



"THAT'S THE LAST BOX TICKED - HAS ANYONE  
ANYTHING FURTHER TO RAISE?"

# The role of the audit committee in enhancing financial reporting

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# Agenda

— [ Roles of audit committee

— [ Purposes of financial reporting

— [ Observations in the past decade

# Roles of audit committee

— [ **Business partner (growth)**

— [ **Performance appraiser (ownership)**

— [ **Risk manager (internal control)**

— [ **Change facilitator (change management)**

— [ **Financial advisor (capital structure)**

— [ **Industry expert (strategy)**

# The Governance Role of Audit Committee

Corporate-governance mechanisms (Shleifer and Vishny, 1997):-

It is the way a company manages itself in order to ensure fair and equitable returns to all shareholders and other financial stakeholders.

It is a system by which companies are directed and managed; how the objectives are set and achieved; how risk is monitored and assessed; and how performance is optimized.

If these mechanisms did not exist or did not function properly, outside investors would not lend to firms or buy their equity securities.

# Purposes of financial reporting

## — [ Conceptual Framework for Financial Reporting 2010 (Framework 2010)

- To provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decision about providing resources to the entity.
- Financial information must be both relevant and faithfully represented.
- Enhancers to information quality: Comparability, verifiability, timeliness and understandability.

# The OECD Principles of Corporate Governance

## Five areas of concern:

- the rights of shareholders
- the equitable treatment of shareholders
- the role of stakeholders in corporate governance
- disclosure and transparency, and
- the responsibilities of the board.

# Observations in the past decade

Form over substance (conformance vs. performance)

Average skills is still not up to basic requirements

Understand, identify, and resolve major issues (duty of skills vs. duty of care)

Interactive force of shareholders structure (highly concentrated vs. dispersed) on the quality of financial reporting

To make your point is relatively easier, to walk your talk by changing the mindset of the management is relatively more difficult!

Regular survey on the effectiveness of the Audit Committee

— [ THE END

