

July 18th, 2014

Mr. James Gunn

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 ISA 720, The Auditor's Responsibilities Relating to Other Information

Dear Mr. Gunn,

The KICPA is pleased to have an opportunity to comment on the Exposure Draft issued in April 2014.

We support the IAASB's efforts to improve the auditing standards and believe it is important to clearly state the auditor's responsibility related to other information and bring more transparency for users with regard to the auditor's work relating to other information. However, we are concerned that the objective and scope in the proposed ISA result in inappropriately expanding the auditor's responsibilities for other information.

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

(1) Whether in your view, the stated objectives, the scope and definitions, and the requirements addressing the auditor's work effort (together with related

introductory, application and other explanatory material) in the proposed ISA adequately describe and set forth appropriate responsibilities for the auditor in relation to other information.

As compared to the 2012 ED, we recognize that the objectives, the scope and definitions, and the requirements addressing the auditor's work effort in the proposed ISA are much clearer and understandable. We support the IAASB's decision that ISA 720 should define the scope of other information by reference to information included in an entity's "annual report" and divide the concept of "inconsistency in other information" into the following two: (a) to consider whether there is a material inconsistency between the other information and the financial statements; (b) to consider whether there is a material inconsistency between the other information and the auditor's knowledge obtained during the course of the audit with regard to the objectives of the auditor.

However, the proposed ISA deals with the requirements to consider the above two on an equal footing, which could be interpreted that the expectation of the auditor's responsibility to (b) consider whether there is a material inconsistency between the other information and the auditor's knowledge obtained during the course of audit is equivalent to that of the auditor's responsibility (a) to consider whether there is a material inconsistency between the other information and the financial statements. As a result, it could be understood that the auditor's responsibilities related to other information go beyond what could be reasonably accomplished in the context of the financial statement audit.

Auditors have no obligation to be aware and convinced of knowledge obtained during the course of audit beyond that required to obtain audit evidence and form an audit opinion on the financial statements. This will unavoidably make it difficult to define or specify the scope, expertise, and reliability of knowledge among auditors, and thereby proposals in the proposed ISA would not be workable in practice.

In preventing the credibility of the financial statements and the auditor's report thereon from being undermined lies the true responsibility of auditors. Strengthening and expanding such responsibility could be desirable, but not to the level of obligation to perform procedures that go beyond what could be reasonably accomplished in the context of the financial statement audit. Increasing the auditor's responsibility to consider whether there is a material misstatement between the auditor's knowledge and other information up to equivalent to that of the auditor to consider whether is a material misstatement between other information and financial statement means guiding the auditor's responsibility to the direction of improving the reliability of other information, which goes beyond the objective and scope of the ISA 720.

Financial statement users including investors expect more significant responsibilities of auditors to improve the reliability of other information. The expectation, however, would be achieved as a result of separate, independent assurance works in relation to other information, not the result of making auditors shoulder more responsibilities beyond the financial statement audit engagement. Rather, raising the level of responsibility will run the risk of expanding expectation gap by building up wrong expectations of financial statement audits.

Considering these, we suggest that the IAASB modify the objective of auditors into "to consider whether there is a material inconsistency between the other information and the financial statements using the auditor's knowledge obtained during the course of the audit".

(b) Whether, in your view, the proposals in the ISA are capable of being consistently interpreted and applied.

As mentioned in the question 1, the relevant knowledge obtained during the course of forming an audit opinion and acquiring audit evidence could vary from the scope, expertise to reliability, depending on the composition of the engagement team, and their experience and knowledge, respectively. Having the requirements for the auditor to consider whether there is a material inconsistency between the other information and the auditor's knowledge is likely to lead to divergence in interpretation and application in addition to practice under different jurisdiction.

(c) Whether, in your view, the proposed auditor reporting requirements result in effective communication to users about the auditor's work relating to other information.

The proposed auditor reporting requirements for other information is believed to improve transparency and communication for users with regard to the auditor's work relating to other information.

(d) Whether you agree with the IAASB's conclusion to require the auditor to read and consider other information only obtained after the date of the auditor's report, but not to require identification of such other information in the auditor's report or subsequent reporting on such other information.

Other information has not yet be obtained as of the date of the auditor's report and their might be a material misstatement of such other information. In the above case, reference in the auditor's report to the auditor's future actions could create confusion among users. Plus, the reference would not be consistent with the current focus of other aspects of the auditor's report on the actions the auditor has taken up to the date of the auditor's report. The above prompts us to be supportive of IAASB's decision not to require subsequent reporting on such

other information.

We hope our comments would be helpful in your efforts to revise the ISA 720 on the Auditor's Responsibilities Relating to Other Information. Please feel free to contact us via global@kicpa.or.kr for further inquiries.