



MALAYSIAN INSTITUTE
OF ACCOUNTANTS

PROUD HOST:



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International Federation of Accountants
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Dear Sir

INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD ("IAASB") CONSULTATION PAPER, A FRAMEWORK FOR AUDIT QUALITY

The Malaysian Institute of Accountants ("MIA") is pleased to provide comments on the International Auditing and Assurance Standards Board ("IAASB") Consultation Paper, A Framework for Audit Quality.

General Comments:

We welcome the IAASB's effort in developing the Framework for Audit Quality ("Framework"). The Institute regards the Input Factors included in the Framework mainly summarises the principles and requirements of certain International Standards on Auditing and International Standard on Quality Control (ISQC) 1 Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements. In addition, the Framework has discussed roles of other stakeholders, their contribution to audit quality as well as various Areas to Explore.

The Institute believes audit quality contributes to a macro issue, being the quality of financial reporting. In 2007, the International Federation of Accountants ("IFAC") conducted a survey on four areas of the financial reporting supply chain: corporate governance, the financial reporting process, the audit of financial reports and the usefulness of financial reports. While in 2011, the IFAC interviewed key business leaders from around the globe on governance, financial reporting, financial auditing and broader business reporting. Therefore, audit quality should be looked at by considering the issues of financial reporting as a whole. The Framework currently puts greater weight of responsibilities on the auditors in relation to audit quality when other stakeholders are the main stakeholders of the financial reporting supply chain.

As the Framework discusses issues in general, the Institute is unclear of how such Framework can be used as it is. It would be beneficial for the IAASB to clarify the authority of the Framework and whether such Framework serves as a pronouncement of the IAASB. We also believe that as the IAASB progresses further in its work in relation to the Framework, it will provide tools and/or guidance which can be used by the Institute as a national standard setter and the auditors.

Specific Comments:

Our comments to the specific questions raised in the Consultation Paper are as follows:

Q1. Does the Framework cover all of the areas of audit quality that you would expect? If not, what else should be included?

We believe that audit quality is closely related to expectations gap and accordingly, such relationship could be analysed and included in the Framework. This may result in another Area to Explore which is to develop global common users' understanding of an audit of financial statements.

Q2. 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 believe the Framework overly-emphasises the responsibility for audit quality on the auditors compare to other stakeholders. The entity (ie the preparers of the financial reports and the Board of Directors) is the main stakeholders in the financial reporting chain that should contribute more to audit quality as they are responsible in the preparation of the financial statements (ie they are providing the 'inputs') while auditors provide assurance on the 'outputs'.

Q3. 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?

Refer to General Comments.

Q4. 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?

We commend the IAASB effort in enhancing audit quality by identifying the Areas to Explore. We believe some areas are long term and short term, some are more difficult than others, some could be done nationally rather than globally and some are beyond IAASB's control as they relate to financial reporting and corporate governance. Areas that we believe are crucial to audit quality are Areas to Explore 1, 7, 9 and 10. While Areas to Explore 3, 4 and 6 are 'short term gains' as they can be implemented relatively easier compare to the others.

Our specific comments on the suggested Areas to Explore are as follows:

1. Establishing global guidance against which audit firms can assess their governance arrangements.

We agree that a global guidance on the governance arrangements of audit firms would enable the audit firms to improve their current arrangements and such guidance should be enforced by the relevant inspection bodies. We believe this forms part of the element 'leadership responsibilities for quality within the firm' in ISQC 1. Accordingly, the IAASB is in a better position to establish the guidance by working closely with the audit inspection bodies.

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.

We agree a common understanding on the matters above would contribute to enhancing audit quality. However, there are challenges to achieve such understanding as it is influenced by among others, factors such as size of firms, different national laws and regulations and various existing practices in audit firms.

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

The Institute's ethical code (the By-laws) requires an incoming auditor to enquire from an outgoing auditor, any professional or other reason for the change of auditor before deciding to accept an appointment. In practice, the outgoing auditor would normally respond in the letter that they are not aware of any professional or other reasons and the outstanding audit fees from the client. It is highlighted in the Consultation Paper that this is due to the outgoing auditor may believe that the duty of client confidentiality may prevent the communication of relevant information.

We agree that information sharing between audit firms can be improved by clarifying the 'client confidentiality' issue, setting the appropriate communication mechanism between audit firms and providing guidance on relevant information that should be included when the outgoing auditor responds to the incoming auditor. For instance, reasons why an audit firm may cease to act as an entity's auditor discussed in the Consultation Paper such as concern about the entity's business practices, accounting policies and the integrity of management can be incorporated into such guidance. We believe such initiative should be implemented by the national audit regulators.

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

In many jurisdictions, audit inspection bodies produce annual reports which normally include their inspection findings. Such findings are very useful for auditors to improve their quality control, audit methodologies and staff competencies. Audit inspection bodies may consider sharing their inspection process and how auditors are assessed with users. We would like to recommend for inspections bodies around the world to standardize their inspection processes to facilitate users' understanding.

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 agree that relevant national authorities should exchange information between them with regards to evaluating the relative effectiveness of their different arrangements. However, we believe that this can be done nationally without placing further effort at the international level.

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.

"Root causes" and best practices by regulators, audit firms, and the wider audit profession on a global basis would enable the audit firms to learn from past audit deficiencies and accordingly, systemic issues can be addressed. This may be in the form of a global database or compilation.

7. Increasing the informational value of auditor's reports and improving perceptions of the value of the audit.

The Institute (through its Auditing and Assurance Standards Board) has provided comments on the IAASB Consultation Paper, Improving the Auditor's Report through our letter dated 15 October 2012 which discusses the informational value of auditor's reports. In general, the Institute supports change to auditor reporting. In relation to Auditor Commentary, the Institute believes that the introduction of Auditor Commentary must be guided by adequate criteria and educational collateral such that auditors as well as users will properly understand the context, its limitations and the criteria themselves. The Institute also believes that it is important that efforts to improve auditor reporting be synchronised with improvements to corporate governance and financial reporting more broadly.

The Institute agreed that perceptions of the value of audit should be improved and welcome IAASB's effort in this area as this reflect the perceptions of the auditing profession globally.

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

Our experience working with the financial and prudential regulators in Malaysia shows that auditors and regulators have complementary concerns. Similar to Area to Explore 5, we believe that this can be done nationally without placing further effort at the international level.

9. Striving for greater international harmonization in the role of audit committees with regard to the evaluation of the quality of the external audit.

We are aware that audit committees around the world may have different roles (for instance, audit committees in one country may be more active compare to another) when evaluating the quality of the external audit. Harmonizing the role of audit committees in this area would enhance audit quality.

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.

We agree that encouraging audit committees to provide more information to users of the financial statements would enhance the quality of financial reporting. A global benchmark on reporting by audit committees would enhance audit quality, simultaneously leading to better corporate governance.

Yours sincerely,
MALAYSIAN INSTITUTE OF ACCOUNTANTS



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President