

Conversation with Audit Firms

Audit Quality Indicators

18 August 2022

Restricted

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Suruhanjaya Sekuriti Securities Commission Malaysia

Agenda

- ☐ Overview of the Audit Quality Indicators ("AQI")
- AQI statistics
- What should the firm do?



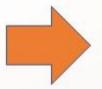
Overview of the Audit Quality Indicators ("AQI")

Suruhanjaya Sekuriti Securities Commission Malaysia

Background

Annual Statistics Gathering and Analysis ("SGA") Exercise

- In 2020, AOB commenced with the annual data gathering for the Other Audit Firms*
- Data collected is for the period from 1 July to 30 June the following year



Types of Data Gathered

- Firm's financial information
- Human resources
- Training
- Staff utilisation
- Partner workload

- Monitoring activities and results
- Quality control headcount
- Firm's client portfolio

^{*}Audit firms other than Major Audit Firms. Major Audit Firms are audit firms with more than 10 partners and has more than 50 PIE audit clients with a total market capitalisation of above RM15 billion.



What AOB does with the data gathered?

Analyse the data

Monitor the firms' AQI trends

Direct engagement with the firms when required *

* In 2022, the AOB has engaged with 10 firms to discuss on the respective firm's AQI





AQIs monitored by the AOB

Audit Partner Workload

Auditor Independence

Capacity & competence of the audit practice

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Audit engagement supervision

4

Firm's investment to uphold audit quality

5

Internal & external monitoring reviews

6

- Ratio of the average number of PIEs per partner
- 2. Ratio of the average number of entities related to PIEs per partner
- Ratio of the average number of non-PIEs per 6. Proportion of fee partner
- Average audit client portfolio fees per partner

- 5. Proportion of fee income derived from audit clients segregated by statutory audit, other assurance services and nonaudit services
- income between audit practice and non-audit practice

- 7. Headcount of the audit personnel
- 8. Headcount of audit personnel with professional qualifications
- 9. Turnover rate for audit personnel
- 10. Average years of experience of audit partners and audit staff

- 11. Staff to partner ratio
- 12. Staff to manager ratio
- 14. Headcount of quality control functions
- 13. Hours of training 15. Results of provided by the firm to audit personnel
 - monitoring reviews that have been carried out by the firm or the firm's network



AQI Statistics



Workload of PIE Audit Partner

	2020	2021
Average PIE per partner	2.9	3.1
Average entities related to PIE per partner	22.3	26.3
Average non-PIE per partner	127.8	124.6

Auditor Independence

	2020	2021
Breakdown of fee income derived from audit clients		
- Statutory audit	80%	79%
- Other assurance services	5%	5%
- Non-audit practice	15%	16%
Proportion of fee income from the audit practice relative to the non-audit practice	69%	71%

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Capacity and Competence of Audit Practice

	2020	2021
Percentage of audit managerial staff with professional qualifications	72%	68%
Staff turnover rate	23%	34%
Average years of audit experience:		
- Partner	23.2	23.5
- Managerial staff	10.1	9.4
- Non-managerial staff	2.1	2.2

Audit Engagement Supervision

	2020	2021
Staff to partner ratio	9.2	9.1
Staff to manager ratio	5.1	5.0



Training

	2020	2021
Average training hours provided:		
- Managerial staff	39	56
- Non-managerial staff	30	30

Monitoring Reviews

	2019	2020
Percentage of firm that performed firm-level reviews *	67%	77%
Percentage of firm that performed cold engagement reviews *	60%	73%

^{*} Based on calendar year



What should the firm do?



1

Review the firm's AQI statistics under the "AQI" tab in the Malaysia SGA worksheet

	ISTICS GATHERING AND ANALYSIS 2022		Growth rate of headcount in audit practice (%)	#DIV/0!
	rting period 01/07/2021 - 30/06/2022			
po	orig period 01/07/2021 - 30/00/2022		Turnover rate for audit personnel (%)	#DIV/0!
lo.	Audit quality indicators	30/6/2022	THE WALL	
			Average years of experience of audit personnel:	
	Sustainability of audit practice		- Partner	#DIV/0!
	Firm's revenue growth	#DIV/0!	- Managerial staff	#DIV/0!
2	Firm's profitability growth	#DIV/0!	- Managerial staff - Non-managerial staff	#DIV/0!
	Workload of the PIE audit partners (i.e. partners that have acted in the capacity of PIE audit engagement partner/signing partner during the year)			#010/0:
3	Ratio of average number of PIEs per PIE audit partner	#DIV/0!	Audit engagement supervision:	
4	Ratio of average number of entities related to PIEs per PIE audit partner	#DIV/0!	Staff to partner ratio	#DIV/0!
	Ratio of average number of endues related to FIES per FIE addit partner	#DIV/0!	Staff to manager ratio	#DIV/0!
	Average audit clients portfolio fees per PIE audit partner	#DIV/0!		
			Client acceptance and continuance:	
1000	Auditor independence:		Number of discontinued PIE audit clients	
7	Proportion of fee income derived from audit clients segregated into (%):		Humber of discontinues (22 basis circus	_
	- Statutory audit	#DIV/0!		
	- Other assurance services	#DIV/0!	Audit firm's investment to uphold audit quality:	
	- Services provided by the non-audit practice	#DIV/0!	Hours of training provided by the firm to its audit personnel: (Note 2)	
9	Proportion of fee income between (%):		- Partners	#DIV/0!
0	- Audit practice	#DIV/0!	- Managerial staff	#DIV/0!
	- Non-audit practice	#DIV/0!	- Non-managerial staff	#DIV/0!
-	Capacity and competence of the audit practice:		Headcount of quality control functions (Note 3)	
9	Headcount of the audit personnel:			
	- Partner		- Risk management	
	- Managerial staff		- Training	
	- Non-managerial staff	-	- Technical	
	- Total	-	- Others	
10	Headcount of audit personnel with professional qualifications:			
	- With professional qualifications and/or MIA membership		- Ratio of quality control staff to audit staff	#DIV/0!
	- Pursuing professional qualifications and/or MIA membership	-		***************************************
	- Without professional qualifications and/or MIA membership	-	Internal and external monitoring reviews: (Note 4)	31-Dec-2
11	Audit managerial staff with professional qualifications and/or MIA membership (%)	#DIV/0!	Has the firm performed firm level review?	No
			†	
	Cover Definitions and guidance AQI Fin info Utilisation HR-1	HR-2 HR-3	Number of engagements that were subjected to cold file review by the local firm	



2 Set internal targets for the AQIs and perform periodic monitoring

Take timely corrective actions to address concerns that have arisen during the monitoring process

Important Reminder

Under Section 152(2)(a) of the SCMA, information disclosed by the firms to the SC shall not be false or misleading.