

September 11th, 2014

Ms. Kathleen Healy

Technical Director

International Auditing and Assurance Standards Board

International Federation of Accountants

529 Fifth Avenue, 6th Floor

New York, NY 10017

KICPA's Comments on IAASB's Exposure Draft on Proposed Changes to the International Standards on Auditing - Addressing Disclosures in the Audit of Financial Statements

Dear Ms. Healy,

The KICPA is pleased to have an opportunity to comment on the Exposure Draft issued in May 2014. We are a strong advocate of the IAASB that strives to serve the public interest by developing high-quality international standards for auditing, assurance, and other related standards.

Please see the below for our responses to the specific questions.

(1) Whether, in your view, the proposed changes to the ISAs are appropriate and sufficient for purposes of enhancing the focus of the auditor on disclosures and, thereby, will further support the proper application of current requirements in the ISAs?

We believe the proposed changes highlight the importance of both of the disclosures and audit of disclosures and provide far more guidance in relation to audit of disclosures, which makes it appropriate and sufficient to fulfill the purposes of increasing the focus of auditors on disclosures and audit of disclosures. The development and provision of various, detailed guidance will also facilitate the proper application of current requirements on audit of disclosures. In particular, the emphasis on enhancing the focus of the auditor on disclosures at the early stages of the audit will result in additional focus by companies in disclosures, thereby improving the quality of disclosures.

However, revising the definition of the term “financial statements” from “including related notes” to “including disclosures” in ISA 200 could bring about inconsistency with IFRSs that refer to “related notes” as one of the components of the financial statements, which might invite concerns over misleading users of the financial statements and audit report.

As explained in the following that “Disclosures comprise explanatory or descriptive information on the face of the financial statements, information in the related notes, or information incorporated by cross-reference when permitted by the applicable financial reporting framework,” disclosures generally encompass financial information, related notes, and other information relevant to financial statements. However, the proposed changes use disclosures as the basic elements of the financial statements, just like related notes to the financial statements, which runs counter to the general understanding of disclosures.

Disclosures comprising of information incorporated by cross-reference to financial statements in separate reports could run a risk of expanding the scope of the respective information, in addition to the lack of clarity in subjects of reference, thus arising the need for the IAASB to provide additional guidance to clarify the scope and procedures of the relevant audit if it has to inevitably include disclosures that are cross-referenced to the

definition of financial statements. We believe that the definition of financial statements in the ISAs should be aligned with the one in the financial reporting framework. The lack of consistency in the definition of financial statements could entail conceptual confusion with regard to financial statements, which first necessitates, as we believe, cooperation with the IASB to revise the definition.

(b) Are there any specific areas where, in your view, additional enhancement to either the requirements or guidance of the ISAs would be necessary for purposes of effective auditing of disclosures as part of a financial statement audit?

We believe the proposed changes to the requirements and guidance in the ISAs are sufficient to achieve the purpose of effective auditing of disclosures. However, too much focus on revising the guidance with the intent of minimizing revisions to the requirements leads to the decrease in strictness and clarity of purposes. We strongly encourage the IAASB to re-deliberate on the requirements and guidance, some of whose provision needs revision.

In addition, we suggest the IAASB come up with detailed explanations on the background, objective, purpose and contents of the revision in the Basis for Conclusion, after finalizing revision of the relevant standards.

(c) Whether, in your view, the proposed changes to the assertions will help appropriately integrate the work on disclosure with the audit work on the underlying amounts, thereby promoting an earlier and more effective audit of disclosures?

We believe that the proposed changes could cause confusion about the concept of disclosures, as mentioned in the question (a). After all, disclosures are stated as if they would be one of the categories subject to management's assertions in A123 that "management implicitly or explicitly makes assertions regarding recognition, measurement, presentation and disclosure," while addressing disclosures in A124 as information relevant to transaction, event or account balance, which only further intensifies the confusion.

We believe it is desirable for the IAASB to separately address the management's assertions about presentation and disclosure, just like the Board does in the current standards, to state management's assertions in line with A123.

In addition, disclosures which are not directly related to transaction, event or account balance are not subject to the proposed changes to the assertions in this Exposure Draft, which makes it difficult for audit procedures to cover all of the above.

Moreover, considering that disclosures irrelevant to transaction, event or account balance are numerous and substantial, addressing the changes to the assertions in the Application and Other Explanatory Material, instead of in the ISAs, is not desirable, as we believe. We are not supportive of the changes in principle, but believe that addressing the changes within the ISAs in a clear and concise manner would be appropriate at best in an inevitable circumstance of changing the assertions.

We hope our comments would be helpful in your efforts to revise the ISAs on Addressing Disclosures in the Audit of Financial Statements. Please feel free to contact us via global@kicpa.or.kr for further inquiries.

Thank you.