



Suruhanjaya Sekuriti
Securities Commission
Malaysia

**Audit
Oversight
Board
annual
report
2021**

2021

Audit Oversight Board
ANNUAL REPORT

© Audit Oversight Board, Securities Commission Malaysia 2022

Address

No. 3 Persiaran Bukit Kiara

Bukit Kiara

50490 Kuala Lumpur

Malaysia

Telephone: +603 6204 8900

Website: <http://www.sc.com.my/aob>

Fax: +603 6201 1888

The cut-off date for the data included in this report was 31 December 2021.

CONTENTS

CHAIRMAN'S MESSAGE	5
INTRODUCTION	8
Introduction	9
The AOB's Core Functions	9
Profile of the AOB's Registered and Recognised Audit Firms and Individual Auditors	10
MONITORING AND SUPERVISION OF PIE AND SCHEDULE FUND AUDITORS	11
Registration and Recognition of Audit Firms and Individual Auditors	12
Inspection of Audit Firms and Individual Partners	13
Annual Transparency Reporting	16
Enforcement on Audit Firms and Individual Auditors	17
STAKEHOLDER ENGAGEMENTS AND CAPACITY-BUILDING INITIATIVES	22
Stakeholder Engagements and Capacity-Building Initiatives	23
Collaborative Training Programme	25
STATEMENTS	26
Members of the Audit Oversight Board	27
Statement on Governance	32
Financial Statements of the Audit Oversight Board	35
OTHERS	56
Acronyms and Abbreviations	57
Definitions	58



Fostering high quality independent auditing to promote confidence in the quality and reliability of audited financial statements of public-interest entities and schedule funds in Malaysia.



CHAIRMAN'S MESSAGE



Chairman's Message

Dato' Anantham Kasinather
Chairman
Audit Oversight Board



I am pleased to report on the Securities Commission Malaysia's Audit Oversight Board's efforts and activities for 2021.

The AOB's mandate is to assist the SC to promote confidence in the quality and reliability of audited financial statements. In this respect, the AOB continues to reinforce its regulatory expectations through its three core functions – registration and recognition, inspection, as well as enforcement.

Despite the ongoing uncertainties and challenges arising from the pandemic, the AOB remains focused on 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.

FOCUSED ON ENSURING HIGH-QUALITY INDEPENDENT AUDITING

Similar to the year 2020, the events surrounding the year 2021 has caused the AOB to review its focus and reassess its oversight functions. This year, the AOB took the opportunity to further enhance the data analytics driven approach in its inspection to ensure the inspection programme is sufficiently agile to identify key economic trends and market concerns effectively. The data analytics driven approach also allowed targeted inspection focusing on key areas. In addition, the AOB explored various options to perform off-site monitoring reviews i.e. virtual inspections to ensure the AOB's inspection programme was not disrupted by the movement restriction during the pandemic.

Since the number of audits being performed remotely are increasing, strict adherence to auditing and ethical standards is even more crucial now. This year, the AOB continued to set the tone by bringing new dimensions to its oversight activities and sending strong signals through enforcement actions when regulatory expectations and professional standards were compromised. The AOB took five enforcement actions against audit firms and individual auditors that had failed to comply with auditing and ethical standards.

The SC continues to face legal challenges from auditors sanctioned by the AOB. The AOB's powers in enforcing its rules and regulations and the manner in which the AOB conducts its enforcement proceedings were the main grounds of challenge. However, the AOB is pleased that the Judicial Review results in favour of the SC further reinforces the robustness of the AOB's enforcement framework and its processes.

During 2021, the AOB also implemented the Annual Transparency Reporting which requires the AOB-registered audit firms that meet the reporting criteria to share their Transparency Reports with the Audit Committees of their PIE clients. Briefly, the audit firms are required to disclose information on their legal and governance structures, measures to uphold audit quality and how they manage risks, as well as the measurements of their audit quality indicators. This information will greatly benefit the investor and the Audit Committees to facilitate decision-making on the appointment and reappointment of auditors.

STAKEHOLDER ENGAGEMENT AND CAPACITY-BUILDING INITIATIVES

Regular engagements with auditors and key stakeholders are beneficial to ensure stakeholders' needs and concerns are translated into the AOB's focus areas. The desired outcome of the AOB's audit oversight activities is for audit firms to deliver consistent quality audits through continuous capacity building and effective audit quality framework.

Capacity-building initiatives have been an important focus area for the AOB. The AOB utilises the monies collected from the penalty imposed to facilitate capacity-building initiatives for the accountancy and auditing profession. In this respect, the AOB worked together with the Malaysian Institute of Certified Public Accountants (MICPA) to build capacity among smaller AOB-registered audit firms by developing training programmes focused on addressing common areas of audit weaknesses noted by the AOB during its inspection of audit firms and auditors. A total of 975 individual auditors and audit firm staff benefitted from the training programme. The AOB will continue to facilitate capacity-building initiatives as part of its mandate to promote confidence in the quality and reliability of the audited financial statements.

In 2021, the AOB was accepted as a member of the International Forum of Independent Audit Regulators' (IFIAR) Investor and Other Stakeholders Working Group (IOSWG). IOSWG is focused on investor protection and improving audit quality based on suggestions by investors and other stakeholders with interest in audit-related matters. The AOB participation in IOSWG will allow it to leverage the experience of other audit regulators at the global level and help drive policy changes locally.

Finally, the efforts of the AOB this year would not have been possible without the steadfast commitment of the Management, coupled with the support and guidance of the Board Members. I look forward to reporting on the AOB's continued efforts in the years ahead.



Dato' Anantham Kasinather



INTRODUCTION

INTRODUCTION

The Audit Oversight Board (AOB) was established under Part IIIA of the *Securities Commission Malaysia Act 1993* (SCMA) to regulate auditors of PIEs and schedule funds for and on behalf of the SC. The AOB also exercises oversight over any person who prepares a report relating to financial information of PIEs and schedule funds in relation to capital market activities.

The AOB remains focused on its mandate to foster high-quality independent auditing in the capital market. While the AOB continues with its core functions, namely registration and recognition, inspection, and enforcement, it is mindful of the challenges faced by the audit industry. Drivers such as global economic uncertainties and technological disruptions are regularly monitored to ensure that the AOB's focus is current and relevant.

THE AOB'S CORE FUNCTIONS



Registration

The AOB is responsible for the registration of auditors of PIEs and schedule funds. It also recognises foreign auditors who audit the financial statements of foreign corporation listed on Bursa Malaysia.



Inspection

The AOB conducts inspection and monitoring programmes on auditors to assess the auditors' degree of compliance with auditing and ethical standards applicable in Malaysia.



Enforcement

The AOB initiates enforcement proceedings and imposes appropriate sanctions for non-compliance with auditing/ethical standards, regulation and securities laws.

PROFILE OF THE AOB'S REGISTERED AND RECOGNISED AUDIT FIRMS AND INDIVIDUAL AUDITORS AS AT 31 DECEMBER 2021



345 Registered individual auditors

12 Recognised individual auditors

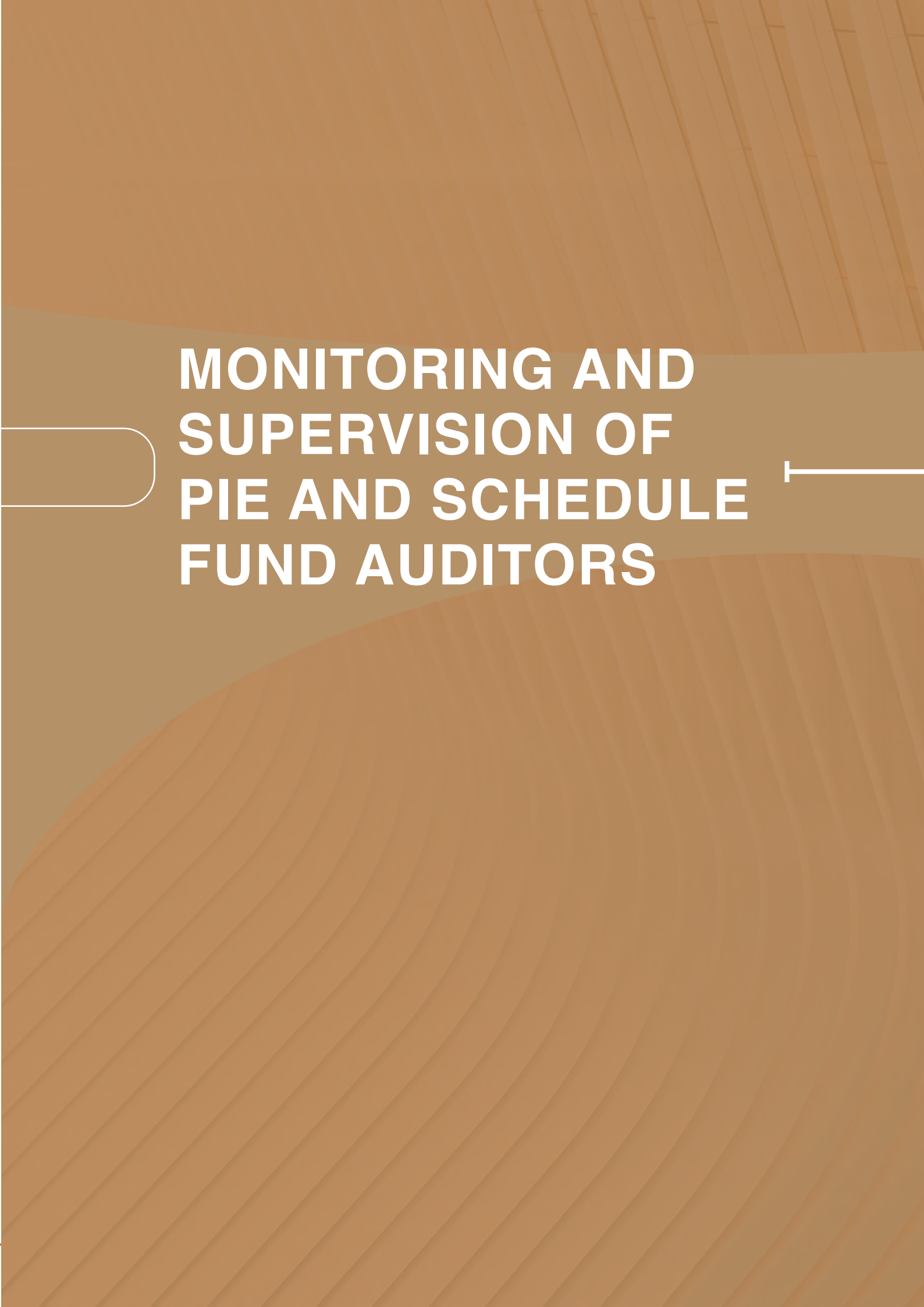


41 Registered and recognised audit firms

Audited **1,203** PIEs
RM1,718 billion
public-listed companies (PLCs)
market capitalisation

Audited **1,255** schedule funds
RM717 billion
net asset value (NAV)

The 2021 key highlights from the AOB's core function are addressed in the following sections.

The background features a warm, brown-toned wood grain pattern. Overlaid on this are several abstract, semi-transparent shapes: a large, light-brown curved shape on the left, a horizontal bar with a rounded end on the left, and a thin horizontal line with a T-junction on the right.

MONITORING AND SUPERVISION OF PIE AND SCHEDULE FUND AUDITORS

REGISTRATION AND RECOGNITION OF AUDIT FIRMS AND INDIVIDUAL AUDITORS

As at 31 December 2021, there were 41 audit firms registered and recognised by the AOB, which audited 1,203 PIEs and 1,255 schedule funds. There were four foreign audit firms and 12 foreign individual auditors recognised by the AOB. Collectively, they audited five foreign incorporated companies listed on Bursa Malaysia.

Table 1 shows the profile of the audit firms and individual auditors registered and recognised with the AOB as of 31 December 2021. The number of registered individual auditors has increased from 339 in 2020 and 345 in 2021.

The number of audit firms and individual auditors registered with the AOB, and the number of PIEs audited in the last five years are shown in Table 2.

<div>Table 1</div> Registered and recognised auditors as at 31 December 2021						
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						
Partnerships with 10 and more audit partners	8	228	898	96.07%	1,215	98.67%
Partnerships with 5 – 9 audit partners	18	84	239	3.32%	40	1.33%
Partnerships with fewer than 5 audit partners	11	33	61	0.44%	-	-
Sub Total	37	345	1,198	99.83%	1,255	100%
Recognised foreign audit firms	4	12	5	0.17%	-	-
TOTAL	41	357	1,203	100%	1,255	100%

<div>Table 2</div> Registered and recognised auditors from 2017 to 2021					
	2017	2018	2019	2020	2021
Registered audit firms	49	53	43	38	37
Registered Individual auditors	334	366	337	339	345
Recognised foreign audit firms	5	3	4	4	4
Recognised foreign individual auditors	17	9	12	13	12
No. of PIEs	1,155	1,171	1,179	1,189	1,203
No. of schedule funds	1,023	1,042	1,100	1,149	1,255

INSPECTION OF AUDIT FIRMS AND INDIVIDUAL PARTNERS

In 2021, the AOB conducted inspections on 14 audit firms covering 45 individual auditors for 54 audit engagements. The AOB adopted a risk-based inspection approach in its planning and engagement selection process and specific key areas in the selected audit engagements. The risk-based approach considers various factors, as highlighted in Figure 1.

The AOB took the opportunity to enhance its data analytics driven approach in its inspection taking into consideration the complexity of the PIE's structures, industries, situations and operating environments. This continuous enhancement will ensure that the AOB's inspection programme is sufficiently agile to identify key economic trends and market concerns effectively. In-depth utilisation of data analytics by the

AOB allowed for a more targeted inspection approach, thereby enabling the AOB to focus on critical key areas.

In view of continuous uncertainties arising from the pandemic, the AOB explored various options or arrangements with audit firms to perform off-site monitoring reviews and/or virtual inspections to ensure that its inspection programme is not entirely disrupted. As a result, the AOB was able to conduct a total of 11 out of its 14 planned inspections remotely throughout 2021.

To further strengthen its monitoring process, the AOB conducted off-site monitoring reviews by analysing auditors' reports and disclosures made within Annual Reports and Audited Financial Statements of the respective PIEs, focusing on the financial position of the PIEs and various significant risk indicators.

FIGURE 1

RISK-BASED APPROACH TAKEN BY THE AOB



**Risk assessment
of audit firms
and individual
auditors**



**Market
capitalisation
of PLC clients
audited by audit
firms**



**Specific areas of
industry or market
concerns**



**Significant
accounting,
auditing / other
developments**



**Use of data
analytics to
identify
specific high
risk areas**

Driven by specific concerns arising from the off-site monitoring review, the AOB was able to identify engagements with potential risk areas for thematic inspections in 2021. Thematic inspection emphasised the audit procedures performed by auditors to address the heightened risks in relation to the critical key areas, as highlighted in Figure 2.

FIGURE 2

SPECIFIC KEY AREAS IDENTIFIED AS HIGH RISK SUBJECTED TO THE AOB'S INSPECTION

Going concern

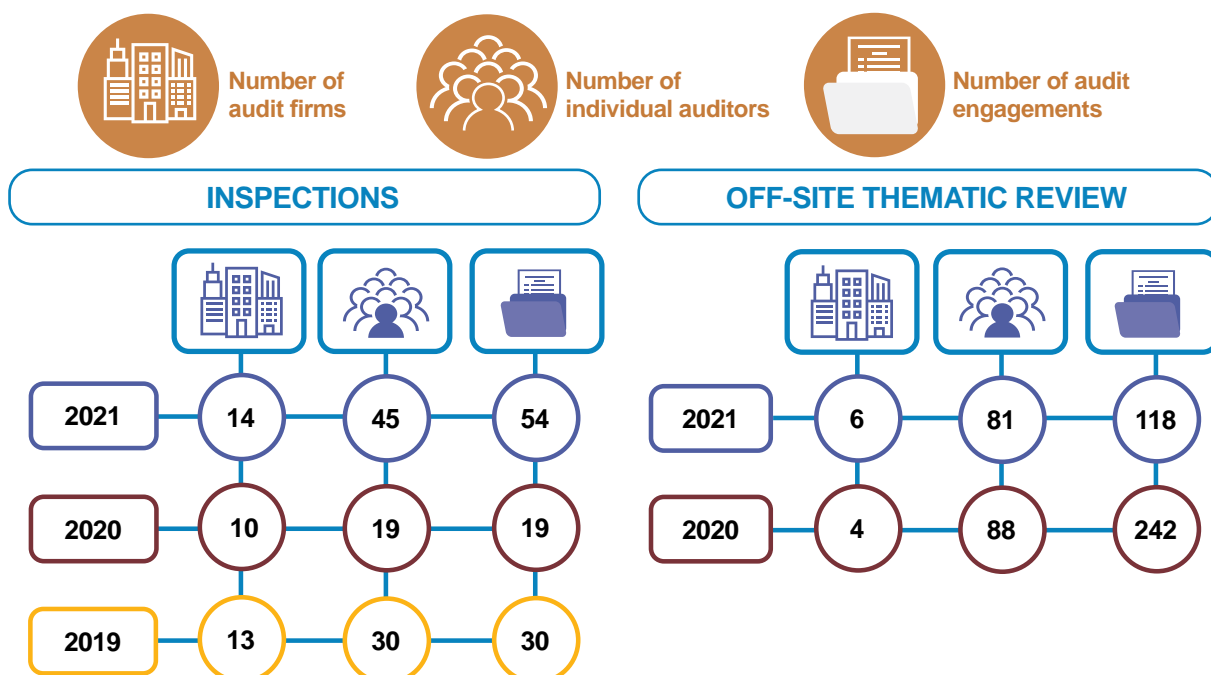
Valuation of
non-financial assets

Revenue
recognition

The above approach taken by the AOB in 2021 contributed to a significantly higher number of audit engagements inspected, as presented in Figure 3.

FIGURE 3

INSPECTION AND OFF-SITE THEMATIC REVIEW COVERAGE



At the end of every inspection, the AOB assessed the severity of findings arising from each engagement reviewed. For engagements where significant improvements are required, the AOB will take action against the individual auditors involved and consider the need for further measures to be imposed on the firms, if necessary.

The following actions in Figure 4, can be taken by the AOB depending on the results of the assessment performed.

Details on the inspection programme, such as common inspection findings, results of thematic reviews, trends analysis and remediation efforts taken by inspected audit firms were presented in the 2020 AOB *Annual Inspection Report* (AIR) published in 2021. For the 2021 inspection programme, the results will be shared separately in the 2021 AOB AIR at a later date.

FIGURE 4

ACTIONS THAT COULD BE TAKEN BY THE AOB

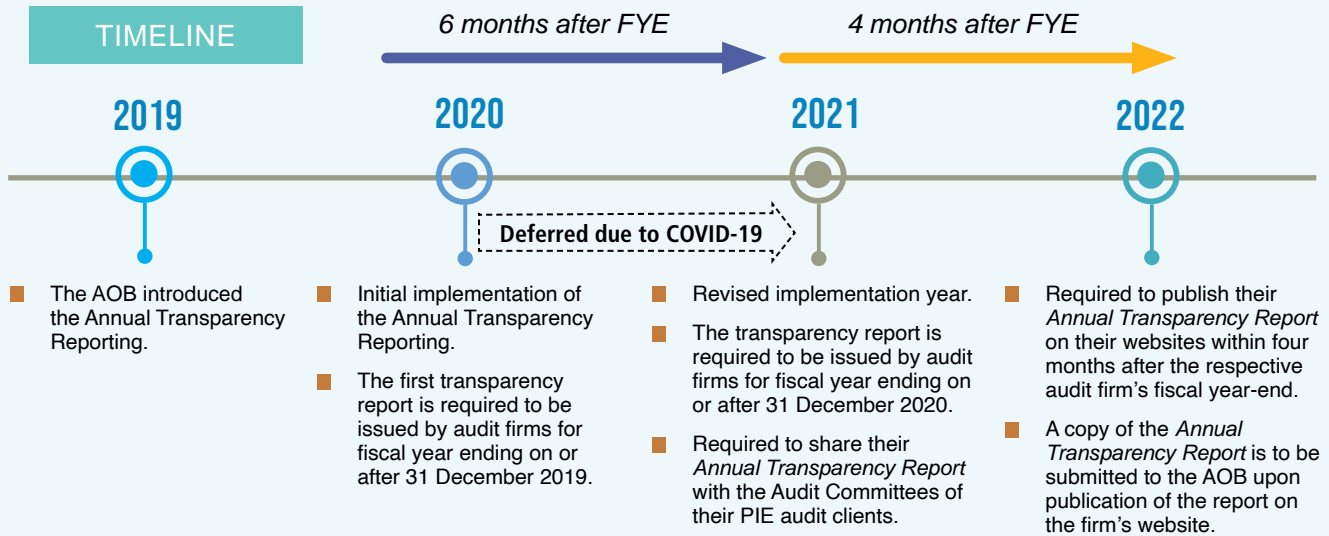
Imposition of specific remediation measures to incorporate or revise the relevant audit procedures

Referred to other SC's line departments or sharing of findings with respective PIE

Enforcement actions by the AOB

Imposition of additional registration condition and interim measures

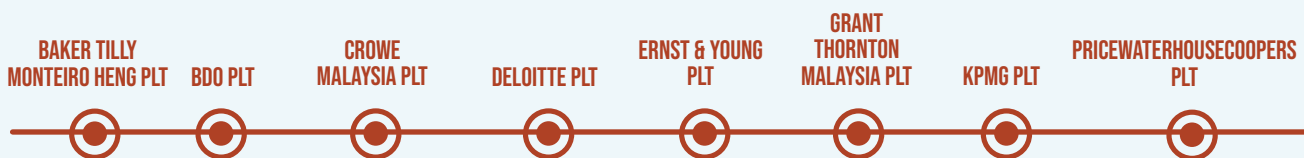
ANNUAL TRANSPARENCY REPORTING



In 2019, the AOB introduced the framework for Annual Transparency Reporting.

- Audit firms with more than 50 PIE audit clients and total market capitalisation of the audit firms' PIE clients of above RM10 billion for two consecutive years are required to produce an *Annual Transparency Report* commencing from the year 2021.
- If the audit firm is not required to issue an *Annual Transparency Report*, the Audit Committee is encouraged to engage the audit firm on matters typically covered in an *Annual Transparency Report*.

In 2021, eight audit firms registered with the AOB had met the criteria set to produce an *Annual Transparency Report* based on the audit firm's fiscal year-end. The eight audit firms were:

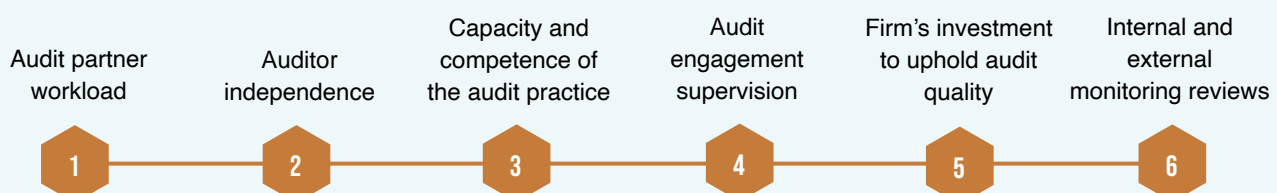


These firms were required to share their *Annual Transparency Report* with the Audit Committees of their PIE audit clients. As part of this process, the AOB reviewed the relevant firms' reports and provided relevant feedback to ensure that the reporting requirements stipulated by the AOB had been met.

As the *Annual Transparency Report* would provide useful information for investors and audit committees to facilitate decision-making on the appointment and reappointment of auditors, the Audit Committee members are reminded to obtain a copy of the report from their respective auditors.

The AOB views that this represents the first step in making more information available to Audit Committees to assist them in assessing their auditors. Plans are in place to gather feedback from Audit Committees and other stakeholders in the capital market to further improve the existing framework.

Mandatory Audit Quality Indicators to be highlighted in the Annual Transparency Report



ENFORCEMENT ON AUDIT FIRMS AND INDIVIDUAL AUDITORS

The AOB utilises a diverse range of enforcement tools and powers to achieve its desired outcome. The AOB may impose administrative actions on auditors for various misconducts as follows:

TYPE OF ACTIONS IMPOSED	
Directive to comply	Section 31Z of the SCMA
Public reprimand	
Remedy the breach according to directive of the AOB	
Undertake relevant professional education	
Assign reviewer to oversee audit	
Prohibitions from auditing and accepting PIEs and schedule funds as audit clients	
Monetary penalties	
Revoke, withdraw, or suspend the registration or recognition of auditors	Section 31Q of the SCMA

In imposing the above actions, the AOB applies the principle of proportionality in determining the appropriate enforcement sanction(s). To ensure that the sanctions imposed serve as an effective deterrence, the AOB takes into account the following considerations:

THE AOB'S ENFORCEMENT ACTIONS CONSIDERATIONS



Nature and seriousness of the breach



Conduct of the auditors



Potential and actual impact to the capital market



Mitigating factors including any action taken by the auditors to remedy the breaches identified

In 2021, the AOB took five enforcement actions, as shown in Figure 5. The AOB revoked the registration of an audit partner and imposed a monetary penalty of RM400,000 on an audit firm for failing to comply with the relevant ethical standards relating to the auditors' independence. The audit firm is also prohibited from accepting and auditing any PIE or schedule fund for a period of 12 months.

Both the audit partner and audit firm were found to have breached Section R601.6 of the Malaysian Institute of Accountants (MIA) By-Laws for providing prohibited services to its audit clients. The AOB views this non-compliance of ethical standards as a serious offence as it undermines the auditor's independence and poses a self-review threat.

FIGURE 5

ENFORCEMENT ACTIONS TAKEN IN 2021

1

Revocation of Registration

2

Prohibitions + Monetary Penalties

1

Monetary Penalty

1

Reprimand

In addition, the AOB also imposed a monetary penalty of RM150,000 and RM50,000 on the same audit firm and its audit partner respectively for breaching the relevant requirements of the *International Standards on Auditing* (ISA). A prohibition for a period of 12

months was also imposed on the audit firm. The severity of the enforcement action reflected the gravity of the offence, and serves as a strong reminder to auditors to ensure compliance with the ISA and other regulatory requirements at all times.



[Read more on the AOB's Enforcement Actions](#)

Table 3	Number of outstanding cases as at 31 December 2021
Cases brought forward from 2020	4
Add: New cases referred to Enforcement in 2021	1
Less: Cases completed in 2021	(3)
Outstanding cases @ 31/12/2021	2

The AOB is mindful that, to have the necessary impact and deterrent effect, the enforcement proceedings must be completed in a timely manner. The number of outstanding cases as at 31 December 2021 is shown in Table 3. Details on the movement of enforcement cases since 2017 are shown in Table 4.

Table 4	Number of cases completed since 2017			
Year	No. of referrals for enforcement proceedings	No. of cases completed prior to 2021	No. of cases completed in 2021	No. of outstanding cases as at 31 December 2021
2017	1	1	-	-
2018	8	8	-	-
2019	4	4	-	-
2020	5	1	3	1
2021	1	-	-	1
TOTAL	19	14	3	2

AOB's Enforcement Observations

Auditing standards stress the importance of audit evidence, where the auditor is required to prepare, on a timely basis, work papers that support the audit work performed and the conclusions reached.

However, in many instances, the AOB observed that the audit procedures and the audit evidence in the audit file are either non-existent, incomplete, or inadequate. Figure 6 depicts the observations with respect to enforcement in 2021.

FIGURE 6

THE AOB'S OBSERVATIONS OF 2021 ENFORCEMENT ACTIONS

Auditor's independence	<ul style="list-style-type: none"> ■ Lack of will to say 'No' or inability to reject client's request for non-audit work which are prohibitive in nature based on By-Laws (On Professional Ethics, Conduct and Practice) of the MIA.
Audit evidence	<ul style="list-style-type: none"> ■ Non-existent, incomplete, or inadequate documentation in the audit file to support the audit procedures performed, assumptions made, and conclusions reached.
Going Concern	<ul style="list-style-type: none"> ■ Failure to assess the reasonableness and appropriateness of the assumptions made. ■ Failure to challenge the viability of the proposed funding / projects and its likelihood of success. ■ Failure to perform quantitative assessment on the company's financial position (liquidity test or ratios assessment) based on the assumptions made.
Asset Impairment	<ul style="list-style-type: none"> ■ Lack of understanding and knowledge on the relevant accounting and auditing standards. ■ Failure to challenge the assumptions and assessment made by management. ■ Insufficient audit procedures performed to ensure the reliability of the underlying data and the reasonableness of the assumptions made in cash flow projections.

Securing Judicial Precedents

In 2021, the SC was involved in three ongoing judicial reviews against the enforcement actions imposed by the AOB. These judicial reviews involved challenges to the AOB's powers in enforcing its rules and regulations and the manner in which the AOB conducted its

enforcement proceedings. In all the judicial review applications, the SC obtained favourable results, which further reinforced the robustness of the AOB's enforcement framework and its processes.



[Read more on the update of the judicial reviews](#)

JUDICIAL REVIEW APPLICATIONS AGAINST THE AOB'S ENFORCEMENT DECISIONS AS AT 31 DECEMBER 2021

Judicial Review	Brief description	Outcomes
Between Afrizan Tarmili Khairul Azhar (AFTAAS) and three of its partners and the SC	Challenges against the AOB's powers and the manner in which the AOB conducts its enforcement proceedings.	<ul style="list-style-type: none"> The Court of Appeal (COA) had on 10 December 2021, ruled in favour of the SC and set aside the High Court's decision on 10 August 2020 to quash the sanctions imposed against AFTAAS and its partners. On 31 December 2021, AFTAAS and its partners applied to the COA for a stay of execution of the sanctions imposed until the disposal of their leave application to appeal against the COA's decision dated 10 December 2021 to the Federal Court.
Between RSL PLT and two of its partners and the SC	Challenges against the AOB's powers and the manner in which the AOB conducts its enforcement proceedings.	<ul style="list-style-type: none"> The High Court had on 26 October 2021, dismissed RSL's judicial review application against the SC.
Between Andrew Heng and the SC	Challenges against the AOB's powers and the manner in which the AOB conducts its enforcement proceedings.	<ul style="list-style-type: none"> On 28 October 2021, the COA had ruled in favour of the SC and dismissed Andrew Heng's appeal against the High Court's decision on 25 August 2020, dismissing his judicial review application to inter alia set aside/quash the AOB's decision and the SC's appeal decision.



STAKEHOLDER ENGAGEMENTS AND CAPACITY-BUILDING INITIATIVES

STAKEHOLDER ENGAGEMENTS AND CAPACITY-BUILDING INITIATIVES

The responsibility for performing quality audits of financial statements rests with the auditors. However, the AOB believes that regular engagements with its various stakeholders and leadership of the audit firms will have a positive effect on enhancing audit quality. Audit quality is achieved in a situation where there is support from, and communication among key stakeholders in the financial reporting ecosystem.

In 2021, the AOB became a member of the International Forum of Independent Audit Regulators' (IFIAR) Investor and Other Stakeholders Working Group (IOSWG). The IOSWG includes IFIAR Members from Austria, Canada, France, Italy, Japan, Korea, the Netherlands, South Africa, United Kingdom (UK) and United States (US). The objective of the IOSWG is to enhance investor protection and improve audit quality based on suggestions both by investors who are the ultimate beneficiaries of the audit and other stakeholders with interest in audit-related matters.

The AOB continued with its stakeholder engagements and capacity-building initiatives for its registrants in 2021.

THE AOB STAKEHOLDER ENGAGEMENTS AND CAPACITY-BUILDING INITIATIVES IN 2021

DIRECTORS / AUDIT COMMITTEES

- Continued to share the AOB's common inspection findings and regulatory expectations through the AOB's Conversation with Audit Committee (AC).
- Shared the AOB's AIR with the AC's of PLCs to facilitate discussion with their auditors on the inspection findings and firm-level statistics to ensure that risk areas specific to their entities are adequately addressed and to gauge the audit firms' commitment and approach to audit quality.

AUDITORS

- The AOB's regulatory expectations and common inspection findings were continuously shared through speaking engagements and at the annual AOB Conversation with Auditors of PIEs and Schedule Funds.
- Discussions with the audit firms on the practical implementation of *International Standards on Quality Management* (ISQM).
- Issued AOB Alert on Audit Considerations for Wholesale Funds Investment by PLCs and Issuance of Perpetual Bonds and Sukuk by PLCs as a reminder for the auditors to pay particular attention to the various considerations and obtain appropriate audit evidence in auditing their PIE clients' investments in wholesale funds.

REGULATORS /PROFESSIONAL ACCOUNTANCY BODIES

- Shared key areas of audit oversight and regulatory experiences with audit regulators and professional bodies such as the Philippines' Association of Certified Public Accountants in Public Practice.
- The AOB's Executive Officer was a key speaker in the Malaysian Institute of Accounts' International Accountants Conference 2021 to discuss the new and revised set of quality management standards which was approved by the International Auditing and Assurance Standards Board. Also discussed were ways to strengthen firm culture, communicating quality management objectives to audit constituents and the consequences of non-compliance for auditors.
- Collaborated with MICPA to develop a training programme to address common areas of audit weakness within audit firms, which the AOB encountered during its inspection.
- The AOB also continues to benefit from the sharing session by IFIAR and the ASEAN Audit Regulator Group (AARG) to leverage the experience of other audit regulators at both global and regional levels.

AOB'S CONVERSATION WITH AUDIT COMMITTEES

In 2021, the AOB organised two sessions of the AOB's Conversation with Audit Committees (AC). The AOB's Conversation with the AC has been an important focus for the AOB. The engagement provides an avenue for the AOB to share its observations and inspection findings, as well as obtain feedback from the AC.



The session included sharing good practices for the AC in supporting audit quality and practical considerations in discharging their oversight functions.

During the conversation, the AOB sought feedback from the AC on how the COVID-19 pandemic has affected them in discharging their oversight roles on financial reporting and communications with the auditors.

The majority of the AC shared that management's assessment of the company's ability to continue as a going concern and impairment of assets were areas where they had spent more time to review during the COVID-19 pandemic. The AC have also increased the frequency of communications with the auditors to address risks and issues in a timely manner.

The AOB reminded the AC to continue assessing the impact of the COVID-19 pandemic on the internal controls of financial reporting function and reiterated the key roles played by the AC in maintaining investors' confidence in the capital market participants' audited financial statements.



**29 November 2021 &
6 December 2021**



**The sessions were
attended by 677 AC
members**



From 397 PLCs



**Consisting of 88%
of attendees from the
Main Market & 12%
from ACE Market**

COLLABORATIVE TRAINING PROGRAMME

CAPACITY-BUILDING INITIATIVES FOR THE AOB'S REGISTERED AUDIT FIRMS AND INDIVIDUAL AUDITORS

The AOB worked together with MICPA to develop a training programme for the AOB registered audit firms with less than 10 partners. These training programmes were subsidised using the AOB's funds collected from the fines and are part of the AOB's continues capacity-building efforts to improve audit quality.

The training programme focused on addressing common areas of audit weaknesses noted by the AOB during its inspection of audit firms and auditors. The areas covered were:

- Audit sampling.
- Auditing accounting estimates.
- Group audits.
- Fraud risk procedures.
- Key audit matters.

Further, the session also included recent developments in the auditing standards and practical considerations with respect to the implementation of the standards.



27 sessions were conducted from September 2020 to June 2021



975 individual auditors and audit firms' staff benefitted from the sessions



One-off training subsidy of up to **RM30,000 per audit firm** for the existing registered audit firms of the AOB with less than 10 audit partners



STATEMENTS

MEMBERS OF THE AUDIT OVERSIGHT BOARD



[For more information](#)



DATO' ANANTHAM KASINATHER



ALEX OOI THIAM POH



SALMAH BEE MOHD MYDIN



HEW EE-LU



DATUK NOR AZIMAH ABDUL AZIZ



DATO' DARAWATI HUSSAIN



**DATO' SERI AHMAD JOHAN
MOHAMMAD RASLAN**


DATO' ANANTHAM KASINATHER

Appointed Non-Executive Member
on 1 January 2020

Appointed Non-Executive Chairman
on 1 December 2020

Dato' Anantham Kasinather brings with him more than 40 years of experience in the private sector, having started his career at Skrine & Co practising in various areas of commercial law. He appeared as Counsel in the High Court of Malaya, Sabah and Sarawak, Court of Appeal, and Federal Court of Malaysia. Dato' Anantham is now a consultant for Sree Harry & Co.

Dato' Anantham has also served in the judiciary where he was appointed as a Judge of the High Court of Malaya in 2009 and elevated to the Court of Appeal in 2010 before retiring from judicial service in May 2014.

Dato' Anantham was appointed as an Arbitrator with the Asian International Arbitration Centre in 2010. At present, he is one of four Representatives of the Government of Malaysia to the Permanent Court of Arbitration. Dato' Anantham is a Fellow of the Malaysian Institute of Arbitrators. He is also a Board Member of the Financial Reporting Foundation (FRF).

Dato' Anantham holds a Bachelor of Law LLB (Hons) from the National University of Singapore.


ALEX OOI THIAM POH

Appointed Executive Officer
on 24 November 2017

Alex Ooi is currently the Executive Officer of the AOB. Prior to joining the AOB, he was an audit partner with BDO Malaysia.

Alex is currently involved in the Auditing and Assurance Standards Board, the Ethics Standards Board, the Education Committee, and the Disciplinary Appeal Board of the Malaysian Institute of Accountants (MIA). He is also a member of the MIA – Malaysian Qualifications Agency's Joint Technical Committee. Alex serves as an Adviser to the Malaysian Accounting Standards Board and also represents the SC as a member in the Audit Licensing Committee of the Ministry of Finance Malaysia. He is a current Council Member of MIA.

He is a member of International Forum of Independent Audit Regulators' Investor and Other Stakeholders Working Group. He is also currently a member of the CPA Australia Ethics and Professional Standards Centre of Excellence. He was previously the Malaysia Divisional President of CPA Australia in 2013 and 2014. He was a former member of the Public Practice Advisory Board of CPA Australia in Melbourne, Australia.

Alex is a Chartered Accountant of MIA, Fellow of CPA Australia, a member of the Institute of Chartered Accountants in England and Wales (ICAEW) and the Malaysian Institute of Certified Public Accountants (MICPA). He holds a Bachelor of Economics (Accounting) from Monash University, Australia.



SALMAH BEE MOHD MYDIN
Appointed Non-Executive Member
on 1 January 2020

Salmah Bee Mohd Mydin is the Executive Director, Market Development at the SC. She is responsible for corporate strategy and planning as well as markets and products.

An important focus of the SC's agenda is the longer-term sustainable development of the broader capital market. Salmah manages a team responsible for formulating the overall planning and strategy for the SC, driving initiatives to enhance market efficiency, vibrancy, liquidity and competitiveness, and its impact to the capital market. She is a board member of the Finance Accreditation Agency, the Malaysian Venture Capital and Private Equity Development Council, and Penjana Kapital.

Given her vast experience in investigation, intermediaries' supervision, market surveillance, authorisation and licensing, and development and policy formulation, Salmah has been involved in numerous external engagements including public sector transformation initiatives, the Attorney-General's Chambers and the Anti-Corruption Agency (now known as the Malaysian Anti-Corruption Commission). She also served as a member of the SC's Capital Market Compensation Fund Corporation and the Financial Stability Committee of the Labuan Financial Services Authority (Labuan FSA).

Previously Salmah was a business reporter with *The STAR* Publications. She has a Bachelor of Arts (Management and Business Studies) from the University of Liverpool and a Masters in Science (Public Policy and Management) from the University of London.



HEW EE-LU
Appointed Non-Executive Member
on 5 October 2018

Hew Ee-Lu has 20 years of regulatory experience in the financial services sector. As a trained actuary in Bank Negara Malaysia (BNM), he was involved in developing capital adequacy frameworks for the insurance sector, implementing reforms in the domestic insurance market and providing technical advice on various policy initiatives. In his current role as the Director of the Insurance and Takaful Supervision Department, he is responsible for the prudential supervision of insurers and takaful operators in Malaysia.

He is a Fellow of the Institute of Actuaries UK and is a graduate from the London School of Economics and Cass Business School.



DATUK NOR AZIMAH ABDUL AZIZ
Appointed Non-Executive Member
on 1 January 2020

Datuk Nor Azimah Abdul Aziz is the Chief Executive Officer (CEO) of the Companies Commission of Malaysia (SSM). Prior to her appointment as CEO on 1 May 2020, she was the Deputy Chief Executive Officer (DCEO) of Regulatory and Enforcement and thereafter, DCEO of Corporate Services from 2016 to 2020. She started her career in 1992 as an Advocate and Solicitor and from there on served as a Law Lecturer at the Accounting Department, Faculty of Business and Management, National University of Malaysia (UKM). During her tenure with UKM, in July 2000 she was seconded to the Regulatory and Standards Department of the MIA. She joined SSM as General Manager of the Corporate Policy, Planning and Development Department in 2003.

Datuk Nor Azimah has extensive experience in law reform initiatives and oversaw the passing of significant pieces of legislation under the purview of SSM among others the *Companies Act 2016*, *Interest Schemes Act 2016*, *Limited Liability Partnership Act 2012* and *Companies (Amendment) Act 2007*. She is currently a Board Member for the Certification of Certified Integrity Officers and Board Member of the FRF. She is also a member of the Approval and Implementation Committee of the Iskandar Regional Development Authority.

Datuk Nor Azimah obtained her law degree from the Institut Teknologi MARA (now UiTM) and Master of Laws (LLM in Business Law) from the University of Wales, Aberystwyth, UK.



DATO' DARAWATI HUSSAIN
Appointed Non-Executive Member
on 1 April 2016

Dato' Darawati Hussain is a Director of Syalin Sdn Bhd. She was formerly a Director of Fund and Co-Investor Relations under the Group Strategy and Strategic Investments Division, CIMB Group (Malaysia).

She has over 30 years of experience in corporate finance, asset management, and private equity. She was previously a European equities portfolio manager for a US fund management company with assets under management worth US\$70 billion.

Dato' Darawati serves as a Non-Independent Non-Executive Director of Mesiniaga Bhd, and as an Independent Board Member of Magna Prima Bhd and Malaysia Venture Capital Management Bhd. She is also an Independent Director of several of RHB Group's Asset Management subsidiaries and other private limited companies.

Dato' Darawati was the former Chairperson of the Malaysia Venture Capital and Private Equity Association and a committee member of the Malaysia Venture Capital Development Corporation under the SC.

She holds a Bachelor in Economics and Accountancy from Durham University, UK and a Master in Business Administration from the London Business School, UK. She is also a Chartered Financial Analyst.



**DATO' SERI AHMAD JOHAN
MOHAMMAD RASLAN**

Appointed Non-Executive Member
on 1 December 2020

Dato' Seri Ahmad Johan Mohammad Raslan was Executive Chairman of PwC Malaysia from 2004 to 2012, when he retired from the firm.

Dato' Seri Johan has held several government appointments, including Chairman of the Financial Reporting Foundation from 2003 to 2009, membership of BNM's Financial Stability Executive Committee from 2009 to 2012, and membership of the International Advisory Panel of the Labuan FSA from 2004 to 2012.

In corporate governance, Dato' Seri Johan helped the SC to roll-out the first *Malaysian Code on Corporate Governance* (MCCG) to the market in year 2000. Since then, he has assisted with drafting certain later versions of the MCCG.

Currently, Dato' Seri Johan is an Independent Non-Executive Director and AC chairman of Sime Darby Property Bhd. He has been a board member of two other PLCs in the past. He is currently a board member of the Institute of Corporate Directors Malaysia.

Dato' Seri Johan holds a Bachelor of Economics (Honours) in Economics and Accountancy from the University of Hull, UK. He is a Fellow of the ICAEW and a member of the MIA and MICPA. Dato' Seri Johan served as MICPA President from 2011 to 2012.

STATEMENT ON GOVERNANCE

BOARD MEMBERS

The Board of the AOB comprises a Non-Executive Chairman, an Executive Officer, and 5 other Non-Executive Members who are appointed by the SC. The Non-Executive Members are representatives from the regulators, namely BNM and SSM, the legal profession, auditing profession and the private sector. The Executive Officer is responsible for the day-to-day administration of the AOB.

The Non-Executive Chairman of the AOB is appointed for a term of 3 years and the Non-Executive Members of the Board are appointed for a term of 2 years. Both the Non-Executive Chairman and Non-Executive Members are eligible for reappointment upon the completion of their term.

A person is disqualified from holding the office of a Board member of the AOB if he or she is:

- Convicted of an offence under the law;
- Declared a bankrupt;

- Fails to attend 3 consecutive Board meetings without leave; or
- Not capable of discharging his or her duties.

The SCMA requires a Board member to manage the conflict of interest by disclosing his or her interest in any matter under discussion by the Board. Once a disclosure is made, he or she:

- Shall neither take part nor be present in any deliberation or decision of the Board or its committees; and
- Shall be disregarded for the purposes of constituting quorum of the Board or its committees, relating to the matter.

RESPONSIBILITIES OF THE BOARD

The Board is responsible for assisting the SC in discharging its functions under the SCMA.

The responsibilities of the Board is include in Figure 1.

FIGURE 1

BOARD RESPONSIBILITIES



Implement policies and programmes to ensure an effective audit oversight system in Malaysia



Register or recognise auditors of PIEs or schedule funds



Direct MIA to establish or adopt, or by way of both, the auditing and ethical standards to be applied by auditors



Conduct inspections and monitoring programmes on registered auditors to assess the degree of compliance of auditing and ethical standards



Impose appropriate sanctions against registered auditors who fail to comply with auditing and ethical standards



Co-operate with relevant authorities in formulating and implementing strategies to enhance standards of financial disclosures of PIEs or schedule funds



Liaise and co-operate with oversight bodies outside Malaysia to enhance the standing of the auditing profession in Malaysia and internationally



Carry out inspection on a person who prepares a report in relation to financial information of PIEs or schedule funds, related to capital market activities



Perform such other duties or functions as necessary or appropriate to promote high professional standards of registered auditors and to improve the quality of audit services provided by registered auditors

BOARD MEETINGS

There were 9 Board meetings held in 2021. The quorum required 3 members to be present. The attendance record of the Board members is set out in Table 1.

Table 1	Attendance at Board meetings
Board members	Number of meetings attended
Dato' Anantham Kasinather (Non-Executive Chairman)	9/9
Alex Ooi Thiam Poh (Executive Officer)	9/9
Salmah Bee Mohd Mydin	9/9
Hew Ee-Lu	9/9
Datuk Nor Azimah Abdul Aziz	7/9
Dato' Darawati Hussain	9/9
Dato' Seri Ahmad Johan Mohammad Raslan	9/9

COMMITTEE OF THE AOB

The Registration Committee was established to deliberate matters regarding the registration or recognition of auditors with the AOB. Where applicable, the Registration Committee will make recommendations to the Board on matters that require further deliberation and decision.

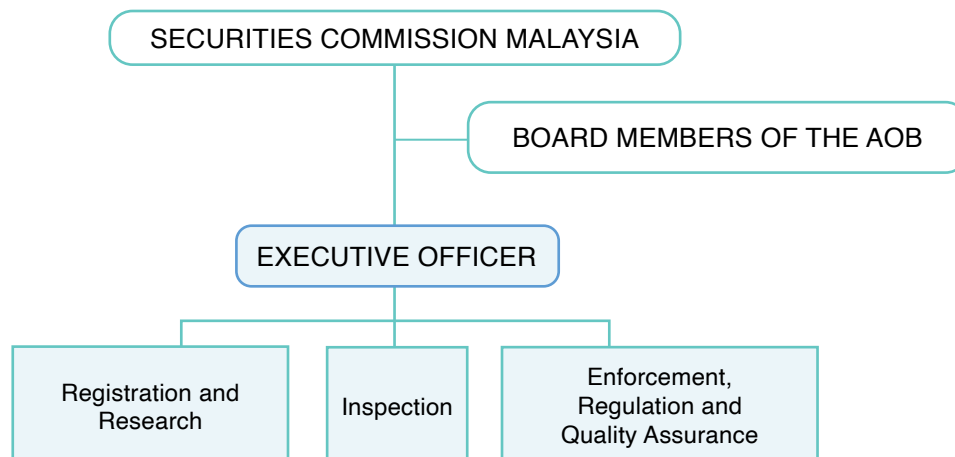
The following are members of the Registration Committee:

- Dato' Anantham Kasinather;
- Alex Ooi Thiam Poh; and
- Dato' Darawati Hussain.

There were 4 Registration Committee meetings held in 2021. The Chairman of the AOB chairs the meetings of the Registration Committee. In his absence, a member of the Board who sits on the Registration Committee can be tasked to take on this responsibility.

Table 2	Attendance at Registration Committee meetings
Members of the Registration Committee	Number of meetings attended
Dato' Anantham Kasinather	4/4
Alex Ooi Thiam Poh	4/4
Dato' Darawati Hussain	4/4

ORGANISATION STRUCTURE



AUDIT OVERSIGHT BOARD

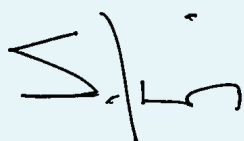
FINANCIAL STATEMENTS

Financial statements
for the financial year ended
31 December 2021

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2021

	Notes	2021 RM	2020 RM
CURRENT ASSETS			
Other receivables	4	81,990	7,488
Other investments	5	2,191,477	1,870,955
Cash and bank balances	6	612,741	621,314
		<u>2,886,208</u>	<u>2,499,757</u>
LESS: CURRENT LIABILITIES			
Other payables and accruals	7	(463,426)	(820,300)
NET CURRENT ASSETS		<u>2,422,782</u>	<u>1,679,457</u>
REPRESENTED BY:			
Funds from the SC	8.1	34,516,438	30,516,438
Accumulated deficit	8.2	(32,093,656)	(28,836,981)
	8	<u>2,422,782</u>	<u>1,679,457</u>

The notes set out on pages 40 to 52 are an integral part of these financial statements.



SYED ZAID ALBAR
CHAIRMAN
SECURITIES COMMISSION MALAYSIA



ALEX OOI THIAM POH
EXECUTIVE OFFICER
AUDIT OVERSIGHT BOARD

28 January 2022

STATEMENT OF COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

	Notes	2021 RM	2020 RM
Registration fees		3,060,400	3,043,000
Finance income from fixed deposits		52,275	51,891
Penalty income		647,500	344,000
Other income		31,388	3,751
		<u>3,791,563</u>	<u>3,442,642</u>
Operating expenditure			
Administrative expenses	9	(7,048,238)	(6,509,686)
		<u>(3,256,675)</u>	<u>(3,067,044)</u>
Deficit before tax		(3,256,675)	(3,067,044)
Tax expense	10	-	-
		<u>(3,256,675)</u>	<u>(3,067,044)</u>
Deficit and total comprehensive loss for the year		<u>(3,256,675)</u>	<u>(3,067,044)</u>

The notes set out on pages 40 to 52 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

	Funds from the Securities Commission Malaysia RM	Accumulated deficit RM	Total RM
At 1 January 2020	27,516,438	(25,769,937)	1,746,501
Funds from the SC	3,000,000	-	3,000,000
Deficit and total comprehensive loss for the year	-	(3,067,044)	(3,067,044)
At 31 December 2020/1 January 2021	30,516,438	(28,836,981)	1,679,457
Funds from the SC	4,000,000	-	4,000,000
Deficit and total comprehensive loss for the year	-	(3,256,675)	(3,256,675)
At 31 December 2021	34,516,438	(32,093,656)	2,422,782
	Note 8.1	Note 8.2	Note 8

The notes set out on pages 40 to 52 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

	Notes	2021 RM	2020 RM
CASH FLOWS FROM OPERATING ACTIVITIES			
Deficit before tax		(3,256,675)	(3,067,044)
Adjustment for: Finance income		(52,275)	(51,891)
OPERATING DEFICIT BEFORE WORKING CAPITAL CHANGES		(3,308,950)	(3,118,935)
Changes in working capital:			
Other receivables		(69,840)	80,596
Other payables and accruals		(356,874)	440,111
NET CASH USED IN OPERATING ACTIVITIES		(3,735,664)	(2,598,228)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		47,613	44,403
Increase in other investments		(320,522)	(259,438)
NET CASH USED IN INVESTING ACTIVITIES		(272,909)	(215,035)
CASH FLOWS FROM FINANCING ACTIVITY			
Funds from the SC		4,000,000	3,000,000
NET CASH FROM FINANCING ACTIVITY		4,000,000	3,000,000
NET MOVEMENT IN CASH AND BANK BALANCES		(8,573)	186,737
CASH AND BANK BALANCES AT 1 JANUARY		621,314	434,577
CASH AND BANK BALANCES AT 31 DECEMBER		612,741	621,314

The notes on pages 40 to 52 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

1. GENERAL INFORMATION

On 1 April 2010, the Securities Commission Malaysia (SC) established the Audit Oversight Board (AOB) under Section 31C of the *Securities Commission Malaysia Act 1993* (SCMA). The AOB was established for the purposes set out in Section 31B of the SCMA, namely:

- (a) to promote and develop an effective and robust audit oversight framework in Malaysia.
- (b) to promote confidence in the quality and reliability of audited financial statements in Malaysia.
- (c) to regulate auditors of public-interest entities or schedule funds; and
- (d) to exercise oversight over any person who prepares a report in relation to financial information, required to be submitted under the securities laws, guidelines issued by the Commission or the rules of a stock exchange, of a:
 - (i) public-interest entity or schedule fund;
 - (ii) non-public interest entity seeking approval to become a public-listed company or a corporation listed on the stock exchange; or
 - (iii) non-schedule fund seeking approval to become a schedule fund.

To facilitate the abovementioned purposes, a fund known as the AOB Fund was established under Section 31H of the SCMA. The AOB Fund is administered by the SC. The SC provides administrative and accounting support to the AOB Fund and the accounts are kept separately from the accounts of the SC in accordance with Section 31L(5) of the SCMA. The SC will continue to provide the necessary financial support to the AOB for the foreseeable future.

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements of the AOB have been prepared in accordance with the *Malaysian Financial Reporting Standards* (MFRSs) and *International Financial Reporting Standards* (IFRS).

(i) Amendments to published standards that are effective

The AOB has applied the following amendments to published standards for the first time for the financial year beginning on 1 January 2021:

- Amendments to MFRS 16 *Covid-19 – Related Rent Concessions*

The adoption of these amendments to published standards did not have any material impact on the current period or any prior period and is not likely to affect future periods.

(ii) **Amendments to published standards that have been issued but not yet effective**

New amendments to published standards and annual improvements that are effective for financial year beginning after 1 January 2021 are set out below:

- Annual Improvements to MFRS 9 *Fees in the 10% test for derecognition of financial liabilities* (effective 1 January 2022) clarifies that only fees paid or received between the borrower and the lender, including the fees paid or received on each other's behalf, are included in the cash flow of the new loan when performing the 10% test.

An entity shall apply the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

- Amendments to MFRS 116 *Proceeds before intended use* (effective 1 January 2022) prohibit an entity from deducting from the cost of a property, plant and equipment the proceeds received from selling items produced by the property, plant and equipment before it is ready for its intended use. The sales proceeds should instead be recognised in profit or loss.

The amendments also clarify that testing whether an asset is functioning properly refers to assessing the technical and physical performance of the property, plant and equipment.

The amendments shall be applied retrospectively

- Amendments to MFRS 137 *Onerous Contracts – Cost of Fulfilling a Contract* (effective 1 January 2022) clarify that direct costs of fulfilling a contract include both the incremental cost of fulfilling the contract as well as an allocation of other costs directly related to fulfilling contracts. The amendments also clarify that before recognising a separate provision for an onerous contract, impairment loss that has occurred on assets used in fulfilling the contract should be recognised.
- Amendments to MFRS 101 *Classification of liabilities as current or non-current* (effective 1 January 2023) clarify that a liability is classified as non-current if an entity has a substantive right at the end of the reporting period to defer settlement for at least 12 months after the reporting period. If the right to defer settlement of a liability is subject to the entity complying with specified conditions (for example, debt covenants), the right exists at the end of the reporting period only if the entity complies with those conditions at that date. The amendments further clarify that the entity must comply with the conditions at the end of the reporting period even if the lender does not test compliance until a later date.

The assessment of whether an entity has the right to defer settlement of a liability at the reporting date is not affected by expectations of the entity or events after the reporting date.

The amendments shall be applied retrospectively.

- Amendments to MFRS 112 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* (effective 1 January 2023) clarify that the initial exemption rule does not apply to transactions where both an asset and a liability are recognised at the same time such as leases and decommissioning obligations. Accordingly, entities are required to recognise both deferred tax assets and liabilities for all deductible and taxable temporary differences arising from such transactions.

These amendments to published standards and annual improvements will be adopted on the respective effective dates. The AOB has started a preliminary assessment on the effects of the above amendments to published standards and annual improvements and the impact is still being assessed.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis other than those as disclosed in Note 3.

(c) Functional and presentation currency

These financial statements are presented in Ringgit Malaysia (RM), which is the AOB's functional currency. All financial information is presented in RM, unless otherwise stated.

(d) Use of estimates and judgements

The preparation of the financial statements in conformity with MFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to the periods presented in these financial statements, and have been applied consistently by the AOB, unless otherwise stated.

(a) Financial instruments

(i) Recognition and initial measurement

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the AOB becomes a party to the contractual provisions of the instrument.

A financial asset or a financial liability is initially measured at fair value plus or minus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issuance.

An embedded derivative is recognised separately from host contract where the host contract is not a financial asset, and accounted for separately if, and only if, the derivative is not closely related to the economic characteristics and risks of the host contract and the host contract is not measured at fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host.

(ii) Financial instrument categories and subsequent measurement

Financial assets

Categories of financial assets are determined on initial recognition and are not reclassified subsequent to their initial recognition unless the AOB changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change of the business model.

Amortised cost

Amortised cost category comprises financial assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely for payments of principal and interest on the principal amount outstanding. The financial assets are not designated as fair value through profit or loss. Subsequent to initial recognition, these financial assets are measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Finance income and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Finance income is recognised by applying effective interest rate to the gross carrying amount except for credit impaired financial assets (see Note 3(c)) where the effective interest rate is applied to the amortised cost.

Financial liabilities

Amortised cost

Financial liabilities not categorised as fair value through profit or loss are subsequently measured at amortised cost using the effective interest method.

Finance expense is recognised in the profit or loss. Any gains or losses on derecognition are also recognised in the profit or loss.

(iii) Derecognition

A financial asset or part of it is derecognised when, and only when, the contractual rights to the cash flows from the financial asset expire or are transferred, or control of the asset is not retained or substantially all of the risks and rewards of ownership of the financial asset are transferred to another party. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) is recognised in the profit or loss.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged, cancelled or expires. A financial liability is also derecognised when its terms are modified and the cash flows of the modified liability are substantially different, in which case, a new financial liability based on modified terms is recognised at fair

value. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

(iv) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the AOB currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and liability simultaneously.

(b) Cash and bank balances

Cash and bank balances consist of balances and deposits with licensed banks which have an insignificant risk of changes in fair value with original maturities of three months or less, and are used by the AOB in the management of its short term commitments. For the purpose of the statement of cash flows, cash and bank balances are presented net of restricted deposits, if any.

(c) Impairment

Financial assets

The AOB recognises loss allowances for expected credit losses on financial assets measured at amortised cost. Expected credit losses are a probability-weighted estimate of credit losses.

The AOB measures loss allowances at an amount equal to lifetime expected credit loss, except for cash and bank balances for which credit risk has not increased significantly since initial recognition, which are measured at 12-month expected credit loss.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit loss, the AOB considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the AOB's historical experience and informed credit assessment and including forward-looking information, where available.

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of the asset, while 12-month expected credit losses are the portion of expected credit losses that result from default events that are possible within the 12 months after the reporting date. The maximum period considered when estimating expected credit losses is the maximum contractual period over which the AOB is exposed to credit risk.

An impairment loss in respect of financial assets measured at amortised cost is recognised in profit or loss and the carrying amount of the asset is reduced through the use of an allowance account.

At each reporting date, the AOB assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

The gross carrying amount of a financial asset is written off (either partially or full) to the extent that there is no realistic prospect of recovery. This is generally the case when the AOB determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the AOB's procedures for recovery of amounts due.

(d) Leases

(i) Definition of a lease

A contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the AOB assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- as a lessee, it has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- as a lessee, it has the right to direct the use of the asset. The AOB has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the AOB has the right to direct the use of the asset if either the AOB has the right to operate the asset or the AOB designed the asset in a way that predetermines how and for what purpose it will be used.

(ii) Recognition and initial measurement

As a lessee

The AOB has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The AOB recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(e) Other Income

(i) Registration fees

Registration fees are recognised at a point in time upon submission of registrations by registrants.

(ii) Finance income

Finance income is recognised as it accrues using effective interest method in profit or loss.

(iii) Penalty income

Penalty income is recognised at a point in time pursuant to Section 31Z of the SCMA where the AOB imposes monetary penalty on auditors for failure to comply with the AOB's registration conditions. The penalty amount is restricted and shall be utilised for planning and implementing capacity-building programmes in relation to the accounting and auditing profession.

(f) Employee benefits

(i) Short-term employee benefits

Short-term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave, contribution to social security contributions (SOCSSO), Employees Provident Fund (EPF) or private retirement scheme (PRS) are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid if the AOB has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(g) Contingencies

Contingent assets

When an inflow of economic benefit of an asset is probable where it arises from past events and where existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity, the asset is not recognised in the statements of financial position but is being disclosed as a contingent asset. When the inflow of economic benefit is virtually certain, then the related asset is recognised.

Contingent liabilities

A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the entity or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably. However, contingent liabilities do not include financial guarantee contracts.

(h) Fair value measurement

Fair value of an asset or a liability is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

For non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

4. OTHER RECEIVABLES

	2021 RM	2020 RM
Other receivable	23,750	-
Prepayments	46,090	-
Finance income receivable	12,150	7,488
	<u>81,990</u>	<u>7,488</u>

5. OTHER INVESTMENTS

Other investments represent deposits placed with licensed banks with maturity terms of 3 months or more and interest income earned at a rate of 1.8% per annum (2020: 1.8% per annum).

The deposits arose from monies received from penalty income imposed by the AOB. The monies are restricted and shall be utilised for planning and implementing capacity-building programmes in relation to the accounting and auditing profession.

In 2020, the AOB approved a one-off training subsidy for the then existing registered firms of the AOB with less than 10 audit partners, of up to RM30,000 per firm for Approved Training Programmes conducted by the Malaysian Institute of Certified Public Accountants (MICPA). RM334,200 (2020: RM460,950) were incurred for the training subsidy during the financial year.

6. CASH AND BANK BALANCES

	2021 RM	2020 RM
Cash and bank balances	<u>612,741</u>	<u>621,314</u>

7. OTHER PAYABLES AND ACCRUALS

	2021 RM	2020 RM
Prepaid registration fee	440,000	432,000
Other payables and accruals	23,426	388,300
	<u>463,426</u>	<u>820,300</u>

8. TOTAL RESERVES

	Note	2021 RM	2020 RM
Funds from the SC	8.1	34,516,438	30,516,438
Accumulated deficit	8.2	(32,093,656)	(28,836,981)
Total reserves		<u>2,422,782</u>	<u>1,679,457</u>

8.1 Funds from the SC

	2021 RM	2020 RM
Contribution:		
At the beginning of the year	30,516,438	27,516,438
Additions	<u>4,000,000</u>	<u>3,000,000</u>
At the end of the year	<u>34,516,438</u>	<u>30,516,438</u>

8.2 Accumulated deficit

	2021 RM	2020 RM
At the beginning of the year	(28,836,981)	(25,769,937)
Deficit for the year	<u>(3,256,675)</u>	<u>(3,067,044)</u>
At the end of the year	<u>(32,093,656)</u>	<u>(28,836,981)</u>

9. ADMINISTRATIVE EXPENSES

	2021 RM	2020 RM
The administrative expenses consist of:		
Auditors' remuneration	22,100	20,000
Honorarium payment	855	70,846
Non-executive members' allowance	314,000	264,400
Other miscellaneous charges	558,598	520,736
Rental of office equipment	1,057	3,150
Staff costs	5,817,428	5,169,604
Training subsidy	<u>334,200</u>	<u>460,950</u>
	<u>7,048,238</u>	<u>6,509,686</u>

10. TAX EXPENSE

The SC was granted approval from the Minister of Finance to be exempted from taxation with effect from Year Assessment (YA) 2007 until YA 2021. As a unit of the SC, with effect from YA 2022, the AOB will be subjected to tax at a rate of 24% under the requirements of the *Income Tax Act 1967*.

11. RELATED PARTIES

Identity of related parties

For the purpose of the financial statements, parties are considered to be related to the AOB if the AOB has the ability, directly or indirectly, to control or jointly control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the AOB and the party are subject to common control. Related parties may be individuals or other entities.

Related parties also include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the AOB either directly or indirectly.

In 2020, Lee Hishammuddin Allen & Gledhill (LHAG) was deemed to be a related party of the AOB by virtue of a Board Member of the SC was also a partner of LHAG.

Significant related-party transaction

The significant related-party transaction of the AOB is shown below:

	2021 RM	2020 RM
Legal fees charged by LHAG	-	(33,904)

12. FINANCIAL INSTRUMENTS

12.1 Categories of financial instruments

The table below provides an analysis of financial instruments categorised as amortised cost (AC):

	Carrying amount RM	AC RM
<u>2021</u>		
<u>Financial assets</u>		
Other receivables	35,900	35,900
Other investments	2,191,477	2,191,477
Cash and bank balances	612,741	612,741
	<u>2,840,118</u>	<u>2,840,118</u>
<u>Financial liabilities</u>		
Other payables and accruals*	<u>(23,426)</u>	<u>(23,426)</u>

	Carrying amount RM	AC RM
2020		
<u>Financial assets</u>		
Other receivables	7,488	7,488
Other investments	1,870,955	1,870,955
Cash and bank balances	621,314	621,314
	<u>2,499,757</u>	<u>2,499,757</u>
<u>Financial liabilities</u>		
Other payables and accruals*	<u>(388,300)</u>	<u>(388,300)</u>

* Exclude non-financial instruments

12.2 Financial risk management

The AOB is primarily exposed to liquidity risk in the normal course of the AOB's operations. As the AOB is administered by the SC, the AOB is subject to the SC's financial risk management policies.

12.3 Liquidity risk

Liquidity risk is the risk that the AOB will not be able to meet its financial obligations as they fall due. The AOB's exposure to liquidity risk arises principally from its various payables.

The AOB, via the SC, monitors and maintains a level of cash and bank balances deemed adequate to finance the AOB's operations and receives financial support from the SC to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they fall due.

Maturity analysis

The table below summarises the maturity profile of the AOB's financial liabilities as at the end of the reporting period based on undiscounted contractual payments.

	Carrying amount RM	Contractual cash flow RM	Under 1 year RM
2021			
<u>Financial liabilities</u>			
Other payables and accruals	<u>23,426</u>	<u>23,426</u>	<u>23,426</u>
2020			
<u>Financial liabilities</u>			
Other payables and accruals	<u>388,300</u>	<u>388,300</u>	<u>388,300</u>

12.4 Market risk

Market risk is the risk that changes in market prices, such as interest rates, will affect the AOB's financial position or cash flows.

12.4.1 Interest rate risk

The interest rate profile of the AOB's significant interest-bearing financial instruments, based on carrying amounts as at the end of the reporting period was:

	2021 RM	2020 RM
<u>Fixed rate instruments</u>		
Financial assets	2,191,477	1,870,955

Interest rate risk sensitivity analysis

Fair value sensitivity analysis for fixed rate instruments

The AOB does not account for any fixed rate financial assets at fair value through profit or loss, and the AOB does not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the end of the reporting period would not affect profit or loss.

12.5 Fair values

The carrying amounts of cash and bank balances, other receivables, other payables and accruals reasonably approximate their fair values due to the relatively short-term nature of these financial instruments.

Fair value hierarchy has not been presented as there are no financial instruments carried at fair value nor those not carried at fair value for which fair value is disclosed as at the end of the financial year.

13. FUND MANAGEMENT

The AOB's objective is to maintain adequate reserves to safeguard the AOB's ability to perform its duties and functions independently. The reserves are managed by the SC.

14. CONTINGENCIES

In 2019, the AOB imposed sanctions against an audit firm and its partners (the Parties) which include inter-alia a monetary penalty of RM631,000 for breaching the AOB's registration conditions under Section 310(3) of the SCMA. The AOB's sanctions were affirmed by the SC.

The Parties applied to the High Court for judicial review on the AOB's and the SC's decisions. On 10 August 2020, the High Court quashed the sanctions imposed by the AOB and the SC against the audit firm and its partners. Pursuant to the High Court's decision, the Parties also sought for an assessment of damages of approximately RM35.0 million from the SC/AOB. The external counsel advised that the claims against the SC/AOB of RM35.0 million is without basis. Further, pursuant to Section 160 of the SCMA, the

SC/AOB were carrying out its functions in accordance with the SCMA and are protected from damages unless it can be proven that they have acted in bad faith.

On 13 August 2020, the SC/AOB filed an appeal to the Court of Appeal to set aside the High Court's decision.

On 10 December 2021, the Court of Appeal decided in favour of the SC/AOB where the High Court decision was set aside. Accordingly the AOB's enforcement actions against the audit firm and its partners remain in effect and their claim for assessment of damages were set aside.

On 20 December 2021, the Parties applied to the Court of Appeal for a stay of its decision, pending disposal of their application for leave to appeal to the Federal Court. Pending finalisation of the judicial proceedings, the monetary penalty of RM631,000 imposed by the SC/AOB against the audit firm and its partners has not been recognised as penalty income.

15. AUTHORISATION OF FINANCIAL STATEMENTS

The financial statements for the year ended 31 December 2021 were authorised by the SC for issuance and signed by the Chairman of the SC and Executive Officer of the AOB on 28 January 2022.

STATUTORY DECLARATION

I, **Vignaswaran A/L Kandiah**, the officer primarily responsible for the financial management of the Audit Oversight Board, do solemnly and sincerely declare that the financial statements set out on pages 36 to 52 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the declaration to be true, and by virtue of the *Statutory Declarations Act, 1960*.

Subscribed and solemnly declared by the abovenamed **Vignaswaran A/L Kandiah**, NRIC No. 561128-10-6171, at Kuala Lumpur in the Federal Territory on 28 January 2022.



VIGNASWARAN A/L KANDIAH
OFFICER

Before me:



G1-1-2, Ground Floor, Menara 1 Dutamas,
Solaris Dutamas, No. 1, Jalan Dutamas, 1,
50480 KUALA LUMPUR, MALAYSIA.

INDEPENDENT AUDITORS' REPORT TO THE AUDIT OVERSIGHT BOARD, SECURITIES COMMISSION MALAYSIA

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of the Audit Oversight Board (the AOB) give a true and fair view of the financial position of the AOB as at 31 December 2021, and of its financial performance and its cash flows for the financial year then ended in accordance with *Malaysian Financial Reporting Standards* and *International Financial Reporting Standards*.

What we have audited

We have audited the financial statements of the AOB, which comprise the statement of financial position as at 31 December 2021, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 36 to 52.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the 'Auditors' responsibilities for the audit of the financial statements' section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and other ethical responsibilities

We are independent of the AOB in accordance with the *By-Laws (on Professional Ethics, Conduct and Practice)* of the Malaysian Institute of Accountants (By-Laws) and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (including *International Independence Standards*) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Responsibilities of the Board Members of the Securities Commission Malaysia for the financial statements

The Board Members of the SC are responsible for the preparation of the financial statements of the AOB that give a true and fair view in accordance with *Malaysian Financial Reporting Standards* and *International Financial Reporting Standards*. The Board Members of the SC are also responsible for such internal control as the Board Members of the SC determine is necessary to enable the preparation of financial statements of the AOB that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the AOB, the Board Members of the SC are responsible for assessing the AOB's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board Members of the SC either intend to liquidate the AOB or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the AOB as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always

detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- (a) Identify and assess the risks of material misstatement of the financial statements of the AOB, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- (b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the AOB's internal control.
- (c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board Members of the SC.
- (d) Conclude on the appropriateness of the Board Members of the SC's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the AOB's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the AOB or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the AOB to cease to continue as a going concern.
- (e) Evaluate the overall presentation, structure and content of the financial statements of the AOB, including the disclosures, and whether the financial statements of the AOB represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board Members of the SC regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

OTHER MATTERS

This report is made solely to the Board Members of the SC, as a body and for no other purpose. We do not assume responsibility to any other person for the content of this report.



PRICEWATERHOUSECOOPERS PLT
LLP0014401-LCA & AF 1146
Chartered Accountants

Kuala Lumpur
28 January 2022



HERBERT CHUA GUAN HENG
03483/01/2024 J
Chartered Accountant



OTHERS

ACRONYMS AND ABBREVIATIONS

AARG	ASEAN Audit Regulator Group
AC	Audit Committees
AOB	Audit Oversight Board
BNM	Bank Negara Malaysia
IFIAR	International Forum of Independent Audit Regulators
IOSWG	Investor and Other Stakeholders Working Group
ISA	<i>International Standards on Auditing</i>
ISQM	<i>International Standards on Quality Management</i>
JAN	Jabatan Akauntan Negara
MIA	Malaysian Institute of Accountants
MICPA	The Malaysian Institute of Certified Public Accountants
NAV	net asset value
PIE	public-interest entity
PLC	public-listed company
SC	Securities Commission Malaysia
SCMA	<i>Securities Commission Malaysia Act 1993</i>
SSM	Companies Commission of Malaysia

DEFINITIONS

Auditor	An individual auditor or audit firm who is registered or recognised under section 310 of the SCMA as a registered auditor or recognised auditor of a PIE or schedule fund.
Public-interest entity	<p>Entity specified in Part 1 of Schedule 1 of the SCMA:</p> <ul style="list-style-type: none"> (a) a PLC or a corporation listed on the stock exchange; (b) a bank licensed under the <i>Financial Services Act 2013</i>; (c) an insurer licensed under the <i>Financial Services Act 2013</i>; (d) a takaful operator licensed under the <i>Islamic Financial Services Act 2013</i>; (e) an Islamic bank licensed under the <i>Islamic Financial Services Act 2013</i>; (f) a person prescribed as a prescribed financial institution under section 212 of the <i>Financial Services Act 2013</i> or a person prescribed as a prescribed Islamic financial institution under section 223 of the <i>Islamic Financial Services Act 2013</i>; (g) a developmental financial institution prescribed under the <i>Development Financial Institutions Act 2002</i>; (h) a holder of the Capital Markets Services Licence for the carrying on of the regulated activities of dealing in securities, dealing in derivatives or fund management; (i) an exchange holding company approved under the securities laws; (j) an exchange approved under the securities laws; (k) a central depository approved under the securities laws; (l) a clearing house approved under the securities laws; (m) a self-regulatory organisation recognised under the securities laws; (n) a private retirement scheme administrator approved under the securities laws; (o) a trade repository approved under the securities laws; (p) the Capital Market Compensation Fund Corporation; (q) any other person as the Minister may prescribe by order published in the <i>Gazette</i>.
Schedule fund	<p>Fund specified in Part 2 of Schedule 1 of the SCMA:</p> <ul style="list-style-type: none"> (a) a private retirement scheme approved by the SC under the <i>Capital Markets and Services Act 2007</i> (CMSA); (b) a unit trust scheme approved, authorised or recognised by the SC under the CMSA; (c) any other capital market funds as may be specified by the SC.