

ASEAN Economic Community (‘AEC’) 2015 – Issues and Challenges facing Audit Regulators

Presentation by Lim Fen Nee

*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

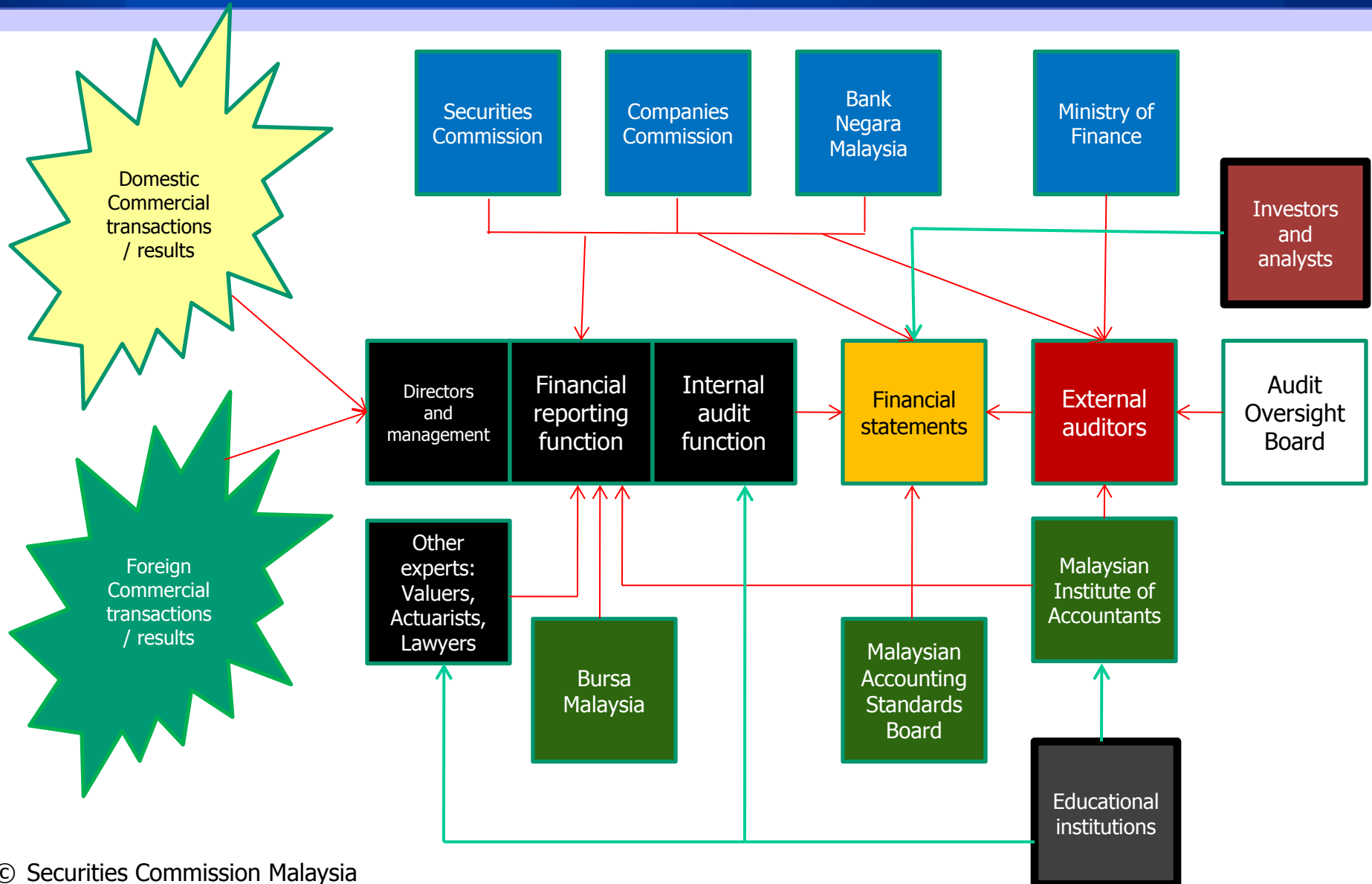
Registration

Inspection and Remediation

Enforcement of standards

Promotion of quality and Collaboration with stakeholders





Registration Statistics as at 30 June 2013

Profile of audit firms	No. of Audit Firms	No. of Auditors	No. of PIE	% of Market Capitalisation
10 partners and above	6	151	818	94.16
5 – 9 partners	9	52	197	1.78
2 – 4 partners	37	88	127	3.83
Sole proprietors	7	7	10	0.03
Total	59	298	1152	99.80

- 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

Recognition of Foreign Auditor as at 30 June 2013

Profile of audit firms	No. of Audit Firms	No. of Auditors	No. of PIE	% of Market Capitalisation
Singapore	5	10	5	0.04
United Kingdom	1	2	1	0.02
Hong Kong	1	2	1	0.13
Subtotal	7	14	7	0.19

Inspection Progress as at 30 June 2013

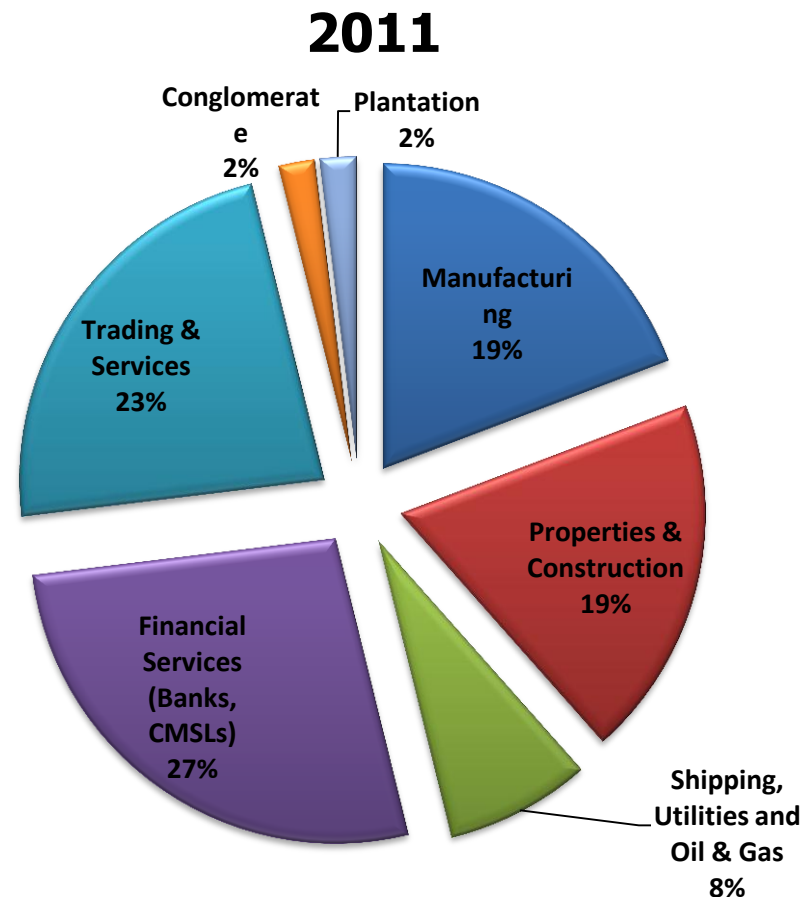
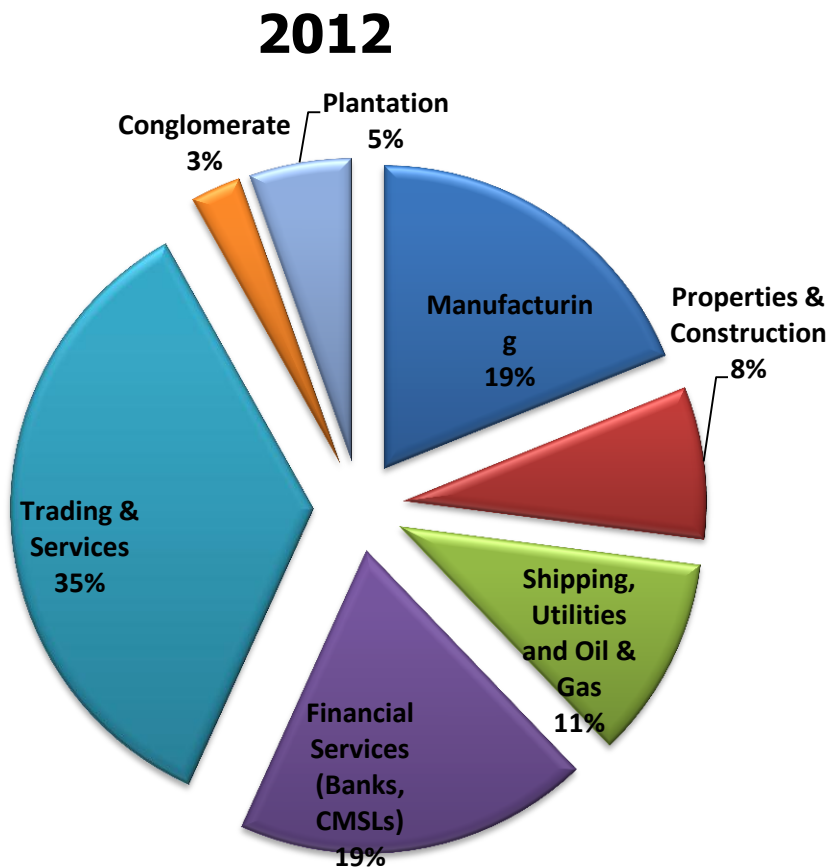
Year	Number of Audit Firms Inspected	No. of Individual Auditors Inspected	No. of Audit Engagements Inspected	Final Inspection Report Issued	Remediation Plan Received and Approved
2010 [^]	6	24	22	2	-
2011 [*]	17	48	52	16	13
2012 [*]	19	40	37	20	19
2013 ^{**}	8	18	17	7	10
Total	50	130	128	45	42

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

^{*} : Included the 6 major audit firms subject to annual regular inspection

^{**} : Up to 30 June 2013 and included 2 major audit firms subject to annual regular inspection

Engagement Coverage by Sector



AEC Objectives and Challenges

- **Key Characteristics of AEC**



- A single market and production base
- A highly competitive economic region
- A region of equitable economic development
- A region that is fully integrated into the global economy



Free flow of goods, services, investment, labour and capital

- **Envisaged to achieve**



- ASEAN as internationally competitive and integrated global economy
- Benefits all ten ASEAN member countries
- ASEAN – common foundation towards ASEAN community
- Common platform for business
- Pooling together resource capabilities to enhance business value and ASEAN market

- **What does it mean ?**



- Policy reforms for some countries
- Trade liberalisation, trade facilitation, customs modernisation, harmonisation of standards and conformance, elimination of non-tariff barriers
- New markets for products and services throughout the region, create jobs and raise productivity
- Removal of trade barriers, opening up opportunities for companies to expand their customer base and diversify their business

- **What does it mean ?**



- Enhanced participation of global supply networks
- Accelerating regional integration in the priority sectors
- Skilled labour and talents
- Reduction in transaction costs

- **Raise financial reporting standards**



- Integrated capital markets – key to future ASEAN region economy
- Strong financial and accounting infrastructure to support the integrity of ASEAN's capital market
- Potential growth in ASEAN region – to attract investors, high quality financial reporting regime and strong corporate governance practices is encouraged

- **Raise financial reporting standards**



- 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

- **Challenges**



- Increase foreign competition and new market demands
- Increase talent movement
- Narrow the gap among ASEAN members with different stages of development
- Managing diverse culture, business practices, laws and regulations
- Promote consistency to avoid duplicate efforts

ASEAN Audit Regulators Group (‘AARG’)

Background

AARG Membership*

- Singapore, Thailand and Malaysia

Meetings

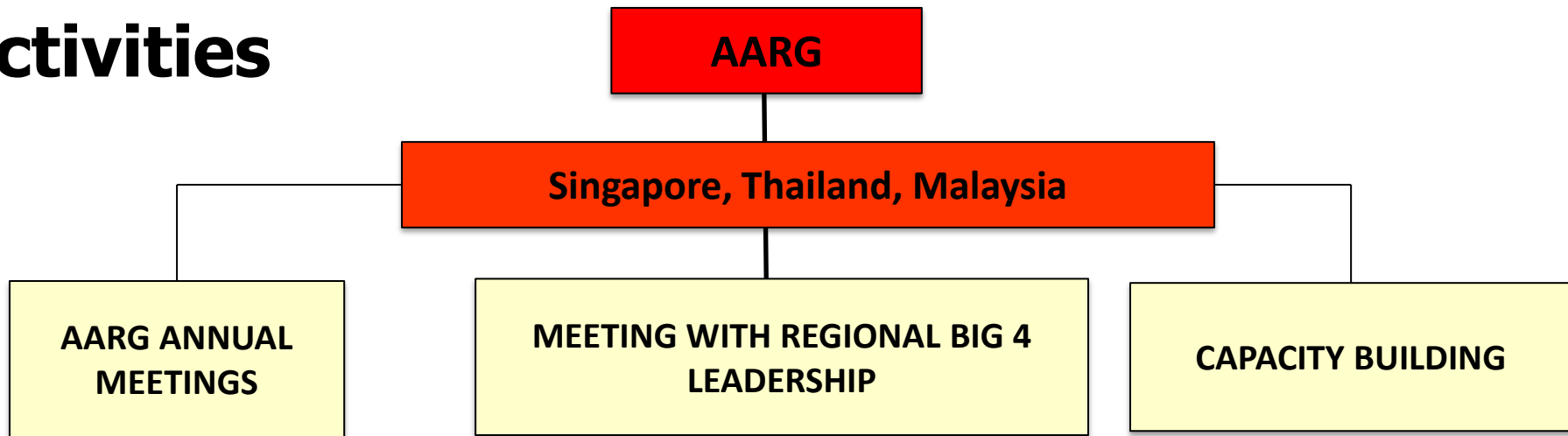
- Informal Meeting in 2010
- Formal Meetings in 2011, 2012 and 2013

* Members of the International Forum of Independent Audit Regulators (IFIAR)

Objectives

- Share best practice in audit regulation and inspections
- Engage jointly on common issues with the audit firms regionally to promote improvement in audit quality
- Encourage development of independent audit oversight and International Forum of Independent Audit Regulators “IFIAR” membership amongst ASEAN countries
- To present a common voice on certain issues at IFIAR and other international stakeholders such as IFAC

Activities



- Sharing of experience and information
- Discuss common issues
- Promote the importance of independent audit oversight to other ASEAN countries, including provision of technical assistance

Three meetings held in

- Thailand, Malaysia, Singapore

Shared aggregated statistics, internal monitoring findings, discussion on IFIAR-GPPC topics, talent issues, and a roundtable on group audits (with other stakeholders)

Organised two inspection workshops attended by representatives from other ASEAN countries, Japan and Hong Kong.

1. Singapore (January 2012)
2. Malaysia (January 2013)

AARG Forum

- Awareness raised with targeted audience such as large and mid-tier audit firms, regulators and academicians, covering:
 - Audit committee's role in influencing audit quality;
 - Fraud and its influence on the confidence of financial reporting; and
 - Talent management in accounting firms

Key Highlights AARG Inspection Workshop

- Several areas of highlights in the Workshop requiring closer engagement with the audit firms include
 - Emphasis for audit firms to perform more robust root cause analysis to enable them to develop effective remediation plans. This is in view of recurring findings which indicate that the Firm's existing remediation plans may not be sufficiently effective
 - Emphasis on firms' self-governance and monitoring mechanisms and encouraging EQCR accountability to improve audit quality

Benefits of the Workshop

- The Workshop has contributed to greater consistency across the region's audit regulators and facilitated timely discussion of regional issues that have an impact on regulation on the audit profession
- Through the sharing of experiences and processes, regulators are also kept abreast of developments and practices which are useful to raise the standard of audit quality in the region

How does AARG support AEC initiatives

- Encourage member countries to join AARG
- Platform to have raise common issues among ASEAN countries
- Promote consistency of audit quality among the ASEAN countries
- Managing talent issues across ASEAN countries
- Drive messages to enhance capacity building across ASEAN countries
- Managing risks arising from Cross Border Transactions among ASEAN countries

Financial Reporting Function Challenges



- Ensuring company's strategy keeps track with fast-changing business and risk environment
- Role of those charged with governance – Board and Audit Committee
- Cross border transactions
- Strength of financial reporting function
- Quality and consistency of information



- Adoption of International Financial Reporting Standards
- Rapid development of accounting standards
- Business model and IT complexity
- Talent issue – capacity and skills
- Understanding challenges faced by auditors in particular cross border auditors
- Lower cost of transaction – risks lower audit fee which may pressure the work of auditors?

Conversation with Auditors

- Independent, understanding foreign auditors compliance with independence
- Group Audit (ISA 600)
- 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



- 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 cross border 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, overseas investments
- Related parties transactions



Audit Regulators Efforts Towards AEC

Promote consistency

- Information shared across countries is properly audited and adopts consistent standards
- Important to facilitate business
- Companies nowadays operate in more than one jurisdiction
- Markets more liberalised and information to be shared across countries, more important to ensure financial statements are audited with the same rigour and adopt same standards

Collaborative Efforts

- Acknowledged different issues surfaced
- Easier to understand when collaborate
- Helps us to understand what is on the horizon and how to tackle it based on experiences of other regulators



Questions?

