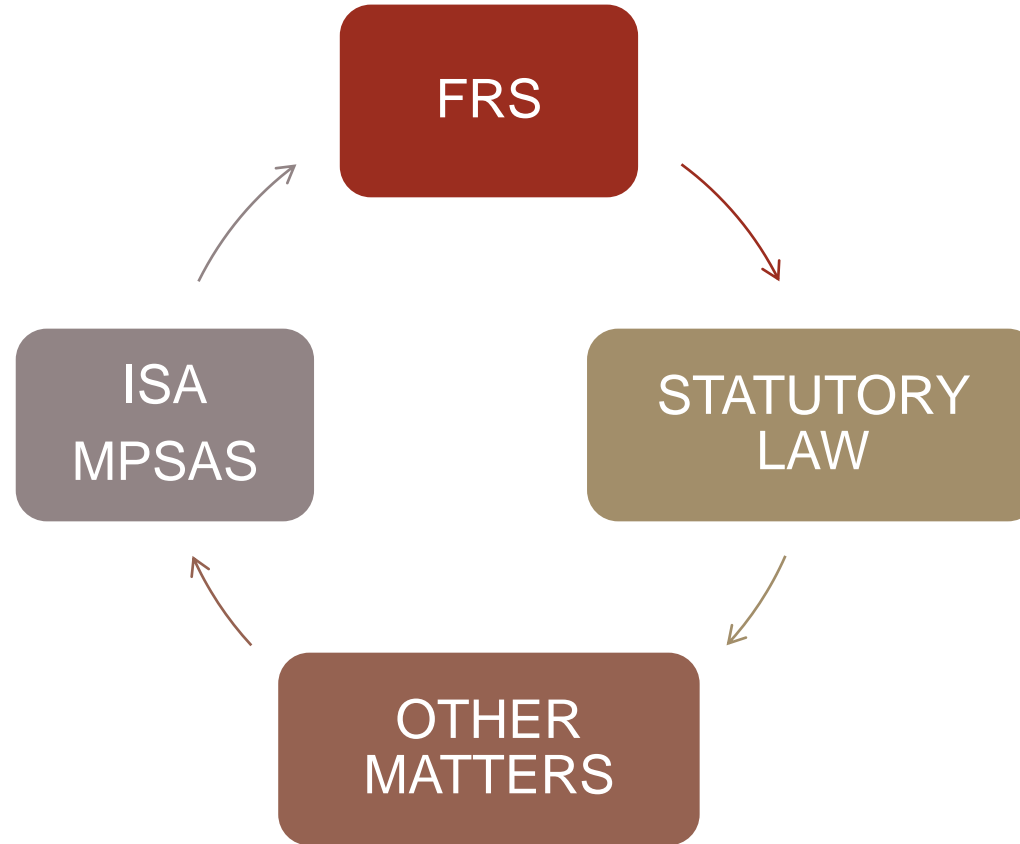


REGULATORY CHANGES: IMPACT ON AUDIT LANDSCAPE

Presenter: Mohd Afrizan Husain

THE FRAMEWORK



REGULATORY CHANGES & IMPACTS

REGULATORY CHANGES

- ISA
- FRS
- CA1965 /Audit Act 1957
- Other acts/Matters

IMPACT

- Auditors updates
- Technology prevalent in the audit
- Reliance on 3rd party expert
- Severity of punishment

ISA 250 (REVISED) CONSIDERATION OF LAWS AND REGULATIONS IN AN AUDIT OF FINANCIAL STATEMENTS

- Deals with the auditors' responsibility to consider laws and regulations in an audit of financial statements.
- Some entities operated in heavily regulated industries (i.e. banks and chemical companies).
- Designed to assist the auditor in identifying material misstatement of financial statements due to non-compliance with laws and regulations.
- The auditor is not responsible for preventing non-compliance and can not be expected to detect non-compliance with all laws and regulations.
- The auditor may have additional responsibilities under law, regulation or relevant ethical requirements regarding the entity's non-compliance with laws and regulations which may differ or go beyond this ISA.

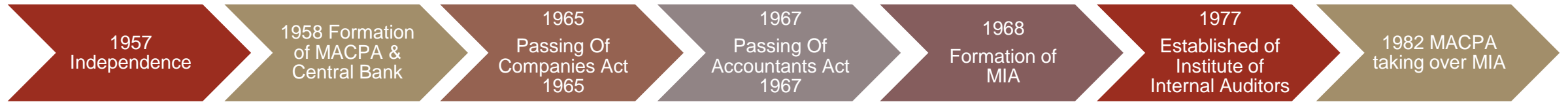
MAJOR CASES WHICH CONTRIBUTE TO REGULATORY CHANGES

The failure of saving and loan industry in 1980's resulted with the increased regulations in the industry and new rules, including changes to required reserves and allowances.

Enron, WorldCom and other frauds of early 2000's resulted in the Sarbanes-Oxley Act of 2002 to:

- Oversee the financial reporting landscape for finance professions.
- Review legislative audit requirements and to protect investors by improving the accuracy and reliability of corporate disclosures.
- Auditors of public companies were required to register with the Audit Oversight Board (AOB).
- AOB was established under Part IIIA of the Securities Commission Act Malaysia 1993 (SCMA) which came into force on 1 April 2010 to promote and develop an effective audit oversight framework and to promote confidence in the quality and reliability of audited financial statements in Malaysia.

DEVELOPMENT OF MALAYSIAN AUDITING FRAMEWORK FROM 1957 UNTIL 1987



Specifically spells out the guidelines need to be addressed by auditors in terms of being independent and powers to perform such duties.

Regulates the practice and promote the interest of accounting profession.

To assist management to ensure the proper internal control in place.

DEVELOPMENT OF MALAYSIAN AUDITING FRAMEWORK FROM 1987 UNTIL 1987 (CONT'D)



Incorporate best accounting standards and practices and encouraging higher level of disclosure and accountability to minority shareholder and foreigner.

Further responsibility to auditor towards financial statement.

Auditors are required to perform complete checking of transactions and to give true and fair view opinion.

MIA under AA 1967 was entrusted to promote and regulate the accounting profession.

Regulatory body for the capital market.

DEVELOPMENT OF MALAYSIAN AUDITING FRAMEWORK FROM 1987 UNTIL 1987 (CONT'D)



To enhance the audit quality.

AOB to provide independent oversight and regulation to external auditors of public listed companies.

REVOLUTION OF COMPANIES ACT

Companies Act, 1965



Companies Act, 2016



1. Modernise regulations
2. Reduce the cost compliance
3. Remove regulatory redundancies and conflicts
4. Streamline the corporate legal framework
5. Facilitate economic growth

EVOLUTIONS OF MALAYSIA'S COMPANIES ACT 2016

- 2008** CLRC concluded review of CA 1965 with 188 recommended changes
183 recommendations accepted.
- 2010** Cabinet approved the 19 policy statements.
- 2013** SSM released an exposure draft (comprising 631 section for public consultation).
- 2016** Companies Bill 2015 (comprising 620 sections) was passed in parliament.
- 2017** CA 2016 came into force on 31 January 2017.

COMPANIES ACT 2016: REAFFIRM OF AUDIT AND FINANCIAL REPORTING

Impact on Financial Reporting

- Removal of 9th Schedule.
- Removal of requirement of auditors to consider the audit report of subsidiaries.

Decoupling the annual return and audited financial statements

- Private companies exempt from holding AGMs.
- Annual Return need to be lodged with SSM within 30 days from each anniversary of company incorporation.

Audit exempt

- The registrar reserves the rights to exempt certain private companies from appointing an auditor.

Auditor resignation

- Effective within 21 days of serving notice.
- Auditor may request public company to convene a general meeting and/or circulate a written statement to shareholders on the cause of resignation.

Mandatory auditors attendance at public company AGMs.

SSM-MALAYSIAN BUSINESS REPORTING SYSTEM

- A revolution to Annual Return Submission.
- Enhance the quality of reporting.

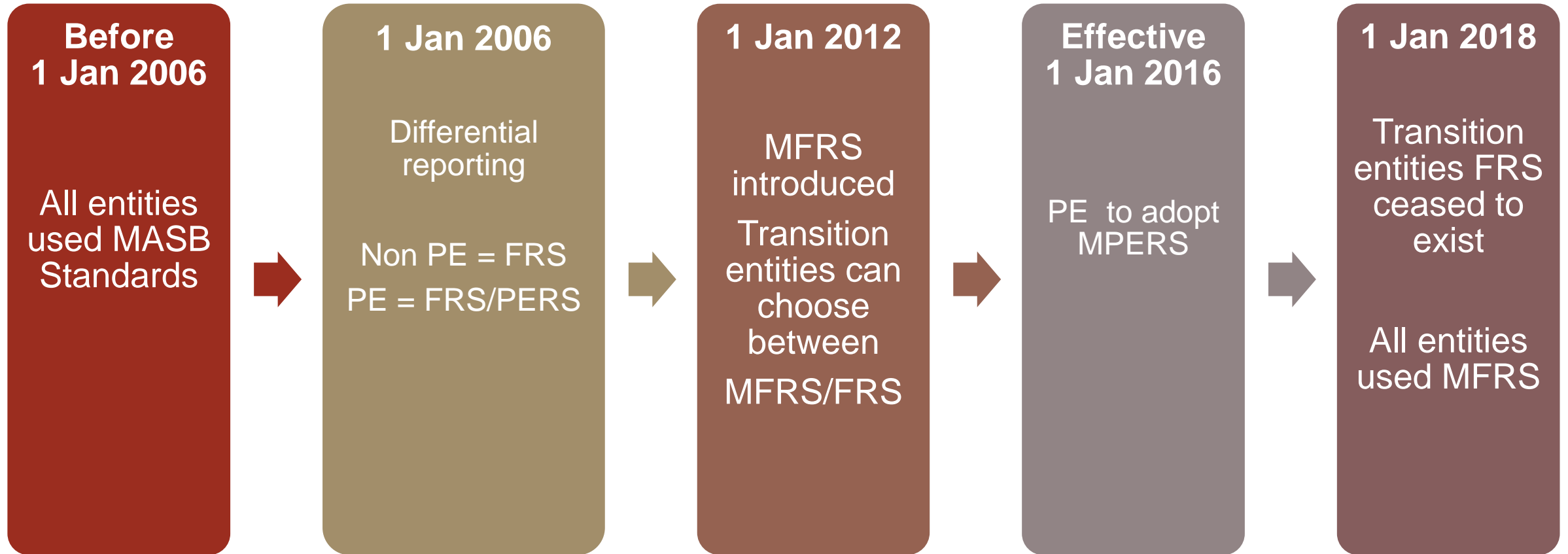
ACCRUAL BASED ACCOUNTING IN MALAYSIA

- 1 Jan 2015 Federal Government of Malaysia set to adopt full accrual based accounting; in line with the requirements of International Public Sector Accounting Standards (IPSAS).
- Since independence adopted cash basis.
- 2018 Federal Government to adopt MPSAS.
- 2020 adoption of MPSAS for federal statutory body which not under CA 1965, BNM, SC or SSM.

DEVELOPMENT OF INTERNATIONAL ACCOUNTING STANDARDS



REPORTING FRAMEWORK ENVIRONMENT IN MALAYSIA



DEVELOPMENT OF AUDITING STANDARDS

- Clarified ISA 2006.
- 36 newly updated and clarified ISAs and a clarified ISQC.
- Each ISA now contains a clear statement of the objective of the auditor.
 - 16 ISAs containing new and revised requirement (revised and redrafted ISAs).
 - 20 ISAs that have been redrafted to apply the new conventions and reflect matters of general clarify only (redrafted ISAs and redrafted ISQC1).

WHAT DOES ALL THIS MEAN TO THE AUDITOR

- Whether we are in industry, government or work with public accounting firm, change is happening around us.
- Changes in standards, rules and regulations are coming our way.
- We do know that the standards we are using today will be changing, some of them will change in the next year, others may still be in place for a year, two, three or maybe even 5 years from now.
- The bar is continuing to be raised.
- The information we need to know keeps expanding.
- Use of technology will continue to expand by companies and clients as well as by auditors.
- Always remember to bring the professional scepticism .

CHALLENGES TO SUSTAINABILITY

- Audit remuneration.
- Staff recruitment and retention.
- Competency to adapt with the fast development of standards.
- Business issues becoming very complex and require multidisciplinary skills
- Business going global require networking to work cross border.

THANK YOU

