



Discussion of risk



ฝ่ายกำกับบัญชีตลาดทุน

agenda

1. Economic Environment

2. Political Environments

3. High Risk Industries

4. Specific Financial Reporting

5. Transactions and Trends

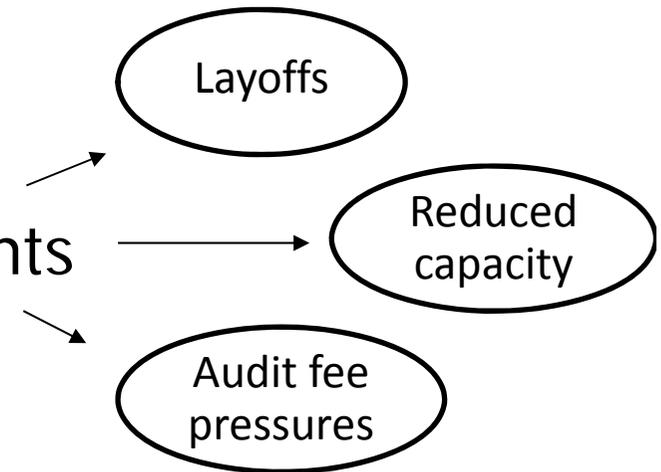
6. Audit risks related to audit firms

1. Economic Environment



Oil and gas prices : impacting not only oil and gas companies but also others with significant operations and exposures in commodities

- Impairment issues
- Heightened cost controls at audit clients
- Governance challenges
(cannot get or retain strong directors)



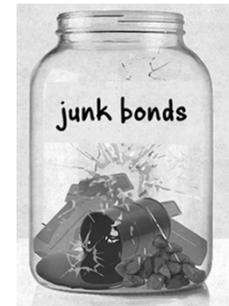
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1. Economic Environment



Interest Rates : continued low interest rate environment has resulted in higher demand for investment yield.

- reduced underwriting standards
- create bubbles in the housing market
- public companies are not able to earn returns to easily fulfill their obligations



1. Economic Environment



Economic slowdown : Slower growth of PIEs could have implications to audit fees

Globalization and group audits : access to component auditors' workpapers, especially in China

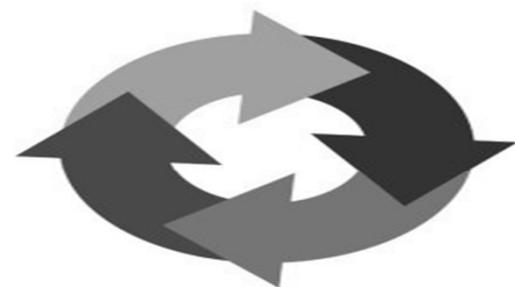
Weaker currency could lead to an increase in manufacturing businesses : auditors' skills for auditing manufacturing companies need updating.

2. Political Environments



Mandatory rotation of audit firms : Introduces huge numbers of audits by 'new' auditors, and the tendering process is taking up a lot of the auditors' resources.

- Audit firms need to recruit new staff for this.
- regulators focusing on whether firms are competing on price rather than on audit quality



2. Political Environments



Audit Committees : possibility of audit firms reporting to audit committees on a limited range of inspection findings.

Income taxes : Sometimes, firms involved in structuring taxes planning are also working on the audit; this could raise independence issues. (Non-audit service)

3. High Risk Industries



Resource, extractive, mining, oil and gas industries :

- The current issue is not necessarily going concern but the issue is more about impairment of assets and revenue recognition.
- Mining companies often operate in foreign jurisdictions, which makes the access to component auditor work papers particularly important.
- Layoffs in these sectors may spill over to the financial sector
- Impacts on companies operating in related industries

3. High Risk Industries



- **Retail**: impact of digital disruption (or e-commerce).
- **Insurance companies**: because of low interest rates.
- **Large financial Institutions / banks**: may increase risk to compensate for low interest rates.
- **Telecoms**: high competition and change; a lot of intangible assets, impairment needs to be considered.
- **Manufacturing**: strong currency impacting ability to export
- **IT / software**: including systems, internet, and home entertainment software
- **Pharma and biotech**: merger related
- **Construction and farm machinery**: that is tied to construction and commodities prices.

4. Specific Financial Reporting and Audit



Performance Considerations

- **Fair value measurement** : continue to be challenging to audit due to high degree of judgment required.
- **Complex transactions**
- **Complexities of auditing IT** : in particular in the areas of valuation, internal control and evidence of work performed.
- **Increased shared service centers** used by large engagements and international groups
- **Revenue recognition**
- **Internal controls over financial reporting** : auditors too often are not identifying appropriate risks or not responding to risks identified

4. Specific Financial Reporting and Audit



Performance Considerations

- A lack of effective **communication** between audit committees and audit firms
- **Consistency of execution challenge**: Firms capable of good audits but do not perform consistently.
- **Enhanced auditors report**: implement for audits of December 2016 year-end financial statements; firms are starting to catch on to what is expected of them.

5. Transactions and Trends



Mergers and acquisitions: differing levels of activity among those on the call. Issues include appropriateness of purchase price allocation and resulting goodwill.

Post-IPO losses: in one jurisdiction, a good amount of attention is being placed on investment bankers and auditors when companies suffer losses after IPOs.

Big data / data analytics / technology: developments at audit clients may require audit technology to keep pace.

5. Transactions and Trends



Internet transactions and e-commerce: challenges for traceable audit evidence

Cyber-security: concerns over confidentiality of data. Cyber-security may not be an IT issue but a business risk. Consideration being given to what cyber-security risks mean to the financial preparers and auditors

6. Audit risks related to developments in the audit firms and profession



Tone at the Top / Culture

- Potential causes behind lack of improvement in level of inspection findings: fee pressures, business models, and related incentives to seek efficiencies. Messages from the top (firm culture) are improving but it may not be getting to grass roots and commercial decisions are dominating.
- Impact of increased number of tax and advisory partners at the top of the firms' organizations.
- Increasing non-audit services
- Effectiveness of initiatives undertaken by the global network firm and local member firms

6. Audit risks related to developments in the audit firms and profession



Big data / data analytics

- Impact that “big data” will really have to the audit remains unclear to regulators and the firms.
- Data analytics is being seen mentioned increasingly in proposals to secure audit and non-audit engagements. Noted that big data was a key component in the awarding of certain large proposals.
- May necessitate changes in auditing standards; skills required in audit teams will change; IT resources; and inspections may also need to change.
- Potential risk: data could be misused and introduce privacy risks.

6. Audit risks related to developments in the audit firms and profession



Human Resources considerations

- Human resources for audit
- Less experienced auditors being promoted before they have a firm grounding in basics of an audit
- Experience and expertise within the firms: Reliance on experts retained by auditors
- Financial services economy has been doing well in some countries, creating challenges for the audit firms to recruit and retain staff
- Skilled non-CPAs professional resources in demand, including forensic experts
- Offshoring of services: noted by a call participant as currently not too risky because the work offshored is still at a low level.

6. Audit risks related to developments in the audit firms and profession



Auditor liability: ongoing legal cases are testing auditor liability; the outcomes may affect how firms manage risk and how audits are done.

Monitoring independence: concerns from increase in violations, including personal violations by firm personnel. In some cases related to tax services.