



November 22, 2013

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

To whom it may concern,

KICPA's comments on the IAASB Exposure Draft, "Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing"

As a strong advocate of IAASB's activities for enhancing audit quality and serving the public interest through setting high-quality auditing standards, the Korean Institute of Certified Public Accountants is pleased to have an opportunity to comment on the IAASB Exposure Draft, "Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing."

Our comments on the specific questions are as follows:

<Key Audit Matters>

(Question 1) Do users of the audited financial statements believe that the introduction of a new section in the auditor's report describing the matters the auditor determined to be of most significance in the audit will enhance the usefulness of the auditor's report? If not, why?

Key audit matters section assists financial statements users in getting information about the matters that, in the auditors' professional judgment, are of most significance in the audit of the financial statements and understanding of the important areas of the financial statement. Given this, the introduction of key audit matters section will enhance the usefulness of the auditor's report.

However, lengthy statements made as to limitations of audit procedures or unclear statements of key audit matters may dilute the actual implication of audit opinion, creating confusion or misunderstanding among users. In order to prevent the confusion about audit



opinion, especially in terms of the contents and of the way of describing key audit matters, additional guidance seems to be needed.

(Question 2) Do respondents believe the proposed requirements and related application material in proposed ISA 701 provide an appropriate framework to guide the auditor’s judgment in determining the key audit matters? If not, why? Do respondents believe the application of proposed ISA 701 will result in reasonably consistent auditor judgments about what matters are determined to be the key audit matters? If not, why?

Because key audit matters are defined as those that are of most significance in the audit, and therefore a relative concept, determining the matters that are of most significance requires professional judgments puts the auditor in a difficult position to produce consistent judgments. Considering the current difficulties, IAASB’s proposal that enables the auditor to select key audit matters as part of communication with those charged with governance and to make decision after taking into account areas identified as significant risks or areas involving significant auditor judgments is expected to contribute a lot to decreasing the auditor’s arbitrary judgments and facilitating consistent auditor judgments.

However, there might be a difference between what the auditor considers as key audit matters and what those charged with corporate governance consider. On the similar matters, some companies would agree to disclose such matters as key audit matters, while others would not agree with the disclosure, citing confidentiality. In case where corporate intents or behavior serve as a key factor to determining key audit matters, consistent auditor judgments are likely to be uneasy. Additional guidance on how to facilitate the consistent judgments in this regard seems to be necessary.

(Question 3) Do respondents believe the proposed requirements and related application material in proposed ISA 701 provide sufficient direction to enable the auditor to appropriately consider what should be included in the descriptions of individual key audit matters to be communicated in the auditor’s report? If not, why?

We believe IAASB’s proposal provides a sufficient direction to enable the auditor to appropriately consider what should be included in the description of individual key audit matters. As for the way of describing key audit matters, however, additional guidance that highlights communicating key audit matters is not to deliver the auditor’s subjective views but



to describe the fact in itself is considered necessary.

(Question 4) Which of the illustrative examples of key audit matters, or features of them, did respondents find most useful or informative, and why? Which examples, or features of them, were seen as less useful or lacking in informational value, and why? Respondents are invited to provide any additional feedback on the usefulness of the individual examples of key audit matters, including areas for improvement.

Illustrative examples of key audit matters are considered mostly useful and informative. Aside from the four examples, more various ones, such as concerning related parties relationships and transactions, audits on foreign subsidiaries whose audit systems and circumstances hugely differ from those of a parent entity, deficiencies in internal control, would be much appreciated.

(Question 5) Do respondents agree with the approach the IAASB has taken in relation to key audit matters for entities for which the auditor is not required to provide such communication – that is, key audit matters may be communicated on a voluntary basis but, if so, proposed ISA 701 must be followed and the auditor must signal this intent in the audit engagement letter? If not, why? Are there other practical considerations that may affect the auditor’s ability to decide to communicate key audit matters when not otherwise required to do so that should be acknowledged by the IAASB in the proposed standards?

We agree with IAASB’s proposal that requires the auditor communicating key audit matters on a voluntary basis to include the intention of communicating key audit matters in the audit engagement letter and to comply with ISA 701 requirements. If compliance with ISA 701 is not required, key audit matters communicated in practice can vary according to auditors, which will cause confusion among users in regard to the concepts of key audit matters.

(Question 6) Do respondents believe it is appropriate for proposed ISA 701 to allow for the possibility that the auditor may determine that there are no key audit matters to communicate?

(a) If so, do respondents agree with the proposed requirements addressing such circumstances?



(b) If not, do respondents believe that auditors would be required to always communicate at least one key audit matter, or are there other actions that could be taken to ensure users of the financial statements are aware of the auditor’s responsibilities under proposed ISA 701 and the determination, in the auditor’s professional judgment, that there are no key audit matters to communicate?

We agree with ISA 701 that allows for the possibility that the auditor may determine if there are not key audit matters to communicate.

The Exposure Draft on ISA 701 requires that the auditor describe that there are no key audit matters to be communicated in auditor’s reports, but not requires him or her to describe why he or she determines there are no key audit matters. This might be based on the assumption that the anticipated benefits arising as a result of the proposal are not outweighed by the practical difficulties in explaining the reason. However, not describing why key audit matters to communicate are included in auditor’s reports at a time when the auditor describes that there are no key audit matters is not recommended in terms of usefulness of information. Rather, not describing the fact that there are no key audit matters seems more appropriate, since users will have come to understand that the auditor determines that there are no key audit matter to communicate, reading the auditor’s reports without key audit matters. The same goes to the Emphasis of Matter Paragraphs.

In case where the reason why there are no key audit matters to communicate is required, developing and providing relevant wording examples by various subjects are considered necessary.

(Question 7) Do respondents agree that, when comparative financial information is presented, the auditor’s communication of key audit matters should be limited to the audit of the most recent financial period in light of the practical challenges explained in paragraph 65?

If not, how do respondents suggest these issues could be effectively addressed?

We are with IAASB’s proposal and its background thereof having the auditor’s communication of key audit matters limited to the audit of the most recent financial period when comparative financial information is presented.



(Question 8) Do respondents agree with the IAASB’s decision to retain the concepts of Emphasis of Matter paragraphs and Other Matter paragraphs, even when the auditor is required to communicate key audit matters, and how such concepts have been differentiated in the Proposed ISAs? If not, why?

Key audit matters and Emphasis of Matter paragraphs differ from each other in terms of their feature and purpose: the former ones are designed to communicate matters that are of most significant in audit, while the latter ones highlight specific matters among financial statement disclosures in order to support users’ understandability. The difference makes us agree with IAASB’s proposal that retains the concepts of Emphasis of Matter paragraphs and Other Matter paragraphs. Considering the future development in “The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements” projects, comparing the results with key audit matters and existing auditor’s reports might be necessary.

<Going Concern>

(Question 9) Do respondents agree with the statements included in the illustrative auditor’s reports relating to:

- (a) The appropriateness of management’s use of the going concern basis of accounting in the preparation of the entity’s financial statements?**
- (b) Whether the auditor has identified a material uncertainty that may cast significant doubt on the entity’s ability to concern, including when such an uncertainty has been identified (see the Appendix of proposed ISA 570 (Revised))?**

In this regard, the IAASB is particularly interested in views as to whether such reporting, and the potential implications thereof, will be misunderstood or misinterpreted by users of the financial statements.

In case where the auditor has identified a material uncertainty, including statements as to going concern in the auditor’s reports (currently included in Emphasis of Matter paragraphs) will increase the value of information in the auditor’s reports. However, in case where the auditor has not identified any material uncertainty, it is considered inappropriate for the auditor to include the statements as to going concern in the auditor’s report due to the following reasons.

- (1) When a material uncertainty is not identified, the management is not required to disclose it. However, the above proposal requires the auditor to make statements



as to the matters the management has not disclosed.

- (2) The auditor's statements that a material uncertainty is not identified are likely to stretch its meaning and derive an overly high expectation of the entity's ability to concern.
- (3) Repeating the going concern basis of accounting included in the financial reporting frameworks does not provide any additional information value. If such additional information is considered necessary, it should be explained in the notes to the financial statements since it is not related to audit.
- (4) Excluding very exceptional cases (such as companies to be liquidated), most of the companies use the going concern basis of accounting in preparation of the entity's financial statements. In addition, as long as the audit opinion on the use of the going concern basis of accounting is not modified, it is assumed that the financial statements are prepared on a going concern basis. However, the auditor's additional statements as to the appropriateness of management's use of the going concern basis of accounting are likely to excessively stretch and emphasize the meaning of its use.

The above concerns leads to come into conclusion that it might be reasonable for international accounting standards-setters including the IASB and the FASB to require the auditor to include the going concern basis of accounting after describing clear, specific requirements of the management's disclosure on going concern.

(Question 10) What are respondents' views as to whether an explicit statement that neither management nor the auditor can guarantee the entity's ability to continue as a going concern should be required in the auditor's report whether or not a material uncertainty has been identified?

The statement clearly shows the limits the auditor and the management have in regards to going concern, making it necessary for users to understand it. We think the statement should be included whether or not a material uncertainty has been identified.

<Compliance with Independence and Other Relevant Ethical Requirements>

(Question 11) What are respondents' views as to the benefits and practical implications of the proposed requirement to disclose the source(s) of independence and other relevant ethical requirements in the auditor's report?



As described in the Exposure Draft, identifying all sources of ethical requirements in group audit situations will result in a significant burden on auditors. In addition, the expected benefits arising from identifying all the sources will pale in comparison to the practical difficulties.

<Disclosure of the Name of the Engagement Partner>

(Question 12) What are respondents' views as to the proposal to require disclosure of the name of the engagement partner for audits of financial statements of listed entities and include a "harm's way exemption"? What difficulties, if any, may arise at the national level as a result of this requirement?

We are with IAASB's proposal that exempts auditors from disclosing the name of the engagement partner, taking into account intimidation threats including physical or mental harm posed to individual auditors.

<Other Improvements to Proposed ISA 700 (Revised)>

(Question 13) What are respondents' views as to the appropriateness of the changes to ISA 700 described in paragraph 102 and how the proposed requirements have been articulated?

We agree with the Exposure Draft of revised ISA 700 that describes auditor's responsibilities, management's responsibilities and key features of the audit.

(Question 14) What are respondents' views on the proposal not to mandate the ordering of sections of the auditor's report in any way, even when law, regulation or national auditing standards do not require a specific order? Do respondents believe the level of prescription within proposed ISA 700 (Revised) (both within the requirements in paragraphs 20–45 and the circumstances addressed in paragraphs 46–48 of the proposed ISA) reflects an appropriate balance between consistency in auditor reporting globally when



reference is made to the ISAs in the auditor’s report, and the need for flexibility to accommodate national reporting circumstances?

In case of law, regulation and national auditing standards not requiring a specific order, it would be desirable for international auditing standards to require a specific ordering of sections of the auditor’s report in terms of comparability and uniformity.

We hope our comments would be useful in further developing the Exposure Draft. Please feel free to contact us (global@kicpa.or.kr) if you have any inquiries. Thank you.