



Suruhanjaya Sekuriti
Securities Commission
Malaysia

Audit Oversight Board

Conversation with Audit Committees

AOB Inspection Results

How Audit Committees Can Make Full Use of It

17 November 2022 and 6 December 2022

Restricted

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A Brief Overview of the Inspection Process





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Before Starting Inspections...

What does the AOB consider in selecting your Auditor?



Risk assessment on
audit firms and
individual auditor

Market capitalisation
of PLC clients audited
by audit firms

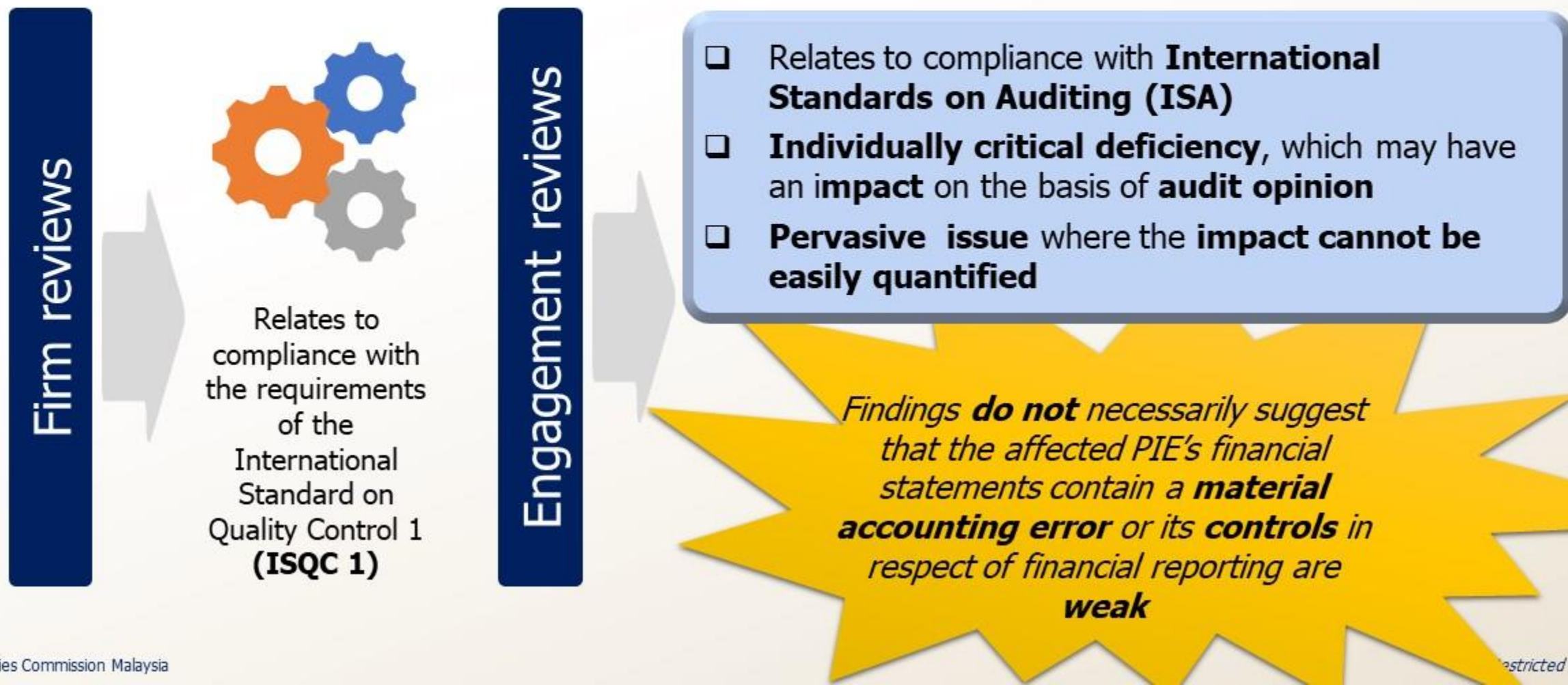
Specific industry
or market concerns

Significant accounting,
auditing / other
developments

Use of data analytics
to identify specific
high risk areas

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What are the AOB's findings?

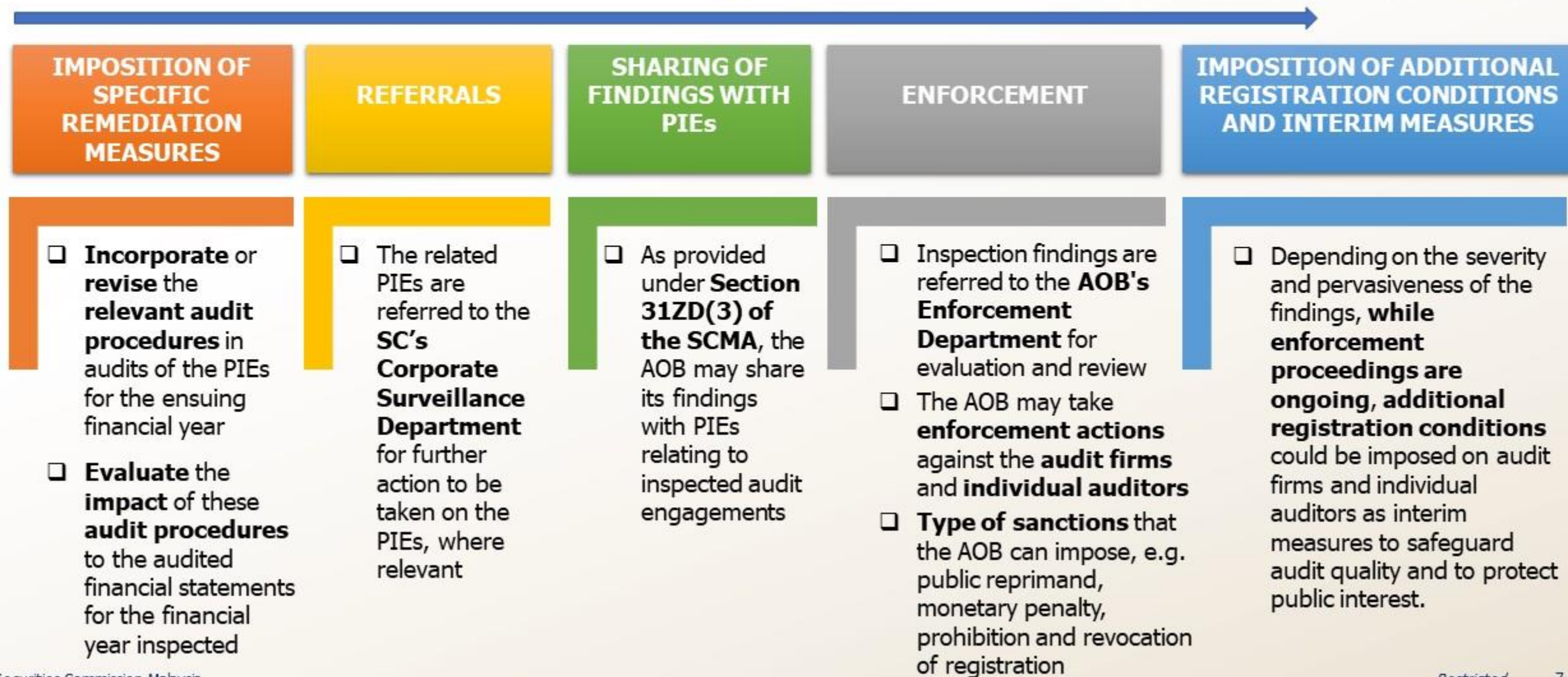




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Actions that could be taken by the AOB

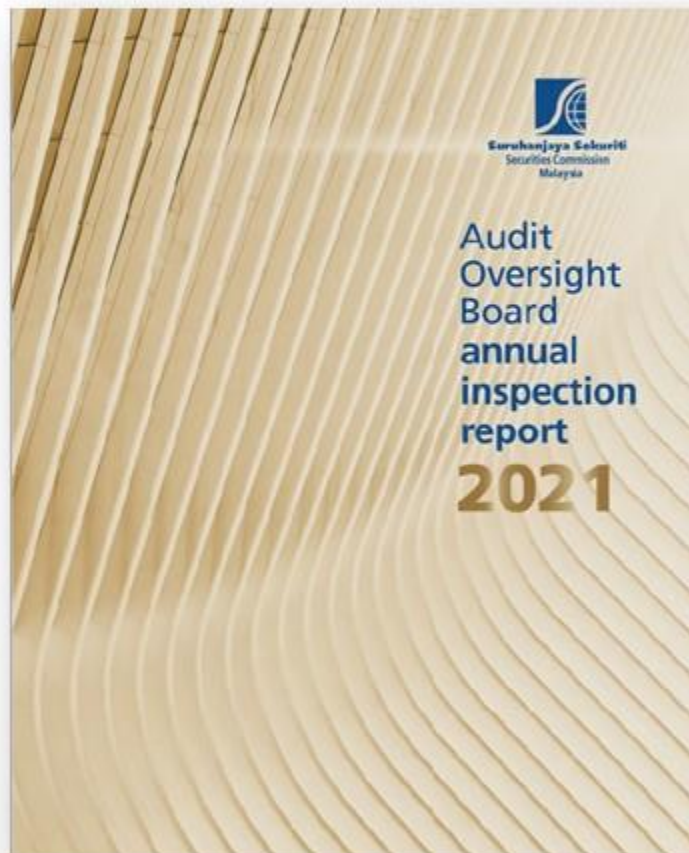


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AOB's Inspection Coverage in 2021



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14 audit firms covering **45** partners and **54** audit engagements were inspected



11 of 14
AOB's inspections were
conducted remotely/virtually
in 2021



24%
Audit engagements
inspected were imposed
with specific remediation
measures



5 out of 6
Major Audit Firms
had a minimum of 1
engagement that
required significant
improvements

In addition to the AOB inspection,
118 audit engagements were reviewed via **off-site thematic reviews**

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**Your PLCs
may be
facing
similar audit
issues!**

Top 5 Common Inspection Findings by Audit Quality Themes¹

¹The categorisations of common findings are consistent with the *IFIAR Survey of Inspection Results for Audit Firms*.

2021

Accounting estimates

Sampling

Going concern

Internal controls testing

Use of experts / specialists

2020

Sampling

Accounting estimates

Auditor's report /
Revenue recognition

Fraud procedures
/ Presentation and disclosure

Inventory procedures

2019

Sampling

Accounting estimates

Auditor's report

Fraud procedures

Group audits

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But
Why
Does
it
Matter
to Me?



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How to use the AOB's Annual Inspection Report (AIR)?



Use as a **guide** to ask **insightful questions** to the auditors on **common inspection findings**



Ensure that **appropriate controls and processes** are in place to address **complex accounting issues** and support **management's assumption** on **significant key judgements** and **relevant appropriate accounting treatment**



Use the **Audit Quality Indicators (AQIs)** disclosed in the AOB AIR to make **better comparison** between audit firms based on **audit quality considerations** when deciding the appointment and reappointment of auditors



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What should the Audit Committees do?

Accounting Estimates

- ☐ Impairment of goodwill - VIU assessment (MFRS 136)
- ☐ Recoverability of receivables & ECL assessment (MFRS 9)
- ☐ Valuation of investment properties measured at fair value (MFRS 140)
- ☐ Valuation of ROU (MFRS 16)



Does the auditor demonstrate a **sufficient understanding** of the **business**, the **industry** and **environment** in which the PIE operates, **risk areas**, and **key issues** relevant to the financial report?



What was the **auditor's plan** to **respond** to **significant risk areas** and how has the auditor ensured that audit procedures performed to address these areas were **well executed**?



Was there any assessment conducted by the **management** to **periodically review** the **effectiveness** of the **PIE's internal control systems**?



In view of the dynamic of the economic and market conditions, has the Audit Committee executed its oversight roles more diligently in **questioning specific significant risk areas** and **challenging the key judgements and assumptions** presented by management?

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What should the Audit Committees do?

Going Concern

- ☐ Reasonableness of assumptions by management
- ☐ Appropriateness of reliance on financial support from related parties
- ☐ Basis of conclusion for not highlighting MUGC
- ☐ Non-consultation with technical department



Challenging management's assumptions on Going Concern particularly if they were based on **"safe" pre-Covid assumptions**. It cannot be assumed that things have just gone back to the way they were particularly when assumptions are very much reliant on **projected future cash flows**.



Have your **Auditors considered the above** and **tailored their audit procedures accordingly**? Have they considered factors such as rising interest rates (directly impacting discount factors), inflation, currency fluctuations and the impact of a global move towards ESG?



Were there **operational changes** e.g. delays or disruptions that could have financial implications such as additional commitments, loss of revenue, etc.?



Stepping-back and consider whether my PLC's accounts are giving the **best possible picture** of how the PLC is addressing possible Going Concern challenges (if any) – Are disclosures the same as last year? Do things need to be further elaborated?

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What should the Audit Committees do?

Internal Controls Testing

- ☐ Additional audit evidence was not obtained subsequent to interim control testing
- ☐ No alternative controls were identified to mitigate the failure of key controls
- ☐ No testing of "temporary" controls arising from restrictions in movement due to Covid-19 pandemic



Are my Auditors taking a **controls-reliance approach** in performing their work?



If not, why not? Is it because the controls in my PLC cannot be relied upon? If so, what can be done to improve the situation and thereby provide added comfort to me as an Audit Committee member.



What about **IT controls**? Was this considered? Are my **existing reporting functions** capable of providing **close to real-time information** to the Audit Committee? How will I know what's going on with my PLC at any given **point in time**?

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Moving forward...



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Key Takeaways for Audit Committees

Do you **challenge your auditor**, including **professional scepticism** applied by the auditors in **judgement areas** such as accounting estimates and cash flow projections?

Is your management competent enough to identify any **cascading effect** or **emerging risk** resulting from the **recovery phase of the pandemic** which may potentially affect the current operation and prospects of the PLC?

Does the **audit firm's culture** focus on **audit quality**? Were there **sufficient supervision and monitoring reviews** to ensure auditors are appropriately held accountable for overall audit quality?

What was the indication given by the PIE management towards approaching **technological advancement/improvements** for the PIE? Has the **PIE's finance function** considered adopting the **latest technologies** in their processes and has the PIE equipped themselves with the **right infrastructure, systems, and competent resources** to drive a **new digital process**? If not, why?

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Thank You