

# Improving Corporate Governance in Malaysian Capital Markets – The Role of the Audit Committee

## Role of the Audit Committee in Assessing Audit Quality

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# Corporate Governance Framework

- A key component of good corporate governance is the role and responsibility of the Audit Committee.
- An audit committee provides an efficient mechanism for focusing on relevant issues.
- High quality auditing is integral to capital market confidence – the role of audit can be underrated and undervalued.

# Audit Quality

*‘Undertaking’ a quality audit involves obtaining sufficient and appropriate audit evidence to support the conclusions on which the audit report is based and making objective and appropriate audit judgements.....*

*A quality audit [also] includes appropriate and complete reporting by the auditors which enables the Audit Committee and Board to discharge their responsibilities.’*

**UK Financial Reporting Council**

# Current Status

- To date, there has been little guidance available to help businesses understand the quality of the audit services being provided to them.
- This compounds the concept of 'audit expectation gap'.
- Other components used for assessing auditor performance being service delivery and price.

# Five Drivers of Audit Quality

1. Culture within an audit firm
2. Skills and personal qualities of audit partners and staff
3. Effectiveness of the audit process
4. Factors outside of the control of auditors
5. Reliability and usefulness of audit reporting

# 1. The culture within an audit firm

- What are the core values of your auditor?
- Does your auditor's code of conduct include commitments to:
  - Honesty and integrity
  - Professional competence
  - Independence
- How does your auditor regularly communicate the core values and principles of the code of conduct to staff?
- Does your auditor create an environment where achieving high quality is valued, invested in and rewarded?

## **culture within an audit firm continued.....**

- Does your auditor take appropriate action for poor ethical behaviour or poor decisions?
- Does your auditor monitor audit quality across its firm and/or network? What actions would they take for shortcomings in these activities?
- Has any partner in your audit firm been the subject of regulatory action on the public record during the past year?

## 2. The skills and personal qualities of audit partners and staff

- Do the partners and staff show technical competence and a thorough understanding of auditing and accounting standards, and professional and ethical standards? Do they receive regular training on these standards?
- Does your auditor provide you with details of your engagement team including the role and experience of the team and the way in which the team is managed and supervised?
- Do the partners and staff show appropriate professional scepticism and address issues identified during the audit in a robust manner?
- How do audit staff receive mentoring and on the job training?



### 3. The effectiveness of the audit process

- Do you understand what your auditor does and does not do, including how the auditor reviews the various operations of your business?
- Do you understand clearly the roles and responsibilities of each of the following groups: the audit committee, the board of directors, management and the external auditor?
- Is the external audit plan discussed at audit committee meetings well before year end?

# The effectiveness of the audit process continued.....

10 of 13

- Does your auditor's methodology, technology and/or tools:
  - provide a framework and processes to obtain sufficient appropriate audit evidence?
  - Comply with all legal and professional requirements?
  - Require appropriate audit documentation?
  - Require an effective review of audit work?
  
- How does your auditor review the work of experts, including assessing their terms of reference, competence, capabilities and objectivity?
  
- Does your auditor have appropriate access to the audit committee, including 'in camera'?

## 4. Factors outside of the control of auditors

- Does your organisation attach appropriate importance to financial reporting and the audit process?
- What qualifications and level of experience do the preparers of financial statements have in your organisation?
- Does your audit committee engage in a robust and professional manner with issues identified during the audit?

## 4. Factors outside of the control of auditors continued....

- How does your audit committee assess the quality of financial information provided by management?
- Is there sufficient capacity (nature, mix and size) in your organisation's financial reporting capability to meet your expectations?
- Does the audit committee approve releases to the market?

# 5. The reliability and usefulness of audit reporting 13 of 15

- Does your auditor communicate with sufficient detail on the scope of the audit and the accompanying report, including the way in which the risk of material misstatement in the financial statements has been addressed?
- Does your auditor report on the key judgements made by management in assessing the application of accounting standards and the auditor's assessment of these judgements?
- Does your auditor suggest potential ways of improving financial reporting and internal controls?

## 5. The reliability and usefulness of audit reporting 14 of 15

- Does your auditor provide the audit committee with a list of unadjusted differences identified during the course of the audit?
- Does your auditor seek feedback from its clients on a formal basis?

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