



May 15, 2013

International Auditing and Assurance Standards Board
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, NY 10017

Dear Sir/Madam

Re: Consultation Paper, “A Framework for Audit Quality”

The Korean Institute of Certified Public Accountants (KICPA) appreciates the opportunity to provide comments on a Consultation Paper, “A Framework for Audit Quality.”

The followings are our comments regarding the specific questions you requested.

(Question 1) Does the Framework cover all of the areas of audit quality that you would expect? If not, what else should be included?

We think the Framework covers most of the possible factors that affect audit quality from the perspective of management and those charged with governance, financial statement users, regulators and standard-setters as well as key factors that make direct and substantial impact on audit quality, including appropriateness, capability, ethics, independence and professional skepticism of auditors. As far as we are concerned, however, the Framework does not include contents regarding auditor appointment that is significantly associated with auditor independence, one of the key factors affecting audit quality. We recommend the IAASB include auditor appointment in the Framework.

Currently, oversight bodies including the International Organization of Securities Commissions (IOSCO) and Public Company Accounting Oversight Board (PCAOB) are initiating discussion on audit quality indicators and transparency reports. Given this, it is considered necessary for the IAASB to expand the Framework to include the current development.

(Question 2) Does the Framework reflect the appropriate balance in the



responsibility for audit quality between the auditor (engagement team and firm), the entity (management and those charged with governance), and other stakeholders? If not, which areas of the Framework should be revised and how?

The perspective of audited financial statement users should be placed on top priority when it comes to considering audit quality. The perspective of these users can be reflected by estimating the credibility of audited financial statements as compared to that of unaudited ones or identifying the appropriateness of audit procedures ranging from audit acceptance to reporting. However, the Framework only takes into account input, output, interaction, and contextual factors in a horizontal manner, which does not sufficiently reflect the perspective of users.

No denying that identifying all of the possible factors affecting audit quality is important. However, we think it would be much more efficient for the Framework to give different weight depending on the significance of each relevant factor or arrange the factors in a hierarchical order. To this end, the IAASB can broadly classify the factors into fundamental and supplementary ones, and then add interaction or contextual factors depending on significance. We think it is more effective for the Framework to organize factors affecting audit quality in a hierarchical order, based on audit procedures which include audit acceptance (planning and execution) and reporting. If considered necessary, the IAASB can conduct additional research on the impact of each relevant factor on audit quality.

After all, discussion only focusing on the Framework's concept without mentioning indicators that measure the impact of factors on audit quality, such as time spent on audit or partner-to-staff ratio, is not in line with the Framework's core objective of improving audit quality. Considering this, it is more appropriate for the IAASB to arrange the Framework in a hierarchical manner in order to connect relevant factors and indicators from the perspective of each party, including auditors, financial statement users, companies and regulators. This means that the upper level of the hierarchy provides the general direction of the Framework, such as defining audit quality, while the lower level provides specific indicators in accordance with the Framework

Most of all, making auditors shoulder certain obligations and responsibilities is not a desirable direction for the Framework. Rather, it is more appropriate to concentrate efforts on creating an atmosphere where companies, subject to preparing financial statements, try to secure accounting transparency for themselves and are willing to



voluntarily cooperate with auditors to improve audit quality.

(Question 3) How do you intend to use the Framework? Are there changes that need to be made to the form or content of the Framework to maximize its value to you?

We are planning to review tasks from the perspective of each party. After considering the nature of each task, we will conduct our tasks, and delegate ones considered necessary to be assigned to other parties to the relevant ones. In addition, we will reflect the Framework in deciding the vision and objective of auditors.

(Question 4) What are your views on the suggested Areas to Explore? Which, if any, should be given priority and by whom? Are there additional Areas to Explore?

We think all of the sectors suggested by CP deserve attention for future research. As for oversight on financial institutions, in particular, priority should be given to exchanging information between regulators and auditors, reviewing the audit profession on an each country basis and sharing information on regulators' disciplinary action against auditors at a national level. To this end, supports from international oversight bodies including the IOSCO and Basel Committee are considered necessary. In addition, conducting research on the appropriate amount of time for audit and audit fees on an each country basis is also needed, since the sufficient amount of time and appropriate amount of audit fees should be guaranteed for securing independent auditors with knowledge and experience, which is expected to eventually improve audit quality.

- Research on appointment of external auditors and their fees on an each country basis
- Research on the impact of auditor rotation on audit fees and relationship between the rotation and audit failure
- Analysis of each country's audit fees and time spent on audit as compared to its GDP
- Analysis of increasing time spent on audit and audit failure with a shift from historical cost accounting to fair value accounting, triggered by the adoption of IFRS.

We hope that our comments are useful in the further development of the CP. Should you have any questions regarding our comments, please contact us at global@kicpa.or.kr.



Yours sincerely,

Joseph Yong-in Shin, Vice President

Korean Institute of Certified Public Accountants