

May 16, 2016

The Chairman
International Auditing and Assurance Standards Board
International Federation of Accountants
529 5th Avenue, 6th Floor
New York
New York 10017
United States of America

Via Online Submission

Dear Mr Arnold Schilder

**COMMENTS ON IAASB INVITATION TO COMMENT
ENHANCING AUDIT QUALITY IN THE PUBLIC INTEREST**

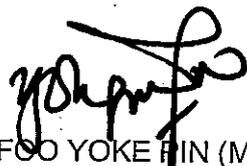
We thank you for the opportunity to comment on IAASB Invitation to Comment, *Enhancing Audit Quality in the Public Interest*.

In this regard, we are pleased to attach the Institute's comments as set out in Appendix I for your consideration.

Please do not hesitate to contact the undersigned or the Institute's Senior Technical Manager, Ms Hoh Kim Hyan, at +603-2698 9622 should you require any clarification.

Thank you.

Yours faithfully


FOO YOKE BIN (Mr)
Executive Director

IAASB INVITATION TO COMMENT (ITC), ENHANCING AUDIT QUALITY IN THE PUBLIC INTEREST

MICPA'S GENERAL COMMENTS

The Institute commends the IAASB for dedicating resources to address Public Interest issues from the perspective of audit quality and thanks the IAASB for the opportunity to comment on its research findings, concerns and possible actions to be taken to improve audit quality.

Having reviewed the consultation paper, the Institute is pleased to note that the findings and concerns set out in the paper are all sound and valid. However, MICPA is of the view that there are no significant shortcomings in the existing standards governing audit quality which necessitate additional standards or a major revamp to the existing standards. MICPA strongly feels that shortcomings in the implementation of the standards rather than the inadequacy of the standards themselves have been impacting the quality of audits.

As rightly pointed out in the consultation paper, many factors affect audit quality and due to the nature of an audit (which is not an exact science) and the challenges of an evolving environment, striking a balance between economic considerations and relevance is forever challenging.

However, the Institute has the following comments:

The purpose of an audit of general purpose financial statements had evolved over the years- from reporting to solely shareholders to progressively and unintentionally expand to include "other stakeholders." Consequentially, auditing and financial reporting standards were expanded and evolved in attempts to meet the requirements and to large extent too, to cater to the demands of those stakeholders other than the shareholders.

Changes in business environments coupled with the evolutions in the ways of doing business necessitated even more changes to auditing and financial reporting standards. Over the years, the number of failed very large sized enterprises further exacerbated the situation. Independence of auditors was also doubted resulting in even more changes in the auditing profession. Naturally, the scope of audit and auditing standards had to be changed to trend the changes. Unfortunately, changes in auditing and financial reporting standards and the audit profession usually lag behind changes in business environments and the ways that businesses are conducted. This further aggravated the already very challenging accounting and auditing fraternities.

In this regard, the Institute would like to propose that the IAASB should take a more holistic approach and revisit and redefine the purpose of the need for an audit. And once that purpose is established, the Institute believes that the following requires urgent attention as it feels they have significant impact and should be addressed:

1. Audit (Accountancy) Supply Chain

We believe that audit quality on a large part depends on the quality of the auditor in respect of ethics, core competency and continuous professional education. And all that starts at the tertiary level moving on to the professional level.

Whilst we might not have evidence due to lack of a formal survey, there is a common perception that accountancy courses at the tertiary level are one of the easiest to apply for and completed with ease. Hence, there could be a large population of accounting students who might just go through the course purely to complete it without much appreciation of what it entails to be a competent accountant/auditor when they enter the workforce. The intense competition between the various institutions of higher learning and professional accountancy bodies for student numbers might also be a contributing factor in the lowering of the quality of students in order to attract a higher number of students and future potential members and hence the quality of the eventual accountants and auditors.

In this regard, we believe that the IAASB should explore the possibility of monitoring or standardising the quality at the professional level which indirectly would impact the quality of students required at the tertiary level. Further lowering of the bar by professional bodies will have a long term effect on audit quality which might not be addressed by more or enhanced auditing standards.

2. Fees

A fee for audit services is also a major factor that influences the quality of an audit.

Firstly, auditors are paid by an entity for which its financial statements had been audited upon though the auditors generally report to the entity's shareholders. This in itself poses a challenge to the concept of independence/impartiality on the auditors' part.

Secondly, pressure on fees has always been the bane for many auditors who find it challenging to balance maintaining high quality audit services without having to subsidise the cost of those services.

3. Value of an Audit

Given all those findings and concerns highlighted in the ITC document, the IAASB might well need to redefine the purpose and value of an audit.

Whilst it had long been acknowledged that an auditor is a 'watchdog' rather than a 'bloodhound', there still exist an audit expectation gap which may have narrowed but not totally eliminated. We note that numerous efforts had been taken to narrow the expectation gap but current focus appears to be placed on narrowing the information gap. As explained in the IAASB consultation paper (2011), the expectation gap relates to the "difference between what users expect from the auditor and the financial statement audit, and the reality of what an audit is", while the information gap relates to "the existence of a gap between the information they [users] believe is needed to make informed investment and fiduciary decisions, and what is available to them through the entity's audited financial statements or other publicly available information".

Does that mean that information overload is the way to go as it is seen to be an attribute of a high quality audit?

In conclusion, until and unless the above are dealt with and holistically, there will always be this "dog chasing the tail" syndrome and widening of the audit expectation gap- auditors will always

be in a demanding and never-ending race to catch up with all the stakeholders and not just the shareholders. Perhaps these other stakeholders should be re-educated if they expect auditors' work to meet their requirement and expectations.