

August 1, 2017

International Auditing and Assurance Standards Board

International Federation of Accountants

529 Fifth Avenue, 6th Floor

New York, NY 10017

Dear Sir or Madam,

The Korean Institute of Certified Public Accountants (KICPA) is pleased to comment on the Exposure Draft (ED) issued by the International Auditing and Assurance Standards Board (IAASB), regarding “Proposed International Standard on Auditing 540 (Revised), and Auditing Accounting Estimates and Related Disclosures.” KICPA is a strong advocate of IAASB for your relentless efforts to serve the public interest by setting high-quality auditing, assurance, and other related standards and by facilitating the convergence of international and national auditing and assurance standards, thereby enhancing the quality and consistency of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.

<KICPA Comments>Overall Questions

Q1. Has ED-540 been appropriately updated to deal with evolving financial reporting frameworks as they relate to accounting estimates?

We believe the proposed ED-540 enhances requirements for risk assessment procedures and the work effort of an auditor engaged in auditing accounting estimates, in response to the financial reporting framework, such as evolving business environments, complex models of accounting estimates, and the growth of forward-looking information and of the necessity of using external information sources, all of which are increasing the estimation uncertainty, and provides useful guidance accordingly.

Q2. Do the requirements and application material of ED-540 appropriately reinforce the application of professional skepticism when auditing accounting estimates?

We support IAASB's decision not to explicitly include reference to professional skepticism in paragraph 22 over possible misunderstanding that the inclusion of reference to professional skepticism in specific requirements, but not others, could be seen as not improving professional skepticism to the others. We believe that the Board's decisions to include a stand back provision in paragraph 22 and a requirement in paragraph 23 to consider all relevant audit evidence obtained, whether corroborative or contradictory, reinforce the application of professional skepticism when auditing accounting estimates.

Focus on Risk Assessment and Responses

Q3. Is ED-540 sufficiently scalable with respect to auditing accounting estimates, including when there is low inherent risk?

We believe that the proposed ED-540 distinguishes between when inherent risk is low (e.g. depreciation estimation) and from when the risk is not low (e.g. expected credit loss models) regarding risks of material misstatement related to estimation, thereby making it possible for an auditor to perform further audit procedures, tailored to the nature of estimation uncertainty, driving us to conclude that the ED is sufficiently scalable.

Q4. When inherent risk is not low (see paragraphs 13, 15 and 17–20):

a) Will these requirements support more effective identification and assessment of, and responses to, risks of material misstatement (including significant risks) relating to accounting estimates, together with the relevant requirements in ISA 315 (Revised) and ISA 330?

b) Do you support the requirement in ED-540 (Revised) for the auditor to take into account the extent to which the accounting estimate is subject to, or affected by, one or more relevant factors, including complexity, the need for the use of judgment by management and the potential for management bias, and estimation uncertainty?

c) Is there sufficient guidance in relation to the proposed objectives-based requirements in paragraphs 17 to 19 of ED-540? If not, what additional guidance should be included?

We support the ED-540's proposal to take into account three factors of complexity, the use of judgment by management, and estimation uncertainty that make important implications for risks of material misstatement when inherent risk is not low, identify certain matters that could arise from risks of material misstatement on each element basis, and design and perform further audit procedures to obtain sufficient appropriate audit evidence about the matters. The proposal provides more clarified and specific guideline to an auditor in his/her identification and assessment of and response to risks of material misstatement related to accounting estimates, thereby improving the effectiveness of auditing accounting estimates.

In relation with the requirements in paragraphs 17-19 that are focused on objectives, such requirements would be better to be provided in a form of more detailed and clarified guidance form, taking into account their significance and difficulties auditors face in practice. With concerns that voluminous guidance makes ISAs difficult and complex, we suggest a form of non-authoritative guidance, just like IAPN, instead.

Q5. Does the requirement in paragraph 20 (and related application material in paragraphs A128–A134) appropriately establish how the auditor's range should be developed? Will this approach be more effective than the approach of "narrowing the range", as in extant ISA 540, in evaluating whether management's point estimate is reasonable or misstated?

We support IAASB's decision not to maintain the approach of "narrowing the range," due to concerns that the extant ISA 540 that requires the auditor to "narrowing the range" until all outcomes in the range are considered reasonable," coupled with a lack explanation about

what would constitute a “reasonable outcome,” could result in an auditor’s range that is inappropriately wide

The extant requirements and application materials, however, do not provide sufficient guidance as to how to develop an auditor’s point estimate or range, in case an auditor’s point estimate or range is concluded to be appropriate to enable him/her to evaluate the reasonableness of management’s point estimate, as we believe. Auditing companies varying in terms of their size and industry, application examples in practice in detail would be necessary, surely in a form of non-authoritative guidance, rather than being included in ISAs.

Q6. Will the requirement in paragraph 23 and related application material (see paragraphs A2–A3 and A142–A146) result in more consistent determination of a misstatement, including when the auditor uses an auditor’s range to evaluate management’s point estimate?

We are for IAASB’s decision to include a requirement to consider all relevant audit evidence obtained, whether corroborative or contradictory. The related application material would sufficiently enhance an auditor’s professional skepticism when auditing accounting estimates and result in more consistent determination of a misstatement as well.

Conforming and Consequential Amendments

Q7. With respect to the proposed conforming and consequential amendments to ISA 500 regarding external information sources, will the revision to the requirement in paragraph 7 and the related new additional application material result in more appropriate and consistent evaluations of the relevance and reliability of information from external information sources?

According to paragraph 7, information obtained from an external information source is also included in an auditor’s consideration of its relevance and reliability, when such information is used as audit evidence. However, the Board does not provide necessary guidance in a sufficient manner to enable more appropriate and consistent evaluations of the relevant and reliability of information from external information sources.

We request the Board provide specified examples that could take place in practice, particularly focusing on external information sources whose relevance and reliability are considered difficult to evaluate, along with application examples of paragraph 7, in a form of

non-authoritative guidance, taking into account its nature and volume.

We hope our comments would be useful for IAASB's project to revise International Standards on Auditing 540 and Auditing Accounting Estimates and Related Disclosures. Please feel free to contact for further inquiries.

Thank you.