Auditor Workshop

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Key stakeholders in financial reporting

- Audit Committees
- Preparers
- Auditors
- Financial Statements
- Investors
- Independent Audit Regulator
Independent audit regulation
- has helped improved audit quality in the last 15 years

2001 / 2002
- Enron
- Sarbanes Oxley

2006
- IFIAR formed
- 18 members

2015
- Big-Six firms committed to an IFIAR target - reduce audits with inspection findings by 25% by 2019

2017
- IFIAR has 52 members
- Only five G20 countries not yet IFIAR members
Independent audit regulation
- communication by regulators benefits investors but is currently varied

- Private disclosure of inspection findings to AC of listed company
- Public reports of inspection results of specific firms, but without disclosure of findings on specific audits
- Public reports of inspection results on an aggregated basis
- Annual report of activities
Independence of ACs
- important for effective oversight role

Q6 of AC survey – What are the impediments to an effective AC?

90% Over-reliance on management or external auditors

87% Lack of challenging mindset

Q7 – How can independence of ACs be enhanced?

81% Clearer definition in listing rules or CG codes

74% Higher minimum competence levels

52% Nomination by minority shareholders
Competencies of ACs
- enhances ability of ACs to be effective in oversight role

Q8 – On oversight of financial statements, what are the main deficiencies in the work of ACs?

77%  No challenge of aggressive accounting

71%  No challenge of poor quality disclosures

Q18 – What competencies do audit committees need to develop to enhance their effectiveness?

86%  Understanding of new accounting and auditing standards

76%  Understanding of cybersecurity and other technological risk management issues

69%  Understanding of data analytics and use of technological innovation
HR Capacity of CPA Firms

Audit quality is correlated to adequacy of HR capacity but CPA firms are facing……

High Attrition

<table>
<thead>
<tr>
<th>Country</th>
<th>Rate</th>
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<tbody>
<tr>
<td>MY</td>
<td>28%</td>
</tr>
<tr>
<td>SG</td>
<td>35%</td>
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As reported by audit regulators for Year 2015

Low “Retention”

<table>
<thead>
<tr>
<th>Country</th>
<th>#CPAs</th>
<th>#Practising</th>
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<tbody>
<tr>
<td>HK</td>
<td>42K</td>
<td>5K (11%)</td>
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<tr>
<td>SG</td>
<td>24K</td>
<td>1K (5%)</td>
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Mismatch of Resources vs Complexity

- **UK**: 20 firms with <20 partners auditing 43 PIEs
- **MY**: 32 firms with <4 partners auditing 110 PIEs
Discussion – Independent audit regulation

1. What has been the effects of independent audit regulation on corporate governance? How can there be greater positive effects?

2. What (and how) should be communicated about independent audit regulation?

3. What other areas should independent audit regulation focus on?
Discussion – Independence of ACs

1. How can the AC appointment process be enhanced to increase their independence? Should there be additional disclosure on this process for improved shareholders’ understanding and confidence?

2. How can ACs be better supported (by the board or shareholders) to exercise a challenging mindset?

3. What (and how) should be communicated about AC oversight to demonstrate their independence and effectiveness?
Discussion – Competencies of ACs

1. Has AC competencies generally matched up to the roles that they are intended to play? What have been the greatest gaps?

2. With companies facing more risks amidst disruptive times, will ACs be expected to expand their oversight scope and if so, what additional competencies are needed?

3. What additional disclosures would be useful for investors to assess the adequacy of AC competence?
Discussion – HR capacity in CPA firms

1. What significant changes are needed to improve the HR capacity of CPA firms?

2. What HR-related indicators would be useful for assessing the capacity of audit firms?

3. Is there market understanding and appetite to pay the right level of audit fees to enable CPA firms to have adequate HR capacity to perform quality audits?