



The audit expectation gap

THE collapse of construction company Carillion and retailer BHS in the UK had fueled calls from the British Parliament for a shakeup of the audit industry to spot problems earlier and avoid thousands of employees losing their jobs due to corporate failures. Sir Donald Brydon, the former London Stock Exchange chairman, who was tasked to look at how the quality and effectiveness of the audit market can be improved, eventually published a report in December 2019 with the verdict that "Audit is not broken, but it has lost its way".

In an accountant's conference in October, he was quoted to have said: "I'm a little troubled by the current mood that reaches for a shotgun aimed at auditors every time there is a corporate problem."

Closer to home, we have just witnessed the implosion of oil trader Hin Leong in Singapore, with Deloitte Singapore nervously proclaiming that it stands behind the audit of the Singapore energy trader. All before fingers were to start pointing.

The Expectation Gap

One possible reason for such things to happen is because of the existing expectation gap in audit. This is defined as "The difference between what the public expects from the auditing profession and what the profession actually delivers". Apparently, such a gap has been recorded as early as 1974, but yet, almost 50 years forward, there is little evidence the gap has narrowed. In fact, it may have even worsened over

time.

While the International Auditing & Assurance Standards Board (IAASB) will be issuing a revised quality standard before the end of 2020 (but to be effective only in 2022) aimed at enhancing the quality practices in accounting firms offering auditing and assurance services, the larger conversation should be on how the gap mentioned herein can be narrowed or closed.

A joint study by CA ANZ and ACCA in 2019 had alluded to this existing gap, but had broken it down into three distinct components – the knowledge gap, the performance gap and the evolution gap. These enable a more targeted response to each of these gaps, leading hopefully, to a better outcome over time.

How To Deal With These Gaps

It is vital for all stakeholders such as the regulators, audit firms, standard setters, professional accountancy organisations (PAOs) such as MICPA, audit committees, investors, governments, media, and even the general public to come together in a collaborative effort to deal with the issue in a holistic manner. Some of

these actions have been adopted and refined along the way whereas others are still finding its eventual path forward. It is hoped that reports such as those prepared by Sir Brydon can be an eventual catalyst for things to move a little faster than the current pace.

Knowledge Gap

➤ Audit firms and PAOs should develop better communication strategies to the public on the changes to standards. Leveraging on new communication channels such as social media could be a possible option for increased coverage and outreach to the public.

➤ Regulators and standard setters should inform the public about any changes to existing regulations or standards and explain the rationale for those changes. This will enable the public to be better informed about the existing requirements and about the changes that are taking place. This is also where the media can play an effective role in disseminating such information.

Performance Gap

➤ Audit firms should ensure that

audit quality is achieved and maintained. They have to demonstrate that efforts are invested in continuous improvement by addressing areas of persistent low quality. The firms will have to be transparent in this respect rather than mere lip service.

➤ Audit regulators should support innovation by audit firms to enhance audit quality rather than promoting a checklist mentality.

➤ The Audit standard setter should be responsive to audit quality issues by updating the standards and offering implementation support tools where necessary.

Evolution Gap

➤ The study last year highlighted the public's increased expectation of auditors to be more responsive in identifying fraud or preventing company failure. Thus, the auditing standard's current approach of identifying fraud as incidental to audit will have to evolve. Perhaps the auditor, as suggested by the Brydon Report, will need to be more of a bloodhound and no longer be the traditional watchdog. The concept of professional skepticism, a hallmark

of audit, may eventually evolve into something even more vigorous.

➤ Policy-makers and regulators should be mindful of the link between the knowledge and evolution gap components when implementing new policies and regulations to satisfy public demand rather than developing more patchwork regulations as part of a knee jerk reaction every time a scandal arises.

Conclusion

More work will need to be done and all stakeholders will need to be roped in to address these gaps in a holistic manner. Transparency in the action of the firms, PAOs, the regulators, and the standard setters should be promoted and enhanced while education for all, including Joe Public will need to take center stage. Only with that can we narrow or eliminate these gaps over time.

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World's second-oldest airline, Avianca, driven to bankruptcy

SAO PAULO: Avianca Holdings, Latin America's second-largest airline, filed for bankruptcy on Sunday, after failing to meet a bond payment deadline, while its pleas for coronavirus aid from Colombia's government have so far been unsuccessful.

If it fails to come out of bankruptcy, Bogota-based Avianca would be one of the first major carriers worldwide to go under as a result of the pandemic, which has crippled world travel.

Avianca has not flown a regularly scheduled passenger flight since late March and most of its 20,000 employees have gone without pay through the crisis.

"Avianca is facing the most challenging crisis in our 100-year history," Avianca chief executive Anko van der Werff said in a news release.

While Avianca was already weak before the coronavirus outbreak, its bankruptcy filing highlights the challenges for airlines that cannot count on state rescues or on such rescues coming fast enough. Avianca is still hoping for a government bailout.

"This isn't a surprise at all," said Juan David Ballen, chief economist at Casa de Bolsa brokerage in Bogota.

"The company was heavily indebted despite the fact it tried to restructure its debt last year."

Avianca, the second-oldest continually operating airline in the world after KLM, had US\$7.3 billion (RM31.6 billion) in debts in 2019. The airline filed for Chapter 11 bankruptcy in New York and said it would continue operations while it restructured its debts.

Most pressingly, Avianca was facing a US\$65 million bond payment due on Sunday that analysts did not think the airline was in a position to meet. – Reuters

WARRANTS WATCH

HSI-HAF sustains top position amid holiday-shortened week

THE first week of May saw a slight climb in warrants trading activity despite it being another holiday-shortened week as the Malaysian market was closed on Thursday in conjunction with Wesak Day. The total warrants turnover for the week came in at RM257 million, which represented a 14.1% rise compared with the previous week, with warrants over the Hang Seng Index (HSI) taking the top spot with RM111.1 million traded, making up 43.2% of the total warrants turnover, followed by warrants over shares which made up approximately 43.1%, while warrants over the FBM KLCI and S&P 500 Index (SP500) together constituted approximately 13.7%.

The HSI futures kicked off the month of May with a sour start on Monday, plunging 5.4% weighed by overnight losses at Wall Street after an extended holiday weekend the week before as prices succumbed to some vicious selling pressure before finishing 1,326.0

points in the red at 23,373.0. The downhill momentum, however, did not last as prices staged a comeback from Tuesday through Friday to recover from the selloff despite Hong Kong having posted its worst GDP decline on record following an 8.9% contraction in the first quarter from year-ago levels due to coronavirus shutdown (*The Star*, 4 May).

Over the week, the put warrant HSI-HAF sustained the top spot as the top warrant by value traded with a turnover of RM35.7 million, followed by the call warrant HSI-C9S in second place registering a total value traded of RM34 million. HSI-C9S topped the list by volume traded with a total RM148 million units traded and landed in the sold-out list on Monday amid the steep selloff in the HSI futures. The call warrant was no longer sold out on Wednesday after investors sold back their positions to book profits following the rebound in the underlying. Another warrant worth mentioning is the call

Top warrants by volume traded

| Warrant name | Volume (RM'mil) | Issuer | Exercise level | Expiry date |
|--------------|-----------------|-----------|----------------|-------------|
| HSI-HAF | 35.7 | Macquarie | 24,600 | 28 May 2020 |
| HSI-C9S | 34.0 | Macquarie | 27,600 | 28 Aug 2020 |
| SUPERMX-C86 | 16.3 | RHB | 1.90 | 27 Oct 2020 |
| HSI-C9T | 15.8 | Macquarie | 26,200 | 28 Aug 2020 |
| FBMKLCI-H8Z | 8.5 | Kenanga | 1,550 | 30 Nov 2020 |

warrant HSI-C9T which came in fourth on the list, clocking in a total RM15.8 million in total value traded.

In the local scene, warrants over rubber glove maker Supermax were among the popular favourites for the week with SUPERMX-C86 coming in the third spot with a total traded value of RM16.3 million after the share scaled fresh peaks to end a staggering 20.2% higher for the week at RM2.98. Other notable warrants that were also actively traded were FBMKLCI-H8Z,

MYEG-C92 and DSONIC-C13. To view the full list of structured warrants available on Bursa Malaysia, visit malaysiawarrants.com.my.

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Past performance is not indicative of future performance. You should make your own assessment and seek professional advice.

AmGeneral Insurance extends reliefs to policyholders

PETALING JAYA: AmGeneral Insurance Bhd has been supporting its policyholders throughout the movement control order (MCO) and the subsequent extensions, offering round-the-clock support to ensure they receive continuous insurance protection under its two retail brands, Kurnia and AmAssurance.

Its CEO Derek Roberts said the company remains committed in

supporting its customers during this time of uncertainty.

"Although we are in the insurance business, and it has always been our purpose to make Malaysia a safer place, taking care of our policyholders in times of need, especially in facing the current Covid-19 pandemic.

"One way we are supporting Malaysians who are staying at home is offering them complimentary

motor assistance at home, especially to help with flat tires and batteries," he said,

In view of the Covid-19 situation, AmGeneral has pledged a fund of up to RM1 million through a series of support initiatives and insurance protections, such as a complimentary bereavement benefit to all AmGeneral policyholders.

It has also reviewed and

enhanced its insurance policies by providing value-added and extended coverage which include three-month complimentary travel insurance extension and interest-free installment program for corporate non-motor premium warranty policies.

Roberts emphasised that it has been AmGeneral's core value in proactively support and respond to its customers 24/7.

Local banks under constraints but in position of strength: Analyst

KUALA LUMPUR: The country's banking sector is expected to be under constraints this year especially in terms of income and loan growth due to effects from the Covid-19 pandemic which has adversely impacted the local as well as the global economy.

Despite this, well-capitalised Malaysian banks will be facing the headwinds from a position of strength

and make a strong recovery.

MIDF Amanah Investment Bank Bhd's senior analyst Imran Yassin Yusof viewed there were still a lot of uncertainties plaguing the banking sector in terms of the impact of the pandemic on the local economy.

"It is very difficult to give a timeline for when banks would recover as it depends on how fast or the magnitude

of the economic recovery

"However, we believe Malaysian banks will be facing the headwinds from a position of strength, due to the fact that Malaysian banks are well capitalised, hence it would be able to weather the current crisis. We opine that Malaysian banks will recover as the economy starts to recover," he told Bernama.

Meanwhile, a report said Malaysian banks' credible underwriting standards and sufficient earnings, as well as capital buffers, should help it to contain impact from the virus.

But as China is Malaysia's largest export market, a sharp slowdown in China would erode corporate earnings, it said.