

ACCA



Value of Audit:

Views from Audit

Committee Chairmen

Purpose of the Research

- Limited research on the Value of Audit
- Role of audit committees (AC) has assumed great importance internationally.
 - Singapore's ACGC
 - FRC Guidance notes
 - SMU Audit Committee Research
 - Maastricht University research
- *Value of Audit: Views from Audit Committee Chairmen*, is to inform the current debate by “providing contemporary evidence on the value of audit as perceived by the Chairmen of Audit Committees of listed corporations in Singapore”.

5 Key Areas Addressed

- Is there Value in Audit?
- What do AC Chairmen expect from their Auditors?
- What do AC Chairmen think of the Quality of Audits?
- What can be done to enhance the Value of Audit?
- Future potential for the Profession.

Methodology

- Research was conducted using face to face interviews.
- 40 leading companies listed on the Singapore Exchange were selected; 17 interviews of AC Chairmen conducted.
- Interviewees were selected across different sized organizations and types of business.
- Each interview lasted for about an hour and questions were fielded by at least two interviewers.

Key Findings

1. The external audit is regarded as extremely valuable by AC Chairmen to meet their corporate governance responsibilities.
2. Almost all AC Chairmen were of the opinion that the most important criterion for the selection of the auditor was the engagement partner's expertise, knowledge of the company's industry and business and an informed audit team with international reach.
3. AC Chairmen indicated that their auditors currently met all their key expectations and had no issues with the quality of audit
4. AC Chairmen want auditors to be independent and 'speak their mind'.
5. AC Chairmen want auditors to highlight early and upfront the impact of changes of new Financial Reporting Standards (FRS) on the financial statements.
6. AC Chairmen are willing to pay reasonable audit fees for quality audits, and keeping them as low as possible was not a principal objective for them.
7. The management letter was particularly important to AC Chairmen, who might not otherwise be informed of these weaknesses.
8. AC Chairmen find auditors' feedback on areas such as the quality of the management's finance team and the competence and co-operation of staff, particularly those in foreign locations, useful.
9. Auditor's liability and its impact on realising the full potential value of audit is a key problem that needs to be addressed.
10. Most AC Chairmen did not expect auditors to advise them on business strategies and preferred auditors to focus on core assurance services.

Is there Value in Audit?

- The independent opinion on the statutory financial statements provided comfort to the Audit Committee that the financial statements provided by management are “true and fair” and can be presented to shareholders.

“...they assure us that everything we present to the shareholders, the numbers, we can present with confidence.”

- Challenging questions posed by the auditor from an independent perspective and subsequent responses by management gave Audit Committees assurance of the thoroughness and completeness of the Company’s financial reporting and internal audit processes.

“One has to ensure that one is not seduced by management.”

- Issuance of the management letter by the auditor gave Audit Committees valuable feedback about operations on the ground.

“The auditors are my eyes and ears on the ground...”

- AC Chairmen found value in the auditor’s feedback on management’s finance team useful; including issues relating to their competence, level of co-operation and assistance; and any understaffing conditions that the auditors have noted.

“The skill of an auditor is not so much in reading the books but more about reading people.”

What do AC Chairmen expect from their Auditors?

- Experience and Expertise
 - The engagement partner to be experienced and confident with relevant industry experience.
 - The audit firm to have deep expertise in the relevant industry.
 - Member firms to transfer international technical and industry expertise to local engagement partner.
- Engagement
 - Expect the firm to retain as audit engagement partner, the same individual who was put forward during the initial appointment of the audit firm.
 - Expect the engagement partner to devote sufficient time and attention to the audit.
 - Expect auditors to “speak their mind” and ask relevant and challenging questions that would bring pertinent issues to light.

“We want a partner that speaks his or her mind if there is something not right or if there is a disagreement.”

- Expect auditors to provide early warning on new and proposed financial reporting standards and provide an analysis of their impact on the company’s financial statements.

“...we want firms to tell us ahead of time if there is a new accounting standard or potential issue. We don’t want surprises.”

What do AC Chairmen think of the Quality of Audits?

- AC Chairmen had no significant concerns about the quality of audits conducted mainly by the Big Four Accounting firms
- Auditors generally do have a good understanding of the company's business

"I think most auditors understand the business that they are auditing; although they may not necessarily understand some of the complexities."

- Auditors showed the correct balance between professional scepticism and co-operation.
- The consideration of fees is one of the responsibilities of AC Chairmen but it was not the most important consideration. Fees should be reasonable to ensure that:
 - Audits were carried out in an efficient and effective manner.
 - The audit team is highly motivated to perform the audit to high standards.

What can be done to enhance the current approach to audit?

- More than one respondent felt that auditors have become more risk-averse in recent years due to various developments in the legal and regulatory frameworks.

“Threat of litigation is an obstacle to the value of audit.”

- Some respondents felt that the timely rotation of audit firms could bring benefits to the Company in terms of getting a fresh perspective
 - Stopped short of specifying any pre-determined tenure
 - Preferring instead for management to exercise judgment on the appropriate timing.
 - A few respondents expressed some concerns that a proper understanding of the business may be hampered if rotations are executed too frequently.

Future Potential for the Profession.

- Non-audit services suitable for the profession to be engaged in
 - Tax Advisory
 - General and forensic investigations relating to financial reporting
 - Risk and Liquidity management
 - Corporate Finance and M&A advisory
- But AC Chairmen in this study generally did not expect the profession to advise them on their business strategies.

“Being able to audit the company is different from being able to run the business...We challenge them in their area of expertise; not in running the business”

Conclusion

- This survey is based on the views of AC Chairmen of large listed corporations, most of which were audited by the Big Four.
- The value of audit is a function its quality.
 - High quality can only be attained if sufficient resources are devoted to the audit.
 - AC Chairmen had no significant concerns about the quality of audit in this survey.
- AC Chairmen valued industry expertise in their auditors.
- The audit report is only one element of the value derived from an audit.
 - A good audit will uncover issues and learning points that are useful to the company.
 - The management letter was considered particularly useful.
- The assurance that the financial statements prepared by management were “true and fair” was the most highly valued benefit from the external audit. This confirms that the traditional audit model is not broken and continues to fulfill a critical role.



THANKS

