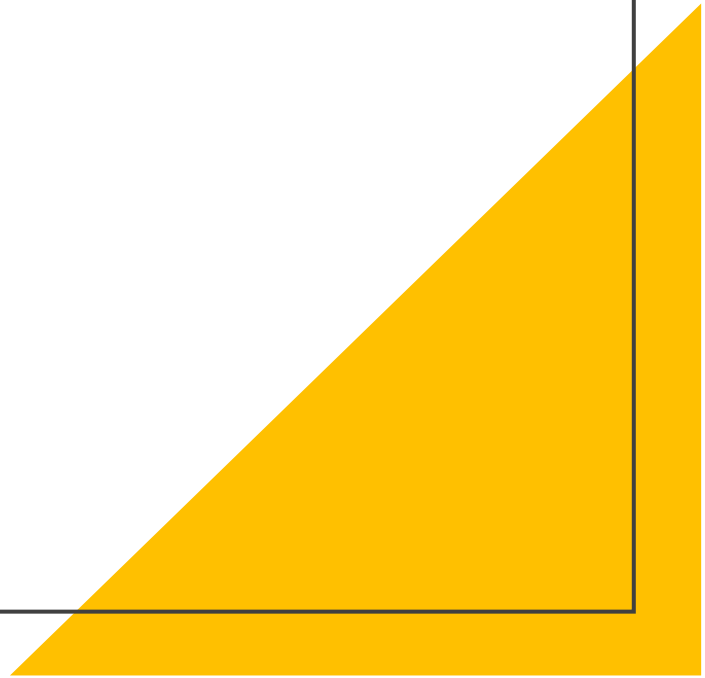


Regulatory review and outlook

Kelvin Wong

15th September 2021



Our concerns – what?

- COVID-19 & its traumatic impact on company's cash flow and sustainability (**going concern assumption**)
- Economic uncertainty and its impact to management judgement and impairment of assets (**cognitive bias**)
- Vulnerability of company performance, fragility of public trust, and the dilemma of the auditor (**where to stand**)

Our concern – why?

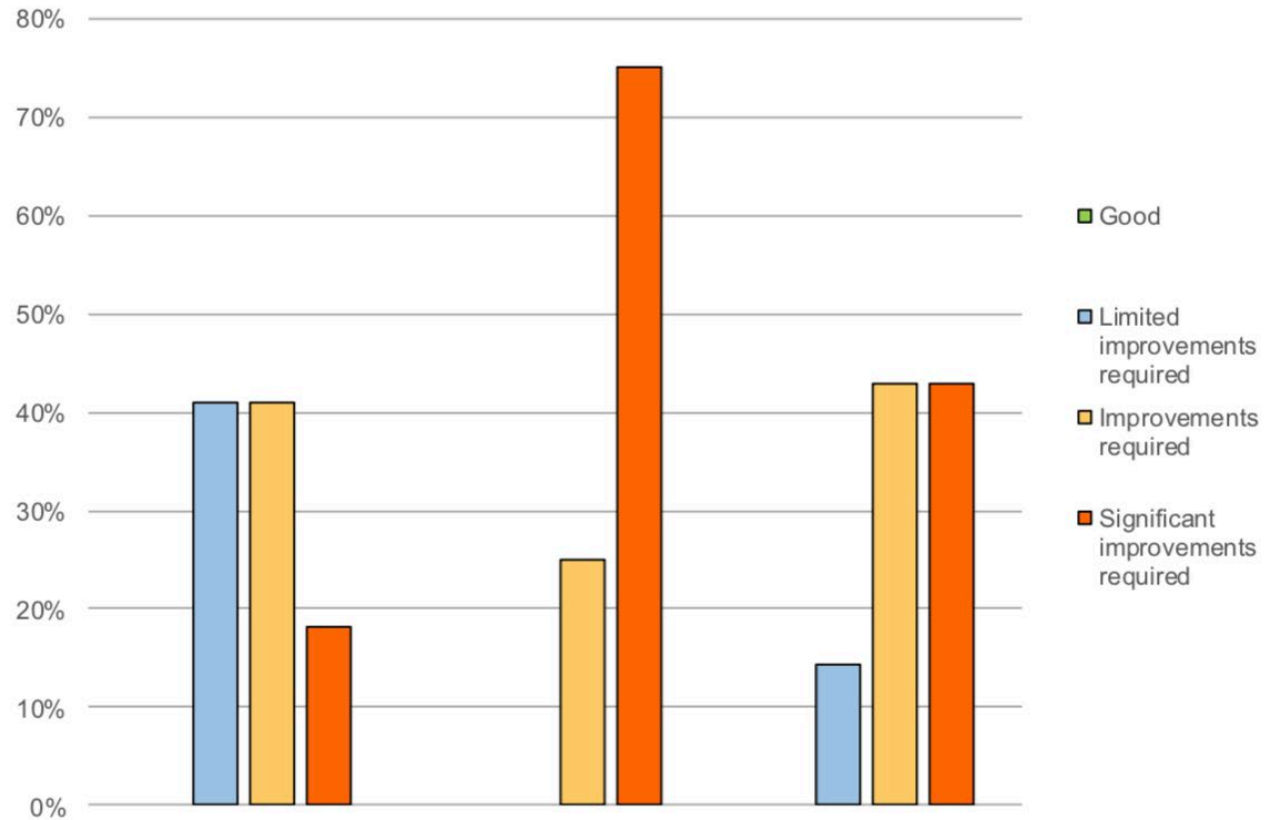
- Auditors?
- Preparers?
- Both?



Overall quality of financial reporting

Overall inspection results

Chart 1 Engagement inspection results by size of firm



	Audit firm category		
	Category A	Category B	Category C
Number of engagements inspected	22	8	7

Our inspection findings – audit quality

- Lack of professional skepticism [81%]
 - Going concern; asset impairment; business rationale; fraud
- Key audit matters [32%]
- Deficiencies in the application of accounting standards
 - Revenue recognition [46%]
 - Expected credit loss impairment [55%]
- Deficiencies in using the work of an auditor's expert [46%]
- Inadequate documentation [68%]

Action by audit committees

- AC plays a pivotal role in the quality of financial reporting:
 - as the preparer and the oversight body of external auditors
- **We urge AC to** consider our key findings and challenge their auditors as to whether they have taken necessary action to ensure that audit quality findings do not occur on their audits
- **We also urge AC to** ensure listed companies have robust internal governance and sufficient resources to provide high quality financial reporting

Our actions in the pipelines

- Nov 2021: Guidelines to **effective audit committee**
- 2022: Guidelines to auditor appointment, reappointment, **resignation**, and tender
- **Rainbow connection**: Collaborations with local and international regulators

Our medium term agenda

- Promote a strong sense of internal **culture** of quality among audit firms
- Adopt **proactive approach** to ensure our statutory functions are effective and conducive to positive change in the behavior of auditors and their clients
- Ensure **quality of financial reporting and audit** in particular would not be compromised at the expense of audit fee and audit independence

Thank
you

