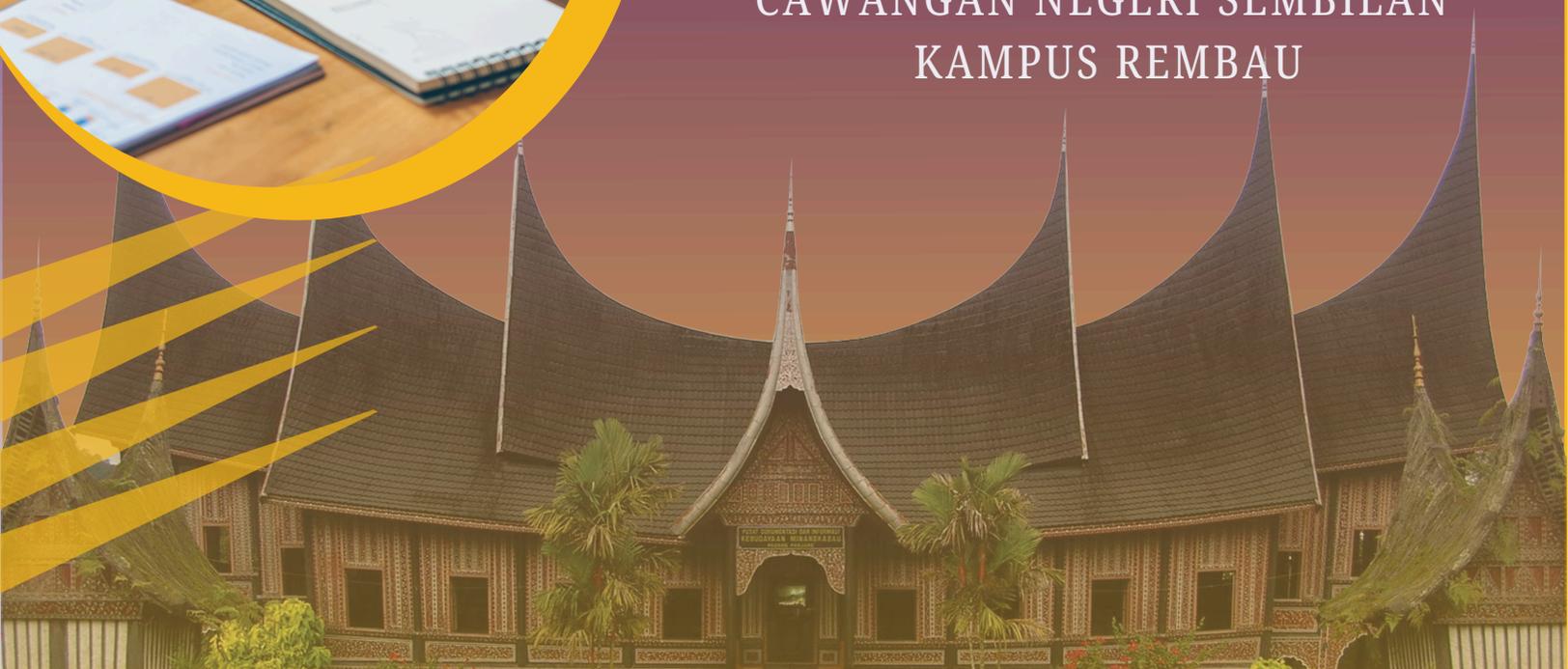


# RONA TINTA

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# AUDITOR'S INDEPENDENCE: THE SILENT GUARDIAN OF FINANCIAL INTEGRITY

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Picture this: you're scrolling through the news on your phone and stumble upon a headline about a company's financial scandal — millions lost, investors shocked, reputations ruined. You might sigh and move on, but behind such stories often lies one crucial question: Where were the auditors? This simple question leads us to one of the most important yet often overlooked concepts in the business world, that is the auditor's independence. It's the quiet guardian of financial trust, ensuring that the information companies share with us, from small enterprises to big-name corporations, can actually be believed.

In simple terms, auditor independence means that an auditor must be free from influence, bias, or conflict of interest when examining a company's financial statements. Whether it's a large audit firm or a single practitioner, the auditor's job is to look at the books, question management, and provide an honest opinion, without any fear or favour. Think of the auditor as a financial referee. Their role isn't to play for any side, but to make sure the game is fair, the rules are followed, and the score (in this case, the financial results) truly reflects what's happening.

## **Why Auditor Independence Matters**

### **Public trust in financial reporting**

In Malaysia's growing economy, trust is everything. Investors, banks, and even the general public rely on financial reports to make decisions, from lending money to investing in shares or approving government allocations. Without independence, that trust crumbles. If an auditor is too close to management, their opinion can lose credibility. Independent auditing provides assurance that the company's financial position is stated truthfully, not painted with creative accounting or hidden debts.

We've seen what happens when independence is compromised. The 1 Malaysia Development Berhad (1MDB) scandal, one of the most talked-about financial controversies in Malaysia, shook confidence in both the public and private sectors. While the issue was complex, one of the lessons it taught us was how vital independent auditing and oversight are in preventing manipulation and restoring public faith in financial governance.

### **Guarding Against Corporate Scandals**

Malaysia has had its share of accounting scandals, from the Transmile Group Berhad case in the mid-2000s to irregularities in smaller listed companies on Bursa Malaysia. Each time, questions arose about whether auditors exercised enough professional scepticism or if familiarity and pressure dulled their independence. These incidents were wake-up calls. They led regulators like the Audit Oversight Board (AOB), under the Securities Commission Malaysia (SC), to tighten their monitoring of audit firms. The objective of the AOB is to develop an effective audit oversight framework and promote confidence in the quality and reliability of audited financial statements in Malaysia. The AOB regularly inspects major and mid-tier firms to ensure they comply with the auditing standards, independence rules, and quality control practices. Such vigilance ensures that Malaysia's capital market remains credible to both local and foreign investors because once confidence is lost, it takes years to rebuild.

### **Independence Builds Stronger Corporate Governance**

Independent auditors don't just check figures but they reinforce the entire ecosystem of corporate governance. A company with transparent, independently audited accounts signals responsibility and accountability to its shareholders. That's why frameworks like the Malaysian Code on Corporate Governance (MCCG), issued by the Securities Commission, strongly emphasise auditor independence. The MCCG encourages audit committees within companies to ensure that external auditors remain objective, rotate periodically, and disclose any relationships that might impair their judgment. In short, independence isn't just a technical requirement. It's a pillar of good governance.

## **Protecting Small Businesses and the Public Sector**

Auditor independence isn't just a "big company" issue. Even the small and medium-sized enterprises (SMEs), cooperatives, and government-linked agencies need independent audits. Take for instance government departments and statutory bodies audited by the National Audit Department (NAD). The Auditor General's Report, tabled annually in Parliament, highlights how public funds are spent and whether any irregularities occur. The credibility of that report relies entirely on the independence of the auditing process and Malaysians expect nothing less. Similarly, for small and medium-sized enterprises (SMEs), independent auditors help owners detect weaknesses in financial management and prevent misuse of funds. When business partners, suppliers, or lenders know that a company's accounts are reviewed independently, it strengthens confidence and facilitates smoother business relationships.

## **Challenges to Auditor Independence in Malaysia**

Of course, staying truly independent isn't always easy. In practice, Malaysian auditors face several challenges.

**Familiarity threat** – Many firms have long-standing relationships with their clients. Over time, the auditor may become too comfortable, unconsciously overlooking issues. To mitigate this, the Malaysian Institute of Accountants (MIA) mandates partner rotation every few years for public interest entities.

**Self-interest threat** – If an auditor depends heavily on one major client for fees, independence can be compromised. The fear of losing that client might influence the auditor's judgment. That's why both the MIA By-Laws and the AOB's Ethical Standards place limits on non-audit services provided to audit clients.

**Intimidation threat** – In some cases, auditors face pressure from company management to soften findings or delay reports. Standing firm in such situations requires professional courage, ethical grounding, and regulatory support.

**Public perception** – Independence is not only about reality but also about appearance. Even if an auditor acts independently, public confidence can still erode if there's a perception of closeness to management. That's why transparency and disclosure of auditor relationships are so critical.

## **Recent Developments: Strengthening Independence in Malaysia**

Over the years, Malaysia has taken solid steps to safeguard auditor independence. Audit Oversight Board (AOB) which is established under the Securities Commission

Malaysia, inspects the audit firms that audit public-listed companies, ensuring adherence to independence and ethical standards. The Malaysian Institute of Accountants (MIA) through its By-Laws (On Professional Ethics, Conduct and Practice) outline five types of threats to independence and require auditors to implement safeguards against them. In addition, the mandatory audit partner rotation among the public interest entities (such as listed companies) must rotate the audit engagement partner after a specific period to avoid over-familiarity. The Auditor General's Office also ensure the enhanced public accountability by having the government annual reports being reported to expose any weaknesses in government spending and reinforce the message that independent auditing is crucial for transparency in the public sector.

Even if you're not an accountant, auditor, or investor, auditor independence still affects you. When financial statements are credible, investors feel safer, jobs remain stable, taxes are better managed, and the overall economy grows stronger. When independence is lost, the cost is borne by everyone, that is the employees, taxpayers, and the public at large. Financial collapses can mean job losses, reduced public funds, and damaged trust in institutions. In a country striving for sustainable economic growth and transparent governance, independent auditing is not a luxury but it's a necessity.

In Malaysia's journey towards greater financial transparency, auditor independence stands as a quiet but powerful safeguard. It ensures that every ringgit reported, every profit declared, and every expense recorded can be trusted. While laws and frameworks play their part, true independence begins with the auditor's integrity, the inner compass that guides them to do what's right even when it's difficult. So, the next time you hear about an "audited financial statement," remember, it's not just about checking numbers. It's about protecting the trust that keeps the country's economy, investors, and citizens confident in the system.