

Piercing the Veil through Professional Scepticism: What to Look out for

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Overview



1. Challenges Audit Committees face today
2. Situations where greater scrutiny is required
 - a. Diversification into new businesses
 - b. Business expansion and entry into new markets
 - c. Write offs and Impairments
3. What ACs should be looking out for

Challenges Audit Committees Face Today



- Changing accounting standards
- Evolving regulatory and legal environment
- Increasingly complex transactions
- Evolving business models – new risks

Situations requiring greater scrutiny



Diversification into new businesses

- Business model risks – how do you earn money?
- Additional expenses relating to new business operations
- New technology – what is the accounting treatment like?
- Different regulatory environment

Situations requiring greater scrutiny



Business expansion and entry into new markets

- Mergers and acquisitions
 - Legal and Financial Due Diligence
 - Valuations
- Post merger integration – realisation of value
- Market dynamics in new territories – what factors affect the business

Situations requiring greater scrutiny



Write offs and Impairments

- Where there is a risk that assets may be materially impaired – scrutinise the company's approach to impairment testing
- Understand the basis and ask yourself does it make sense – do you know enough

What ACs should be looking out for



- Monitor evolving standards and their implications – how does it affect your understanding of the company's finances? The underlying intent.
- Is management overly aggressive in their estimates/ judgement in order to push through deals? What are the assumptions taken?
- For valuations and due diligence, pay attention to the caveats given by the service provider. Is there sufficient scrutiny on their part? Or are things taken lock, stock and barrel?
- When the business model changes, audit plans should as well. Parts of the business that weren't material in the past may now be. Need to ensure that such areas are covered sufficiently.
- Is there sufficient check and balance over the CEO/senior management?

In Summary



1. You really need to know the business; go under the hood and see what's underneath.
2. Understand the macro environment
3. Need to have a good grasp of the underlying details
4. Trust, but verify. When in doubt, clarify.
5. Beware of false assurances; don't be afraid of being sceptical
6. Once you understand the situation, rest is just accounting – always ask “so what?”

Thank You!