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8 April 2013

Mr Simon Riley,
Director, Standard Setting,
Hong Kong Institute of Certified Public Accountants,
37th Floor, Wu Chung House,
213 Queen's Road East,
Wanchai, Hong Kong
(Fax: 2865 6776)

Dear Mr Riley,

**Invitation to comment on
IAASB's Consultation Paper "A Framework for Audit Quality"**

Thank you for your letter of 18 March 2013 inviting the Audit Commission to comment on the captioned subject.

In our view, the interactions and input, output and contextual factors set out in the captioned Framework are relevant to both public sector and private sector audit bodies. We appreciate the efforts made by the International Auditing and Assurance Standards Board (the Board) to develop a framework for audit quality. This is an important step towards improving the overall quality of the audit process on a global basis. We generally support the proposed Framework.

We also have the following comments for the Board's consideration:

- (a) we note that the Audit Quality Framework will not be sufficient for the purpose of evaluating the quality of an individual audit (refer to para. 22 of the Consultation Paper). Further work should be carried out to develop appropriate guidance (e.g. in terms of criteria and performance indicators) for evaluating and monitoring audit quality for continual improvement;
- (b) external audit inspections by independent audit regulators are an effective tool to evaluate and improve audit quality (refer to para. 138 of the Consultation Paper). We consider that action needs to be taken to make the results of such inspections more transparent to users and stakeholders. In this regard, it will be beneficial if the inspection results and findings can be published;

- (c) given that independent audit inspection is a relatively new activity which is still evolving (refer to item 4 of Areas to Explore on page 65 of the Consultation Paper), further work needs to be done on refining its work process (including its scope and methodology) to further enhance the effectiveness of independent audit inspection as a tool for improving audit quality;
- (d) we concur that audit committees can play a greater role in the evaluation of audit quality (refer to item 9 of Areas to Explore on page 66 of the Consultation Paper), especially for organisations involving significant public interest (e.g. listed companies and non-governmental organisations). In our view, guidance and criteria need to be developed to assist audit committees in such evaluations; and
- (e) auditors' reports have evolved over the years to a degree that they are now largely standardised. Research indicates that some users want the auditor's report to contain more information about the entity and about the audit itself than is currently being provided (refer to para. 154 of the Consultation Paper). In our view, it will be beneficial if additional information can be provided in auditors' reports to facilitate stakeholders to obtain a better understanding of the audit work done.

Yours sincerely,



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for Director of Audit