

The Audit Oversight Board, Malaysia

by Khor Meng Kai

April saw the introduction of a requirement for individual auditors and audit firms (auditors) to register themselves with the Audit Oversight Board (AOB). In actual fact, however, only auditors auditing financial statements of Public Interest Entities (PIE) are required to register.

Does this mean that the AOB is going to regulate auditors from this point onwards? The answer is no. The AOB is not a statutory body, but since it was established under the auspices of the Securities Commission (SC), the SC would remain accountable for all of the AOB's acts and omissions. The AOB would also work closely with all regulatory agencies to ensure a holistic regulatory framework for auditors in Malaysia.

The AOB has taken its first step, by registering individual auditors and audit firms that audits the financial statements of a PIE. After the registration stage, the AOB would knock on the auditors' doors to make inspections. This inspection process allows AOB officers to have the power to access working papers, books and accounts. Apart from inspections, AOB officers would also have the necessary powers to conduct inquiries and impose proportionate sanctions against auditors. Other functions would include the setting of auditing, quality control, ethics, independence and other standards relating to the preparation of audited financial statements.

Makes you wonder, just who's watching the watchdog? It may create a public perception that auditors need to be monitored despite their independence in examination of financial statements, auditors should regard the AOB as a helping hand to raise auditing quality and in turn promote confidence in the assurance work performed by auditors.

For shareholders, the story does not stop here, as it is a mistake to think that the AOB's sheer existence would assure that a PIE's financial statements to be free from accounting fraud. In the US, the Public Company Accounting Oversight Board (PCAOB) was formed early last decade to govern an auditor's conduct after a series of high-profile accounting fraud like Enron and WorldCom. However, the last decade continued to see more accounting frauds up to the scale of the Lehman Brothers case, despite the existence of PCAOB.

Every stakeholder plays a role to ensure that companies survive and strive towards further success. Perhaps the AOB could play a role in facilitating better and more successful businesses, while balancing their role as an oversight body. Companies could also remember that fraudulent practices rarely pay, and there are prominent examples to show. Auditors could help encourage better business practices, while guiding businesses on their compliance with regulations, and strike a balance in their independent role.

ABOUT THE AUTHOR

Khor Meng Kai is a Supervisor with UHY Assurance & Business Advisory. He can be reached of kmk@uhy-my.com