

MONITORING AND SUPERVISION OF PIEs AND SCHEDULE FUNDS AUDITORS

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REGISTRATION AND RECOGNITION OF AUDIT FIRMS AND INDIVIDUAL AUDITORS

The AOB’s oversight over auditors of PIEs and schedule funds are done through its registration, inspection and enforcement functions.

The AOB has registered and recognised 41 audit firms and 387 registered and recognised individual auditors.

The table below provides the breakdown of the number of PIE and schedule fund clients of these registered and recognised auditors.

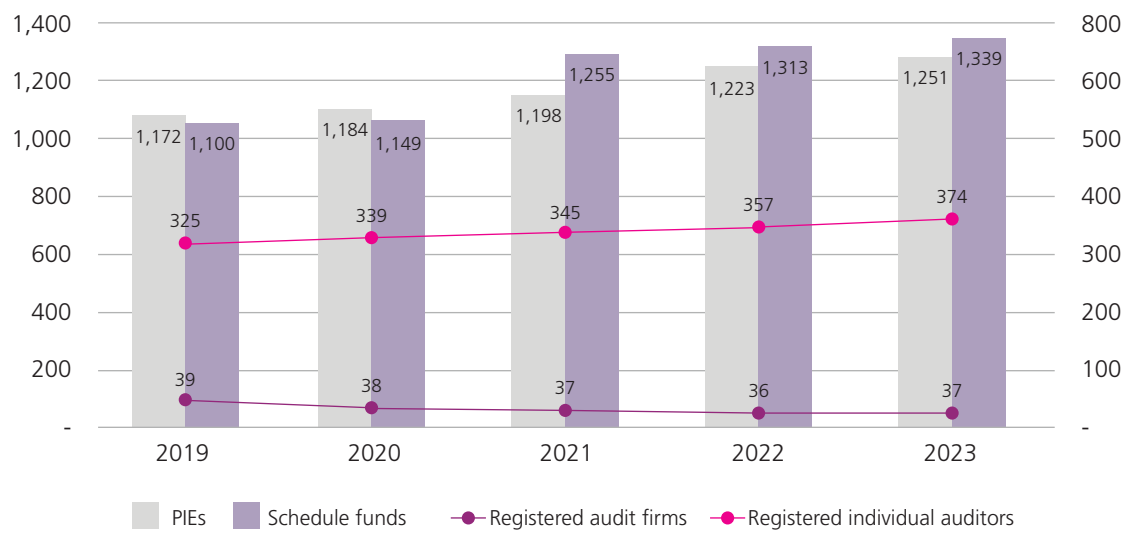
Profile of audit firms	No. of audit firms	No. of individual auditors	No. of PIE audit clients	% of total PLCs market capitalisation	No. of schedule funds audit clients	% of total NAV
Registered audit firms						
Partnership with 10 and more audit partners	11	263	1,027	95.6%	1,293	98.5%
Partnerships with 5 - 9 audit partners	17	84	187	4.0%	45	1.5%
Partnerships with fewer than 5 audit partners	9	27	37	0.3%	1	-
Sub-total	37	374	1,251	99.9%	1,339	100.0%
Recognised foreign audit firms	4	13	5	0.1%	-	-
TOTAL	41	387	1,256	100%	1,339	100.0%

Source: The AOB.

Chart 1 further depicts the number of audit firms and individual auditors registered with the AOB as well as the number of PIEs audited for the last five years. The number of AOB-registered auditors has increased by 15.1% over the years, a positive trend indicating continuous commitments by audit firms to build capacity.

CHART 1

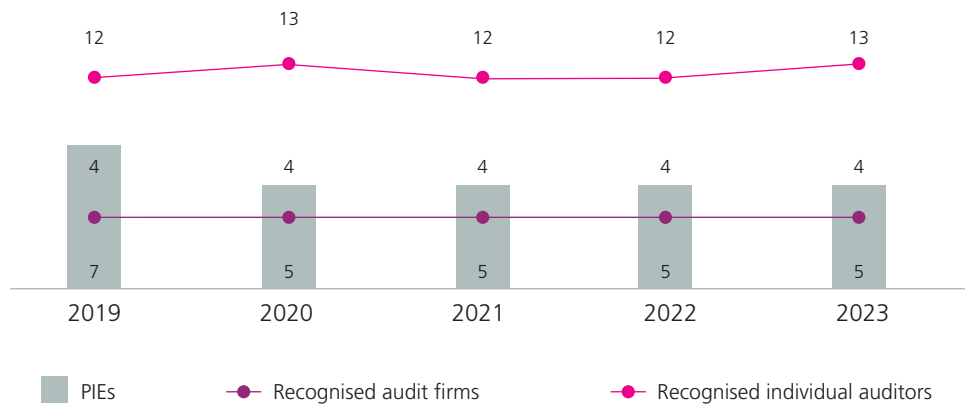
5-year registration statistics of registered audit firms and individual auditors



Source: The AOB.

CHART 2

5-year recognition statistics of recognised foreign audit firms and foreign individual auditors



Source: The AOB.

Currently, the four recognised audit firms are from Singapore, UK and Hong Kong. Recognised audit firms must be an internationally affiliated network firm, with effective technical support and robust quality control from its network firm. The AOB relies on the oversight frameworks of the recognised auditors’ home jurisdictions to determine whether they are fit and proper to audit PIEs. Audit firms have to comply with international quality management, auditing, ethical and other assurance standards. Further, they have to be subjected to regular inspection by their home audit regulators.

GUIDELINES ON CONTINUING OBLIGATIONS FOR REGISTERED AUDITORS

The *Guidelines on Continuing Obligations for Registered Auditors* (Guidelines), which set out the obligations that must be adhered to by a registered auditor, was issued in 2023. This is pursuant to section 31E(1)(a) of the *Securities Commission Malaysia Act 1993* (SCMA), where the responsibilities of the AOB include implementing policies which contribute to an effective audit oversight system in Malaysia.

The objective of these Guidelines is to strengthen the framework for registered auditors and ensure better monitoring and supervision of the registered auditors.

The Guidelines also consolidate the annual reporting obligations mandated via circulars on the registered auditors. The Guidelines set out, among others, the following requirements:

Part 1 of the Guidelines

(a) **Annual Transparency Reporting**

Issuance and publication of the *Annual Transparency Report* by audit firms (only firms that meet the reporting criteria) on its website to provide information on the governance structure of the audit firm, measures taken by the audit firm to uphold audit quality, and information on the audit firm's audit quality indicators.

(b) **Statistics Gathering and Analysis Exercise**

Submission of the Statistics Gathering and Analysis (SGA) Form as prescribed by the AOB containing financial, client, human resources, and training information.



Part 1:

Existing Disclosure Requirements

Issued and effective on 26 June 2023



Annual Transparency Reporting

A Relevant Audit Firm* must issue and publish an *Annual Transparency Report* on its website four months from the end of its financial year.

* *Relevant Audit Firm means an AOB-registered audit firm that has more than 50 PIE audit clients and total market capitalisation of the firm's PLC audit client is more than RM15 billion for two consecutive years as at 31 December.*



SGA Exercise

An AOB-registered audit firm, other than a Relevant Audit Firm, must submit the SGA Form as at 30 June to the AOB by 15 August of each calendar year.

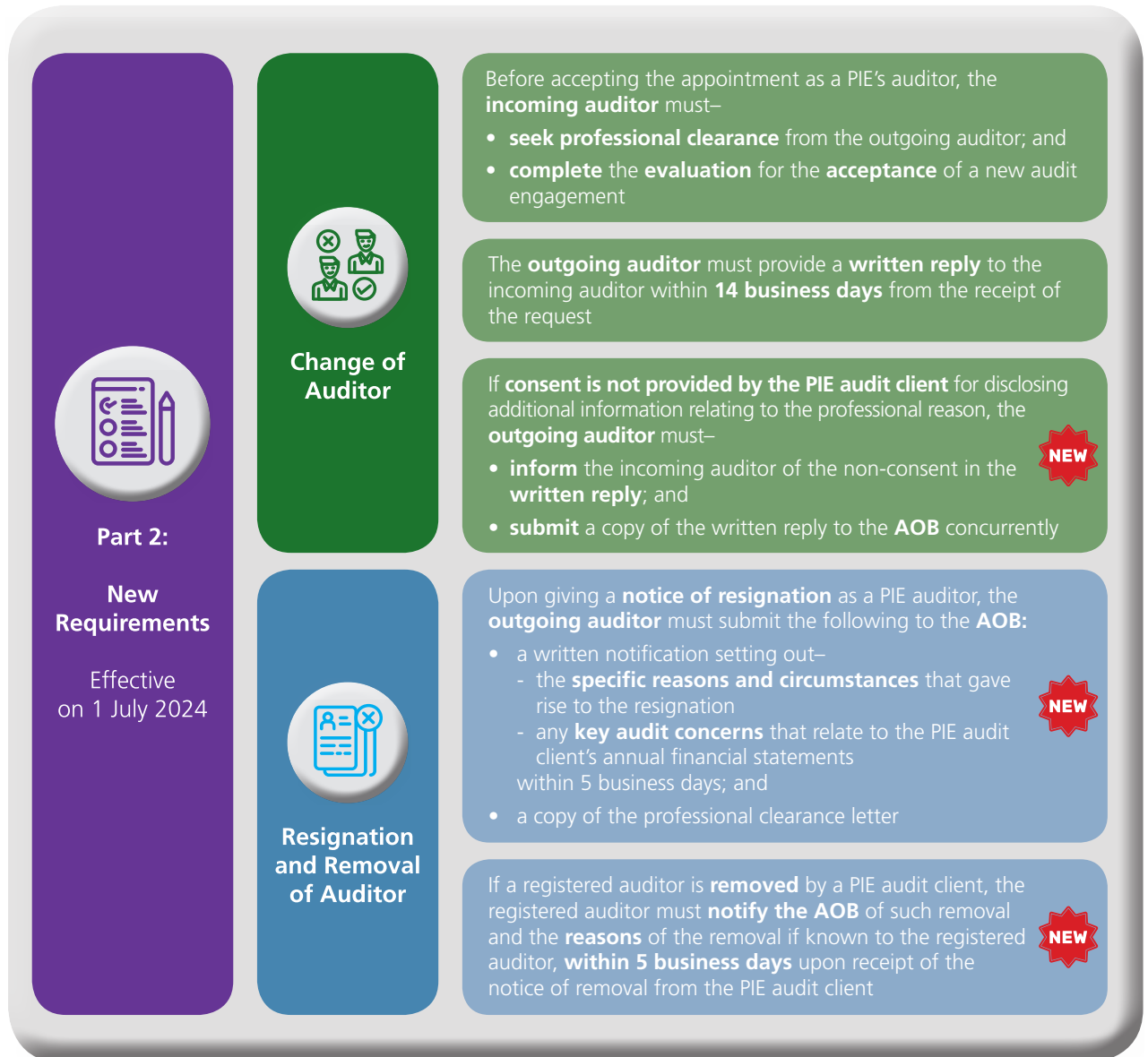
Part 2 of the Guidelines

(c) *Change of Auditor*

Professional clearance by the outgoing auditor to the incoming auditor when there is a change of auditor.

(d) *Resignation and Removal of Auditor*

Submission of a written notification by the auditor on reasons relating to its resignation and removal as an auditor to the AOB.



Auditors must ensure–

- continuous compliance with the AOB's guidelines throughout the validity of the registration and/or recognition; and
- that information disclosed or submitted to the AOB is true, complete, and accurate.

Failure to comply with any conditions will result in actions being initiated under section 31Z and/or 31Q of the SCMA or any other action deemed necessary.

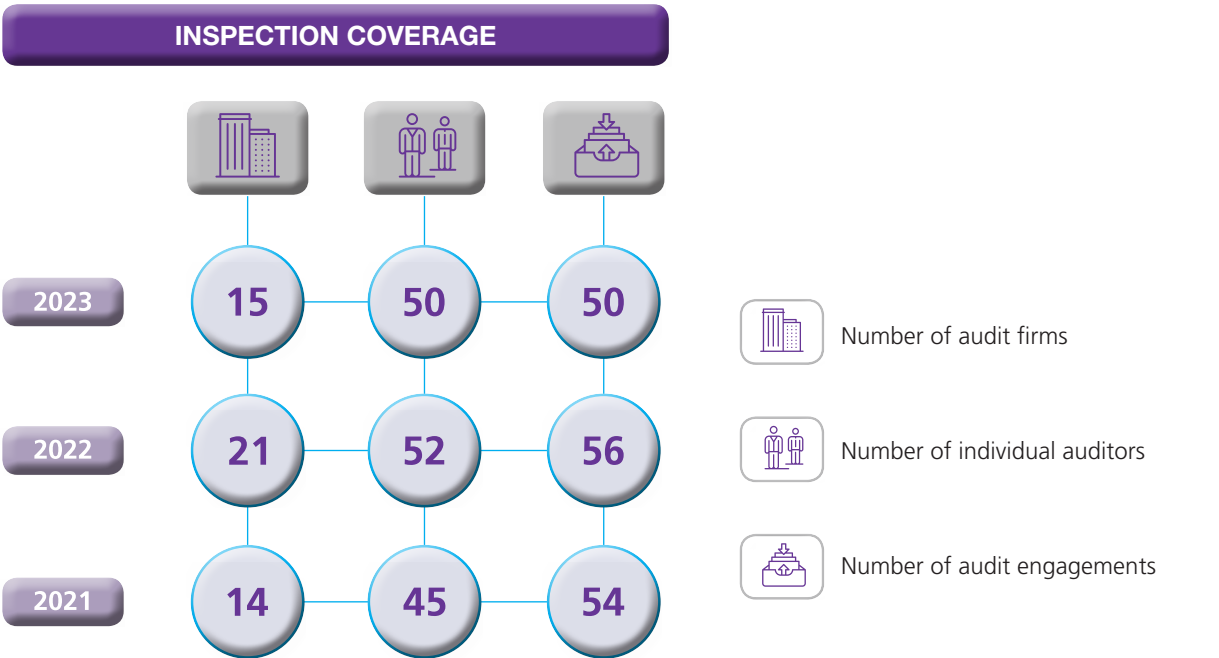
INSPECTION OF AUDIT FIRMS AND INDIVIDUAL AUDITORS

The AOB conducts inspections on auditors of PIEs and schedule funds to promote high quality audits and reliable audited financial statements.

CHART 3
Inspection snapshot



In-depth information on the inspection programme, including common inspection findings, results of reviews, trends analysis and remediation efforts taken by inspected audit firms will be presented separately in the AOB's *Annual Inspection Report 2023 (AIR)*.



Inspection Highlights for 2023

(A) Scope

Firm review:
International Standards on Quality Management (ISQM) 1 and Malaysian Institute of Accountants By-Laws (On Professional Ethics, Conduct and Practice)

Risk Assessment Process

Governance and Leadership

Ethical Requirements


Client Acceptance and Continuance

Resources

Information and Communication

Engagement Performance

Monitoring



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

Engagement review:
Compliance with ISA

Data analysis of quality of auditor based on previous inspection results

Risk of individual PLCs were identified objectively based on observable data-driven indicators and forward-looking information

Incorporates thematic reviews in addressing emerging or potentially systemic issues



2023 Focus:
Priority given to data-driven adverse financial indicators



Specific key areas identified as high risks

Valuation of non-financial assets

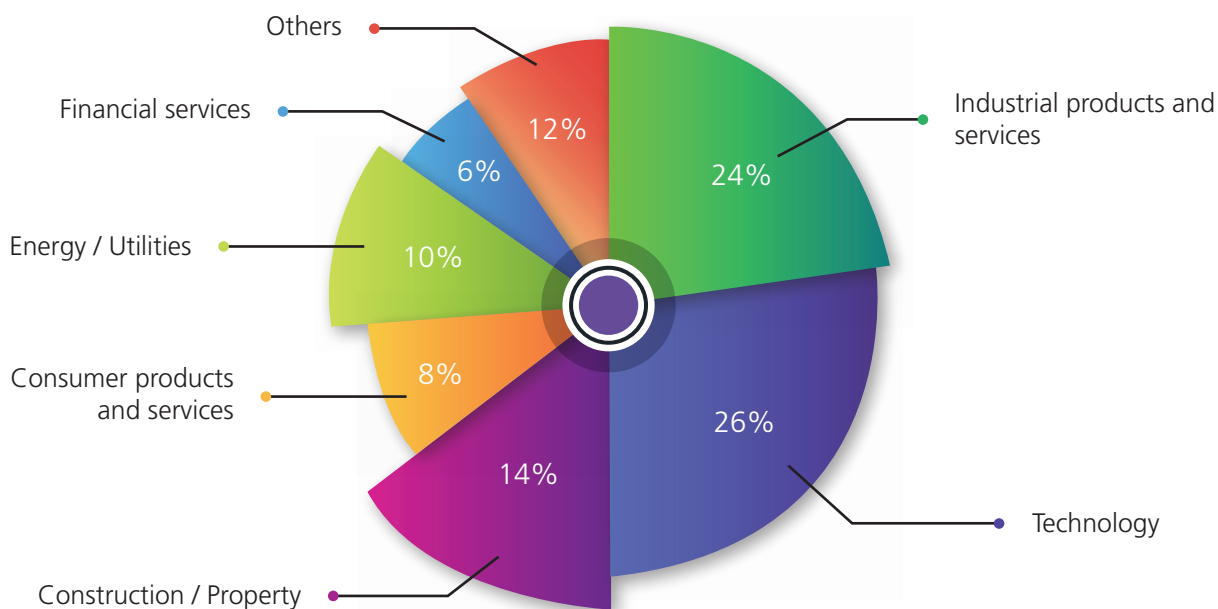
Going concern

Revenue recognition

Reliance on internal controls

(B) Industries

Industries covered in engagement-level reviews in 2023



(C) Actions

To mitigate the risk of future failure arising from serious audit quality concerns, the following actions have been imposed on audit firms and individual partners:

- (a) Mandatory technical consultation to be obtained from the firm's global network in addressing the appropriate accounting treatment for certain classes of transactions and balances.
- (b) Requirement to demonstrate the firm's efforts to increase competencies and professional scepticism of engagement partners, engagement team members and the Engagement Quality Review (EQR) partners in key areas.
- (c) Obligation to reperform specific audit procedures to address the inspection findings and/or to immediately rectify any potential impact on the financial statements of the financial year(s) in question.
- (d) Referrals of certain inspected audit firms and individual auditors including EQR partners to the AOB's Enforcement Department depending on the severity of inspection findings.

ENFORCEMENT ON AUDIT FIRMS AND INDIVIDUAL AUDITORS

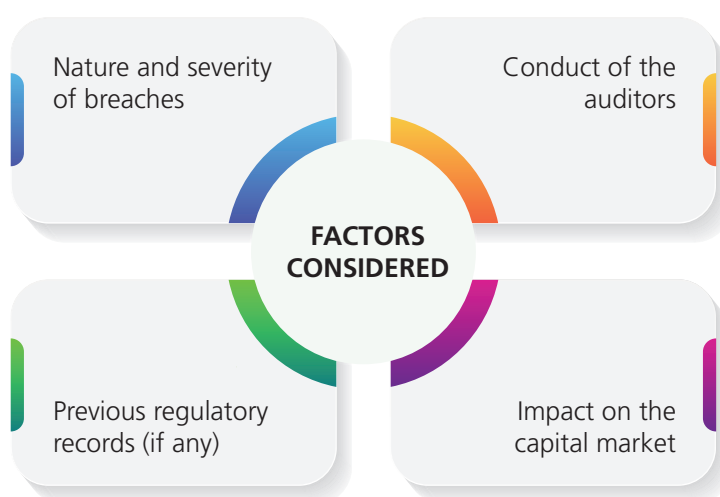
The AOB's enforcement actions are focused to achieve high level of compliance among the AOB's registrants.

Responsibilities

- Conduct inquiries into possible non-compliance with auditing and ethical standards
- Assess non-compliance based on facts obtained from inquiries performed
- Impose proportionate enforcement sanctions based on the nature and severity of the breach

Achieving a Fair and Balanced Decision

In determining the decision to be reached, there are several factors considered:



Highlights from the AOB's 2023 Enforcement Activities

Enforcement Actions Taken in 2023

2



Prohibitions +
Monetary penalties

3



Individual auditors

1



Reprimand



RM75,000

Monetary penalties collected
in 2023

In 2023, three enforcement actions were taken for non-compliances with the relevant ISA, as shown above. Two audit partners were prohibited from auditing and accepting PIEs and schedule funds as audit clients for a period of one year and monetary fines totalling RM75,000 were imposed. One other audit partner was reprimanded.

Read more on the AOB's Enforcement Actions at <https://www.sc.com.my/aob/aobs-sanctions>

Number of Cases Completed since 2021

Year	No. of referrals for enforcement proceedings	No. of cases completed prior to 2023	No. of cases completed in 2023	No. of cases-in-progress as at 31 December 2023
2021	1	1	-	-
2022	4	-	2	2
2023	7	-	-	7
TOTAL	12	1	2	9

The AOB’s Enforcement Observations



AUDIT EVIDENCE

- Non-existent, incomplete or inadequate documentation



AUDITOR’S INDEPENDENCE

- Over-reliance on information provided by clients
- Failure to verify reliability of information provided by clients



EQR ROLE

- Failure to sufficiently review significant areas or judgements
- Absence of robust review