

July 11, 2013

International Auditing and Assurance Standards Board  
International Federation of Accountants  
529 Fifth Avenue, 6<sup>th</sup> Floor  
New York  
NY 10017 USA

Via online submission and email  
([GaryPflugrath@ifac.org.my](mailto:GaryPflugrath@ifac.org.my))

Attn: Mr Gary Pflugrath

Dear Sir,

**COMMENTS ON IAASB CONSULTATION PAPER  
A FRAMEWORK FOR AUDIT QUALITY**

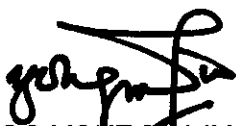
We refer to the Consultation Paper, *A Framework for Audit Quality*, issued by the International Auditing and Assurance Standards Board ("IAASB") of the International Federation of Accountants ("IFAC").

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 PIN (Mr)  
Executive Director

THE MALAYSIAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS  
(INSTITUT AKAUNTAN AWAM BERTAULIAH MALAYSIA)

**Comments from**  
**Accounting and Auditing Technical Committee**  
**International Auditing and Assurance Standards Board**  
**Consultation Paper**  
***A Framework for Audit Quality***

**Question 1**

Does the Framework cover all of the areas of audit quality that you would expect? If not, what else should be included?

**MICPA Response:**

MICPA is of the view that the basic / general principles of audit quality have been included in the Consultation Paper. MICPA also acknowledges the greater focus on auditors and audit firms in ensuring audit quality.

However, MICPA is of the view that the following should be further emphasised and / or expanded:

(i) Stakeholders' Involvement

MICPA wishes to emphasise that the financial reporting process requires all stakeholders to play their part. MICPA is also of the view that this is an area that should be given more prominence, with the roles played by the respective stakeholders being explained in greater detail than that discussed in the Consultation Paper.

For example, in Malaysia, audit committees are expected to play a significant role in ensuring the quality of the financial statements and the adequacy and competency of management as the preparers of the financial statements. The Bursa Malaysia Listing Requirements require companies to consider several factors in the appointment of auditors, including the adequacy of the audit firm's resources and the size / complexity of the company being audited.

Therefore, MICPA strongly recommends that, in finalising this Consultation Paper, IAASB should consider expanding the discussion of the roles played by other stakeholders, e.g. by describing best practices from around the world. It is anticipated that this would assist to improve clarity on the erroneous perception that only auditors are responsible for the financial reporting process.

(ii) Expectation Gap

MICPA also recommends that the Consultation Paper should be further expanded to provide more in-depth discussions to address and reduce the current expectation gaps relating to audit quality.

For example, the Consultation Paper should emphasise that the existence of material misstatements and / or fraud is not an indication of poor audit quality, and provide further elaboration on the matter.

Last but not the least, MICPA recommends that the title of this Consultation Paper should be reworded as "Framework for Quality Financial Reporting", and that the content should be further expanded to cover the entire financial reporting process from end to end, as well as any additional stakeholders.

## 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?

### **MICPA Response:**

Yes, MICPA agrees that Framework reflects 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.

MICPA also agrees that auditors are responsible for the quality of their audits. These responsibilities are clearly set out in ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and ISA 220, *Quality Control for an Audit of Financial Statements*.

MICPA further notes and commends IAASB for setting out the roles and expectations of other stakeholders in promoting audit quality. However, MICPA wishes to re-emphasise that more discussion on the roles played by other stakeholders is crucial as the Consultation Paper is still very much audit-centric in its current form.

Nevertheless, MICPA believes that IAASB should continue further outreach and perhaps consider including in the final paper, the current expectation and information gaps that exist in the marketplace with regard to audit quality as a means of raising awareness of where further improvements can be undertaken locally and internationally by regulators and national bodies in closing these gaps.

One such area would include valuation experts who determine fair values that are used in financial statements, such as property valuers, actuarial experts and financial instrument valuers. As these experts play a critical role in material financial statement line items, the independence and quality frameworks that govern them become of equal importance.

## 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 maximize its value to you?

### **MICPA Response:**

MICPA is of the view that this Consultation Paper serves as a useful document in the continuing discussion locally with the key stakeholders and, as such, will encourage all MICPA members to have a robust dialogue with the preparers of financial statements and those charged with governance on the roles each is expected to play in improving audit quality.

However, at this juncture, it is not clear as to whether this Framework will complement or supersede ISQC 1 and ISA 220 in relation to the performance of audits at the firm and engagement level. To this end, MICPA is concerned that if there is no clarity as to the authoritative nature of this Framework, it could raise the expectations of the audit regulators that the Framework has become part of the body of approved auditing standards and therefore require compliance by the audit firms and auditors.

MICPA therefore recommends that IAASB finalises this Consultation Paper on the basis that it is not part of its authoritative literature but rather, as part of its general outreach and as an input to determining its strategy and work program for the 2015-2017 cycle.

MICPA further recommends that additional guidance is needed to address the implementation of the Framework, particularly in view that the Framework is meant for global application where circumstances vary from country to country.

**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?

**MICPA Response:**

MICPA is of the view that the Areas to Explore can be a useful mechanism to identify current thinking, as well as to act as a catalyst for future initiatives to be undertaken to improve audit quality.

Following on from the response to Question 3 above, the Areas to Explore would also serve as useful input into determining the IAASB's next strategy and work program.

In addition to the matters highlighted above, MICPA wishes to focus on the following Areas to Explore that are felt to be of importance to the profession here in Malaysia:

<i>Areas to Explore</i>	<i>Comment(s)</i>
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 (refer to page 26).	<ul style="list-style-type: none"> <li>In Malaysia, potential auditors are required to pass an interview by the Ministry of Finance before they obtain an audit license, this may not be a requirement in other countries.</li> </ul>
3. Improving information sharing between audit firms when one firm decides to resign from, or is not reappointed to, an audit engagement (refer to page 29).	<ul style="list-style-type: none"> <li>Information sharing amongst audit firms can be improved in relation to ISA 600 (group audits) and ISA 510 (opening balances)</li> </ul>
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 (refer to page 42).	<ul style="list-style-type: none"> <li>Key 'root causes' in Malaysia include the following: <ul style="list-style-type: none"> <li>- Significant pressure on audit fees, which remain amongst the lowest in the region.</li> <li>- Resource constraints due to increased global mobility and better remuneration outside the country.</li> <li>- A significant number of companies having December 31 as their financial year end.</li> </ul> </li> </ul>