

Annual Transparency Reporting
for Firms that Audit Public Interest Entities in Malaysia

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**CRITERIA FOR AUDIT FIRMS THAT ARE REQUIRED TO PRODUCE ANNUAL
TRANSPARENCY REPORTS**

1. Commencing from 31 December 2019, transparency reporting shall be compulsory for audit firms that are registered with the Audit Oversight Board (AOB) and have met the following two criteria as at the end of the calendar year for two consecutive years:
 - (a) Audit firms with more than 50 public interest entity (PIE) audit clients; and
 - (b) The total market capitalisation of the audit firm's PIE clients amounts to above RM10 billion.
2. For audit firms that subsequently fail to meet the stated criteria above for two consecutive calendar years, these audit firms are encouraged to continue with transparency reporting.
3. For all other audit firms, adoption of annual transparency reporting is encouraged.

REPORTING REQUIREMENTS

1. The first transparency report is required for the audit firm's fiscal year ending on or after 31 December 2019.
2. The audit firm shall publish their transparency report on the audit firm's website within four months after the audit firm's fiscal year-end.
3. A copy of the audit firm's transparency report is to be submitted to the AOB upon publication of the report on the audit firm's website.
4. The audit firm shall ensure that the information disclosed in the transparency report is not false or misleading in accordance with Section 152(2) of the Securities Commission Malaysia Act 1993 (SCMA) and adhere to the following principles:
 - (a) clear, useful and presented in sufficient detail to be meaningful to the different groups of likely users of the report;
 - (b) fact-based;
 - (c) unbiased and not oriented toward marketing or selling services;
 - (d) concise, specific to the audit firm and avoids the use of boilerplate language;
 - (e) timely, accurate and complete;
 - (f) balanced in communicating the audit firm's output measures of audit quality in addition to any input measures; and
 - (g) sufficient in terms of explaining the limitations of the indicators of audit quality, including that the indicators may not be comparable across audit firms.

CONTENTS OF TRANSPARENCY REPORT

A. Audit firm's legal and governance structure

1. A description of the audit firm's legal and ownership structure that should also include disclosure of the following:
 - any affiliated firms; and
 - entities owned or entities in which the audit firm has a beneficial interest.
2. Information about the audit firm's governance and leadership structure including how they provide oversight over the audit practice and the audit firm as a whole.
3. A description of the network and the structural arrangements in the network including the respective responsibilities of the network and the audit firms.
4. A disclosure on partners with substantial equity in the partnership (i.e. partners with more than 10% equity share in the partnership). The recommended format of disclosure is as follows:

Range of equity share held (%)	Number of partners
11% to 20%	
21% to 30%	
31% to 40%	
41% to 50%	
51% to 60%	
61% to 70%	
81% to 90%	
91% to 100%	

If there is no such instance, a statement confirming this fact is required.

5. A disclosure on family relationship between partners undertaking leadership role or holding substantial equity in the partnership with other partners of the audit firm. If there is no such instance, a statement confirming this fact is required.

B. Measures taken by the audit firms to uphold audit quality and manage risks

1. A description of the audit firm's internal quality control systems including measures taken to comply with the requirements of ISQC 1 and any other initiatives to enhance audit quality.
2. A description of how the audit firm holds the partners accountable for audit quality, including how performance on audit quality was assessed and the extent to which this affects remuneration.
3. A description of measures taken by the audit firm to ensure auditor independence (e.g. audit firm's independence policies, independence monitoring, compliance with the By-Laws on Professional Ethics, Conduct and Practice of the Malaysian Institute of Accountants (MIA)).

4. A description of measures taken by the audit firm to ensure compliance with relevant laws and regulations (e.g. adoption of policies that addresses anti-money laundering and anti-corruption practices).
5. A description of how the audit firm establishes, evaluates and monitors compliance with ISQC 1, accounting and auditing standards.
6. A description of the audit firm's risk management process to identify, measure, and mitigate material risk.

C. Information about the audit firm's indicators of audit quality

1. Sharing of statistics relating to indicators of audit quality over a three-year period.
2. The following table lists audit quality indicators that must be included in the transparency report and other indicators that may be included in the transparency report:

Audit quality indicators	Audit quality indicators that <u>must</u> be included in the transparency report	Other audit quality indicators that <u>may</u> be included
Audit partner* workload <i>* refers to partners who are listed in SSM Section 265(4) Form on Notification of Change in the Register of Firm of Auditors (previously known as SSM Form 5)</i>	<ul style="list-style-type: none"> ▪ Ratio of the average number of PIEs per partner ▪ Ratio of the average number of entities related to PIEs per partner ▪ Ratio of the average number of non-PIEs per partner 	<ul style="list-style-type: none"> ▪ Average portfolio audit fees per partner ▪ Range or average number of PIE audit clients with the same financial year-end per partner ▪ Other factors that may influence partner workload such as audit team support structure (e.g. directors, principals)
Auditor independence	<ul style="list-style-type: none"> ▪ Proportion of fee income derived from audit clients segregated into statutory audit, other assurance services and services provided by the non-audit practice. ▪ Proportion of fee income between audit practice and non-audit practice (e.g. tax, corporate advisory, consulting) 	<ul style="list-style-type: none"> ▪ Results of the audit firm's ongoing independence monitoring process

Capacity and competence of the audit practice	<ul style="list-style-type: none"> ▪ Headcount of the audit personnel ▪ Headcount of audit personnel with professional qualifications ▪ Turnover rate for audit personnel ▪ Average years of experience of audit partners and audit staff 	<ul style="list-style-type: none"> ▪ Outsourcing arrangements, where applicable
Audit engagement supervision	<ul style="list-style-type: none"> ▪ Staff to partner ratio ▪ Staff to manager ratio 	<ul style="list-style-type: none"> ▪ Any other factors monitored by the audit firm that influence engagement supervision (e.g. time spent by audit partners and managerial level staff on audit engagements)
Audit firm's investment to uphold audit quality	<ul style="list-style-type: none"> ▪ Hours of training provided by the audit firm to audit personnel ▪ Headcount of quality control functions (e.g. training, risk management, technical functions) 	<ul style="list-style-type: none"> ▪ Any other investments made by the network or local audit firm to uphold audit quality (e.g. IT systems, audit methodology)
Internal and external monitoring reviews	<ul style="list-style-type: none"> ▪ Results of monitoring reviews that have been carried out by the audit firm or the audit firm's network ▪ Results of AOB inspections and compliance reviews by external bodies (e.g. MIA, professional bodies) 	<ul style="list-style-type: none"> ▪ Remedial actions taken to address results of monitoring reviews carried out by the audit firm or its network ▪ Remedial actions taken to address results of AOB inspections and compliance reviews by external bodies (e.g. MIA, professional bodies)

Where applicable, the method of calculation to derive the results of the audit quality indicators above should be consistent with the audit firm's submission to the AOB in conjunction with the annual Statistics Gathering and Analysis exercise.

3. Audit firms may include indicators of audit quality monitored by the audit firm that have not been listed in (2) above.
4. Audit firms should accompany the audit quality indicators in the audit firm's transparency report with relevant explanation in order to provide sufficient context and promote better understanding of these indicators.

TRANSITIONAL PROVISIONS

1. The following transitional provisions are applicable only for transparency reports issued by audit firms in the year 2020:
 - (a) Sharing of statistics relating to indicators of audit quality over a 2-year period would be permitted;
 - (b) Audit firms would be exempted from the requirement to publish their inaugural annual transparency report on the audit firm's website. The audit firms are, however, required to submit a copy of their transparency reports to the AOB as well as share their transparency reports with the Audit Committees of their PIE audit clients; and
 - (c) For audit firms with fiscal year ending on 31 December 2019, a transitional reporting deadline of 6 months after the end of the fiscal year would be granted.