



Suruhanjaya Sekuriti
Securities Commission
Malaysia

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16 May 2016

Ms Kathleen Healy
Technical Director
International Auditing and Assurance Standards Board
529 Fifth Avenue, 6th Floor
New York, NY 10017
USA

Dear Madam

**COMMENTS ON IAASB INVITATION TO COMMENT
ENHANCING AUDIT QUALITY IN THE PUBLIC INTEREST: A FOCUS ON
PROFESSIONAL SKEPTICISM, QUALITY CONTROL AND GROUP AUDITS**

We thank you for the opportunity to comment.

The Audit Oversight Board, Malaysia (AOB) supports the commitment and efforts of the International Auditing and Assurance Standards Board (IAASB) towards audit quality enhancement, with current priority given to professional skepticism, quality control and group audits.

These changes are timely in view of the rapid pace of evolving business models and technology advancements, hence the need to keep the International Standards on Auditing (ISAs) fit for purpose. In particular, relevant guidance is essential in enabling auditors to react appropriately to challenges of the evolving environment while achieving quality audits.

With this consideration, AOB wishes to draw attention to the following key areas:

(i) Clear segregation between application and standard setting issues

AOB emphasises that care is needed to ensure that audit quality issues arising from the application of standards are not inadvertently mistaken for those arising from standard setting. There must be clear segregation between these two types of audit quality issues in order to effectively address the root causes of the issue at hand.

Any enhancements to the standards should facilitate their application and minimise divergence in practice, supported by relevant explanatory notes and guidance to clearly demonstrate the intentions behind the drafting of a particular standard.

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(ii) **Quality Control**

The AOB wishes to emphasise that while good governance, firm culture and a Quality Management Approach (QMA) may be in place, it is equally important to consider a measurable outcome to assess the effectiveness of their execution, and their subsequent impact on engagement performance. Other comments on these areas are elaborated as follows:

(a) **Use of a Quality Management Approach**

Leadership by example is a key success factor for the promotion of audit quality. It is believed that the tone at the top that promotes a quality-oriented internal culture will positively influence partners and audit engagement teams' behaviour and commitment to audit quality.

In line with this, the AOB welcomes the proposed emphasis on the responsibility of firm leaders for a more proactive, scalable and robust response to managing quality risk that would more easily adapt to a rapidly changing business environment through the new QMA.

Notwithstanding the above, the AOB wishes to remind that each firm has its own distinctive culture which drives behaviour and influences the conduct of the firm as a whole. Hence, it is important that the QMA is principle-based to allow for sufficient flexibility in implementation in order to achieve and maintain audit quality. The QMA must also be considered from a holistic perspective, rather than with a compliance focus, in order for it to address the substance of the quality issue.

(b) **Firm Governance and Leadership Responsibilities for Quality**

The inclusion of firm governance as a component of ISQC 1 would give more prominence to and provide more guiding principles on the accountability and responsibility of the firm leadership.

In this regard, the AOB wishes to highlight that the effectiveness of firm governance on audit quality is still an issue. This can be observed in the case of larger firms where the governance structure is in place, but consistency and execution of the audit engagement continue to be a concern.

To a certain extent, the effectiveness of firm governance could be measured based on the consistency of performance of the firms' individual partners as a result of internal or external inspection activities. This should relate back to the global and country leaderships' explanation and accountability on the performance of their network partners.

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(c) **Engagement Quality Control Review**

The extant ISQC 1 sets out the requirements and related application material for a firm to establish policies and procedures with respect to the performance of an engagement quality control (EQC) review, as well as the criteria for eligibility of EQC reviewers. The requirements set out in ISA 220 *Quality Control for an Audit of Financial Statements* complement these.

In this regard, the AOB is of the view that the current requirements are sufficient in addressing the EQC reviewer's responsibilities and related documentation requirements.

In the event that further guidance is needed to address the concerns raised, the AOB recommends that these be incorporated into the existing requirements and related application material of affected standards respectively. The AOB is of the view that the development of a separate EQC review standard may have the unintended consequences of diluting accountability and shifting of responsibility from the engagement partner.

(iii) **Group Audit**

(a) **Identified Risk of Material Misstatement in a Group Audit**

Para 18 of ISA 330 *The Auditor's Responses to Assessed Risks* states that irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Para 28 of ISA 600 *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)* states that for components that are not significant components, the group engagement team shall perform analytical procedures at group level.

In view of the above, the AOB wishes to share that there have been instances where there are material line items in a component which is not a significant component. The group auditor had chosen to only perform analytical procedures at the group level, which may not be sufficient to address the risk of material misstatement in a group audit.

To further address such situations, the AOB emphasises on the need and importance of managing expectations between the group and component auditors.

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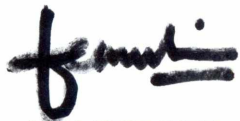
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Should you require any further clarification, please do not hesitate to contact me at +603 2091 0608 or at my email FNlim@seccom.com.my.

Thank you.

Yours sincerely



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