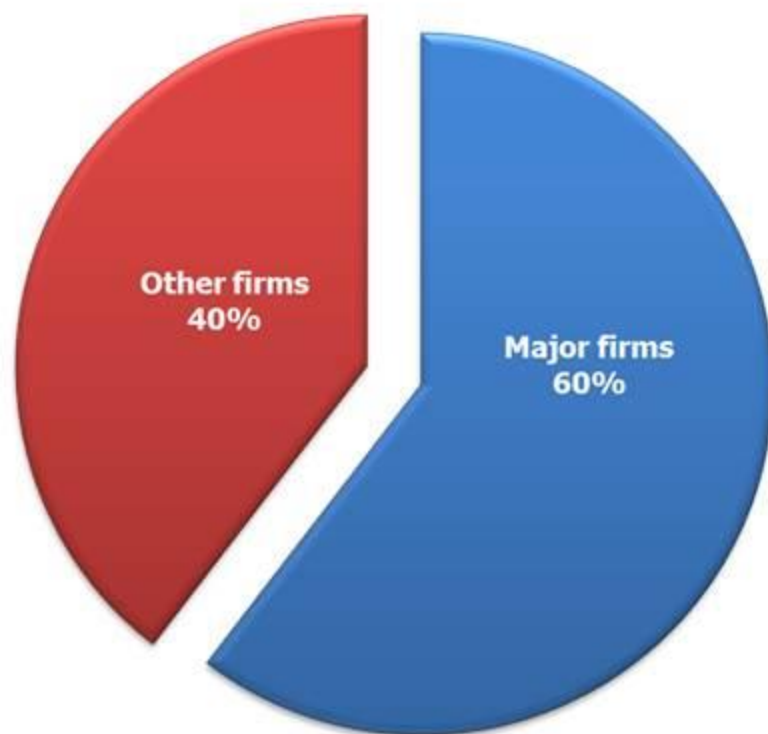
## Recognition as at 30 June 2017

Profile of audit firms	No. of audit firms	No. of individual auditors	No. of PIEs	% of Market Capitalisation
Singapore / UK / Hong Kong	4	13	5	<1%
<b>Subtotal</b>	<b>4</b>	<b>13</b>	<b>5</b>	<b>&lt;1%</b>



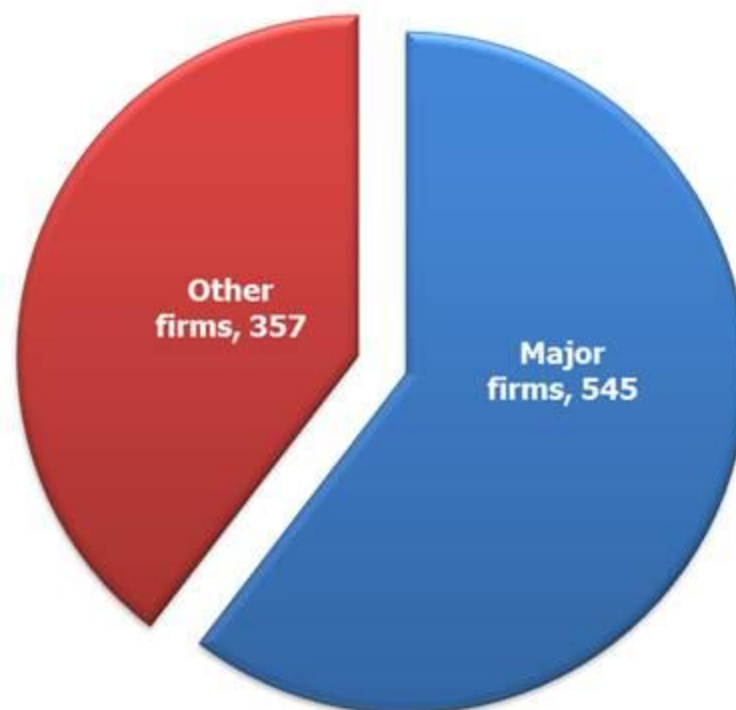
## PLCs Distribution in Major Firms and Other Audit Firms

Number of PLCs



Total PLCs = 902

Market Capitalisation of PLC



Total Market Capitalisation  
= RM1,784,360 million

1. Registered audit firms are required to submit an Annual Declaration via ARAS to the AOB within **7 working days** after 30 June of each calendar year.
2. All registered audit firms and individual auditors are strictly reminded to ensure that all information provided to AOB is **timely** and **accurate**, including information about audit clients (e.g. auditor's report information)
3. All contact details, including for Lodgement Officer (LO), in ARAS must be up to date at all times, with all emails and notifications regularly checked.
4. Registration fee must be submitted **timely**.

Please be reminded that the conditions of registration with AOB require all registered audit firms and individual auditors to inform AOB **within 10 working days** when there are changes in the particulars submitted in ARAS or when any auditor in the registered audit firm ceases to be fit and proper under Section 31P of the SCMA.

# **Common findings from AOB inspections**

***Note:*** Slides 8 to 14 are merely a summary of recent and the more common findings identified by AOB. It should not be taken as a comprehensive list of findings.

# **Firm level inspection**



Leadership responsibilities for quality within the Firm	Relevant ethical Requirements	Acceptance and continuance of client relationships and specific engagements
<ul style="list-style-type: none"><li>▪ Leadership should conduct regular communications with staff to emphasise on the importance of audit quality</li><li>▪ Need to define measures that may be imposed in the event that audit quality or professional conduct is compromised</li></ul>	<ul style="list-style-type: none"><li>• Know the MIA By-Laws on independence requirements and get the interpretation right, otherwise consult.</li><li>• Establish proper mechanism to track rotation of partners and independence declaration at both firm level and engagement level.</li></ul>	<ul style="list-style-type: none"><li>• Apply caution when deciding to accept audit of PLCs – do you know why the previous auditor drop them?</li><li>• Decisions should prioritise on having sufficient capacity and the right resource</li></ul>

Human Resources	Engagement Performance	Monitoring
<ul style="list-style-type: none"><li>• Structured training plan</li><li>• Establish process for monitoring of training participation</li></ul>	<ul style="list-style-type: none"><li>• Ensure audit methodology is up to date and emphasise on "THINKING AUDIT" rather than checklist filling exercise</li><li>• EP to be involved throughout the audit engagement</li><li>• Enhancing the consultation process and the role of EQCR</li></ul>	<ul style="list-style-type: none"><li>• Set up a proper internal monitoring process that covers both firm and engagement level</li><li>• Monitoring reviews should be based on substance of the issues – focus on key areas / matters that affect audit quality rather than on administrative type of issues</li></ul>

# **Engagement level inspection**

## 2015 Top 4 Inspection Findings – PIE Audits

### Global 2016 IFIAR Survey

*(results from up to 6 GPPC firms  
per member jurisdiction)*

**1** Accounting Estimates, including Fair Value Measurement

**2** Internal Control Testing

**3** Audit Sampling

**4** Revenue Recognition

### Malaysia 2015 AOB Findings

*(submitted for 2016 IFIAR Survey,  
results from 6 GPPC firms)*

**1** Accounting Estimates, including Fair Value Measurement

**2** Audit Sampling

**3** Group Audits

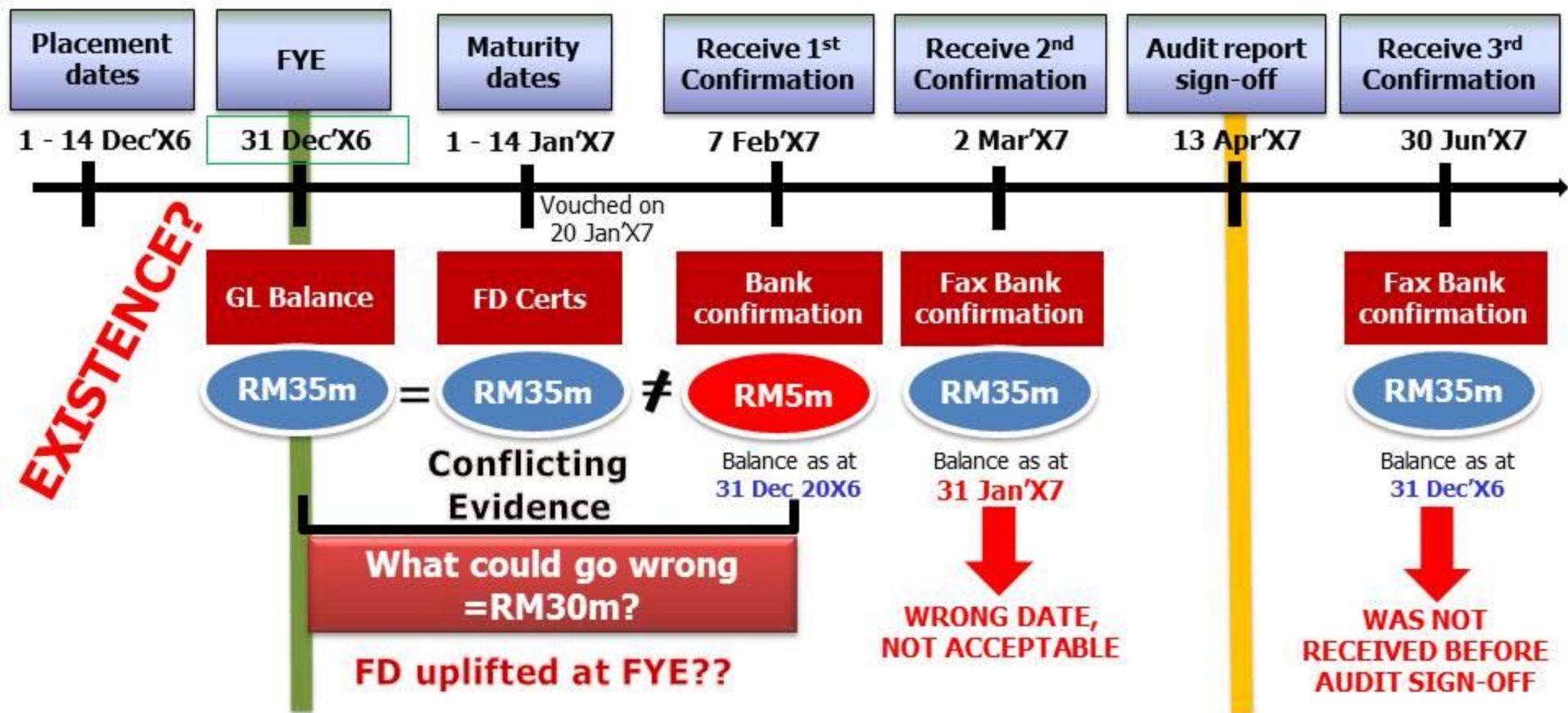
**4** Substantive Analytical Procedures



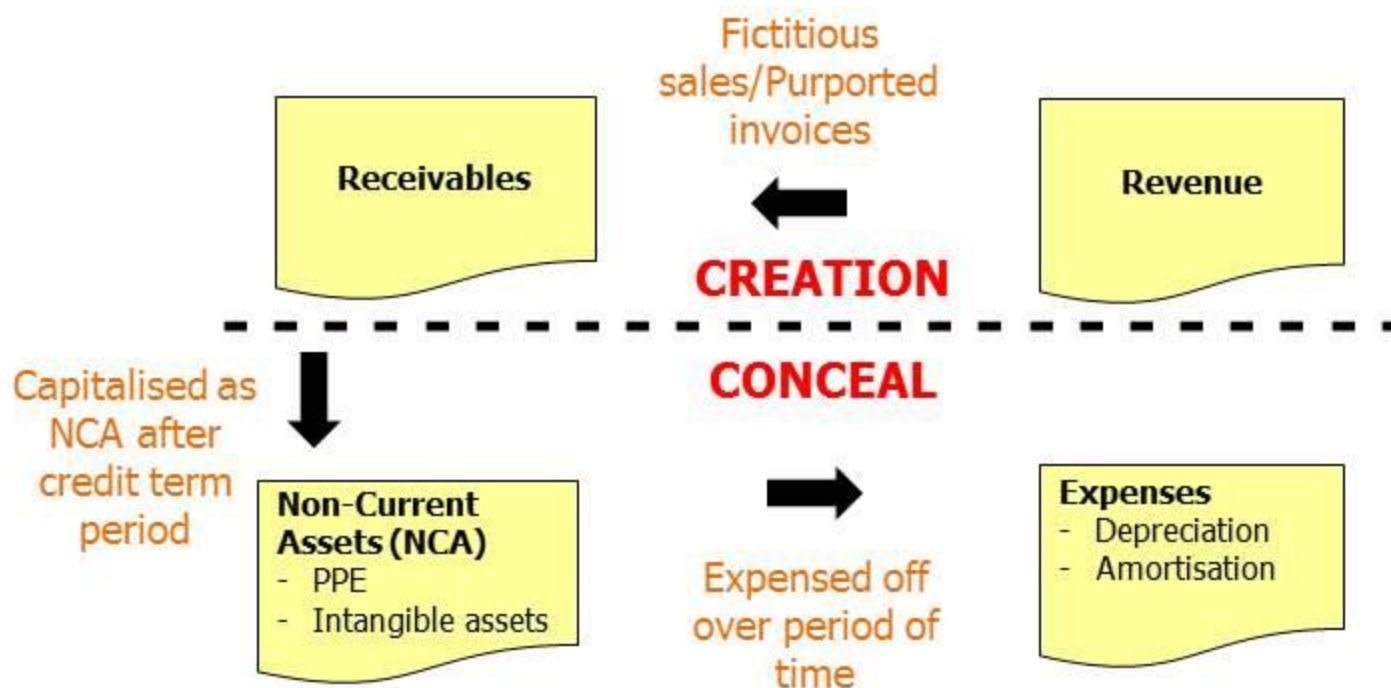
- Setting of materiality for component audit
- Incomplete response Group reporting package
- Insufficient audit procedures performed by component auditor on significant account balances
  - Revenue transactions not tested
  - Recognition and valuation of intangible asset
  - Recoverability of trade receivables
  - Completeness of accruals
  - No follow up on confirmation sent
  - Review on consolidation process

## Case Study 1 : Conflicting Audit Evidence

Included in the company's cash and bank as at 31 Dec 20X6 YE is an FD of RM35 million



## Case Study 2 : Creative Accounting - Fraudulent Activities?





## Case Study 2 : Creative Accounting - Fraudulent Activities? (contd.)

### Prevention and detection of Fraud



### Auditors' responsibility

- Management (preparer) and Board/Audit Committee **primarily responsible** for prevention and detection of fraud
- Oversight consideration include:
  - Potential override of controls
  - Potential inappropriate influence over financial reporting



- To obtain reasonable assurance that financial statements are free from material misstatements whether caused by **fraud** or error
- To maintain appropriate level of professional skepticism throughout the audit
- Relevant procedures include:
  - Inquiry
  - Testing/review





## **Common audit risk areas when performing audits of public interest entities with significant operations in PRC**

***Note:*** Slides 22 to 25 are merely a summary of recent and the more common audit risk areas identified by AOB. It should not be taken as a comprehensive list of common audit risk areas.



## Professional scepticism

An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence.

For example, conditions with:

- Conflicting audit evidence
- Information that casts doubt over document reliability or responses to inquiries
- Possible fraud conditions



## Professional judgment

The application of training and knowledge and experience to the facts and circumstances in the process of making decision.

Examples of decisions include:

- Determination of materiality and audit risk
- Designing nature, timing and extent of audit procedures
- Evaluation of whether the audit evidence obtained is sufficient and appropriate and whether more work is needed
- Drawing conclusions based on audit evidence obtained





Common Issues When Performing Audits in PRC	Red Flags
<b>Reliability of documents</b> prepared/ provided by clients	Invoices to customers/from creditors were <b>not registered in the national VAT database</b>
	<b>Fabricated photos</b> to proof existence of assets/expenditure
	<b>Significant deposits paid to the vendors</b> before delivery of services/goods - which may include a full pre-payment of long term contract value

# Audit Oversight Board Malaysia

Common Issues When Performing Audits in PRC	Red Flags
<b>Control over confirmation</b> (debtors/ creditors/ bank) <b>procedures</b>	Confirmation requests were <b>made and received through clients</b>
	Confirmations replied received <b>without official stamp</b>
	<b>Addresses</b> used in the confirmations were <b>not complete</b> , but confirmations were still replied accordingly
	Confirmations that resided in <b>different district/ provinces</b> were <b>replied within short period</b> from the request date (e.g. within 1 week) without any discrepancies
	<b>Details of bank balances/facilities were pre-filled</b> in the bank confirmation requests
	Client <b>prevents</b> auditor from <b>directly send confirmation requests</b> particularly if it involves local authority (e.g. sales to govt agencies, GLC)

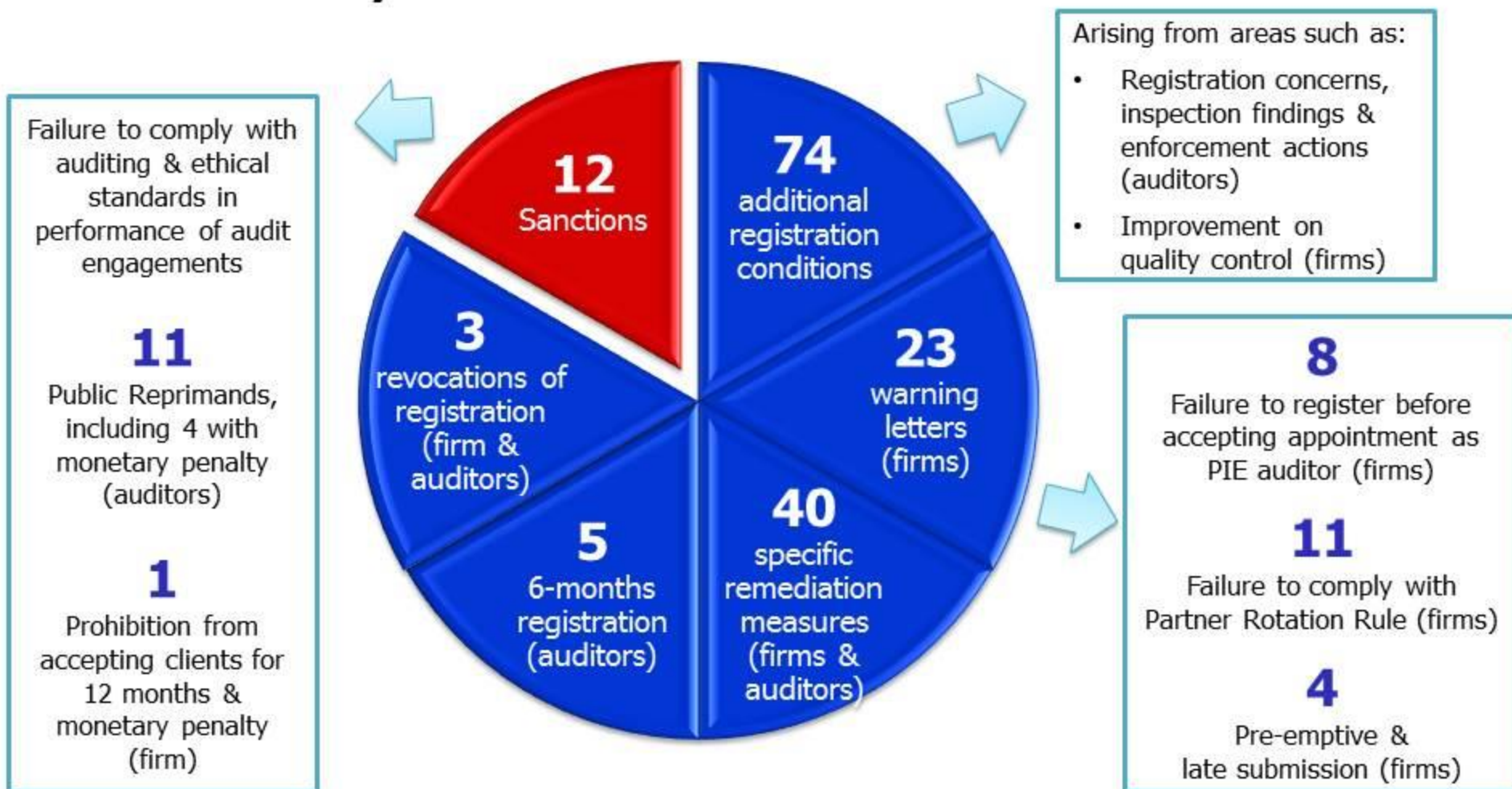
Common Issues When Performing Audits in PRC	Red Flags
Completeness of liabilities and related disclosures	Significant borrowings were <b>not recognised/disclosed</b> and the material litigations were not disclosed to the auditors
	Auction of property was <b>not disclosed to the auditors</b>
	<b>Potential breaches of China laws &amp; regulations</b> , noted as part of audit procedures performed, not evaluated

Common Issues When Performing Audits in PRC	Red Flags
<b>Validity of the authorised personnel</b> (e.g. interviewed by auditors)	Person interviewed <b>already resigned</b> from the banks
	Email address provided based on the business card was <b>general personal email address</b> (e.g. @126.com, qq.com) instead of valid corporate email
	All arrangements of the meetings for the interview were <b>made by the clients</b>



# **Actions Taken by AOB on Audit Firms & Auditors as at 30 June 2017**

## Actions Taken by AOB on Audit Firms & Auditors as at 30 June 2017



# **Regulatory updates:**

## **SCMA Amendments 2017**

Key amendments to the Securities Commission Malaysia Act 1993 include AOB's governance, regulatory scope and certain operational matters. These include the following:

- a) Reclassification of executive chairman to non-executive chairman**
- b) Introduction of the position of the executive officer**
- c) Expansion of regulatory scope on reporting accountants**
- d) Clarifying requirement for annual registration fees and charging late payment fee**

Tentative for the changes to be effective: Early November 2017



# Audit Oversight Board Malaysia





**Thank You**

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