



**Suruhanjaya Sekuriti**  
Securities Commission  
Malaysia

# **Audit Oversight Board**

## **Conversation with Audit Firms**

### **Annual Inspection Report 2023**

25 July 2024

*Confidential*

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# Audit Oversight Board

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**Inspection Findings**



**Audit Quality Indicators  
(AQI)**



**Important reminders**

# Inspection Findings



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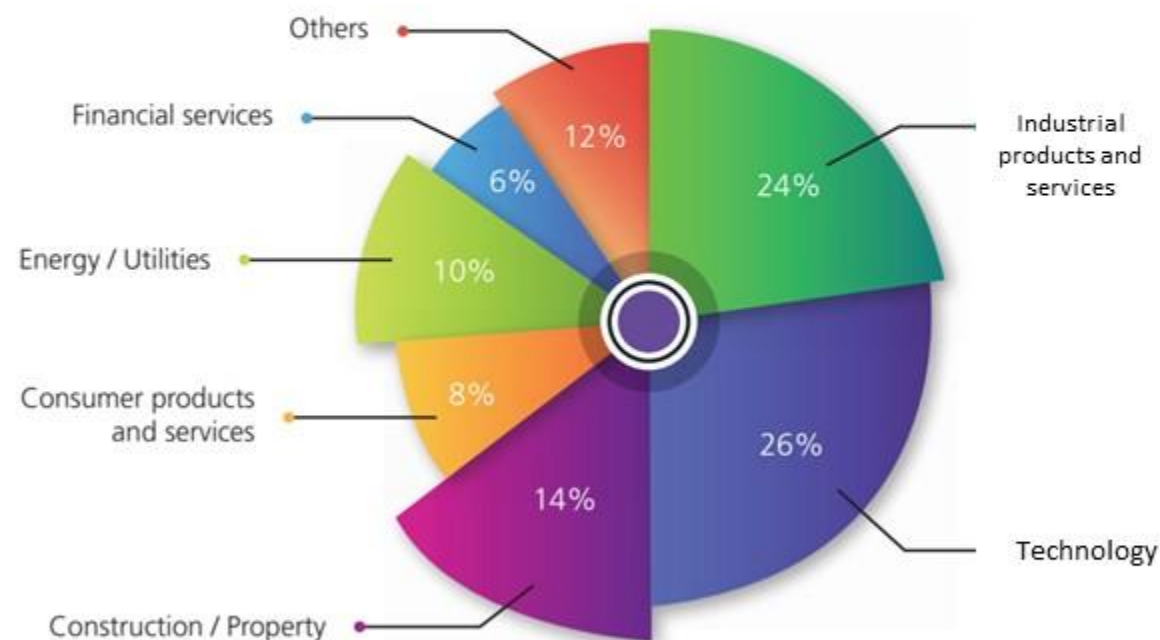


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## 2023 Inspection Coverage



## Industries covered in engagement-level reviews





## Firm Level Review

All firms are required to establish a risk assessment process as follows:



For the purpose of ensuring adherence of the above, the firms are assessed as follows:

- Phase I: Assessment on the firm's design and implementation of the SOQM.
- Phase II: Review on the firm's operating effectiveness of the SOQM.

## Firm Level Review

2023 Focus: The design and implementation of firms' system of quality management

### COMMON FINDINGS IDENTIFIED

Non-inclusion of certain mandatory objectives from the risk assessment process

Non-identification of key quality risks impacting the mandatory quality objectives in the firm's risk register

Non-performance of assessment (i.e. likelihood of occurrence, impact) on identified quality risks in providing a basis for the design and implementation of risk responses

Non-implementation of risk responses to address identified risks



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## Quality objectives and risks **excluded** from the Firm's Risk Register:

### Mandatory Quality Objectives

#### Resources

- ☐ Individuals are obtained from external sources (i.e., the network, another network firm or a service provider) when the firm does not have sufficient or appropriate personnel to enable the operation of firm's system of quality management or performance of engagements (Para. 32(c))
- ☐ Appropriate intellectual resources are obtained or developed, implemented, maintained, and used, to enable the operation of the firm's system of quality management and the consistent performance of quality engagements, and such intellectual resources are consistent with professional standards and applicable legal and regulatory requirements, where applicable (Para. 32 (g))

### Key Quality Risks



#### Governance and Leadership

- ☐ Leadership responsibility and accountability for quality (Para. 28(b))
- ☐ Financial resilience of the firm being impacted by lawsuits (Para. 28(e))



#### Relevant Ethical Requirements

- ☐ Provision of prohibited non-audit services (Para. 29)



#### Engagement Performance

- ☐ Audit personnel workload (Para. 31(b))
- ☐ Inappropriate modification of the audit working papers after file assembly (Para. 31(f))
- ☐ Loss of hardcopy audit files (Para. 31(f))

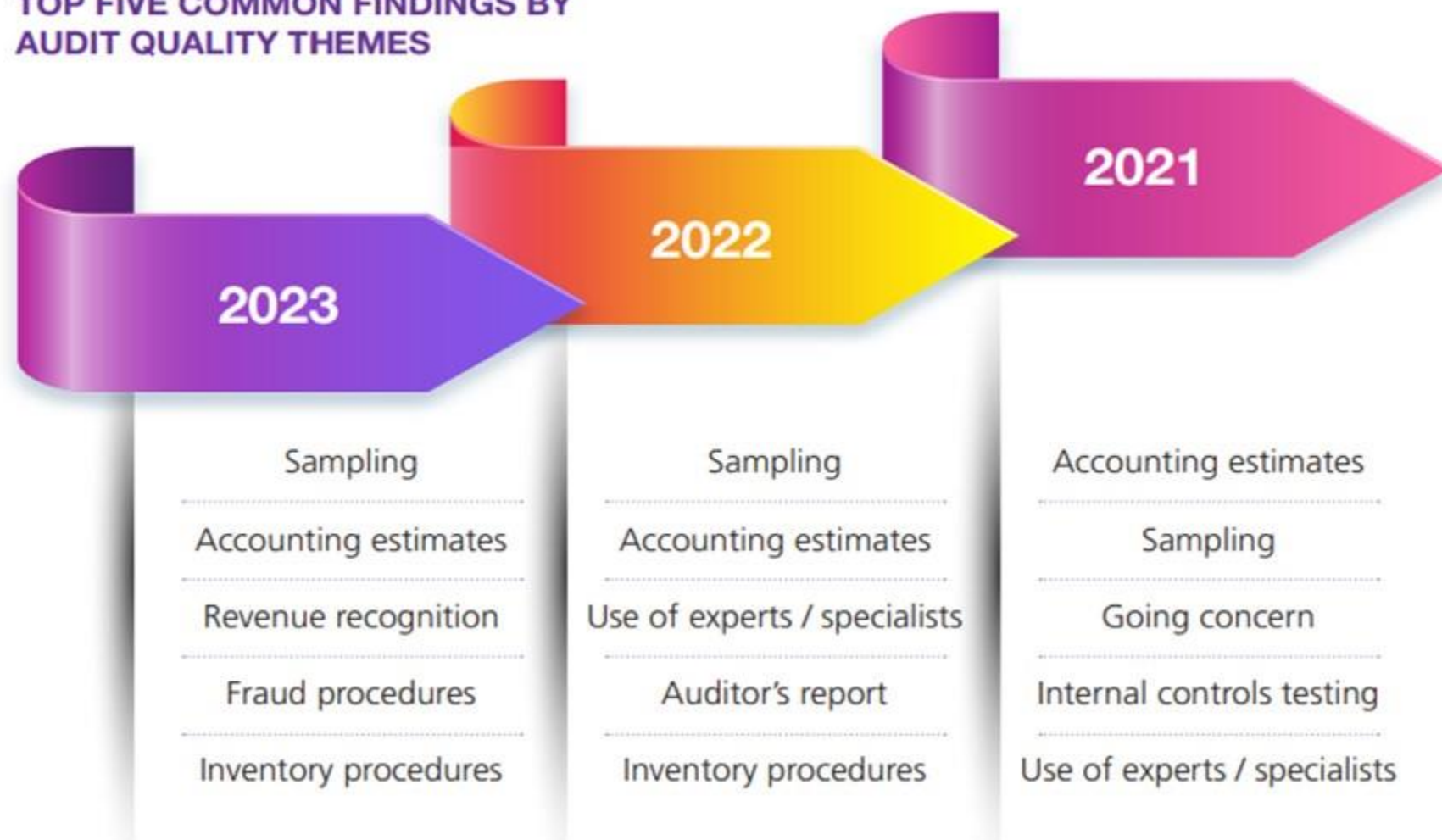


#### Resources

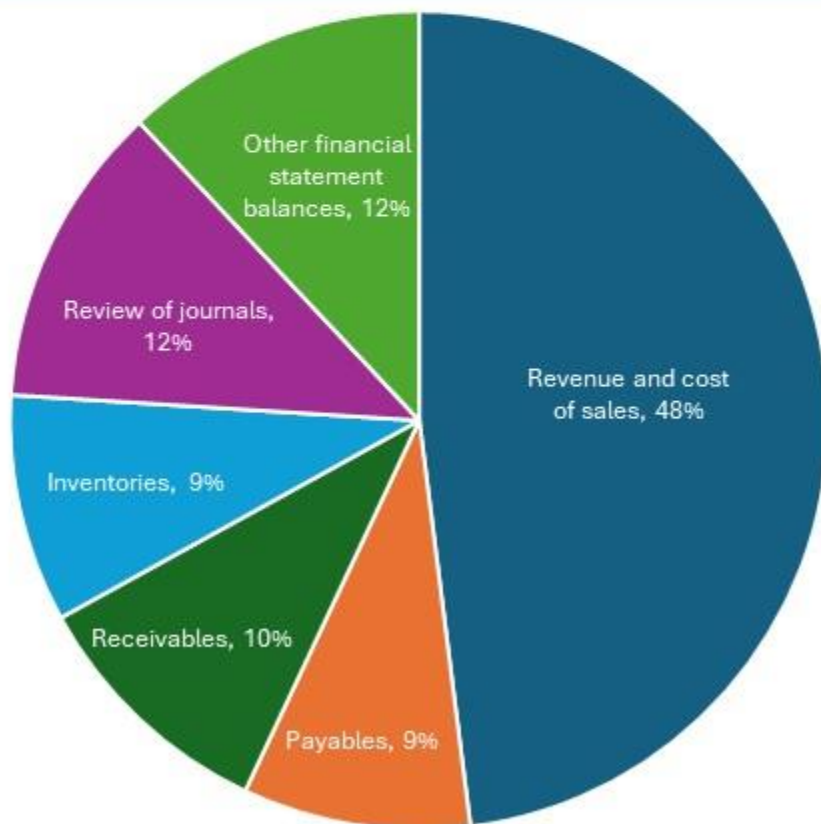
- ☐ Loss of electronic work papers (Para. 32(f))
- ☐ Disruption over the audit software facing (e.g., system bugs) (Para. 32(f))



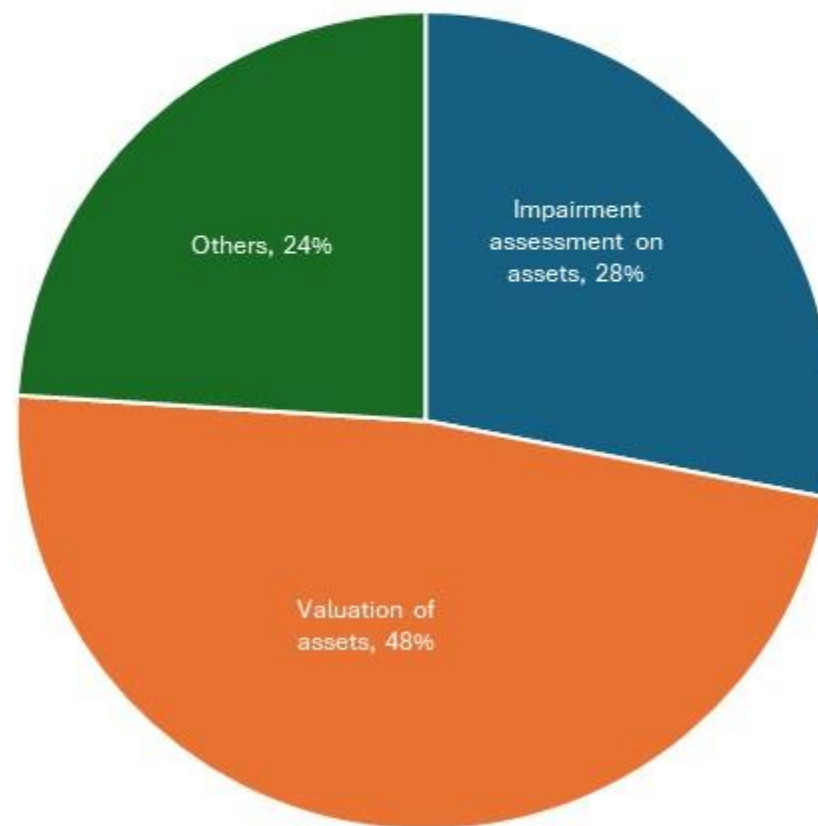
## TOP FIVE COMMON FINDINGS BY AUDIT QUALITY THEMES



## Common Areas with Findings on Sampling



## Common Areas with Findings on Accounting Estimates





# Audit Oversight Board

## Engagement Level Review:

### Common findings in relation to Test of details/Test of controls

1. Duplicate sampling
2. Acknowledged DO dated after the PIE Group's FYE
3. Samples verified to internally-generated documents
4. Samples tested differs for those generated by the Firm's sampling tool
5. Amount recognized as revenue was higher than purchase order
6. Approval of invoice prior to customer's acceptance
7. Various inconsistent information represented as typo
8. AWP not updated/Multiple versions of AWP
9. Key Testing indicated as N/A without explanation

**RIGOUR OF REVIEW**

**ASSESS STAFF  
WORKLOAD !**

**DESIGN OF PROCEDURES FOR TESTING**

**UNDERSTANDING THE  
COMPLEXITY OF BUSINESS**



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## Common findings in relation to MFRS 15 Assessment

### TECHNOLOGY INDUSTRY

1 Identify contract(s) with customers

Specific terms and conditions of contracts entered into

2 Identify separate performance obligation(s) in the contract(s)

Multiple performance obligations within a contract

3 Determine the transaction price

“Extended Service Coverage” as a service warranty given separate standalone price in invoice

4 Allocate the transaction price

5 Recognise revenue when the performance obligation is satisfied

Collectability in view of payment delays or terminated sales





## Common findings in relation to MFRS 15 Assessment

### CONSTRUCTION & PROPERTY INDUSTRY

1

Identify contract(s) with customers

2

Identify separate performance obligation(s) in the contract(s)

When a customer obtain control vs when an entity satisfies performance obligation

3

Determine the transaction price

4

Allocate the transaction price

Estimates of any variable consideration and allocation of transaction price based on nature of project

5

Recognise revenue when the performance obligation is satisfied

Measurement of progress towards satisfaction of performance obligation satisfied over time



## Common Root Causes of Findings

- Rigour of review by the Engagement Partner in challenging key areas of judgement and estimations and ensuring sufficiency and appropriateness of audit evidences
- Rigour of assessment and challenge by the engagement team over management's estimates and judgement
- Ineffective review and challenge by the EQR in key areas of judgement and estimations
- Scepticism applied during the audit execution
- Lack of understanding and bias interpretation of the standards and requirements
- Industry / technical knowledge in the execution of the audit
- Reliance on management's representation with insufficient procedures performed to corroborate the representation



## FOCUS OF 2024

### FIRM LEVEL REVIEW

In assessing compliance with ISQM, the AOB will move into Phase 2 where assessment on the operating effectiveness of firms' system of quality management will commence. Firms are reminded to ensure–

- periodic risk assessment is being carried out in making sure that the risk register remains relevant and that adequate controls are in place to address the risks; and
- sufficient documentation is maintained to substantiate effective operation of the system of quality management and to facilitate monitoring reviews.

### ENGAGEMENT LEVEL REVIEW

Continuous improvement has been made to the AOB's inspection programme by incorporating a data-driven and risk-based approach. Beyond the usual focus on riskier engagements and significantly judgemental areas, the AOB will emphasise on–

- audit areas with recurring significant engagement findings such as accounting estimates; and
- companies in industries related to the financial sector and financial institutions



# Audit Quality Indicators



## Sustainability of Audit Firms

	2021	2022	2023	% change between 2021 and 2023
Audit fee revenue (RM billion)	1.29	1.36	1.51	17%
Salary costs (RM billion)	0.69	0.72	0.83	20%
Average audit staff turnover rate	25%	31%	25%	-
Audit headcount	7,920	8,038	8,928	13%

### Key reminder to AOB-registered audit firms

Closely monitor your **financial resilience** and **capacity needs** as part of your risk management process

**Right-pricing** the **audit fees** to commensurate with the time, effort and expertise required in the audit engagement

**Monitor staff workload** and **address heavy staff workload** in a timely manner

# Audit Oversight Board

## Developing and Supporting Audit Talent

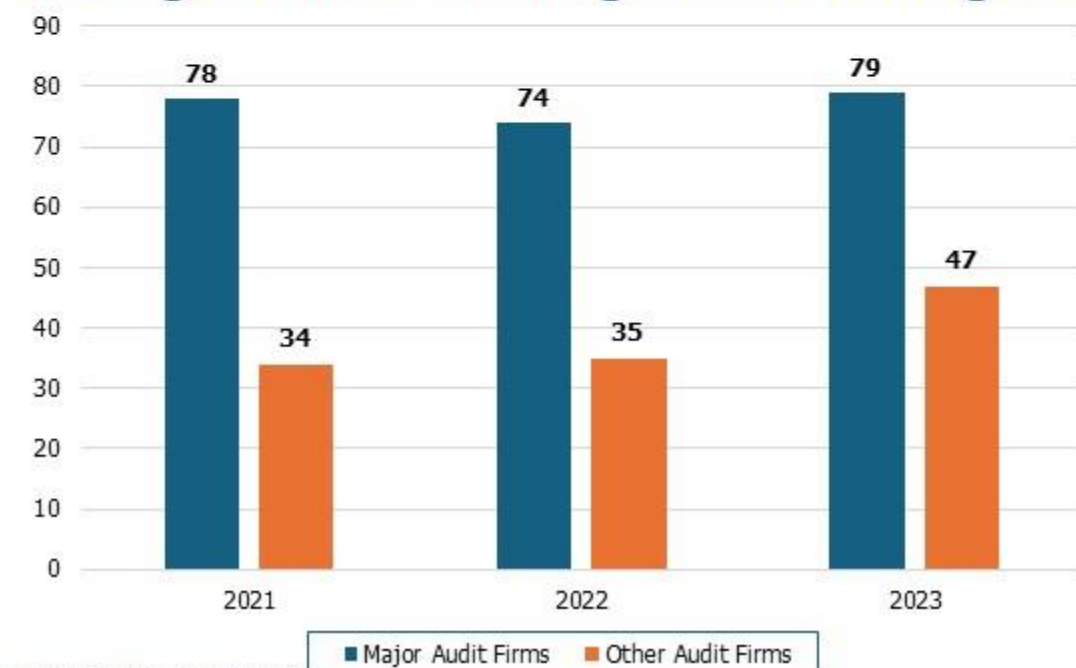
### Percentage of non-managerial staff

	2021	2022	2023
Major Audit Firms	78%	80%	80%
Other Audit Firms	72%	71%	74%

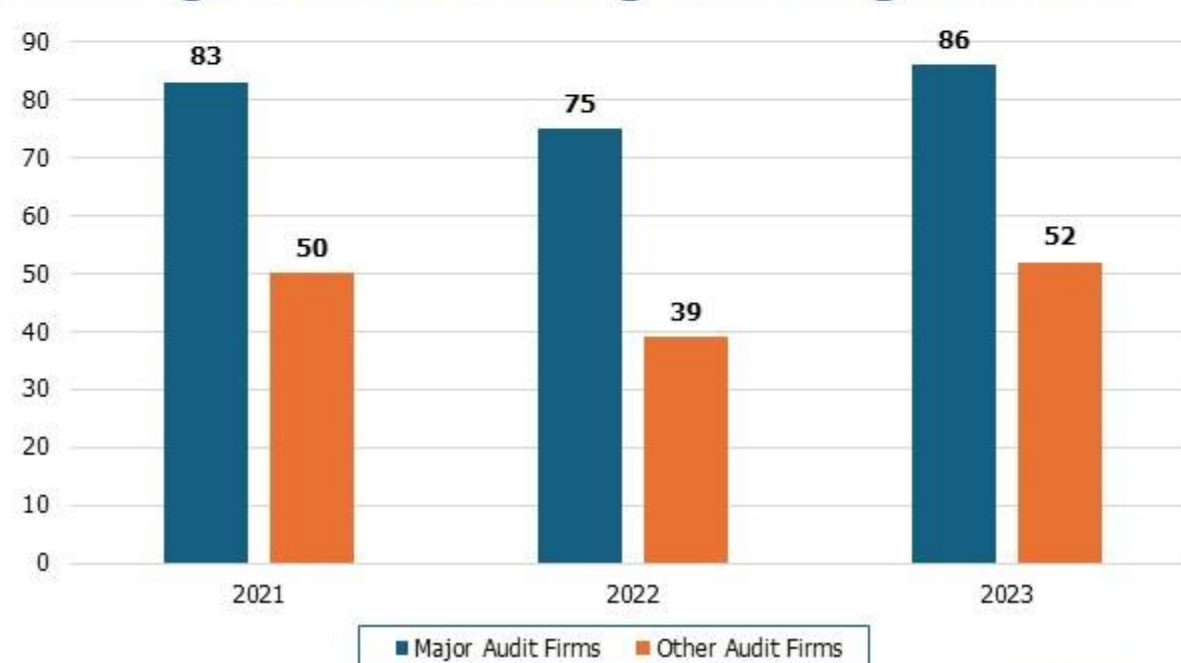
### Percentage of managerial staff

	2021	2022	2023
Major Audit Firms	18%	15%	15%
Other Audit Firms	16%	16%	16%

### Average hours of training for non-managerial staff



### Average hours of training for managerial staff



# Audit Oversight Board

## Developing and Supporting Audit Talent

**Percentage of audit staff with professional qualifications or are currently pursuing professional qualifications**



**Major Audit Firms: 86%**



**Other Audit Firms: 62%**



# Audit Oversight Board

## Developing and Supporting Audit Talent

### Staff-to-Partner/Manager Ratio of Major Audit Firms and Other Audit Firms



## Developing and Supporting Audit Talent

### Quality control functions of the firm

- Comprising of personnel that supports the audit practice through training, technical consultations, risk management and quality assurance.
- The Major Audit Firms, have on average, 1 quality control staff supporting 43 audit staff in 2023.

#### IMPORTANT NOTE

All audit firms should periodically assess the adequacy of resources allocated to the quality control functions to ensure that sufficient support is in place to promote audit quality.



# Important Reminders



## Reporting requirements for registered auditors

In June 2023, the AOB issued the **Guidelines on Continuing Obligations for Registered Auditors** that sets out the reporting requirements for the following:

- annual transparency reporting for the Major Audit Firms
- annual statistics gathering exercise applicable to all AOB registered firms
- notifications to AOB relating to change in auditors, resignation and removal of auditors

### KEY REMINDER

The Guidelines have been issued **pursuant to Section 158 of the SCMA**.  
The AOB can take actions on any auditors who **fail to comply with the Guidelines pursuant to the Act**.