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Comments on the Consultation Paper, *Enhancing the Value of Auditor Reporting: Exploring Options for Change*

The Korean Institute of Certified Public Accountants (KICPA) appreciates the opportunity to comment on the Consultation Paper, *Enhancing the Value of Auditor Reporting: Exploring Options for Change* (CP).

We believe that this CP offers important implications in enhancing the value of auditor reporting, in order to promote better understanding of the needs of auditor's report users and to provide relevant and useful information.

However, we don't believe that, when discussing options to improve the auditor reporting, the CP properly consider the differences in the knowledge level of auditor's report users. This can be confusing because, for example, when an "opinion-only" report is proposed, users considered appear to be those who are well-informed with a clear understanding of the nature and limits of audit work, while when a 'less technical wording' is proposed, those who are considered seem to be users without sufficient knowledge of auditing and accounting. Information needed by the users who are well-informed with strong knowledge of the limit and nature of auditing would be significantly different from information needed by those who are not.

Below are our opinions regarding specific questions for which you have requested comments.

(Question 1) Do respondents have any comments about the issues identified in Section regarding the perceptions of auditor reporting today?

As identified in the CP, we agree that expectation gap and information gap exist between auditor's report users and auditors with regard to information provided by

the auditor's report, especially when an accounting fraud is committed. Also we believe that there is a need to explore ways to address these gaps.

However, as for the expectation gap regarding the nature and limitation inherent in audit work, in particular, the auditor's ability and responsibility to detect fraud, strengthening the user's basic understanding of auditing is a better solution, even though it is still important for auditors to make efforts to provide additional information or change the structure/format or wording.

Information gap can be narrowed by providing additional information e.g., major audit risks; key significant judgments and major assumptions; and key audit issues and key audit procedures applied to address these issues. But caution should be practiced to ensure that this provision of additional information neither duplicates with the client's responsibility for disclosure nor conflicts with the auditor's confidentiality responsibility, which may expand the responsibility of the auditor unnecessarily.

(Question 2) If respondents believe changes in auditor reporting are needed, what are the most critical issues to be addressed to narrow the information gap perceived by users or to improve the communicative value of auditor reporting? Which classes of users are, in the view of respondents, most affected by these issues? Are there any classes of users that respondents believe are unaffected by these issues?

To narrow the information gap of auditor's report users, it may help if the auditor describes in the audit report the specific judgments that have been exercised and audit procedures that have been performed in major audit areas. In other words, the auditor may need to consider setting out in detail in the auditor's report the assessments and judgments the auditor has made regarding audit risks and the audit procedures that have been applied to obtain evidence, in order to provide conclusion and address important audit issues.

This information can help users gain a strong understanding of the nature, scope and limits of audit work and identify variances in audit quality among different auditors. When this approach is taken, the greatest beneficiary is expected to be ordinary investors who have limited access to high-quality information, while there would be relatively less impact on institutional investors or financial analysts who are capable of obtaining extensive and critical internal information of entities through private sources.

(Question 3) Do respondents believe that changes are needed for audits of all types of entities, or only for audits of listed entities?

In principle, decision should be made, taking into account the social benefits and costs caused by changes to the auditor's report. Therefore, in our view, it is reasonable to apply only to listed companies which have a large number of stakeholders. However, it is recommended to apply changes in the same way as listed companies when they are public interest entities which are unlisted entities, considering the purpose of the auditor's report and the scope of users.

(Question 4) Respondents are asked for their reactions to the options for change regarding the format and structure of the standard auditor's report described in Part A. Do respondents have comments about how the options might be reflected in the standard auditor's report in the way outlined in Appendix 1 of this Consultation Paper?

Removing statements explaining the responsibilities of the management and the auditor is not recommended as this may widen the expectation gap. Also, the users' expectation gap on the responsibilities of the management and the auditor can't be narrowed by changing or slightly strengthening related explanation. Therefore, in our view, it is better to maintain the current content and location of these statements.

As for technical terms, there should be no difficulties for users with a strong knowledge of financial reporting and audit procedures in understanding such terms. Therefore, more care should be needed when considering changes of existing terms to detailed and easy-to-understand wording.

We don't support the option of the "opinion-only" report. In our views, it is better not to reposition these statements, as their current location in the last paragraph can have effect of highlighting the message.

(Question 5) If the paragraphs in the current standard auditor's report dealing with management and the auditor's responsibilities were removed or re-positioned, might that have the unintended consequence of widening the expectation gap? Do respondents have a view regarding whether the content of these paragraphs should be expanded?

If the paragraphs dealing with the responsibilities of the management and the auditor are removed, in our view, this may have unintended consequences of widening the

expectation gap for the users with a limited knowledge on the nature and limits of audit. They are more likely to think that auditors have a greater responsibility than they actually do.

The users' expectation gap on the responsibilities of the management and the auditor is largely caused by a mismatch between the users' expectation about the auditor's role and the actual role played by the auditor. Therefore, in our opinion, the gap can't be narrowed by slightly strengthening explanations about the auditor's responsibility.

In our opinion, the location of such paragraphs doesn't have a significant impact on information users.

(Questions 6) Respondents are asked for their reactions to the possibility that the standard auditor's report could include a statement about the auditor's responsibilities regarding other information in documents containing audited financial statements. Do respondents believe that such a change would be of benefit to users?

When the auditor's report contains statements describing the auditor's responsibilities regarding other information, it will give users more information about the auditor's involvement in these areas, usually increasing benefits for information users. However, it is difficult for the auditor to have sufficient and appropriate involvement regarding all other information and our concern is that this may only expand the auditor's responsibilities. So we don't support the change to the audit report as proposed by the CP.

(Questions 7) If yes, what form should that statement take? Is it sufficient for the auditor to describe the auditor's responsibilities for other information in documents containing audited financial statements? Should there be an explicit statement as to whether the auditor has anything to report with respect to the other information?

N/A

(Question 8) Respondents are asked for their views regarding the auditor providing additional information about the audit in the auditor's report on the financial statements.

We agree with the CP that when the auditor provides too much information to

information users, this may confuse information users more by making the content of the auditor's report or auditor's opinion ambiguous. We also agree that to narrow the users' expectation gap, it may be effective to provide more detailed descriptions regarding the audit procedures performed by the auditor and important judgments.

Therefore, it is recommended that other information is provided to the extent that its content and scope can clarify the auditor's responsibility and minimize confusion to information users. Also it is very important to review whether provision of other information incurs excessively high additional costs.

(Question 9) Respondents are asked for their reactions to the example of use of "justification of assessments" in France, as a way to provide additional auditor commentary.

We don't support this approach as the justification given by the auditor may expand the auditor's responsibility, resulting in more questions or lawsuits raised by information users.

(Question 10) Respondents are asked for their reactions to the prospect of the auditor providing insights about the entity or the quality of its financial reporting in the auditor's report.

Providing insights about the entity or the quality of its financial reporting may overlap with the responsibility of the management and those charged with governance, as discussed in the CP. As the scope in which the auditor can provide insights is too broad and hard to restrict, the auditor's responsibility is highly likely to expand more than necessary.

(Question 11) Respondents are asked for their reactions to the options for change relating to an enhanced model of corporate governance reporting, as described in Section □, Part D.

There is a need to consider that the role and responsibilities of those charged with governance including audit committee vary depending on laws/regulations and systems of each jurisdiction. There are some difficulties in applying this change in countries where those charged with governance don't have a strong authority and their activities are relatively limited.

However, we agree with the direction of this change which is intended to strengthen

two-way communication between those charged with governance and external auditors. We believe that this change could enhance the ability of those charged with governance to oversee the financial reporting process and external audit, in order to produce high-quality financial information.

(Question 12) To the extent that respondents support this model, what challenges may be faced in promoting its acceptance? Also, what actions may be necessary to influence acceptance or adoption of this model, for example, by those responsible for regulating the financial reporting process?

To adopt this model, each jurisdiction has to have in place a system to ensure that those charged with governance are independent and strong with authority and ability to oversee the entity's financial reporting process and external audit. Those countries without such a system may need to revise their laws and corporate system.

(Question 13) Do respondents believe assurance by the auditor on a report issued by those charged with governance would be appropriate?

In our view, it is not appropriate for the auditor who is overseen by those charged with governance to provide assurance on a report issued by those charged with governance, e.g. audit committee, that oversee the auditor's external audit. In addition, as the role of those charged with governance is to oversee entities with a high level of independence, it is unnecessary to provide assurance on a report issued by those charged with governance separately.

(Question 14) Respondents are asked for their reactions to the need for, or potential value of, assurance or related services on the type of information discussed in Section □, Part E.

If the non-financial information discussed in the CP also has useful and material impact on the information user's decision making, in addition to existing financial information, the auditor's assurance is necessary to enhance reliability of such information. In this case, the auditor should have professional expertise and qualifications in relevant areas.

(Question 15) What actions are necessary to influence further development of such assurance or related services?

Provision of assurance on such information or making disclosure mandatory depend

on national laws/regulations and systems. It is recommended for IAASB to develop and provide necessary assurance standards and guidance for member bodies that provide such assurance and to help member bodies to share information regarding good practices.

(Question 16) Respondents are requested to identify benefits, costs and other implications of change, or potential challenges they believe are associated with the different options explored in Section □.

Changing the format and structure of the auditor's report isn't necessarily a costly process. However, it is questionable whether this can contribute to benefiting information users. In particular, the options of removing statements describing the auditor's responsibility or including the auditor's opinions only may negatively impact the efforts to narrow the expectation gap of information users.

We are concerned that the inclusion of statements describing the auditor's responsibility regarding other information could increase the auditor's audit procedures and responsibility excessively. This option may result in overlapping responsibilities between the management and the auditor and increasing lawsuits caused by the expanded responsibility of the auditor, increasing social costs significantly. At the same time, the provision of other information may make ambiguous the content of auditor reporting and auditor's opinions, leading to increased confusion on the part of information users. Therefore, in our opinion, provision of additional information doesn't have significant benefits for information users.

Including the auditor's commentary describing important matters related to audit can enhance the users' understanding of the entity's financial statements. In some cases, this can help effectively communicate the nature and limits of audit and the auditor's responsibility. As a result, this can help narrow the expectation gap of information users and demonstrate the quality variance among different auditors, raising awareness of the audit quality and value and enhancing the audit quality. However, expanding audit procedures to improve the audit quality may require corresponding increase in audit fees. Without appropriate increase in audit fees, necessary audit procedures may be reduced in other areas, leading to deterioration in audit quality. And most importantly, the auditor's responsibility will be expanded excessively, causing other social costs in addition to increase in audit fees.

Acceptance for the option of improving corporate governance reporting model to

strengthen two-way communication between those charged with governance and external auditors and enhance the oversight function of those charged with governance and the external auditor's provision of assurance on the report issued by those charged with governance depends on regulatory framework in each jurisdiction. Some countries may face unacceptable level of costs associated with development of new regulatory framework. The option of the external auditor providing assurance on the report issued by those charged with governance is not effective in enhancing the benefits for users, though it is costly. However, enhancing the oversight function of those charged with governance can facilitate strengthening awareness of the role of those charged with governance and, as a result, improving the financial reporting framework and putting in place a system where high-quality financial information can be produced.

The option of providing assurance on non-financial information increases the auditor's involvement in very extensive non-financial information which goes beyond the scope of financial information, incurring significant audit costs or other social costs, however, this is an unavoidable trend to strengthen protection of public interest. It is important for IFAC to proactively carry out support activities e.g. development of relevant standards and guidance and information sharing, to ensure effective and efficient provision of the auditor's assurance and related services. And it should also play a leading role to make sure that the auditor can earn recognition as qualified professionals.

(Question 17) Do respondents believe the benefits, costs, potential challenges and other implications of change are the same for all types of entity? If not, please explain how they may differ.

Options proposed in the CP are aimed to narrow the expectation gap and information gap of auditor's report users. So benefits or costs caused by such options vary between listed companies with a large number of users (or public interest entities) and unlisted companies (or non-public interest entities). It is appropriate to apply options with excessive cost only to listed companies (or public interest entities).

(Question 18) Which, if any, of the options explored in Section □, either individually or in combination, do respondents believe would be most effective in enhancing auditor reporting, keeping in mind benefits, costs, potential challenges and other implications in each case? In this regard, do respondents believe there are opportunities for collaboration with others that the IAASB should explore, particularly with respect to the options described in Sections □,

Parts D and E, which envisage changes outside the scope of the existing auditor reporting model and scope of the financial statement audit?

In our view, the option that enhances the benefits of the auditor reporting most is the auditor providing assurance regarding non-financial information.

Other options are expected to involve negative impact i.e., increasing the auditor's responsibility or expanding audit procedures to narrow the information user's expectation gap, resulting in higher audit costs. And it is hard to measure how effective they are in enhancing benefits for information users.

The option of the auditor providing assurance on non-financial information allows the auditor to satisfy growing needs among information users for non-financial information as these growing needs make it important to supply reliable non-financial information. Therefore, this option can raise social awareness of the value of auditor reporting and the role played by the auditor.

(Question 19) Are there other suggestions for change to auditor reporting to narrow the “information gap” perceived by users or to improve the communicative value of the auditor’s report?

Auditor's report users' expectation gap regarding the responsibilities of the management and the auditor is caused by users' misunderstanding or gap between users' expectation about the auditor's role and the actual role played by the auditor.

Therefore, it is recommended that training for users be strengthened to raise their understanding about the auditor's role and responsibility.

Again, the KICPA appreciates the opportunity to comment on the CP. Should you have any questions regarding our comments, please don't hesitate to contact us at global@kicpa.or.kr.

Respectfully submitted,
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