Auditing and Accounting in Southeast Asia

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This is a background report for discussion at the OECD-Asian Roundtable on Corporate Governance on 27-28 November 2019. The report was prepared by Fianna Jurdant, OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of the OECD or its member countries.

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1. Setting the scene

This report is prepared as background to the 2019 OECD-Asian Roundtable on Corporate Governance, in order to set the scene for the discussion in session 6 on Recent Corporate Governance Developments in Southeast Asia. It provides an overview of the legal and regulatory framework with respect to accounting and audit standards as well as regulatory oversight in select economies in the region. Where information is publicly available, this report also highlights practices with regard to audit quality and the independence of auditors.

Southeast Asia is a dynamic and economically vibrant region. With a combined population of 643 million in 2018, the region has become one of the fastest growing economies in the world. The combined Gross Domestic Product (GDP in current prices) of the Association of Southeast Asian Nation (ASEAN) countries doubled from USD 1.4 trillion in 2007 to USD 2.8 trillion in 2017, which placed it as the 5th largest in the world. ASEAN has also become one of the main drivers of the world economy, accounting for an increasing share of economic growth and 3.5% of the world's GDP in 2017. GDP growth for the region is projected at 5.1% on average for 2017-2020, compared to 3.5% globally (OECD, 2018).[1]

ASEAN countries are among the largest recipients of Foreign Direct Investment (FDI) flows in the world and have become integrated in global supply chains. The region attracted USD 114.5 billion in FDI in 2017. As for trade, ASEAN's total trade with the world soared 61% to USD 2.6 trillion in 2017 from USD 1.6 trillion in 2007. Intra-ASEAN trade increased to USD 543 billion in 2017 (accounting for 20.9% of total trade).[2]

Despite this progress, capital market development remains a challenge in a number of markets in the region. Corporate governance policies play an important role in achieving broader economic objectives with respect to investor confidence, capital formation and allocation. The increasingly global integration of capital markets provides important possibilities for companies to seek finance from a much larger pool of investors who in turn will be able to grasp investment opportunities beyond their own national borders. However, it also leads to increased interdependence between investors and companies that come from countries with different legal, regulatory, economic and cultural traditions. So in order to reap the full benefits of capital market integration regionally and as well as globally, policy makers, regulators, market participants and stakeholders require a common language in terms of corporate governance. This is provided by the practices and expectations that have been agreed in the **G20/OECD Principles of Corporate Governance** (hereafter 'the Principles').

Effective implementation of the Principles requires that corporate governance frameworks facilitate **timely and accurate disclosure on all material**[3] matters regarding the company, including the financial situation, performance, ownership and governance of the company. Why is this the case? Because a strong disclosure regime that promotes real transparency is a pivotal feature of market-based monitoring of companies. It can help attract capital and maintain confidence in capital markets as well as ensure that shareholders are able to exercise their shareholder rights on an informed basis.

Shareholders and potential investors require access to **regular, reliable and comparable information** in sufficient detail for them to assess the stewardship of management, and make informed decisions about the valuation, ownership and voting of shares. Ultimately, insufficient or unclear information may hamper the ability of the markets to function efficiently, increase the cost of capital and result in a poor allocation of resources.

Audited financial statements that show the financial performance and situation of the company are the most widely used sources of information, including typically the balance sheet, the profit and loss statement, the cash flow statement and notes to the financial statements. They enable appropriate monitoring and help to value securities. Management's discussion and analysis of operations is typically included in annual reports. Investors value in particular information that may shed light on the future performance of the company.

Major failures of governance can often be linked to the failure to **disclose 'the whole picture'**, particularly where off-balance sheet items are used to provide guarantees or commitments between related parties. It is therefore critical that transactions relating to an entire group of companies are disclosed in line with high quality internationally recognised standards.

As stated in the Principles, information should be prepared and disclosed in accordance with high quality standards of accounting and financial as well as non-financial reporting. Such disclosure standards are expected to significantly improve the ability of investors to monitor the company by providing increased relevance, reliability and comparability of reporting, and improved insight into company performance.

Most countries mandate the use of **internationally recognised standards for financial reporting,** which serve to improve transparency and the comparability of financial statements and other financial reporting between countries. Such standards should be developed through open, independent and public processes involving the private sector and other interested parties such as professional associations and independent experts. High quality domestic standards can be achieved by making them consistent with one of the internationally recognised accounting standards. In many countries, listed companies are required to use these standards.

The Principles also state that an annual audit should be conducted by an **independent, competent and qualified, auditor** in accordance with high-quality auditing standards in order to provide an external and objective assurance to the board and shareholders that the financial statements fairly represent the financial position and performance of the company in all material respects. External auditors should be accountable to the shareholders and owe a duty to the company to exercise due professional care in the conduct of the audit. Finally, channels for disseminating information should be provided for equal, timely and cost-efficient access to relevant information by users.

2. Legal, regulatory and institutional framework

Overview

This section uses publicly available information from official sources to summarise the framework for accounting and auditing standards; institutional oversight, supervision and enforcement; regulation of the profession and audit quality when information is available. With thanks to regulators from Indonesia, Malaysia, Myanmar, Singapore and Viet Nam for their updates provided in October 2019. This information is not exhaustive and will be updated after the Asian Roundtable discussion.

Table 1. Strength of auditing and accounting standards, 2019

Country	Score	Rank
Indonesia	59.9	74
Malaysia	73.8	29
Singapore	87.6	3
Vietnam	43.2	128

Note: Scores are on a 0 to 100 scale, where 100 represents the optimal situation or 'frontier'. Information for Myanmar was not available.
Source: World Economic Forum, Global Competitiveness Report, 2019

Indonesia[4]

The **standard-setting body** in Indonesia is the Financial Accounting Standards Board (Dewan Standar Akuntansi Keuangan or DSAK) and the Sharia Accounting Standards Board (Dewan Standar Akuntansi Syariah or DSAS) under the Indonesian Institute of Chartered Accountants (Ikatan Akuntan Indonesia or IAI). Under Indonesian law, both public and private companies must comply with accounting standards issued by the DSAK-IAI and DSAS-IAI for general purpose financial reporting and for shari'a-based transactions and/or entities.

Indonesia's approach to IFRS adoption is to maintain its national GAAP (Indonesian Financial Accounting Standards-called "SAK") and converge it gradually with IFRS as much as possible. At the end of 2018, DSAK IAI made a public commitment toward achieving full adoption of IFRS by setting up a new Tier of SAK which is a word-by-word translation of full IFRS into Bahasa Indonesia.

Accounting, auditing, and financial reporting requirements in Indonesia are stipulated by the following laws and regulations:

- The Limited Liability Company Law of 2007 requires corporate entities to prepare **financial statements** in accordance with the Financial Accounting Standards issued by the Indonesia Organisation of Professional Accountants.
- The same law mandates audits for Indonesian public companies.
- The Indonesian Institute of Certified Public Accountants (IAPI) is responsible for adopting **auditing standards**—the Indonesian Public Accountant

Professional Standards (SPAP) —set by the Audit Standards Committee of the IAPI.

- Under the Capital Market Law of 1995 and the Banking Law, the Financial Services Authority (OJK) establishes **financial reporting requirements** for entities under its supervision (banking, capital markets, and non-bank financial industries sectors) and mandates the use of DSAK-issued accounting standards.

In Indonesia, both the **audit and accountancy professions** are regulated. Entities supervised by the OJK are required to be audited by a Certified Public Accountant registered with the OJK. Under the Capital Market Law 1995, the OJK registers and oversees **auditors** who provide audit services for the entities under its supervision (banking, capital markets, and non-bank financial industries sectors). In addition, the Supreme Audit Board (BPK) is given the authority to review audit engagement work conducted by IAPI members on public sector entities.

The Center for Supervision of Financial Service (PPPK), under the Ministry of Finance, is responsible for the supervision of the accountancy profession in Indonesia, including monitoring the professional activity of **statutory auditors**. One of the functions is to facilitate and formulate strategic policies for the accountancy profession They also issue practicing licenses to individual auditors and audit firms; establishing the requirements to obtain and maintain the practicing license; setting continuing professional development requirements for auditors; setting rules on auditor rotation; and the investigation and discipline of individual auditors and audit firms. The PPPK is authorised to **conduct inspections of the audit work** of all auditors and audit firms. The scope of inspection includes ensuring licensing requirements are fulfilled and that firms maintain relevant quality control systems. The PPPK is a member of the International Forum of Independent Audit Regulators and the ASEAN Audit Regulators Group.

State registered accountants can establish Accountancy Services Firms (KJA). KJA firms can offer services such as bookkeeping, accounting system services, consulting, taxation and financial reporting services but are not permitted to provide assurance services. The Public Accountant Act regulates the establishment of Public Accountancy Firms (KAP) that provide assurance services. The PPPK is responsible for registering all KJA and KAP firms in Indonesia.

There are three national professional accountancy organizations operating in Indonesia:

Institute of Indonesia Chartered Accountants (IAI)

The IAI is responsible for the **regulation of professional accountants**, including setting accounting standards in the private sector, administering the Chartered Accountant Indonesia exam, providing continuing professional education, and maintaining a disciplinary system for members. Since 2014, accountants are required to become a member of a professional organization prior to their registration with the Minister of Finance. This requirement has strengthened the standing of the IAI in the profession. In addition to being a member of IFAC, IAI is a member of the ASEAN Federation of Accountants.

Indonesian Institute of Management Accountants (IAMI)

The IAMI is a professional organization of management accountants bringing together 200 accountants employed as executives in the public and private sectors. Previously, the IAMI was a part of the IAI, until it elected to be an independent organization in 2007.

Indonesian Institute of Certified Public Accountants (IAPI)

The IAPI regulates public accountants and is legally empowered to set **auditing and ethical standards** for the public accountancy profession. The IAPI was once a part of the IAI, first as a department, then as an association member between 2007 and 2012. In 2012, the IAI eliminated association membership and, as consequence, the IAPI's membership with the IAI ended and the IAPI became an independent organization. The IAPI is an IFAC Associate.

Public accountants in Indonesia are subject to a multi-layer system of supervision, with each responsible party conducting **quality assurance (QA) reviews of auditors**. The PPPK is authorized to conduct mandatory QA reviews of public accountants for monitoring and supervisory purposes. The PPPK focuses on the quality review of working papers related to audit engagements to ensure that they support the engagements and comply with professional auditing standards.

The IAPI conducts **mandatory QA of its members** to monitor the compliance with professional standards and the IAPI Code of Ethics. The Code governs the way public accounting firms interact with their audit clients and is based on the 2014 International Code of Ethics for Professional Accountants that includes guidance on auditor rotation, limits on non-audit work and reporting fraud. The activities performed by the IAPI are focused on the design and implementation of mandatory quality control guidance developed by each member's firm. The IAPI has also adopted Quality Control Standard 1, which is identical to International Standards for Quality Control 1. The IAPI reports that it is in the process of reviewing the latest ISAs and other IAASB pronouncements for adoption in Indonesia.

The OJK and Supreme Audit Board (BPK) also conduct reviews of audit engagements in specific situations. The OJK performs regulator reviews over the financial statements submitted by the company but not of the auditor working paper, which is done by PPPK. OJK conducts interviews or investigations on the public accountant and/or request for certain audit working papers on areas of review. In addition, the BPK has the authority to review audit engagements conducted by IAPI members for public sector entities.

Opportunities and challenges

According to the CG Watch 2018[5], Indonesia's accounting and auditing standards compare well with international standards, currently 95% compliant with IFRS with full adoption expected in the next year. While there is currently no plan for a mandatory full adoption of IFRS, according to sources with the local accounting profession the OJK is proposing to give listed companies an option to comply 100% with IFRS or remain 95% compliant. However, Indonesian auditing standards have been fully compliant with International Standards of Auditing (ISAs) since 2012, with the exception of ISA 701 on *Communicating Key Audit Matters in the Independent Auditor's Report*.

With regards to audit statements, CG Watch 2018 reports that listed companies are disclosing audit and non-audit fees paid to their external auditors but detailed narratives are voluntary with few companies providing such information.

Concerning audit regulation, as noted above, Indonesia's audit oversight regime could be clarified, with several bodies regulating external accounting firms depending on their focus. According to the CG Watch 2018, despite the multiple regulators and oversight bodies, disclosure of enforcement by these bodies is difficult to find. Like some other economies in the region, one particular challenge is capacity and resource issues, particularly the shortage of audit professionals. However, cooperation between regulators is starting to tackle capacity constraints. Allegedly, OJK and PPPK are deliberating on the enactment of a Financial Reporting Law that will enforce companies' compliance with accounting standards.

Malaysia[6]

Corporate financial reporting requirements in Malaysia are outlined in several laws, which include the Companies Act 2016, Financial Reporting Act 1997, Central Bank of Malaysia Act of 2009, Financial Services Act of 2013, Islamic Financial Services Act of 2013, and the Securities Commission Act of 1993.

The Companies Act 2016 governs the incorporation of companies and requires directors to prepare financial statements, which need to be audited. Financial statements are to be prepared in accordance with the approved accounting standards issued by the Malaysian Accounting Standards Board (MASB). The Companies Act 2016 is administered and enforced by the Companies Commission of Malaysia (SSM). SSM is a statutory body formed as a result of a merger between the Registrar of Companies (ROC) and the Registrar of Businesses (ROB) in Malaysia, which regulates companies and businesses.

The MASB was established under the Financial Reporting Act 1997 as the **standard-setting body** of the Financial Reporting Foundation (FRF). It determines and issues accounting standards for the preparation of financial statements required to be prepared under any law administered by the Securities Commission Malaysia (SC), Bank Negara Malaysia or SSM.

The MASB, together with the FRF, make up the frameworks for financial reporting in Malaysia. This framework comprises an independent standard-setting structure with representation from all relevant parties in the standard-setting process, including preparers, users, regulators and the accountancy profession.

Malaysia has adopted IFRS and IFRS for SMEs for all companies. The Malaysian Financial Reporting Standards (MFRS), which are issued by the MASB, in substance word-for-word in agreement with all IFRS and applicable to Entities Other Than Private Entities. Private Entities may prepare their financial statements based on either MFRS or Malaysian Private Entities Reporting Standards (MPERS). The accounting requirements of MPERS are word-for-word in agreement with IFRS for SMEs.

In Malaysia, the oversight of auditors of Public Interest Entities (PIEs) and schedule funds lies with the **Audit Oversight Board (AOB**). The AOB is established under the Securities Commission Act 1993 to develop an effective audit oversight framework and to promote confidence in the quality and reliability of audit financial statements in Malaysia. The AOB is a member of the International Forum of Independent Audit Regulators (IFIAR). The AOB is responsible for inspecting audit firms and auditors that are registered with it. The AOB undertakes inspections, and takes action, including sanctions, against audit firms and auditors for non-compliance with relevant auditing and ethical standards.

Under the Accountants Act of 1967, **auditing standards** are issued by the Malaysian Institute of Accountants (MIA)'s Audit and Assurance Standards Board (AASB). The AASB reviews new or revised standards and other pronouncements issued by the IAASB. The IIASB standards are adopted as drafted, with minimal amendments for laws and regulations in Malaysia. As of October 2019, MIA has adopted all the new and revised ISAs which are effective for the audits of financial statements for the periods ending on and after 15 December 2016, including the new auditor reporting standards.

MIA is a statutory body established under the Accountants Act 1967. One of the functions of MIA is to regulate the accountancy profession in Malaysia. The MIA authoritative pronouncements govern audit, review, other assurance and related services engagements that are conducted in accordance with the Malaysian Approved Standards on Quality Control, Auditing, Review, Other Assurance and Related Services. MIA has adopted the International Standards as the Malaysian Approved Standards. MIA has also issued an Audit and Assurance Practice Guide (AAPG) and Audit and Assurance Illustrative Guide (AAIG) to support the quality and promote consistency of the work performed by professional accountants in Malaysia.

MIA confers the Chartered Accountant qualification and membership with the Institute is mandatory for individuals who wish to practice in Malaysia. In addition to being a Member of IFAC, MIA is also a member of the ASEAN Federation of Accountants (AFA). The Practice Review Committee of the MIA is tasked to carry out **surveillance activities on audit firms** registered with the Institute to ensure that audit practitioners are adhering to international auditing standards, legal and regulatory requirements when they perform their audit work.

Another important professional body in Malaysia is the Malaysian Institute of Certified Public Accountants (MICPA). MICPA is a **professional body** for accountants formed under the Companies Ordinance 1940-1946. It plays a key role in developing the accountancy profession in Malaysia. MICPA is also a founding member of IFAC. Membership in the Institute is voluntary. There is a close working relationship between MICPA and MIA.

The Companies Act 2016 establishes that all public and private companies have a **mandatory statutory audit** requirement regardless of their size, ownership structure or whether they are actively operating.

In Malaysia, the AOB and MIA are responsible for establishing and operating **quality assurance (QA) mechanisms** in the jurisdiction.

The AOB is responsible for conducting **QA reviews of audit firms** that are registered with the AOB and that audit PIEs and schedule funds. The AOB undertakes inspections, and takes action, including sanctions, against audit firms and auditors for non-compliance with relevant auditing and ethical standards.

MIA is responsible for **surveillance and enforcement of audit firms** registered with MIA that audit non-PIEs, through its Practice Review Framework. The Institute reports that its program complies with the best practices outlined in IFAC Statements of Membership Obligations (SMO) 1 and that it has adopted and published quality control standards requiring firms to implement a system of quality control in line with the International Standard on Quality Control (ISQC) 1. This framework is mandatory for all members of MIA.

Foreign companies that are listed on the Malaysian stock exchange are authorised to use internationally recognized accounting standards such as those issued by the Financial Accounting Standard Board (USA), Accounting Standards Board (UK) and the Australian Accounting Standards Board (Australia) in lieu of the MASB approved accounting standards.

Opportunities and challenges

According to CG Watch 2018, the accounting and audit industry in Malaysia faces challenges retaining staff and there are audit quality issues, particularly outside the major firms. The ability of audit partners to provide oversight of audits is a crucial factor for quality audits. One potential issue regarding audit independence is where audit committees include former partners from external audit firms.

The AOB has set a good example as an audit regulator, providing details of its inspection programme and useful insights into the structure and practices of the CPA industry, where it is focused on improvements. The AOB has taken action to ensure that auditors for PIEs and schedule funds have the capacity to handle audit engagements and resulted in some consolidation. It has also continued its enforcement, including issuing fines, reprimands, and in some cases temporary bans on taking on work.

In order to further improve, CG Watch 2018 suggests to address the governance framework at MIA, maintain progress on enforcement, and improve professional qualification standards. Furthermore, strengthen the independence of audit committees, ensuring longer cooling-off periods before former audit partners can chair audit committees at companies where their previous firm conducts the audit. The MIA has recently established Competency Frameworks for CFOs and Finance Functions in PIEs aimed at supporting capacity building.

Myanmar[7]

Domestic public companies are required to use Myanmar Financial Reporting Standards (MFRS), which are identical to the 2010 version of IFRS. In July 2018, the Myanmar Accountancy Council (MAC) announced the **adoption of the latest version of IFRS** for financial reporting periods beginning in or after the 2022–2023 financial year. Entities will be expected to comply with IFRS, including cancellations, amendments, and new prescriptions that are made from time to time by the International Accounting Standards Board (IASB). Early adoption of IFRS Standards is permitted and encouraged.

The Yangon Stock Exchange (YSX) was launched in December 2015. Additionally, an over-the-counter market has developed for the shares of some companies; those companies are regarded as publicly accountable. Companies listed on the YSX and companies trading in the over-the-counter market are required to use MFRSs, which are identical to the 2010 versions of IFRS.

With respect to **financial statements audited** by an external auditor before being disclosed, in an OECD study (2019) all 11 public companies surveyed answered "Yes". This result is also in line with the new Companies Law, which stipulates that the financial statements shall be audited by the auditor of the company[89].

Opportunities and challenges

According to the World Bank ROSC (2017) the Government's economic objectives envisage Myanmar's economy becoming more competitive and with the ability to attract increased foreign direct investment. The objectives include the development of an integrated capital market and a modern financial sector. A foundation for any market-based economy is high quality financial reporting and auditing practices. As noted also in the Principles, this plays a significant role in promoting improved transparency and accountability therefore supporting the development of a level playing field and promoting investor confidence.

Many of the changes by the government intended to modernise the legal and regulatory framework for enterprises in Myanmar will also have an impact on the accounting and auditing profession as the country moves to increase alignment of its institutional framework for financial reporting and audit with international good practice.

Considering Myanmar's rapid economic growth, projected to accelerate to 6.7 percent in by 2020/21[10], there is likely to be a significant increase in demand for accountants and auditors with internationally recognised qualifications. Appropriate monitoring, compliance and enforcement arrangements will need to be developed to narrow the gap with accounting, audit and ethical standard requirements.

Box 1. Myanmar's economic transition

Based on the notion that private sector development is crucial for national socio-economic growth by creating jobs and increasing incomes, the Government of Myanmar has been supporting the private sector to boost development.

As part of wider economic reforms, the Securities Exchange Law was established and enacted in July 2013. The main purposes of the Law are (1) to establish a systematic capital market; (2) to protect investors; and (3) to regulate market participants such as public companies, securities companies and a stock exchange . The Securities Exchange Law provides the fundamental governance framework for the capital market including the establishment of a securities and exchange commission; and a stock exchange. In line with this, the Securities and Exchange Commission of Myanmar (SECM) was formed in 2014 and started its operation one year after the establishment.

The process to establish a stock exchange in Myanmar began in 1996 . Myanmar Economic Bank (MEB) and Daiwa Institute of Research Ltd. (DIR) formed the Myanmar Securities Exchange Centre Co., Ltd. (MSEC) in 1996 with the final goal of establishing a stock exchange. Through cooperation among the Japan Exchange Group, Inc (JPX), DIR and the Central Bank of Myanmar, Yangon Stock Exchange (YSX) was established in the form of a joint-venture owned by MEB, DIR, and JPX in 2014.

After establishment, YSX issued its Listing Criteria followed by Securities Listing Business Regulations and Enforcement Regulations clarifying the application of the Business Regulations. In 2016, the First Myanmar Investment Co., Ltd. was listed on YSX as a first case. As of September 2018, there are five listed companies on the YSX, with an overall market capitalisation of almost 569 billion Myanmar kyats (approximately USD 369 million) and a daily trading volume of almost 72 million Myanmar kyats (approximately USD 47 000) .

Myanmar has also set out a revision of the Companies Law which was first introduced in 1914. The new Companies Law was enacted on 6 December 2017 and came into effect on 1 August 2018. The Directorate of Investment and Company Administration (DICA) modernised the Companies Law to reflect the current business and regulatory environment through reducing registration procedures and facilitating electronic company registration, among others. One of the most important changes is that the revised Law stipulates that foreign investors are allowed to own up to 35% in local companies.

Source: OECD (2019), Corporate Governance Frameworks in Cambodia, Lao PDR, Myanmar and Viet Nam.

Singapore[11]

Under the Accounting Standards Act, the Accounting Standards Council (ASC) is responsible for prescribing **accounting standards** for use by companies, charities, co-operative societies and societies.

Accounting standards issued by the ASC are: Financial Reporting Standards (FRSs): Singapore Financial Reporting Standard for Small Entities (SFRS for Small Entities): Charities Accounting Standard; and Singapore Financial Reporting Standards (International) (SFRS(I)).

SFRS(I)s are equivalent to the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board.

The following entities are required to apply SFRS(I)s for annual periods beginning on or after January 1, 2018:

- Singapore companies listed on the Singapore Stock Exchange
- Business Trusts listed on the Singapore Stock Exchange

Foreign companies listed on the Singapore Stock Exchange are permitted to prepare their financial statements based on SFRS(I), IFRS, or US Generally Accepted Accounting Principles (US GAAP).

Under the Companies Act, all companies in Singapore are to be audited unless they meet two of three exemption criteria for the immediate past two financial years also known as "Audit Exemption for Small Companies." This criteria includes; (1) total annual revenue does not exceed SGD 10 million; (2) total assets does not exceed SGD 10 million; and (3) number of employees does not exceed 50. Dormant companies also do not require an audit. Further criteria are required to be met if the company is part of a group.

All other companies are required to be **audited** following the Singapore Standards on Auditing (SSA) which are based on the International Standards on Auditing (ISA) as issued by the International Auditing and Assurance Standards Board (IAASB) with minor modifications to reflect local legal requirements, where appropriate.

The Institute of Singapore Chartered Accountants (ISCA) through its Auditing and Assurance Standards Committee (AASC) is responsible for setting **auditing standards** in Singapore. As part of the standard-setting process, the AASC submits the SSA to the ISCA Council for review before submitting the standards to the Public Accountants Oversight Committee (PAOC), under the Accounting Corporate Regulatory Authority (ACRA) for final approval.

ISCA also administers a **voluntary quality assurance review** mechanism that members are encouraged to participate in to ensure quality of work conducted. Membership with ISCA is mandatory to register as a public accountant and to practice as an auditor in Singapore. Membership is voluntary for all other professional accountants. In addition to being a Member of IFAC, ISCA is also a member of the ASEAN Federation of Accountants.

The Singapore Accountancy Commission, established under the Singapore Accountancy Act, is a statutory body of the Singapore government that oversees the strategic direction and promotion of the accountancy sector while ACRA, established by the Accounting and Corporate Regulatory Authority Act, is responsible for **regulating public accountants** in Singapore.

ACRA is a founding member of the International Forum of Independent Audit Regulators and the ASEAN Audit Regulators Group. ACRA serves as the **independent audit oversight** authority in Singapore. ACRA is a statutory body under the Ministry of Finance. ACRA oversees the entire standard-setting process for auditing standards in Singapore through its PAOC.

The PAOC, operating under ACRA, is authorized to oversee all matters related to the **registration of public accountants** in Singapore. The PAOC is also responsible for administering its quality assurance mechanism, called the Practice Monitoring Program, executing an investigative and disciplinary mechanism, setting ethical requirements for public accountants, approving the adoption of auditing standards as developed by ISCA Auditing and Assurance Standards Committee, and administering continuing professional development programs for public accountants.

In Singapore, only a public accountant or an accounting entity approved by ACRA can conduct **audits on financial statements**. As a prerequisite to registering as a public accountant with ACRA and practicing as an auditor, individuals must be a Chartered Accountant (CA) and a member of ISCA. This requirement and the use of the CA designation is protected under the Singapore Accountancy Commission Act, which outlines additional provisions related to the registration and discipline of holders of this designation. Registration as a public accountant is also required for other acts that are required by law to be conducted by a public accountant, for example appointment as a judicial manager under the Accountants Act.

The responsibility for **quality assurance (QA)** reviews in Singapore rests with the PAOC, operating under the authority of ACRA. In accordance with the Accountants Act, all auditors and audit firms of public interest entities (PIEs) are subject to mandatory QA reviews under the Practice Monitoring Program (PMP), which is administered by the PAOC. The scope of PMP reviews are to verify whether auditors and audit firms have complied with applicable standards—such as the Singapore Standard on Quality Control (SSQC) 1, which is based on ISQC 1, and Singapore Standards on Auditing (SSA), which is based on the ISA—and procedures and requirements in the provision of public accountancy services. ACRA also conducts inspections on the quality controls of audit firms that perform audits of listed companies (i.e. to ascertain compliance with the SSQC 1).

Opportunities and challenges

According to CG Watch 2018, Singapore has one of the most developed systems for audit regulation and a regulator (ACRA) that has been proactive in raising audit-quality standards and working with local CAs to strengthen internal control and capacity. A long-standing challenge has been the limited powers of ACRA over audit firms. In its 2018 PMP report, ACRA states that it is on track to achieve the audit quality target to reduce by 25%, the proportion of inspected audits of listed entity engagements with at least one finding for the current year (2018). The use of the Audit Quality Indicator (AQI) framework is increasing. The big four audit firms have taken the initiative to share AQI data with even more audit committees compared to previous years. Also, consistent with international developments, ACRA is updating its Code of Conduct to enhance auditor independence and professional scepticism. For example, the cooling off period of the engagement partner after a rotation will be extended from two years to five years.

Viet Nam[12]

The Accounting Law (2015) and the Law on Independent Audit (2011) form the legal and regulatory framework for accounting, auditing, and corporate financial reporting in Viet Nam. The 2015 **Accounting Law** requires all entities, public and private, to apply the Vietnamese Accounting Standards (VAS) when preparing financial statements. The Accounting and Auditing Supervisory Department (AASD) operating within the Ministry of Finance (MOF), is responsible for setting accounting standards. The AASD established the Vietnamese Accounting Standards Board (VASB), which has been given responsibility to develop VAS. The application of International Financial Reporting Standards (IFRS) only applies to companies that report to foreign investors (or subject to request by foreign lenders); however, these statements are considered supplementary to what is required in the jurisdiction, which is to prepare financial statements that are aligned with the VAS. As of July 2018, the Vietnam Association of Certified Public Accountants (VACPA) reports that the MOF continues to take IFRS into consideration when developing or reviewing the VAS but IFRS are still not adopted in Viet Nam. The MOF has established a draft timeline of 2023–2025 to fully adopt of IFRS.

The **Law on Independent Audit** regulates the principles, conditions, scope, and form of independent audit activities as well as the rights and obligations of practicing auditors, auditing firms, branches of foreign auditing firms in Viet Nam and the units that are audited. The Law requires application of Vietnamese Standards on Auditing

(VSA) by all public interest entities (public companies, banks and credit institutions, insurance businesses, insurance brokerage businesses, and security trading and underwriting businesses), enterprises with foreign-owned capital, and finance organizations. The VACPA is authorised to support AASD in developing VSA in line with International Standards on Auditing (ISA). VACPA reports that the current version of VSA is based on the 2009 version of ISA with modifications.

The Ministry of Finance (MOF) is given authority to **regulate the accountancy profession** in Viet Nam. The MOF's responsibilities include establishing qualification requirements, administering examinations, and issuing practicing certificates for both auditors and other accountancy professionals. The MOF is also responsible for setting auditing and accounting standards, establishing ethical requirements, and administering mechanisms such as quality assurance and investigative and disciplinary systems.

The independent audit oversight authority in Viet Nam is the **Accounting and Auditing Supervisory Department** (AASD) of the MOF and the State Securities Commission (SSC). The Ministry of Finance (MOF) is responsible for regulating the audit profession and the Law on Independent Audit outlines the principles, conditions, scope, and form of audit activities in the jurisdiction.

The Ministry of Finance (MOF) is responsible for establishing **quality assurance** (QA) review systems for audit firms and auditors in Viet Nam. However, the MOF established and delegated the Accounting and Auditing Supervisory Department and the State Securities Commission to conduct the QA reviews. It could be clarified a bit more that most of these tasks mentioned here are implemented by AASD. SSC, which is institutionally under MOF like AASC, is responsible for "quality assurance review for audit firms and auditors which/ who are eligible to perform audit on public companies". On a periodical basis, SSC make public announce on the list of auditors and audit firms which are eligible to audit companies with public interests, e.g.[13]

The **process for QA reviews** is outlined in the Law on Independent Audit and includes a self-assessment by audit firms of the system of quality control relating to audits of financial statements; a review of the quality control policies and procedures; a review of audit working papers; and an assessment of compliance with local accounting and auditing standards. This self-assessment is developed by the MOF and it provides the criteria for determining if the overall outcome of a QA review can be considered satisfactory or unsatisfactory.

The MOF reviews the self-assessments to monitor their compliance with established auditing standards and regulations for audit firms and auditors. The MOF may enlist the assistance of the Vietnam Association of Certified Public Accountants (VACPA) if it determines the need to conduct an on-site inspection of the audit firms. VACPA reports that the QA system adopted by the MOF is mostly aligned with international requirements, except that the system is not linked with the investigation and discipline (I&D) system.

Audit firms in Viet Nam that provide audit and assurance services to the public are to be reviewed every three years or whenever there are instances of violations. International Standard for Quality Control 1 has been adopted in Viet Nam as the Vietnamese Standard on Quality Control (VSQC 1).

Under the Law on Independent Audit, the Ministry of Finance (MOF) is responsible for setting auditing standards in Viet Nam. Prior to 2008, the MOF issued 37 **Vietnam Standards on Auditing** (VSA), which were developed in line with standards issued by the IAASB. In 2012, the Vietnam Association of Certified Public Accountants (VACPA) was directed by the MOF to update the VSA.

As of June 2018, there are 47 VSA in Viet Nam, which VACPA reports have been developed in line with the 2009 ISA with minor modifications. VACPA reports that currently the MOF has no plans to review and adopt the latest ISA, which include the new auditor's report. VACPA reports that the 2012 IAASB Handbook has been translated into Vietnamese for its member's reference. According to ISAB, 131 of 143 surveyed countries and territories have claimed to align their National Accounting Standards with IFRS. Vietnam is one of the few countries that has not yet applied IFRS for the preparation and presentation of financial statements. The Government of Vietnam has just launched a project to adopt IFRS in the coming years.[14]

Opportunities and challenges

According to the World Bank ROSC (2016), despite the Vietnamese government's efforts to introduce international practices and issuing Vietnamese accounting standards over the past two decades, the quality of corporate financial reporting by public interest entities in Viet Nam is not consistent with international good practice. While there are examples of very good practice, the overall standard is adversely impacted by VAS not being kept up to date with developments in IFRS and the lack of monitoring and enforcement of compliance with accounting standards by the regulator. The result is that the financial statements are not prepared on a basis comparable with those in other jurisdictions.

Many public interest entities are audited by local firms with more limited capacity and resources than international firms. Smaller local audit firms do not have the benefit of international network quality assurance and technical support often facing difficulties in establishing appropriate international quality assurance arrangements. The criteria for an audit firm's acceptability to audit a public interest entity, are still focused on the qualitative measures (such as the size of the firm) rather than measures of audit quality (i.e. audit methodology and quality control procedures to ensure high quality audit).

In terms of demand for corporate financial reporting, it is still quite low and the benefits may not be fully appreciated. The supervisory board's role as an effective audit committee is limited in terms of the value placed on financial reporting and external audit. The capital market is dominated by retail investors who tend to not rely on audited financial statements for making investment decisions. In Viet Nam **the ownership structure at the company level** is dominated by retail investors (34%) followed corporations (27%) and the public sector (17%).

Table 2. Average ownership, by different categories of investors, as of end 2017[15]

	Private corporations	Public sector	Strategic individuals	Institutional investors	Other free-float
Indonesia	43%	16%	10%	7%	23%
Malaysia	32%	24%	14%	11%	20%
Singapore	33%	4%	29%	6%	28%
Viet Nam	27%	17%	13%	8%	34%

Source: De la Cruz, Medina and Tang (2019)

However, opportunities to increase the demand for high-quality corporate financial reporting are likely to increase with regional and international trade agreements. The establishment of the ASEAN Economic Community and the European-Vietnam Free Trade Agreement will require regulatory harmonisation and alignment with international good practice. The development of Vietnam's capital market will depend in part on the extent to which they are prepared to participate actively in these changes. The Viet Nam accounting profession will also need to play its part in this process, given the global trend of converging accounting and auditing standards.

The "Strategy for Accounting and Auditing toward 2020, Vision 2030" recognises the need for accounting and auditing reforms. These changes are designed to modernise the accounting and auditing profession, promote high quality corporate financial reporting and support improved transparency and accountability.

Box 2. Viet Nam : economy and capital market development[16]

Viet Nam's economy (in real GDP terms) has grown at an average rate of between 6 and 7% per annum since 2000, enabling the country to double the size of its economy in only two decades (WB and GSO, 2018). It is forecasted that the economy with be able to accelerate its growth rate in the coming five years. Economic growth has become the foundation for developing the business sector. Enterprises, in turn, have become the main engine of economic growth and development in Viet Nam. This growth is supported by an emerging capital market, which has played an increasingly important role in supplementing credit supply driven growth.

Viet Nam reported strong economic growth in the first quarter of 2018. According to the General Statistics Office of Viet Nam (GSO), fuelled by a rise in exports, gross domestic product rose 7.4% in the first quarter of 2018 compared to the same period in 2017. Viet Nam has outperformed most of its Southeast Asian peers. In the ADB's Asian Development Outlook (ADO) 2018, Viet Nam is set to continue its strong economic performance, with GDP growth forecasted at 7.1% for the full period of 2018, before easing back to 6.8% in 2019. The growth will be driven by a rise in foreign direct investment, vigorous export growth, strengthened agriculture sector and robust domestic demand.

After 17 years of development, the Vietnamese capital market has been the fastest growing in the ASEAN and East Asia in term of scale and liquidity.

The securities market has become an important channel for capital mobilisation and for enterprises to access an alternative capital channel from credit offered by banks. The value of capital mobilised through the Securities Market since its inception has reached over VND 2 000 trillion as of 2017. From 2011 until 2018, the capital mobilisation through the Securities Market has reached VND 1 500 trillion, 5 times higher than that in the period of 2005-2010, contributing to an average of 21% of the total social investment capital and equivalent to 50% of the credit supply through the banking system. In particular, the establishment of the Securities Market has facilitated capital raising for the Government and enterprises to enable investments, increased production, and business growth. The market has become the main distribution channel for the issuance of government bonds, raising capital for the State Budget.

The market capitalisation of the Vietnamese capital market has grown tremendously. At the launch of the Securities Market in 2000, only two companies were listed, and the market capitalisation was VND 986 billion (USD 48 million), equivalent to 0.28% of GDP. Viet Nam's Securities Market has become increasingly attractive to an increasing number of companies who have listed and registered for trading. As of the end March 2019, there were 757 stocks and fund certificates listed on the two stock exchanges and 812 stocks registered for trading on the UPCoM with the total value of VND 1,252,000 billion (or USD 54.4 billion)17 18, an increase by 2,9% compared to that of end 2018. As of the end of 2017, the value of capitalisation reached VND 3 360 000 billion (USD 146 billion), equivalent to 74.6% of the GDP19. This indicates an increase of 73% compared to that of 2016. The business performance of listed companies in the first 9 months of 2017 has significantly improved in terms of revenue and profit with the increases by 18% and 23% respectively compared with those of same the term in 2016 (SSC, 2017).

Source: OECD (2019), Corporate Governance Frameworks in Cambodia, Lao PDR, Myanmar and Viet Nam.

3. Recent global developments

In 2009, the OECD Corporate Governance Committee undertook a study to assess the corporate governance lessons learned from the financial crisis, including for risk management systems. This identified a number of audit failures relating to board oversight and robust risk management, including but not limited to financial institutions. These insights fed into the review of the G20/OECD Principles of Corporate Governance in 2015.

An issue that has become evident in some jurisdictions is a need to ensure the competence and efficient functioning of the audit profession. A 2018 Survey by International Forum of Independent Audit Regulators (IFIAR) reported that 37% of listed audits inspected had at least one finding.

In addition, some big four audit firms have seen resignations in recent years following audit failures linked to significant audit gaps, failures to identify frauds, and in some cases political corruption scandals. Recent findings by audit regulators echo this and indicate a timeliness to revisit audit quality and the consistency of audit execution. This has prompted the OECD Corporate Governance Committee to examine audit quality and the role of the audit industry at its October 2019 meeting. Below are a few key points raised in the discussion document of the Committee:

- The IFIAR Global Audit Quality Working Group consists of ten regulators from Australia, Canada, France, Germany, Japan, the Netherlands, Singapore, Switzerland, the United Kingdom and United States. Their objective is to urge the global audit community to drive quality through their firms globally. In recent years, the focus has been on understanding the role of global networks in audit quality and the response to audit issues arising from the economic downturn. Discussion topics include the role of the auditor, auditor communications, and audit committees.

- There is no one criteria for audit quality. The term encompasses the key elements that are required to create an environment that maximises the likelihood that quality audits are performed on a consistent basis. While responsibility for carrying out quality audits of financial statements rests with auditors, audit quality is best achieved in an environment where there is support from, and coordination among, participants in the financial reporting ecosystem.

- Recent global audit concerns raise questions about how to improve the quality of audit. Three relevant areas to the implementation of the G20/OECD Principles of Corporate Governance are: role and responsibility of the audit committee, risk management and risk assessment; and the merits of public oversight and cooperation.

4. Issues for discussion

Accounting and Auditing Standards

- What are some impediments that are preventing countries from adopting international accounting and auditing standards? In the absence of such standards, how do countries continue to attract foreign investments?
- When countries adopt new accounting and auditing standards, what implementation challenges do companies and auditors face? How do the respective government agencies and professional bodies work together to help build capacity for implementation of new standards?

Public Oversight

- What challenges do countries face in trying to meet the G20/OECD Principles of Corporate Governance related to transparency and disclosure? How should countries balance regulation vs the cost of compliance? And with the advent of technology, how should countries ensure that regulation does not stifle innovation but keep pace?
- How do respective regulators work together to prevent duplication and provide clarity of regulatory scope? How should countries ensure that regulation is balanced across all financial reporting ecosystem players and not focused on just a few players?

Audit Committee

- How are countries setting rules and regulations to make clear the duties of Audit Committees? While countries can define independence in their rules and regulations, how do they ensure that Audit Committees are indeed acting independently and appropriately performing their audit oversight duties to shareholders?
- What challenges are countries facing in building capacity of independent Audit Committees? How are capacity building programs coping with the pace of new skillsets needed for emerging risks such as cybersecurity and climate change risks?

Development of the profession

- How should countries ensure an adequate pipeline of professionals that will keep pace with the economic growth of the country? How should government, professional bodies, companies and audit firms collaborate to build capacity for the profession in the country?
- With the advent of technology, how should countries ensure that the accountancy profession is armed with new skillsets? How should countries approach changes to education curriculum, continuing professional education, as well as career paths?

Notes

[1] OECD (2018) Economic Outlook for Southeast Asia, China and India. It focuses on the economic conditions of Association of Southeast Asian Nations (ASEAN) member countries: Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Viet Nam.

[2] OECD (2018) Economic Outlook for Southeast Asia, China and India

[3] By material, the Principles mean information whose omission or misstatement could influence the economic decisions taken by users of information. Material information is also information that a reasonable investor would consider important in making an investment or voting decision.

[4] This section draws upon information provided in https://www.ifac.org/about-ifac/membership/country/indonesia

[5] CG Watch 2018, Asian Corporate Governance Association and CLSA Limited.

[6] This section draws upon information provided in https://www.ifac.org/about-ifac/membership/country/malaysia

[7] This section draws upon information provided in https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/myanmar/

[8] Section 260 (b)

[9] It should be noted that only Myanmar citizen desirous of registration as a Certified Public Accountant may apply to the Myanmar Accountancy Council for such registration. See Section 12 of the Myanmar Accountancy Council Law.

[10] https://www.worldbank.org/en/country/myanmar/publication/myanmar-economic-monitor-reforms-building-momentum-for-growth

[11] This section draws upon information provided in https://www.ifac.org/about-ifac/membership/country/singapore

[12] This section draws upon information provided in https://www.ifac.org/about-ifac/membership/country/vietnam

[13] http://ssc.gov.vn/ssc/faces/en/enlinks/endetail/licensing/enchitiet165?dDocName=APPSSCGOVVN162118094&_afrLoop=11302707437121874&_afrWindowMode=0&_afrWindowId=xs9vol6ux_58#%40%3F_afrWindowId%3Dxs9vol6ux_58%26_afrLoop%3D11302707437121874%26dDocName%3DAPPSSCGOVVN162118094%26_afrWindowMode%3D0%26_adf.ctrl-state%3Dxs9vol6ux_74

[14] https://customsnews.vn/apply-ifrs-to-achieve-transparency-10665.html

[15] De la Cruz, A., A. Medina and Y. Tang (2019), “Ownership of Listed Companies around the World”, OECD Capital Market Series, Paris, www.oecd.org/corporate/Ownership-of-Listed-Companies-around-the-World.htm.

[16] OECD (2019), Corporate Governance Frameworks in Cambodia, Lao PDR, Myanmar and Viet Nam.

[17] Updated statistics provided by Securities Commission of Vietnam in October 2019.

[18] At the exchange rate of USD 1 = VND 23,000 (August 2018)

[19] As of 27 April 2018, the combined market capitalization of HOSE and HNX was USD 137.7 billion.

Date and venue

27 - 28 November 2019

Trident Hotel, Bandra-Kurla

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