Suruhanjaya Sekuriti
Securities Commission
Malaysia

Audit Oversight Board

annual report
2010

Mission Statement

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

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Executive Chairman's Message

EXECUTIVE CHAIRMAN'S MESSAGE

The setting up of the Audit Oversight Board (AOB) on 1 April 2010 marked an important milestone in the development of an effective and robust audit oversight framework in Malaysia. The AOB, established pursuant to the *Securities Commission (Amendment) Act 2010* (the Act), assists the Securities Commission Malaysia (SC) in regulating auditors of public-interest entities (PIEs) to promote investor protection as well as confidence in the quality and reliability of audited financial statements of PIEs. This development is in line with efforts in other jurisdictions to enhance audit quality and reliability of financial statements which is a key information source to investors and other stakeholders.

The AOB is led by a Board comprising members who represent key stakeholders such as regulators, the accounting and legal fraternities and the investment community with complimenting skill sets and experience. This enabled the Board to deliberate extensively on the strategies and key policies which eventually shaped our operations and deliverables. We also brought in key staff members and developed policies, processes and procedures to ensure smooth operations. The SC provided key support at the early stages of operations including recruitment and training and making available a transition team to assist with the registrations as well as providing financial support.

Registration of auditors

During the first year of its operation, the AOB focussed on ensuring all service areas, particularly registration and inspection, functioned effectively before it could embark on more challenging tasks. Our registration criteria are based on the requirements of the Act to ensure only fit and proper persons are allowed to audit PIEs. As the commencement of registration coincided with the period where most PIEs held their annual general meetings, during which auditors were appointed or re-appointed, the AOB introduced measures to help firms to be registered on time. As at 31 December 2010, a total of 83 audit firms and 310 individual auditors have registered with the AOB.

Audit inspections

One of the key activities of the AOB is audit inspection where audit firms are assessed on their quality practices and compliance with the relevant professional standards. At the end of the inspection, the AOB will issue an inspection report which points out deficiencies identified during the inspection. Audit firms are required to submit to the AOB their remediation plan to the satisfaction of the AOB. The AOB may publish the inspection report of the audit firms and individual auditors if they fail to take the relevant agreed remedial measures. Notwithstanding the remediation, sanctions could be imposed when the audit firms or individual auditors fail to comply with the relevant standards.

Our first inspection took place in August 2010 and by the end of 2010, six audit firms were inspected. The audit firms were selected on a risk-based approach and collectively they audit 73% of PIEs by number. Public-listed companies (PLCs) audited by the audit firms inspected consist of approximately 93% of the total market capitalisation of companies listed on Bursa Malaysia Berhad (Bursa Malaysia) as at 31 December 2010.

In 2010, the AOB finalised one regular inspection report and one special inspection report. As the AOB has just completed its first round of inspections at the end of the year, any inquiry, which may possibly lead to sanctions will only be conducted in the subsequent year.

While we determined that the audit firms inspected had put in place systems and processes in line with global best practices, some specific areas for improvements were identified. The AOB will follow up on the remediation efforts of the audit firms to ensure substantive changes are effected to enhance audit quality.

Stakeholder engagements and support

During the year, the AOB participated in various events, including dialogues with directors, audit firms, investors and academicians, to raise awareness of the responsibility and role played by each component in the financial reporting ecosystem to enhance the quality and confidence of audited financial statements in Malaysia.

As Malaysia moves closer to convergence with International Financial Reporting Standards (IFRS) by 2012, greater commitment and clear directions from boardrooms and management would be more crucial in ensuring the quality of financial statements prepared by PIEs. This includes making available properly trained personnel to the financial reporting team and investing in suitable financial reporting infrastructure. Professional accounting bodies and institutions of higher learning would also need to play their roles in ensuring the adequate supply of trained accounting personnel to serve in PIEs and audit firms.

A high quality audit correlates with the effective application of relevant professional standards by audit firms. The AOB has been working closely with the Malaysian Institute of Accountants (MIA), which is responsible for setting and adopting auditing and ethical standards in Malaysia, to ensure that there is no gap between the standards applicable in Malaysia and international best practices. As at the end of 2010, all international auditing and ethical standards were adopted in Malaysia.

The AOB is also developing working relationships with oversight bodies in key markets, including ASEAN, where our PIEs have substantial business presence. We foresee a greater reliance on their oversight activities in the future as more PIEs are involved in cross-border transactions and investment activities. This will naturally result in an increased utilisation of the services of auditors who are not domiciled in Malaysia.

I am particularly pleased that the AOB was admitted into the membership of the International Forum of Independent Audit Regulators (IFIAR) in September 2010.This is a recognition of the robustness of our audit oversight framework. Through our participation in IFIAR activities, the AOB is able to leverage on the experience of other audit oversight bodies in enhancing the effectiveness of our oversight activities in Malaysia.

Last but not least, I wish to thank my fellow Board members for their counsel and guidance, fellow regulators in Malaysia for their assistance, as well as all other parties which had contributed towards supporting the AOB in its first year of operation. I trust such support will continue as the AOB moves into the next stage of fostering high quality independent auditing in Malaysia.

Nik Mohd Hasyudeen Yusoff
Executive Chairman
Audit Oversight Board
Securities Commission Malaysia

OVERVIEW OF AOB'S STRATEGIES

AOB's Strategies

The AOB aims to achieve the following desired outcomes:

- High quality financial reporting practices by PIEs
- Resourceful and high quality audit practices
- Independent and high quality audits
- High quality and reliable audited financial statements
- Enhanced confidence in audited financial statements

The AOB has adopted a strategic framework which links the service areas and activities of AOB to the desired outcomes which manifest the attainment of its mission. The strategic framework has four strategic themes, which are:

- Support adoption and implementation of standards
- Promote high quality audit practices
- Influence financial reporting ecosystem
- Leverage on stakeholders' support

Support adoption and implementation of standards

Auditing and ethical standards provide the baseline for high quality independent auditing to be achieved. In this respect, the AOB pursues the following goals:

- Ensure no significant gaps
- Promote substance over form implementation
- Facilitate the implementation of standards among audit firms

Promote high quality audit practices

Our key oversight activities such as registration, inspection and inquiry are aimed at ensuring audit firms and individual auditors are committed to delivering high quality independent audits while achieving their business objectives. Towards this, the goals pursued under this theme are:

- Enforce registration policy that promotes quality and capacity
- Drive quality audit practices through inspection and remediation of auditors
- Set the tone for quality through enforcement actions

Influence financial reporting ecosystem

High quality financial reporting would only be achieved if all the key components in the financial reporting ecosystem are effective in playing their respective roles. Understanding this, the AOB would also focus in influencing other important stakeholders to ensure audit quality remains high on their business agenda. The goals pursued are:

- Increase collaboration among stakeholders in the financial reporting ecosystem
- Promote research and discourse on audit quality

Leverage on stakeholders' support

The effectiveness of the AOB would be enhanced if it could leverage on efforts of other stakeholders who share the same interest in enhancing the quality of financial reporting of PIEs. This includes co-operating with international counterparts as auditing itself has become a global affair. The AOB aims to achieve the following goals:

- Enhance the co-ordination of activities with other authorities in Malaysia and abroad
- Participate in international activities to gain knowledge and experience and promote confidence in Malaysian audit quality
- Obtain higher financial support from stakeholders

Part One

Support Adoption and Implementation of Standard

SUPPORT ADOPTION AND IMPLEMENTATION OF STANDARDS

IMPLEMENTATION OF INTERNATIONAL AUDITING AND ETHICAL STANDARDS

One of the cornerstones of audit quality is the adherence to auditing and ethical standards by auditors. Auditing and ethical standards prescribe the requirements and guidance that auditors have to follow in order to fulfill their obligations under the framework that governs them.

Auditing and ethical standards are promulgated internationally by the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA), which are constituted under the International Federation of Accountants (IFAC).

The MIA is responsible for implementing these international auditing and ethical standards in Malaysia. The AOB monitored the standard setting activities of MIA to ensure that auditing and ethical standards promulgated in Malaysia were of at least the same level, if not more stringent, than those adopted internationally and had the same effective date.

International Standards on Auditing (ISAs) and the International Standard on Quality Control (ISQC1) that had been revised and redrafted under the IAASB Clarity Project, were adopted by MIA in 2009. These standards were made effective for audits of financial statements for periods beginning on or after 1 January 2010 and will be applied by the auditors of PIEs. This is similar to the effective date as set out by the IAASB.

During the year, MIA issued the revised *MIA By-laws on Professional Ethics, Conduct and Practice* (MIA By-laws) pursuant to the revised *Code of Ethics for Professional Accountants* issued by the IESBA. This comes into effect from 1 January 2011, which is the same effective date as set by the IESBA. The MIA By-laws are more stringent than the IESBA standard in several aspects in relation to audits of PIEs. This includes:

- Prohibition on temporary secondment of staff;
- Rotation of audit engagement partner after a shorter period of five years instead of seven years; and
- Prohibition on preparing accounting and bookkeeping services and payroll services in all situations, including emergency situations.

The AOB is of the view that these more stringent requirements will promote confidence in the work of audit firms.

The AOB provided feedback on exposure drafts of auditing standards issued by the MIA. In 2010, we commented on the proposed assurance standard relating to pro forma financial information included in a prospectus and the proposed practice statement relating to auditing complex financial instruments.

PROMOTING IMPLEMENTATION OF STANDARDS

To facilitate the implementation of standards among the auditors, the AOB, through its public engagements and forums, undertook to highlight key requirements of auditing and ethical standards that must be complied with by auditors in performing a quality audit.

The AOB invited selected audit firms to share key aspects of their firmwide quality control systems. This gave the AOB an overview of how the audit firms had applied the requirements of the ISQC 1.

The AOB jointly organised a forum with MIA in July 2010 on "Attaining Audit Quality for PIEs". The forum discussed the practical aspects of implementation of ISQC1 towards developing an enhanced framework for audit quality. We used the forum as a platform to set out our expectations.

A dialogue was held in December 2010 with the senior partners of audit firms to understand the steps taken to implement the ISAs that were revised and redrafted under the Clarity Project and the practical implementation issues that have arisen. We re-emphasised the need for professional scepticism in an audit and the exercise of professional judgement.

Part Two

Promote High Quality Audit Practice

PROMOTE HIGH QUALITY AUDIT PRACTICES

REGISTRATION OF AUDIT FIRMS AND INDIVIDUAL AUDITORS

The AOB is responsible for the registration of auditors of public-interest entities (PIEs) under Part IIIA of the Securities Commission Act 1993 (SCA). The PIEs are defined in Schedule 1 of the SCA, as public-listed companies and corporations listed on Bursa Malaysia, licensed financial institutions, insurance companies and holders of the Capital Markets Services Licence (CMSL) for the carrying on of the regulated activities of dealing in securities, trading in futures contracts and fund management.

The registration of auditors of PIEs would ensure that only fit and proper persons are allowed to audit financial statements of PIEs. In line with the AOB's registration policy, the criteria used to assess the fit and properness of a person is transparent and serves as an effective gate-keeping tool.

The AOB received applications for registration as early as 1 April 2010. Applications were vetted according to the fit and proper criteria as provided for in Part IIIA of the SCA and the AOB Handbook for Registration.

It is imperative to note that planning and preparation began prior to the establishment of the AOB. An Implementation Steering Committee which consisted of regulators and selected auditors was set up by the SC in January 2010 to assist in the formulation of the registration criteria of the AOB. A transition team was established and began work in March 2010 and it continued to assist AOB when operations began in April 2010 to handle all registration related queries and other establishment matters.

As the commencement of registration coincided with the period where most PIEs held their annual general meetings, where auditors were appointed or re-appointed, the AOB introduced measures to facilitate registration on a timely basis.

Audit firms and individual auditors seeking registration with the AOB are required to submit information to support their fit and properness declaration. In addition, audit firms are required to submit their compliance with ISQC 1 to the AOB.

Based on the AOB's evaluation, it imposed obligations on certain individual auditors to report on the extent of their involvement in the performance of audits.

As at 31 December 2010, AOB has not rejected any application for registration.

The AOB webpage has a register of audit firms and individual auditors registered with the AOB as at 31 December 2010.

Registration Statistics

Table 1
Audit firms registered with the AOB as of 31 December 2010

Profile of audit firms	Number of audit firms
Partnerships with more than 10 partners	6
Partnerships with 5-10 partners	8
Partnerships with 2-4 partners	55
Sole proprietors	14
Total	**83**

Table 2
Individual auditors registered with the AOB as of 31 December 2010

Profile of audit firms	Number of individual auditors
Partnerships with more than 10 partners	136
Partnerships with 5-10 partners	35
Partnerships with 2-4 partners	125
Sole proprietors	14
Total	**310**

DRIVE QUALITY AUDIT PRACTICES THROUGH INSPECTION

The function of the AOB inspections is to provide an independent oversight to monitor the auditors of PIEs in carrying out their duties in accordance with the relevant auditing and ethical standards and legal requirements to uphold the integrity and quality of the audited financial statements.

An inspection is designed to identify weaknesses and ensure remedial actions are taken by the audit firms to enhance audit quality. A risk-based inspection approach has been adopted by the AOB where focus is placed on certain risk triggers and high risk areas.

Refer to Part Five of this Annual Report, for further details on inspection activities.

ADMINISTRATIVE ACTIONS

The AOB is empowered by section 31Z of the SCA to take enforcement action against those who breach any provisions of Part IIIA of the SCA, any conditions imposed under subsection 31O(4) of the SCA or any written notice or guidelines imposed or issued by the SC.

The AOB adopts a strategic enforcement perspective whereby the principles of proportionality, efficiency and achieving the desired outcome are employed before any sanction is imposed on any person.

In 2010, the AOB issued five warning letters to audit firms for failure to register on time with the AOB as required by section 31N of the SCA. Although a breach of section 31N of the SCA is a criminal offence, the AOB took into account all mitigating factors when deciding to issue the warning letters to the audit firms concerned and adhered to all due process before issuing the letters.

The AOB views breaches of any provisions of the SCA very seriously and will not hesitate to take stern action against those who breach them.

Part Three

Influence Financial Reporting Ecosystem and Leverage on Stakeholders Support

INFLUENCE THE FINANCIAL REPORTING ECOSYSTEM AND LEVERAGE ON STAKEHOLDERS' SUPPORT

ENGAGEMENT WITH STAKEHOLDERS

The financial reporting ecosystem in Malaysia involves many parties, including the external auditor who is a key stakeholder in promoting confidence within the ecosystem.

Thus, the AOB's engagement with various parties is an important aspect of not just understanding the current ecosystem and dynamics of financial reporting in Malaysia, but also influencing these parties towards a common goal of achieving high quality financial reporting practices.

The AOB engaged with various regulators, among them, Bank Negara Malaysia (BNM) and the Companies Commission of Malaysia (CCM) to improve our understanding of supervision of PIEs in areas that are relevant to the AOB.

We met with key officials from the MIA to understand their strategy to regulate and develop the accountancy profession in Malaysia. This included their standard setting processes and other educational and enforcement activities that the MIA performs.

The AOB participated in conferences and forums with directors and key management of PIEs and reminded them of their critical role in ensuring financial statements are properly prepared and comply with the requirements of Financial Reporting Standards (FRSs). This would entail the need for a competent finance function that has sufficient depth. We reminded directors who are members of the Audit Committee to be more vigilant in their review of financial statements and to play a greater role in assessing audit quality before recommending the appointment or re-appointment of their auditors.

CO-OPERATION WITH REGULATORS IN MALAYSIA

The AOB's focus in 2010 was to establish and strengthen our co-operation with other regulators in Malaysia within the financial reporting ecosystem.

Whilst the AOB is fully dependent on funding from the SC, in addition to the registration fee charged to individual auditors, it is the AOB's intention, moving forward, to diversify our sources of funding by getting other stakeholders to contribute, while maintaining our independence of the accounting profession.

DEVELOPING INTERNATIONAL RELATIONS

An important part of the function of the AOB is to liaise and co-operate with oversight bodies outside Malaysia, to enhance the standing of the auditing profession in Malaysia and internationally. In this respect, attaining membership of the IFIAR in September 2010, was a recognition of the AOB's role as well as the AOB's independence of the accounting and audit profession. This will promote investor confidence in the Malaysian capital market.

The AOB participated in its first IFIAR plenary in Madrid in September 2010. The plenary provided the opportunity to meet and discuss audit regulatory issues with global regulators, top leaders of the global network firms and other global institutions within the global capital markets.

Membership of IFIAR enables the AOB to be involved in global activities with respect to inspection and we can gain insights from the experience of other jurisdictions including audit regulators from major capital markets. The AOB will be able to attend inspection workshops and gain first-hand experience of how other audit regulators conduct their inspection activities.

The AOB sought to establish contact with other audit regulators in key markets. These audit regulators shared valuable insights into processes adopted and lessons learnt over the years since their formation. The AOB was able to benchmark and confirm that we are consistent with international best practices in most areas while we undertook refinements to improve in selected areas.

We took the opportunity to share our experience by participating in study visits hosted by the SC for capital market regulators from Sri Lanka and Vietnam.

AUDIT QUALITY

Following the global financial crisis, there have been developments internationally to define audit quality. In December 2010, the IAASB approved the issuance of a publication relating to audit quality that highlighted perspectives on audit quality in terms of input, outputs and contextual factors.

Important inputs include auditing standards such as the ISAs and ISQC 1 as well as the auditors' personal attributes such as their skills and experience, ethical values and mindset. The audit process, incorporating such matters as the soundness of audit methodology and availability of adequate technical support, is also seen as an important input towards supporting execution of a quality audit.

The auditor's report is seen to be an example of a key output that will positively influence audit quality if it clearly conveys the outcome of the audit. Auditor communications that highlight the qualitative aspects of financial reporting practices and deficiencies in internal control are also seen as key outputs that improve audit quality.

Audit quality also needs to be considered in terms of contextual factors surrounding the financial reporting process. For example, sound corporate governance practices and effective regulation create an enabling climate for performing the audit. The appropriateness of a financial reporting framework that promotes robust and transparent disclosures can positively affect audit quality.

In 2010, the Malaysian Institute of Certified Public Accountants and the Institute of Chartered Accountants in Australia issued a guide titled *"The Benefit of Audit: A Directors Guide on Assessment of Audit Quality"*. The purpose of this guide is to enhance communication between the audit committee and the external auditor and provides assistance to audit committees and other relevant stakeholders to:

- Better understand the role and scope of an external audit;
- Engage more effectively with the external auditor; and
- Consider the drivers of audit quality and the components of each driver.

To pursue research on audit quality and establish measurable outcomes that can be used by the AOB, we organised a roundtable discussion in November 2010 with academicians from both local and foreign educational institutions based in Malaysia. The roundtable discussion provided the AOB with several proposals that could be the subject of research studies going forward. We reiterated the importance of institutions of higher learning in educating quality accountants to meet market demands.

Part Four

Building Capacity

BUILDING CAPACITY

DEVELOPING HUMAN CAPITAL

Human capital is critical to the success of the AOB as an effective regulator. The AOB's focus in 2010 was to hire personnel with adequate auditing and accounting and legal skill sets. These personnel were hired from regulatory and industry sources. The AOB personnel attended the SC's internal training programmes as well as external courses to develop our human capital and remain current on auditing and accounting technical matters.

The AOB will continuously assess and strengthen its staff competencies towards becoming a more effective regulator, with the support of the SC.

DEVELOPMENT OF POLICIES AND SYSTEMS

All policies that are necessary for the AOB to function effectively such as registration, inspection, inquiry and sanction were approved by the Board of the AOB in 2010.

At the end of 2010, the AOB embarked on an Electronic Registration System project which is targeted for implementation by the 2011 registration renewal cycle in April 2011. The objective of this project is to enable a paperless and efficient registration system for all applicants. The AOB received positive responses from a sample of audit firms selected in a survey to ascertain their readiness for the Electronic Registration System.

EXTERNAL COMPLAINTS MANAGEMENT

The AOB has received four complaints on alleged improper conduct of auditors since its establishment on 1 April 2010.

Complaints were assessed to determine whether there were any breaches of Part IIIA of the SCA or any non-compliance with auditing and ethical standards. Should the preliminary enquiry reveal any possible breach, the AOB may decide whether an inspection is necessary. However, should there be an immediate public confidence issue, a special inspection can be instituted. Otherwise, the matter would not be pursued for lack of jurisdiction; the files would be closed and the complainants informed accordingly. Complaints which do not involve any breach of the SCA or non-compliance with auditing and ethical standards would be forwarded to the relevant authorities concerned such as BNM, CCM and the MIA.

FINANCIAL STATUS

A detailed budget was prepared for the AOB in 2010 and compared to actual results on a monthly basis to ensure that we maintained our prudent financial objectives, while allowing ourselves the flexibility to respond to market conditions.

The AOB recorded an income of RM1,597,196 for the period to 31 December 2010, while operational expenses totalled RM2,146,751, giving rise to a net deficit of RM549,555. Total assets as at 31 December 2010 was RM4,549,252. Our capital expenditures and related-depreciation expense are accounted for in the SC's financial statements based on the requirements of the SCA. Our detailed audited financial results and financial position for period ending 31 December 2010 are included in Part Nine.

Part Five

Inspection Activities

INSPECTION ACTIVITIES

INTRODUCTION

The AOB's mission is to foster high quality independent auditing to promote confidence in the quality and reliability of the audited financial statements of PIEs in Malaysia. In discharging its duties, the AOB will inspect registered audit firms and auditors, in accordance with section 31V(1) of Part IIIA of the SCA, to assess the degree of compliance with the auditing and ethical standards and the quality of their audit reports in relation to the audited financial statements of the PIEs.

The function of the inspection is to provide an independent oversight to monitor the auditors of PIEs in carrying out their duties in accordance with auditing and ethical standards and legal requirements. The inspection process is therefore designed to assess the quality of the audit performed by the audit firms, identify improvement areas and ensure remedial actions are taken by the audit firms towards enhancing audit quality.

This Part provides an overview of the inspection activities, inspection process and basis of reporting, scope of inspections and overview of findings.

SUMMARY OF ACTIVITIES

The AOB commenced its inspection of audit firms in August 2010. Over the five months leading to the end of 2010, the AOB conducted seven inspections involving six audit firms, covering over 93%, if measured by market capitalisation of PLCs, or 73% if measured by the number of PIEs. These included six regular inspections of the Big Four Audit Firms and two major firms with more than 10 partners, and one special inspection on one of these firms. The inspections encompassed both the firms' overall quality control and compliance with ISQC1 as well as the MIA By-laws and a review of 22 audit engagements of PIEs for compliance with the ISAs. The related industries covered by the AOB inspection programme include construction, plantation, property development, manufacturing, trading and marketing, investment holding and logistic services.

In 2010, the AOB issued three draft regular inspection reports, one final regular inspection report and one final special inspection report. The preparation of the draft inspection reports on the two other inspections are pending finalisation.

Prior to conducting the above inspections, the AOB engaged with selected audit firms in May 2010 as part of the inspection planning process. A total of 10 audit firms were invited to share their firm's quality review processes and assist the AOB in gaining an understanding of the quality control policies and procedures at their firms.

The inspection team engaged with MIA for their sharing of the overall practice review framework and challenges. The AOB also had dialogues with other independent foreign audit regulators including those from Singapore and the United Kingdom and participated in an IFIAR plenary meeting. During the year, the inspection team also participated as observers for the inspections conducted on certain audit firms in Malaysia by The Public Companies Accounting Oversight Board (PCAOB) of the United States of America.

The AOB acknowledges the importance of sharing of experiences with international regulators including understanding the consistency of approach and current emerging issues which enables the AOB to apply them in inspections.

INSPECTION PROCESS AND BASIS OF REPORTING

The AOB conducts its inspection based on the auditing and ethical standards promulgated by the MIA.

In determining compliance with the relevant auditing and ethical standards, the AOB emphasises compliance of the requirements in substance rather than in form. As such, any compliance of the standards in form but not in substance may be regarded as non compliance with the standards.

The inspection process commences with communication with the audit firms, following through with planning matters, the entrance meeting, on-site inspection and the exit meeting.

An essential aspect of audit quality is that all audit procedures and audit evidence should be documented properly and adequately to support the audit opinion. Robust written explanations on critical areas such as estimates and professional judgement is pertinent, with an appropriate depth of analysis as evidence to support the audit conclusion. Therefore, in the absence of documentation or other persuasive evidence, the auditor is regarded to have failed to perform an audit procedure.

After the conclusion of each inspection, the AOB sends a draft inspection report to each audit firm which includes any deficiencies observed during the inspection, notwithstanding such deficiencies may have been addressed by the firm for other audit engagements or after the deficiencies were uncovered by the AOB. The audit firms are expected to provide their responses within specific time periods prescribed by the AOB. The AOB will finalise the inspection report after taking into account representations by the audit firms.

Each audit firm is required to submit their remedial measures and agree on the timeline for remediation with the AOB. They are also required report on the outcome of the remedial measures which have been or are being taken relating to the deficiencies raised in the inspection report. The AOB may publish the inspection report if the auditor fails to take the relevant remedial measures.

The primary purpose of remedial actions is to ensure the auditors put in place the relevant measures and improvement plans to safeguard and enhance audit quality.

SCOPE OF INSPECTIONS

Audit firms with more than 10 individual auditors and auditing more than 40 PIEs were scoped in for inspection by the AOB in 2010. The AOB envisages that these firms will be inspected annually while other firms registered with the AOB will be subjected to inspection over a pre-determined cycle.

The AOB may inspect a registered audit firm either under regular inspection or special inspection.

Regular inspection refers to an inspection conducted on a routine basis to ensure that all audit firms of PIEs are at least inspected within a pre-determined cycle. A regular inspection is conducted with a focus on high risk areas and generally considers the possible impact the audit firm or auditor's quality would have on the confidence of the market and investors.

Special inspection is usually driven by specific concerns, either by events or industry issues that may pose a risk to investor protection or raise concerns over the quality and reliability of the related audited financial statements. Such an inspection covers specific aspects of an audit with greater depth and detail as compared to a regular inspection.

A risk-based approach is adopted by the AOB which considers the risk at the audit firm level, selection of audit engagement files for review taking into account the relevant risks and how the AOB can focus its efforts on the areas of highest risk within an audit engagement.

The inspection methodology provides a framework for the application of a consistent process to all inspections with a focus on aspects of audit firms' operations that have an impact on audit quality. The AOB will report on any exceptions identified during an inspection.

The principle risk that will impact the market and investors' confidence in audited financial statements of the PIEs is where an audit firm forms an inappropriate audit opinion on these financial statements. Consequently, the key challenge of an inspection is to detect the gaps in the audit firms' application of auditing and ethical standards.

As the AOB's inspections are risk-based, it will not review all aspects of the firm's quality control or audit engagements to identify all deficiencies which may have existed. Hence, an inspection should not be taken to provide an assurance that the quality control of the firm, its audits or the financial statements are free from any deficiencies not specifically uncovered.

For a firm review, the evaluation of systems of quality controls entails how an audit firm has established and maintained the system that includes policies and procedures which address each of the following elements stipulated in ISQC1:

- Leadership responsibilities for quality within the firm;
- Relevant ethical requirements;
- Acceptance and continuance of client relationships and specific engagements;
- Human resources;
- Engagement performance; and
- Monitoring.

The matters arising from firm reviews could be categorised into two categories i.e. design and compliance issues. A design issue refers to the absence of controls to address an identified risk. A compliance issue is defined as the failure of the firm's control to detect the risk identified.

The objectives of the engagement reviews are to assess the degree of compliance with auditing and ethical standards by the auditor and to assess the quality of audit reports prepared by an auditor relating to the audited financial statements of the PIEs. In essence, the inspection places emphasis on the sufficiency and appropriateness of audit evidence obtained, in particular for key audit judgement areas that support the audit opinion.

OVERVIEW OF FINDINGS

The auditing framework in Malaysia is comparable to the global framework, particularly with the adoption of all relevant international auditing and ethical standards. The AOB observed that the audit firms in general have in place, policies and procedures, systems and infrastructure in respect of the elements of ISQC1 as well as other applicable standards. However, we noted weaknesses which required improvement, particularly in the implementation of such policies and procedures.

Our inspections identified a number of shortcomings that need to be addressed by the audit firms, particularly in the area of audit documentation and evidence for significant judgement areas. The AOB would conclude that the relevant audit procedures were not performed or audit evidence not obtained if there is no appropriate audit documentation.

Other than instances where there was insufficient documentation for the audit evidence obtained, there were instances where the necessary audit procedures and evidence were clearly not performed or obtained. It is pertinent to recognise that without sufficient evidence and analysis, the auditor may not have a basis to support their opinion.

The areas for improvement observed by the AOB may not necessarily imply that an inappropriate audit opinion was issued.

Going forward, the AOB would like to see audit firms maintain their focus on improving audit quality in order to enhance confidence in the quality and reliability of audited financial statements of PIEs in Malaysia.

A. Findings of Firm Level Reviews

1. Leadership responsibilities for quality within the firm

Leadership of audit firms play an important role in influencing the firm's internal culture and promoting quality. A clear message from the top which recognises and rewards high quality work would certainly reinforce the tone for quality among partners and professional staff.

The AOB observed that audit firms in Malaysia employ various practices in setting the tone for quality. This includes the practice of providing incentives to foster audit quality and imposing penalties when standards are compromised.

While the AOB concluded that audit firms in Malaysia recognised and enforced quality, our inspection observed implementation issues that require further improvements in the some firms. They include:

- The need to review the performance evaluation process of partners and professional staff where business considerations appear to be given greater emphasis relative to audit quality;

- Re-considering the practice of limiting the sharing of audit quality review findings to managerial and higher levels staff; which may dilute the understanding of the intended key messages by lower level personnel.

Given that audit firms operate in an intensely competitive environment, it would be pertinent for their leaders to continue to reinforce the tone for quality while driving the development of their audit practices.

2. Relevant ethical requirements

(a) Independence and ethics

The audit firms inspected, in general, have systems and processes to facilitate compliance with independence policies and other relevant ethical requirements. Audit firms require their partners and professional staff to declare their independence annually and for each audit engagement.

Several audit firms conducted testing on the annual independence confirmations to ensure compliance with the audit firms' independence policies and requirements, notwithstanding the inherent limitation on the completeness of information provided by the partners and professional staff. The outcomes of the testing for some audit firms have been incorporated into individual performance evaluations, which subsequently impacted remuneration.

At the audit engagement level, the common findings in most of the audit firms inspected were instances of incomplete independence declarations by some members of the engagement teams. This implies insufficient supervision by the engagement partner.

The areas of independence and other ethical requirements will continue to be our focus area during future inspections as the AOB would like to see audit firms comply with the requirements in substance rather than form to mitigate the relevant threats.

(b) Monitoring of senior personnel involvement on engagements (five-year rotation rule)

The MIA By-laws stipulates that using the same engagement partner or engagement quality control review partner on a financial statement audit over a prolonged period may create a familiarity threat. Safeguards should be applied in such situations to reduce such threats to an acceptable level. The engagement partner and the engagement quality control review partner should also be rotated after serving in either capacity, or a combination thereof, for a maximum period of five years.

During inspection, the AOB noted that a number of engagement partners and engagement quality control review partners were not rotated out, as required by the five-year rotation rule.

With effect from 1 April 2010, the holder of a CMSL carrying on regulated activities of dealing in securities, trading in futures contracts and fund management have been defined as PIEs. As such, the MIA By-laws is now applicable and therefore, audit firms need to start monitoring the rotation of partners for their CMSL clients. All audit firms inspected except for one have commenced the monitoring of partner rotation to include CMSL clients.

3. Acceptance and Continuance of Client Relationships and Specific Engagements

(a) General policy and procedures

A majority of audit firms have robust policies and procedures in place for the assessment of client acceptance and continuance to address considerations such as independence, possible conflicts of interest and whether appropriate talents are available to perform the service.

However, there were instances where certain audit firms did not complete the evaluation on a timely basis. This defeats the intention of the need for an objective evaluation to address professional issues and sufficiency of relevant resources prior to commencing the work.

(b) Policy on termination of services and documentation

Most of the audit firms inspected except for one maintain an internal policy that provides guidance on circumstances for withdrawal or termination of audit services particularly when there are potential threats to independence and objectivity.

It is pertinent to ensure such a policy is in place to safeguard the audit firms from difficulties in disengaging themselves where necessary.

4. Human resources

(a) Partners' workload

The AOB acknowledges the challenges faced by many audit firms with regards to the shortage of talents and an increase in the partners' workload. It is important to recognise that with a heavier workload, the engagement partner would not be able to spend adequate time on an audit engagement.

While some audit firms have processes in place to spread the workload of the partners, the AOB observed that this appeared not to be fully effective. The statistics gathered by the AOB revealed that the partners' workload is an area of concern and this is further supported by the observations and findings from the audit engagement reviews.

It has also been cited by the audit firms that due to the relatively low audit fees in Malaysia, it is a big challenge for them to secure adequate resources. The concentration of audits with similar financial year ends adds to the heavy workload of the engagement partners.

The process to monitor the partners' workload should be further enhanced. Audit firms should continuously consider their capabilities in respect of time and resources before accepting further audit engagements.

(b) Monitoring of Continuing Professional Education

The AOB observed instances of breaches by partners and staff in compliance with the audit firms' training requirements.

The audit firms' monitoring of Continuing Professional Education (CPE) generally allows for CPE to be accumulated over a three-year period, suggesting that any shortfall in a particular year may be made good in the subsequent year. Such an approach needs to be carefully managed to ensure critical training courses which are time sensitive are attended by partners and staff on a timely basis. The AOB observed that a more effective approach was adopted by some audit firms which penalised staff for not meeting the audit firms' annual CPE requirements.

5. Engagement performance

(a) Monitoring and documentation of audit consultation

Consultation on relevant accounting and auditing matters is a critical process in engagement performance. However, the AOB observed cases which require enhancement:

- No register was maintained to record and track discussions and conclusions;
- Insufficient documentation to support the conclusion of consultations by the engagement partner; and

- No policy to require mandatory documentation and/or consultation on complex transactions or areas of critical judgement.

(b) Time recorded on engagements

One of the attributes to provide evidence of an objective evaluation and involvement of the engagement partner, and engagement quality control review partner, is their time spent on an audit engagement. The AOB's review of audit firms on the low time recorded raised concerns on the adequacy and effectiveness of their involvement in the audit engagement.

All engagement team members should properly record their time spent on any audit engagements to enable the audit firm to effectively monitor engagement performance.

(c) Completion of the assembly of final audit engagement file

In general, the audit firms apply the archiving policy of audit engagement files within 60 days from the date of the auditor's report. However, there were instances where the audit engagement files were not assembled and completed within the 60-day rule as guided by ISQC1.

(d) Safeguarding the confidentiality of engagement documentation

The audit firms generally engaged external service providers for storage of hardcopy audit engagement files. There were instances where the terms of the service agreements with the external providers did not contain confidentiality clauses to protect the firms against potential breaches.

6. Monitoring

(a) Monitoring and follow up on remedial actions arising from audit quality reviews

The audit firms are subject to internal and/or network audit quality reviews to provide them with reasonable assurance that the policies and procedures relating to quality control are operating effectively. However, there have been instances of the lack of effective monitoring and follow up arising from the audit quality reviews to ensure that the required remedial actions have been fully implemented in a timely manner as a basis to promote audit quality.

(b) Awareness amongst staff on audit firm's complaints and allegations process

Whilst generally, most audit firms have a formal process for staff to report on complaints or allegations which may be communicated in written form or via phone call to the designated personnel, the level of awareness amongst staff on the process can be improved. The audit firms should enhance the communication process in this area.

7. Common issues relating to industry practice in the profession

(a) Audit licence

A partner of an audit firm must be licensed by the Ministry of Finance (MOF) to hold himself out as the partner of the firm and be eligible to sign audit reports. An engagement partner is defined under ISQC1 as the partner who is responsible for the engagement and its performance, and has the appropriate authority from the professional, legal or regulatory body to issue the report on behalf of the firm.

There are a number of situations where the signing partner did not perform his role as the engagement partner. Such situations arose as the person performing the engagement partner role had not obtained the approval from MOF even though the audit firm treated this person on an equal standing with other licensed partners. Such a practice may create an impression that the signing partner has performed the role of an engagement partner.

Audit firms should also ensure that such engagement partners do not hold themselves out to the public as the firm's audit partner until they have obtained their audit licence from the MOF.

(b) Engagement quality control review partner

The AOB also observed instances of engagement quality control review partners who are not auditors registered with the AOB. The AOB takes the view that from 1 April 2010, all engagement quality control review partners must be registered with AOB.

(c) Limitation of access to financial information of associates

The other common issue faced by the audit firms relates to the limitation of access to financial information of an associate of the group audited by the principal auditor for consolidation purposes, particularly when the associate is a public-listed entity. The information is usually available after the financials of the associate is made public.

In practice, most principal auditors consolidate the financial information of the associate based on preliminary figures such as the latest available quarterly results. As the final figures may not be available on a timely basis for consolidation purposes, there is a risk faced by the principal auditor if there are material differences between the preliminary and final figures.

B. Findings of Engagement Reviews

1. Going concern

One of the fundamental assumptions in the preparation of financial statements is going concern. The AOB focussed on how auditors considered the appropriateness of management's assessment of the entity's ability to continue as a going concern in the preparation of the financial statements.

A majority of audit firms have focussed their audit plans to include the evaluation of going concern in view of the challenges faced by reporting entities.

The AOB noted certain areas requiring improvement:

- Insufficient audit procedures performed to assess the appropriateness of the going concern assumption despite the existence of indicators of going concern issues;
- Instances where the evidence of challenges by the auditors on key assumptions used by management to support the basis for going concern were lacking;

- A majority of auditors did not perform an independent stress test or sensitivity analysis, particularly when management's cash flow projections revealed a thin margin of error;

- Inadequate consultations or an absence of sufficient documentation to support that discussions had taken place between the engagement partner, engagement quality control review partner and other relevant technical personnel; and

- Reliance on management representation letter without verifying the representations.

In three instances, there were disclosures in the financial statements or management's representation letter which point to significant doubt or dependence of a future event to support their ability to continue operating as going concern entities. However, the audit opinion did not reflect the substance of such disclosures.

In another instance, while an "Emphasis of Matter" opinion relating to going concern was issued, the description of the facts supporting the opinion gave a different connotation as though there was no default in debt obligations.

2. Assets impairment

Assets impairment was a focus as the global economic situation increased the likelihood of an impairment in the carrying value of assets.

The AOB inspected a number of audit engagements with material assets, and assessed the work performed by the auditors and the quality of audit evidence obtained to support the carrying value of these assets.

The following findings were observed with respect to asset impairment:

- Instances of no assessment being performed despite the existence of indicators of impairment;

- The discount rate used did not reflect the risk specific to the assets;

- Inadequate evidence of challenge of assumptions and key estimates used by management, for example the growth rate; and

- Non-performance of sensitivity analysis when management's cash flow projections revealed a thin margin of error.

There were also instances where the assessment of impairment of assets were not performed in accordance with Financial Reporting Standard 136 – "Impairment of Assets". For example, the assessment of goodwill impairment was performed by comparing the recoverable amount to the carrying amount of the investment in subsidiaries and projections were not extrapolated using a steady or declining growth rate for subsequent years.

There was also inadequate documentation of audit procedures to support the basis for identification of cash generating units and the conclusions thereof.

3. Construction contracts

Accounting for construction contracts involves significant estimates and judgement in the preparation of construction budgets and the determination of the percentage of completion. The AOB's inspection revealed instances where auditors did not obtain the required understanding of the budgeting process. There were insufficient test of details and extended audit procedures to address identified key risks. In one instance, there was no audit work programme developed to address relevant assertions.

In another instance, the AOB observed that the auditor had placed comfort on a trade payables confirmation to support the conclusion on the completeness assertion for estimated costs to completion. This is not appropriate as reliance on trade confirmations does not provide conclusive evidence to support the completeness assertion for estimated costs to completion.

4. Related parties transactions and disclosures

There were instances where insufficient audit procedures were performed by the audit firms to review management's process to identify related parties and related-parties transactions (RPTs).

In addition, there were instances where there were no verification of RPTs disclosed in the financial statements.

There were also shortcomings in relation to audit procedures to verify the disclosure for RPTs that were disclosed as transactions made on an arm's length basis in accordance with Financial Reporting Standards 124 – "Related Party Disclosures".

5. Review of journals

There were instances where samples selected for the review of journal testing were restricted towards the financial year end with no further documentation to support the rationale of such coverage. Such documentation is pertinent to establish the basis of coverage to support an unbiased view.

In addition, there were also weaknesses noted in the audit procedures performed to address the completeness assertion where the population was not ascertained, client's late adjustments were untested and the absence of description of verified sources.

6. Third party confirmations

There were instances where the auditors placed reliance on photocopy, scanned copy and faxed copy of confirmations received without performing any further validation of the source of these replies. The AOB is especially concerned when these confirmations were routed to them via the PIEs. There were also situations where there were no follow up procedures performed on the original copies of the confirmations.

Other shortcomings include lack of evidence of timely and appropriate follow-up action, resulting in the confirmations being received after the audit report signing date. Certain alternative audit procedures performed on fixed deposits and bank borrowings may not be sufficient to address the intended objectives of confirmations circularised.

While the difficulty in obtaining responses was often cited for practical reasons, third party confirmations provide independent evidence and therefore audit firms should place greater priority in obtaining them.

7. Use of experts

Where the audit firms placed reliance on work performed by experts, the AOB observed that several audit firms did not perform audit procedures to evaluate the competence, objectivity and terms of engagement of those experts before placing reliance on their reports.

Auditors need to consider whether the risk of an expert's objectivity may be impaired or tainted especially where the expert is employed by the PIE. The AOB also observed instances where the auditors did not appropriately consider limitation clauses in the experts' report.

8. Multi-location reporting

In considering the extent of the principal auditor's involvement and use of the work of other component auditors, we identified limitations in the scoping process, where the scoping for material joint ventures or associates and the basis of setting materiality thresholds were not clearly supported or documented.

There were other shortcomings in the follow up of post balance sheet reporting by other component auditors and absence of reconciliation of differences between Malaysian Financial Reporting Standards (FRSs) and foreign Generally Accepted Accounting Principles (GAAP).

In complying with International Standards on Auditing (ISA) 600 – 'Using Work of Another Auditor', the principal auditor should consider the findings reported by the other component auditors. However, there were instances where the audit firms did not evaluate and conclude on the implications of those findings.

9. Other principal findings

(a) Documentation

Audit firms need to improve in the area of audit documentation, particularly in documenting conclusions on contradictory facts with potential implications on the audit conclusion. There were also shortcomings in respect of documenting the nature, timing and extent of audit procedures performed and conclusions reached.

Audit firms should be aware that insufficient documentation would be to their disadvantage when they are required to provide relevant proof of audit procedures performed or audit evidence obtained to support the audit opinion rendered on a particular audit. This is because, in the absence of documentation or other persuasive evidence, the audit firm is regarded to have failed to perform an audit procedure.

(b) Planning and Risk Assessment

The AOB observed some instances that insufficient rigor in planning has resulted in the audit risk assessment process failing to identify significant risks, and consequently resulted in the omission of audit procedures in certain audits.

The auditor should also communicate significant audit issues arising from the audit of financial statements with those charged with governance of an entity. However there were instances of key issues involving estimates and judgement areas that were not communicated to the audit committee.

(c) Direction, Supervision and Performance

The number of findings noted raise concern on the sufficiency and effectiveness of the engagement partner's direction, supervision and performance of an audit engagement.

These findings include failure to detect omissions and errors of disclosures in the financial statements, lack of robustness in the design of appropriate audit procedures to obtain sufficient appropriate evidence that addresses the relevant risks and assertions, absence of evidence on relevant consultation to support conclusions on key matters and non-compliance with the audit firm's archiving policy.

(d) Professional skepticism

Professional skepticism is to be applied throughout the course of an audit where, in discharging its duties, the auditor is expected to be conscious of circumstances that may cause the financial statements to be materially misstated. However, the following instances suggested the need for auditors to enhance their professional skepticism:

- Management representations (both verbal and written) are not sufficiently verified or challenged;
- Insufficient audit procedures to analyse, understand and evaluate inconsistencies arising from audit evidence obtained;
- Performing basic minimum audit procedures without due consideration of the potential risks arising from the implications of not performing extended procedures where necessary;
- Placing reliance on output of reports without testing their sources for accuracy, reliability and completeness; and
- Using PIEs internally-generated evidence instead of evidence from an external source.

CONCLUSION

The AOB views that the tone from the top is pertinent in driving quality across the audit firm and profession. It is therefore important to recognise practices of the audit firms that provide incentives which foster audit quality and on the other hand penalise professionals for compromising professional standards.

Based on the findings, there is a need for audit firms to continue improving their audit documentation to ensure that the work performed and audit evidence obtained are properly recorded, which is necessary to support the audit opinion rendered. This requires effective direction and supervision by engagement partners.

The AOB recognises that with the heavier workload of auditors, they would not be able to spend adequate time on the engagement. Audit firms should ensure the auditors workload does not compromise audit quality.

Appropriate financial statements disclosure is one of the main thrusts for good financial reporting. It provides transparency and useful information to the users of financial statements so that proper decisions can be made. Hence, it is pertinent that the auditors place greater emphasis in reviewing that the disclosures are made not only in compliance with the minimum requirement of the accounting standards but to meet the intended objective of financial reporting in substance. In addition, there is merit in good corporate governance to enhance disclosures for transparency and better communication to shareholders.

Despite the challenges above, we concluded that the firms inspected had generally put in place systems and processes in line with global best practices. Notwithstanding that, audit firms should continue to consider ways to enhance operational effectiveness by considering the key measures mentioned above in mitigating risks which may impair the quality and reliability of financial statements of PIEs.

Part Six

Assessment of Performance and Effectiveness

ASSESSMENT OF PERFORMANCE AND EFFECTIVENESS

The strategic framework which was adopted by the AOB links our oversight activities to the desired outcomes which will ultimately enhance the confidence in the quality and reliability of audited financial statements of PIEs.

The AOB's focus for 2010 was to ensure all our service areas are functioning in line with the requirements of the SCA and the strategic themes chosen by the AOB. Our performance in the first year of operations should be assessed based on this premise.

Among the key milestones achieved in 2010 are as follows:

- The AOB commenced registering audit firms and individual auditors on 1 April 2010;
- The first inspection was conducted by the AOB in August 2010 and by the end of the year all Big Four Audit Firms were inspected;
- The first final inspection report was issued in December 2010;
- The AOB participated in numerous events organised by other stakeholders to explain AOB's operations and to share our views on financial reporting and audit quality; and
- The AOB was accepted as a member of IFIAR in September 2010.

The above milestones reflect the progress of the AOB from the date of its inception and it has managed to roll out all key service areas such as registration and inspection. We have also collaborated with authorities in Malaysia as well as abroad in implementing our strategic plan.

Moving forward, the AOB would be developing key performance indicators to measure the outcomes as envisaged in the strategic plan. Such systems, procedures and practices would provide a better understanding of the impact of the oversight activities carried out by the AOB in enhancing audit quality and ultimately confidence in the financial reporting of the PIEs in Malaysia.

Our experience in performing our key services such as registration and inspection this year would be leveraged upon in developing benchmarks of our operational efficiency. Such benchmarks would be guidance in assessing the utilisation of resources by the AOB.

The above performance measures and benchmarks would be the basis of assessing the AOB's effectiveness and efficiency in future years.

Part Seven

2011 Outlook

2011 OUTLOOK

CONVERGENCE WITH IFRS

In 2008, it was announced that Malaysia will be fully converged with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) by 1 January 2012. To facilitate a phased changeover to IFRS, the Malaysian Accounting Standards Board (MASB) will ensure that all approved accounting standards will converge fully with IFRS.

One of the more significant accounting standards adopted with effect from 1 January 2010 was IAS 39: Financial Instruments: Recognition and Measurement (known as FRS 139 in Malaysia). FRS 139 introduces significantly new recognition and measurement criteria for financial instruments, which include derivative financial instruments. Adding to this is the adoption of FRS 7: Financial Instruments: Disclosures, which will enhance transparency in disclosing the ways companies manage their resources as well as their management of credit, liquidity, and market risks in financial instruments.

Whilst this will place additional challenges on the part of the preparer, auditors will need to ensure that they remain technically updated to be able to give assurance on the appropriateness of the accounting treatment. In addition, auditors would need to track continuing developments in IASB as financial reporting standards are being significantly revised in several key areas, including leases, revenue recognition, and consolidation.

IMPLEMENTATION OF NEW AUDITING AND ETHICAL STANDARDS

Auditing standards

In 2004, the IAASB began a comprehensive programme to enhance the clarity of its ISAs. In 2009, the Clarity Project reached its completion with 36 newly updated and clarified ISAs and a clarified ISQC1.

In line with maintaining convergence with international auditing and ethical standards, MIA adopted these clarified standards, which will be effective for audits of financial statements for periods beginning on or after 1 January 2010.

Whilst auditors would have commenced their preparations in 2010, the significant changes will require a continued focus in the following areas:

- Updating learning programmes for audit firm staff;
- Updating audit methodologies and upgrading auditing tools and software; and

- Re-emphasising during meetings with audit committees about the impact of changes on the audit engagement in terms of engagement hours and more robust challenges of management.

In addition, the increase in the behavioural and technical aspects of the audit will likely be concentrated around the following areas:

- Greater expectation of the use of professional scepticism and professional judgement, in particular for the audit of management's estimates;
- A higher burden is placed on the group auditor as the group auditor now has sole responsibility over the issuance of the audit opinion on the consolidated financial statements; and
- Detailed requirements over the form, content and extent of audit documentation that is required in the audit working papers.

Ethical standards

In 2009, the IESBA issued a revised *Code of Ethics for Professional Accountants*, clarifying requirements for all professional accountants and significantly strengthening the independence requirements of auditors.

The revised Code, which came into effective on 1 January 2011, includes the following changes to strengthen independence requirements:

- Extending the independence requirements for audits of listed entities to all PIEs;
- Requiring a cooling off period before certain members of the audit firm can join public interest audit clients in certain specified positions;
- Extending partner rotation requirements to all key audit partners;
- Strengthening some of the provisions related to the provision of non-assurance services to audit clients; and
- Prohibiting key audit partners from being evaluated on, or compensated for, selling non-assurance services to their audit clients.

The MIA incorporated the revised Code into its MIA By-laws, which is effective from 1 January 2011. The MIA By-laws contain more stringent requirements in certain areas.

The AOB will monitor how audit firms embed the new requirements into their internal systems and processes going forward and will assess their compliance in substance.

AUDITING PROFESSION

The AOB is mindful that the global economy is still in a recovery stage. This will continue to place pressure on PIEs to contain their operating costs, including audit fees. Nevertheless, the AOB expects auditors to price their fees to commensurate with the risks undertaken so as not to compromise on audit quality.

Auditors should maintain their investments in hiring appropriate and sufficient talent to meet the requirements of their individual audits and provide a suitable amount of training to maintain their proficiency. Audit firms should promote a conducive work environment and work-life balance as an effective way to retain staff.

The accounting profession, together with institutions of higher learning, have to take the lead in ensuring adequate supply of competent accountants into the market.

In addition, audit firms should continue their investments in systems and technology to be able to keep abreast of similar developments taking place at their PIEs that are their audit clients.

The AOB is aware that the timing of licensing of auditors by MOF has implications on who takes on the engagement partner role in an audit. Nevertheless, the AOB expects audit firms to ensure that signing partners fulfill their role as engagement partners in line with the expectations and understanding of the investing public. The AOB will continue to monitor developments in this area going forward and engage other stakeholders on the licensing process of auditors.

COLLABORATION WITHIN THE FINANCIAL REPORTING ECOSYSTEM

The AOB recognises that the quality of financial statements is dependent on various stakeholders within the financial reporting ecosystem. Among the stakeholders that the AOB intends to collaborate with are directors, investors and academics. In addition to ensuring high quality financial reporting, directors play an important part in monitoring convergence with IFRS and developments in new IFRSs', as this will assist them in assessing the sufficiency and competency of the finance function under their stewardship. The AOB intends to continue to engage with investor groups and academics in areas that will be mutually beneficial, in particular those that relate to audit quality.

REGULATORY DEVELOPMENTS

Future regulatory developments may influence the operations of the AOB. For example, the implementation of the *Whistleblower Protection Act 2010* may require further changes in our operational processes as well as providing us with more information which is relevant to our regulatory function.

INSPECTION PRIORITIES AND CHALLENGES

Inspection approach

The AOB inspection approach will continue to focus on audit work in high-risk areas such as valuations, going concern, impairments of assets, revenue recognition, accounting estimates and key judgement areas, group audit arrangements, related-party transactions and compliance with ethical standards. In 2010, the AOB's inspection was focussed on major firms. In 2011, the AOB will extend its coverage to include other firms and with an increase in number of audit engagement reviews. The AOB intends to cover other regulated industries including banking and insurance.

Following from the first year of establishment in 2010, the AOB will continue to evolve its inspection process, implementing quality monitoring processes on follow-up inspections and enhancing the AOB's risk assessment methodology both internally and externally. The AOB will continue to invest in its workforce, training programmes, inspection methodology and technology to enhance operational effectiveness. The AOB will also increase interaction with domestic and international regulators, and enhance dialogue with the audit firms to further understand the impact of the current economy, emerging issues and changes to audit and accounting standards on audit quality, to meet its mission.

Inspection challenges

The AOB acknowledges the challenges in the audit profession in particular the clarified ISAs which will take effect for audits with December 2010 year ends and the fair value accounting model. The AOB also recognises the challenges faced by the audit firms to ensure their readiness to cope with these changes. The audit firms face increasing costs to ensure they are equipped with the necessary infrastructure and talent to move towards convergence with IFRS by 2012 and auditing the fair value of complex financial instruments.

In view of the economic concerns over the recent years, there were also challenges of managing expectations among investors, regulators and auditors, as the auditors have always been perceived as the last check and balance of what could go wrong with the financial statements. There should be an increase in dialogues to bridge the expectation gaps among these stakeholders.

It has been a known area of concern that the provision of non-audit services by audit firms to their listed audit clients may result in auditors low-balling their audit fees to gain more consulting jobs at clients and this may compromise independence. The AOB will be reviewing the safeguards in place to understand how the threats are mitigated.

The AOB also acknowledges the shortage of talents, the aging accounting workforce where numerous senior partners are exiting the profession, the increase in cross border transactions and the audit fee pressure faced by many audit firms. However we encourage audit firms to continue to focus and invest in audit quality to maintain the confidence of the investors and the capital market in the audit profession.

Part Eight

Statement on Governance

STATEMENT ON GOVERNANCE

MEMBERS OF THE AUDIT OVERSIGHT BOARD

1 **Nik Mohd Hasyudeen Yusoff**
Executive Chairman
Audit Oversight Board

2 **Datuk Ali Abdul Kadir**
Chairman
Financial Reporting Foundation

3 **Dato' Azmi Ariffin**
Chief Executive Officer
Companies Commission of Malaysia

4 **Goh Ching Yin**
Executive Director
Securities Commission Malaysia

5 **Nor Shamsiah Mohd Yunus**
Deputy Governor
Bank Negara Malaysia

6 **Cheong Kee Fong**
Advocate and Solicitor
Cheong Kee Fong & Co

7 **Chok Kwee Bee**
Managing Director
Teak Capital Sdn Bhd

MEETING ATTENDANCE

Since 1 April 2010, the AOB held a total of five Board meetings. The attendance by the Board members is stated in the table below–

Board member	Number of meetings attended
Nik Mohd Hasyudeen Yusoff	5
Datuk Ali Abdul Kadir	5
Dato' Azmi Ariffin	3
Goh Ching Yin	5
Nor Shamsiah Mohd Yunus	5
Cheong Kee Fong	4
Chok Kwee Bee	4

RESPONSIBILITIES OF THE BOARD

The AOB is responsible in assisting the SC in discharging its functions under the SCA. The responsibilities are:

(a) Implement policies and programmes in ensuring an effective audit oversight system in Malaysia;

(b) Register auditors of PIEs for the purposes of the SCA;

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

(d) Conduct inspections and monitoring programmes on auditors to assess the degree of compliance of auditing and ethical standards;

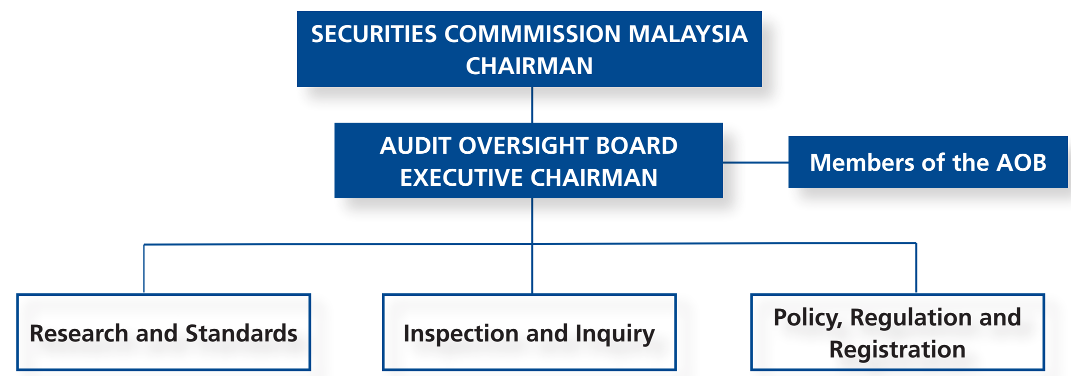
(e) Conduct inquiries and impose appropriate sanctions against auditors who fail to comply with auditing and ethical standards;

(f) Co-operate with relevant authorities in formulating and implementing strategies for enhancing standards of financial disclosures of PIEs;

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

(h) Perform such other duties or functions as the AOB determines necessary or appropriate to promote high professional standards of auditors and to improve the quality of audit services provided by auditors.

ORGANISATION STRUCTURE



Part Nine

Financial Statements and Others

FINANCIAL STATEMENTS OF THE AUDIT OVERSIGHT BOARD FUND

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2010

	Note	RM
Assets		
Current assets		
Other receivables	5	124,293
Cash and cash equivalents	6	4,424,959
Total assets		4,549,252
Reserves		
Fund from SC	7	5,000,000
Accumulated deficit	8	(549,555)
Total reserves		4,450,445
Current liability		
Other payables	9	98,807
Total liabilities		98,807
Total reserves and liabilities		4,549,252

The notes set out on pages 9-4 to 9-12 are an integral part of these financial statements.

Tan Sri Zarinah Anwar
Chairman
Securities Commission Malaysia

Nik Mohd Hasyudeen Yusoff
Executive Chairman
Audit Oversight Board

9 February, 2011

STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD FROM 1 APRIL 2010 TO 31 DECEMBER 2010

	Note	RM
Income		
Registration fee		1,535,000
Income from fixed deposits		62,196
		1,597,196
Operating expenditure		
Administration expenses	10	(2,146,751)
Total comprehensive expense for the period	8	(549,555)

The notes set out on pages 9-4 to 9-12 are an integral part of these financial statements.

STATEMENT OF CASH FLOW FOR THE PERIOD FROM 1 APRIL 2010 TO 31 DECEMBER 2010

	Note	RM
Cash flows from operating activities		
Total comprehensive expense for the period		(549,555)
Adjustment for:		
Income from fixed deposits		(62,196)
Operating deficit before working capital changes		(611,751)
Changes in working capital:		
Other receivables		(80,650)
Other payables		98,807
Cash utilised in operations		(593,594)
Tax paid		–
Net cash from operating activities		(593,594)
Cash flows from investing activity		
Income received from fixed deposits		18,553
Net cash from investing activity		18,553
Cash flows from financing activity		
Funding received from SC		5,000,000
Net cash from financing activity		5,000,000
Net increase in cash and cash equivalents		4,424,959
Cash and cash equivalents at 1 April 2010		–
Cash and cash equivalents at 31 December 2010	5	4,424,959

The notes set out on pages 9-4 to 9-12 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. General

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

(c) to regulate auditors of public-interest entities.

To facilitate the abovementioned purposes, an AOB Fund (the Fund) was established under section 31H of the SCA. The Fund is administered by the SC. The SC provides administrative and accounting support to the Fund.

2. Basis of preparation

(a) Statement of compliance

The financial statements of the Fund have been prepared in accordance with Financial Reporting Standards (FRS) in Malaysia.

The Fund shall apply the following accounting standards, amendments and interpretations that have been issued by the Malaysian Accounting Standards Board (MASB) once they become effective:

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2011

- Amendments to FRS 7, *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*
- Improvements to FRSs (2010)

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2012

- FRS124, *Related Party Disclosures* (revised)

The initial application of a standard, an amendment or an interpretation, which will be applied prospectively or which requires extended disclosures, is not expected to have any financial impacts to the current and prior periods financial statements upon their first adoption.

The initial application of the other standards, amendments and interpretations is not expected to have any material impact on the financial statements of the Fund.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis.

(c) Functional and presentation currency

These financial statements are presented in ringgit Malaysia (RM), which is the Fund's functional currency. All financial information is presented in RM.

3. Significant accounting policies

(a) Financial instruments

Financial instruments are categorised and measured using accounting policies as mentioned below.

(i) Initial recognition and measurement

A financial instrument is recognised in the financial statements when, and only when, the Fund becomes a party to the contractual provisions of the instrument.

A financial instrument is recognised initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

(ii) Financial instrument categories and subsequent measurement

The Fund categorises financial instruments as follows:

Financial assets

(a) Financial assets at fair value through profit or loss

Fair value through profit or loss category comprises financial assets that are held for trading, including derivatives (except for a derivative that is a designated and effective hedging instrument) or financial assets that are specifically designated into this category upon initial recognition.

(b) *Held-to-maturity investments*

Held-to-maturity investments category comprises debt instruments that are quoted in an active market and the Fund has the positive intention and ability to hold to maturity.

Financial assets categorised as held-to-maturity investments are subsequently measured at amortised cost using the effective interest method.

(c) *Loans and receivables*

Loans and receivables category comprises debt instruments that are not quoted in an active market.

Financial assets categorised as loans and receivables are subsequently measured at amortised cost using the effective interest method.

(d) *Available-for-sale financial assets*

Available-for-sale category comprises investment in equity and debt securities instruments that are not held for trading.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. Other financial assets categorised as available-for-sale are subsequently measured at their fair values with the gain or loss recognised in other comprehensive income, except for impairment losses, foreign exchange gains and losses arising from monetary items and gains and losses of hedged items attributable to hedge risks of fair value hedges which are recognised in profit or loss. On derecognition, the cumulative gain or loss recognised in other comprehensive income is reclassified from equity into profit or loss. Interest calculated for a debt instrument using the effective interest method is recognised in profit or loss.

All financial assets, except for those measured at fair value through profit or loss, are subject to review for impairment (see Note 3(e)).

Financial liabilities

All financial liabilities are subsequently measured at amortised cost other than those categorised as fair value through profit or loss.

Fair value through profit or loss category comprises financial liabilities that are held for trading, derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial liabilities that are specifically designated into this category upon initial recognition.

(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 the financial asset is transferred to another party without retaining control or substantially all risks and rewards of the asset. 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) and any cumulative gain or loss that had been recognised in equity 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 or cancelled or expires. 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 the profit or loss.

(b) Other receivables

Trade and other receivables are categorised and measured as loans and receivables in accordance with policy Note 3(a).

(c) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with banks and highly liquid investments, which have an insignificant risk of changes in value.

Cash and cash equivalents are categorised and measured as loans and receivables in accordance with policy Note 3(a).

(d) Payables

Payables are categorised and measured as financial liabilities in accordance with policy Note 3(a).

(e) Impairment

(i) Financial assets

All financial assets (except for financial assets categorised as fair value through profit or loss) are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised.

An impairment loss in respect of loans and receivables and held-to-maturity investments is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account.

An impairment loss in for available-for-sale financial assets is recognised in profit or loss and is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and the asset's current fair value, less any impairment loss previously recognised.

An impairment loss in for unquoted equity instrument that is carried at cost is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

(ii) Non-financial assets

The carrying amounts of assets (except for financial assets) are reviewed at each end of the reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(f) Income

Interest income

Interest is recognised in the profit or loss as it accrues, taking into account the effective yield on the asset.

(g) Tax expense

The SC was granted approval from the Minister of Finance to be exempted from taxation with effect from Year Assessment (YA) 2007 onwards. Accordingly, the Fund is tax-exempted.

4. Plant and equipment

Pursuant to section 31H(2) of the SCA, the plant and equipments of the Fund are the property of the SC and accordingly, are reflected in the books of the SC.

5. Other receivables

	RM
Interest receivable	43,643
Deposits and prepayments	80,650
	124,293

6. Cash and cash equivalents

	RM
Cash and bank balances	410,088
Deposits placed with a licensed bank	4,014,871
	4,424,959

The deposits placed with a licensed bank earned interest at the rate of 3% per annum and mature in six months.

7. Fund from the SC

	RM
Cash contribution from:	
Securities Commission Malaysia	5,000,000

8. Accumulated deficit

	RM
At 1 April 2010	–
Total comprehensive expense for the period	(549,555)
At 31 December 2010	(549,555)

9. Payables and accruals

	RM
Other payables	98,807

10. Administration expenses

The administration expenses consist of:

	RM
Staff costs	1,337,102
Rental of premises	173,829
Other miscellaneous charges	108,786
Auditor's remuneration	8,000
Honorarium payment	4,098
Executive member:	
– Emoluments	459,436
Non-executive members' allowance	55,500
	2,146,751

11. Financial instruments

Financial risk management objectives and policies

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

Credit risk

Credit risk is the risk of a financial loss to the Fund if a counterparty to a financial instrument fails to meet its contractual obligations.

The Fund is not exposed to any credit risk as the Fund does not have any trade debts.

Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due.

The Fund, via the SC, monitors and maintains a level of cash and cash equivalents deemed adequate to finance the Fund's operations and to mitigate the effects of fluctuations in cash flows.

Maturity analysis

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

	Carrying amount RM	**Contractual cashflow RM**	**Under 1 year RM**
Financial liabilities			
Other payables	98,807	98,807	98,807

Fair values

Recognised financial instruments

In respect of cash and cash equivalents, other receivables, payables and accruals, the carrying amounts approximate fair value due to the relatively short-term nature of these financial instruments.

12. Fund management

	RM
Funding from the SC	5,000,000
Accumulated deficit	(549,555)
	4,450,445

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

13. Authorisation of financial statements

The financial statements for the period from 1 April 2010 to 31 December 2010 were authorised by the SC for issuance and signed by the Chairman of the SC and Executive Chairman of AOB on 9 February 2011.

STATUTORY DECLARATION

I, Vignaswaran A/L Kandiah, the officer primarily responsible for the financial management of Audit Oversight Board Fund, do solemnly and sincerely declare that the financial statements set out on pages 9-1 to 9-12 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the *Statutory Declarations Act, 1960.*

Subscribed and solemnly declared by the abovenamed in Kuala Lumpur on 9 February 2011.

…………………………………………

Vignaswaran A/L Kandiah

Before me:

PESURUHJAYA SUMPAH
No: W487
Nama: JAAPAR BIN MD. JANI
MALAYSIA

Alamat tempat perniagaan
Medan Selera Duta
Jalan Duta
50480 Kuala Lumpur

INDEPENDENT AUDITORS' REPORT ON AUDIT OVERSIGHT BOARD FUND

Report on the Financial Statements

We have audited the financial statements of the Audit Oversight Board Fund (the Fund), which comprise the statement of financial positions as at 31 December 2010 of the Fund, and the statements of comprehensive income and cash flow of the Fund for the period from 1 April 2010 to 31 December 2010, and a summary of significant accounting policies and other explanatory notes, as set out on pages 9-1 to 9-12.

Responsibility for the Financial Statements

The Securities Commission Malaysia is responsible for the preparation and fair presentation of these financial statements in accordance with the Financial Reporting Standards in Malaysia. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Fund's preparation and fair presentation of the financial statements 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 Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Securities Commission Malaysia, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with the Financial Reporting Standards in Malaysia so as to give a true and fair view of the financial position of the Fund as of 31 December 2010 and of its financial performance and cash flows for the period from 1 April 2010 to 31 December 2010.

Other Matters

This report is made solely to the Securities Commission Malaysia , as a body, for no other purpose. We do not assume responsibility to any other person for the content of this report.

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KPMG	**Peter Ho Kok Wai**
Firm Number: AF 0758	Approval Number: 1745/12/11(J)
Chartered Accountants	Chartered Accountants

Petaling Jaya,

Date: 9 February 2011

ACRONYMS AND ABBREVIATIONS

Act	*Securities Commission (Amendment) Act 2010*
AOB	Audit Oversight Board
ASEAN	Association of Southeast Asian Nations
CCM	Companies Commission of Malaysia
CMSL	Capital Markets Services Licence
FRS	Financial Reporting Standards
IAASB	International Auditing and Assurance Standards Board
IESBA	International Ethics Standards Board for Accountants
IFIAR	International Forum of Independent Audit Regulators
IFRS	International Financial Reporting Standards
IASB	International Accounting Standards Board
ISA	International Standards on Auditing
ISQC 1	International Standard on Quality Control 1: Quality Controls for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements
MIA	Malaysian Institute of Accountants
MIA By-laws	*By-laws (On Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants*
MOF	Ministry of Finance
PIE	Public-interest entity
PLC	Public-listed company
SC	Securities Commission Malaysia
SCA	*Securities Commission Act 1993*

DEFINITIONS

Auditor	An individual auditor or audit firm who is registered under Section 31O of the *Securities Commission Act 1993* as an auditor of a public interest entity.
Big Four Audit Firms	Deloitte & Touche, Ernst & Young, KPMG and PricewaterhouseCoopers.
Public-interest entity	An entity meeting the following definition: (a) a public listed company or a corporation listed on the stock exchange; (b) a licensed institution licensed under the *Banking and Financial Institutions Act 1989*; (c) an insurance company licensed under the *Insurance Act 1996*; (d) a takaful operator registered under the *Takaful Act 1984*; (e) an islamic bank licensed under the *Islamic Banking Act 1983*; (f) a developmental financial institution prescribed under the *Development Financial Institutions Act 2002*; (g) a holder of the Capital Markets Services Licence for the carrying on of the regulated activities of dealing in securities, trading in futures contracts or fund management; and (h) any other person as the Minister may, by order published in the Gazette, prescribe.