



Asian Chief Audit Executives Leadership Forum 2014

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Introduction

Thank you for inviting me to speak to you this morning.

Auditing – both external and internal varieties – should be an essential part of the overall infrastructure of good governance in responsible and responsive organizations, especially ones entrusted with the savings of the investing public, be they financial institutions or listed companies.

Being responsible and responsive are not really popular concepts.

Our corporate governance program has been in operation now for several years. We have taken on dozens of cases involving poor governance practices that have led to losses of



This led to Standard Water abandoning its listing application which has never been renewed.

So we asked EY to provide us with details about the “inconsistencies”. Initially they said we won’t tell you because of confidentiality restrictions. So we asked again, this time on a compelled basis. Again, EY said no, this time saying all information was in the Mainland with its affiliate, EY Hua Ming and PRC law restricted them from telling us anything.

We then asked the China Securities Regulatory Commission (CSRC) to assist us by obtaining the materials in the possession of EY Hua Ming. But EY Hua Ming also resisted production of documents to the CSRC as well.



So, in the context of today's discussion, what is this case about?

I have headed this part of the talk "the muffled bark" because, in effect, that is the real issue here and is what the case is really about from the SFC's perspective.

The importance of this case to the SFC is less to do with issues of PRC law and more to do with the extent to which the SFC can rely on Hong Kong auditors – both internal and external - to fulfil the expectations of stakeholders and bark clearly and loudly when circumstances require it. This started with an inquiry into inconsistencies that were sufficient to cause EY to resign its engagement as auditor. Presumably these are serious inconsistencies, perhaps a reason to suspect fraud or misconduct. These are matters that auditors should be unafraid to report in detail to the proper authorities. It is deeply troubling that auditors – wrongly – feel constrained in reporting misconduct to the SFC. Cases like this damage trust in the audit profession.

Let me give you a better example of accountability.

Barking Loudly and Clearly

Recently we took action against Royal Bank of Scotland (RBS), an entity that has seen its fair share of law enforcement agencies in recent years.

Our action concerned inadequate systems and processes around its Emerging Markets Rates Desk here in Hong Kong. In short, the case involved a rogue trader who concealed

