

Chairman's Message



I am pleased to present the Annual Report of the Securities Commission Malaysia's (SC) Audit Oversight Board (AOB) for the year ended 31 December 2020. This is my first Annual Report as Chairman of the AOB since I assumed the role from Dato' Gumuri Hussain in December 2020. I have served as a Member of the AOB since January 2020 and hence been given the opportunity to familiarise with its strategic goals, initiatives and operations for purposes of discharging the mandate set by the SC.

The year 2020 has been a challenging year on many fronts. In addition to grave health and safety concerns, the global pandemic arising from the COVID-19 virus has given rise to a degree of uncertainty on the economy in Malaysia and globally.

Despite the ongoing challenges created by the pandemic, auditors, Audit Committees (AC) and regulators remain responsible for ensuring 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 this respect, the AOB continues to reinforce its regulatory expectations on the AOB registrants through its three key functions – registration and recognition, inspection and enforcement.

The AOB closely monitored the impact of the COVID-19 pandemic on the financial reporting of PIEs that operate in the Malaysian capital market and reminded the auditors that audit quality should not be compromised despite the challenges being faced. The AC and Those Charged with Governance (TCWG) are primarily responsible for overseeing the public-listed companies (PLC) financial reporting process and ensure reliable audited financial information is provided to users of the financial statements for informed decision-making. To facilitate the ACs and TCWG to discharge their responsibilities during these unprecedented times, the AOB highlighted areas of focus that require deeper scrutiny.

The AOB further fine-tuned its inspection plan in 2020. In addition to its planned onsite inspections, the AOB also conducted off-site inspections and introduced more extensive off-site monitoring and thematic reviews on specific areas of concern arising from the impact of COVID-19 and the Movement Control Order (MCO) on the audited financial statements and auditors' reports. This was done via deeper analysis of PLCs audited financial statements and the auditors' reports via increased utilisation of data analytics.

CHALLENGES IN MEETING REGULATORY OBLIGATIONS

A very pressing issue faced by the audit profession this year was the challenge in meeting their regulatory obligations. The various lockdown measures (e.g. MCO, Conditional Movement Control Order, etc.) made it difficult for auditors to access their respective clients' books and records. These instances have resulted in delay in the finalisation of audit engagements and meeting regulatory requirements in respect of financial reporting.

The AOB took cognisance of the difficulties faced by auditors and announced measures to ease their burden. This was to facilitate the affected firms to better focus their attention and resources to address the various audit challenges faced due to the COVID-19 outbreak. The measures included deferring the commencement of the AOB's inspections, extending the timeline for auditors to submit their remedial action plans as well as extending the timeline for the implementation and completion of their remedial action plans. The AOB also extended the deadline for payment of their annual registration fees. In addition, the AOB also deferred the implementation of the audit transparency reporting for selected firms, to year 2021.

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AOB'S ENFORCEMENT PROCESSES

In 2020, the AOB took six enforcement actions on auditors and audit firms that had failed to comply with the auditing standards. The AOB's enforcement philosophies are firmly rooted in the principles of proportionality and efficiency. The AOB's enforcement actions commensurate with the severity and impact of the findings regardless of the size of the audit firms.

While the AOB uses its enforcement actions to send a strong signal to the auditors on the importance of upholding audit quality, the AOB is also cognisant of the challenges faced by audit firms in respect of capacity building and continuous enhancement of their knowledge capabilities. In this regard, the AOB announced a one-off training subsidy of RM30,000 per firm for existing registered firms of the AOB with less than 10 audit partners. The AOB provided inputs to the Malaysian Institute of Certified Public Accountants (MICPA) to develop certain of its approved training programme that is aimed at addressing common areas of audit weakness within audit firms, which the AOB encountered during its inspection. The training programme not only focused on technical knowledge but also emphasised on practical implementation of audit and accounting standards.

As in the previous years, the AOB continues to face legal challenges initiated by the auditors against actions taken by the AOB. The AOB recognises that legal challenges against its decisions are inevitable and views these instances as an opportunity to ensure that the AOB's processes and procedures are continuously robust and sound. The AOB wishes to stress that the process of continuous improvement represents one of the key cornerstones for the AOB in consistently coming to fair and appropriate enforcement action.

ACKNOWLEDGEMENT

I am particularly honoured to present this year's Annual Report because on 1 April 2020, the AOB marked its 10th anniversary. Over the decade, the AOB has grown to be a trusted and respected audit regulator in the region. The AOB's key achievements over the past decade are presented in Part 2 of the Annual Report. The AOB's achievements would not have been possible without the steadfast leadership of the previous Chairman, Dato' Gumuri Hussain and the diligence and unwavering commitment of the Board Members.

Dato' Gumuri Hussain concluded his statutory term on 23 November 2020 and retired after serving the SC for 16 years in various capacities. Dato' Gumuri was appointed as an AOB Board Member in 2012 and has been instrumental in guiding the AOB to achieve its mandate to promote high-quality independent audit.

I am also certain that the collective experience and knowledge of the newly appointed Board Members, namely Puan Salmah Bee Mohd Mydin, Puan Nor Azimah Abdul Aziz and Dato' Seri Ahmad Johan Mohammad Raslan will help guide the AOB through the uncertain and challenging times ahead.

The events of 2020 and adjusting to the new norm will certainly influence our regulatory and development agenda moving forward. The management team has been instrumental to ensure that the AOB achieved its mandate. I would like to express my gratitude for their outstanding efforts despite the challenges and uncertainty faced this year.



Dato' Anantham Kasinather