

AOB ALERT

TO AUDIT COMMITTEES

NOV 2023

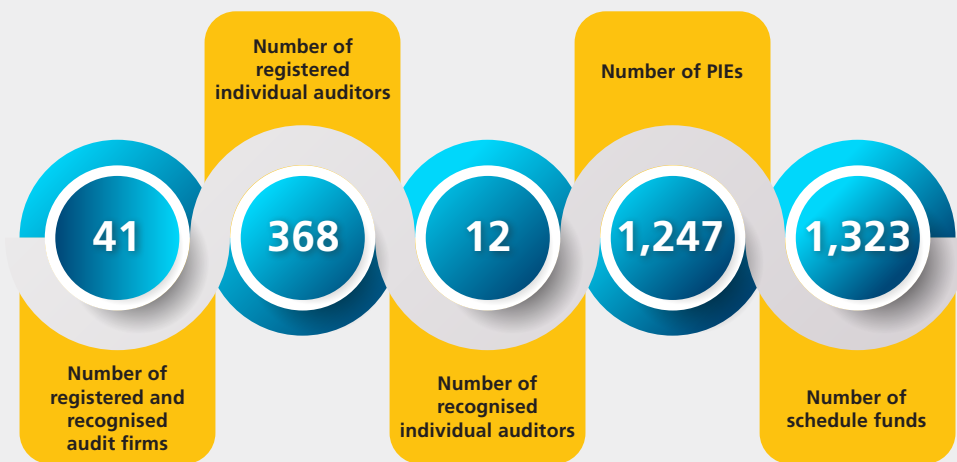


Suruhanjaya Sekuriti
Securities Commission
Malaysia

Introduction

The Audit Oversight Board (AOB) was established under Part IIIA of the *Securities Commission Malaysia Act 1993* (SCMA). The AOB's mandate is to foster high quality independent auditing to promote confidence in the quality and reliability of audited financial statements of public-interest entities (PIEs) and schedule funds in Malaysia.

As of 30 September 2023, the AOB's registered and recognised audit firms and individual auditors collectively audit the financial statements of 1,247 PIEs and 1,323 schedule funds.



CONTENTS

- Introduction
- The AOB's Inspections
- The AOB's Inspection Findings
- Spotlight Questions by Audit Committees

Why is this alert important to Audit Committees?

- To provide updates on the AOB and its effort to promote audit quality
- To assist Audit Committees in engaging meaningful conversation with key stakeholders

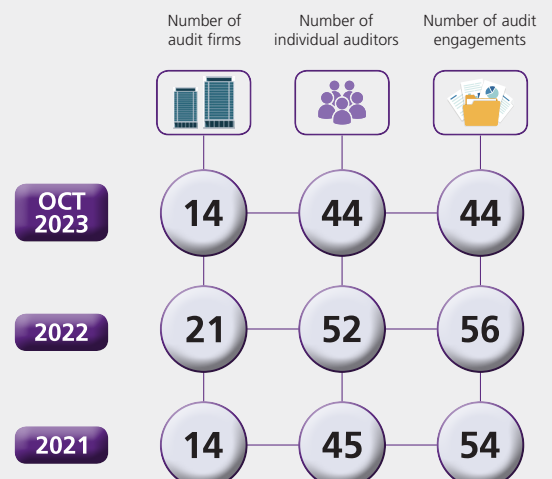
The AOB's Inspections

An inspection includes an assessment of the degree of compliance by auditors with auditing and ethical standards applicable in Malaysia, and the quality of the auditors' reports of PIEs and schedule funds. An inspection may involve either a firm level review or engagement level review or both.

A firm level review assesses a firm's compliance with the requirements of the *International Standard on Quality Management 1* (ISQM 1).

An engagement review involves an assessment of the auditor's compliance with the *International Standards on Auditing* (ISAs) and relevant ethical standards at the audit engagement level. The engagement review also seeks to determine whether sufficient appropriate audit evidence has been obtained to support the conclusion reached on the audit of PIE or schedule fund.

INSPECTIONS



The AOB's Inspection Findings

An inspected firm is issued with a Final Inspection Report, which summarises all findings arising from the inspection. In playing its role in driving audit quality, the Audit Committee is encouraged to consider common inspection findings that may impact their entities.

Findings identified by the AOB

- Findings identified during the engagement reviews are individually critical deficiencies that may have an impact on the basis of audit opinion or persuasive issues where the impact cannot be easily qualified.
- The findings are usually in relation to the sufficiency and appropriateness of audit procedures performed and audit evidence obtained, or the basis of judgements made by the auditors in relation to key aspects of an audit.

The AOB's Annual Inspection Report



The AOB's Audit Inspection Report (AIR) provides greater details on inspection findings.



[Read the AIR](#)

What Should Audit Committees do with the AOB's Inspection Findings?

- Audit Committees set expectations for transparent communication lines with the auditors. This allows a platform for the auditors to highlight any complex financial reporting matters as well as any differences in opinions with management.
- Audit Committees ensure that their entities have appropriate controls and processes in place to address complex accounting issues, including having appropriate accounting records to support the management's assumptions on significant key judgements and relevant appropriate accounting treatments.
- Policies shall be in place in the PIEs to alert Audit Committees as early as possible whenever complex or highly subjective transactions are performed. This will help facilitate the decision-making process and avoid any last-minute setbacks. Consequently, any challenges that arise from disruptions such as added costs and loss of reputation could be identified, addressed, and mitigated in advance.

In ensuring effective communication with auditors in addressing the AOB's findings, the following are some suggested questions for the consideration of Audit Committees:



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?



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?



Has the auditor considered factors such as rising interest rates, inflation, currency fluctuations and the impact of a global move towards ESG and tailored their audit procedures accordingly?



Did the auditor identify any new risks of fraud in the current year's audit? How did the auditor modify their audit approach in response to identified risk, if any?

Spotlight Questions by Audit Committees

In engaging with Audit Committees over the years, the AOB noted recurring themes and areas of concern that Audit Committees frequently focused on. These areas of concerns together with the AOB's response have been summarised below.

<p>How do we balance the cost of compliance and the need for PIEs to manage their own costs in challenging times?</p>	<p>The onus is on the PIE to factor in the cost of compliance into their overall cost management structure. Failure to ensure adequate consideration on proper controls and processes has far-reaching impact on the PIE whether from a reputational standpoint or the cost involved in managing the repercussions of any corporate failures.</p> <p>Short-term cost savings gained by ignoring the cost of compliance can be damaging. There is a clear division between what is required to be addressed by the PIE as compared to only implementing controls as a 'box-ticking' exercise. Audit Committees should play an active role in communicating with both internal and external auditors to determine the key controls required for their PIEs and ensure that the controls are reviewed regularly. For instance, the COVID-19 pandemic has prompted many PIEs to change their traditional ways of doing business. This opportunity to transform has necessitated PIEs to revisit their internal controls and implement more effective controls to manage existing and emerging risks.</p> <p>Audit Committees should be mindful of such changes to the business and be cognisant of its impact to the overall internal controls and corporate governance environment of their respective PIEs.</p>
<p>What are the significant areas to focus on when preparing financial statements?</p>	<p>The AOB does not prescribe a set number of areas of focus as each audit is unique and pose its own set of challenges to the auditors. Nonetheless, some of the common areas in which the AOB has continued to see an increase in findings were accounting estimates and audit sampling. Audit Committees are recommended to actively engage with their respective auditors from the onset of the audit to ensure that any issues encountered during the audit are addressed and that the Audit Committees facilitate the co-operation between the PIE management and auditors.</p>