



**Suruhanjaya Sekuriti**  
Securities Commission  
Malaysia

Audit Oversight Board  
Annual Report

**2017**

# Mission Statement

Fostering high quality independent auditing to promote confidence in the quality and reliability of audited financial statements of public-interest entities and schedule funds in Malaysia.



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2018

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The cut-off date for the data included in this report was 31 December 2017

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# Chairman's Message



It is my privilege to  
present the *Annual  
Report of Audit  
Oversight Board (AOB)*  
for the year ended  
31 December 2017.

– Dato' Gumuri Hussain

## KEEPING THE MOMENTUM

Auditors are one of the key gatekeepers in the capital market and their work is essential to the financial reporting ecosystem. The AOB regulates auditors of public-interest entities (PIEs) and schedule funds. The work performed by the AOB aims to contribute towards investor confidence in the integrity of financial reporting.

As regulators, we are mindful of the dynamic and evolving capital market and the need to be responsive to the changes happening around us. In order to keep up with these developments and to ensure the continued effectiveness of the AOB, Part IIIA of the *Securities Commission Malaysia Act 1993* (SCMA) was enhanced. The amendments which came into force on 24 November 2017 included changes to the regulatory scope of the AOB, its governance and matters relating to fees and charges. For the first time since the AOB's inception in 2010, the registration and recognition fees have been increased, from RM5,000 to RM8,000.

To enhance the AOB's governance structure, I have been redesignated as Non-Executive Chairman of the AOB. Alex Ooi Thiam Poh who joined the AOB as Director in January 2017 has been appointed as the Executive Officer and is responsible for the day-to-day administration of the AOB.

The AOB has moved into Phase 2 of its development. The Strategic Plan 2017–2020 reflects this next phase by addressing new areas and delving deeper into existing areas with an increased focus on wider stakeholder engagement to foster high quality audit practices.

I also wish to mention that the AOB marked a new level of international co-operation by signing the International Forum of Independent Audit Regulators (IFIAR) Multilateral Memorandum of Understanding

(MMoU) concerning Co-operation in the Exchange of Information for Audit Oversight. The AOB's participation in the MMoU facilitates greater level of co-operation via exchange of information among IFIAR MMoU signatories on matters relating to the oversight of auditors in other jurisdictions and in Malaysia. Steps are already underway to further build upon this MMoU with the other signatories to enhance bilateral and multilateral relationships.

## THE AUDITING LANDSCAPE

In this day and age, the only thing constant is change. Similarly, the auditing landscape has evolved, with the introduction of new technologies such as data analytics and robotics. However, the importance of audit quality and the role it plays in ensuring quality and reliability of audited financial statements of PIEs and schedule funds in Malaysia remains constant. The AOB continues to stress this expectation during its engagements with auditors and stakeholders.

In 2017, registered individual auditors continued to increase in number while there was very small reduction in the total number of registered audit firms. As at 31 December 2017, there were 54 audit firms and 351 individual auditors (2016: 56 audit firms and 344 individual auditors) registered and recognised with the AOB.

Starting from this year, we will be publishing our annual inspection findings separately. This will allow for greater focus on details such as common inspection findings, trend analysis, root cause analysis as well as assessment of the remediation actions taken by the inspected audit firms. We envisage that this report will generate more meaningful discussions on audit quality between the auditors and the audit committees as well as management of PIEs and schedule funds.

## ENFORCEMENT

The AOB takes instances of non-compliances seriously. Since the AOB's inception, it has set clear expectations on its registered and recognised auditors. The AOB will not hesitate to take the necessary action when matters of non-compliance are identified. During the year, the AOB took enforcement action against four individual auditors for failure to comply with the relevant requirements of the approved standards on auditing when auditing public listed entities. The enforcement actions imposed included reprimands and monetary penalties.

## ACKNOWLEDGEMENT

Finally, I would like to take this opportunity to thank Che Zakiah Che Din for her contribution to the Board. I also welcome Marzunisham Omar, Assistant Governor of Bank Negara Malaysia (BNM) and Alex Ooi Thiam Poh, Executive Officer of the AOB to the Board.

I would also like to convey my deepest appreciation to our Board members for their invaluable counsel and support. To our management team and employees, thank you for your dedication and hard work.



**Dato' Gumuri Hussain**





Part 1

# Fostering High Quality Independent Auditing in the Capital Market



The modern auditing landscape is continuously changing, and this is accelerated by factors such as technology and demographics. Yet, the emphasis on the importance of audit quality in safeguarding public trust and strengthening investor confidence in the capital market remains constant.

The AOB is always mindful of its regulatory responsibilities and takes conscious steps to constantly review its registration, research, inspection and enforcement activities to address new challenges which may arise.

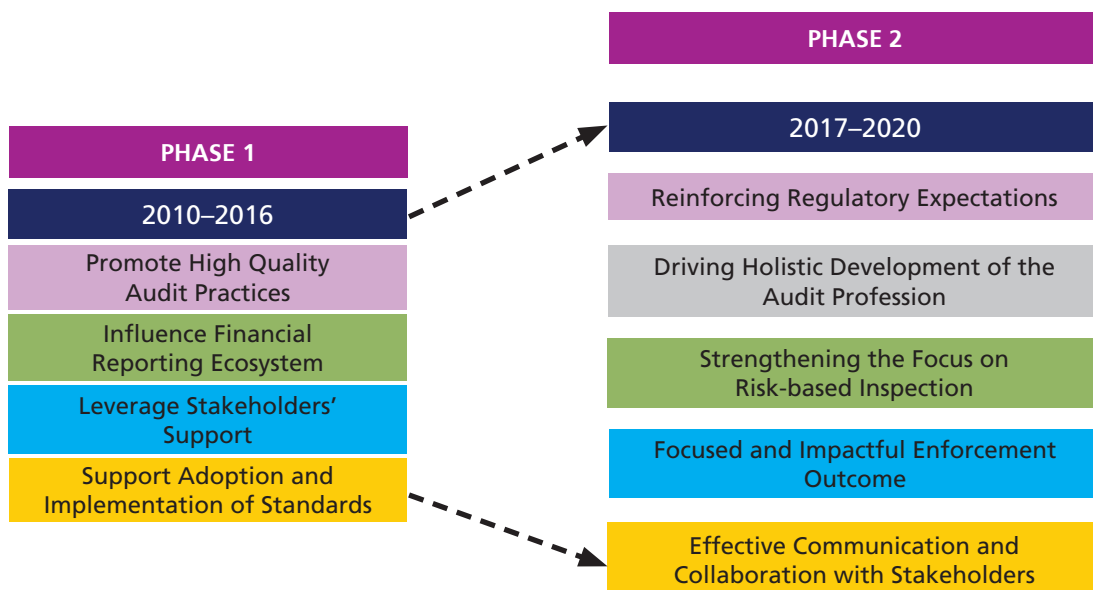
The AOB's Strategic Plan 2017–2020 is reflective of its goals to move towards Phase 2 of its development (Diagram 1). In Phase 1 the focus was to promote high quality audit practices through the AOB's oversight activities, influence stakeholders to ensure that audit quality remains high on their agenda, leverage stakeholders' support and support adoption and implementation of standards.

The AOB's effort has received global recognition from the Asian Corporate Governance Association (ACGA) and the European Commission (EC), among others. Such recognition further reinforces that the AOB's oversight framework is on par with international best practices. The AOB remains focused on its mandate to foster high quality independent auditing in the capital market.

The focus areas for Phase 2 were developed after careful consideration of emerging trends, risks and current financial reporting requirements that affect the auditing landscape. The Strategic Plan is designed to be responsive to the dynamic and evolving capital market, and it will be assessed on a regular basis to ensure that the AOB's focus is current and relevant.

The highlights of the AOB's activities in 2017 towards achieving its themes are highlighted in the following sections.

Diagram 1  
The AOB's Strategic Themes



## Reinforcing Regulatory Expectations

The AOB reinforces regulatory expectations through its three key functions – registration and recognition, inspection and enforcement. Auditors are expected to be fit and proper and meet required standards for registration and recognition. Once registered or recognised, the audit firm is responsible to ensure that the audit firm and its partners registered or recognised with the AOB remain at all times fit and proper as required by the SCMA. The AOB’s inspection assesses their compliance to standards and regulations and enforcement actions would be considered for those who fail to comply.

In 2017, the AOB continued to engage with registered and recognised auditors, both new and existing, to reinforce the AOB’s expectations in relation to audit quality and the audit firms’ systems of quality control. This is consistent with efforts to ensure that audited financial statements in Malaysia remain a useful and reliable source of information to its users. During the year, the AOB also strengthened its oversight of recognised foreign auditors through greater collaboration with relevant foreign regulatory authorities.

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### 2017 Highlights

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- Strengthened communication on expectations on the system of quality control for audit firms seeking registration with the AOB, through:
    - Discussions with audit firms who expressed interest in registering with the AOB; and
    - Sharing of best practices on how audit firms can enhance their internal processes to be ready to take on audits of PIEs and schedule funds, prior to registration with the AOB.
  - Strengthened processes for recognition of foreign auditors conducting audits of foreign incorporated corporations listed on Bursa Malaysia.
  - Greater collaboration and communication with relevant local and foreign authorities, to continue to ensure that audits of financial statements of PIEs and schedule funds are only carried out by auditors who met the AOB’s “fit and proper” criteria.
-

## Driving Holistic Development of the Audit Profession

In 2017, the AOB continued to increase its in-depth understanding of the operations and challenges faced by the top 10 audit firms based on their public-listed company (PLC) audit clients' market capitalisation in Malaysia (Top 10 Audit Firms), and how these impact audit quality. These audit firms collectively audited 921 PIEs and 987 schedule funds representing 97.76% of the PLCs' market capitalisation, and 99.79% of total net asset value (NAV) of the schedule funds in Malaysia respectively as at 31 December 2017.

The AOB also conducted research on past trends at both audit firm and engagement levels, to better understand the links between past inspection results

and potential root causes of deficiencies. The research focused on identifying the characteristics of a better audit firm as well as key indicators for audit quality at the engagement level.

The AOB will continue to engage, monitor and analyse industry trends, focusing on their potential impact on audit quality. Observations and feedback received will be reviewed regularly, with enhancements incorporated into the data collection process to ensure sufficient granularity. In this respect, audit firms' continued collaboration with the AOB in providing accurate data is vital for such analysis to value add.

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### 2017 Highlights

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- Collected, analysed and provided the results of the 2016 Statistics Gathering and Analysis exercise with the audit industry to enable performance benchmarking, as part of the AOB's capacity building initiatives.
  - Broadened analytical efforts to identify greater cross-correlation of statistics and indicators relating to audit quality.
  - Assessed the implementation of *Enhanced Auditors' Report* (EAR) and identified improvement areas through a joint study with the Malaysian Institute of Accountants (MIA) and Association of Chartered Certified Accountants (ACCA). The *Enhanced Auditors' Report (EAR) – A Review of First-Year Implementation Experience in Malaysia* was officially launched in January 2018.
-

## Insights into the Audit Profession

In line with its ongoing capacity building efforts, the AOB shared the results from the analysis of statistical submissions by the Top 10 Audit Firms with the audit profession to enable performance benchmarking.

Diagram 2  
The AOB's Statistics Gathering and Analysis Framework



“The audit firms valued the sharing of information, in particular the benchmarking of their performance against the industry average. The sharing and engagement facilitated the identification of areas for improvement both for the audit firms and the audit profession as a whole.”

Source: AOB

Feedback received through engagements with audit firms were used to enhance and further streamline the AOB's approach to data collection. For example, in the AOB's 2017 data gathering exercise, greater insight was sought on areas such as the audit firms' level of commitment and support towards training and development, including professional qualifications pursued by engagement team members. The results of the AOB's detailed analysis from this exercise will be shared in a separate inspection report which will be published in year 2018.



## **The AOB-MIA-ACCA Joint Study on *Enhanced Auditors' Report: A Review of First-Year Implementation Experience in Malaysia***

The enhanced auditor reporting standards were issued by the International Auditing and Assurance Standards Board (IAASB) and adopted in Malaysia in 2015 for audits of financial statements with financial periods ending on or after 15 December 2016.

A joint study was conducted by the AOB, MIA and ACCA during the year. This study complemented early pre-implementation efforts by the SC such as the establishment of the Steering Committee comprising key representation<sup>1</sup> from the regulators, accounting and auditing profession, and PLCs in June 2015 to identify implementation issues and risks, as well as develop strategies and provide guidance on those issues and risks identified.

The results from this study are based on the review of the EARs and annual reports of a sample of 190 companies listed on Bursa Malaysia with financial periods ended 31 December 2016, as well as a survey and focus group feedback from over 170 audit committee members and investors.

Key findings of the study are:

- Audit committee discussions about financial reporting risks with auditors and management are more focused and robust, putting audit committees in a stronger position to ensure accountability on behalf of investors;
- The audit process has been strengthened through more visible audit partner involvement in discussions with audit committees, due to the need for in-depth deliberation and discussion of Key Audit Matters (KAMs) in particular;
- Management teams are taking greater efforts to improve disclosures in annual reports, following discussions on KAMs; and
- The EARs have improved the relevance and value of the auditors' report. Investors have gained better insight into the financial reporting risks of the companies they invest in, as well as the audit process.

The full report was launched in January 2018 and is available on the SC website.

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<sup>1</sup> The Steering Committee was chaired by the SC, with the AOB as the secretariat. Members of the Steering Committee consist of representatives from the SC, Bank Negara Malaysia (BNM), Bursa Malaysia, Companies Commission of Malaysia (SSM), Federation of Public Listed Companies (FPLC), Institute of Internal Auditors Malaysia (IIAM), MIA and The Malaysian Institute of Certified Public Accountants (MICPA).

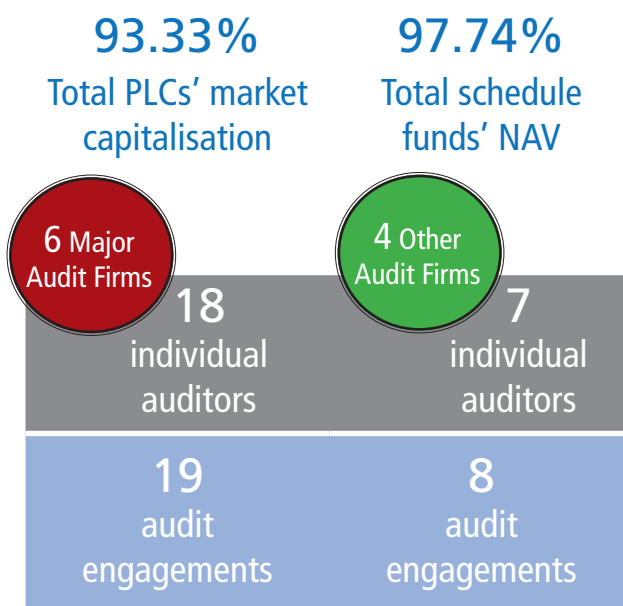
## Strengthening the Focus on Risk-based Inspection

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

The regular inspection programme carried out by the AOB comprises firm and engagement level reviews. A firm level review entails an evaluation of the design and operating effectiveness of a firm's system of quality controls based on the requirements of the International Standard on Quality Control 1, *Quality Control for Firms that Perform Audits and Review of Financial Statements and Other Assurance and Related Services Engagements*. An engagement review, on the other hand, involves an assessment of an auditor's compliance with the International Standards on Auditing (ISAs) and relevant ethical standards.

The AOB adopts a risk-based approach that takes into consideration the exposure and impact of an audit failure to the capital market and public confidence in developing its inspection plan. At the same time, it also incorporates thematic reviews into its inspection plan. To prevent future occurrences of review findings, the audit firms are required to submit their remedial actions to address the AOB's inspection findings. These remediation actions are to be implemented within a one-year time frame. Audit

Diagram 3  
2017 Inspection Coverage



firms are required to report to the AOB on the progress of their remedial actions on a quarterly basis, where the implementation and consequential effectiveness of the remedial actions will be reassessed during the subsequent inspection of the audit firm.

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## 2017 Highlights

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- Conducted thematic inspections with a focus on the following economic trends and developments on audit, accounting and regulatory areas:
    - The implementation of the *New and Revised Auditor Reporting Standards* which became effective for audits of financial statements with financial periods ending on or after 15 December 2016;
    - Industries impacted by the recent volatility in global crude oil prices; and
    - Schedule funds and related asset management companies.
  - To mitigate risk of future audit failures, the following actions were taken during the year:
    - Imposed specific remedial measures on audit firms and individual auditors; and
    - Referrals made to the Enforcement Department due to severity of engagement review findings.
  - Followed up on the implementation of effective remediation plans through robust engagement with audit firms over the operationalisation of the root cause analysis framework to prevent future occurrence of internal and external review findings.
-

## Focused and Impactful Enforcement Outcomes

In accordance with Section 31W of Part IIIA of the SCMA, the AOB may initiate an inquiry against registered auditors in situations where there has been contravention of any provisions of Part IIIA of the SCMA, breach or failure to comply with any conditions imposed under subsection 31O(3) of the SCMA or any written notices or guidelines issued by the SC.

The principles of proportionality, efficiency and achieving the desired outcome continue to be the tenets for the AOB's strategic enforcement approach. In deciding on the most appropriate sanction for a particular matter, the AOB considers the nature and seriousness of the breaches and any aggravating or mitigating considerations.

### Appeals to the SC

Pursuant to the SCMA, persons aggrieved by the decision of the AOB can appeal to the Board of the SC. The Board of the SC has the power to affirm, reverse or substitute the AOB's decisions. The AOB's decision will not take effect until the conclusion of

the appeal. During the year, the AOB reprimanded and imposed a monetary penalty of RM225,000 against an individual auditor for failing to comply with the AOB's registration conditions when auditing a PIE. The auditor has appealed to the Board of the SC. The appeal is currently pending.

In addition to the above, there was another appeal lodged to the Board of the SC in respect of the quantum of the monetary penalty imposed by the AOB against an auditor. After reviewing and considering the facts of the matter, the Board of the SC affirmed the decision of the AOB.

### Judicial Review

As a statutory body exercising functions under the securities laws, the SC's decision is subject to judicial review by aggrieved parties. In this respect, an audit firm and two of its partners filed an application for judicial review to challenge the SC's decision to dismiss their appeal against the AOB's decision to revoke their registration with the AOB. The matter is currently still ongoing.

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## 2017 Highlights

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- Sent stronger signal to auditors and stakeholders with an emphasis on the AOB's regulatory principles by imposing sanctions on four individual auditors. The total monetary penalty imposed in 2017 is RM75,000.<sup>2</sup>
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<sup>2</sup> This excludes monetary penalty of RM225,000 currently pending appeal with the Board of SC.

## Effective Communication and Collaboration with Stakeholders

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, industry and the accounting profession.

The AOB works closely with relevant authorities such as Ministry of Finance, BNM, Jabatan Akauntan Negara and SSM to share regulatory concerns and avoid duplication of efforts. In addition, it also engages with regional and international audit regulators to facilitate cross-sharing of experiences and explore mutually beneficial opportunities

including leveraging ASEAN Audit Regulators Group (AARG) and IFIAR for capacity building and outreach to wider stakeholders.

The AOB also continues to contribute views, in particular on areas of concern in relation to audit quality to regulatory and standard-setting bodies which include the International Organization of Securities Commissions (IOSCO), IFIAR, the International Federation of Accountants (IFAC)'s IAASB and International Ethics Standards Board for Accountants (IESBA), and MIA's Auditing and Assurance Standards Board (AASB) and Ethics Standards Board (ESB).

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### 2017 Highlights

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- Targeted engagements and dialogues with auditors, directors and audit committees to communicate and share the following:
    - Areas of inspection findings and key concerns noted in the performance of foreign audits, regulatory expectations and emerging trends in respect of audit innovation, new tools and technology;
    - An overview of regulatory concerns and expectations in relation to the implementation of the upcoming new accounting standards MFRS 9, *Financial Instruments* and MFRS 15, *Revenue from Contracts with Customers*;
    - Practical examples on how the audit committee's role can be enhanced while improving audit quality; and
    - First year implementation experience of the EAR in Malaysia, and how the EAR process can drive corporate governance, improve transparency and open up engagement channels with investors and other stakeholders.
  - Signed the IFIAR MMoU concerning Co-operation in the Exchange of Information for Audit Oversight, together with 21 other leading international independent audit regulators.
  - Hosted the 5<sup>th</sup> ASEAN Audit Regulators Group (AARG) Inspection Workshop and Inaugural Collaborative Workshop between the World Bank and the AARG.
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## **The International Forum of Independent Audit Regulators Multilateral Memorandum of Understanding Concerning Co-operation in the Exchange of Information for Audit Oversight**

The AOB has been a member of the IFIAR since 2010. IFIAR comprises independent audit regulators from 52 jurisdictions representing Africa, North America, South America, Asia, Oceania, and Europe. IFIAR's mission is to serve the public interest and enhance investor protection by improving audit quality globally.

IFIAR members recognise the need for co-operation in matters relating to the oversight of auditors that fall within and beyond their regulatory jurisdictions.

The primary purpose of the IFIAR MMoU is to facilitate co-operation in the exchange of information among members regarding oversight of auditors, including inspections, investigations, enforcement and registration. The MMoU will improve the quality of the PIEs' audits through enhanced information sharing among members. The three general principles of the MMoU are:

- Co-operation framework among IFIAR members;
- Maximising co-operation through a flexible approach; and
- Working within the scope of existing regulatory regime of the IFIAR members.

The AOB joined 21 other leading international independent audit regulators in signing the MMoU at the IFIAR 2017 Plenary Meeting held on 4 April 2017 in Tokyo, Japan.

*Source: IFIAR media release.*



# 2017 Stakeholders Engagement At-a-Glance

## January

19 – 22

### The Malaysian Accounting Students Convention

The AOB took part in the Malaysian Accounting Students Convention 2017 organised by the University of Malaya Accounting Club.

## February

8 – 10

### 11<sup>th</sup> IFIAR Inspection Workshop

The AOB participated in the 11<sup>th</sup> IFIAR Inspection Workshop hosted by the Hellenic Accounting and Auditing Standards Oversight Board in Athens, Greece.

21 – 22

Hosted the 5<sup>th</sup> AARG Inspection Workshop and Inaugural Collaborative Workshop between the World Bank and AARG.

## March

7

### AuditWorld 2017

The AOB was involved in a panel discussion on “Key Audit Matters and Experience of Early Adopters in Audit Reporting” in the AuditWorld 2017 conference which was jointly organised by the MIA and MICPA.

31

### Investors programme on “A New Era of Auditor Reporting: Insights for Investors”

The AOB was involved in a panel discussion on EAR in the investors programme on “A New Era of Auditor Reporting: Insights for Investors” which was jointly organised by MIA and the Minority Shareholders Watchdog Group and supported by Bursa Malaysia.



23 – 24

### 4<sup>th</sup> Financial Statements Surveillance Group Workshop

The AOB participated in the 4<sup>th</sup> Financial Statements Surveillance Group Workshop organised by SC's Corporate Surveillance Department.

## April

3 – 7

### IFIAR 2017 Plenary Meeting and Enforcement Workshop

Signing of the IFIAR MMoU concerning Co-operation in the Exchange of Information for Audit Oversight, where the AOB was one of the signatories.



## July

13

### AOB Dialogue with Auditors Involved in China Audits

The AOB organised a dialogue for auditors involved in audits of PIEs with significant operations in China.



24

### Focus Group Discussion: Investors' Experience with the EAR

Together with MIA and ACCA, the AOB jointly organised a focus group discussion as part of the joint study by the AOB, MIA and ACCA. The event was attended by institutional and retail investors.

31 July – 1 August

### AARG 7<sup>th</sup> Annual Meeting with the Audit Firms

The AOB attended the AARG 7<sup>th</sup> Annual Meeting with the Audit Firms which was hosted by Thailand's Securities and Exchange Commission.



## August

16

### Focus Group Discussion: Audit Committees' Experience with the EAR

The AOB, MIA and ACCA jointly organised a focus group discussion with audit committee members to discuss their experience with EARs.

## September

7

### Private Session with Ms Mary Tokar: What regulators could expect on compliance with principle-based Standard

The AOB participated in the private session with Ms Mary Tokar, a member of the International Accounting Standards Board on the regulators' expectation of the compliance with principle-based Standards. This private session was organised in conjunction with the 2017 International Financial Reporting Standards (IFRS) Regional Conference.

8

### 2017 IFRS Regional Conference

The AOB participated in the 2017 IFRS Regional Conference which was jointly hosted by the IFRS Foundation and the Malaysian Accounting Standards Board (MASB).

26

### The Malaysian Institute of Chartered Secretaries and Administrators (MAICSA) *Journal Corporate Voice*.

The AOB's Non-Executive Chairman communicated the AOB's expectations of auditors of PIEs and schedule funds and how chartered secretaries can contribute towards the financial reporting ecosystem in the *MAICSA Journal, Corporate Voice* for the July-September 2017 issue.



## October

3

### Singapore Accountancy and Audit Convention (SAAC) 2017

The AOB's participated at the SAAC 2017 which was jointly organised by Singapore's Accounting and Corporate Regulatory Authority, the Institute of Singapore Chartered Accountants, and the Singapore Accountancy Commission.

11

### AOB Conversation with Auditors of PIEs and Schedule Funds

The AOB organised an annual dialogue to engage with Other Audit Firms involved in audits of PIEs and schedule funds.

23 – 24

### National Audit Department Seminar 2017

The AOB was involved in a panel session on "The Governance and Accountability in Financial Audit".

## November

2

### Chartered Accountants Australia and New Zealand (CAANZ)-MICPA Audit Forum

The AOB was involved in a panel discussion on "The Challenges of Auditing the New Accounting Standards" during the Audit Forum which was jointly organised by the CAANZ and MICPA.



## November

8

### The MIA International Accountants Conference 2017

The AOB was involved in a panel discussion on "EAR - Have We Achieved the Objectives" during the MIA International Accountants Conference 2017.

14

### Conversation with Audit Committees

The AOB together with the SC's Corporate Surveillance Department organised the "Conversation with Audit Committees", which was attended by the audit committees of PLCs.





## Part 2

# Statements



## Members of the Audit Oversight Board

First row from left:  
Dato' Gumuri Hussain  
Wong Chong Wah

Second row from left:  
Dato' Zahrah Abd Wahab Fenner  
Alex Ooi Thiam Poh  
Dato' Darawati Hussain  
Eugene Wong Weng Soon  
Marzunisham Omar





## Members of the Audit Oversight Board



### DATO' GUMURI HUSSAIN

Appointed Executive Chairman  
18 November 2016

Re-designated as Non-Executive Chairman  
24 November 2017

Dato' Gumuri Hussain was a Board Member of the SC from 2006 to 2016 and Non-Executive Member of the Audit Oversight Board from 2012 to 2016. He was appointed first Executive Chairman and was later redesignated as Non-Executive Chairman.

Dato' Gumuri has 45 years of experience in the audit, accounting and corporate sectors. He was a Senior Partner and Deputy Chairman of the Governance Board of PricewaterhouseCoopers Malaysia. He was Chairman of SME Bank and Non-Executive Chairman of Sistem Televisyen Malaysia Bhd and Rangkaian Hotel Seri Malaysia Bhd. He was also the Managing Director and Chief Executive Officer of Penerbangan Malaysia Bhd. He has held board positions in various PLCs which include Media Prima Bhd, Malaysian Airline System Bhd and Metrod Bhd.

Dato' Gumuri is a Chartered Accountant of the MIA. He is also a Fellow of the Institute of Chartered Accountants in England and Wales (ICAEW), and a member of the MICPA.



Alex Ooi was appointed as Director of the AOB on 18 January 2017 and then as Executive Officer on 24 November 2017. Alex has more than 25 years of assurance and advisory experience in the property development and construction, hospitality, manufacturing, trading, media, technology and plantation industries. His experience includes statutory audits of PLCs and multinational companies, initial public offerings (IPO), internal audit, risk management, corporate advisory and reorganisation. Alex was formerly an Audit Partner of BDO Malaysia and Deloitte Malaysia.

Alex was the Malaysia Divisional President of CPA Australia in years 2013 and 2014 and a member of the Public Practice Advisory Board of CPA Australia. He was also a former Council member of the MIA. He was previously involved in the MIA Committees such as the Financial Reporting Standards Implementation Committee, Capital Market Advisory Committee and Education Committee. He is currently representing the AOB as an observer in the MIA's AASB and ESB.

Alex is a Chartered Accountant of the MIA, a Fellow member of CPA Australia and a member of ICAEW.



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## ALEX OOI THIAM POH

Appointed 24 November 2017

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## EUGENE WONG WENG SOON

Appointed 1 March 2016

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Eugene Wong is Managing Director in the SC's Corporate Finance and Investments division, and is responsible for matters relating to Corporate Finance and Investments which covers IPOs, private debt issuances, collective investment schemes and take-overs. He also oversees the SC's ASEAN related initiatives as well as accounting matters.

Eugene currently serves as an Adviser to the MASB. He was previously a Council Member of MIA and Chairman of its Ethics Standards Board (ESB).

Eugene has worked for a merchant bank, a stockbroking firm and in the audit and corporate finance division of international accounting firms.

Eugene has an Advance Diploma in Corporate Finance from ICAEW and holds a B. Comm. from the University of Melbourne. Eugene is a Chartered Accountant of the MIA, a Fellow of Chartered Accountants Australia and New Zealand and a Fellow member of CPA Australia.

Marzunisham Omar is the Assistant Governor of Bank Negara Malaysia (BNM) responsible for financial sector regulation, overseeing financial surveillance and stability, prudential regulation, Islamic finance, consumer and market conduct regulation. As part of the senior management of the Bank, Marzunisham is a member of the Bank's Management Committee, Financial Stability Committee and Reserve Management Committee.

Prior to this, Marzunisham served as an Executive Director of the International Monetary Fund, representing countries in the South East Asia Constituency. This role involved close engagement with the Ministers of Finance and Central Bank Governors from around the region.

Marzunisham started his career at Bank Negara Malaysia as an economist in 1993. In a career spanning over 25 years, he has had the opportunity to be involved in multiple key areas of central banking, in particular economic and monetary policy formulation, financial sector regulation and development, and financial inclusion. Marzunisham has held various senior positions at the Bank, most notably as Assistant Governor of the Organisational Development (2011–2013) and Monetary and Economic (2013–2015) sectors.

Marzunisham graduated with a degree in Economics from the University of Cambridge.



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## MARZUNISHAM OMAR

Appointed 8 June 2017

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## DATO' ZAHRAH ABD WAHAB FENNER

Appointed 3 June 2015

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Dato' Zahrah Abd Wahab Fenner is the Chief Executive Officer (CEO) of the Companies Commission of Malaysia (SSM), a post she held since 1 January 2015. She joined the Registrar of Companies in 1995 and served as the Chief Accountant until her appointment as Deputy CEO (Services) of SSM in 2002.

Dato' Zahrah is a member of the Approval and Implementation Committee of the Iskandar Regional Development Authority and a member of the Labuan Financial Services Authority. She was appointed as a board member for the Certification of Certified Integrity Officers and the Financial Reporting Foundation.

Dato' Zahrah is an Executive Committee member of the Corporate Registers Forum which is an association of international corporate registries. She was recently appointed as Adjunct Professor, Department of Marketing and Entrepreneur Development, College of Business Management and Accounting, Universiti Tenaga Nasional.

She graduated with a Bachelor of Accounting (Hons.) degree from Universiti Kebangsaan Malaysia. Dato' Zahrah is a Chartered Accountant of the MIA.

Wong Chong Wah is a partner at Wong and Wong. He has over 40 years of legal experience in areas such as litigation and alternative dispute resolution, corporate and partnership law, tax, custom duties and excise, land acquisition, insurance and defamation. He is a member to the Bar in Malaysia, Singapore and Brunei.

Wong has over 80 cases reported in the Malaysian Law Journal and other law reports. He acted as counsel for a Federal Court judge in a Constitutional Tribunal. He has also given lectures and contributed numerous articles on arbitration and various other subjects to legal journals.

He acts as arbitrator and counsel in arbitrations involving shareholders disputes, commercial and construction contracts. He is on the panel of arbitrators of the Kuala Lumpur Regional Centre for Arbitration (KLRC) and the International Chamber of Commerce Malaysia. He is also a member of the KLRC's Panel of Adjudicators and was the sole Malaysian member of the International Court of Arbitration of the International Chamber of Commerce from 2004 to 2012.

He is named as one of the leading commercial litigators by the International Who is Who's of Commercial Litigation. He is a panel member of the Disciplinary Committee of the Bar Council and a Fellow of the Chartered Tax Institute of Malaysia.



**WONG CHONG WAH**

Appointed 1 April 2016



## DATO' DARAWATI HUSSAIN

Appointed 1 April 2016

Dato' Darawati Hussain is the Executive Director of Syalin Sdn Bhd. She has over 20 years of experience in corporate finance, asset management and private equity, where she specialised in mergers and acquisitions, capital raising transactions and driving the initiative to set up the Shariah-compliant private equity funds. She also spent five years in London where she was a European equities portfolio manager for a US fund management company with assets under management worth US\$70 billion.

Dato' Darawati is an Investment Committee member for the equity funds under Agensi Inovasi Malaysia (a unit under the Prime Minister's office), MAVCAP Bhd and RHB Bank Group.

She also serves as an Independent Board Member of Asiamet Education Group Bhd, MAVCAP Bhd and RHB Investment Bank Bhd. She is also a Director of several private-limited companies involved in a diverse range of businesses namely strategic crisis management communication and Health, Safety and Environment (HSE) consultancy.

Dato' Darawati was the former Chairperson of the Malaysia Venture Capital and Private Equity Association (MVCA) and a committee member of the Malaysia Venture Capital Development Corporation under the SC and remains an active member of MVCA.

She holds a bachelor's degree in Economics and Accountancy from Durham University, United Kingdom (UK) and a Master in Business Administration from the London Business School, UK. She is also a Chartered Financial Analyst.



## Statement on Governance

### About the Audit Oversight Board

The AOB was established under Part IIIA of the SCMA and its mandate is to assist the SC in discharging its regulatory function by regulating auditors of PIEs and schedule funds to promote confidence in the quality and reliability of the audited financial statements. In addition to this, the AOB also exercises oversight over any person who prepares a report relating to financial information of PIE and schedule funds, in relation to capital market activities.

The AOB's responsibilities, powers and authorities are defined in Part IIIA of the SCMA.

### Board Members

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

Profiles of the Board Members of the AOB are set out on pages 24 to 30.

The Non-Executive Chairman is appointed for a term of three years and is eligible for re-appointment upon completion of his term whereas the Non-Executive members of the Board will be appointed for a term of two years and will be eligible for re-appointment.

A person is disqualified from holding the office of a Board member of the AOB if he or she is:

- Convicted of an offence under the law;
- Declared a bankrupt;
- Fails to attend three consecutive Board meetings without leave; or
- Not capable of discharging his or her duties.

The SCMA requires a Board member to manage 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 include:

- Implement policies and programmes in ensuring an effective audit oversight system in Malaysia;
- Register or recognise auditors of PIEs or schedule funds for the purposes of the SCMA;
- Direct the MIA to establish or adopt, or by way of both, the auditing and ethical standards to be applied by auditors;
- Conduct inspections and monitoring programmes on registered auditors to assess the degree of compliance of auditing and ethical standards;
- Conduct inquiries and impose appropriate sanctions against registered auditors who fail to comply with auditing and ethical standards;
- Co-operate with relevant authorities in formulating and implementing strategies to enhance standards of financial disclosures of PIEs or schedule funds;
- Liaise and co-operate with oversight bodies outside Malaysia to enhance the standing of

the auditing profession in Malaysia and internationally;

- Carry out inspection on a person who prepares a report in relation to financial information of PIEs or schedule funds, in relation to capital market activities, as may be required to be prepared under the securities laws or guidelines issued by the SC; and
- Perform such other duties or functions as necessary or appropriate to promote high professional standards of registered auditors and to improve the quality of audit services provided by registered auditors.

## Board Meetings

There were eight Board meetings held during the year. The quorum required is for three board members to be present.

The attendance record of the Board members is set out in Table 1 below.

Table 1

Attendance at Board meetings

Board member	Number of meetings attended
Dato' Gumuri Hussain (Non-Executive Chairman) <sup>1</sup>	8/8
Alex Ooi Thiam Poh (Executive Officer) <sup>2</sup>	1/1
Eugene Wong Weng Soon	8/8
Marzunisham Omar <sup>3</sup>	5/5
Dato' Zahrah Abd Wahab Fenner	3/8
Wong Chong Wah	8/8
Dato' Darawati Hussain	6/8
Che Zakiah Che Din <sup>4</sup>	2/3

<sup>1</sup> Redesignated as Non-Executive Chairman 24 November 2017

<sup>2</sup> Appointed as Executive Officer 24 November 2017

<sup>3</sup> Appointed 8 June 2017

<sup>4</sup> Retired 30 April 2017

## Committee of AOB

Section 31EA of the SCMA provides that the AOB may establish such committees as it considers necessary or expedient to assist in the performance of its responsibilities as specified under section 31E(1) of the SCMA.

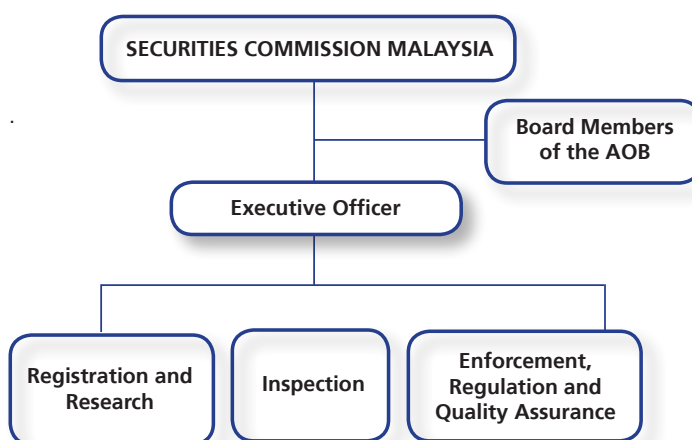
In this regard, a Registration Committee was established to deliberate on matters regarding the registration or recognition of auditors with the AOB. Where applicable, the Registration Committee will make recommendations to the Board for further deliberation and decision.

The following are members of the Registration Committee:

1. Dato' Gumuri Hussain;
2. Dato' Zahrah Abd Wahab Fenner; and
3. Eugene Wong Weng Soon

During the year, the Registration Committee met six times. The Non-Executive Chairman of the AOB chairs meetings of the Committee and in his absence; a member of the Board who sits on the Committee shall be the chairman of the meeting.

## Organisation Structure



## **Enhancements to Part IIIA of the Securities Commission Malaysia Act 1993**

The SC undertook a review of Part IIIA of the SCMA to ensure the continued effectiveness of the AOB in regulating the auditors of PIEs and schedule funds. The enhancements came into force on 24 November 2017 and were in respect of the following areas:

- The AOB's governance structure;
- Regulatory scope of the AOB; and
- Fees and charges.

### **The AOB's governance structure**

To enhance the AOB's governance structure, the Board of AOB is now led by a Non-Executive Chairman and an Executive Officer who assume the responsibility for the day-to-day administration of the AOB.

The Board comprises a Non-Executive Chairman, an Executive Officer and five Non-Executive Members. Requirements for the tenure of non-executive board members, disqualification criteria and quorum of meetings have also been reviewed and amended accordingly.

### **Regulatory scope of the AOB**

In respect of the regulatory scope of the AOB, the amendment expanded the oversight functions to cover reporting accountants who prepare reports on financial information of corporation who has made an application to be listed on main market or alternative market and corporate proposals involving reverse take-over as well as back-door listing. In view that such corporations will become a PIE once the application is approved or the proposals made were indirect routes for a corporation to be listed, it is crucial that the reports submitted together with such applications are reliable.

## Fees and charges

The regulation pertaining to the AOB's registration and recognition fees were also amended to reflect an increase in fees as reflected below. The *Audit Oversight Board (Fees) Regulation 2017* come into force on 2 January 2018.

No.	Matter	Fees
1.	Application for registration of an individual auditor as a registered auditor under section 31O of the SCMA.	From RM5,000 to RM8,000 per application.
2.	Anniversary of the date of registration as a registered auditor under section 31O of the SCMA.	From RM5,000 to RM8,000 annually upon anniversary of the date of registration.
3.	Application for recognition of a foreign individual auditor as a recognised auditor under section 31O of the SCMA.	From RM5,000 per firm to RM8,000 per application.
4.	Failure to pay any prescribed fee under section 31O of the SCMA by the date on which such fee is due.	RM100 for every day that the payment is late, subject to a maximum limit of RM3,000.

In summary, the upward revision to the fees reflects the increasing cost of regulation of auditors and reporting accountants. Specifically, the increase is intended to cover the increased cost of reviewing and processing applications to be a registered or recognised auditor, increased cost of inflation as well as the increased effort in co-ordinating the AOB's oversight of recognised auditors with the relevant foreign regulatory authorities.

In addition to the above, the AOB is now empowered to charge late payment fees where a registered or recognised auditor fails to pay the prescribed fee by the date on which such fee is due.

# Audit Oversight Board Financial Statements

for the year ended 31 December 2017

## Statement of Financial Position as at 31 December 2017

	Note	2017 RM	2016 RM
<b>Assets</b>			
<b>Current assets</b>			
Other receivables	4	159,973	90,634
Other investments	5	190,333	111,842
Cash and cash equivalents	6	546,781	185,414
<b>Total assets</b>		<u>897,087</u>	<u>387,890</u>
<b>Reserves</b>			
Funds from the Securities Commission Malaysia (SC)	7.1	23,516,438	19,016,438
Accumulated deficit	7.2	(22,641,351)	(18,654,748)
<b>Total reserves</b>	7	<u>875,087</u>	<u>361,690</u>
<b>Current liabilities</b>			
Other payables and accruals	8	22,000	26,200
<b>Total liabilities</b>		<u>22,000</u>	<u>26,200</u>
<b>Total reserves and liabilities</b>		<u>897,087</u>	<u>387,890</u>

The notes set out on pages 39 to 48 are an integral part of these financial statements.



**Tan Sri Dato' Seri Ranjit Ajit Singh**  
Chairman  
Securities Commission Malaysia



**Alex Ooi Thiam Poh**  
Executive Officer  
Audit Oversight Board

Date: 30 January 2018

# Audit Oversight Board

## Statement of profit or loss and other comprehensive income for the year ended 31 December 2017

	Note	2017 RM	2016 RM
<b>Income</b>			
Registration fees		1,865,000	1,899,755
Finance income from fixed deposits	9	31,233	18,337
Penalty imposed	5	75,000	50,000
		<u>1,971,233</u>	<u>1,968,092</u>
<b>Operating expenditure</b>			
Administrative expenses	10	(5,957,836)	(5,364,330)
		<u>(3,986,603)</u>	<u>(3,396,238)</u>
<b>Deficit before tax</b>			
Tax expense	11	–	–
		<u>–</u>	<u>–</u>
<b>Deficit for the year/Total comprehensive expense for the year</b>		<u><u>(3,986,603)</u></u>	<u><u>(3,396,238)</u></u>

The notes set out on pages 39 to 48 are an integral part of these financial statements.

# Audit Oversight Board

## Statement of changes in equity for the year ended 31 December 2017

	Funds from Securities Commission Malaysia RM	Accumulated deficit RM	Total RM
<b>At 1 January 2016</b>	15,500,000	(15,258,510)	241,490
Funds from the SC	3,516,438	-	3,516,438
Deficit and total comprehensive expense for the year	-	(3,396,238)	(3,396,238)
<b>At 31 December 2016/1 January 2017</b>	19,016,438	(18,654,748)	361,690
Funds from the SC	4,500,000	-	4,500,000
Deficit and total comprehensive expense for the year	-	(3,986,603)	(3,986,603)
<b>At 31 December 2017</b>	23,516,438	(22,641,351)	875,087
	Note 7	Note 7	Note 7

The notes set out on pages 39 to 48 are an integral part of these financial statements.



# Audit Oversight Board

## Statement of cash flows for the year ended 31 December 2017

	Note	2017 RM	2016 RM
<b>Cash flows from operating activities</b>			
Deficit before tax		(3,986,603)	(3,396,238)
<i>Adjustment for:</i>			
Finance income		(31,233)	(18,337)
<b>Operating deficit before changes in working capital</b>		(4,017,836)	(3,414,575)
Change in other receivables		(69,339)	(3,145)
Change in other payables and accruals		(4,200)	3,500
<b>Net cash used in operating activities</b>		(4,091,375)	(3,414,220)
		.....	.....
<b>Cash flows from investing activities</b>			
Finance income		31,233	18,337
Increase in other investments		(78,491)	(51,842)
<b>Net cash used in investing activities</b>		(47,258)	(33,505)
		.....	.....
<b>Cash flows from financing activity</b>			
Funds from the SC		4,500,000	3,516,438
<b>Net cash from financing activity</b>		4,500,000	3,516,438
		.....	.....
<b>Net increase in cash and cash equivalents</b>		361,367	68,713
<b>Cash and cash equivalents at 1 January</b>		185,414	116,701
<b>Cash and cash equivalents at 31 December</b>		546,781	185,414
		=====	=====
<b>Cash and cash equivalents comprise:</b>			
Cash and bank balances	6	375,820	185,414
Deposits placed with a licensed bank	6	170,961	-
		546,781	185,414
		=====	=====

The notes set out on pages 39 to 48 are an integral part of these financial statements.

# Audit Oversight Board

## Notes to the Financial Statements

### 1. General

On 1 April 2010, the SC established the 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 or schedule fund;
  - (ii) non-public interest entity seeking approval to become a public listed company or a corporation listed on the stock exchange; or
  - (iii) non-schedule fund seeking approval to become a schedule fund.

To facilitate the abovementioned purposes, a fund known as the AOB Fund was established under Section 31H of the SCMA. The AOB Fund is administered by the SC. The SC provides administrative and accounting support to the AOB Fund and the accounts are kept separately from the accounts of the SC in accordance with Section 31L(5) of the SCMA. The SC will continue to provide the necessary financial support to the AOB for the foreseeable future.

### 2. Basis of preparation

#### (a) Statement of compliance

The financial statements of the AOB have been prepared in accordance with Malaysian Financial Reporting Standards (MFRSs) and International Financial Reporting Standards (IFRS).

The following are accounting standards, amendments and interpretations that have been issued by the MASB but have not been adopted by the AOB.

*MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2018*

- MFRS 9, *Financial Instruments* (2014)
- MFRS 15, *Revenue from Contracts with Customers*

- Clarifications to MFRS 15, *Revenue from Contracts with Customers*
- IC Interpretation 22, *Foreign Currency Transactions and Advance Consideration*
- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
- Amendments to MFRS 2, *Share-based Payment – Classification and Measurement of Share-based Payment Transactions*
- Amendments to MFRS 4, *Insurance Contracts – Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
- Amendments to MFRS 140, *Investment Property – Transfers of Investment Property*

***MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2019***

- MFRS 16, *Leases*
- IC Interpretation 23, *Uncertainty over Income Tax Treatments*
- Amendments to MFRS 3, *Business Combinations (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 9, *Financial Instruments – Prepayment Features with Negative Compensation*
- Amendments to MFRS 11, *Joint Arrangements (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 112, *Income Taxes (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 123, *Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures*

***MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 Jan 2021***

- MFRS 17, *Insurance Contracts*.

***MFRSs, Interpretations and amendments effective for annual periods beginning on or after a date yet to be confirmed***

- Amendments to MFRS 10, *Consolidated Financial Statements* and MFRS 128, *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The AOB plans to apply the abovementioned accounting standards, amendments and interpretations that are applicable and effective from its annual periods beginning on or after 1 January 2018 and 1 January 2019, respectively.

The initial application of the accounting standards, amendments or interpretations are not expected to have any material financial impacts to the current period and prior period financial statements of the AOB except as mentioned below:

**(i) MFRS 16, Leases**

MFRS 16 replaces the guidance in MFRS 117, *Leases*, IC Interpretation 4, *Determining Whether an Arrangement contains a Lease*, IC Interpretation 115, *Operating Leases – Incentives* and IC Interpretation 127, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The AOB is currently assessing the financial impact that may arise from the adoption of MFRS 16.

**(b) Basis of measurement**

The financial statements have been prepared on the historical cost basis other than 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.

**(d) Use of estimates and judgements**

The preparation of the financial statements in conformity with MFRSs 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) Initial recognition and 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 instrument is recognised initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

**(ii) Financial instrument categories and subsequent measurement**

The AOB categorises financial instruments as follows:

*Financial assets*

*Loans and receivables*

Financial assets categorised as loans and receivables are subsequently measured at amortised cost using the effective interest method.

All financial assets are subject to review for impairment (see Note 3(c)).

*Financial liabilities*

All financial liabilities are subsequently measured at amortised cost.

**(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 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) and any cumulative gain or loss that had been recognised in equity 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, is cancelled or expires. 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.

**(b) Cash and cash equivalents**

Cash and cash equivalents consist of balances and deposits with 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 their short-term commitments. For the purpose of the statement of cash flows, cash and cash equivalents are presented net of restricted deposits, if any.

**(c) Impairment**

*Financial assets*

All financial assets are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised.

An impairment loss in respect of loans and receivables is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account.

If, in a subsequent period, the fair value of the financial asset increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, to the extent that the asset's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

**(d) Income**

**(i) Registration fees**

Registration fees from the auditors of public interest entities are recognised in profit or loss when the rights to receive payment is established.

**(ii) Finance income**

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

**(e) Employee benefits**

**(i) Short-term employee benefits**

Short-term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave 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.

**(ii) State plans**

The AOB's contributions to statutory pension funds are charged to profit or loss in the financial year to which they relate. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

**(f) 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

	2017 RM	2016 RM
Deposits	82,714	82,714
Prepayments	75,632	6,805
Interest receivable	1,627	1,115
	<u>159,973</u>	<u>90,634</u>

#### 5. Other investments

Monies received from penalty imposed is placed with a licensed bank and is restricted to be utilised for planning and implementing capacity building programmes in relation to the accounting and auditing profession.

#### 6. Cash and cash equivalents

	2017 RM	2016 RM
Cash and bank balances	375,820	185,414
Deposits placed with a licensed bank	170,961	-
	<u>546,781</u>	<u>185,414</u>

#### 7. Total reserves

	Note	2017 RM	2016 RM
Funds from the Securities Commission Malaysia	7.1	23,516,438	19,016,438
Accumulated deficit	7.2	(22,641,351)	(18,654,748)
Total reserves		<u>875,087</u>	<u>361,690</u>

##### 7.1 Funds from the Securities Commission Malaysia

	2017 RM	2016 RM
Contribution:		
At the beginning of the year	19,016,438	15,500,000
Additions	4,500,000	3,516,438
At the end of the year	<u>23,516,438</u>	<u>19,016,438</u>



**7.2 Accumulated deficit**

	<b>2017 RM</b>	<b>2016 RM</b>
At the beginning of the year	(18,654,748)	(15,258,510)
Deficit for the year	(3,986,603)	(3,396,238)
At the end of the year	<u>(22,641,351)</u>	<u>(18,654,748)</u>

**8. Other payables and accruals**

	<b>2017 RM</b>	<b>2016 RM</b>
Accruals	<u>22,000</u>	<u>26,200</u>

**9. Finance income from fixed deposits**

	<b>2017 RM</b>	<b>2016 RM</b>
Interest income of financial assets that are not at fair value through profit or loss	<u>31,233</u>	<u>18,337</u>

**10. Administrative expenses**

	<b>2017 RM</b>	<b>2016 RM</b>
The administrative expenses consist of:		
Auditors' remuneration	20,500	20,000
Honorarium payment	98,974	72,502
Non-executive members' allowance	142,100	121,500
Other miscellaneous charges	229,455	288,570
Rental of premises	341,110	341,278
Staff costs	5,125,697	4,520,480
	<u>5,957,836</u>	<u>5,364,330</u>

**11. Tax expense**

The SC was granted approval from the Minister of Finance to be exempted from taxation with effect from Year Assessment (YA) 2007 onwards. Accordingly, the AOB is tax-exempted.

## 12. Financial instruments

### 12.1 Categories of financial instruments

The table below provides an analysis of financial instruments categorised as follows:

- (a) Loans and receivables (L&R); and
- (b) Financial liabilities measured at amortised cost (FL).

	Carrying amount RM	L&R RM	FL RM
<b>2017</b>			
<b>Financial assets</b>			
Other receivables*	84,341	84,341	-
Other investments	190,333	190,333	-
Cash and cash equivalents	546,781	546,781	-
	821,455	821,455	-
<b>Financial liabilities</b>			
Other payables and accruals	(22,000)	-	(22,000)
	Carrying amount RM	L&R RM	FL RM
<b>2016</b>			
<b>Financial assets</b>			
Other receivables*	83,829	83,829	-
Other investments	111,842	111,842	-
Cash and cash equivalents	185,414	185,414	-
	381,085	381,085	-
<b>Financial liabilities</b>			
Other payables and accruals	(26,200)	-	(26,200)

\* Exclude non-financial asset

### 12.2 Gains arising from financial instrument

	2017 RM	2016 RM
Gains on:		
Loans and receivables	31,233	18,337

### 12.3 Financial risk management objectives and policies

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.

### 12.4 Credit risk

Credit risk is the risk of a financial loss to the AOB if a counterparty to a financial instrument fails to meet its contractual obligations.

The AOB is not exposed to any credit risk as the AOB does not have any trade debts.

### 12.5 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, 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
<b>2017</b>			
<b>Financial liabilities</b>			
Other payables and accruals	22,000	22,000	22,000
<b>2016</b>			
<b>Financial liabilities</b>			
Other payables and accruals	26,200	26,200	26,200

### 12.6 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.

#### **12.6.1 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:

	2017 RM	2016 RM
<b>Fixed rate instruments</b>		
Financial assets	361,294	111,842

***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. Therefore, a change in interest rates at the end of the reporting period would not affect profit or loss.

**12.7 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.

**13. 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.

**14. Authorisation of financial statements**

The financial statements for the year ended 31 December 2017 were authorised by the SC for issuance and signed by the Chairman of the SC and Executive Officer of AOB on 30 January 2018.

# Audit Oversight Board

## Statutory Declaration

I, Vignaswaran A/L Kandiah, 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 35 to 48 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 Vignaswaran A/L Kandiah, NRIC No. 561128-10-6171, at Kuala Lumpur in the Federal Territory on 30 January 2018.



Vignaswaran A/L Kandiah  
Officer

Before me:



Unit 50-10-1, Tingkat 10  
Wisma UOA Damansara  
No. 50, Jalan Dungun  
Bukit Damansara  
50490 Kuala Lumpur.



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

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### **Report on the Audit of the Financial Statements**

#### **Opinion**

We have audited the financial statements of the AOB, which comprise the statement of financial position as at 31 December 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 35 to 48.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the AOB as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with MFRS and IFRS.

#### **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 auditors' 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' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

#### **Responsibilities of Board Members of the Securities Commission Malaysia for the Financial Statements**

The Board Members of the SC are responsible for the preparation of financial statements of the AOB that give a true and fair view in accordance with MFRS and IFRS. The Board Members are also responsible for such internal control as the Board Members 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.

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

We also:

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

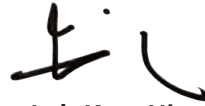
We communicate with the Board Members of the SC regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

## Other Matters

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



**KPMG PLT**  
(LLP0010081-LCA & AF 0758)  
Chartered Accountants



**Loh Kam Hian**  
Approval Number: 02941/09/2018 J  
Chartered Accountant

Petaling Jaya, Selangor  
Date: 30 January 2018



Part 3

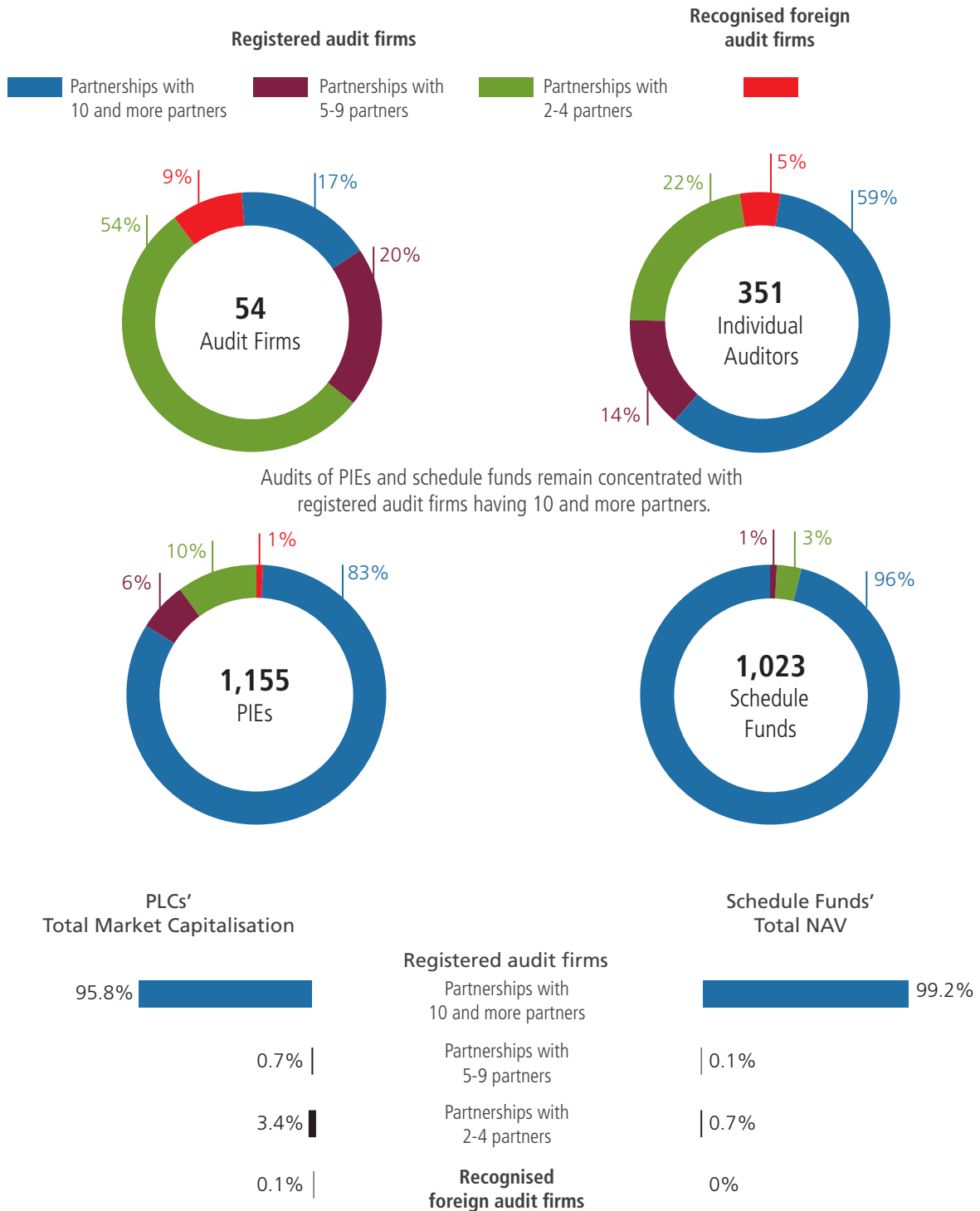
# Statistics and Others



# Registration and Recognition of Auditors in Malaysia

Chart 1

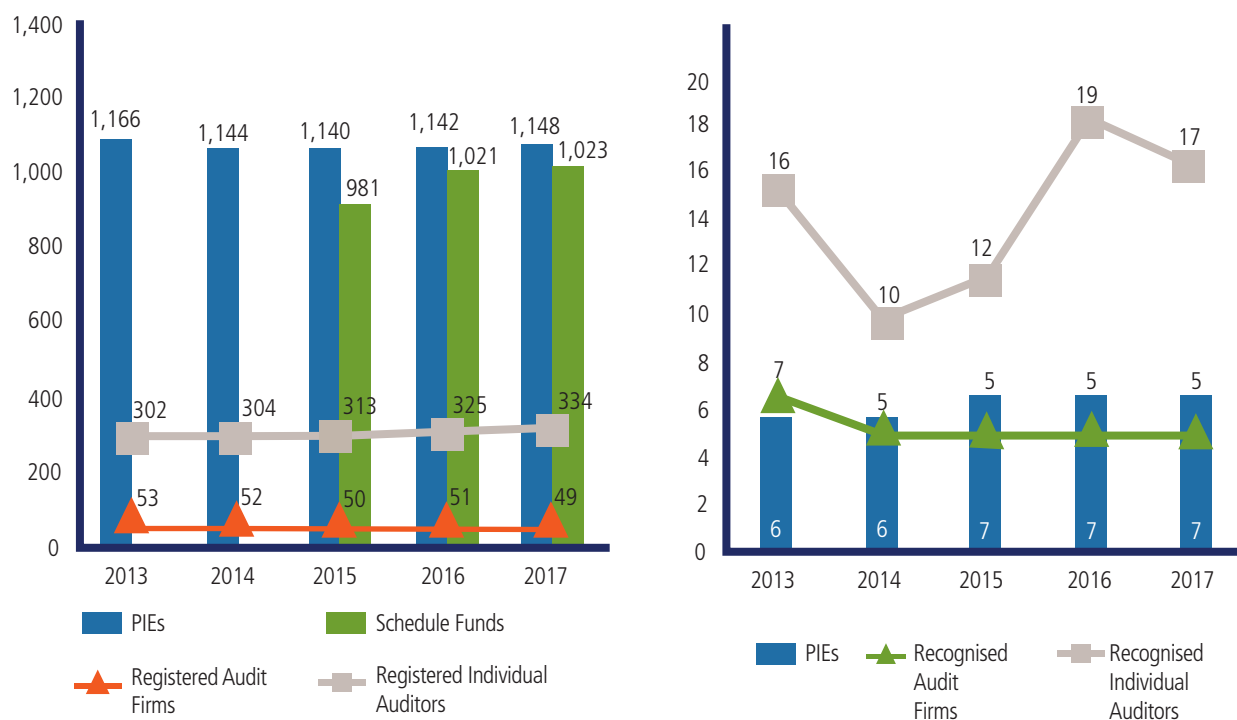
Registered and recognised auditors as at 31 December 2017



Source: AOB



Chart 2

**5-year registration and recognition statistics**

\* Auditors of schedule funds are subject to the AOB's registration regime with effect from 15 September 2015.

### Registration

Registered individual auditors continued to increase in number while there was a small reduction in total number of registered audit firms – evidence of the industry's ongoing capacity building efforts.

### Recognition

There is minimal movement in the number of recognised foreign audit firms as this is largely driven by the number of foreign incorporated companies listed on Bursa Malaysia.

Source: AOB

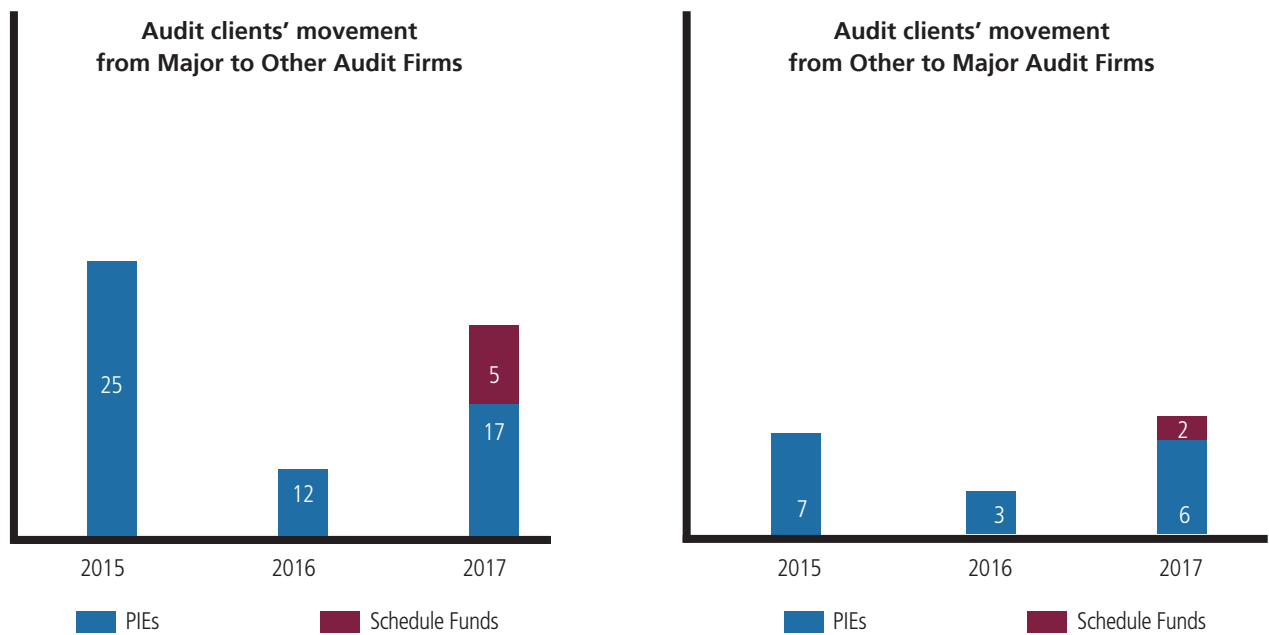
## Audit Clients' Movement

Major Audit Firms collectively audited approximately 93% of the PIEs listed on Bursa Malaysia by market capitalisation and 99% of schedule funds by total NAV.

In 2017, there was continued movement of PIE audit clients from Major Audit Firms to Other Audit Firms.

Chart 3

### 3-year movement of PIE and schedule fund audit clients



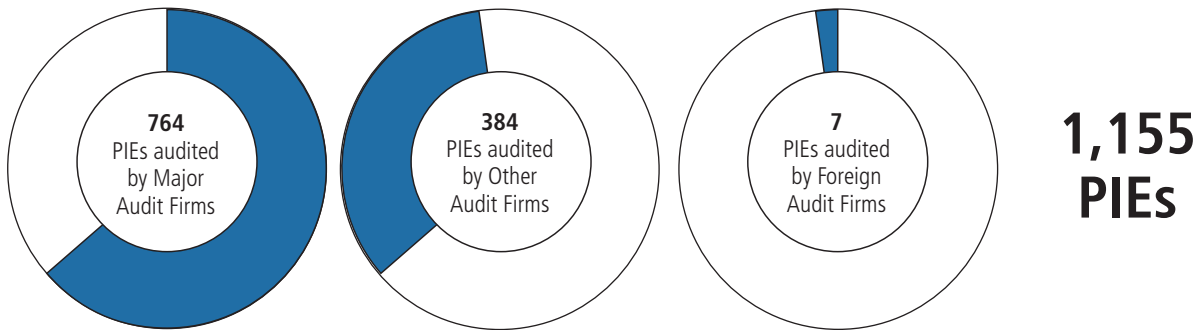
\* Auditors of schedule funds are subject to the AOB's registration regime with effect from 15 September 2015.

Source: AOB

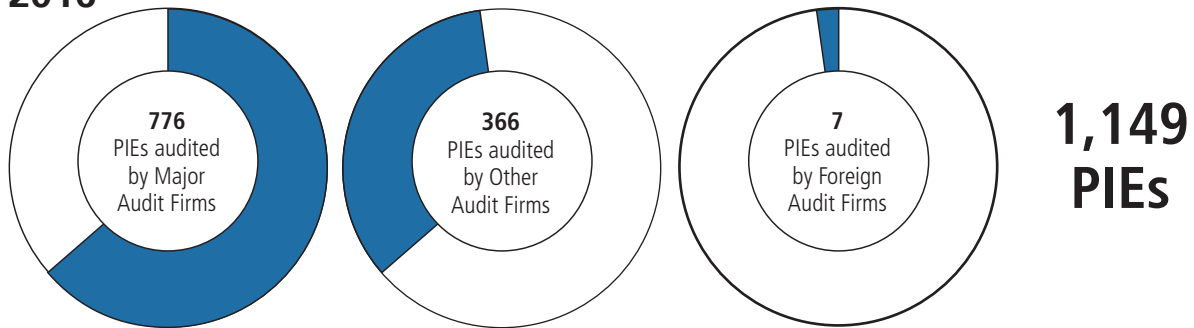
Chart 4

**Breakdown of PIE audit clients**

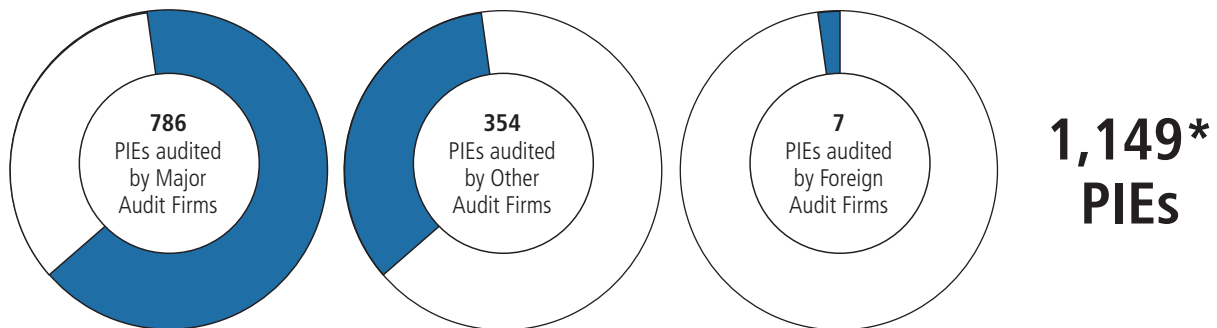
**2017**



**2016**



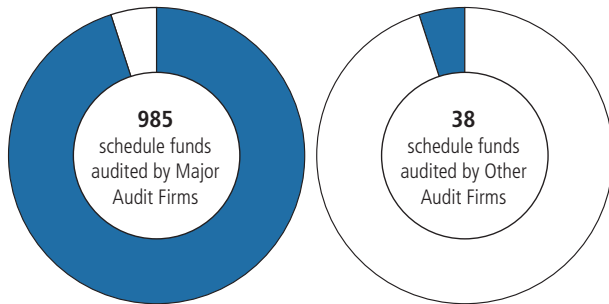
**2015**



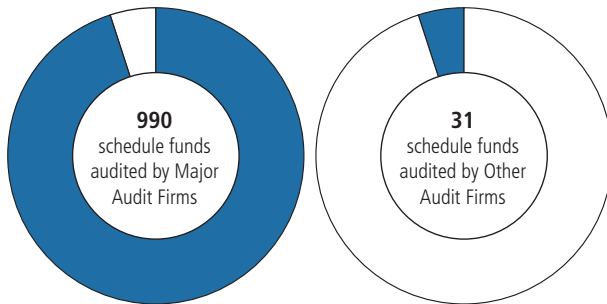
\*Auditor appointment was in progress for 2 PIEs as at 31 Dec 2015.

Source: AOB

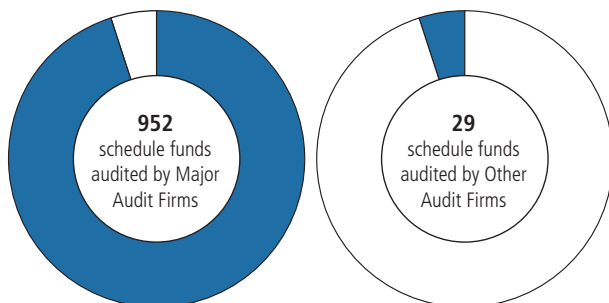
Chart 5

**Breakdown of schedule fund audit clients****2017**

**1,023**  
**Schedule Funds**

**2016**

**1,021**  
**Schedule Funds**

**2015**

**981**  
**Schedule Funds**

Source: AOB

## Enforcement Actions

No.	Auditors	Brief description of misconduct	Action taken
1.	Adam Selamat Musa of Adam & Co, engagement partner in the audit of a public listed entity for the financial year ended 31 December 2013.	<p>Breached the AOB's registration condition imposed under Section 31O(4) of the SCMA.</p> <p>Failed to comply with certain requirements of the International Standards on Auditing in the performance of an audit of the public listed entity.</p>	Monetary penalty of RM75,000
2.	Sathiea Seelan Manickam of Morison Anuarul Azizan Chew, engagement partner in the audit of a public listed entity for the financial year ended 31 December 2011.	<p>Breached the AOB's registration condition imposed under Section 31O(4) of the SCMA.</p> <p>Failed to comply with certain requirements of the International Standards on Auditing in the performance of an audit of the public listed entity.</p>	Reprimand
3.	Tan Poh Ling, former partner of Morison Anuarul Azizan Chew, engagement partner in the audit of a public listed entity for the financial year ended 31 December 2012.	<p>Breached the AOB's registration condition imposed under Section 31O(4) of the SCMA.</p> <p>Failed to comply with certain requirements of the International Standards on Auditing in the performance of an audit of the public listed entity.</p>	Reprimand

Source: AOB

## Acronyms and Abbreviations

AARG	ASEAN Audit Regulators Group
AASB	Auditing and Assurance Standards Board
ACCA	Association of Chartered Certified Accountants
AOB	Audit Oversight Board
BNM	Bank Negara Malaysia
EAR	Enhanced Auditors' Report
ESB	Ethics Standards Board
IASB	International Accounting Standards Board
IAASB	International Auditing and Assurance Standards Board
IFIAR	International Forum of Independent Audit Regulators
IFRS	International Financial Reporting Standards
ISA	International Standards on Auditing
KAM	Key Audit Matters
MASB	Malaysian Accounting Standards Board
MFRS	Malaysian Financial Reporting Standards
MIA	Malaysian Institute of Accountants
MICPA	The Malaysian Institute of Certified Public Accountants
MMoU	Multilateral Memorandum of Understanding
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.
Big-Four Audit Firms	Deloitte, Ernst & Young, KPMG and PricewaterhouseCoopers.
Major Audit Firms	Audit firms with more than 10 partners and audit more than 50 PIE clients with a total market capitalisation of above RM25 billion.
Other Audit Firms	Audit firms other than Major Audit Firms.
Public-interest entity	<p>Entity specified in Part 1 of Schedule 1 of the SCMA:</p> <ul style="list-style-type: none"> <li>(a) a PLC or a corporation listed on the stock exchange;</li> <li>(b) a bank licensed under the <i>Financial Services Act 2013</i>;</li> <li>(c) an insurer licensed under the <i>Financial Services Act 2013</i>;</li> <li>(d) a takaful operator licensed under the <i>Islamic Financial Services Act 2013</i>;</li> <li>(e) an Islamic bank licensed under the <i>Islamic Financial Services Act 2013</i>;</li> <li>(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>;</li> <li>(g) a developmental financial institution prescribed under the <i>Development Financial Institutions Act 2002</i>;</li> <li>(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;</li> <li>(i) an exchange holding company approved under the securities laws;</li> <li>(j) an exchange approved under the securities laws;</li> <li>(k) a central depository approved under the securities laws;</li> <li>(l) a clearing house approved under the securities laws;</li> <li>(m) a self-regulatory organisation recognised under the securities laws;</li> <li>(n) a private retirement scheme administrator approved under the securities laws;</li> <li>(o) a trade repository approved under the securities laws;</li> <li>(p) the Capital Market Compensation Fund Corporation; and</li> <li>(q) any other person as the Minister may prescribe by order published in the <i>Gazette</i>.</li> </ul>
Schedule fund	<p>Fund specified in Part 2 of Schedule 1 of the SCMA:</p> <ul style="list-style-type: none"> <li>(a) a private retirement scheme approved by the SC under the <i>Capital Markets and Services Act 2007</i> (CMSA);</li> <li>(b) a unit trust scheme approved, authorised or recognised by the SC under the CMSA; and</li> <li>(c) any other capital market funds as may be specified by the SC.</li> </ul>
Top 10 Audit Firms	Top 10 audit firms based on their PLC audit clients' market capitalisation in Malaysia.



