



15 May 2013

Our Ref.: C/AASC

International Auditing and Assurance Standards Board
529 Fifth Avenue, 6th Floor
New York, 10017
USA

Dear Sirs,

IAASB's Consultation Paper A Framework for Audit Quality ("Framework")

The Hong Kong Institute of Certified Public Accountants (HKICPA) is the only statutory licensing body of accountants in Hong Kong responsible for the professional training, development and regulation of the accountancy profession. The HKICPA sets auditing and assurance standards, ethical standards and financial reporting standards in Hong Kong.

We welcome the opportunity to provide you with our comments on the Framework. We support in principle the IAASB's continuing initiatives to facilitate improvements in audit quality. To reach out to our stakeholders in Hong Kong, in addition to issuing a local invitation to comment, the HKICPA conducted an online survey to solicit views on audit quality. We have received comments from local constituents including regulators and users of financial statements, and these comments have been made available on our website at: <http://www.hkicpa.org.hk/en/standards-and-regulations/standards/auditing-assurance/auditing-assurance-submissions/2013/cl-framework-audit/>. Overall, there is support in principle for the proposed Framework. It is considered to be comprehensive and attempts to set out the key elements of audit quality. For the purposes of responding to your invitation to comment, we formed a Working Group consisting of representatives from the regulatory, user, preparer and audit sectors to consider the comments received from our local constituency and develop a balanced response.

Over the past ten years a number of independent regulators and accounting bodies, including HKICPA, have issued publications on audit quality. To name a few:

- [HKICPA Publication on Audit Quality](#)
- [HKICPA Publication on Audit Committees and Audit Quality](#)
- [UK Financial Reporting Council Publication on the Audit Quality Framework](#)
- [The Institute of Chartered Accountants in England and Wales website on audit quality forum reports](#)
- [The Institute of Chartered Accountants Australia Publication on Preserving Capital Market Confidence Through Audit Quality](#)

Given the volume of publications and literature already out in the market and the varying degree to which ensuing debates have resulted in stakeholder engagement and action, care should be taken that the principles in the IAASB's final Framework can be aligned with principles set out in earlier publications. We believe it would be useful if the IAASB could explain in its Basis of Conclusions the reasons for any significant differences between the Framework principles and existing publications, and thereby



contribute to the ongoing debate and further development of a comprehensive Framework for audit quality.

In addition, we recommend that IAASB to clarify the purpose of the final Framework and be more forthcoming on the direction of IAASB's pronouncements (e.g. ISAs and ISQC) in relation to the Framework. It is important for national standard setters, auditors and other stakeholders, to have a broad understanding of the purpose of the Framework and its interaction with IAASB pronouncements. The role of the Framework should be clarified given that the final Framework would not be a standard.

We understand from recent IAASB exposure drafts that a common objective has been to narrow the expectation gap between users of financial reports and auditors. In a number of recent comment letters to the IAASB, however, we have expressed our concerns as to whether this objective is being met. We believe that the Framework should act to reduce the expectation gap but, in so doing, we would not wish the Framework to be used as a tool to expand or increase auditor responsibilities outside of the suite of ISAs and the appropriate due process that governs their development and adoption. The Framework should be a tool for auditors to benchmark and enhance their performance rather than as a checklist or procedure manual for performing audits.

On the subject of the expectation gap, we have made the recommendation in response to Question 2 that the IAASB should prepare and publish a high level summary of the Framework in order to make what is a rather lengthy and auditor-specific document relevant and understandable to users of audit services.

We trust that our comments are of assistance to you. If you require any clarification on our comments, please contact me at simonriley@hki CPA.org.hk.

Yours faithfully,

Simon Riley
Director, Standard Setting

SR/SH/jn

Encl.



ATTACHMENT

**HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS'
COMMENTS ON THE IAASB'S CONSULTATION PAPER ON A
FRAMEWORK FOR AUDIT QUALITY**

Request for Specific Comments

Question 1:

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

Generally, we agree that the Framework is comprehensive in setting out the factors (e.g. input, output, interactions, context) and the different levels (e.g. engagement, firm, national) being affected. These levels and factors play an integral role in attaining audit quality. However, as mentioned in our covering letter, other regulators and accounting bodies have in the past issued publications on audit quality. We are of the view that efforts should be made to ensure consistency in the principles highlighted amongst these publications or to explain significant differences in the Basis of Conclusions. This would encourage adoption of the IAASB's Framework.

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?

- Whilst the Framework is comprehensive, we are concerned that it might not necessarily be an easy document for non auditors to manoeuvre through and have a full understanding of the key messages. The Framework should be useful and relevant, on an ongoing basis, to both auditors and users of audit services. We recommend that a high level summary of the key messages and an outline of the Framework be included at the front of the Framework. If the Framework is to be useful for other stakeholders, in an effort to facilitate their understanding of the audit and to reduce the expectation gap, it would need to be set out in a "reader friendly" manner.
- We noted that the IAASB has not included a core fundamental principle of the IESBA Code of Ethics for Professional Accountants – "Confidentiality" in section 1.1 "Values, Ethics and Attitudes – Engagement Level" of the Framework, which generally included the other four core fundamental principles. We recommend the IAASB clarifies the rationale behind this omission.
- Paragraphs 54 and 69 of the Framework encourage providing partners and staff with access to technical support to provide assistance on complex areas. We recommend the IAASB to provide further guidance for SMPs under section 5.2 to clarify that where resources at the SMPs are limited, they should ensure



that they have access to IFRS specialists when auditing companies with complex transactions.

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?

Whilst the proposed Framework is comprehensive, it gives little guidance on how it can be operationalised either by the IAASB, national standard setters, auditors and/or by other stakeholders in the audit profession. As mentioned in our covering letter, the IAASB should clarify the purpose of the final Framework and be more forthcoming on the direction of IAASB pronouncements (e.g. ISAs and ISQC) in relation to the Framework. It should be clearly set out that the Framework is not a manual on how to conduct an audit. We believe that it is important to raise the awareness of the Framework amongst the various stakeholders. Through formal and informal communications, all parties can influence relevant stakeholders and aid in the advancement of audit quality. More debate and discussion amongst stakeholders should assist to finesse the principles in the Framework on an ongoing basis. In anticipation, the Framework should have a positive effect on audit quality when the stakeholders agree to the principles and objectives of the Framework and in turn actively play a part in the implementation process.

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?

In general, we agree with the proposed areas to explore. In particular, we believe the following areas should be given priority:

- 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.
- Achieving improved two-way communication between auditors and financial/prudential regulators, particularly in the financial services sector.
- 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. You may make reference to the HKICPA publication on "Audit Committees and Audit Quality" highlighted in our covering letter.

The above areas would involve discussions between IAASB, regulators and preparers of financial statements. Effective communication between auditors, auditees and audit committees would ensure open and clear dialogue, transparency of information and a vetting process for significant risks and issues identified during the audit.



We recommend the IAASB to consider the following Areas to Explore:

- The "Areas to Explore" in Appendix 1 of the proposed Framework does not include any discussion on the costs and benefits of audit quality or the related costs associated with adopting the Framework. Further research in this area would be helpful in identifying potential hurdles to implementing the Framework, in terms of the Framework objectives specified by the IAASB.
- Currently, there is no measurement criteria for audit quality. It would be useful to give further consideration on whether guidance could be included in the Framework on how audit quality is measured. An indication of either qualitative and/or quantitative benchmarks to be applied for stakeholders to assess and measure audit quality would help engage stakeholders in the debate.

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Hong Kong Institute of
Certified Public Accountants
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