

Audit Committee Institute in Thailand

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The Audit Committee Institute in Thailand has developed a Toolkit to provide examples of the reporting and documentation required by Audit Committees. The Toolkit, which is being continually built upon, will need to be adapted to the circumstances of individual audit committees and companies. The guidance contained within this document is taken from the Audit Committee Institute publication "A practical guide: Shaping the Thai audit committee agenda", complimentary copies of which can be obtained from the Thai ACI.

Warning signals

Every organisation is different and each board should develop and maintain its own list of warning signals.

Some will relate specifically to the individual circumstances of the organisation and its environment, while others will be more general. The following are some of the signals audit committee members should be aware of:

1 Financial considerations

- exposure to interest and currency fluctuations;
- organisation's share price has fallen sharply recently;
- overly complex transactions and organisational structures;
- deterioration in the collection of debts and/or quality of debtors;
- increase in amounts owing to creditors;
- ongoing or prior investigations by regulators;
- inadequate information regarding financial performance;
- unusually rapid growth;



- regular deferral of capital expenditure;
- unrealistic earning expectations by financial community;
- explanations for variances from budgets considered to be inadequate;
- excessive or inappropriate performance-based compensation;
- gearing or liquidity forecast to be a problem;
- inadequate review and analysis of budgets against actual performance;
- recognising revenue before sale is complete;
- loan agreement covenants not being complied with;
- results appear unrealistically high given industry and economic conditions;
- key ratios deteriorating;
- significant decline in turnover and market share;
- last minute transactions that result in significant revenues;
- slow-down in the receipt of financial reports;
- financial results consistently meet or closely match budget/forecast;
- unusual results or trends; and
- organisation incurs losses.

2 Board of directors and management

- chairman and CEO dominate meetings and make decisions without first consulting the board;
- autocratic management;
- extremely close relationship between chairman and CEO;
- inappropriate "tone at the top";
- flow of information delayed, especially concerning problem areas;
- inexperienced management;
- inadequate examination of acquisitions and mergers;
- insufficient questioning and enquiry by board members;
- lack of harmony or respect between board members;
- lack of understanding about technology;
- insufficient number of board committees;
- chief executive officer is a dominant entrepreneur;
- managerial and board self-indulgence;



- lack of management oversight;
- poor relationship between directors and senior management;
- reporting to board only through the CEO;
- board and management focused on the past;
- resignation of key management of directors; and
- failure to comply with code of ethics/conduct.

3 Audit considerations

- auditor's report and management letters show an increasing number of control problems and areas of disagreement with management;
- external auditors changed due to accounting or financial reporting disagreements;
- internal audit operating under restrictions;
- organisation's accounting principles and practices are aggressive or vary from the industry norm;
- untimely reporting and responses to audit committee enquiries; and
- audit committee not meeting with external and internal auditors without management present.

4 Other warning signs

- abnormally high level of related party transactions;
- exposure to rapid technology changes;
- frequent customer complaints about the quality of goods or services provided;
- increasing stock levels compared to turnover;
- major deterioration in any of the organisation's key markets;
- no policy for managing intellectual capital assets;
- insufficient controls over disposal of pollutants;
- performance of major outsourced providers less than adequate;
- insufficient review of compliance with legislative requirements;
- media commenting adversely on the organisation's performance and products;
- deteriorating morale;
- resistance to abandonment of an unprofitable venture;



4 Other warning signs (continued)

- not fully understanding overseas market places;
- shortages of raw material or inventories, resulting in the late delivery of orders and indicating a loss of supply markets or late payment of creditors;
- significant drop in sales order activity, especially with forward sales;
- significant staff turnover;
- significant strategic changes in the organisation's operating environment;
- trend of losses appears continuing;
- unexpected losses have occurred;
- major new projects 'out of control' – behind time, significantly over budget, not delivering benefits;
- deteriorating performance on long term projects;
- consideration of high risk strategies;
- deteriorating relationship with the organisation's banker;
- lack of or inadequate succession planning; and
- bad news not floating to the top.





If you would like further information on any of the matters discussed in this publication, please talk to your usual contact at KPMG Phoomchai or contact:

auditcommittee@kpmg.co.th

Further material is available on the Audit Committee Institute website

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