



by Cheah Chor Sook

LISTED firms – in particular small-cap companies – should begin to view audit from the lens of value as opposed to cost given they have to fulfil their obligation to investors, clients and other stakeholders.

A number of developments will see an increasing need to view audit from the lens of value, according to PricewaterhouseCoopers (PwC) Malaysia assurance leader and partner Soo Hoo Khoon Yean. These developments include:

- ▶ Increasing regulatory scrutiny and sanctions on accounting fraud/errors;
- ▶ An increasingly sophisticated investor community who values additional insight through better business reporting;
- ▶ The emergence of complex accounting standards such as the new Malaysian Financial Reporting Standards (MFRS) 15 which requires significant judgment in applying the new revenue recognition model with a view to improve comparability within industries, across industries and capital markets; and
- ▶ The introduction of Key Audit Matters (KAM) which prompts companies to provide better disclosure to enhance transparency and trust in an entity's business performance. The audit opinion is featured at the beginning of the auditor's report with proper clarification of the

# Managing key audit challenges

New developments warrant training more people in this field to ensure quality of the audit

auditor's responsibilities and what's involved in the audit. This addresses the concerns of investors, who are wary of boilerplate description of matters.

"Companies, regardless of size, should not compromise on the quality of the audit, by putting affordable pricing ahead of audit value," Soo Hoo tells **FocusM**. "Regular engagement is needed between auditors, investors, company management and audit committees, to educate them on the changes impacting them and how the audit can deliver

Auditors must have some awareness of various shariah issues and regulations affecting the Islamic financial institutions to the extent where they impact the financial statements, says Nurul A'in



Companies, regardless of size, should not compromise on the quality of the audit by putting affordable pricing ahead of audit value, says Soo Hoo

better insights to help them make more informed management decisions."

## Shariah compliance

Another challenge encountered by the auditing fraternity is the need to be versatile with both conventional and shariah-based accountancy/auditing knowledge. In this regard, the impact of shariah-compliance is more prevalent in the financial services industry as they are governed under the Islamic Financial Services Act (for the financial institutions conducting Islamic financial activities), according to Soo Hoo's colleague Nurul A'in Abdul Latif.

"As such the concept of shariah audit becomes important for these institutions," explains Nurul A'in who is the PwC Malaysia markets leader and partner. "However, many shariah audits are conducted internally by the internal audit department of the institutions,

not by the auditing fraternity [unless specifically engaged by the client]."

In the context of external audit, Nurul A'in opines that auditors need to have some awareness of various shariah issues and regulations affecting the Islamic financial institutions to the extent where they impact the financial statements.

However, the external auditors are not responsible for the state of shariah compliance in the financial institutions as this responsibility falls under the ambit of the Shariah Committee. As such, the level of shariah knowledge required by the (internal) auditors has to be in line with the expected competencies required to perform their responsibilities.

"Universities produce many graduates with shariah qualifications but they are not equipped with accounting/auditing knowledge," reckons Nurul A'in.

"To bring shariah compliance to the next level, not only do the rules/framework need to be formalised, but also having the right talents with adequate skills and knowledge in both shariah and accounting disciplines will be key to drive the implementation of shariah compliance in the industry."

Developments around the Shariah Index, which was introduced by the government in 2015, will be something to monitor closely. While Malaysia is the pioneer for such an index, there will be challenges ahead in implementing measures to improve the index, especially in ensuring that these are sustained improvements.

"It will be interesting to see how the Shariah Index is expected to run parallel with the 2050 National Transformation Plan and its implications on the economy, the overall business landscape, and how this impacts our future as accountants and the clients we serve," Nurul A'in points out.

## Digital era

On hindsight, Soo Hoo highlights that advancements in technology have paved the way for voluminous amounts of data to be converted into valuable information and insights. In the context of auditing, this allows auditors:

- ▶ To better identify risk areas and anomalies in reporting;
- ▶ To identify outliers and unusual transactions;
- ▶ To develop internal frameworks and offer richer results for stakeholders with the added depth of insights and layer of granularity afforded by big data; and
- ▶ To perform the same tasks much quicker than before which is useful in developing insight-driven audits (as such, auditors can also make important connections between data sets and measure performance across processes, business units and products more swiftly).

"Increasingly, new skillsets will be required for auditors to be competent in their jobs in this digital landscape," he asserts. "The ability to derive meaningful insights from data and make the necessary connections from data analytics will be key."

In this context, PwC has been investing in developing data auditing tool Halo which allows its auditors to interrogate and analyse large volumes of transactions. This tool has been useful in helping its auditors globally to assess risks, and focus on items of significance to the audit, translating to efficiency and improved audit quality. **FocusM**

## Addressing dearth of bumiputera accountants

MANY bumiputera accounting candidates and students are hesitant to consider a career in accounting in view of the high numerical literacy requirements and the perceived difficulty of accounting exams, according to PricewaterhouseCoopers (PwC) Malaysia markets leader and partner Nurul A'in Abdul Latif.

"A lack of language skills is also holding bumiputera students back, considering the relationship accountants need to build with various stakeholders, including clients, regulatory bodies and management," she tells **FocusM**.

"Being versatile communicators go a long way in helping accountants articulate a point of view on key matters rising from the audit and develop meaningful insights through data."

This is consistent with what was previously observed by Tan Sri Abdul Wahid Omar during his tenure as Minister in the Prime Minister's Department.

Back in October 2015, Wahid said there were 32,000 accountants who were members of the Malaysian Institute of Accountants (MIA), of whom 19,144 were also members of professional

accountancy bodies. Of this, only 1,602 or 8% were bumiputeras.

Shying away from pursuing an accountancy degree, there is an increasing trend of undergraduates opting for other tried and tested career paths, eg medicine/engineering/law or other less technical disciplines such as business/mass communications. Even among those that graduate in accounting, only a small fraction went on to train and qualify as accountants after completing their degrees.

"Often, it boils down to interest or motivation," asserts Nurul A'in. "They may not be encouraged or inspired to go the extra mile."

She also observes that a significant percentage of these graduates are unable to cope with the demands of the audit profession and drop out or fail to perform. In some cases, these accounting students are 'top scorers' academically but find it challenging navigating the working world.

"This is a trend we observe amongst accounting graduates in general, not just bumiputera graduates," she suggests. "Many factors contribute to this: lack of

family [parents/spouse] support, resulting in eventual resignation to preserve the harmony at home, lack of interaction skills in the firm as well as with clients, and lack of ability to grasp the technical requirements of the profession."

Besides keeping up with technical requirements such as the International Financial Reporting Standards, accountants are also expected to keep abreast of new developments that are redefining the profession such as integrated reporting and big data analytics.

In the view of Nurul A'in, universities, including their lecturers, can play an important role to encourage students to complete their professional training and examinations.

As an industry player, it also makes good sense for PwC to encourage more bumiputera students to embark on this route while investing in their career and professional growth. "We can do our part by sharing our experiences, offering internship placements, giving guest lectures and offering career guidance," she reckons.

One long-term prospect is that they might emerge as potential candidates to fill the void for auditors who are well-versed with shariah compliance matters.

"The bumiputera graduates we hire are usually strong academically, and determined to complete their accounting exams, funded by our firm," enthuses Nurul A'in. "It's a tough but achievable journey."