

# **Audit Oversight Board (AOB)**

**6<sup>th</sup> April 2010**

**Securities Commission  
Malaysia**

# Establishment of AOB : In line with global trend

## United States: PCAOB

- Register auditors and firms, set auditing and ethical standards, conduct investigations, disciplinary proceedings in respect of auditors of public companies
- SEC :
  - appoints and can remove the Chairman and members of PCAOB
  - approves the Board's budget and rules
  - entertains appeals of Board inspection reports and disciplinary actions
  - approves auditing standards that are created by PCAOB before they are effective

## United Kingdom: Financial Reporting Council

- Various bodies under FRC assists it to conduct audit oversight such as:
  - Audit Inspection Unit which inspects all auditors of public interest entities
  - Audit Disciplinary Board
  - Audit Practices Board which approves auditing standards



## Australia: ASIC

- ASIC is responsible for:
  - registration of auditors
  - surveillance, investigation and enforcement through Companies Auditors and Liquidators Disciplinary Board

## Singapore: ACRA through Public Accountants Oversight Committee

- Functions of PAOC includes:
  - Registering public accountants
  - Prescribing the criteria for fit and properness for registration purposes
  - Conducts CPE for public accountants
  - Administers practice monitoring programmes
  - Prescribing standards, methods and procedures to be applied by public accountants when providing public accounting services
  - Investigating and disciplining public accountants

# Global developments on accounting standards to enhance audit quality

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- IFAC has issued **International Standards on Quality Control 1 (ISQC 1)** – quality control for firms that perform audits and reviews of historical financial information, and other assurance and related services engagements
- Although accounting body in Malaysia have supplemented ISQC 1 with audit manual and guidelines, it is difficult to ascertain to what extent the compliance with ISQC 1 has been achieved
- The aim of ISQC 1 is to:
  - ❖ Consolidate smaller size firms to meet the numbers for rotation
  - ❖ Enhance expertise in highly specialised audit (i.e. banking industry)

# Accounting irregularities demonstrated lack of credibility, integrity and independence

*Satyam*

“Balance sheets were over inflated by **\$1 billion**, and over reliance on information submitted by clients”

“Balance sheets were over inflated by **\$34 million**, and over reliance on information submitted by clients” | *Oriental Century*

“**Conflict of interest** as it was involved in both consulting and auditing for Enron and Arthur Anderson” | *Enron*

*Madoff*

“Auditors defrauded clients by approving **sham audits** as PCAOB does not require auditors of fund managers and brokerages to be inspected– such auditors not subject to fit and proper criteria

## No different on the local front

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### Transmile

Amount of deviation –RM150m (FY 2005) & RM260m (FY 2006)

### Welli Multi

- Provide misleading statement to Bursa
- Reported fictitious revenue increased to RM86m (3Q06)

### GP Ocean

RM25.7m fictitious sales made to 4 customers (FY2006)

### Energro

RM64m fictitious export sales (FY 2003)

### Megan Media

Submitting false revenue of RM1b in financial statements (FY 2006)

# Establishment of the AOB as a means to strengthen the independent oversight of auditors



To have an oversight system independent of auditors



To ensure only fit and proper persons allowed to audit financial statements



To modernise appeal process  
(currently appeal made to YDP Agong)



To have in place a broad range of sanctions

# Chronology of events

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## September to October 2007

- Budget 2008 announcement by YAB PM – “Government will establish a Public Companies Accounting Oversight Board under the auspices of the SC”
- Consultations held with industry groups and regulators

## January to April 2008

- SC establishes High Level Task Force that met 6 times to deliberate on appropriate audit oversight framework for Malaysia

## December 2009

- Securities Commission (Amendment) Bill 2009 which contains the establishment and functions of the AOB passed in both Houses of Parliament

**1 April 2010**

**Part IIIA Securities Commission (Amendment) Act 2010 came into force**

## **Functions of the SC relating to audit oversight – Section 31B SCA**

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1. To promote and develop and effective and robust audit oversight framework in Malaysia
2. To promote confidence in the quality and reliability of audited financial statements in Malaysia
3. To regulate auditors of public interest entities

## Key provisions of Part IIIA SCA

Section	Details
<b>31E</b>	Responsibilities of AOB <ul style="list-style-type: none"><li>• register auditors of PIEs</li><li>• adopt auditing/ethical standards of MIA</li><li>• conduct inspections &amp; monitoring programmes</li><li>• conduct inquiries and impose sanctions</li><li>• cooperate with relevant authorities and other oversight bodies outside Malaysia</li></ul>
<b>31N</b>	Requirement for registration
<b>31O</b>	Application for registration
<b>31P</b>	Fit and proper criteria
<b>31U</b>	Auditing and ethical standards
<b>31V</b>	Inspection
<b>31W</b>	Inquiry
<b>31Z</b>	Sanctions

# Various functions of AOB...



- Registration
- Inspection
- Inquiry
- Sanctions
- Standard setting

Applicable to all auditors of Public Interest Entities (PIE) only

# Public Interest Entities (PIE): Schedule 1 SCA

## Companies

- ▶ Public listed companies and corporations that are listed on Bursa
- ▶ *E.g. would include GLCs which are listed*

## Capital market intermediaries

- ▶ Holders of CMSL for –
  - ❖ Dealing in securities
  - ❖ Trading in futures contracts
  - ❖ Fund management
- ▶ *E.g. brokers, fund managers*

## Insurance sector

- ▶ Insurance and takaful companies licensed under Insurance Act and Takaful Act
- ▶ *E.g. would include insurance companies which are not listed*

## Banking sector

- ▶ Licensed financial institutions
- ▶ Islamic banks
- ▶ Development Financial Institutions
- ▶ *E.g. commercial banks, investment banks*

## Functions of AOB - Registration

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- Registration process will encompass individual auditors and audit firms of PIEs to ensure every party involved in the auditing process is fit and proper
- Non-registration is an offence
- Introduction of transparent registration eligibility criteria in section 31P SCA and *AOB Handbook for Registration*
- For auditors found not to be fit and proper, suspension, revocation or non-registration will be imposed
- Any person aggrieved may file appeal to SC

**Registration is done on an annual basis**

## Section 31P SCA: Fit and proper criteria

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<b>Auditor status</b>	<b>Financial status</b>	<b>Conviction</b>	<b>Practices</b>
<ul style="list-style-type: none"><li>• Must be section 8 CA 1965 approved company auditor</li></ul>	<ul style="list-style-type: none"><li>• Not undischarged bankrupt within or outside Malaysia</li></ul>	<ul style="list-style-type: none"><li>• Not convicted within or outside Malaysia of any offence involving fraud or dishonesty</li></ul>	<ul style="list-style-type: none"><li>• Not engaged in any practices which reflect discredit on his ability to meet professional auditing standards</li></ul>

# AOB Handbook for Registration: Additional Fit and Proper Criteria

## Disciplinary Action

- Enforcement action, sanctions, disciplinary proceedings taken by any regulatory authority in or outside Malaysia

## Business Conduct

- Business practices or conducted himself in such a way as to cast doubt on his competence, soundness of judgment and professionalism

## Auditor Status

- Refused or suspended under s.8 CA, MIA or any recognised bodies in or outside Malaysia
- Removed as auditor of any PIE

## Auditing & Ethical standards

- Comply with all recognised auditing and ethical standards in the performance of audit of financial statements

**Compliance with ISQC 1 to be completed and submitted by 1 July 2010**

# Application Procedures and Fees

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## Forms

- Form 1 (Individual auditor)
- Form 2 (Audit Firm)

## Procedures

- To submit Forms manually in print and soft copies (disk or CD-rom)
- To attach documents for verification

## Fees

- RM5,000 (annual) per individual auditor payable at the time of receiving the notification of registration

# Functions of AOB - Inspection

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## Frequency

- Risk-based approach in regards to frequency of inspection

## Process

- Inspection process will be guided by international best practices

## Power

- Inspection officers to have power to access working papers, books and accounts and to take down oral or written information

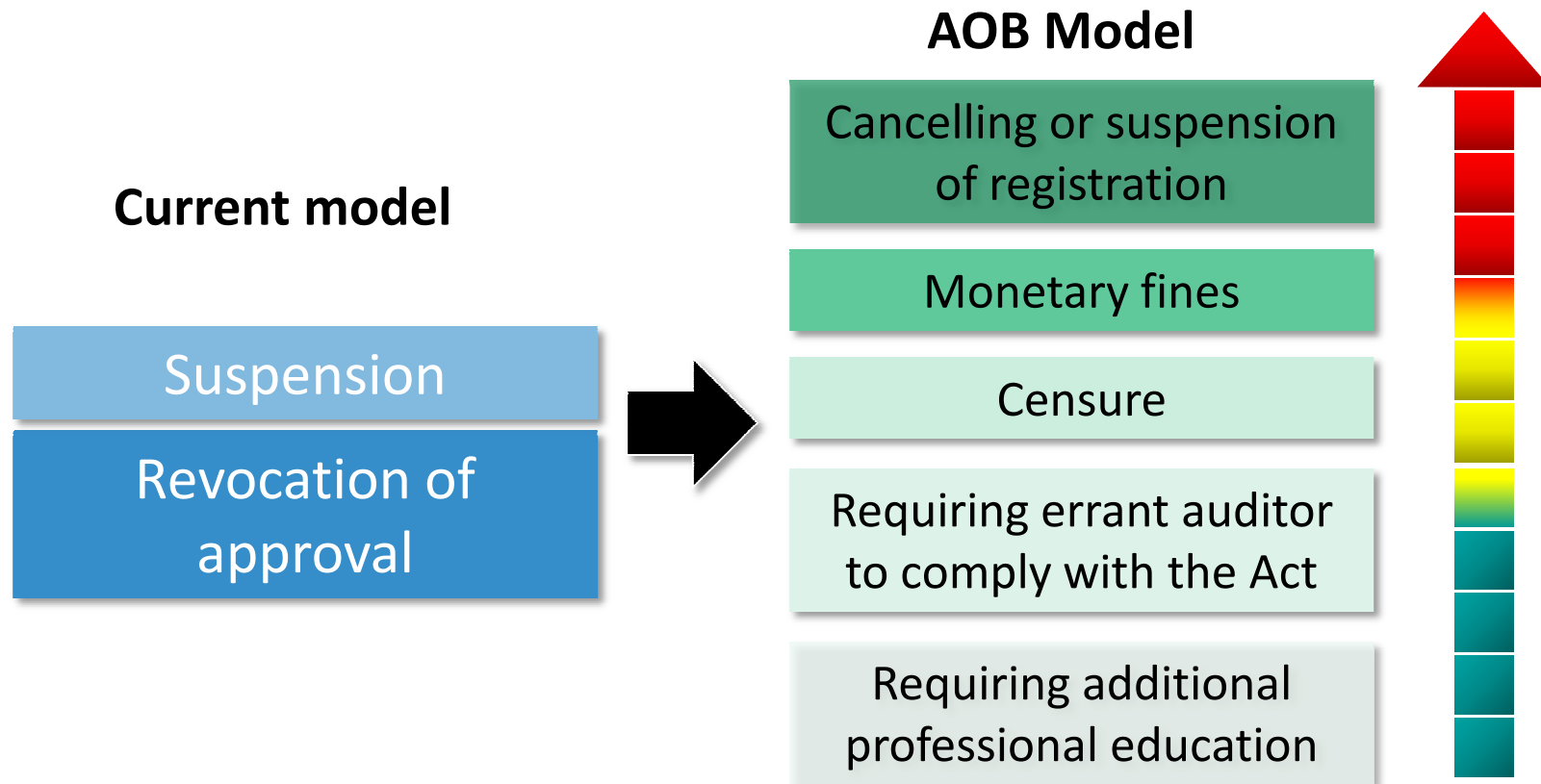
## Functions of AOB - Inquiry

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- Inquiry conducted when there is reason to believe that provisions of the Act, written notice or guidelines are breached
- AOB inquiry officers will be conducting AOB inquiries
- Inquiry officers will be appointed and will have necessary powers to conduct their duties

# Responsibilities of AOB - Sanction

To enable effective and proportionate sanctions to be taken...



## Functions of AOB - Standard setting

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- Compliance with established auditing standards is an integral aspect in ensuring reliability of the company's audited financial statement
- As MIA adopts all IFAC standards, AOB will have power to direct MIA to establish, amend, modify or alter its prescribed standards if the need should arise

# The global nature of auditing demands greater stakeholders' commitment in respect to effective regulation

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To promote confidence in the quality and reliability of audited financial statements, the Act allow the SC to...

- Share knowledge of audit environment and experience of independent audit regulatory activities
- Enhance the connectivity to other international bodies which have interest on audit quality

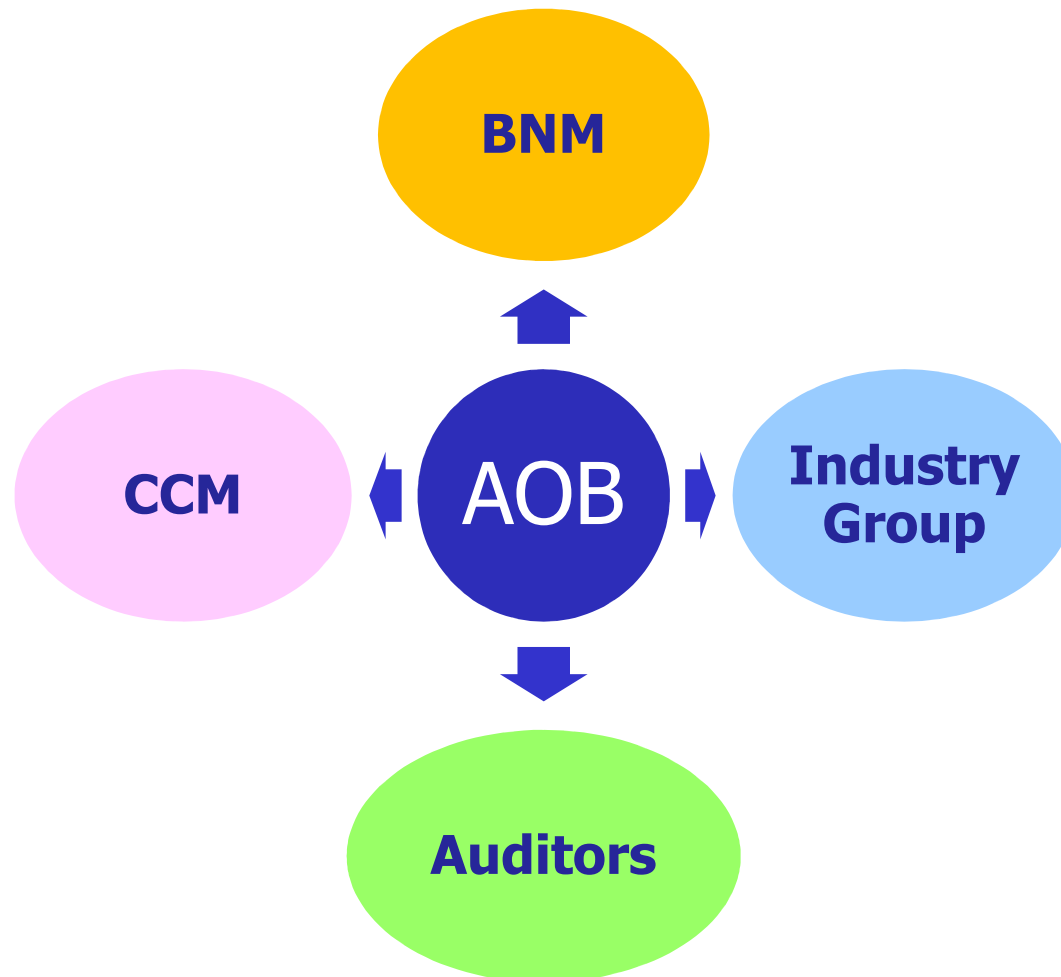
**This include:**

- Bank Negara Malaysia
- Companies Commission Malaysia
- Malaysia Institute of Accountants
- International Organization of Securities Commission
- Other Independent Audit Oversight body

## Moving Forward...

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AOB will work together with all relevant parties to ensure the successful implementation of a robust and independent audit oversight framework



**Please contact AOB at...**

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Thank You