

The Role of Audit Committee In Influencing Audit Quality

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*Audit Oversight Board
Securities Commission*

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About Audit Oversight Board

- The Securities Commission Malaysia has been given the power by Parliament to undertake these functions:
 - Promote and develop an effective and robust audit oversight framework in Malaysia;
 - Promote confidence in the quality and reliability of audited financial statements in Malaysia; and
 - Regulate auditors of Public Interest Entities (PIE)
- The AOB was established to assist SC in discharging the above functions



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

Strategic Themes

Outcomes

Confidence in audited financial statements

Audit opinion based on sufficient and appropriate evidence

Externalisation of professional values and ethics

Resourceful and capable audit practices

High quality financial reporting practices by PIE

Support adoption and implementation of standards

Promote high quality audit practices

Influence financial reporting ecosystem

Leverage on stakeholders support

Services Areas

Standards setting and guidance

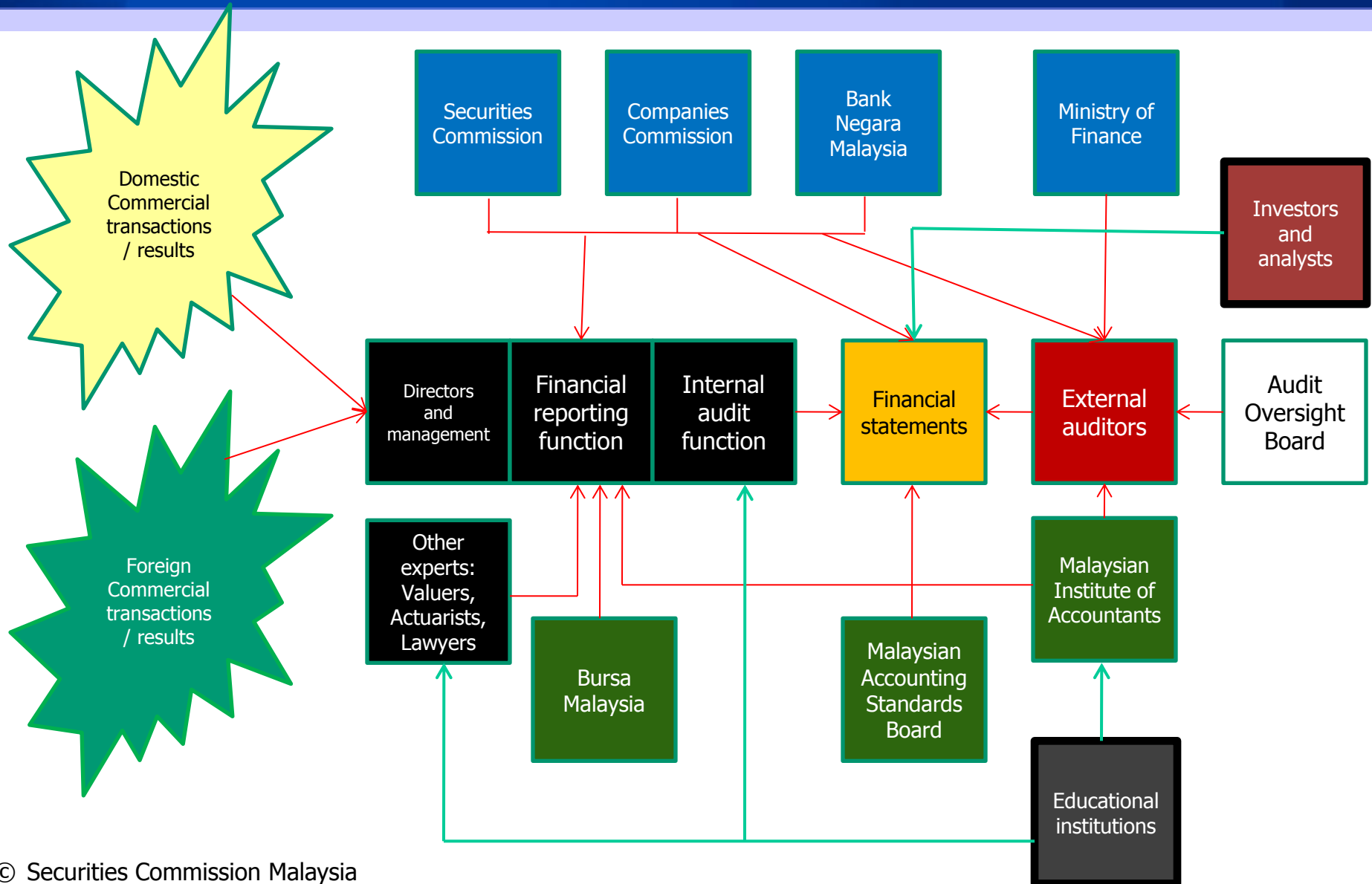
Registration

Inspection and Remediation

Enforcement of standards

Promotion of quality and Collaboration with stakeholders





Registration of audit firms and individual auditors as at 31 December 2012

Profile of audit firms	No. of audit firms	No. of auditors	No. of PIEs	% of market capitalisation
Partnerships with > 10 partners	6	144	840	94.5
Partnerships with 5 – 10 partners	9	44	164	1.5
Partnerships with 2 – 4 partners	43	96	139	3.9
Sole proprietors	9	9	9	0.1
Total	67	293	1,152	100.0

- Public Interest Entities (PIE) with the scope of the AOB consist of:
 - Public listed companies
 - Licensed banking and financial institutions
 - Licensed insurance companies
 - Licensed Islamic banks
 - Registered Takaful operators
 - Development financial institutions
 - Holders of Capital Market Services License carrying activities of dealing in securities, dealing in derivatives and fund management



Inspection Progress as at 31 December 2012

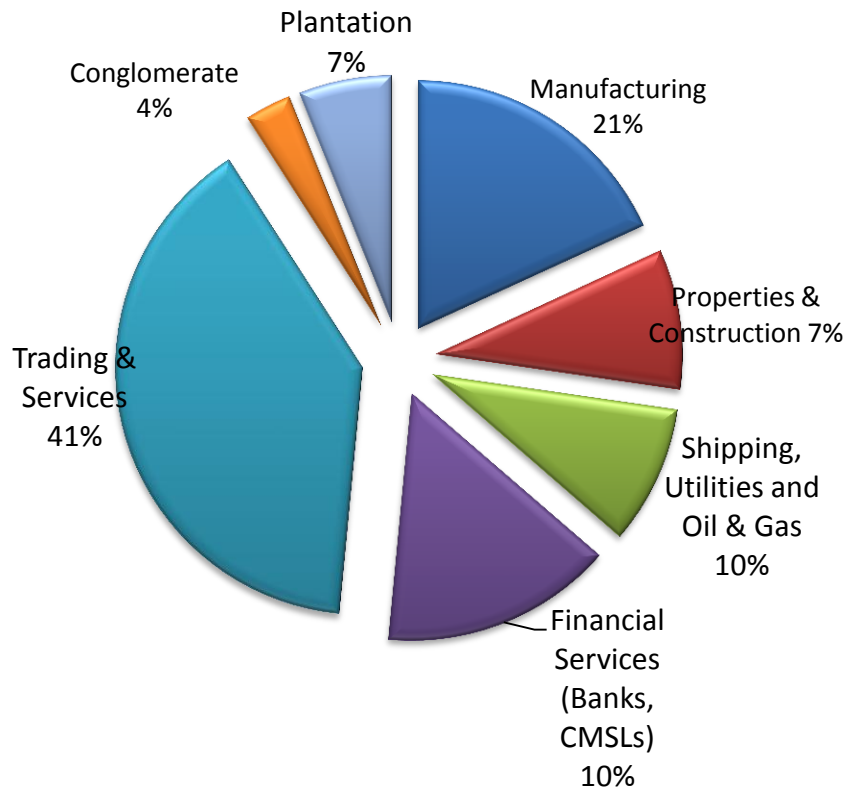
Year	Number of Audit Firms Inspected	No. of Individual Auditors Inspected	No. of Audit Engagements Inspected	Final Inspection Report Issued
2010 [^]	6	24	22	2
2011	17*	48	52	16
2012	19*	40	37	20
Total	42	112	111	38

[^] : The first inspection activity commenced in August 2010

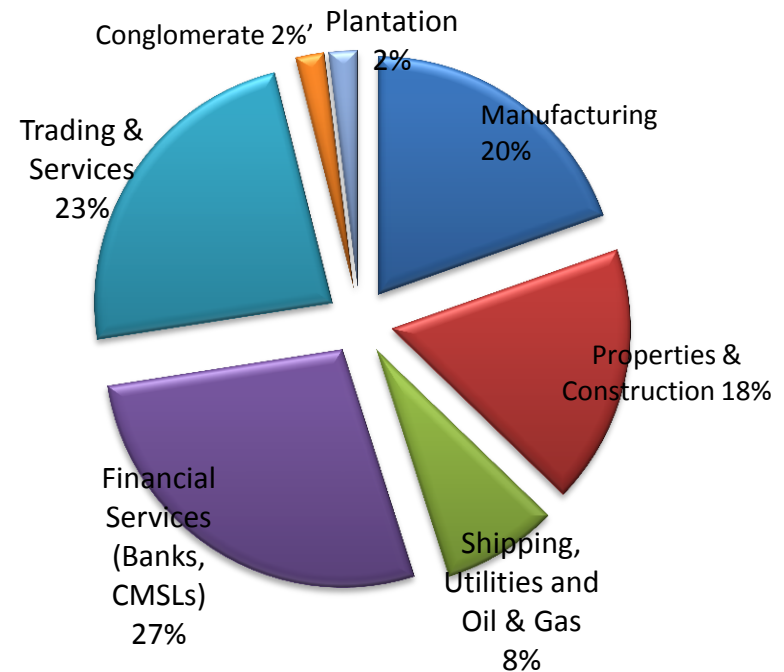
* : Include the 6 major audit firms which are subject to annual regular inspection

Engagement Coverage by Sector

2012



2011



ASEAN Capital Market Initiatives

- **Raise financial reporting standards**
 - ASEAN Economic Community (AEC) requires economic integration of regional market to achieve single market, production base, highly competitive economic region - free movement of goods, services, investment, labour and capital
 - Integrated capital markets – key to future ASEAN region economy
 - Strong financial and accounting infrastructure to support the integrity of ASEAN's capital market



- **Raise financial reporting standards**
 - Potential growth in ASEAN region – to attract investors, high quality financial reporting regime and strong corporate governance practices is encouraged
 - Positive efforts – ASEAN Corporate Governance Initiatives, - scorecard to assess and rank ASEAN listed companies against international best practices
 - Audit Regulators – to promote high quality audit to promote confidence in the effective functioning of capital markets



Strengthening the Governance Process

- Assist the Board of Directors in overseeing the quality and integrity of the company's financial information
- Play diligent role to oversee the effectiveness of the company's internal controls over financial reporting, the internal and external auditors
- External auditors assist AC in carrying out its regulatory oversight responsibilities
 - KPMG recent survey – strong reliance on external audit



- Financial reporting quality starts with management
- Effective oversight on the finance function
- How do you know that the company's financial team has sufficient resources, skills and strength?
- Do you have policies and procedures to assess the suitability and independence of external auditors?
- Should establish policies to govern provision of non-audit services?



- How do you know your external auditors are independent?
- Good risk management
- How to assess auditor – tone from top, culture, infrastructure to support them, capacity, skills, technical support, independence, extent of involvement - commitment



Challenges

- Ensuring company's strategy keeps track with fast-changing business and risk environment
- Cross border transactions
- Weak financial reporting function – what does it mean to audit committee
- Quality of information





- Rapid development of accounting standards
- Business model and IT complexity
- Talent issue – capacity and skills
- Managing last minutes surprises, need to have ongoing, informal communications
- Understanding challenges faced by auditors
- Changing auditors for the sole purpose of reducing audit fee risks lower quality audits

Conversation with Auditors

- Independent
- Professionally sceptical
- Understand the industry and business
- Has adequate resources
- Committed to provide attention from the appropriate level
- Price their services appropriately so that real value delivered



**Address material risks in financial reporting
and provide comfort to AC**



- Tone at the top shapes professionalism and quality of practice
- Workload is a challenge
- EQCR effectiveness still an issue
- Risk appetite influences audit strategy
- Understanding complexity of business, risks and control to be relied on is critical
- Need to challenge to obtain comfort rather than gathering evidence to support management assertions



- Need to be more sceptical in complex areas such as revenue recognition, going concern assessment, asset valuation and impairment and assessing accounting estimates
- Need to develop better approaches when relying on the work of experts
- Group audit continue to be challenging



- Risks to auditor's independence and how they were mitigated
- Quality of the finance function and management's cooperation
- Key risks and how they were mitigated
- Key assumptions and estimates and how the auditors obtained comfort that they were robust and reasonable
- Sufficiency and appropriateness of evidence in key judgment areas
- Related parties transactions



Encourage Effective Governance

Financial reporting function

- Finance function assist AC in oversight activities
- Understand the quality and state of the financial reporting function of the company
- Assess the financial reporting function of the company
- Investment in financial reporting function of the company



Auditors

- External Auditors assist AC in oversight activities
- More engagement with the external auditors

Risks

- Understanding business issues that lead to financial figures
- Understanding key risks to cross border transactions



Consequences to Lack of Oversight Function

Consequences

- Reputational Risk
- CMSA S369 “False reports to Commission, exchange or approved clearing house” –
 - fine of RM3 million and imprisonment not exceeding 10 years
- Transmile – relevant Audit Committee members charged, for having authorised and furnished misleading statement to Bursa
- Sessions Court Judge - “public interest factor must be given paramount consideration. Audit Committee is a vital organ of the company and particularly important in the corporate governance of the company”

Questions?

