



31 May 2013

James Gunn
Technical Director
International Auditing and Assurance Standards Board
545 Fifth Avenue, 14th Floor
New York, New York 10017
USA

Dear Sir,

RESPONSE TO CONSULTATION PAPER (CP) – A FRAMEWORK FOR AUDIT QUALITY (THE FRAMEWORK)

1. The Institute of Certified Public Accountants of Singapore (ICPAS) appreciates the opportunity to comment on the above CP issued by the International Auditing and Assurance Standards Board (IAASB) in January 2013.
2. To solicit meaningful feedback for this CP, ICPAS engaged key stakeholders through two focus groups sessions. Participants of these sessions included practitioners, regulators and audit committee chairpersons. ICPAS also sought views from its members through a one-month public consultation process. Observations made and useful inputs received by ICPAS through its various programmes and events were also incorporated where relevant.
3. Views expressed by the stakeholders were varied and some were even thought-provoking. Whilst some participants commended IAASB's good intentions and efforts in improving audit quality through this Framework, others questioned the utility of this Framework given that it lacks enforceability. There were also views that high audit quality is not an end but means to an end. High quality audit is means to achieving the desired outcome of high-quality trusted financial information, which underpins the effective functioning of the capital markets and is therefore, an essential element of a robust financial system. What is generally accepted as "high-quality" financial information is those information which is reliable, relevant and timely. Most

would agree that high quality audit produces reliable financial information but it may not necessarily produce relevant and timely information. In fact, auditors are not usually regarded as forerunners in shaping the standards and requirements for more relevant information due to fear of increased risk and liability in rendering assurance on information which can be highly judgmental or which requires expertise in other disciplines or fields.

4. Certain participants were disappointed that the Framework is narrow in its focus, limited in its usefulness and fails to address the perennial challenge of the profession – staying relevant. These participants expressed their views that the Framework merely codifies the existing elements of an audit, lacks foresight and is not forward-looking. They want a framework that transcends the existing financial reporting and auditing landscape; a framework that would continue to be relevant in promoting audit quality even with the advent of integrated reporting and beyond.
5. Given that the aforementioned feedback is fundamental to the development of the Framework, before we provide our responses to the specific questions in the CP, we would like to elaborate each of the key points mentioned above as well as other key points in the following paragraphs.

Framework is not forward-looking

6. The Framework reflects the efforts of IAASB in pulling together all the elements of traditional auditing and housing them under one Framework which should serve as a universal point of reference by relevant stakeholders. The Framework is therefore a mere codification of the existing elements of a traditional audit and in the words of certain participants, “a good auditing textbook”. On the premise that auditing profession should evolve in order to stay relevant, the Framework should therefore be expanded to cover not just the traditional audit but other relevant audit and assurance services. With the future of audit and assurance services evolving beyond traditional audits and with sustainability reporting and integrated reporting gaining traction globally, IAASB should consider re-designing and re-modelling the Framework such that it is timeless and able to accommodate the evolving scope of audit and assurance services.
7. For example, with the business environment becoming increasingly complex, diverse and globalised, and with the advent of integrated reporting, the auditing profession requires multi-disciplinary talent pool with diverse skill sets, areas of specialisation and qualifications. This has not been featured in the “Input Factors” of the Framework. Also, given that auditors would increasingly be required to lend assurance to qualitative type of information as well as information deemed to be

highly judgmental, there should also be a separate segment within the Framework which deals with risk and liability of auditors. This segment should contain guiding principles as well as good practices which auditors may follow when addressing such risks. Currently, most auditors shun away from lending assurance to qualitative or judgmental information wherever possible but the Auditor Reporting project marks the beginning of changes to come. More changes are expected with the recent release of the Consultation Draft of the International Integrated Reporting Framework. This emphasises the need for a forward-looking Framework.

Current structure and commercial considerations

8. It is undeniable that structural and commercial considerations have significant impact on audit quality. These factors have not been given due consideration in the Framework. Take for instance the appointment and remuneration of auditors. Although auditors are appointed by shareholders at annual general meetings, the recommendation for appointment, re-appointment as well as remuneration is almost always made by the management. This is prevalent for non-listed companies because one could argue that for listed companies, the audit committees review and approve management's recommendations which safeguards auditor's independence. In the case of companies without audit committees, audits of such companies are tantamount to auditors verifying assertions of the very people who significantly influenced the decision for their appointment and remuneration. This appointment and remuneration structure which exists in almost all jurisdictions globally creates an inherent conflict of interest for the auditors and it poses a significant challenge for them to remain truly independent which is the cornerstone of audit quality.
9. Also, there are many stakeholders of audited financial statements but the cost of an audit is not shared amongst them. The cost of an audit is almost always borne by the company. This is the central paradox of auditing - the users of audit outputs are usually not the ones paying for the audit services. Higher utility value is placed on the audit outputs by the investors than the company but it is the company that pays for the audit. As a result, the company may appoint the auditor who quotes the lowest audit fee without giving due consideration to the ability of the auditor to deliver high quality audit. To manage time cost, this appointed auditor may not assign experienced professional staff to the engagement. Consequently, the quality of audit suffers.
10. Business models of accounting firms would also have direct bearing on audit quality. In cases where audit firms adopt a "high-volume, low-fee" business model, audit quality is expected to suffer. Given the low fee charged by the practitioner for each engagement, he would not have sufficient time to carry out proper review of the working papers or to supervise his audit staff. This issue is prevalent among the small

and medium practitioners (SMPs) of developing countries. This issue is compounded by the lack of appreciation of the value of audits and the undercutting of audit fees by SMPs to win clients. The proposed Framework assumes that the existing business model is one that is able to support and sustain high quality audits as long as the factors in the Framework is met but the reality is otherwise, especially in the case of SMPs.

11. IAASB has two options in addressing the current structure for the purpose of development of this Framework.
12. One is to state very clearly in the Preface to the Framework that structural and commercial factors such as those mentioned in the paragraphs 8 to 10 are carved out and excluded.
13. The other is for IAASB to review the current structure as elaborated in the preceding paragraphs and initiate change. Given that this structure is deeply entrenched in the business landscape of most jurisdictions, any proposed change to this existing structure is expected to be a radical one. Should IAASB decide on this option, we think that IAASB could initiate discussions with the bodies representing the regulators and investors. These are the parties IAASB should work with through International Federation of Accountants (IFAC).

Financial reporting supply chain

14. In addition, to raise the quality of financial information, one cannot be merely looking at the audit component. There are several key components to a robust financial reporting supply chain and audit quality is just but one of them. As it stands, the Framework is too audit-centric and by itself, would not achieve the objective of producing high quality, trusted financial information. To achieve this objective, the Framework should cover the entire financial reporting supply chain, starting from the preparers. The role of preparers cannot be undermined. Preparers provide accurate inputs to the audit process which will then enhance the quality of financial information. This also flows from the basic concept of accountability – the party responsible for the performance of the entity, in this case the management-cum-preparers, shall prepare financial statements that reflect the performance of that entity. It is not the auditor's job to do so on behalf of the preparers. Hence, the upstream financial reporting process by preparers should be featured as a key component within the Framework itself. This calls for the inclusion, within the Framework, of input factors contributing to robust preparer's financial reporting process, including but not limited to, values, ethics, attitudes, knowledge and experience of management-cum-preparers; and sound financial reporting system and its quality control procedures.

15. To achieve the overall objective of high-quality trusted financial information, IAASB cannot work in isolation. IAASB should work with other international organisations for example, The International Forum of Independent Audit Regulators (IFIAR) and The International Organisation of Securities Commission (IOSCO), to yield maximum results from its efforts and initiatives to raise audit quality.

Objectives of the Framework

16. We think that the Framework has achieved its first objective of raising awareness of the key elements of audit quality albeit for a traditional audit. On the other hand, we are uncertain as to whether the remaining two objectives of encouraging key stakeholders to explore ways to improve audit quality and facilitating greater dialogue between key stakeholders on the topic would be attained. Unless regulators use the Framework as a basis to create additional requirements to be imposed on stakeholders, it is difficult to see how the Framework will be taken seriously. However, such use is not desirable as the objective of this Framework should not be for the purpose of creating additional requirements for the auditors to comply with.
17. To encourage exploration and facilitate dialogues, the various stakeholders will need to be first convinced of the benefits of and understand the effect the Framework has on them. We think that IAASB should provide suggestions on how the Framework could be used by the relevant stakeholders to yield positive outcomes. Please also see our further discussion in paragraph (c) of Question 1.

Further to our comments above, our responses to the specific questions in the CP are as follows:

Question 1

Does the Framework cover all of the areas of audit quality that you would expect?

No. We have the following comments:

(a) No definition of “Quality”

Perceptions of audit quality vary among stakeholders depending on the lens through which they see audit quality and what matters most to them. For example, management might focus on the efficiency of the audit process, as well as the timeliness and usefulness of communications from the auditors. Regulators might focus on evidence of compliance with accounting and auditing standards and the rigour auditors have exhibited in dealing with complex accounting and auditing issues. An investor may find “quality” in

information relating to the prospects of a company which are useful and of value to him - he may not find “quality” in a set of financial statements which has gone through the rigours expected of a high quality audit if he is unable to find the information he desires in the financial statements.

Hence, to align expectations of different stakeholders, the concept of “Quality” needs to be properly defined and the features of good audit quality should be listed for clarity. The concept of “Quality” is fundamental to this proposed Framework and not having all stakeholders on the same page in regard to the concept of “Quality” may impede constructive dialogues and collaborations between these stakeholders.

(b) Lack of prominence on the role of preparers

As elaborated in paragraph 14, the Framework is too audit-centric and not holistic whereby the role of management-cum-preparers in financial reporting is not given enough prominence in the Framework. Preparers perform important upstream activities of the financial reporting supply chain and therefore, more focus should be given to the preparer’s financial reporting function, the outputs of which form the inputs to be fed into the audit process.

(c) Lack of elaboration on how the stakeholders can collaborate among themselves and with auditors to improve audit quality

The Framework identifies the various groups of stakeholders who are responsible for audit quality but there is no elaboration on how these stakeholders can better fulfil their roles in achieving audit quality, or how they can better interact with one another to achieve audit quality. Guidance in these areas will be useful to facilitate greater dialogue between key stakeholders. IAASB should consider providing examples of how management and those charged with governance (TCWG) can better collaborate with the auditors to achieve audit quality. Sharing of best practices of the more advanced jurisdictions would form a good source of reference for the profession in less developed jurisdictions.

Additionally, both management and TCWG are key contributors to audit quality but the Framework focuses on only the auditors. It does not elaborate the roles and responsibilities of management and TCWG or the factors impacting their roles and responsibilities in an audit. The input factors affecting auditors are elaborated in the Framework but this is not done for management and TWCG.

Question 2

Does the Framework reflect the appropriate balance in the responsibility for audit quality between the auditor (engagement team and firm), the entity (management and those charged with governance), and other stakeholders? If not, which areas of the Framework should be revised and how?

We are of the view that there is a need for more appropriate balance in the responsibility for audit quality between the auditor, the entity and other stakeholders. As elaborated in paragraph 14 and further emphasised in points (b) and (c) of Question 1, the Framework should be holistic and audit quality should not be addressed in isolation. Audit committees should explore how they can enhance collaboration with the auditors to achieve audit quality (i.e. facilitate the work of auditors) in addition to evaluating the quality of auditors. There should also be greater discussion about how management can further contribute to audit quality since the inputs provided to auditors originate from the company.

Question 3

How do you intend to use the Framework? Are there changes that need to be made to the form or content of the Framework to maximise its value to you?

The Framework must be perceived to be useful in order for it to be used by stakeholders. However, the Framework may have limited usage in its current form.

(a) Limitations of the Framework

The style of the language used in the Framework is very descriptive in that it explains the various factors (inputs, outputs, key interactions and contextual factors) that contribute to audit quality but there is little elaboration on how these factors can be used to enhance audit quality. Given that the proposed Framework merely describes the existing auditing landscape, it is hard to see how it can be used constructively to initiate discussions in its current state. There are no thought-provoking questions or forward-looking suggestions that will stimulate discussions amongst stakeholders to promote audit quality as well as the relevance of the auditing profession.

Furthermore, the Framework may work against the auditors if regulators use certain aspects of the Framework to create additional requirements for the auditors to comply with. This may not be appropriate given the shortcomings of the Framework as highlighted in the preceding paragraphs, especially with the undue emphasis on auditors.

Hence, we think that IAASB should provide guidance and suggestions on how the various stakeholders can use the Framework in practice. Please also see our comments in paragraph 17.

(b) Proposed changes to the form or content

If the Framework is to be used by stakeholders who are not auditors, there should be elaborations on how the factors identified in the Framework can have an impact on audit quality so that non-auditors can also appreciate the Framework.

As elaborated in paragraphs 6 and 7, the Framework should be more forward-looking. For example, there should be suggestions on what more the profession can do to enhance audit quality. The Framework should also propose how collaborations with stakeholders (such as regulators) can be fostered as a more cohesive effort may yield more significant results. There should also be sharing of global best practices so that developing countries can identify gaps and work on closing those gaps.

Notwithstanding the above, the Framework should be cognizant of the fact that the respective countries have different national environments and features such as political, economic and business environment, legal framework, education, culture and perceptions of audit which could affect consistency in audit quality across jurisdictions.

Question 4

What are your views on the suggested Areas to Explore? Which, if any, should be given priority and by whom? Are there additional Areas to Explore?

Area to Explore 1 - Establishing global guidance against which audit firms can assess their governance arrangements.

Global guidance will enable firms to rethink their structure and improve on it, which helps to foster confidence in the auditing profession. Robust internal governance arrangements help to prevent the adverse effect of the firm's commercial interests on audit quality, for example inappropriately promoting other practice areas (such as tax, corporate finance and consultancy) to the detriment of audit quality. To illustrate, a firm may defer to its audit client when making decisions on judgmental areas for fear of also losing its tax compliance fee and other service fees should it lose this audit client.

We think that regulators in most jurisdictions have regulations pertaining to this area so it would be useful for IAASB to facilitate the sharing of best practices to further strengthen the governance arrangements especially among the SMPs. More attention needs to be paid to the smaller practices simply because their clients which are mainly the small and medium

enterprises (SMEs) are used to the “one-stop” service concept where the latter prefers one same firm to meet all their service needs. In most economies, SMEs play a significant role in shaping the economic landscape and they engage mainly the SMPs for professional services. Hence, governance arrangements of SMPs need to be assessed to prevent impairment of independence of auditors arising from inappropriate or less than robust governance arrangements.

The importance of linkage between governance arrangements and audit quality was also echoed by a regulator in the recent IFAC Global Public Policy Committee (GPPC) forum on 7 May 2013 where it carries out governance audit i.e. understanding how firms structure and grow their practice. A case in point would be a firm which adopts an aggressive top line growth strategy must be able to justify how it has implemented safeguards to ensure that the quality of its audit engagements will not be compromised.

Given that factors affecting audit quality and auditor independence would come under the purview of audit committees, it would be useful for IAASB to promote the sharing of best practices and to provide some guidance to the audit committees on the nature and extent of audit committees’ assessment of the governance arrangements, monitoring processes as well as the “tone at the top” of the audit firm.

Area to Explore 2 - Establishing a common understanding of capabilities, and how they are demonstrated and assessed as they relate to audit quality for use by audit firms when recruiting, evaluating, promoting, and remunerating partners and staff.

International Education Standard (IES) 8 *Competence Requirements for Audit Professionals* effective on July 1, 2008, like what the title of the IES suggests, stipulates the competence requirements for audit professionals. We commend the efforts of International Accounting Education Standards Board (IAESB) to adopt in the proposed IES 8 (Revised) “learning outcomes approach” to demonstrate professional competence, rather than prescribing subject areas for knowledge content, professional skills, and professional values, ethics, and attitudes as indicated in the extant IES 8. Proposed IES 8 (Revised) maps the learning outcomes and minimum proficiency levels for various competence areas of engagement partners. Why this proposed IES 8 (Revised) is relevant to IAASB is because instead of reinventing the wheels, IAASB can collaborate with IAESB to extend this mapping to all the audit professionals such that there is a consistent competence framework to be used by all firms for all levels of their audit professionals. With this framework, proper training programmes can be developed to help the audit staff and managers achieve the required competence and proficiency requirements.

ICPAS has provided comments on the proposed IES 8 (Revised) where we suggested to IAESB to provide guidance on how competences and proficiency levels can be demonstrated

and assessed. The guidance should also include proposed types of evidence to demonstrate how the learning outcomes can be achieved for engagement partners, both aspiring and newly appointed. With this implementation guidance provided by IAESB and with the competence framework being extended to include all levels of audit professionals, we believe that audit firms would have a common reference point for capabilities, competences and proficiency levels when recruiting, evaluating, promoting, and remunerating partners and staff.

We would also like to highlight that there is currently no such similar competence framework for professional accountants in business (PAIBs) as that for auditors in proposed IES 8 (Revised). A competence framework similar to proposed IES 8 (Revised) should also be developed for PAIBs and it should be industry-focused to be useful. As preparers are a key component of the financial reporting supply chain, we are of the view that this should also be an area of priority.

Area to Explore 3 - Improving information sharing between audit firms when one firm decides to resign from, or is not reappointed to, an audit engagement.

The sharing of information between audit firms would improve audit quality because presumably, the incoming auditors would benefit from information received from predecessor auditors relating to the complexities, key accounting and audit issues, integrity of the management, etc. which would enable the auditor to plan and direct its resources to tackle areas that would most likely affect its audit opinion. Currently, the fear of potential lawsuits and the lack of legislative protections for the audit firms impede the sharing of information between firms.

We believe that IAASB should focus on this area. To promote information sharing, a lower level specific framework should be developed within which the information is shared between audit firms. The framework should also provide guiding principles on how any potential risk arising from the sharing of information should be addressed. Inputs from multi-disciplinary experts involving accountants, risk managers, insurers and lawyers should be gathered, analysed and incorporated into the framework to ensure its robustness. The development of this framework is no mean feat so IAASB, through IFAC, should collaborate with or at least influence other relevant international organisations, including International Ethics Standards Board for Accountants (IESBA), GPPC, IFIAR, among others, to garner support for the development of this framework.

This framework, when in place, would guide the various jurisdictions in determining the nature and extent of information to be shared between audit firms, the nature of liability exposure to the provider of information, the manner in which the risks and liability could be addressed, and in maintaining compliance with ethical requirements. The framework may also influence the extent of involvement by the regulators in protecting the information

provider, influence the possible amendment to local legislation in response to disclosure of sensitive information, and may guide private arrangements among the relevant parties to limit the liability of the information providers, to name a few.

Area to Explore 4 - Considering whether audit inspection activities can do more to improve audit quality and to make audit quality more transparent to users.

Independent audit regulators in most jurisdictions, definitely in Singapore, are already publishing aggregated findings of audit inspections which has the benefit of promoting greater awareness among the stakeholders of audit deficiencies and audit quality issues. This initiative enables audit firms to take actions to address weaknesses identified by audit inspectors and will lead to improvement in audit effectiveness and quality. Certain audit regulators also share knowledge and aggregated inspection findings among themselves through the regional or international platforms.

The contribution of audit inspection activities to audit quality is indisputably significant. In fact, besides market forces and investors' demand, regulatory activities play a significant role in shaping the auditing landscape.

Hence, we think that more can be done by audit regulators to improve audit quality.

At the global level, IAASB could use platform like IFIAR to promote sharing of knowledge and information among the audit regulators. Information to be shared should not be limited to deficiencies but should be expanded to also include strategic matters like audit inspection methodology, implementation strategy and approach, revenue model of the audit inspection program as well as the types and effectiveness of sanctions meted out to public accountants whose audit quality is found wanting. The sharing of such information enables the identification of best practices which audit regulators could follow thereby improving the effectiveness of the audit inspection program. An effective audit inspection program contributes to audit quality.

For example, to maximise the utilisation of resources of the audit inspection teams, we are of the view that resources should be directed to activities that have the most beneficial impact on audit quality. Hence, audit regulators in certain jurisdictions adopt practice monitoring methodology incorporating risk-based approach wherein different practice monitoring methods are applied to different groups of practitioners based on their demonstration of commitment to quality. This approach requires the regulators to determine the risk profile of the firms and the practitioners of the firms. Risk profile criteria would be set. The group which consistently demonstrates commitment to quality should be encouraged to continue maintaining its level of quality through professional accountancy organisation's (PAO) Continuing Professional Development (CPD) activities, off-site monitoring and less frequent

audit inspection visits. At the other end of the spectrum, the group that does not demonstrate commitment to quality should be monitored more closely and frequently. IAASB should commission research or study to assess the effectiveness of such risk-based approach to improving audit quality. Should the study determine that this approach is highly effective, more jurisdictions could be encouraged to adopt the same methodology and approach and IAASB should also facilitate the determination of consistent risk profiling criteria for the audit firms and audit practitioners through sharing of best practices by the audit regulators to achieve consistency in global application.

At the local level, we think that there are benefits in making the audit inspection methodology and implementation more transparent to certain key stakeholders, including the PAOs, audit committees, and financial and prudential regulators. Such transparency would enable these stakeholders to better appreciate the linkage between the methodology and audit quality, and facilitate collaboration among the key stakeholders and the audit regulator. With greater understanding of the audit inspection methodology and inspection processes, these stakeholders could provide invaluable inputs to the audit regulators to enhance the efficiency and effectiveness of the methodology thereby achieving the outcome of high audit quality.

Many believe that sharing of firm-specific audit findings with the relevant authorities would impact audit quality. However, audit firms would be concerned that the sharing of such findings may affect the firm's reputation as well as the perception of the firm's audit quality. In fact, Financial Reporting Council in the United Kingdom made the Audit Inspection Reports of audit firms available for public consumption which includes the audit firm's principal findings on review of individual audits as well as the firm's policies and procedures, and the firm's follow up actions and improvement made. We propose that IAASB commission a research on whether sharing of information with regulatory authorities and making the principal findings of specific firms available to public would improve audit quality and if so, the extent. If the research reveals a strong correlation between the sharing/publication of principal findings of specific firms and audit quality, then the next logical step would be to develop key guiding principles on the manner in which and extent to which the information is shared to mitigate the risk that the credibility of the auditors is undermined.

Area to Explore 5 - Exploring whether there would be value in national authorities responsible for determining sanctions on auditors exchanging information with a view to evaluating the relative effectiveness of their different arrangements.

We think that this is an area worth exploring. IAASB could work with IFIAR in this respect. Sanctions on auditors are not an end but means to improve audit quality. By sharing information on what works and what not, audit regulators could identify the sanctions that are effective in improving audit quality and at the same time, steering clear from sanctions and

orders that are unduly burdensome on the auditors and worse, have little effect in improving audit quality. Sanctions should also be customised and targeted at different types and levels of deficiencies, weaknesses and issues faced by audit firms. This would ensure effective use of not only the audit regulators' resources but also the resources of the audit firms which are required to meet the orders or sanctions meted out by the regulators.

In order for effective sharing of such information, each national audit regulator is required to have a mechanism to track the effectiveness of the different types of sanctions meted out. The characteristics, risk profile and quality level of the audit firms and practitioners to which the sanctions are meted out have to be tracked as well because they affect the effectiveness of the sanctions.

In addition, information on the sanctions and effectiveness of various sanctions should be shared with PAOs of the respective jurisdictions. This is because a PAO is a key support channel which audit firms and practitioners could tap on to help them meet certain orders meted out by audit regulators. These orders could include development of remediation plans, attending extensive training programmes by the audit professionals of the audit firms, and the more serious ones could include hot reviews to be performed on selected engagement files. PAOs could also use the aforementioned information to conceive and develop initiatives and programmes to help the audit firms and practitioners meet the requirements of the audit regulators and more importantly, to help audit firms maintain and strengthen audit quality.

Area to Explore 6 - Considering “root causes” and best practices by regulators, audit firms, and the wider audit profession in order to learn from past audit deficiencies and to identify and address systemic issues.

Our understanding is that many audit regulators and PAOs are already doing this through IFIAR. More can be done in terms of analysing and summarising the root causes and best practices at the regional and global level, and publishing the summary. Relevant bodies like PAOs can then use these analysis and summary as a source of reference to conceive and develop initiatives and programmes to help the profession further strengthen audit quality. If certain jurisdictions share common root causes, PAOs of these jurisdictions could collaborate in the implementation of certain initiatives to address the root causes. Such collaborations would create synergies and optimise the use of resources. For example, should one jurisdiction develop comprehensive training materials for a particular subject matter in which the quality of audit is found wanting, such materials could be replicated with some local customisation, in another jurisdiction which is experiencing the same challenge.

Notwithstanding the above, this may not be an area of focus for IAASB as IFIAR could already be looking at this area.

Area to Explore 7 - Increasing the informational value of auditor's reports and improving perceptions of the value of the audit.

As discussed in paragraphs 6 and 7 above, the accounting profession has to stay relevant and perceived to be relevant. If increasing the informational value of auditor's report and improving the perceptions of the value of audit are necessary for the profession to stay relevant then this should continue to be an area of priority for IAASB.

We commend IAASB's direction taken to improve the relevance of the auditing profession through the "Improving the Auditor's Report" project. We recommend that IAASB consider how the impending changes from this project would impact the different elements of the Framework, and make the necessary changes to the Framework.

IAASB should also collaborate with The International Integrated Reporting Council (IIRC) to determine how the development in integrated reporting would affect this Framework. In addition, IAASB could also explore whether assurance on integrated reports would enhance the perceptions of the value of audit given that there could be a potential increase in the demand for auditors to provide assurance on integrated reports.

Area to Explore 8 - Achieving improved two-way communication between auditors and financial and prudential regulators, particularly in the financial services sector.

We agree that there is a need to communicate better. Timely sharing of appropriate information can both enhance the regulatory process and contribute to audit quality. Notwithstanding this, there should be a legal framework where the laws and regulations should determine when and how information should be shared.

However, as such communication is already in existence in most jurisdictions, lower priority should be placed in this area.

Area to Explore 9 - Striving for greater international harmonisation in the role of audit committees with regard to the evaluation of the quality of the external audit.

The role of audit committees with regard to the evaluation of the quality of the external audit can cover many areas. Besides assessing the performance and independence of the external auditors, audit committees could also consider the overall effectiveness of the external auditors. In particular, audit committees could evaluate if the external auditors are able to deliver value-added propositions beyond the routine audit engagement to the companies and their shareholders. Audit committees play an important role in ensuring audit quality and a minimum benchmark level in how they assess the quality of audit may be appropriate.

Furthermore, audit committees should also consider how they can collaborate with the external auditors to strengthen the corporate reporting and governance process. For example, there should be more open and timely communications between the audit committees and external auditors such that one party is kept informed by the other of key audit matters throughout the audit process. This would go a long way towards ensuring that key audit issues are resolved timely, which is imperative to raising audit quality.

This area should be given high priority by regulators and stock exchanges.

Furthermore, guidance and criteria should also be made available to assist the audit committees to assess and conclude on the competence of management in financial reporting. As this is a key driver to good financial reporting quality and audit quality, IAASB could consider including in the Framework requirements for audit committees and TCWG to assess the competence of management in financial reporting and communicate their assessment to the shareholders of the company. This communication need not be made public but more of a conscious effort to be made by the audit committees as an added layer of assurance for the owners or shareholders of the company. IAASB could also work with PAOs and regulators to develop minimum training requirements for management in the area of financial reporting.

Area to Explore 10 - Encouraging audit committees to provide more information to users of the financial statements on the work they have undertaken, the main issues they have addressed, and the reasons for their conclusions.

Being one of the pillars of corporate governance, audit committees are critical to the integrity and ultimately, the quality of an audit. Communications by the audit committees to users of financial statements about the audit and issues addressed will enhance the confidence and understanding of users in the audit opinion. With the appropriate level of expertise and responsibilities, audit committees can effectively represent the interests of shareholders and investors. More information should be made available to investors, particularly, if it gives them and regulators more insights into how the audit committees oversee corporate reporting of companies and how key issues are resolved with external auditors. This principle has been adopted in recent years, for example in the United Kingdom.

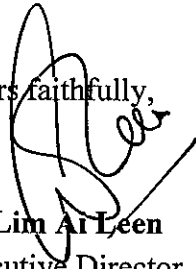
In addition, audit committees would more likely be in the public eye if they are required to provide more information to users of the financial statements. Given their increased responsibilities to ensure that the information disclosed is accurate and complete, they would also place greater importance in appointing competent auditors instead of appointing the auditor who quotes the lowest fee, as collaboration with the auditors would be key to ensuring that their responsibilities are properly discharged. This would definitely contribute to improving audit quality.

In view of the above, “Area to Explore 10” should be given high priority by regulators and stock exchanges.

ICPAS is happy to have a more detailed discussion with IAASB on the key areas highlighted in this comment letter.

Should you require any clarification, please feel free to contact Mr Kang Wai Geat, Deputy Head, Technical Standards Development and Advisory, or Ms Alice Tan, Manager, Technical Standards Development and Advisory, at ICPAS via email at waigeat.kang@icpas.org.sg or alice.tan@icpas.org.sg respectively.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Lim Ai Leen', written over a horizontal line.

Ms Lim Ai Leen

Executive Director

Technical Knowledge Centre and Quality Assurance